Mr. Chairman and Members of the Committee.

I am honored to testify before this committee tonight in support of BILL 5-18. The proposed legislation would join this nation's capital to the growing movement to divest public funds from racist South Africa.

What we are doing tonight is considered to be a crime in South Africa. The 5 co-sponsors of this bill would face 5-year prison sentences for publicly supporting divestment. Any union or church official, investment expert, human rights advocate, or academic, any Republican or Democrat, any ordinary citizen would face going to jail in South Africa for saying what most of us have come to say at this hearing: That our public funds have no business helping to prop up South Africa's system of legalized racism and no business profiting from that racism. It was not so many years ago that Americans were jailed--including some in this room--for demanding basic civil rights--including the right to vote--for black Americans. It was outrageous then in our own country. It is equally outrageous today in South Africa.

My name is Carole Collins. I have been a resident of Ward 1 for two years and have lived in the District of Columbia for brief periods since 1967. I am currently an Associate Fellow at the Institute for Policy Studies. I am speaking here tonight as
National Coordinator of the Campaign to Oppose Bank Loans to South Africa (COBLSA).

The Campaign is a network of national and local affiliates and activists across the nation working to end US financing of apartheid in South Africa. The Campaign was launched in early 1977 following the Soweto student uprising in June 1976. It has built on the efforts of national church denominations which--since the mid-1960s--worked to end lending by American banks to the South African government, to its parastatal corporations, and to corporations doing business there.

Our national office provides information and resources to community and student groups, churches and unions, state and city legislatures seeking to end US financial support for racial injustice in South Africa. The Campaign joined eight other organizations in sponsoring the first national conference on state and municipal divestment in June 1981, at which legislators from over 17 states participated. I have testified on behalf of the Campaign before legislative committees in Philadelphia, Maryland and Illinois. Many D.C. residents joined or supported our local affiliate--the D.C. Bank Campaign--in its efforts to end lending by Riggs and other local banks to South Africa and to have that money reinvested in creating jobs and revitalizing our neighborhoods at home.

In 1976 and 1977, I travelled through several countries in East and southern Africa. I was able to interview a few of the thousands of young black South Africans--students, seminarians,
factory workers, professionals—who had been forced to flee the land of their birth. Why? Because they had protested the daily injustices inflicted on them by a system of racial segregation that destroys black family life while denying the most basic human and civil rights. They repeatedly asked me—as an American—how I could continue to allow US companies to build the trucks that carried troops into Soweto, to sell the oil that fuels South Africa’s jets and tanks when they invade neighboring countries, to provide the South African government with computers to run its passbook system, to provide the money for developing South Africa’s nuclear energy—and weapons—program.

This hearing is very timely.

This hearing is very timely. Barely two months ago, Massachusetts passed the strongest pension fund divestment bill in the nation. Days before Michigan’s Governor signed into law a bill barring state universities from investing in companies operating in South Africa. Both states had already passed other divestment-related legislation earlier, as has Nebraska and Connecticut. Legislation is pending or soon to be introduced in 22 other states, including Alabama, California, Colorado, Connecticut (where they hope to strengthen the partial divestment bill already passed), Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Minnesota, Nebraska (to strengthen the bill they already passed), Nevada, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, Wisconsin and Wyoming.

Cities have increasingly begun to move on this issue. Last
October, Grand Rapids--hometown to Gerald Ford and to many Dutch-Americans with strong ethnic and church ties to South Africa’s ruling Afrikaaners--adopted a policy of barring deposit of city funds in banks lending to South Africa or to U.S. businesses active there. They joined Philadelphia, which last June became the first major US city to bar pension fund holdings in companies active in South Africa. Atlanta (GA), Denver (CO), Dallas (Texas), St. Paul and Minneapolis (MN), and Des Moines (Iowa) will soon take up this issue.

Many corporations argue that their presence in South Africa helps to improve the situation of blacks there. However, this has not been the case historically or recently. Blacks have lost what little franchise they had, been forced into bantustans, seen increasing numbers of government opponents be jailed, tortured, even die in detention—all during the period of most dramatic increase in US investment in South Africa.

What is Apartheid?

For four hundred years, the majority of South Africans who are black have been denied basic democratic and human rights. But since 1948, South Africa has become a society of walls—legal walls erected to isolate and segregate South Africans from one another. The 84% of South Africa’s people who are black cannot vote for the government that rules them; cannot live or work where they choose; and cannot strike for better wages and working conditions without suffering severe legal penalties.

Passbooks—which record a person’s fingerprints, work history,
taxes, family status, and tribal or ethnic identity—must be carried by black South Africans, and produced on demand, at all times.

Cheap labor has been central to this system called apartheid. Since the 19th century, black people have been heavily taxed by white-controlled governments in which they had no representation. They have been dispossessed of their land in order to force them to work in the white-controlled economy. "influx control" and passbook laws channel them into areas where white employers feel their labor is needed. When their jobs are done, they are sent back to so-called "homelands"—the bantustans—selected for them by the white-minority government. In South Africa, home is not where you were born or choose to live. It is where the white government decides to send you. These so-called "African homelands" are located on the poorest 13% of South Africa's vast, wealthy and fertile land. These areas have no major industrial areas or mines. They are barren. They serve as vast reservoirs of the unemployed. They are places where women, children and old people not needed in South Africa's white-controlled economy are sent to live—and often to die of malnutrition or starvation. This system—whatever its other injustices—destroys black family life, separating husband from wife, parents from their children.

American corporate investments in South Africa help maintain apartheid.
We as Americans can no longer ignore the situation in South Africa. It grows more explosive every day. Unless the white minority comes to realize the justice and urgency of black demands for majority rule and acts on that realization, a growing confrontation between blacks and whites is inevitable. It will be a tragic and costly conflict. There will be many casualties, black and white. And it will threaten US economic interests as well as the stability of that region for years to come.

Without the economic involvement of U.S. and other foreign corporations in South Africa, the white minority government would be unable to maintain its rule. It would not have the technological sophistication to dominate the black majority. It could not operate its passbook and "influx control" system without the help of U.S.-built or designed computers. It could not bomb refugee camps in Angola, Lesotho and Mozambique without fuel to operate its aircraft, fuel which is provided to them by US and European corporations.

What is the US corporate stake in South Africa?

The U.S. is South Africa's second largest foreign investor. Direct U.S. investment in South Africa in May 1982 was estimated by the New York Times at about $2.63 billion. The dollar amount of these investments is of secondary importance to their strategic importance. U.S. companies control major sectors of the South African economy vital to maintaining white minority rule. 33% of the motor vehicle market is controlled by U.S. companies.
U.S. companies built the trucks which ferried troops into Soweto in 1976. 44% of the petroleum products market is controlled by U.S. companies. 70% of the computer market is controlled by companies. U.S. companies have been instrumental in helping South Africa develop its nuclear energy--and nuclear weapons--programs.

Any U.S. corporation which invests in South Africa must pay taxes to the South African government, for which amount it is credited on its US taxes owed. All companies must invest a proportion of their assets in South African bonds (generally 7-9%), in some cases defense bonds. And all foreign companies, in the event of civil unrest, are subject to the provisions of South Africa's Keypoint Industries Act, which mandates the right of the South African military to take control of any factory and turn its facilities to military production.

U.S. financing of apartheid.

The U.S. provides almost one-third of South Africa's foreign capital. In mid-1982, U.S. banks had $3.623 billion in outstanding loans to South Africa's public and private sectors. International loans and credit have helped white South Africa to:

* expand its strategic investments, including its indigenous arms and nuclear industries, to become less vulnerable to the growing international movement, led by the United Nations, to isolate South Africa economically, politically, militarily and culturally.

* buy advanced technology strengthening its military and police apparatus for monitoring, controlling and repressing South
Africa’s non-white majority.

In the mid-1970s, foreign credit was critical in helping South Africa overcome a balance of payments crisis caused by increased oil prices and rising arms imports. Between 1974 and 1976, South Africa tripled its foreign borrowing to help finance a doubling of its military budget.

125 U.S. banks extended over $3.1 billion in loans and trade-related financing to South Africa between 1972 and 1978. This critically-needed foreign exchange enabled South Africa to overcome unprecedented balance of payments deficits resulting from increased oil prices and rising military-related imports.

The pattern of U.S. lending has varied from open, direct loans to less-publicized inter-bank lending. Main areas of connection have been:

* direct loans to the South African government and its parastatal corporations and to companies doing business there.
* trade-related financing to facilitate U.S. exports to and imports from South Africa (in 1980, the U.S. emerged as South Africa’s leading trading partner).
* correspondent bank relations that provide letters of credit, interbank loans and the like with little visibility (e.g. Chemical Bank’s correspondence with Volkskas, S.A.), a South African bank that acts as a depository for government, military and police accounts).
* Sales of South African Krugerrands (one-ounce gold coins) which bring South Africa much-needed foreign exchange.
Due to public protests in the United States (and in other countries) following the 1976 Soweto student revolt as well as bankers' concern over South Africa's stability, direct loans to the South African government and to private companies there dropped dramatically in 1977-1980. However, less visible loans to South African banks increased, as well as short-term trade-related credit.

South Africa emerged once again on international capital markets in 1980 and 1981, due to:

* declining gold prices reducing income from its major foreign exchange earner (gold generally accounts for 25% of South Africa's foreign export revenue);

* commitments to massive infrastructure and mechanization projects planned to enable the white minority to withstand international sanctions ($10 billion in the next decade and $30 billion by 2000 A.D.); and

* escalating inflation eroding its spending power (now close to 16% or more yearly).

US banks began to dramatically increase their loan exposure in South Africa in 1981 and 1982. Lending to public borrowers (the government and its parastatals) had dropped from $1.186 billion in June 1977 to $278.1 million in June 1981. By December 1981, it had almost doubled to $516.6 million and by June 1982, increased to $623.4 million. Loans to South African banks rose by over $1.5 billion during the 18-month period from December 1980 to June 1982 (from $444.2 million to $2.163 billion). Lending to other private
borrowers in South Africa showed a more moderate but steady increase during the same 18 month period.

This renewed lending reflected several factors:

1) Many US loans made between 1974-76 are coming due, forcing the banks to decide whether to "roll-over" such loans (i.e. re-lend or renegotiate the money) or terminate them.

2) US banks have decided to "test the waters" in hopes that public opinion is less organized on this issue than several years ago and that support of the Sullivan Principles will effectively deflect demands for ending all investment in and lending to South Africa.

3) Reagan administration policies that are forging closer links to South Africa: lifting export controls on sales to the South African military and police and to South Africa's nuclear program.

Do these loans assist South African blacks? Citibank, which participated in a $250 million direct to the South African government in 1980, claims that they can. Their loan was to help finance housing, educational and health projects for blacks, according to their documents. In reality, that loan helped to implement apartheid, not ease its burden on blacks. The housing projects subsidized by the loan were part of the white government's forced relocation of South African blacks from their traditional homes in urban areas now reserved for whites. The educational projects funded were for segregated educational facilities. Such loans modernize apartheid, not alleviate its
effects. In reality, it will be black people who will pay back Citibank's loan, with interest. All Citibank and its four European co-participating banks did was to replace a line item in the South African Government's budget ($254 million for the same projects), allowing the government to spend its money on other things.

The Proposed D.C. Bill.

The bill is a significant step forward in working to divest District of Columbia monies from corporations and banks involved in South Africa. Certain changes, however, would strengthen it and make it easier to administer.

1. Section 2 is meant to bar deposit or investment of public funds in banks which have made loans to, or companies which have invested in, South Africa. However, it does not explicitly use the term "deposits" and might allow public funds to be put in banks which have made recent or past loans.

I think the language should be strengthened and clarified to say: "(c)(1) No public funds shall be deposited or remain deposited in, or shall be invested or remain invested in,...obligations of, any bank...."

2. Sections 2, 3 and 4 use the latest annual report of the American Consulate General in Johannesburg entitled "American Firms, Subdivisions and Affiliates - South Africa" as an authority for determining which companies and banks have been active in South Africa. This is certainly one important source of information, but by no means the only or the most comprehensive. The list has often been out of date and has not listed some
companies active there. It does not list all those banks which have made loans to South Africa. However, the United Nations Center Against Apartheid has published several comprehensive lists of international banks which have lent to South Africa.

I recommend that:

* United Nations sources be used as an authoritative documentation of such loans; and

* the language be changed to require all banks that wish to be authorized to receive deposits of District monies, or to be invested in by the city’s pension funds and housing finance agency, to certify yearly that they do not have any outstanding loans to South Africa nor do they plan to make any loans in the following year. Language of this kind is contained in a bank divestment bill passed in Michigan in 1980 which went into effect last July 1, 1982. Such certification requirement would simplify the task of ensuring that public monies are not used by banks and other financial institutions that finance apartheid. It might also starkly reveal which banks have no such outstanding loans and those banks which do. Over 200 Michigan banks have so certified under provisions of the 1980 bill.

3. I would add language to Section 4 similar to that included in the recently passed Massachusetts legislation that would recommend that divested funds, where feasible and prudent, be reinvested in ways that create jobs and revitalize neighborhoods in the District of Columbia. A wide body of research on alternative investments has been carried out by private and public
bodies in California, Connecticut, Massachusetts, New York, Illinois and elsewhere. These resources should be drawn on by the District's investment authorities in exploring alternative portfolio investments.

**Will divestment cause loss of value of DC pension funds?**

A growing body of research and analysis, which Bob Schwartz will touch on tomorrow in his testimony, indicates that divestment can be done prudently, with little or no loss, and in some cases with improved portfolio performance and earnings.

Over 36 US universities have divested part or all of their holdings in banks and corporations active in South Africa. Some of them feel divestment has had no adverse impact on portfolio performance.

* Mrs. Nancy Elliott, Director of Investments and Trusts, Michigan State University: "The divestment worked out to our advantage because the firms that are involved in South Africa are the big industrial firms that have not been doing as well as other types of firms. By getting out of those stocks and into relatively smaller companies doing better, we have come out ahead. Our stock portfolio today has a higher value than it would have if we had remained in South Africa-related companies...."

* Mr. David Konshak, Accountant for University Trust Fund, University of Wisconsin: "Disinvestment of South Africa-related stocks has not hampered or limited our ability to find suitable sources of investment." (The University of Wisconsin reported a
higher return on its investment in "clean" stocks after 
divesting.)

Andrew Rudd, writing in the Spring 1979 issue of the Journal 
of Portfolio Management, concluded that the "effect on portfolio 
risk of excluding companies operating in South Africa...is, 
contrary to intuition, not particularly important" and that "the 
disutility cost of divestment is so small that divestment may be 
justified should trustees choose to exclude South Africa 
investments from their portfolio."

The Connecticut Governor's Task Force on South African 
Investment Policy, in an April 21, 1982 report, contains an 
assessment of divestment impact by the U.S. TRUST CO. of Boston, 
Massachusetts. In studying the performance of the S&P 500 over 
the past 10 years with and without South Africa-related companies, 
that the 380 firms in the index that do not do business in or with 
South Africa have produced a return over the last ten years in 
excess of the entire index.

Most significantly, Chemical Bank, which has lent to South 
Africa’s public sector in the past but now only makes 
trade-related loans, is now setting up a special fund to invest in 
non-South Africa related companies, hoping to capture part of the 
growing market in divested public pension funds and church 
endowments. An article on the January 24, 1983 issue of Barron's 
quotes a Chemical Bank official citing South Africa as "the most 
commonly cited aversion among clients." Chemical is currently 
completing a study of projected performance of a non-South Africa
portfolio; preliminary results indicate it performs as well as its fuller list of 400 companies.

Even U.S. corporations are beginning to see the growing investment risk of remaining in countries with gross human rights violations. Nowhere is this clearer than in the case of Iran, where many U.S. companies lost their investment or loan exposure—because they ignored the potential explosiveness of the Shah's continued repression. In 1980 and 1980, I attended the annual shareholders' meetings of the First National Bank of Chicago, a lender to South Africa. Shareholders repeatedly raised the issue of why the bank had lost $90 million in Iran. One person said part of that loss was due to the bank's refusal to take socially responsible criteria for investment into account in making their loans. Shareholders who urge divestment from South Africa are urging just that, and some companies are beginning to listen.

Thank you for this opportunity to express my views on this significant legislation. Martin Luther King, Jr., many years ago, was one of the first to call for economic sanctions against South Africa. Bishop Desmond Tutu, Secretary-General of the South Africa Council of Churches, has spoken of economic sanctions as one of the few remaining ways to pressure the South Africa white minority to make meaningful concessions to the black majority. US companies have not been reluctant to levy economic sanctions against Poland, against Chile, against Jamaica. The one place in the world where
they are most clearly overdue is South Africa. Let us ensure that our tax dollars are spent on ways that further justice and a peaceful solution—while there is still time.