Union investment

can it drive transformation?

Ravi Naidoo sees a role for union investment companies and retirement funds in transformation.

Trade unions should be involved in investment. It is not a question of whether or not, but why and how.

Investment – and how to attract it to promote development – is the critical issue in South Africa today. The entire focus of GEAR is to create conditions that local and international private sector investors would feel comfortable with. An increased role for the private sector, accompanied by the diminishing power of governments, is a key feature of what is known as 'globalisation'.

Hand-in-hand with globalisation is the introduction of 'flexible' labour markets. Greater use of casual and contract workers, as well as the undermining of labour standards, threaten to erode unions' membership base.

While unions can, and should, respond to this onslaught by organising workers across the line and strengthening their bargaining position, it is likely that this will not be enough. The labour movement will need to move away from relying only on its traditional arsenal of 'negative' sanctions (such as withholding labour or a refusal to work overtime) towards positive action plans. By influencing the investment agenda, unions could actively change the nature of the economy and the workplace.

A two-pronged approach

COSATU should place its investment strategy at the centre of plans for the transformation of the economy. Both investment companies and retirement funds should feature prominently in this strategy.

Investment companies

Trade union investment companies are currently operating in ways that leave much to be desired. There is no coherent strategy, leading to a situation where decisions are taken in an ad hoc manner by individual unions and influential persons. Union investment companies have been criticised for their 'business is business' approach which, in the long run, could severely damage the labour movement (see *SA Labour Bulletin* Vol 20 No 5, 1996). There is little evidence that union members are influencing the process or even very aware of proceedings.

Alternative strategies

The primary motivation for the union investment companies at present is profit maximisation. They are not trying to make any radical changes in the economy. Transformation, if it occurs at all, is a by-product of this process.

Instead, union investments could make transformation their central goal. Such transformation plans could include using a few smaller companies as pilot projects in worker control. The experience gained from

such projects would assist the unions in building up knowledge and a case for collective ownership and control of enterprises on a wider scale.

This option is clearly difficult for an individual, cash-strapped company to take on alone Moreover, it would also involve other difficulties:

- The current strategies are supported by capital, as they do not represent any threat. Any attempts to transform the union investment companies into agents of real transformation would face certain hostility from capital. They may well attempt to use their positions of monopoly to destroy the isolated, worker-controlled firms. At the very least, the current 'deal flow' would dry up and 'discounts' offered to the union investment companies would end.
- Experience would have to be gained, in a short space of time, in how democratised companies could operate effectively (especially within a hostile environment) and such investment would therefore be high-risk.
- Conflicts of interest between the union and the worker-controlled company, which appear to be almost inevitable, would have to be addressed.

A union strategy would therefore require some of the following steps:

- A unified union approach aimed at pooling resources to limit debt financing
- A strategy to counter resistance from organised capital.
- Good experience of different forms of management.
- An alliance with government to create space for radical workplace and economic transformation For example, government's tender policy could 'shield' new, worker-owned companies.

Regardless of the pace of transformation being pursued, social investment and accountability rules are absolutely essential to prevent unions being undermined by investment choices.

Retirement funds

In countries like the United States (US), institutional investors have vastly increased their share of the national economy. In 1975 these investors owned 25% of the US stock market. By 1994 they controlled almost 50%.

The majority of institutional investors are pension funds. In their quest to achieve the highest rate of return possible, the funds have not always played a positive role. The large-scale corporate downsizing that has taken place over the last decade in the US had a lot to do with funds demanding higher returns and pushing companies to cut costs.

It is estimated that 60% of the domestic

Differences between investment companies and retirement funds

How investment companies work
Unions set the rules for investment companies. The 'seed' capital for the investment company often comes from the union in the form of a loan. The company then invests the money and accumulates capital. In theory it would eventually use interest gained on this accumulated capital to pay benefits to union members.

How retirement funds work
There is an increasing tendency for union representatives to serve as trustees of retirement funds. The trustees serve on the board of the fund and make strategic decisions, including how the accumulated funds are invested. However, the Pensions Funds Act severely limits the discretion of the trustees. It stipulates that trustees must at all times attempt to secure the maximum return to the fund, putting commercial criteria ahead of all other criteria. The returns on the investments go to the benefit of fund members, not the union.

Union representatives now serve as trustees of retirement funds.

investment needs of listed companies in South Africa could come from retirement funds. Last year the Katz Commission estimated the assets of the retirement industry at R500-billion. COSATU affiliates control about 10% of these funds. This gives trade unions considerable power in our economy.

Retirement funds could be a powerful vehicle for transformation in South Africa. *However, they are not currently fulfilling* this role. While they have not had the same corporate downsizing impact as in the US, they have contributed towards the notorious pyramid structure that allows a handful of families to own the economy.

COSATU has long criticised the industry for not engaging in productive investment, and having no social investment criteria. Retirement funds generally only invest in established, large companies. They compete *on the basis of good returns. Funds are bound by a 'prudential guideline'* set down in the law, which stipulates what the fund's risk profile can be. They are only allowed about 5% of total assets for venture capital (investment in new companies or projects).

With exchange controls being lifted, funds would rather invest overseas, where returns might be better. Old Mutual, for example, has announced that it will move at least 25% of its assets overseas in the near future. This would amount to about R50-billion. *South Africa is likely to become more* and more a capital exporter, despite the desperate need for productive investment inside the country.

Alternatives

The alternative strategy, which the labour movement could push, is to promote productive investment and social transformation. Some of the basic changes that would be required include:

- ❑ The consolidation of existing funds into industry funds.
- ❑ The continued democratisation of these

funds.

- The amendment of the laws governing the investment choices of funds to allow them to have social investment criteria. This would build a longer-term, developmental perspective into investment.

A 'social responsibility' fund

An example of such a fund is the Community Growth Fund (CGF). This is a unit trust which invests only in 'socially responsible' companies. 'Responsibility' is measured by criteria set by the CGF. Contributions to the CGF are voluntary, with some unions putting part of their fund's assets into the CGF.

The CGF has a number of disadvantages. It has to invest in 'socially responsible' companies, which may not necessarily be the best performers, while other funds face no such pressures. It may well find itself forced to relax its investment criteria in the future so as to be able to compete with other funds. Moreover, the investments it makes are in existing, large companies, and not necessarily in reconstruction and development activities.

A venture capital fund

Venture capital funds finance new ventures and smaller business. In this way they promote economic development. They are generally the 'higher risk' investments that financial institutions avoid.

The Canadian and Swedish labour movements have led the way in setting up venture capital funds. For example, the Quebec Solidarity Fund (QSF) in Canada is a worker financed mutual fund. It puts money into productive investment which contributes towards job creation. The Quebec government (Canada has a federal system of government) supported the QSF through exempting contributions to the fund from tax and through a government 'start up' loan.

Critics of the QSF have asked, however, why labour should take the higher risk of venture capital while other funds do not. It has also been pointed out that government could have used the money lost through tax exemptions to directly create jobs.

The Swedish Wage Earner Funds (SWEF) were established in 1984 by the Swedish labour movement. Five investment units, which were run mainly by workers, were set up. Their main purpose was to create venture capital and to increase worker influence in the economy. An increase in pension contributions and a profit-sharing tax on companies financed the funds

The original idea was that the SWEFs would eventually own 50% of the shares in large Swedish companies and promote productive investment. However, capital put pressure on the government to limit the funds' growth and economic influence. Eventually, the SWEFs were limited by law to 8% of the shares in any one company on the stock exchange and an overall 5% share of the total value of market stock.

Nevertheless, venture capital funds do have something to offer The risks involved would, however, have to be shared by more than just the labour-controlled funds. By ensuring that all retirement funds are involved (perhaps through prescribed assets) there would be less need for costly government tax incentives. The possibilities of a SWEF-type approach for South Africa should also be explored.

A 'social investment' (RDP) fund

A social investment fund would have some things in common with a venture capital fund. It would lay down social investment criteria and promote national RDP goals such as job creation and infrastructure development. It would involve much more than simply financing small and emerging business (the main focus of venture capital

Business accepted prescribed assets to finance apartheid.

by law. This could be 5% or 10% of each fund's assets. While this represents a small portion of each fund, taken together, it would amount to R25 to R50-billion – a sizeable amount for well-planned RDP projects.

The worker-controlled RDP fund would ensure private sector investment in critical areas. The benefits of these investments would go directly to workers and communities and contribute to stronger growth and further investment opportunities for businesses. In this way funds would be exchanging a short-term emphasis on profit for social returns and long-term development and growth.

It is likely that business would strongly oppose a return to prescribed assets (which were set at 53% during the apartheid era). It should be noted that business accepted prescribed assets to finance apartheid because the government at the time provided them with conditions conducive to maximising their profits. There is no reason why prescribed assets should not contribute towards undoing these wrongs.

Last year, COSATU called for an RDP fund underwritten by prescribed assets. It would need to follow up this idea forcefully if unions are to have a positive impact through investments. ★

funds).

Retirement funds argue that they cannot engage in social investments because they offer lower financial returns. They are bound to pursue the best investments to secure workers decent incomes in old age. A study of the returns achieved by the CGF shows, however, that social investments often outperform other investments. Moreover, the social return, such as higher levels of employment and less crime, would benefit all.

Given the current mind set, most fund managers would be very reluctant to invest in such a fund. Contributions to an RDP fund would therefore need to be prescribed

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