Whatever happened to the 'Social Sector'?

Cosatu proposed the idea of a social sector by using union assets to guide South African capitalism in a more worker friendly direction. **Roger Southall** explores the reasons why, more than a decade later, this concept is hardly spoken about in the corridors of Cosatu.

Back in the 1990s, as prospects for an immediate advance to socialism faded, Cosatu came up with the idea of 'the social sector' for transforming the nature of South African capitalism. This vision was spelt out most forthrightly in 1997 by the September Commission which portrayed the South African economy as being made up of three sectors – the public sector, which Cosatu wanted to see transformed so that it could deliver basic services to all South Africa's people, rather than just a few; the private sector, which Cosatu was determined to render more responsive to workers' rights as 'stakeholders' and the social sector, which Cosatu wanted to develop as the third major component of the economy.

THE SOCIAL SECTOR

Cosatu envisaged the social sector as being centred around four areas. First, noting that workers' retirement funds were the biggest institution of social ownership, the Commission proposed that all retirement funds should be required to invest at least 20% of their assets in prescribed investments (to channel funds into industry and employment generating growth), and that unions and pension fund policy holders should have guaranteed representation on trustee boards so that they could exert influence over investment policy and enhance social responsibility. Second, ownership of appropriate state-owned enterprises could be transferred to community or employee owned trusts. Third, some socially-owned enterprises could take the form of cooperatives. Finally, if Cosatu and its unions were to decide to continue with their own investment companies (a controversial initiative which had taken place since 1994), the goal of such ventures should be radically broadened, away from mimicking capitalist shareholders (who wanted to make as much profit as possible) to realise aims of job creation, democratic governance, community welfare and the promotion of the social sector and social ownership.

The idea of the social sector was a sensibly pragmatic one. It was not uncontroversial as there were still some on the left who insisted that South African capitalism was inherently incapable of undergoing reform. However, just as the ANC had to combine the management and transformation of South Africa's capitalist economy, so Cosatu had to face very practical questions. Apart from promoting workers' rights in the workplace and seeking to debate policy with the new government, they also had to deal with issues of how to use union monies in order to extend worker ownership and control while simultaneously ensuring that workers received a fairer share of the profits which they helped generate. The social sector, it was implied, would provide the answer, and its steady growth would take South African capitalism in a more collectivist, participatory and transformative direction.

A decade later, not much is heard within the corridors of Cosatu House about the prospects of the social sector. Instead, far more attention in debate is given to the idea of a 'developmental state'. This is all well and good, yet such a focus is in danger of encouraging 'top down' thinking centred around government-business-union partnerships and policies for promoting economic growth. In contrast, vigorous pursuit of the 'social sector' implies a more 'bottom up' perspective centred on the steady expansion of popular economic power. So what has gone wrong? Too little attention (despite plenty of lip service) has been given to the transformative potential of union pension power; and secondly, the track record of union investment

companies has been so varied, and ultimately so flawed, that it has done little or nothing to promote worker ownership and control of the economy.

THE UNREALISED POTENTIAL OF PENSION POWER

By the early 1990s, the value of pension and provident funds owned by Cosatu unions had become of considerable significance. This was a product of worker struggles in the 1970s and 1980s, and was accompanied by victories which saw some unions gaining representation on pension funds. The intention was that union trustees should use their influence to encourage pension funds to invest 'responsibly'. This found a response in an initiative proposed in 1992 by a Cosatu Working Group on Provident Funds to establish a single company to take control of the administration, investment and insurance aspects of worker controlled funds. This never got off the ground. However, a proposal was put forward by the Labour Research Service (LRS) for the creation of a unit trust for the investment of union provident fund assets. The fundamental idea was that while management of the assets would be outsourced to professional asset managers, the unions would demand 'socially responsible' behaviour from companies in which these assets were invested.

The idea took form in the shape of the Community Growth Fund (CGF), which was established by Unity Incorporated, a non-profit company established by four unions from Cosatu and three from the National African Congress of Trade Unions (Nactu) in May 1992. The launch of the CGF was met with substantial opposition within the federations. Some of this was ideological, based upon objections to participating in the management of capitalism, some of it centred on personalities, and some of it may have been because, at a time when the idea of union investment companies was germinating, the CGF was seen as a rival strategy for investing workers' funds.

In practice, the CGF's financial performance was rather mixed. Inflows of R100 million were predicted for its first year of operation. Given that the union controlled provident funds worth as much as R20 billion, this did not seem particularly ambitious. By the end of 1993, it had only attracted R70 million. The fund reached R900 million by 1998 and by early 2007 nearly R2.5 billion. If this was 'steady growth', it was nonetheless deemed by Anthony Asher (professor of Actuarial Science at the University of Witwatersrand and the CGF's first chairman) to be 'below expectations' and 'disappointing' (Asher, 2005).

The reasons for its modest success are various. Asher argues that part of the reason for declining performance lies in the time needed to obtain consensus from the union directors of Unity. Certainly, the slow rate of approval of investments led to growing levels of frustration amongst both researchers and asset managers. Indeed, after the initial five years, the LRS withdrew, dismayed at the CGF's conservatism, noting particularly, its failure to move more vigorously into shareholder activism in order to reshape firms' behaviour.

During the years of the political transition, many firms had been highly responsive to the CGF's probing. However, the novelty of the CGF's mandate wore off as the criteria it used in its social audit became more commonplace, not only as the notion of SRI became more established (and politically correct) but as firms began to respond to the demands imposed by government in terms of its equity employment legislation, its calls for affirmative action, and its growing requirement for commitment to Black Economic Empowerment (BEE). From this perspective, CGF's failure to become more aggressive in its demands meant that it became a decreasingly important player in what was, in any case, a rapidly expanding financial market. However, the more fundamental issue was that CGF's ultimately limited impact was a reflection of Cosatu's wider failure to realise the potential of worker pension power.

It is true that Cosatu made an important contribution to the government's reform of legislation regarding retirement funds. Most notably, it gave strong support to the government's reworking of the Pensions Fund Act in 1996 whereby notice was given that members of retirement funds were to be granted the right to elect at least 50% of the members of the board's pension fund trustees. While the introduction of the legal requirement for representative trustee boards was a major victory for the labour movement, it posed two challenges. The first was that few worker/member trustees were likely to have the skills and knowledge to assess and evaluate advice given by the pension fund asset managers. The second was that the retirement fund industry would continue to be dominated by vested interests (Pillay, 2001).

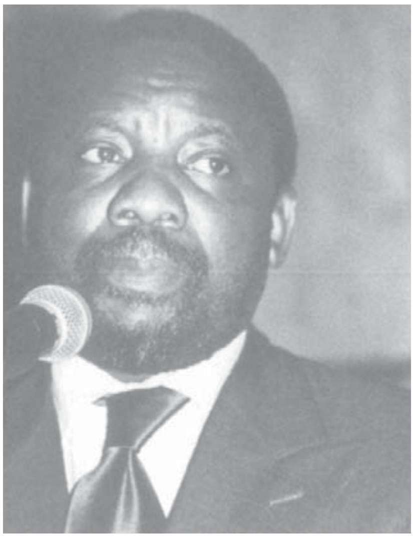
Despite Cosatu's initially high hopes, early experience indicated that worker trustees tended to be passive members of boards who left key decision-making to fund managers. Early studies revealed that worker trustees were insufficiently trained; were short of opportunity to share experiences and that unions lacked a coordinated investment strategy. A study conducted on behalf of Cosatu by Fifth Quadrant Actuaries and Consultants in 2003 offered some indication that the standard of retirement fund governance had improved following the implementation of the legislation, backed up by the creation of the office of a Pension Funds Adjudicator and the adoption of a more interventionist posture by the Financial Services Board. It also argued that worker trustees were becoming increasingly effective and diligent, that their training was improving, and that they were taking their fiduciary responsibilities to fund members in their capacity as future pensioners increasingly seriously. However, there remained numerous problems. Trustees were often extremely busy people with inadequate time to devote to investment issues; some worker trustees tended to treat their appointment to pension boards as a perk involving time off work, business travel and expense claims; and yet others were intimidated by, or deferred to, management representatives, fund principal officers or asset managers.

However, the relatively optimistic perspective adopted by Fifth Quadrant was contradicted by the findings of a report on Retirement Fund Governance conducted by Deloitte and Touche in early 2007. This highlighted what it regarded as major flaws in the system of governance. Less than 18% of pension funds had formal training policies for trustees, with the average trustee receiving no more than 15.5 hours training per annum; many trustees were serving on boards reluctantly; many were not remunerated, yet were incurring personal risk; most trustees had full time jobs and hence insufficient time to devote to pension fund issues; only 22% of funds had independent trustees; and there was a widespread perception that employers continued to exert the major influence over boards. The flaws highlighted by Deloitte and Touche were subsequently illustrated by the Fidentia scandal, where the failure of trustees to put an end to corrupt practices by senior management resulted, ultimately, in the collapse of the fund and huge financial losses. Sadly, the principal victims were the beneficiaries of, amongst others, the Mine Workers' Provident Fund (R840 million), the South African Municipal Workers' Union (R109 million) and the Impala Platinum Workers' Provident Fund (R58 million).

If nothing else, the huge amounts of money lost to pension fund beneficiaries, many being impoverished families of migrant workers who work or worked on the mines, points to the absolute necessity of the trade union movement taking the issue of financial management extremely seriously. In addition, the vision of the social sector suggests that it needs to be used to reshape the ethos of capitalist society – to ensure that its fruits are distributed more equally amongst the population as a whole. So to what extent has this vision been realised by Cosatu's other major financial initiative: the launch of its union investment companies?

COWBOYS OR COMRADES? THE DILEMMAS OF UNION CAPITALISM

In a recent article in the *Financial Mail* (18 January 2008), Johnny Copelyn and Marcel Golding, the CEO and chairman respectively of Hoskins Consolidated Investments (HCI) were labelled as 'Cowboy capitalists'. HCI, which is 30% owned by SACTWU Investment Holdings, 10% by SACTWU Educational Trust, 10% by Copelyn and 7% by Golding, was accused of a host of strong arm and dubious tactics, notably in regard to its controversial battle with Johhnic Holdings in 2004 for control of Tsogo Investment Holdings, the



largest gaming and entertainment group in the country. The battle culminated in HCI's hostile takeover of Johhnic, and amongst other consequences, the unceremonious ejection of Cyril Ramaphosa as its chairman. HCI's behaviour has come under careful scrutiny by some four provincial gambling authorities, there has been a recommendation that HCI be investigated by the Scorpions, and there are allegations that it has manipulated its black empowerment credentials in order to further its interests. In addition, corporate governance issues have been raised regarding Copelyn's and Golding's allegedly authoritarian style of management. This recalls the decision by the Mineworkers' Investment Corporation (MIC), which had originally joined SACTWU in purchasing HCI, to sell its shares in the company in 2003. Substantively, this was because MIC decided to support Primedia, another company in which it had shares, over HCI, in bidding for a licence to run a TV company. However, underlying this was MIC's sense that, even as a substantial shareholder in HCI, it was unable to influence board decisions, and that it was merely being asked to rubber stamp decisions made autocratically by Copelyn and Golding.

Copelyn and Golding provide a vigorous defence of their actions, and imply that the allegations made against them are the product of the jealousy of corporate interests who resent having been beaten at their own game. Whatever the truth of the matter, the spats in which HCI has become embroiled provide the sharpest illustration of the dilemmas that are likely to beset trade union investment companies. In essence, HCI's experience would seem to suggest that the route to success for a union investment company is not to reshape capitalism but rather to adopt some of the most robust and aggressive tactics of corporate capitalism. The ends, this approach would seem to say, justify the means – the ends being the rewards which ultimately flow in dividends to workers and their unions.

There can be little dispute that some very considerable rewards have flowed to the union trusts which hold interests in HCI and the MIC which are estimated to be worth in the region of R1.3 billion and R2.5 billion respectively. Over the years, millions have been paid out to improve the lives of union members and their families. However, what needs to be stressed is that the successes of HCI and MIC are highly exceptional, and the more normal experience has been for union investment companies at best, to perform extremely modestly or otherwise to fail.

It would be churlish to deny the remarkable entrepreneurial and management skills that individuals like Copelyn and Golding have brought to HCI, and they can claim many kudos for their role in building up their empire from virtually nothing. Yet I have argued elsewhere that the initial success of both HCI and MIC was built upon exploitation of the opportunities which were offered at a particular time. This helps explain why there are no other union investment companies which can compete with their record. There are one or two like the Numsa Investment Company, which in recent years have performed reasonably. However, against that, there are other investment companies which have lost money, gone bankrupt and/or engaged in various corrupt practices.

There is a standard critique of union investment companies which argues, inter alia that some companies, notably HCI, have become the vehicles of huge personal enrichment for their leading corporate personnel; that some have invested in areas – like gambling and casinos – which have hugely deleterious social consequences; that some (including Kopano Ke Matla, Cosatu's own investment arm) have invested in spheres specifically condemned by Cosatu; that few have risked making innovative, Greenfield, job creating investments, and instead have followed the path of capital intensive profitability; and of course, that the arm's length relationship which has been deliberately engineered between union trusts and union investment companies to limit union financial liability has stripped unions of any significant influence over their own investment vehicles. All such criticisms carry considerable weight. Yet surely the most damaging criticism of all, if the long term objective of Cosatu is to construct a viable social sector, is that despite

occasional attempts by the federation to establish a coherent investment philosophy, union investment companies have simply done their own thing and forgotten about the socialist goals they were meant to establish.

LOOKING FORWARD

Cosatu's aspiration to create and empower a social sector of the economy was an extremely important one which had considerable potential for reshaping the unfortunate heritage of South African capitalism. Unfortunately, the burden of this analysis is that the two major thrusts of its social sector strategy, the mobilisation of union pension power and the launch of union investment companies, have combined a mix of relative failure with largely undesirable and unforeseen consequences. Overall, it is difficult to draw any conclusion other than that the social sector scarcely exists as a coherent, collectivist-oriented alternative to the mainstream of the economy. Nonetheless, this does not mean that valuable lessons cannot be drawn from the experience so far, and I would argue that these revolve around the notion of socially responsible investment.

Ideological purists may object that socially responsible investment amounts to nothing more than an attempt to join in the management of capitalism. Unfortunately, this perspective offers no realistic guide to those who have to wrestle with the dilemmas facing trade union executives. Should unions simply adopt a passive attitude to the investment strategies pursued by the financial institutions which preside over their member's pension funds, or should they try to move them in a more worker friendly direction? And likewise, should not trade unions adopt an active strategy, designed to combine financial growth and socially constructive use, for the funds which they themselves accumulate from members' subscriptions and past investments?

It must be admitted that there are no easy solutions to any of the challenges which Cosatu faces if it wishes to construct a social sector. However, what is clear is that urgent action and debate is needed if Cosatu's vision of a social sector is not to run aground.

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