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| **COSATU Submission and Proposals:****On The Current Challenges Facing** **The Public Investment Corporation****14 November 2017** |
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**Submitted to:****Standing Committee on** **Finance** **Parliament****Republic of South Africa** |

1. **Introduction**

COSATU strongly welcomes and appreciates the Finance Committee’s calling of this urgent meeting and inviting the inputs of unions in particular. The current challenges facing the PIC and playing out in the media are of the deepest concern to COSATU and its 1.7 million members and their families. It is also a matter of great concern to the 400 000 plus pensioners dependent upon the Government Employees’ Pension Fund.

COSATU views this as a matter of the highest concern and one that needs to be dealt with urgently to protect the hard earned pensions of workers. It is an issue that we cannot afford to fail upon.

COSATU through its affiliates, NEHAWU, SADTU, POPCRU, DENOSA, SAMATU and PAWUSA represents more than 800 000 or two thirds of the public service. No decision can be allowed to be made about public servants’ hard earned pensions without the involvement and agreement of their unions and federation, COSATU.

COSATU with FEDUSA represent more than 90% of public servants and the Public Service Collective Bargaining Council.

1. **Current Challenges Facing the PIC**

The Public Investment Corporation has unfortunately dominated media headlines in the past few weeks. Perhaps this is due to the nearly R2 trillion it has in workers’ pension and unemployment and compensation funds and assets and the daily revelations the nation is subjected to about the rampant growth of public and private sector corruption.

These funds are public servants’ deferred wages. They are workers’ unemployment insurance taxes. They are workers’ compensation funds.

They are not a slush fund for “dangerous eyes” as so aptly described by the Deputy President and Leader of Government Business, cde. Cyril Ramaphosa recently to the South African Democratic Teachers’ Union’s National General Council.

COSATU is a tried and tested ally of the ruling political party, the African National Congress. However COSATU is deeply distressed by the conduct of many of our leaders in government and in particular the President, members of cabinet and leaders of our state owned enterprises.

Comradeship is not a blank cheque for looting. Workers and our members have had enough of their hard earned taxes being looted by a corrupt elite in both the public and private sectors. This is happening whilst workers are battered by rising unemployment, 38% without jobs and increasingly massive levels of poverty and inequality.

Government’s word no longer holds value. We have been subject to new and growing corruption scandals day after day with few held accountable, arrested or imprisoned. Yet government pleads poverty and looks for new ways to raise taxes and cut public service posts and delivery. The days of trusting government or having faith in its credibility or integrity are gone.

COSATU does not have confidence in government’s assurances that all is well or that workers’ monies are well protected. We are deeply alarmed by the clouds surrounding the PIC and government’s intentions.

COSATU was disappointed to hear Treasury indicate that it cannot guarantee that PIC funds will not be used to bail out State Owned Enterprises such as South African Airways (SAA). We are alarmed to hear SAA has already asked the PIC for a bail out this year and that Denel and the SABC are next. This is the same SAA that is looking for its third bail out in a year! We are shocked that other Ministers are now looking to the PIC to fund their budgets. COSATU will not support or accept these “Dangerous Eyes”. We reject them with contempt.

Lest it be said that COSATU is being alarmist, we need look no further than to what has happened to Transnet’s pension fund where the friends of the Guptas have been accused of looting. We need look no further than to how workers were robbed of their pension funds by Fidentia and numerous other pension funds. Amongst the accused in these cases of pension thought were senior government leaders.

What is needed now is to strengthen oversight and accountability of this crucial public institution, to prepare and plan for those who seek to rob workers of their pensions and not to simply accept press statements as protection against corruption.

COSATU does not have an objection in principle against an audit of PIC investments. However we are concerned with regards to how these investigations are being handled and managed. The PIC is not simply any department or fund. It is the largest financial entity in South Africa. South Africa is barely emerging from a recession.

South Africa has been downgraded to junk status with more possible downgrades in the near future. The ratings agencies and investors are watching with alarm at what is happening in the state, including the clouds hanging over the PIC. Is government not aware that the way it manages itself and the PIC may very easily help spur a further downgrade? If this happens, international investors will be forced to withdraw from South Africa. This will have a calamitous impact upon our economy and threaten the very collapse of the state with the recall of Eskom and other SOEs’ international loans.

COSATU will not condone any wrongdoing if it occurred at the PIC. If it did occur then the law must be applied. We are also not oblivious to the numerous factional battles and state capture at play across the state, in particular in the run up to the ANC’s National Conference. COSATU is also not blind to how state organs have been and are being abused to settle scores and loot. Government needs to be very careful with how it handles its requested forensic audit of the PIC’s investments.

1. **Mandate**

COSATU understands the mandate of the PIC is first to grow the government employees’ pension fund, the unemployment insurance fund and the compensation fund. Second that these investments after generating healthy above inflation returns for their members and beneficiaries, namely workers, are to be invested in ways that will protect and create jobs, sustainable development, boost the industrialisation and infrastructural development of the nation.

COSATU wants to make it very clear to government that the PIC is not a slush fund. It is not there to balance the budget. It is not there for deficit funding. It is not a kitty for cash strapped ministries. It is not a bailout fund for state owned enterprises that have been run into the ground by corrupt leaders.

It is workers’ money. It is to take care of workers when they have retired, lost their job or been injured on duty.

1. **South African Airways**

Having stated the PIC’s mandate, as given to it by the GEPF, UIF and Compensation Fund; COSATU wants to state the following with regards to government’s desires to bail out SAA with PIC funds.

COSATU and its affiliates will not agree to bail out an SAA where looting is the order of the day. COSATU will not agree to using the PIC to throw workers’ monies down a black hole that has become synonymous for state capture and looting.

All PIC investments are subject to strict investment codes, which include good governance etc. SAA clearly is not investment worthy at this stage. Government needs to complete the overhaul of its board and remove its Chairperson, Dudu Myeni. It needs to act with speed to conduct a thorough forensic investigation of SAA and begin its long promised plans to place SAA on a sound footing. It needs to prosecute those who have run SAA into the ground through rampant looting.

Once these are done and SAA is investment worthy and can yield a return on workers’ investments, then it can approach the PIC and GEPF for financing via bonds. If the PIC were to help finance an investment worthy and clean SAA, it would need to be provided with meaningful representation on its board as an equity holder. There cannot be any blank cheques or voiceless donations.

Whilst stating the above, COSATU will also not agree to support the collapse of state owned enterprises either. COSATU sees value in supporting state owned enterprises, more especially when they provide a public good as well as to protect and create jobs and spur economic growth. However they have to abide by sound corporate governance and be investment worthy.

1. **Proposed Interventions**

It is important to note that despite the recent and worrying media headlines, the PIC and the GEPF are well run. In fact they have been consistently ranked highly internationally for their clean audits and sounds corporate governance. However it is equally important not to rest on one’s laurels.

COSATU believes there are areas where the work of the PIC as well as its oversight and accountability can be further strengthened. These include:

**PIC Board:**

1. The existing PIC Act should be amended to remove the Minister’s de facto unilateral and sole discretion to appoint its Board.

Currently the Act only requires the Minister to “consult cabinet colleagues” and to “give due regard” to depositor’ nominations”. These are not binding.

1. The Act should be amended to require union representation on the PIC Board. This should be mandatory and provided for in law and not voluntary or dependent upon the good will of a Minister. These should be selected by the GEPF as the share holder and in proportion to representation by unions at the PSCBC.
2. As per industry norms, 50% of the PIC board should be union (depositor) representatives selected by the PSCBC in proportion to its composition.
3. There should be space for a parliamentary role in selection of the non-union members of the board. Further engagement would be needed on this issue to balance the rights and responsibilities of the GEPF as the main share holder as well as the value in having a parliamentary role in deepening transparency and accountability.
4. There must be checks and balances on the powers of the PIC Board chairperson. It cannot be an executive chairperson with powers to interfere in the daily operations of the PIC as occurred at SAA, Eskom, SABC etc. previously.

**Mandate:**

1. The Act must be amended to provide for checks and balances upon the Minister to issue directives to the PIC Board. Such directives must receive the support of the GEPF before being issued to the PIC Board. They must also be in line with the PIC’s mandate and not simply referred to as in the “public interest” as currently provided for in the PIC Act.
2. PIC investments must be required to be done in line with the nation’s development objectives, creating and protecting local jobs, sustainable development, building a capacitated developmental state and the transformation of the economy and society.
3. Permission must be sought from the GEPF before any significant or out of the norm investments are made by the PIC or changes to its mandate are sought.
4. Provision should be provided for in the PIC mandate to provide for a housing scheme for GEPF members.
5. The GEPF, UI and COID Acts should be amended to require their funds be invested through the PIC.
6. This should be expanded to require all government investments and pension and other funds be invested through the PIC, e.g. pension funds for political office bearers, councilors, parastatals etc.

**Accountability and Transparency:**

1. The PIC should be required to submit annual reports to Parliament and open all its books to public and parliamentary scrutiny.
2. Its reports must be made available on the PIC and Parliamentary websites.
3. **Fedusa PIC Divestment Proposal**

COSATU notes the suggestion by FEDUSA that the GEPF must withdraw its funds from the PIC and invest them in private funds. COSATU would like to state very clearly as the majority federation in the PSCBC and the GEPF that it will not allow this to happen.

COSATU does not support any move that would collapse the PIC. The PIC has received continuous positive international recognition for being well run. It has delivered healthy positive returns to workers on their pension funds. It plays an important developmental role in the economy.

Whilst the deepening corruption levels in government are alarming, it would be naïve to pretend this does not also exist equally in the private sectors. Workers will not forget how their pension funds were stolen in the Fidentia scandal and many other private sector scandals.

Whilst the current challenges facing the PIC are worrying, there is much more transparency and accountability in the PIC then in the myriad of private funds.

Lastly, one of the key bases for the current comprehensive social security engagements at Nedlac is how to consolidate the numerous private and public social security funds to ensure better transparency, return on funds, lower costs and to minimise looting etc. Taking the GEPF away from the PIC goes in the exact opposite direction of such positive engagements and would threaten to wreck havoc in the economy and put workers’ pensions at risk to private sector looters.

1. **Conclusion**

COSATU would like to thank the Committee and its honourable Members for arranging this important engagement between government and unions on this critical matter for workers, the state and the economy.

COSATU is committed to playing a constructive role. We are equally committed to representing our members and their families’ interests and to defending their hard earned pensions and funds. We will not hesitate to oppose government if we feel it is threatening the rights and pensions of workers.

We hope that government understands the mandate workers gave it in 2014 and that it will not disappoint them.

COSATU wants to warn government, that it will not hesitate to mobilise its members to go on strike and take to the streets if there are any moves to loot the PIC.

Government must not take this warning lightly. Teachers, nurses, police officers, prison wardens, doctors, public servants across the board will not hesitate to go on strike if government thinks it can allow the PIC and their pensions to be looted like it has allowed chaos and looting to run unabated at SAA, Eskom, the SABC, SASSA etc. If government does not want the state to collapse, then it must not provoke workers and touch their pensions.

We hope this submission helps the Committee in its important work.  We will continue to avail ourselves to assist the Committee at any time.

Thank you.

Yours comradely,

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