TRADE UNION INVESTMENTS: EMPOWERMENT OR CO-OPTION?

Discussion Paper

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1. Introduction

Union investment companies are a controversial issue within many labour movements around the world. Some have gone into business ventures in full force while others decided to rather concentrate on the core functions of unions: improving the living and working conditions of their members through collective bargaining and shopfloor struggle. The investment controversy centres firstly around the question of ideology: should unions run businesses in capitalist economies which are built on the exploitation of workers? will union investments destroy the idea of working class solidarity and collective action? Once a union decides to go into investments, it faces several practical issues: how much time and energy should unions spend on investments? do unions have the capacity to deal with investment decisions? how can unions avoid corruption and individual enrichment? how can union investments become transparent and accountable to union members?

This discussion paper looks at some of the debates and experiences around union investments. Special attention will be paid to the debates in South Africa where many unions have gone into investments over the past few years. The issue is hotly debated within COSATU and its affiliates and some lessons can be drawn for Namibia. This paper will also touch on some experiences in Namibia. The current practice of entering business deals without a clear vision, policy guidelines and structures of accountability is very dangerous and can seriously harm the labour movement. Clear policies and guidelines for union investment activities are urgently needed.

2. The Ideological Debate

As Ravi Naidoo, the former director of the COSATU research unit NALEDI pointed out: 'Investment issues pose a difficult challenge to the union movement: how does a union movement committed to socialism, invest in a capitalist economy and remain true to a socialist project?' A leading unionist of South Africa’s National Union of Mineworkers summed up the dominant view within investor unions: 'You can't invest in a capitalist economy in a comradely manner' (Naidoo 1997a:2, 1997b:11).

Although the NUNW and its affiliates have become rather quiet on the issue of socialism in recent years, the labour movement is still the most vocal and organised expression of Namibian workers. The labour movement is still advocating the transformation of the Namibian society. Its role has been broader than just taking up issues at shopfloor level and the NUNW contributed to the debates on social justice in Namibia, e.g. the land question and income inequalities. It is against this background that the ideological question should be debated before unions go into investments.

A basic dilemma is the fact that union investments are meant to earn good returns which are supposed to benefit union members. Good returns are achieved if investments are made in profitable companies. In a capitalist economy in the age of 'globalisation', profitability is often achieved by winning a 'competitive advantage' through downsizing and sub-contracting. Such practices have a detrimental effect on workers who often loose their benefits, job security or their jobs all together. Unions in Namibia and elsewhere are fighting against these practices and the labour movement would be seriously compromised if its investment companies would benefit from downsizing and sub-contracting. Unions would undermine their own struggles if they allow their investment companies to be involved in practices that contradict the unions' interests.

3. Conflicts of Interests

The possible contradictions between union struggles and union investments can be seen in South Africa. 10 black empowerment groups, including the NUM investment company, invested 2,5 billion Rands in the mining giant JCI. In 1997, JCI retrenched thousands of mineworkers to improve its financial performance. This resulted in a situation where mineworkers through their union's investments indirectly invested in their own retrenchments (Sikhakhane 1997)

Another example is Premier Foods which wanted to retrench 2 000 workers as part of the company's rationalisation programme. Members of the Food and Allied Workers Union (FAWU) went on strike in protest. Meanwhile, FAWU and 4 other unions had invested in Johnnic which in turn controls Premier Foods (Sikhakhane 1997). These examples show the conflicts of interests that can emerge between unions as fighters for workers rights and unions as investors.

The South African experiences also show that union companies buy into companies outside their own sector. However, some of the practices of these companies contradict the policies and interests of the union. For example, while unions are opposed to privatisation, their investment arms are trying to buy into state enterprises. In a critical analysis of union investments, the South African Labour Bulletin pointed out that 'through the investment companies, unions are becoming intimately tied up with company management…unionism is not about making money. It is about social issues, about using worker solidarity at plant, industry and national level to improve living and working conditions…Commercial values tend to squeeze out union values' (SALB 1996). Critics of union investments (including some COSATU affiliates) have suggested that unions should rather invest in projects that meet social needs such as housing projects instead of chasing maximum profits (Koch 1997).

4. Defending Union Investments

Proponents of union investments, like the former Secretary General of the South African textile workers union SACTWU John Copelyn, argue that union investment can lead to greater worker ownership of the economy. Copelyn believes that trade unions should build institutions 'which can help working class people with solutions to problems they face in capitalist societies…' Such institutions include housing corporations which provide affordable houses to union members, creches, clinics, bursary schemes and financial institutions which provide loans at lower interest rates to workers (Copelyn 1997).

Ravi Naidoo argues that "Trade Unions should be involved in investment. It is not a question of whether or not, but why and how" (Naidoo 1997b). He believes that unions can change the nature of the economy and the workplace by influencing the investment agenda. However, this can only happen if union investment companies have a clear strategy, based on union principles instead of the "business is business' approach. According to Naidoo, transformation of the economy has to be the central goal of union investments. This 'could include using a few smaller companies as pilot projects in worker control. This experience could be used to build collective ownership and control of enterprises on a wider scale" (Naidoo 1997b).

However, investments in worker-controlled companies would also be high-risk investments because capital will see such companies as a threat. Capital will try to fight these companies to make them fail. Naidoo therefore proposes the following steps for union investments:
1. Unions should have a unified approach and pool their resources to limit the financing of investments through debts;
2. Unions have to develop a strategy to counter the resistance from organised capital;
3. Unions should gain experience of different forms of management;
4. Unions should form an alliance with progressive governments to create space for transformation. For example, government should give tenders to worker-owned companies (Naidoo 1997b).

5. Union Investment and Black Economic Empowerment

Union investment and black economic empowerment are often seen as two sides of the same coin. This can be understood against the background of a history of racialised capitalism in Namibia and South Africa. There are, however, some differences between the interests of black workers and those of black businesses. Drawing on the South African experiences, Naidoo points out that a racial definition such as Black Economic Empowerment "creates space for upward mobility of an already affluent black bourgeoisie or middle-class. A misguided definition allows capable vested interests to secure benefits for themselves, in the process sidelining those who really need empowerment" (Naidoo 1997a:10). Black empowerment groups like Cyril Ramaphosa's NAIL adopted the same hierarchical pyramid structure of power (power concentrated in a small group at the top) that was used by a handful of white families to gain control over the South African economy during apartheid. For trade unions, the question is how to ensure that Black Economic Empowerment does not just benefit a new black elite. Instead union-driven empowerment must be controlled by union members and benefit the black working class. In other words, union investments must also address class inequalities. This means that unions will have to carefully choose their allies and clearly define their understanding of Black Empowerment.

6. Union investment in Namibia

The Mineworkers Union of Namibia (MUN) was the first union to establish an investment company. Motivating this step the union said that "despite the gains that had been secured on behalf of its members, it had been unable to provide any direct material social benefits to mine- and energy workers, their children and the communities they live in. The MUN also realised that there was a great need for active participation in the development and restructuring of the Namibian economy hence its decision to adopt a resolution to create an investment company in order to enter into joint ventures with credible and visionary partners…" This should be done to "jointly service identified emerging markets and at the same time empower previously disadvantaged groups…by teaching skills that will enable them to develop new industries and broaden the economic base that will lead to new job opportunities" (NAMIC brochure:2). According to MUN's former Secretary General, NAMIC's main aims are to empower members, ex-members and their dependants; and to finance the MUN bursary scheme. He also believes that shareholding will give the union representation on the board of directors and in the management structures of the companies. This could enable the union to propagate better working, health and safety conditions. NAMIC's MD described the company's philosophy as "black empowerment and economic reconciliation" (Miners Speak)

After the National Congress in April 1997, the MUN set up the Namibia Miners Investment trust (NAMIT) in July 1997. MUN's National Executive Committee (NEC) members serve as trustees. NUM also set up the Namibia Mineworkers Investment Holding Company (NAMIC) which became operational in September 1997 and is fully owned by the Trust. MAMIT's aim is "to improve the quality of life for mineworkers, energy workers and their children through re-investing the wealth generated by NAMIC into social programmes focusing on education, training and development of human resources and the improvement of community services where they live." NAMIT provides guidelines for NAMIC, e.g. in which sectors to invest. NAMIT also provided a loan of about N$ 600 000 as start-up capital to

NAMIC. This money was raised from the union's membership income (NAMIC brochure: 4; Interview with P. Naholo).

NAMIC's investment strategy has three central aims:

- Firstly to meet the needs of mineworkers by servicing the consumption need of mineworkers when mining houses are outsourcing non-core activities. Although the union does not want to encourage outsourcing, it says that 'where outsourcing is inevitable NAMIC will always consider the rendering of such services.
- Secondly, to promote black empowerment by using the opportunities created by the restructuring of state dominated industries and by the unbundling of conglomerates.
- Thirdly to serve new and emerging markets and to "create value where it did not previously exist".

Mineworkers and energy workers are supposed to benefit from this investment strategy through improved goods and services on the mines; through social benefits from the trust like bursaries and scholarships; and through direct investment opportunities (NAMIC brochure: 5)

The dangers of union investments and participation on company boards has come into sharp focus in Namibia on several occasions, for example at Ongopolo, Ituyeni Transport and Ostrich Production Namibia. Union investments have created the impression that investment arms are more important than the union itself. Investment managers are paid more than union general secretaries, which indicates that managers are seen as more important than union officials. This created an incentive for some of the best unionists to move to investment arms. Others are interested in union leadership position to gain access to boards of investment companies and pension funds as a means of earning an extra income.

At present, there are no coherent policies on union investments and structures of accountability. Union members are usually in the dark about union investments and how the money generated is spent. This creates suspicions that union leaders use the investment arms for their own benefit. Members are usually not informed about the reasons for investment decisions, they are not consulted before decisions are taken and they do not receive reports about profits or losses made. Conflicts like the current one at GIPF will continue unless trade unions themselves develop clear policies that will help to prevent conflicts of interests. There are already serious political tensions between and within unions and thus they do not need further conflicts about union investments and union leaders serving on company boards. After all, the labour movement is supposed to serve its constituency, the Namibian working class.

7. Recommendations

7.1 Debate the implications of union investments

Any union contemplating investments first needs to thoroughly and openly discuss the implications with its members before entering any business operations. Otherwise, the investments will be seen as a secret operation of the leadership and there will always be suspicion that union leaders might enrich themselves while workers do not benefit.

7.2 Clarify the aims of union investments

Unions need to clearly spell out what they want to achieve with investments. As Naidoo points out: “The reasons for going into investments should determine the investment choices”. For example, if unions want to provide bursaries for their members and families, then their investment should provide cash in the short-term. On the other hand, if unions want to use investments to gain some control over large parts of the economy, they will have to enter debt-financed deals which will not provide any short-term pay-outs (Naidoo 1997a: 18). The South African experience has shown that unions are often not clear about the reason for going into investments. Responses from COSATU unionist ranged from ‘to help the government to help ourselves’; to ‘finance benefits for our members’, ‘to raise money for union education’; to make money for the union’; ‘to buy state assets’ and ‘to promote socialism’ (Naidoo 1997a: 10). However, the prime motivation for South African union investments is to make money while there is no serious attempt to transform the economy (Naidoo 1997b)

Trade unions will have to choose between short-term investments which will bring quick returns if they primarily wants to finance union education or a bursary scheme. Completely different investments are required if a union wants to gain control over sections of the mining industry.

7.3 Clarify the relationship between union and investment company

Union investment companies cannot and should not operate completely separate from the unions. Unions should set the aims and the rules for their investment companies and decide how the profits are to be used. It seems advisable to establish a trust which owns the investment company. A trust would ensure that the union is not financially liable for any legal action against the investment company.

There should, however, be a separation of functions between trade unions and their investment companies. Trade union officials should not be involved in the day-to-day running of investment activities. Otherwise, there is a great danger of corruption and conflicts of interests. For example, union officials might be approached to assist investment companies to prevent industrial action or union officials might gain personally from the investment companies by receiving personal shares etc. (Naidoo 1997a).

On the other hand, the investment company must strictly abide by union principles and should never be allowed to engage in activities that will undermine the union's aims. This means that the union will have to set strict social investment criteria (see section 7.5) which must override the search for profits as the first aim. In other words, union investment companies should not operate on the "business is business" principle. This seems the best way to avoid (or at least limit) conflicts of interests between unions and their investment companies.

7.4 Establish structures for worker control and accountability

This seems absolutely essential if unions want to avoid the problems experienced by South Africa's National Union of Mineworkers (NUM). Many union members are suspicious of their union's investment strategies. The lack of transparency and accountability poses the danger that investment decisions are determined by the self-interest of union leaders and that investment advisors influence the decisions of union officials. This can easily result in a gap between union members and leadership (Naidoo 1997a:17).

To avoid this situation, "workers must be part of the union investment policy development, which is intended to act on their behalf". There must be full accountability and information disclosure through the union structures. Workers must be trained to understand investment issues. It is critical to ensure that the policy principles of the unions' investment company are determined democratically by the union members (Naidoo 1997a: 25-26).

7.5 Establish investment criteria

Trade unions should never invest in companies that are engaged in activities that contradict union principles and interests. Also, unions should not be involved in speculative investments which only create profits but no jobs. In other words, unions should only support productive investments. In companies where unions are minority shareholders, it is essential to ensure that these companies at least meet 'social' investment criteria. This was attempted, for example, by the Community Growth Fund (CGF) in South Africa. It was started by the unions in 1992 to provide a home for retirement funds and savings. These funds are invested only in 'socially responsible' companies which take care of:

- job creation
- good industrial relations
- above average employment conditions
- training opportunities for all workers
- equal opportunities for women workers
- high health and safety standards
- affirmative action
- no privatisation
- retention of profits to expand the company operations
- worker participation in training and safety programmes
- full and open access to company information

- funding for social projects
- active steps to overcome racial and gender discrimination
- good environmental practices

These factors need to be are examined and weighed up before any investment is made. Adherence to social investment criteria should be seen as minimum demands by unions before any investment is done.

7.6 Establish transformation plans (majority shareholding)

In companies where unions are majority shareholders, they should go a step further. Besides implementing and improving on all the criteria set out above, unions should establish and implement transformation plans for companies. Such plans should spell out skills transference programmes, steps to democratise the workplace to achieve workers control etc. (Naidoo 1997a: 26).

7.7 Establish code of conduct for union investors and officials

The NUNW should establish a code of conduct that is binding on both union officials and union investors. Such a code should help to avoid conflicts of interests by preventing that union officials/investors personally benefit from union investment. Union officials/investors should not be allowed to be private 'co-investors'. Naidoo points out that 'union officials should have no financial interest in the company, to ensure that positions of power are not abused for financial gain. Similarly, 'union' investors who try to 'influence' worker actions should face serious disciplinary action' (Naidoo 1997a: 25).

7.8 Utilise retirement/pension funds

At present there is no national provident or pension fund for Namibian workers. However, unionists sometimes serve as trustees on the boards of pension and provident funds. To date, unions have not used their status as trustees to change the investment agenda of pension and provident funds. They should change their approach and develop a strategy to push social investment criteria. Taking control over pension and investment funds should be high on the unions' agenda as this could provide them with an opportunity to promote productive investment and to effect some social change. This, however, can only happen if union investments are not driven by the desire to make quick profits but by a clear strategy of transformation.

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