



STATEMENT

Issued by A P Stemmet
On behalf of : The AMAGP
Cape Town

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INFRASTRUCTURE PROJECTS: NO THANK YOU MR PRESIDENT

As kids we were taught a little rhyme of a jackal inviting a gosling to have supper with him. The gosling declined, stating that he was sure that if he accepted that he would be eaten.

At this time the Government is inviting ALL Pension Funds to what seems to be the equivalent of the supper described in the rhyme. They even gave the event a grand title....

INVEST IN INFRASTRUCTURE PROJECTS WITH THE GOVERNMENT

Is it fair to equate the SA Government to the jackal and the Pension Funds to the gosling?

Using the GEPF as example and the history of "eating" in Government and Parastatals? We believe so.

Can the jackal reinvent himself? Is it really possible to override what is hard-wired in any creature or man-made creation such as a Government?

The SA Government has in the past neither demonstrated the capabilities required neither to safeguard investments and investors nor to manage any business entity successful. On the contrary! Every day we hear about yet another failed State-Owned Entity that requires a bailout.

This is happening under this presidency and his administration's watch.

The most recent report by the Auditor-General (AGSA) on the special audits on Covid-19 clearly highlights the entrenched but cracked foundation of Government

systems, political connectivity and private sector enthusiasm working in tandem to plunder on a grand scale. Mr Kimi Makwetu, the AG, urged all role players “to heed our call for a shift in thinking towards prevention. Designing and implementing controls that prevent fraud, errors and abuse are an investment that pays off when an institution is called upon to deal with a crisis as we are now experiencing. It is by far a better approach than having to deal with lengthy and costly investigations and a loss of resources and public confidence.”

It will be interesting to see the preventative controls the Government had in mind to deal with:

- The procurement corruption in Government
- Excluding politically connected persons and public servants from being involved in these projects
- The extortion inherent in the construction industry.

It was noteworthy that the President barely finished his heartfelt plea to citizens to pitch in, and pitch up to address the unfolding Covid-19 pandemic, when people very close to power in government were already devising schemes and setting up companies to plunder the resources earmarked for the vulnerable. A truly shocking indictment of the state of our democracy.

Why will the infrastructure initiative be different? We do not think it would be any different!

It is not only the President that reportedly “smells the money”. Others are also as eager as the President to touch the money. As we are writing this, we can only imagine the manoeuvring going on already to get on the inside track of these construction and infrastructure projects. The Government has made promises about anti-corruption measures to be implemented. Unfortunately, we remain sceptic as the AGSA reports year after year point to worsening controls, poor corporate governance and the absence of consequence management. We have heard these pronouncements before and have been left disappointed. Miracles do happen, but we cannot support investments based on blind faith or empty promises.

Then, as with the President’s promises made for the Covid 19 funds, there is an undertaking that “every penny will be accounted for”. Perhaps so. But it serves very little comfort to know the exact amounts that was top-sliced for bribes, extortion, substandard work, budget overruns leaving a diluted portion as legitimate construction cost. It does not put the infrastructure into service earlier nor does it extend the useful life of the asset.

At this time, the expectation must be high from within Government circles that the Government Employees Pension Fund (GEPF), courtesy of its size, should lead by

example, yet again! But let us remind everyone of the GEPF's investment history with Government.

To date the GEPF has accepted far too many "supper" invitations from the Government. This is evidenced from the fact that roughly a third of the GEPF's assets have been placed at the disposal of the SA Government for more than 10 years already. In 2019 – the amount was 521 billion in rand terms. **This level of investment concentration in the SA Government is not visible or matched by any of the other pension funds in SA.** Why not? The money belongs to the members of the pension fund **and not to the government.**

The GEPF is already overexposed to the SA Government. And there are clear indications that the actual repayment of the historical investments is adding to the burden of debt on future taxpayers. Nothing shows this more clearly than the ideas mooted to convert Eskom's debt to equity. Not surprising is that the Government seems to be very open to this idea. Unfortunately, such a transaction will place the GEPF's substandard investment returns further under severe strain.

It must also be kept in mind that the GEPF does not have surplus funds at its disposal for investment in government infrastructure projects. Already the unhealthy situation exists where returns on investments are not sufficient to cover administration costs and the payment of existing pensions. To cover the shortfall/deficit, the contributions from members for their pension when they retire are being cannibalised/used and not invested.

We are advocating that the GEPF Trustees should exercise restraint in participating in these infrastructure investments at this time.

The "lack of urgency" demonstrated to the Mpati commission by the GEPF (in revising their Investment Management Agreement) will be a most welcome and appropriate course of action in this instance.

We suggest that they now sit back and give this project an opportunity to develop. This position can then be revised in three to five years' time. IF and when the Government does eventually have a proven track record of safeguarding investments and the investors, and to achieve this impact by ensuring that those intent on stealing, plundering, top-slicing, bribing and extorting are behind bars and far removed from the levers of power and decision making. We know this is a BIG IF. The infrastructure program in any event will unfold over a 10 year window period – so there are ample opportunities further down the line when conditions to invest have in fact improved.

This course of action would be more in line with the higher standards required of professional Trustees and with the "prudent man of business" as described in case-law related to Trustees.

Finally, the Independent Trustees of the GEPF, and others in Government with unrealistic expectations of what is to unfold should be reminded of the legal position regarding the GEPF. This pension fund was established to provide a pension for its members (public servants) and not for the adventures or schemes of a bankrupt government with a junk status credit rating. Such actions are in fact illegal. The Mpati commission found that there are far too many cases where investments were made that are not prudent.

To date the Trustees have distanced themselves from taking full accountability for the outcome of investments. A repeat performance of shifting all blame to the asset manager for making ill-advised investments is not going to work. Personal accountability of trustees should now become a reality.

As such as we are advocating that the Trustees should RSVP to the Presidents invitation:

WE CANNOT ATTEND - THANK YOU VERY MUCH!

Enquiries:

A P Stemmet
Spokesman AMAGP
0823209245
0871580225
adamusp2602@gmail.com