Association for Monitoring and Advocacy of Government Pensions (AMAGP)

NPO Registration No: 198-822

SEMPER VIGILANS

The Association for Monitoring and Advocacy of Government Pensions: A volunteer independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

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NEWSLETTER NO 13 of 2022

AMAGP – Association for Monitoring and Advocacy of Government Pensions
AR – annual report
BOT – Board of Trustees [of the GEPF]
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOE – state owned entity

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1.2 million active members, in excess of 450 000 pensioners and beneficiaries, and assets worth more than R1.61 trillion. GEPF is a defined benefit pension fund that was established in May 1996 when various public sector funds were consolidated. Our core business, which is governed by the Government Employees Pension Law (or GEP Law), as amended, is to manage and administer pensions and other benefits for government employees in South Africa.
https://www.GEPF.gov.za/ dd 13 July 2022.

WE ARE THE OWNERS OF THE GEPF and we have the right to expect the GEPF BOT and the PIC to manage and invest OUR money in a responsible and profitable way, to the advantages of members and pensioners. Take note of the single pensioner on the BOT, representing all 450 000 pensioners.

The Editor's Word

Note. The Fund's investment values used in the newsletter are from the 2021 GEPF Annual Report. Such values are probably from about December 2020, as the AR was compiled after 31 March 2021, making the values only a guide to what the value of our Fund's visible investments currently are.

Now for news from the media

Cosatu is quite adamant the 'government' should hand the UIF over, not clear to who, after a huge apparent loss in an investment in 2018. Let's look forward to further news on this subject!

Cosatu is unexcited about news that MTN proposes to take over Telkom. The report should allow you to review your knowledge of rhetoric of how to say a lot without saying anything.

An old article explaining why the PIC's Isibaya Fund investments shouldn't be private but open to scrutiny. We all know that but it helps to recap on some of the good reasons.

Take note of the national health insurance fund and why it is a bad idea. The author cites the central monopoly control so favoured by the 'government' as a prime example of why it won't work. Note the fund part, which decidedly isn't the same as national health cover.

An excellent explanation of the 'government's' newest plans to solve Eskom's problems. As we know there is usually a huge gap between the announcement of the 'government's' plans to solve a problem and the actual solving of the problem. The real action to implement the plans seem to be lost in 'cadre deployment'.

The PIC is investing about R1.6bn in a multilateral financial institution, the Africa Finance Corporation, which seems to be a well-known African investment institution. On the face of it a good investment. Time will tell.

A short article on retirement vs resignation, with the advantages and disadvantages of each. Be very sure of which one you intend before deciding and get good financial advice before you do it.

The GEPF has revealed its concern to the Sunday Times about the proposed withdrawal of pension funds before going on pension. The probable negative impact on the sustainability of the Fund will be immense. Although the GEPF Law isn't subject to the pension fund act civil, servants will undoubtedly want to access their savings the same way other pension funds will allow.

NUUSNEWSNUUS

Synopsis

Govt should surrender control of UIF – COSATU

Politicsweb
Sizwe Pamla
19 July 2022

COSATU demands that government should surrender control of UIF after the looting of R1,77 billion from the fund.

COSATU has noted with alarm the reports that the UIF was fleeced of about R1,7bn through some questionable investments.

The Federation demands that urgent action be taken by government and the UIF to recover R1,77bn in investments made to a dubious company called Bounty Brand Holdings in the United Kingdom.

It appears that this R1,77bn was made in two investment deals in 2018 and was equal to 15% of its investments in that year, but most shockingly are revelations that shortly after the investment was made, R530mn was immediately paid to the company shareholders.

Investigations have revealed the involvement of politically connected individuals and bank accounts in offshore tax havens pointing to a possible massive money laundering.

What is shocking is that some of these politically connected individuals have appeared before in allegations of serious wrongdoing, when it comes to monies invested by the PIC on behalf of workers.

This amount of R1,77bn would have been able to cover 21 916 on unemployment benefits for 12 months or 37 853 women on maternity leave. This is scandalous and criminal, more so in an economy with a 45% unemployment rate.

The UIF and the PIC need to explain to the public and workers what happened, and what are they doing to recover these missing funds. The NPA needs to be brought on board as well as Interpol and the relevant authorities in the United Kingdom, to ensure those implicated are brought before the courts.

The Federation will be engaging with other labour federations and unions to discuss ways of ensuring that workers reclaim their money from government control. We need to work together to wrestle control of UIF away from government, especially because previously government had wanted to treat the UIF surplus as a piggybank, including using it to fund free education in the country.

The government does not even contribute to the UIF and, therefore, it has no legitimate right to be in control of workers deferred wages. The National Treasury has resisted efforts to include public servants in the UIF because it does not want government to contribute to the fund.

We will also be meeting with government to demand an explanation and also ensure that action is taken against the perpetrators.

Issued by Sizwe Pamla, National Spokesperson, COSATU

Comment

It is gratifying that COSATU is up in arms about the looting of the UIF. Hopefully its awareness will expand to include the GEPF, but I'm not getting my hopes up for that yet. However, if the UIF leaves government control, how will it be managed? It will need safeguards against further looting.

Synopsis

COSATU denounces MTN's proposed takeover of Telkom

Politicsweb
Sizwe Pamla
19 July 2022

The COSATU rejects the proposed takeover of Telkom by MTN. Workers' experience of such mergers/acquisition is bleak and catastrophic.

These mergers of large companies have seen thousands of workers lose their jobs and have encouraged anti-competitive and monopolistic behaviour increase, including price gouging. Telkom in particular has seen thousands of jobs shed since it was listed, and highly qualified and experienced workers have been casualised.

South Africa's data and call charges are already far above the international average and have become a real impediment to economic growth and job creation.

This has a real impact on workers having to pay exorbitant cell phone charges and SMME struggling to survive. We cannot afford to see an already monopolistic sector riddled with allegations of collusion, becoming even less competitive.

Telkom for all intents and purposes, remains a publicly owned company with the state and the PIC having a collective 51% plus ownership of the company.

Workers demand to hear from the state and the PIC and Unemployment and Injury on Duty Insurance Funds on this critical matter.

We intend to engage them and remind them that their broad mandate is to protect the interests of workers.

This is a matter that requires the views and approval of the Competition Commission as this proposed takeover is about two companies in a highly concentrated and lucrative sector.

The Competition Commission will need to be firm in opposition to such predatory behaviour and consider previous price manipulation and other unsavoury allegations that have plagued players in the telecommunications sector.

The government, the PIC, and the Competition Commission need to firmly and clearly come out and oppose this damaging proposal by MTN that has infamously abused its power and domination before.

Issued by Sizwe Pamla, National Spokesperson, COSATU

Comment

We have about R3,35bn in Telkom and R42,6bn in MTN. At least MTN has an ROI we can believe in; less government in the economy is always good, I believe. If MTN should take over Telkom, it will take over all its challenges too. I doubt the 'government' will easily let go of any SOE without keeping final decision control.

Synopsis

Why the PIC's Private Equity arm cannot be private

Daily Maverick
By Dirk De Vos
20 June 2018

Parliament is considering a bill which would require far greater levels of disclosure in the PIC's unlisted investments. While there are those who argue that the PIC should be shielded from greater scrutiny, these arguments are plainly wrong.

At present, Parliament is considering a bill which would require far greater levels of disclosure, particularly in the PIC unlisted investments. Progress on this bill suffered a setback at the beginning of the month when Treasury sent a letter to the finance committee considering the bill. It objects to the disclosure requirements for unlisted investments for reasons that are not convincing.

At a hearing before SCOF in which investigative journalism unit amaBhungane motivated for greater disclosure, committee chair Yunus Carrim argued that disclosures such as minutes of investment decisions can't be made public in a market economy. At the same hearing, Matjila argued that the PIC could not be put at a disadvantage to the private sector and the PIC would need the permission of the private companies in which it invests in any event.

Matjila's argument was one which called for a level playing field between the PIC and private sector competitors. The push-back on greater disclosure had the support of the ANC and, also, the EFF. The EFF's Floyd Shivambu claimed that it is the PIC that makes it possible for black South Africans to participate in the economy, presumably by accessing funding, and that it is being unfairly targeted. The arguments that would shield the PIC from greater scrutiny are plainly wrong because the premise of that argument is fundamentally flawed.

Most of the controversial or dud investments such as Independent Media, AYO Technologies, Erin Energy, VBS Mutual Bank, S&S Oil Refineries and the company that Holomisa's suit claims allegedly paid off Matjila's alleged girlfriend's loan, are housed in the Isibaya Fund. This fund, according to the PIC's website, provides finance for projects that generate financial returns while also supporting positive, long-term economic, social, and environmental outcomes for South Africa. The emphasis on investments with a developmental focus demonstrates the PIC's commitment to the country's growth and development aspirations. As an asset class, it would be in the nature of private equity (venture capital is a special subsection of private equity).

Private equity is a class of investments which, as the name suggests, is private. In the investment world, start-up companies, high potential growth companies or companies that need to be turned around can operate better if there are not the same reporting/disclosure requirements. One of the attractive aspects of private equity is exactly being able to do what is necessary without constant public scrutiny. Private equity type investments tend to be less liquid (can't buy and sell the shares that easily) and therefore are held for longer periods of time. An investor in a private equity fund typically commits capital for a decade.

Private equity funds, like any other investment fund, set out to raise capital with a strategy to buy operating companies which is partially funded by the capital raised but also by raising additional debt, then investing in new capacity, reducing tax and cutting costs. The companies acquired and then restructured in this way are then sold before the fund's termination date, hopefully at a profit and these profits are then distributed to the original investors in the fund.

There are several variations to the above standard model. Some well established private equity firms manage several funds simultaneously. Of course, there are real concerns about how the model works and favours the general partners, notably very favourable tax treatment, but this is the way private equity works.

A large source of investors are the pension and provident funds, strictly regulated in terms of the Pension Funds Act.

The PIC's main fund is the GEPF, representing 90% of all funds under management. The GEPF is not regulated by the Pension Funds Act but under a different (and less adequate) regime. Investments in unlisted companies, though the Isibaya fund cannot be more than 5% of total assets that the PIC manages.

On the face of it, Isibaya might be seen a just another private equity fund trying to compete in the market with its private sector peers and therefore should not be at a disclosure disadvantage. But that would be wrong.

With around R1,9trn under management, the PIC is by far the biggest investor in the country and 5%, although a small share of the total, still represents a fund size of R95bn. The problem is that if IsiBaya is used as some sort of slush fund for the politically connected and makes investments without proper due diligence, the losses can be washed out by the performance of the traditional investments that represent 95% of the PIC's funds under management. The PIC simply reports at an aggregate level and the performance of IsiBaya cannot be assessed on its own terms.

While private sector pension fund members are in a somewhat similar position in relation to exposure to private equity, the private pension funds definitely hold private equity general partners to account. Private equity professionals generally have specific skills that are deployed in the companies in which they invest. They are a breed apart from regular asset managers who focus their efforts on listed shares or even listed debt instruments. Private equity managers are supposed to be very involved in the actual operations of the companies in which they have invested.

It is not clear what the situation is at Isibaya. Unlike private equity funds, it is an open-ended fund. It does not have the discipline of a ten-year period within which to produce its investment returns. There are several questions that one could ask:

- Who are the Isibaya fund managers?
- What are their skills and experience?
- Do they have a track record?
- How these investment managers remunerated?
- Do they have to invest their personal funds alongside the GEPF funds?
- Is there a set period, say every ten years, over which performance is assessed?

Perhaps the most important question is this: If the investments made by the Isibaya fund perform poorly so that the value of the assets under management falls below the 5% permitted threshold, do they get additional funds to get it back up to the 5% level? If they do, the 5% limit means little as losses get to be replenished with transfusions of additional funds properly belonging to the GEPF members.

In short, the GEPF is different due to its size and the fact that it is regulated differently. Current regulation allows failure to occur at IsiBaya, potentially forever. The deflection of greater accountability for IsiBaya investments being the performance of the PIC as a whole is wrong. The correct measure, therefore, for the PIC is not how it performed against the rest of the market but how it could have performed without the IsiBaya fund.

If the PIC wants to make the case for a level playing field with the private sector for disclosure, then the PIC's IsiBaya fund must account for its performance as a stand-alone entity. If that is not possible, then the only way that GEPF members and taxpayers can be sure that it cannot be repurposed into a slush fund for the politically connected, is far greater disclosure about the investments it makes, how it came to the decision to make them and the consequences flowing from losing investment funds. **DM**

Comment

A recent [2022] SCOF meeting revealed 41% of Isibaya investments were underperforming, increasing from about 25% in 2016 to about 30% in 2017 to the present 41%. An example of poor ROI is Daybreak Farms, where the PIC increased its holding from 54% to 100% when it was declared bankrupt.

Although the report is dated 2018, it doesn't seem much has changed in the Isibaya investments. Probably it will only change when full disclosure is made, but by then it will also probably too late to recoup our investments or hold those responsible, accountable.

As to why disclosure of investment in private companies will need such companies' approval? I wonder…

Synopsis

NHI is a politically motivated policy sure to break this camel's back

1 August 2022
by Nadya Swart

The National Health Insurance (NHI) Bill has been hanging over the already weary heads of South Africans for almost three decades, since it was first recommended by the Healthcare Finance Committee of 1994. Despite the South African government's lauding of the NHI as a policy based on worthy foundations and a real intention to improve our country's healthcare sector, it is sure to be the straw that irreparably breaks this camel's back. This article by Michael Settas succinctly outlines factors that clearly "point to the NHI proposal being a political motivation rather than having any intent to resolve valid failings in the health policy framework that would better serve the country's citizens". This article first appeared in the Daily Friend. – Nadya Swart

Universal Health Coverage vs National Health Insurance

By Michael Settas

This is the first in a series of five articles in which Michael Settas will provide readers with the critically important distinction between universal health coverage (a policy objective) and the proposed National Health Insurance (a financing mechanism). He provides a high-level background of the country's two major health assets, the private and public sectors, as well as a history of health policy since 1994 that has culminated in the contentious and now imminent National Health Insurance proposal.

Adjacent to attempts by the ANC to implement property expropriation without compensation (EWC), the National Health Insurance (NHI) represents the most significant and far-reaching official policy proposal contemplated during South Africa's democratic era. Its specifications involve simultaneously amalgamating the private and public health sectors, collectively constituting 8,5% of the country's GDP, into a state-managed monopoly, called the NHI Fund.

The funding objectives of the proposal are a consolidation of the current health spending of both sectors within the centralised NHI Fund. For current public expenditure this constitutes the revenue streams allocated to the Department of Health and provinces, the Road Accident Fund, the Compensation Fund, and the subsidies provided for medical scheme tax credits and government employee medical scheme contributions, in total equating to 5,5% of GDP.

Since the aim of the policy is to consolidate the private and public sector expenditures into one entity, the targeted revenue for the NHI Fund is set at the existing combined value of the two sectors, i.e. 8,5% of GDP.

Hence the proposal is to add new dedicated NHI taxes of 3% of GDP to the above existing public expenditure of 5,5% of GDP, which will reach the revenue 'target' of 8,5% of GDP. Policymakers have cajoled us that these should not be seen as new taxes because they will be 'substitutive' for the current contributions made by citizens to medical schemes, since the NHI Fund will be substantively taking over the role of medical schemes.

"But history tells us that monopolies that are truly benevolent and effective are

rare." Michael Porter, Professor of Economics, Harvard

Once constituted, the NHI Fund will be the largest state-owned entity in the country by a significant margin.

In current values, this equates to ±R470bn annually; a single public entity with a legislated monopoly on the funding and management of both private and public health services, governed and controlled through the office of the Minister of Health. The NHI Fund will then also determine which public and private providers will be contracted for the delivery of services and citizens will be restricted to use of these providers only.

An appropriate analogy for the NHI Fund would be that it will become the 'Eskom of Healthcare'.

Does South Africa Need NHI?

Delivery of improved, affordable healthcare is one of the key pillars used by politicians to advance their health policies, and almost always their success hinges on convincing the electorate of how much better they will be under the new policy.

This is because healthcare is and will likely remain one of the most intimate and personal services citizens will use. Observe the often-hysterical reactions from people in Britain should a politician propose changes to their 'sacrosanct' National Health Service.

South Africa is no different in this regard and the incumbent ANC have used this political facet to effectively promote the need for their NHI proposal, although it should be obvious that current public sector failings have made this 'sell' rather easy. However, health systems are complex beasts and subsequently require extensive analysis and technical studies on proposed changes to determine whether they will achieve the desired outcomes. Globally, most healthcare reform will indicate minor changes that are implemented incrementally, as the risk of failure on wholesale changes is high.

Universal health care

Technically, South Africa's current combination of public and private sector provision achieves a framework that meets the internationally accepted criteria for universal health coverage (UHC), as the entire population has access to pre-funded services that are free at the point-of-service. Even where access is not free, there is minimal exposure to financial distress.

This is an important aspect surrounding the NHI proposal, as the policy process has conflated the implementation of a health financing mechanism, the NHI Fund, with a policy objective of attaining UHC, which, in any event, SA already possesses thus making the stated policy objective redundant.

Populist promotion of this 'universal NHI', clearly aimed at the general electorate, promises that NHI will deliver comprehensive health services that will be free to users. To an electorate that has been subject to the depredations of the public health system for many years now, this obviously sounds very appealing.

But it is important to emphasise that the combination of 'comprehensive services' and 'free' has never been attained in any health system anywhere in the world, not even within the wealthiest countries. The policy objective of 'free healthcare' remains the illusive populist delusion of left-wing ideologues and, in any event, is not even considered necessary by the World Health Organisation (WHO) in achieving UHC.

What is considered as a necessity by the WHO for a successful UHC framework, is that it avoids patients being exposed to out-of-pocket medical costs that cause financial distress. Many UHC systems apply user charges when accessing care, in order to avoid excessive and/or unnecessary utilisation of services and hence contain costs.

To prevent these user charges from exceeding the level of affordability of individual users, many systems apply a means test by which to vary the amount or to apply a limit to the total out-of-pocket exposure for a user within, say a year. Certain vulnerable groups may also receive full concessions on user charges, for example disabled patients, the unemployed, those with severe health conditions, and so on.

The vast majority of countries also achieve the policy objective of UHC through a 'multiplicity of funding mechanisms'. Having a monopoly single payer system is very much the exception rather than the norm.

The NHI Bill proposes to create what is technically known as a complementary single payer fund (CSPF). 'Complementary' dictates that private health funders cannot cover services included within the NHI benefit package and 'single payer' decrees it to be the monopoly funder for all NHI services.

Logically, the 'complementary' nature of a CSPF makes it the most expensive of all health system types, since it legislates for itself a monopoly, wherein it is required that the state finances the health services for every citizen. This intentionally incurs the maximum possible state liability.

Reckless

This deliberate action must be regarded as irresponsible, even reckless, in the context of South Africa's recent economic performance, our severe structural constraints to achieving higher growth rates, rising national debt levels as well as the diminishing tax base.

The vast majority of countries, even wealthy developed economies, not only permit but often promote parallel private health sectors through tax incentives, since an expanding private sector alleviates pressure on limited state resources.

A CSPF also induces all the characteristic failings of a monopoly: inefficiency, high cost, and quality-deficient outputs. This is further exacerbated when there is such overt centralisation of virtually all the major functions within the health system, as the NHI is proposing.

This adequately explains why only five countries have ever developed a CSPF – it is simply too expensive, too inefficient, and almost always falls short when compared to the outcomes of multi-payer systems that are, by their structural nature, decentralised and exposed to efficiency-gaining competition between the rival funders.

A CSPF also represents massive risks in the event of institutional failure, as it is the country's monopoly supplier. It is precisely the same issue South Africans now face on a continual basis with Eskom's monopoly on electricity supply. When Eskom fails, the vast majority of citizens are left with no alternatives, with only the wealthy able to look after themselves.

Lastly and importantly, another notable aspect of a CSPF is that it provides for the establishment of a massive bureaucracy. Central monopoly control is a feature of the ANC's ideological National Democratic Revolution, so there can be no surprise as to why they favour NHI. And along with it will likely come a breath-taking combination of hypocrisy, arrogance and denial, so amply exhibited in the comment below in the midst of the Eskom blackouts of June/July 2022:

"If you privatise electricity, you can forget about the majority of people having access to electricity — it is going to be very expensive for them. That's why government steps in when there is market failure." Thulas Nxesi, Labour Minister and Deputy Chair of the SACP, 11 July 2022

A National Health System – Version 2

Eskom's recent failures have placed substantial pressure on government about finding lasting solutions. Without any hint of doubt or concession, the laughable concept of the state creating Eskom-2 has been conjured up.

You might ask why is this relevant to our discussion on healthcare? Here's the rub – I will outline in a next article the very substantial asset the country possesses in the public health system. I have already outlined above that access to public care is free, so the NHI is not promising anything in this regard that users currently do not have.

I will elaborate later on how this very substantial asset's ability to deliver quality care has been subverted and ruined, thus bringing it to a point where its failures are now obvious on a virtually daily basis.

Enter NHI! 'We will not (probably cannot) fix the current health system but rather we'll bring you a second version' – a shiny and free public health system with amazing, high-quality services – and call it NHI.

The NHI proposal is no different to the current concept of an Eskom-2. The ANC government has systematically ruined the public health system, and now wishes for citizens to entrust it with building public health system number two – the NHI.

Policy Process Rationale

Any policy proposal requires validation and evidence of the problem that motivates for it. Throughout this policy process, however, there has been a clear disconnect between reality and the motivations for NHI.

The problem statements quoted by government officials and drafted in NHI policy documents can broadly be divided into the following three categories:

1. The country needs to achieve universal health coverage;
2. Public sector problems are caused by a declining public health budget, which prevents the state from employing additional medical personnel. Therefore, more funds are required under government control, which will hence lead to improved healthcare services; and
3. Causal to public sector woes are high expenditure and wastage in the private health sector, therefore it is necessary to nationalise this sector and redirect its resources in accordance with state decree.

All of the above problem statements are deflections from reality.

It has been and remains the most obvious weakness in this policy process to argue for the implementation of what already exists. I believe that this may likely be a pivotal point determining the success of any legal challenge against NHI.

The obvious problem that it is the quality of the universal care provided is barely dealt with in the policy process, other than sweeping rhetorical proclamations that plenty of additional funding will automatically rectify such problems.

Which leads us to the second problem statement above, supposedly declining public health budgets. It is sufficient to declare that this problem statement is as far removed from reality as one can possibly get.

On the last motivation above for NHI, the state has mustered no evidence to suggest that it can place the blame for its woes at the door of the private sector. In fact, when I analyse the private sector I outline how regulatory dissonance shown towards the private sector over the past two decades has contributed to its cost maladies, yet the government now disingenuously uses this facet of the private sector to argue for its dissolution.

These factors clearly point to the NHI proposal being a political motivation rather than having any intent to resolve valid failings in the health policy framework that would better serve the country's citizens.

Measured within the context of a government that operates more like a criminal syndicate, seeking at virtually every turn to impose rent-seeking margins on public sector contracts or to pilfer funds under state management, the gargantuan NHI Fund would require an extremely robust, balanced, and transparent governance framework for such nefarious activities to be averted.

But alas, it is not to be! The NHI's exceptionally weak and ineffectual governance framework: readers can accept that if NHI comes to fruition, your hard-earned taxes will almost certainly go nowhere near a doctor or hospital

Comment

NHC has to be funded for it to work, logically the source of the funding will be from contributions from all of us who still work. And, of course, the funds from all the existing health schemes. Thus, the NHI Fund will exist to fund NHC. However, no NHC is really totally free, you pay for it.
The unemployed don't contribute to NHI Fund, draining the NHC, which will result in increasing NHI Fund contributions, etc.
This article clearly reveals the weakness of 'government' control of the NHC and NHI, especially in South Africa. Read the first sentence of the second last paragraph again.
When the NHI Fund runs dry, where do you think the 'government' will look for money? And what do you think is going to happen to your current health scheme, that you have been used to for such a long time? And

contributed to so faithfully for so many years in expectation of a trouble-free retirement?

Save us from Ramaphosa's mishmash of energy solutions

1 August 2022
by Sandra Laurence

A private company, seeking only to increase its profits, will nearly always deliver better goods and services than a state company. But not always. A well-run state industry will always produce cheaper and more reliable electricity than a private one.(Eskom was a well-run state industry; it is now a badly run state industry. This is because electricity is capital-intensive and the state can always raise capital more cheaply than the private sector, and the state is content with a low return and a long payback period. Nowhere on Earth has privatisation of electricity brought cheaper, more reliable electricity. It has usually done the opposite, sometimes disastrously, as we can see with electricity failures in Australia, the US, the UK and throughout Western Europe. But that's the plan being posited by Ramaphosa. Someone help us. This article was first published in the Daily Friend. Sandra Laurence

Sense and silliness: Ramaphosa's energy plan

Andrew Kenny

In his energy plan announced last Monday, President Cyril Ramaphosa said, "The measures we are announcing this evening, together with the steps we have already taken, will hasten the end of load-shedding. They will put our country on a clear path towards reliable, affordable and sustainable energy supply."

They will do nothing of the kind.

Ramaphosa, who seems to have no ideas of his own, bounces about between various factions of the ANC who have definite and stupid ideas; he bounces between socialists who want the state to control everything and the free-market radicals who want everything to be privatised. He also bounces off green ideologues who have wrecked electricity supply around the world with enforced "renewable" (solar and wind) generation. His energy plan is a mishmash of all this nonsense with a bit of good sense thrown in here and there.

Five sections

He divides his plan into five sections:

- first, improve the performance of Eskom's existing power stations;
- second, accelerate the procurement of new generation;
- third, increase private investment in new generation;
- fourth, encourage business and households to invest in roof top solar; and
- fifth, transform fundamentally the electricity sector.

The first is sensible. The others are vague and ill-informed, and filled with false hopes and silly logic.

Improving the performance of Eskom's stations is essential and is by far the best measure for reducing load-shedding in the short to medium term. Ramaphosa wants to cut red tape in procuring spares and equipment. Good, but he should also end all BEE procurement, which pushes up costs and reduces efficiency. To overcome Eskom's critical shortage of skills, he wants to recruit more skilled people. Good; let's hope he recruits them on merit alone. He also wants to bring back skilled workers whom Eskom had expelled. I'm not so sure how successful this will be. How will existing workers at Eskom feel working under, or being advised by, ex-Eskom workers, probably white, whom Eskom had kicked out? How will the recalled workers feel?

He wants to increase the funds for Eskom's maintenance. This is essential. The cost of unserved electricity because of power station breakdowns is far higher than the cost of maintenance to stop them breaking down. The management of Eskom's operations and maintenance needs to be improved greatly. He wants to combat sabotage and theft at the power stations. Obviously, very good.

He wants to make it easier for new generation to come onto the grid. Fine. The trouble is that most of the new generation he speaks about is solar and wind, which are useless for grid electricity unless they have massively expensive back-up, spinning reserve, storage, extra transmission lines and compensation for loss of electrical inertia. This makes the Full Cost of Electricity (FCOE) for solar and wind the highest of all energy sources. All around the world, the final cost of electricity for consumers goes up and up as more solar and wind is added to the grid. Our own renewable electricity programme (REIPPPP) has been an expensive failure but our president wants more of it. The reason recent solar and wind projects are taking so long to complete seems not so much because of regulatory delays but because of the failure to get financial closure, in other words, failure to convince investors they are bankable.

Few projects with solar, wind, gas or batteries in the 2020 Risk Mitigation Independent Power Producers Procurement Program (RMIPPPP) have come onto the grid, and this seems to be because the costs of solar panels, wind turbines, lithium (for batteries) and gas have all shot up since they put in their bids, rather than that they were obstructed by red tape.

100 MW cap

He wants the 100 MW cap on generation and municipal generation to be removed. Fine again. I believe that anybody should be allowed to generate as much electricity as he or she wants and sell it to anybody who wants to buy it, provided only it meets electricity regulation for safety, voltage, and frequency. The problem is that there have been few takers for even 100 MW generation. I worked at a paper mill in KZN that had two 40 MW generators for its own use. It did occasionally have some extra generation capacity – but not 100 MW. I can't think of a single mill, sugar refinery, or Sasol plant that can sell 100 MW regularly.

He wants massively increased private sector investment in generation capacity, more Independent Power Producers (IPPs). Fine, but I believe capitalism is by far the most successful economic system in history, especially for the poor, and that private industry is nearly always more efficient than state industry.

A private company, seeking only to increase its profits, will nearly always deliver better goods and services than a state company. But not always. A well-run state industry will always produce cheaper and more reliable electricity than a private one. (Eskom was a well-run state industry; it is now a badly run state industry.) This is because electricity is capital-intensive and the state can always raise capital more cheaply than the private sector, and the state is content with a low return and a long payback period. Nowhere on Earth has privatisation of electricity brought cheaper, more reliable electricity. It has usually done the opposite, sometimes disastrously, as we can see with electricity failures in Australia, the US, the UK and throughout Western Europe.

Ramaphosa wants private investment in wind and solar for the grid. But these investors will want to make a profit, and want to persuade the banks they can, and cannot possibly do so by selling reliable, dispatchable electricity unless they charge enormous prices for it. The only way they can make a profit with reasonable prices is by selling junk electricity (the electricity coming off the solar panel or wind turbine on the rare occasions it happens to be generating), which will cause more harm than good to our electricity system. Is this what Ramaphosa wants? I fear so.

Batteries

His plan for 500 MW of batteries to help the grid is ridiculous. I read elsewhere about these batteries: "The contract is for design, supply and installation as well as operating and maintenance for a five-year period for a storage system that will be used primarily for national peak shaving (managing demand) purposes for four hours a day for at least 250 days of the year." A quick look at the sums. Eskom's peak demand is about 5 000 MW over average demand. To shave the peak demand for four hours would require 20 000 MWh of electrical energy. 500 MW of batteries can store about 650 MWh. In other words, 500 MW of batteries could only provide for 3,25% of peak demand.

He wants business and households to have more “rooftop solar”. By this he seems to mean solar panels for generating electricity rather than water heating panels, which work well. Solar PV can indeed provide small and useful household electricity. But then he says he wants excess solar electricity to be sold to Eskom. If by this he means Eskom will be forced to buy any excess solar electricity the household is generating, this is a thoroughly bad idea. Such electricity is worse than useless for Eskom, which needs electricity most when the sun is not shining, and which would have problems accommodating these little, unreliable, flickering generators on its grid. This seems like a copy of the “feed-in tariffs”, which proved such a failure in Europe.

A problem he didn’t mention is the problem for Eskom when its customers start buying other electricity besides its own. Eskom should cover all its expenses – capital, operations and maintenance, and fuel – from its revenue from fixed charges and electricity sales. If a customer gets all her or his electricity from Eskom, then Eskom designs its tariffs based on that fact. If that customer then starts buying a lot of electricity from somebody else, say a solar IPP selling electricity during the day, Eskom will have to adjust its tariff to him or her. Eskom will lose revenue because of lower energy sales, and so will have to increase its fixed charges to cover the capital costs of supplying that customer. There was a bit of a row recently when Eskom tried to explain this obvious logic to green customers, who want to be subsidised.

Generation, transmission and distribution

The transformation of the energy sector, notably the splitting up of Eskom into generation, transmission and distribution, seems full of hazard and complication. The idea of an independent transmission company buying electricity on a competitive free market has its merits, but I doubt that the greens will allow it to happen. They know solar and wind cannot compete on even terms in a free market and so will try to capture any independent transmission company, as they have captured Eskom through the REIPPPP.

He made no mention of nuclear power. New nuclear energy cannot provide help in the short term but it is by far our best energy source in future. I find this omission disturbing. I guess it is to do with ideological struggles within the ANC. There were even more ideological struggles over nationalisation versus privatisation, with both sides talking nonsense. There is a conspiracy doing the rounds that Eskom has been deliberately sabotaged by evil capitalists to let the IPPs come in and take it over. The coal mining trade unions are fighting renewable IPPs for the logical reason that the “just energy transition” (too expensive and unreliable energy) will cost them their jobs but they are wrong to blame capitalism for this. The greens hate capitalism as much as the trade unions do.

Finally, President Ramaphosa announced that he has established a “National Energy Crisis Committee”. Oh dear! This sounds like the “National Command Council”, which the ANC set up to rule the country during the Covid-19 epidemic, thus ensuring that its lockdown cost far more lives and livelihoods than the virus ever could have done on its own. Will the National Energy Crisis Committee now do for electricity what the National Command Council did for Covid-19 victims?

He says it will “draw on the best available expertise”. Dear, oh dear! If by this he means he will draw on the same “experts” we hear day after day on the radio and TV talking nonsense about energy, the same experts who encouraged the REIPPPP, the same experts behind the suicidal Integrated Resources Plan (IRP) and the fatuous energy models of the CSIR, we are in trouble.

The Ramaphosa energy plan was met with rapturous acclaim from most of the mainstream media and the DA’s shadow minister of energy.

Dear, oh dear, oh dear!

Comment

It seems power for the people has to do with politics and not electricity. A very clear but brief explanation of the challenges facing electricity in South Africa. Read between the lines to where our investment in Eskom is still awaiting the machinations of ‘government’, hovering between investing more of our

Fund's funds, the current investment becoming special shares or any other scheme involving the GEPF and Eskom's debt.

Synopsis

PIC to invest $100mn in Africa Finance Corporation

Its first investment in the Nigeria-headquartered multilateral financial institution.

Moneyweb
By Akhona Matshoba
2 Aug 2022

Image: AdobeStock

The PIC has given formal notification for a R1,65bn equity investment in multilateral financial institution the Africa Finance Corporation (AFC).

The investment will be the PIC's first such contribution to the Nigeria-headquartered AFC and will be used for the continent's infrastructure and industrial development efforts.

According to the AFC, the PIC's investment will afford it "co-investment opportunities and access to AFC's formidable project development and risk-mitigated projects on the continent across the power, transport and logistics, natural resources, telecommunications and heavy industrial sectors."

"The PIC is delighted to partner with the AFC in the development, industrialisation and growth of the African continent. We are confident of the future prospect of this investment and its potential positive societal benefits." PIC CIO Kabelo Rikhotso says in a statement issued on Tuesday.

"Our clients' investment mandates allow us to invest in the rest of the African continent. We believe that this partnership will assist us to deliver on that mandate and to diversify our growing portfolio," Rikhotso adds.

AFC President and CEO Samaila Zubairu says the PIC's equity investment is a "significant vote of confidence in AFC and connects us to a very important source of capital in Africa."

"African pension funds have a key role to play in financing the instrumental infrastructure urgently needed on the continent and we look forward to a long-term partnership for a prosperous African future," Zubairu adds.

Through the investment, the PIC joins the AFC's cohort of 32 equity investors, including the Seychelles Pension Fund, the Government of Sierra Leone, the Republic of Togo, the Central Bank of Guinea and the Ghana Infrastructure Investment Fund.

As Africa's largest asset manager, the PIC has over R2,34trn of assets under management, with the GEPF accounting for 89% of its assets.

Investing in SA

AFC was established in 2007 with the aim of becoming the key driver of private sector-led infrastructure investment across Africa and has an investment presence in 35 African countries, including South Africa.

The AFC recently revealed its joint acquisition of Netherlands-based Lekela Power, Africa's largest pure-play renewable energy independent power producer, with Egyptian company Infinity Group, in a deal estimated to be worth over $1bn.

Lekela Power contributes approximately 564 000MWh of clean energy to South Africa's strained national grid every year through its Khobab Wind Farm, based in the Northern Cape's Loeriesfontein. The wind farm is said to support about 170 000 households in the country.

Comment

Does this mean that our Fund won't be investing in infrastructure adventures in SA, as mooted so often by 'government?

Synopsis

GEPF: RETIREMENT vs RESIGNATION

Forum for Government Employees Pension Information (Old Name GEPF Forum)
By Susan Voges
7 August 2022

The decision of whether to retire from the GEPF or resign and transfer the member's actuarial interest to an external fund, is becoming more relevant in these times of uncertainty in our country and the world.

This post was kindly compiled by one of the financial advisors on our group and I have made some additions/ amendments where I saw it fit so that all the facts are included.

The first particularly important factor I want to mention is: **DO NOT MAKE THIS DECISION BASED ON EMOTIONS OR POLITICAL CONSIDERATIONS.**

If you do not consider all the options and implications very carefully and objectively, the chances are particularly good that you are heading for financial disaster in the future. So, what are the options and factors you should consider? I will only discuss the options for members near retirement age, other options such as being medically boarded or taking a severance package, are discussions which can be handled separately.

GEPF members nearing retirement age have two main options; either retire from the GEPF or resign. Within these two options there are several further options and factors to consider.

RETIRE FROM THE GEPF

1. The official retirement age is 60, but in practice it differs according to your department and your service contract. In several government departments, the retirement age is 65, but after 60 there are no penalties.

2. Legally, you may "retire" from a pension fund, provident fund or retirement annuity from age 55; but obviously with penalties in most cases.

3. GEPF members are penalised by 0,33% per month if they retire before age 60, which means that they lose about 4% per year with early retirement.

4. Normal retirement and all other options are calculated according to a set formula. The two important factors in this calculation are your years pensionable service and your average annual salary notch over the last 2 years. Forget about the myth that "your pension doubles in the last 5 years". This is only partly true for other pension funds where your benefit is calculated on investment performance.

5. In the case of normal retirement, you will receive a lump sum (gratuity) and a monthly pension (annuity).

6. The service years before 1 March 1998 are not taxable, so that portion of the lump sum is tax free, plus the further R 500 000 tax free allowance by SARS. Remember that you get a total of R 500 000 tax free on retirement lump sums, that is for your pension fund and retirement annuities together.

7. At retirement and if you are married, you select an option where your spouse will receive either 50% or 75% of your monthly pension in case of your death after retirement. Should you pass on within the first 5 years after retirement, a lump sum is also payable to your beneficiaries appointed for this purpose.

8. Remember that you make your final choice at retirement; you cannot change your options at any time in the future or draw any lump sums once you are retired.

9. All your leave to your credit will be paid out.

RESIGNATION

You may resign from the GEPF at any time, but I will concentrate on members near retirement age. With resignation, you have two main options:

1. You can ask for your full actuarial interest (resignation benefit) to be paid out to you. In this case only the first R 25 000 will be tax free, not the first R 500 000. You will pay a

substantial amount in tax. This is never an option to be considered unless you only have a few years' service and the amount is relatively small.

2. You can transfer your actuarial interest to an external fund, such as a retirement annuity or pension preservation fund. When this transfer takes place, there is no tax implication because you have not retired from any fund yet.

3. When you are ready to retire from the RA or preservation fund, you may take one third as a lump sum and the rest has to be invested to pay you a monthly pension for the rest of your life. This can either be a fixed pension (life annuity) or a pension that can be reviewed every year (living annuity). You need a qualified financial adviser to help you choose the best option.

4. The Living Annuity option is not only flexible as you can review your income annually, it also guarantees that the full fund value of your investment will be paid to your beneficiaries at your death, no matter when death occurs.

5. The Life Annuity is fully taxed like your GEPF pension would be, the Living Annuity tax rate is typically much lower than the Life Annuity or GEPF pension.

6. Capped leave does not pay out and leave to your credit, a maximum of 31 days, will be paid out.

MAKING A CHOICE

Your choice between resignation and retirement should never be made on your own, discuss it with one or more properly qualified and registered financial advisers.

1. Firstly, you should determine what your monthly income need will be when you retire and allow for inflation in the years ahead. NOT the income you would like to live on in luxury, your real income needs to maintain your current standard of living.

2. The SANDF has a Medical Continuation Fund, which works very differently to a normal medical aid. For SANDF members who may resign the second last day of the month they turn 60, medical is not an issue as they can retain their Medical Continuation Fund with all its benefits.

3. SAPS has their medical fund uniquely only for their members, POLMED, and this works differently from the other medical funds, and you lose it when you resign.

4. For most other departments, members lose their medical aid subsidy if they resign. This is an especially important aspect, as medical aids are extremely expensive, and you cannot be without it.

5. Ideally you should have no debt at retirement age, but if you still have debt, you must calculate how much that is going to take away from your pension earning capital.

6. Your personal circumstances are especially important in making this decision. Single members may not be so worried about the fact that their entire pension benefit will be lost if they die and leave no spouse or dependent children. Married members may consider this a particularly important aspect, especially if they have adult children who are physically or mentally handicapped. In this case, they may consider retaining their capital in a Living Annuity much more important than other factors.

So, if you look at the figures on your GEPF benefit statement you should first look at the retirement option: Will the lump sum (after paying off debt) and monthly pension (after tax) be enough to maintain my standard of living?

Then look at the resignation benefit: If you can pay off debt and live on 5% per annum of your capital as an income, you may consider resigning.

I**f you cannot live on 5% or maximum 6% per annum of your resignation benefit, don't even read further. Then you simply retire in the GEPF. 6% pa is already pushing it, if you take any higher percentage, you are not going to survive financially.**

If your resignation benefit is enough to allow you to live on 5% per year of the fund value, then look at the following summary.

I summarised the advantages and disadvantages of the two options as follows:

GEPF Pension	Resignation
Tax	
R 22 916 pm pension, Tax R 4 585 pm (20%)	R22 916 income from Living Annuity, Tax R3 339 pm (14,5%)
Capital retention	
Spouse receives 50% or 75% of monthly pension. Remainder of pension as lump sum should you pass on within 5 years on pension.	Should you and your spouse die and no dependent children, zero capital retention. 100% of fund value paid to beneficiaries, no matter when you pass on.
Flexibility	
No flexibility regarding income level.	Income can be revised annually, between 2,5% and 17,5% pa.
Growth	
75% of CPI guaranteed unless rules change.	Over the medium to long term, investment fund should deliver CPI plus 5% pa. Not guaranteed.
Risk	
Theoretically no risk as pension is guaranteed for life.	Risk of fluctuating investment markets, risk gets lower over time. With proper investment, no risk of losing capital

EACH MEMBER'S CIRCUMSTANCES ARE DIFFERENT. GET PROPER ADVICE AND DO NOT TRY TO ADVISE OTHER MEMBERS IF YOU ARE NOT QUALIFIED TO DO SO; THEIR SITUATION IS NOT THE SAME AS YOURS AND THERE IS NO SINGLE BEST OPTION.

Comment

Excellent advice by an expert. Take note!

Synopsis

Major headache for new retirement plan in South Africa – report

Businesstech
By Staff Writer
7 August 2022

The GEPF told the Sunday Times that, if public servants resign en masse, it could lead to cash constraints on any fund and carry the secondary effect of a negative shock on asset prices at the dates of withdrawal.

"This is due to pension funds basing the investment strategy on a long-term view of the pension obligations. Given the GEPF volumes, a high number of resignations would carry a risk of liquidity pressures in the short term," it said.

This follows the National Treasury releasing draft reforms aimed at encouraging South Africans to have easily accessible savings while also ringfencing funds meant for retirement. Under the new Draft Revenue Laws Amendment Bill, the Treasury envisages a system under which members would be allowed to access up to a third of their net retirement fund contributions and accrue investment returns on an annual basis to provide short-term financial relief.

The new legislation will also require that the remaining two-thirds are preserved over the long term, which will improve retirement outcomes for the majority of fund members relative to the status quo:

- 1/3 accessible savings;
- 2/3 retirement subject to full preservation until retirement.

The amendments enable South Africans to also save for non-retirement purposes (e.g. emergencies) via their retirement funds, whilst preserving more of their savings for retirement.

"These amendments aim to encourage members to preserve their retirement savings by making it more flexible to accommodate unforeseen pressures that members face during the span of their working life.

"It makes it possible for workers not to resign from their employment merely to access their retirement funds and would have assisted members during a crisis like the Covid-19 pandemic, when many employees faced reduced salaries or were not paid at all during that time," National Treasury said.

Public servants union Cosatu said that the new draft retirement legislation is likely to trigger a resignation rush by public servants hoping to be allowed immediate access to a portion of their retirement savings, reported the Sunday Times.

Cosatu's parliamentary co-ordinator, Matthew Parks, said that the federation is fielding questions from civil servants who warn that they will resign and cash out on the eve of the promulgation of the law if they were not allowed some access to their money.

"There will be a run on retirement funds in March next year if this is not clarified; workers are bleeding. Public servants will resign to cash out; we are trying to prevent that scenario. Treasury forgets this is workers' money; it's not their money," said Parks.

Sanlam's latest benchmark survey of South Africa's retirement industry showed that 56% of consumers said they do not agree with the proposed system.

South Africans are scrambling to overcome short-term financial challenges at the cost of their long-term investments, said Paul Nixon, head of behavioural finance at Momentum Investments.

An unpredictable turbulent economic landscape amid rising living costs and high unemployment levels has shifted behaviour in retirement investments, he said. "There was certainly no shortage of uncertainty over the past two years, and sadly many investors with living annuity products suffered losses."

Interested parties have until 29 August to submit comments and queries to the National Treasury on the proposals.

Comment

Using retirement savings to fund current lifestyle always comes with risk to the individual.
The effect on the GEPF, if the Bill becomes law, will be immense. Probably a significant number of civil servants will immediately draw the third of their pension, causing an unplanned drain on the GEPF. It will have a long term negative effect on the sustainability of the Fund, of course.
Realise that the concerns AMAGP have been raising for years will become reality much sooner than expected.
It would be terrifying to know what the immediate drain on the Fund would be if the Bill becomes law, we are looking at many many billions, dear reader.
Cosatu is only one of the unions representing civil servants.

THE GEPF WATCHDOG / WAGHOND FACEBOOK PAGE

Welcome to our page.

The GEPF Watchdog/Waghond Facebook page is the social media platform of the non-profit organisation "The Association for the Monitoring and Advocacy of Government Pensions" (AMAGP). The AMAGP has only one agenda point – safeguarding the GEPF against looting and mismanagement.

We are the owners of the GEPF, and we have the right to expect the GEPF Board of Trustees, and the PIC, to manage and invest OUR money in a responsible and profitable way. To the advantages of members and pensioners!

Most of our GEPF members are content with the fact that pensioners still get their monthly pension (and some increases annually), and they are convinced by GEPF newsletters and ambitious GEPF Annual Reports that our Pension Fund is in a superb condition. The AMAGP newsletters and press releases tell a different story.

Our Facebook and AMAGP are together more than 58 000 members and continually growing, but this isn't enough. Tthe continued growth confirms the ever increasing concern pension fund members and pensioners have about the future of their pensions.

As a member of the GEPF (working or retired), this Facebook page will keep you updated about any developments affecting the health of YOUR Pension Fund. It also provides you with the opportunity to participate in the debate and raise issues of concern. Although it is not part of the core business of this page, you may also raise matters regarding the day to day management of your pension administration, which we will gladly refer to the Government Pensions Administration Agency (GPAA).

Please read the articles that are posted on the wall, BUT also “re” and “Files”. You can get further information on our website – there is no reason to be in the dark regarding our/your Pension Fund, and what you must do as a member.

This page will only have any value for you if you join the AMAGP. Note there are no membership fees. You don’t have to do any work for the AMAGP if you do not wish to do so – BUT your membership will add one more voice to AMAGP convince the government our pensions remain ours, not theirs to misuse.

The AMAGP does not want any GEPF member to leave the Fund, because it still is the best pension fund in the RSA. BUT, we as members and owners of the Fund have to protect it against abuse.

VRYWARING

DISCLAIMER