

‘THE ECONOMY AND BUSINESS – THINK NATIONAL, ACT LOCAL’

ADDRESS TO WESVAAL CHAMBER OF BUSINESS



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**KLERKSDORP
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‘May your choices reflect your hopes, not your fears.’ (Nelson Mandela)

‘The best way to predict the future is to create it.’ (Peter Drucker)

1. INTRODUCTION

May I thank the Wesvaal Chamber of Business for the opportunity and privilege of addressing you today on matters that I hope will be of interest to you. Although I’m now back in academia from where I originally started my career as a young economist, I have spent most of my working life in organised business at various levels, finally ending up with Business Unity South Africa (BUSA) a few years ago. I’m very happy to be back on an organised business platform today sharing some thoughts with this esteemed business audience.

I have noted from your printed material that the Chamber’s main focus is, as would be expected, to be the main voice of business in your area and to speak as a group on local issues. Your Chamber has been in existence since 1898 – in other words, for 124 years – and it reports that it has constantly sought to reinvent itself, to add value, and to be of service to its members. I mention this because, from my experience of the chamber movement over many years, how long a chamber has been in existence is usually a valuable yardstick of its continued usefulness to its members.

Research has indeed shown that one of the key measures of the length of service of an existing umbrella body like a chamber of commerce is its lifespan in years. The fact that the Wesvaal Chamber has been going strong since 1898 is a good proxy for the maturity and level of collaboration that could exist, not only among members, but also with local government. This is, of course, a mandate that needs constant replenishment, reform, and renewal.

It is also important to constantly expand the number of businesses that are members of a chamber relative to the total number of businesses in the area by demonstrating the relevance of the chamber’s agenda to the local business community. Obviously, the more members there are, the stronger the chamber’s mandate to engage with the authorities at different levels is. The size and composition of a chamber’s membership base is a major determinant of the sphere of influence that businesses are able to create. For example, in the North West province, agriculture and mining are regional economic mainstays of business activity in the region.

The strength of a chamber ultimately lies in its capacity to induce members to commit resources to the chamber's operation and outreach activities, and to comply with rules and decisions aimed at furthering collective goals. This applies both at the national and local levels. And so, this brings me to the core of what we are all wrestling with today at this juncture in SA's economic history – and what is the main theme of my presentation.

It is not easy navigating one's way through the cross-currents in our economy and society today. What is particularly challenging is that every society has its share of leaders and followers, exploiters and victims, optimists and pessimists, and conservatives and reformers. There are also those who see the glass as half-full and there are those who see it as half-empty. But more importantly, though, is – *what* should be done about it either way, given where SA is today?

We thus need to identify the factors that are distinctive in our society and examine the extent to which they can be better mobilised with a view to putting the country on a more successful inclusive growth path. How, then, can I best use the time at my disposal today to traverse this complex terrain?

Should I deal mainly with the *macroeconomic* issues or the *microeconomic* ones – acknowledging, of course, that there *is* an interdependence between many of them? For example, this afternoon, the Monetary Policy Committee (MPC) of the SA Reserve Bank will decide, after its usual review of SA's economic situation, whether to raise interest rates further, perhaps by as much as 50 basis points. All the relevant factors – both global and local – will be unpacked today by the MPC, ranging from the economic fallout from the Russia–Ukraine war to domestic inflation. These need to be assessed by economists and the business community.

So, should I then deal with the outlook for borrowing costs in SA, which will affect all businesses and consumers as the year unfolds, whether you live in Cape Town or Klerksdorp? The combined big macroeconomic issues of inflation, interest rates, load-shedding, and unemployment *do* matter for business and the economy as a whole. It would indeed be very interesting to share some of these macroeconomic assessments with you today.

Alternatively, what about the impact of the Zondo Commission findings and outcomes? With the Zondo Commission often dominating the news, should we talk about state capture and corruption as they affect the image of business? What has happened here? 'Crony capitalism' is *not* a system

that gives many people a stake in the economy to uphold and defend, but rather is one that has obviously favoured only the few. From the fourth report presented to President Cyril Ramaphosa recently, it is clear that the latest findings of the Zondo Commission cut much closer to the bone than ever before. It has become increasingly evident of the extent to which state capture over the years has been ‘a weapon of mass corruption’ in SA – of great significance to the country in general and business in particular.

Well, I’ve nonetheless concluded that consideration of current macroeconomic issues should for now be left to local chambers working through national bodies such as the SA Chamber of Commerce and Industry (SACCI, of which the Wesvaal Chamber is a member) or BUSA (of which SACCI is a member). I want to keep my presentation today within manageable and relevant dimensions of immediate relevance to this audience.

I’ve also had salutary warnings about the dangers of dwelling too much on economics. I’m reminded of the story of what Lyndon Johnson, 36th US president, is reliably quoted as once having said to a prominent economist: ‘Did it ever occur to you that making a speech on economics is just like peeing down your leg? It may seem hot to you but not to anyone else?’

2. THINK NATIONAL, ACT LOCAL

Indeed, a sceptical colleague of mine at North-West University recently emphasised to me the challenge of dealing with the wide range of formidable socioeconomic and governance issues confronting SA, not to speak of the global factors over which the country has no control. He felt that too much had been allowed to deteriorate to a point where things are too difficult to fix. ‘You have an impossible task,’ he said. This is like an estate agent, on being asked what should be done to improve the sales prospects of a very run-down building, responding: ‘Where on earth do you start?’ My answer would be: ‘Let’s first examine what may eventually make a difference’ – and then turn our attention to what can be done within our own sphere of influence.

There is, fortunately, a great deal of literature and research now available on what is called the emerging science of ‘deliverology’, or on how to make government at different levels more efficient. Of course, government can be a big problem. But we need only look at life when it has

broken down in SA to realize how important ‘good government’ is for a nation or a community. If government is unproductive or dysfunctional, it is a huge drag on economic performance. Indeed, one leading global expert on public sector efficiency, Sir Michael Barber – who has worked on government and public service reform in about sixty countries – entitled his book, ‘*How to run a government so that citizens benefit, and taxpayers don’t go crazy*’, from which I have drawn much inspiration!

Today I therefore want to narrow down my approach here to being closer on our doorstep. At the national level, then, for the moment let’s leave to the Minister of Finance the management of SA’s overall public finances, to the Reserve Bank the decisions about interest rates, and to the Department of International Relations and Cooperation the diplomatic handling of the Russia–Ukraine war.

Closer to home, and for many businesses here today, are the immediate realities of rates and taxes, the municipal budget, development and maintenance of local infrastructure, water and energy supplies, corruption, town planning, governance issues, and local economic development and its challenges. What strategies are needed to help local business tackle this formidable agenda of local problems more effectively and drive economic development from the bottom up? And unless local business responds *effectively* to local government challenges, how can they later credibly complain about what has gone wrong or agitate about the delay in implementing remedies?

Taking a bird’s eye view of the deterioration of local government in SA, as conveyed in countless official reports and individual experiences, the picture is indeed grim. Government has had to intervene in many of the 280 local authorities to salvage their administration and restore service delivery, with mixed results. About 160 local authorities have serious financial, governance, and delivery challenges that have incapacitated them. It strikes me as no coincidence that the failures at local government level have coincided with the shrinkage of local chambers of commerce and similar structures throughout the country in recent years. Cause or effect? But that is a big study on its own

It is nonetheless reassuring that some chambers, like the Wesvaal one, still exist to serve their members and the broader community. For there are presently new choices for business collectively to make. And there is now the chance to build on the messages of both the State-Of-the-Nation-

Address (SONA) and the Budget speech in February this year insofar as it is the private sector that must basically drive investment, growth, and job creation in SA, with the government helping to create a favourable climate within which these elements can flourish. There are undoubtedly different views on the extent to which these efforts have so far borne fruit and whether enough certainty has been created to boost investment sufficiently.

But there are distinct signs of a policy shift, which is opening up potential business opportunities at different levels, including at the local level, where success also depends on the strength of business' response to a more positive climate. As I suggested earlier, it is not just a 'top down' or 'government knows best' approach that is needed or should be anticipated here. The onus is also on the private sector to embrace the new approach and to maximize the accompanying potential opportunities at all levels. The economic solutions should therefore be implemented just as much 'bottom up' as they are 'top down'.

Moreover, business should not just play its usual *advocacy* and *lobbying* roles but should be an active *participant*, using innovative and creative techniques to match the magnitude of the challenges. We thus need to explore how enhanced 'partnerships' and new cooperative instruments can bring business and government closer together, thereby clearing the way for more local economic development. Local initiatives will undoubtedly also help to decide whether headwinds or tailwinds will prevail in SA's overall economic performance.

We know that the immense challenges currently facing SA require well-conceived and well-coordinated solutions that are steadily implemented, with the support and involvement of key stakeholders. Not enough people in SA realise that we are all in the same boat and that the more leaks the boat springs – whether caused by unemployment, inflation, corruption, or delivery failures – the faster it will become waterlogged, and even sink. Today, more than ever before, business should be at the front of the boat where it can, helping to anticipate and chart a course through the wind and the waves while also repairing the leaks – as they have now been invited to do.

As the storm signals are raised from time to time, so it is important to also improve business–state relations as a key facilitator of better economic performance. The emphasis must continue to be

on those factors that are *within* our power to influence, especially with the governance structures that are nearest to us.

And let us recall that, at this level, ‘the science of delivery’ also embodies a fourfold bind that cascades down from the national level:

- * downward pressure on the ability to raise taxes and levies and a shrinking tax base
- * a debt burden which needs to be reduced
- * widespread and growing demand for better quality of services
- * economic and policy uncertainty

This brings me to the two structures that are closest to us here, namely, the local chamber and local government. We are all aware of the huge governance and delivery problems that exist at the local level throughout the country, including in the North West province. The economic performance and governance of the province cry out for greater collaboration among all key stakeholders to turn things around and put the region back on track. If credibility and reciprocity are to be attained, then both local government and local business must be organised to facilitate more *effective* collaboration across the country or region.

As I outlined earlier, the official recognition of the private sector as the main driver of growth, investment, and job creation is a fairly recent but nonetheless welcome development in SA. Much of the debate on effective growth and industrial policies in SA has in the past tended to rather ignore the pragmatic ‘how’ question about the private sector, often focusing instead on the more ideological ‘whether at all’ question. Business was largely seen as an ancillary player in the overall vision of a ‘developmental state’.

Of course, we are not talking here about the huge distortions and aberrations in recent years in SA caused by state capture and widespread corruption involving many businesspeople, among others – a scenario that was not compatible with any legitimate model of private enterprise. We are instead referring to the legitimate and accountable role that organised business should be playing in its interactions with the authorities at different levels. (I know of no case where a conventional ‘chamber of business’ has been involved in the toils of the Zondo Commission!).

3. HOW TO DO IT, THEN?

So, given SA's socioeconomic experiences and governance challenges to date, what are the main activities involved in renewing and reinvigorating *a priority-led action agenda* for constructive collaboration between organised business and local government in SA – within a framework of transparency and accountability? What more can and should be done at this level? What are the opportunities and the constraints?

Here are *ten* guidelines for potentially strengthening business–local government relations, so that collaboration can become a more effective facilitator of local economic performance. They map out some of the territory for those in business and local government who would like to actively improve the local socioeconomic environment for the benefit of business and the community. The local government-business relationship needs to be put on a more stable and productive footing.

The ten pillars on which solutions can be based include:

- *Forging constructive relations between local government and business*

First, there is a need to forge a constructive working relationship with the local authority and other structures concerned with economic development in the area, based on mutual trust and accountability. There remains a 'credibility gap' and a 'trust deficit' between officialdom and business at various levels which must be closed. But this can only be done by sitting down together, focusing on common problems, and collaborating in finding solutions in a step-by-step manner. Local authorities must see local business as being essential for good economic outcomes in the area and must help to engineer long-term working relationships that deliver these outcomes. And business must, as far as possible, speak with a unified voice. And those businesses that often question the value or usefulness of organised business should remember the adage that 'unity is strength'. A chamber may well also become a troubled firm's 'foul weather friend' in these uncertain economic times. Indeed, as the bulk of a local Chamber's members are normally SMMEs, a strong Chamber gives them additional leverage and influence in a highly competitive world.

- *Developing a common understanding of the challenges*

Then there needs to be a common understanding of the challenges that must be addressed locally as well as the incentives required for the parties to work together in a productive manner. If necessary, a facilitator could be brought in to help lay the foundations for more sustainable local government-business collaboration, which may include other key stakeholders (such as labour) to build a sound base. While a local authority must ultimately take political responsibility for its decisions, it needs much better advice on the options available and their implications through a more inclusive approach to policymaking and projects. One of the most important, albeit intangible, benefits of regular and sustained business-local government interaction is *awareness raising*. It acts as a valuable early warning system about what may have to be next addressed in the town or city and helps to promote transparency. Consultation should therefore not be ritualistic, but purposeful and timeous, and coupled where necessary with a *sense of urgency*.

- *Aiming for sustainable outcomes*

Where there are leaders of well-run local chambers, they should be able to effectively represent a wide range of interests and, in cooperation with local government and other relevant structures, get changes implemented that impact the broader local economy. But remember that reform is a marathon, not a sprint, which requires stakeholder influence to have its maximum impact *over time*. So, while creating a personal network is important, it is equally important to create longer-term stable institutional interactions that can deliver sustainable outcomes for the town or city over time. This also involves regular interaction at the coalface of local government, not only among the elite. The quality of leadership at all levels is a deciding factor. Whether your political preference is for a minimalist local government or a more generously proportioned one, we all have an interest in ensuring that local government is effective at what it does, or can now get done with the assistance of the private sector.

- *Monitoring local government finances*

Just as when the Minister of Finance invites inputs from business (and others) when preparing his National Budget, so local authorities should solicit the views of business prior to decisions being made about the municipal budget and how it should be spent and financed. For example, I recently read that the national hospitality sector is strongly complaining that ‘rates and taxes are eating away at their revenue’. There are other examples. Achieving the right balance between spending, debt and taxes is as important to a municipal government, as it is to the National Treasury. Business clearly has now come to have a big stake in the financial health or otherwise of local authorities and this is probably the single most important overall barometer by which to gauge how things are going locally.

- *Tapping into outside expertise*

If the right decisions are to be made in respect of financing and project implementation, both the local government process and business inputs need to be as well informed as possible. Where technical capacity is needed, expertise should be mobilised to assist in framing the policy or project options needed locally. Every province in SA has one or more institution/s of higher learning capable of offering low-cost expertise and research inputs. My impression is that the intellectual capital available in even nearby universities is generally under-utilised or mobilised for the purpose of promoting local economic development and effective governance.

- *Mobilising national support*

A more coordinated and cohesive approach to cementing better business-local government relations should also be proactively pursued at the national level to reinforce local initiatives. Local business structures should request the national bodies to which they may be affiliated to engage with the SA Local Government Association (SALGA) to strategise about common goals. And relevant government departments interested in local government performance would also have a stake in any new business–municipal relationships that are expected to offer superior outcomes. This helps to underpin collaboration at local level.

- *Exploring public-private sector partnership opportunities*

Enlarging the area for local public-private sector partnerships (PPPs) has become an increasingly popular instrument of policy. The official policy in SA at present is that PPPs should play a bigger role in expediting infrastructural development and public investment projects. SA has a well-developed PPP regulatory framework which encompasses all spheres of government. Globally, the proportion of infrastructural investment driven by public-private partnerships is about 20%, whereas in SA it is less than 1% of total public sector infrastructural spending. The number of new PPPs in this country has been declining over the years, with the value thereof sliding from R10,7 billion in 2011/12 to only R5.6 billion by 2019/20. The National Treasury is committed to overhauling the public-private partnership framework to improve its effectiveness and encourage private sector participation. An increasing role for PPPs in infrastructure has opened up a wealth of possibilities in everything from water & sanitation to fibre rollout, and projects that support sustainable development goals. What is important to note is that PPPs are *not* necessarily confined to large business players, either foreign or domestic. A growing number of arrangements involve small-scale domestic providers of services. While a PPP is certainly *not* a one-size-fits-all solution, nor is it a ‘magic wand’, local authorities and businesses need to now audit and identify where new opportunities for PPPs may be successfully created to promote the local development agenda.

- *Framing a priority-led action agenda*

A sustained focus on a small number of priorities is essential. Given capacity constraints expectations must be managed to develop a realistic working relationship. As someone once said, a week may be a long time in politics, but a couple of years may be an unbelievably short period in which to deliver. Extraordinary discipline, persistence, technical capacity, and continuity are needed on both sides for sustained and effective interactions between local business and local government over time.

- *Developing effective communication strategies*

These interactions also require winners – that is, successes – to be sustainable. An effective communications strategy is therefore required to keep stakeholders informed and supportive. It is essential that Chamber work and outcomes in this sphere are supported by effective communications and media strategy.

- *Addressing capacity constraints*

Finally, of course, a realistic recognition of capacity limitations within local Chambers is needed. A chronic structural weakness among many Chambers of Commerce is the *constraint of voluntary effort*, whatever its other virtues. The majority of businesses are also SMMEs, with limited resources for Chamber work or involvement. But this is not the place nor time to interrogate what Chambers specifically need to do to be more effective, except to stress its importance and the need to mobilize capacity. If local Chambers are to reposition themselves to respond better to local government challenges, they will need to evolve appropriate strategies to deal with them. Local business and local government should develop coherent strategies in the forging of cooperative relationships which bring tangible advantages. Given the changing economic and political environment around local development Chambers should, where appropriate, therefore organize a strategic session to identify how they can *practically* best respond – and indeed be empowered to do so. It holds up a mirror to the local Chamber activities. ‘Structure’, as the saying goes, ‘then follows strategy’

4. SUMMARY AND CONCLUDING REMARKS

These are just a few stepping-stones towards what might in future evolve into a ‘new deal’ between business and municipal authorities. To move forward and achieve better outcomes in local economic development both municipal government and business need to recognise what should fundamentally change in their relationship. They urgently need to begin to build the collaboration that must help to reverse the corrosive effects of what has gone badly wrong. The challenges on the local government level have created a critical situation in many areas.

Hence, I would like to conclude by again reverting to the recent official acknowledgement by the government of the significance of the private sector in driving investment, growth, job creation, and transformation in SA. We must build on this platform. While there are still many aspects of SA’s economy that need urgent implementation of structural reforms, we must not overlook the extent to which the private sector’s responses, especially at the local level, could now make a difference to the outcomes. At a minimum, local business pressure can at least help speed up

implementation of agreed policies and projects. Drift is the enemy of delivery, whereas momentum is its friend.

Organised business in general – and local business entities in particular – must therefore play a bigger role in mobilizing the necessary business forces to help deliver positive outcomes. Even if local Chambers cannot provide all the answers themselves, they can facilitate access to those who can assist – whether tapping into the network of individual firms or accessing tertiary educational institutions with research capacity. The bedrock of such a renewal process therefore remains to create or maintain strong and accountable institutions to promote local economic development. Obviously, this requires much-improved political leadership at various levels.

But having the right environment and building confidence clearly extends well beyond government and politics into almost all areas of society – especially into the institutions and organisations on whose probity, expertise, and independence we must depend. We need to build on that in future. Already we have seen striking examples in SA recently of how initiative and resilience in civil society and business have combined to find solutions to immediate crises in national, provincial, and local spheres. For example, communities in three provinces are looking to generate their own power to secure an uninterrupted supply of electricity and avoid Eskom's rotational blackouts.

There is thus still much evidence in SA of what can be initiated and administered by a multiplicity of fertile minds and adventurous spirits, especially when organised and channelled towards where it is needed. (The National Development Plan (NDP) originally called it 'active citizenry'). The formidable developmental agenda now confronting SA needs new sources of efficiency to deliver on the aspirations of society at large. We must accept that nothing is inevitable: rising tides can be turned, but only if we all set about it in a determined and urgent way. The dire situation in many local authorities in SA needs urgent new remedies. We need to fix the local government fundamentals and better local government-business interaction is an important part of the solution.

So, finally, what should be the right mindset to adopt here to get results? A clue may lie in substantial historical research conducted a few years ago by a prominent Harvard University academic. He undertook a comprehensive study of the factors that he thought shaped the success or failure of empires, countries, nations, and economies over several centuries.

And he unpacked the various elements which, to his mind, were often the ‘tipping point’ for sustained and successful economic progress in the face of setbacks that societies and institutions inevitably faced from time to time. One of the decisive symbolic factors, in his view, was the following:

‘In this world the optimists have it, not because they are always right, but because, they are positive. Even when they are wrong, they are positive – and that is the way of achievement, correction, improvement, and success. Educated, eyes-open optimism pays; pessimism can only offer the empty consolation of being right.’ (Prof David Landes, Harvard University)

In conclusion, then, SA’s socioeconomic challenges urgently require that local Chambers and other related structures revitalise their agenda, underpin their sustainability, and position themselves accordingly as agents of change at their level. If business itself does not urgently promote its own role here it certainly cannot expect to rely on anyone else to do so!

Thank you.

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