

# AGENDA 2019



CENTRE FOR  
DEVELOPMENT  
AND ENTERPRISE



## Business and development

Before you vote, ask questions, demand answers

## **AGENDA 2019**

### **Series Introduction**

The 2019 elections provide an opportunity for South Africa to move onto a path of faster, more labour-intensive growth, a prerequisite for resolving our most pressing social and political challenges, especially mass unemployment.

Political leaders can create the right conditions for growth. South Africa has a strong private sector, robust institutions, and a citizenry deeply committed to democracy, all of which can become vehicles for the expansion of opportunities for all.

This series of AGENDA 2019 briefs will highlight critical policy challenges such as growth-friendly urbanisation, youth unemployment, and skilled migration. Each brief ends with key questions that voters and reporters should ask party leaders before and after the elections.

## **Business and development**

### **Why enterprise-led growth ought to be the national priority**

Faster growth, and the jobs it brings, should trump all other government priorities. Yet per capita GDP has actually fallen in three out of the four years since 2015. Without policy change, the economy will continue to stagnate, and South Africa's social contract, constitution, and democratic fabric will continue to unravel.

South Africa faces an unemployment nightmare. More than 37% of working age people who want to work do not have a job. Government has in the main responded with programmes to compensate citizens for their exclusion, rather than with policies to promote labour-intensive growth. These achieve some laudable goals, but it is very hard to see how most can be scaled up, and even the largest ones cannot grow without increasing taxes.

Policymakers have failed to appreciate that economic growth is driven by a dynamic private sector: firms are the best, most sustainable vehicles for generating wealth and employment. Yet, in the face of bad, inconsistent and uncertain policies, business confidence is once again declining. Citizens can use the 2019 elections to ask parties how they will make enterprise-led growth happen. They deserve and should demand answers.

### **A party cannot be pro-growth and anti-business**

Growth cannot happen without a thriving business sector. The state is essential to provide a framework for economic activity, but firms will always create the bulk of jobs. Fewer than one in five people in formal employment work in the public sector. While government invested R226bn in infrastructure, schools, hospitals and other public facilities in 2017, this was exceeded by business investment of almost R400bn (in 2010 Rand value). In addition, given everything we now know about state capture, it is certain that government spending is wasteful and does not deliver value for money. Finally, it is a hard truth that government has essentially run out of money. Unless the private sector expands, government will not be able to afford any new initiatives, even desirable ones that employ more people.

Being "pro-business" does not imply being "anti-state". Rapid, enterprise-led growth requires a capable state, which conducts itself in the national interest. When a smart state supports business effectively, jobs and growth follow. The same process then swells tax revenues, funding education, health, housing, and other social programmes. In a country as unequal as South Africa, there is no alternative to a large role for the state in these sectors. But, if the economy is to grow, government has to be pro-business.

Being "pro-business" does not mean being in favour of one or another business or sector represented by some or other business interest; it means being supportive of the activity that we call business: the production of goods and services for customers who need them. Government must create the conditions for more investment and for new companies to emerge. Existing firms can grow and create more jobs, but our economy will not significantly reduce poverty without many new firms, most of which will be initiated by black people and black-owned.

## **How to be pro-growth and pro-business**

Government must promote business as an activity rather than providing favours to existing firms, and, especially not for politically connected cronies. Pro-business governments must commit themselves to a core set of principles to encourage investment, entrepreneurship, and innovation.

*Crack down on crony capitalism* – As South Africa has learnt, offering favours to a select group of businesses can be incredibly inefficient. The benefits of markets emerge when many firms compete with one another. For growth to accelerate, SA needs an environment in which new firms can start up and compete against existing ones. Crony capitalism prevents that.

*Cut red tape* - Businesses that cannot absorb the costs of regulation cannot grow and some will close. Onerous requirements for starting firms will prevent new ones from emerging. Regulations to control harmful products, to prevent the abuse of market dominance, to ensure basic health and safety, and to protect the basic rights of workers, should be imposed in a way that minimizes impacts on growth. Attention must be given to the needs of business when new national regulations are changed; as it is, SA has too many restrictive regulations, many of them either poorly conceived or poorly implemented. All new firms, both big and small, should register, become tax-compliant, and be part of the formal legal system. They will not be able to do that if the costs of doing so are too high.

*Ensure credible property rights* – Credible property rights provide the framework within which investment can take place. Without protection against arbitrary expropriation and interference, the risks of investment are raised, leading to less investment. Property rights are key to long-term investor confidence; undermining them is already having profoundly negative effects.

*Attract Foreign Direct Investment* – Foreign companies investing directly into South Africa are crucial for economic growth. Such investments add to productive capacity and facilitate imports of capital, technology, production skills and management. Rather than attempting to ensure that FDI contributes to narrowly defined outcomes by imposing unnecessary restrictions and conditions, a far more effective approach is to offer the basic conditions of security, certainty and profitability that all investors require to make a long-term commitment to a country like South Africa.

Government should use these pro-business principles to put in place a level playing field and to eliminate unnecessary costs. It should then stand aside and allow firms to get on with what they do best: running profit-making enterprises providing goods and services that their customers want in a competitive environment.

**“The key question for South African voters and their political parties is this: which attitudes and approaches will you adopt to enable the development of a whole new generation of firms, entrepreneurs and employees?”**

## **Ways to support business**

### *Build growth coalitions*

CDE research suggests that government officials at local and national levels focus too much energy and resources on ineffective training and entrepreneurship initiatives that deliver little or no growth. Conversely too little time is spent by government figuring out how to attract new investment and new firms, and how to help existing enterprises to expand.

Constructive and open dialogue between businesses and government (local and national) can result in appropriate training and infrastructural investment, an enabling administrative environment, and the attraction of outside investors. Government should make infrastructure investments in collaboration with the industries they are meant to serve, and design skills initiatives in partnership with firms. All businesses should have a voice, and processes must be transparent and rule-based to avoid favouring particular companies or individuals. But, in engaging with existing businesses, government needs to think about the firms that don't currently exist, whether its actions are helping to entrench incumbents, and whether it is possible to make local conditions more competitive.

### *Help small businesses grow*

South Africa needs companies of all sizes. The number of small, owner-managed firms in South Africa is small compared with other countries at a similar level of development. Of even greater concern is the relative dearth of small businesses that grow into medium and large enterprises, as is the limited number of jobs that small businesses are actually creating.

Scattergun initiatives to train entrepreneurs, provide business advice and premises, and grant seed finance, have been ineffective.

We need a new framework to encourage small companies to grow, which will:

- Support existing firms only when they have growth potential
- Boost firms in labour- and export-intensive sectors
- Help promising firms access currently available finance more efficiently
- Enable entrepreneurs from other countries to start businesses in South Africa
- Target training provision to what business wants,
- Exempt small business from needless regulation.

### *End anti-business rhetoric*

It is tempting to blame business for the country's woes. After all, some critics link capitalism and apartheid. Others believe that employment equates to worker 'exploitation'. Many believe that business has done too little for transformation.

Going further, some politicians describe businesspeople as "vultures" and "thieves". Populists designate some companies as "white monopoly capital". Dark murmurings about a supposed "investment strike", which misunderstands how businesses take decisions and who those decisions benefit, are another common feature of political discourse.

Government cannot shirk responsibility for defending markets and businesses in the face of populist pressures. This has to be done comprehensively – beyond Sandton and Davos – throughout the state, the ruling party and wider society.

Over time, anti-business rhetoric progressively undermines business confidence, distorts policy, and deters investment. It is already costing countless jobs.

South Africa's core challenges do not arise from the businesses that exist, but from the businesses that do not exist. Attacking existing firms will never solve our problems; allowing tens of thousands of new ones to prosper would.

## **Conclusions**

South Africa needs a decisive shift that places economic growth, driven by businesses, at the top of the policy agenda.

Firms subjected to competitive pressures drive prosperity. Their task is hard enough when government understands their needs; it becomes almost impossible when governments are unsympathetic and the policy environment is unsupportive.

Employment will only grow if private companies and new investors are encouraged to invest capital here rather than in other countries.

If government genuinely believes that the state needs to partner business to achieve its developmental goals, it should listen closely to what businesses themselves say about what they need to deliver growth. It is time to end the ambivalence and hostility of political leaders towards business.

Political parties need to embrace business, and commit themselves to building growth coalitions that will benefit the society as a whole.

**"South Africa needs accelerated inclusive growth that is urban-led, private sector driven, enabled by a smart state that understands markets, and targeted at mass employment."**

# Before you vote, ask political parties these questions about business and development

1

Does your party believe that the **security of property rights is important** for investment and growth?

2

Does SA spend too much time attacking existing firms and too little on **how to get more new firms?**

3

How would your party work with business to increase **investment, growth and employment?**

4

President Ramaphosa has said, **"We should treat our entrepreneurs as heroes"**. Does your party agree?

**References** | This report includes information from the following sources: *South African Reserve Bank, Quarterly Bulletin March 2019*; *South African Revenue Services, Annual Report 2017/18*; *Statistics South Africa, Quarterly Labour Force Survey Quarter 4 2018*; *Statistics South Africa, Labour Market in Dynamics in South Africa 2015*; *Rand Merchant Bank/Bureau of Economic Research, Business Confidence Index*; *Small Business Institute, Baseline Study of Small Businesses in South Africa (2018)*; *World Bank DataBank*.



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