MTBPS focus: easing the cost of doing business

National Treasury and the Presidency, through Operation Vulindlela, are focused on tackling big-ticket constraints in the energy, transport, water, spectrum allocation and communications space which have impeded growth across the economy. However there are numerous smaller regulations and processes that make it that much harder for businesses to operate in South Africa.

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The Minister of Finance, Enoch Godongwana, has committed himself to the task of pursuing his predecessors' structural reform agenda and reducing red tape, the progress of which will be keenly noted in the Medium Term Budget Policy Statement (MTBPS) on 11 of November.

A focus on red tape

Angelika Goliger, EY Africa's chief economist, notes that the mandate, and capacity, of Operation Vulindlela should be broadened from major structural reforms, to include a focus on red-tape.

"Globally, there are many examples which have shown a centralised focus at a national level on red tape yielding results.

"For instance, in the early 2000s, Singapore instituted a panel to solicit feedback from the public on rules and regulations that impede business and review existing rules," she says.

More recently, the UK ran a ‘Red Tape Challenge’ between 2011 and 2014, which crowdsourced comments from businesses and the public on which regulations could be improved or removed.

Over 3,000 regulations were scrapped or improved which have been estimated to have led to annual savings for businesses of £1.2bn.”

Goliger said that while the impact of individual regulations may not be sufficiently headline grabbing, easing them could serve to improve business substantially.

“In fact they could actually result in net savings to the fiscus in many instances,” says Goliger.

The best known example here is the scrapping of the requirement to renew your driver’s license every five years.

“There are many other such types of quick-wins possible across various industries,” she adds.

Beware of unintended consequences

At the same time, she says we must be wary of taking significant steps forward in one area only to take steps backwards in another.

“There needs to be improved coordination in government to ensure that new regulations and policies at a national and local level are not overly onerous, nor have negative unintended consequences.”

Noting that while it is certainly the case that South Africa’s local production capacity needs to increase, she cites that protectionist policies could serve to raise the cost of doing business and hamper the success of the ambitious regional trade aspirations as part of AfCFTA (African Continental Free Trade Area).

“As the largest global trading country in Africa, insulating ourselves will be to the detriment of our, and the continent’s, prosperity.”

Similarly, the constraints on mergers and acquisitions placed by the Competition Commission could hamper the dynamism of companies in South Africa.

“For South Africa’s economic recovery, it is critical that the government shifts its mindset towards a more citizen-centric approach and have regular engagements with the private sector.

“While momentum in the structural reform agenda cannot be lost, smaller regulatory reforms should not be forgotten, as collectively these can make a big impact on improving business confidence in the country,” says Goliger.