NATIONAL PLANNING COMMISSION

SMME RED TAPE REDUCTION ADVISORY NOTE

6 JUNE 2025

1. Introduction

The National Planning Commission (NPC), which oversees South Africa's long-term development strategy, the National Development Plan (NDP), is tasked with guiding the government and society on vital issues affecting inclusive growth and sustainability. A core objective of the NDP's Vision 2030 is to eliminate poverty, reduce unemployment, and lower inequality. To achieve these goals, the growth and vibrancy of small, medium, and micro enterprises (SMMEs) are identified as essential drivers for creating jobs and promoting economic transformation.

The NDP envisions a situation in which small and expanding firms will become more prominent in generating the majority of new jobs created. It identifies SMMEs as the primary drivers of employment, with a target of generating 9.9 million out of the projected 11 million new jobs by 2030. To realise this ambition, the NDP highlights the need to reduce red tape by lowering regulatory burdens, streamlining administrative processes, and reducing the costs of doing business in key sectors. These measures are recognised as essential enablers of job creation through SMME growth and sustainability.

This advisory note provides context and background on the NPC's work on reducing red tape. It also presents a summary of the key findings and recommendations to the Presidency and government, aimed at strengthening efforts to reduce red tape and enable SMMEs to thrive, create jobs, and contribute meaningfully to inclusive and sustainable economic growth.

2. Background

Since the adoption of the National Development Plan (NDP) in 2012, successive administrations have introduced several initiatives aimed at reducing red tape. Research conducted by the second National Planning Commission (NPC) in 2017, titled *The Limited Success of Entrepreneurial Activity by Locals in Townships and Rural Areas*, identifies red tape as a significant constraint on Small, Medium, and Micro Enterprises (SMMEs), even more so than regulation itself. The study acknowledges that while regulation is necessary to ensure standards and protect consumers, excessive and inefficient administrative processes, such as onerous compliance requirements, obstructive bureaucracy, and limited state capacity, create barriers to entry and discourage formalisation. It further highlights that red tape, driven by outdated policies, poor systems, and skills shortages, stifles both formal and informal businesses, particularly in township economies.

According to the NPC's 2020 report, *Review of Economic Progress Towards the National Development Plan's Vision 2030*, promoting entrepreneurship and SMME dynamism requires a review of the compliance burden faced by enterprises of various sizes (informal, micro, small, medium, and large). The report recommends pursuing legislative reforms to align compliance requirements with the capabilities of each enterprise category.

In 2022, the Presidency established a dedicated Red Tape Reduction Unit to improve administrative processes across national and local government spheres. Parallel initiatives have also been undertaken by the Department of Small Business Development (DSBD), the Department of Cooperative Governance and Traditional Affairs (COGTA), and the South African Local Government Association (SALGA), including the introduction of regulatory frameworks and pilot programmes at the municipal level.

The 7th Administration has since finalised the 2024–2029 Medium Term Development Plan (MTDP), which outlines the ambition for all government departments to prioritise the creation of an enabling environment for SMMEs. This includes efforts to reduce bureaucracy, enhance access to finance, and offer comprehensive business support.

Despite these initiatives, the impact of interventions aimed at reducing red tape has been uneven and fragmented. South Africa's ranking of 84th out of 190 countries in the World Bank's 2019 *Ease of Doing Business Index* highlights the persistent challenges in fostering a business-friendly environment. Many interventions to date have provided isolated pockets of support to SMMEs, without a coordinated, system-wide approach. Moreover, the absence of consistent monitoring and evaluation mechanisms has limited the country's ability to assess the true impact of these efforts on SMME development and competitiveness.

In line with developing solutions to reduce red tape and in response to the persistent challenges that continue to hinder SMME growth, the NPC task team, focusing on SMME growth and development, convened a Red Tape Reduction Data Workshop on 23 January 2025. The purpose of the engagement was to explore South Africa's current red tape reduction practices, assess their impact on SMMEs, and support the development of a tracking platform to monitor national progress towards creating an enabling environment for SMMEs.

The workshop examined the availability and limitations of data for quantifying progress in red tape reduction and considered how to establish a process for sharing such data to inform future monitoring and evidence-based policy decisions.

As a result of this engagement, an advisory note on reducing red tape was developed. This advisory summarises key findings and recommendations from the workshop and prior consultations.

3. Findings

3.1. High-level reflections

3.1.1. Limited Red Tape Reduction and Ease of Doing Business legislation

Legislative instruments, such as the Small Enterprise Amendment Act and the Licensing Bill, have acknowledged red tape as a hindrance and have accordingly incorporated it as a principle to be eliminated. While the sector anticipates the Department of Small Business Development's (DSBD) newly drafted 2025 Red Tape Reduction Framework, the absence of binding legislation that mandates specific actions by all relevant government departments renders red tape reduction and SMME regulatory reform largely voluntary.

Another contributing factor is the coexistence of legislation at national, provincial, municipal, and sectoral levels, which makes fit-for-purpose SMME governance and compliance increasingly complex. For example, to open a hospitality establishment, a business owner must first register the business with the Companies and Intellectual Property Commission (CIPC), which is overseen nationally by the Department of Trade, Industry and Competition (DTIC). Thereafter, they must meet provincial compliance requirements administered by bodies such as the Gauteng Liquor Board, whose processes differ depending on the type of licence being sought. For instance, to obtain a wholesale liquor licence, the applicant must pay both a lodgement and an activation fee, advertise in local newspapers and the government gazette, and obtain various certificates and clearances. Additionally, they must secure a zoning certificate and consent letters from the municipality, each with associated costs that vary across the five municipal regions, depending on the application of the Spatial Planning and Land Use Management Act.

3.1.2. Cost of red tape

The cost of red tape to businesses, whether in the form of administrative burdens or delays in turnaround time, is not fully appreciated in terms of its impact on business productivity and its knock-on effect on the economy. An analysis by the International Labour Organisation (2016) estimated that red tape cost over R80.5 million for more than 400 SMMEs across two municipalities in the Free State, considering the time and money spent on compliance processes such as labour law, income tax registration, and VAT registration.

3.1.3. Overregulation

While the importance of regulatory compliance is recognised, particularly in enhancing competitiveness, promoting consumer and employee safety, and contributing to the national tax base, excessive or poorly administered regulation disproportionately affects SMMEs. It creates barriers to entry and expansion, thereby limiting their potential to create jobs.

In South Africa’s ICT sector, for instance, overregulation poses a significant obstacle to SMME growth and sustainability. Although regulatory frameworks are intended to ensure compliance, fair competition, and consumer protection, they often introduce bureaucratic red tape that discourages innovation and limits market access, especially for smaller enterprises with limited resources.

In the telecommunications subsector, licensing requirements imposed by the Independent Communications Authority of South Africa (ICASA) are both costly and time-consuming.

SMMEs offering services such as internet provision or Voice over Internet Protocol (VoIP) must obtain Electronic Communications Network Services (ECNS) or Electronic Communications Services (ECS) licences. These licences carry substantial application fees, compliance audits, and reporting obligations—barriers that often overwhelm startups lacking legal and financial capacity, ultimately consolidating market power in the hands of larger operators.

In the software development and IT services subsector, burdensome compliance requirements related to Broad-Based Black Economic Empowerment (B-BBEE) and local content rules, while essential for transformation, can inadvertently exclude smaller firms. For example, a small app development company may be overlooked for government contracts in favour of larger enterprises that can more easily meet the full B-BBEE scorecard requirements, despite the smaller firm's innovative capabilities.

In the e-commerce sector, complex regulations surrounding digital payments, VAT registration, and cross-border trade hinder entry for new businesses. A small online retailer may experience significant delays and paperwork when integrating secure payment gateways or conducting international transactions due to rigid exchange control regulations and complex tax rules.

Cybersecurity and data protection laws, such as the Protection of Personal Information Act (POPIA), while necessary, are also difficult for SMMEs to implement effectively. Larger corporations can hire dedicated data protection officers and legal consultants to ensure compliance with data protection regulations. In contrast, smaller firms often lack the expertise and resources to comply fully, exposing them to the risk of legal penalties or business failure due to data breaches.

3.1.4. Tracking Red Tape Reduction

Efforts to monitor and track the reduction of red tape in South Africa are fragmented and uncoordinated, limiting the ability to effectively govern, account for, and make evidence-based decisions that support SMMEs. Currently, initiatives are often confined to individual departments, resulting in isolated successes rather than systemic reforms that benefit SMMEs across the board.

Government departments also operate on disparate IT systems, some of which even rely on manual processes, making it difficult to collect, track, and analyse red tape-related data. This contributes to inconsistent national reporting, weakens evidence-based policy development, and hampers the measurement of progress in SMME regulatory reform.

Although some departments have introduced digital systems to streamline processes, the lack of full digital integration across all government levels continues to create bureaucratic hurdles for businesses. Many SMMEs cannot afford to divert time away from operations to navigate manual or fragmented procedures.

Furthermore, it is important to note that digitisation does not automatically result in efficiency. Red tape persists in systems with non-automated workflows, excessive documentation requirements, and backend processes that still depend on manual intervention.

3.1.5. The role of the private sector

The role of the private sector in alleviating red tape for SMMEs has not been clearly defined, particularly regarding how business formations and organisations can contribute meaningfully to regulatory reform. This also applies to how the private sector can streamline its own administrative processes to enable easier access to services by SMMEs.

One notable example of collaboration is the joint venture between the government and over 130 private sector CEOs that allocated 350 experts to support reforms in electricity, transport, and crime. This initiative achieved concrete outcomes, including a 35% reduction in waiting times at some of Transnet's ports and a significant decrease in load-shedding at Eskom.

However, public–private collaboration to support thematic, outcomes-based SMME policy reforms remains limited. There is a need for mechanisms through which the private sector can:

- Contribute to the development and adoption of simplified, automated systems that are centrally coordinated across all three spheres of government.
- Assist with business process re-engineering to eliminate licensing backlogs.

- Establish structured platforms to identify and address emerging policy bottlenecks that negatively affect business operations.

Additionally, few mechanisms exist to hold the private sector accountable for facilitating easier access to their services. This includes the need to relax overly stringent requirements for accessing finance, and to address issues such as late payments and unfavourable payment terms that negatively affect SMME cash flow.

3.2. Stakeholder reflections

The National Planning Commission (NPC) engaged with representatives from national, provincial, and local governments who are responsible for advancing the development agenda of SMMEs through both financial and non-financial support, as well as those who oversee systems and initiatives aimed at reducing red tape. These engagements aimed to identify opportunities for reducing regulatory burdens on SMMEs by drawing on best practice interventions.

Consultations included discussions with key institutions such as the Presidency, the Department of Small Business Development (DSBD), the Department of Cooperative Governance and Traditional Affairs (COGTA), the Companies and Intellectual Property Commission (CIPC), and the South African Local Government Association (SALGA), among others.

3.2.1. Regulation, Compliance and Costs for SMMEs

While regulation is essential for governance and compliance, inefficient processes, high costs, and bureaucratic delays act as significant barriers to business growth and entrepreneurship. At the municipal level, small enterprises often contend with onerous regulations related to water and electricity billing, municipal bylaws, and zoning or rezoning issues. At the provincial level, common challenges include provincial legislation, difficulties in obtaining liquor licences, staff incompetence or corruption, and excessive administrative requirements imposed on SMMEs.

A study conducted by the International Labour Organisation (ILO) on the Cost of Red Tape revealed that compliance costs are disproportionately high for smaller enterprises. Based on a survey of 414 businesses participating in the Free State's SMME development initiatives between 2011 and 2018, the primary cost drivers were identified as registration fees, tax compliance, sector-specific licensing, and penalties for late submissions. VAT submissions and tax returns were particularly burdensome. According to the study, compliance costs in the Free State were estimated at R3.819 billion, equivalent to 2.6% of the province's GDP. Within the surveyed municipalities, these costs accounted for 4.3% of their combined GDP.

The impact of red tape is not limited to businesses alone. In sectors such as Early Childhood Development (ECD), the Department of Basic Education has noted that excessive bureaucracy significantly restricts access to quality early learning opportunities. This is due to rigid land-use frameworks, high costs associated with planning approvals, absence of building plans, challenges with fire safety compliance, and restrictive municipal by-laws. These regulatory hurdles impede the ability of ECD centres to operate legally, thereby limiting job creation and reducing access to affordable childcare services.

Notably, the BizPortal, a platform developed by the Companies and Intellectual Property Commission (CIPC) to facilitate streamlined company registration within 24 hours, offers key services including company registration, SARS tax registration, UIF and Compensation Fund registration, BBBEE certification, and business bank account opening. However, despite the availability of these services, non-compliance remains a serious issue. As of February 2025, the CIPC began deregistering over 800,000 companies for failure to submit annual returns and beneficial ownership declarations.

3.2.2. Data Management and Accessibility

Data collection methods have undergone significant evolution, shifting from traditional paper-based surveys to more efficient digital approaches. However, this transition has exposed policy misalignments between national and municipal regulations, particularly where businesses are subject to conflicting requirements. The continued use of paper-based systems for data collection remains a major impediment to efficiency. These outdated methods contribute to high administrative costs and diminish both the speed and accuracy of data processing.

In addition, inconsistencies in data collection methods across institutions pose a significant challenge. While some institutions update their data on a triennial basis, others update it annually or in real-time. This lack of alignment in update cycles hinders the development of a unified, up-to-date national database, thereby undermining efforts aimed at consistent tracking and evidence-based decision-making.

A further concern relates to data accessibility and governance. Many organisations continue to rely on individual departments or designated personnel for the storage and maintenance of data. This fragmented model of data ownership creates barriers to seamless access and integration, making it difficult to leverage available data for broader policy and planning purposes fully.

The discussion highlighted that, particularly for SMMEs, real-time data collection is a critical enabler for improved decision-making, especially in addressing the issue of red tape. Access to real-time data would enable stakeholders to monitor progress, adjust strategies as needed, and implement timely, evidence-based interventions.

3.2.3.Impact of Red Tape on SMME Job Creation

According to research conducted by Business Partners on formal SMMEs during the period following the national lockdown in 2020, SMMEs played a critical role in job creation. The study revealed that SMMEs contribute approximately 35% to South Africa’s GDP, employ 50% of the formal workforce, and are responsible for 60% of new job creation. Despite this substantial economic contribution, it was estimated that approximately 40,000 SMMEs ceased operations since the onset of the lockdown, an alarming indicator of sectoral vulnerability.

Discussions noted that the persistent challenges of high business costs, limited access to finance, and crime and corruption, as reflected in the SMME Confidence Index, with concerns particularly in the construction sector, slow down businesses' ability to hire staff, expand, or access new markets.

Another key concern raised was the limited awareness and access to regional and global markets beyond South Africa’s borders, which restricts the growth potential of SMMEs and their capacity to create employment. It was noted that many chambers of commerce remain uninformed about the importance of market awareness as a strategic trade tool. This lack of awareness has contributed to the absence of standardisation within regional economic communities. Policymakers were therefore urged to prioritise efforts to promote intra-regional trade within the Southern African Development Community (SADC) and other broader continental trade formations.

3.2.4. Red Tape in emerging sectors such as Innovation, and accessing Funds

The discussions also reflected on the critical need for funding mechanisms tailored to the unique needs of SMMEs. Two key dimensions of best practices for mobilising funding were outlined, based on insights from a study on *Benchmarking Local and Global SMME Funding Models as Levers for Employment Generation*. These dimensions are:

- Firstly, how sectors and organisations can effectively gather and structure capital in a way that benefits SMMEs; and
- Secondly, how this capital can be deployed successfully and sustainably to enable SMMEs to grow and contribute meaningfully to job creation.

The study suggests that many of the financial challenges facing SMMEs could potentially be addressed through enhanced social cohesion, whereby stakeholders work collaboratively to build trust and shared responsibility in the funding ecosystem. This is especially the case for sectors typically considered high risk, such as primary agriculture, and non-traditional sectors like innovation and Technology, where shared capital between public, local, and international private investors can both increase the capital pool and de-risk investments to enable inclusive economic participation.

In addition, the discussions examined the limitations of three commonly used funding models: **commercial funders**, **philanthropic funders**, and **development finance institutions (DFIs)**.

- **Commercial funders** were described as risk-averse, often viewing SMMEs as high-risk borrowers, which negatively impacts their willingness to lend.
- The **philanthropic funding model** was seen as unsustainable in the long term, with limited capacity to fund large-scale infrastructure projects or provide consistent,

large-scale capital. While philanthropic funders do play a crucial role in addressing market failures, they seldom drive systemic and permanent change.

- **Development finance institutions**, though generally more efficient and effective in delivery, face challenges in mobilising capital. One such challenge is the lack of prioritisation by some governments in repaying loans, which undermines the credibility and sustainability of these institutions.

As a result, it was concluded that a best practice funding model for SMMEs should involve the creation of an innovative and well-structured capital base, developed in collaboration with credible and experienced partners who possess in-depth expertise in the SMME sector. Rather than relying on a single type of funder, the proposed approach advocates for integrating **commercial, philanthropic, and development finance actors** into a single, cohesive model.

This integrated model would help establish a robust capital base, which an appropriate delivery mechanism and a capable delivery partner responsible for the efficient and targeted deployment of capital to SMMEs must complement.

3.2.5. Contribution of State Capacity to Red Tape for SMMEs

While the state has made notable efforts to support SMMEs, discussions highlighted that it has also significantly contributed to an unfavourable business environment. This is primarily due to lengthy administrative processes, insufficient resources, a shortage of skilled personnel, low morale, and slow adoption, as well as restrictive legislative and regulatory frameworks. These factors have led to delays, increased compliance costs, heightened vulnerability to competition, and limited the capacity of SMMEs to innovate, especially in formal economies.

According to the Department of Small Business Development (DSBD), township-based small businesses are generally affected by the following challenges:

- Ineffective complaints and resolution systems, particularly regarding the process from complaint registration to final resolution

- Municipal building plan approval processes, as well as land development and zoning procedures that require multiple layers of approval, often constrained by inhibitive spatial and town planning frameworks, both pre- and post-1994;
- Lengthy and inefficient supply chain management processes, which ultimately affect the 30-day payment system as well as targeted procurement spend on SMMEs and Co-operatives – a process requiring contracting, verification of services provided, through to payment and closure;
- Municipal business registration, licenses and permits process requiring application through to approval thereof;
- Inadequate communication of relevant business information by municipalities to small businesses, especially regarding tender opportunities linked to the 30% procurement directive aimed at supporting SMMEs and co-operatives;
- Insufficient development and enforcement of municipal by-laws that are conducive to business growth and local economic development; and
- Poor management of informal trading shared infrastructure that promotes informal economic activity/dedicated trading zones for different categories/sectors of informal/crafts markets, and the hospitality industry.

The sentiment was that, while processes and regulations do exist, the absence of effective consequence management and accountability in their enforcement remains a major concern. Without improvements in implementation, the intended benefits will remain unrealised, further entrenching the challenges faced by SMMEs

3.3. Existing best practice solutions

3.3.1. International Labour Organisation

3.3.1.1. Lessons should be drawn from the ILO's 2016 Cost of Red Tape Study, which quantified the cost of red tape on local business owners, and the socio-economic and financial impact it has on municipal and the country's GDP. Research should be conducted to quantify the impacts of regulations across different sectors and regions, ensuring that policy interventions are data-driven and effectively targeted.

3.3.1.2. To improve regulatory processes, the study recommends that systems such as e-Filing must be both efficient and fully functional. In addition, targeted training programmes should be made available to SMMEs to improve their understanding of compliance requirements. Tax policies should be reviewed to reduce the burden on small enterprises, and the South African Revenue Service (SARS) should enhance communication efforts to ensure that compliance expectations are clearly conveyed.

3.3.1.3. Concerning labour regulations, the emphasis should be on promoting professionalism, ensuring fairness in the application of labour laws, enabling online registration processes, and streamlining appeal procedures to minimise delays and administrative burdens.

3.3.1.4. Ensure more transparency and fairness in government procurement, proposing electronic tender submissions to combat corruption, nepotism, and fraud.

3.3.2. Department of Water & Sanitation (DWS)

3.3.2.1. Lessons should be drawn from DWS's 90-day processing timeframe. This could assist with understanding how applications can be reviewed and finalised within a fixed period.

3.3.2.2. Lessons should also be drawn from the department's Electronic Water Use Licence Application and Authorisation System (e-WULAAS). This is a digital platform that streamlines the submission, tracking, and processing of applications, significantly improving efficiency and transparency.

3.3.3. Department of Trade, Industry and Competition's CIPC

3.3.3.1. Lessons should be drawn from the CIPC's electronic BizPortal, which is an online business registration platform that streamlines the setting up of new companies by enabling SMMEs to register, access tax and compliance services, and formalise their businesses in a simplified, digital process.

3.3.3.2. The system's integration with national banks for businesses to open a business bank account, other departments such as the Department of Employment and Labour for business owners to register for UIF and the Compensation Fund, and other compliance services such as tax registrations, is commendable.

3.3.3.3. The CIPC's communication efforts should be expanded and should include providing regulatory materials in multiple languages and accessible formats (such as Braille) to ensure broader reach and inclusivity.

3.3.4. Western Cape Government

3.3.4.1. Lessons should be drawn from the Western Cape Case Management Tool, which has facilitated the logging of more than 11,000 cases from business owners on various business cases.

3.3.4.2. This is a data-driven system designed to track and resolve business-related red tape challenges, making it a critical component of the broader ease of doing business strategy.

3.3.4.3. The tool operates under the Business Support Hotline Service, enabling businesses to log cases related to bureaucratic delays, regulatory inefficiencies, and administrative bottlenecks.

3.3.4.4. A key feature of the system is the Red Tape Costing Tool, an integrated Monitoring and Evaluation (M&E) mechanism that quantifies the cost savings resulting from improved regulatory processes. This feature is particularly valuable for assessing the economic impact of initiatives aimed at reducing red tape.

3.3.5. Department of Basic Education

3.3.5.1. Lessons should be drawn from the red tape reduction measures introduced by the Department of Basic Education (DBE) to simplify bureaucratic processes. These include:

3.3.5.1.1. A municipal toolkit, which guides streamlining approval processes at the local government level

3.3.5.1.2. The revision of norms and standards to align specific legislative provisions, thereby ensuring that regulatory requirements are more practical and efficient

3.3.5.1.3. The Bana Pele Mass Registration Drive, a fully digitised system designed to streamline the registration process for Early Childhood Development (ECD) services

4. NPC Recommendations

4.1. Red Tape Reduction and Ease of Doing Business legislation:

4.1.1. A Red Tape Reduction Act ought to be considered to provide a legally binding framework that holds public and private sector institutions accountable for actions that contribute to processes and obstacles that hinder SMMEs from operating optimally.

4.1.2. There is a need to set and integrate Red Tape Reduction targets in public official performance contracts, including administrative support officials at all levels of government.

4.2. Cost of red tape:

4.2.1. Commission a national study to assess the cost and impact of red tape for businesses across the country must be initiated, similar to that of the ILO's Cost of Red Tape study.

4.3. SMME overregulation:

4.3.1. Create a centralised business registration and sector licencing system that integrates national, provincial, and local licensing into a single platform, to be channelled through CIPC's Biz Portal online business registration system.

4.4. Tracking Red Tape Reduction:

4.4.1. Develop a Red Tape Reduction Tracker platform, which tracks and monitors government and private sector efforts towards reducing red tape.

4.5. Role of the private sector:

4.5.1. Create a permanent, "Joint Red Tape Reform Council" with government and business representatives, to identify, design, and pilot key regulatory reforms for SMMEs across priority sectors on an ongoing basis.

4.5.2. Allocate business process engineers to the "Joint Red Tape Reform Council", which will assist in applying efficient models, lean business processes from the private sector, in licence and administrative systems, that can alleviate backlogs, blockages, and ineffective processes.

4.5.3. Include Red Tape Reduction targets in the BBBEE scorecard, providing and removing points for late supplier payments.

4.6. State Capacity:

4.6.1. Capacitate the Presidency's Red Tape Reduction Unit with a permanent structure, a budget and decision-making powers.

4.6.2. Establish an Inter-ministerial Committee with Red Tape Champions to coordinate, oversee, and report on cross-departmental SMME red tape and regulatory reform efforts.