

NATIONAL PLANNING COMMISSION

POLICY BRIEF: SMME RED TAPE REDUCTION ADVISORY NOTE

6 June 2025

1. Introduction

- 1.1. The National Planning Commission (NPC), which oversees South Africa's long-term development strategy known as the National Development Plan (NDP), is tasked with guiding 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.
- 1.2. The NDP envisages a situation whereby small and expanding firms will become more prominent in the generation of 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.
- 1.3. This policy brief outlines the context and background of the NPC's work on red tape reduction. It also presents a summary of the key findings and recommendations contained in the advisory note to the Presidency and government, aimed at strengthening red tape reduction efforts to enable SMMEs to thrive, create jobs, and contribute meaningfully to inclusive and sustainable economic growth.

2. Background

- 2.1.** Since the adoption of the 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 It further highlights that red tape, driven by outdated policies, poor systems, and skills shortages, stifles both formal and informal businesses, particularly in township economies.
- 2.2.** 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.
- 2.3.** 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 implemented 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 regulatory frameworks and pilot programmes at the municipal level.
- 2.4.** 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.
- 2.5.** Despite these efforts, the impact of red tape reduction interventions 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 reflects continued challenges in creating a

business-friendly environment. Many of the interventions to date have offered isolated pockets of support to SMMEs, lacking a coordinated, systems-wide approach. Furthermore, 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.

- 2.6. 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 that focuses 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.
- 2.7. 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.
- 2.8. As an outcome of this engagement, the advisory note on red tape reduction was developed. The advisory summarises key findings and recommendations from the workshop and prior consultations.
- 2.9. The advisory was presented to and approved by the NPC plenary of 6 June 2025.

3. Findings

- 3.1. The NPC consulted extensively with government departments, academia, civil society and private institutions. The following findings were noted:
 - 3.1.1. While red tape is recognised as a barrier to business growth in various policy instruments, there is no binding national legislation mandating red tape reduction across government.
 - 3.1.2. SMMEs face overlapping and often conflicting regulatory requirements at national, provincial, municipal, and industry levels. This complexity makes compliance costly and time-consuming, hindering business entry and growth.

- 3.1.3. There is no coordinated national system to track progress on red tape reduction. Current efforts are siloed, with limited impact measurement, inconsistent reporting, and an absence of real-time, accessible data for decision-making.
- 3.1.4. Despite some progress, digital systems across government remain fragmented, and manual processes are still widely used. Even where online platforms exist, inefficiencies persist due to poor integration, lack of automation, and back-end bottlenecks.
- 3.1.5. The private sector's role in supporting red tape reduction remains unclear. There is limited coordination between the public and private sectors on SMME policy reform, and few platforms exist to hold the private sector accountable for reducing administrative burdens in their own systems.
- 3.1.6. Red tape significantly undermines the potential of SMMEs to contribute to job creation. High compliance costs, corruption, limited market access, and policy uncertainty negatively impact business survival and expansion.
- 3.1.7. Access to finance remains a key constraint. Traditional funding models, such as commercial, philanthropic, and development finance, each face limitations in supporting SMMEs at scale. A blended, outcomes-based funding model with strong delivery mechanisms is needed.
- 3.1.8. Inefficient administrative processes, inadequate resources, poor coordination, and weak consequence management at local and provincial levels contribute to a difficult operating environment for SMMEs. Delays in licensing, procurement, infrastructure maintenance, and regulatory approvals further compound these challenges.

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. A national study to assess the cost and impact of red tape on businesses across the country must be commissioned, similar to that of the ILO's Cost of Red Tape study.

4.3. *SMME overregulation:*

- 4.3.1. A centralised business registration and sector licencing system that integrates national, provincial, and local licencing into a single platform should be created. This can be channelled through CIPC's Biz Portal online business registration system.

4.4. *Tracking Red Tape Reduction:*

- 4.4.1. Track and monitor government and private sector efforts to reduce red tape by developing a red tape reduction tracker platform.

4.5. *Role of the private sector:*

- 4.5.1. Create a permanent, joint red tape reform council comprising 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 this council to assist with applying efficient models and lean business processes from the private sector to licensing and administrative systems, so that it alleviates backlogs, blockages, and ineffective processes.
- 4.5.3. Include red tape reduction targets in the BBBEE scorecard by 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.