WORLD BANK GROUP

SUBNATIONAL DOING BUSINESS

Doing Business in South Africa 2018

Doing Business in South Africa 2018 is the second subnational Doing Business study analyzing business regulations affecting small and medium-sized domestic firms in South Africa. By highlighting good practices found within the country and benchmarking locations with others across the globe, this study aims to inspire better regulatory practices to improve the experiences of small busienss and encourage entrepreneurship.

DOING BUSINESS IN SOUTH AFRICA 2018

Doing Business in South Africa 2018 tracks the progress the nine urban areas have made across 4 regulatory areas—dealing with construction permits, getting electricity, registering property and enforcing contracts—in reforming their business environment since the 2015 study. In so doing, it incorporates methodological enhancements designed to measure the quality of regulation. The study also applies the revised trading across borders methodology to the four maritime ports. The results will support all levels of government in their initiatives to reform and improve the ease of doing business across South Africa.

The study was requested by the National Treasury of South Africa, as part of the Cities Support Programme, and funded by the Swiss State Secretariat for Economic Affairs SECO. It is implemented as part of the World Bank's Urban Technical Assistance Program and in collaboration with the Cities Support Programme, the Department of Trade and Industry and the South African Cities Network.

The 13 locations measured include: 9 urban areas (Buffalo City, Cape Town, Ekurhuleni, eThekwini, Johannesburg, Mangaung, Msunduzi, Nelson Mandela Bay and Tshwane) and 4 maritime ports (Cape Town, Durban, Ngqura and Port Elizabeth).

MAIN FINDINGS

Business regulations and their implementation vary across the locations, and no location does equally well across all areas measured. For example, six locations (Cape Town, eThekwini, Johannesburg, Mangaung, Msunduzi and Tshwane) make the top third of the ranking in two areas measured, yet they are also in the bottom third on at least one indicator. Uneven performance across indicators points to opportunities for peer learning. However, some top performers do stand out. Cape Town leads on two indicators—dealing with construction permits and getting electricity—and Mangaung on the other two, registering property and enforcing contracts.

Every location has something to share with its peers, and good practices can be found even in lower-performing locations. For example, Tshwane brings up the rear on construction permitting. However, obtaining a construction approval there is less expensive than in Cape Town. Similarly, Buffalo City is in the middle of the ranking on getting electricity, yet it is the fastest place to obtain a connection. This means that top performers also have room to improve and learn.

Against a global backdrop, South African locations' performance is widely dispersed in each area measured. This is especially true for the two areas where municipalities have the most authority-dealing with construction permits and getting electricity. With some South African locations performing on par with OECD high-income economies and others lagging among the bottom 20% globally, there is a need to share and replicate local good practices.

Compared globally, South African locations' performance on the quality indices lags on most indicators. South Africa's average performance lags behind that of the BRIC economies (Brazil, the Russian Federation, India and China) and OECD high-income economies for all the quality indices, save for dealing with construction permits. Because regulatory quality depends greatly on national instruments (e.g. the building code) and actors, the central government can play a key role in improving local business conditions.

Regulatory processes are fast across three indicators, and the main challenges are in streamlining processes and reducing costs. More specifically, the South African average either outperforms or performs close to the average for OECD high-income economies on the time it takes to obtain construction approvals, transfer property and enforce contracts.

Across the four ports assessed, maritime trade remains cumbersome and there is a need to further streamline processes. The time and cost to comply with border requirements to export is high compared globally. Moreover, the benchmarked South African ports are slower on average than other economies exporting the same type of product.

Over the last three years, five locations—Cape Town, eThekwini, Johannesburg, Mangaung and Nelson Mandela Bay— **each introduced one reform.** Reforms focused on two areas—with four locations introducing reforms in getting electricity and Mangaung improving in registering property. The pace of reforms is undoubtedly slow, but the improvements recorded are noteworthy for their impact.

Although some locations have advanced toward best practices, there is still significant room for improvement across the country. Overall, while locations should continue streamlining regulatory processes, they must also start improving the quality of regulation. Moreover, advancement hinges on national and local policy makers' ability to address some cross-cutting issues first.

Good practices can be found in South Africa and the potential for improvement through the emulation of good practices is striking. Yet, as locations continue to engage in peer learning and take on new regulatory reform, projects that address certain issues across indicators—such as internal coordination within the municipalities, collaboration among levels of government and proper resource allocation and reform implementation—will improve the prospect that reforms will bear fruit.

ABOUT SUBNATIONAL DOING BUSINESS

Subnational *Doing Business* studies go beyond the largest business city to examine conditions across a number of locations in a single economy or region. They capture local differences in business regulations or in the implementation of national laws. Projects are undertaken at the request of governments, who are involved in the selection of locations and regulatory areas to be benchmarked, as well as the frequency of benchmarking. The benchmarking aims to promote competition and motivate regulatory reforms in order to improve the business environment and to achieve convergence among locations towards the best regulatory practices measured. Since 2005, subnational *Doing Business* has benchmarked 510 locations in 75 economies, including studies in Kenya and Nigeria. Subnational *Doing Business* reports are available at www.doingbusiness.org/subnational.

PUBLIC POLICY TOOLS WITH IMPACT

Subnational *Doing Business* reports are public policy tools that guide policymakers throughout the regulatory reform cycle:

Diagnostic tools: create baseline and allow international and domestic benchmarking.

Reform instruments: uncover bottlenecks and identify local good practices, promote peer-to-peer learning and are strong drivers for reforms.

Monitoring & evaluation tools: measure progress over time and create incentives to maintain the reform effort even when governments change.

FULL REPORT AND DATA AVAILABLE AT:

www.doingbusiness.org/southafrica

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