

Conducive business environment – SA within the BRICS

The World Bank publishes Doing Business Report on an annual basis, since 2004. This report profiles some of the steps that businesses are required to comply with in order to operate a business entity in the country¹ under surveillance. Data are gathered through interviews with businesses operating in the economies being surveyed, thereby capturing the experience from the user's side.

Doing Business measures and tracks changes in the regulations that apply to domestic companies in eleven (11) areas in a company's life cycle. (i) starting a business, (ii) dealing with construction permits, (iii) getting electricity, (iv) registering property, (v) getting credit, (vi) protecting investors, (vii) paying taxes, (viii) trading across borders, (ix) enforcing contracts, and (x) resolving insolvency. (xi) Doing Business also documents regulations on employing workers².

Interesting to note is that economies that rank highest on the ease of doing business are not those where there are no regulations, but those where governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector. The Report states that DB is about SMART business regulations: Streamlined, Meaningful, Adaptable, Relevant and Transparent.

The latest DB Report (2013) ranks South Africa 39, out of 185 countries surveyed. South Africa was the second easiest African country to do business in, after Mauritius twenty (20) places ahead. The country was notably the most business-friendly member of the BRICS group of countries (China - 91, Russia - 112; Brazil - 130, and India - 132).

Table 1 below presents the BRICS' countries rankings and scores

¹ The World Banks also measures the ease of doing business in sub-national regions.

² This field was not assessed in the current Doing Business

A shining star!!

South Africa was, for the second time, ranked the leading country in the world in which credit can be accessed easily (another ranking by the World Economic Forum's Global Competitiveness Ranking adds an indicator on the soundness of commercial banks, in which South Africa also ranks highest). It was ranked 10th in protecting investors, and 32nd in making it easy for businesses to pay taxes. While there is an outcry of lengthy environmental impact assessment procedures, it turns out South Africa is not the only one faced with this challenge; the country is ranked 39 in this regard, while it's BRICS counterparts rank between 131 and 182. Having said that, there is still room for improvement; proactive, integrated planning is crucial in this regard.

Moving forward

- In his 2013/14 Budget Speech, the Minister for Finance Mr Pravin Gordhan announced implementation of simplified tax requirements for small businesses (March–February); this should improve South Africa's rank in 2014
- The South African Revenue Services (SARS) also implemented a customs modernisation system at the seaport borders, thus increasing efficiency by reducing the number of documents required for importing and exporting, and drastically reducing the number of days required to comply with international trade processes. The only setback on the 'trading across borders' indicator was an 8.1% in the cost of handling an import container and a 5.8% increase in export container handling costs. Nonetheless, the Transnet National Ports Authority (TNPA) has also announced a 43.2% reduction in cargo dues for an export container, and a 14.3% reduction in container full import cargo dues in 2013/14 (April–March).

Table 1: Ranking on the ease of doing business in the BRICS countries, 2013

Indicator	Country				
	Brazil	Russia	India	China	SA
Ease of doing business (rank)	130	112	132	91	39
Starting a business (rank)	121	101	173	151	53
Procedures (number)	13	8	12	13	5
Time (days)	119	18	27	33	19
Cost (% of income per capita)	4.8	2.0	49.8	2.1	0.3
Minimum capital (% of income per capita)	0.0	1.4	140.1	85.7	0.0
Dealing with construction permits (rank)	131	178	182	181	39
Procedures (number)	17	42	34	28	13
Time (days)	469	344	196	270	127
Cost (% of income per capita)	36.0	129.2	1,528.0	375.3	33.4
Getting electricity (rank)	60	184	105	114	150
Procedures (number)	6	10	7	5	5
Time (days)	57	281	67	145	226
Cost (% of income per capita)	116.7	1,573.7	247.3	547.0	1,505.8
Registering property (rank)	109	46	94	44	79
Procedures (number)	14	5	5	4	6
Time (days)	34	44	44	29	23
Cost (% of property value)	2.6	0.2	7.3	3.6	5.9
Getting credit (rank)	104	104	23	70	1
Strength of legal rights index (0-10)	3	3	8	6	10
Depth of credit information index (0-6)	5	5	5	4	6
Public registry coverage (% of adults)	46.8	0.0	0.0	27.7	0.0
Private bureau coverage (% of adults)	62.2	45.4	14.9	0.0	54.0
Protecting investors (rank)	82	117	49	100	10
Extent of disclosure index (0-10)	6	6	7	10	8
Extent of director liability index (0-10)	7	2	4	1	8
Ease of shareholder suits index (0-10)	3	6	7	4	8
Strength of investor protection index (0-10)	5.3	4.7	6.0	5.0	8.0
Paying taxes (rank)	156	64	152	122	32
Payments (number per year)	9	7	33	7	9
Time (hours per year)	2,600	177	243	338	200
Total tax rate (% of profit)	69.3	54.1	61.8	67.3	33.3
Trading across borders (rank)	123	162	127	68	115
Documents to export (number)	7	8	9	8	6
Time to export (days)	13	21	16	21	16
Cost to export (US\$ per container)	2,215	2,820	1,120	580	1,620
Documents to import (number)	8	11	11	5	7
Time to import (days)	17	36	20	24	23
Cost to import (US\$ per container)	2,275	2,920	1,200	615	1,940
Enforcing contracts (rank)	116	11	184	19	82
Procedures (number)	44	36	46	37	29
Time (days)	731	270	1,420	406	600
Cost (% of claim)	16.5	13.4	39.6	11.1	33.2
Resolving insolvency (rank)	143	53	116	82	84
Time (years)	4.0	2.0	4.3	1.7	2.0
Cost (% of estate)	12	9	9	22	18
Recovery rate (cents on the dollar)	15.9	43.4	26.0	35.7	35.4

Source: World Bank (2013) Doing Business: Smarter regulations for small and medium-size enterprises

Does it matter?

According to the World Bank, economies in which it is easier to do business have seen increases in the value of foreign direct investment (FDI) flows. It is important for South Africa to embrace significant inroads made in simplifying the processes involved in doing business and improve the investment climate. When processes and procedures tend not to justify the time and costs involved, private business will simply be crowded out, increasing the informal business activities, thereby short-changing the fiscal and

jeopardising future investments and welfare. According to the Doing Business Report, "Research shows that exporters in developing countries gain more from a 10% drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets".

That said, it is noteworthy that South Africa has improved its business environment noticeably in recent years. For example, the country was ranked 26th in terms of getting

credit only five (5) years ago, and second in 2011, after the introduction of the Consumer

Credit Act which increased transparency in lending and borrowing.

In partnership with TIKZN

Trade and Investment KwaZulu-Natal (TIKZN) is the first South African provincial investment promotion agency (IPA) to establish a Policy Advocacy role, which seeks to work with all relevant stakeholders to improve the level of transparency in the processes required, identify redundant or overlapping processes and work on streamlining those, for improved compliance and execution.