Enabling Environment for Sustainable Enterprises in South Africa
The enabling environment for sustainable enterprises in South Africa

Enterprises Department
Foreword

In line with its mandate to contribute to the development of a conducive environment for enterprises in South Africa, Business Unity South Africa (BUSA) has called upon the ILO to assist the organisation to assess the current business environment in the country and to identify areas for improvement. The information gathered through the assessment enables ILO constituents to identify priorities for the promotion of sustainable enterprises and the transition to formality. For BUSA, the analysis of the enabling environment provides entry points for the development of policy positions and structured and evidence-based advocacy efforts.

The assessment was conducted in close collaboration with Government and Organised Labour, and in line with the ILO methodology on the Enabling Environment for Sustainable Enterprises (EESE). This methodology assesses the business environment in terms of the economic, social, political and environmental aspects of doing business. The EESE methodology was developed in response to the June 2007 International Labour Conference (ILC), which discussed the promotion of sustainable enterprises and which called for the strengthening of the institutions and governance systems which nurture enterprises. The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified 17 pillars for an environment conducive to the promotion of sustainable enterprises, which form the basis of the EESE methodology.

The government of South Africa acknowledges the significant contribution of SMEs to employment and to GDP. However the sector is also hampered by high levels of informality and confronted with various challenges. To address the issue of informality, the government has launched a National Informal Business Upliftment Strategy (NIBUS). This initiative aims to apply a nationally coordinated approach to support the informal business sector, as a way to graduate many informal businesses into the mainstream of South Africa’s formal economy. The transition to formality has been prioritized by the tripartite partners, which reflects the importance of this issue in South Africa. The adoption of Recommendation 204 concerning the Transition from the Informal to the Formal Economy during the June 2015 ILC further underlines its relevance. As requested by BUSA, the transition to formality has been included in the EESE assessment South Africa is the first country where this has been done.

This report provides an overview of the research findings of the EESE assessment. It identifies the relative strengths and weaknesses of the enabling environment for sustainable enterprises, employment and the transition to formality in the country. The purpose of the assessment is to stimulate debate and to provide an evidence base for policy reforms, leading to an environment that is more conducive to the promotion of sustainable enterprises and that facilitates the transition to formality in South Africa. A complementary action plan based on the findings of this report will ensure the implementation of specific measures geared towards policy advocacy and reform. The report reflects information gathered through a review of secondary data and through a national opinion or perceptions survey that was tailored to the South African context. The survey which comprised a total 640 in-depth interviews including 430 interviews with SME business owners operating in three sectors (manufacturing, business services and tourism), 110 informal business owners and 100 employees (formal and informal) in the metropolitan areas of Johannesburg, Cape Town and Durban.

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This report has been written by the Small Business Project (SBP), which is a development and research organisation based in South Africa, and which conducted the EESE assessment.

The views expressed in the report are the sole responsibility of the authors and do not represent those of the ILO or the social partners in South Africa. Similarly, any errors or omissions are the sole responsibility of the authors.

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Executive summary

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. Conclusions from the conference, reached by tripartite consensus, recognise that the principal source of economic growth and employment creation stems from enterprises – from micro, through to small, medium and large sized companies.

Recognising that each country is different, the ILC discussion identified 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report is based on an assessment of these conditions. It analyses how South Africa performs with respect to each pillar, with the aim of assessing relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in the country. The report follows a standardised methodology developed by the ILO for the assessment of the Enabling Environment for Sustainable Enterprises (EESE) and is based on secondary data, a literature review, and results of a perception survey of owners of small and medium sized enterprises (SME) focusing on the 17 pillars. South Africa’s EESE report differs to some degree from other countries where it has been implemented by including a specific focus on informal business owners and employees (informal and formal) to support transitions to formality. The report is also complemented with quantitative data gathered from SME business owners participating in a longitudinal panel survey, the SME Growth Index, which was launched in South Africa in 2011. For the purposes of this report, both the EESE and the SME Growth Index surveys were conducted simultaneously between August and September, 2015.

Many of the EESE country assessments review a country’s standing in accordance to its regional neighbours, South Africa however is classified as a middle-income country; it is a member of the BRIC nations and it represents the second largest economy on the African continent. Thus to benchmark South Africa against its regional neighbours would provide an erroneous assessment. Brazil, Malaysia and Turkey were selected instead as peer countries for a comparative review based on their placements in the World Economic Forum’s Global Competitiveness Report, which classifies these countries in the transitioning phase to innovative driven economies and South Africa as an efficiency driven economy.

To enhance the readability of this report, summaries have been included at the beginning of each chapter with a graphical representation of the most relevant indicators for the respective chapter, comparing South Africa to the three selected countries (Brazil, Malaysia and Turkey) for comparative review and summarizing the main chapter findings.

Economic elements

Global economic events, together with domestic policy uncertainties, have led to low levels of economic growth in South Africa since the global financial crises. Projections of GDP growth of less than 2% are expected in 2015/16. Unemployment poses a significant challenge for South Africa, currently 25.5% (34.4% on the expanded definition) and youth unemployment at 62% of the youth labour force according to the expanded definition that includes discouraged young people no longer seeking employment. High wage demands by the public sector unions pose a fiscal risk, despite measures to consolidate the budget and reduce the growth of expenditure to a real rate of 1.3% by introducing measures to freeze government personnel expenditure. South Africa has a poor savings rate, currently 15.4% of GDP and the percentage of household debt to household income is approximately 80%. The overall weakness in South Africa’s industrial output reflects a wide range of factors including problems with low productivity, frequent labour market disruptions and infrastructure bottlenecks, especially the supply of electricity. FDI flows into the country have seen a decline, dropping by 31.2% in 2014. Investor confidence has declined in the face of proposed changes to legislation impacting on the investment climate, and government’s cancelling of a number
of bilateral investment treaties. The surprising dismissals and appointments of three separate finance ministers in less than a week in December 2015 further deepened investor concerns, rating agency downgrades and currency market fluctuations, which have since stabilised to some degree on the reappointment of the former Finance Minister.

While South Africa has earned esteem for its macroeconomic stability over the years, the country is currently facing economic uncertainty. Stagnant economic growth (downgraded in early 2016 by the World Bank to 0.8%), rising unemployment and inequalities will continue to put pressure on the government’s tight fiscal monetary policies. Possible downward adjustments in the country’s investment ratings, together with increased capital rebalancing globally may serve to raise South Africa’s economic vulnerabilities to global shocks. The effects of lower growth rates and depressed tax revenues could further weaken South Africa’s economic outlook. Since its transition to democracy in 1994, South Africa has pursued a number of macroeconomic policies to redress the numerous socio-economic challenges inherited from the country’s apartheid past. These include the Reconstruction Development Plan (RDP), the Growth Employment and Redistribution plan (GEAR), the Accelerated and Shared Growth Initiative (ASGISA) and the New Growth Path (NGP), all of which have fallen short in meeting their economic growth targets. In 2013, the government adopted the National Development Plan (NDP) as South Africa’s long term socio-economic development blueprint, which proposes to accelerate economic progress and a more inclusive society. The NDP’s vision is to grow the country’s GDP by 5.4% per annum and reduce inequalities.

South Africa is a rule of law country; its constitution ensures that the rule of law is upheld and it scores well on the Rule of Law index. The increasing level of crime however remains a deep concern for the country; the EEESE survey findings show a considerable lack of trust in the capacity of the police to deal with South Africa’s crime burden and the costs associated with it, especially amongst small businesses that are particularly hard hit by violent armed robberies and cable theft, which interrupts productivity.

Efforts to reform the ICT sector have been undermined by lack of policy implementation with a result that South Africa has an uncompetitive ICT market structure. The government has however launched a strategic integrated project to expand access to communication technology especially in under-served areas. The government has committed increasing amounts of money to be spent on physical infrastructure, but no structural changes are being implemented to diversify the supply of electricity, transport and telecommunications in the future.

South Africa’s ranking on the World Bank’s Ease of Doing Business has seen a decline over the past few years. The country dropped four spots on the 2016 Ease of Doing Business, currently 73rd (down from 69 in the previous year). Despite government’s stated intentions to address compliance costs and ease administrative inefficiencies, the regulatory burden impacting on business, especially small businesses continues to rise. Both the EEESE and SME Growth Index survey findings show that administrative red tape can cost up to 8% of turnover for smaller firms with the EEESE survey highlighting that the quantity of procedures firms have to comply with is the highest barrier to formalising businesses in South Africa.

Social elements

Unemployment, poverty and inequality remain structurally intertwined and the critical challenges of inclusive growth define the country’s agenda. South Africa’s social wage system comprising a mix of grants and free basic services amounts to over 3% of GDP, well over the global norm of 1% to 2%. The country’s social grant system has had a considerable positive impact on poverty alleviation; almost a third of the population (over 16 million) benefits from social grants and this number is expected to escalate to over 17 million by 2017/8. Concern regarding the sustainability of maintaining the social safety net is increasing, particularly given the current budgetary pressures
on a constrained fiscal envelope. Employment creation is a critical challenge for the country. Facilitating the transition of informal to formal businesses needs to be seen as a priority to expand the tax net and extend social protection and rights to people employed in the informal economy.

South Africa’s education system is unable to deliver education that meets the country’s needs. Whereas there are excellent educational institutions in South Africa the opposite is equally true and the majority of the population make the transition from education to the world of work with poor knowledge and life skills. An overwhelming majority of the survey respondents, 69% stated that a better education is the route to a more prosperous and equal society. South Africa spends almost 20% of government expenditure on education and training, equivalent to 6.5% of GDP. While access to education has increased over the years, the quality of it remains a concern. South Africa’s ranking in the quality of maths and science was recorded in last position, 144 out of 144 countries in the Global Competitiveness Index, 2016. Literacy rates at 18% for adults over 15 years of age suggest the need for better teacher training and the introduction of more effective lifelong learning programmes.

South Africa’s National Development Plan envisages a significant role for the SME sector in terms of employment generation and productivity output. Despite their importance, small businesses are declining in terms of employment share, profitability and in number and many are struggling to survive in a tough economic climate. Government programmes to provide support to small businesses and start-ups are seen to be very inadequate and a significant number of the survey respondents stated that they were non-existent, suggesting poor outreach and limited awareness of the services that are available.

The Global Entrepreneurship Monitor (GEM) reports show that while South Africa has a high value of positive perceptions towards entrepreneurship, only 10% of South Africans intend to start a business and just 2.7% convert their ideas to established businesses. South Africa has one of the highest business start-up failure rates in the world; according to the Minister of Trade and Industry, over 70% new businesses fail in less than two years. Survey respondents unanimously agree that the education system does not teach young people to be entrepreneurs. Despite the country’s robust formal financial sector, small and informal businesses struggle to access finance and when they do, they appear to either access savings or borrow mostly from friends and family as the EESE survey findings show. For the informal economy, the underdeveloped micro finance sector is particularly a concern, suggesting a need for greater financial inclusion strategies and measures. The lack of access to finance may also be in part attributed to South Africa’s high levels of indebtedness. According to the World Bank’s 2015 Global Findex report, South Africans had more debt than any other nation with 86% of South Africans having borrowed money between 2013 and 2014.

On average, individual incomes of informal workers are very low, implying that this work should not be seen as an alternative to formal employment. The informal economy is playing an increasingly larger role in employment generation. The top barrier to formalising a business reported by the survey respondents is that there are too many procedures to register a business. According to the World Bank’s Ease of Doing Business 2016 report, it takes 46 days to register a business in South Africa compared to 7.5 days in Turkey and 4 days in Malaysia. These findings are illuminating, especially for facilitating transitions to formality and provide evidence to the effect that reforming the amount of regulatory procedures and administrative bottlenecks is a priority for government. Key to getting SME development and transitions to formality on track is reforming South Africa’s business environment.

**Political elements**

Despite South Africa having dedicated institutions and legislation designed specifically to support anti-corruption; corruption, bribery and government maladministration is seen to be on the
rise in South Africa. Transparency International’s latest Global Corruption Index reports that four out of every five South Africans believe that the levels of corruption are increasing; the highest in all countries surveyed, and that government is doing little to combat it. This discontent is echoed in the survey findings with 72% of panellists strongly agreeing that bribery and corruption is negatively affecting the economy and society in South Africa. If South Africa is to improve its investment climate, government needs to double its efforts to fight corruption, and demonstrate the political will to combating it.

A well-ordered and productive economy needs sound and stable regulation and for sustainable enterprises to flourish and grow, the quality and certainty of regulation is an important element of governance. South Africa’s regulatory landscape is often seen as hostile to sustainable enterprises, and policy uncertainty coupled with poor policy formulation creates instability and uncertainty. Only 2% of the survey respondents stated that the laws and regulations affecting business were stable and predictable. A recurrent theme in critiquing South African legislation since the transition to democracy has been the government’s need to forge ahead irrespective of evidence and warnings about the consequences as noted in the Report of the Independent Panel Assessment of Parliament. Regulatory best practice is a fundamental element of good governance and an effective regulatory environment is possible only when laws and regulations are carefully considered and their probable impacts rationally debated. For South Africa, the quality of regulatory governance is a concern.

South Africa has a sophisticated machinery to support social dialogue including the establishment of the National Economic and Labour Council (Nedlac), a representative and consensus-seeking body that acts to reach agreement on social and economic policies through negotiation and discussion involving organised labour, government, organised business and civil society representatives. Yet of the 144 countries assessed for cooperation in labour-employer relations, it was recently ranked in last place. The low ranking is symptomatic of the extreme and confrontational relationship of industrial relations in the country. Relationships between labour and employers, and the sustainability of effective social dialogue, are of deep concern for the retention of businesses in the country and the potential impact on job losses. Small firms constitute the largest private employers in the country in terms of their number but are marginalised in terms of the national policy debates on substantive issues such as wage agreements and the extension of collective bargaining agreements. Likewise, the voice of the informal economy is excluded in national policy debates. Organised business needs to find ways to incorporate their voices and ensure their interests are taken into account in debating national policies, and many commentators have publicly called for the need of a new social pact for the country.

Gender equality and women’s rights are enshrined in the constitution. South Africa constitutes one of the top performers on the continent in terms of gender representation, especially in political leadership. However, domestic violence is on the increase and South Africa has one of the highest rates of domestic violence in the world. The discernible shift by government toward support for the traditions of patriarchy is an increasing concern for women rights organisations.

**Environmental elements**

South Africa is well endowed with natural resources; the forests, fisheries and agriculture sectors are well established and governed by adequate legislation. Government intends to institute further measures on conservation and rehabilitation of the environment in line with the National Development Plan’s targets. Electricity supply is predominately fossil fuel based on the country’s rich coal reserves. With a high potential towards renewable energy, government has introduced a number of renewal energy programmes. A carbon tax is expected to be promulgated in 2016.
With the need to reduce fossil fuel dependency and diversify the energy mix to reduce South Africa’s carbon footprint, the government has implemented a supportive policy and legislative framework to attract investment in local renewable energy resources, especially wind and solar. As a result, the country’s renewable energy sector has experienced considerable growth. The OECD’s Environmental Performance Review (2013) placed South Africa as the ninth-leading destination for clean energy investments among the Group of 20 (G-20) of the world’s developed and emerging economies.

The South African government views a green economy as a sustainable development path that is based on addressing the inter-dependence between economic growth, social protection and natural ecosystems and has a number of substantive initiatives underway that support the Sustainable Development Goals (SDGs) in regard to the responsible stewardship of the environment. South Africa played a leading role at the COP21 in Paris in December 2015 and is a signatory to the Partnership for Action on Green Economy (PAGE) which aims to support 30 countries in inclusive green economy transitions to support new jobs and skills, promote clean technologies and reduce environmental risks and poverty.

The country is currently experiencing a prevailing drought, which has induced one of the worst natural disasters in twenty years. Better water management policies are critical to minimise the effects of climate change but will require a coordinated and integrated approach across all spheres of government, in consultation with the private sector.

South Africa has a high potential for green job growth but the skills gap and development required to preparing a green-collar workforce ready to take up the demands of a green economy remain a challenge. Training initiatives have been introduced to meet some of these demands but further integration of efforts nationally and regionally needs to be prioritised.

Assessment results and ways forward

Based on primary and secondary data and a thorough literature review the results of the overall assessment on an enabling environment for sustainable enterprises, with a particular focus on facilitating the transitions of informal businesses to formal ones as well as boosting the development of SMEs in South Africa, indicate the following as the key priority areas for policy attention:

- Improve Easy Access to Information for business start-up and business support services
- Reduce and simplify burdensome regulations
- Find ways to Strengthen the voice of Small Business in Policy and Social Dialogue
- Simplify Hiring and Employment Practices
- Develop new ways to increase access to finance and market opportunities
- Mainstream enterprise/entrepreneurial training and skills development
- Advocating for a better environment to support sustainable SME development and transitions to formality.

The findings of the EESE report were disseminated to representatives across government, business, labour and civil society for comment and then finalised at a workshop convened by Business Unity South Africa (BUSA) on 23 February 2016. At this workshop, tripartite participants including representatives from South Africa’s Department for Small Business Development, the Department of Labour and Cooperative Governance and Traditional Affairs, validated the outcomes of the EESE report and agreed the priority areas for action.
1. **Introduction**

The International Labour Conference (ILC) 2007 Conclusions on Sustainable Enterprises provides an integrated approach to creating an environment that is conducive to sustainable enterprises. The conclusions recognize that the principal source of economic growth and employment creation stems from enterprises – from micro through to small, medium and large companies. In most countries, enterprises are at the heart of economic activity and development. They are a major, often the main, source of tax revenues. Sustainable enterprises provide the basis for social inclusion, poverty alleviation and equitable access to opportunities in society. Seventeen (17) conditions comprising economic, social, political, and environmental dimensions are identified to provide a framework for sustainable enterprise development and ensure that human, financial and natural resources are combined equitably.

The conclusions recognize that an environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work. This has relevance to all types of enterprises but is particularly important in relation to the sustainability of small and medium sized enterprises (SMEs), and in facilitating the transition of informal firms to formality.

Ample evidence suggests that SMEs are the most significant source of new, formal employment. Globally, over 95% of enterprises are classified as SMEs and account for 60-70% of the working population. In Europe, 91% of enterprises are classified as micro businesses, employing between one and nine people and only 1% are large enterprises with more than 250 employees. It is perhaps with SMEs that the “spirit of enterprise” is most readily associated. These smaller businesses are more likely to have greater capacity to innovate and to derive economic benefits from the specialization of production processes. Their small scale, combined with close owner-management organizational structures, allow SMEs to respond more quickly to external changes than larger firms. SMEs are also likely to play a vital intermediary role between micro and large enterprises, constituting a strategic bridge toward improving the competitiveness of the broader private sector. In the global environment, this is especially important given global and national value chains. Better linkages between the formal economy and the informal economy could potentially generate new economic opportunities.

South Africa’s 2013 social and economic blueprint, the National Development Plan (NDP) targets for job creation in the SME sector depend on the creation of a business environment that enables the growth and sustainability of existing small businesses, and the formation and formalization of new, sustainable enterprises to prosper. The NDP sets out several ambitious goals for SMEs, including a target for 90% of new employment opportunities to be created by SMEs by 2030.

While often characterized by high levels of poverty, social exclusion and exploitation, the informal economy can be a source of innovation and economic growth. To facilitate the transition of informal enterprises to formalise, policy measures should be focused on those that increase the rate of graduation into the formal economy, including policy frameworks that address the legislative and regulatory barriers to formalisation. Recognizing that the informal economy can act as a major disincentive for inclusive growth in developing economies, the ILO recently adopted

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3 Ibid.
5 Ibid.
Recommendation 204 (R204) at its one hundred and fourth session held in Geneva in June 2015. Recommendation 204 advises governments, employer and worker representatives on the guiding principles to support a legal and policy framework to promote transitions to the formal economy, and employment policies that promote the rights of all workers both in the informal and formal economy. To ensure a common approach and an integrated strategy to tackling the issues of informality (either by choice or circumstance) R204 proposes that coherence and coordination among policy makers and implementing agents (government, business and labour) needs to be addressed. The recommendations contained in R204 include social protection guidelines that take into account the developmental needs of informal economy actors, as well as incentive and enforcement options to entice formalization. The ILO intends to align R204 with the Sustainable Development Goals (SDGs) on the monitoring and impact measurements in supporting transitions to formality. Ten countries have been identified to champion the principles outlined in R204, one of which is South Africa.

In South Africa, growth orientated small businesses have the potential to be the key drivers of employment and as such have a major role in addressing poverty, inequality and inclusive growth yet the country’s SMEs in particular are facing tough economic conditions impacting on their ability to survive and grow. South Africa is battling two systemic problems; low national growth rates (less than 2%) coupled with rising, high unemployment. More than one third of South Africans are unemployed or not seeking employment. With an unemployment rate of 34.4% (expanded definition) of which 62% are young adults the country is experiencing high levels of civil unrest not seen in recent years. There is need for a quantum shift in policy decisions to change the scale and rate of job creation in the country.

Given the importance placed on the role of SMEs in the NDP, and the need for a conducive and enabling environment that supports their growth as drivers of employment and poverty reduction, the South African social partners (government, business and labour) need to equip themselves to engage knowledgeably and constructively in the national policy debates on the issue of small business development and transitions to formality. According to Statistics South Africa, over 55% of the working population in South Africa is either unemployed or not economically active. Taking into account employment offered in the informal economy, over 63% of South Africa’s working population have restricted opportunities and access to decent work. Boosting SME development and facilitating transitions to formality is thus an important challenge for South Africa’s social partners and underscores the urgency to implement an integrated policy and strategy to tackle the problem of unemployment to support inclusive growth.

The ILO has developed a methodology to assess the degree to which the 17 conditions for an enabling environment for sustainable enterprises are met in different countries. This report describes the implementation of such an assessment for South Africa and is part of a series of country reports on the same topic. Given the importance of the SME community’s role in attaining the NDP job creation targets as well as the ILO’s focus on facilitating the transition of informal businesses to formal ones, this report emphasises findings in relation to the development of the SME sector and facilitating transitions of informal businesses to formality.

The enabling environment for sustainable enterprises in South Africa was assessed through a careful review of secondary data findings and findings from the ILO’s standardised EESE perception survey that was tailored to the South African context, which comprised a total 640 in-depth interviews including 430 interviews with SME business owners operating in three sectors (manufacturing, business services and tourism), 110 informal business owners and 100 employees (formal and informal) in three metropolitan areas. Forty nine percent of the sample was based in the

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4 Ibid.
In the Johannesburg metropolitan area, 20% in the Cape Town metropolitan area, and 31% in the Durban metropolitan area. Just on 39% of the total sample respondents were women (12% SME business owners, 10% informal business owners and 16% employees). In terms of race, 57% of the respondents were white (predominantly in the SME business owner category), 31% black, 5% Coloured, 6% Indian and 1% Asian. The study also assessed quantitative data gathered on the SME Growth Index, a longitudinal study that tracks the experiences of formal small and medium businesses employing less than 50 employees and operating for more than two years. The SME owners responded to both the EESE and SME Growth Index questionnaires. Both randomised surveys were conducted simultaneously between August and September 2015 by business environment specialists, SBP. The EESE survey focused on the majority of the ILO’s 17 conditions.

While many of the EESE country assessments review a country’s standing in accordance to its regional neighbours, South Africa is classified as a middle-income country; it represents the second largest economy on the African continent and is a member of the BRICs. In selecting countries against which to compare South Africa in accordance with the ILO’s Sustainable Enterprise 17 conditions, Brazil, Turkey and Malaysia were chosen by stakeholders at a workshop convened by Business Unity South Africa in May 2015. The Global Competitiveness Report (GCR) produced by the World Economic Forum was helpful in narrowing the benchmarking for South Africa against peer countries. The GCR assesses the competitiveness landscape of 144 economies, providing insights into the drivers of their productivity and prosperity. The GCR classifies South Africa as an efficiency driven economy, placing Brazil, Malaysia and Turkey in the transitioning phase to innovative driven economies.

The following section of this report presents a review of South Africa’s performance in accordance with the ILO’s standardised EESE methodology on the Sustainable Enterprise Conclusions 17 pillars (ILO, 2007). The assessment is based on an analysis of secondary data available from national and international literature together with the findings of both the EESE survey and the SME Growth Index.
2. Economic elements

Indicators assessing economic elements of an enabling environment for sustainable enterprises*

Macroeconomic Indicators

* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country’s performance in that regard. The original indicator values are included in the chapters.

- In 2013, government adopted the National Development Plan (NDP) as South Africa’s long-term socio-economic development roadmap, which proposes to accelerate economic progress and a more inclusive society. The NDP’s vision and priorities outline two key goals: to grow the country’s GDP by 5% per annum and reduce South Africa’s high levels of inequality. The NDP replaces previous economic policies introduced since 1994 including the Reconstruction and Development Plan (RDP); the Growth, Employment and Redistribution plan (GEAR); the Accelerated and Shared Growth Initiative for South Africa (ASGISA), and more recently the National Growth Path (NGP).

- Global economic events, together with domestic policy uncertainties, have led to low levels of economic growth since the global financial crises. Projections of GDP growth of less than 2% are expected in 2015/16.

- Unemployment poses a significant challenge for South Africa, currently 25.5% (34.4% on the expanded definition) with youth unemployment at 62%. High wage demands by the public sector unions pose a fiscal risk, despite measures to consolidate the budget and reduce the growth of expenditure to a real rate of 1.3% by introducing measures to freeze government personnel expenditure. South Africa has a poor savings rate, currently 15.4% of GDP and the percentage of household debt to household income is approximately 80%.

- While South Africa has earned esteem for its macroeconomic stability over the years, bold action will be required to work on the structural foundations of its economy. Stagnant economic growth, rising unemployment and inequalities will continue to put pressure on the government’s tight fiscal monetary policies. Possible downward adjustments in the country’s investment
ratings, together with increased capital rebalancing globally may serve to raise South Africa’s economic vulnerabilities to global shocks. The effects of lower growth rates and depressed tax revenues could further weaken South Africa’s economic outlook. The ideological contestation over economic policies since 1994 to the current NDP has contributed to policy uncertainty and bureaucratic ambiguity.

- The overall weakness in South Africa’s industrial output reflects a wide range of factors including problems with low productivity, regular labour market disruptions and infrastructure bottlenecks, especially the supply of electricity. FDI flows into the country have seen a decline, dropping by 31.2% in 2014. Investor confidence has declined in the face of proposed changes to legislation impacting on the investment climate, and government’s cancelling of a number of bilateral investment treaties.

- South Africa has dropped four spots on the World Bank’s Ease of doing Business 2016, currently 73rd, down from 69 in the previous year. Despite the government’s intentions to address compliance costs and administrative inefficiencies, regulatory burdens impacting on businesses, especially small firms continue to rise. The Burden of Government Regulations ranking measurements in the 2015 Global Competitiveness Index places South Africa 117 out of 144 countries, reflecting the country’s increasing regulatory trend.

- South Africa’s constitution ensures that the rule of law is upheld and the country scores moderately well on the Rule of Law Index, in part due to South Africa’s functioning and independent judiciary as well as a robust media. South Africa also ranks well on the Protection of Property Rights rankings in the Global Competitiveness Report (22 out of 144 countries). Increasing levels of crime however remain a deep concern for the country. The EESE survey findings show a considerable lack of trust in the capacity of the police to deal with South Africa’s burden of crime and the costs associated with it, especially amongst small businesses.

- South Africa’s policy to broaden access to ICT has been lacklustre. Early efforts to reform the sector were undermined by lack of effective policy implementation and follow-up with a result that South Africa has an uncompetitive ICT market structure. The government however has recently launched a strategic integrated project to expand access to communication technology, with a view to prioritising rural and under-serviced areas and stimulating economic growth.

- Despite South Africa’s robust formal financial services sector, small and informal businesses face difficulties in accessing finance. The micro-finance sector is underdeveloped compared to South Africa’s neighbours, suggesting a need for greater financial inclusion measures.

- The government has committed increasing amounts of money to infrastructure under the National Infrastructure Plan, but no structural changes are being implemented to diversify the supply of electricity, transport and telecommunications in the future. Recent reduced electricity supply has had a significant negative impact on levels of productivity. A major problem for the large informal settlements and townships is their poor degree of connection to urban centres due to insufficient public transport and lack of delivery of basic services, which has seen an escalation in public protests. South Africa has however achieved impressive gains in increasing access to basic services to households over the past decade, 86% of households now have electricity, 86% for water infrastructure and 80% for sanitation infrastructure.
2.1. Sound and stable macroeconomic policy and good management of the economy

A stable macroeconomic environment is an essential element to support sustainable enterprises and sound management of the economy should have the objectives of creating more and better jobs, combating inflation and implementing regulations that stimulate domestic and foreign investment.

South Africa’s era of democracy started in 1994 with the advent of the New South Africa and the end of apartheid. After years of economic isolation and financial sanctions the Reconstruction and Development Program (RDP) was chosen by the ANC Government as the primary socio-economic programme. While the RDP was successful in some areas especially social security with the establishment of an extensive welfare system, it did not achieve its objectives to address and redress the inherent inequalities of apartheid, either socially, economically or spatially.

The RDP was regarded as constrained both fiscally and organizationally to allow it to be integrated fully as the guiding principle of socio-economic policies.

The RDP was followed in 1996 by the adoption of GEAR (The Growth Employment and Redistribution) strategy, to stimulate faster economic growth which was required to meet social investment needs. The GEAR policy was regarded as largely successful and brought about greater macroeconomic stability, and accountability at government level, leading to a reduction in government expenditure which was largely criticized by COSATU, the largest trade union federation. While GEAR resulted in reduced fiscal deficits, reducing inflation to 5.4% and lower government consumption targets, it did not achieve the objectives of increased private investment and job creation. Under GEAR policy, fiscal deficit, inflation and government consumption targets were all slightly met, reporting figures of 2.2%, 5.4% and 18% respectively by the end of 2000, bringing about greater macroeconomic stability, better reporting and increased accountability. Management of public finances improved and the tightening of monetary policy and restructuring government levels led to a reduction in government expenditure. However, GEAR was seen to not measure up to addressing the social challenges of the country; poverty reduction and employment creation and was largely criticised especially by the trade unions for its neo-liberal approach.

GEAR was followed by ASGISA (Accelerated and Shared Growth Initiative for South Africa) in 2005. ASGISA built on the achievements and goals of the previous two macroeconomic policies. Acknowledging the challenges of prolonged poverty, low earnings and the jobless nature of economic growth, ASGISA aimed to reduce poverty by 2012, halve unemployment by 2012 (from 28% in 2004 to 14% in 2012) with the recognition that the policies to implement these issues needed to be at the forefront of economic policy decision making. While the policy had some level of success, its implementation and future of the programme remained uncertain. Post the Mbeki administration, ASGISA was replaced by the New Growth Path (NGP) when the present president of South Africa took office in 2010. The NGP recognizes that structural unemployment, combined with widespread poverty had resulted in deeper inequality than ever before. The NGP’s principal focus is on employment creation based on the assumption of a greater role for government in initiating, and administering, large-scale structural changes in the economy including substantial investment in infrastructure and industrialisation as a critical driver of jobs.  

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In early 2013, the Government introduced the National Development Plan (NDP) 2030 as South Africa’s long-term socio-economic development roadmap. This policy was adopted as the blueprint for a future economic and socio-economic development strategy. The NDP is viewed as a policy for eliminating poverty and reducing inequality in South Africa by 2030 and for the first time introduces an evidence-based policy making approach in South Africa.10

Global economic events have led to low levels of economic growth in 2014 and projections of less than 2% are expected in 2015/16. In order to achieve the outcomes of the NDP 2030 South Africa needs to consistenly grow at 5% annually. Unemployment continues to pose significant challenges; in the second quarter of 2015, unemployment reached 25.5% (34.4% on the expanded definition) with youth unemployment at 62%. High wage demands by the public sector unions pose a fiscal risk, despite measures to consolidate the budget and reduce the growth of expenditure to a real rate of 1.3% by freezing government personnel expenditure and reducing non-essential spending. South Africa’s savings rates rank poorly compared with the rest of the world at 15.4% of GDP in 2015. Household debt as a percentage of household income now stands at 78.4% (this includes loans, overdrafts, credit card debt, home loans, accounts).11

The National Treasury’s 2014 Medium-Term Budget Policy Statement (MTBPS) signalled a shift in fiscal policy; the Government proposed a comprehensive package of measures to narrow the budget deficit, stabilise debt and begin to rebuild fiscal space.12 These included among others, moderating expenditure growth with reductions focusing on non-essential goods and services, tax measures to increase revenue, financing of state-owned companies and freezing the personnel budget of the national government. The public wage bill remains high at R400-billion in 2014/15 with a projected total for the 2016/17 financial year to be R430-billion, representing 35.5% of the government’s total budget. Statistics released in 2014 for the 2012 personal income tax base shows it to be extremely small, with less than 5% of the labour force paying more than 50% of personal income tax. Personal income tax represents 34.5% of South Africa’s total tax revenue, making it the single biggest component of the tax base.

South Africa’s growth has continued to slow down, currently achieving only 1% in the second quarter 2015. The economy was affected by its most protracted industrial action in 2014 since the end of apartheid and significantly weak demand from trading gaps. Inadequate electricity supply remained a binding constraint on growth and is seen only to ease by about 2020. Weak domestic demand and investment rates also act as a drag on growth, manufacturing activity decreased to a six-year low of 43.3 in November 2015, down from 48.1 in the previous month.13 Standard & Poor’s credit rating for South Africa in June 2015 remains at a BBB-rating, the lowest investment grade, which followed a downgrade in June 2014. Peer Fitch affirmed its own BBB rating with a negative outlook in June 2015, stating inadequate and unstable electricity supply had led it to cut economic growth forecasts for 2015 and 2016.

The EESE survey probed the opinion of respondents as to whether South Africa is seen to have a sound and stable macroeconomic policy and the economy is well managed. Only 8% of the total respondents agreed. 54% of all respondents refuted the statement with SME owners not agreeing (62%), followed by informal business owners and employees (47% and 42% respectively). These strong opinions echo public sentiments seen in the media where the government is coming under increasing criticism for policy uncertainty and the introduction of poorly considered regulations such as South Africa’s new visa regulations on tourism, land reform strategies on

agriculture, amendments to the Mineral, Petroleum, Resources and Development Act, and the proposed Promotion and Protection Investment Bill to replace the bilateral investment treaties that South Africa has terminated.

Figure 1: Sound and stable macroeconomic environment

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</thead>
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<tr>
<td><strong>GDP Growth Rate (%)</strong></td>
<td></td>
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<td>0.1</td>
<td>-3.0</td>
<td>-1.0</td>
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<tr>
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<td>4.2</td>
<td>2.9</td>
<td>3.0</td>
<td>2.8</td>
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</tr>
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<td>5.4</td>
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<td>5.9</td>
</tr>
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<td>2.4</td>
<td>3.8</td>
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<td>5.4</td>
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<td>8.9</td>
<td>7.5</td>
<td>8.9</td>
<td>7.4</td>
<td>6.5</td>
</tr>
</tbody>
</table>

2015 and 2016: *Forecast IMF World economic outlook 2015 database

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17 IMF. (2015). World Economic and Financial Surveys. World Economic Outlook Database
### Current Account Balance (% of GDP)

Current account balance is the sum of all the net exports of goods and services, net primary income and the net secondary income. It records the countries transactions with the world and shows whether the country is “living within its means”  

Source: International Monetary Fund, World Economic Outlook Database, 2015.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<th>2015</th>
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<td>Brazil</td>
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<td>Turkey</td>
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<td>-7.9</td>
<td>-5.8</td>
<td>-4.5</td>
</tr>
</tbody>
</table>

2015 and 2016: *Forecast IMF World economic outlook 2015 database*

### General Government Gross Debt (percentage of GDP)

Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. This includes debt liabilities in the form of SDRs, currency and deposits, debt securities, loans, insurance, pensions and standardized guarantee schemes, and other accounts payable. Thus, all liabilities in the GFSM 2001 system are debt, except for equity and investment fund shares and financial derivatives and employee stock options. Debt can be valued at current market, nominal, or face values.

Source: International Monetary Fund, World Economic Outlook Database, 2015.

<table>
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<td>55.5</td>
<td>53.6</td>
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<td>65.2</td>
<td>69.9</td>
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<tr>
<td>Turkey</td>
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<td>36.1</td>
<td>36.1</td>
<td>33.6</td>
<td>32.1</td>
<td>32.1</td>
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</table>

Forecast IMF World economic outlook 2015 database.

### 2.2. Trade and sustainable economic integration

Trade and market integration are important to the growth of sustainable enterprises and employment generation. Some economists argue that increasing aggregate demand internally by lowering interest rates and increasing wages as well as social protection transfers can lead to economic growth. Initial observations suggest that this approach may work in non-tradable sectors such as services, but could make tradable sectors less competitive. Some countries have looked inward, competing with imports in their home markets rather than competing for foreign custom in the world market and these strategies have occasionally succeeded in spurring investment, increasing the size and efficiency of domestic producers. These policies have also avoided the risks and dislocations of opening up to foreign competition. The Growth Commission however found that growth strategies that rely exclusively on domestic demand eventually reach their limits as the home market is usually too small to sustain growth for long, and it does not give an economy the same freedom to specialise in whatever it is best at producing. The Commission’s findings show that the path for nations to achieve sustainable long term periods of high growth and employment is to exploit the world markets through exports, requiring firms – especially SMEs – to be globally competitive; taking advantages of comparative factors and increasing their competitive edge.

South Africa has identified the exports sector as an engine for higher, more inclusive and job intensive growth with the NDP, aiming for export volume growth of 6% a year to achieve an annual increase in real GDP growth of about 5.5%. The Industrial Policy Action Plan (IPAP), now in its fifth iteration, is based on the need for sustainable, long-term development that is underpinned by

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20 Ibid.
higher growth, exports and labour-intensive, value-adding economic activity in the production sectors, led by manufacturing, and focusing on mineral beneficiation, regional integration, providing incentives to promote innovation and technology, as well as infrastructure development.\textsuperscript{22} Despite some successes in some areas however, South Africa’s economy contracted by 1.3% in the second quarter of 2015 and manufacturing production declined by 1.5% month on month in 2015, after rising by 0.8% month on month in December 2014, despite the rand/dollar weakening over the past three years.\textsuperscript{23} The overall weakness in South Africa’s industrial output reflects a wide range of factors including problems with low productivity, regular labour market disruptions and infrastructure bottlenecks, especially electricity. Disruptions in the platinum sector at the beginning of 2014 had a substantial negative impact on manufacturing. South Africa’s weak consumption growth of 1.1% in the third quarter of 2014 shows a pattern of overall weak economic growth, negative employment growth, and tighter credit conditions for households.\textsuperscript{24}

Regionally, South Africa seeks to promote integration at three levels: the South African Customs Union (SACU), the South African Development Community (SADC) and the Tripartite Free Trade Area (T-FTA) between SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), which covers 26 countries with a population of 626 million and a combined GDP of USD 1 trillion.\textsuperscript{25} Deeper regional trade could help ignite export-led growth for South Africa goods and services allowing for greater competition among firms in South Africa; boosting productivity and efficiency, enabling entry for new and more productive firms - especially small and medium enterprises, and create jobs to make the export sector a major direct contributor to employment growth and poverty reduction by tapping into South Africa’s large pool of low-skilled labour. Evidence collected from SBP’s SME Growth Index shows that South African SMES have the ability to cultivate new markets, with the biggest export market being in the SADC region, followed by Africa beyond SADC, and there is considerable interest among the panel firms participating in the study to explore foreign markets especially in sub-Saharan Africa. This represents good news for South African policy makers. Studies show that exporting SMEs tend to be larger in size than non-exporters; the wages they pay tend to be higher and they tend to have higher labour productivity. These correlations come across clearly in the SME Growth Index. Export firms on the panel have higher levels of labour productivity (63% higher for business services and 38% for manufacturing), they pay, on average, higher wages (41% higher for manufacturing and 29% for business services). In terms of total factor productivity (TFP), exporters on the study’s panel perform better than non-exporters particularly in manufacturing. For manufacturers TFP levels in the panel are more than 20% higher than non-exporters, and for business services firms 6%.\textsuperscript{26}

The EESE survey asked respondents about their views on the importance of cross border trade. The majority of respondents, 48% stated that trade integration with South Africa’s neighbours was very important (58% for SME owners, 39% for informal business owners and 34% for employees).

\textsuperscript{25} Ibid.
\textsuperscript{26} SBP. (2013). Exporting and importing by small and medium firms in South Africa. Johannesburg.
South Africa is Africa’s most industrialised country attracting thousands of foreign nationals every year. Xenophobic violence against foreign nationals in South Africa has worsened over the years with widespread attacks in at least 6 of the 9 provinces. Xenophobia is defined by South Africa’s Human Rights Commission (SAHRC) as the ‘deep dislike of non-nationals by nationals of a recipient state’\textsuperscript{27}. The EESE survey probed the perceptions of respondents to foreign businesses and foreign business owners’ contribution to South Africa’s economy. Respondents showed positive sentiments either strongly agreeing (31%) or agreeing (30%) to the importance of foreign business interests in South Africa. There were some interesting variations however among the respondents with regard to whether foreign business owners positively contribute to the economy. The majority of the respondents agreed, 29%, but informal business owners either stating that they agreed to a limited extent (24%) or not agreeing (27%). Likewise for employees there were marginal variations; employees either agreed (28%), or to a limited extent agreed (25%) and not agreeing (26%). At the informal economy level these variations are not surprising given increasing levels of xenophobia; reasons for the attacks differ, some are blamed for the contestation for scarce resources and inadequate service delivery, and the influence of micro politics in townships. Foreigners are also blamed for their businesses that take away customers from local residents. Nevertheless, the general positive sentiment shown by the total number of respondents, especially from informal business owners is an encouraging trend.

Foreign Direct Investment (FDI) flows into South Africa have seen a decline, dropping by 31.2% to USD5.8-billion in 2014, down from USD8.3-billion in 2013,\(^{28}\) attributed to a number of factors including the chronic power shortages and labour unrest. Uncertainty has also emerged with several changes and legislation proposed by government contributing to low business confidence in South Africa. South Africa’s Department of Trade and Industry is in the process of cancelling a number of bilateral investment treaties, with the aim of replacing the investment regime with the Promotion and Protection of Investment Bill. From 1994 to 2009, South Africa signed 45 bilateral investment treaties and ratified 22 of them. In 2006, South Africa signed the Southern African Development Community (SADC) protocol on finance and investment, which offers bilateral investment treaty-style protection to foreign investors globally. The proposed Promotion and Protection of Investment Bill has come under fire by a number of foreign business interests in South Africa stating that it is intrinsically incompatible with modern investment law, including the SADC protocol.

**Key Indicators**

<table>
<thead>
<tr>
<th>Trade (% of GDP)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>60</td>
<td>61</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Malaysia</td>
<td>167</td>
<td>159</td>
<td>154</td>
<td>150</td>
</tr>
<tr>
<td>Brazil</td>
<td>24</td>
<td>25</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Turkey</td>
<td>57</td>
<td>58</td>
<td>58</td>
<td>60</td>
</tr>
</tbody>
</table>

Trade share (%) in GDP.

<table>
<thead>
<tr>
<th>Enabling Trade Index (ETI)</th>
<th>2010</th>
<th>2012</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>3.9</td>
<td>4.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>(30)</td>
<td>(24)</td>
<td>(25)</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.7</td>
<td>4.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Country Rank and rating are indicated in the table, country rank is indicated in parenthesis. Rating between 1-7 higher rating indicates better performance.

2.3. **Enabling legal and regulatory environment**

Studies have shown that an appropriate and enabling legal and regulatory environment is the single, most important element in promoting sustainable enterprise development and facilitating the transitions to formality. Well-designed and carefully considered regulations and laws are essential for supporting start-ups, transitions to formality and economic growth. Inadequate regulations that increase administrative inefficiencies can lead to burdensome red tape and the expansion of the informal economy. A well-ordered and productive economy needs regulation. Regulations create socio-economic benefits, and give rise to efficiency costs, because they alter the outcomes that a purely competitive market would create. They are a product of the need to balance the goals of competition and market efficiency against socio-economic objectives such as the more equitable distribution of resources, or equal access to opportunities. The balance between market efficiency on the one hand and social economic policy objectives on the other requires complex political trade-offs and choices. The South African government, has over the years, made a commitment to reducing the gap between South Africa’s dual economies, and to reducing unemployment, poverty and inequality.

Despite the Government’s acknowledgement of the regulatory burden in South Africa - the National Development Plan notes special concerns relating to South Africa’s onerous regulatory...

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environment\textsuperscript{32}, and government’s stated commitment to reducing red tape - regulatory burdens on businesses continue to rise. For small businesses, this is particularly a concern. The SME Growth Index found that red tape for firms employing less than 50 employees can account between 4 to 8\% of turnover. Each firm on the panel’s study spent on average 75 hours a month dealing with red tape or the equivalent of eight working days.\textsuperscript{33} The World Bank’s “Ease of Doing Business Index” ranks economies from 1 to 189, where a high ranking reflects a regulatory environment that is conducive for business operations. The index includes averages for 10 different topics. The latest data released for 2016, reflects South Africa’s worsening position for doing business; South Africa ranked 73\textsuperscript{rd} down four spots from the previous year Ease of Doing Business Index.

The Burden of Government Regulations Ranking measurement in the 2015 Global Competitiveness Report places South Africa in 117 out of 144 countries, reflecting South Africa’s increasing regulatory trend.\textsuperscript{34}

Small businesses have to comply with the same level of regulations as large firms. Compliance costs are regressive: the smaller the firm, the heavier the burden. The Davis Tax Committee indicates a median cost of R20 500 to small businesses to comply with all tax requirements.\textsuperscript{35} Based on these calculations and using the SME Growth Index data, the cost of regulatory compliance for SMEs equates to R18 000 per month, or R216 000 a year; for companies with a turnover of R5million, these costs represent 4\% of turnover. Business concerns regarding the compliance burden relates not only to the volume of regulatory requirements and poor administration (administrative inefficiencies), but also the frequency of regulatory change. Findings from the SME Growth Index show that over 60\% of the panel were unsure of the regulations that they need to comply with, and 78\% of the panel reported in 2015 that the business regulatory climate is becoming increasingly hostile to their firm growth.\textsuperscript{36}

In facilitating the transitions of informal enterprises to formal businesses, the ILO’s aim is to promote country reforms to reduce registration costs and lengths of procedures, improve access to information and services as well as to put in place incentives towards business formalisation.\textsuperscript{37}

The EESE assessed the views of respondents on the enabling legal and regulatory environment with a series of questions. Asked what the top 3 barriers were to formalising a business in South Africa, all respondents unanimously agreed that the top barrier is that there are too many procedures to register a business. The third barrier for both informal business owners and employees was paying taxes, while for SME owner’s hiring people is problematic. The second barrier, unanimous for all respondents, relates to lack of information and know-how.

\textsuperscript{36} SBP. (2015). SME sustainability and growth should be an obsession for job creation in South Africa. Johannesburg.
Figure 5: Top barriers to formalising a business in South Africa

Enabling Legal & Regulatory Environment
What do you think are the top 3 (first, second and third) biggest barriers to formalising a business in South Africa?

<table>
<thead>
<tr>
<th></th>
<th>SME Ranking</th>
<th>Informal Ranking</th>
<th>Employee Ranking</th>
<th>Total Average</th>
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<tbody>
<tr>
<td>Don’t want to formalise</td>
<td>7</td>
<td>8</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Getting a business licence</td>
<td>8</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Don’t know how or what to do</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>There are too many procedures to register a business</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Hiring people is problematic</td>
<td>2</td>
<td>7</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>It’s too expensive to formalise</td>
<td>5</td>
<td>6</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>It takes too long to formalise</td>
<td>6</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
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<td>9</td>
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</tr>
</tbody>
</table>

The EESE survey findings are illuminating with regard to the informal economy and provide evidence to the effect that reforming the amount of regulatory procedures and administrative processes is a priority for government to support the transitions to formality. The second priority, noted by the respondents, is the importance of ensuring easy and accessible information on the necessary steps to establish a business.

Overall, South Africa ranks 73 in the World Bank’s 2016 Ease of Doing Business report, down from 69 in 2015. The Ease of doing business report ranks South Africa’s registration procedures at 120, with 6 procedures taking on average 46 days for a business to be fully registered. The SME Growth Index 2015 finds however, that business owners registering another business report it can take as long as 6 months for a new business to be fully registered. Bottlenecks in tax registrations for VAT have been reported as being one of the main causes. Government has recently introduced a measure to help ease the process to register new businesses in partnership with a leading bank. The bank offers a dual service of opening a company bank account and the registration of a company with the Companies and Intellectual Property Commission (CIPC). While this initiative may make it easier to comply with two of the registration procedures necessary to formalize, others such as tax registration and employee registration are still required from the individual departments and regulators.

Respondents were also asked whether the regulatory environment makes it difficult for small business to compete with larger businesses. The majority (66%) generally agreed, with SME business owners being more inclined to agree (73%) against informal business owners and employees (56% and 60% respectively).

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South Africa’s labour regime is frequently criticised for its inflexibility and impact on employment generation. The EESE survey respondents were asked their views on the current labour legislation that firms have to comply with and whether it was conducive to business growth. Respondents were given options ranging from very conducive to a big constraint. Only 2% of the respondents agreed that it was very conducive. Over a third (38%) of the total respondents stated that the labour legislation is a big constraint on their business growth (54% for SME owners, 25% for informal businesses and 17% for employees). Institutions dedicated to resolving labour disputes such as the Commission for Conciliation, Mediation and Arbitration (CCMA) frequently consume a large amount of business owners or managers time, especially among formal small businesses. It is estimated that firms employing less than 50 employees can spend on average 11 days of staff time per case at the CCMA, and firms of the same size generally average two cases per year with the CCMA.39

Probing the respondents views on the amount of bureaucracy involved in dealing with government such as obtaining business licences, registrations and permits, 44% of the total sample stated these to be highly bureaucratic, and 41% too bureaucratic.

To address the legacy of apartheid policies and enhance the participation of African people in the South African economy, the Government introduced the Broad-Based Black Economic Empowerment Act 53 of 2003 (BBBEE). The Act, and its Codes of Practice, allowed for a methodology of measuring a company’s BBBEE rating on a voluntary basis. Recent amendments to the Act and the Codes of Practice introduces penalties for the first time and while the Act and the Codes do not impose legal obligations on firms to comply with BEE targets, a firm’s status is an important factor affecting its ability to successfully tender for government and public tenders and in certain sectors to obtain licences. Private sector clients increasingly also require their suppliers to
have a minimum BBBEE rating to boost their own scorecards, hence BBBEE is an important factor impacting on any firm conducting business in South Africa. Changes to the Codes will have a significant impact on the SME community. The changes introduced are for exempted micro-enterprises (EMEs), businesses with turnovers of R10-million or less, and start-up enterprises in their first year of formation) retain a level 4 status but where these businesses are 100% black owned they will rise to level 1 or 51% black owned to level 2. All qualifying small enterprises (QSEs), businesses with an annual income of between R10 million and R50 million that are not 51% black owned will be subject to severe compliance under the new Codes and will have to continue to apply for their BBBEE verification certification annually. The new amendments to the BBBEE Act and Codes have raised increasing criticism from all levels of business in South Africa.

The EESE survey probed the views of the respondents on whether the current policy of broad based black economic empowerment leads to enterprise growth. Overall, 57% of the total respondents disagreed with the statement. However, 25% of the total sample agreed to a limited extent (19% for SME owners, 31% for informal business owners, and 31% for employees). In terms of the previous BBB-EE score-card, enterprise development achieved 40 points plus bonus points; with the amendments to the new score-card, these however have been reduced to 15 points.

Disaggregating the data the findings showed variations based on race. Of those who did not agree, 84% were white, 13% black and 34% Coloured, Asian or Indian. Of those who agreed to a limited extent 12% were white, 39% black and 49% Coloured, Asian or Indian. Of those who did agree, 1% were white, 20% black and 11% Coloured, Asian or Indian. 23% black respondents did not know against 2% for white and 2% for coloureds, Asians or Indians.

The appropriate balance between social and economic imperatives comes into sharp relief in measuring an economy’s regulatory system. Regulatory best practice states that the necessity of regulation is vitally important but the compliance burden it places on firms needs to be proportionate to the goals that it meant to achieve. A common criticism with the legal and regulatory environment in South Africa is the haphazard formation of policy. Often new legislation is seen to be added to

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existing rules without a systematic approach to secure policy coherence or coordination, an example of which is whether or not the interdependency of the amendments to the BBBEE Act and Codes and other laws and regulations were considered in their drafting (Skills Development legislation, Employment Equity, Companies Act and tax laws).

To counteract rising red tape and unintended consequences of laws and regulations, the government approved a Regulatory Impact Assessment methodology into South Africa’s law making processes in 2007. The impetus for RIA was closely aligned with government’s broader commitment to reduce red tape and improve regulatory efficiency for the economy as a whole. The implementation of RIA amongst national departments varied considerably and the degree of rigour applied to systematic consultation also varied. Government recently proposed the adoption of a Socio-Economic Impact Assessment (SEIA) methodology to replace RIA, which it states should ensure that government aligns the regulatory impact assessment process with the aims of both the National Development Plan and the New Growth Path.42

### Key Indicators

#### Burden of Government Regulations and Starting a Business

**(Country rankings on the GCI)**

The Ease of Doing Business (EDB) report ranks countries on a number of areas that include the starting a business Index which records all the procedures that are officially required to register a business and ranks these among other countries.43 The Global competitiveness report (GCI) measures countries against factor, efficiency and innovation criteria, which includes a survey of senior business individuals who report in these elements. Inclusive in this report is a measurement of the burden of government regulation.44 Country ranks for 2015/16 are indicated in the table.

<table>
<thead>
<tr>
<th></th>
<th>Doing Business Rank (EDB)</th>
<th>Starting a business rank (EDB)</th>
<th>GCI Rank</th>
<th>Burden of Government Regulation (GCI)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>South Africa</strong></td>
<td>73</td>
<td>120</td>
<td>49</td>
<td>117</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td>18</td>
<td>14</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td>116</td>
<td>174</td>
<td>75</td>
<td>139</td>
</tr>
<tr>
<td><strong>Turkey</strong></td>
<td>55</td>
<td>94</td>
<td>51</td>
<td>65</td>
</tr>
</tbody>
</table>


#### Regulatory Quality

The ability of the Government to provide sound policies and regulations that enables and promotes private sector development. Estimates of governance measures on a scale.45

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>South Africa</strong></td>
<td>0.36</td>
<td>0.41</td>
<td>0.38</td>
<td>0.41</td>
<td>0.32</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td>0.59</td>
<td>0.59</td>
<td>0.55</td>
<td>0.62</td>
<td>0.84</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td>0.16</td>
<td>0.18</td>
<td>0.09</td>
<td>0.07</td>
<td>-0.07</td>
</tr>
<tr>
<td><strong>Turkey</strong></td>
<td>0.31</td>
<td>0.38</td>
<td>0.4</td>
<td>0.42</td>
<td>0.41</td>
</tr>
</tbody>
</table>


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Table 1: Tax rates reviewed South Africa, Malaysia, Brazil, Turkey

<table>
<thead>
<tr>
<th>Country</th>
<th>Corporate Tax Rate</th>
<th>Personal Income Maximum tax rate</th>
<th>VAT Rate/ Sales Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>28%</td>
<td>Withholding Tax 15% on dividends</td>
<td>43%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25%</td>
<td>0% dividend Tax</td>
<td>25%</td>
</tr>
<tr>
<td>Brazil</td>
<td>25%</td>
<td>A combination of a 15% basic rate and a 10% surtax on income. A social contribution on net profits (CSLL) at a rate of 9%.</td>
<td>34%</td>
</tr>
<tr>
<td>Turkey</td>
<td>20%</td>
<td>Withholding Tax 15% on dividends</td>
<td>35%</td>
</tr>
</tbody>
</table>

2.4. Rule of law and secure property rights

Enterprises flourish in a society where there is a formal and effective legal system; where the rule of law is upheld, contracts are honoured and property rights are secure. The rule of law relies on the principle that all citizens are bound by the laws of the country and government is accountable under the laws of the land. For the rule of law to be sustainable laws must be just, stable and open to public scrutiny. Laws must be applied evenly and protect the human rights of citizens, including personal and property rights. In delivering justice the law must be applied by a competent, ethical and independent judiciary.46

South Africa’s Constitution is the result of extensive and inclusive negotiations that were carried out in the period of the country’s political transition and based on the awareness of the injustices of the country’s apartheid past. It was written in consultation with the public and elected public representatives post the 1994 democratic elections and took effect in February 1997. The Constitution is the highest law of the land and no other law or government action can supersede it. The founding provisions of the Constitution give prominence to human rights; non-racialism and non-sexism, supremacy of the Constitution and the rule of law, and South Africa’s democratic philosophy of “universal adult suffrage, a national common voter’s roll, regular elections and a multiparty system of democratic government to ensure accountability, responsiveness and openness”.47 While the constitution represents the supreme law of South Africa, there has been growing concern regarding the quality of legislation, and its constitutionality passed by parliament in recent years, with an increasing number having been found in court to be unconstitutional.48 Most recently, The Public Protector stated that South Africa needs a situation where decision-makers in government fully submitted to constitutional supremacy.49

46 World Justice Project. (2008). What is the Rule of Law?
The Rule of Law Index measures the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, the courts, and the likelihood of crime and violence on a scale of -2.5 to +2.5; -2.5 is low and +2.5 is high. Compared with Malaysia 0.6, Brazil -.08 and Turkey 0.4, in 2014, South Africa scores a reasonable 0.1.50

The moderate scores attributed to South Africa are in part due to the country’s functioning and independent judiciary. The Constitution provides for a Constitutional Court; Supreme Courts of Appeal, High Courts and Magistrate’s Courts. The Constitutional Court, Supreme Court of Appeal and High Courts have the power to protect and regulate their own processes, and to develop the common law. The courts are also required to declare any law or conduct that is inconsistent with the Constitution to be invalid, and develop common law that is consistent with the values of the Constitution, and the spirit and purpose of the Bill of Rights. There are also special income tax courts, the Labour Court and the Labour Appeal Court, the Land Claims Court, the Competition Appeal Court, the Electoral Court, divorce courts, small claims courts, “military courts”, and equality courts, and other courts established or recognised in terms of an Act of Parliament.

Assessing South Africa’s property rights compared with Brazil, Turkey and Malaysia, South Africa is ranked 22 out of 144 countries in the 2015 Global Competitiveness Report against Malaysia at 25, Brazil at 92 and Turkey at 72.51 While property rights are protected under South Africa’s Constitution, there has been mounting pressure on government to accelerate land reform with a view towards greater and more equitable land distribution. The objective of the National Development Plan is to achieve 20% commercial farm ownership by 2030. Commercial land for this purpose will be identified by District Land Committees comprising key stakeholders including land owners, private sector, government and government agencies. Currently, land reform and purchase is recognised on the basis of “willing buyer, willing seller” principles but there have been frequent pronouncements to abandon this policy to achieve more aggressive transformational reform, notwithstanding the entrenchment of property rights in the constitution. An additional complexity with regard to property rights and the use of property for collateral purposes in rural areas is South Africa’s communal land policy in the former homelands.52 This refers to the systems most rural communities operate to express order, ownership, possession and access to regulate use and transfer land, which are regulated by customary law and give rise to problems mainly the lack of collateral when farmers need loans and investments. A new Communal Land Tenure Policy (CLTP) is currently being considered, which proposes that “traditional councils” set up under the new policy will achieve full ownership by title deed of blocks of land in the former homeland areas, while individuals and families will attain “institutional use rights” to parts of the land within these areas.53

Concerns have been raised particularly by foreign investors towards expropriation of land without compensation with amendments to the Expropriation Bill of 1975, the introduction of the Property Valuation Bill of 2014 and the Promotion and Protection of Investment Bill of 2013. All three bills have been passed by parliament but have as yet to come into effect.

The increasing burden of crime and the ability of the police force to protect citizens against it is an increasing concern for all businesses – large, small and informal – operating in South Africa. The official South African Police Services (SAPS) crime statistics for the 2013-2014 financial year reflect the heavy burden crime places on business. Statistics calculated by the Institute for Security Studies of the crime trends from April 2014 to 31 March 2015 show that on average 53 businesses a

day reported being robbed in 2014/2015. Crime has consistently increased over the past 10 years and is now 421% higher than in 2004/2005. Cable theft is a further concern to business since it often leads to protracted power outages. In 2012, the former police minister estimated that cable theft costs South Africa approximately R5 billion a year, but other sources have placed this figure at closer to R10 billion a year. Other studies conducted among the business community also show the worrying changes in crime trends affecting business. The Grant Thornton International Business Report (IBR) reports that in 2014, 74% of business executives noted the increased cost of security as their biggest burden, 37% indicated that the threat of crime led to decreased productivity and 20% indicated that the threat of crime led to a loss of staff.

For small firms and informal businesses, crime has a substantial impact on both direct costs as well as on opportunity costs. These enterprises face significant risks of financial loss, and potential violence and emotional damage associated with crime. The SME Growth Index estimates crime associated costs for small business at 3% of a small firm’s turnover based on the survey panel responses. Crime negatively affects informal businesses perhaps more so than formal businesses since they are unlikely to have insurance against stock losses. They are also typically more exposed to criminal activity due to lack of security at their premises, and especially for traders due to the exposed nature of their activities.

The EESE indicates the perception of the police’s capacity to protect businesses from criminal behaviour against responses ranging from very high to very low. Of the total sample 53% of the respondents rated the capacity of police to be very low, followed by 31% low and 11% adequate. 63% of the SME business owners rated the police capacity at very low, 45% of informal businesses likewise and 40% for the employees. According to the SAPs report in releasing the 2013-2014 official crime statistics, improved visible policing was seen to reduce street robberies, as a result of almost 70 000 additional police officials who were hired between 2002 and 2012. However, the police believe that the greater number of officers on the streets contributed to robbers targeting houses, vehicles and businesses instead.

55 Ibid.
56 Ibid.
**Key Indicator**

**Rule of Law Index**
Measures the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. 60


<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>0.11</td>
<td>0.12</td>
<td>0.08</td>
<td>0.12</td>
<td>0.16</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.53</td>
<td>0.52</td>
<td>0.51</td>
<td>0.48</td>
<td>0.64</td>
</tr>
<tr>
<td>Brazil</td>
<td>0</td>
<td>-0.01</td>
<td>-0.11</td>
<td>-0.12</td>
<td>-0.08</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.12</td>
<td>0.08</td>
<td>0.04</td>
<td>0.08</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

**Intellectual Property Protection**
The WEF survey asked business leaders to provide their expert opinion on the following: “intellectual property protection and anti-counterfeiting measures in your country,” are 1=weak and not enforced, 7=strong and enforced. 61


<table>
<thead>
<tr>
<th>Country</th>
<th>Index value</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>5.3</td>
<td>22</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.2</td>
<td>25</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.3</td>
<td>92</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.7</td>
<td>72</td>
</tr>
</tbody>
</table>

1=weak and not enforced, 7=strong and enforced.

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**2.5. Fair competition**

Fair competition in the market place is important for the private sector and sustainable enterprises to grow and for a range of efficiencies in the provision of goods and services, reduce public distortions and to widen consumer choices. In many areas of the world, activities of enterprises are regulated at national and international levels to ensure sustainability, preservation of jobs and to prevent monopolistic practices.

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The Intensity of Local Competition Index measures the level of competition in local markets from 1 to 7, 1 being limited and 7 being intense in most industries. In terms of the intensity of local competition, South Africa scored 5.5 in the 2015 Global Competitiveness Report, equal to Malaysia and against Brazil’s 5.3 and Turkey’s 5.9. South Africa’s value for effectiveness of anti-monopoly measures was scored at 5.1 compared with 4.7 for Turkey, 4.3 for Brazil and 5.0 for Malaysia.62

South Africa has relatively sophisticated competition laws in line with international laws and regulations. The South African Competition Act 89 of 1998 as amended applies to all economic activity within, or that has effect within, South Africa. As such, South Africa competition laws apply to all South African firms and international firms doing business in the country and also apply to those business activities that have an effect on the South African economy.63 Key objectives of the Act is to “ensure that small and medium enterprises are afforded an equitable opportunity to participate in the economy, increase the ownership stake of historically disadvantaged persons and expand opportunities for South Africa’s participation in world markets”.64 A feature of South Africa’s competition regime is that its competition law enables government to participate in the Competition Commission’s proceedings, which is an independent body tasked with promoting fair competition and enhancing the competitiveness of South African markets. The Commission also has to balance the application and enforcement of competition law with industrial policy when performing its mandate.65 The Competition Act also empowers the competition authorities to actively pursue public interest objectives, for instance carefully scrutinising mergers for effects on specific and vulnerable employees. A continuing challenge for the Commission however is in dealing with government’s expectation that it attends to several socio-economic problems through competition policy, which may be better dealt with through direct sector regulation or industrial policy measures.

The EESE survey tested the extent of how competition policy and regulation is perceived by SME owners, informal business owners and employees. Interestingly, there were wide variations in the responses. SME owners rated competition policy and legislation to be sometimes effective 35%, informal business owners 28% and employees 20%. In the category of non-effective, SME owners accounted for 20% of the responses, informal business owners 17% and employees 14%. Of the total sample, 30% respondents rated the country’s competition policy and laws to be sometimes effective.

64 Ibid.
The (EESE) survey gathered information as to whether formal SME business owners operated informally in their early/start up stages of enterprise. Just on 10% of the respondents reported to have been informal for an average period of 2 years. The businesses largely reported factors associated with the protection of shareholder interests and market requirements as being drivers of formalization, with a large majority expressing scale opportunities as being a key driver. Market forces and growth were expressed in greater frequency than other factors mentioned. This highlights the pivotal role the business community plays in encouraging formalization. As enterprises become increasingly reliant on the services and market opportunities from the formal economy, they are encouraged to adhere to the norms and standards practiced in their respective industries. These findings point to the important role of the South African business community in facilitating and influencing the behavior changes for transitions to formality.

On the other hand however, the informal economy can also play a destabilizing role for formal businesses, especially SMEs. Informal enterprises do not fully comply with the norms and standards of the country and have a marginal advantage over their law abiding SME counterparts, which carry the burden of minimum wage, tax compliance, company procedural guidelines and many more official requirements. To assess the impact of informal enterprises on formal SMEs, the EESE survey asked formal SME business owners whether or not competition from the informal economy was an impediment to their business growth, with 28% of the respondents reporting in the affirmative. Of those that reported informal competition as an impediment, 22% indicated it was a very significant, 56% moderately significant, and 22% not an impediment at all.

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Given the importance placed on the SME sector by the NDP and the competition pressures felt by small firms from the informal economy, the challenge is to ensure an environment that enables SMEs to grow and expand their operations, and to put in place conditions under which start-ups can flourish and more entrepreneurs are encouraged to formalise and enter the formal market. The World Bank suggests that rewarding firms for being small is not the point of SME policies and support schemes, rather it is about creating a functioning ecology for firms – where new ones can emerge, where existing ones can contract, and where firms can work with each other depending on the requirements of the sector. To facilitate the transitions to formality, the ILO’s recommendation 204 (R204) proposes a balanced approach to incentivise and enforce formalisation of enterprises, proposing both pull and push factors such as making licensing procedures easier as well as adopting a light touch enforcement approach.

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Key Indicator

**Internal Competitiveness**

The Global Competitiveness report measures elements that of internal competition. Measurements that are useful to identify the degree to which internal competition is fair are the intensity of local competition and the effectiveness of anti-monopoly policies as measured in the GCI, based on a survey of business respondents measuring the affect to which policy and legislation affects the reported elements.  

Source: Global Competitiveness Report 2015.

<table>
<thead>
<tr>
<th>Country</th>
<th>Intensity of local competition</th>
<th>Effectiveness of Anti-monopoly policy**</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>43 rank 5.4 index 13</td>
<td>5.1 index 13</td>
</tr>
<tr>
<td>Malaysia</td>
<td>37 rank 5.4 index 18</td>
<td>4.9 index 18</td>
</tr>
<tr>
<td>Brazil</td>
<td>41 rank 5.4 index 73</td>
<td>3.7 index 73</td>
</tr>
<tr>
<td>Turkey</td>
<td>10 rank 5.9 index 34</td>
<td>4.3 index 34</td>
</tr>
</tbody>
</table>

* 1 = not intense at all; 7 = extremely intense  
** 1 = does not promote competition; 7 = effectively promotes competition

External Competitiveness

The Global Competitiveness Report measures elements of external competition. Measurements that are useful to identify the degree to which external competition under the market efficiency pillar is the prevalence of non-tariff barriers and the Trade tariffs as a duty in the GCI, based on a survey of business respondents measuring the affect to which policy and legislation affects the reported elements.  

Source: Global Competitiveness Report 2015.

<table>
<thead>
<tr>
<th>Country</th>
<th>Prevalence of non-tariff barriers*</th>
<th>Trade Tariffs, % duty**</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>33 rank 4.6 index 78</td>
<td>6.2 index 78</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9 rank 5.1 index 63</td>
<td>4.6 index 63</td>
</tr>
<tr>
<td>Brazil</td>
<td>117 rank 3.9 index 120</td>
<td>11.6 index 120</td>
</tr>
<tr>
<td>Turkey</td>
<td>42 rank 4.5 index 72</td>
<td>5.4 index 72</td>
</tr>
</tbody>
</table>

* 1 = Scale 1=Strong; 7= no limit  
** Trade-weighted average tariff rate 2013 or most recent year available

2.6. Information and communication technologies

With the continuing shift towards knowledge based economies, the use of information and communication technologies is fundamental to the development of sustainable enterprises. Affordable access to information technology (ICT) enhances competitiveness and innovation. The South African ICT sector has grown rapidly, twice the rate of the economy with the sector contributing 2.9% of the country’s total GDP in 2012. The combined factors of the levels of economic and social development in South Africa make for a different context for the country’s ICT development than in most other African countries with which it is generally compared. A relatively sophisticated ICT sector has emerged in South Africa over two decades of telecommunications reform since the mid-1990s, with currently two national fixed-line operators, five mobile operators, and hundreds of internet service providers and value-added network service providers. The sector grew significantly from 2005; the Department of Communications (DoC) reported in 2010 that the total South African telecommunications market had grown from R131 billion in 2007 to R179 billion

70 Ibid.  
in 2010. Furthermore, the South African IT industry was valued at R77.1 billion in 2011 and is expected to grow at a compound annual growth rate (CAGR) of 8.6% to reach R116 billion in 2016.\textsuperscript{72}

Despite its rapid growth however, South Africa’s ICT has not been accompanied by the realisation of the primary policy objective of affordable access for all to the full range of communications services that characterise modern economies. The Network Readiness Index (NRI) measures countries’ propensity for exploitation of the opportunities offered by ICT, and the impact of ICT on the competitiveness of nations. South Africa has slipped from 70 in the NRI global ranking in 2013 to 75\textsuperscript{th} place out of 144 countries in 2015, trailing behind Malaysia’s 32 ranking and Turkey’s 48 in 2015.\textsuperscript{73}

Other indices used to measure ICT also show that South Africa has lost status as a continental leader in internet and voice connectivity. The International Telecommunications Union (ITU) ICT Development Index compares developments in information and communications technologies in 154 countries and combines 11 indicators into a single measure. These include ICT access, use and skills such as households with a computer and number of internet users, and literacy levels. South Africa’s ranking on the ITU ICT Development Index slipped from 72\textsuperscript{nd} in 2002 to 90 in 2014 against Brazil’s 66, Malaysia’s 71 and Turkey’s 68 rankings.\textsuperscript{74} The downgrading in the country’s rankings reflects the duopoly characteristics in South Africa’s fixed and mobile markets, which have in recent years featured price-matching, poor service quality and anti-competitive behaviour. The state owned fixed-line provider Telkom retains the lion’s share of the market and competes downstream with its competitors in the electronic communications service and electronic communications network service licence categories.\textsuperscript{75} Combined, these factors make competitive pressure from new entrants in both the fixed and mobile markets difficult to exert.

Fixed line access has continued to decline to 18% of households in 2012, with only 24% of households in urban areas and 5.8% of households in rural areas having working fixed lines.\textsuperscript{76} Ownership of mobile phones is high in South Africa, with little difference between urban and rural areas estimated at 86% of the adult population (15 years or older) owning mobile phones in 2012.\textsuperscript{77} The continued increase in the use of mobile phones has been stimulated by reductions in the costs of services. The sector’s regulator, the Independent Communications Authority (ICASA) introduced a mobile terminate rate (MTR) reduction glide path to reduce mobile service costs to consumers, with the final MTR reduction taking place in 2013. However, the cheapest mobile prices in South Africa still lag behind countries where the regulator has enabled competitive pricing pressure. The ICT Satellite Account, 2015 reported that for every 100 rands spent on household expenditure, R4.60 (4.6%) was spent on ICT products in South Africa. Of this, R2.90 (2.9%) was spent on telecommunications.\textsuperscript{78}

South Africa’s policy to broaden access to ICT has been lacklustre. Early reform efforts for the sector post 1994 were undermined by lack of effective policy implementation and follow-up with the result that South Africa has an uncompetitive ICT market structure, weak institutional arrangements and a less than desirable regulatory framework governing the sector. The government’s ICT Vision 2020 that was announced in 2009 had the aim of developing a unified vision and strategy

\textsuperscript{76} Ibid.
\textsuperscript{77} Ibid.
\textsuperscript{78} Statistics South Africa. (2015). Information and Communication Technology satellite account for South Africa.
towards defined goals for the industry by 2020, and providing a roadmap for the ICT industry’s
development and growth with South Africa aiming to become a leading country in the information
era. However, progress on the initiative stalled early in its formation due to inconsistencies in
decision-making at the executive level of government and the lack of clear policy direction. The
Presidential Infrastructure Coordinating Commission (PICC,) which has the mandate to coordinate
infrastructure projects across all spheres of government and state-owned enterprises launched a
strategic integrated project (SIP 15) to expand access to communication technology in late 2012.79
The aim of the project is “to ensure universal service and access to reliable, affordable and secure
broadband services by all South Africans, prioritising rural and under-serviced areas and stimulating
economic growth”. State-owned companies are identified as the agents of the SIP and mention is
made of public-private collaboration in its implementation.

Information technology is a critical enabler for informal businesses and small business
development. A survey conducted in 2012 shows some interesting insights into the use and
importance of mobile technology for informal businesses.80 The findings show that mobile phone
usage is very high among informal business owners for marketing their businesses and they do so
through mobile applications such as WhatsApp, Mxit, Twitter and Facebook. Informal business
owners conduct most of their financial transactions, with both their customers and suppliers, through
cash and use of mobile money transfers is very limited. Using mobile phones was the second most
common method to communicate with their customers and suppliers. Some informal business
owners use the document features on their mobile phones as a back-up to take orders from clients,
which the report suggests that an accounting application would assist informal business owners in
generating and managing invoices and tracking expenses. The survey shows that very few informal
business in South Africa maintain a website (4%) and even fewer have email addresses (3%). Most
of the informal businesses surveyed stated that they would like to have greater and more affordable
access to the internet, especially to learn how similar businesses operate and to check and compare
prices of products.

<table>
<thead>
<tr>
<th>Key Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information and Communication Technology Penetration</strong></td>
</tr>
<tr>
<td>The Global competitiveness report (GCI) measures countries against factor, efficiency and innovation criteria, which includes a survey of senior business individuals who report in these elements. Inclusive in this report are measurements of Internet users (% of individuals using the internet), Fixed Broadband Internet subscriptions (% of population) and Mobile broadband Subscriptions (% of population). 81</td>
</tr>
<tr>
<td><strong>Internet users</strong></td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Turkey</strong></td>
</tr>
</tbody>
</table>

Source: Global Competitiveness Report 2015

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ICT Development Index (IDI)

IDI compares developments in information and communication technologies (ICT) in 154 countries. The index combines 11 indicators into a single measure that benchmarks countries at a regional and country level. These are related to ICT access, use and skills, prevalence of connectivity and ICT literacy levels.  

Source: International Telecommunication Union, Measuring the Information Society.

<table>
<thead>
<tr>
<th></th>
<th>2014 Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>90</td>
</tr>
<tr>
<td>Malaysia</td>
<td>71</td>
</tr>
<tr>
<td>Brazil</td>
<td>65</td>
</tr>
<tr>
<td>Turkey</td>
<td>68</td>
</tr>
</tbody>
</table>

Network Readiness Index

Measures the propensity for countries to exploit the opportunities offered by information and communication technology. It forms a comprehensive assessment of how ICT impacts the competitiveness and well-being of countries.


<table>
<thead>
<tr>
<th></th>
<th>2014 Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>75</td>
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<tr>
<td>Malaysia</td>
<td>32</td>
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<tr>
<td>Brazil</td>
<td>85</td>
</tr>
<tr>
<td>Turkey</td>
<td>48</td>
</tr>
</tbody>
</table>

2.7. Access to financial services

Enterprises of all sizes whether they are large, small or informal all need access to financial resources to stay competitive and to grow. South Africa’s formal financial services sector is sophisticated and is backed by robust laws and regulations. The sector comprises numerous domestic and foreign institutions providing a full range of services – commercial, retail and merchant banking, mortgage lending, insurance and investment. South Africa’s banking system comprises a central bank as well as a few large, financially strong banks and investment institutions; a number of smaller banks, as well as foreign banks and investment institutions with operations in South Africa. Legislation governing the banking sector is primarily the Banks Act 1990 and the Mutual Banks Act 1993 and the banks are highly regulated, an impact assessment conducted on the laws and regulations affecting the banking sector in South Africa identified as many as 211 pieces of primary legislation with which banks in South Africa are required to comply. The regulatory controls limiting external investment by banks in South Africa served as a major buffer from the global financial crisis 2008/2009, limiting its consequences on South Africa. The Banking Association of South Africa represents all registered banks in South Africa. Furthermore, there are several Development Finance Institutions that facilitate access to finance for SMEs and informal businesses in South Africa.

The National Credit Regulator is responsible for regulating the credit industry including registration of credit providers, credit bureaus and debt counsellors. It is also responsible for enforcing compliance with the National Credit Act as well as developing an accessible credit market to meet and promote the needs of marginalised people. Non-credit financial services by the non-banking sector are regulated by the Financial Services Board (FSB), an independent body responsible for the regulation of financial markets and institutions including insurers, fund managers and broking operations. The Johannesburg Stock Exchange represents the 19th largest exchange in the world by market capitalisation and the largest exchange in the African continent. In 2012 it was ranked in first place (for the third time) in terms of securities regulation by the World Economic Forum.

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Comparative rankings for South Africa against Brazil, Turkey, Malaysia from the 2015 Global Competitiveness Report, shows that South Africa was ranked 6th out of 144 countries in terms of its soundness of banks and availability of financial services, 21st in terms of affordability of financial services and 32 for ease of access to loans:

Table 2: Financial services rankings

<table>
<thead>
<tr>
<th>Financial services rankings</th>
<th>Soundness of Banks</th>
<th>Availability of financial services</th>
<th>Affordability of financial services</th>
<th>Ease of access to loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Global competitiveness report (GCI) measures countries against factor, efficiency and innovation criteria, which includes a survey of senior business individuals who report in these elements. Inclusive in this report are measurements of the soundness of banks, the availability of financial services, the affordability of financial services and the ease of access to loans.</td>
<td>South Africa</td>
<td>6</td>
<td>6</td>
<td>21</td>
</tr>
<tr>
<td>Malaysia</td>
<td>35</td>
<td>17</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>13</td>
<td>33</td>
<td>36</td>
<td>85</td>
</tr>
<tr>
<td>Turkey</td>
<td>38</td>
<td>35</td>
<td>37</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: Global competitiveness report 2014.

Financial services have expanded in many areas of the economy, with retail chains offering financial support for cash withdrawals at the point of sale, and the adoption of mobile banking has greatly enhanced access to services especially for small enterprises.

Despite the robustness of South Africa’s formal financial services sector, small and informal businesses face difficulties in accessing finance. In 2013 the World Bank strongly motivated a focus of financial inclusion for South Africa, using its highly developed financial and banking infrastructure and well developed mobile technology to expand services to meet the needs of the unbanked population. Over 12 million adults in South Africa were estimated to not have a bank account in 2013. Interestingly, the micro-enterprise lending sector is under developed in South Africa, unlike its neighbours in the region. Research conducted in 2013 found that there were only 14 micro finance institutions operating in the country, collectively servicing just over 112 000 active loans and employing 700 staff. The study found that outreach had actually dropped since a review done in 2009, when active loans reached 120 000.

The EESE survey tested respondents’ perceptions regarding the ease of access to obtain finance from banks, venture capital, other businesses, family and friends. First, the respondents were asked if they had a new business idea, how easily they believed it would be to obtain finance from banks. The findings suggest that businesses, formal and informal as well as employees would find it difficult (66%), or impossible (23%).

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89 Ibid.
The second question turned to access to venture capital. The majority, 67% of respondents indicated that it was either difficult or impossible to access venture capital. These findings support other studies that have found that venture capital funding plays a relatively small role in South Africa especially for SMEs. Findings from the Davis Tax Committee show that the allocated allowance for venture capital companies under the amendments to the tax regime, Section 12J of the Income Tax Act, had provided limited incentives to lure high net worth individuals to invest in small businesses, with only three companies registering under this section of the Income Tax Act.\(^9^1\)

Third, respondents were asked how easy it would be to obtain finance from family. While 33% of the overall respondents stated it would be easy (38% for SME owners, 31% for informal business owners and 25% for employees), 59% stated that it would be either difficult (43%) or impossible (16%). Only 18% of the overall respondents felt that obtaining finance for their business idea from friends would be easy, with 51% stating that this would be difficult or impossible, 18%.

Similarly, respondents thought that obtaining finance from other businesses, such as trade credit, would be either difficult (59%) or impossible (11%). Only 21% SME owners felt that this would be a viable option to access the finance needed and 6% informal business owners stated the same.

Government has invested significant resources towards ensuring greater access to financial support over the years. The Small Enterprise Financing Agency (SEFA) is the lead government institution in promoting lending to SMEs and has the mandate to provide finance to the SME sector directly and also through intermediaries. While SEFA has had some success in direct lending, the wholesale product – a credit guarantee risk-sharing scheme with commercial banks and microfinance institutions – had declined by 90% in 2014 since 2006\(^9^2\). Responses from the EESE survey appear

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\(^9^0\) Calculations of the weighted averages of respondents are indicated in the graph. Responses vary from very easy to Impossible. Very easy =1 and Impossible=5 with a midpoint of 2.5.


to reflect these findings. Asked how easy it would be to obtain finance from government support institutions (e.g. SEFA), an overwhelming 87% of the respondents stated that it would be either difficult (47%) or impossible (37%). The perceived level of difficulty appeared to be similar across the respondent categories; SME business owners (42%), informal business owners (48%) and employees (52%).

The EESE survey respondents were also asked to provide their preferred choice on where they would find a loan for their new business idea from a list ranging from own savings, bank finance, venture capital, family and friends to credit card loans, stokvels and micro-lenders. The first preferred choice for all respondents – SME owners, informal business owners and employees – would be to use their own savings. These results resonate with the findings from the SME Growth Index, which in its first baseline year found that almost 60% of the survey’s panellists drew on their own financial resources to start their businesses. Some had drawn on personal savings, others cashed in redundancy pay-outs or pensions, and some had re-mortgaged their homes or relied on their access bonds.\(^\text{93}\)

The second preferred option for SME business owners and employees would be to seek bank finance, while for informal business owners they would prefer to seek finance from family as their second option. In third place, SME business owners would prefer to source finance from family, and the third option for both informal owners and employees would be to tap into family savings.

Figure 14: Financing a new business idea

The Government in its 2015 Budget announced the establishment of new Small Business Funding Entities to further enhance access to finance small and micro businesses. These entities will be set up through a registration process with the South African Revenue Services (SARS) and are intended to benefit the small, medium and micro enterprise community through funding provided on a non-profit basis and with an altruistic or philanthropic intent. The Budget announcement states that

from March 2015, any amount received by or accrued to, or in favour of a small business corporation from these entities will be exempt from income tax.  

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### Key Indicator

<table>
<thead>
<tr>
<th>Domestic Credit to Private Sector (% of GDP)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>171.5</td>
<td>180.7</td>
<td>182.2</td>
<td>185.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>128.1</td>
<td>133.9</td>
<td>142.6</td>
<td>145.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>95.2</td>
<td>103.3</td>
<td>103.4</td>
<td>108.3</td>
</tr>
<tr>
<td>Turkey</td>
<td>71.6</td>
<td>74.4</td>
<td>84.2</td>
<td>87.9</td>
</tr>
</tbody>
</table>

Credit to private sector (% of GDP).

Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).

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### 2.8. Physical infrastructure

The quality of transportation, energy, telecommunications, roads, ports and airports is essential for enterprises to flourish and expand. South Africa inherited considerable challenges in the delivery and upgrading of physical infrastructure created by the legacy of apartheid. In 2012 the South African government announced their plans to intensify investment in public-owned infrastructure. According to the National Infrastructure Plan, it is expected to spend R827 billion over the years from 2013/2014 in building new and upgrading existing infrastructure focussed on 18 strategic integrated projects (SIPS). Telecom investment responds to a need for a technology catch up but no structural changes are being implemented to diversify the supply of electricity, transport and telecommunications in the future. The bulk of the investment in infrastructure is in the upgrading and building of new power generation capacity, which currently cannot meet demand and result in periodic rolling black-outs known as ‘load shedding’, which continue to hit businesses hard, especially small enterprises. The national energy operator, Eskom, is currently constructing two large coal-fired plants, Medupi and Kusile. Since construction began eight years ago, the Medupi plant came partially on line in mid-2015.

Post 1994, spatial development frameworks focussed on the use of nodes and corridors became a standard form of planning in South Africa. The Maputo Development Corridor was launched in 1996 and represents the first regional corridor initiative in Southern Africa. Aimed at increasing trade between and along its starting points in the Gauteng province and the Maputo harbour in Mozambique, it involves investment in roads, railways and ports.

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Between 2002 and 2014 the share of households accessing basic services increased from 77% to 86% in the case of electricity, from 80% to 86% for water infrastructure and the share of households accessing sanitation went up from 62% to 80%.\(^97\) Despite these impressive gains by government in the post-apartheid period, small and medium public authorities still face obstacles in implementing the decentralisation and delivery of municipal services to their local communities. The constitution and subsequent legislation post 1996 put municipalities at the heart of local development and provides them with a high level of autonomy and responsibility in service delivery including infrastructure maintenance such as potable water supply and roads.

Smaller municipalities generate only a small share of their revenue and rely largely on transfers from central government whereas the larger metropolitan municipalities are able to generate around 90% of their own revenue and are able to borrow from the financial markets. Limited resources and capacity constraints at the small local municipalities have led to increasing “service delivery” public protests. Post 2004, the second decade of democracy has been characterised by escalation of popular protests and increased militancy reminiscent of the anti-apartheid struggle. In 2014, police statistics revealed that the Gauteng province alone had experienced more than 500 protests of which over 100 had turned violent. Most of the recorded protests had taken place in the informal settlements or poor urban areas.\(^98\) Many of these protests have resulted in loss of lives, damage to property and looting of informal businesses, particularly those owned by foreigners. A major problem for the large informal settlements and townships is their poor degree of connection to urban centres due to insufficient public transport and infrastructure; rail and roads need upgrading and expansion to cope with the increasing volume of passenger and goods transport. To address these problems, different levels of government have undertaken infrastructure investment planning within each sector in accordance with the National Infrastructure Plan and the supporting strategic integrated projects. The National Development Plan envisages that both government and business will work together to invest in infrastructure upgrades through private-public partnerships.

The EESE survey tested the opinions of respondents with regard to their assessment of the quality of infrastructure in South Africa to support businesses to operate effectively and efficiently.

Respondents were asked to rate the quality of roads, airports, rail, electricity, water, telecommunications, ICT, municipal services and customs from very good to very poor. 70% of the total respondents rated roads to be either good or satisfactory (37% and 33% respectively) and 71% assessed the quality of airports to be very good (26%) or good (51%). There were variations in the assessment of rail infrastructure with 24% assessing it to be satisfactory, 22% to be poor and 24% to be very poor. Not surprisingly given the recent power outages, 76% of the respondents assessed the quality of electricity to be poor (35%) or very poor (41%), however employees (26%) and informal business owners (19%) were more inclined to assess electricity supply as satisfactory perhaps reflecting the increased access of electricity supply to the informal settlements and townships where they reside.

Overall, the respondents assessed the quality of water and sewerage infrastructure to be either satisfactory (48%) or good (22%). Only 8% across all the categories, SME owners, informal business owners and employees assessed this to be very poor.

Just under half of the total respondents (47%) rated telecommunications to be either very good (10%) or good (37%) with informal business owners and employees being more positive, rating telecommunications as very good or good (15% and 12% respectively).

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\(^97\) Department of Planning Monitoring and Evaluation. (2014). Development Indicators. Pretoria.  
\(^98\) Heese, K., & Allan, K. (2013). Service delivery concerns are real but violence is no answer. Business Day.
Information technology infrastructure was assessed as either good (38%) or satisfactory (28%) by total number of respondents with only 6% informal business owners rating it as very poor.

With regard to municipal infrastructure, 43% of the total respondents assessed it to be satisfactory (41% for SME business owners, 43% for informal business owners and 44% for employees). However, 22% of the total respondents felt that the quality of municipal infrastructure for businesses to operate efficiently was poor or very poor (11%).

While 32% of the total respondents were unable to assess the quality of customs and border controls, reflecting perhaps that their businesses neither export or import goods, 30% SME business owners rated customs and border controls to be satisfactory. Informal business owners were more inclined to be positive with 26% assessing customs and border controls to be good as well as employees (23%).

The Quality of overall infrastructure Index; Quality of Roads; Quality of Electricity and Mobile phone subscription are measured in accordance with their rankings by the World Economic Forum’s Global Competitiveness Report in 144 countries. The rankings reveal whether a country’s infrastructure is underdeveloped or extensive and efficient with countries achieving lower ranking indicating better performance.

99 Calculations of the weighted averages of respondents are indicated in the graph. Responses vary from very good to very poor. Very good =1 and Very poor =5 with a midpoint of 2.5.
Key Indicators

Physical Infrastructure quality (Country rankings on the GCI)
The WEF survey asked business leaders to provide their expert opinion on the following: Quality of overall infrastructure, Quality of roads, Quality of electricity and Mobile phone subscription.

<table>
<thead>
<tr>
<th>Country</th>
<th>Quality of overall infrastructure</th>
<th>Quality of roads</th>
<th>Quality of electricity</th>
<th>Mobile phone subscriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>59</td>
<td>37</td>
<td>99</td>
<td>25</td>
</tr>
<tr>
<td>Malaysia</td>
<td>20</td>
<td>19</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>Brazil</td>
<td>120</td>
<td>122</td>
<td>89</td>
<td>37</td>
</tr>
<tr>
<td>Turkey</td>
<td>33</td>
<td>40</td>
<td>72</td>
<td>105</td>
</tr>
</tbody>
</table>

Country ranks for 2015 are indicated in the table.

Other Useful Indicators

Improved Water Source (% of population with access)
Access to an improved water source refers to the percentage of the population using an improved drinking water source. The improved drinking water source includes piped water on premises (piped household water connection located inside the user’s dwelling, plot or yard), and other improved drinking water sources (public taps or standpipes, tube wells or boreholes, protected dug wells, protected springs, and rainwater collection).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>92</td>
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<td>Malaysia</td>
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<tr>
<td>Brazil</td>
<td>97</td>
<td>98</td>
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<td>Turkey</td>
<td>99</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

% of population with access.

Access to electricity (% of population with access)
Access to electricity is the percentage of population with access to electricity. Electrification data are collected from industry, national surveys and international sources.

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>79.6</td>
<td>81.3</td>
<td>83</td>
<td>83</td>
<td>83</td>
</tr>
<tr>
<td>Malaysia</td>
<td>98.4</td>
<td>98.7</td>
<td>99</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>Brazil</td>
<td>98.6</td>
<td>98.8</td>
<td>99</td>
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<tr>
<td>Turkey</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

% of population with access.

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3. Social Elements

Indicators assessing social elements of an enabling environment for sustainable enterprises*

Social Element indicators

* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country’s performance in that regard. The original indicator values are included in the chapters.

- Although progress has been made towards reducing the effects of poverty and unemployment, access to decent work remains a serious concern for South Africa. With an expanded unemployment rate of 34.4%, the country’s social wage and grant schemes have provided much needed security for women, the disabled and the aged. However, budgetary pressures have meant an increase in social protection is reliant on the sustainable growth of economic activity. Measures of inequality rank South Africa in the lowest percentiles globally; both the Palma and the Gini index rank South Africa very low. Unemployment, poverty and inequality remain structurally intertwined and the critical challenges of inclusive growth define the country’s core development agenda.

- South Africa spends almost 20% of government expenditure on education and training or the equivalent of 6.5% of GDP. While access to education has increased in recent years the quality of education remains a concern. South Africa’s rank in the quality of maths and science was recorded last, 144 out of 144 countries, in the recent Global Competitiveness Report. This represents one of the largest challenges to South African enterprises; finding skills is noted as the biggest concern by SMEs in growing their businesses. Literacy rates are low, 18% for adults over 15 years of age, highlighting the need for better teacher training, especially in the rural and township areas, which make up the bulk of informal employment and enterprises.

- The EESE survey highlighted that there is a significant mismatch between the education system outcomes and the required needs of businesses, especially SMEs. Skills shortage is constantly ranked as one of the highest impediments to the growth of smaller firms.
Whilst South Africa has a well-established and funded sectoral education training programme for further vocational training, the EESE survey highlights that these programmes are seen to meet only some of the needs of business. South Africa’s low skilled labour force is seen to be an important impediment to business growth, and a barrier to decent work, especially for young people entering the labour market.

- On average, individual incomes of informal workers are very low, suggesting this work should not be seen as an alternative to formal employment. With a large informal economy playing an increasingly larger role in employment, facilitating transitions to formality to ensure social protection to all actors within it, and reducing barriers to formalisation remains a key challenge for all spheres of government.

- South Africa constitutes one of the top performers on the continent with regard to gender representation, especially in political leadership. However, respondents to the EESE survey highlighted diminished access to equal opportunities particularly in terms of business formation and equal pay.

- Personal income tax represents the lion’s share of South Africa’s tax revenue, 34.5% in 2014. However, retrenchments and job losses will put pressure on the collection of personal income tax, hence the transition to formality for informal enterprises is seen to be an important challenge for South Africa in order to expand the tax net and extend social protection and rights to people employed in the informal economy.

- South Africa’s National Development Plan (NDP) envisages a significant role for the SME sector in terms of employment generation and productivity output yet despite their importance, SMEs in South Africa are declining in terms their employment share, profitability and in number. This is in spite of government investing extensively in establishing a wide-ranging framework to provide support to small business over the past two decades. A number of studies reveal that the government’s approach to SME development has been overly ambitious with a complex, ever-changing mix of strategies. Contrary to global trends, South Africa’s SME sector appears to be struggling to survive, formalise and grow.

- While South Africa has a high value of perceptions towards entrepreneurship according to the Global Entrepreneurship Monitor, only 10% South Africans intend to start a business, and only 2.7% South Africans convert to being established businesses. Respondents to the EESE survey unanimously agree that South Africa’s education system does not teach young people to be entrepreneurs.

- With regard to access to entrepreneurship support and business development services for new business start-ups, the survey respondents indicated that such services and support is under developed in South Africa, and some believe it be non-existent, suggesting that the outreach for government business support programmes to be weak.
3.1. Entrepreneurial culture

The ability of nations to develop an entrepreneurial culture and create conditions that allow them to flourish and grow is critical to their countries' economic success. Entrepreneurial innovations may improve standards of living. In addition to creating wealth from their entrepreneurial ventures, they also create jobs and the conditions for a prosperous society.

The World Bank has argued that market share and firm level efficiency are not well correlated in South Africa.\(^{103}\) It notes that larger firms have larger market share than they should, and small firms are often crowded out by the smaller number of large firms that can adopt pricing or other behaviour if they feel challenged. Despite this imbalance, SMEs and informal enterprises play a vital role in South Africa’s economy in terms of employment.

More than half of formal non-agricultural employment is in firms with less than 50 employees and more than 80% is in firms with less than 250 employees.\(^{104}\) SMEs are diverse, they range in size from micro, small to medium businesses and they operate in all sectors in the economy such as manufacturing, ICT, retail, tourism, business services and agri-processing, amongst others. However, a comparative picture of South Africa’s SME performance, their contribution to GDP and employment, to that of other countries is difficult due to a lack of clear definitions and robust statistical evidence – little is known about the dynamics of SMEs and their characteristics during different points in their growth cycles. Nonetheless, it is known that smaller firms have greater propensity to employ the more marginalised in our society; young people, African women and low-skilled workers are 19 percentage points more likely to be employed in SMEs.\(^{105}\) Estimates show that SMEs contribute between 40-50% of the country’s GDP and they constitute the majority of firms within the South Africa’s business community.\(^{106}\) Firms employing less than 50 employees constitute over 60% of South Africa’s overall business community and SMEs already account for 91% of the country’s formalised businesses.\(^{107}\)

The National Development Plan (NDP) adopted by government recognises the importance of the SME community in South Africa in achieving the country’s socio-economic goals. It suggests that “a large percentage of the jobs will be created in domestic-orientated activities and in the services sector. Some 90% of jobs will be created in small and expanding firms. The economy will be more enabling of business entry and expansion, with an eye to credit and market access. By 2030, this share of small and medium sized firms in output will grow substantially. Regulatory reform and support will boost mass entrepreneurship. Export growth, with appropriate linkages to the domestic economy, will play a major role in boosting growth and employment with small and medium-sized firms being the main employment creators”.\(^{108}\)

Government has invested extensively in establishing a wide-ranging institutional framework to provide support to small business over the past two decades, and has established a number of programmes and initiatives over the years. In keeping with the general trend, the 2014 Budget provides for R6.5billion over three years towards extending small business support programmes and initiatives, and a new ministry for small business development was established in May 2014 to

facilitate the development and growth of small businesses and co-operatives. A common caution however is that government’s approach to SME development and enterprise formalisation is that it has been overly ambitious with a complex, ever-changing mix of strategies. The World Bank’s evaluation of eleven government programmes for instance found that their economic and development impact was not encouraging. The report notes that government’s strategies had a tendency to be supply-driven, used a generic one-size-fits-all approach, and that they had overly complex goals. This observation has been echoed in many subsequent studies, which have found that the main element driving government’s policy and support measures is based on an erroneous understanding that all small firms (from micro, small to medium sized enterprises) are homogenous in nature, and all require the same support.

Despite their importance as drivers for job growth, evidence gathered on a number of studies is beginning to show that SMEs in South Africa are declining in terms of their employment share, profitability and in number. The Commission for Conciliation, Mediation and Arbitration (CCMA) reported a major rise in the number of small scale business retrenchments of 13 020 from 2013 to 2015, with a significant 40% rise in retrenchment cases seen in the first quarter 2015. This is in direct contradiction to global trends and the country’s development needs. South African SMEs are beginning to show high rates of job destruction in the sector. Moreover, new enterprises have an exceptionally high failure rate – as many as 70% fail in their first two years giving the country one of the highest enterprise failure rates in the world. Existing SMEs are ageing, with few new entrepreneurs entering the market. Research conducted by National Treasury’s Economic Policy Unit also notes that South Africa has disturbingly low levels of growth in the SME sector, despite the extensive institutional support infrastructure that government has established. The findings, using data from Statistics SA, indicate that SMEs accounted for only 8.5% of the total non-financial investment activity in 2012 compared with 12.9% in 2010. This creates a worrying picture for South Africa; contrary to global trends, much of the SME sector in South Africa appears to be struggling to formalise, grow and expand.

In terms of the informal economy, it is estimated that 2.4 million people are reported working in the South African informal economy – defined as enterprises employing less than five people and not registered for value added tax purposes – representing some 16% of South Africa’s employed labour force. The Statistics SA survey published in 2014 found that the number of informal businesses declined from 2.3 million in 2001 to 1.1 million in 2009, with a slight uptick to 1.5 million in 2013. The findings show that there has been an increase in commercial lending to the informal economy between 2001 and 2013 (4% loans in 2001 to 17% loans reported in 2013). The study found that most of the informal enterprises have a turnover of between R1 000 to R10 000 per month and are predominately African owned by people falling within the 35-44 age group. The major reason for starting their enterprise was unemployment (60% in 2001 compared to 70% in 2013) and the vast majority, some 95%, operate only one enterprise. Asked what their major needs were, respondents to the Statistics SA survey stated “marketing” as their key priority (40.5% in 2013 against 27.4%

References:

reported in 2001) with the second most important priority being “reduced regulation” (21.5% in 2013 against 9.6% in 2001).

On average, individual incomes of informal workers are very low, suggesting this work should not be seen as alternative to formal employment. Cumulatively, however, these activities contribute up to 7% to South Africa’s GDP. Despite the important role played by the informal economy, many challenges and constraints threaten its sustained ability to mediate the impact of poverty and unemployment. These have been cited to include legal and regulatory constraints, lack of access by enterprises in the informal economy to finance and financial services, access to markets, skills development and technology support, business infrastructure; poor stakeholder management systems; and lack of access to knowledge management (information) and capacity building opportunities.

**Figure 16: The Global Entrepreneurship index 2014, South Africa, Brazil, Malaysia, Turkey**


Two initiatives by government have potential to shift the policy environment for the informal economy in South Africa. The Draft Licensing of Businesses Bill, in its March 2013 iteration, would require any person involved in business activities – no matter how small – to have a licence. However, the draft bill provides no incentive to obtain a licence, but punishments for not doing so are draconian – confiscation of goods, fines and imprisonment for up to 10 years. If these provisions are pursued, they may provide a deterrent to enterprise creation and formalisation. The second initiative is the National Informal Business Upliftment Strategy (NIBUS), announced in 2014 by the national Department for Small Business Development. This initiative constitutes the first attempt at a nationally co-ordinated approach to dealing with the informal economy in South Africa. It proposes to tackle critical issues that relate to informal businesses. The purpose of the Strategy is to facilitate the creation of an enabling regulatory environment that will enhance enterprise development support, co-ordinate intergovernmental and stakeholder relations to broaden participation of South Africa’s

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informal business sector in the economy. Commentators have noted that policy at both the national and local level needs to recognise the diverse nature of informal activity, and that these activities require support that is specific and targeted.

To assess the levels of the entrepreneurial culture in South Africa in comparison with the countries under review – Brazil and Malaysia\textsuperscript{117} – the Global Entrepreneurship Monitor (GEM) annual reports provide a comprehensive global comparative study of entrepreneurial behaviour. The GEM’s benchmarking model provides a framework of conditions for entrepreneurship that need to be in place before a nation can collectively benefit from the entrepreneurial activities. These are a subset that flow from the social, cultural and political context of a nation and are conditions that are primarily determined by the legal and regulatory framework as well as institutions and infrastructure provided by government. Characteristics evaluated by GEM include attitudes to entrepreneurship; the types of activities; motivation for entrepreneurship, and early stage entrepreneurial activity (TEA) rate – the percentage of the adult population involved in either start-ups or running a firm for less than 3.5 years.

In summary, the findings from the GEM study shows that in terms of perceptions towards entrepreneurship, South Africa has a high value (70%) in comparison to Brazil (60%) and Malaysia (50%). With regard to the attributes for entrepreneurship, South Africans attitude is the lowest of the three countries with only 10% having the intention of starting a business. Total Early Stage Entrepreneurship (TEA) demonstrates that early stage entrepreneurs that stay in business in South Africa is at 7% compared with Brazil’s 17%, and only 2.7% South Africans convert to being established businesses.

The EESE survey for South Africa explored the extent to which respondents perceived a number of factors relating to entrepreneurship culture. Respondents were asked to describe what they thought the attitude of young people was towards entrepreneurship. Overall, the results show a positive perception, 40%, of the total number of respondents.

\textbf{Figure 17: Young people’s attitude toward entrepreneurship}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure17}
\caption{Young people’s attitude toward entrepreneurship}
\end{figure}

\textit{In South Africa, how would you describe general attitudes among young people toward entrepreneurship?}

\textsuperscript{117}Note, Turkey was not reviewed in the GEM 2014/2015 report.
Respondents were then asked to describe whether the attitude towards entrepreneurship differs between young men and young women. Most respondents, 40%, perceived the attitudes between young men and young women to be similar. SME owners (20%), informal business owners (24%) and employees (23%) were most likely to consider that young women had a slightly more positive attitude to entrepreneurship than young men.

Figure 18: Attitude towards entrepreneurship between young men and young women

![Entrepreneurship Culture Chart]

Do you think that the attitude towards entrepreneurship differs between young men and young women?

Asked whether young people have the necessary skills and competencies needed for starting and running their own businesses in South Africa, the EESE findings show a small minority believe this to be so (3% of the total sample). 36% of the total sample stated that a minority of young people might have the required skills and competencies. The categories most likely to indicate that quite a few young people had the necessary skills to start and run a business were informal business owners and employees (31% and 19% respectively).
Figure 19: Perception of young people’s competencies and skills for starting a business

The EESE survey also probed respondents views with regard to what they thought the top three, most important (first, second and third) reasons that prevent young people from starting a business in South Africa. All respondents unanimously agreed, in first place, that South Africa’s education system does not teach young people to be entrepreneurs. The second most important reason for SME business owners was that young people can’t get access to funding, while informal business owners and employees differed, stating that the second reason was that young people favoured wage employment to starting a business. Informal business owners ranked lack of information on how to start a business as their third choice, and employees a lack of skills and training on how to start a business in third place.
With regard to access to entrepreneurship support and business services (such as advice, mentoring, information on business licensing, regulatory requirements) for new business start-ups, respondents indicated that such services and support is underdeveloped in South Africa (69% of total respondents). A particularly worrying finding from the EESE survey is that SME business owners and informal business owners believe entrepreneurial and business services support to be non-existent in the country (25% and 17% respectively).
Despite government’s investing in support programmes, findings from the SME Growth Index show that very few small businesses had received business development support from government programmes (only 1% for manufacturing firms and less than 7% of firms in the business services sector). Asked why they had not, over half the firms participating in the study stated they were not aware of available support, or did not know how to make contact. The red tape implication in dealing with government support programmes also has a significant effect on uptake; 20% of firms stated that the amount of paperwork involved dissuaded them from applying for support.  

### Key Indicators

<table>
<thead>
<tr>
<th>Physical Infrastructure quality (Country rankings on the GCI)</th>
<th>Good career choice</th>
<th>High status for success</th>
</tr>
</thead>
<tbody>
<tr>
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<td>69.6%</td>
<td>72.9%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>50.4%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Brazil*</td>
<td>63.8%</td>
<td>59.5%</td>
</tr>
</tbody>
</table>

*As no data was available the average value of surrounding countries is used as a proxy.

Source: Global competitiveness report 2015.

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Other Useful Indicators

<table>
<thead>
<tr>
<th>Attributes for Entrepreneurship</th>
<th>Perceived Opportunities</th>
<th>Perceived Capability</th>
<th>Fear of failure</th>
<th>Entrepreneurial intentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>37.0%</td>
<td>37.6%</td>
<td>25.4%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>43.4%</td>
<td>38.4%</td>
<td>26.8%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>55.5%</td>
<td>50.0%</td>
<td>35.6%</td>
<td>24.5%</td>
</tr>
</tbody>
</table>

(The table reflects the % of population between 18-64 years)


<table>
<thead>
<tr>
<th>Total Early-stage Entrepreneurial Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>The GEM’s report identifies the different stages of entrepreneurial activity in order to differentiate nascent entrepreneur (those in process of giving birth to their business and have committed resources within 3 months) from new business owners (those already in business for up to 42 months and pay wages). These are also differentiated from total early-stage entrepreneurial activity for individuals who are in the process of starting a business or are already running a new business, not older than 42 months. The established business ownership rate identifies managed businesses older than 42 months. Failure rates are defined by the discontinuation rate.</td>
</tr>
</tbody>
</table>

Source: GEMS Report 2015

3.2. Education, training and lifelong learning

A skilled workforce and the expansion of human capabilities through the delivery of quality education, training and life-long learning is equally important in helping workers and new entrants to the labour force find quality jobs and for enterprises to find skilled workers that they require to grow and expand their business operations. South Africa spent almost 20% (R227 billion) of total government expenditure on education, training and lifelong learning in 2013/2014, equivalent to

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6.5% of the country’s gross domestic product (GDP). According to the constitution’s Bill of Rights, all South Africans have the right to a basic education, including adult basic education and access to further education. The state has the obligation, through reasonable measures, to progressively make this education available and accessible to its citizens.

The South African National Qualifications Framework (NQF) recognises three broad bands of education: General Education and Training, Further Education and Training, and Higher Education and Training. School life spans 13 years or grades from grade 0 to grade 12 the year of matriculation and education is compulsory for all South Africans from the age of seven (grade 1) to age 15 or the completion of grade 9. General education and training also includes Adult Basic Education and Training (ABET), which is available to adults wanting to finish their basic education. Further education and training occurs from grade 10 to 12 and also includes career-orientated education and training offered by Further Education Training (FET) colleges, technical colleges, community colleges and private colleges. In 2009, the National Department of Education was split into two ministries: Basic Education and Higher Education and Training, with each ministry responsible for its level of education across the country as whole. Decentralisation of these roles provide for the nine provinces to have their own education department. The split of the ministries also saw the Sector Education and Training Authorities (SETAs) move from the Department of Labour to Higher Education. The SETAs provide mandatory training for some sectors such as the financial services sector as well as other sectors and are funded by a 1% payroll levy from firms whose payrolls exceed R500 000. There are 21 SETAs, established under the Skills Development Act 1998, which have the mandate to develop skills plans and oversee training in each of their sectors and with the prime goal of addressing the sectors skills training needs, especially for small businesses.

Central government provides a national framework for school policy but the administrative responsibility lies with the provinces. At grassroots level, elected school governing bodies have a considerable say in the running of their schools and private schools together with higher education institutions also have a fair amount of autonomy. The government has provided significant resources to rectify the legacies of apartheid and have seen some successes; since 2011 the matriculant pass rate has risen, reaching 78.2% in 2013 and the percentage of learners qualifying to enrol at a university has grown steadily, reaching 30.6% in 2013. But challenges remain; illiteracy rates are currently at around 18% for adults over 15 years of age – almost 9 million adults are not functionally literate and teachers in township schools in particular, are not properly trained.

South Africa’s history of apartheid deprived and disadvantaged millions of black African people for a number of decades especially in education. Under the Bantu Education Act No 47 of 1953, black African children received state education that was designed to provide them with mainly manual labour skills. Over the years, a number of later Bills including the Education and Training Act of 1979 entrenched the system of racially segregated education until the introduction of the Interim Constitution in 1994 when segregation became unconstitutional and most sections of the Education Act were repealed by the South African Schools Act of 1996. Since then and in spite of the high level of government expenditure to education and training, South Africa’s quality of its education system and its outcomes and performance in terms of global standards is well below the norm. The 2015 Global Competitiveness Index ranked South Africa 140 (the 4th last) out of 144 countries for the quality of its education system. Brazil, which spends close to South Africa’s percentage of GDP on education (6%), was ranked 120 in the same report. Malaysia, which spends the equivalent 6% of GDP on education, achieved a ranking of 10, indicative Malaysia’s focus on providing quality education, training and lifelong learning. In terms of South Africa’s maths and

122 Ibid.
science literacy skills, South Africa ranked last, 144

The Organisation for Economic Cooperation and Development (OECD), which measures maths and science education based on test scores of 15-year olds from 76 countries ranked South Africa second last in 2014. The maths and science rankings are based on a combination of international assessments including the OECD’s PISA test, the TIMMS tests, and TERCE tests conducted in Latin America. Asian countries excelled taking the top five places, while the US and UK was ranked 28th and 20th respectively. The OECD notes that the quality of schooling is a powerful indicator of the wealth and employment potential that countries will produce in the long term. According to the report, South Africa’s GDP has the potential to increase by 2,624% if all 15-year olds achieved a basic level of education and if education levels were improved over the lifetime of those pupils.

The EESE survey examined the perceptions of the skills within the country’s workforce, in particular whether workers have the skills demanded by business. Less than one-fifth of all respondents (14%) answered that workers generally possessed the requisite skills (8% for SME business owners, 21% for informal business owners and 17% for employees). 21% of the total respondents stated that workers had minor skills deficits and 36% responded that there are significant skills deficits, with the SME business owners being the most critical (52%). Skills shortages in the work force is consistently ranked as one of the top most impediments impacting on the growth of businesses in the SME Growth Index and has been repeatedly identified as a key barrier in every round of the annual survey.

Assessing the quality of vocation training offered by the Further Education Training (FET) colleges and the Sectoral Educational Training Authorities (SETAs), respondents were asked whether they thought vocational education in South Africa meets the needs of the business community. Only 14% of the respondents agreed that vocational education meets most of the needs.

Figure 22: Perception of workers’ skills

![Figure 22: Perception of workers’ skills](image)

Overall, do you think that workers have the skills demanded by business in South Africa?

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for businesses. Overall, 48% of the respondents agreed that it meets some of the needs (57% for SME business owners, 30% for informal business owners and 45% for employees). SME business owners were inclined to be more critical, with 23% of them stating that their business needs were not met. The SME Growth Index has found that the majority, some 55% of SME business owners provide some form of training for their staff. Most common is on the job training, followed by formal training not affiliated to the SETAs. A minority of the panel do use the SETA training services; this is often because some of the SETA is mandatory for certain sectors. Business services firms were more likely than their counterparts to provide formal training, reflecting the sector’s demand for higher skills and qualifications.126

Figure 23: Perception of vocational training in South Africa

The EESE survey also assessed the quality of tertiary education; respondents were asked whether education provided by higher learning institutions such as universities and technical colleges met the needs of the business community. Overall, the majority of respondents, 52%, stated that higher learning education met some of the needs, with 58% of SME business owners being more favourably inclined against 46% for informal business owners and 45% for employee respondents.

The ILO World Employment and Social Outlook estimates that youth unemployment in South Africa for young people aged between 15 and 24 years is 52%, more than four times the figure for sub-Saharan Africa. According to the ILO data, South Africa’s youth unemployment ranks as one of the highest in the world, representing 1.9% of global youth unemployment. Recent studies show that 50% of South Africa’s youth (15-24 years of age) are unemployed. Research conducted in South Africa shows that SMEs can play an important role in youth employment. Relative to a 35 year old, a 20 year old is almost 4 percentage points more likely to be in a small firm, suggesting that small firms provide an important entry point for young people into the labour force.

The EESE survey asked respondents whether they felt that there are better opportunities for young skilled South Africans outside of the country. Overall, 45% of the respondents agreed to the statement. Employees were more inclined to agree with 49% agreeing positively, or in some circumstances, 32%. The more positive responses from the employee category may in some instance reflect the age of the employee respondents. The majority of the EESE survey respondents were employed by the SME businesses. Disaggregating data collected on the SME Growth Index shows that SMEs employing between 40 and 50 people have a staff complement of young adults less than 30 years of age. The SME Growth Index findings also show that as smaller firms grow they increase their staff complement of young adults (less than 30 years of age) by 2%, demonstrating the importance of sustainable small businesses as key drivers for employment growth, especially among the youth.

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130 SBP SME Growth Index, 2015 datasets.
**Key Indicator**

<table>
<thead>
<tr>
<th>Education Quality (Country rankings on the GCI)</th>
<th>Quality of Education System</th>
<th>Quality of Math &amp; Science</th>
<th>Internet Access to Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
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<td>144</td>
<td>117</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10</td>
<td>16</td>
<td>34</td>
</tr>
<tr>
<td>Brazil</td>
<td>126</td>
<td>131</td>
<td>98</td>
</tr>
<tr>
<td>Turkey</td>
<td>90</td>
<td>98</td>
<td>58</td>
</tr>
</tbody>
</table>

% of population with access.

**3.3. Social justice and social inclusion**

Inequality and discrimination are incompatible with sustainable enterprise development. Enterprise growth thrives in inclusive, equitable and fair societies where the equality of assets and opportunities provide for all citizens to participate and contribute to the inclusive growth of their societies and economies. The preamble of South Africa’s constitution, which speaks of both South Africa’s apartheid past and the country’s future, defines the aim of establishing a society based on democratic values, social justice and fundamental human rights where no citizen is discriminated against in terms of race and gender. As the bedrock for all laws in South Africa, its intention is

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perhaps best summed up in the words of late president Nelson Mandela, “the constitution of South Africa is charter for the transformation of our country into one which is truly shared by all its people – a country which in the fullest sense belongs to all of us, black and white, women and men”.

The goal of the South Africa’s National Development Plan 2030, adopted by government in 2013 as the blueprint for the country’s socio-economic long term aims, is to eliminate poverty and redress inequality through the virtuous cycle of economic growth and development. It advocates a new approach to policy making, one which moves from a passive citizenship receiving services from the state to one that systematically includes the socially and economically excluded, where people are active champions of their own development and where government works to develop peoples capabilities to lead the lives they desire. To this end, the NDP highlights the need to build a more sophisticated society where opportunity is not defined by race, gender, class or religion.

Unemployment, poverty and inequality pose significant challenges for South Africa. Unemployment has risen to reach 25.5% or 34.4% under the expanded definition in the third quarter 2015, and the social grant system amounts to over 3% of South Africa’s GDP. Social grant expenditure reached 16.9 million recipients at a cost of R128 billion in 2015 and is expected to increase reach to 17.2 million recipients at a cost of R149 billion by 2018. The government is viewed to pursue a progressive tax system and government spending is highly progressive by redirecting tax resources to the poorest in society to raise their incomes. As a result 3.6 million people have been lifted out of poverty and the rate of extreme poverty – the share of the population living on US$1.25 a day has fallen by half. The percentage of households in low living standards (LSM 1 to 3) has decreased from 40% to 11% over the period 2000 to 2013. South Africa’s Gini coefficient was 0.77 in 2014 among the most unequal countries in the world. However, the World Bank found that when tax policy and government spending programmes are accounted for, South Africa’s Gini coefficient falls from its 0.77 in 2010/2011 ranking to 0.59 2013/2014, achieving the largest reductions in poverty and inequality of 12 peer middle-income countries, including Brazil.

Nevertheless, South Africa’s Gini coefficient remains very high. Despite the steep reduction in the coefficient levels because South Africa started out with such extreme levels of inequality, it still remains one of the most unequal among its peer countries before the effects of fiscal policies are taken into account.

Other measurements to assess the levels of inequality in South Africa include the Palma Ratio. The Gini coefficient measures the levels of inequality on the basis of 100 which indicates that the higher the value the greater the inequality, this however can create anomalies where poor countries can have equally low values to rich countries. The Palma Ratio by contrast offers a comparative benchmark measuring the ratio of income inequality between the rich and the poor. Based on statistical rigour, the Palma ratio has found that 50% of all net income of a nation was earned by the middle income group ranging from 40% to 90%, with the remaining 50% of income earned being apportioned to the top 10% of earners and the bottom 40% of earners. The United Nations Development Programme (UNDP) development reports use the Palma Index alongside the Gini coefficient.

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133 Department of Planning Monitoring and Evaluation. (2014). Development Indicators. Pretoria.
The UNDP’s 2013 Palma Index ratio for South Africa is 7.1, which indicates that the top 10% of South Africa’s income earners earn seven times more than the lower 40% income earners. Malaysia’s ratio value on the Palma Index is 2.6, against Turkey’s 1.9 and Brazil’s 4.3.¹³⁶

Unemployment, poverty and inequality remain structurally intertwined in South Africa. The critical challenges of inclusive growth define the country’s core development agenda and predominantly drive the aims of both the National Development Plan and the National Growth Path.

The 2014 Gender Inequality Index ranks South Africa 94th out of 187 countries, below a number of middle-income countries. South Africa experiences a high rate of gender violence attributable to unequal traditional gender norms and patriarchal dominance. Unemployment levels remain higher for women compared with men. The labour absorption rate also remained lower for women (39.6%) compared with men (48.7%) in June 2014.¹³⁷ South Africa’s success in bringing about gender equality has been perhaps most visible in the area of politics and decision making. However, following the 2014 elections, women’s representation in parliament dropped from 44% in 2009 to 40%, while that of women in provincial legislatures dropped from 41% to 37%. Nonetheless, the country remains one of the top performers in the continent in terms of representation of women in political leadership.

The EEESE survey examined the perceptions of social inclusion with regard to gender and racial equality. Respondents were asked to assess whether women and men have equal access to jobs, education, equal pay (wages) and business opportunities. Asked whether women and men have equal access to job opportunities, 41% of the respondents stated that men are favoured more over

¹³⁷ Ibid.
women, two percentage points greater than the 39% who stated that equal job opportunities exist between women and men.

Respondents were then asked whether women and men have equal access to education. Over 70% agreed to the statement (71% for SME business owners, 65% for informal business owners and 73% for employees). Nevertheless, there were some variations in the responses; 12% of the overall respondents were inclined to state that access to education favoured men in contrast with the 13% respondents’ views that women are more favoured in terms of equal access to education.

In assessing whether men and women have equal access to equal pay, the EESE survey shows some interesting variations. Overall, 58% of the respondents stated that pay levels favour men (62% for SME business owners, 44% for informal business owners and 62% for employees). However, 30% of the respondents disagreed, stating that women and men have equal access to equal
pay, with 35% of informal business more inclined to agree against 29% for SME business owners and 27% for employees.

Figure 29: Equal access to education between men and women

The ILO estimates that women entrepreneurs now account for a quarter to a third of all businesses in the formal economy worldwide. Turning to enterprise development in South Africa, the EESE survey respondents were asked whether in their view men and women have equal access to business opportunities. Respondents were divided in their assessments. 42% of the total number of respondents agreed that there is equal access for both men and women (45% for SME business owners, 42% for informal business owners and 34% for employees). Down two percentage points, 40% of the overall respondents stated that men are more favoured with employees believing that this is so, 45%, compared with SME business owners and informal business owners (38% and 37% respectively).

These EESE survey findings resonate with Statistics SA’s quarterly labour force survey in terms of the percentage of women-owned businesses in South Africa. Statistics SA estimated that women comprised 20.3% of South Africa’s total private employers in 2013. The SME Growth Index also found that 21% of the survey’s panel comprises women-owned businesses but women-owned firms on the panel had an average turnover of R8.2 million, considerably lower than the R12.1 million average turnovers among firms owned by men. There is however a small, but significant presence of women panellists in the SME Growth Index operating manufacturing firms. It is worth noting that the levels of tertiary education among South African women are rising steadily. Women are increasingly obtaining qualifications in traditionally ‘male’ fields such as engineering; narrowing the gender gap in tertiary studies could in time help generate more South African women entrepreneurs in these fields.

The EESE survey also examined South Africa’s Broad Based Black Economic Empowerment (BBBEE) policy. Respondents were asked whether the BBBEE policy (in its current form) is an important policy towards addressing racial inequalities in South Africa. The views of the respondents were mixed; 5% strongly agreed, 16% respondents agreed, 26% agreed to a limited extent, and 45% did not agree at all. Disaggregating the data in terms of race, 24% of the white respondents agreed to a limited extent, whereas 68% did not. Black respondents varied between agreeing (39%) to 25% agreeing to a limited extent. Coloured, Asian and Indian respondents were divided equally in their responses: 36% agreed to a limited extent and equally 36% of the respondents in this category did not agree at all.
A single definition with regard to what constitutes poverty has concerned social scientists for decades; poverty means different things in different countries. There is however, growing consensus that the basic cause of poverty is a lack of assets to generate income.\textsuperscript{140} The term’s meaning here is the lack of skills, knowledge or abilities that can be used as personal assets that will lead to the ability of an individual to earn income, or produce income.

The EESE survey asked respondents their views on what would constitute the most important element towards creating a more equitable and prosperous society in South Africa. Respondents were provided with choices from access to employment, access to entrepreneurship, more spending on social grants or better education. Overwhelming, respondents agreed that a better education for South Africans would lead to greater equality and prosperity (69%), 19% of the total respondents were inclined towards the choice of better access to entrepreneurship respondents and 12% agreed with better access to employment. Only 1% chose greater spending on social grants.

The informal economy provides employment opportunities and livelihoods for the unemployed and marginalised who are unable to enter the formal economy in South Africa. Estimated at representing up to 7% of GDP, approximately 2.4 million people are employed in roughly 1.5 million informal enterprises.\textsuperscript{141} Globally, the informal economy accounts for over half of the world’s employment and as much as 90% of employment in some of the poorer developing countries. The ILO estimates that it employs 1.8-billion people, as opposed to the 1.2-billion in the formal sector.\textsuperscript{142} As employment in the formal sector stagnates, the informal economy is playing an increasingly larger role in the share of employment in South Africa, as well as affording people with economic opportunities to sustain their livelihoods. As the EESE survey findings show, respondents believe that a better education and increased access to entrepreneurial activities is essential for South Africa to achieve a more equitable and prosperous society. Finding ways to facilitate transitions to

formality to ensure social protection to all actors within it, and reducing barriers to formalisation as well as applying skills development is a key challenge for government at all levels.

### Key Indicators

#### Palma Ratio: Comparisons between South Africa, Malaysia, Brazil and Turkey

The Palma ratio is defined as the ratio of the richest 10% of the population's share of gross national income divided by the poorest 40%’s share.\(^{[11]}\) It is based on the work of Chilean economist Gabriel Palma who found that middle class incomes almost always represent about half of gross national income while the other half is split between the richest 10% and poorest 40%, but the share of those two groups varies considerably across countries. (The table reflects the % of population between 18-64 years)

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
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<td>2.246</td>
<td>1.765</td>
</tr>
</tbody>
</table>

Source: A. Cobham, A. Sumner; Centre for Global Development 2013.

#### Other Useful Indicators

##### Human Development Index

The Human Development Index measures three dimensions namely, long and healthy life, knowledge, a decent standard of living. These dimensions are inclusive of the following indicators: the life expectancy index, education index and GNI index. These measurements can be explored to identify possible areas of developmental needs.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>0.63</td>
<td>0.64</td>
<td>0.65</td>
<td>0.65</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.76</td>
<td>0.76</td>
<td>0.77</td>
<td>0.77</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.73</td>
<td>0.74</td>
<td>0.74</td>
<td>0.74</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.73</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
</tr>
</tbody>
</table>

Scale 0 to 1
0 = Low Human Development
1 = High Human Development

Source: UNDP Human development Report 2014

##### Gender Inequality Index (rank and score)

Gender Inequality Index, presents a composite measure of gender equality using three dimensions: reproductive health, empowerment and labour market participation. Reproductive health is measured by two indicators: the maternal mortality ratio and the adolescent birth rate. Empowerment is measured by the share of parliamentary seats held by women and the share of population with at least some secondary education. Labour market is measured by participation in the labour force.\(^{[144]}\)

<table>
<thead>
<tr>
<th></th>
<th>2013 Rank</th>
<th>2013 Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>94</td>
<td>0.46</td>
</tr>
<tr>
<td>Malaysia</td>
<td>39</td>
<td>0.36</td>
</tr>
<tr>
<td>Brazil*</td>
<td>85</td>
<td>0.44</td>
</tr>
<tr>
<td>Turkey</td>
<td>69</td>
<td>0.36</td>
</tr>
</tbody>
</table>

Values range from 0 (perfect equality) to 1 (total inequality).

Source: UNDP, Human Development Report

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\(^{[144]}\) Ibid.
3.4. Adequate social protection

Policies and programmes designed to reduce poverty and vulnerability and promoting efficient labour markets is key to improving productivity and fostering transitions to the formal economy. South Africa has a comprehensive social safety net in place to eradicate poverty, placing it near the top of international rankings in terms of its spending in relation to GDP. The ILO for instance estimates the country’s social safety net reaches some 95% of South Africa’s population in some form, including free basic services. The social grant system has had a considerable impact on poverty alleviation. The government provides a number of free basic services and social grants. In 2014, 86% of schools were designated as non-fee schools with 8.8 million children attending these schools.145 Almost a third of the population benefits from social grants, 16.9 million in 2014, which is expected to escalate to 17.2 million by 2017/18.146 South Africa’s life expectancy increased by 9 years from 52 years in 2004 to 61 years in 2014.147

The Basic Conditions of Employment Act (BCEA) of 1997 gives effect to the right to fair labour practices referred to in section 23(1) of South Africa’s constitution. It provides conditions for maternity leave, working hours, termination of employment provisions, mandatory annual leave and sick leave and provides for protections against forced labour. The BCEA was amended in 2014 which, amongst others, prohibits employers from requiring employees to make payments to secure employment, and further protects children and prohibits child labour.

To increase availability of work opportunities, the Expanded Public Works Programme (EPWP) is one of the government’s instruments aimed at providing poverty and income relief through temporary work for the unemployed. Committed to achieving 6 million public employment work opportunities by 2019, R150 billion has been allocated to expanding the EPWP over the next five years (2014 - 2019).148

Unemployment remains one of the most pressing social problems for South Africa and stood at 25.5% (34.4% expanded definition) in 2015, with youth unemployment at 62% indicating one of the lowest labour absorption rates in the world. All net job creation after 2009 occurred in the public sector. Factors hindering private sector job creation are considered to be anaemic economic growth, low business and investor confidence, policy uncertainty, increasing burdensome regulations and electricity supply constraints. The National Treasury introduced a youth employment tax incentive scheme in January 2014, to help support increasing levels of youth employment.

Despite the government’s extensive social protection mechanisms, challenges remain. The ILO has noted that South Africa lacks in the accessibility of essential health care for all citizens, and the exclusion of eligible children from child benefits caused by administrative inefficiencies.149 The Department of Social Development is currently considering extending the child support grant (CSG) to persons from the age of 18 to 23 to counteract the effects of unemployment among the youth.

Concerns have been raised with regard to South Africa’s economy to sustain its social grant system particularly in a climate of weak economic growth. Expenditure on the social wage package exceeds the global norm of 1 to 2%. Speculation is also increasing in both public and private circles about South Africa’s ‘culture of dependency’ and the disincentive effects of social grants. Research however, which assessed the impact of the child support grant, found a number of positive impacts

147 Department of Planning Monitoring and Evaluation. (2014). Development Indicators. Pretoria.
on children receiving the grant in terms of improvements such as in height-for-age and learning capabilities. The child support grant reaches 10 million children each month.\(^{150}\)

While the government’s social wage package has had a direct impact on helping ease the poverty in the country, and is a cornerstone of government’s efforts to improve the lives of the poor, government does not have the resources to deal comprehensively with South Africa’s problems of rising unemployment, poverty and inequality. Government regularly calls on business to join it in resolving social problems. Corporate social responsibility on social development programmes was estimated at R8.2-billion in 2014, according to Triad research that tracks corporate social responsibility initiatives in South Africa. The EESE survey tested the extent to which SMEs and informal enterprises operating in South Africa were thought to be socially responsible.

Overall, respondents evaluated their own organisations positively, with 48% in total indicating that their enterprises were very responsible, or usually responsible (29%). Interestingly, the findings show that informal enterprise owners see themselves as very socially responsible (66%) against 36% of formal SMEs in the same respondent category. Probing deeper into the quantitative data collected by the SME Growth Index panel respondents on the EESE survey, the findings show that the larger and older SMEs are more likely to be involved in social development activities than their younger and smaller counterparts. Less than two-thirds of firms with turnovers below R10-million contribute to social investment activities, compared to over 80% of those with turnovers of between R10-million and R50-million. Likewise, around three in five firms employing fewer than 20 employees are contributing towards social investment; this rises to an average of four in five for those employing more than 20 people. Just over half the firms aged five years or younger are making contributions; around 70% for those older than five years are doing so. The findings show that as firms grow and establish themselves, they have a greater propensity towards contributing to social investment. Deeper analysis of the quantitative data shows that on average, small firms spend

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0.7% of turnover on their social investment contributions representing substantial subsidy or tax credit to government.

The transition to formality for informal enterprises is essential for South Africa to expand the tax net and extend social protection and rights to people employed in the informal economy. Personal income tax on individuals that is collected from employers represents the lion’s share of South Africa’s tax revenue, 34.5% in 2014. This is well above other sources of revenue such as company income tax, 19.9%, and value added tax at 26.4%.

### Key Indicator

<table>
<thead>
<tr>
<th>Health Expenditure, public (% of Government expenditure)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.4</td>
<td>5.7</td>
<td>5.9</td>
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<td>Brazil</td>
<td>9.3</td>
<td>7.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>11.3</td>
<td>10.7</td>
<td>10.7</td>
</tr>
</tbody>
</table>

**Source:** World Bank Governance Indicators 2015.

4. **Political elements**

Indicators assessing political elements of an enabling environment for sustainable enterprises*

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**Political Element indicators**

- **South Africa**
- **Malaysia**
- **Brazil**
- **Turkey**

- **Political Stability and Absence of Violence**
- **Corruptions Perception Index**
- **Civil Liberties Index**
- **Voice and Accountability**
- **Control of Corruption**
- **Government Effectiveness**

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* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country’s performance in that regard. The original indicator values are included in the chapters.

- South Africa ranks reasonably well on the Peace and Stability Index, reflecting an improvement in 2014 but a reversion in 2015 possibly as a consequence of the protracted labour and union strikes during 2014. South Africa’s durability of its political system is due to the constitution, which safeguards the country’s democracy and independent institutions established under it. Recent events however have led to concerns regarding the ability of these institutions to maintain their independent integrity; the Independent Electoral Commission was recently found by the Constitutional Court in failing to meet free and fair electoral requirements. Local government elections are due to be held in 2016 and are likely to be hotly contested.

- Corruption, bribery and government maladministration is seen to be on the rise in South Africa. An overwhelming majority of respondents to the survey believe that corruption and bribery is negatively affecting the economy and society, and government is doing little to combat it. This discontent is reflected in the recent 2015 Global Corruption Index Africa Edition, which found that four in five South Africans believe that the levels of corruption are increasing in the country – the highest in all countries surveyed. The report suggests that measures need to be intensified by the range of institutions that exist in South Africa to combat corruption and government needs to demonstrate the political will to actively eradicate corruption, and maladministration, across all spheres of government.

- Of the 144 countries assessed for Cooperation in Labour-Employer Relations, South Africa was ranked last. Despite South Africa’s sophisticated practice and machinery to
support wage determination and collective bargaining, the low ranking is symptomatic of the extreme and confrontational relationship of industrial relations in the country. In the first half of 2014, South Africa was hit by its most protracted industrial action since the end of apartheid. Relationships between labour and employers, and the sustainability of social dialogue, are of deepest concern for the retention of businesses in the country and the potential impact on job losses.

- Despite having a tripartite social dialogue institution that seeks to gain consensus on legislative and regulatory measures prior to them being passed to Parliament, the voice of the majority employers in the country – small and medium sized firms – are seen to be excluded, as is the voice for the informal economy. With growing workplace and community unrest increasing in South Africa, there have been many calls for the need to re-think a new social pact for the country.

- Respect for human rights in South Africa is well established under the constitution, and South Africa scores reasonably well on both the Civil Liberties Index and the Political Rights Index. However downward shifts on these rankings are listed with regard to the country’s high domestic violence and concerns for the rights of women, xenophobic attacks, and the police killings of the Marikana miners.
4.1. Peace and political stability

Peace and political stability are cornerstone conditions for the formation and development of sustainable enterprises. A constitutional multi-party democracy based on free and fair elections, South Africa’s political transition has been cited as one of the most remarkable political achievements of the past century. The African National Congress (ANC) has been driving the policy agenda since 1994. The fifth general elections were held in May 2014; the ANC won with a majority of 62% of the vote, governs eight out of the nine provinces, and the President was re-elected for the second term.

Local government elections are to be held in 2016, which are likely to be hotly contested. To safeguard the country’s democracy, South Africa’s constitution provides for the establishment of institutions referred to as ‘Chapter 9 institutions’. These institutions are independent and only subject to the rule of law in terms of section 181 of the constitution. They include the Public Protector, South African Human Rights Commission (SAHRC), Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities (CRL Rights Commission), Commission for Gender Equality, Auditor General and the Independent Electoral Commission (IEC). The Chapter 9 institutions must be assisted by state organs to protect their independence, impartiality and effectiveness. Recent events however have led to concern regarding the protection of the integrity for these institutions to carry out their mandates in the wake of the recent attacks by the ruling party on the Public Protector, and a unanimous Constitutional Court judgement setting aside controversial by-elections where the IEC had failed to meet the requirement that voters must be registered in the voting districts in which they live. The judgement also found that the IEC’s obligation to provide candidates with a voters’ roll with addresses of residents to canvas support was not met.

Since the first democratic elections in 1994, the government has sustained macroeconomic prudence that enabled South Africa’s domestic product to grow at a steady pace for nearly two decades up to the global financial shock of 2008-2009. Since then, South Africa’s economic growth rates have been declining. South Africa is a dual economy with one of the highest inequality rates in the world. Weak growth performance has exacerbated already high unemployment, inequality and macro vulnerabilities. The government recently adopted the National Development Plan (NDP) as the blue-print to accelerate progress and build a more inclusive society. The NDP’s vision and priorities outline two main strategic goals: to grow the country’s GDP by 5% per annum and reduce the Gini coefficient from 0.70 to 0.60. To achieve these, the NDP lists several critical factors for its successful implementation: leadership that provides policy consistency; ownership of the plan by all elements of society; strong institutional capacity; efficiency in all areas of government spending including prudent management of the public service wage bill, and prioritisation and clarity on all levels of responsibility and accountability at every sphere of government, and a common understanding of the roles of business, labour and civil society.

The relative measures of peace and political stability are a reflection of a nation’s climate that enhances enterprise sustainability. The Global Peace Index, 2015 produced by the Institute of Economics and Peace (IEP) provides a comparative review of the measurements of peace and stability characteristics for 162 countries.²¹² Twenty-two indicators are used to measure the degree of peacefulness, ranging from death rates due to conflicts, criminality, political stability, terrorism, violent demonstrations and relations with regional neighbours. While the Index provides a single comparative value, three key domains measured comprise militarisation, societal safety and security, and conflict on a scale from 1 to 5 where higher values correspond to better performance. Considering this data, South Africa ranks 136 out of 162 countries. Comparative to the peer countries under review – Brazil, Turkey and Malaysia – the values for the Peace and Stability Index, 2015

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shows that South Africa has a moderate value of 2.3 against Malaysia, Brazil and Turkey (1.5, 2.1 and 2.3 respectively).

Trends since 2011 for the four countries show that both Turkey and South Africa demonstrate high values, with South Africa reflecting an improvement in 2014 but a reversion in 2015 potentially a consequence of the protracted labour and union strikes in that year.

The World Bank’s measurements of political stability and the absence of violence, measured annually, shows that South Africa, Malaysia and Brazil all fall within the middle range implying a medium level of political stability. The general trend in all countries however shows a slow downward trend over the past years since 2010.

The Political Rights Index which measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government annually shows that on a scale of 1 to 7 where 1 is most free and 7 least free, South Africa scores 2 in their 2015 report against Malaysia at 4, Brazil at 2 and Turkey 3.

The Global Peace Index published annually by the Institute for Economics and Peace measures countries in terms of their militarisation, societal safety and conflict. The 2015 report ranks South Africa 136 out of 162 countries and on a scale of 1 to 5 where 1 is low and 5 high, South Africa scores 1.6 for militarisation; 3.3 for societal safety and security, and 1.8 for domestic and international conflict.

### Key Indicators

#### Peace and stability

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>136</td>
<td>2.264</td>
<td>2.262</td>
<td>2.302</td>
<td>2.047</td>
<td>2.376</td>
</tr>
<tr>
<td>Malaysia</td>
<td>28</td>
<td>1.466</td>
<td>1.554</td>
<td>1.538</td>
<td>1.542</td>
<td>1.561</td>
</tr>
<tr>
<td>Brazil</td>
<td>103</td>
<td>2.039</td>
<td>2.057</td>
<td>2.074</td>
<td>2.047</td>
<td>2.122</td>
</tr>
<tr>
<td>Turkey</td>
<td>135</td>
<td>2.313</td>
<td>2.250</td>
<td>2.377</td>
<td>2.336</td>
<td>2.363</td>
</tr>
</tbody>
</table>

*2015 Rank
Scale 1 to 5
5 = low peacefulness; 1 = high peacefulness

#### Political stability and the absence of violence

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>-0.02</td>
<td>0.03</td>
<td>-0.02</td>
<td>-0.06</td>
<td>-0.08</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.12</td>
<td>0.08</td>
<td>-0.01</td>
<td>-0.28</td>
<td>0.34</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.01</td>
<td>-0.14</td>
<td>0.05</td>
<td>-0.28</td>
<td>-0.01</td>
</tr>
<tr>
<td>Turkey</td>
<td>-0.92</td>
<td>-0.96</td>
<td>-1.19</td>
<td>-1.19</td>
<td>-0.06</td>
</tr>
</tbody>
</table>

Scale -2.5 to +2.5
-2.5 = low stability; +2.5 = high stability

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### Freedom Rating (FR), Political Rights (PR) & Civil Liberties (CL) Index

The Political Rights Index which measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government annually.  

<table>
<thead>
<tr>
<th>Country</th>
<th>2015 (FR)</th>
<th>2015 (PR)</th>
<th>2015 (CL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Brazil</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.5</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Political Rights Index, 2015 Freedom House

<table>
<thead>
<tr>
<th>Militarisation, social safety and conflict</th>
</tr>
</thead>
</table>

Each year the Institute for Economics and Peace produces the Global Peace Index, as a subset of the ranking they measure the degree of militarisation (DM), societal safety and security (SS) as well as domestic and international conflict (D&IC).

<table>
<thead>
<tr>
<th>Country</th>
<th>2015 (DM)</th>
<th>2015 (SS)</th>
<th>2015 (D&amp;IC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>1.6</td>
<td>3.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.2</td>
<td>2.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.9</td>
<td>3.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>1.9</td>
<td>2.8</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Scale 1 to 5  
5 = low peacefulness; 1 = high peacefulness

### 4.2. Good governance

An enabling environment to support sustainable enterprises relies heavily on the principles of good governance, the absence of corruption and efficient institutions. Governance is underpinned by trust in government by its people, the ability of government to deliver effective and efficient services, transparency and accountability, a robust legal and regulatory framework, the absence of corruption, and efficient institutions. In South Africa, there is an increasing public concern about the rising levels of corruption. Compared to many other African countries, South Africa has dedicated policies and legislation designed specifically to enable the state to tackle corruption through criminal and civil action and there are 13 public sector agencies that play a particular role in combating corruption. Yet South Africans perceive corruption to be rising and the government to be failing in this regard. According to Transparency International’s 2015 Global Corruption Report Africa Edition, more than 80% (four in five) South Africans believe corruption is on the rise in the country - the highest among all countries surveyed - and 79% believe that the government is doing badly in combating it.

Other studies also show evidence that incidents of corruption are increasing in South Africa. A report by Edward Nathan Sonnenbergs based on documented fraud and malfeasance cases presented to parliament and contained in the Public Service Commission reports, found that the amount involved grew from ZAR100-million in 2008/2009 by 346 percent to ZAR346-million in 2009/2010 and then soared another 269 percent to ZAR932-million in 2010/2011 to over ZAR1-billion in 2011/2012. The Auditor General reported an irregular expenditure of ZAR25.7-billion across the country’s national and provincial departments and public entities for the 2014-2015 year.

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The recent findings from the Global Corruption report mirror the sentiments of the EESE survey respondents. Overall, 93% of the respondents either strongly agreed or agreed that bribery and corruption is negatively affecting the economy and society in South Africa.

**Figure 34: Negative affect of bribery and corruption**

The EESE survey asked respondents their opinion about the effectiveness of government in fighting corruption. The majority (44%) stated that government was not committed, or rarely committed (26%) and partially committed (23%).

**Figure 35: Government’s commitment to fighting corruption**
With relatively little variation across the respondent categories, these findings suggest a high degree of distrust in the accountability of government to deal effectively with the increasing levels of corruption and maladministration in South Africa.

A well-ordered and productive economy needs sound and stable regulation for sustainable enterprises to flourish and grow, the quality – and certainty – of regulation is an important element of governance. The EESE survey gathered information from respondents about their opinion as to whether the interpretation of the laws and regulations affecting businesses in South Africa are stable and predictable. Only 2% of the respondents felt that the policy and regulatory environment was stable and predictable, with the majority of respondents across the categories either strongly disagreeing or disagreeing with the statement.

These findings resonate with other studies conducted recently in South Africa. The SME Growth Index\textsuperscript{160} in 2015 found that of the top factors impeding their business growth, 40% of the respondents cited burdensome regulations in the first place, followed by lack of skills (38%). In the Free State Province in South Africa, a red tape assessment concluded that the aggregated compliance cost for only two chosen municipalities in the province amounted to some USD 335 million, with the main costs related to tax administration compliance, initial business registration and compliance with labour laws.\textsuperscript{161}

![Figure 36: Stability and predictability of Laws and Regulations](image)

Figure 36: Stability and predictability of Laws and Regulations

Regulatory inconsistencies and administrative inefficiencies can be found across all spheres of government; national, provincial and local. While all are autonomous, they are inter-related and inter-dependent since they all operate according to the Constitution and laws and policies made by national Parliament. At the local level, the lists of prohibitions and restrictions on informal trading

\textsuperscript{160} SME Growth Index is a longitudinal study tracking the experiences of a randomly selected sample of SMEs operating in three key sectors (manufacturing, tourism and business services) in three metropolitan areas (Johannesburg, Durban and Cape Town). Established in 2011, the SME Growth Index is in its fifth iteration.\textsuperscript{161} Christensen, J. D., Hegazy, F., & van Zyl, J. (2014). The Cost of Red Tape An Assessment of Administrative Barriers and Regulatory Costs for SMEs in South Africa. Geneva.
are lengthy, sometimes ill-defined and difficult to comply with. Enforcement can be inconsistent and arbitrary, for instance any authorised official may remove and impound any property of an informal trader which may be reasonably suspected of being used, or intended to be used, or has been used in connection with informal trading at a place where this activity is restricted or prohibited. Informal traders are not permitted to trade until licences are granted by the local authority, and these can take months before being granted. Local authorities may also change prohibited areas, and existing traders may be removed as a consequence.

The Government Effectiveness Index is calculated annually by the World Bank. It is a measure which encapsulates the quality and capacity of the public services, their independence from political pressure together with policy structuring and implementation to demonstrate a credibility and commitment to its policies.

<table>
<thead>
<tr>
<th>Key Indicators</th>
<th>2010</th>
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<th>2012</th>
<th>2013</th>
<th>2014</th>
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<td><strong>Government effectiveness</strong></td>
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<tr>
<td>Measures the quality of public service and its</td>
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<tr>
<td>capacity to deliver, the independence from</td>
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<tr>
<td>political pressure, the quality of policy</td>
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<td>formulation and implementation and governments</td>
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<tr>
<td>commitment to implementation. 163</td>
<td></td>
<td></td>
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<tr>
<td><strong>Source:</strong> World Bank Governance indicators 2015</td>
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<tr>
<td><strong>Control of corruption</strong></td>
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<tr>
<td>Measures the extent to which public power is</td>
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<tr>
<td>exercised for private gain, including both petty</td>
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<tr>
<td>and grand forms of corruption, as well as “capture”</td>
<td></td>
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<tr>
<td>of the state by elites and private interests. 164</td>
<td></td>
<td></td>
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<tr>
<td><strong>Source:</strong> World Bank Governance indicators 2015</td>
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<tr>
<td><strong>Corruption perception index (CPI)</strong></td>
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<tr>
<td>Transparency international measures the perceived</td>
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<tr>
<td>levels of corruption in the public sector. 165</td>
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<td><strong>Source:</strong> Transparency International, Corruption</td>
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<tr>
<td>perception index 2014</td>
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</tbody>
</table>

164 Ibid.
4.3. Social dialogue

The ILC’s conclusions state that social dialogue based on the freedom of association and the effective right to collective bargaining, including through institutional and regulatory frameworks, is essential for achieving effective, equitable and mutually beneficial outcomes for governments, employers, workers and wider society.\textsuperscript{166} Social dialogue is a fundamental pillar of the enabling environment for sustainable enterprise development. It is an accepted view that where balanced social dialogue exists, this fosters a healthy environment in which businesses can flourish and current and future challenges of employees can simultaneously be addressed. The ILO defines social dialogue to include all types of negotiations, consultations or simply exchanges of information, between and among, representatives of government, employers and workers on issues of common interests relating to economic and social policy. It is regarded as an integral component of the decent work agenda taking into account a country’s cultural, historical and political context. No uniform solution or model is advocated.

South Africa’s labour regime provides a strong platform for workers to organise and bargain collectively – in September 2014, there were 183 trade unions registered with the Department of Labour. Some of the labour laws however are considered by business to be overly protective, and South Africa has among the highest rate of worker strikes in the world.\textsuperscript{167} Extension of collective bargaining minimum wage agreements to non-parties is often viewed as unfair by small businesses, particularly small manufacturing firms.

The nature and quality of social dialogue can be assessed every two years by the World Economic Forum and published in the Global Competitiveness Report under the Labour Market Efficiency Indicators. Comparatively, South Africa’s rankings in the Global Competitiveness Report for 2014/2015 are low in almost all of indicators measured. Six categories are considered: cooperation in labour; employee relations; flexibility of wage determinations; hiring and firing practices; pay and productivity; redundancy costs, and a country capacity to retain talent.

Table 3: Market efficiency Indicators from the Global Competitiveness report

<table>
<thead>
<tr>
<th></th>
<th>South Africa</th>
<th>Malaysia</th>
<th>Brazil</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Co-operation in Labour-Employer relations</td>
<td>144</td>
<td>14</td>
<td>123</td>
</tr>
<tr>
<td>2</td>
<td>Flexibility of wage determination</td>
<td>139</td>
<td>33</td>
<td>125</td>
</tr>
<tr>
<td>3</td>
<td>Hiring and firing practices</td>
<td>143</td>
<td>9</td>
<td>135</td>
</tr>
<tr>
<td>4</td>
<td>Pay and productivity</td>
<td>136</td>
<td>2</td>
<td>117</td>
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<td>5</td>
<td>Redundancy costs</td>
<td>33</td>
<td>111</td>
<td>73</td>
</tr>
<tr>
<td>6</td>
<td>Country capacity to retain talent</td>
<td>50</td>
<td>9</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Global Competitive Report 2014-15

Of the 144 countries assessed for Cooperation in Labour-Employer Relations, South Africa has been ranked last of the 144 countries. This ranking is symptomatic of the extreme and confrontational relationship of industrial relations in South Africa. Annually South Africa braces itself during the middle course of the year, for wage negotiations between labour and employers, and

\textsuperscript{166} ILC. (2014). Proposed Conclusions, Transitioning from the informal to the formal economy. Geneva.

labour and government as the public sector constitutes the largest employer in South Africa. Negotiations over wage increases have become characterised by strikes during these periods known as “strike season”. Relationships between labour and employers and the sustainability of social dialogue, is of deepest concern for the retention of businesses in the country and the potential impact on job losses, which are already being experienced in many sectors of the economy. Brazil, by contrast is ranked 123rd while Turkey is ranked 96th with Malaysia being the best performer with a ranking of 14.

South Africa has a generally sophisticated practice and machinery in place that supports wage determination and collective bargaining. Where there are recognised trade unions, wages may be set through collective bargaining and where there are no trade unions, employers set wages according to prevailing market conditions. The Basic Conditions for Employment Act (BCEA) allows the minister of labour to set minimum wages for sectors and areas of the economy, considered to be vulnerable, known as sectoral determinations. Recent amendments to Section 55 (8) of the BCEA that came into effect in September 2015 enable the minister to publish sector determinations that apply to employers and employees who are not covered by other sectoral determinations. The minister is advised by a body established in terms of the BCEA, the Employment Conditions Commission (ECC).

Wages and conditions predominantly in non-unionised sectors take the form of individual contracts. The second most prevalent form of agreeing wage increments is by collective bargaining and there are five major trade union groupings in South Africa, with the largest being the Congress of South African Trade Unions (COSATU). Bargaining councils represent the fourth most popular method of determining wage increases and a number of industries have industry level bargaining through these councils. Agreements reached between business and organised labour vary in occupational and geographical scope, with minimum rates, actual increases or percentage increases generally extended to non-parties within a defined area of jurisdiction. This aspect of bargaining councils elicits much controversy from certain sectors of business, particularly small businesses that are generally not party to the agreements. One example is a High Court application launched in 2013, which challenges the constitutionality of Section 32 of the Labour Relations Act; the clause that enables the minister of labour to extend bargaining council agreements in an industry irrespective of whether they were party to the negotiations, subject to a degree of representation.

South Africa also established a preeminent consensus-making body for social and economic policies prior to reaching parliament. The National Economic and Development Labour Council (NEDLAC) was established through the NEDLAC Act, Act 35 of 1994. The Act requires NEDLAC to promote the goals of economic growth, participation in economic decision making and social equity; to seek to reach consensus and conclude agreements pertaining to economic and social policy; to consider all labour legislation and labour market policy, social and economic policy before its introduction to parliament, and to encourage and promote the formulation of coordinated policy and social economic matters. NEDLAC comprises four key constituencies – Organised Business (represented by Business Unity South Africa), Organised Labour (represented by COSATU, National Council of Trade Unions and the Federation of Unions in South Africa), National Government (including the Department of Labour, Trade and Industry, Public Works, National Treasury and others), and Civil Society (represented by various organisations). Twenty years from its establishment has seen NEDLAC’s role in consensus building diminish over the years, with parties locked in contentious debates. It is also criticised for excluding the voices of small businesses, which represent some 63% of total employment in South Africa and non-unionised workers, who represent some 74% of the national workforce.

These sentiments are mirrored in the findings of the EESE survey for South Africa. Respondents – SME owners, informal enterprise owners and employees – were asked a series of questions relating to whether they felt organised business and organised labour adequately represented their interests at the national debates concerning business and the economy.
Figure 37: Organised business representation of small businesses concerns

Figure 38: Organised business representation of informal business concerns
SME owners felt that chambers and business associations represented their concerns in varying degrees with 29% agreeing to a limited extent, 27% responding hardly at all and 24% not at all. Only 3% of informal enterprise owners felt that business associations represent their concerns, with 19% of these enterprises agreeing to a limited extent and 32% not at all. 36% of employees viewed organised labour to represent their concerns to a limited extent, while 29% agreed with the statement. These findings demonstrate the importance of organised business associations in finding new ways to include the voice of small business and informal enterprises in their dealings with government and labour on economic and social policy dialogues.

As asked how willing NEDLAC was in supporting the formation and growth of businesses in South Africa, the majority of respondents across all categories, 62%, were unable to answer the question, illustrating perhaps the growing perception that NEDLAC is failing in its relevancy to support social dialogue and consensus in economic and social policy issues impacting on the vast majority of South Africa’s population.
Probing deeper with regard to the motivations of government, business, labour and civil society in supporting the formation and growth of businesses in South Africa, 42% of the total respondents (SME owners, informal enterprises and employees) stated that government was to a limited extent willing to supporting enterprise formation and growth, organised business at 39% across the categories (with SME owners higher at 41%), organised labour unwilling at 31% across the total respondents, and civil society being perceived as willing (36%).
Figure 42: Willingness of organised business to support the formation and growth of business

![Social Dialogue -Organised Business-](image)

In your view how willing do you think the following parties are in supporting the formation and growth of businesses in South Africa?

Figure 43: Willingness of organised labour in supporting the growth and formation of business

![Social Dialogue -Organised Labour-](image)

In your view how willing do you think the following parties are in supporting the formation and growth of businesses in South Africa?
With growing workplace and community unrest increasing in South Africa, many commentators attribute this to the failure of social dialogue. There is increasing concern amongst the NEDLAC constituencies, in particular government and business, about whether the costs of NEDLAC outweigh its benefits as a peak-level social dialogue institution. These sentiments have been echoed by many commentators who have publicly called for the need to kick-start a new social pact in South Africa.

### 4.4. Respect for universal human rights and international labour standards

The human rights and civil liberties of a nation are conjoined as both provide the legal guarantees protecting individuals and groups against actions and omissions that interfere with fundamental freedoms and entitlements to human dignity. Respect for human rights is an essential element of nations that have integrated sustainability and decent work.

Human rights and freedoms are enshrined in the constitution of South Africa, which lays the foundation for an open society based on democratic values, social justice and fundamental human rights. Labour rights are stated in the constitution, which set the boundaries for both implicit and explicit regulations. The Labour Relations Act 66 as amended, allows workers to create unions and collective bargaining. The Basic Conditions of Employment Act 75 regulates working hours, leave and termination. The Employment Equity Act 55 was introduced to lessen discrimination in the workplace and also provides for affirmative action. The Skills Development Act 97 promotes productivity in the workplace through training from the Sector Education Training Authorities (SETAs). South Africa has ratified 8 ILO core conventions on freedom of association and collective bargaining, abolition of child labour, forced labour and all forms of discrimination both for formal and informal employment. In 2008, a precedent setting ruling by the Labour Court established

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protection for illegal immigrants against unfair labour practices, extending the rights contained within the Labour Relations Act to immigrants not legally authorised to work in the country.  

While South Africa ranks 3rd in the world in terms of representation of women in parliament and despite official provisions, violence against women and girls is of critical concern. South Africa has among the highest incidences of domestic violence in the world. The discernible shift by government towards support for the traditions of patriarchy is also an increasing concern for women rights organisations. The Traditional Courts Bill of 2008, reintroduced in 2012, met with sustained and fierce opposition from rural women’s groups and civil society on the grounds that it contravened the equality clauses of the constitution. It proposed that women would not be allowed to represent themselves in traditional courts, irrespective of evidence provided by concerned groupings of the abuse of power of traditional leaders in oppressing women and the dispossession of widows. The Traditional Courts Bill has now lapsed due to the levels of controversy it raised, but is expected to return in a new format in 2016. Virginity testing conducted on girls under 16 continues particularly in the province of KwaZulu-Natal and is in violation of the Children’s Act, 2005, and has been condemned by institutions such as the Commission for Gender Equality and the Human Rights Commission.  

The human rights situation in South Africa can be assessed with regard to a number of key indicators. The Commissioner for Human Rights of the United Nations recently published guidelines for measuring human rights. While the report does not attempt to do a comparative analysis, it highlights the guiding principles for evaluating human right indicators. It defines government’s obligations in the scope of human rights to include three principles: Respect – the state must refrain from interfering with the enjoyment of human rights; Protect – the state must prevent private actors or third parties from violating human rights, and Fulfil – the state must take positive measures, including adopting appropriate legislation, policies and programmes to ensure the realisation of human rights.  

The Civil Liberties Index, compiled annually by Freedom House, provides a basis for the degree to which human rights within a nation have been preserved or violated. Each country is assigned two numerical ratings – from 1 to 7 – for political rights and civil liberties, with 1 representing the most free and 7 the least free, with measurements derived largely from the Declaration of Universal Rights. Used by policymakers, civic and human rights activists, the index has been published annually since 1972. The survey ratings and narrative reports cover 195 countries and 15 related and disputed territories. The table and graph indicated in the key indicators section below provides a comparative review of the findings for the 2014 Civil Liberties Index for South Africa, Brazil, Malaysia and Turkey. Both Brazil and South Africa have equal index value of 2, whereas Malaysia and Turkey have equal values of 4 on the Civil Liberties Index.  

The Political Rights Index shows that both South Africa and Brazil perform well with index values of 2, which means that political rights are highly free, while Turkey’s score is 3. Malaysia has a score of 4 indicating restrictive political rights. Concerns for universal human rights noted in the 2014 Freedom in the World report for Malaysia include administrative detention, freedom of assembly and association, freedom of expression, police abuses and impunity, political prosecution of opposition and asylum seekers. For Brazil these include: unlawful police killings, conduct and torture; prison conditions, cost of corruption, freedom of expression, gender based violence, labour rights, rural violence. Turkey includes: growing intolerance of political opposition, public protest

170 Khan, F. (2015, August 7). Rights will be eroded by new chiefly laws. Mail & Guardian.  
and critical media, freedom of expression, excessive use of force by police, combating impunity and Kurdish conflict.

Concerns for human rights in South Africa identified in the 2014 Freedom in the World report include: xenophobic attacks, the police killings of the Marikana miners, violence against women, freedom of expression, women rights, disability rights and rights of asylum seekers.

### Key Indicators

#### Ratification of Human Rights Conventions


<table>
<thead>
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<th>Country</th>
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<tbody>
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<td>Brazil</td>
<td>9</td>
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<td>Turkey</td>
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Number of Conventions ratified out of 9.

#### Ratification of fundamental ILO Conventions

It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).

Source: [ILO](http://www.ilo.org).

<table>
<thead>
<tr>
<th>Country</th>
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<tbody>
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<tr>
<td>Brazil</td>
<td>7</td>
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<td>Turkey</td>
<td>8</td>
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</table>

Number of Conventions ratified out of 8.

#### Civil Liberties Index 2014

The Civil Liberties Index measures freedom of expression, assembly, association and religion. 173


<table>
<thead>
<tr>
<th>Country</th>
<th>2014</th>
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<tbody>
<tr>
<td>South Africa</td>
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<tr>
<td>Malaysia</td>
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<td>Brazil</td>
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<td>Turkey</td>
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Scale 1 to 7
1 = Most Free; 7 = Least Free

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<table>
<thead>
<tr>
<th>Political Rights Index 2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>The political rights index measures the degree of freedom in the electoral process,</td>
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<td>political pluralism and participation, and functioning government. [174]</td>
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<td><strong>Source:</strong> Freedom House 2015.</td>
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<td><strong>Brazil</strong></td>
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<tr>
<td><strong>Turkey</strong></td>
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<td>Scale 1 to 7</td>
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<td>1 = Most Free; 7 = Least Free</td>
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5. Environmental elements

Indicators assessing environmental elements of an enabling environment for sustainable enterprises*

Environmental element indicators

- CO2 Emissions (metric tons per capita) (2011)
- Natural Resource Depletion (% of GNI) 2010-2012
- Renewable Sources (% of total energy supply) (2012)

* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country’s performance in that regard. The original indicator values are included in the chapters.

Environment Performance Index
Comparatives*

Climate and Energy Score (EPI, 2014)
Bio Diversity and Habitat (EPI, 2014)
Fisheries (EPI, 2014)
Forests (Change in forest coverage) (EPI, 2014)
Agriculture (EPI, 2014)
Health Impacts (child mortality) (EPI, 2014)
Air Quality (EPI, 2014)
Water and Sanitation (Access to sanitation and drinking water)
Water resources (Waste water treatment) (EPI, 2014)
South Africa is well endowed with natural resources. The forest, fisheries and agricultural sectors are well established and governed by adequate legislation in protecting the environment. The government intends further conservation and rehabilitation in forestry and agriculture in line with the National Development Plan’s targets.

Electricity supply is predominantly fossil fuel based due to South Africa’s rich coal reserves. With a high potential towards renewable energy, the government has introduced a number of renewable energy programmes, which are currently underway. South Africa is committed to the reduction of its carbon footprint and has proposed legislative action to incentivise the reduction of carbon emissions. A proposed draft carbon tax bill is expected to be released for comment prior to being promulgated in 2016.

As a result, the country has seen rapid investment growth in clean energy investment. South Africa was placed as the ninth-leading destination for clean energy investment among the Group of 20 of the world’s developed and emerging economies in 2013.

South Africa has good potential for green job growth, however the skills gap and development required to preparing a green-collar workforce ready to meet the demands of a growing green economy remains a challenge. Training initiatives are underway to meet these demands but it is noted that further integration of efforts nationally and regionally need to be prioritised.

Currently South Africa is experiencing the effect of a prevailing drought accompanied by high temperatures which has induced one of the worst natural disasters in twenty years. Highlighting the vulnerability to the effects of climate change. More needs to be done to protect the agricultural sector in terms of water usage management to ensure these foreseeable climate affects are minimised in future.

Future food imports could put a strain on South Africa’s tight fiscal budget, and the ripple effect of the drought could have an adverse impact on the cost of living particularly with regard to food prices which have risen steadily in the past year.
5.1. Responsible stewardship of the environment

Sustainable enterprise development is intertwined with responsible stewardship of the environment and requires appropriate regulations, incentives and public procurement policies that promote consumption and production patterns compatible with a country’s environmental sustainability. The UNDP has estimated that if the whole world’s population were to enjoy a lifestyle similar to that of the industrialized countries today, it would require the resources of five and a half planet Earths.\(^{175}\) South Africa has sophisticated environmental legislation and there are many acts regulating specific areas of environmental activity. The National Environment Management Act (NEMA), amended in 2014 provides the underlying framework for environmental law in the country in terms of land-use and planning, resource conservation and utilisation, and waste management and pollution control. The Act defines ‘sustainable development’ to be the integration of social, economic and environmental factors into planning, implementation and decision-making to ensure that development serves present and future generations.

Yale’s Environmental Performance Index (EPI) measures how well countries perform on high-priority environmental issues in two broad policy areas; protection of human health from environmental harm and the protection of ecosystems. The 2014 EPI ranked South Africa 72\(^{nd}\) out of 178 countries, with Malaysia at 77, Brazil at 51 and Turkey 66.\(^{176}\) KPMG’s climate change and sustainability report places South Africa as the thirteenth most active country in attempts to reduce carbon emissions.\(^{177}\) South Africa’s strategy to make a contribution towards greenhouse gas emissions mitigation was adopted by government in 2011 when the cabinet approved the Government’s National Climate Change Response White Paper, following its commitment at COP17 in 2009 to undertake appropriate national actions to curb greenhouse gas emissions by 34% by 2020 and a further 42% by 2025.

A key objective of the National Development Plan (NDP) for South Africa is the drive towards achieving a low carbon economy, but it-cautions that the transition will be complex as South Africa is heavily dependent on coal for its energy needs, being well endowed in this resource. South Africa is currently building two coal-fired energy plants, Medupi and Kusile in an attempt to meet the gaps in electricity consumption. The NDP also prioritises waste management to encourage a zero-waste society through consumer education, green product design, recycling infrastructure and waste-to-energy products. Conservation and rehabilitation in forestry and agriculture are also prioritised.

With a high potential towards renewable energy, South Africa also has a number of renewable energy programmes currently underway including the Renewable Energy Independent Power Producer Procurement Programme (REIPP), which targets 10 000 GWh of renewable energy to be produced. The first phase of the REIPP procurement programme has now been developed with an allocation of 3 625 MW to be procured from large scale IPPs over five bid windows, predominantly focussed on solar and wind technologies. By 2016, a total of 3 916 MW will have been procured from IPPs with a committed investment of R150 billion.\(^{178}\)

South Africa’s National Treasury expects to release a draft carbon tax Bill for comment before its proposed promulgation in 2016. However, businesses have stated that it will impact on

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the economy, costing jobs and investment. The proposed carbon tax was intended to come into force in January 2015. First announced by the National Treasury in 2010, it places a R120 a tonne price on carbon emissions, with the intention to change consumer and producer behaviour by making dirtier forms of production more expensive. In practice, and with discounts, business estimates that companies would pay between R12 and R34 a tonne, with the cost rising for failure to lower emissions. There has been strong lobbying from business to either reduce the carbon tax or eradicate it altogether arguing that the tax would undermine the competitiveness of industry, it would have negative social and economic effects, and would result in a trebled compliance cost. The business lobby states that the carbon tax does not make sense when carbon emissions are dominated by the state-owned electricity supplier, Eskom; oil and coal to gas producer Sasol and ArcelorMittal. South Africa may face increasing political and economic pressure to limit emissions as countries that had a carbon tax will begin taxing goods from those that do not. China is planning on implementing a scheme and several large fossil fuel companies are calling for a global carbon trading scheme and a tax.

With the need to reduce fossil fuel dependency and diversify energy mix and supply to reduce South Africa’s carbon footprint, the country’s Department of Energy (DoE) responded by implementing a supportive policy and legislative framework to attract investment in local renewable energy resources, particularly wind and solar. As a consequence, the country’s renewable energy sector experienced considerable growth in the past few years, which according to the OECD’s Environmental Performance Review in 2013, placed South Africa in the ninth-leading destination for clean energy investment among the Group of 20 (G-20) of the world’s developed and emerging economies, up from the last spot in 2011.

South Africa has a number of initiatives underway to support the Sustainable Development Goals (SDGs) with regard to the responsible stewardship of the environment. The country played a leading role at the COP21 in Paris in December 2015, and is a signatory to the Partnership for Action on Green Economy (PAGE) that was launched in 2013 by the United Nations Environment Programme (UNEP), the International Labour Organisation (ILO), the United Nations Industrial Development Organisation (UNIDO) and the United Nations Institute for Training and Research (UNITAR). The PAGE programme aims to support 30 countries over six years in inclusive green economy transitions that will generate new jobs and skills, promote clean technologies, and reduce environmental risks and poverty. Another initiative is the Department of Environmental Affairs R800-million Green Fund, managed on its behalf by the Development Bank of South Africa. The aim of the Green Fund is to provide catalytic finance to facilitate investment in green initiatives that will support South Africa’s transition towards a green economy. The Fund provides a mix of financial support in the form of grants, loans and equity for entities engaged in green economic activities ranging from early stage research and development through to project expansion phase, with a particular focus on areas including promoting Green Cities and Towns, a Low Carbon Economy and interventions targeting the protection of biodiversity and resource conservation to especially drive rural development.

The EESE survey examined the extent to which environment issues are of a concern and whether they were being adequately addressed by the business community. Of the total number of respondents, 50% stated that they were not being adequately addressed and 22% felt that they were partly being addressed. Only 4% of the respondents agreed that environmental concerns were being adequately addressed by the South African business community.

Respondents were then asked whether environmental legislation is adequately implemented to protect South Africa’s environment. 61% of the respondents stated that environmental legislation is poorly implemented in South Africa and only 1% agreed that it was well implemented. 21% of the respondents were unsure.

According to research, a transformative economy has the potential to create a large number of green jobs while at the same time reducing negative environmental and social impacts, with projections of 353,000 jobs in the short to medium term (2011-2017) and a further 462,000 employment opportunities in the long term (2018-2026). Over half the jobs are envisaged in natural resource management, with jobs in energy generation estimated at around 28%, energy and resource

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efficiency jobs some 15%, and emissions and pollution mitigation generating around 7% jobs. Researchers have however, cautioned on the skills gap and development required to preparing a green-collar workforce ready to meet the demands of a growing green economy; skills gaps exist across all sectors in the economy. The ILO in 2010 for example cautioned around current and future skills gaps creating bottlenecks to green growth and proposed a skills audit and a training initiative be established to prepare sector-specific skills in the green economy. By 2011, training programmes were underway in the wind energy and biodiversity sectors where a high demand of sector specific skills is required and a number of training initiatives are continuing. It has been noted however that further integration of efforts nationally and regionally need to be prioritised to fully realise the potential of South Africa’s green economy.

The Environmental Performance Index measures the relative performance of the countries globally in their commitment towards the environment. The Index embraces two broad policy areas: protection of human health from harm and protection of ecosystems.

### Key Indicators

#### Proportion of the population whose exposure is above WHO thresholds

Air pollution is a critical concern for both human health and ecosystems and has become a high-priority environmental issue. Concentrations of air pollutants, such as particulate matter (PM), ozone, and toxic chemicals (mercury, persistent organic pollutants, and lead), are contributing to increased rates of asthma, lung and cardiovascular disease, and cancer.

<table>
<thead>
<tr>
<th>Country</th>
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<td>71.5</td>
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</tr>
</tbody>
</table>

Source: Yale University, Environmental performance index 2014

#### Environmental performance index

The environmental performance index measures number of categories to identify countries performance and stewardship of environmental aspects critical to the health of populations, these include; Air quality, Water and sanitation, Water resources, Agriculture, Forests, Fisheries, Biodiversity and habitat as well as climate and energy. The rankings score countries on a weighting and rank them out of 178 overall.

<table>
<thead>
<tr>
<th>Country</th>
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<td>Brazil</td>
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</tr>
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<td>Turkey</td>
<td>66</td>
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</tbody>
</table>

Source: Yale University, Environmental performance index 2014

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184 Ibid.
6. **Assessment results and ways forward**

Based on primary and secondary data and a thorough literature review the results of the overall assessment on an enabling environment for sustainable enterprises, with a particular focus on facilitating the transitions of informal businesses to formal ones as well as boosting the development of SMEs in South Africa, indicate the following as the key priority areas for policy attention:

- **Improve Easy Access to Information for business start-up and business support services**

  The top two barriers to starting a business and formalising a business reported by all survey respondents include, in first place “There are too many procedures to register a business” and in second, “They don’t know how or what to do”. 70% of all survey respondents agree that entrepreneurship and business support services are under-developed in South Africa. Deeper findings from the SME Growth Index show that only 1% of manufacturing firms and less than 7% of business services receive business development support from government, with the majority stating that they did not know where to access the information to apply for business support.

- **Reduce and simplify burdensome regulations**

  The 2015 Global Competitiveness Report places South Africa in terms of the Burden of Government Regulations 117 out of 144 countries. The top barrier to formalising a business cited by respondents to the EESE survey was “There are too many procedures to registering a business.” Findings from the Davis Tax committee and the SME Growth Index data indicate that the burden of regulatory compliance to small business equates to an administrative opportunity cost of R216 000 a year or R18 000 a month. Furthermore, analysis of the SME Growth Index data shows that over 60% of SMEs surveyed were unsure of the regulations that they need to comply with, and 78% SMEs reported in 2015 that the business regulatory climate is becoming increasingly hostile to their firm growth.

- **Find ways to Strengthen the voice of Small Business in Policy and Social Dialogue**

  The concerns and needs of small and informal businesses need to be strengthened in the national policy and social dialogue debates. The majority of SMEs (52%) stated that organised business (chambers and business associations) represented their interests either hardly, or not at all, in national policy debates, while 28% stated that they did to a limited extent. When asked whether their interests were represented in NEDLAC consultations, 79% of informal business respondents and 51% of small business respondents were unable to answer the question since they were not aware of what NEDLAC is, or what it does.

- **Simplify Hiring and Employment Practices**

  The second most problematic element to formalising a business in South Africa reported by both SME owners and informal business owners was “hiring people is problematic.” The Global Competitiveness Report 2015 ranks South Africa at 143 out of 144 countries on hiring and firing practices.

- **Develop new ways to increase access to finance and market opportunities**

  The survey findings show that the second highest barrier reported to hinder young people from starting a business is their inability to access finance. Both formal, and informal, business owners reported using their own savings as their first choice in financing a start-up business. SMEs are more likely to use bank and venture capital finance as their second and third choice, whereas informal businesses are more likely to use family savings and stokvels (savings societies) as their second and
third preference. An overwhelming majority, 87% of respondents, stated that it would be either
difficult (47%) or impossible (37%) to access support finance from government.

- **Mainstream enterprise/entrepreneurial training and skills development**

  Overall, 69% of all survey respondents stated that better education would lead to a more prosperous
society, with 19% respondents agreeing to increased access to entrepreneurial activities. An
overwhelming majority of respondents agreed that the top barrier preventing young people from
starting a business was that South Africa’s education system does not teach young people to be
entrepreneurial, followed by inadequate information on how to start a business. Only 4% of the SME
respondents agreed that vocational education (SETA-run courses) meets most of the needs for their
businesses.

- **Advocating for a better environment to support sustainable SME development and transitions to
  formality**

  The EESE report including lessons from the three countries reviewed indicate the following as
priority actions for a more conducive environment for sustainable enterprise development and to
facilitate the transitions to formality:

  - Improve policy coordination, coherence and policy certainty across all spheres of government
  - Differentiate and target support measures to encourage transitions to formality, growth and
    competitiveness
  - Simplify the definition for small, medium and micro businesses and ensure alignment across all
government and public and private institutions
  - Reduce the regulatory burden and administrative inefficiencies, and introduce the “think small
  first” principle in policy development and regulatory reform
  - Reduce corruption
  - Implement a robust, consultative and transparent impact assessment system to reduce the effects
  of policies and laws that negatively impact on small businesses and the transitions to formality.
Bibliography


