

# **2009 BUSINESS ENVIRONMENT ASSESSMENT (BEA) FOR GAUTENG**

A survey that details key constraints, costs and opportunities,  
with recommendations to provincial and local government for making  
Gauteng a better place to do business

**THE SUMMARY REPORT**  
**July 2009**

A study by SBP for the Gauteng Department of Economic Development

## Foreword

In line with its commitment to promote an enabling environment for private investment in the province, Gauteng's Department of Economic Development (GDED) commissioned this innovative and wide-ranging assessment of the constraints associated with doing business in Gauteng. The study, the first of its kind in South Africa at the provincial level, provides a detailed examination of key variables influencing the business environment in the province, covering its three metropolitan areas and the three district municipalities.

The study was designed and undertaken by SBP, an independent, not for profit company based in Johannesburg and specialising in business environment research and process review. SBP has extensive expertise in projects that aim to simplify and improve the administrative and regulatory environment for business, including regulatory compliance cost surveys, regulatory impact assessment, and analysis of administrative barriers.

The study recommends practical interventions to support Gauteng's efforts to attract and retain investment and make it easier to do business in the province. Recommendations span the three tiers of government, and are grounded in a very real need for improved communication and cooperation across departments and entities at national, provincial and local level.

Key challenges examined by the study include:

- The capacity of existing and planned infrastructure to support economic growth, with a particular focus on transport and logistics infrastructure, bulk services, electricity and telecommunications
- Administrative barriers to doing business, arising from process inefficiencies and capacity constraints at provincial and municipal level
- Relationships between business and government at the provincial and municipal level, including businesses' perceptions of government's willingness to engage constructively with the private sector
- Skills availability and the impact of HIV/AIDS on business operations

The study embodies a wealth of primary research, obtained through consultation with a variety of government departments and agencies at provincial and municipal level, as well as a large-scale survey of over 500 businesses currently operating in Gauteng in selected economic sectors.

It also draws on existing information on factors influencing the business environment, including policy documents and research commissioned by national and provincial government on infrastructural capacity, and assessments of the direct and opportunity costs associated with inadequate infrastructural investment. Roads Authority SANRAL, for example, estimates that waiting five years before addressing an identified road maintenance problem, results in a cost escalation of 18 times what maintenance would have cost if addressed immediately. SANRAL also calculates that for every R1 not spent

on road maintenance, vehicle-operating costs increase by as much as R3.00. In the case of logistics, South Africa's high costs – which constituted 16 percent of GDP in 2007 - undermine the country's competitiveness and constitute a major headache for business.

The findings of the study, recommendations and detailed action plan were extensively work-shopped with relevant experts from government and the business sector.

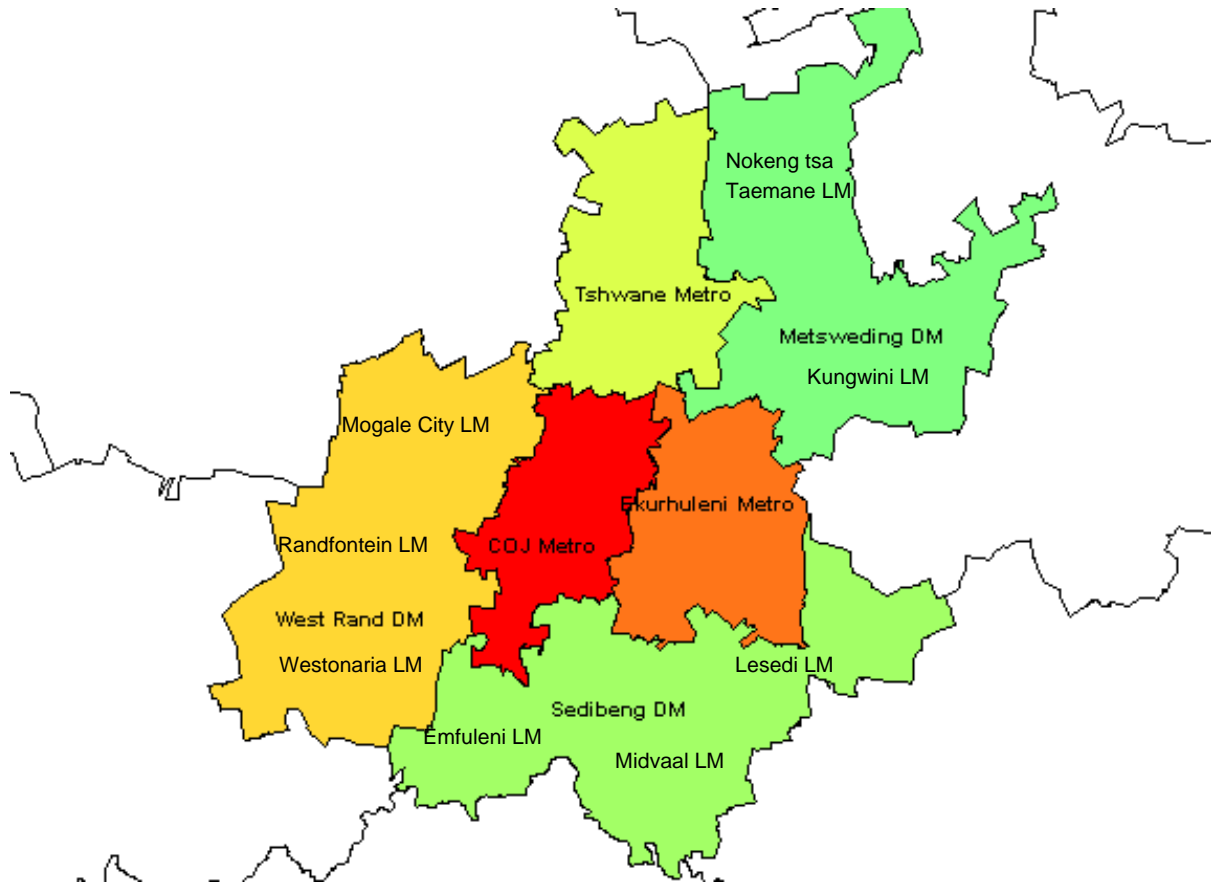
The Summary Report provides an overview of the study findings and presents priority recommendations for action.

The Main Report presents the findings in greater depth and detail. In order to navigate it efficiently, it is clearly divided according to specific focus areas.

We envisage that readers will rely on the Summary Report for an overview of the study, while focusing their attention more closely on issues of primary interest to their departments or industries in the Main Report.

1	Project Overview.....	5
2	Composition of the Gauteng economy.....	7
	2.1.1 Manufacturing.....	7
	2.1.2 Construction.....	7
	2.1.3 Transport and Communications.....	8
	2.1.4 Finance and Business services.....	8
	2.1.5 Agri-processing and bio-technology.....	8
3	Challenges to doing business in Gauteng.....	9
4	Key Challenge: Transport.....	12
	4.1 Road infrastructure.....	12
	4.2 Public transport.....	14
	4.3 Freight transport.....	14
	4.4 Trade across borders.....	17
5	Skills.....	18
6	Crime.....	19
7	Administrative efficiency: provincial and local government.....	20
	7.1 Human resource constraints.....	20
	7.2 Administrative systems.....	20
	7.3 Interactions with local government.....	20
	7.3.1 Operating permits.....	20
	7.4 Coordination across government.....	21
	7.5 Development approvals: case study.....	22
	7.6 Multi-layered consultation processes.....	23
	7.7 Businesses' experience.....	24
	7.7.1 Environmental approvals.....	24
	7.7.2 Re-zoning.....	26
	7.7.3 Building plan approvals.....	26
	7.8 Parallel approval processes.....	27
8	Government procurement policies and process.....	28
	8.1 Legislative context.....	28
	8.2 Businesses' perspectives.....	29
	8.3 Compliance with BEE regulations.....	29
	8.4 Access to opportunities.....	30
	8.5 Waiting for payment from Provincial Government.....	31
	8.5.1 System interface problems.....	32
	8.5.2 Capacity problems.....	32
9	Interaction between government and business.....	34
10	Perceptions of corruption.....	37
11	Utilities.....	38
12	Space to do business.....	39
13	Priority areas for reform.....	40
	13.1 An Action Agenda for Reform.....	41

**Map: Gauteng Metropolitan and District Municipalities**



## 1 Project Overview

Gauteng is South Africa's economic engine, accounting for 33 percent of South Africa's GDP. The province is the fourth largest economy in Africa and is responsible for nearly half of all employee remuneration in South Africa.

It accounts for 40 percent of South Africa's manufacturing<sup>1</sup>, 40 percent of construction activity, and over a third of the financial services sector. The province is a major transport and logistical hub for the rest of the country, and provides important links into Africa and beyond. It is also a centre for skills development, with a high concentration of tertiary academic and research institutions.

As part of its role to promote an enabling environment for private investment, the Gauteng Department for Economic Development (GDED) aims to identify key interventions to ease constraints associated with doing business in the province.

SBP, a company specialising in business environment research, was contracted by GDED to:

- Identify and assess the bottlenecks and barriers to business investment and growth in selected geographic areas and economic sectors
- Identify opportunities that have the potential to rapidly facilitate growth
- Develop recommendations to support the GDED's goal of attracting investment and making it easier to do business in the province

The project involved extensive consultation with local and provincial government officials as well as a quantitative survey of over 500 formal sector businesses operating in Gauteng. Findings were work-shopped with a range of public officials and private sector representatives, who contributed to the development of recommendations in response to the project findings.

Critical challenges identified by the project include inadequate maintenance of and investment in transport infrastructure, including road and rail infrastructure; crime; skills shortages; and perceptions of government inefficiency, including procedural red tape, limited capacity among government staff, and a perceived unwillingness of government to communicate and engage constructively with the private sector.

This executive summary provides a synopsis of these issues. Section 13 reports on priority recommendations, developed in consultation with provincial and local government and business representatives.

---

<sup>1</sup> Contribution of Gauteng manufacturing to national GDP, *Gauteng Provincial Economic Review and Outlook*

**A note on the business survey sample**

The sample for the business survey was purposively selected to provide a spread across businesses of various sizes, targeted economic sectors, and Metropolitan and District municipalities. A total of 516 businesses participated in the survey.

In order to maximize the relevance of the survey results, the sampling process focused on priority economic sectors in the province, specifically manufacturing (14% of the sample), retail/wholesale (11%); ICT/communication (11%), tourism/hospitality (11%), engineering (11%), finance/business services (9%), transport and logistics (9%), construction and property development (8%), chemicals and pharmaceuticals (6%) and agriculture and mining (4%).

The sample covered a range of business sizes, from single operators through to large multi-national companies. Just over a quarter of surveyed businesses had less than 10 employees; 37 percent had between 20 and 49, 15 percent had 50 to 99, and 22 percent had over 100. The sample achieved a broad distribution of business sizes within each economic sector surveyed.

Gauteng's three Metropolitan municipalities account for a considerably larger proportion of provincial GDP and economic output than the District Municipalities. With this in mind, the survey sample included larger proportions of Metro-based businesses, and smaller numbers of businesses from each of the District municipalities.

A detailed description of the survey sample is available in the Annex of the Main Report.

## **2 Composition of the Gauteng economy**

Gauteng's economy is dominated by its three Metropolitan municipalities. The City of Johannesburg is the largest municipal economy in the province, followed by Ekurhuleni, and the City of Tshwane. The province includes three District Municipalities: West Rand District Municipality (incorporating Randfontein, Westonaria and Mogale City Local Municipalities); Sedibeng District Municipality (incorporating Emfuleni, Lesedi and Midvaal Local Municipalities); and Metsweding District Municipality (incorporating Nokeng tsa Taemane and Kungwini Local Municipalities).

Agriculture and mining have been in decline for several years. The provincial economy is largely dominated by manufacturing and finance/business services. In 2005, the largest sectoral contributions to provincial output were made by the finance, insurance, real estate and business services sector (24 percent), manufacturing (21 percent) and general government sector (16 percent), followed by retail and wholesale (14 percent) and transport and communication (9 percent).<sup>2</sup>

Gauteng's 2006 Economic Development Plan prioritises five core economic sectors:<sup>3</sup>

- Manufacturing (steel related, auto parts, beer and malt)
- Smart industries (ICT, pharmaceutical)
- Services (including finance, film) and trade
- Tourism
- Agriculture (agri-processing and bio-tech)

### **2.1.1 Manufacturing**

Manufacturing is responsible for 77 percent of Gauteng's secondary activity output, and 21 percent of Gauteng's GDP (2001). The province's competitiveness in this sector depends on production capabilities - appropriate equipment, good infrastructure, skills and efficient complementary services. GPG seeks to realign the province's industry toward more sophisticated, high value add production, and to reduce reliance on traditional heavy industry. Steel-related industries and automotive parts and components have been prioritised.<sup>4</sup>

### **2.1.2 Construction**

Construction accounts for 16 percent of Gauteng's secondary activity. The province was responsible for 42 percent of all construction activity in South Africa in 2005.<sup>5</sup> The sector

---

<sup>2</sup> Gauteng Provincial Economic Review and Outlook 2007

<sup>3</sup> Gauteng's Economic Development Plans: Presentation to the SABTIA Networking session, 28 February 2006

<sup>4</sup> Gauteng Provincial Economic Review and Outlook 2007

<sup>5</sup> Gauteng Provincial Economic Review and Outlook 2007

requires more specialised skills, including structural steel work, electrical installation and plumbing skills to support continued growth. This requires improved training opportunities supported by longer-term employment security.<sup>6</sup>

### **2.1.3 Transport and Communications**

Transport and communication is the province's fastest growing sector. Communications accounts for the majority of this growth. More than two thirds of South Africa's telecommunications sector is concentrated in Gauteng, and Gauteng provides almost 80 percent of South Africa's ICT services jobs. GPG initiatives to strengthen the sector include Blue IQ's Blue Catalyst Venture Capital Fund, and the development of the Innovation Hub.

### **2.1.4 Finance and Business services**

The finance and business services sector shows positive employment growth, particularly in business services. GPG has prioritised the development of the sector, with an emphasis on financial services and IT, auxiliary business services, corporate head office location and business tourism. GPG has recognised the need for efforts to promote the capacity of the sector to offer a range of technologically advanced products and world class corporate services, and to attract financial sector call centre business to Gauteng.

### **2.1.5 Agri-processing and bio-technology**

GPG plans to develop high value added production activities in agriculture, with a link to bio-processing and specialised agriculture/natural resource-based products.<sup>7</sup> Efforts to promote biotechnology will be focused in health, agriculture, and food and beverage processing, as well as bio-processing for industrial application and specialist biotech/diagnostics. Support will include mechanisms to protect intellectual property, government support for R&D, and tax incentives.

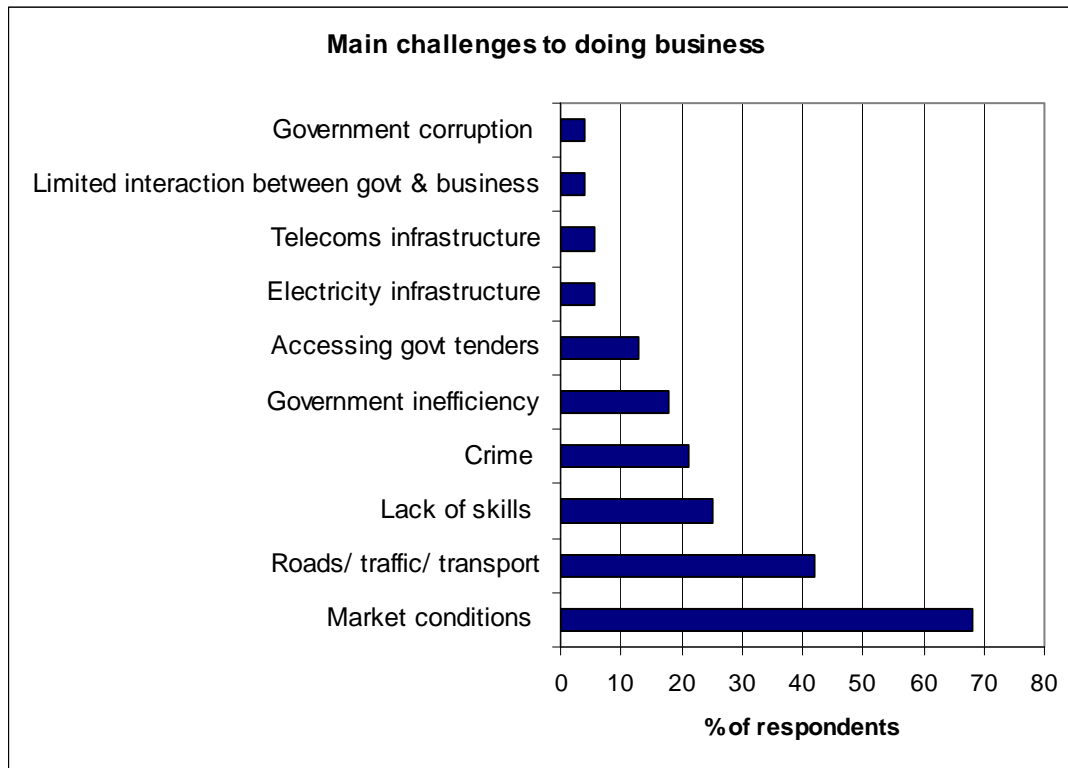
---

<sup>6</sup> Gauteng Provincial Economic Review and Outlook 2007

<sup>7</sup> Building Gauteng as a Globally Competitive City Region 2005

### 3 Challenges to doing business in Gauteng

SBP's business survey asked respondents to identify the three major challenges they face in doing business in Gauteng. Responses were spontaneous and open-ended. The top ten responses are illustrated in the figure below.



**Market conditions** were mentioned by 68 percent of respondents. Issues included high levels of competition, limited and/or saturated markets, economic uncertainty/recession, difficulties accessing finance, the high cost of raw materials, high interest rates, exchange rate fluctuations, and late payment or non-payment from customers.

**Inadequate transport infrastructure**, particularly road infrastructure, was a top concern for 42 percent of the sample. Concerns included lack of investment in and poor maintenance of road infrastructure, severe traffic congestion, inadequate and unreliable public transport, the high cost of transport (public transport and freight transport) and inadequate rail services putting additional stress on roads. More specific issues included traffic chaos caused by broken traffic lights, and damage to vehicles as a result of badly maintained roads and potholes.

Traffic and inadequate road infrastructure were identified by 77 percent of large businesses in the sample as a key challenge - well above the sample average.

A quarter of respondents noted **lack of skills**. Specific problems included a lack of skilled HDI staff required to fulfil BEE requirements, a mismatch between available training and industry needs, the scarcity and high cost of skilled staff, and the inefficiency of the SETA system. Mentions were also made of low productivity among employees, the impact of HIV on staff - particularly on skilled artisans, and high levels of absenteeism.

Concerns regarding lack of skills were particularly prevalent among larger businesses, where the issue was mentioned by 41 percent of respondents

**Crime** was noted by 21 percent of the sample. Concerns included violent crime and fear of personal safety at home and at work, as well as theft by staff and corruption in the police force.<sup>8</sup>

Eighteen percent of respondents identified **administrative inefficiency in local and provincial government** as a critical challenge. Problems related primarily to long delays and excessive red tape associated with processing applications for permits/licences/approvals as required by provincial and municipal regulations (including business licences, vehicle licences and planning approvals). Other key concerns included a perceived lack of accountability among government officials, inconsistency and unpredictability in interactions with government and the lack of effective implementation and enforcement of government policies and regulations. Perceptions of lack of competent staff and unhelpful attitudes were also noted. Concerns about administrative inefficiencies were significantly higher than average among the largest firms in the sample, where they were mentioned by 31 percent of respondents.

**Problems accessing procurement opportunities from government** were noted by 13 percent of respondents. Problems included lack of information about provincial and municipal tender opportunities and the slowness of the tender process; a severe shortage of BEE accreditation agencies, and the large amount of administrative time required to gather and complete BEE information (including gathering of information from suppliers); perceptions of a lack of transparency and excessive red tape; perceptions that provincial government and municipalities are failing to live up to commitments to procure from local businesses and SMEs; and concerns about the use of closed tender processes, supplier lists and panels that limit access to tendering opportunities.

Four percent of respondents identified **limited interaction between business and government** as a critical problem. Concerns included limited access to and interaction with government officials at local and provincial level, and perceptions that government is not interested in engaging in collaborative approaches with business. Respondents also complained of lack of support and/or follow up from provincial government agencies such

---

<sup>8</sup> The impact of crime and skills shortages was not explored in detail by the study. Both issues are the subject of a large amount of research and review, and policy initiatives are for the most part led from national government level.

as Blue IQ and GEDA. A further four percent of the sample identified problems associated with **corruption in provincial and/or local government**.

**Electricity infrastructure**, including uncertainty about future power supplies, damage caused by power surges, and productivity and stock losses as a result of power cuts, was mentioned by five percent of respondents. A further five percent identified **telecommunications infrastructure**, including inadequate infrastructure, the high cost of telecommunications and insufficient broadband connectivity, as a critical challenge.

## 4 Key Challenge: Transport

Comprehensive and well maintained transport infrastructure, for passengers and freight, is critical to efforts to promote economic development. Gauteng is well served by airports. It also has a comprehensive road network – although the latter is increasingly under strain from increased traffic congestion and inadequate maintenance. The province's rail infrastructure is both under-developed and under-used, particularly in respect of freight transport.

### 4.1 Road infrastructure

Gauteng's road network is struggling to cope with steadily increasing **volumes of traffic**. The N1 freeway carries some of the highest traffic volumes in South Africa. Heavy Goods Vehicles create serious congestion on key routes, with HGV usage peaking at 600 per hour on some routes.

Key municipal access roads are under greatly increased strain as a result of new residential and retail developments. Despite hugely increased traffic volumes, **municipalities lack the funds needed for upgrades**, and express frustration at the lack of intervention from provincial government.

#### **Road building activity generates multiplier effects**

Research commissioned by the PWV Consortium indicates that the total impact on GDP of every Rand spent on road building involves a multiplier effect of almost 1.27. The research determined that approximately 24 000 jobs are created in the economy for every R1 billion spent on road projects. The combined taxation effect of road building activity results in a combined fiscal backflow effect of R298 million to the Exchequer for every R1 billion spent on such activity.<sup>9</sup>

Research commissioned by the National Department of Transport indicates a strong 'forcing effect' from transport infrastructure to GDP growth, especially in the case of paved roads. The study found that, over the long term, a high GDP growth rate is unsustainable without at least an equivalent long term growth in infrastructure investment. Periods in which infrastructure investment growth has been allowed to fall behind long term GDP growth trends, need to be followed by periods when growth in infrastructure investment is at a much higher rate than a target GDP growth rate.<sup>10</sup>

**Traffic congestion** was identified by 79 percent of survey respondents as a major or very severe obstacle to doing business – indicating huge frustration across all types and sizes of business, across the province.

---

<sup>9</sup> Memorandum on the priority of road infrastructure Dr R F Botha, August 2005

<sup>10</sup> The Direct Impact of Investment in Key Economic Transport Infrastructure, commissioned by the National Department of Transport and conducted ARUP Pty (Ltd), August 2008 (p12)

The **quality and maintenance** of the roads was a key concern for survey respondents. Sixty one percent rated poor road quality and maintenance as a major or very severe obstacle. Responses relating to the provincial **road network** were mixed. While 35 percent of respondents rated the network as only a minor obstacle or no obstacle to doing business, 41 percent said it was a major or very severe obstacle.

**Poor maintenance translates into deteriorating roads across the country**

A study released by the Automobile Association in November 2008 reported that 33 percent of national and provincial roads are in poor condition, up from 22 percent in 1998. The number of roads in good and very good condition declined from 75 percent in 1998 to 30 percent in 2008.<sup>11</sup> South Africa has been spending well below half the international benchmark for road construction and maintenance over the past decade.<sup>12</sup> Current levels of funding are a quarter of what is required to maintain the road network going forward.

Officials in provincial and national government are equally concerned about the **availability of funding** for road maintenance and upgrades. Research suggests that the abolition of the dedicated fuel levy in 1998 resulted in significantly less spending on road infrastructure and road maintenance, contributing to the deterioration of provincial roads in particular. Motorists still pay the fuel levy, but it now goes into the general fiscus, rather than being ring-fenced for maintaining and upgrading the country's road network.

**Maintenance delayed is cost multiplied**

SANRAL notes, in its Horizon 2010 report, that *if* road maintenance is undertaken as and when required based on technical assessments of the road, the typical cost of such maintenance can be quantified as one unit of currency per km. If however this maintenance is delayed for a period of three years, the cost of maintenance escalates to six units of currency per km for the same road. A delay of five years results in severe negative impacts to the road user, while costs escalate to 18 units of currency per km for the same road.

SANRAL notes that the economic costs of delayed maintenance are borne primarily by road users. When a road is allowed to deteriorate from good to very poor condition, every R1 not spent on road maintenance (a false saving given cost escalation over time) increases vehicle-operating costs by R2 to R3 – raising the net costs to the economy as a whole.

A **lack of parking**, particularly in urban centres, increases the challenges of road transport. Forty two percent of survey respondents described poor availability of parking as a major or very severe obstacle to doing business.

---

<sup>11</sup> Automobile Association SA, Road Conditions and Funding 2008: A 20 year review of national and provincial roads in South Africa, Transportation and Traffic Technology Africa, John Sampson, October 2008

<sup>12</sup> Research by Robin Carruthers, TUDTR, June 2004 argues that while benchmark expenditure on maintenance of the road network should be about 1% of GDP, in 2002 South Africa was spending about 0.43% of GDP.

## 4.2 Public transport

Almost half the survey respondents (48 percent) identified inadequate and unreliable public transport as a major or very severe obstacle to doing business, while a further 22 percent rated it as a moderate obstacle. This is clearly an area of serious concern for business, and contributes both to productivity costs as a result of employees arriving late or missing work owing to the unpredictability of transport, and to direct costs (a number of firms have arranged private transport for their employees, for example). Businesses operating shifts, as well as those requiring employees to work overtime on occasion, expressed particular frustration at the lack of public transport options outside of 'normal' working hours.

The GPG aims to complement investment in Gautrain with a proactive transport strategy aimed at reducing the use of private cars and developing an accessible, affordable, integrated public transport system.<sup>13</sup> Efforts are being made to improve integration between modes of public transport. Budgetary and coordination problems are however cause for concern. The first six months of 2009 have seen non-payment of subsidies by the Gauteng Transport Department because of a lack of funds, stalling of Bus Rapid Transit implementation at municipal level owing to opposition from the mini-bus taxi industry, and a Metro-bus strike of several weeks over pay.

## 4.3 Freight transport

Freight volume in Gauteng is expected to increase from 210 million tons in 2006 to an estimated 415 million tons in 2020 – increasing pressure on transport infrastructure and logistics processes. The large majority of freight currently moves by road. Rail is vastly under-utilised.<sup>14</sup>

Survey respondents were generally satisfied with **air freight**, which was rated as unproblematic by 60 percent of the sample. Almost half the respondents were satisfied with **road freight** services, reporting this as a minor obstacle or no obstacle to doing business. Businesses were less satisfied with their options in terms of **rail freight** however - 52 percent rated this as a major or very severe obstacle.

---

<sup>13</sup> Gauteng Provincial Government April 2005 Growth and Development Strategy

<sup>14</sup> Gauteng Province Freight Transport Implementation Strategy: Intervention Plan Phase 2 Report, October 2007



**Rail usage for freight has declined sharply as a result of poor service levels, lack of investment, deregulation and competition** from road. Transnet has implemented operational improvements to the country's rail infrastructure, but it is still constrained by various factors, including limited capacity of sidings, and sharing of infrastructure by freight and commuter services which limit freight operations during peak hours. Other challenges include long turn-around times and poor efficiency of downstream distribution.

The National Freight Logistics Strategy acknowledges that there are **low levels of investment** in certain infrastructural and operational equipment, particularly ageing rail stock and port operating equipment. The National Department of Transport has emphasised the need for the development, execution and management of funding schemes that facilitate public and private funding of a debt and equity nature.<sup>15</sup>

Significant **delays characterise the transfer of freight from one mode to another**. Delays occur due to the multiple handling of containers, which is exacerbated by inadequate handling equipment and poor condition of infrastructure at the terminals. There also appears to be an unwillingness to share information and coordinate modal processes at inter-modal facilities.

**A lack of integrated service provision and planning** is apparent at national, provincial and local government level. The regulatory environment is fragmented, with no consistent sector-wide safety or economic regulation for the transport industry.<sup>16</sup> Gauteng strategy documents recognise that a limited understanding of the relationship between

<sup>15</sup> National Freight Logistics Strategy, Department of Transport, September 2005

<sup>16</sup> National Freight Logistics Strategy, Department of Transport, September 2005

freight volumes and economic growth has led to inappropriate freight planning.<sup>17</sup> The provincial department of Public Transport, Roads and Works acknowledges a **lack of expertise** in logistics and supply chain management, partly as a result of high staff turnover.

**Information on the freight system is patchy.** Reporting time cycles often conflict. Different tiers of government and different transport authorities use differing definitions for key activities. Data are not comparable across different systems, and there is a lack of common data standards.

The current **regulatory framework** does not allow full transit and storage lifecycle oversight by a single regulatory framework. This has negative impacts on the security of rail freight. Various bodies have overlapping regulatory functions, but few effective legislative powers to enforce these functions.<sup>18</sup> The need to comply with multiple regulations increases the cost of doing business. The National Department of Transport aims to move the regulation of the freight transport industry away from modal regulators toward functional regulators – applying a single set of regulations to cargo from point of origin to destination.

The **absence of an effective freight logistics strategy** across the tiers of government, weak coordination and minimal integration of plans or interventions, and fragmentation of funding for transport projects, compound the challenges. Gauteng is without a coordinated structure and/or institutional arrangement for freight transportation and there is no integrated and dedicated planning, implementation and funding for freight transport.<sup>19</sup>

On a more encouraging note, asked to rate the **quality of logistics services**, 43 percent of survey respondents rated this as a minor or no obstacle, while only 18 percent said it was a major or very severe obstacle.

However, reflecting on the **cost of transport and logistics** associated with movement of goods within the country, 44 percent identified this as a major or very severe obstacle to doing business, and only 22 percent as a minor or no obstacle. This is borne out by other research.

---

<sup>17</sup> The Gauteng Province Freight Transport Implementation Strategy: Intervention Plan Phase 2 Report, October 2007

<sup>18</sup> Institutions include the National Railway Safety Regulator, the National Ports Authority and Spoornet

<sup>19</sup> Gauteng Province Freight Transport Implementation Strategy: Intervention Plan Phase 2 Report, October 2007

#### **High logistics costs undermine SA competitiveness**

The CSIR's *Fifth Annual State of Logistics Survey for South Africa* reports that logistics costs<sup>20</sup> constituted **16 percent of GDP** in 2007. In European countries the norm for logistics costs is about 7 percent of national GDP. South Africa was placed 24<sup>th</sup> out of 150 countries on the World Bank's Logistics Performance Index, but ranked 124<sup>th</sup> based on domestic logistics costs. Transport constitutes the major component of South Africa's logistics costs, at 53 percent. The *Survey* identifies the causes of the country's high logistics costs as high fuel costs, deteriorating infrastructure and over-reliance on road rather than rail.

#### **4.4 Trade across borders**

Gauteng accounts for over 60 percent of South Africa's imports and exports. It is the main centre of trade between the country's regions, importing inputs from other regions and exporting manufactured goods. Imports are mainly sophisticated goods such as machinery, instrumentation; vehicles, transport equipment and components. Exports are primarily mining products (60 percent) and machinery and transport equipment (20 percent).

Given Gauteng's important role in the regional economy, as well as its role as the home of many large multinational corporations, the business survey sought to probe the ease of movement of goods across international borders. Businesses generally did not consider the **efficiency of clearance processes** by customs agencies as a significant problem. Forty percent of respondents rated the efficiency of customs agencies as a minor or no obstacle to doing business.

Thirty six percent reported that the **affordability of international shipping** was a moderate obstacle, and a quarter of businesses said that this was a major or very severe obstacle to doing business.

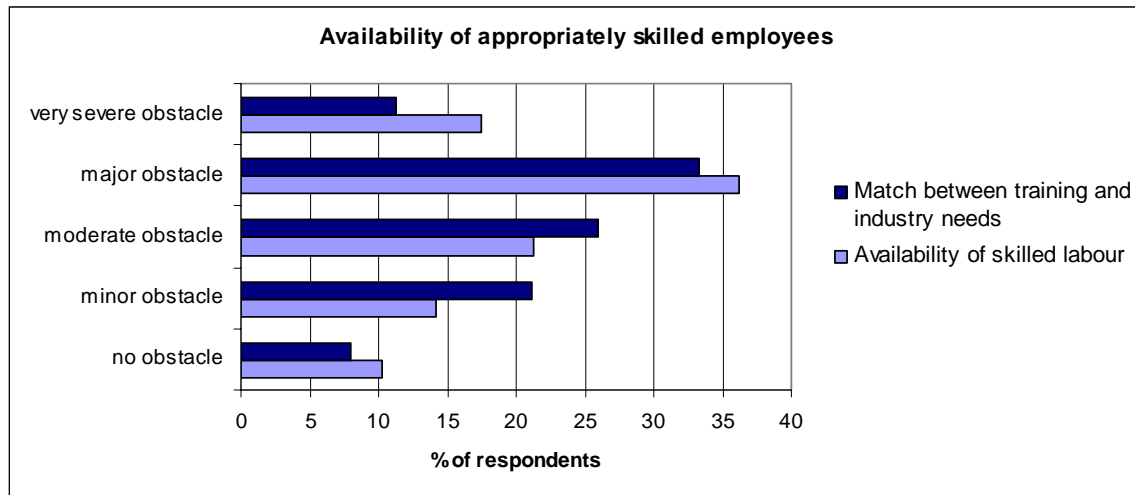
For 20 percent of respondents, **slow shipping times** and delays presented a major or very severe obstacle to doing business.

---

<sup>20</sup> 'Logistics' refers to the part of the supply chain process that deals with transportation, warehousing, inventory carrying, and administration and management of goods between the point of production and point of delivery to the final consumer.

## 5 Skills

Just over half the survey respondents (53 percent) described **limited availability of skilled workers** as a major or very severe obstacle to doing business. Interestingly however, almost a quarter (24 percent) said that skills availability was a minor or no obstacle to doing business. A **mismatch** between available tertiary training and industry needs was identified by 44 percent of businesses as a major or very severe obstacle. Several respondents noted that many businesses have to spend their own time and resources getting new staff 'work-ready.'



Availability of appropriately skilled and experienced individuals to support businesses' needs is potentially affected by the impact of **HIV/AIDS** on employees. Almost half the survey respondents rated the impact of HIV and AIDS among employees as a major or very severe obstacle to business. However, 30 percent of businesses identified HIV/AIDS as a minor or no obstacle.

## 6 Crime

Eighty three percent of the survey respondents identified **crime** as a major or very severe obstacle to doing business. The challenges created for business by crime are compounded by the perceived inefficiency of the police and the high cost of private security. Sixty percent of respondents rated **police inefficiency** as a major or very severe obstacle to doing business. Sixty eight percent rated the **cost of private security** measures as a major or very severe obstacle.

### **Crime costs small businesses as much as 20 percent of turnover**

A 2007 study commissioned by the Presidency and conducted by SBP, assessed the direct and indirect costs of crime on small businesses in South Africa. Of 446 respondents, 243 businesses, or 54 percent, had experienced an incident of crime in the past year. The study revealed a high incidence of repeat victimisation – one third of the sample had experienced more than one incident of crime in the 12 months preceding the survey.<sup>21</sup>

The likely impact of crime on firms is the probability of a firm being affected by crime multiplied by the costs of crime to the firm if it is affected. The study found that, for firms with a turnover of between R15 000 and R25 000 per annum, the expected cost of crime, measured using the median cost, is as much as **8.3 percent** of turnover. Medium sized businesses in the sample (those with 50 employees) faced higher overall costs, but lower costs relative to turnover. The average annual cost of crime for these businesses was in the region of R100 000 per year.

The study found that only half the businesses were insured. Given the high costs of crime, the high incidence of repeat victimisation, and lack of insurance, it is clear that for the smaller businesses in particular, an incident of crime could mean the end of the enterprise.

A third of respondents rated **corrupt practices in the private sector** as a major or very severe obstacle to doing business<sup>22</sup>. **Unfair competition** from businesses ignoring legal requirements was also a concern – 30 percent of respondents described this as a major or very severe obstacle to doing business.

---

<sup>21</sup> Impact of Crime on SMEs, A study conducted by SBP on behalf of the Presidency, July 2008

<sup>22</sup> See also section 10 below, on businesses' perceptions of corruption in government.

## **7 Administrative efficiency: provincial and local government**

### **7.1 Human resource constraints**

Human resource constraints pose significant challenges to Gauteng's municipalities. At municipal level the province is characterised by a large number of unfilled posts in senior professional and technical positions. Ekurhuleni is most severely affected, with a total vacancy rate of almost 50 percent. Tshwane has 30 percent of its posts unfilled. Johannesburg follows with 27 percent.

### **7.2 Administrative systems**

Many interactions with government offices, at local and provincial level, require in-person visits to the relevant department. This takes a potentially substantial chunk of time out of the working day. In some cases, particularly in Johannesburg Metro, it can also mean enduring a considerable degree of frustration in trying to find somewhere to park before one can even enter the relevant government building. The apparent unwillingness or inability of government officials to provide information and answer questions by telephone or email is a source of great frustration for business.

### **7.3 Interactions with local government**

**Compliance with municipal by-laws** was not perceived as a major challenge to doing business by the majority of respondents. However, more than a fifth (22 percent) of the sample did rate compliance with municipal by-laws as a major or very severe obstacle to doing business.

Challenges associated with compliance with municipal by-laws showed some variation at sector level. Compliance was more of a challenge for businesses involved in construction and property development, and tourism firms, than for other sectors.

The survey asked businesses to think about the amount of **management time dedicated to compliance** with municipal regulations and processes during the course of business operations. While 64 percent of businesses were satisfied with the level of management time spent on regulatory processes, 36 percent rated municipal performance in terms of facilitating efficiency in regulatory compliance as poor or very poor.

#### **7.3.1 Operating permits**

Businesses were asked to reflect on the ease of obtaining **licences and permits** needed to operate their businesses. Forty four percent of respondents stated that obtaining operating permits (at any level of government) was a minor or no obstacle to doing

business. However, for a quarter of businesses, this presented a major or very severe obstacle.

Responses showed some variation across sectors. The likelihood of tourism businesses reporting difficulties was considerably higher than the sample average, with 40 percent of tourism businesses sampled describing the process of obtaining operating permits as a major or very severe obstacle to business.<sup>23</sup> Negative responses among transport operators were also somewhat above the sample average.

Compliance in relation to specific **municipal operating approvals** (such as public health approvals, for example) appeared to be somewhat more problematic. Thirty one percent of respondents rated ease of obtaining the necessary municipal permits as poor or very poor, compared to 28 percent who rated ease of obtaining permits as good or excellent.

Twenty four percent of businesses reported that it took less than a month to obtain all the necessary municipal operating licences and permits, and 15 percent about a month – accounting for just less than 40 percent of respondents. Twenty eight percent had waited up to two months, and a quarter waited three to six months. Seven percent of respondents had reported that it had taken over six months to obtain all the necessary approvals. The results indicate that, for more than half of those businesses requiring various types of municipal permissions to operate, the process of obtaining those approvals can be a protracted one.

The time required to obtain the necessary operating permits varied widely within municipalities. Tshwane saw the largest number of respondents processed within one month, and Johannesburg the lowest. About 40 percent of businesses in Johannesburg and the West Rand waited over 3 months for the necessary permits. In all municipalities except Metsweding, small numbers of businesses reported waiting from six months to well over a year for the necessary approvals.

## 7.4 Coordination across government

Nationally the DPLG<sup>24</sup> has found that joint priority setting, resource allocation and implementation have been hampered by lack of shared focus on key developmental priorities, perpetuation of hierarchical relations between tiers of government, lack of focus on cross cutting issues and lack of shared spatial area of focus. The 2007/8 IDP hearings emphasised the need for increased cooperation between Gauteng's three Metros, especially in areas needing joint planning, strategising and implementation, and

---

<sup>23</sup> See SBP's *Counting the Cost of Red Tape for Tourism in South Africa, 2007*, for a comprehensive analysis of the broad range of compliance requirements impacting on tourism businesses and the disproportionate compliance costs incurred by firms in this sector when compared to the economy as a whole

<sup>24</sup> Now the Department of Cooperative Governance

recommended that GPG drive and incentivise the strengthening of these relationships through joint programme development.

Problems of limited interaction between the GPG and municipalities, and across municipalities, were noted by representatives of both provincial and local government officials in interviews. Initiatives such as the Premier's Coordinating Forum and the Gauteng Inter-governmental Forum aim to improve inter-governmental relations. However, the realisation of Gauteng as a Global City Region appears to be some way off if measured in terms of effective working relationships across provincial and local government.

SBP's businesses survey asked respondents to comment on the extent to which municipal strategies and regulatory frameworks are well integrated with strategies and frameworks at the provincial and national level. There appears to be a significant **lack of strategic and regulatory integration**. Only 11 percent of respondents were confident of effective integration, while just over half (54 percent) perceived integration as poor or very poor. Several respondents complained that poor communication across provincial government departments and agencies, and between provincial and local government, creates uncertainties and inconsistencies for business.

Related questions asked businesses to assess the extent of overlapping and/or **contradictory regulations** across the three tiers of government as an obstacle to doing business, together with overlapping and/or contradictory regulations across different municipalities within the province. About 35 percent of respondents in each case rated poor regulatory coordination (in the form of overlapping or contradictory regulatory requirements) as a major or very severe obstacle to doing business. Respondents generally did not differentiate between problems across tiers of government and problems across municipalities.

Coordination of service delivery across tiers of government was also perceived as under-effective. Half the respondents rated ineffective **coordination of service delivery** across tiers of government as a major or very severe obstacle to doing business in the province, while a further 30 percent rated this as a moderate obstacle.

## 7.5 Development approvals: case study

A random selection of the surveyed businesses (106 businesses) completed a slightly longer version of the survey questionnaire. These respondents were asked to comment on the *regulation or administrative process* that has the worst impact on business in Gauteng.

A large proportion of respondents noted general challenges associated with bureaucratic procedures and long processing delays. Delays associated with EIA approvals received particular mention. A lack of consistency and clear guidelines in respect of the application of the National

Environment Management Act, as well as the perception that the provincial planning regime fails to support economic development, were noted by various respondents.

At the municipal level, delays and bureaucracy associated with zoning applications was the most commonly noted problem. Approval of building plans was also mentioned by a significant number of respondents as an area of administrative inefficiency. Respondents also noted that poor enforcement of town planning regulations, including zoning requirements, effectively results in many businesses ignoring requirements, and undermining the competitiveness of those who do take the time and spend the money to comply with regulations.

## 7.6 Multi-layered consultation processes

Businesses seeking to invest in a new location, or to expand on an existing site, need the approval of the municipal town planning department.

The town planning department, in turn, must assess the fit of the proposed development with municipal policy frameworks, including Spatial Development Plans. The department must also consult with other **municipal departments**, including public health, emergency services, and environmental management.

The process also requires consultation with a range of **infrastructure service providers** at local, regional and national level, including Eskom, Rand Water, and relevant Metro based services (such as City Power and Jo'burg Water in CoJ, for example). This is to ensure that proposals do not compromise infrastructural services, and, in the case of new township developments, that proposals can be supported by the provision of bulk infrastructure. The municipal town planning department has no authority to influence the quality of responses from such entities, nor the turnaround time for comment. While these commenting bodies officially have 60 days to respond, after which the town planning department may proceed with the application, it is not practically feasible to proceed without knowing whether electricity or water, for example, will be available for a new development. Thus, slow turnaround times and poor quality of responses received from these entities significantly slow the pre-approval process.

### **Process delays at municipal level translate into escalating holding costs for developers**

Once a developer has purchased land he starts to incur holding costs. According to Johannesburg based property developers consulted by SBP, the process of application to post-approval for a township establishment used to take about eight months, but now takes about 2 years. This is in the context of high levels of inflation – that erode the profitability of a development with every delay encountered. Developers also note that the longer the project runs, the higher the risk of market changes undermining profitability.

The **provincial government** may need to be consulted if the proposal is likely to have a significant environmental impact, or if it impacts on areas or buildings identified as having heritage value. In either case, specialised impact assessments are required.

The provincial government also plays an important role in determining the types of development allowed in different areas. The province determines the 'urban edge' and categorises areas as urban, peri-urban or rural. These classifications determine the level of development that is permitted in each area, and must be reflected in municipalities' spatial development frameworks. Demarcation of the urban edge has a huge impact on local municipality's ability to address existing and anticipated infrastructural challenges, and to provide appropriate services and economic development opportunities to local communities.

In this light, there appears to be a strong case for making the demarcation process a more interactive one between local and provincial government, ensuring that officials with intimate knowledge of local realities and opportunities have a significant role in demarcation decisions.

## **7.7 Businesses' experience**

The survey asked businesses to rate the extent to which municipal and provincial approvals associated with various aspects of property development processes impact on business activity, specifically EIA processes, rezoning and building approvals. The results are discussed below.

### **7.7.1 Environmental approvals**

Environmental Impact Assessment (EIA) is a regulatory tool designed to manage the environmental impacts of new developments. EIA has been subject to regulatory reforms in recent years, in efforts to make the process less cumbersome and time-consuming. Targeted measures to build capacity and streamline processes, and digitisation of the tracking of applications, have begun to make an impact.<sup>25</sup> The introduction of guidelines to determine when an EIA is required, and how much detail is required, have reduced the volume of EIA applications.

In Gauteng, EIAs are considered at the provincial level by GDACE.<sup>26</sup> Developers are now able to begin the EIA process in parallel with applications to the municipal town planning department – a relatively new development.

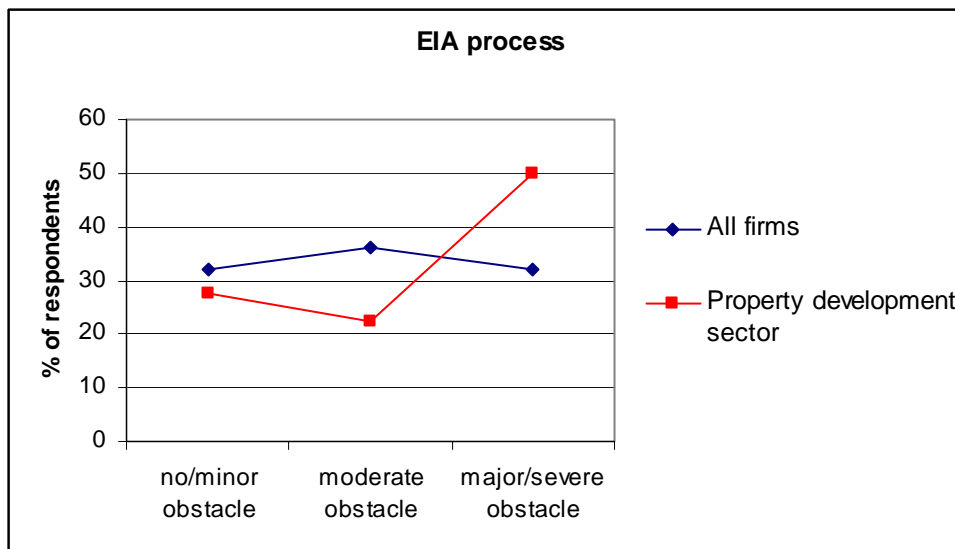
---

<sup>25</sup> Speech by Marthinus van Schalkwyk, then Minister of Environmental Affairs and Tourism, delivered at the opening of the conference "10 years of EIAs in South Africa" Somerset West, 24 November 2008

<sup>26</sup> Gauteng Department of Agriculture, Conservation and Environment

The extent to which the EIA process was viewed as problematic by survey respondents showed broad variation. Across the sample as a whole,<sup>27</sup> respondents were almost evenly split among those who ranked the process of completing an EIA as a minor/no obstacle (32 percent), a moderate obstacle (36 percent), and a major/very severe obstacle (32 percent).

Respondents in the property development sector presented a rather different picture.<sup>28</sup> Half of these businesses described the EIA process as a major/very severe obstacle to doing business. Just over a quarter of these businesses (28 percent) rated the process of completing an EIA as a minor/no obstacle, while 23 percent described it as a moderate obstacle.



Municipal officials as well as business respondents suggested that GDACE tends to be understaffed in terms of processing of EIAs, and that this creates considerable delays in the approval process. It was also noted, both by municipal officials and businesses, that GDACE tends to define its mandate in respect of EIA very broadly – making rulings on issues such as density requirements, which essentially fall under the remit of municipal town planning. In some cases, this results in inconsistencies, with developers being told one thing by the local government town planning department, and another by GDACE.

Both municipal officials and business respondents raised concerns about a lack of enforcement and follow up of EIA requirements. It was noted that the provincial government does not follow up to ensure that developers have addressed the mitigating factors identified in EIA reports. The perception is that as long as the developers spend the time and money on going through the process itself, no-one really checks whether

<sup>27</sup> N=444

<sup>28</sup> N=40

they are implementing the requirements when it comes to building – which would seem to render the exercise somewhat futile.

### **7.7.2 Re-zoning**

Re-zoning of properties for particular types of business use or development can be a time-consuming process, involving coordination across a number of municipal departments and infrastructure providers.

Surveyed businesses displayed varying perceptions of re-zoning processes. While 32 percent of businesses said that re-zoning was not a significant obstacle, 33 percent rated it as a moderate obstacle, and 35 percent as a major or very severe obstacle to doing business.<sup>29</sup>

Results for businesses in the property development and construction sector were considerably more negative.<sup>30</sup> While 20 percent of these businesses rated zoning as a minor obstacle, 39 percent said it was a moderate obstacle and 41 percent described it as a major or very severe obstacle.

### **7.7.3 Building plan approvals**

Approval for building plans is obtained at local government level, through the town planning department. Municipalities assess building plan applications against the National Building Regulations and Standards Act, which determines requirements in respect of materials, safety, energy-efficiency and so on.

At present, building plans are dealt with in hard copy – thus requiring the applicant to visit each relevant department in turn to obtain the necessary approvals, and considerably lengthening the time required from the applicant to complete the process.

Twenty-eight percent of survey respondents ranked the process of obtaining building plan approvals as a minor or no obstacle to doing business, while 35 percent said it was a moderate obstacle. Thirty seven percent rated the process as a major or very severe obstacle to doing business.<sup>31</sup>

Businesses in the property development and construction sector were considerably more negative. Twenty eight percent rated the process as a minor or no obstacle, 23 percent as a moderate obstacle, and 49 percent as a major or very severe obstacle.<sup>32</sup>

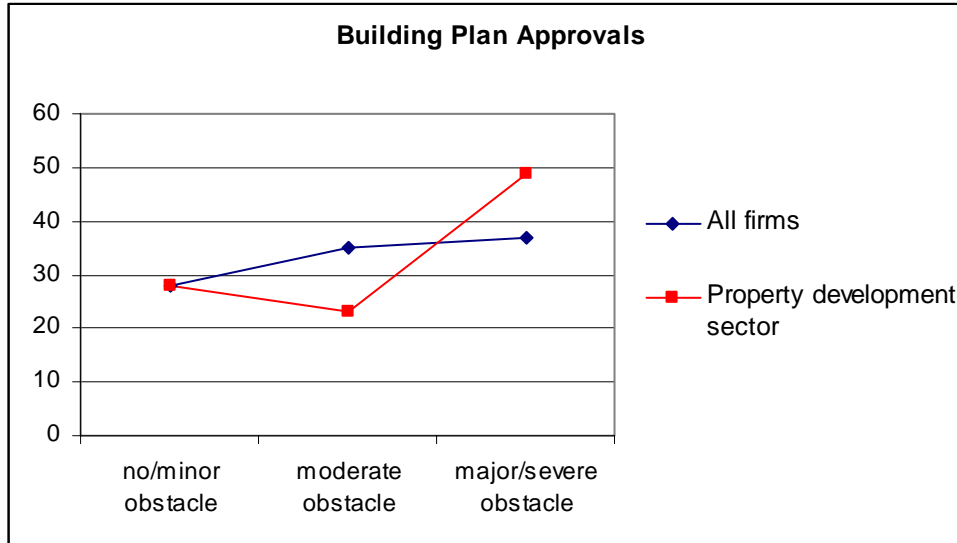
---

<sup>29</sup> N=454

<sup>30</sup> N=41

<sup>31</sup> N= 450

<sup>32</sup> N= 40



## 7.8 Parallel approval processes

Administrative challenges associated with town planning approvals are exacerbated by the parallel approval process established under the Development Facilitation Act, which enables the province to approve development applications.

The DFA establishes mandatory timeframes in which applications must be assessed and provides a streamlined approval process to developers. Developers argue that the lack of capacity and slow turnaround times at Council level have created a preference for the DFA route.

Municipalities argue that their established processes for assessing development applications are critical to ensure fit with broad spatial development plans and capacity for infrastructural provision. The province, however, is able to override municipal decisions, and approve applications without taking into account the ability of the municipality to service the development. The problem is particularly severe in the City of Johannesburg, where approvals under the DFA have been frozen while the City and the DFA try to establish legal clarity in court.

The mandates and responsibilities of provincial government, in terms of the DFA, and local town planning departments need to be clarified at national level as a matter of urgency.

## **8 Government procurement policies and process**

### **8.1 Legislative context**

The Public Finance Management Act (PFMA) 1999 was formulated to modernise the system of financial management in the public sector, hold public sector managers to account, ensure the timely provision of quality information; and eliminate waste and corruption in the use of public assets. The Act applies to national and provincial government, and requires that procurement be "in accordance with a system which is *fair, equitable, transparent, competitive and cost-effective*."<sup>33</sup> The Act provides that Accounting Officers are responsible for ensuring that the above principles are reflected in the department or institution's procurement system. Irregularities must be reported to the relevant Treasury and, where applicable, the relevant tender board.

The Municipal Finance Management Act (2003), which governs local government, similarly states that the supply chain management policy of a municipality or municipal entity must be *fair, equitable, transparent, competitive and cost-effective* and comply with a prescribed regulatory framework for municipal supply chain management.

The National Treasury's Preferential Procurement Regulations (2001) provide that an 80/20 point system will be applicable for tenders up to R500 000, while a 90/10 point system will be applicable for tenders above R500 000. In each case, the first figure refers to the maximum of number of points (80 or 90) that may be allocated according to price and technical specifications, and the second figure (10 or 20) refers to the maximum number of points that may be awarded for contracting or subcontracting with HDIs. Tenders must be awarded to the tenderer scoring the highest number of points.

The Black Economic Empowerment Act suggests that at least 50 percent of state owned enterprises and government procurement should go to black companies and collective enterprises, and that 30 percent of these enterprises should be SMMEs.

In February 2007 a report containing information regarding measured procurement policy outcomes was submitted to Cabinet for consideration. The results prompted Cabinet to instruct National Treasury and the DTI to collaborate to refine and simplify the Codes of Good Practice, and to amend Preferential Procurement processes to ensure that Government's BBBEE objectives are achieved. The revision of the legislation will include broadening the basis of evaluation beyond equity ownership and promotion of RDP goals. Bidders will also be able to earn preferences for other elements such as the number of black people in management, transfer of skills, equity employment, indirect empowerment

---

<sup>33</sup> South African Constitution, Section 217: when an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is *equitable, transparent, competitive and cost-effective*.

by procuring goods and services from black enterprises and socio economic development initiatives in terms of the BBBEE scorecard. These revisions have however yet to come into effect.<sup>34</sup>

In the interim, the provisions of the PPPFA and the BBBEE Act are effectively in conflict. As noted, the PPPFA requires that tenders are awarded to the tendering entity with the highest number of points – preventing government departments from specifically selecting BEE companies for tenders, which they would need to do in order to meet the targets set by the BBBEE Act.

## **8.2 Businesses' perspectives**

In response to an open ended question about problematic administrative processes at the provincial level, a significant number of businesses identified difficulties associated with procurement processes. Respondents described the tender process as costly and time-consuming, overly rigid and allowing little flexibility to take into account quality and relevance of offerings, in addition to price and BEE status. Awarding of contracts is perceived as being subject to considerable delays. Businesses also noted a tendency for government to try to spend a large proportion of its budget just before year end – a problem acknowledged by GSSC and provincial departmental officials.

## **8.3 Compliance with BEE regulations**

The business survey asked all respondents to rate compliance with BEE regulations as a possible obstacle to doing business. While 34 percent of businesses reported that BEE compliance was no obstacle or only a minor obstacle, a quarter of respondents described it as a moderate obstacle, 25 percent described it as a major, and 16 percent as a very severe obstacle.

BEE was specifically raised as a problem in terms of government procurement requirements. Key concerns included:

- A lack of clarity regarding the requirements
- Perceptions that different government departments are interpreting requirements differently
- Incompatibility between BEE requirements and the Preferential Procurement Regulations
- The severe shortage of BEE accreditation agencies. The dti has prescribed that all companies with annual turnover above R5 million must be BEE rated by an accredited verification company. There are currently 13 accredited verification

---

<sup>34</sup> Supply Chain Management: Alignment of Preferential Procurement with the aims of the BBBEE Act and its related strategy, National Treasury, circular 18 April 2007

agencies in the country and 80 000 businesses requiring accreditation. Accreditation costs **R10 000 or more per company**. It takes three to six months to become registered as a verification agency, so the backlog is likely to endure for some time.<sup>35</sup>

## 8.4 Access to opportunities

- *Database of suppliers*

The National Treasury Supply Chain Management Guidelines (February 2004) recommend the establishment of a database of suppliers for obtaining quotations, in order to stimulate the promotion of BEE and the development of HDIs and SMMEs. However, the rigidity with which databases are being implemented would appear to present a significant barrier for business in some municipalities.

The provision for government departments to establish supplier databases is not in fact intended to preclude companies from tendering for government business, but to encourage procurement from BEE companies and SMMEs, by giving these companies an opportunity to make themselves known as potential suppliers<sup>36</sup>. The database may be used by departments to approach businesses for quotations. Quotations below a specified value may be invited from all businesses on the database, or opened on a rotational basis, depending on the size of the database.<sup>37</sup>

The MFMA however requires that local government departments open any quotation valued above R200 000 to *public tender*. Similarly, the PFMA requires that provincial and national government departments and entities submit any quotation valued above R500 000 to public tender. This specifically means that anyone can apply to provide the service – whether registered on a database or not. Registration should *never* be a requirement for responses to open tenders.

- *Database or Panel of pre-approved suppliers*

The National Treasury Government Supply Chain Management Guidelines state that, where goods, services or works of a technical or specialised nature are required on a recurring basis, a list of approved suppliers for the supply of goods, services or works may be established, through a competitive bidding process. The intention to establish a list of pre-approved suppliers must be published in the Government Tender Bulletin. Once the list of suppliers has been approved, only successful applicants are approached,

---

<sup>35</sup> [www.sanas.co.za](http://www.sanas.co.za)

<sup>36</sup> Communication by a senior official in the National Treasury

<sup>37</sup> At provincial or national level, projects valued between R10 000 and R500 000 require at least three written quotations. At local government level, the same applies for projects valued between R10 000 and R200 000.

by obtaining quotations on a rotating basis or according to the bid procedure. The list must be updated regularly, at least once a year.

This provision gives rise to a number of problems, however. The guidelines do not specify what is meant by 'technical or specialised' – effectively enabling departments to create lists of approved suppliers for any sort of service provision. The guidelines also do not provide a minimum number of suppliers to be included on the pre-approved list. Given the requirement that projects under the values specified above require no more than three quotations, the panel could effectively comprise three providers who would enjoy exclusive access to all the department's contracts in the relevant 'specialised' area.

The guidelines state that the list should be updated *at least once a year*. This provision is not being followed at local government level – the City of Johannesburg for example states that it updates its panel of pre-approved suppliers on a three-yearly basis.

The National Treasury confirms that the existence of a panel does *not* prevent the department from advertising an open tender for the goods or services required – which would enable anyone to respond, whether on the list or not (i.e. the department can opt out of using the panel if it wishes to do so). This does not appear to be well understood at municipal level, and there are instances of companies being required to sub-contract to panellists in order to undertake work required by the municipality.

Concerns about limited access to procurement opportunities were strongly evident among survey respondents. Only 15 percent of businesses rated the transparency and fairness of processes for the tendering of municipal contracts as good or excellent. Fifty five rated transparency/fairness of tendering processes as poor or very poor.

## **8.5 Waiting for payment from Provincial Government**

The National Treasury requires that all government departments should make payment to suppliers within 30 days of the receipt of all correct documentation. Regulations governing the General Conditions of Contract make the same provision. GPG policy incorporates the 30 day provision, and further stipulates shorter payment timeframes for SMMEs. Administrative challenges however appear to be undermining this commitment.

Delayed payment by provincial government departments was a critical issue for a number of survey respondents. The enormous scale of the problem was documented by a series of media stories during early 2009. Critical issues included the apparent inefficiency of GSSE systems, and lack of responsibility or accountability among government officials.

GPG procurement officers estimate that about 15 people handle a single invoice – suggesting a strong case for procedural simplification. All invoices must pass through the GSSC's Document Management Centre (DMC), where they are scanned, catalogued,

and indexed (each task is handled by a different person). The GSSC has recently introduced a system of e-invoicing, which requires DMC to scan and electronically capture the invoice. The system is however not yet fully efficient, and it remains quicker, at present, to manually deliver invoices to Accounts Payable. Departments are not integrated into the e-invoicing system, so all invoices must be scanned by the GSSC DMC before they can be loaded onto the system.

#### **8.5.1 System interface problems**

Invoices are processed by the GSSC's Accounts Payable Department. Accounts Payable captures the invoice against the purchase order, and checks for consistency against the requisition form and the 'goods received voucher' (GRV) issued by the end-user department. Once the invoice is approved it is entered into the weekly run. Invoices are processed on Tuesdays, and payment is made on Fridays.

Payment is authorised on SAP. SAP transmits the information to BAS (Basic Accounting Software). BAS interfaces with the State IT agency (SITA), which in turn issues the instruction to ABSA bank to transfer the approved funds into the suppliers' bank accounts. Departments monitor and report payments from the BAS system. However, since January 2009, several departments have been experiencing cash flow problems. As a result, certain payments have been suspended in BAS, because the funds are not available. BAS however does not report back on the fact that the payment is suspended - it shows that money has been disbursed. BAS transmits the information back to SAP, which records that payment has been made. The result is that reporting data are highly unreliable – and the department only becomes aware of the problem when the supplier complains that payment has not been received. The problem can only be resolved by GSSC Accounts Payable, working in conjunction with SITA. This can create significant delays as the necessary people are not always readily available to deal with the problem.

#### **8.5.2 Capacity problems**

Departmental and GSSC officials acknowledge that skill levels are a major problem. Because junior officials within GSSC lack the capacity to deal effectively with problems, there is a tendency to pass problems up the line, or back to departments. Suppliers end up being bounced between the GSSC and the relevant department.

Within departments, cost centre managers do not always have the skills necessary to manage budgets efficiently. Officials note that departmental operational plans are often not costed correctly, and that demand planning is a big challenge. The extent to which unexpected expenditures also need to be factored in to departmental budgets creates further difficulties.

Departmental officials complain of problematic relationships with GSSC staff, who are perceived as being defensive, and unwilling to discuss problems or engage with difficult

questions. GSSC managers acknowledge problems of poor performance on the part of junior staff.<sup>38</sup>

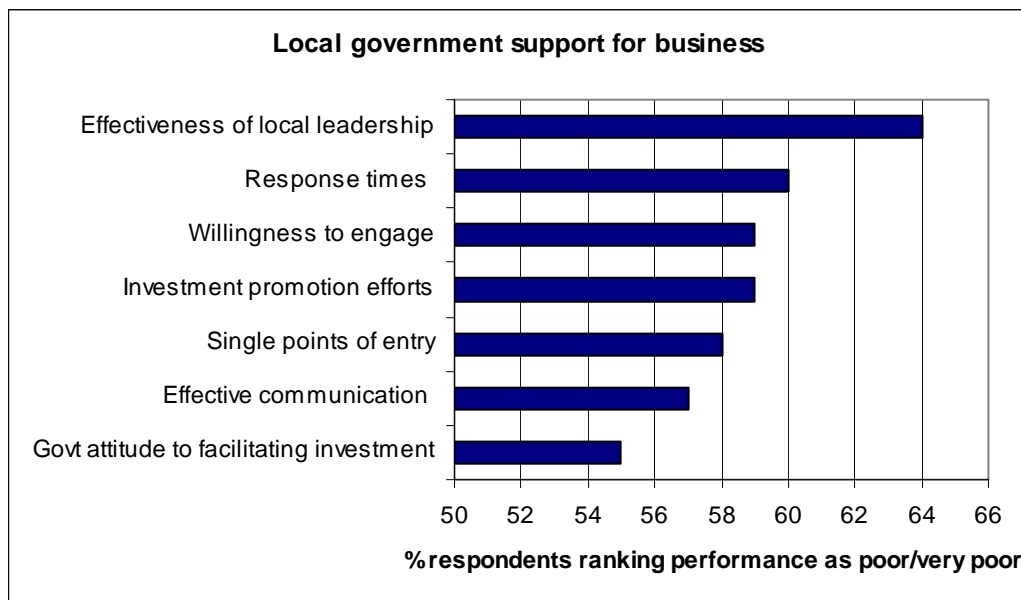
Departmental end-users or project managers must also share responsibility for system inefficiencies and late payments. Examples include failure to sign off GRVs, submitting invoices late, and a tendency to leave their suppliers to chase after the GSSC rather than doing any follow up on their behalf.

---

<sup>38</sup> In the view of a number of informants, this is due to staff perceptions that their jobs are secure irrespective of performance levels.

## 9 Interaction between government and business

The business survey asked respondents to rank municipalities' performance on a range of areas related to communication with and support for business. The majority of respondents ranked performance poorly across all areas. The figure below represents the six areas that respondents rated most poorly.<sup>39</sup> The results highlight government communication efforts, and the accessibility and responsiveness of government officials, as critical areas for improvement.



The survey asked businesses to rank their municipalities based on the extent to which they display **proactive and effective leadership** of local government structures. Rankings were largely negative – only eight percent of respondents expressed strong confidence in the effectiveness of local leadership. Sixty four percent rated the effectiveness of local leadership as poor or very poor.

Only thirteen percent of respondents ranked municipalities' **response times to business queries** as good or excellent. Sixty percent said response times were poor or very poor.

Fifty nine percent of respondents ranked the willingness of municipal officials to **constructively engage** with the private sector as poor or very poor – and only 13 percent as good or excellent.

There appeared to be little confidence in the effectiveness of municipal efforts to **promote investment** and business activity – performance was ranked as poor or very poor by 59 percent of respondents.

<sup>39</sup> These are the areas for which the largest proportion of respondents rated performance as poor or very poor

When asked to score their municipalities in terms of **availability of single points of entry** for business enquiries, 15 percent of respondents responded with rankings of good or excellent, while 58 percent scored their municipalities as poor or very poor.

The survey probed business perceptions of **municipalities' communication** with their local business communities. Fifty seven percent of respondents rated the frequency and relevance of communication from their local municipalities as poor or very poor. Only 15 percent rated this communication as good or excellent.

The survey asked businesses to rate municipalities' **attitudes toward facilitating business activity and/or investment**. Sixteen percent rated their municipalities' performance as good or excellent. Over half the respondents rated municipal attitudes in both respects as poor or very poor.

Respondents to the business survey were asked rate the extent to which difficulties **accessing information about municipal and provincial regulations** constitutes an obstacle to doing business. Responses did not show much differentiation between the municipal and provincial level. Access to information at both levels of government was perceived by about 45 percent of respondents as being a major or very severe obstacle to doing business (a further 29 percent rated it as a moderate obstacle). This suggests a surprisingly high level of business uncertainty regarding the range of regulatory requirements applicable to their businesses and how to access the necessary information.

#### **Heineken Industrial Plant – Emfuleni's loss is Midvaal's gain<sup>40</sup>**

Heineken required a location for its new industrial development that provided good access to water, a rural setting, and links to good transport.

The company initially selected a site in Vanderbijlpark, which falls under the Emfuleni Local Municipality. However the Local Municipality was slow and ineffective in responding to queries and requests for information from the potential investor, and failed to coordinate effectively with partner institutions, including the District Municipality, to facilitate the investment.

Disillusioned with the poor response, Heineken looked instead at other options, including Ekurhuleni Metro and Midvaal Local Municipality. Both municipalities offered good incentives for investment. Midvaal was quicker off the mark, however – and secured the investment by its proactive engagement with the company and provision of comprehensive and timely information.

On selection of a specific site in Midvaal by Heineken, eight obstacles were identified by the company. The LM and the DM were able to address six of these fairly quickly, leaving two big issues that needed to be addressed – provision of an access road to the proposed site, and guarantees about a reliable electricity supply. The DM and LM, working together with GPG, were

---

<sup>40</sup> Information based on information gathered during interviews with Sedibeng, Midvaal and Emfuleni LED offices

able to supply appropriate solutions quickly. The access road problem was addressed by securing commitment from the relevant provincial authorities for the re-routing an existing K route (from the R59 Klipriver/Heidelberg off ramp) to bring it right next to the plant.

Subsequent to the confirmation of the Heineken development, Midvaal has also secured investment from Basil Reed, which will be developing a large industrial park opposite the Heineken plant, while the Eye of Africa development adjacent to these sites will provide upmarket residential accommodation.

## 10 Perceptions of corruption

Businesses' perceptions of the efficiency, effectiveness, transparency and integrity of government, at national, provincial and local level, can have a significant impact on investment decisions. Studies in developing countries have shown that a lack of trust in politicians, a high degree of favouritism in decision-making, and corruption associated with public spending and tender awards, put off potential investors owing to the uncertainty and possible additional costs involved in dealing with the public sector.<sup>41</sup>

**Corruption** was identified by 60 percent of survey respondents as a major or very severe obstacle to doing business, at the level of both local and provincial government. Perceptions of corruption were higher than average among smaller firms. Sixty five percent of businesses with less than 20 employees rated corruption in local government as a major or very severe obstacle, as did 64 percent of businesses with 20 to 49 employees. Among medium and large firms the results are slightly better – 58 percent of firms with 50 to 99 employees, and 44 percent of firms with over 100 employees, rated corruption as a major or very severe obstacle.

It is possible that perceptions of corruption among the smallest firms are partly related to perceptions of lack of access to business opportunities, including tenders, together with perceived lack of access to government officials. Very high perceptions of corruption among these businesses may perhaps suggest frustration at being 'shut out' of potential opportunities rather than reflecting direct experience of corrupt activities.

Respondents were also asked to comment on the effectiveness of **measures to combat corruption** within the municipality. Only six percent rated municipalities' efforts as good or excellent, while 73 percent rated them as poor or very poor. This may again be a factor of perception rather than experience – if businesses (particularly small businesses) feel themselves alienated and excluded from their local municipalities, they are unlikely to have much faith that their municipalities are taking effective measures to improve transparency and good governance.

---

<sup>41</sup> Benchmarking National Attractiveness for Private Investment in Latin American Infrastructure World Economic Forum, Irene Mia, Julio Estrada and Thierry Geiger, 2007

## 11 Utilities

South Africa's **telecommunications** infrastructure lags behind that of other countries. Improving telecommunications infrastructure is a priority component of the government's AsgiSA strategy. Progress has however been slow. While only five percent of business survey respondents identified inadequate telecommunications and IT infrastructure as one of the top three critical challenges to doing business, the figure among larger firms was 15 percent.

Over half the survey respondents (57 percent) rated *access* to telecommunications infrastructure as no obstacle or only a minor obstacle. *Reliability* of telecommunications was a more significant problem – 30 percent of respondents rated this as a moderate obstacle, and 22 percent as a major or very severe obstacle. Forty two percent of respondents rated telecommunications *costs* as a major or very severe obstacle

### **The opportunity cost of inadequate electricity infrastructure**

Access to cost-effective and reliable sources of electricity is critical to economic growth. The Minister of Minerals and Energy Affairs noted in March 2009 that the lack of electricity infrastructure, together with inefficient distribution, is costing South Africa's economy R2 billion per annum.<sup>42</sup> Estimates for addressing the infrastructure backlog run to R27 billion.

Five percent of respondents to SBP's business survey spontaneously identified unreliable **electricity supplies** as one of the top three challenges to doing business in the province (11 percent among large businesses).

*Access* to electricity was ranked by over half the respondents (58 percent) as a minor obstacle or no obstacle to doing business. Nevertheless, almost a quarter of businesses rated the inadequacy of such infrastructure as a major or very severe obstacle (23 percent). These were for the most part larger businesses.

Almost a third of businesses (31 percent) rated *reliability* of electricity supply as a major or very severe obstacle, while 40 percent rated electricity *cost* as a major or very severe obstacle.

The survey asked businesses to comment on the extent to which inefficiencies in the **administration of utilities infrastructure** constitute an obstacle to doing business. Businesses were asked to consider aspects such as service providers' efficiency in responding to applications and queries and the efficiency of billing processes. Forty two percent of respondents rated inefficient administration of utilities as a major or very severe obstacle to doing business.

---

<sup>42</sup> <http://www.skillsportal.co.za/asgisa/090304-electricity-infrastructure-costs-billions.htm>

## 12 Space to do business

The survey sought to probe businesses' perceptions of the availability and cost of operating sites and premises in the province, together with the availability of land for new business ventures and/or expansion of existing businesses.

**Access to office space/business premises** was for the most part not a significant challenge for respondents. Sixty two percent of businesses rated access as no obstacle or only a minor obstacle to doing business. Only 14 percent of respondents indicated that access to office space was a major or very severe obstacle.

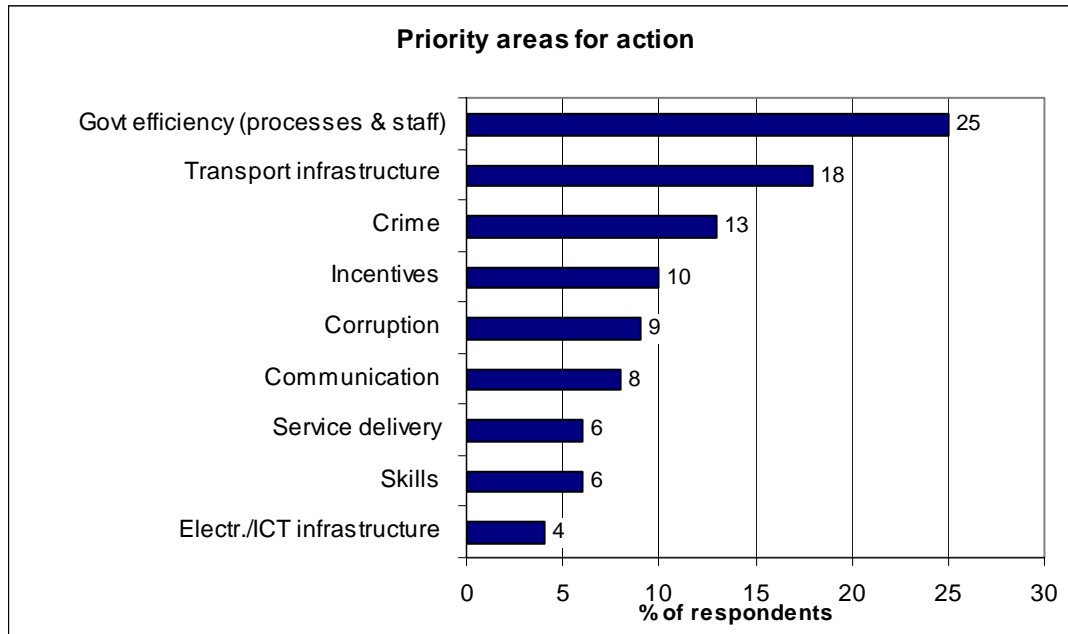
**Cost of office space** was however rated by just over a third (36 percent) of businesses as a major or very severe obstacle.

**Availability of land** was rated by 40 percent of respondents as a minor or no obstacle, although thirty percent indicated this is a major or very severe obstacle.

**Cost of land** was more of a concern – rated by 40 percent of respondents as a major or very severe obstacle to doing business, and only 26 percent as a minor or no obstacle.

### 13 Priority areas for reform

Survey respondents were asked to identify the **single action by provincial government** that would best support economic growth. The results are shown in the figure below.



**Improvements to government efficiency** accounted for 25 percent of responses across the sample as a whole, and a third of responses among large businesses. This response included improvements to **staff efficiency** including the need for more efficient, well trained, motivated and capable civil servants, prompt and efficient responses to business' attempts to engage with government departments, and a demonstrable culture of public service; together with **process improvements** and reduction of red tape. The latter included the need for approvals processes to be speeded up, improved efficiency and capacity in dealing with EIA processes, and streamlining of procurement procedures and prompt payment by government.

Eighteen percent of respondents prioritised improved transport infrastructure, with a particular focus on improvement and maintenance of road infrastructure and improved public transport. Large businesses in particular emphasised the importance of improvements to Gauteng's transport infrastructure – transport accounted for 31 percent of responses among businesses with over 100 employees

Other priority areas for improvements included a **reduction in crime** (13 percent of respondents), provision for **incentives** to encourage investment (10 percent of respondents), including tax rebates and provision of industry-specific packages, measures to eradicate **corruption** in government (nine percent), and improved **communication** and engagement between government and business (eight percent). Four percent of respondents called for the province to prioritise reliability and quality of

electricity and/or telecommunications infrastructure (seven percent among large businesses).

### 13.1 An Action Agenda for Reform

The project identified a number of critical challenges associated with doing business in Gauteng. At a very high level, these can be differentiated between issues related primarily to government efficiency (in terms of process and administrative efficiency, staff capacity, communication and access), and issues related primarily to infrastructural investment and maintenance, with a particular emphasis on transport-related infrastructure.

During May and June 2009, SBP engaged in a targeted engagement process with a number of key stakeholders, in government and business, to discuss these identified challenges, and to work together to identify practical recommendations to address them.

The results are presented below. They have been categorised as short, medium and long term priorities, in recognition that some, particularly around infrastructural improvements, will require significant levels of investment and coordinated planning across a number of implementing agencies. Others, however, are primarily about changing behaviours and improving information sharing. The latter should not require significant levels of spending, and can, given the necessary political commitment, be addressed within a relatively short time frame.

Priority	Action	Implementing body
<b>TRANSPORT INFRASTRUCTURE</b>		
<b>Short Term</b>		
Better information (Roads)	Maintain and share annual statistics on road condition and maintenance needs	DoT, GPDPTW, relevant Municipal Departments and MOEs
Communication of investment plans	Provide clear information about status and timing of proposed transport infrastructure developments to inform government and business planning	
<b>Medium Term</b>		
Better information (Roads)	Develop and implement compatible information management systems to inform the planning and coordination of road infrastructure investment	DoT, GPDPTW, relevant Municipal Departments and MOEs
Better information (Freight)	Implement National Freight Databank to inform policy and infrastructure investment and provide cross border information about infrastructure and operations	DoT in collaboration with provincial and local government

Information sharing across public and private sectors (Freight)	Share information to support coherent freight system planning – government and industry. Make National Freight Databank accessible to provincial and local government and freight industry	DoT, GPG, municipalities, industry
Effective coordination across spheres of government	Coordinate planning across GPG, DoT, dti, Transnet, municipalities	GPG, DoT, dti, Transnet, municipalities
	Clarify relationship of GDPTRW and other agencies at provincial level - roles and accountability	GDPTRW
	Review mechanisms for inter-governmental coordination (e.g. forums) and facilitate participation of appropriately senior and technically proficient officials	GDPTRW, municipal departments and MOEs
Finance for investment	Explore integrated funding models that draw on different spheres of government in combination	DoT, National Treasury, Planning Commission, Provincial Treasury, GDPTRW, municipal departments and MOEs
	Develop mechanisms for municipalities to apply to external sources of funding (including GPG, private sector)	
	Consider ring-fencing developers' engineering service contributions for spending on infrastructure in immediate environment of the development	Municipalities
Engage industry stakeholders	Explicitly recognise need for a range of public transport options, including mini-bus taxis, and work with stakeholders to establish compatibility and coordination between modes	GDPTRW, municipal departments and MOEs in collaboration with taxi industry
	Explore inclusion of industry representatives on Gauteng Freight Forum, together with relevant GPG departments	GDPTRW, GEDA, GDACE, municipalities, industry
<b>Long Term</b>		
Incorporate understanding of freight management in planning at provincial and local level	Attract and retain qualified technical staff with freight management expertise. Explore partnerships with private sector to tap into technical skills and develop mechanisms for skills transfer (e.g. extension of existing technical forums to include private sector)	GDPTRW, municipal departments and MOEs
Build public/business support through demonstrated benefits	Ensure effective communication to general public re benefits of public transport - demonstrate convenience and cost-effectiveness	GDPTRW, Transnet, municipal departments and MOEs
	Demonstrate and communicate viability	

	of rail freight options – efficiency, predictability, cost competitiveness	
Introduce user-friendly public transport options	Ensure efficiency and convenience of modal integration including tickets valid across modes of public transport, including taxis; day/weekend tickets	
Upgrade ORTIA supporting infrastructure for air freight	Improve access, mobility, utilities and zoning for freight operations; road upgrades to support airport expansion (R21, new roads such as PWV14, PWV15)	GDPTRW, Ekurhuleni municipality, ACSA, Blue IQ
Develop air cargo solution for province	Decide on development of primary and secondary airports to enhance air cargo planning. Develop capacity for freight handling in Lanseria vicinity. Upgrade relevant access routes	DoT, GDPTRW, ACSA, Transnet
Involve private sector in infrastructure management	Government to consider on a case by case basis	DoT, GPG

**INTERACTION BETWEEN BUSINESS AND GOVERNMENT**

**Short Term**

Proactive communication from government to business	Urgently upgrade government websites in terms of comprehensiveness of information available, quality of information, and website navigability	All departments, municipal and provincial government
	Increase use of telephone and email options for interaction (rather than face to face)	
	Provide regular information/progress updates to individuals during regulatory approval processes (esp. planning and development approvals)	
Improved call centre efficiency	Improve training and capacity to follow up for call centre staff. Develop measurable performance indicators linked to service delivery. Assign individual responsibility for follow up after initial contact with call centre	Management - provincial and local government departments

Improved outreach to business	Develop and implement mechanisms/ platforms for businesses to engage with government (from policy discussions to procurement opportunities to requirements to attract and retain investors) – and ensure participation of appropriately senior government officials (linked to performance measurement)	Management - provincial and local government departments, in consultation with Business Chambers and sector/industry bodies. Auditor General to monitor and report on performance at departmental level (province) and municipal level
<b>Medium Term</b>		
Improved support to potential investors	Provide <i>effective</i> first point of contact services for potential investors, including information about regulatory requirements and local operating context, facilitation of approval processes across departments/spheres of government, and coordination of necessary infrastructural support	GPG and Municipalities

<b>COORDINATION ACROSS GOVERNMENT</b>		
<b>Short Term</b>		
Clarify areas of overlapping authority between spheres of government, specifically re DFA	Clarify boundaries of authority of province and local government re development approvals; specify types of applications specific to local and provincial processes. Establish mechanism for consultation of municipalities in provincial approval process to ensure fit with spatial development frameworks and infrastructural capacity.	National govt, in consultation with GDACE, Provincial Tribunal, Constitutional Court and Town Planning departments in municipalities
<b>Medium Term</b>		
Improved coordination and communication between provincial and local government	Improve interaction across provincial government departments, between province and municipalities, and across municipalities.	Management - provincial and local government departments
	Ensure close working between GPG and municipalities in joint programme development – recognising challenges at local level and facilitating development of shared priorities and strategies	Management - provincial and local government departments, particularly GDED and municipal counterparts
	Involve municipalities in decisions re categorisation of urban edge through interactive process – taking local challenges and priorities into account	GDED, GDACE and municipal counterparts

<b>IMPROVE EFFICIENCY OF APPROVAL PROCESSES</b>		
<b>Short Term</b>		
Improve efficiency of processes associated with development approvals	Publicise target timeframes associated with each approval process. Monitor performance against targets. Include target timeframes in IDPs.	Local government town planning departments; Monitoring and reporting by Auditor General
	Provide clear, step by step information about each approval process, easily accessible on website, on email and in hard copy from municipal offices, together with timeframes and approximate costs per process (broken down by activity/requirement)	Local government town planning departments
	Raise awareness among local govt departments and government entities, including Eskom, Rand Water, city-based services (e.g. City Power) regarding importance of timely, comprehensive comment on development applications circulated by town planning.	GDED, Eskom, Rand Water, municipal owned entities with responsibility for infrastructural provision, local government town planning departments
	Communicate proactively with applicant if there is a problem with an application/information is missing	Local government town planning departments
<b>Medium Term</b>		
Improve efficiency of processes associated with development approvals	Build capacity within departments and government entities to respond efficiently and appropriately. Develop and apply punitive measures for departments/entities that fail to provide appropriate feedback within specified timeframes (60 days)	GDED, Eskom, Rand Water, municipal owned entities with responsibility for infrastructural provision, local government town planning departments
	Digitise documentation relating to planning approvals including building plans, application forms etc	Local government Finance Departments, Municipal Managers, town planning departments
Learn from good practice	Encourage forums for sharing experience and good practice across municipalities/provinces – explore virtual options/web based interactions etc	Individual departments at provincial and local government level, with support from GDED and local government counterparts

<b>Long Term</b>		
Develop strategies to build human capacity	Develop strategies to assist recruitment and retention of technically skilled individuals (incl. town planners) – requires review of application of pay grades and opportunities for advancement	National Treasury, local government Finance Departments, individual departments at provincial and local government level

**PROCUREMENT POLICY AND PROCESS**

**Short Term**

Information re requirements and opportunities to be easily accessible	Publicise information about criteria and procedures for qualification (registration, vendor numbers) as widely as possible. Standardise registration processes and documentation across levels of government and across government departments. Ensure databases are regularly updated. Ensure departments understand that open tenders do not require pre-registration	GSSC, local government SCMUs
Information on tenders awarded to be publicised	Provide information about tenders awarded on departmental/municipal websites, showing nature of service/goods; successful tenderer; HDI status, value of tender; and project commencement and end dates	GSSC, local government SCMUs, provincial government departments and municipalities National Treasury and Auditor General to monitor procurement processes more strictly, and take action against non-compliance
Government officials to be held accountable for performance of their procurement related responsibilities – including timely payment of suppliers	Ensure that every person in the procurement chain, from the end user/project manager, to departmental procurement unit and GSSC (province) or SCMU (local government) to have clear understanding of their responsibilities and consequences if they fail to deliver.	
	Ensure that failure to honour contractual obligation to pay service providers within 30 days translates into punitive action against individual officials	

<b>CORRUPTION</b>		
<b>Short Term</b>		
Effective communication programme to address negative perceptions	<p>Demonstrate how government money is being spent, and with what impact.</p> <p>Publicise procedures for accessing and awarding of procurement opportunities.</p> <p>Provide information about who to contact in event of concerns about corruption.</p> <p>Ensure that complaints are taken seriously and follow up information is provided.</p> <p>Ensure protection for whistle-blowers</p>	GPG and municipalities



**Contact Details**

79 Oxford Road Saxonwold 2196

PO Box 1051 Houghton 2041

Tel: +27 11 486 0797

Fax: +27 11 486 0810

Email: [info@sbp.org.za](mailto:info@sbp.org.za)

Web: [www.sbp.org.za](http://www.sbp.org.za)