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Structural Reforms to Bolster South Africa's Business Environment

Tidiane Kinda and Nasha Mavee

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Structural Reforms to Bolster South Africa's Business Environment
Prepared by Tidiane Kinda and Nasha Mavee

Authorized for distribution by Delia Velculescu
March 2026

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ABSTRACT: South Africa stands out as having one of the most restrictive business environments among peers. Burdensome government regulations, especially for licensing and permitting, weak procurement practices, and limited competition can pose risks to business confidence and investment, stifle innovation, increase compliance costs. Because they burden small firms disproportionately, they particularly inhibit job creation potential. Our econometric analysis, using cross-country firm-level data, finds that product market regulations, notably related to licensing and permitting, hinder firms' growth and productivity. This is particularly true for South African firms, and especially small firms, where a high regulatory burden is associated with slower sales growth, weaker employment growth, and lower productivity. Building on these results, the paper identifies specific product-market reforms that could help boost business dynamism and job creation, thereby contributing to addressing South Africa's weak growth and high unemployment.

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SELECTED ISSUES PAPERS

Structural Reforms to Bolster South Africa's Business Environment

South Africa

Prepared by Tidiane Kinda and Nasha Mavee¹

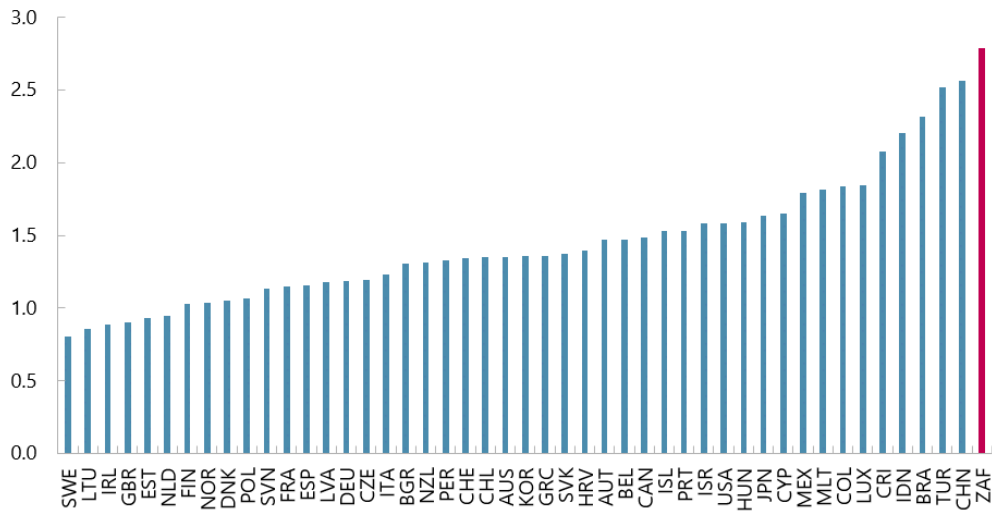
¹ The authors would like to thank Delia Velculescu, Andrea Richter Hume, Yin hao Sun, Maria Mendez, and S. Jay Peiris for their valuable comments and suggestions. The authors are also thankful to authorities from the National Treasury (NT) of South Africa and the South African Reserve Bank (SARB) for their constructive feedback, including during the joint NT-SARB seminar. Erick Trejo Guevara and Emma Eiermann provided helpful production and research assistance.

A. Background

- 1. South Africa's growth has been too weak for too long.** After a strong performance in the first decade following the end of Apartheid (1994-2007) when annual growth averaged 3.6 percent, output growth has been lackluster. Average real growth of below 1 percent between 2008 and 2024 has led to a decline in real per capita income to its 2007 level and an erosion of living standards for average South Africans. The anemic growth environment has also hindered efforts to address persistent social legacies of apartheid and failed to meet the employment aspirations of old and new generations.
- 2. The country's weak growth performance has been attributed to entrenched structural rigidities.** These include inefficient state-owned enterprises operating in key sectors of the economy with associated recurrent infrastructure breakdowns, eroded state capacity, and high levels of bureaucracy.² Moreover, product-market rigidities have been identified as a major contributor to low business dynamism and subdued employment opportunities (OECD, 2025a). Several empirical studies have illustrated that regulatory constraints have hindered market participation and firm growth in South Africa (Owoseni and AhwiringObeng, 2024; World Bank, 2025). Thakoor (2020) highlighted that historically, firms in South Africa have used their market power to drive up prices and limit competition, stifling innovation and entrepreneurship.
- 3. South Africa stands out as having one of the most restrictive business environments across all OECD countries and G20 emerging economies** (Figure 1). Burdensome administrative procedures, including communication and simplification of administrative and regulatory burden; interaction with stakeholders; regulations and competition impact evaluation; tariff barriers; barriers to entry in Service and network sectors; as well as administrative and regulatory burdens are among the key factors of South Africa's restrictive business environment (Figure 2; OECD, 2025a; OECD, 2025b; Medici 2025). Firms in South Africa, particularly SMEs, see business regulations, financing constraints and inadequate infrastructure as the top constraints they face in their operations (Figure 3). South Africa's gap to the business regulation frontier is large and has widened since 2010, especially for bureaucratic costs and administrative requirements, increasing compliance costs, and burdening small and medium enterprises (SMEs) disproportionately (IMF, 2025).

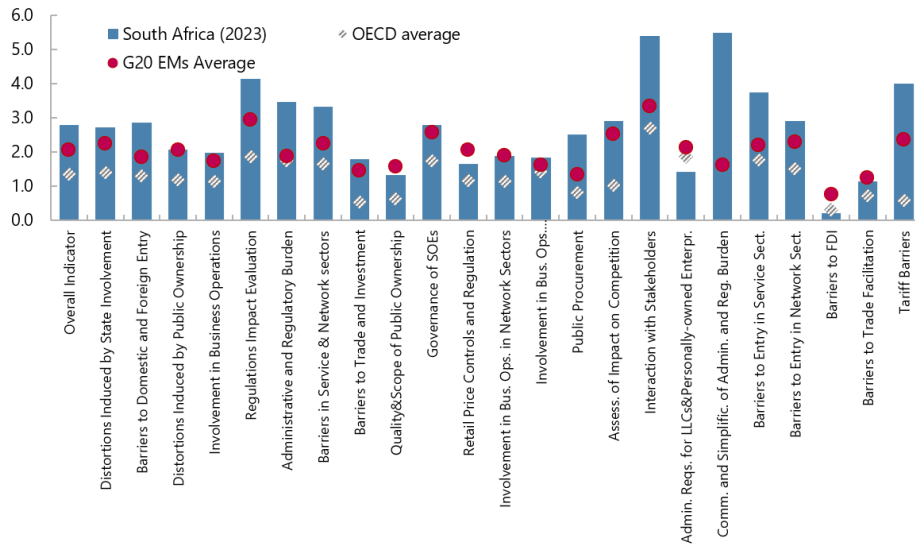
² This paper focuses on product market regulations as an additional area of reform needed to complement immediate reform priorities in electricity, logistics, and water sectors.

Figure 1. Product Market Regulation – Overall Indicator



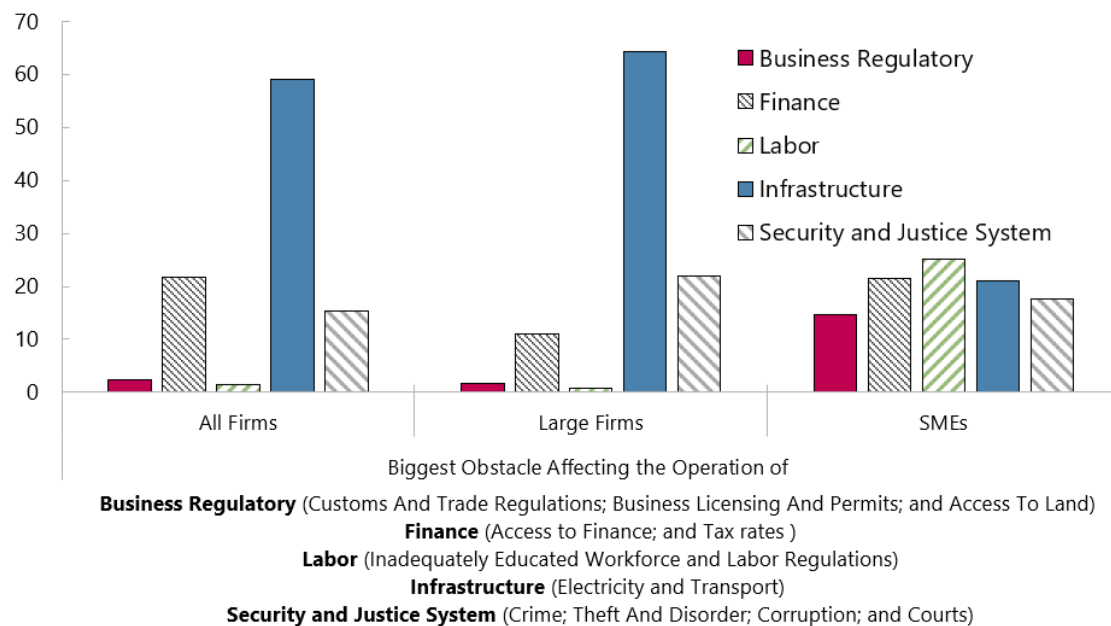
Source: OECD. Note: PMR overall indicator on a scale from 0 (most competition-friendly regulatory set-up) to 6 (least competition-friendly).

Figure 2. Product Market Regulation – Sub-components



Source: OECD. Note: PMR economy-wide indicator and of all its sub-components on a scale from 0 (most competition-friendly regulatory set-up) to 6 (least competition-friendly).

Figure 3. Share of South Africans Firms Perceiving an Area as the Top Constraints they Face

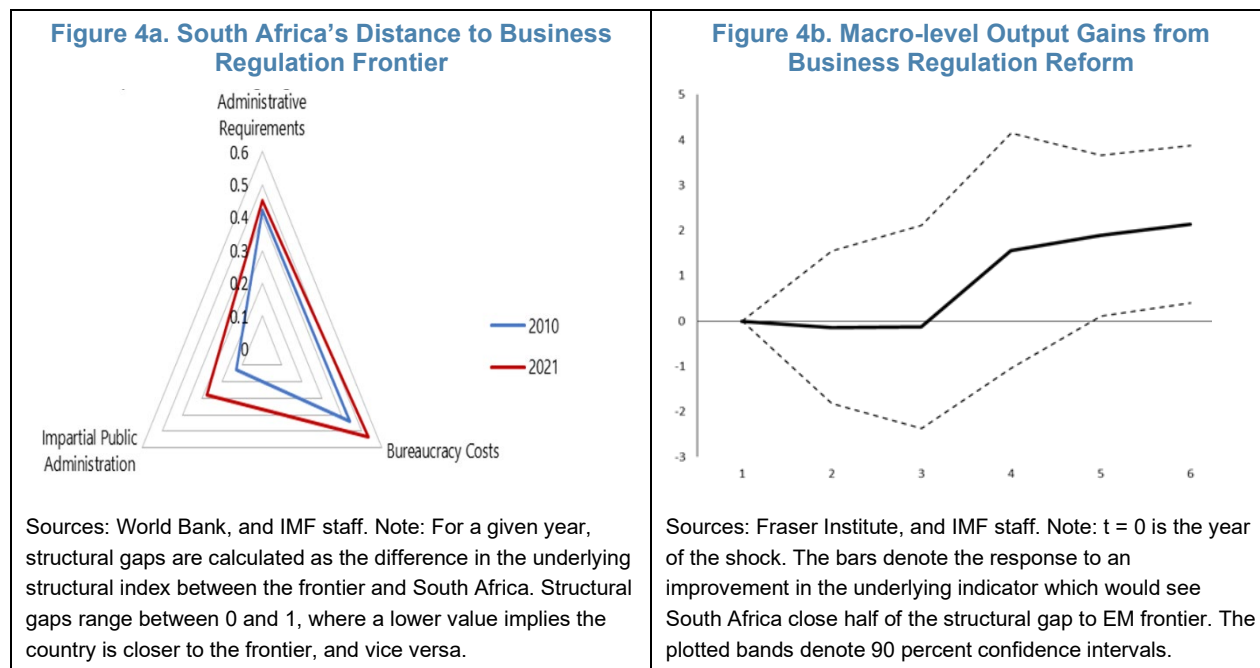


Sources: World Bank Enterprise Survey, and IMF staff calculations.

4. Product-market reforms could deliver significant growth gains for South Africa. IMF (2025) highlighted that South Africa exhibits a significant gap to the business regulation frontier, particularly in relation with bureaucratic costs and administrative requirements. Using local projections with country-level data, the paper shows that implementing reforms to close 50 percent of South Africa’s gap relative to the EM frontier on business regulations could generate material gains by boosting real output by around 2 percent in the medium run relative to a no-reform scenario (See Figure 4a and 4b from IMF, 2025).³ Implementing complementary governance reforms would amplify these effects, particularly in the near-term by bolstering broader trust and confidence in government reform efforts.

5. This paper employs an empirical analysis to identify the constraints posed by business regulations on firm performance, with the aim of identifying potential reforms that can support overall productivity and growth. In addition to complementing the theoretical country level analysis in IMF (2025), this paper explores empirically how regulatory burdens impede business growth, employment, and productivity in a panel of large and small firms across a wide set of countries. The firm level analysis also allows for a focused study on South African enterprises, including small ones which are often viewed as suffering most from excessive regulations. The paper then discusses measures that could be considered in South Africa to address these impediments to growth, tailored to country-specific circumstances.

³ This corresponds to boosting South Africa’s average yearly growth by up to 0.4 percentage points relative to a no-reform scenario.



B. Empirical Firm-Level Data Analysis

6. The analysis relies on data from the World Bank Enterprise Surveys (WBES). The WBES are standardized surveys conducted across large and representative samples of firms. This allows for national and international comparisons of productive performance across activities in the manufacturing and services sectors. The WBES data include information on firms' inputs (number of employees, intermediate consumption, capital stock, compensation of workers) and outputs (sales, exports), as well as various firms' characteristics such as age, size, and foreign ownership. Various aspects of the investment climate, including business regulations faced by firms, access to infrastructure, finance, and human capital are also covered in the dataset. The analysis in this paper uses a large and comprehensive sample of firms across all geographic regions, including South Africa, during the period 2002–2025 before focusing on South Africans firms.⁴

7. Various indicators can be used to assess firm performance, each with their strengths and weaknesses. This paper relies first on indicators that capture business dynamism, such as sales growth and employment growth. To capture labor productivity, it uses a common performance indicator defined as the ratio of value added or sales to the number of employees. While this indicator is immune from the usual measurement errors in the stock of capital, omitting capital from a performance indicator could be misleading, particularly for (large) firms that depend more heavily on capital for their activities. Therefore, to capture a more complete picture of the performance differential between firms, the paper also estimates firm-level total-factor productivity (TFP) that accounts for firms' stock of capital. Each firm's TFP is estimated as a residual of the following equation explaining the annual sales of each firm by its number of employees,

⁴ The sample for the analysis is comprised of 183 economies covering all regions and income groups that are pulled together to construct a cross-country firm-level dataset. Each survey was carried out between 2002 and 2025. Appendix Table 1 provides the list of countries.

level of capital stock, and cost of intermediate inputs, assuming a basic Cobb-Douglas functional form:

$$SA_{ijk} = \alpha L_{ijk} + \beta K_{ijk} + \theta C_{ijk} + \gamma C_i + \delta S_j + \varphi Y_t + \varepsilon_{ijk}, (1)$$

where SA_{ijk} captures the sale of each firm i , in country j , and sector k ; L_{ijk} represents the number of employees; K_{ijk} the level of capital stock and C_{ijk} intermediate consumption (total cost of raw materials and intermediate goods used in production).⁵ All variables are in logarithm terms. C_i , S_j , and Y_t are respectively, country, sector, and year fixed effects. The error term ε_{ijk} , which captures the residual of the output (sales) not explained by labor, capital, and intermediate consumption is the measure of firm-level productivity.⁶

8. The empirical literature identifies several firm characteristics and factors that tend to influence firm performance (Dollar, Hallward-Driemeier, and Mengistae 2005; Chaffai, Kinda, and Plane 2012; Kinda 2012; Kinda, 2019; Laajaj, Eslava, and Kinda, 2023). These include firm age, size, ownership status, human capital, and access to finance. This section assesses the impact of business regulations (our variable of interest) on various performance indicators, including firm-level TFP, after accounting for key firms' characteristics through the following equation:

$$Perf_{ijk} = \alpha Reg_{ijk} + \beta X_{ijk} + \gamma C_i + \delta S_j + \varphi Y_t + \eta_{ijk}, (2)$$

where $Perf_{ijk}$ captures firm-level performance indicators such as sales growth, employment growth, labor productivity, and TFP of firm i , in country j , and sector k .⁷ Reg_{ijk} (our variable of interest) captures regulatory burden firms face, for instance the time spent by each firm in dealing with regulations such as licensing and permitting. X_{ijk} is a matrix of common determinants of firm-level productivity identified in the literature, comprising firm size, age, ownership status, share of foreign capital, education of labor force, and access to finance. C_i , S_j , and Y_t are respectively, country, sector, and year fixed effects while η_{ijk} is the error term.⁸ Appendix Table 3 provides the name and definition of all variables.

9. The data indicate that cumbersome administrative procedures represent a particular challenge for South African firms. Before turning to the estimations, an analysis of our main variable of interest, the average time spent by business leaders dealing with government regulations such as licensing and permitting, suggests that the regulatory burden has almost doubled between 2007 and 2020 for the average South African firm (Figure 5a and 5b).⁹ As a result, South Africa stands out as one of the countries where business leaders spent a higher share of their time dealing with regulations. Administrative barriers are particularly damaging for their smaller firms, as they tend to cost a larger share of turnover, hindering firms' growth and job creation (Christensen, Hegazy, and van Zyl, 2016).

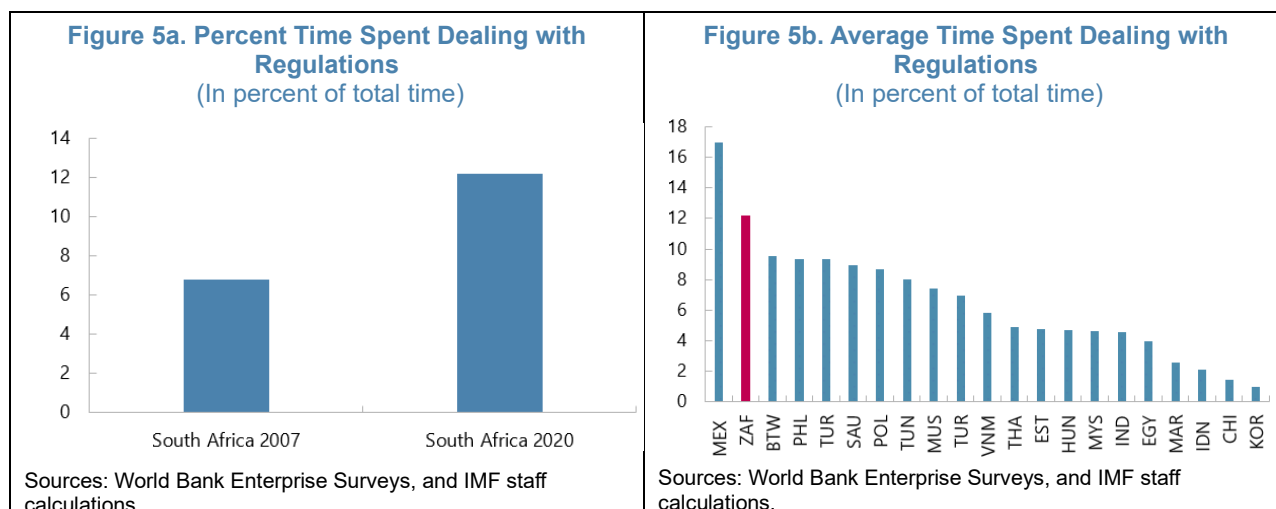
⁵ Sales, capital stock, and intermediate consumption are converted into constant U.S. dollars.

⁶ Appendix Table 2 provides the results of the estimations. The cross-sectional dimension of the data does not allow for more recent estimation techniques of TFP, such as those of Levinsohn and Petrin (2003) and Akerberg, Caves, and Frazer (2015).

⁷ Firm-level TFP is estimated from equation (1).

⁸ Year fixed effects capture common shocks (e.g. the COVID-19 pandemic) that impacted all firms during a single year.

⁹ The share of SMEs remains broadly comparable across the two surveys at close to 80 percent in 2007 and about 87 percent in 2020 during the COVID-19 pandemic.



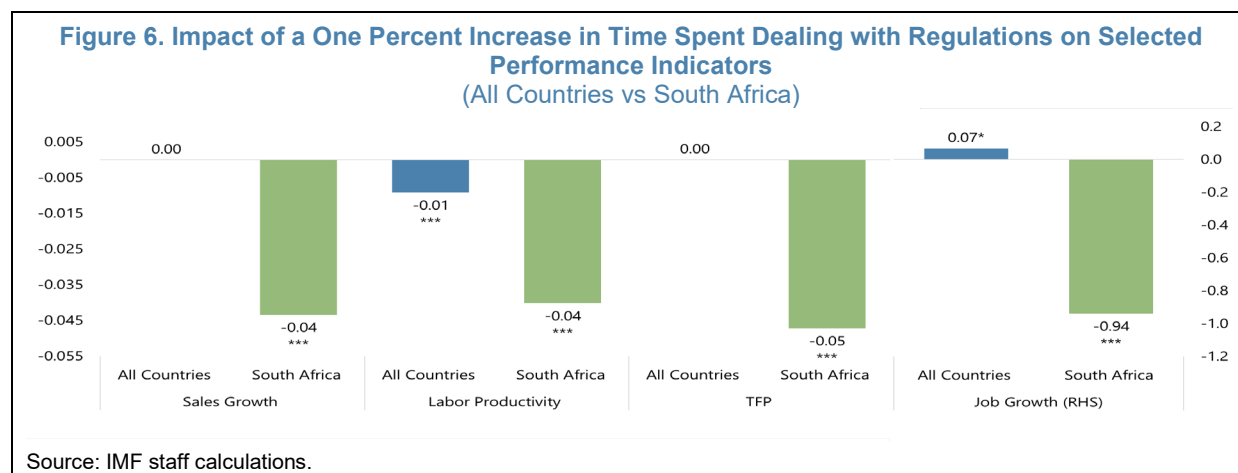
10. The use of conventional regressions could suffer from endogeneity bias due to reverse causality, omitted variables, or measurement errors. For instance, more productive or efficient firms can be those that spend proportionally less time dealing with government regulations and as such have a lesser concern of the regulatory constraints than less productive firms. This could lead to identical constraints being assessed differently depending on the firm’s performance and resources. While regular determinants of firm-level performance are controlled for, unobservable characteristics at the firm level can still impact how each firm deals with regulations. Lastly, the variable capturing the burden of business regulations at the firm level may suffer from measurement errors.

11. The analysis relies on instrumental-variable estimations to address endogeneity concerns. Through two-stage least squares estimations, we use the country-sector-city average of our variable of interest (share of managers’ time spent dealing with government regulations) excluding the firm’s own observation as our main instrument. The country-sector-city average of the share of total annual sales paid as informal payment to get things done (excluding the firm’s own observation) is also used as an additional instrument. Identical instrumentation procedures have been used by Dollar, Hallward-Driemeier and Mengistae (2005); Lall and Mengistae (2005); Aterido, Hallward-Driemeier and Page’s (2007); Honorati and Mengistae (2007); Kinda (2009), and Kinda (2019). Location-averages are partly exogenous as they are dominated by small-local firms that have less capacity, unlike larger firms, to self-select their location into regions/cities with a friendlier investment climate and regulations (Dollar, Hallward-Driemeier, and Mengistae 2005; Lall and Mengistae 2005).¹⁰

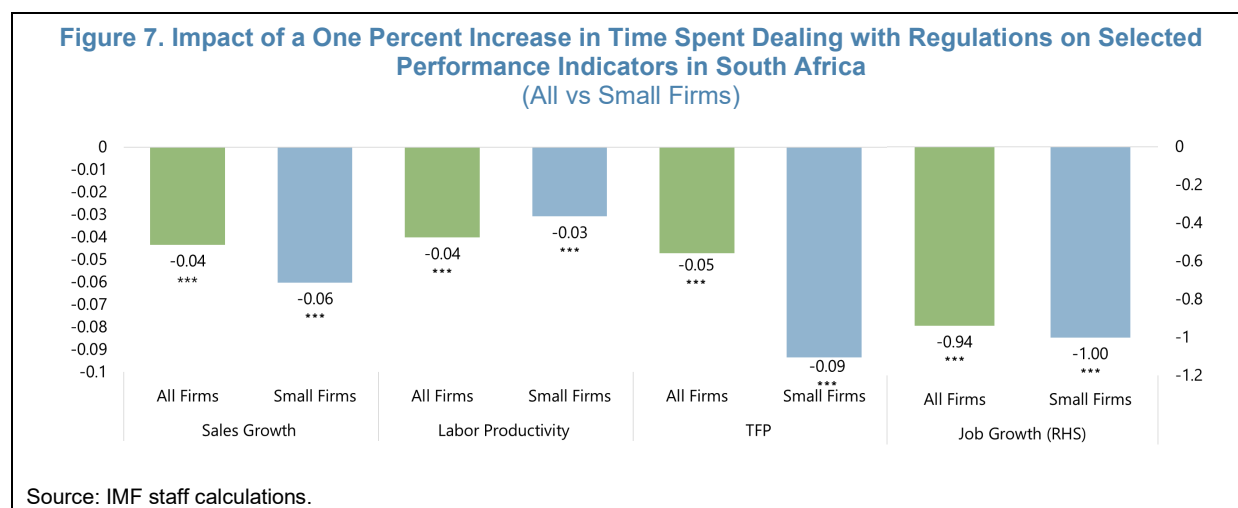
12. Our regression-analysis results suggest that cumbersome business regulations deter firm performance, particularly in South Africa. Firms where managers spend a larger share of their time dealing with government regulations, such as licensing and permitting, are less dynamic, as reflected in weaker sales and employment growth (Figure 6 and Table 1). These firms are also less productive compared to their peers. The impact of cumbersome business regulations on firm performance appears to be consistently larger in South Africa compared to the average country in the sample, particularly when firm performance is captured through job growth, labor productivity, and total factor productivity. To illustrate, the results would imply that a

¹⁰ A test of weak instruments in the literature is the comparison of Cragg–Donald statistics to critical values computed by Stock and Yogo (2005). Cragg–Donald statistics in this paper are far higher than the Stock and Yogo critical values, indicating the absence of weak instruments.

one-percentage-point increase in business leaders' time spent dealing with regulations is associated with a 0.94 percent reduction in firm-level job growth in South Africa (Figure 6).



13. The results confirm the prior that South African small firms suffer more from regulatory constraints. Amongst South African firms, small firms (with less than 20 employees) report a greater burden from cumbersome business regulations (Figure 7). This is particularly the case when firm performance is captured through total factor productivity (Table 2). The test of difference of the estimated coefficients between all firms and small firms confirm that the difference is statistically significant, implying that smaller firms in South Africa suffer about twice as much as the average of all firms in the sample from the impact of cumbersome business regulations on total factor productivity.



14. These results are robust to different specifications. The main results for South African firms are broadly robust to the inclusion of additional explanatory variables capturing training provided to employees (human capital), access to a credit line (finance), security expenses (protection against crime), and transport obstacle (infrastructure). Controlling for the presence of foreign firms, which tend to be more productive, also does not alter our main results and confirms that cumbersome business regulations hinder firm productivity in South Africa. In addition, the use of an alternative variable to capture cumbersome business regulations – firms' own perception of how business licensing and permitting represent an obstacle for their

operations– confirm our main results (Appendix Table 4).¹¹ To illustrate, the results suggest that a one-percentage-point increase in firms' own perception of how business licensing and permitting represent an obstacle for their operations is associated with a drop in firm-level productivity by close to one percent.

¹¹ The country-sector-city average of firms' own perception of business licensing and permitting is also used as an instrument in this specification.

Table 1. South Africa and Other Countries: Main Regressions

| | Dependent Variables | | | | | | | |
|---|--------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|---|---------------------------------------|--------------------------------------|--------------------------------------|
| | Sales Growth | | Job Growth | | Labor Productivity | | TFP | |
| | All Countries | South Africa | All Countries | South Africa | All Countries | South Africa | All Countries | South Africa |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Time Spent Dealing with Regulation | -0.000967 <i>(0.00185)</i> | -0.0434*** <i>(0.0140)</i> | 0.0670*** <i>(0.0212)</i> | -0.939*** <i>(0.178)</i> | -0.00918*** <i>(0.000904)</i> | -0.0402*** <i>(0.00869)</i> | -0.00142 <i>(0.000944)</i> | -0.0472*** <i>(0.0143)</i> |
| Size (<20 employees) | -0.0781*** <i>(0.0232)</i> | -0.372** <i>(0.179)</i> | -8.472*** <i>(0.265)</i> | 0.751 <i>(2.234)</i> | -0.406*** <i>(0.0113)</i> | -0.0159 <i>(0.111)</i> | -0.0134 <i>(0.0120)</i> | -0.0285 <i>(0.0984)</i> |
| Size (20-99 employees) | -0.0461** <i>(0.0229)</i> | -0.210 <i>(0.170)</i> | -3.196*** <i>(0.263)</i> | 3.864* <i>(2.114)</i> | -0.154*** <i>(0.0112)</i> | -0.0241 <i>(0.105)</i> | 0.0396*** <i>(0.0114)</i> | 0.141 <i>(0.0862)</i> |
| Firm Age | 0.000832* <i>(0.000499)</i> | 0.00317 <i>(0.00306)</i> | -0.247*** <i>(0.00574)</i> | -0.163*** <i>(0.0380)</i> | 0.00596*** <i>(0.000244)</i> | 0.00891*** <i>(0.00189)</i> | 0.00216*** <i>(0.000256)</i> | 0.00219 <i>(0.00189)</i> |
| Privately Owned | 0.0709* <i>(0.0406)</i> | -0.223 <i>(0.542)</i> | 2.075*** <i>(0.463)</i> | 0.0973 <i>(6.595)</i> | -0.213*** <i>(0.0199)</i> | -0.0859 <i>(0.335)</i> | -0.102*** <i>(0.0215)</i> | 0.496 <i>(0.378)</i> |
| Sector (manufacturing) | 0.0194 <i>(0.0171)</i> | 0.300** <i>(0.137)</i> | 2.112*** <i>(0.194)</i> | -0.398 <i>(1.710)</i> | 0.208*** <i>(0.00835)</i> | 0.0274 <i>(0.0850)</i> | -0.00383 <i>(0.0510)</i> | 1.653 <i>(1.009)</i> |
| Constant | -7.244*** <i>(0.0495)</i> | -24.19*** <i>(0.583)</i> | 16.22*** <i>(0.565)</i> | 22.95*** <i>(7.110)</i> | 16.60*** <i>(0.0242)</i> | 14.74*** <i>(0.361)</i> | 0.0509** <i>(0.0253)</i> | -0.240 <i>(0.407)</i> |
| Observations | 145,912 | 1,739 | 163,489 | 1,756 | 145,685 | 1,739 | 54,590 | 862 |

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Sources: World Bank Enterprises Surveys and IMF Staff estimates.

**Table 2. South Africa: Regression for South African Firms
(All vs. Small Firms)**

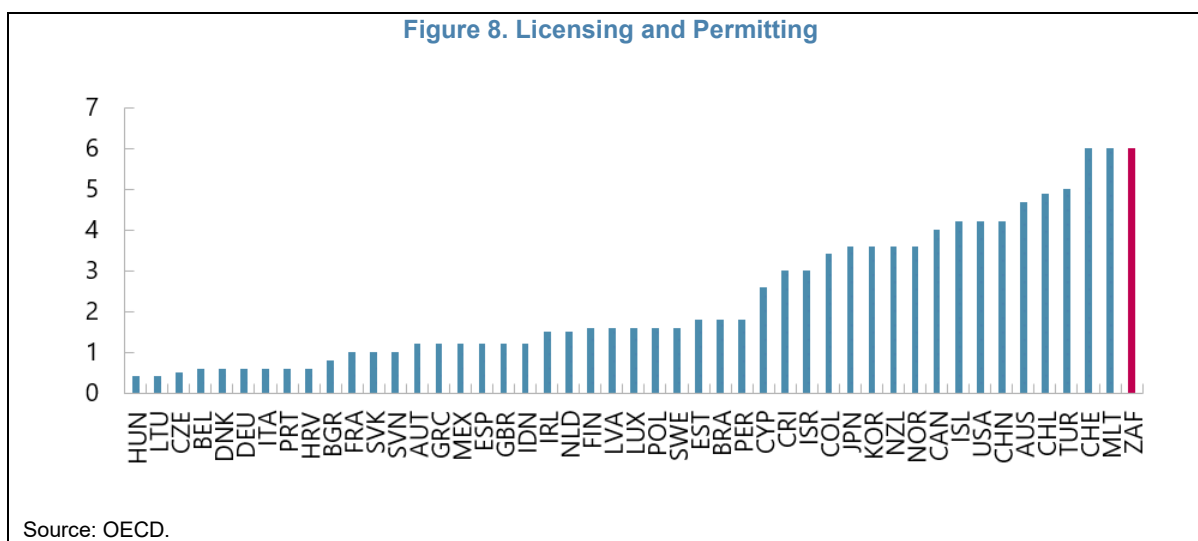
| | Dependent Variables | | | | | | | |
|---|-------------------------------|------------------------------|-----------------------------|-----------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | Sales Growth | | Job Growth | | Labor Productivity | | TFP | |
| | All Firms | Small Firms | All Firms | Small Firms | All Firms | Small Firms | All Firms | Small Firms |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Time Spent Dealing with Regulation | -0.0434*** (0.0140) | -0.0602** (0.0236) | -0.939*** (0.178) | -1.001*** (0.290) | -0.0402*** (0.00869) | -0.0308*** (0.0106) | -0.0472*** (0.0143) | -0.0936*** (0.0275) |
| Size (<20 employees) | -0.372** (0.179) | | 0.751 (2.234) | | -0.0159 (0.111) | | -0.0285 (0.0984) | |
| Size (20-99 employees) | -0.210 (0.170) | | 3.864* (2.114) | | -0.0241 (0.105) | | 0.141 (0.0862) | |
| Firm Age | 0.00317 (0.00306) | 0.00579 (0.00640) | -0.163*** (0.0380) | -0.0960 (0.0769) | 0.00891*** (0.00189) | 0.0164*** (0.00326) | 0.00219 (0.00189) | -0.00256 (0.00525) |
| Privately Owned | -0.223 (0.542) | -0.515 (1.101) | 0.0973 (6.595) | -6.414 (13.30) | -0.0859 (0.335) | -0.402 (0.599) | 0.496 (0.378) | 0.830 (1.277) |
| Sector (manufacturing) | 0.300** (0.137) | 0.623*** (0.237) | -0.398 (1.710) | -0.985 (2.861) | 0.0274 (0.0850) | 0.558*** (0.129) | 1.653 (1.009) | 1.899 (1.289) |
| Constant | -24.19*** (0.583) | -17.89*** (1.149) | 22.95*** (7.110) | 28.21** (13.90) | 14.74*** (0.361) | 14.51*** (0.616) | -0.240 (0.407) | -0.212 (1.255) |
| Observations | 1,739 | 742 | 1,756 | 750 | 1,739 | 742 | 862 | 260 |

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Sources: World Bank Enterprises Surveys and IMF Staff estimates.

C. Deep Dive into South Africa's Business-Regulation Environment

15. South Africa's licensing and permitting regime—shown above to hinder firms' productivity—is among the most burdensome across peers. The Businesses Act, No. 71 of 1991 is the primary legislation governing business licensing and permitting (L&P) in South Africa. The Act outlines the requirements for various businesses to obtain the necessary licenses and permits to operate legally, compliance with specific requirements and standards, and matters related to trading hours. The Act has often been criticized for: (i) its decentralized approach, (ii) high compliance costs, especially for SMMEs; and (iii) excessive requirements that disincentivize informal employment. Moreover, the act's broad scope and complex wording can lead to different interpretations, uncertainty, and difficulty in understanding and applying the provisions, which can lead to disputes and legal challenges.



16. A highly decentralized licensing approach combined with capacity constraints lead to pronounced fragmentation and inefficiency. As in many other countries, South Africa requires both a general business license and sector-specific licenses and permits. However, the country's highly decentralized approach—which is aligned with the Constitution—sets it apart from other nations that often opt for centralized, simplified, or hybrid systems. For instance, while the Act provides a broad legislative framework, the lack of a national policy framework to guide local and provincial authorities in enforcing business licensing can lead to the enforcement of conflicting policies by local authorities, leading to inconsistencies in business licensing. South Africa's multi-layered approach often results in duplicative processes (Rogan and Skinner, 2017)¹² and misaligned fee structures, which together with municipal capacity constraints lead to significant inefficiencies and differentiated applications that are detrimental for business creation and operation, especially for small and informal operators.

17. Licensing and permitting requirements are burdensome and place high compliance costs on firms, especially for smaller businesses. There is no public up-to-date list of all permits and licenses required. It is the responsibility of the business owners to research and find what licenses and permits are

¹² SA L&P has decentralized licensing responsibilities across national, provincial, and municipal spheres.

Sector-specific requirements are regulated under additional statutes — e.g. the Liquor Act 59 of 2003, National Environmental Management Act 107 of 1998, and Electronic Communications Act 36 of 2005.

needed for their activities and to obtain them, noting that failure to obtain the necessary licenses can lead to severe penalties, including fines and suspension of operations. In addition, delays in the process further burden entrepreneurs due to (i) the absence of “silence is consent” principle, which would imply automatic approval past a set time period, (ii) the lack of the “once-only” principle, which requires firms to provide data and information only once to public bodies, and (iii) the absence of differentiation in the complexity and length in licensing procedure based on the risks associated with the business activity (OECD, 2025b). Sector-based licensing requirements further add to entry costs. For instance, water use licensing requirements and delays can delay farming startups or discourage large-scale farming due to compliance and equity demands. Water use licensing has also present constraints for other sectors such manufacturing and mining.

18. Restrictive requirements also hinder self-employment. At about one-third, South Africa’s share of informal employment in total employment is significantly smaller than that of many peers G-20 emerging markets (Indonesia, India, Mexico). Although licensing requirements and the ban on street vending were lifted post-apartheid, cities continue to impose restrictive requirements and zoning rules that limit informal trading and often push vendors away from central business districts and towards less lucrative areas with more limited growth opportunities (Skinner, 2018; Khalid, et al. 2025). Restrictive regulations include the requirement for a business license, a permit to trade in a particular location and associated monthly tariffs, and a Certificate of Acceptability to prepare and sell food, which are often complex and unfordable for informal traders. Violation of the regulations leads to criminal sanction, with a fine or imprisonment in all major metropolises. Local authorities trading by-laws give law enforcement officials broad powers to impound or confiscate informal traders' goods for failing to comply with by-laws. This approach to the informal sector is highly restrictive compared to most developing countries (Khalid, et al. 2025; OECD, 2025b). While ensuring safety is critical, the Act's provisions could potentially be used to discriminate against certain business types or disadvantaged communities.

Box 1. The Three-Tier Licensing & Permitting System in South Africa

Business licensing and regulation are typically divided between the national, provincial, and local government spheres: (1) The national government sets the overall framework and broad policies for business regulation, including licensing requirements and standards. (2) Provincial governments have the authority to implement and adapt these national policies to their specific regional needs and may also have their own specific licensing requirements for certain businesses. (3) Local authorities (municipalities) are responsible for enforcing regulations and issuing licenses for specific businesses within their geographic areas.

Sector Examples of South Africa’s Decentralized L&Ps:

Liquor trade: Requires municipal trading permits + provincial liquor board licensing.

Waste management: Demands environmental permits from municipal and national agencies, plus sectoral waste-handling permissions.

Telecommunications: Licenses issued by ICASA (national) with no municipal engagement.

Informal food vendors: Face health and zoning restrictions at local/provincial levels.

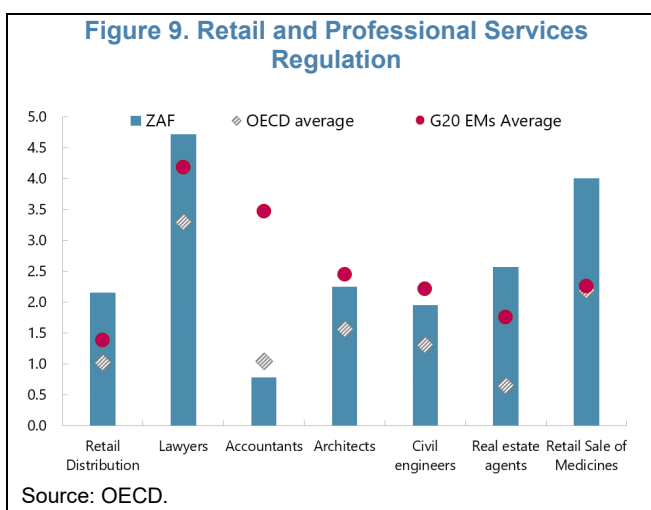
Other Product-Market Restrictions

19. South Africa’s product market is highly concentrated, translating into low competition and higher prices. The Competition Act aims to prevent anti-competitive practices, such as price fixing, market dominance, collusion, and promote fair market competition for consumers. The Act faces several challenges, including balancing competition enforcement with public interest, adapting to a rapidly evolving global

economy and technological advancements, and addressing the legacy of economic concentration and inequality. While there is recognition that the competition policy has been effective in blocking anti-competitive mergers and uncovering explicit cartel behavior, it has been relatively ineffective in addressing entrenched market power and opening the economy to greater access (Makhaya and Roberts, 2013; Roberts, Vilakazi, Simbanegavi, 2017). The lack of competition in most economic sectors has allowed incumbents to remain unchallenged and benefit from high markups, sapping their drive to innovate, and weighing on productivity (World Bank, 2025). The complexity of procurement procedures, licensing regimes, and regulatory controls has also created significant barriers to entry for both domestic and foreign investment. These barriers undermine market contestability, particularly in services and network industries (World Bank, 2020; Arrowsmith, 2010). Thakoor (2020) estimated that South Africa could boost GDP per capita growth by 1 percentage point in the short term and up to 2.5 percentage points in the long-term by improving contestability in key markets.

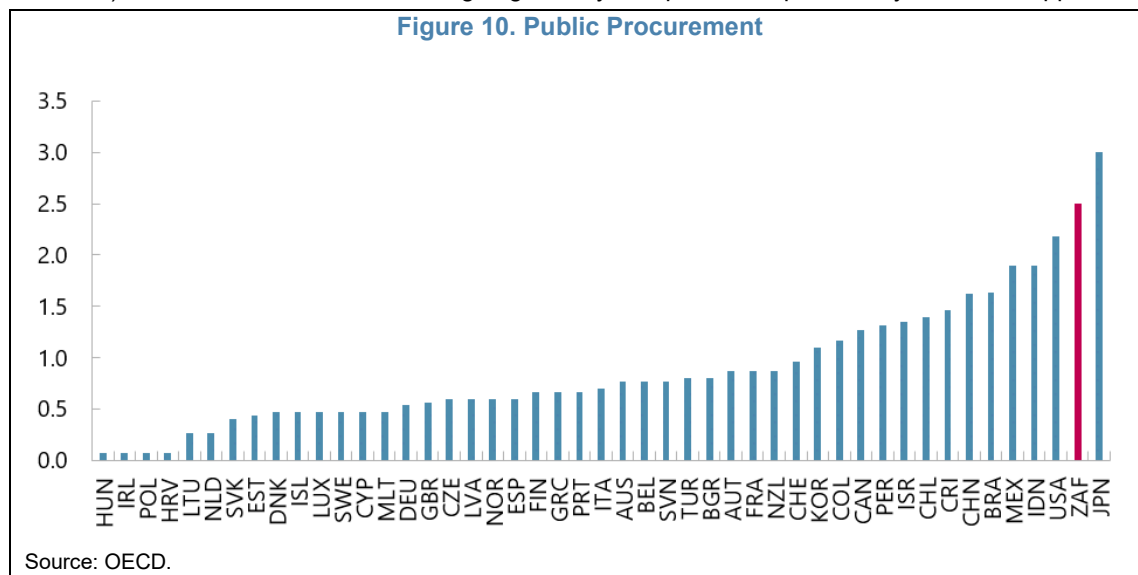
20. Uncompetitive practices have been prevalent with many incumbents. These include exclusionary conduct, strategic mergers, and lobbying for restrictive regulations to preserve market shares (Competition Commission South Africa [CCSA], 2017; 2018). Similar challenges have been observed globally, where entrenched firms use vertical restraints, exclusive dealing, and bundling practices to foreclose rivals (Khan, 2017; Geradin and Petit, 2020). New entrants face systemic hurdles across the value chain—including distribution, logistics, and access to finance—where exclusivity clauses and vertically integrated supply chains restrict effective competition (Makhaya and Roberts, 2013). Import restrictions have also inadvertently reinforced these trends by shielding incumbents from external competition and enabling them to consolidate market power (OECD, 2018). For instance, punitive import duties on essential business tools (e.g. single cab bakkies) impose higher operational costs for small businesses and constraint the emergence of new and particularly smaller entrepreneurs.

21. Sector-based regulations create large barriers to entry. For instance, South Africa’s retail sector is significantly more regulated than that of OECD and G-20 peer economies (OECD, 2025). Barriers in many professional services are higher than the average in OECD countries or G-20 emerging markets. This is for example the case for activities such as lawyers and real estate agents, where there is only one pathway to enter the profession and a requirement to hold South African citizenship. Architects and civil engineers who studied abroad must also pass a local exam to enter the profession. Another example is the mining sector, where a heavy regulatory regime is sometimes identified as an impediment to investment, including due regulatory uncertainty.



22. South Africa has one of the least competitive public procurement rules among OECD countries and peers G-20 emerging markets. The Public Procurement Act (Act No. 28 of 2024) aims to address some challenges, including by unifying the numerous fragmented pieces of procurement legislation into one single national overarching regulatory framework for public procurement across all spheres of

government and by improving transparency. However, many challenges remain. Unlike in most OECD countries, bid timeframes are not proportional to projects' value and complexity. Contracting authorities do not divide tenders into smaller lots, which could facilitate the participation of smaller firms that do not have the capacity to bid for whole contracts. Late payments of invoices, estimated at close to one-fourth of total invoices (MPAS, 2024) constrain firms' cash flow, weighing heavily on operations, particularly for small suppliers.



23. Finally, the insolvency regime is less efficient than in many peer countries. Insolvency procedures and time to discharge debt tend to be lengthy as they are done by regular courts of law (André and Demmou, 2022). Exemptions on personal assets are limited, and management is dismissed during the restructuring process (unlike in most OECD countries), which distort incentives for early filing. There is no early warning system, and no special insolvency procedure for SMEs (OECD, 2025b).

D. Conclusions and Policy Recommendations

24. This paper's empirical analysis highlights that cumbersome business regulations hinder firm performance in South Africa, with material implications for economic growth and job creation. IMF (2025) highlighted that implementing reforms to close 50 percent of South Africa's gap relative to the EM frontier on business regulations could generate material gains by boosting real output by around 2 percent in the medium term. This paper shows that firms' dynamism, captured through sales and employment growth, as well as labor and total-factor productivity, are lower in firms where managers spend a larger share of their time dealing with government regulations, such as licensing and permitting. The impact of cumbersome business regulations on firm performance appears to be consistently larger in South Africa compared to the average country in the sample. The negative impact is particularly large for small South African firms, which suffer about twice as much as the average firm from the impact of cumbersome business regulations. South Africa's highly decentralized licensing and permitting regime (both across the three spheres of government -national, provincial, local- and across sectors) results in duplicative processes and misaligned and costly fee structures. These combined with capacity constraints in most municipalities lead to pronounced fragmentation and inefficiency as well as differentiated applications that are detrimental for business creation and performance, especially for small entities. Discussions with South African businesses across sectors illustrate that access and cost of energy, reliable logistics and water supply as well as the cost of dealing with local government with weak capacity are among the top constraints in doing business.

25. Harmonization of South Africa’s licensing and permitting framework would help support business activity. As a general principle, L&Ps need to be used sparingly and when necessary to address specific risks, and protect public interests, and their processes should be streamlined and efficient (OECD, 2024). Establishing a coherent National Licensing & Permitting Policy would align regulatory roles across government tiers, help leverage digital systems, and support standardized fees.¹³ The comprehensive national policy framework should aim for the following characteristics for an effective, and efficient framework that supports firms’ growth:

- *Centralized and streamlined:* In addition to clearly defining roles between national, provincial, and municipal entities to avoid overlaps, efficient L&P systems make use of a single-window or centralized electronic platform to apply for and track multiple licenses and permits. This practice reduces duplication, simplifies compliance, increases transparency, and shortens turnaround time. A digital one-stop portal as in Malaysia and Singapore could offer a unified system to streamline cross-tier applications and renewals. For instance, Singapore’s OBLs portal allows licensing across 260 categories via an integrated national online platform, which helped reduce the average application processing time dropped from 21 to 8 days.
- *Building capacity:* Address institutional weaknesses at municipal level and boost enforcement via training and intergovernmental coordination.
- *Simplifying licensing and permits for informal trading and micro firms,* including through concessional licensing/permitting and digital onboarding, and facilitating trading opportunities in high-traffic areas could help lower digital, financial, and regulatory barriers and encourage individual entrepreneurship.
- *Risk-based licensing:* Differentiating licensing requirements based on the risk profile of the business (e.g., food production vs. retail clothing) could help ensure that low-risk businesses can operate with minimal licensing, reducing unnecessary burdens and encouraging formalization (e.g. in Botswana and New Zealand). Brazil’s new Business Environment Law (2021) introduced automatic approvals for medium-risk businesses reducing compliance cost.
- *Predictability:* Introducing a public up-to-date inventory of all permits and licenses required, a “silence is consent” principle where appropriate, and possibly a “once-only” principle would help lower administrative burden on businesses.
- *Fee standardization:* Implement national fee schedules with room for locally calibrated pricing as in the Botswana and Kenya models.
- *Clear distinction between licensing and registration:* Clear distinction between business registration (legal identity for tax/statistics) and licensing (regulatory permission to operate in certain sectors) would also help avoid confusion and streamline procedures for both.

¹³ A proposed draft Business Licensing Bill of 2025 aims to change the decentralized three-tier licensing system. Instead of three relatively independent spheres with separate powers, the draft Bill intends to have (i) the national government establishing the binding principles and the core licensing framework; (ii) the provinces required to enact compatible licensing laws and support municipalities; and (iii) municipal by-laws required to be aligned with national and principal laws. However, aspects of the draft bill such as expanding the scope of businesses under licensing and regulation beyond high-risk activities and explicitly giving law enforcement officials broad powers to impound or confiscate informal traders’ goods for failing to comply with by-laws could increase regulatory burden for small businesses.

- *Transparent appeals and complaint mechanisms:* Formal and transparent channels to challenge licensing decisions would help protect business rights and improve fairness and public trust (e.g. in Japan and Botswana).
- *Regular review of licensing requirements:* Periodic reviews to eliminate redundant or outdated licenses will help keep regulations current with economic and technological developments (e.g. in Australia and Canada-British Columbia).

26. Additional reforms could further ease product markets restrictions and support business dynamism. These include:

- *Clarifying legal requirements:* complementing the public online database for primary laws with an online database for subordinate regulations and a requirement to use to “plain language” in the drafting of primary laws and subordinate regulations as in most OECD countries. Such policies could support a better understanding of regulations and decrease the time entrepreneurs need to devote to them to ensure compliance.
 - *Ensuring a level-playing field:* a review of current regulations and incentives that limit competition would guide actions to streamline them, particularly to align sector regulators with the Competition Commission, which will strengthen the competition policy framework and its enforcement. Reducing barriers to entry, including in regulated service sectors, could foster innovation and lower prices through competition, which would also facilitate access for small businesses to these services. For instance, setting clear criteria to recognize foreign qualifications could facilitate skilled immigration and address skills shortage in the near-term (OECD, 2020).
 - *Simplifying procurement:* simplifying procedures, including by making bid timeframes proportional to projects’ value and complexity and dividing tenders into smaller lots can make South Africa public procurement more competitive and provide greater opportunities for smaller firms.
- Insolvency regime:* further streamlining the insolvency procedure could help facilitate the restructuring or exit of distressed firms and free up resources for new entrants.

Appendix I. Additional Tables

Appendix I. Table 1. South Africa: List of Countries
(Year in parentheses)

| Asia and Oceania | Eastern & Central Europe | Latin, North America & Caribbean | Middle East, North Africa & Central Asia | Sub-Saharan Africa |
|--|---|--------------------------------------|--|---------------------------------------|
| Bangladesh (2007, 2023, 2022) | Albania (2007, 2013, 2019) | Antigua and barbuda (2010) | Afghanistan (2008, 2014) | Angola (2006, 2010, 2024) |
| Bhutan (2009, 2015, 2024) | Austria (2021) | Argentina (2006, 2010, 2017) | Armenia (2009, 2013, 2020, 2024) | Benin (2009, 2016, 2024) |
| Cambodia (2023, 2026, 2023) | Belarus (2008, 2013, 2018) | Bahamas (2010) | Azerbaijan (2009, 2013, 2019, 2024) | Botswana (2006, 2010, 2023) |
| China (2012, 2024) | Belgium (2020, 2024) | Barbados (2010, 2023) | Bahrain (2024) | Burkina Faso (2009, 2024) |
| Cyprus (2019, 2024) | Bosnia and Herzegovina (2009, 2013, 2019, 2023) | Belize (2010) | Egypt (2013, 2016, 2020) | Burundi (2006, 2024) |
| Fiji (2009) | Malta (2019, 2024) | Panama (2010) | | Kenya (2007, 2023, 2018) |
| Hong Kong (2023) | Bulgaria (2007, 2009, 2013, 2019, 2023) | Bolivia (2006, 2010, 2017) | Georgia (2008, 2013, 2019, 2023) | Cameroon (2009, 2016, 2024) |
| India (2014, 2022) | Croatia (2007, 2013, 2019, 2023) | Brazil (2009) | Iraq (2011, 2022) | Cape Verde (2009, 2024) |
| Indonesia (2009, 2015, 2023) | Czechia (2009, 2013, 2019, 2024) | Canada (2024) | Israel (2013, 2024) | Central African Republic (2011, 2023) |
| Korea (2024) | Denmark (2020) | Chile (2006, 2010) | Jordan (2013, 2020, 2024) | Chad (2008, 2018, 2023) |
| Kyrgyz Republic (2009, 2013, 2019, 2023) | North Macedonia (2009, 2013, 2019, 2023) | Trinidad and Tobago (2010, 2025) | Kazakhstan (2009, 2013, 2019, 2024) | Malawi (2009, 2014) |
| Lao PDR (2009, 2012, 2016, 2028, 2024) | Poland (2009, 2013, 2019, 2025) | United States (2024) | Lebanon (2013, 2019) | Mali (2007, 2010, 2016, 2024) |
| Malaysia (2015, 2019, 2024) | Estonia (2009, 2013, 2019, 2023) | Colombia (2006, 2010, 2017, 2023) | Morocco (2013, 2020, 2024) | Congo (2009, 2024) |
| Micronesia (2009) | Moldova (2009, 2013, 2019, 2024) | Paraguay (2006, 2010, 2017, 2023) | Saudi Arabia (2022) | Lesotho (2009, 2016, 2023) |
| Mongolia (2009, 2013, 2019) | Finland (2020) | Costa Rica (2010, 2023) | Sudan (2014) | Côte d'Ivoire (2009, 2016, 2023) |
| Myanmar (2014, 2016) | France (2021) | Dominica (2010) | Tajikistan (2008, 2013, 2019, 2024) | Djibouti (2013) |
| Nepal (2009, 2013, 2023) | Germany (2021) | Dominican Republic (2010, 2016) | Tunisia (2013, 2020, 2024) | DRC (2006, 2010, 2013, 2024) |
| Pakistan (2007, 2023, 2022) | Greece (2018, 2023) | Ecuador (2006, 2010, 2017, 2024) | Turkmenistan (2024) | Equatorial Guinea (2024) |
| Philippines (2009, 2015, 2023) | Montenegro (2009, 2013, 2019, 2023) | Peru (2006, 2010, 2017, 2023) | Uzbekistan (2008, 2013, 2019, 2024) | Liberia (2009, 2017) |
| Samoa (2009, 2023) | Netherlands (2020, 2023) | Suriname (2010, 2018) | Yemen (2020, 2013) | Madagascar (2009, 2013, 2022) |
| Singapore (2023) | Hungary (2009, 2013, 2019, 2023) | El Salvador (2006, 2010, 2017, 2023) | | Eritrea (2009) |
| Slovak Republic (2009, 2013, 2019, 2023) | Portugal (2019, 2023) | Uruguay (2006, 2010, 2017, 2024) | | Mauritania (2006, 2014) |
| Solomon Islands (2015) | Romania (2009, 2013, 2019, 2023) | Venezuela (2006, 2010) | | Mauritius (2009, 2023) |
| Sri Lanka (2011) | Iceland (2024) | Grenada (2010) | | Eswatini (2006, 2016, 2024) |
| St Kitts and Nevis (2010) | Russia (2009, 2012, 2019) | Guatemala (2006, 2010, 2017) | | Mozambique (2007, 2018) |
| St Lucia (2010) | Serbia(2009, 2013, 2019, 2024) | Guyana (2010) | | Namibia (2006, 2014, 2024) |
| St Vincent and Grenadines (2010) | Slovenia(2009, 2013, 2019, 2024) | Honduras (2006, 2010, 2016) | | Niger (2009, 2017) |
| Taiwan China (2024) | Ireland (2020, 2024) | Jamaica (2010, 2024) | | Ethiopia (2011, 2015) |
| Thailand (2016) | Italy (2019, 2024) | Mexico (2006, 2010, 2013) | | Gabon (2009) |
| Timor-Leste (2009, 2015, 2021) | Kosovo (2009, 2013, 2019) | Nicaragua (2006, 2010, 2016) | | Gambia (2006, 2018, 2023) |
| Tonga (2009, 2024) | Spain (2021, 2024) | | | Nigeria (2007, 2014) |
| Turkey (2008, 2013, 2019, 2024) | Sweden (2024, 2020, 2024) | | | Papua New Guinea (2015, 2024) |
| Vanuatu (2009, 2023) | Latvia (2009, 2013, 2019, 2024) | | | Ghana (2007, 2013, 2023) |
| Viet Nam (2009, 2015, 2023) | Lithuania (2009, 2013, 2019) | | | Guinea (2006, 2016) |
| West Bank And Gaza (2013, 2019, 2023) | Luxembourg (2020) | | | Guinea Bissau (2006) |
| | Ukraine (2018, 2013, 2019) | | | Rwanda (2006, 2011, 2019, 2023) |
| | United Kingdom (2024) | | | Senegal (2007, 2014, 2024) |
| | | | | Seychelles (2023) |
| | | | | Sierra Leone (2009, 2017, 2023) |
| | | | | South Africa (2007, 2020) |
| | | | | South Sudan (2014, 2024) |
| | | | | Tanzania (2006, 2013, 2023) |
| | | | | Togo (2009, 2016, 2023) |
| | | | | Uganda (2006, 2013) |
| | | | | Zambia (2007, 2013, 2019) |
| | | | | Zimbabwe (2011, 2016) |

Sources: World Bank Enterprises Surveys and IMF Staff estimates.

Appendix I. Table 2. South Africa: Estimation of Firm-Level Total Factor Productivity

| | All Countries | South Africa | All countries, excluding South Africa |
|---------------------------|---------------|--------------|---------------------------------------|
| | (1) | (2) | (3) |
| Log (Labor) | 0.492*** | 0.300*** | 0.495*** |
| | -0.00781 | -0.0401 | -0.00788 |
| Log (Capital) | 0.117*** | 0.0765*** | 0.117*** |
| | -0.004 | -0.0191 | -0.00404 |
| Log (Intermediate inputs) | 0.474*** | 0.671*** | 0.471*** |
| | -0.00558 | -0.0352 | -0.00562 |
| Observations | 73,785 | 906 | 72,879 |
| Country dummies | Yes | Yes | Yes |
| Sector dummies | Yes | Yes | Yes |
| R-squared | 0.964 | 0.826 | 0.964 |

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Sources: World Bank Enterprises Surveys and IMF Staff estimates.

Appendix I. Table 3. South Africa: List and Definition of Variables

| Variable | Description |
|-------------------------------------|---|
| TFP | Total Factor Productivity estimated as the residual of production function |
| Labor Productivity | Ratio of total sales per employee |
| Sales Growth | Sales growth between t and t-3 |
| Job Growth | Job growth between t and t-3 |
| Time spent dealing with regulations | Percent of senior management time spent in dealing with government regulations (e.g. licensing) |
| Licensing & permitting obstacle | Dummy = 1 if firms perceives licensing and permitting as an obstacle (from minor to major) |
| Firm Age | Firm age |
| Size (<20 employees) | Dummy = 1 for firms with less than 20 employees (small firms) |
| Size (20-99 employees) | Dummy = 1 for firms with 20-99 employees (medium-sized firms) |
| Size (>=100 employees) | Dummy = 1 for firms with 100 employees or more (large firms) |
| Privately Owned | Dummy = 1 if firm is privately owned |
| Foreign Ownership | Dummy = 1 if foreigners own at least 10 percent of the firm's capital |
| Training for employees | Dummy = 1 if firm offered formal training to employees in last fiscal year |
| Firm has a credit line | Dummy = 1 if establishment has a line of credit or loan from a financial institution |
| Security Costs | Security costs (% of annual sales) |
| Transport Obstacle | Dummy = 1 if firms perceives transport as an obstacle (from minor to major) |
| Informal Pay | Percent of total annual sales paid in informal payments (to get things done) |

Sources: World Bank Enterprises Surveys and IMF Staff estimates.

**Appendix I. Table 4. South Africa: Robustness Checks
(South African Firms)**

| | Dependent Variable: TFP | | | | | | |
|---|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Time Spent Dealing with Regulations | -0.0472*** | -0.0467*** | -0.0463*** | -0.0429*** | -0.0438*** | -0.0446*** | |
| | (0.0143) | (0.0147) | (0.0154) | (0.0155) | (0.0164) | (0.0164) | |
| Firm Age | 0.00219 | 0.00131 | 0.00152 | 0.00183 | 0.00181 | 0.00165 | 0.00328* |
| | (0.00189) | (0.00194) | (0.00191) | (0.00186) | (0.00188) | (0.00189) | (0.00170) |
| Size (<20 employees) | -0.0285 | 0.00664 | 0.00495 | 0.0231 | 0.0235 | 0.0736 | 0.157 |
| | (0.0984) | (0.0982) | (0.0979) | (0.0966) | (0.0974) | (0.0994) | (0.101) |
| Size (20-99 employees) | 0.141 | 0.152* | 0.149* | 0.174** | 0.175** | 0.223** | 0.167** |
| | (0.0862) | (0.0867) | (0.0866) | (0.0872) | (0.0879) | (0.0913) | (0.0836) |
| Privately Owned | 0.496 | 0.498 | 0.507 | 0.571 | 0.566 | 0.515 | 0.179 |
| | (0.378) | (0.374) | (0.372) | (0.396) | (0.399) | (0.400) | (0.377) |
| Sector (manufacturing) | 1.653 | 1.630 | 1.634 | 1.635* | 1.651* | 1.646* | 0.776 |
| | (1.009) | (1.000) | (0.996) | (0.984) | (0.986) | (0.986) | (0.937) |
| Licensing and Permitting Obstacle (perception) | | | | | | | -0.916*** |
| | | | | | | | (0.350) |
| Training to employees | | 0.199** | 0.181** | 0.176** | 0.179** | 0.164* | 0.142* |
| | | (0.0894) | (0.0880) | (0.0864) | (0.0862) | (0.0860) | (0.0793) |
| Firm has credit line | | | 0.106 | 0.101 | 0.104 | 0.132 | |
| | | | (0.0928) | (0.0935) | (0.0939) | (0.0958) | |
| Security Costs | | | | 0.0211 | 0.0217* | 0.0213* | |
| | | | | (0.0131) | (0.0130) | (0.0129) | |
| Transport Obstacle (perception) | | | | | -0.00468 | -0.00236 | |
| | | | | | (0.0865) | (0.0866) | |
| Foreign ownership | | | | | | 0.276** | |
| | | | | | | (0.119) | |
| Constant | -0.240 | -0.309 | -0.344 | -0.487 | -0.478 | -0.483 | -0.219 |
| | (0.407) | (0.401) | (0.397) | (0.419) | (0.419) | (0.419) | (0.400) |
| Observations | 862 | 861 | 859 | 843 | 842 | 842 | 890 |

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Sources: World Bank Enterprises Surveys and IMF Staff estimates.

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