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Reducing local Red Tape for a better local business and investment climate

**A participatory approach to reducing compliance costs for local
businesses**

by

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Introduction

Reducing Red Tape has become a prominent topic in Private Sector Promotion in recent years. Responding to the growing demand for practical approaches to address Red Tape, GTZ's Local Economic Development (LED) – Project in South Africa has developed a facilitation model for Red Tape reduction at local level. The model aims at supporting local stakeholders in the reduction and avoidance of bureaucratic costs both for the public and the private sector by facilitating a multi-stakeholder discussion and a joint action process in a locality.

The article provides an overview of this facilitation model by first giving some contextual information and presenting the basic design and the aspired development results of a facilitated Red Tape reduction process. Subsequently, the different steps and dimensions of a Red Tape reduction process are unpacked and enhanced with practical examples from the pilot case of Steve Tshwete Local Municipality in South Africa. Finally, GTZ LED's strategy for rolling-out and anchoring the model in the institutional landscape of South Africa is briefly presented, and information on cost estimations and contact details for further information is provided at the end of the document.

1. Background

GTZ LED Project Background and Approach

The GTZ LED Project in South Africa assists local communities in engaging in participatory and competitiveness-based LED processes, which enable the local communities to better utilize their economic opportunities and to increase their region's productivity and competitiveness. The project's interventions in LED are characterized by the LED principles of competitiveness, participation, co-operation and process orientation.

By applying these principles, the GTZ LED Project supports the development, testing and dissemination of several LED approaches and tools which help to facilitate feasible LED processes. In line with international trends, improving the local business and investment climate has become a core topic of South African LED actors in recent years. Within this context, reducing Red Tape in order to increase bureaucratic efficiency and to minimize regulatory compliance costs for local businesses receives growing attention.¹

¹ In a number of participatory LED processes in South Africa that have been accompanied by GTZ's LED project, Red Tape has been mentioned as one of the major constraints to local economic growth. Although it is mainly the public sector which is associated with these constraints, emerging businesses also point at the problem of a complicated regulatory environment within the private sector itself, e.g. with regard to procurement policies or payment terms.

Core Problems

Although Red Tape is only one of many dimensions of an unfavourable local business and investment climate, it can produce immense costs both for the local private and public sector – and therefore create serious disadvantages of the locality in comparison with other regions.

Red Tape stands for regulations and rules, administrative processes and procedures which are not or no longer effective in achieving their policy goal, and which therefore produce suboptimal and undesired social outcomes. Many times, it is specifically the small and medium enterprises which have to pay the highest share of these costs², as regulatory compliance with administrative rules, regulations and procedures involve important economies of scale.

In the South African LED context, a reduction of local Red Tape aims at specifically addressing three core problems which hamper local development in South Africa at present:

First, the South African local governments are challenged by a serious capacity shortage especially in the rural areas. By reducing local Red Tape e.g. through streamlining bureaucratic procedures and improving the local government's knowledge management and interdepartmental co-operation, the amount of work for public servants can be significantly reduced. Additionally, an increase in administrative transparency can minimize rent-seeking behaviour of public servants and thus further increase administrative efficiency.

Second, due to the country's recent history, the South African economy is characterized by a serious fragmentation according to social groups, geographical areas and firm size classes. Several policy measures have been designed and implemented by the South African government in order to create a more homogeneous economic and socioeconomic structure. An important element of this policy is the promotion of small and medium enterprises (SME) with a specific focus on previously disadvantaged individuals. For these emerging entrepreneurs, Red Tape produces serious barriers to entry and thus counteracts the above-mentioned policy measures. As the source of a significant amount of present local Red Tape can be found in "old" municipal bylaws and rules of the Apartheid era that have been inherited by the newly formed local municipalities, Red Tape can even directly contradict the development agenda of the new government.

The third core problem that the Red Tape reduction process aims to tackle is also a legacy of Apartheid. Due to the country's history, South Africa is characterized by a very high level of distrust between the public and the private sector, which results in a severe lack of public-private communication especially at local level. The absence of trust and willingness to co-operate produces multiple negative effects for local economic development. Experiences have shown that fostering

² If measured as percentage of the turnover

issue-focused public-private co-operation processes with benefits for all parties involved – such as Red Tape reduction - is the most promising approach to overcoming this problem.

Why local?

Many rules and regulation impacting on LED are not born by local decisions, but by the provincial, national or even supranational regulatory framework. Local responsibility for and influencing power on the impact of Red Tape in the business environment is therefore limited.

Nevertheless, local actors are by no means powerless with regard to the local regulatory environment, especially within decentralized structures. In the South African case, the provincial and national legal and regulatory framework is complemented by a number of local by-laws created by the local council. These local government regulations amount to an average 6 % of the overall recurring compliance costs for businesses.³

Furthermore, an important percentage of Red Tape costs are produced not by regulations themselves, but by the inefficient procedures applied in order to implement these regulations, and the suboptimal service interface between public and private sector. Streamlining processes and increasing the service orientation of local officials can therefore play an important role in reducing efficiency costs and compliance costs.

Besides the relevance of the local level for Red Tape issues, the focus on the local level is also motivated by the fact that this level provides a practical and action-oriented sphere for intervention and quick success. While regulatory reforms at the upper levels are often characterized by complex procedures and endless timeframes, Red Tape reduction at local level benefits from the relative clarity of actors and issues, and can thus produce much faster results. These results not only have the direct effect of improving the regulatory environment, but contribute to an atmosphere of trust-building between different stakeholder groups and thus can help improving the local enabling environment on more general terms. Furthermore, if the local interventions are systematically linked with the provincial and national level (e.g. through regular feed back loops), the reform at local level can provide important momentum and inputs for bigger reforms.

2. General approach and desired development results

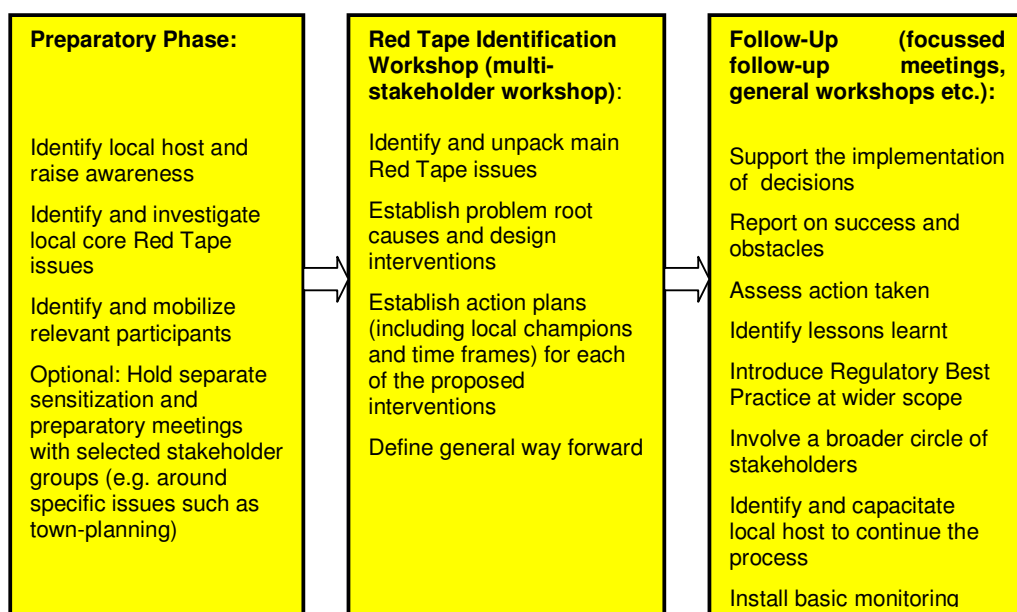
The Red Tape reduction approach is based on a sequence of interviews and workshops which aim at facilitating the discussion and solution finding around Red Tape at local level. The core idea beyond the sequence is to stimulate joint discussion and solution-finding processes between municipality and private sector and to create visible success stories in the reduction of Red Tape, leading to an

³ Small Business Project (2004): Counting the cost of Red Tape for business in South Africa. Headline report, Johannesburg, p. 11.

enhancement of long-term public-private cooperation and, more specifically, to a long term Red Tape alert.

Basic design

The facilitation process builds on a series of different steps in order to create a lasting sensitisation for Red Tape issues and to build the necessary capacity to tackle Red Tape at local level. While the Red Tape Identification Workshop clearly forms the core element of the sequence, it will only be able to take off if enough care is given to the preparatory phase and the feedback and follow-up phase. The following scheme depicts the general design of the facilitation process.



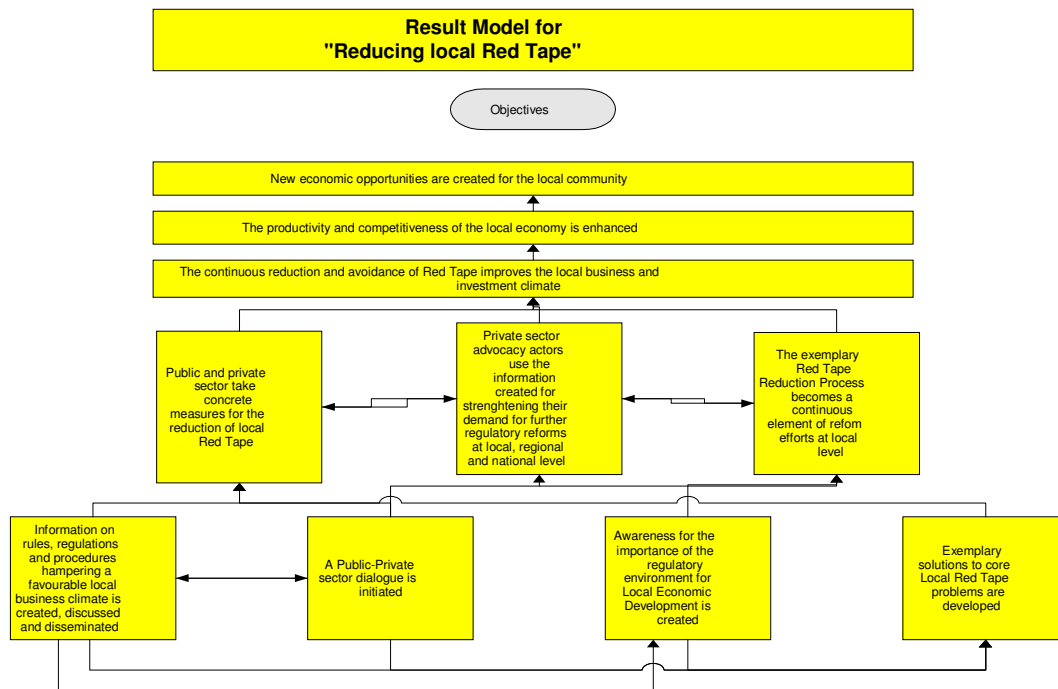
Aspired development results

Following this process through will have the immediate effects of tackling several specific local Red Tape problems, investigating others further and communicating issues that lie beyond local control to higher levels.

However, the instrument does not only aim at some ad-hoc interventions, but at producing results of a much broader and long-term character. As reflected in the result chain below, the *direct benefit* of the Red Tape facilitation process is formulated as “the continuous elimination and avoidance of Red Tape” to “improve the local business and investment climate“. The facilitated interview and workshop series functions as a trigger for kick-starting catalytic interventions, increased advocacy activities and a continuous public-private dialogue around the reduction of local Red Tape, which result in a

continuous and on-going local process around the reduction and avoidance of Red Tape beyond the time limit and topical focus of the external interventions.

The reduction of local Red Tape contributes to the improvement of the local business and investment climate by reducing the monetary and time costs of doing business in the locality. Resources are released and incentives are created for new investments. As a result, the reduction of Red Tape helps increasing the local efficiency, productivity and competitiveness, leading to the creation of new economic opportunities for the local community.



3. Methodology and tools

The Red Tape Reduction series is strongly based on the use of action-oriented and participatory methodologies and facilitation tools, and requires an experienced facilitator familiar with local development. An external facilitator has the advantage of being perceived as neutral in comparison to a local facilitator (e.g. a public official or a chamber representative). The facilitator, however, needs the collaboration of a local host such as the local municipality or the local chamber. The host is responsible for supporting the facilitator in identifying issues and actors and in providing the necessary local knowledge in all four project dimensions of analysis, design, implementation and monitoring of the Red Tape initiative. It is crucial that the host embraces the Red Tape reduction

process publicly in order to give it the necessary credibility, and to show clear commitment to carry on the process beyond the timeframe of the external facilitator’s intervention.

In the following section, the methodology and tools will be further unpacked by referring to a real case, the Red Tape reduction process in the local municipality of Steve Tshwete, South Africa. This process was led by an experienced South African LED facilitator in collaboration with the local municipality and the GTZ LED Project.

Local Red Tape Analysis

Different to a pure assessment tool (e.g. a Local Business Climate Survey), the Red Tape reduction process does not require an extended period of desktop research or a representative number of sample surveys, but addresses the collection and processing of relevant information in an action-oriented and issue-focussed way. For this purpose, the lead facilitator identifies prominent Red Tape issues and key stakeholders via a number of preparatory interviews both with public and private sector,

Issue: Starting a Business in Middelburg							
Procedure		Time (days)					
What?	Where?	0	1	5 to 10	11 to 20	21-50	>50
1. Reserve a company name							
2. Register name and articles of association							
3. Register for VAT, skills levy, indicating the relevant SETA, Paye, income tax							
4. Register with Unemployment Insurance Fund, Regional Services Council							
5. Register as employer for Workman's compensation							
...							
...							
...							

including representatives from different firm size classes, in order to capture different perspectives. Dependent on the complexity of issues that are brought forward in these preparatory interviews, the facilitator can also rely on tools such as a “process mapping” (see neighbouring graphic) in order to capture specific details on certain issues and processes. In case that the perceptions of different stakeholder groups differ with regard to certain issues and processes, this tool can help to stimulate discussions and identify possible stakeholder conflicts already in the preparatory phase.

As a result of the preparatory interviews, the facilitator is equipped with a good oversight over the main Red Tape issues and their specifics in the locality. Where necessary, this information can be investigated further. In case of very complex or conflictive issues coming up during the preparatory phase, the facilitator can e.g. rely on preparatory mini-workshops with selected stakeholder groups in order to further unpack certain issues and identify all relevant decision-makers.

All the gathered information is then packaged as an input for the multi-stakeholder workshop. This multi-stakeholder workshop represents the core element of the Red Tape reduction sequence, as it provides a platform for all interested local stakeholders to put their complaints and perspectives forward and participate in the solution finding to the issues raised. A good representation of the different stakeholder groups and the presence of key decision-makers especially from the local municipality's side are therefore crucial for

Sector	Function	No of participants
Steve Tshwete Local Municipality	Municipal, Manager, LED Officer, Manager of Town Planning, Technical Manager, Financial Manager, Corporate Services Manager, Public Services Manager	7
Members of the Mayoral Committee		5
Private Business	Business Owners	3
Local Chamber of Commerce	Executive Liaison Officer	1
LED Fund	Chair of the local LED Forum (also local business owner)	1
NAFCOC (National African Federated Chamber of Commerce)	Member of NAFCOC	1
Office of the Premier (Province)	Deputy Director, Adviser to the Deputy Director	2
Department of Agriculture	Technician	1
Small Business Project (national-level NGO)	Senior Adviser	1

the initiative's success. Please see the attached stakeholder map as an example for multi-stakeholder representation in the Steve Tshwete workshop.

Design of specific interventions

During the multi-stakeholder workshop, the Red Tape reduction process enters the phase of identifying solutions to the problems raised. As a first step, the preparatory findings are fed back to the participants, and the group is given the opportunities to raise further Red Tape issues which have not come up in the build-up to the workshop.

When facilitating the solution-finding process, it is important to apply a filter to the issues raised in order to give the design of solutions a clear focus. We suggest the following filtering criteria:

1. Is the issue a real Red Tape issue, that is, does it refer to suboptimal regulations, procedures or service delivery? (as opposed to political arguments or broader LED topics such as lack of finance etc.)
2. Can the problem be solved at local level in a reasonable time period?

The aim of this filtering process is to identify Red Tape issues which can be tackled relatively easily and where improvement can be observed rather instantly by local stakeholders. The filtering process

can be expanded through a simple prioritization exercise, which gives the participants the opportunity to rank the issues raised according to their importance.

The further unpacking of the selected key Red Tape issues consists of two main steps: The identification of the problem's root cause(s), and, in the case of dealing with more complex Red Tape issues, the identification of the right problem level(s). These two steps aim at the concrete determination of where and how an intervention should be directed. It is advisable to break into smaller working groups under certain subheadings (e.g. "internal municipal issues") at this point in order to be able to work on a number of Red Tape problems at a time. There are different approaches of how to facilitate the unpacking of the single Red Tape issues in these working groups, which depend on their context and the specifics. One possible sequence of facilitation steps is displayed in the neighbouring box.

Identifying root causes and problem levels: an example for the group work

1. Develop a clear problem statement, including the main symptoms (How does it impact on us?)
2. Map the problems in terms of separate steps to deepen the understanding of the issue
3. Develop a "problem tree", starting from the symptoms and deriving the root causes
4. For each root cause, establish the problem level: Is it a regulation that sits at the core of the problem, is it the implementation of a regulation (procedure) or does the problem lie at the interface level (e.g. in case the relevant information is not communicated properly to the customers)

The formulation of the exact problem causes (and, where necessary, problem levels) assists the workshop participants in jointly defining the "desired end state" for the problem to be tackled. Determining such an end state has two functions: First, it helps to create alignment and consensus amongst the different stakeholder groups with regard to politically sensitive issues. Second, the desired end state serves as the benchmark against which all proposals for improvement of a certain issue can be measured.

The development of suggestions for solutions and the design of concrete proposals are left mainly to the participants, with catalytic inputs on Regulatory Best Practice by the facilitator where required, and the evaluation of the proposals is done against the desired end state. Testing the proposal on unintended consequences and investigating the possibility of other alternatives can round off the participatory assessment process if necessary. The following box reflects the output of one of the working groups of the multi-stakeholder workshop in Steve Tshwete municipality, which focused on the issue of town planning, as an example.

The absence of detailed quantitative methods of a Regulatory Impact Assessment (RIA) in this assessment process is not only due to the fact that a quantitative RIA would require a very high input in time, costs and expertise. Furthermore, a comprehensive quantitative assessment would exceed local capacity in many cases and bears the risk to counteract the consensual, action-oriented and participatory character of the approach.

Implementation and Follow-up

The multi-stakeholder workshop has the objective of producing a precise way-forward strategy with

the clear definition of time-bound tasks and responsibilities. Therefore, champions should be identified for each issue who show a strong motivation, but also the capacity to drive the implementation of the respective proposals. Also, the overall responsibility for driving the way-forward should be clearly assigned to the senior level of the local host structure (e.g. the Municipal Manager) in order to increase the local credibility and ownership of the process.

During the follow-up process, additional mini-workshops can be facilitated by the external facilitator in case certain topics require further collective discussion and problem solving. Also, all participants of the main multi-stakeholder workshop and newly interested parties should be invited to a follow-up workshop once the first success stories have been achieved in order to give feedback on the progress, to identify obstacles and lessons learned and to discuss options on further action. Such future action can take the form of repeating the cycle of identifying and tackling Red Tape problems with the help of the external facilitator if required. However, it is at this point where the question should be raised of how to institutionalize the process locally. Several options for the institutionalization of the process are possible, including the formalization of the process via a formal council resolution and the further capacitation of the local host. It forms part of the external facilitator's responsibility to prepare and moderate a discussion of these options with the local key stakeholders.

Output of a working group on townplanning in Steve Tshwete Local Municipality, South Africa	
Group II: Internal municipal issues	
Issue:	Townplanning
Problem Statement:	Building plans approval takes too long
Symptoms:	Documents not processed efficiently
	Waiting period of over 2 months
	To get feedback from government on progress is difficult
Root causes:	Many decision points, as many departments are involved in approval
	Understaffing of town planning department
	Unsatisfactory building plans are handed in due to lack of information
Desired end state:	Make the approval process more transparent
	Minimize decision-making time
	Provide sufficient information on correct applications to the applicants
Proposals:	<i>General:</i>
	Map the process according to its different steps in order to clearly identify bottlenecks
	<i>Policies and Regulations:</i>
	Local municipality pledge to minimum service levels (Batho Pele)
	Attach time limits for each approval step
	<i>Procedures and Processes:</i>
	Escalate documents that are stuck for too long
	<i>Service and Interface:</i>
	Develop information brochure on different steps involved and decision time required
	Develop check-list to ensure basic compliance before acceptance of plans

Institutionalization of the Red Tape Reduction process in Steve Tshwete Local Municipality:

- Achieve Local Council Resolution as a commitment to a permanent Red Tape reduction and avoidance
- Capacitate local chamber to play a permanent advocacy role in Red Tape issues
- Capacitate local LED Forum to host the permanent process of Red Tape identification and elimination
- Link up with national anti-corruption initiative to introduce the development of a code of conduct and staff training in the local municipality
- Strengthen ties with SBP (national NGO active in the field of “Business Climate”) to strengthen SBP’s advocacy role at national level with local data

Furthermore, possibilities of linking the process with other initiatives and institutions in the country should be thoroughly assessed. The neighbouring box depicts the different strategies that Steve Tshwete Municipality has envisaged to institutionalize and embed the process.

The external facilitator is required to accompany this process and to give catalytic inputs as well as motivational impulses, but should subsequently reduce his/her involvement in order to increase local ownership.

Monitoring

Monitoring the results of the process is a crucial element of this approach in order to constantly identify lessons learned and to be able to communicate success stories to the greater public.

At the beginning, monitoring will be reduced to the level of activities monitoring, a task that can be easily undertaken by the host and the external facilitator. Once the first proposals have been implemented, monitoring the impact of the interventions in terms of reducing administrative and compliance costs can rely on the a-priori process mapping during the analysis phase both as a tool and as a base line. If the project achieves to institutionalize the process within the locality, the ongoing public-private dialogue will provide an automatic control and monitoring mechanism with regard to Red Tape issues.

The development of a more complex monitoring system which also covers the evaluation against the desired development results can be done along the result chain presented above. However, the installation of such a system should be embedded into the general monitoring framework of the locality or in a bigger LED process to avoid un-proportional monitoring costs. As an alternative, the terms of reference of the external facilitator can include the task of undertaking and documenting an assessment of the process against the result chain in the form of a case study.

4. Sustainability and outreach

In South Africa, the GTZ LED project aims at developing a market for LED facilitators which can competently assist a large number of local and district municipalities in engaging in successful LED processes. The Red Tape reduction approach is one of several tools that these facilitators are being equipped with.

By building the capacity of South African LED experts (private consultants, chambers, parastatal support institutions, etc.) in competently using approaches and tools like the Red Tape reduction approach, the GTZ project follows a clearly defined exit strategy by anchoring the relevant knowledge within the South African context and South African actors from the very start.

At the same time, the GTZ project supports the stimulation of the demand for these expert services via policy dialogue and capacity building at micro, meso and macro level. In the case of the Red Tape reduction process, GTZ closely co-operates with InWEnt (Capacity Building International) to integrate Red Tape Awareness Building modules into InWEnt's LED training for local municipalities. Also, the topic plays an important part in GTZ LED's policy dialogue with and policy advice to its partner at national level, the Department for Provincial and Local Government. Via its close collaboration with GTZ's Public Service Reform Programme in South Africa, the embedding of the initiative in the country's broader initiative of public sector reform is guaranteed, and the collaboration with several non-governmental institutions such as chambers and NGO's strengthens the advocacy role of these institutions with regard to Red Tape reduction in South Africa.

The German contribution to the roll-out of the Red Tape reduction approach in South Africa therefore consists of the following elements:

Service	Costs as measured in person days
Design and implementation of facilitator training	10 person days
Backstopping of facilitators	5 person days/local Red Tape reduction process
Awareness raising, national dissemination, knowledge management etc.	1 expert month/year

5. Contact Details

For further questions on the Red Tape reduction approach, please contact

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