



ASPEN NETWORK
OF DEVELOPMENT
ENTREPRENEURS

 aspen institute

South Africa Chapter

ENTREPRENEURIAL
ECOSYSTEM SNAPSHOT

Township Economies in South Africa



November 2021

About ANDE

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organisations that propel entrepreneurship in developing economies. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs create jobs, stimulate long-term economic growth, and produce environmental and social benefits.

As the leading global voice of the SGB sector, ANDE believes that SGBs are a powerful, yet underleveraged tool in addressing social and environmental challenges. Since 2009, we have grown into a trusted network of nearly 300 collaborative members that operate in nearly every developing economy. ANDE grows the body of knowledge, mobilises resources, and connects the institutions that support the small business entrepreneurs who build inclusive prosperity in the developing world. ANDE is part of the Aspen Institute, a global non-profit organisation committed to realizing a free, just, and equitable society.

ANDE's South Africa chapter launched in 2010 with the aim of creating a platform that supports all stakeholders in the local SGB ecosystem through training, knowledge sharing, facilitating introductions, and fostering collaboration.

Authors

- Victoria Hume, Research Analyst, ANDE
- Nonceba Qabazi, Program Associate, ANDE South Africa Chapter
- Sekai Chiwandamira, Chapter Manager, ANDE South Africa Chapter
- Tendai Mugabe, Senior Program Associate, ANDE South Africa Chapter

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About Philanthropy at Walmart

Walmart Inc. provides affordable food and household products to hundreds of millions of people each week in over a dozen countries, employs more than 2.2 million associates and does business with thousands of suppliers who, in turn, employ millions of people. Walmart.org comprises the philanthropic efforts of Walmart Inc. and the Walmart Foundation. Our philanthropic strategies aim to accelerate progress on societal issues and contribute to lasting, systemic transformation in ways that complement and expand the societal impact of Walmart Inc. business initiatives.

Our priorities include advancing racial and gender equity; increasing economic opportunity for workers in retail and product supply chains; enhancing social and environmental sustainability of product supply chains; and strengthening the resilience of communities (including through hunger relief and disaster response). Our philanthropic efforts are organised into discrete portfolios such as Market Access for Smallholders and Entrepreneurs, Racial Equity, Retail Opportunity, Nature and Healthier Food for All, to name a few. Each portfolio has a strategy grounded in a theory of change and core learning questions developed with others including the people we seek to empower and support (e.g., smallholder farmers); grantees, who have deep experience, capabilities, and insights to contribute; and other experts. We activate our theories of change through strategic grants, convening, advocacy, development of communities of practice, in-kind donations, evaluation and learning from grantees and others. We encourage collaboration among grantees as well as other public and private sector stakeholders; we continuously refresh our portfolio strategies based on their experiences and insights. To learn more, visit www.walmart.org or connect on Twitter [@Walmartorg](https://twitter.com/Walmartorg).



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About this Report

ANDE's Entrepreneurial Ecosystem Snapshots are designed to collect basic information about the support available for small and growing businesses in a specific city, region, or country. This information acts as a census of the local actors and represents a specific moment in time.

ANDE's Entrepreneurial Ecosystem Snapshot methodology is practitioner focused. Research is primarily conducted by local teams who engage practitioners throughout the process.

For those who are interested in the entrepreneurial ecosystem of township economies in South Africa, this snapshot can be used to:

- 1/ Understand what gaps exist in the support available to entrepreneurs in the ecosystem (noting that this is not an exhaustive list of actors in the ecosystem);**
- 2/ Create connections with other actors in the ecosystem that have similar goals/missions; and**
- 3/ Have conversations and collaborate with other players in the ecosystem.**

In addition to the specific analyses in this report, users can extract their own insights using the data publicly available on the snapshot website. The intent is for this snapshot to serve as both a marker of the ecosystem at this particular time as well as a starting point for ecosystem actors to work together using a common knowledge base.



About Townships in South Africa

Townships have a long and complicated history in South Africa. Before 1994, the townships¹ were forced to function outside of the mainstream economy and so were a major tool in the racial segregation and economic marginalisation of black people. After 1994, the institutionalised system of racial segregation came to a formal end and the government has since worked to integrate the townships into the formal economy. However, the formal disbandment of the previous system did not eliminate these underdeveloped, (typically) urban residential areas located on the outskirts of metropolitan areas.² Currently there are over 500 townships in the country, whose combined land mass surpasses that of Johannesburg and Durban combined³ and which are home to an estimated 40% of South Africa's urban population.⁴ Much like the rest of the country, townships are plagued with high unemployment rates.⁵ Most township businesses are necessity-based and unable to grow beyond a store front or small-scale operation.⁶ Additionally, these businesses tend to operate informally, with low financial and employment returns.⁷ The World Bank estimates that only 15% of township enterprises are formally registered, compared with 30% of similar enterprises in urban areas⁸, and they generally do not provide goods or services that reach larger markets or create quality jobs.⁹

Despite these characteristics, governments at various levels have focused on leveraging township communities, and the entrepreneurs and small businesses that operate within them, to support economic growth at the provincial and national levels.¹⁰ Initiatives have been implemented over the last few decades to support township small businesses, though many of these efforts have been criticised as only improving townships at a superficial level, rather than an ecosystem level.¹¹ The ineffectiveness of these interventions is evidenced by the stagnant state of the overall South African MSME sector over the past decade, as the total number of MSMEs in the country dropped by nearly 300,000 between 2008 and 2017.¹²

The scope of this report is limited to the townships, peri-urban, and rural areas of the Eastern Cape, Gauteng, and Western Cape Provinces. Some of the country's largest cities, including Cape Town, Pretoria, and Johannesburg, are in these Provinces, and they are an important economic focus for the country. The Gauteng and Western Cape Provinces contribute nearly half of the country's GDP and one third of the country's population. The Eastern Cape Province sits between the highly economically active Western Cape and KwaZulu-Natal Provinces; and while it currently relies heavily on the automotive sector, there is significant potential for growth in other industries such as agriculture and agro-processing, manufacturing, and green industries.¹³

- 1 Townships are also referred to as "locations," "the Bantustans," or "homelands." ([source](#))
- 2 Pernegger, L. and Godehart, S. (2007). Townships in the South African Geographic Landscape – Physical and Social Legacies and Challenges. Training for Township Renewal Initiative.
- 3 Schwabe, C. Township megatrends – South Africa's Township Potential Atlas. AfricaScope. 7 October 2020.
- 4 Pernegger, L. and Godehart, S. (2007). Townships in the South African Geographic Landscape – Physical and Social Legacies and Challenges. Training for Township Renewal Initiative.
- 5 Naidoo, P. South Africa's unemployment rate is now highest in the world. Al Jazeera. 24 August 2021.
- 6 Scheba, A. and Turok, I. N. (2020). Strengthening Township Economies in South Africa: the Case for Better Regulation and Policy Innovation. *Urban Forum*
- 7 Cities Support Programme. Township Economies Series #1.
- 8 Mahajan, S. (2014). [Economics of South African Townships: Special Focus on Diepsloot](#). World Bank Group.
- 9 Scheba, A. and Turok, I. N. (2020). Strengthening Township Economies in South Africa: the Case for Better Regulation and Policy Innovation. *Urban Forum*.
- 10 *Ibid.*
- 11 Scheba, A. and Turok, I. N. (2020). Strengthening Township Economies in South Africa: the Case for Better Regulation and Policy Innovation. *Urban Forum*.
- 12 International Finance Corporation. (2018). The Unseen Sector: A Report on the MSME Opportunity in South Africa.
- 13 [Eastern Cape Provincial Website](#). Accessed 15 October 2021.

About Townships in South Africa

While more is understood about the small and growing businesses (SGBs) in metropolitan areas, less is known about the entrepreneurial ecosystems in the townships and how to support the primarily micro, necessity-based businesses that operate there. This report focuses on identifying the key actors implementing programmes to support entrepreneurs and small businesses operating in townships in the Eastern Cape, Gauteng, and Western Cape Provinces, the challenges the entrepreneurial support providers face, and the opportunities to strengthen this ecosystem.

Relevant definitions for this snapshot

Township: old, new, formal, and informal human settlements that are characterised by high levels of poverty, unemployment and low incomes and are distanced outside of the main centres of economic activity. For the purposes of this survey, this definition also includes peri-urban and rural areas.¹⁴

Township-based entrepreneur: a person based in a township area, as opposed to a main commercial centre of economic activity, who is a founder or leader of a business that is meeting the needs of township customer communities.

Township economy: economic activities that occur in the townships of South Africa.¹⁵

¹⁴ Gauteng Province: Economic Development. Gauteng Township Economy Revitalisation Strategy, 2014-2019.

¹⁵ Scheba, A. and Turok, I. N. (2020). Strengthening Township Economies in South Africa: the Case for Better Regulation and Policy Innovation. *Urban Forum*.

Ecosystem Data

Characterisation of Support Organisations

From April to September 2021, ANDE identified 151 organisations offering financial and/or non-financial support to entrepreneurs and small businesses operating in townships in Eastern Cape, Gauteng, and Western Cape Provinces.¹⁶ Of the three provinces within the scope of this report, most organisations provide support to township economies in Gauteng Province. While Gauteng is the smallest South African province, it is the most densely populated, accounting for approximately one quarter of the total population.¹⁷

Figure 1: Number of organisations that support township entrepreneurs, by province



N = 151

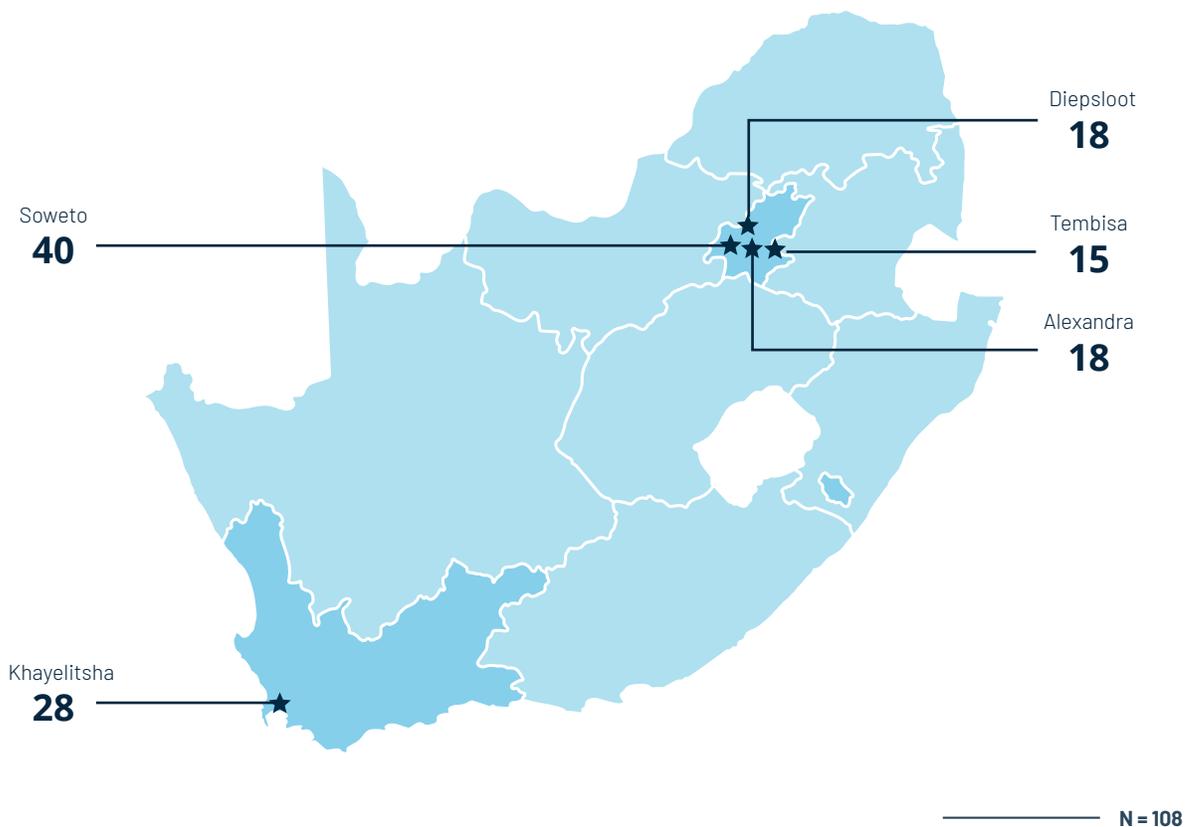
¹⁶ Not all organisations work in all three provinces.

¹⁷ Total population of South Africa in 2019, by province. Statista. Accessed 15 October 2021.

Ecosystem Data

The top five most common townships where support organisations deliver services are Soweto, Khayelitsha, Diepsloot, Alexandra, and Tembisa. Consistent with the previous figure, most of these are located in the Gauteng province and are some of the largest townships in the country. Soweto alone is home to approximately 1.8 million people¹⁸, and many small businesses and entrepreneurs.

Figure 2: Top five townships where organisations provide entrepreneurship support

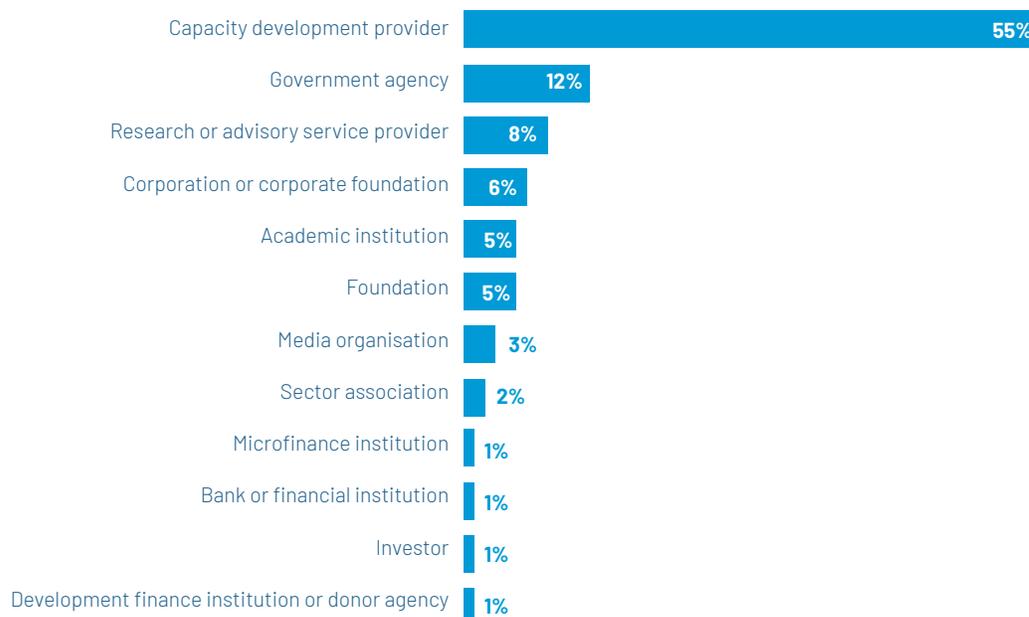


18 [Population of Soweto](#). AllPopulations.com. Accessed 15 October 2021.

Ecosystem Data

Capacity development providers make up a significant majority of the sample (55%), with the next most common organisation types being government agencies (12%) and research and advisory service providers (8%). The smallest portion is made up of financial providers including banks, microfinance, and investors which each represent 1% of the sample.

Figure 3: Percent of organisations



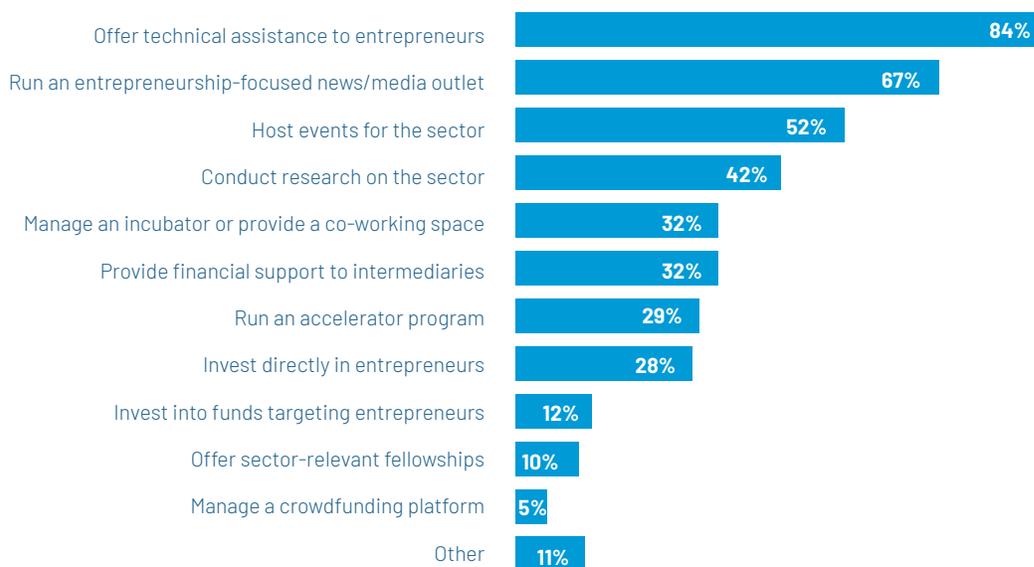
N = 151

Ecosystem Data

Services Offered

In contrast to the tech-oriented services in more developed entrepreneurial ecosystems in cities such as Cape Town, business support providers in the townships tend to focus on small, often informal livelihoods businesses.

Figure 4: Percent of organisations by financial and non-financial services offered



N = 151

Stages and Sectors of Focus

Most support organisations focus on early-stage businesses: those that may have initial market traction but require further funding and are likely not yet generating profits. Based on stakeholder feedback, township businesses oftentimes reach this stage and then become stagnant. This appears to correlate with the fact that many businesses remain informal, as formality is necessary for further business development.

Figure 5: Percent of support organisations by business stage targeted



N = 130

Ecosystem Data

While half of the organisations in this study are sector agnostic, those with a focus tend to target businesses operating in the culture (including media and entertainment) and agriculture and food sectors. Around a quarter of organisations focus on artisanal (including textile, fashion, arts, and crafts) and information and communication technology (ICT) businesses. Since only ICT would be considered a high growth potential sector, this would suggest that the sector-focus of entrepreneurial support is demand-driven (i.e. there are not many businesses working in high-growth sectors in the townships). This is confirmed by a 2018 report by the First National Bank, which states that township businesses primarily operate informally as “grocery stores and stores stocking fast-selling consumer goods, taverns, hair salons, educational centres, micro-manufacturing and motor and cellular repair services.”¹⁹

Figure 6: Top five sectors of focus



N = 147

Nonfinancial Support Services

Eighty-three percent of organisations in the sample offer non-financial support services, mostly in the form of capacity development services and market linkages.

Figure 7: Percent of organisations by non-financial support service type



N = 125

¹⁹ Township Businesses in South Africa. The Borgen Project. 1 September 2020.

Capacity Development Services

Capacity development services account for a significant majority of the support offered to township businesses. Most providers focus on building access to networks and developing business strategy for the township businesses they support. With the majority of small township businesses being subsistence- or necessity-based²⁰, these services are consistent with supporting the sustainability of these businesses such that they can not only survive but also grow. One study of 556 formal businesses in Soweto found that while the majority are surviving (operating for five years or more), only 25% reported growth in earnings during that time.²¹ Creating access to networks and basic business information/guidance is a critical need for township businesses, and many of the resources available are concentrated in urban areas with pricing barriers that restrict access to township entrepreneurs seeking help.²²

Figure 8: Percent of organisations by capacity development services offered



Another critical area of support is supply and value chain integration, in which approximately half (51%) of organisations in this snapshot focus. One study of the township spaza shop value chain in the Cape Peninsula identified a number of breakdowns among the various parts of the chain that reflect an overall disjointed and challenge-riddled system.²³ The key issues identified relevant to the township businesses are that spaza shops each operate independently and without knowledge of their counterparts' activities, and there is little support from trading partners (wholesalers, product manufacturers, local distributors) and local government agencies.²⁴ Support organisations such as capacity development providers (32 organisations) and corporations/corporate foundations (11 organisations) appear to be attempting to address these issues through their services. Support services specifically focusing on supply chains primarily offer information and access to procurement opportunities, provide support through a dedicated enterprise development programme, and industry-specific mentorship.

20 Scheba, A. and Turok, I. N. (2020). Strengthening Township Economies in South Africa: the Case for Better Regulation and Policy Innovation. *Urban Forum*.

21 Eicker, T. and Cilliers, O. (2019). [Managing logistical supply chain drivers: A predictor of small township retailers' odds of survival](#). *ACTA COMERCII*. 6

22 Bowmaker-Falconer, A. and Herrington, M. (2020). [Igniting startups for economic growth and social change](#). Global Entrepreneurship Monitor South Africa 2019/2020 report.

23 Bear, M. et al. (2005). [Making Retail Markets Work for the Poor - Why and How Triple Trust Organisation Decided to Intervene in the Spaza Market in South Africa](#). The SEEP Network.

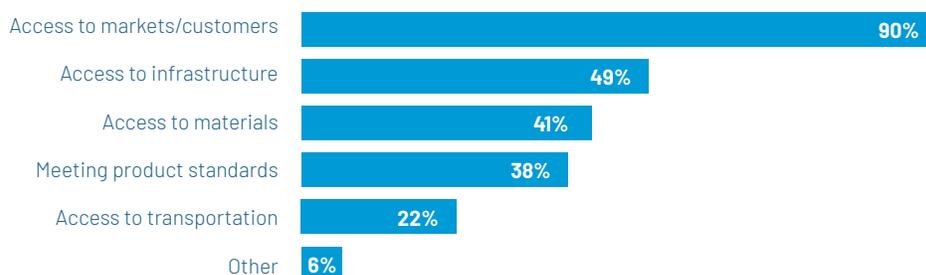
24 *Ibid.*

Ecosystem Data

Market Linkage Services

Market linkages are critical to townships, as they are inherently separate from the more metropolitan areas of South Africa and face challenges related to infrastructure beyond what the country generally faces. Most support organisations offering services in this category focus on creating access to new markets and customers (90%) and creating access to infrastructure (49%). The overwhelming focus is on access to new customers, likely addressing the issue of limited buying power in the townships due to high levels of poverty.²⁵

Figure 9: Percent of organisations by market linkage services offered



N = 88

Investment Linkage Services

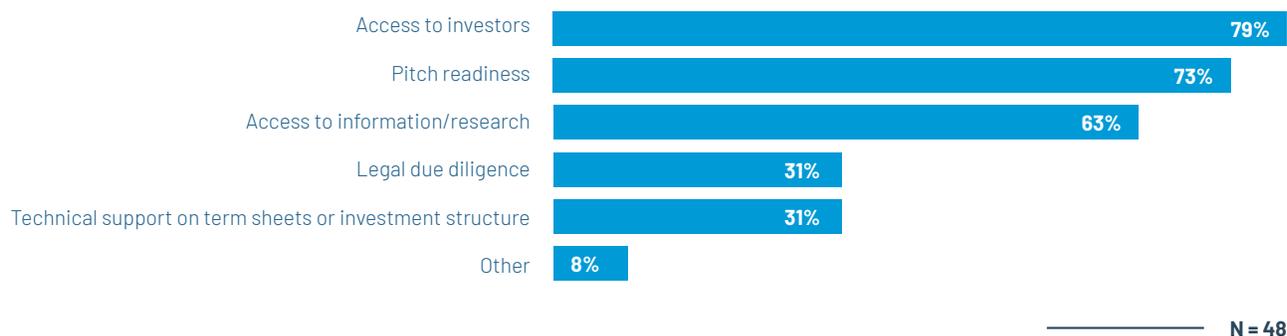
Investment linkages are an important service for any entrepreneurial ecosystem; small and growing businesses need capital at various stages in order to scale their operations and reach new customers. However, because township businesses are largely subsistence based, few of them have clear pathways to scale or are investment ready. Nevertheless, the most common investment linkage service offered by support organisations is to create access to investors (79%). The next most common services are pitch readiness support and providing investment-related information to township entrepreneurs (73% and 63%, respectively). Key informant interviews highlighted that pitching is a particularly important skillset to focus on for township entrepreneurs.²⁶

²⁵ Township Businesses in South Africa. The Borgen Project. 1 September 2020.

²⁶ Interviews with key stakeholders.

Ecosystem Data

Figure 10: Percent of organisations by investment linkage services offered



Financial Services

Forty-three organisations offer financial support to township entrepreneurs/businesses, primarily through grant-funding (63%) and debt (35%). The high level of grant funding can likely be attributed to the many government programs that prioritise Black-owned businesses, as well as covid-related funding. This support is mostly offered by capacity development providers and government agencies, with only two banks represented in the sample. This aligns with the fact that most township businesses are informal, unbanked cash businesses.²⁷ Generally, it is easier for formalised or registered businesses to access capital, a critical gap in the township ecosystem that led the government to create the Small Business Development Ministry in 2014.²⁸ An IFC report states that banks in South Africa are “biased toward longer-term (vehicle or property) financing compared to short-term (working capital) financing”²⁹ and that “government and microfinance institutions account for the bulk of finance extended to the informal sector.”³⁰

Figure 11: Percent of organisations by financing instruments used



27 Rumney, E. *Scale of cash economy in South African townships stuns FirstRand*. Reuters. June 18, 2021.

28 *R700 million allocated to township entrepreneurs – here’s how the money is being split*. Business Insider SA. June 1, 2021.

29 International Finance Corporation. (2018). *The Unseen Sector: A Report on the MSME Opportunity in South Africa*.

30 *Ibid.*

Ecosystem Data

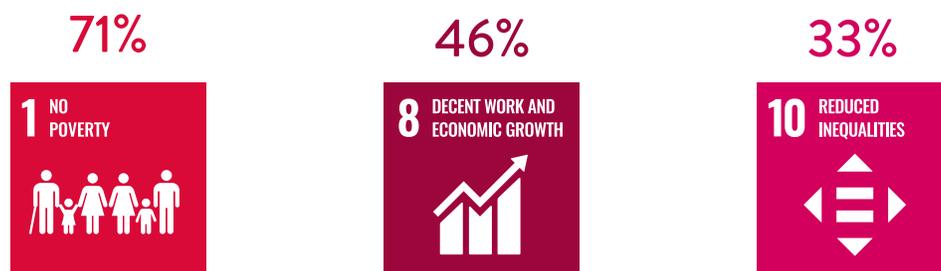
However, township businesses have also surprised some financiers with the fact that they are larger than most support organisations realise, doing business in the millions of dollars.³¹ In one case, FirstRand Bank discovered large cash-only wholesalers earning over US \$2 million per month, which is what it anticipated they might do annually.³² This is a clear indication that significant information gaps exist between the capital market and those seeking capital.

There has been a large push to “bank” the townships – both individuals and businesses, which are largely unbanked or not actively using their bank accounts if they have one.³³ However, in a 2021 study of township markets surveying over 1,000 respondents, cash was ranked as the top payment method in these areas.³⁴ There are significant existing challenges related to opening a bank account in the country broadly, such as burdensome documentation requirements, that make cash a much more appealing mode of operation. This creates a paradox because financiers require a paper trail or record accounting for the management of money, and in a cash business this can be difficult to produce. A 2020 study published in the *Journal of African Law* identified “unemployment, poverty, financial illiteracy, over-indebtedness, high bank fees, mistrust of the banking system, a lack of relevant national identity documentation and a poor legislative framework” as the key challenges preventing full financial inclusion in the country and widening the gap between high- and low-income communities.³⁵

Development Goals and Impact

Most organisations (84%) in this study measure impact, and the majority (78%) align with the United Nations’ Sustainable Development Goals (SDGs). When asked to identify the SDGs that best align with their support activities, respondents selected Goal 8: Decent Work and Economic Growth, Goal 1: No Poverty, and Goal 10: Reduced Inequalities. This is reflective of the experiences of township residents relative to the rest of the country, as township communities were born out of Apartheid and used as tools of segregation. While Apartheid ended in 1994 and the segregation was formally disbanded, there remain lasting effects including severe inequality in terms of income, opportunity, infrastructure, and resources to name a few.

Figure 12: Top three SDGs with which organisations align their township support



N = 78

31 Rumney, E. *Scale of cash economy in South African townships stuns FirstRand*. Reuters. June 18, 2021.

32 *Ibid.*

33 (2021). *The 2021 South African Township Marketing Report: A Multi Billion Opportunity for Marketers*. Rogerwilco, Survey54, and Marketing Mix.

34 *Ibid.*

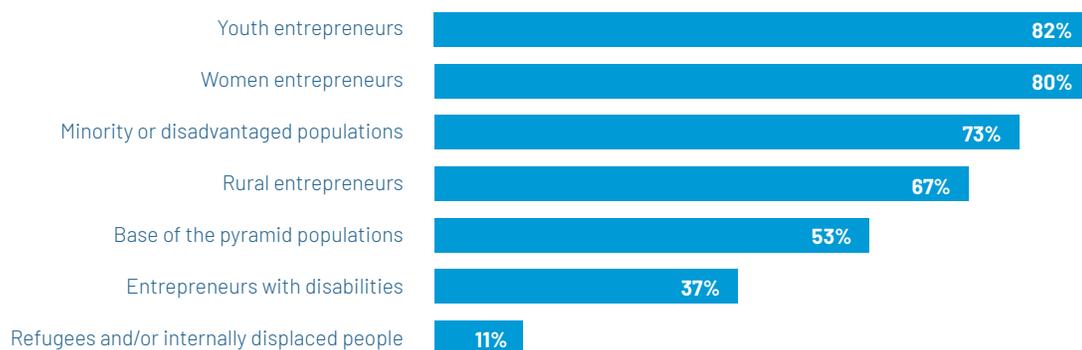
35 Chitimira, H. and Ncube, M. (2020). *Legislative and Other Selected Challenges Affecting Financial Inclusion for the Poor and Low Income Earners in South Africa*. *Journal of African Law*.

Ecosystem Data

Target Population

The majority of organisations supporting township businesses said they have specific programming for youth entrepreneurs (82%). Youth entrepreneurship has long been touted as critical leverage for solving the unemployment crisis in the country.^{36,37} However, youth entrepreneurship has been relatively stagnant for the last decade, with the youth entrepreneurship participation rate at 13%, the lowest of the continent,³⁸ and youth business ownership declining since 2008 for the 18-24 age bracket.³⁹ This is despite government interventions to support youth entrepreneurship which have yielded little success.⁴⁰ The youth of South Africa still account for over half of the unemployed population (59.5%)⁴¹ and a third are not engaging in employment, education, or training.⁴² This points to a larger ecosystem challenge that emerged in the data and conversations with key stakeholders: a lack of entrepreneurial skills and education opportunities. Starting in the 1990s, the country has seen the implementation of entrepreneurship education programmes, primarily in higher education settings, as a tool to stimulate job creation since existing companies were not able to address the unemployment issue.⁴³ The sentiment among stakeholders is that many of the youth initiatives are concentrated in cities and metropolitan areas, and with transportation, infrastructure, and cost as a barrier for township youths, the initiatives are exclusionary of this segment of the population.⁴⁴ This is likely further exacerbating inequalities, as a 2014 study surveying youth entrepreneurs in townships found that these young entrepreneurs perceived entrepreneurship education and training programmes as a good potential tool for development.⁴⁵

Figure 13: Percent of organisations that support underrepresented or marginalised populations



N = 132

36 [South Africa Economic Update: South Africa's Labor Market Can Benefit from Young Entrepreneurs, Self-Employment](#). World Bank Group. July 13, 2021.

37 Mbuya, J. (2016). [YOUTH ENTREPRENEURSHIP IN SOUTH AFRICA: A PROGRESS REVIEW](#). 10th IBC Conference.

38 *Ibid.*

39 International Finance Corporation. (2018). [The Unseen Sector: A Report on the MSME Opportunity in South Africa](#).

40 Mbuya, J. (2016). [YOUTH ENTREPRENEURSHIP IN SOUTH AFRICA: A PROGRESS REVIEW](#). 10th IBC Conference.

41 [Youth still find it difficult to secure jobs in South Africa](#). Statistics SA. June 4, 2021.

42 *Ibid.*

43 Gwija, S. et al. (2014). [The Link between Entrepreneurship Education and Business Success: Evidence from Youth Entrepreneurs in South Africa](#). *Journal of Economics*.

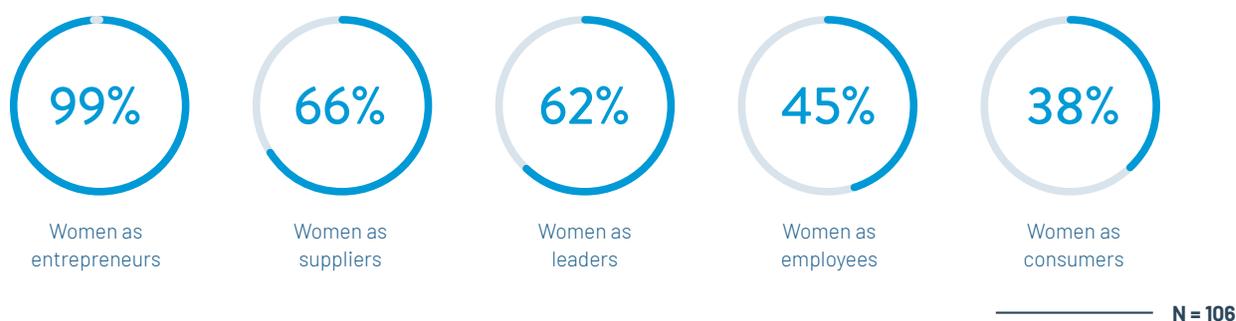
44 Insights derived from interviews with key stakeholders.

45 Gwija, S. et al. (2014). [The Link between Entrepreneurship Education and Business Success: Evidence from Youth Entrepreneurs in South Africa](#). *Journal of Economics*.

Ecosystem Data

Women are also a common target population, with 80% of support organisations offering services specifically for women entrepreneurs. This is an important segment of the entrepreneurship ecosystem in townships, as over 40% of microenterprises are owned by women.⁴⁶ (although woman-owned business shares decline as the size of the business grows⁴⁷). Respondents identified increased access to capital for women entrepreneurs, greater collaboration in the ecosystem, and improving perceptions of women in business as the highest priority changes needed to better support women entrepreneurs in townships.

Figure 14: Percent of organisations by target focus for women



Challenges Faced by Township Entrepreneurs and Township Businesses in South Africa

Township economies have a unique ecosystem and set of circumstances that make that present a particular set of challenges to small business owners. The key challenges highlighted by support organisations include the lack of access to finance, lack of or limited access to markets, lack of entrepreneurial and management skills, limited entrepreneurial growth mindset, and broader social issues.

Figure 15: Top five challenges for the township entrepreneurial ecosystems



⁴⁶ International Finance Corporation. (2018). The Unseen Sector: A Report on the MSME Opportunity in South Africa.

⁴⁷ *Ibid.*

Ecosystem Data

Access to finance is a common challenge for small businesses globally, as evidenced in ANDE's Entrepreneurial Ecosystem Snapshots for locations around the world.⁴⁸ As evidenced earlier in this report, some of the greatest barriers around finance are a lack of understanding between the supply and demand of capital, (i.e., informal businesses seeking capital through channels that require formalisation).

Another core challenge affecting the township ecosystem's ability to grow is the disjointed and often siloed interventions being implemented by various actors. For example, there is a significant push from banks and development finance institutions (DFIs) to formalise informal businesses throughout the country. However, there is little incentive for businesses to do so,⁴⁹ as the costs and uncertainties related to the highly regulated and constraining procedures of formalizing outweigh the perceived potential benefits.^{50,51} There are an estimated 5.78 million MSMEs in South Africa, with formal businesses only accounting for 14%.⁵² Interventions that promote formalisation or the use of banks do not consider the desires of the individuals they target (for example, the fact that much of the low-income population has a severe mistrust of banks and prefer to use cash for transactions⁵³), nor do they address the broader systemic failures that cause these issues (such as the unclear and costly procedures required to register a business⁵⁴). Better coordination with key ecosystem stakeholders could lead to better coordination and hence better outcomes regarding business formalisation.

When asked about the greatest challenges in delivering services to township businesses, support organisations cite lack of digital connectivity, safety, ineffective and costly telecommunications, and high transportation costs. These are equally common for organisations working in townships in Gauteng, Eastern Cape, and Western Cape and are reflective with the underdevelopment and general lack of infrastructure found in township and rural areas. Most organisations offering support to townships are headquartered in larger cities like Johannesburg (44%) and Cape Town (28%). Slightly over half (58%) of organisations have some sort of physical presence in the townships, either staff or an office, and most organisations deliver their services through a hybrid online and in-person model (62%). This means that many organisations' staff have to travel to interact with the entrepreneurs they serve (or vice versa) or connect with them digitally which is a significant challenge due to low digital connectivity in township and rural areas. Internet connections at home are present in less than 2% of rural households and 7% in non-metropolitan urban areas (i.e. townships).⁵⁵ Those that cannot be reached digitally have to rely on in-person support. This creates safety concerns for staff traveling to townships who may not be familiar with the areas, as townships have higher crime rates than other area in the country.⁵⁶

48 <http://ecosystems.andeglobal.org>

49 FANELLI Fanelli, N. and Monteiro, S. (2019). *Formalizing SMEs in Sub-Saharan Africa: Challenges and Opportunities for Entrepreneurs and Investors*. Investisseurs & Partenaires.

50 *Ibid.*

51 https://www.ilo.org/wcmsp5/groups/public/---ed_emp/--emp_ent/--ifp_seed/documents/publication/wcms_533489.pdf

52 International Finance Corporation. (2018). *The Unseen Sector: A Report on the MSME Opportunity in South Africa*.

53 Chitimira, H. and Ncube, M. (2020). *Legislative and Other Selected Challenges Affecting Financial Inclusion for the Poor and Low Income Earners in South Africa*. *Journal of African Law*.

54 https://www.ilo.org/wcmsp5/groups/public/---ed_emp/--emp_ent/--ifp_seed/documents/publication/wcms_533489.pdf

55 Briggs, S. *Connectivity in South Africa: the numbers you need to know*. IT Web. July 13, 2021.

56 [PREVENTING CRIME IN TOWNSHIPS: FOUNDATIONS FOR ECONOMIC EMPOWERMENT AND HUMAN DEVELOPMENT](#).

Ecosystem Data

Figure 16: Percent of organisations by physical presence in townships

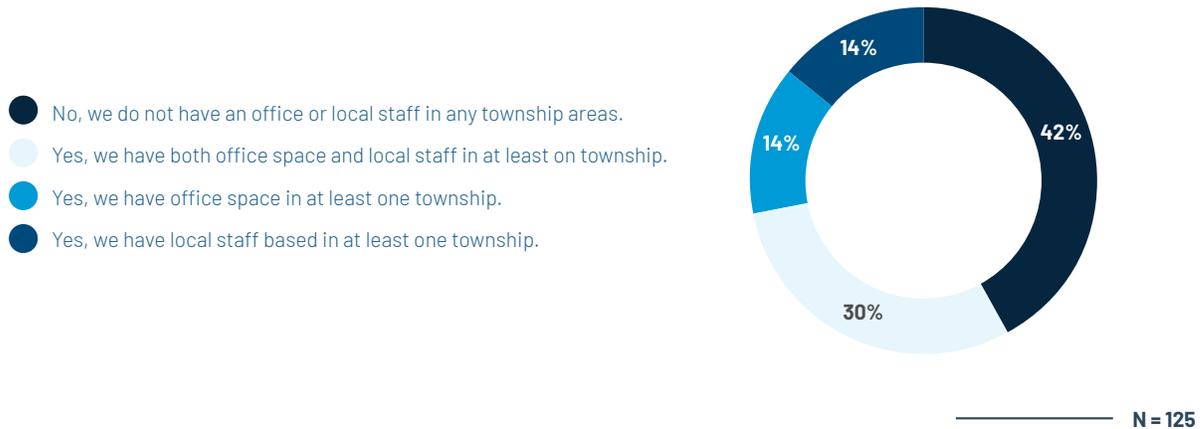
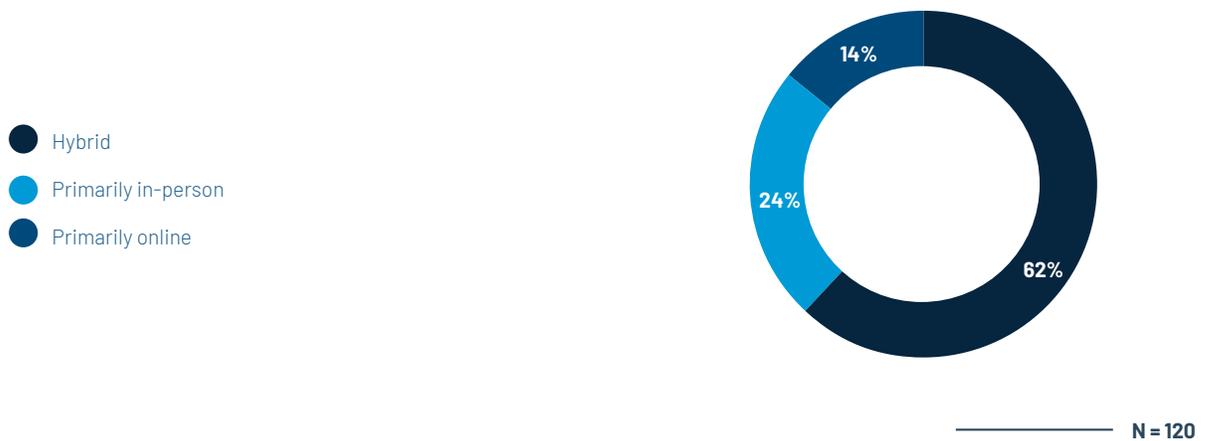


Figure 17: Percent of organisations by support delivery model



When it comes to digital connectivity, it is important to note a past initiative that aimed to directly address this issue. The Cape Digital Foundation's Smart Townships project was designed to provide free Wi-Fi services to the townships of the Western Cape. Launched in 2018 with funding from the Western Cape's government, the project's driving philosophy was that "technology can no longer be seen as a vertical business sector, but rather as a practical, horizontal necessity across all spheres of business and society."⁵⁷ With the successful implementation of a pilot programme in a single township in partnership with local Wi-Fi provider TooMuchWIFI, the foundation was prepared to transform the Western Cape's townships into digitalised "smart townships," creating access

57 Cassidy, C. [What a crying shame ...](#) Call Off The Research. March 28, 2020.

Ecosystem Data

to internet for thousands living in the community. This would have not only significantly improved the level of opportunity available in townships, but also begun the arduous process of reducing the inequities between cities and townships.⁵⁸ Unfortunately this never came to fruition as the project lacked adequate funding and was forced to shut down by 2020 despite showing great promise. Some of those involved with the project, including Cape Digital Foundation CEO Emma Kaye cited the lack of a “commitment of financial resources from the private sector or (provincial or local) government, which would have enabled the institutionalisation of the project and thus potentially created the longevity, financial support, scale and progression required to develop a deeper impact,” as a key reason the project did not materialise.⁵⁹

Desk research and interviews with key stakeholders illuminated that in township communities, decisions are largely driven by the significant unemployment rates and lack of opportunity. A 2019 study estimated that searching for a job costs young South Africans an average of US \$85 per month (including costs for transportation, internet usage, job application fees, and even sometimes bribes),⁶⁰ a cost that is particularly restrictive for those who live in low-income or impoverished areas. These significant barriers to traditional employment lead township residents to start their own businesses out of financial necessity. These necessity-driven township businesses, while providing for the business owner, do not offer clear growth paths or further employment opportunities for others in the township.⁶¹ Further, the lack of buying power in townships perpetuated by unemployment leads to a small market that is unsustainable for an oversaturated market.⁶²

The Impacts of COVID-19

As of November 2021, South Africa has approximately 2.9 million cases of COVID-19 and just over 22 million vaccines administered.⁶³ While the situation continues to evolve, entrepreneurs and the organisations that support them have had to adjust and adapt to the changing circumstances caused by the pandemic. In the first year since the lockdowns began worldwide, approximately 60% of small, medium, and micro enterprises were forced to stop operating and 43% were forced to close their doors permanently.⁶⁴ With many informal businesses relying on cash transactions, the lockdowns severely limited in-person interactions and as a result cashflows halted.⁶⁵ To compound this issue, most informal businesses lack the documentation required to qualify for pandemic-related government financial assistance, making relief funds largely inaccessible.⁶⁶ As a result of the significant challenges to entrepreneurship and businesses, support organisations have had to make adjustments to their services in various ways to adapt to changing needs.

58 Ahmed, S. and Gillwald, A. (2020). [Policy Brief 3: Smart Townships will build Smarter Cities](#). Research ICT Africa.

59 *Ibid.*

60 Durmaz, M. [South Africa's Born-Free youth shackled by unemployment](#). TRT World. June 22, 2021.

61 *Ibid.*

62 Cant, M. and Rabie, C. (2018). [Township SMME Sustainability: A South African Perspective](#). *Economica*.

63 [COVID-19 South Africa Situation](#). World Health Organization. Accessed October 15, 2021.

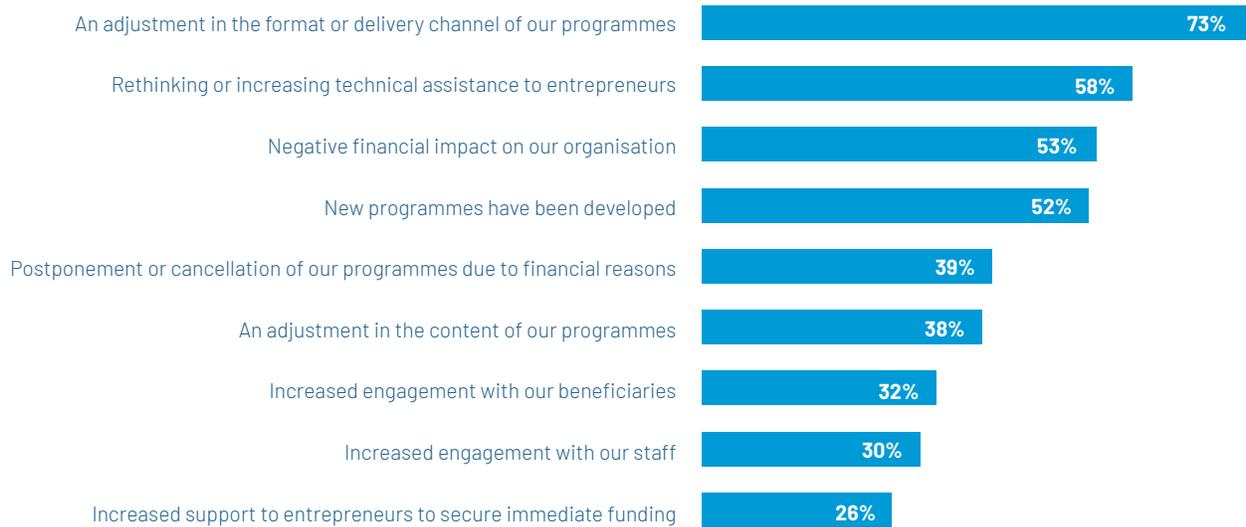
64 Mokgabudi, L. [Fintech innovations to enable MSE recovery in South Africa's townships](#). BFA Global. March 25, 2021.

65 *Ibid.*

66 *Ibid.*

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Figure 18: Percent of organisations that have taken a specific action in response to COVID-19



N = 100

Most adjustments made by support organisations relate to the content and delivery of their programmes. Additionally, more than half of organisations experienced negative financial impacts similar to those experienced by the businesses they support, which led to the postponement or cancellation of programmes for 39% of organisations.

Insights and Implications

Challenges

Difficulty accessing support services. With limited infrastructure, geographic isolation, and low levels of connectivity, entrepreneurs struggle to access resources and customers beyond their communities. Most support organisations are not based in the townships, and many rely on digital delivery mechanisms, especially during the COVID-19 pandemic. The distance to support providers and lack of digital connectivity prevents many entrepreneurs from finding and accessing the support they need.

Lack of entrepreneurial mindset. Much of the townships' entrepreneurial activity is driven out of necessity, rather than opportunity, due to historical economic inequalities between these communities and the city centres. As a result, there is a perceived lack of a growth mindset in townships, and many business owners will leave their business when presented with the opportunity to be employed at a larger firm and earn more stable wages.

Regulatory barriers and administrative complexity. South Africa's regulations related to opening a business, whether it be burdensome documentation requirements or stringent rules around opening a bank account, often force new businesses to operate informally. Informality restricts access to resources like financing and technical support, yet the root cause of the issue has yet to be addressed by the government.

Lack of scalable business models. A significant portion of township businesses are born out of necessity rather than opportunity, which limits their growth potential. This, combined with the informality of most businesses and the desire for formal employment over entrepreneurship, creates a general pipeline constraint for support providers looking to grow township businesses.

Lack of financial inclusion and financial literacy. In townships, many individuals and businesses are either unbanked or do not use their existing bank accounts, pointing to gaps in both access and understanding of the benefits of a bank account. There are important benefits to having and using a bank account, primarily the creation of a financial record to be used in the future. However, these benefits are not clearly communicated or understood, and the barriers to opening a bank account outweigh the potential benefits for many in the townships.

Insights and Implications

Opportunities

Large market opportunity in townships. Townships are home to nearly 40% of the population in South Africa. Since many transactions are conducted using cash in these communities, it is difficult to understand the exact size of the market. However, there are clear indications that the market opportunity is very large, with some businesses earning what financiers would estimate as annual revenue in just one month.

Supply chain integration. There is a clear opportunity to integrate township businesses into larger supply chains across the country. Township businesses are already engaging in value chains, but there is still opportunity to work within corporate supply chains, though significant information gaps exist relating to this.

Significant interest in supporting the ecosystem. While past interventions to support entrepreneurship in the townships have not yielded the desired outcomes, the many efforts prove there is significant motivation to support township economies. There are many resources and stakeholders available to develop support solutions and the opportunity to learn from previous interventions.

Large pool of potential human capital. The townships are home to a multitude of young, unemployed South Africans with strong ambition. However, financial instability restricts entrepreneurial mindset, as business motivations are largely driven by necessity, rather than opportunity. Building the skills and entrepreneurial mindset of the large pool of potential human capital in the townships presents a promising opportunity to grow the ecosystem.



Recommendations

Designing collaborative, ground-up initiatives. Past initiatives to support the township entrepreneurial ecosystems have not yielded the desired outcomes, largely because they were designed to tackle symptoms of the problem rather than core issues. The needs of township entrepreneurs and businesses are unique, and support providers need to engage directly to fully understand all the dynamics at play. Stakeholders like government agencies, development institutions, and NGOs must work together to invest in the right initiatives to make real progress in developing the ecosystem.

Easing regulations and accepting informality. There appears to be significant misalignment between the demands of support providers, particularly financiers, and the needs of the entrepreneurs they target. The requirement of formality and onerous documentation to access financial support, be it to open a bank account or qualify for COVID-19 relief funds, prevents many businesses from surviving, let alone growing. Accepting the informality of many township businesses and finding ways to work with them in a mutually beneficial way is critical to the growth of the ecosystem. An important reality of the townships is that much of the economy is informal. Regulatory reform to ease the formalisation process and make formalisation a better option will likely take time and coordination with some of the highest levels of South Africa's government. Therefore, a more short-term recommendation is to focus on supporting the informal ecosystem, rather than implement interventions to formalise businesses. Taking the emphasis off the formalisation issue will allow both the support ecosystem and entrepreneurs to focus on growing businesses and contributing to job creation and skill development.⁶⁷

Focusing on digital inclusion. The internet is playing a larger and larger role in everyday life, particularly with the onset of the COVID-19 pandemic. Digital connectivity is an essential part of business operations, yet townships remain largely without internet access. Whether it be partnering with local providers (as was attempted by the Smart Township Project) or finding new, innovative ways to connect businesses online, internet access needs to be a focal point of any entrepreneurial ecosystem support strategy.

Designing financial products for the townships. There is an opportunity for financial institutions to build a greater presence in the townships and support their economic development. Working with other stakeholders in the ecosystem to understand the barriers and the best ways to alleviate them should be the first step, followed by the creation of products that directly target those living in townships. This might involve educating individuals on the benefits of having and using a bank account, simplifying the process of opening an account, and/or building a physical presence in the townships to expand access.

67 Bowmaker-Falconer, A. and Herrington, M. (2020). [Igniting startups for economic growth and social change](#). Global Entrepreneurship Monitor South Africa 2019/2020 report.



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For more information, please contact the staff of
ANDE's South Africa Chapter:

NONCEBA QBAZI

Regional Programme Associate

Nonceba.Qabazi@aspeninstitute.org

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