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## Why the township economy matters

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*Nearly half the working-age population and nearly two-thirds of the unemployed live in areas designated as townships under apartheid spatial laws. Originally developed as “labour dormitories”, they have been challenging to develop as more vibrant local economies and residential areas. What can the government – and the private sector – do to stimulate growth, entrepreneurship, and employment in these peri-urban areas?<sup>1</sup>*

### Introduction

South Africa remains one of the world’s most unequal countries, marked by significant income disparities and an economy that lacks inclusivity for all economic agents. The economy exhibits high concentration levels across many sectors and significant barriers to entry for micro, small, and medium enterprises (MSMEs). The manufacturing sector’s contribution to economic growth has declined from 22.3% in 1994 to 12% in 2022<sup>2</sup>, while the services sector has grown its contribution to GDP from 57.3% in 1994 to 62.6% in 2022.

The current pattern of economic growth, which falls short of generating sufficient jobs and livelihood opportunities, must nonetheless address the high unemployment levels (32.6% in Q2:2023) and income poverty. The private sector plays a critical role in employment creation and economic growth. It employs nearly 75% of the working-age population and has contributed to infrastructure, research, and development investment. Policymakers and the private sector should prioritise revitalising township economies to promote entrepreneurship and small business growth. Such a collaborative effort can unlock economic potential, create jobs, reduce inequality, and empower local communities.

### Overcoming challenges and seizing opportunities

In South Africa, approximately 40% of the working-age population and 60% of the country’s unemployed reside in townships. The apartheid planning system resulted in townships (i.e., urban settlements) acting as dormitories for the labour requirements of the mining industry and later manufacturing and services during apartheid<sup>3</sup>. Since the

<sup>1</sup> This article is based on a paper for SA-Tied/UNU-Wider, *Accelerating private sector job creation and poverty reduction in South Africa’s townships*, available here: <https://sa-tied.wider.unu.edu/article/accelerating-private-sector-job-creation-and-poverty-reduction-south-africas-townships>

<sup>2</sup> World Bank Open data. <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=ZA>

<sup>3</sup> Mahajan, S. (2014). *Economics of South African Townships: Special Focus on Diepsloot*. A World Bank Study. Washington, DC: The World Bank. <https://doi.org/10.1596/978-1-4648-0301-7>

1950s, mature, settled townships have existed close to urban centres; these are now established communities such as Soweto and Mamelodi townships in the Gauteng province and Langa township in the Western Cape. New urban townships have emerged characterised by rapid growth, large informal settlements, proximity to metropolitan areas, and their role as the first stop for new rural and cross-border migrants - for instance, Diepsloot in Gauteng and Khayelitsha in Cape Town. Lastly, rural or peri-urban townships are located near smaller towns or cities, possessing stronger economic links to outlying rural areas, and lacking essential services infrastructure.

The government has not succeeded in addressing the challenges facing townships. Several factors are attributed to the failure to stimulate township economies. A sizable percentage of township residents lack the necessary skills to participate in entrepreneurship. More than half the early-stage township entrepreneurs participate in crowded and low-profit-margin retail activities because of low skill levels.

South Africa's efforts to develop townships face many challenges. These include a lack of markets, minimal government support, inadequate infrastructure and skills, and limited access to finance. Despite these hurdles, the government recognises the need to revitalise township economies because of their potential to advance developmental goals, including reducing poverty and unemployment.

In collaboration with the government, the private sector can revitalise decaying inner-city areas and implement mixed residential townships to facilitate adequate spatial planning. Additionally, the private sector can assist the government in addressing some of the persistent economic challenges in townships by providing skills and capacity building to address the legacy of unequal spatial planning. The coordination of various government initiatives across three spheres, namely national, provincial, and local, can limit the duplication of efforts leading to efficient utilization of limited resources. However, there needs to be a better understanding of the functioning and requirements of a township economy.

## **Collaborative solutions for thriving township economies**

To reduce economic concentration, stimulating greater competition, granting access to finance, lowering entry barriers, and alleviating regulatory burdens for MSMEs is essential. The government should consider implementing a comprehensive township support programme and local economic development initiatives. Reducing regulatory obligations and increasing financial support for small business development is paramount. Policymakers should strive to foster supply-chain development and localisation, ensuring entrepreneurs have convenient market access outside townships. Improving tenure security and enhancing capacity for land reform will allow entrepreneurs to utilize these assets as collateral to access finance. Furthermore, it is necessary to strengthen support for COVID-19-impacted township businesses by providing more concrete support to stimulate job creation.

## **Unlocking potential**

In my [recent SA-TIED study](#), I propose that government policies incorporate micro-enterprises to promote employment and inclusive economic growth. This requires implementing township support programmes, removing regulatory obstacles, reducing entry barriers, and providing financial access for MSMEs. The private sector needs to give preference to emerging township entrepreneurs to access their supply chains, and government can use set-asides to promote state procurement from MSMEs.

Furthermore, the private sector can collaborate with the government to roll out more incubators and use credit guarantees and venture capital to improve access to finance.<sup>4</sup> Reviving township economies is crucial to generate jobs and opportunities for South African youth not in education, employment, or training (NEET). The NEET rate among young people in the first quarter of 2023 was significantly high at 36.1%<sup>5</sup> To address this, promoting entrepreneurship and ensuring the inclusion of marginalised groups in the mainstream economy is critical. The government should partner with the private sector to implement support programmes and increase financial assistance. Previous poverty alleviation and employment initiatives have had limited impact due to capacity issues, corruption, and inadequate monitoring. Although agencies such as the Small Enterprise Development Agency (SEDA) focus on promoting township economies, its efficacy is unclear. So, too, the effectiveness of the Employment Tax Incentive (ETI) in promoting youth employment is inconclusive, with mixed research findings on its impact.<sup>6</sup>

Programmes that promote entrepreneurship and create employment opportunities are required to upscale the revitalisation of township economies. With a NEET rate of 36.1% among young people, the private sector must support government efforts to address job creation and reduce poverty. To foster economic growth, the government should provide a conducive environment, invest in infrastructure, and research, and reduce regulatory burdens for sectors like MSMEs.

Addressing the skills shortage requires strengthening education and training systems and involving employers in skills policies and curriculum development. In line with the National Development Plan, all stakeholders have a critical role in township economic development, including partnering for cultural tourism and enhancing safety to create employment opportunities. Several townships are prone to crime; hence there is a need for an increase in policing visibility to ensure the safety of tourists. In some areas, tourists visiting townships must be accompanied by tour guides familiar with crime-prone spots. This would enhance local employment opportunities and, together with other measures to stimulate small businesses, could become an important step on the journey to make township economies more viable.

*Disclaimer: This blog's findings, analysis, and recommendations are solely those of the author and do not represent the official position of the United Nations Development Programme (UNDP) or any of the UN Member States that are part of its Executive Board.*

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<sup>4</sup> Timm, S (2012). How the state and private sector can partner to boost support to SMEs: Lessons from Chile & Malaysia. A report for the Department of Trade and Industry (the dti) and TIPS. [https://www.tips.org.za/files/how\\_the\\_state\\_and\\_private\\_sector\\_can\\_partner\\_to\\_boost\\_support\\_to\\_smes.pdf](https://www.tips.org.za/files/how_the_state_and_private_sector_can_partner_to_boost_support_to_smes.pdf)

<sup>5</sup> StatsSA: QLFS: Q1: 2023

<sup>6</sup> Budlender, J & Ebrahim, Amina, 2021. Estimating employment responses to South Africa's Employment Tax Incentive. WIDER Working Paper 2021/118. <https://www.wider.unu.edu/publication/estimating-employment-responses-south-africa%E2%80%99s-employment-tax-incentive>