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Supporting Small-Scale Micro-Entrepreneurship in South Africa's Townships

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Supporting Small-Scale Micro-Entrepreneurship in South Africa's Townships

Gibson Mudiriza, Samantha De Martino, and Wendy Cunningham

Abstract

Drawing on qualitative data from 11 key informants and 75 small-scale firm owners in South Africa's townships, this paper identifies five factors shaping micro-entrepreneurial success. First, micro-entrepreneurship often begins as employment of last resort but evolves into a deliberate choice as owners value its autonomy and independence. Second, social and communal networks expand access to shared resources, information, and markets. Third, complex processes and limited benefits discourage firm registration, even though entrepreneurs feel that it boosts customer trust and patronage. Fourth, access to government support is low, hindered by perceived program irrelevance and stringent eligibility criteria. Fifth, success depends less on finance than on resilience, resourcefulness, and mindset. These findings underscore the need for holistic programs offering business training, socio-emotional skills, mentorship, and collective business strategies tailored to the township economy.

Keywords: Informal economy, entrepreneurship, South Africa

JEL Codes: J46, L26, O17, O55

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Acronyms

CSDA	Centre for Social Development in Africa
DSBD	Department of Small Business Development
FGDs	Focus Group Discussions
KENASVIT	Kenya National Alliance of Street Vendors and Informal Traders
KNOMAD	Global Knowledge Partnership on Migration and Development
NITASA	National Informal Traders Alliance of South Africa
SALDRU	Southern Africa Labour and Development Research Unit
SMMEs	Small, Medium, and Micro Enterprises
UCT	University of Cape Town

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Executive Summary

South Africa has one of the highest unemployment rates globally, currently standing at 32.9 percent. At the same time, the country has a comparatively small informal sector given its level of development, which could potentially serve as a means to address the employment crisis.

This paper explores the factors that contribute to the success and challenges of small-scale micro-enterprises in South African townships. It utilizes qualitative research methods to gather insights on motivations, strategies, successes, and challenges faced by micro-entrepreneurs in townships through key informant interviews, focus group discussions, and individual interviews. Using a detailed comparative analysis, the paper compares qualitative data from a diverse group of micro-entrepreneurs, including survivalist and successful ("*sustainable*") entrepreneurs across different provinces.

The study has five primary findings. First, entrepreneurship often starts as an employer of last resort but becomes a viable source of acceptable employment. Many participants in the study reported that they turned to entrepreneurship out of necessity due to high unemployment and limited formal employment opportunities. Over time, however, many entrepreneurs came to value the autonomy and financial independence that self-employment provides, underscoring the potential of micro-enterprises not only to offer livelihoods but also to contribute significantly to economic growth and inclusion.

Second, social networks and collectivism are powerful tools for micro-entrepreneurial success. Compared to entrepreneurs who operate more independently, the entrepreneurs who leverage communal resources and social networks frequently cited it for contributing to their success. This difference highlights the importance of fostering strong social networks and encouraging collectivist approaches to enhance the resilience and success of micro-enterprises.

Third, small-scale micro-entrepreneurs are agnostic about formal registration. While several small-scale micro-entrepreneurs recognize the intended benefits of registration, such as access to government support and legal protections, many do not benefit from these factors. Instead, registration was seen as costly, complex and misaligned with the flexible and adaptive way that

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their businesses function. That said, respondents felt that a certificate of registration legitimized their business in the eyes of customers. Overall, respondents viewed registration as a factor of production that micro-entrepreneurs buy into when their enterprises are at a stage where the benefits of registration outweigh the costs. These findings are more optimistic about registration than in most countries with large informal sectors.

Fourth, small-scale micro-entrepreneurs not only face challenges accessing formal support from the government but some perceive that existing policies and procedures present additional hurdles for their businesses. While South Africa's legislative framework includes laws intended to support small businesses, such as the National Small Business Act and the Business Act, the provisions of these Acts frequently do not align with the realities of the informal sector. The study found that entrepreneurs struggle to access government support due to a lack of information about what the government offers them, perceived irrelevance of programs, and stringent eligibility criteria that frequently exclude them. Many felt that the available support does not address their specific needs, further exacerbating their difficulties. Some participants also perceived that inconsistencies in enforcement of regulations also hinder their ability to thrive and contribute to the economy.

Fifth, micro-entrepreneurship success relies less on access to finance, instead, personal initiative, entrepreneurial mindset, and strategy play a dominant role. Contrary to common assumption, the respondents felt that success in small-scale micro-entrepreneurship is not primarily dependent on financial support. Resilience, resourcefulness, and an entrepreneurial mindset were identified as critical drivers of business growth. Entrepreneurs who reinvest profits, adapt to market conditions, and leverage available resources are more likely to sustain and expand their businesses. This entrepreneurial mindset, characterized by perseverance and continuous learning, is essential for sustaining and expanding micro-enterprises, potentially proving more impactful than financial assistance alone.

The range of success factors emerging from the study underscore the need for a multifaceted policy approach to support the growth and resilience of micro-enterprises in South Africa's townships. As argued by the study participants, micro-entrepreneurship can be a viable option,

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particularly for those with entrepreneurial potential who are excluded from the formal sector. The public sector can support entrepreneurs to start and grow their small-scale enterprise. This includes programs to help entrepreneurs to learn from mentors, develop business networks, foster collective business strategies, and develop socio-emotional skills (resilience, proactivity, resourcefulness). It also means reevaluating the role of formal registration and ensuring that government support programs are accessible and relevant to the needs of small-scale micro-entrepreneurs. By addressing these areas, policymakers can enhance the productive engagement of small-scale micro-entrepreneurs, strengthen township economies, and contribute to broader economic inclusion and growth.

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I. Introduction

South Africa has one of the highest unemployment rates globally and a disproportionately small informal sector. Unemployment currently stands at a staggering 32.9 percent (Statistics South Africa, 2024) in a context of low economic growth and insufficient job creation (UNDP, 2022). The informal sector provides over 3.2 million jobs, representing 21 percent of total employment in South Africa (Statistics South Africa, 2024), and contributes approximately 6 percent to GDP (Chen, 2018). In contrast, informal sector employment in similar upper middle-income countries is about 45 percent (Cunningham et al., 2022a) and contributes more than 50 percent to GDP (Chen, 2018).

This paradox is further illustrated by the labor market distribution: the ratio of wage-employed to informally employed to unemployed individuals in South Africa stands at 50:16:34, compared to the middle-income country average of 45:45:10 (Asmal et al., 2024). This indicates that while South Africa performs relatively well in generating wage employment compared to its peers, it lags substantially in creating informal sector employment opportunities. As a result, a much larger share of the labor force who might otherwise be absorbed in informal work remains unemployed, contributing directly to South Africa's high unemployment rate. Expanding the informal sector, particularly through micro-enterprises, could potentially help reduce the country's persistently high unemployment and bring it closer to the levels seen in other middle-income countries. This strategy can serve as a short- to medium- term solution, while structural transformation is needed for long-term firm growth and job creation.

An expansion of the micro-enterprise sector, which comprises most of South Africa's informal sector jobs, has the potential to provide opportunities to millions of unemployed South Africans, particularly those with entrepreneurial potential. It could also contribute to economic growth and inclusion while South Africa forges a path to an economy that generates sufficient formal sector jobs in the future. The success strategies and challenges of South Africa's diverse micro-entrepreneurs across sectors, level of business success, geography, and culture can offer valuable insights into unlocking the country's entrepreneurial potential.

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This study explores the factors that contribute to small-scale micro-entrepreneurial success and challenges in South Africa. It focuses on entrepreneurs who are primarily self-employed, have few assets, and limited earnings, characteristics that define the majority of township micro-enterprises. We refer to them as small-scale micro-entrepreneurs to differentiate them from larger (up to 10 employees) or more organized (formal) businesses that are included in the South African Statistical Agency's definition of micro-entrepreneur.

The study aims to comparatively assess four concepts. First, the motivations for engaging in small-scale micro-entrepreneurship. Second, business strategies employed by these entrepreneurs, including supply and demand dynamics, networks, pricing, and investment practices. Third, challenges and opportunities for success. Fourth, how entrepreneurs perceive their successes and struggles.

To allow for comparative analysis, we stratify the sample by business sustainability and by location. To compare experiences of those with different degrees of business success, we surveyed survivalist and sustainable businesses. Survivalist businesses are broadly defined as those that typically just make ends meet, while sustainable businesses generate income beyond subsistence levels. For location-specific experiences, we collected qualitative data from micro-entrepreneurs in townships in three provinces. Lessons derived from the common and the unique experiences of various types of micro-entrepreneurs operating in townships can inform programs and policies to support the growth, productive engagement, and resilience of micro-enterprises.

The remainder of the policy note is structured as follows. In Section II, we discuss the methodology for the primary data collection and demographic characteristics of the sample. Section III presents the five key messages that emerged from the results. The report concludes in Section IV with a discussion that brings together the key messages and draws policy implications for a multi-faceted policy approach to support the productive engagement and growth of small-scale micro-entrepreneurs in South Africa.

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II. Methodology

A qualitative comparative exploratory research design was used to assess the motivations, strategies, successes, and challenges of small-scale micro-entrepreneurs in South African townships. We conducted key informant interviews with 11 experts who have extensive experience with micro-entrepreneurs in South Africa townships. We then collected data from 75 micro-entrepreneurs through focus group discussions and individual interviews in township neighborhoods where small-scale micro-entrepreneurs primarily operate.

Sites for focus group discussions (FGDs)

The study was conducted in three purposively selected provinces: Gauteng, North West, and Western Cape. Provinces were selected based on share of total informal sector employment and differing main industries. Within each province, a township was selected based on two main criteria: the concentration of both sustainable and survivalist small-scale micro-entrepreneurs, and established connections the research team had for accessing the community. The townships were Ebony and Ivory Park (Gauteng province), Marikana (North West province), and Langa (Western Cape province). Figure 1 displays the sites chosen for focus group discussions (FGDs).

Figure 1: Location of the FGDs

Source: Author's own using Google Maps (2024)

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Sampling and data collection

The research team conducted focus group discussions (FGDs), interviews, and key informant interviews. The FGDs were stratified mainly by the type of micro-entrepreneur, sustainable versus survivalist, to capture diverse perspectives and identify positive deviants. Survivalist businesses are broadly defined as those who often just make ends meet, whereas sustainable businesses earn more than survival income.[1] In total, 75 entrepreneurs participated, comprised of 36 owners of survivalist businesses and 39 owners of sustainable businesses. Participants were roughly equally distributed across the three provinces: Gauteng (23), North West (26) and western Cape (26). Follow-up interviews were conducted with thirty participants from the FGDs to gain deeper insights into their experiences. Additionally, key informant interviews were conducted with eleven representatives from civil society, local government, and academia to provide a comprehensive understanding of the systemic factors affecting small-scale micro-entrepreneurs.

Profile of participants

The profile of owners differed by business type. Most survivalist entrepreneurs were female (66.7 percent), while the majority of sustainable entrepreneurs were male (61.5 percent). In terms of education, a higher proportion of sustainable entrepreneurs had completed secondary school compared to their survivalist counterparts (71.8 percent vs. 66.7 percent). These differences underline the diverse backgrounds and characteristics of small-scale micro-entrepreneurs and the possible varied challenges they face in striving for business success.

[1]The distinction between sustainable and survivalist businesses is complex and nuanced, with no single observable variable providing a definitive categorization. Instead, a combination of factors was considered. Survivalist businesses are typically those that are struggling to keep operations running, often just making ends meet. They may need to use personal income or grants to purchase stock, and the business is often either relatively new (1-2 years) or has been stagnant for several years. Survivalist businesses are usually unable to pay for regular assistance and often describe their operations as hustling or survivalist. On the other hand, sustainable businesses are those with revenues that allow them to sustain the business and have personal income. They can reinvest profit into the business, have been running and growing over several years, and can pay for assistance or have at least one employee. These businesses are often described as growth-oriented or as being content with their current successful status. The study also notes the existence of a continuum of businesses between sustainable and survivalist businesses. For the typology used to classify survivalists and sustainable/thriving businesses, see Annex 1.

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The majority of businesses in the sample were small traders without paid employees and low cash flow. These businesses were mainly (meal) takeaways (29.3 percent), spaza shops (12 percent),[2] and beauty services (10.7 percent). Analysis by business type shows that survivalist entrepreneurs mainly operated takeaways (38.9 percent) and beauty services (16.7 percent), while sustainable entrepreneurs were more diversified, operating takeaways (20.5 percent) and technology businesses (15.4 percent). Income levels also varied: the majority of survivalist entrepreneurs generally earned an average monthly income of between R1000 and R5000, while sustainable entrepreneurs earned relatively higher, between R5000 and R10000.

The data were analyzed using a detailed comparative analysis of sustainable and survivalist small-scale micro-entrepreneurs, providing insights into motivations, strategies, successes, and challenges within South Africa's small-scale micro-entrepreneur sector. The remaining sections of this policy note aims to highlight key findings and recommendations from the study, offering insights that could inform the development of effective programs and policies to support the growth and resilience of small-scale micro-entrepreneurs in South Africa.

III. Key Messages

Five key messages emerged from the analysis of hundreds of pages of transcripts of the qualitative research. These findings are based on the perceptions of the study participants. FGDs are intentionally structured for eliciting a saturation of ideas rather than representativeness. As such, these views should be interpreted as a range of views rather than representative of the views of all small-scale micro-entrepreneurs in South Africa. The patterns observed in the full data set are reported in this section, accompanied by a few quotations to illustrate the overarching messages.[3] While our data should not be quantified, we use terms such as “more” or “less” in reference to the similarity (or difference) of opinions within our sample.

[2] Spaza shops are small neighborhood stores that sell basics such as soap, snacks, cold drinks, and basic foodstuffs.
[3] Direct quotes are used. They have not been edited for grammatical correctness.

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1. Entrepreneurship often starts as an employer of last resort but becomes a viable source of acceptable jobs.

Most South African entrepreneurs in the study identified push factors for becoming an entrepreneur, but once running their own businesses, prefer to remain self-employed. Economic necessity due to unemployment or lack of wage job opportunities in formal firms can drive South Africans into entrepreneurship. As two entrepreneurs said:

> "*Regarding the business, I was once employed, and then I lost my job, so I looked for a plan on how to survive*". *(Sustainable business, Ivory Park)*
>
> *"We have children, we have families. So, I thought it's best if I start making bunny chows so that I can also contribute something and not just sit around because there are no jobs". (Sustainable business, Marikana)*[4]

However, some identified pull factors as the motivation for starting a business. Some survey participants were from families of micro-entrepreneurs that demonstrated the potential to earn a livelihood from this kind of work. Reflecting on this upbringing, one participant reflected,

> *"That gave me the power to see that since my mother started with beads and raised me with the money she made from selling beads." (Survivalist business, Ivory Park)*

Others acquired an entrepreneurial spirit and practical skills to operate a business early in their work lives, facilitating their entry into the sector. Respondents reported learning resilience and resourcefulness from an early age. As one respondent reflected,

> "*My aunt had a business, maybe that is why we are like this. When she had a trip to somewhere we would remain and sell for her. Maybe she left for a week because she is the old one at home. So, she will stock for us, and we will remain and sell. So, when she comes back for the weekend, she will continue selling for herself*." *(Survivalist business, Ivory Park)*

Some respondents reported learning business skills, such as financial management and customer relations from such early-life experiences. As one participant explained,

[4] Bunny chow is a sandwich (for people, not rabbits).

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"I used to watch my mother run her spaza shop every day. She taught me how to handle money, deal with customers, and manage stock. Those lessons are the backbone of my business today". (Survivalist business, Ivory Park)

These insights highlight how encouragement and practical learning from family, friends, and community shape entrepreneurial aspirations. They are consistent with existing evidence that suggests that family is often the first point of entrepreneurial learning (Wasim et al., 2023) and enhances entrepreneurial competence by imparting crucial skills in customer relations, financial management, and operational strategies (McGrath and MacMillan, 2000).

Despite a generally agnostic start, most found satisfaction and success in their entrepreneurial roles. The flexibility, independence, and potential for income growth associated with running their businesses led many to fully embrace entrepreneurship. As two entrepreneurs noted:

"*I didn't plan to start a business, but once I did, I realized I could never go back to looking for jobs. Being my own boss gives me a sense of freedom and accomplishment I never had before*". *(Sustainable business, Ivory Park)*

"*Being self-employed comes with the benefits of being flexible when planning your own life; you can be at home or running your own errands while managing your business very well*". *(Sustainable business, Ivory Park).*

Even if micro-entrepreneurship arises out of necessity, it can be a viable source of income to meet economic needs. The majority of entrepreneurs in the study earned between R1000 and R5000 monthly. While these average incomes may not seem substantial, they go a long way in supporting the daily needs of those involved. This sentiment was shared by participants:

"I started my business after my husband died and I was left with small children, I don't work; so I had to open a tuck shop so that I could raise my children, support my children." (Sustainable business, Marikana)[5]

[5] A tuck shop is a small, informal retail store that sells a variety of convenience items, including snacks, soft drinks, sweets, basic groceries, and essential household products.

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“I lost my job, then I saw that since I am the breadwinner and a single parent, I have to start a business.” (Survivalist business, Ivory Park).

These personal stories highlight how entrepreneurship serves as a critical means of survival and income generation.

Moreover, small-scale micro-entrepreneurship is not only about personal survival; it also creates employment opportunities for others and can promote community cohesion. As participants expressed:

“I employ three other people. Yes. Who have got other people that they can now take care of.” (Sustainable business, Marikana)

"It's not just looking at that one person and the person who assists them in their trading stalls, but it's looking at growing that space, albeit being informal. So, you can have someone having one or two stalls and being able to hire people in that business." (Key informant, SERI)

Although these employment opportunities may seem small, they are significant, especially in an economy without sufficient job growth in the formal sector. Furthermore, small-scall micro-entrepreneurs may contribute to their communities in meaningful ways. For instance, one business owner mentioned,

“At least when there is spinach, we are able to give it to the less fortunate people in our community. Even when there are funerals, we are able to also donate spinach.” (*Survivalist business, Marikana).*

This sense of community responsibility and support further illustrates the positive impact of small-scale micro-entrepreneurship.

These findings align with literature indicating that many small business owners start out of economic necessity (Fairlie and Fossen, 2020). However, once established, these entrepreneurs often report higher job satisfaction (Binder and Coad, 2013) and develop a strong passion for their

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ventures (Cardon et al., 2009). This pattern is evident among both survivalist and sustainable entrepreneurs, as well as across locations.

The evidence from this study highlights the transformative potential of small-scale micro-entrepreneurship, turning agnostic entrepreneurs into passionate business owners who thrive in their newfound independence and contribute significantly to the resilience and vibrancy of local communities (Langevang et al., 2012). The insights challenge the often-negative connotations associated with informal sector businesses and highlight the positive impacts of entrepreneurship on individuals and communities.

2. Organization and strength of social networks and collectivism are powerful tools for entrepreneurial success

South African small-scale micro-entrepreneurs highlight the importance of social connections and relationships as inputs to their entrepreneurial success and growth. Micro-entrepreneurs interviewed frequently rely on advice, material support and general assistance from family members, friends, and other business owners. One participant shared,

> *"So sometimes if I need something and I'm too busy in the shop, I just call my mom because she's just staying around. Then she'll come and do my runs." (Sustainable business, Ebony Park)*

Additionally, a business owner emphasized the significant role of family in emotional support, stating,

> *"He's my pillar of strength. He's forever behind me all the time. When I'm tired, when I can't take it anymore, he's helping me with the stuff. When he's here, he's the one selling, giving people change and taking stock with the ladies." (Sustainable business, Marikana)*

Sustainable businesses, in comparison to survivalist businesses, leverage social networks more strategically. While all micro-entrepreneurs benefit from social networks, sustainable businesses have stronger and more lucrative social networks. For example, they engaged in informal savings clubs (*stokvels*) to reinvest in their growth and collectively bulk purchase. As one entrepreneur described,

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> *"So, what we are doing as women here, we do what we call 'Mgalelo' like stokvel to each other. Every Sunday we give to each other, when you get your money then you stock your stuff. We buy in bulk, especially beef because beef has given us a challenge. We decided to buy in bulk so that we can see the profits." (Sustainable business, Langa)*

Others entered business partnerships, often with a friend or family member. While this was more prominent among sustainable business owners, a survivalist business owner reflected on her long-term partnerships,

> *"We started supplying former schools in 2010 with my sister. We sit down and looked at the fact that last time we did golf t-shirts and tracksuits, let us change this year and make golf shirt and tracksuit but change the design." (Survivalist business, Ivory Park).*

This demonstrates how a business partnership facilitated long-term stability and growth, leveraging both creativity and continuity in business relationships. These examples align with existing literature on the role of social networks and stokvels in promoting the sustainability and growth of small enterprises in South Africa (Iwara et al., 2021).

Further, sustainable entrepreneurs also benefit from strong communal support, which helps them access new opportunities. One sustainable micro-entrepreneur shared and a key informant validated:

> *"I had a friend who is a farmer, working in the farm association. When they started opening the premises to start selling the vegetables, my friend called me and said, 'Friend, I've got a plan for you. You can come and have a license so that you can go and start selling vegetables.' When I arrived, I spoke to them and began buying as a regular customer." (Sustainable business, Marikana)*

> *"It's essential to lean towards the community you're in or have access to and work collectively." (Key informant, Bridge for Billions).*

Sustainable and survivalist small-scale entrepreneurs create and leverage social networks in different ways. Sustainable entrepreneurs spoke of building immediate connections with like-minded business owners, forming support systems based on shared experiences, market

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knowledge, and long-term business aspirations. These networks provide essential resources, such as collective purchasing, mentorship, and market insights, helping business owners navigate challenges and expand their enterprises. As one sustainable entrepreneur described,

> "*Her business is old and mine isn't that much old. Some of the things, we go and seek together. Then she helps me and comes with some stock and then together we combine the money*." *(Sustainable business, Marikana).*

However, survivalist entrepreneurs more often said they operate more independently and face challenges in building reciprocal support systems. A survivalist business owner recounted an instance where a fellow entrepreneur refused to assist her with stock, highlighting the limited collaboration among survivalist businesses,

> *"One time, I didn't have barbecue sauce. I asked [a fellow business owner]. I want to go and work, and then tomorrow when I go to stock, I will buy a barbecue sauce and replace your bottle. And then he was like, 'I can't. How can you open a shop not checking your stock?' " (Sustainable business, Ivory Park)*

This contrast highlights the role of social networks in shaping business resilience—while sustainable entrepreneurs benefit from collective support and shared resources, survivalist entrepreneurs often face greater isolation, limiting their ability to overcome financial and operational challenges.

Role of Collectivism

Collective action is particularly prevalent among sustainable small-scale micro-entrepreneurs, giving them an advantage. Collectivism - a narrow aspect of social networks - involves a cultural and organizational approach where individuals work together towards common goals, pooling resources and efforts for mutual benefit and shared success. A sustainable entrepreneur shared,

> "*We help each other out. If someone needs stock, we pool our money together. It's how we survive and thrive in a place where it's hard to get loans*" *(Sustainable business, Langa).*

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Sustainable business communities often have formalized mentorship arrangements where experienced business owners train newcomers, helping them acquire essential business skills and knowledge. This mentorship is not only about transferring skills but also about integrating new small-scale entrepreneurs into the community's business network, which can be a significant competitive advantage. As one sustainable business owner explained,

> *"When you come, you work in someone else's business. For four years, five years at least, gradually earning a share of the business. This helps you learn the business while building a stake in it. You won't want to leave" (Sustainable business, Marikana).*

These informal support systems provide essential resources, reduce business risks, and foster a sense of community and mutual assistance.

The collectivist culture prevalent among many sustainable business communities' contrasts with the more individualistic approach observed by some survivalist small-scale entrepreneurs. Collective strategies are less common among survivalist entrepreneurs, who operate more independently and face greater challenges in accessing collaborative support. Business owners remark that survivalist businesses tend to be more competitive with one another and less inclined to collaborate:

> "*We don't help each other*" *(Survivalist business, Marikana).*

> "*I don't understand how we are jealous of each other. We don't have it in us to uplift another being" (Survivalist business, Ivory Park).*

This competitive and individualistic mindset can limit the potential for survivalist entrepreneurs to benefit from shared resources and collective strategies, which are key factors in the success of many sustainable businesses.

These findings align with the general literature that underscores the importance of social networks in promoting entrepreneurship and their prevalence in certain cultures. Peng et al. (2022) highlights the role that social networks play in the growth and success of entrepreneurial ventures. Many sustainable business owners come from cultural backgrounds where collective effort and mutual support are deeply ingrained. For example, women-led informal savings groups

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in South Africa, such as *stokvels*, have been instrumental in supporting sustainable businesses in South African townships.

3. Micro-entrepreneurs are agnostic about formal registration.

Small-scale micro-entrepreneurs interviewed for this study are often agnostic about being formally registered. They do not necessarily see the intrinsic value of registration but recognize its potential as a signal of legitimacy to potential customers, government, and partners. For example, respondents recognized that only registered businesses can access government support programs, including financial aid, training, and market access initiatives. Registration is necessary for several legal protections, such as enforceable contracts, intellectual property rights, and the right to operate in the eyes of authorities. This can lead to increased revenue and business expansion. As one entrepreneur highlighted,

> "*Being registered makes work easier, grants access to information and facilitates support like paving business areas because you are recognized. However, if unregistered and faced with incidents like robbery, reporting to the police becomes challenging due to lack of official recognition." (Survivalist business, Ivory Park)*

Customers may interpret proof of registration as a signal that an enterprise provides quality goods or services. One entrepreneur noted,

> *“If you are registered you know that you can buy your stock from [shop name] where everything is safe because it’s a registered business.” (Survivalist business, Ivory Park)*

In addition, registration and compliance can be viewed as a gateway to unlocking growth opportunities. As one key informant emphasized,

> *“As an entrepreneur, in order to access different opportunities, being compliant on a certain level is necessary. If you're unable to meet this compliance, you miss out on further growth opportunities, such as incubation programs or accelerator programs that may require having your business registered and compliant.” (Ngata Holele, Bridge for Billions).*

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On the other hand, many small-scale micro-entrepreneurs reported hesitancy to register their businesses for a range of reasons. Registering a business can incur significant costs, including registration fees, taxes, and compliance costs. For small-scale micro-entrepreneurs operating on thin margins, these costs can be prohibitive. As one entrepreneur explained,

> "*They say we must register and pay taxes, but how can we pay taxes when we started from scratch without their support*?" *(Survivalist business, Marikana).*

The burdens of registration, especially when there is very little benefit, is also confirmed by a key informant who shared:

> *"So, you have the gogo going there with the box of tomatoes, a pocket of potatoes. What she makes will definitely not put her in a bracket of paying tax. So why go through the rigmarole of being compliant and because she's not going to make that, you know, that target market like 10,000 a month or so.[6] They didn't make that." (Key informant, NITASA)*

Some perceive registration as offering little value. Government services that require participants to be registered are generally not available to the study participants. Nor does registration protect them from abuse by authorities. As stated by one entrepreneur,

> *"At the spaza I was always having problems with the police because of the license to operate the spaza shop. When I tried to get a license in Johannesburg and they gave me a license, the police tore it apart saying it is not legit." (Survivalist business, Ebony Park)*

Further, the registration process is misaligned with how small-scale micro-enterprises operate. The study respondents observed that they often need to adapt quickly to market changes and customer needs, which might mean relocating the place of sale or changing the product being sold. But registration is not aligned with fast-pivoting micro-enterprises, instead imposing rigid structures that limit this flexibility, potentially stifling innovation and responsiveness. For example, entrepreneurs tend to sell many different goods according to seasons. As one entrepreneur explained,

[6] Gogo is a respectful word used to refer to an elderly woman.

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“I've been in the business for five years now. We check the seasons, we see what commodities run fast during this season. Then we, go hunting around for those items. I bring them here. I test the market.” (Sustainable business, Langa).

Despite significant challenges in registering their businesses, all types of small-scale micro-entrepreneurs generally express a willingness to be registered, driven by aspirations for growth, improved market access, and enhanced security. As entrepreneurs noted:

"*We want to be registered because when I was asked for a permit to sell, I explained that I've just started this business and the profit isn't enough yet to register*." *(Survivalist business, Ivory Park)*

“*I wish it can grow big and get registered; I just want it to grow*.” *(Survivalist business, Marikana)*

These statements highlight that registration is commonly viewed as a strategic move to be undertaken when specific advantages, such as securing finance, larger contracts or gaining market access, outweigh the costs and complexities involved. That is, it can be viewed as a factor of production, and micro-entrepreneurs will formalize when the benefits outweigh the costs for their business.

These findings are more optimistic about registration than in most countries with large informal sectors. Some studies find that formalization is helpful for enhancing credibility, accessing formal financial services, opening doors to larger markets, and being eligible for government support programs (De Mel et al., 2013). Though these benefits often accrue to more organized businesses that interact with government, banking, and other services, not the small-scale enterprises that are the focus of this study. Informal small-scale micro-enterprises generally do not see the benefit of formalization or find it too burdensome (Perry et al., 2007; Ulyssea, 2020). Businesses often benefit from greater operational flexibility, which can be compromised by the rigid structures imposed by formalization (Williams et al., 2016).

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4. Small-scale micro-entrepreneurs not only face challenges accessing formal support from the government but some perceive that existing policies and procedures present additional hurdles for their businesses.

Micro-entrepreneurs interviewed confirmed that while government support programs exist, they are challenging to access. South Africa's legislative framework includes various laws intended to support small businesses, such as the National Small Business Act and the Business Act. These laws are designed to provide a supportive environment for small businesses, including provisions for financial assistance, training, and market access. The eligibility criteria for accessing these initiatives often do not align with the realities of informal sector businesses, discouraging many small-scale micro-entrepreneurs from seeking government assistance. As entrepreneurs point out:

> "*They can't help us because they say the business needs to be registered and pay taxes, but how can we pay taxes when we started the business from nothing, without their support?". (Survivalist business, Marikana)*

> *"The laws are there, but they are not made for people like us. They are made for big businesses that already have money and connections". (Survivalist business, Marikana)*

These reflections suggest that some small-scale micro-entrepreneurs perceive existing policies and administrative processes as creating additional hurdles rather than enabling access to available support. Consequently, many small-scale micro-entrepreneurs feel effectively excluded from publicly provided support mechanisms, relying instead on personal savings and informal community networks to sustain and grow their businesses.

Many entrepreneurs interviewed in this study fail to access government support due to lack of awareness and perceived irrelevance of the support. There is a notable gap in awareness about available government programs and how to navigate them effectively. As one entrepreneur highlighted,

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"*If we had access to information, we could succeed because many of us start businesses without knowing where to get advice, whether our business is legal, or if the products we sell are safe. We often just sell without proper guidance*." *(Survivalist business, Ivory Park)*

Additionally, some entrepreneurs felt that the available support programs do not address their specific needs. Programs are designed mainly for more sophisticated businesses and are not suitable for the unique challenges faced by small-scale micro-entrepreneurs, leading to a disconnect between the support offered and that which is needed. One entrepreneur commented,

"*The support programs are good in theory but they are not designed for us. They expect us to be like big businesses with all the paperwork and resources, but we are just trying to survive day by day*". *(Survivalist business, Ivory Park)*

This perception aligns with a recent study of South Africa's active labor market programs. While approximately one-third of national active labor market programs in South Africa target entrepreneurs, these programs are largely not designed for those running small-scale micro-enterprises (Cunningham et al., 2022b).

Uncertainty about compliance requirements was a common concern, as some respondents felt that enforcement is inconsistent across officials even within the same location. This inconsistency stems from variations in how legislation is applied and in the specific, often non-standard, demands made by officials. As an entrepreneur and informant said:

"*Police frequently visit us and ask for documents, but we are not always sure what documents they will request. It changes. " (Sustainable business, Marikana).*

"*We try to follow the rules, but every official has a different story. One day they say this is fine, the next day another officer says it is not.*" *(Key informant, Bridge for Billions)*

Such individual accounts illustrate that when enforcement practices vary from one official to another, they create additional barriers to stability, planning, and compliance for micro-entrepreneurs.

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Implementation of small business laws varies widely across different provinces and localities, resulting in unequal access to support and enforcement of regulations. In some areas, local authorities rigorously enforce compliance, imposing severe penalties on non-compliant businesses. Conversely, in other provinces, enforcement may be lax, allowing informal operations without the benefits of formal recognition and support. As a sustainable business owner observed:

> "*In one township, you might get fined for not having the right paperwork, while in another, they don't even check." (Sustainable business, Marikana)*

Such inconsistencies may undermine the effectiveness of national policies and contribute to uncertainty and instability among small-scale micro-entrepreneurs, hindering their ability to thrive and contribute to the economy.

5. Micro-entrepreneurship success goes beyond access to finance with strategy, initiative, and entrepreneurial mindset playing a dominant role.

The micro-entrepreneurs reported using their networks, rather than formal institutions, to finance business start-up and operation. Participants reported leveraging their savings, joining informal financial groups like *stokvels*, acquiring family contributions, and the reinvestment of profits to fund their businesses. As participants explained,

> "*If you are broke or you are short of something, you can borrow a thousand rand from the social [saving] club.*" *(Sustainable business, Langa)*

Micro-entrepreneurs emphasized that while financial assistance could provide a useful initial boost, continuous reliance on such support was not essential for sustained growth. One entrepreneur stated,

> "*You won't say you want financial [assistance] each and every time; just to kick-start. And then you get the way forward because eventually if you are in business and they give you*

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maybe R100, you'll make more with that R100, then it will generate cash flow…". *(Sustainable business, Marikana)*

Instead, they gradually scaled operations through reinvestment of profits. Small-scale micro-entrepreneurs interviewed demonstrated a capacity to make small amounts of money work effectively for their business operations. As one participant recounted,

"*I began hustling, and with the first R60 I earned, I bought ice to sell. I kept at it for a year*" *(Survivalist business, Ivory Park).*

Small-scale micro-entrepreneurs also report innovatively relying on available assets for business inputs. For example, some cited using personal property for business premises – such as homes or used family-owned vehicles – thereby avoiding substantial initial investments in infrastructure. This ability to leverage available resources was cited by both sustainable and survivalist entrepreneurs. As one entrepreneur shared,

"*I started by placing a small 1-meter table in a shaded area to sell snacks, and the business began to grow. My sister had a small shack, which she removed to build a room, which I then took over and added an entrance at home so that customers could come and buy snacks*." *(Survivalist business, Ivory Park)*

Some entrepreneurs exhibited unique strategies that significantly contributed to their business success. One notable approach was the prioritization of business reinvestment over personal expenditures. Many of the entrepreneurs interviewed said that they adopted frugal lifestyles, choosing to reinvest their earnings back into their businesses rather than spending on personal luxuries. As one participant recounted,

"I prioritize saving everything I earn, no matter how small, to cover rent and other expenses. I diligently track monthly profits and focus on business growth rather than daily personal expenses like meals." *(Sustainable business, Marikana)*

This commitment to reinvestment, often at the expense of personal comfort, was a crucial factor in their business sustainability. Further, many work extended business hours or sacrificed holidays to stay open. As two entrepreneurs mentioned:

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"I work even during holidays and late into the night because my customers depend on me. Sometimes, clients call me as late as 10 p.m., and I am there to serve them because I know how important it is to keep them happy and loyal." (Sustainable business, Marikana)

“Sometimes the clients can call you, ‘Can I come in tomorrow at 4 or 6 a.m.’ and you go to work, I come, then I do their hair at 6 when they are here.” (Sustainable business, Ivory Park)

Sustainable micro-entrepreneurs highlighted their resourcefulness and resilience as key factors in their business success, beyond just access to finance. Unlike survivalist businesses, owners of sustainable businesses tend to diversify not just within but across different product lines, which mitigates market risks and opens multiple revenue pathways. For instance, one entrepreneur demonstrated how she used what she had at hand to expand product offerings, while another mentioned resilience:

"*I took the fruit business outside and turned it into a smoothie bar. Because I already had a fruit supply…*," *(Sustainable business, Ivory Park),*

"It was not easy at first. I had to sell my products on the streets, moving from one place to another to find customers. But I didn't give up because I knew I had to make it work". (Sustainable business, Ivory Park)

The study found that successful small-scale micro-entrepreneurs possess specific attitudes and beliefs that drive their business success and growth. Successful micro-entrepreneurs view challenges as opportunities for growth rather than insurmountable obstacles. This positive outlook helps them persevere through difficult times and maintain motivation. An entrepreneur expressed,

"*I feel very happy that I did start a business and even though (I have stopped) because when you start again, you’re not starting from scratch, you’re starting from experience. Now you are already experienced, you know what to do, you know how to manage your finances, you know how to do financial profits you know how to do that*". *(Sustainable business, Marikana)*

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Small-scale micro-entrepreneurs with a strong sense of self-efficacy are confident in their ability to influence their business outcomes. This confidence drives proactive behavior and effective problem-solving, as described by several of the participants. Sustainable entrepreneurs, in particular, expressed a strong growth mindset, a belief in their ability to develop their skills and knowledge with effort. This mindset encourages continuous learning and adaptability, essential traits for navigating the uncertainties of the small-scale business sector. As one participant shared,

> *"I asked my friend to teach me how to sew, despite people laughing at the idea because I already had a family. They doubted my ability to survive. But I was determined to start and finish*". *(Sustainable business, Ivory Park)*

These findings contrast with some global literature yet align with others. Access to finance has been viewed as the most significant constraint to successful micro-entrepreneurship, particularly in low- and middle-income countries (Woodruff, 2018), though our respondents felt that it was much less important than entrepreneurial mindset and perseverance. Instead, our findings are more in line with limited literature that underscores the pivotal role of grit, perseverance, and self-efficacy in achieving success in micro-entrepreneurship (Lang et al., 2022).

IV. Discussion and Conclusion

This study of small-scale micro-entrepreneurs in South Africa's townships offers insights into factors contributing to the success and challenges of small-scale micro-enterprises. Key findings indicate that resourcefulness, social networks, and individual agency are crucial for starting and sustaining these businesses. Sustainable entrepreneurs demonstrate the value of social networks and collectivist strategies, which may be an area of development for survivalist entrepreneurs. Overall, small-scale micro-entrepreneurship has the potential to promote an inclusive economic landscape in South Africa. However, the research findings also reveal a range of constraints to starting or thriving as small-scale micro-entrepreneurs in South African townships, pointing to the need to reevaluate policy approaches to support this potential source of jobs.

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Fortunately, there is a growing evidence base on how to support these types of entrepreneurs. The following policy implications are drawn from this knowledge base. The policy implications are selected as they respond to the insights gathered in this study on obstacles hindering the growth and sustainability of the micro-enterprises as well as build upon their successful strategies.

At the policy level

Assess the purpose of registration and consider adjustments to accommodate the smallest entrepreneurs. South Africa may be over-regulating small-scale entrepreneurs. Currently, most government support programs require formal registration, even when firm registration status may not have any implications for the suitability of micro-entrepreneurs for a program. This bottleneck excludes many small-scale micro-entrepreneurs operating informally from accessing essential resources and training. The DSBD and municipal authorities could consider conducting a review of the current registration requirements to assess their primary objectives and whether they are relevant for small-scale micro-entrepreneurs. For those types of registration that are relevant for small-scale micro-entrepreneurs, the review can measure the costs and benefits of registration – both initial registration costs and on-going costs – from the perspective of the entrepreneurs to determine if registration is beneficial for small-scale micro-entrepreneurs. If costs exceed the benefits, the design of the registration process may need to be modified. Existing evidence indicates that the costs associated with formalization often outweigh the benefits for informal small-scale micro-entrepreneurs. For instance, research by Benhassine et al. (2018) in Benin shows that formalizing the micro-enterprises does not typically lead to higher sales or profits, suggesting that the process may not always be advantageous.

Review and consistently implement policies and practices. Laws and policies need to be tailored to the specific needs and capacities of the small-scale micro-entrepreneurs in township economies, ensuring they support rather than hinder entrepreneurial success. Specifically, there is a gap between legislative intent and implementation. Implementing national policies uniformly across all provinces, supported by standardized and transparent enforcement mechanisms, is necessary to ensure local implementation achieves clarity, consistency, and transparency. This

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measure is vital for cultivating both actual and perceived fairness among micro-entrepreneurs, thereby fostering institutional trust. Establishing clear, consistent enforcement guidelines, and providing training for local authorities might help to achieve this goal. The government should monitor local authorities to ensure uniform application of laws and address any disparities that may arise, fostering trust between small-scale micro-entrepreneurs and the state. This could include implementing low-cost solutions, such as establishing a help line for micro-entrepreneurs.

At the program level

Facilitate networking, mentorship programs and leverage community organizations. Programs that promote mentorship and peer networks significantly enhance business success by providing entrepreneurs with the support, resources, and knowledge needed to navigate challenges and seize opportunities. For example, Mercy Corps' MicroMentor online platform, which operates globally, found that mentored micro-entrepreneurs increased their revenue by an average of 16 percent and were 13 percent more likely to survive compared to those without mentorship (White et al., 2020). Further, evidence from the National Mentorship Movement in South Africa show that regular mentorship leads to improved business practices, better financial management, and enhanced business growth (Makumbirofa and Levin, 2021).

Promote collective approaches and formation of trader associations. Beyond the establishment of mentorship and networks, programs that foster communal strategies for managing business risks, such as joint ventures, bulk stock purchases, and community-based financial systems such as *stokvels* can significantly enhance the resilience and growth of small-scale micro-entrepreneurs. Some entrepreneurial communities in South Africa, for instance, have successfully leveraged strong social networks for collective business strategies like joint ventures and shared transportation to manage business risks and reduce costs (Gastrow and Amit, 2013). Supporting the creation of trader associations, similar to the Kenya National Alliance of Street Vendors and Informal Traders (KENASVIT) which advocates for informal traders and facilitates collective bargaining (Mitullah, 2010), has suggestive evidence that it can further improve livelihoods and economic security for small-scale micro-entrepreneurs, though more research is needed. These global experiences resonate with the reflections of one entrepreneur from Langa, *"I think we need*

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an organization that promotes entrepreneurs to bring people together. And share that and sell that idea that we can work together and improve from what we have been doing currently."

Focus on valuing and supporting productivity in the informal sector. Given the significant contributions of informal entrepreneurs to the local economy and its potential to address the employment crisis, policies and programs should shift the focus from mere regulation to actively supporting start up and growth of small-scale micro- entrepreneurs. This can be achieved through tailored support programs which leverage their strengths and address the unique challenges they face. Access to affordable technology, for instance, is crucial for enhancing productivity by allowing micro-entrepreneurs to streamline operations, drive innovation and compete more effectively (Solberg et al., 2020). Similarly, critical infrastructure, such as reliable transportation and utilities, plays a pivotal role in enabling small businesses to operate efficiently and reach broader markets (Obokoh and Goldman, 2016). By focusing on these areas, policies can better support the informal sector's role in employment generation and drive broader economic growth.

Develop complementary training programs to build productive entrepreneurial mindsets and soft skills. In tandem with business training, combined programs that promote the development of entrepreneurial mindsets and soft skills such as aspirations and goal setting can further improve their productivity compared to business training alone (McKenzie et al., 2023). For instance, entrepreneurs in Togo who received traditional business training and personal initiative training, which focuses on developing proactive mindsets and entrepreneurial behaviors, saw a substantial increase in profits compared to those who only underwent traditional business training (Campos et al., 2018). Similar results have been observed in other countries, including Uganda, Ethiopia, and Jamaica, where personal initiative training has led to improvements in micro-business outcomes (McKenzie et la., 2023).

Promote micro-entrepreneurship as a feasible livelihood option for those left out of formal sector work through ALMPs. To bridge the gap between the unemployed and the micro-enterprise sector, government programs can promote entrepreneurship as a viable livelihood option for unemployed individuals excluded from formal sector wage employment. The country can empower individuals to create their own opportunities, especially those with entrepreneurial

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potential, and drive local economic development. For instance, many Sahel countries, such as Burkina Faso, Mauritania, Niger and Senegal, have unemployment rates below 10 percent primarily due to the high prevalence of informal entrepreneurial activities (Archibald et al., 2021).

Given the numerous constraints, holistic programs offering wraparound support to micro-entrepreneurs are more effective than isolated interventions. Such programs commonly include targeted training that focuses on both technical and behavioral skills necessary for business growth and adaptability to changing market demands, social support networks through community-based mentorship programs and encouraging collectivist business strategies, and mentorship from experienced entrepreneurs. By integrating these elements into a cohesive, multi-pronged intervention, the government can help small-scale micro-entrepreneurs overcome various challenges they face in starting and operating their businesses. A strong body of evidence finds that a sequenced package of support services helps economically excluded individuals launch viable small-scale micro-enterprises, even in the most difficult markets. Currently, this model is implemented in over 90 countries with positive impacts on entrepreneurs' income, consumption, savings, employment, women's empowerment, and other key outcomes (Archibald et al., 2021; Bossuroy et al., 2021; Banerjee et al., 2015). Depending on the depth of poverty, such programs typically run for one to three years and cost $83-$1200 per beneficiary. This holistic approach can ultimately contribute to broader economic development and social stability in South Africa.

To maximize the impact of these support programs, effective communication strategies are essential. Outreach efforts should be designed to reach informal sector entrepreneurs through their commonly used channels, such as community organizations and local business networks. Providing clear, accessible information about available support and how to access it can bridge knowledge gaps and ensure that small-scale micro-entrepreneurs are aware of and can benefit from these programs, which in turn is likely to benefit the local economy.

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Annex 1

Typology used to identify struggling and sustainable businesses

Survivalist businesses	Sustainable businesses
Struggling to keep the business running/ just making ends meet.	Making good income that allows them to sustain the business and have personal income.
Is having to use personal income/grants to purchase stock.	Is able to reinvest profit into the business
Business is relatively new (1-2 years) and/or the business has been stagnant for several years.	Business has been running and growing over several years.
Unable to pay for regular assistance to run the business.	Can pay someone to help if necessary/ at least one employee.
Describes business as hustling/ survivalist	Describes business as growth-oriented or who is happy with the current status of their business (i.e. hustler who has no intention of growing)
Might be in a less formal structure (shack/ table with no shelter)	Might be in a more formal structure (container, backyard, “inside shops”) and might be paying rent to be in the formal structure.
Examples: street traders, barber on the side of the road	Examples: spaza shops, salon in a more formal structure

NOTE: There is a great deal of complexity and nuance in types of businesses. No single observable variable will allow us to select a business into the categories below. Instead, we need to consider all of these factors together to decide which category a business falls into.

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ABSTRACT

Drawing on qualitative data from 11 key informants and 75 small-scale firm owners in South Africa's townships, this paper identifies five factors shaping micro-entrepreneurial success. First, micro-entrepreneurship often begins as employment of last resort but evolves into a deliberate choice as owners value its autonomy and independence. Second, social and communal networks expand access to shared resources, information, and markets. Third, complex processes and limited benefits discourage firm registration, even though entrepreneurs feel that it boosts customer trust and patronage. Fourth, access to government support is low, hindered by perceived program irrelevance and stringent eligibility criteria. Fifth, success depends less on finance than on resilience, resourcefulness, and mindset. These findings underscore the need for holistic programs offering business training, socio-emotional skills, mentorship, and collective business strategies tailored to the township economy.

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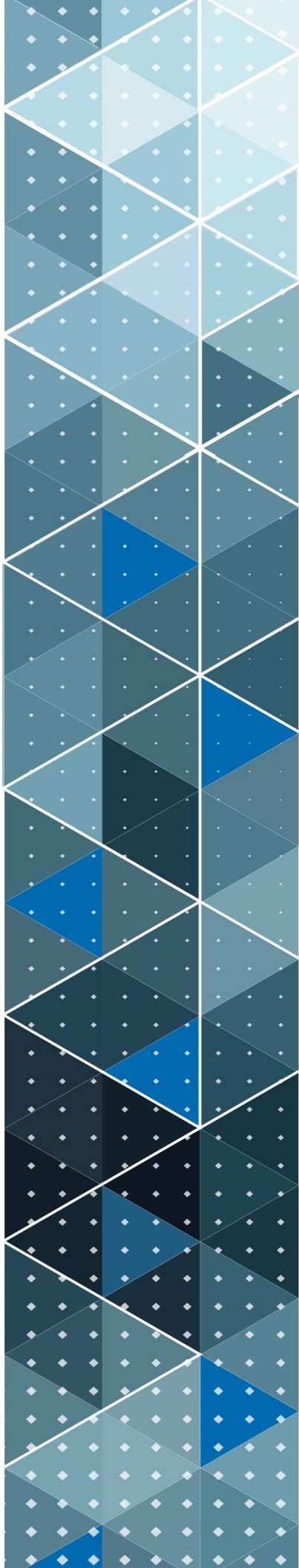
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