

A Review of The Regulatory Framework and Sustainable Support Mechanisms for The Development of Township Economies in South Africa

Güney Afrika'daki Kasaba Ekonomilerinin Gelişimi için Düzenleyici Çerçeve ve Sürdürülebilir Destek Mekanizmalarının İncelenmesi

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ABSTRACT

Township economies in South Africa, a legacy of the apartheid era, continue to play an important role in the country's socio-economic landscape. While their contributions to economic activity and employment have been widely acknowledged since the advent of democracy, these economies have yet to receive sufficient, structured support to ensure their long-term sustainability and growth. This study critically examines the regulatory framework and sustainable support mechanisms essential for the development of township economies in South Africa. Through a comprehensive autopsy and review of literature and existing data, alongside a qualitative approach and an exploratory design, the study examines key challenges and opportunities. The findings reveal that government regulations often hinder the growth of township enterprises, with many business owners lacking the knowledge and resources to navigate complex regulatory requirements. Additionally, capacity constraints within municipalities negatively impact local economic development, while financial support mechanisms remain insufficient. Many township businesses face challenges with long-term sustainability due to a lack of institutional support. The study explores the role of regulatory frameworks in either facilitating or obstructing the development of township enterprises and provides targeted recommendations for policy interventions to enhance their viability. By emphasizing the importance of effective support mechanisms, this research highlights their potential to not only strengthen township economies but also promote broader local economic development across South Africa.

Keywords: Local Economic Development, Policy Transformation, Regulatory Frameworks, Sustainable Support and Development, Township Economy

ÖZ

Apartheid döneminin mirası olan Güney Afrika'daki kasaba ekonomileri, ülkenin sosyo-ekonomik yapısında hâlen önemli bir rol oynamaktadır. Demokratikleşme sürecinden bu yana istihdam ve ekonomik faaliyetlere olan katkıları kabul görmüş olsa da, bu ekonomilerin uzun vadeli sürdürülebilirliğini ve büyümesini sağlayacak yapısal ve sistematik destekten hâlâ yoksun oldukları görülmektedir. Bu çalışma, Güney Afrika'daki kasaba ekonomilerinin gelişimine yönelik düzenleyici çerçeveleri ve sürdürülebilir destek mekanizmalarını eleştirel bir bakış açısıyla incelemektedir. Literatür taraması ve mevcut verilerin analiziyle desteklenen nitel ve keşifsel bir araştırma tasarımı kapsamında, temel zorluklar ve fırsatlar değerlendirilmiştir. Bulgular, mevcut devlet düzenlemelerinin çoğu zaman kasaba işletmelerinin büyümesini engellediğini; girişimcilerin karmaşık mevzuat süreçlerini anlamakta ve uygulamakta güçlük çektiklerini ortaya koymaktadır. Ayrıca, belediyelerdeki kapasite eksiklikleri yerel ekonomik kalkınmayı olumsuz yönde etkilerken, finansal destek mekanizmalarının yetersizliği de önemli bir sorun teşkil etmektedir. Birçok kasaba işletmesinin kurumsal destekten yoksun olması, uzun vadeli sürdürülebilirliklerini tehdit etmektedir. Bu çalışma, düzenleyici çerçevelerin kasaba ekonomilerinin gelişimini kolaylaştırıcı ya da engelleyici rolünü irdelemekte ve bu ekonomilerin sürdürülebilirliğini artırmaya yönelik politika önerileri sunmaktadır. Etkin destek mekanizmalarının önemini vurgulayan araştırma, kasaba ekonomilerinin güçlendirilmesinin yalnızca yerel ekonomik kalkınmayı değil, aynı zamanda Güney Afrika genelinde daha kapsayıcı bir kalkınma sürecini teşvik edebileceğini ortaya koymaktadır.

Anahtar Kelimeler: Yerel Ekonomik Kalkınma, Politika Dönüşümü, Düzenleyici Çerçeveler; Sürdürülebilir Destek ve Gelişim, Kasaba Ekonomisi

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Introduction

Township economies have played a significant role in shaping policy discussions in South Africa, largely due to persistent economic inequalities and poverty that have remained since the advent of democracy (Majoko, 2017; The Citizen, 2018). In 2018, President Ramaphosa visited investors in Soweto, one of South Africa's most well-known townships, to reaffirm the government's commitment to supporting township businesses and advancing economic transformation in these areas. As part of this initiative, he announced a bold plan to allocate R50 billion towards the development of township and rural economies. Additionally, he pledged to establish a Township and Rural Entrepreneurship Fund to expand existing projects and provide support for new business ventures (EWN, 2018).

Various development agencies, financial institutions, and international organizations have initiated programs aimed at supporting the growth of township economies (Fin24, 2016; Majoko, 2017; Omarjee, 2016). This renewed focus stems from the enduring legacy of apartheid, which left townships economically disadvantaged and socially excluded. Despite these efforts, such as the Special Integrated Presidential Projects, the Urban Renewal Program, and the Neighborhood Development Partnership Program, one could argue that these initiatives have fallen short of their objectives. While they have contributed to certain improvements, the question remains whether they have effectively addressed the deeper structural inequalities that continue to hinder the sustainable development of townships. These schemes have brought a lot of visibility and improvements to many townships, but have yet to make any difference in the economic conditions (Geyer, 2016; Mseleni, 2017; Rogerson, 2019). Most township businesses remain small and are survivalists; their productivity is low, and they tend to circulate local resources rather than produce goods and services (CSP, 2018; Fourie, 2018).

Few small businesses in townships manage to engage with broader markets, thus limiting their potential to generate substantial employment and income. A significant concern is that many government initiatives risk supporting short-lived businesses without addressing the underlying barriers to sustainable growth. Financial resources injected into such businesses may ultimately leak out, offering little long-term impact. This type of intervention is not a substitute for a comprehensive strategy aimed at tackling the root causes of township poverty and exclusion, and for creating environments that support the formation and expansion of viable businesses.

Local Economic Development (LED) is intrinsically linked

to poverty alleviation (Meyer, 2012). LED strategies are critical in addressing the socio-economic challenges faced by specific communities, particularly in underdeveloped areas. Since the advent of democracy in 1994, the government has emphasized job creation and economic growth through LED, particularly by encouraging small and medium enterprises (SMEs). However, this paper argues that the challenges faced by municipalities, especially those with weak administrative capacity, have created significant barriers to addressing rural issues, overcoming infrastructure backlogs, and ensuring effective funding and service delivery. Many studies have been conducted by various scholars on township economies that include limited accessibility to serviced land and premises, deficient infrastructure capacity, inadequate human skills and capabilities, poor transportation activities, and unfair competition from established and larger businesses (Mbanjwa, 2018; Mseleni, 2017; Rulashe & Ramolobe, 2024).

An overriding factor in the challenges facing township economies is the exclusion of robust governance frameworks. Providing financial support to townships without creating a conducive institutional environment will only yield temporary benefits, rather than long-term, sustainable solutions. This paper examines the critical role of small businesses in township economies and how government systems can improve service delivery outputs. It argues that the focus must shift towards prioritizing the development of policies and statutory instruments that can address the underlying issues facing underperforming township economies. Despite numerous government interventions, township economies continue to struggle due to ineffective regulatory frameworks and unsustainable financial support mechanisms. This study explores how a well-structured financial framework, coupled with effective support mechanisms, can drive long-term development. Township economies are pivotal to local economic development, and this paper seeks to explore how regulatory frameworks and financial support systems can be optimized to encourage sustainable growth in these communities.

Literature Review

Conceptualization of Township Economies and Local Economic Development

The term 'township economy' typically refers to economic activities within areas such as townships aimed at advancing economic development. This encompasses the production, distribution, and exchange of goods and services. Unlike the informal sector, which involves

unregulated economic activities regardless of location, the township economy is a spatial concept. Townships are often considered legacy areas from colonial and apartheid eras, and many still exist today through various government initiatives such as the Reconstruction and Development Program (RDP) and Breaking New Ground. Despite these interventions, many townships remain economically and socially marginalized (NPC, 2012; SACN, 2016).

Sibanda (2013) defines Local Economic Development (LED) as a national government intervention that seeks to ensure economic development by encouraging local communities to collaborate for sustainable growth. Scholars such as Bartik (2003) and Sibisi (2009) describe LED as a strategy focused on developing a territory to promote economic growth, competitiveness, and job creation by leveraging locally available resources. Meyer and Venter (2013) define LED as a participatory process where local stakeholders from various sectors work together to drive economic growth and build a resilient future economy. Ultimately, LED strategies aim to facilitate collaboration between the public and private sectors to address shared economic challenges, thereby improving the local economy and enhancing the quality of life for its residents.

Scope and Scale of Township Economies

Township economies host a wide range of activities across sectors. Some firms are large and formal, but most are small and informal. Drawing on the Sustainable Livelihoods Foundation's multi-year census across nine township sites in four provinces, there were 10,842 micro-enterprises identified, with food/grocery/liquor $\approx 54\%$, local services $\approx 34\%$, and micro-manufacturing $\approx 2\%$ of enterprises. To contextualise nationally, informal-sector employment accounted for 19.5% of total employment in Q4 2024, and about 1.9 million South Africans ran non-VAT-registered businesses in 2023. (Sustainable Livelihoods Foundation, 2016; Stats SA QLFS 2024; Stats SA SESE 2023). Informal trade, street vendors, spaza shops, and shebeens remain prominent. New SESE data show trade still the largest informal industry (48.2% in 2023), though down from 69.7% in 2001 as services and other activities grow. Product lines sold in township retail (e.g., maize meal, bread, milk, coffee, peanut butter) are largely sourced from firms outside townships, reflecting supply-chain structures and brand dominance. (Stats SA SESE 2023; National Treasury Cities Support Programme on township market structures). The minibus-taxi industry remains the backbone of everyday mobility to, from, and within townships. The latest national travel survey reports that taxis carry 80.2% of workers who

use public transport, underscoring taxis' role as de facto public transport. (Stats SA, NHTS 2020 release and media brief). Formal retail has expanded in many township locations with mixed effects for informal traders: proximity and lower prices can benefit consumers, yet mall-based formats and tenancy practices often exclude informal traders from premises, creating competitive pressure and access barriers. (Battersby & Peyton, 2014; Battersby, 2017; Competition Commission's Grocery Retail Market Inquiry, 2019). Township businesses have a significant role, especially in marginalized communities where low-income earners are found (Battersby et al., 2016). Formal retail shops have invested in townships (Todes & Turok, 2018). Informal traders generally resent the expansion of supermarkets into townships because of their ability to reduce their prices. Although measurements are difficult to tell, supermarkets positively and negatively impact informal traders depending on the spatial location and products sold (Battersby et al., 2016). The most common criticism of supermarkets is that they are often found in shopping malls, which exclude informal sectors from their premises (Battersby & Watson, 2018; Brown et al., 2018).

The effects of government regulations on Township Enterprises

There has been a great deal of neglect of township enterprises within the governance framework of rules and regulations, influencing how these enterprises operate (Charman et al., 2017; SLF, 2016). The current government regulations are unsupportive and inappropriate, which causes "enforced informality" (Charman et al., 2017). This means that individuals who are already vulnerable are pushed to the side and are expected to operate in an unregulated economy without formal protection and safeguards. People still struggle to access credit and are vulnerable to unfair or illegal lending practices that charge significant rates. There are currently three broad areas for improvement in the current governance framework.

- Inappropriate Norms and Standards

One of the first problems confronting the South African giver is business legislation's inappropriate norms and standards. These are based on high-income enterprises rather than focusing on the distinctive needs and circumstances of township economies (Harrison et al., 2018). They favor the most prominent businesses with enormous economic power at the expense of townships. Due to their low income and limited financial services, township businesses rely on low-cost building materials and

make-shift premises, including old shop containers. Failure to comply with these government regulations sometimes puts township economies in curtailment and police harassment (Harrison et al., 2018). An example of township enterprises is township education centers that the government often excludes from funding because they need to meet and comply with the standards of official buildings and teaching materials as required by the regulations (Harrison et al., 2018).

- Cumbersome and Costly Approval Procedures

Compliance with rules and regulations imposes unnecessary costs and hinders growth. Small enterprises, especially within townships, often carry the burden of administrative processes because of the need for more capacity and skills than larger establishments (Jam et al., 2024; Swanepol, 2018). More knowledge is needed to understand the regulatory processes of township establishments (Malefane, 2013; Mboniyane & Lazane, 2011). Many township businesses still lack the administrative and digital systems needed for timely submissions and compliance. In 2023, 71.8% of owners of non-VAT-registered (informal) businesses kept no financial records, only 6.2% maintained full annual accounts, 74.4% had no business bank account, and just 10.8% used internet/cellphone banking for payments, the least-used payment channel. Infrastructure also constrains digitisation: 22.6% reported no electricity at the business site. (Statistics South Africa, Survey of Employers and the Self-Employed (SESE) 2023). Regulatory compliance remains limited: in 2023, only 10.7% of informal businesses reported holding a licence or permit to operate (i.e., ~89.3% without), with most licences issued by municipal/provincial authorities (44.1%), followed by business associations (28.3%) and professional associations (24.4%). This provides a more current, stronger indicator of licensing barriers than older “share citing permits/regulation as a challenge” figures. (Statistics South Africa, SESE 2023; Stats SA data story summary.)

- Unequal enforcement of self-regulations

The inappropriate regulations and procedures promote formality and poor enforcement by the government (Harrison et al., 2018). Operating without government regulations makes it difficult for informal economies to access investments that will contribute to their development and build their local economies (Harrison et al., 2018). While some benefits are associated with communities regulating themselves, the absence of government is problematic because these rules may be

unaccountable, depending on who holds the power of balance (Scheba & Turok, 2019). The government may make additional interventions and target enterprises with high potential to encourage formalization (Malefane, 2013).

Regulatory Barriers to Township Establishments

- Property Ownership and Registration

Most regulations focus on business owners. They must provide all necessary documents to meet the legislative requirements of running a business if they want to formalize or avoid formalizing (Scheba & Turok, 2019). Proof of ownership is a crucial step in the start of formalization. However, many township establishments still need their title deeds or to claim the property in which they operate. The lack of property ownership leads to many informal business owners operating in backyards and garages due to the absence of property ownership (Charman et al., 2017). Getting title deeds is a critical aspect for township entrepreneurs. This can be attained through different laws, including Provincial Ordinances, the Less Formal Townships Establishment Act, and the Development Facilitation Act.

- Land Use Management

The land use management planning system is a challenge. The pressure on the land organic township development has caused workplaces, public spaces, and private homes to become intertwined and physically inseparable (Charman et al., 2017). Household businesses are an example. Formalization of informal businesses requires a change in land use rights. Lack of appropriate zoning and land use rights can prevent entrepreneurs from getting business licenses, formal credits, government funding, and contracts from other businesses. Non-compliance can also expose entrepreneurs to threats from local authorities and other public entities. Businesses like bars and taverns require the owners to obtain consent from local authorities (municipalities) (Charman et al., 2013). The ultimate impact of operating in limbo is to inhibit business investment and growth.

- Business Licences

Getting a business license and permits is generally cumbersome and costly (Scheba & Turok, 2019). Different departments and entities are responsible for different aspects of business licensing, which adds to the confusion and delay (Scheba & Turok, 2019). The poor administration processes and institutional arrangements have a role to play in business licenses; the lack of ownership and compliance makes it difficult for township entrepreneurs to get

adequate funding (Scheba & Turok, 2019).

- Health and Safety Regulations

Health and safety regulations are challenging (Scheba & Turok, 2019). The criteria are too stringent, translating into restrictive laws (Scheba & Turok, 2019). Health and Safety Regulations impose exact conditions on informal businesses. Individuals selling food need to comply with hygiene requirements for food premises and the transportation of food regulations (Scheba & Turok, 2019). Township establishments must apply for a certificate of acceptability from the municipality's health department, which sends an inspector to visit their premises (Scheba & Turok, 2019).

Local Economic Development Challenges

- Corruption

Corruption is a global problem, particularly in developing countries (Department of Public Service and Administration, 2003). Thornhill (2012) defines corruption as an offering or granting, directly or indirectly, to a civil servant any goods, gifts, and other benefits, such as favours or promises, in exchange for his/her performance of public functions. Lerrick (2005) advocates that where there is corruption, there is poverty. According to Okafor (2014), corruption by political leaders is identified as one of the significant challenges and causes of poverty and failure in developing countries, especially in Africa.

- Poverty and Unemployment

According to Mavhungu (2011), poverty and unemployment are significant challenges to commercial banks (Turner & Ryan, 2023). However, Turner & Ryan (2023) caution that credit granting tends to favour SMMEs in the formal sector rather than the informal sector since the SMMEs in the informal sector do not meet credit requirements. In most cases, the lack of LED is not caused by capacity but rather by a lack of funding for the program. South Africa faces a challenge: urbanization has increased due to individuals looking for work and improving their living standards; in this regard, poverty and unemployment affect local economic development (Munzhedzi, 2016). It must also be noted that if people are not employed, the economy is likely not to grow, and this will make the market weak as no money will be injected into the economy to stimulate growth (Munzhedzi, 2016). Local authorities will not be able to aid LED innovations through funding and skilling them, and that will cause such a local economy to suffer.

- Human Resources Capacity

Recruitment into LED units should be professionalised and explicitly competency-based. As Ingle (2014) notes, LED posts are too often treated as sinecures, with appointments that do not match the technical and strategic demands of the role. Where there is a need for more capacity by senior officials in a Municipality, this boils down to the institution's organogram, and less competent individuals are hired, leading to the capacitated individuals leaving these local institutions. The need for adequate organograms and suitably qualified individuals may also manifest in the lack of prioritization of LEDs to such an extent that some municipalities have LEDs staffed by one individual (Gcezegana et al., 2022; Munzhedzi, 2015).

- Financial Resources

Another challenge affecting human resources is insufficient funding. Some government institutions that can contribute positively to LED are the Industrial Development Corporation (IDC), the Small Business Enterprise Development Agency (SEDA), and the newly established Department of Small Business Development. In addition to financial support, South African SMMEs have access to credit from municipalities, which tenders focus on providing access to essential municipal services and general infrastructure maintenance within the municipal jurisdiction (Munzhedzi, 2016).

Local Economic Development Funding Mechanisms

Local Economic Development (LED) remains a critical element in addressing the socio-economic disparities between urban and rural regions, with particular emphasis on the economic revitalization of historically marginalized areas such as South African townships. Various funding mechanisms from government, development finance institutions (DFIs), and private sector initiatives play a pivotal role in driving economic growth and social development. However, to achieve sustainable growth, it is essential that these funding mechanisms are aligned with broader national development strategies and address the institutional challenges that hinder their effectiveness.

Table 1.

Local Economic Development Funding Avenues

Funding Source	Type	
Government Funding	Municipal Infrastructure Grant (MIG)	The MIG funds infrastructure development in municipalities, focusing on services like water, sanitation, and roads to boost economic activity and living conditions (Sibanda, 2013). Parnell and Pieterse (2010) note that weak municipal capacity undermines the long-term impact of these investments, causing inefficiencies and corruption.
	National Support Sector	Various national government departments, including the Department of Water and Sanitation and the Department of Agriculture, offer sector-specific grants and loans to support township economies. These funds target projects in areas like agriculture, water management, and environmental sustainability (Meyer & Venter, 2013).
Development Finance Institutions (DFIs)	Independent Development Corporation (IDC)	The IDC supports township economies by financing projects in sectors like manufacturing, agro-processing, and energy. Its investments help diversify the economy and improve the competitiveness of local businesses (Parnell & Pieterse, 2010).
	Development Bank of Southern Africa (DBSA)	The DBSA funds infrastructure projects that directly impact local development, focusing on large-scale initiatives to improve living standards in disadvantaged communities by upgrading essential services like electricity, water, and transport (Rogerson, 2009).
	National Empowerment Fund (NEF)	The NEF encourages economic empowerment and inclusivity by providing loans, grants, and equity to black-owned businesses, addressing historical economic injustices and promoting entrepreneurship in townships (Sibanda, 2013).
Corporate Social Investment (CSI) Funds	Various Private Entities	Many South African corporations allocate part of their profits to support development projects through Corporate Social Investment (CSI) initiatives, focusing on community-driven development, job creation, and the growth of local businesses, especially in townships. Companies like First National Bank (FNB), Vodacom, MTN, and SAB Miller have established CSI programmes to improve socio-economic conditions in underserved areas (Rogerson, 2009). However, many private corporations do not fully meet their social development responsibilities. While CSI initiatives are valuable, a more integrated approach involving all stakeholders could significantly improve their long-term impact and ensure sustained, inclusive local economic development.
International Funding Opportunities	Various International Entities	International funding institutions, such as the African Development Bank (AfDB) and the World Bank, have provided significant financial support for infrastructure projects in South Africa, including those focused on revitalising townships. The AfDB, for example, funds renewable energy projects, agricultural development, and infrastructure initiatives that create jobs and boost economic resilience in townships. Similarly, the World Bank provides loans and grants for projects aimed at improving public sector governance, education, and health systems, which are crucial for long-term economic growth (Meyer & Venter, 2013).

Source: Author Construction (2025)

Table 1 shows that although funding spans government, DFIs, CSI, and international sources, access for township firms remains mediated by formal registration and procurement capability. This supports our finding that credit and grant programmes require parallel reforms in licensing and supplier development. Despite the availability of various funding sources for Local Economic Development (LED) in South African townships, several challenges hinder their effective use. A primary issue is the lack of coordination between funding bodies and local municipalities, leading to

fragmented efforts, resource duplication, and missed opportunities for collaboration. Additionally, complex application processes and bureaucratic obstacles discourage township entrepreneurs from accessing funding. The limited financial literacy among entrepreneurs further exacerbates these challenges, preventing them from effectively navigating the funding landscape. Institutions such as the Small Enterprise Finance Agency (SEFA) support micro and small enterprises with loans and business development services, promoting growth and job creation. The European Union (EU) provides grants and loans for community-driven development, while the South African Reserve Bank (SARB) and National Treasury fund infrastructure projects essential for township development.

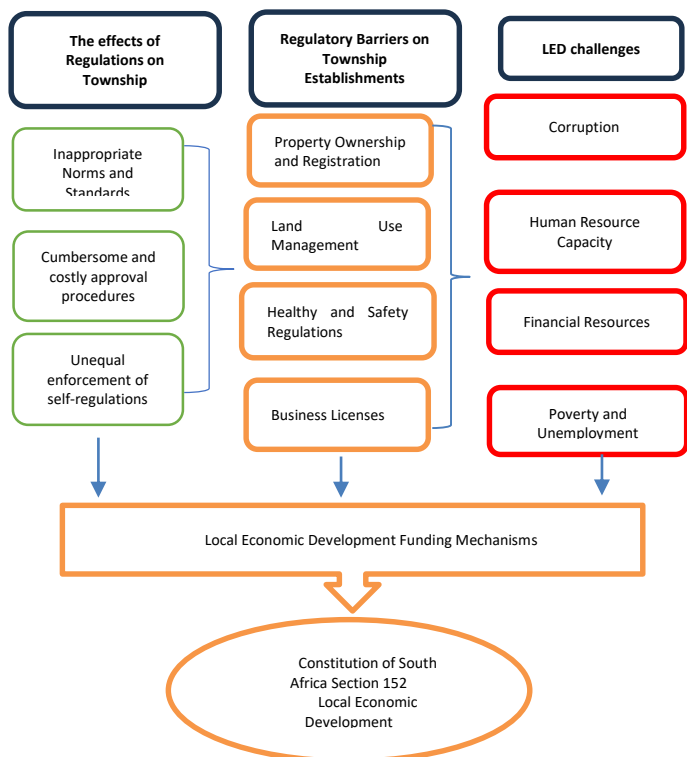
The World Bank, the Department of Trade, Industry, and Competition (DTIC), and the Black Business Supplier Development Program (BBSDP) also provide financial support to promote economic growth, entrepreneurship, and industrial development in townships. However, the effectiveness of these funding mechanisms is often hindered by a lack of coordination and accessibility. To improve outcomes, a more integrated approach is needed, with greater collaboration among government, development finance institutions, the private sector, and international agencies. Policymakers must strengthen the institutional capacity of local governments and expand access to financing for small businesses, which are crucial for the sustainable growth of township economies. These efforts can help drive poverty alleviation, job creation, and improved living standards in townships (Kuhlengisa et al., 2024).

Figure 1 frames regulations and capacity as binding constraints that shape sustainability outcomes. The model predicts that simplifying licences and improving municipal SCM should increase formalisation and survival, a hypothesis we propose to test in future empirical work. The regulatory barriers facing township establishments in South Africa pose significant challenges to local economic development (LED). Key obstacles include inappropriate norms and standards that do not align with the unique socio-economic conditions of townships, as well as cumbersome and costly approval processes that delay business development (Parnell & Pieterse, 2010). Moreover, unequal enforcement of self-regulation creates an unpredictable business environment, where some businesses thrive while others are penalized for non-compliance (Sibanda, 2013). In addition, issues related to property ownership and land use management hinder entrepreneurs from obtaining financing and expanding their businesses, as unclear property rights and restrictive zoning

laws limit growth opportunities (Meyer & Venter, 2013).

Figure 1.

Township Economy and Local Economic Development Conceptualization



Source: Author Construction (2025)

Health and safety regulations, while essential, often impose an excessive financial burden on small businesses that cannot afford the necessary infrastructure upgrades (Rogerson, 2009). Corruption further exacerbates these challenges, leading to unfair practices that undermine the allocation of LED resources (KPMG, 2016). Furthermore, the lack of skilled personnel within local governments and limited financial resources for municipalities stifle effective LED implementation (Bhorat et al., 2016). These regulatory and institutional barriers, combined with high levels of poverty and unemployment, create an environment that inhibits economic growth, requiring urgent policy reform and better coordination between government agencies, financial institutions, and businesses to unlock the potential of township economies (Sibanda, 2013).

Theoretical Framework

Institutional Theory

A comprehensive review of the regulatory framework and sustainable support mechanisms for the development

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of township economies in South Africa reveals the crucial role that both formal and informal institutions play in shaping Local Economic Development (LED). Williams and Shahid (2016) explain the theory of institutions, emphasizing that every community operates under both formal and informal institutions. While formal institutions are governed by written rules, regulations, and established structures, the operations of the informal sector are often driven by unwritten norms, values, beliefs, and principles, which lack formal rules or enforcement mechanisms. This creates a significant misalignment between the two sectors, where participation between them is marked by asymmetries in the application of rules and practices. Institutional theory, therefore, serves as the foundation for understanding the informal sector's role in township economies, as it highlights the failures within formal businesses that lead to discrepancies between laws and regulations of the formal sector and the unwritten rules guiding the informal sector (Williams & Horodnic, 2018).

According to Berthrod and Schenk (2016), institutional theory has evolved from a focus on stability to one of change, reflecting the dynamic nature of institutional structures and their impact on economic activities. This shift emphasizes the role of resource dependence, where institutions continually adapt to changing material needs and competitive forces. DiMaggio and Powell (2000) provide further insights into the institutional process by identifying four key elements: the collaboration of institutions within operational spaces, the configuration of alliances, the accumulation of resources that organizations compete for, and the understanding of shared initiatives across different organizations. These concepts have been extended by Scott (2008), who highlighted the need for institutional progress in supporting these processes, ensuring that institutions adapt and evolve to address emerging challenges in township economies.

Martinez et al. (2016) emphasize the importance of institutional frameworks in setting both short-term and long-term objectives. While the short-term focus of institutions may be on profit-making, the long-term goal must prioritize sustainability and the broader needs of society. The study highlights that large formal businesses operating in townships and rural areas can often disrupt local livelihoods, making it imperative for institutions to work towards addressing social imbalances and advancing sustainable growth. For informal institutions to thrive, there must be a strong degree of voluntarism and support from formal institutions. This collaboration is crucial in reducing social inequality and ensuring that informal businesses have

the necessary resources, mentorship, and capacity-building to succeed (Martinez et al., 2016).

In the context of township economies, the institutional theory is directly linked to the challenges faced by informal businesses. The lack of adequate funding and institutional support from the government often leaves township economies struggling to survive and grow. By providing mentorship, training, and sustainable support mechanisms, formal institutions can assist informal businesses in overcoming these barriers. This partnership can help reduce the social and economic inequalities prevalent in townships, ensuring that these economies contribute to broader national growth. The institutional theory, therefore, offers valuable insights into how both formal and informal sectors can be integrated and supported to achieve sustainable and inclusive LED in South African townships.

Material and Methods

This study adopted a desktop research methodology, primarily based on literature analysis. The desktop study approach involves gathering and analyzing existing information from secondary sources, such as books, academic journals, reports, databases, and online resources, to gain a comprehensive understanding of the research topic without collecting primary data. As noted by Saunders et al. (2019), the use of secondary data through a literature review is an effective method for gathering insights on a subject, especially when primary data collection is not feasible. In this study, a content analysis approach was employed to systematically analyze the information collected from the various literature sources. Content analysis is a widely used technique for interpreting qualitative data, enabling researchers to identify patterns, themes, and insights within the text (Bengtsson, 2016).

To ensure the trustworthiness and validity of the research, the authors took steps to eliminate personal bias by carefully citing all relevant scholars and recognizing their contributions to the subject matter. This practice aligns with the guidelines outlined by Creswell and Poth (2018), who emphasize the importance of objectivity and transparency in literature-based research. The benefits of using the desktop study approach in this context were numerous. First, it proved to be a cost-effective method, as it eliminated the need for primary data collection, which is often costly and time-consuming, especially for field-based research (Saunders et al., 2019). Secondly, the time efficiency of the desktop study allowed the researchers to quickly compile a substantial body of information, enabling faster progress in understanding the topic. Furthermore, the

comprehensive coverage offered by desktop research allowed for the inclusion of a diverse range of perspectives from multiple scholars, ensuring that the research findings were grounded in a broad base of knowledge. Lastly, the accessibility to existing knowledge in the form of published studies and expert opinions allowed the researchers to build upon previous work, identify gaps in the literature, and generate new insights (Garrard, 2017). By leveraging these advantages, the study effectively contributed to the academic discourse on the topic. This paper draws exclusively on secondary sources through a structured desktop review. While this design suits a policy-mapping objective, it constrains originality and causal inference. Future work should incorporate primary data and mixed methods. Priorities include: (i) key-informant interviews with township entrepreneurs, LED officials, and DFIs; (ii) a panel analysis linking regulatory changes to firm outcomes; and (iii) case-comparison of areas affected by new township policies versus similar areas without such measures. A quasi-experimental design around the Gauteng Township Economic Development Act (2022) could test whether simplified licensing and procurement access improve formalisation, revenue, and survival.

Results

Government Regulations Hinder Township Development

Although government interventions have been made available, local authorities' constant rules and regulations hinder township establishments. This is consistent with the study by Scheba and Turok (2019), which states that township establishments are often disadvantaged due to government regulations, and this puts more advantages on formal institutions. The study found that many township establishments operate outside government regulations, making accessing funding through these credit institutions or municipal funding grants difficult (Scheba & Turok, 2019). The study also found that the lack of flexibility in government regulations favours larger businesses. This is also seen in the institutional theory identified in this study that defines the gap between formal and informal institutions and how these informal businesses often find it difficult to cope without any funding mechanism to assist them in becoming more sustainable (Williams & Shahid, 2016). Most industries have moved to townships, providing stiff competition and ultimately winning the battle due to the massive financial resources available to these large businesses.

Lack of knowledge to comprehend regulations by township establishments

The study also found that there needs to be more knowledge on township entrepreneurs to understand government regulations. This is echoed by a study by Scheba & Turok (2019), which shows a significant lack of education and knowledge on the importance of township economies, as most individuals see it as a method of survival rather than local economic development initiatives. The study also found out through a survey conducted by the World Bank that many township entrepreneurs listed permit requirements and documents as business challenges rather than understanding the impact and benefits of being a registered business (World Bank, 2020). The study found a more significant gap in education and sustainability within this informal sector, which is necessary for growth and development. This is also echoed by Williams and Shahid (2016), who found a great deal of misalignment between the two formal and informal institutions (Williams & Shahid, 2016).

Capacity issues at municipalities affect local economic development

Although municipalities run small-business support programmes, persistent capacity weaknesses and procurement non-compliance continue to blunt their impact. In 2023–24, the Auditor-General reported findings on compliance with procurement and contract management at 187 municipalities (76%), and these were *material* at 63% of municipalities; the most common issues were uncompetitive/unfair procurement and weak contract management (Auditor-General South Africa, 2024). The study also found that socio-economic factors such as poverty and unemployment affect community development. However, an argument can be made that municipalities' general lack of capacity to alleviate these socio-economic challenges is primarily affected by the corruption within these local institutions. This is echoed by Nkwanyana & Agbenyegah (2020), who state that municipal issues, irregularities, misappropriation of funds, and fruitless and wasteful expenditure were examined as one of the main causes of poor administration from municipalities to assist in local economic development.

Poor Financial Support Mechanisms

There is a significant lack of financial support from the government for informal establishments. This is echoed by a study conducted by Scheba and Turok (2019) that examined that the township businesses often fail to get sufficient funding for themselves, and this is attributed to the fact that they are not "regulated" and the fore

government and credit institutions often find it challenging to assist businesses without any formal regulation. This is also found in a study by Williams and Horodnic (2018), which found that support and resource allocation are often granted to institutions that the government has registered. The institutional theory further supports this, stating that investors often allocate resources based on government regulations. At times, most of these establishments in the township are not registered, which in turn excludes them from receiving adequate funding due to not meeting "the government-regulated standards."

Lack of Sustainability of Township Establishments

The general disadvantage of township businesses is that there is no sustainability. The study found a general lack of sustainability regarding these businesses compared to their formal competitors. This is echoed by the institutional theory, which stipulates that mentorship and training are needed from the big establishments. Another study by DiMaggio and Powell (2000) also examined and identified fragments, including promoting a collaborative approach from informal to formal institutions. The study further outlined that sustaining such partners will assist informal establishments to not only gain knowledge and expertise but also attract foreign investors, which can assist them to become more developed and assist with developing and improving their respective communities (DiMaggio & Powell, 2000).

Table 2.
Policy and Legislative Regulatory Frameworks

Legislation/ Policy	Section and Citations	Articulation	Literature
<i>The Constitution of the Republic of South Africa, 1996</i>	Section 152	The Constitution empowers local governments to drive social and economic development, including in townships, by mandating municipalities to create an environment conducive to economic growth, job creation, and service delivery.	Parnell, S. & Pieterse, E. (2002). The 'Right to the City': Institutional Imperatives of a Developmental State. <i>International Journal of Urban and Regional Research</i> , 26(1), 146-162
<i>The Local Government: Municipal Systems Act (No. 32 of 2000)</i>	Section 1 & 19	The Act focuses on creating participatory systems for LED, ensuring that municipalities promote economic development through integrated planning. It is essential for township economic planning and encourages the involvement of local communities in decision-making processes.	Rogerson, C.M. (2004). Pro-Poor Local Economic Development in South Africa: The Application of Public Procurement. <i>Urban Forum</i> , 15(3), 180-210
<i>The National Development Plan (NDP), Vision 2030</i>	Chapter 3	The NDP outlines strategies for inclusive growth, emphasizing township economies by focusing on the promotion of small businesses, local enterprises, and infrastructure. It advocates for policies that promote equality and reduce poverty through LED initiatives.	Miggels, A., & Rulashe, T. (2022). Organisational change as a tool for transforming governance in a local municipality, Nelson Mandela Bay Municipality in the Eastern Cape. <i>Journal of Public Administration</i> , 57(3), 508-528
<i>The Spatial Planning and Land Use Management Act (No. 16 of 2013)</i>	Chapter 2	This Act provides a framework for municipalities to regulate land use, ensuring that land is used effectively for local development. It aims to support the growth of township economies by facilitating accessible urban planning and development.	Aliber, M. & Hall, R. (2012). Support for Smallholder Farmers in South Africa: Challenges of Scale and Strategy. <i>Development Southern Africa</i> , 29. 10.1080/0376835X.2012.715441.
<i>The Black Economic Empowerment Act (No. 53 of 2003)</i>	Section 10 & 12	The BEE Act promotes the economic participation of previously disadvantaged groups, particularly black South Africans, in the economy. This Act includes provisions for encouraging the development of township-based enterprises, enabling greater access to markets and opportunities for black entrepreneurs.	Chomane, P.P. & Biljohn, M.I., 2023, 'South African local economic development policy approaches and challenges: Finding a sustainable approach in social innovation', <i>Journal of Local Government Research and Innovation</i> , 4(0), a147. https://doi.org/10.4102/jolgr.v4i0.147
<i>The National Small Business Act (No. 102 of 1996)</i>	Section 3	The Act provides the regulatory framework for the development and support of small businesses, including township-based enterprises. It addresses issues such as access to finance, business skills development, and market access.	Nthoana, T.R.F., 2024, 'Title of the document', PSG Think Big, Available at: https://download.psg.co.za/files/thinkbigsa/2024/Teboho_R.F._Nthoana.pdf
<i>The Integrated Sustainable Rural Development Strategy (ISRDS)</i>	Section 4.2	The ISRDS outlines strategies for integrated rural development, which include the economic revitalization of townships through improved infrastructure, economic diversification, and community-based initiatives.	Bell, B., & Govender, D. (2023). South Africa's Municipal Financial Management Patterns from 2016 – 2021. <i>Strategic Public Management Journal</i> , 9(16), 101-120. https://doi.org/10.25069/spmj.1265896
<i>The Municipal Finance Management Act (No. 56 of 2003)</i>	Chapter 2	This Act governs the financial management of municipalities, ensuring accountability, transparency, and the effective allocation of public resources. This Act influences LED by regulating how municipal funds are used to support local development projects, including those in townships.	Bhorat, H., & van der Westhuizen, C. (2012). <i>Poverty, Inequality and the Nature of Economic Growth in South Africa</i> (Development and Poverty Research Unit Working Paper Development Policy Research Unit Working Paper 12/151). University of Cape Town, Faculty of Commerce, Development Policy Research Unit (DPRU). Retrieved from http://hdl.handle.net/11427/7294
<i>The New Growth Path (NGP)</i>	Chapter 3	The NGP outlines South Africa's economic growth strategies, with specific emphasis on the revitalization of township economies through industrial development, infrastructure investment, and the creation of job opportunities.	
<i>The Companies Act (No. 71 of 2008)</i>	Section 1 & 5	The Companies Act facilitates the establishment, operation, and regulation of businesses in South Africa, ensuring that formal businesses, including those in townships, operate transparently and efficiently.	Rulashe, T., & Ijeoma, E. (2022). An exploration of public accountability and service delivery at the Buffalo City Metropolitan Municipality in the Eastern Cape province, South Africa. <i>Africa's Public Service Delivery & Performance Review</i> , 10(1), 12 pages. doi: https://doi.org/10.4102/apsdpr.v10i1.535

Source: Author Construction (2025)

The legislative and policy frameworks for township economies in South Africa aim to create an enabling environment for business development, job creation, and infrastructure improvement. However, challenges such as inconsistent implementation, weak municipal capacity, bureaucratic inefficiencies, and a lack of coordination across different levels of government have hindered the full potential of these frameworks. To truly unlock the potential of township economies, there is a need for more effective policy implementation, enhanced access to finance and markets, and greater government accountability at the local level. Furthermore, there needs to be a shift towards more inclusive and community-driven development practices that prioritize the needs of township entrepreneurs and residents.

Discussion

Township economies play a crucial role in South Africa's GDP, yet they continue to face significant challenges due to a lack of effective support mechanisms. Despite their importance, many township businesses struggle to access funding due to unregulated issues, as highlighted by Scheba and Turok (2019). These establishments, predominantly operating in the informal sector, often find themselves excluded from formal financial support, which further perpetuates the cycle of economic marginalization. This issue is compounded by the misalignment between formal and informal institutions, as discussed by Williams and Shahid (2016), highlighting the barriers faced by informal businesses in interacting with formal financial and regulatory systems. Local government's capacity to support township enterprises in boosting local economic development is generally weak. Munzhedzi (2015) underscores that many local government institutions lack the necessary structure, including qualified personnel and proper organizational frameworks, to effectively engage with and assist these businesses. Turner et al. (2022) further note that credit institutions tend to prioritize funding for formal sector businesses, leaving township entrepreneurs with limited access to financial resources.

This lack of access to capital is worsened by a general misunderstanding of regulatory frameworks within the informal sector, a point confirmed by Martinez et al. (2016), who found that many township businesses lack long-term sustainability plans. The World Bank (2020) echoes this concern, noting that many township businesses operate merely as survival strategies, with little awareness of or regard for government regulations. The study also found

that inadequate support from both the government and the formal sector has led to a lack of sustainability in township businesses. Williams and Horodnic (2018) emphasize the importance of formal institutions providing training and mentoring to support the growth of township businesses, which are often ill-equipped to navigate complex regulatory environments. Many recent reviews argue for a more structured approach to training that equips township entrepreneurs with practical regulatory literacy (how to register, license, tender, and keep compliant records). Interviews in IFC's *The MSME Voice* show that many informal owners view formalization as too bureaucratic, complex, and costly, while the OECD (2025) recommends simplifying permits and using plain-language guidance to lower burdens on small firms. New national data underscore the gap: in 2023, 89.3% of informal businesses operated without a license/permit, and ≈72% kept no financial records; 74.4% had no business bank account, all pointing to the need for hands-on compliance and record-keeping support.

Considering these challenges, several recommendations are proposed to address the issues affecting township economies. First, there is a pressing need for a policy directive on social entrepreneurship. Such a policy would help recognize the contribution of informal businesses and provide the necessary support to enhance local economic development. By adopting a culture of entrepreneurship, the government can promote job creation, reduce inequality, and stimulate economic growth in townships. Second, the establishment of a state-owned bank is recommended to cater specifically to the funding needs of informal sector businesses. This bank could integrate innovative financial mechanisms, such as *Stokvel* investments, to offer affordable loans to township businesses. Additionally, promoting the monitoring and evaluation of township businesses would allow for targeted training programs that help entrepreneurs understand the importance of complying with government regulations.

Another key recommendation is the introduction of tax incentives for township businesses. Many small businesses remain unregistered to avoid tax liabilities, which undermines their ability to grow and integrate into the formal economy. By offering tax incentives, the South African Revenue Service (SARS) could encourage business owners to formalize their operations, thereby improving tax collection and encouraging a more inclusive economy. Municipalities should also establish dedicated units to assist small businesses with registration processes, ensuring that these businesses can access the services and support they

need to thrive. Finally, capacity-building training for local government employees is crucial. By partnering with universities and colleges, the government can equip officials with the necessary skills and knowledge to support LED initiatives effectively. Training municipal staff in the principles of local economic development and the importance of township businesses will ensure that Integrated Development Plans (IDPs) are more aligned with the needs of these enterprises. This approach will contribute to a deeper understanding of the role township economies play in local development and help create more effective policies and interventions.

While township economies remain a vital part of South Africa's economic landscape, their potential is hindered by insufficient support mechanisms, inadequate training, and a lack of understanding of regulatory frameworks. Addressing these challenges through targeted policy interventions, financial support, tax incentives, and capacity-building initiatives will be key to unlocking the full potential of township economies and contributing to broader national development goals.

Conclusion and Recommendations

This study has provided an in-depth analysis of the regulatory frameworks and support mechanisms governing township economies in South Africa. Despite the substantial contribution of township economies to the national GDP, the research highlights a significant gap in the provision of effective support mechanisms, which continue to hinder their growth and sustainability. Township businesses, predominantly operating in the informal sector, face a multitude of challenges, including limited access to financial resources, insufficient understanding of regulatory frameworks, and a lack of comprehensive institutional support. These challenges are compounded by the capacity constraints within local government institutions, which are often ill-equipped to effectively facilitate local economic development in these communities.

The findings underscore the necessity for comprehensive policy reforms aimed at addressing the systemic barriers impeding the growth of township economies. Bridging the divide between formal and informal institutions is crucial, with a focus on improving the capacity of informal businesses to engage with formal financial systems and regulatory processes. Additionally, greater coordination between government agencies, financial institutions, and private sector stakeholders is essential to creating a more supportive environment for township businesses. The study also emphasizes the importance of capacity-building

programs to enhance financial literacy, regulatory understanding, and business skills among township entrepreneurs. In conclusion, the development of township economies is not only an essential component of South Africa's economic growth strategy but also a critical factor in addressing the persistent socio-economic inequalities that continue to characterize post-apartheid society.

Experiences from peer African economies underline how targeted reforms can shift constraints facing micro-enterprises. In Kenya, the national Hustler Fund, launched in 2022, has disbursed KSh 36–53 billion to individuals and groups, offering a live test of digital micro-credit design and repayment dynamics. These data enable comparisons on reach, cost, default risk, and inclusion relative to South African mechanisms such as TREP and municipal supplier-development programmes. Two practical lessons follow: (i) delivery architecture matters (mobile first, automated scoring, instantaneous disbursement); and (ii) credit without complementary reforms in licensing, procurement access, and business services has limited developmental traction. These lessons can inform provincial and national refinements to township-enterprise support (Kenya National Treasury & Economic Planning, 2025; Ministry of Co-operatives & MSME Development, 2025; MSEA, 2024; DSBD, 2024). For township economies to fulfil their potential, a more integrated and inclusive approach to policy and governance is required, one that prioritizes sustainable economic development, entrepreneurship, and the formalization of informal businesses. Only through such a concerted effort will township economies be able to contribute fully to the national economy and, by extension, promote broader socio-economic transformation in South Africa.

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