RURAL AND TOWNSHIP ECONOMY PROJECT

(RESEARCH REPORT)

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a competitive, dynamic, deconcentrated and inclusive economy

competition commission
south africa

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ABBREVIATIONS AND ACRONYMS

CIPC
– Companies and Intellectual Property Commission

COVID-19
– Coronavirus Disease of 2019

DSBD
– Department of Small Business Development

DTIC
– Department of Trade Industry and Competition

GDP
– Gross Domestic Product

GRMI
– Grocery Retail Market Inquiry

HDPs
– Historically Disadvantaged Persons

ICT
– Information and Communications Technology

ITC
– International Trade Centre

LED
– Local Economic Development

MTDP
– Medium-Term Development Plan

NDP
– National Development Plan

OECD
– Organisation for Economic Co-operation and Development

OIPMI
– Online Intermediation Platforms Market Inquiry

PDIs
– Previously Disadvantaged Individuals

QLFS
– Quarterly Labour Force Survey

SARS
– South African Revenue Service

SALGA
- South African Local Government Association

SMMEs
– Small, Medium and Micro Enterprises

SMEs
– Small and Medium Enterprises

StatsSA
– Statistics South Africa

1. EXECUTIVE SUMMARY

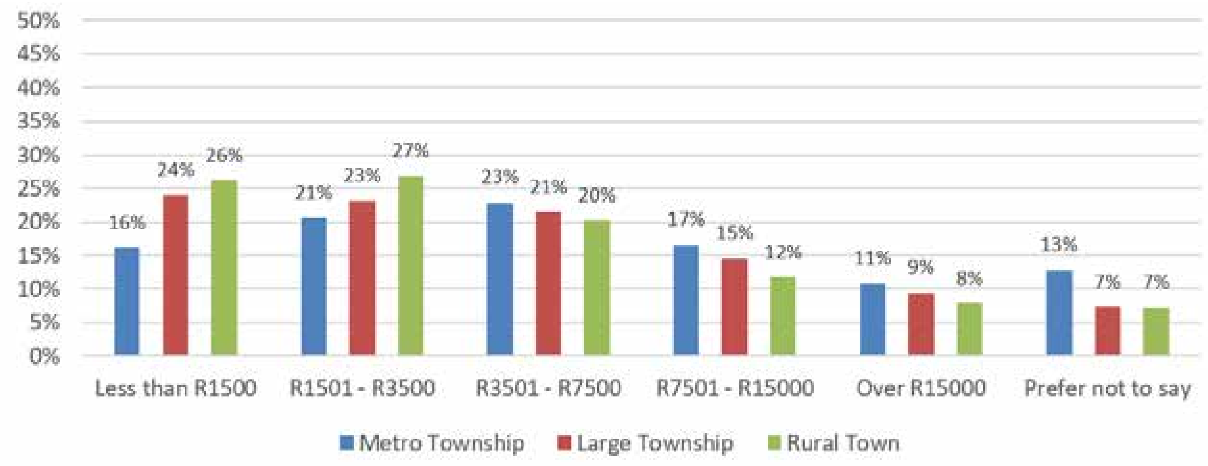
1. This report examines the rural and township economy through a competition and economic participation lens. It seeks to understand the market and regulatory barriers faced by businesses operating within them, and the implications such barriers may have for business growth, competition, consumer welfare, and policy.

2. The report draws on literature, prior Commission experience, and the results of two dedicated surveys commissioned for this study - a Business Survey and a Consumer Survey, to understand the make-up of the township and rural economies, particularly regarding the types of businesses operating in these economies, patterns of business ownership, procurement patterns, routes to market (market access) and the prevalence of regulatory barriers or red-tape that might obstruct participation or the growth of businesses in these areas. The report then assesses the implications of these features on consumer welfare, business growth and economic participation. It then makes proposals on how competition authorities and practitioners may approach competition assessment in the township and rural economies given these market structures and barriers and also proposes possible policy interventions to address regulatory barriers.

3. The report begins with the recognition that township and rural economies are of major economic and policy significance. These areas were structurally shaped by apartheid spatial and land policies that were explicitly designed to exclude black South Africans from mainstream economic opportunity. The effects of those policies remain visible today in the geography of settlement, the location of businesses, the concentration of poverty and unemployment, and the dominance of informal, micro and small enterprises in local business activity. Township and rural economies therefore occupy a central place in South Africa's efforts to address poverty, unemployment and inequality, and in the broader pursuit of inclusive growth.

4. The report finds that township and rural households continue to face severe economic constraints, with survey results showing, for example, that a significant portion of township and rural residents (53% of respondents in rural towns, 47% in large townships, and 39% in metro townships) earn an income of below R3 500 per month as seen in the figure below, with substantial numbers falling below the poverty line, painting a picture of dire economic hardship faced by residents in these areas.

Figure 1: Monthly household income of respondents in townships and rural areas



5. Income levels are important in competition assessment because they influence what consumers can afford (affordability), where they (can) shop, how far they are able to travel, the extent to which they can switch between suppliers, and the degree to which price, convenience, quality and product range affect purchasing decisions. In township and rural areas, low household incomes should be understood as part of a broader set of structural conditions, including high poverty and unemployment, spatial separation from economic centres, transport constraints and historically limited access to mainstream economic opportunities. These conditions affect both sides of the market – they shape consumer demand and switching behaviour, while also influencing the scale, formality and growth prospects of local businesses.

6. Against this background, the report finds that business activity is still dominated by independent, informal, micro and small enterprises, with a high prevalence of historically disadvantaged ownership. This means that the township and rural economy is not merely a residual or peripheral sphere of activity, but rather one in which local entrepreneurship plays a major role in livelihoods, access to goods and services, and economic inclusion. At the same time, the predominance of smaller and less integrated firms also reflects the historical and continuing barriers that prevent many businesses from scaling, formalising, or integrating more fully into broader value chains.

7. A central finding of the report is that businesses in township and rural areas face a combination of market barriers and regulatory barriers that constrain entry, expansion and effective participation. On the market side, the report identifies two especially important problem areas: **procurement** and **route to market.**

Procurement barriers facing township and rural town businesses

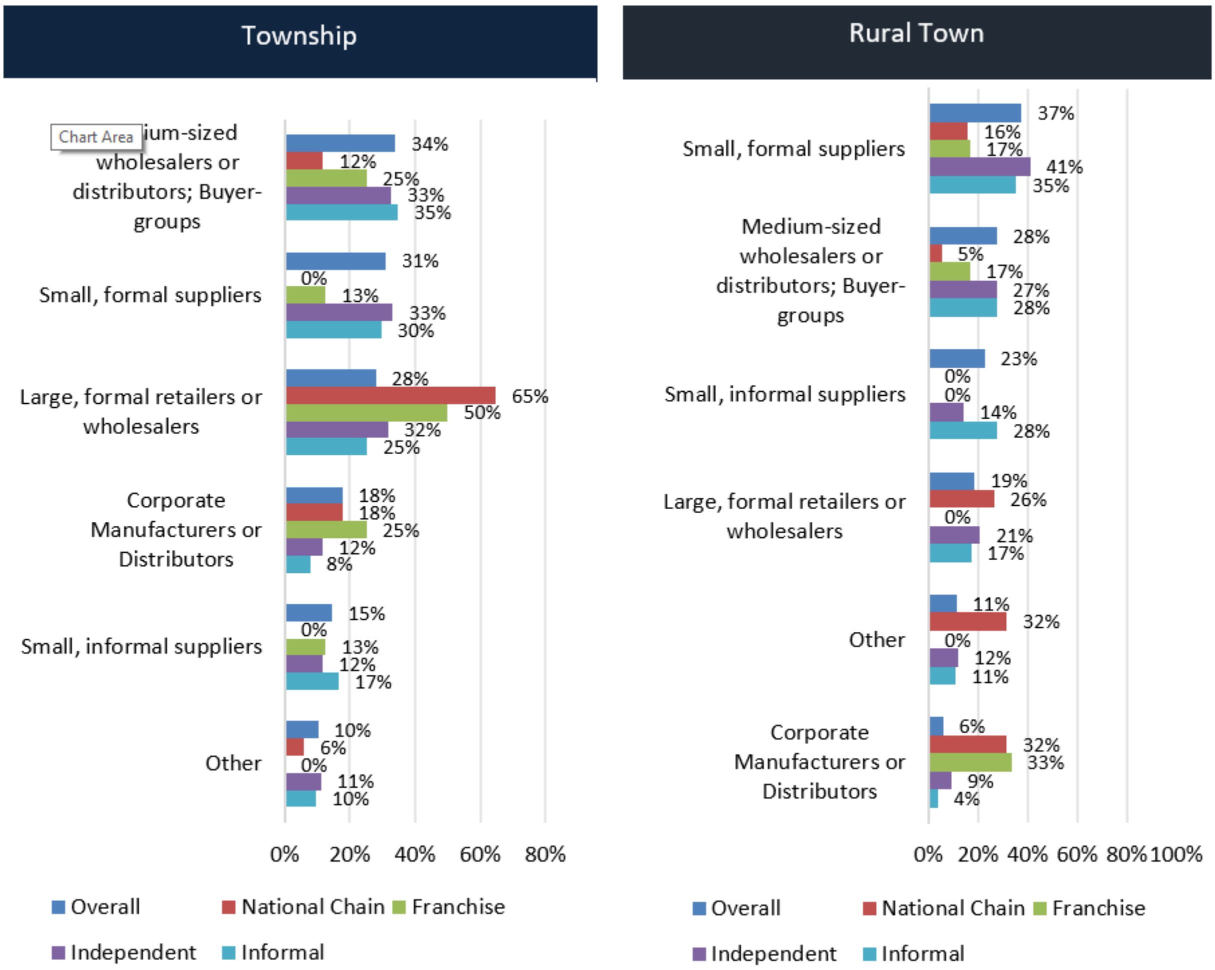
8. The report finds that procurement structures differ materially by business type in township and rural markets, and that these differences shape firms' competitive position. National chains and franchises are generally better integrated into larger, more formalised supply networks, including corporate supply arrangements, large wholesalers and distributors. By contrast, independent and informal businesses rely more heavily on smaller suppliers, wholesalers and intermediary channels, often with less scale and weaker bargaining power.

9. These differences matter because procurement channels affect the prices businesses pay for inputs, the reliability of supply, the product range they can offer, and their ability to compete on price, range and consistency. Businesses that procure through larger and more efficient channels are generally better placed to secure favourable supply terms and stable stock, while those

sourcing through smaller or more fragmented channels may face higher costs and less secure access to inputs.

10. The figure below illustrates these procurement patterns by business type, where for example, township national chains procure largely through large formal retailers or wholesalers (65%), while independent and informal businesses are more reliant on smaller formal suppliers and medium-sized wholesalers or intermediary channels; in rural towns, independent businesses rely most heavily on small formal suppliers (41%), while national chains and franchises make greater use of larger formal supply channels and corporate distribution arrangements than smaller business types.

Figure 2: Procurement & supply channels, by business type



11. The report finds procurement difficulties in various sectors, including agriculture, arts and crafts, automotive, construction, financial and business services, hair and beauty, hospitality and food services, ICT and electronics, manufacturing, medical or health services, and retail. The most common issue across sectors is higher input/inventory costs linked to smaller order sizes and weaker bargaining power, while lack of local supplier availability and stock shortages are also significant in several sectors, such as agriculture, hospitality and food services. The implication is that businesses in various rural and township sectors face higher procurement costs even if the exact form it takes differs by sector.

Limited routes to market and business expansion

12. The report also finds that route-to-market constraints materially limit business growth. Most township and rural businesses still sell primarily through their own physical stores (which are likely to be smaller and not exposed to higher footfall), while selling through major retailers, and online channels (with larger and higher footfall routes) remains limited. Presence of local businesses (or their products) in formal retail nodes such as malls and shopping centres also remains limited. Around half of firms sell through their own stores, but only a small minority have access to major retailers, and online channels. Chains differ materially from other formats, making greater use of major retailers and online channels alongside their own outlets. This means that many smaller firms remain heavily dependent on local walk-in demand, with limited ability to access broader customer bases or higher-reach channels.

13. Survey results indicate that access to online channels is often blocked by 'not meeting requirements', lack of registration, limited know-how or weak infrastructure, but the precise constraint can vary by sector. In rural towns for instance, businesses in agriculture, hair and beauty, hospitality and food services, and other retail businesses are especially likely to not meet the requirements to sell online while businesses in construction and food and grocery retailers more often point to inadequate infrastructure. In the Automotive and financial and business services sectors, firms more often say that online channels are simply not a suitable route to market, while ICT and electronics and manufacturing businesses more often cite lack of knowledge about how to sell online.[1]

14. One important finding of this study in respect of market access is that the limited presence of smaller businesses in formal retail nodes should not be read as lack of interest in business expansion or formalisation, but rather as evidence of latent demand for access to such spaces. Survey evidence shows that while many smaller businesses are not currently operating in malls and shopping centres, they would like to do so but market barriers, including rental cost, exclusivity clauses, preference of established brands by malls, alongside fear of competition and a general lack of information about how to access such channels. These constraints affect important sectors such as manufacturing, construction, food and grocery retail, and general retail amongst others. Overall, the barriers to access formal retail space fall most heavily on smaller and less integrated firms.

Regulatory barriers that constrain township and rural town businesses

15. In relation to regulatory barriers or "red tape", the report finds that these barriers are widespread and economically significant. Prevalent regulatory barriers affecting township and rural businesses identified by the study include complex, onerous and costly regulatory burdens and challenges associated with permits, licences, zoning rules, municipal by-laws and service disruptions on the main. These burdens affect firms unevenly, falling most heavily on smaller and less formal businesses that have fewer resources to navigate complex compliance systems.

16. The effect of this is not simply administrative inconvenience. In practice, these barriers can delay entry, prevent relocation into more formal premises, limit investment, and discourage business expansion. They may also reinforce informality by raising the cost of compliance relative to the expected gains from formalisation. Businesses that cannot comply with these regulations also find it difficult to obtain funding as funders would

1 In townships, 'not meeting requirements' or 'not being registered' emerges as the dominant issue across many sectors, including automotive, hair and beauty, manufacturing, medical or health services, financial and business services, and food and grocery retail.

generally fund businesses that are compliant with municipal regulations, tax laws and other laws of the republic.

17. Ultimately, red-tape can operate as a material barrier to effective participation and local economic development. Regulatory red-tape ultimately also impacts consumers indirectly through the availability, variety, and affordability of local retail and services. When compliance burdens discourage formalisation or constrain expansion into mainstream economies such as high-footfall nodes (like formal retail space), households may face fewer nearby options and may travel further to access better-stocked outlets, with travel costs acting as an additional implicit price that shapes effective competition in local markets.

Implications for competition assessment

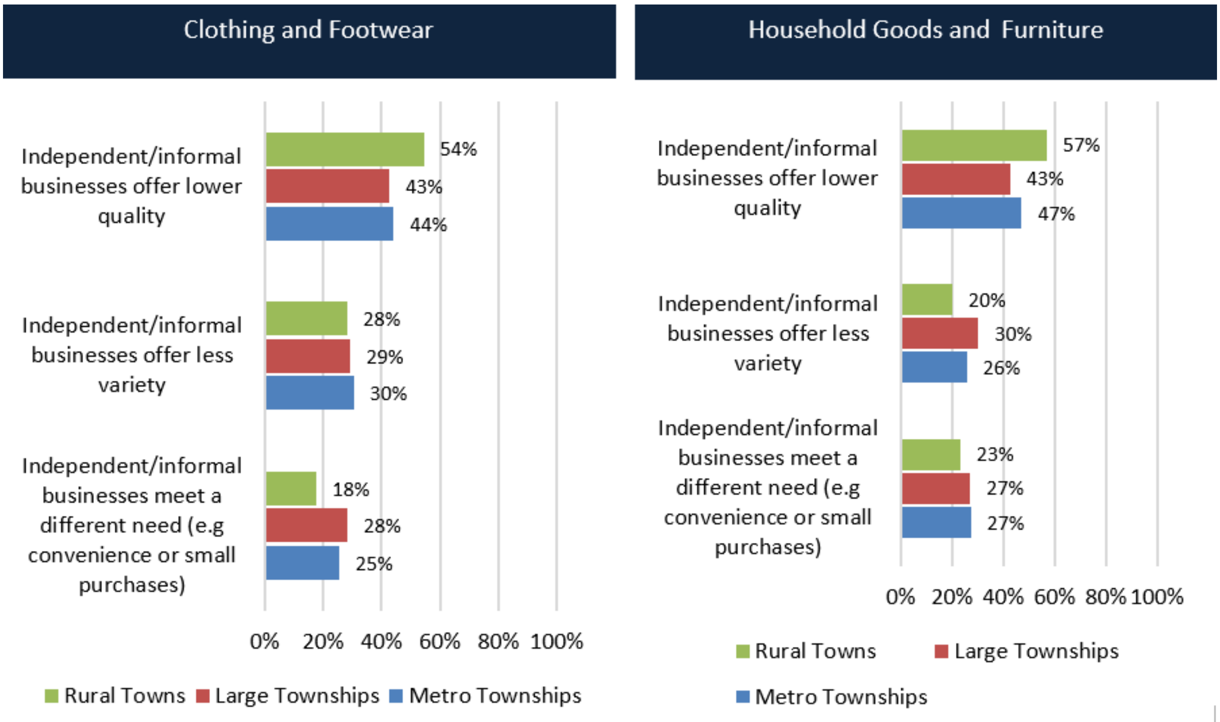
Lastly, the report considered the implications of both the market and regulatory barriers for competition assessment. It highlights how competition authorities and practitioners may approach issues of **closeness of competition and geographic market definition** in cases and interventions affecting businesses operating in township and rural areas.

Implications for closeness of competition

18. On closeness of competition, the report cautions against assuming that businesses are effective substitutes simply because they are located near one another or operate in the same broad category. Consumer survey evidence shows that consumers may not regard independent and informal outlets as close substitutes for chain stores where there are perceived differences in quality, product variety, reliability or the shopping occasion served.

19. This is illustrated in the figure below, which shows that, in categories such as clothing and footwear and household goods and furniture for example, consumers who do not prefer independent or informal stores as substitutes commonly cite lower quality, less variety, and the fact that these businesses meet a different need, such as convenience or smaller purchases.

Figure 3: Factors limiting substitutability between independent/informal stores and chain stores



20. These findings have important implications for closeness of competition. They suggest that the competitive constraint between chain stores and smaller independent or informal outlets may be weaker in some categories, particularly where consumers value range, quality, brand, reliability or a broader shopping experience. This means that competition in township and rural markets may be more differentiated than a simple 'store-count' approach would suggest. For example, two businesses may both sell related products and operate in the same area, but may not constrain one another closely in practice (as customers may not see them as good substitutes).

Implications for geographic market assessment

21. The report also draws out important implications **for consumers and for geographic market assessment**. Consumer shopping patterns differ materially by product category, and these differences matter for competition analysis. The survey evidence shows that a substantial share of consumers shop outside their own township or rural town across many categories. However, the extent of 'outward' shopping varies. It is strongest in more comparison-driven categories such as clothing and footwear, phones and electronics, household goods and furniture, where consumers place greater value on variety, brand, quality and price comparisons. For example, the majority of respondents report purchasing clothing and footwear in the nearest town or urban area, rather than within their own township or rural town. By contrast, categories such as food, pharmacy services and medical services are more localised, but even here a meaningful share of consumers still shop outside their immediate area.

22. The same category-specific pattern appears in travel distances. Rural-town consumers generally travel longer distances than township consumers across most product categories. This is particularly pronounced in clothing and footwear, phones and electronics, household goods and furniture, and car services and repairs, suggesting broader catchment areas in those categories, especially in rural settings. Yet even in more routine or essential categories such as food, pharmacy services and medical services, rural consumers often travel materially further than township consumers, which points to weaker or more dispersed local alternatives. The report therefore suggests that geographic market definition in township and rural settings should be category-specific: some categories are relatively local, while others are split between the local area and nearby towns or urban centres.

23. The transport evidence reinforces these geographic aspects. Across many product categories, minibus taxis are the main mode of transport, including for food, banking and financial services, phones and electronics, building and hardware, pharmacy services and medical services. Private cars are important in some categories, while walking remains more relevant for routine local purchases. This means that geographic market definition should not be based mechanically on kilometres alone – what matters is whether consumers can realistically access nearby alternatives using the transport options available to them. In practice, this suggests that effective catchment areas are often narrower in township settings and wider in rural settings, but that this remains product-specific. The report argues that geographic market assessment in township and rural contexts must therefore be grounded in actual shopping patterns and local realities, rather than relying on standard assumptions that could be drawn from better-served urban markets.

24. On geographic market definition, the report finds that consumer mobility, transport modes, travel distances and product type all matter. In township settings, where many consumers are highly constrained by income and transport, practical shopping catchments may be relatively narrow. In rural settings,

consumers often travel further, but this does not necessarily imply strong competitive integration across wider areas; it may instead reflect the absence of local alternatives. The report therefore argues that geographic market assessment in township and rural contexts must be grounded in actual shopping patterns and local realities, rather than relying on standard assumptions that could be drawn from better-served urban markets.

Closing remarks

25. In summary, the study finds that the township and rural economies are characterised by significant market and regulatory barriers.

26. Market barriers present in the form of inadequate procurement channels and poor procurement terms and conditions, as well as inability to access formal and larger market routes such as malls, shopping centres and online platforms.

27. This calls for follow-on work by the Commission to understand these barriers better, but to also undertake follow-up work on the implementation of the recommendations of previous market Inquiries, including the GRMI, and the OIPMI, to identify any instances where issues of exclusivity and the cost of accessing markets still prevail. This may include initiation of market conduct investigations where, for example, certain malls and shopping centres operating in township and rural areas are found to have not implemented the recommendations of the GRMI or are engaging in practices (such as exclusionary access to formal retail channels, unequal procurement conditions, discriminatory supply arrangements or market arrangements that disadvantage SMEs and HDP-owned firms) that serve as barriers to market access for rural and township businesses.

28. In addition, engagement with retail-property stakeholders, major retailers, e-commerce platforms, suppliers, wholesalers, distributors, buyer groups and infrastructure-related agencies may be necessary to address route-to-market, procurement and service-delivery constraints.

29. On regulatory barriers, the most cited ones relate to complex and costly compliance regimes, including business registration, municipal by-laws, zoning, certifications, tax-compliance, and general lack of information or information asymmetry regarding these laws and how to comply with them.

30. This calls for inter-agency cooperation and would require engagement with municipalities, SALGA, provincial departments responsible for local economic development, the DTIC, DSBD and their agencies. Such engagements may include follow up to track the progress made in the implementation of the FPMI recommendations and how these may be expanded to, and targeted at improving trading conditions of the businesses operating in township and rural areas.

31. The engagements may also include finding ways to ease compliance burdens for rural and township businesses and, in some instances, changes to municipal operating models to accommodate a greater share of these businesses. Information gaps can be addressed through training and education by affected stakeholders such as CIPC, SARS, and municipalities.

2. INTRODUCTION

32. This paper explores literature, research studies, and past interventions by the Competition Commission of South Africa ("Commission") in various markets to gather insights into market dynamics within the Township and Rural Economy that may inform (i) how the Commission approaches enforcement action in this economy, and (ii) what issues ought to be considered by various economic agents, including the government and economic regulators in policy making and/or regulatory interventions affecting the Township and Rural Economy. There is no official meaning for Township and Rural Economy, but it is commonly recognised that the meaning bears reference to economic activities occurring within *townships* and *rural* settlements.[2]

33. In South Africa, the term *township* has both a legal and a socio-economic meaning. The legal description of a township *"refers to a formally promulgated urban area"*.[3] This is the description typically used by municipalities in zoning land for residential purposes in urban areas. For purposes of this study, the socio-economic description of township is used.

34. In the socio-economic context, *townships* are areas that were historically created (through central planning) as a result of apartheid policies, specifically the *1950 Group Areas Act*, to racially segregate South African cities[4] or *"historically marginalised communities, originally established during the apartheid era as racially segregated urban areas"*.[5] This law segregated people by race, forcing non-whites (this includes Black, Coloured and Indian communities) to live in designated areas, on the outskirts of the cities, often far from economic opportunities. These areas became known as townships.[6]

35. The geographic location of the townships is an important consideration for the current

2 Economic Development Partnership (EDP) & Human Sciences Research Council (HSRC). 2019. *Township economies toolkit*. February 2019. Available at: https://www.ukesa.info/library/view/township-economies-toolkit ; Scheba, A. & Turok, I. *Strengthening Township Economies in South Africa: the Case for Better Regulation and Policy Innovation*. HSRC Press. Available at: https://www.researchgate.net/publication/335824330_Strengthening_Township_Economies_in_South_Africa_the_Case_for_Better_Regulation_and_Policy_Innovation ; Gauteng Department of Economic Development. 2014. *Gauteng Township Economy Revitalisation Strategy 2014 – 2019*. Available at: https://www.gep.co.za/wp-content/uploads/2018/12/Gauteng-Township-Economy-Revitalisation-Strategy-2014-2019.pdf

3 McGaffin, R., Napier, M. & Karuri-Sebina, G. 2015. *South African township economies and commercial property markets: a conceptualisation and overview.* South African Cities Network. p.10. RedFlank defines a 'township' as a residential area historically established during the colonial and Apartheid eras to house non-white populations, typically located on the outskirts of cities and towns, and characterised by limited infrastructure and economic opportunities. For purposes of the survey, this would refer to established township areas such as Umlazi in KwaZulu-Natal.

4 Omonona, S., Oni, O., Oluwole, O. J. (2021). *COVID-19 pandemic and the South African township economy: A focus on King Williams Town, Eastern Cape, South Africa.* Harvard Deusto Business. Research, X(2), p.370-381. Available at: https://www.researchgate.net/profile/Olugbenga-Oluwole/publication/356907115_COVID-19_pandemic_and_the_South_African_township_economy_A_focus_on_King_Williams_Town/links/61b2254aec18aa3c19e35472/COVID-19-pandemic-and-the-South-African-township-economy-A-focus-on-King-Williams-Town

5 Nthoana, T.R.F. 2024. *Inclusive economic growth - building sustainable township economies: integrating micro-investment ecosystems and entrepreneurial innovation while empowering South Africa's informal sector.* Think Big SA, p2. Available at: https://download.psg.co.za/files/thinkbigsa/2024/Teboho_R.F._Nthoana.pdf

6 27four Investment Managers. (2025). *The Township Economy Report* (September 2025 Edition). https://27four.com/the-township-economy-report/

study as it explains the historical economic dynamics in the townships as well as the economic dynamics today. The *1950 Group Areas Act* ensured that townships were located at a distance from city centres and separated from city centres by buffer zones, railway lines, or natural barriers, to control the movement of township residents into city centres.[7] The location thus presented what is termed 'exclusion by design' of a large proportion of the South African population. *"For the decision makers at the time, the formation of townships reflected the tension between two needs: to keep black people close enough to provide cheap labor[sic] and to keep them far enough away to ensure a clear social distance."*[8]

36. The Group Areas Act succeeded a series of racial laws and only served as a means for the apartheid government that was constituted in 1948 to institutionalise apartheid. One of these laws was the *Natives Land Act, No. 27 of 1913* which was instrumental in the formation of *rural settlements* in the form and shape as observed today. This Act restricted black land ownership and laid the groundwork for later, more comprehensive segregationist policies including the *Group Areas Act*.[9]

37. Designed to regulate land ownership and usage based on race, one of the provisions of the *Natives Land Act* designated a small percentage of land (approximately 7%) in South Africa as *'Native Reserves'*.[10] These areas were the only areas where Black Africans could legally own land. The Act further prohibited Black Africans from purchasing or acquiring land outside these designated areas, effectively preventing them from competing with white farmers and gaining economic independence. The enforcement of this Act saw the eviction of Black Africans from their land and farms and forced them to live in overcrowded areas, with mostly non-arable land reserves, subjecting them to poverty and forcing them to work as labourers on white-owned farms.

38. The economic impact of these laws in township and rural areas is discussed in detail in the next chapter, but suffice to highlight at this stage that the legacy of the apartheid laws in the townships and rural settlements is densely populated areas with high levels of poverty and unemployment, and the source of the high and growing level of inequality in the country.[11] Thus, given that townships and rural areas "*remain home to millions of predominantly Black South Africans"*[12] with over 40% of the country's population living in townships,[13] these areas are critical in efforts to solve the country's triple challenge – poverty, unemployment and inequality.

39. It is largely for these reasons that these areas are an important agenda item on the national discourse for economic progress amongst scholars and government institutions. National policy frameworks such as the

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7 file:///C:/Users/QhaweM/Downloads/STRENGTHENING-TOWNSHIP-ECONOMIES_2019.pdf

8 Mahajan, S., 2014. *Economics of South African townships: special focus on Diepsloot.* World Bank Publications, p. 3. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/217211468302413395.

9 South African History Online. (2014, December 19). The Group Areas Act of 1950. South African History Online. https://sahistory.org.za/article/group-areas-act-1950; Group Areas Act 41 of 1950. Available at: https://blogs.loc.gov/law/files/2014/01/Group-Areas-Act-1950.pdf

10 South African History Online. (2014, December 19). The Group Areas Act of 1950. South African History Online. https://sahistory.org.za/article/group-areas-act-1950; Group Areas Act 41 of 1950. Available at: https://blogs.loc.gov/law/files/2014/01/Group-Areas-Act-1950.pdf

11 RedFlank has described a 'rural town', for the purposes of their survey work, as a town itself together with associated co-located small townships, and these rural towns were identified using the Stats SA -type characteristic of commercial farming areas that are not under traditional leadership but fall outside urban boundaries.

12 Nthoana, T.,2019. *Inclusive Economic Growth- Building Sustainable Township Economies: Integrating Micro-Investment Ecosystems and Entrepreneurial Innovation while Empowering South Africa's Informal Sector.* p.1, para.1. Available at: https://download.psg.co.za/files/thinkbigsa/2024/Teboho_R.F._Nthoana.pdf

13 Pernegger, L. and Godehart, S., 2007. *Townships in the south African geographic landscape–physical and social legacies and challenges. 2007*. Available at: https://www.treasury.gov.za/divisions/bo/ndp/ttri/ttri%20oct%202007/day%201%20-%2029%20oct%202007/1a%20keynote%20address%20li%20pernegger%20paper.pdf

National Development Plan 2030[14] and the *Reimagined Industrial Strategy*[15], for instance, have identified the strategic importance of township enterprises as potential engines for local employment creation and economic inclusion. Similarly, the government's *Medium-Term Development Plan (MTDP) 2024-2029*[16] prioritises supporting micro-enterprises, removing regulatory obstacles, and providing access to Small, Medium and Micro Enterprises (SMMEs) in townships in pursuit of economic development.

40. However, to target the township and rural economies for addressing the South African economic problem, a deeper understanding of the economic dynamics in these areas is required. While many studies have been conducted to understand the township economy, little work has been done dealing with the rural economy. The current study seeks to understand both economies. Also, the studies focussing on the township economy have mostly been narrow, either focussing on a single Township[17] or on a narrow subject, typically the importance of spaza shops and the informal sector,[18] or consumer behaviour and purchasing patterns in respect of the retail sector (typically groceries and clothing).[19]

41. The current study adds to this body of knowledge. It combines the Commission's enforcement experience with literature and the results of two surveys conducted specifically for purposes of this study,[20] namely the Business Survey **(Annexure A)** and the Consumer Survey **(Annexure B)**, to:

41.1. gather insights into, and generate a more detailed examination of the township and rural economy, with a specific focus on identifying competition-related market dynamics, including understanding:

41.1.1. the structure of local economies (i.e., township and rural economies) in terms of, inter alia, (i) demographics, ownership patterns, nature of businesses or business categories.

41.1.2. market barriers to entry, expansion and effective participation – including (a) procurement or supplier and (b) route to market.

41.1.3. 'red tape' constraints, i.e., regulatory barriers to entry, expansion and effective participation, and

41.1.4. Whether there are any peculiar market dynamics within the township and rural economy that may inform the approach to competition assessment in interventions concerning businesses operating in these economies.

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14 National Planning Commission (NPC). 2012. *National Development Plan 2030: Our future – make it work.* Pretoria. Available at: https://www.nationalplanningcommission.org.za/assets/Documents/ndp-2030-our-future-make-it-work.pdf

15 Department of Trade, Industry and Competition.2024. *Industrial Policy and Strategy Review – Transforming vision into action: charting South Africa's Industrial future.* Pretoria. Available at: https://www.thedtic.gov.za/wp-content/uploads/dtic-industrial-policy-review.pdf

16 Department of Planning, Monitoring and Evaluation. 2025. Medium Term Development Plan 2024-29. Available: https://www.dpme.gov.za/keyfocusareas/outcomesSite/MTDP/MTDP%202024-2029%20.pdf

17 Mahajan, S., 2014. *Economics of South African townships: special focus on Diepsloot.* World Bank Publications.

18 Scheba, A. & Turok, I. *Strengthening Township Economies in South Africa: the Case for Better Regulation and Policy Innovation.* HSRC Press. Available at: https://www.researchgate.net/publication/335824330_Strengthening_Township_Economies_in_South_Africa_the_Case_for_Better_Regulation_and_Policy_Innovation

19 Township Customer Experience Report. 2025. Available at: file:///C:/Users/Public/Township%20economies%20consumer%20survey/Township%20Customer%20Experience%20Report%202025_compressed%20(1)%20(1).pdf

20 These surveys were commissioned by the Competition Commission of South Africa and carried out by an independent service provider, Redflank Solutions (Pty) Ltd.

42. It is envisaged that the findings of this study may assist (i) the Commission and competition practitioners in how they approach competition assessment in the township and rural economy, and (ii) the government, economic regulatory and enforcement agencies in identifying the market and regulatory barriers to economic progress that they may target to ease in efforts to eradicate poverty, unemployment, and inequality in the country.

43. The rest of the report is structured as follows:

43.1. ***Chapter 3*** highlights the economic significance of the township and rural economy – this chapter draws the links between the history of township and rural settlement formation to the structure of the economic structure and business ownership patterns in these economies as seen today, also indicating the economic growth opportunities that this structure presents.

43.2. ***Chapter 4*** identifies market barriers to entry, expansion, and effective participation for businesses operating in the township and rural economy. The chapter first examines patterns of business behaviour such as procurement and sales channels used and then identifies potential market-specific bottlenecks that may be resolved to advance economic progress in the township and rural economy.

43.3. ***Chapter 5*** identifies regulatory *('red tape')* barriers to entry, expansion, and effective participation for businesses operating in the township and rural economy. This chapter examines red-tape-specific bottlenecks that can be resolved to promote economic progress in these economies.

43.4. ***Chapter 6*** looks at the potential unique approaches to competition assessment in the township and rural economy, particularly the assessment of closeness of competition and geographic markets.

43.5. ***Chapter 7*** provides closing remarks.

3. ECONOMIC SIGNIFICANCE OF THE TOWNSHIP AND RURAL ECONOMY

44. The economic significance of the township and rural economy is interwoven with the historical context within which townships and rural settlements were formed. Having been formed to foster 'exclusion by design', the structural barriers that were created during the apartheid era to enforce segregation resulted in a skewed economic make-up of the country and created a certain pattern of economic activity and ownership structure in the township and rural areas. Black, Coloured, and Indian communities were economically disadvantaged, denied economic opportunities, particularly participation in mainstream economic activities and access to land, and were reduced to being labourers (providing 'cheap labour') in white owned businesses and farms.

45. The economic patterns that prevail today flow directly from the legacy of apartheid. Most businesses that were formed in those areas were small, informal and only survivalist in nature as opposed to mainstream and wealth generating, and because the legacy of apartheid looms large even today, most of the businesses in townships and rural areas continue to fit this category.

3.1 Historical background to the economics of the Township and Rural Economy

46. The impact of the *Group Areas Act* was devastating. Through the enforcement of the law, Black, Coloured, and Indian communities were forcibly separated, long-established neighbourhoods were destroyed, and people were relocated to often-inferior housing in remote areas. The act disrupted social networks, cultural traditions, and economic livelihoods in numerous ways, most notably the ways indicated in the table below. [21]

Table 1: Economic impact of the Group Areas Act on HDPs

Racial Group	Impact	Example
Black	Forcibly removed from urban areas to townships and homelands, often far from employment opportunities.	Sophia Town, District Six
Coloureds	Relocated from established neighbourhoods to new, often poorly planned, areas.	District Six, Cape Town
Indians	Forcibly removed from commercial and residential areas, disrupting their businesses and communities.	Pageview, Johannesburg
Whites	Benefited from the act, gaining access to prime residential and commercial areas.	Suburbs in major cities

Source: Flyriver. 2020. The Group Areas Act: A Legacy of Forced Segregation.

21 Flyriver. 2020. *The Group Areas Act: A Legacy of Forced Segregation.* Available at: https://www.flyriver.com/g/group-areas-act

47. This pattern was largely similar to the earlier enforcement of the Natives Land Act where native Black South Africans were displaced from their ancestral land and forced to live in overcrowded and impoverished land reserves or to work as labourers on white-owned farms. The genesis of the Natives Land Act lies in the colonial history of the country. Following the Anglo-Boer war over natural resources in the country between 1880 and 1902 which saw the British emerge victorious, the resultant government formed the Union of South Africa in 1910 and unified the country under four colonies, namely the Cape Union, Natal, Transvaal, and the Orange Free State. This was done to consolidate power and control over resources in the country in the hands of white settlers.

48. At this stage, black communities still resided in their ancestral lands and were active in both subsistence and commercial farming and posed an economic threat to white farmers due to their cheap farming methods and presumably subdued demand for white produce as they produced their own food. White farmers, particularly in the Transvaal and Orange Free State, felt threatened by the success of Black African farmers, who were often more efficient and produced crops at a lower cost. This competition fuelled pressure to restrict Black land ownership and limit their economic activities, which ultimately resulted in the constitution of the Natives Land Act. The economic impact of this Act on previously disadvantaged persons is summarised in the table below.

Table 2: Economic Impact of the Natives Land Act on HDPs

Land Dispossession	The Act led to the forced removal of thousands of Black Africans from their land. Many were evicted from their farms and forced to live in overcrowded and impoverished reserves or to work as labourers on white-owned farms.
Economic Disadvantage	The Act severely limited the economic opportunities available to Black Africans. They were unable to compete with white farmers, and their access to credit and markets was severely restricted. This resulted in widespread poverty and economic dependence on white employers.
Social Disruptions	The Act disrupted traditional African social structures and family life. Many families were broken up as men were forced to seek work far from their homes. The reserves became overcrowded and lacked adequate infrastructure and services.

Source: Flyriver. 2020. The Group Areas Act: A Legacy of Forced Segregation.

49. The later discovery of natural resources, particularly diamonds and gold, in and around the major metros seen today, was followed by large scale migration of blacks from homelands to major cities and metros. These people were later evicted from city centres and confined in the townships through the enforcement of the Group Areas Act as discussed above.

50. The profile of the township and rural economy and the economic dynamics prevailing in this economy today were chiefly moulded by these laws.

3.2 Profile of the South African Township and Rural Economy

51. The township economy in South Africa represents a complex, historically constrained yet dynamic area of local economic activity.[22] Emerging from the racially segregated urban planning under apartheid, townships today are home to concentrations of micro, small

22 Mahajan, S., 2014. *Economics of South African townships: special focus on Diepsloot*. World Bank Publications, p. 3. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/217211468302413395.

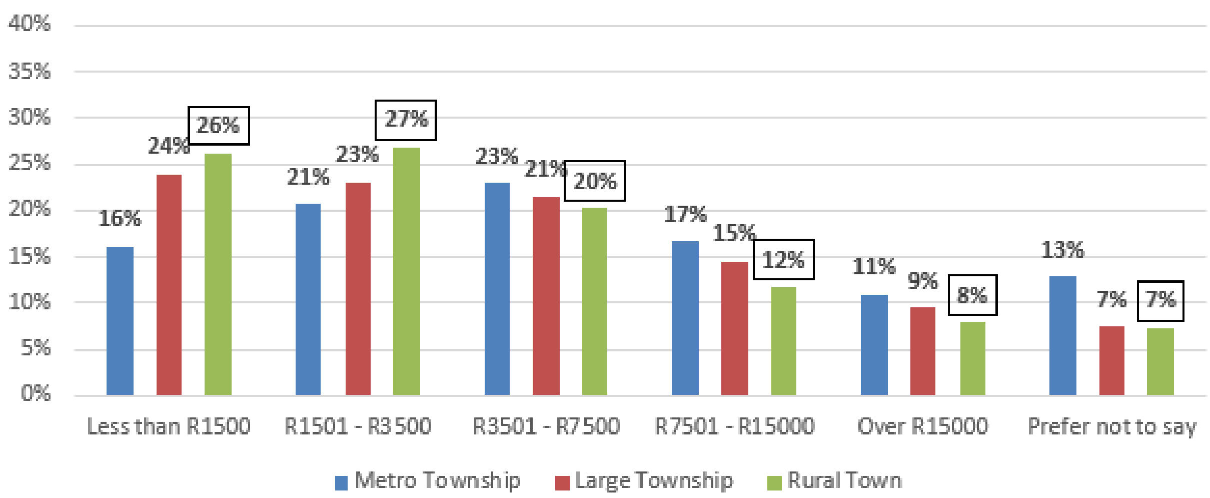
and medium enterprises that operate within diverse value chains, ranging from informal retail trade to formal franchised outlets.[23]

3.2.1 *Poverty and unemployment remain high in the township and rural economy*

52. It is well documented that the township and rural economy is characterised by high rates of unemployment and poverty, with socio-economic data showing clearly that the majority of township residents are poor and that the unemployment rate is very high. For example, figures for Soweto indicate that in 2004 the monthly income of 28% of households was less than R800 and that 40% of economically active people were unemployed.[24]

53. The results of the Consumer Survey corroborate these statistics, showing that 53% of respondents in rural towns earn below R3500 per month, while 47% of residents in large townships and 39% in metro townships fall within this category. The results also indicate that a sizable population of these areas fall below the poverty line of R2846[25] - at least: 16-37% in metro townships, 24-47% in large townships, and 26-53% in rural towns.

Figure 4: Monthly household income of respondents in townships and rural areas



Source: RedFlank Consumer Survey, slide 11

54. Overall, these results suggest that most respondents fall within the lower-income categories in these areas. These patterns could identify spending patterns, track changes in consumer behaviour, and how household income trends influence demand for specific products and services.

55. Through its enforcement actions in various markets and across various enforcement tools, the Commission has learnt that there is a link between household income and consumer spending patterns. For instance, generally, households with higher incomes tend to be less price sensitive and spend

23 *McGaffin, R., Napier, M. and Karuri-Sebina, G. (2015) South African township economies and commercial property markets: a conceptualisation and overview*. Available at: https://sacitiesnetwork.co.za/wp-content/uploads/2015/04/SACN-township-economies_WEB.pdf

24 Pernegger, L. and Godehart, S., 2007. *Townships in the south African geographic landscape-physical and social legacies and challenges*. Available at: https://www.treasury.gov.za/divisions/bo/ndp/ttri/ttri%20oct%202007/day%201%20-%2029%20oct%202007/1a%20keynote%20address%20li%20pernegger%20paper.pdf

25 https://themercury.co.za/news/2026-02-04-south-africas-poverty-line-rises-to-r2-846-understanding-the-cost-of-living/

more on luxury goods and experiences, while lower-income households tend to be price sensitive and prioritise essential items like food and utilities. For this reason, the survey results assist in highlighting the importance of understanding income dynamics in shaping consumer behaviour in townships and rural towns across South Africa – this is considered in Chapter 5 of this report, dealing with the importance of consumer behaviour in shaping how competition in townships and rural areas works.

3.2.2 High prevalence of independent, informal, small, and HDP-owned businesses

56. The township and rural economy is characterised by a diverse range of businesses across different industry sectors, ranging from formal to informal, and from micro (then small and medium) to large businesses. However, literature indicates that the legacy of apartheid impacted the township economy in such a way that majority of businesses in this economy are small and informal. This is because, due to high unemployment and poverty, people who resided in townships (mostly black South Africans) who could not get formal employment were pushed into starting small businesses in the informal sector as a means of survival.[26]

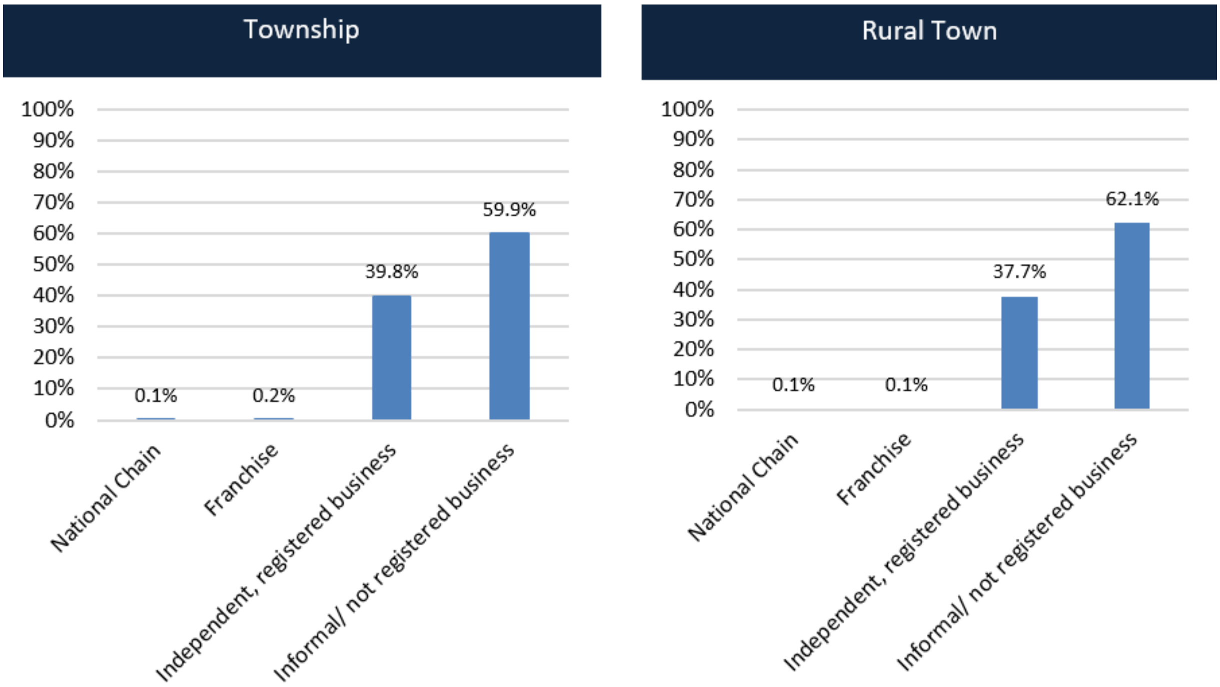
57. Some businesses were started as formal or became formal with time, and others were started as bigger businesses or grew to become bigger. However, in most cases, larger businesses in the townships are owned by non-black individuals or did not originate in the township – this is the case with national chains and franchises.[27] This pattern of business type and business ownership continues even today, as the results of the Business Survey indicate that in most townships, business activity is driven by independent and informal businesses.[28]

26 Mahajan, S., 2014. *Economics of South African townships: special focus on Diepsloot*. World Bank Publications, p. 3. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/217211468302413395.

27 RedFlank has described national chains as corporate-owned, or centrally managed, businesses operating multiple outlets across South Africa under a unified brand and ownership structure. It has described franchises as independently operated businesses trading under the brand, system and operational model of a larger or regional franchise brand through a franchise agreement.

28 RedFlank has defined, for the purpose of its survey work, an independent business as a locally owned, registered business that does not operate as part of a national chain or franchise and typically does not have a substantial branch or outlet network across the county. For informal businesses, RedFlank has described this as a type of business that operates outside the formal regulatory structures and often without formal registration.

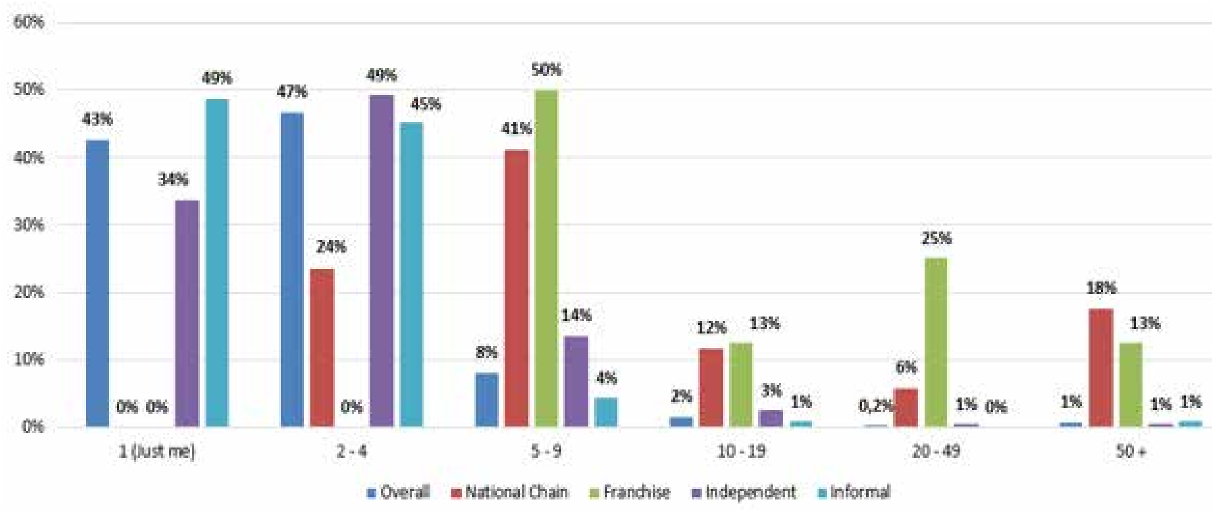
Figure 5: General Demographics: Business Type



Source: RedFlank's Business Survey, slide 11

58. Most of these businesses are small and micro enterprises as measured by number of employees, with an overwhelming majority of the independent (83%) and informal businesses (94%) employing either "1 (just one)" or "2-4" employees. The figure below illustrates.

Figure 6: Business size (in Townships)29

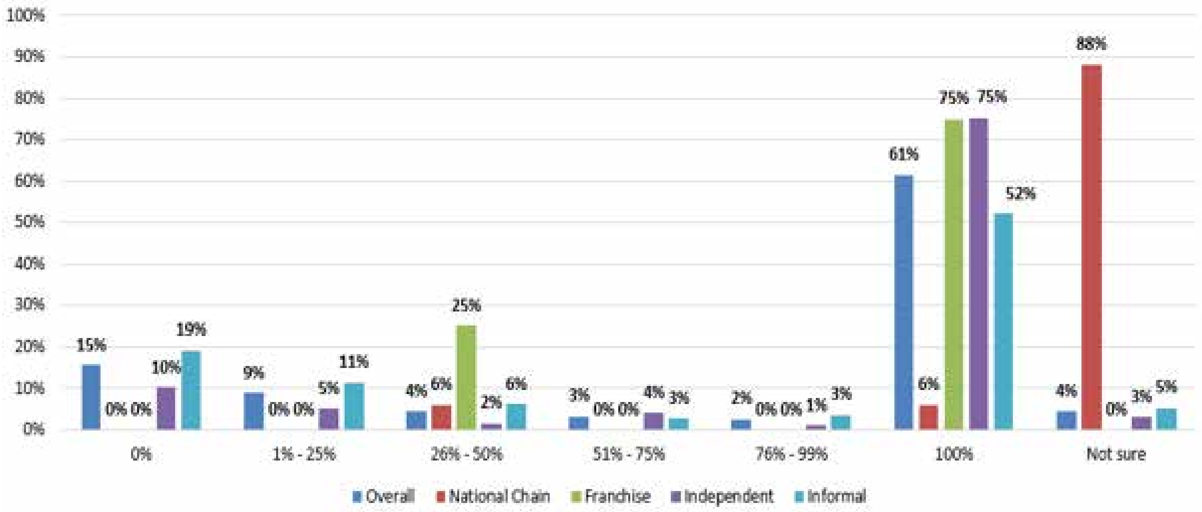


Source: RedFlank's Business Survey, slide 14

59. Importantly, the majority of the businesses, particularly the independents and the informal are predominantly owned by previously disadvantaged persons as the figure below illustrates.

29 The observation is similar in the rural towns.

Figure 7: Ownership demographics: Percentage (%) of PDI ownership (Townships[30])



Source: RedFlank's Business Survey, slide 16

60. This is not surprising given that most of the township and rural population is black, and that most businesses in these areas were started for survival to fight poverty amid unemployment. These observations are important as they highlight the importance of the township economy for the South African economy as discussed in greater detail in the next section.

3.3 Importance of the Township and Rural Economy in South Africa

61. Local development in township and rural town economies is often analysed through whether income and expenditure are retained locally or "leak" to other places. A common framing distinguishes between: (i) injections (income entering the locality), (ii) local circulation (spending between local firms and households), and (iii) leakages (spending that exits the locality because goods and services are sourced elsewhere). Where leakages are high, the local multiplier is weaker because household spending is re-spent fewer times within the locality (it exits to outside suppliers and shops more quickly), making local enterprise growth harder to sustain.[31]

62. If local markets are under-supplied (limited range, intermittent availability, weak service quality, or weak price competition), households' effective choices shift towards larger nodes outside the area. This reduces local demand for township and rural town businesses, which in turn limits their ability to reach efficient scale and invest in competitiveness. Conversely, where local firms can procure reliably, reach higher-value routes to market, and credibly signal quality, they are more likely to grow into effective competitors, improving rivalry and local consumer welfare.[32]

63. The South African township research emphasises that township enterprise performance is shaped by spatial planning and commercial property dynamics such

30 A similar pattern is observed for the rural economy.

31 Heideman, L. (2011) *'Municipal local economic development and the multiplier effect: piloting a community enterprise identification method in South Africa and Namibia'*, Commonwealth Journal of Local Governance, 8, pp. 59–80; Department of Cooperative Governance (CoGTA). 2018. National framework for local economic development (LED) – Creating Innovation-driven local economies. Available at: https://www.cogta.gov.za/cgta_2016/wp-content/uploads/2023/01/National-Framework-for-LED-2018-2028.pdf

32 Mahajan, S. (ed.) (2014) *Economics of South African townships: special focus on Diepsloot* (World Bank Studies). Washington, DC: World Bank. Available at: https://documents1.worldbank.org/curated/en/217211468302413395/pdf/Economics-of-South-African-townships-special-focus-on-Diepsloot.pdf ; RedFlank. 2025/2026. *Business study on townships and rural towns: results report*. (unpublished survey results, prepared for CCSA).

as access to appropriate trading space, footfall and inclusion in formalised retail nodes. These factors affect whether enterprises can participate in higher-value segments of value chains.[33] A complementary body of township-focused research highlights that local development is constrained where there are weak production networks and limited linkages to formal supply chains. Even where there is high consumption, local firms may struggle to substitute for non-local suppliers if they cannot meet requirements linked to volume, packaging, quality consistency, or compliance.[34]

64. With over 40% of South Africa's population residing in townships and rural areas,[35] the township economy presents a significant potential and opportunity for economic progress – in particular, to create an enabling environment for employment creation, poverty eradication and to drive inclusive economic growth and reduce inequality in the country.

3.3.1 Opportunities for economic progress

65. The profile of the township economy discussed above presents both an economic problem and an economic opportunity at the same time. The economic problem is clear. As discussed above, the levels of poverty and unemployment are high in the townships. Secondly, the nature of businesses in the townships, particularly the high prevalence of micro, small, and informal businesses, started as survival means, only serves to perpetuate inequality in the country as it indicates a profound inability of HDIs to enter mainstream business activities.

66. However, this very problem presents an opportunity for economic progress. According to the latest Quarterly Labour Force Survey (QLFS) released by Statistics South Africa ("Stats SA") for instance , one of the biggest sectors in the township, the informal sector, accounted for 19.5% of total employment in the country in the fourth quarter of 2024.[36] There is also extensive literature on the potential contribution of the township economy on economic growth and job creation in the South African economy – stemming mainly from the undesirable state of the economy as shown in the profile of the economy.

67. For instance, the high prevalence of micro, small, and informal businesses, coupled with the large presence of HDI owned businesses, means that if an enabling environment can be created in the townships to allow businesses to formalise and enter into mainstream economy, businesses can grow and they can absorb a larger share of the unemployment base, which is predominantly the youth. This can contribute towards lowering the levels of unemployment and poverty eradication.

68. Another opportunity for economic progress would be to increase the share of income that is spent within the township or rural town to get money to circulate more within the local economy before it leaves. The survey results indicate that approximately 50% of rural and township households spend their money outside their local economy across various sectors, including basic goods and services such as food (50% for rural towns & 41% for large townships), building and hardware (42% for rural towns & 47% for large townships), and pharmacy services (48% for rural towns & 43% for large townships).

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33 McGaffin, R., Napier, M. and Karuri-Sebina, G. (2015) South African township economies and commercial property markets: a conceptualisation and overview. Available at: https://sacitiesnetwork.co.za/wp-content/uploads/2015/04/SACN-township-economies_WEB.pdf

34 Mahajan, S. (ed.) (2014) Economics of South African townships: special focus on Diepsloot (World Bank Studies). Available at: https://documents1.worldbank.org/curated/en/217211468302413395/pdf/Economics-of-South-African-townships-special-focus-on-Diepsloot.pdf

35 Pernegger, L. and Godehart, S., 2007. *Townships in the south African geographic landscape–physical and social legacies and challenges.* Available at: https://www.treasury.gov.za/divisions/bo/ndp/ttri/ttri%20oct%202007/day%201%20-%2029%20oct%202007/1a%20keynote%20address%20li%20pernegger%20paper.pdf

36 Stats SA.2025. *South African's Informal Economy: A Lifeline for Millions.* Available at: https://www.statssa.gov.za/?p=18255

69. Some of the reasons cited for these patterns include limited choice and poor service/product quality locally alongside higher prices. This reflects a supply side problem in respect of the profile of local businesses. As most of these businesses are small, informal and survivalist in nature, they are unlikely to have licences or permits to stock certain products such as pharmaceuticals for example, thereby leaving consumers with no choice, but to spend their money outside the local economy for certain products. From a local development perspective, this pattern is consistent with expenditure leakage where local options do not sufficiently meet needs on price, range, reliability, or trusted quality. With more formalisation and larger scale businesses, more quality products and choice would be available locally, allowing for greater local circulation of money.

70. These are some of the reasons why the township and rural economies in South Africa are seen as the backbone of economic activity in marginalized communities.[37] They provide opportunities for employment and entrepreneurship as the work in township micro-enterprises offers the unemployed youth a point of entry into the labour market.[38] The government of the country has already identified the township economy as an area that can be prioritised to pursue economic progress as it looks to lift the economy out of prolonged periods of stagnant growth. The next sub-section provides detail on the government's priorities in respect of the township and rural economy.

3.3.2 National priorities in respect of the township and rural economy

71. The issue of targeting the township economy as a vehicle for economic growth has become topical amongst policy makers. The public discourse in the political space typically deals with the concept of revitalising the township economy with the aim of creating jobs and reducing inequality as the government recognises the potential of this economy in advancing development goals, including reducing poverty and unemployment.[39]

72. Policy frameworks position local development as a place-based and value-chain challenge requiring coordination, municipal capability, and partnerships. South Africa's framework for local economic development ('LED') explicitly supports interventions that strengthen local enterprise capability, improve enabling infrastructure, and reduce practical barriers to participation. At the municipal level, the standard draft by-law for township economies (2024) highlights that permitting systems, designated trading areas, restrictions and enforcement design can either facilitate or hinder township enterprise development – reinforcing that local regulatory design is a determinant of market access and local development outcomes.[40]

73. The Gauteng Reimagined Industrial Strategy for instance highlights revitalisation of townships as one of the engines of growth with a particular objective of achieving economic inclusion.[41] In the same vein,

37 Charman, A. and Petersen, L. 2015. *The layout of the township economy: the surprising spatial distribution of informal township enterprises*. Available at: https://cisp.cachefly.net/assets/articles/attachments/53597_charman_&_petersen_2015_township_enterprises_-_final.pdf

38 Charman, A.2016 *The South African Township Economy and Informal Micro-enterprises.* World Bank Group. Available at: https://commerce.uct.ac.za/sites/default/files/content_migration/commerce_uct_ac_za/1093/files/DPRU%2520PB%252016_45.pdf.

39 Charman, A., 2017. Micro-enterprise predicament in township economic development: Evidence from Ivory Park and Tembisa. South African Journal of Economic and Management Sciences, 20(1), pp.1-14.

40 Department of Cooperative Governance (CoGTA). 2018. National framework for local economic development (LED) – Creating Innovation-driven local economies. Available at: https://www.cogta.gov.za/cgta_2016/wp-content/uploads/2023/01/National-Framework-for-LED-2018-2028.pdf; CoGTA.2024. Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000): *Standard draft by-law for township economies* (Government Gazette No. 51529, Notice 2826 of 2024, 7 November). Pretoria: Government Printer. Available at: https://www.gov.za/sites/default/files/gcis_document/202411/51529gen2826.pdf

41 Gauteng Department of Economic Development and Infrastructure Development.2014. *Gauteng Township Economy Revitalisation Strategy* 2014-2019.

national policy frameworks such as the *National Development Plan 2030*[42] and the *Reimagined Industrial Strategy*[43], have identified the strategic importance of township enterprises as potential engines for local employment creation and economic inclusion. Similarly, the government's *Medium-Term Development Plan (MTDP) 2024-2029*[44] prioritises supporting micro-enterprises, removing regulatory obstacles, and providing access to Small, Medium and Micro Enterprises (SMMEs) in townships in pursuit of economic development.

74. The idea of these types of initiatives finds support from academics. Certain studies suggest the following initiatives by the government in collaboration with the private sector: i) revitalise decaying 'inner-city' areas in townships to solve some of the infrastructure problems and to facilitate adequate spatial planning; ii) having identified shortage of skills among business owners, studies suggest provision of skills and capacity building to address the deficiency; iii) implementing a comprehensive township support programme and local economic initiatives; iv) reducing regulatory obligations and increasing financial support to lower entry barriers and stimulate competition and v) foster supply-chain development and localisation, ensuring entrepreneurs have convenient market access outside townships.[45]

75. These proposed initiatives are good on paper, but there are barriers that might prevent attainment of their core objective. Some of these barriers are well documented, including lack of funding and a knowledge and skills gap as noted in the section below, but others, particularly competition related barriers are underexplored. We deal with these in greater detail in Section 4 and 5.

3.3.3 Common obstacles to economic progress

76. Several obstacles have been identified in literature that might prevent economic progress in the township and hamper government's efforts in revitalizing the township economy. Top of the list is lack of, or inadequate access to finance/ funding.[46] Other obstacles are a hangover from the spatial planning of the past. While democracy was secured in 1994, township businesses continue to face profound structural constraints, including spatial disconnection from major economic hubs, limited access to productive infrastructure, and entrenched market concentration that restricts entry and expansion.[47]

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42 National Planning Commission (NPC). 2012. *National Development Plan 2030: Our future – make it work.* Pretoria. Available at: https://www.nationalplanningcommission.org.za/assets/Documents/ndp-2030-our-future-make-it-work.pdf

43 Department of Trade, Industry and Competition.2024. *Industrial Policy and Strategy Review – Transforming vision into action: charting South Africa's Industrial future.* Pretoria. Available at: https://www.thedtic.gov.za/wp-content/uploads/dtic-industrial-policy-review.pdf

44 Department of Planning, Monitoring and Evaluation. 2025. Medium Term Development Plan 2024-29. Available: https://www.dpme.gov.za/keyfocusareas/outcomesSite/MTDP/MTDP%202024-2029%20.pdf

45 Tshuma, M (2023). *Why the township economy matters*. Available: https://sa-tied.wider.unu.edu/article/why-the-township-economy-matters; Tshuma, M. 2022. Accelerating private sector job creation and poverty reduction in South Africa's townships. Available at: https://sa-tied.wider.unu.edu/article/accelerating-private-sector-job-creation-and-poverty-reduction-south-africas-townships; Timm, S (2012). *How the state and private sector can partner to boost support to SMEs: Lessons from Chile & Malaysia. A report for the Department of Trade and Industry (the dti) and TIPS.* Available at: https://www.tips.org.za/files/how_the_state_and_private_sector_can_partner_to_boost_support_to_smes.pdf

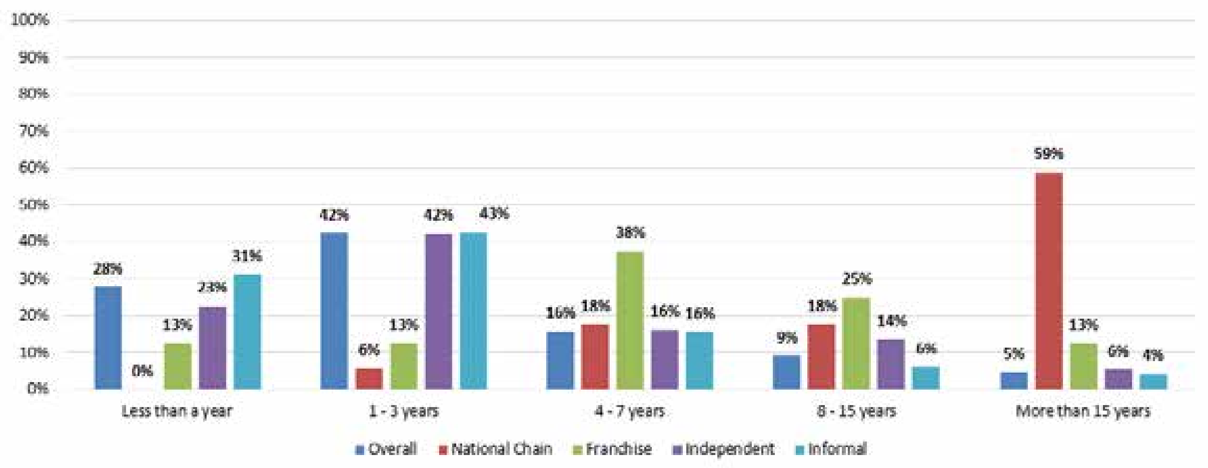
46 Charman, A., Petersen, L. and Piper, L., 2012. *From local survivalism to foreign entrepreneurship: The transformation of the spaza sector in Delft, Cape Town*. Transformation: Critical Perspectives on Southern Africa, 78(1), pp.47-73; Mahajan, S. (ed.) (2014) Economics of South African Townships: Special Focus on Diepsloot. World Bank Group. Available at: https://documents1.worldbank.org/curated/en/217211468302413395/pdf/Economics-of-South-African-townships-special-focus-on-Diepsloot.pdf; Rogerson, C.M., 2018. *The economic development of South Africa's townships. In The geography of South Africa: Contemporary changes and new directions (pp. 187-194). Cham: Springer International Publishing; JA Wiid and MC Cant.2021.The future growth potential of township SMMEs: An African perspective*. Available at: https://journals.co.za/doi/pdf/10.35683/jcm21005.115

47 Atkinson, D. (2008) Economic Opportunities in Small Towns. Urban LandMark (TIPS). Available at: https://www.tips.org.za/files/u65/economic_opportunities_in_small_towns_-_atkinson.pdf

77. Other prevalent challenges include regulatory hurdles, unfair competition from established firms,[48] lack of entrepreneurship skills (training/ development/ mentorship) and restricted access to external markets.[49] The lack of skills and business knowledge is said to be a factor that constrains the growth and sustainability of township SMMEs. A sizable percentage of township residents is said to lack the necessary skills to participate in entrepreneurship.[50] Research on the township economy states that "*more than half the early-stage township entrepreneurs participate in crowded and low-profit-margin retail activities because of low skill levels.*"[51]

78. These obstacles probably explain the high churn rate of smaller businesses in the township and rural economy. Survey evidence suggests that a large share of surveyed businesses operating in townships and rural areas are relatively recent entrants as seen in the figure below.

Figure 8: Years in business (Township)



Source: RedFlank's Business Survey Report, slide 14

79. Overall, 70% of township businesses report having operated for three years or less (28% < 1 year & 42% between 1-3 years). This pattern is particularly pronounced among independent and informal businesses. Similarly, overall, 68% of rural town businesses have been in business for three years or less (31% < 1 year & 37% between 1-3 years), with the pattern being more pronounced for independent and informal businesses. The figure below depicts.

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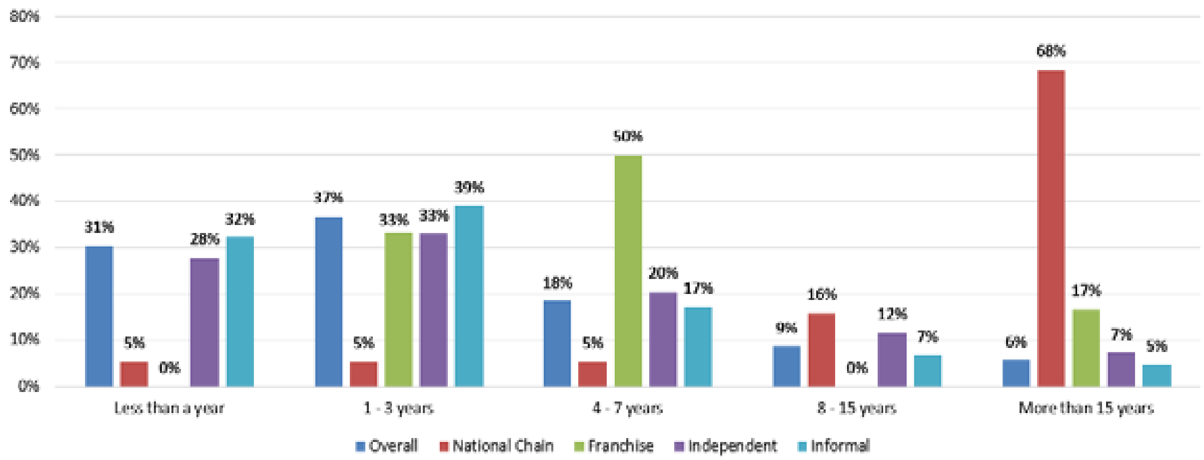
48 Kim, S. and Davidson, A., 2024. *Entrepreneurship in South Africa's townships: ecosystem challenges and recommendations for the path forward*. Available at: https://andeglobal.org/wp-content/uploads/2024/02/Entrepreneurship-in-the-South-African-Townships-28022024.pdf

49 JA Wiid and MC Cant.2021.*The future growth potential of township SMMEs: An African perspective*. Available at: https://journals.co.za/doi/pdf/10.35683/jcm21005.115; Mahajan, S. (ed.) (2014) *Economics of South African Townships: Special Focus on Diepsloot*. World Bank Group. Available at: https://documents1.worldbank.org/curated/en/217211468302413395/pdf/Economics-of-South-African-townships-special-focus-on-Diepsloot.pdf; Charman, A., Petersen, L. and Piper, L., 2012. From local survivalism to foreign entrepreneurship: The transformation of the spaza sector in Delft, Cape Town. *Transformation: Critical Perspectives on Southern Africa*, 78(1), pp.47-73; Charman, A., 2017. Micro-enterprise predicament in township economic development: Evidence from Ivory Park and Tembisa. *South African Journal of Economic and Management Sciences*, 20(1), pp.1-14.Available at: https://www.researchgate.net/publication/317050040_Micro-enterprise_predicament_in_township_economic_development_Evidence_from_Ivory_Park_and_Tembisa

50 JA Wiid and MC Cant (2021): *The future growth potential of township SMMEs: An African perspective*

51 Tshuma, M (2023). *Why the township economy matters*. Available: https://sa-tied.wider.unu.edu/article/why-the-township-economy-matters. Paragraph 4.

Figure 9: Years in business (Rural town)



Source: RedFlank's Business Survey Report, slide 15

80. This suggests that the business landscape in both townships and rural towns might be characterised by high rates of entry and exit among independent and informal enterprises. Contrasted against the longer periods of operation amongst the chains and franchises, this could indicate a business environment that is difficult for smaller, independent, and informal business or one that favours larger, more established chains and franchise businesses, in line with the obstacles identified in this section.

81. However, there could be other obstacles hindering the growth and sustainability of these enterprises, some of which may be linked to competition and/or competitiveness. Section 4 and 5 below respectively explore market related and regulatory based obstacles that may have implications for the growth and sustainability of businesses as well as competition in the townships and rural areas.

4. MARKET BARRIERS AFFECTING THE TOWNSHIP AND RURAL ECONOMY

82. This section seeks to identify and assess market barriers affecting businesses in the township and rural economy. Section 4.1 deals with procurement challenges faced by businesses in the economy and the implications of these challenges for business growth and consumers, and Section 4.2 looks at barriers associated with market access (or routes to market/sales channels) and their implications for business growth and consumers in these economies.

4.1 Procurement patterns and their implications on competitiveness and competition

83. Challenges related to how businesses procure inputs and/or inventory may increase the cost of doing business and result in higher prices and limited choice for consumers. This section examines the prevalence of procurement challenges facing rural and township businesses by first examining procurement patterns and then assessing the cost and competition implications of the procurement challenges.

4.1.1 Procurement channels used by township and rural businesses

84. Most township and rural businesses depend on inputs or inventory procured from other businesses, typically larger and distant businesses, for their operational activities. Procurement is therefore a primary determinant of the effective costs of operating a business in a township or rural town because it shapes (i) the unit price of inputs or stock/inventory (including access to volume discounts, rebates and credit), (ii) non-price terms (such as minimum order quantities, delivery frequency, and priority in periods of scarcity), and (iii) the landed cost that combines wholesale price with logistics and time costs.[52]

85. In settings such as townships and rural towns where independent, small and informal businesses depend on wholesalers and intermediaries, procurement structures are a foundational channel through which market power, scale economies and spatial frictions can disseminate into downstream outcomes.[53]

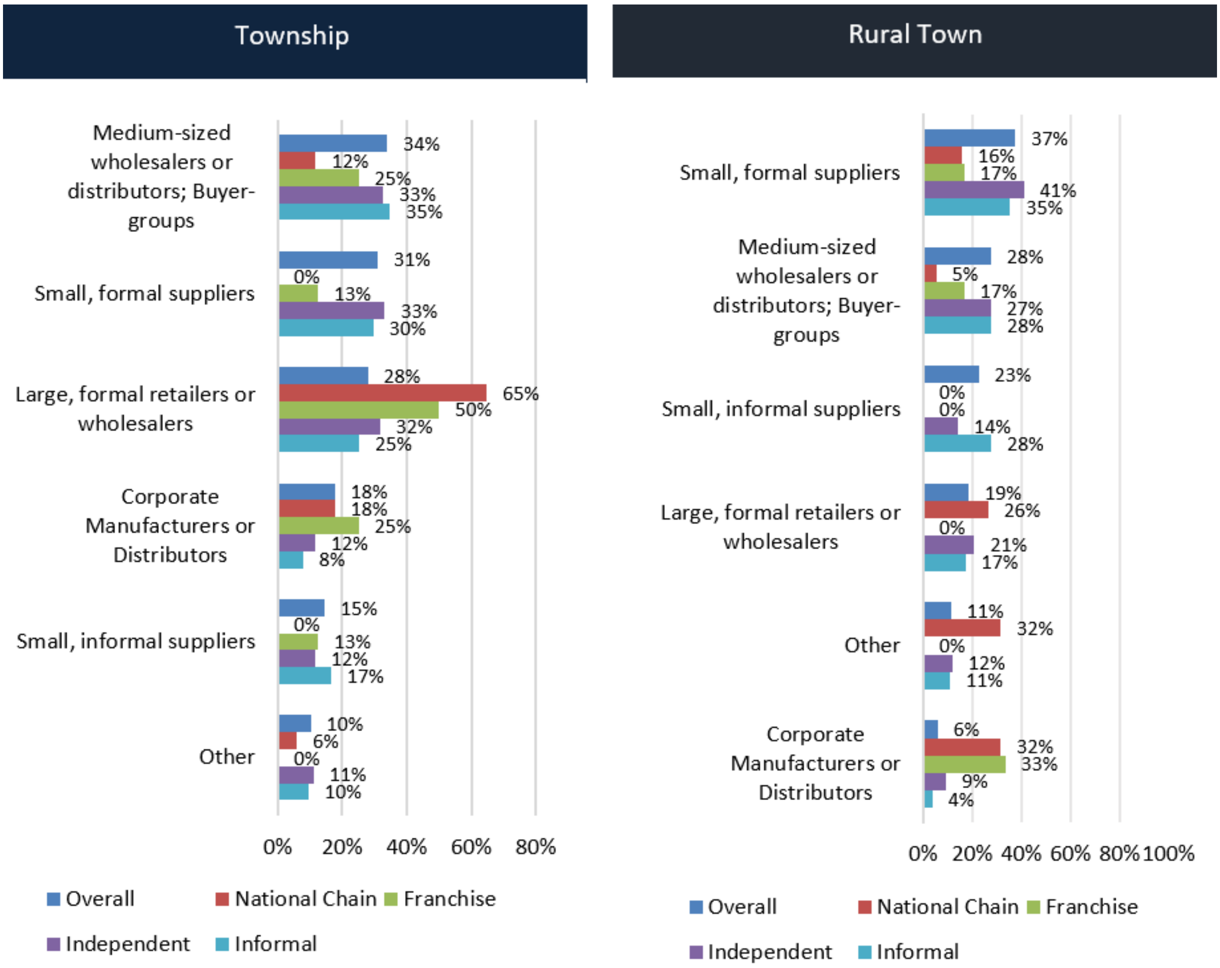
86. The business survey results show, as seen in the figure below, that smaller businesses

52 The landed cost is the total price of a product including its manufacturing cost, transportation (freight, shipping), duties, taxes, insurance, and handling fees from the factory to the final destination.

53 CCSA. 2019 *The grocery retail market inquiry (GRMI): final report (non-confidential).* Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; International Trade Centre (ITC). 2020. *SME Competitiveness Outlook 2020: COVID-19 –The Great Lockdown and its Impact on Small Business.* Available at: https://www.intracen.org/file/itcsmeco2020pdf; ADMAA (Kgaphola). 2019. *Scope and Viability of Spaza Shops in a Selected Township in South Africa* Available at: https://www.researchgate.net/publication/340412879_Scope_and_Viability_of_Spaza_Shops_in_a_selected_township_in_South_Africa; WRSETA. 2024. *Transforming the Township Retail Market in South Africa: A Sustainable Growth and Development Model for Spaza Shops.* Hare, C. and Walwyn, D.2019 *'A qualitative study of the attitudes of South African spaza shop owners to coopetitive relationships',* South African Journal of Business Management, 50(1), a1295.

tend to procure through smaller suppliers and intermediary wholesale channels, while franchises and especially national chains tend to procure through larger and more formalised supply channels. For instance, in rural towns, small formal suppliers are the most used procurement channel, especially for independent businesses (41%) and informal businesses (35%), while national chains buy from large wholesalers and corporate distributors (58%).

Figure 10: Procurement & supply channels, by business type



Source: RedFlank's Business Survey Report, slide 24&25

87. These patterns suggest that businesses participate in local competition from different upstream positions, as smaller firms are more likely to participate in formal supply systems indirectly, through smaller suppliers and intermediaries, while larger firms are more closely connected to manufacturers, distributors, and large wholesale and corporate (parent) networks. The significance of this is that procurement channels shape the degree of supply security firms enjoy, the range of products they can access, supply terms (including price) and the relative commercial leverage they bring into downstream competition.

88. This picture is consistent with the Commission's Grocery Retail Market Inquiry (GRMI) which identified differentiated supply routes in the grocery sector, including a wholesale channel involving wholesalers, buyer groups and

independent or informal retailers. The Inquiry also recognised that buyer groups can play a pro-competitive role by allowing smaller retailers to pool demand and improve their bargaining position with suppliers.[54] This is relevant as the survey results suggest that procurement channel choice is closely related to business size, scale and market position. The procurement channel a business uses is not simply a matter of preference, but is shaped by the procurement options that are realistically available to that firm (given its size, scale, location, formality and supplier access).

89. The broader South African research also points in this direction. Research on township and small retail businesses has shown that independent firms often procure through wholesalers rather than directly from large upstream producers, and that collective procurement and shared logistics can improve stock access and strengthen smaller firms' position in supply chains.[55]

90. More recent Commission-linked research on food value chains illustrates that procurement channels are themselves a dimension of competition. In bread, township bakeries commonly procure flour and other key inputs through wholesalers and cash-and-carry outlets in small volumes, rather than on direct supply terms with major producers. This raises their per-unit costs, weakens bargaining power, and can compromise input quality and consistency. In maize meal, smaller entrants face an analogous constraint at the level of grain sourcing and storage: participation depends on access to silo infrastructure and supply arrangements in a system shaped by concentration and vertical integration. In both cases, the route through which smaller firms obtain inputs influences their costs, resilience, product quality and ultimately their ability to compete in downstream markets.[56]

91. Overall, the survey results and wider evidence suggest that procurement channels in townships and rural towns are formalised, layered and unequal in their structure. Smaller and informal businesses are not excluded from supply chains altogether, but they tend to participate through more indirect and weaker upstream routes. Chains and franchises, by contrast, are generally more likely to procure through larger and more integrated channels.

92. This means that businesses competing in the same local market may already face different upstream conditions before they set retail prices, decide on product range, or attempt to expand. This matters for competition where procurement channels differ systematically by business type, as they can shape which firms are better placed to survive, grow, and expand over time, even before differences in retail pricing or customer reach are taken into account.

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54 CCSA. 2019 The grocery retail market inquiry (GRMI): final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf ; Government Gazette. 2015. Grocery Retail Sector Market Inquiry: Terms of reference. No. 39347, Notice 1035. Available at: https://www.gov.za/sites/default/files/gcis_document/201511/39347gen1035.pdf ; Buyer power guidelines for dominant buyers in agroprocessing, grocery wholesale and retail, e-commerce and online services. Available at: https://www.compcom.co.za/wp-content/uploads/2023/04/Buyer-Power-Guidelines-for-Dominant-Buyers-in-Agroprocessing-Grocery-Wholesale-and-Retail-E-Commerce-and-Online-Services.pdf ; International Trade Centre. 2020. SME competitiveness outlook 2020: COVID-19 – The great lockdown and its impact on small business. Available at: https://www.intracen.org/resources/publications/sme-competitiveness-outlook-2020-covid-19-the-great-lockdown-and-its-impact ; Kgaphola, M.P., Tawodzera, G. and Tengeh, R.K. 2019. 'Scope and viability of spaza shops in a selected township in South Africa', ADMAA, 4(2), pp. 16–28.

55 Cant & Associates (Pty) Ltd, 2024. *Transforming the township retail market in South Africa: a sustainable growth and development model for spaza shops.* WRSETA Project 2022/P3/003; CCSA. 2019. *The grocery retail market inquiry (GRMI): final report (non-confidential);* Kgaphola, M.P., Tawodzera, G. and Tengeh, R.K. 2019. *"Scope and viability of spaza shops in a selected township in South Africa"*, ADMAA, 4(2), pp. 16–28; CCRED. 2026. *SMME participation in food value chains* (draft report presentation); Goga, S. et al. 2025. SMME participation in food value chains (draft report); RedFlank. 2025/2026. *Business study on townships and rural towns: results report* (survey results, prepared for CCSA).

56 CCRED. 2026. *SMME participation in food value chains: draft report presentation (presentation)*, 29 January 2026, Pretoria: unpublished/internal document; Goga, S., Moothoo Padayachie Nair, K., Kala, Z. and das Nair, R. 2025. *SMME participation in food value chains: draft report.* Johannesburg: CCRED, University of Johannesburg. Prepared for the CCSA.

4.1.2 Procurement channels as a cost driver for township and rural businesses

93. Where procurement options are limited – because suppliers are geographically distant, distribution is concentrated in a small set of wholesale nodes, or switching is difficult – supplier power can translate into higher input costs for smaller buyers and/or less favourable trading terms. In turn, this can affect retail prices, stock availability, product variety and the ability of smaller firms to expand, with implications for both competitive rivalry and consumer welfare.[57]

94. From a competition perspective, three price transmission mechanisms are especially relevant for understanding how upstream procurement conditions affect the costs, pricing and competitiveness of township and rural businesses. First, scale economies in procurement and distribution mean that larger buyers (including chains and some franchises) may face structurally lower average input costs than independent, smaller and informal firms.[58] Second, where upstream or wholesale markets are concentrated, these differences can be intensified through minimum order constraints, discriminatory price or term setting, and priority supply arrangements.[59] Third, the resulting cost wedge can become self-reinforcing: weaker procurement terms reduce competitiveness and volumes, which inhibits the scale needed to access better terms.[60]

95. These procurement-based cost gaps appear to be widespread and linked to business type. Independent and informal firms often face higher unit costs because they buy in smaller quantities and have fewer suppliers nearby, while national chains are much less likely to report procurement problems. This means that firms can face very different input costs, which can affect who survives, who can grow, and how easy it is for new firms to enter local markets.

96. Procurement is therefore an integrating channel between business-side constraints (input costs and trading terms) and consumer-side outcomes (prices, choice and travel patterns). If local businesses face persistently higher all-in costs and weaker supply reliability, consumers may seek better-supplied or cheaper outlets, sometimes forcing them to travel further for certain product categories, especially clothing and footwear, and household goods.[61] This outward shift in demand can leave businesses with lower sales volumes and weaker

57 OECD (2023) *OECD SME and entrepreneurship outlook 2023.* Paris: OECD Publishing. Available at: https://www.oecd.org/en/publications/2023/06/oecd-sme-and-entrepreneurship-outlook-2023_c5ac21d0.html ; CCSA. 2019 *The grocery retail market inquiry (GRMI): final report (non-confidential)*. Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; CCSA. 2023. *Buyer power guidelines for dominant buyers in agroprocessing, grocery wholesale and retail, e-commerce and online services.* Available at: https://www.compcom.co.za/wp-content/uploads/2023/04/Buyer-Power-Guidelines-for-Dominant-Buyers-in-Agroprocessing-Grocery-Wholesale-and-Retail-E-Commerce-and-Online-Services.pdf

58 CCSA. 2019 *The grocery retail market inquiry (GRMI): final report (non-confidential).* Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; OECD. 2009. *Monopsony and buyer power* (DAF/COMP(2008)38). P.39-43. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2009/12/monopsony-and-buyer-power_cf60bdd1/36a2b824-en.pdf

59 CCSA. 2023. *Buyer power guidelines for dominant buyers in agro-processing, grocery wholesale and retail, e-commerce and online services*. Available at: https://www.compcom.co.za/wp-content/uploads/2023/04/Buyer-Power-Guidelines-for-Dominant-Buyers-in-Agroprocessing-Grocery-Wholesale-and-Retail-E-Commerce-and-Online-Services.pdf; OECD (2022) *Purchasing power and buyers' cartels.* OECD Competition Committee Background Note. Paris. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/05/purchasing-power-and-buyers-cartels_e4b267df/3fab0781-en.pdf

60 CCSA. 2019 *The grocery retail market inquiry (GRMI): final report (non-confidential).* Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; Resnick, D & Anisimove, E. 2020. *The politics and governance of informal food retail in urban Africa*. PIM Synthesis Brief.International Food Policy Research Institute. Available at: https://pim.cgiar.org/2020/10/31/informal-food-retail-in-africas-cities-governance-politics-policy-issues/

61 CCSA. 2019 *The grocery retail market inquiry (GRMI): final report (non-confidential).* Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; Resnick, D & Anisimove, E. 2020. *The politics and governance of informal food retail in urban Africa.* PIM Synthesis Brief.International Food Policy Research Institute. Available at: https://pim.cgiar.org/2020/10/31/informal-food-retail-in-africas-cities-governance-politics-policy-issues/

bargaining power, making it harder for them to obtain competitive prices and supply terms from suppliers.

97. The results of the Business Survey (as shown below) seem consistent with this view that procurement channels are an important driver of business costs. It shows that even where businesses report some scope to negotiate, many still perceive that procurement terms are not neutral across firm types. While 66% of surveyed businesses indicate that they are able to negotiate fair prices with suppliers, 49% believe that suppliers charge them higher prices because of their business size. This concern is strongest among independent businesses (61%), informal businesses (42%) and franchises (40%). The picture is similar for rural businesses.

Figure 11: Business perceptions of negotiation ability & size-based supplier pricing

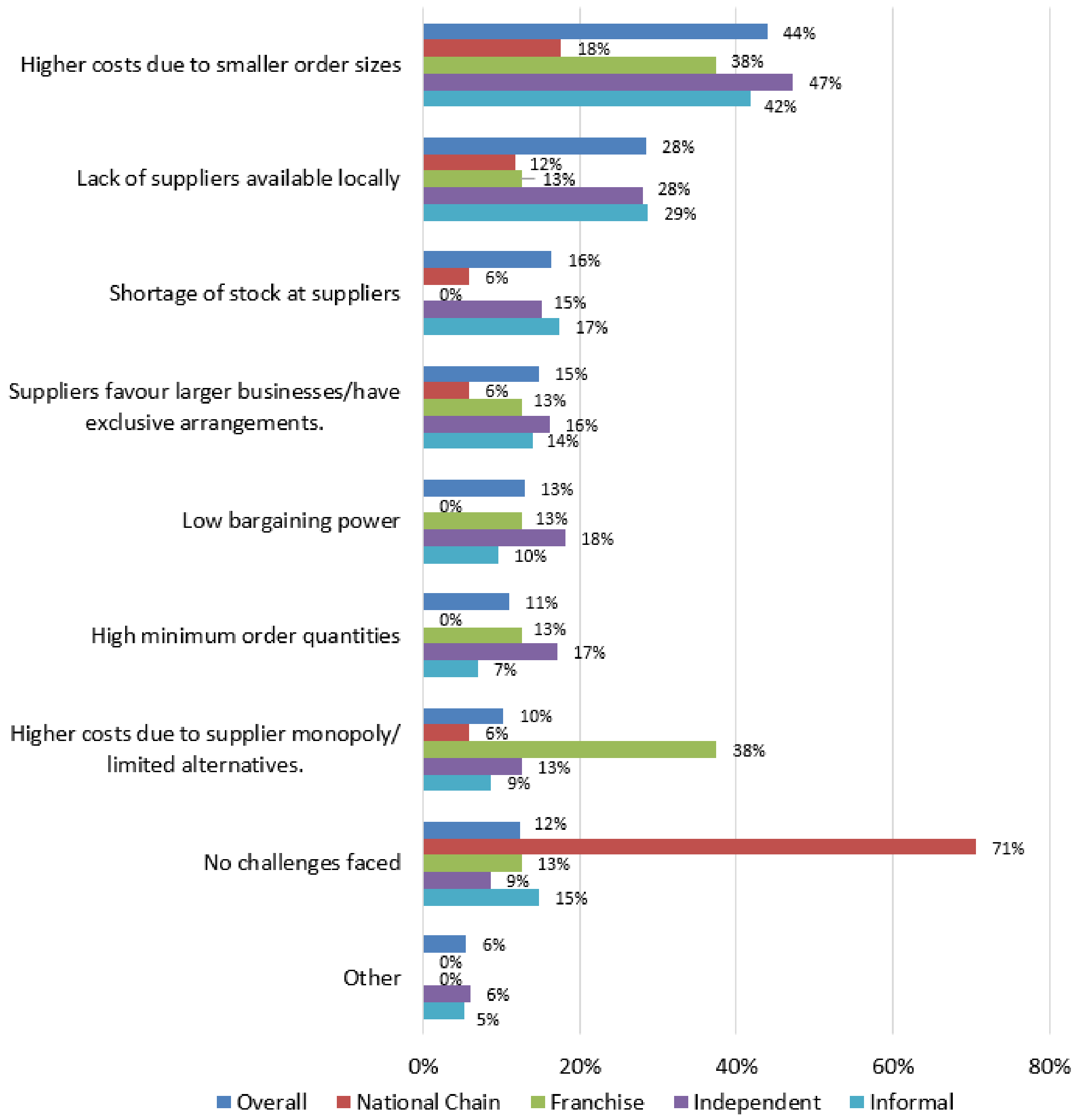
Source: RedFlank's Business Survey Report, slide 26 & 27

98. This suggests that the issue is not necessarily whether negotiation exists at all, but whether all businesses negotiate from comparable positions. For smaller township and rural firms, the survey points to a setting in which bargaining takes place, but within narrower limits: they may still be more exposed to minimum order penalties, less favourable credit terms, weaker rebates, and higher logistics costs than larger firms.

99. The Business Survey results also show that the cost burden of procurement is not limited to

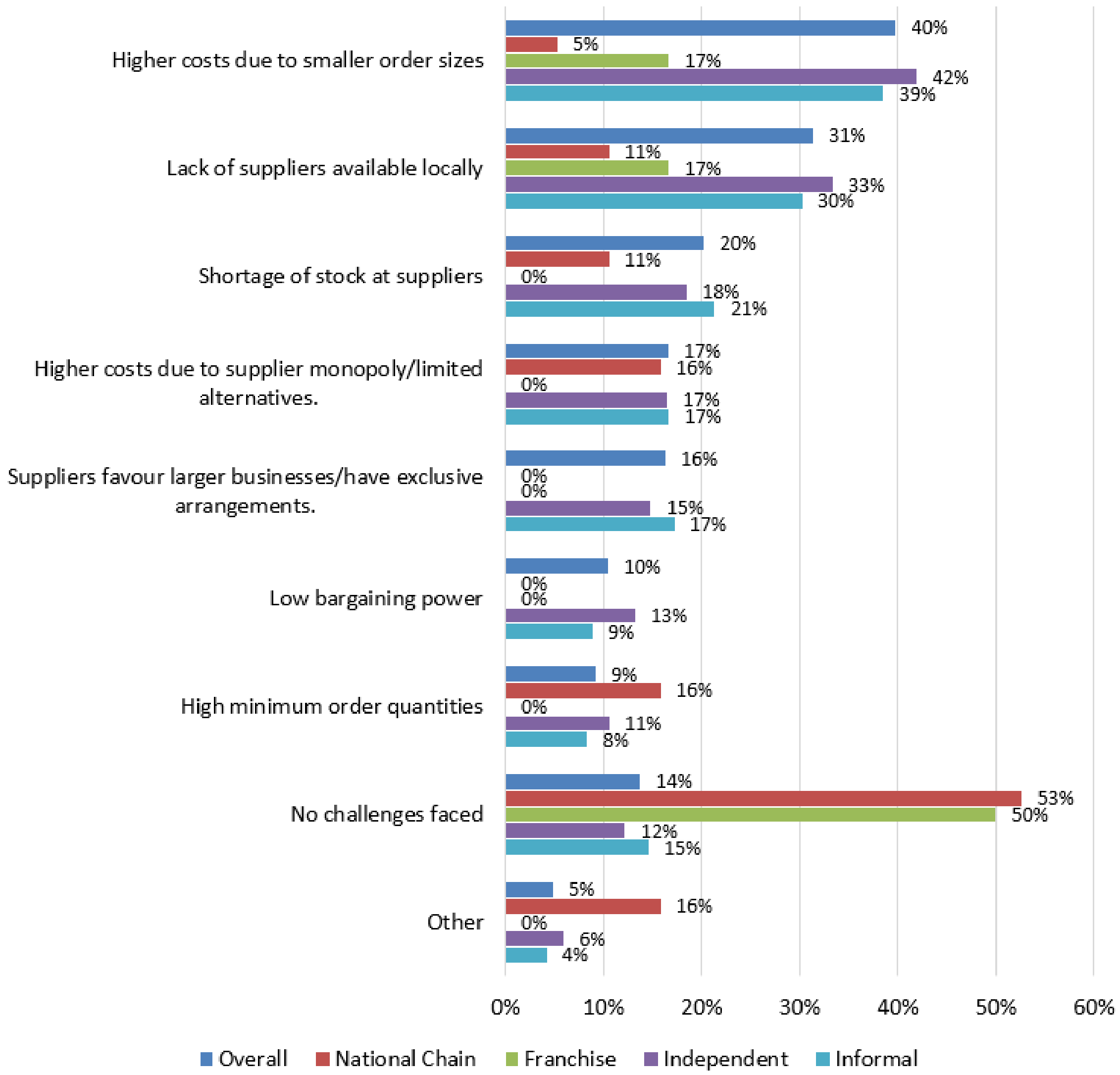
aspects like price discrimination or bargaining weaknesses. Practical procurement challenges – especially those linked to scale and geography – are also common as the figure below illustrates.

Figure 12: Procurement challenges reported by township businesses



Source: RedFlank's Business Survey, slide 28

Figure 13: Procurement challenges reported by rural town businesses



Source: RedFlank's Business Survey Report, slide 29

100. Some of the biggest procurement challenges reported include higher costs due to smaller order sizes, lack of local supplier availability, and shortages of stock at suppliers, as well as higher costs due to supplier monopoly or limited alternatives.[62] These challenges affect independent, informal, and smaller businesses to a greater extent relative to national chains are franchises and are more pronounces in rural towns.

101. These challenges may present a range of further ancillary difficulties for businesses. For instance, where suppliers are further away, firms face not only higher transport and handling costs, but also more difficulty in switching suppliers quickly, replenishing stock, or placing orders at efficient scale. For rural town businesses in particular, thinner supplier networks and longer distances from wholesale centres can increase the all-in cost of procurement, even where the initial supplier price appears similar.

62 RedFlank. 2025/2026. Business study on townships and rural towns: results report (survey results, prepared for CCSA).

102. These survey findings fit closely with the Commission's previous work on buyer power and wholesale access. The Grocery Retail Market Inquiry recognised that smaller retailers often operate through a wholesale channel and that buyer groups can help them build countervailing power when dealing with suppliers.[63] The Commission's Buyer Power Guidelines similarly emphasise that "price" in procurement should be understood broadly to include discounts, rebates, credit and other trading conditions, not just the listed price of an input. This is important for township and rural town businesses because procurement cost disadvantages may arise not only from overt refusals to supply, but also from less visible commercial terms or trading conditions that raise effective input costs or shift more risk onto smaller firms.[64]

103. The Commission's enforcement and inquiry experience also shows how these kinds of procurement disadvantages can arise in practice.

103.1. In the Cashbuild/The Building Company merger, the Commission highlighted concerns that supply agreements may include priority supply provisions during shortages and more favourable rebates or discounts for larger retailers as volumes expand, potentially weakening the position of smaller rivals.[65]

103.2. In the Audatex case, allegations of higher input prices being charged to SMEs and HDP-owned firms for a critical business input, pointed to the way discriminatory pricing can affect smaller firms where upstream supply is difficult to avoid.[66]

103.3. The Fresh Produce Market Inquiry similarly underlined how concentrated intermediaries and access conditions at key supply nodes can affect participation by smaller and historically disadvantaged firms.[67]

104. The broader literature is in line with these findings. International survey evidence shows that smaller firms were generally more exposed to input cost pressures, logistics disruptions and difficulty security reliable supply than larger firms.

105. The World Bank's enterprise survey follow-up work during COVID-19 found that many firms struggled to get inputs and raw materials, and that larger firms recovered faster than SMEs.[68] The ITC's business impact survey similarly found stronger negative effects on micro and small firms,[69] while OECD and other survey evidence points to shipping costs, supply delays and inflation-related input pressures as persistent challenges for SMEs.[70] These findings reinforce the point that procurement-related cost disadvantages are not incidental: they are a common structural feature of smaller-firm competition.

63 CCSA. 2019. *The grocery retail market inquiry (GRMI): final report (non-confidential).* Section 2.2, Section 8.2, 8.3, and Section 9. Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf;

64 CCSA. 2020. *Buyer Power Enforcement Guidelines*. Available at: https://www.compcom.co.za/wp-content/uploads/2020/05/Buyer-Power-Guidelines.pdf; CCSA. 2023. *Buyer power guidelines for dominant buyers in agro-processing, grocery wholesale & retail, e-commerce and online services.* Available at: https://www.compcom.co.za/wp-content/uploads/2023/04/Buyer-Power-Guidelines-for-Dominant-Buyers-in-Agroprocessing-Grocery-Wholesale-and-Retail-E-Commerce-and-Online-Services.pdf

65 CCSA. 2020. *Cashbuild Limited and The Building Company Limited: final merger report* (Case no. 2020Oct0033)

66 CCSA. 2025. *Competition Commission v Audatex: final report* (Case no. 2025JAN0039); CCSA. 2020.

67 CCSA. 2025. *Fresh produce market inquiry: final report (non-confidential),* 13 January 2025. Available at: CC_FPMI-Final-Non-Confidential-Report-2025.pdf

68 World Bank. 2023. *The resilience of SMEs and large firms in the COVID-19 pandemic: a decomposition analysis.* Policy Research Working Paper No. 10562; World Bank. 2020. *Unmasking the impact of COVID-19 on businesses: firm-level evidence from across the world*. Washington, DC.

69 ITC. 2020. *SME competitiveness outlook 2020: COVID-19: the great lockdown and its impact on small business.* Internation Trade Centre, Geneva.

70 OECD. 2023. *OECD SME and entrepreneurship outlook 2023. Paris; OECD. 2024. Financing SMEs and entrepreneurs 2024: an OECD scoreboard.* Paris; OECD, 2024. SME Digitalization to manage shocks and transitions. Paris. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/09/sme-digitalisation-to-manage-shocks-and-transitions_735fc44d/eb4ec9ac-en.pdf

106. This is also reflected in more recent Commission-linked work on agro-food value chains. This work shows that smaller producers often face highly concentrated or vertically integrated upstream structures, which can limit access to inputs on competitive terms and restrict access to distribution channels. Interview evidence from this work suggests that township bread producers often source flour through wholesalers or retailers, while smaller maize-milling entrants may face onerous deposit requirements and infrastructure-linked constraints when accessing grain.[71] These examples illustrate how logistics, infrastructure and vertical structure can directly affect procurement costs, as they shape the all-in cost of procurement.

107. A further point arising from these patterns is that procurement among smaller firms can be understood as both a constraint and an opportunity for township and rural town growth. On the one hand, where smaller township and rural businesses source mainly from other small or capacity-constrained suppliers, expenditure may circulate within a narrow segment of the local economy that itself has limited ability to scale, invest and expand. In this sense, small-to-small procurement can reinforce a low-growth system, with limited gains in productivity, employment and inclusion. On the other hand, these same procurement relationships may present an opportunity if an enabling environment is created for smaller suppliers to formalise, improve quality, expand capacity and access funding and working capital. Under those conditions, stronger local procurement linkages could help deepen local value chains, retain expenditure within township and rural economies, and support more employment-intensive and inclusive growth.

108. A related implication concerns franchises and national chains. Their greater reliance on larger formal suppliers, corporate distributors and more centralised procurement systems is not unexpected, given parent-company sourcing arrangements, standardisation requirements and established distribution networks. However, this pattern may also limit the extent to which procurement by larger firms supports local business development in townships and rural towns. This raises a possible policy consideration: where feasible, there may be value in exploring mechanisms that encourage at least some degree of local sourcing by larger chains and franchises, especially where local firms are able to meet quality, reliability and compliance requirements. In practice, that would likely be more workable where unnecessary barriers to formalisation and compliance are reduced, so that smaller local businesses are better able to participate in formal supply relationships.

109. The sector-level survey results suggest that the procurement difficulties identified above are not confined to one or two isolated sectors, but affect a broad range of businesses across township and rural economies. The most consistent challenge across sectors is higher costs due to smaller order sizes. This is particularly evident across agriculture, arts and crafts, automotive, construction, financial and business services, hair and beauty, hospitality and food services, ICT and electronics, manufacturing, medical or health services, and retail.[72]

110. The results also show that lack of local supplier availability remains a relevant concern in a number of sectors, while stock shortages and the inability to secure competitive terms arise more selectively. The implication is that the procurement problem is broad-based, but not identical across sectors: the dominant issue is not that all sectors face exactly the same constraint, but that many face a common cost disadvantage linked to scale and weaker

71 CCRED. 2026. *SMME participation in food value chains: draft report presentation (presentation),* 29 January 2026, Pretoria: unpublished/internal document; Goga, S., Moothoo Padayachie Nair, K., Kala, Z. and das Nair, R. 2025. *SMME participation in food value chains: draft report*. Johannesburg: CCRED, University of Johannesburg. Prepared for the CCSA

72 RedFlank. 2026. *Survey of Township and Rural Town Businesses (Final report, March 2026)*. Slides 156 & 163.

bargaining position. This reinforces the broader point in this section that smaller township and rural businesses often compete from a structurally weaker upstream position than more integrated formats.

4.1.3 Implications for consumer choice and prices

111. Procurement-related constraints matter not only because they affect firms' costs, but because those cost and supply pressures are filtered through to consumers in the form of higher prices, limited choice, weaker product availability, stock outages, poorer quality (or less trusted quality), and higher transport costs where consumers are forced to travel farther to shop.

112. In township and rural town areas, these effects are likely to be most prevalent in product categories where households are particularly sensitive to price, quality, range and reliability, and may include essential products and services such as food, pharmaceutical products and healthcare. The key point is therefore not simply that procurement affects sellers; it is that upstream procurement disadvantages can narrow the effective options available to households and can increase the consumers' cost of accessing preferred goods and services.

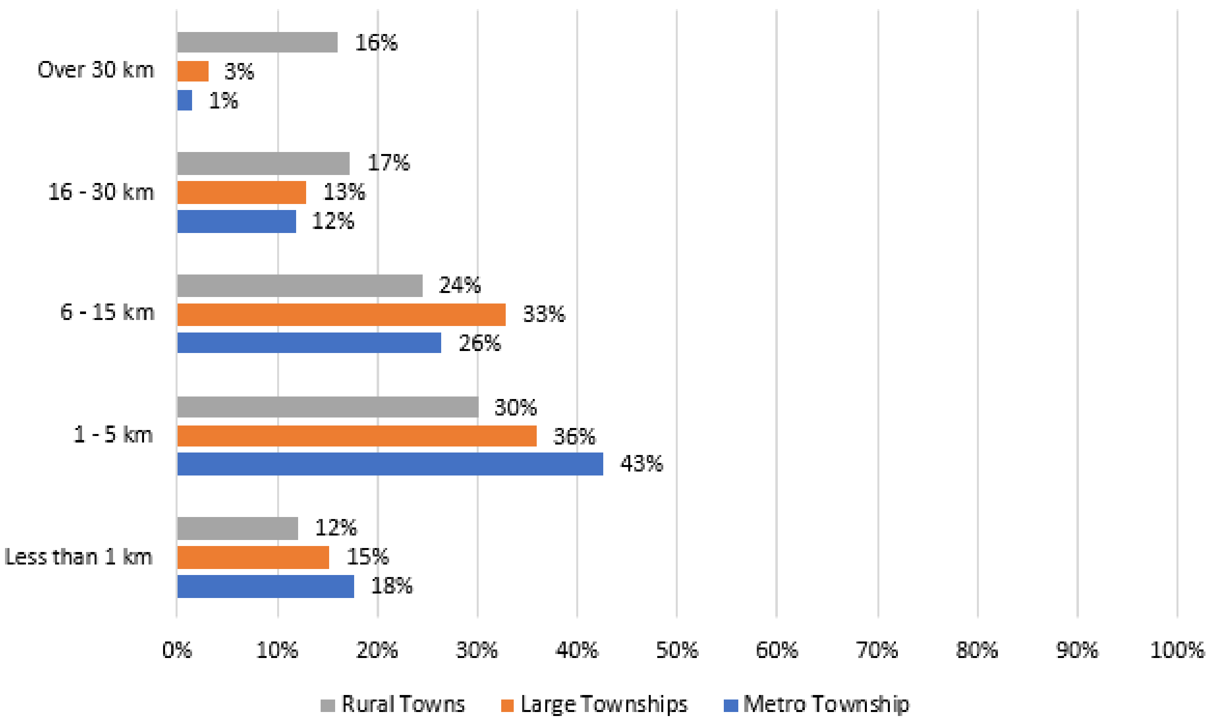
113. These consumer-side effects are especially important where local businesses are less able to compete on price, maintain reliable supply, or offer sufficient choice. In such cases, consumers may not stop buying altogether, but they may face a poorer local offer and may be compelled to travel to other shopping locations - often the nearest town or urban centre, and in some cases a more distant city - to obtain better prices, more variety, or more reliable supply.[73] This is not necessarily a welfare-improving form of consumer switching. Rather, it can reflect the fact that households are choosing the least costly or least risky option available to them in circumstances where local options are constrained. In that sense, longer travel can itself be a sign of weaker local competition and can raise household shopping costs and broader costs of living.

114. This can be seen most clearly in food shopping, which is a particularly important product category because food is purchased frequently, constitutes a high percentage of income spend for the poor, is highly price-sensitive, and is central to daily household welfare.[74] The figure below shows that while most consumers shop relatively close to home for food, rural-town consumers are materially more likely than large-township consumers to travel much longer distances, suggesting that local supply conditions may be weaker or more uneven in rural areas.

73 CCSA. 2019. The grocery retail market inquiry (GRMI): final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; RedFlank. 2025/2026. Consumer study on townships and rural towns: results report. (unpublished survey results, prepared for CCSA); Demacon Market Studies, 2010. *Impact of township shopping centres: market research findings and recommendations.* Report to Urban LandMark. Available at: https://www.ukesa.info/library/view/impact-of-township-shopping-centres; Ligthelm, A.A. 2008. *Entrepreneurship and small business sustainability (Small business success and failure, Soweto: a longitudinal analysis).* Research Report No. 377. Pretoria: Bureau of Market Research, UNISA.

74 RedFlank. 2025/2026. Consumer study on townships and rural towns: results report. (unpublished survey results, prepared for CCSA)

Figure 14: Average travel distance when shopping (Food)



Source: RedFlank's Consumer Survey Report, slide 61

115. This does not imply that travelling further is beneficial to consumers. Rather, it suggests that a meaningful share of rural-town households face weaker local options and may have to incur additional transport and time costs to reach food outlets that better meet their needs in terms of price, quality, range or availability.

116. The survey evidence also indicates that outward shopping is not uniform across all categories. It is especially strong in categories such as clothing and footwear and phones and electronics, where consumers place greater value on range, brand, quality and comparative prices.[75] These are the kinds of product categories in which a narrower local assortment or weaker procurement position is more likely to push households to shop in the nearest town or urban centre, or to use larger stores and online channels where available. In more routine or essential categories such as food, pharmacy products, and some medical services, proximity remains very important, but consumers may still travel when local supply is unreliable, prices are high, or product and service quality is perceived to be inadequate.[76]

117. As observed in Section 4.1.2 above, procurement conditions are an important dimension of competition, and when local firms, especially independents and smaller firms, are exposed to adverse input costs, supply disruptions and weaker trading terms, or face persistent procurement disadvantages, they are less able to offer competitive prices, dependable supply and a broad product choice to end consumers, and this raise the cost of living for consumers who are forced to travel farther to look for better options.

75 RedFlank. 2025/2026. Consumer study on townships and rural towns: results report. (unpublished survey results, prepared for CCSA).
76 RedFlank. 2025/2026. Consumer study on townships and rural towns: results report. (unpublished survey results, prepared for CCSA).

4.2 Sales channels and their implications for growth, competitiveness and consumers

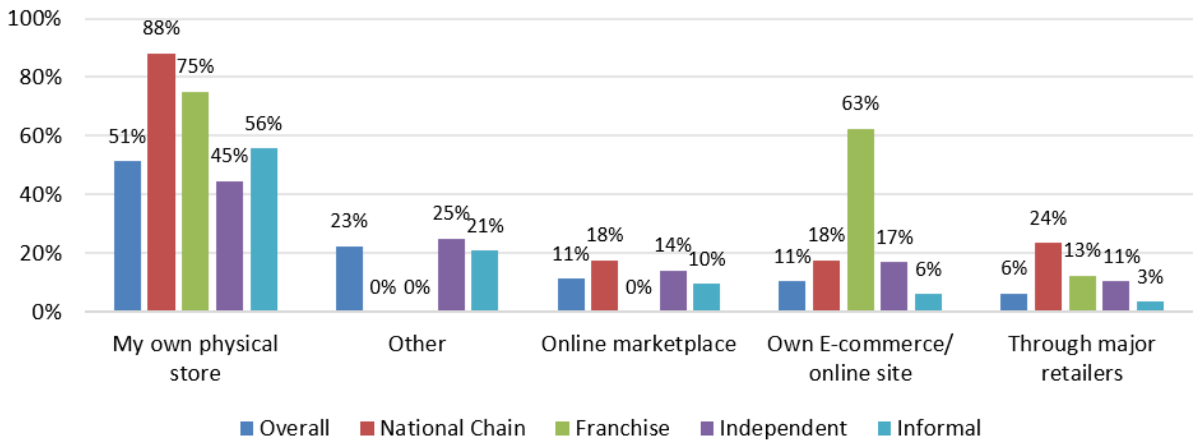
118. Market access or route to market is one of the most important factors affecting the growth and competitiveness of businesses, as well as their ability to compete with rivals in the market. This is so simply because to make a sale, a business requires a route to the customer/market, and the larger the customer base the seller can reach through the channel, the higher are its chances of making more sales, thereby generating more revenue to fund further investment and increasing competitiveness and market share.

119. This theme examines how township and rural town businesses reach customers, and the barriers that shape whether they can grow beyond local walk-in trade. It considers both the routes that businesses use to sell (including own premises, supplying major retailers, and online channels) and the way consumer shopping patterns and travel costs could affect the size of the area businesses can realistically serve. It also considers access to formal retail space, including shopping centers, as a route to market where high-footfall locations and center entry conditions can materially shape business expansion opportunities.

4.2.1 *Patterns of sales channels in the township and rural areas*

120. Survey evidence indicates that most township and rural town businesses sell primarily through their own physical stores, with limited use of higher-reach channels. Around half of surveyed firms sell through their own physical stores (townships: 51%; rural towns: 48%) while selling via major retailers is uncommon (townships: 6%; rural towns: 10%), and online channels remain limited (online marketplaces: 11% in townships and 9% in rural towns; own e-commerce sites: 11% in townships and 6% in rural towns). Chains differ materially from other business formats, reporting greater use of major retailers and online channels alongside high reliance on their own stores.[77] The figures below provides a visual summary of this route-to-market gap.

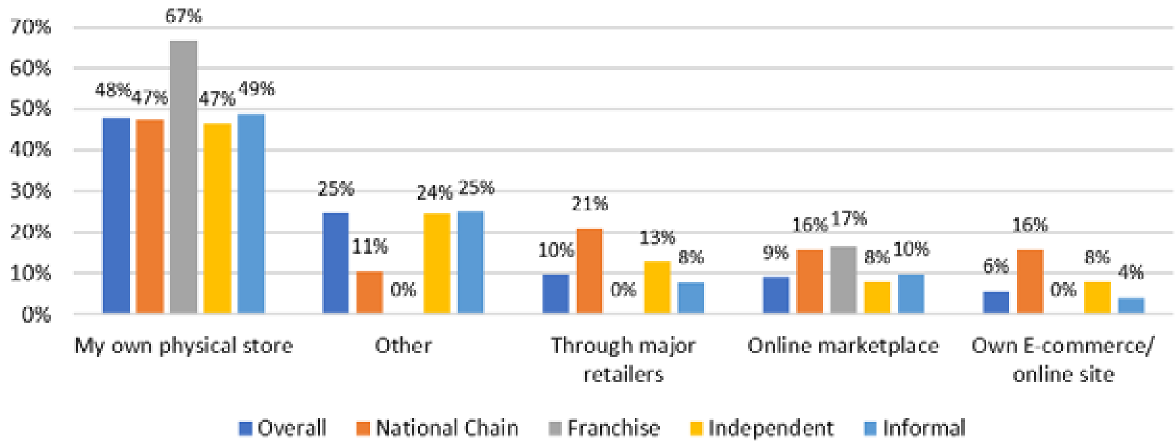
Figure 15: Sales channels used by Businesses (in Townships)



Source: RedFlank's Business Survey Report, slide 32

77 CCSA. 2019.The Grocery Retail Market Inquiry- final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf ; W&RSETA. 2024. Transforming the township retail market in South Africa: a sustainable growth and development model for spaza shops. W&RSETA. Available at: https://www.wrseta.org.za/downloads/24%20June/WRSETA%20Project_3%20Transforming%20the%20Township%20Retail%20Market%20in%20South%20Africa%20A%20Sustainable%20Growth%20and%20Development%20Model-%20for%20Spaza%20Shops%202024%2011.11.24.pdf

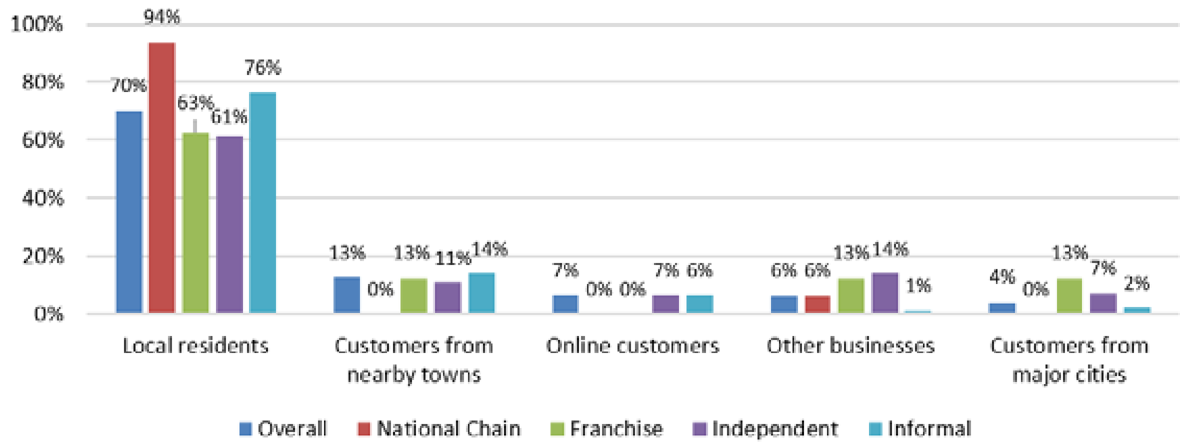
Figure 16: Sales channels used by Businesses (in Rural Areas)



Source: RedFlank's Business Survey Report, slide 35

121. The survey research also indicates that business reach remains predominantly local, as reflected in the figures below. In townships, 70% of businesses report local residents as their main customers (with particularly high shares for national chains at 94%). In rural towns, 78% of businesses report local residents as their main customers (national chains: 80%; informal businesses: 84%; independent businesses: 70%). While there is some limited 'spill-over' reach (where some rural town chains and independents report customers from nearby towns), the dominant pattern is dependence on local demand, reinforcing the importance of local trading nodes and footfall.[78]

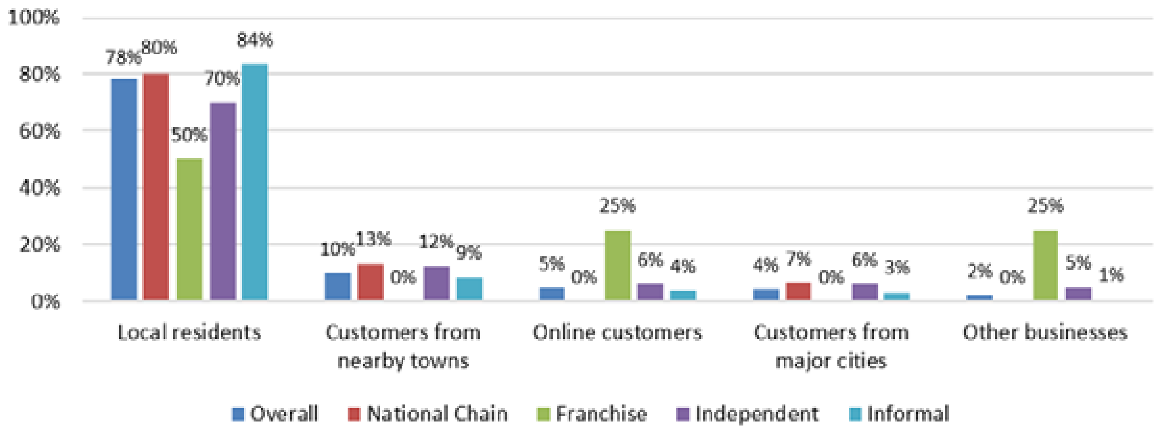
Figure 17: Business Reach (in townships)



Source: RedFlank's Business Survey Report, slide 38

78 RedFlank Survey of Township and Rural Town Businesses Demographics and Ownership (slides 38, 39).

Figure 18: Business Reach (in rural towns)



Source: RedFlank's Business Survey Report, slide 39

4.2.2 Market access constraints facing township and rural businesses

122. Market access constraints may arise from both demand-side and supply-side factors. On the demand side, consumers' ability and willingness to travel, as well as transport costs, influence the effective catchment area for a local business. On the supply side, access conditions set by formal intermediaries – including retailer onboarding requirements, fees and standards; platform rules and ranking mechanisms; and logistics and fulfilment requirements – can determine whether smaller firms can reach broader markets on competitive terms.[79]

4.2.2.1 Structural market access constraints

123. Recent South African evidence highlights that township enterprises' market access and scaling prospects are shaped by spatial and institutional barriers, including the availability and cost of business premises and proximity to trading nodes. Qualitative evidence from township case studies points to the difficulty and expense of securing appropriate premises, and to rental dynamics that can raise operating costs and constrain expansion even when demand is present.[80]

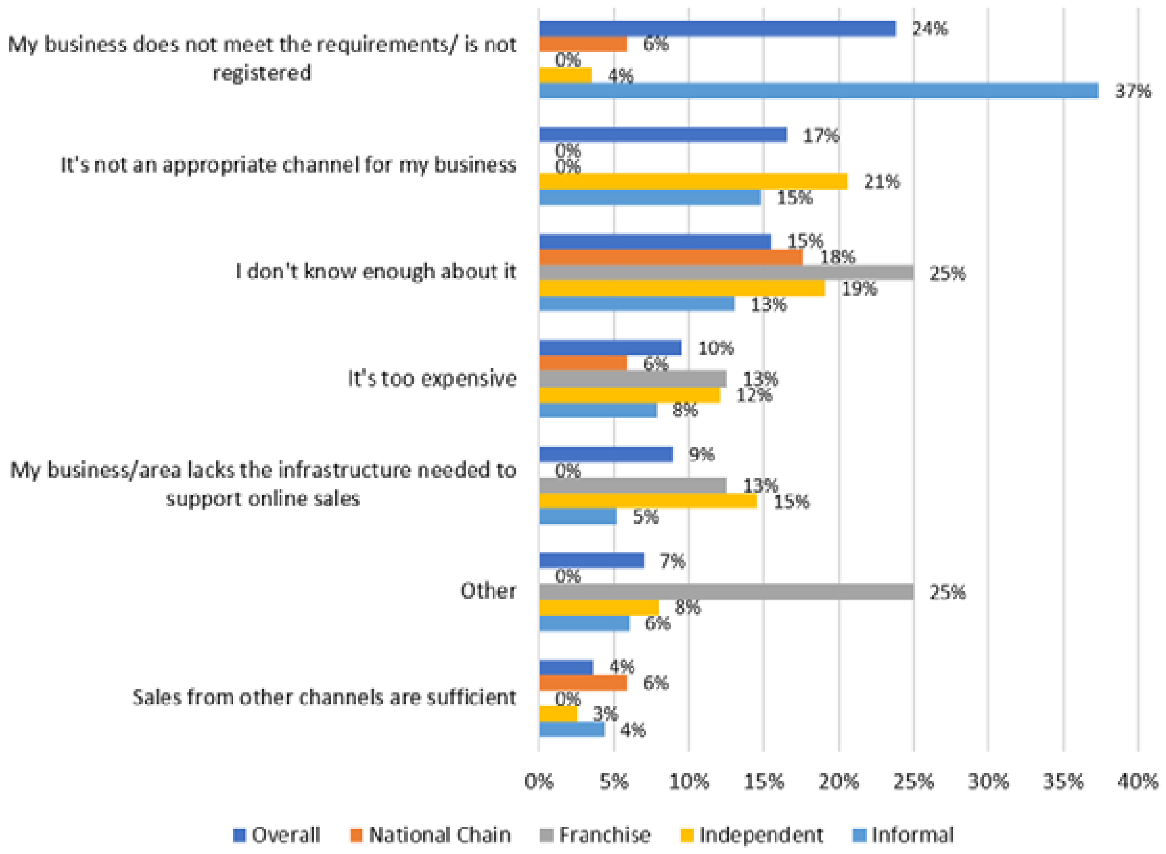
124. International and cross-country research similarly highlights that small firms face disproportionate barriers in accessing broader markets, including through digital channels. These barriers commonly include compliance burdens, limited managerial capacity, weak connectivity, limited digital skills, and high fulfilment/logistics costs, which are particularly binding for micro and

79 RedFlank. 2025/2026. Township and rural town Consumer survey- final results report. (unpublished/internal project document); RedFlank. 2025/2026. Township and rural town Business survey- final results report. (unpublished/internal project document); ITC. 2020. *SME competitiveness outlook 2020: COVID-19 – The great lockdown and its impact on small business*. Geneva. Available at: https://intracen.org/sites/default/files/uploadedFiles/intracenorg/Content/Publications/SMECO_2020_for_epub_v2.pdf ; CCSA. 2023. Online intermediation platforms market inquiry: final report and decision (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2023/07/CC_OIPMI-Final-Report.pdf ; CCSA. 2025. Fresh produce market inquiry: final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2025/01/CC_FPMI-Final-Non-Confidential-Report-2025.pdf

80 World Bank. 2014. Economics of South African townships: special focus on Diepsloot. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/217211468302413395; CCSA. 2025. Submission to the OECD on Informal Markets. (unpublished/internal document); Charman, A. and Petersen, L. (2014) Informal micro-enterprises and township economic development: evidence from Cape Town. REDI3x3 Working Paper 5.Available at: https://www.redi3x3.org/sites/default/files/Charman%20%26%20Petersen%202014%20REDI3x3%20Working%20Paper%205%20-%20Informal%20Micro-Enterprises%20in%20Township.pdf

small enterprises. These constraints match the survey's reported barriers to selling online and to supplying large retailers.[81] From the survey results (as seen in the figure below), barriers to online sales appear to be closely linked to informality, capabilities and infrastructure.

Figure 19: Barriers to online sales facing township businesses



Source: RedFlank's Business Survey Report, slide 33

125. A leading constraint reported by businesses not selling online is that they '*do not meet the requirements/are not registered*' (townships: 24%; rural towns: 23%).[82] Other prominent constraints include viewing online sales as not appropriate for the business (townships: 17%; rural towns: around 20% among independent firms), limited knowledge of online selling (townships: 15%; rural towns: 19%), and lack of infrastructure to support online sales (townships: 15%; rural towns: 20%). These responses are consistent with digital exclusion and logistics/fulfilment constraints limiting effective participation in online marketplaces.[83]

81 OECD.2021. The digital transformation of SMEs. Paris. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/02/the-digital-transformation-of-smes_ec3163f5/bdb9256a-en.pdf; UNCTAD.2021. COVID-19 and e-commerce: a global review. Geneva: UNCTAD. Available at: https://unctad.org/system/files/official-document/dtlstict2020d13_en.pdf; ITC. 2020. SME competitiveness outlook 2020: COVID-19 – the great lockdown and its impact on small business. Available at: https://intracen.org/sites/default/files/uploadedFiles/intracenorg/Content/Publications/SMECO_2020_for_epub_v2.pdf;

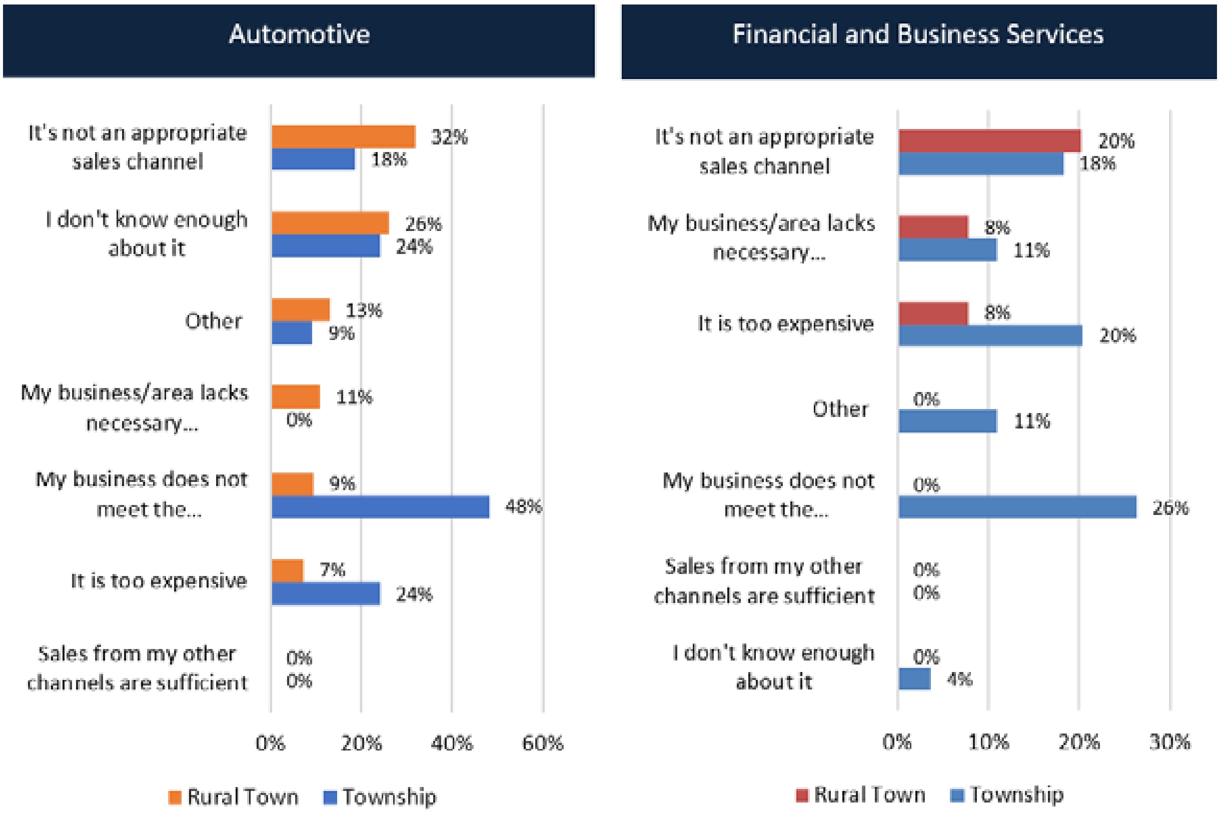
82 RedFlank Survey of Township and Rural Town Businesses Demographics and Ownership (slides 33, 36)

83 RedFlank Survey of Township and Rural Town Businesses Demographics and Ownership (slides 33, 36)

126. The sector-level survey results indicate that barriers to online sales also vary by type of business activity. In rural towns, businesses in agriculture, hair and beauty, hospitality and food services, and other retail were especially likely to report that they *did not meet the requirements to sell online*, while firms in construction, food and grocery retail and other sectors more often pointed to inadequate infrastructure.

127. In sectors such as automotive and financial and business services, as shown below, businesses were more likely to report that online channels were simply not an appropriate route to market, while ICT and electronics and manufacturing businesses more often cited lack of knowledge about how to sell online. In townships, *not meeting the requirements or not being registered* was again the dominant issue across many sectors, particularly automotive, hair and beauty, manufacturing, medical or health services, financial and business services, and food and grocery retail while for some sectors it is mainly a compliance or registration issue, for others a capability issue, and for others a question of channel suitability.[84]

Figure 20: Online Sales channels challenges

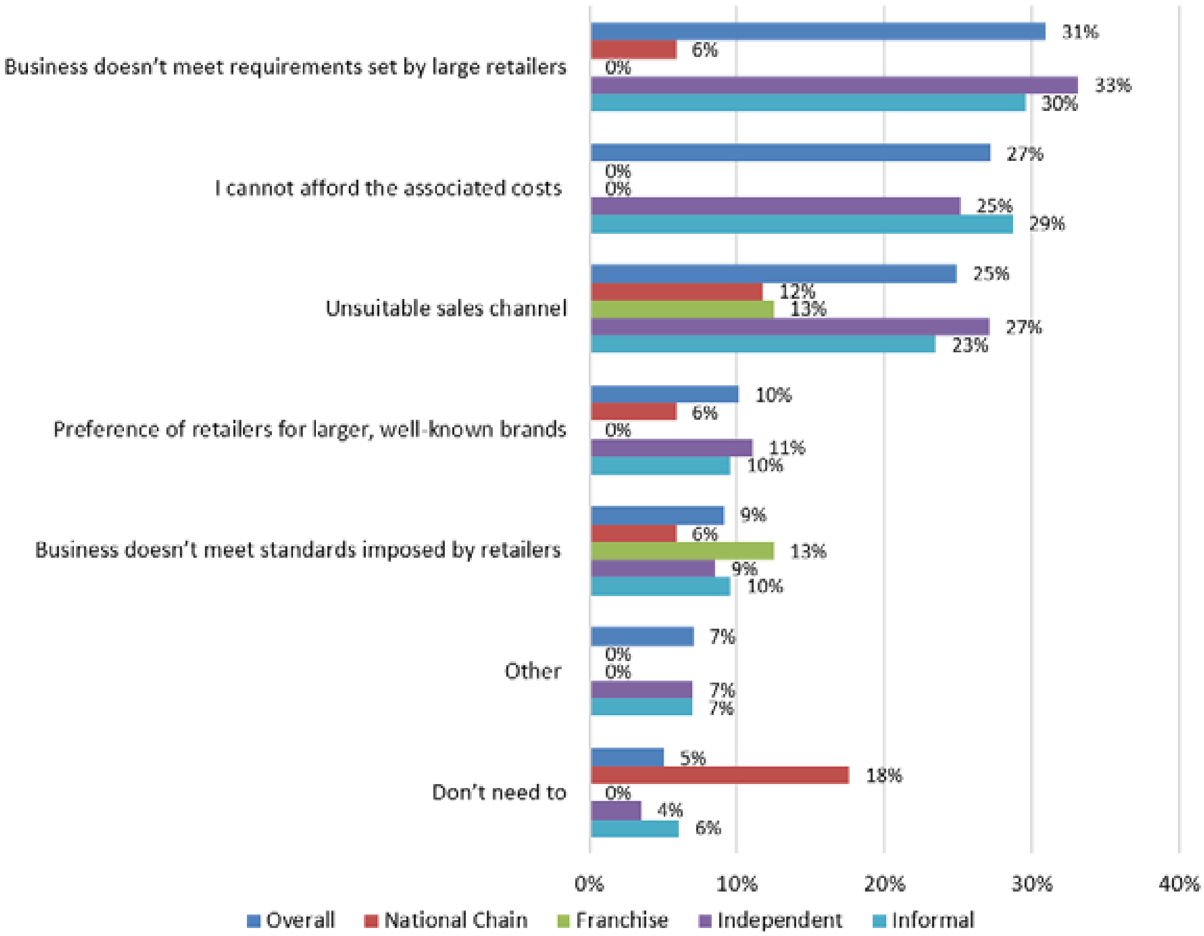


Source: RedFlank's Business Survey Report, slide 174, and 175

128. Supplying to major retailers is constrained primarily by compliance and cost hurdles rather than lack of interest alone. The most frequently cited constraints (as seen in the figure below) include: do not meet the requirements set by large retailers (townships: 31%; rural towns: 30%) and being unable to afford the associated costs (townships: 27%; rural towns: 29%).

84 RedFlank. 2026. *Survey of Township and Rural Town Businesses (Final report, March 2026).* Slides 172-179.

Figure 21: Sales channel challenges (major retailer) facing township businesses



Source: RedFlank's Business Survey Report, slide 34

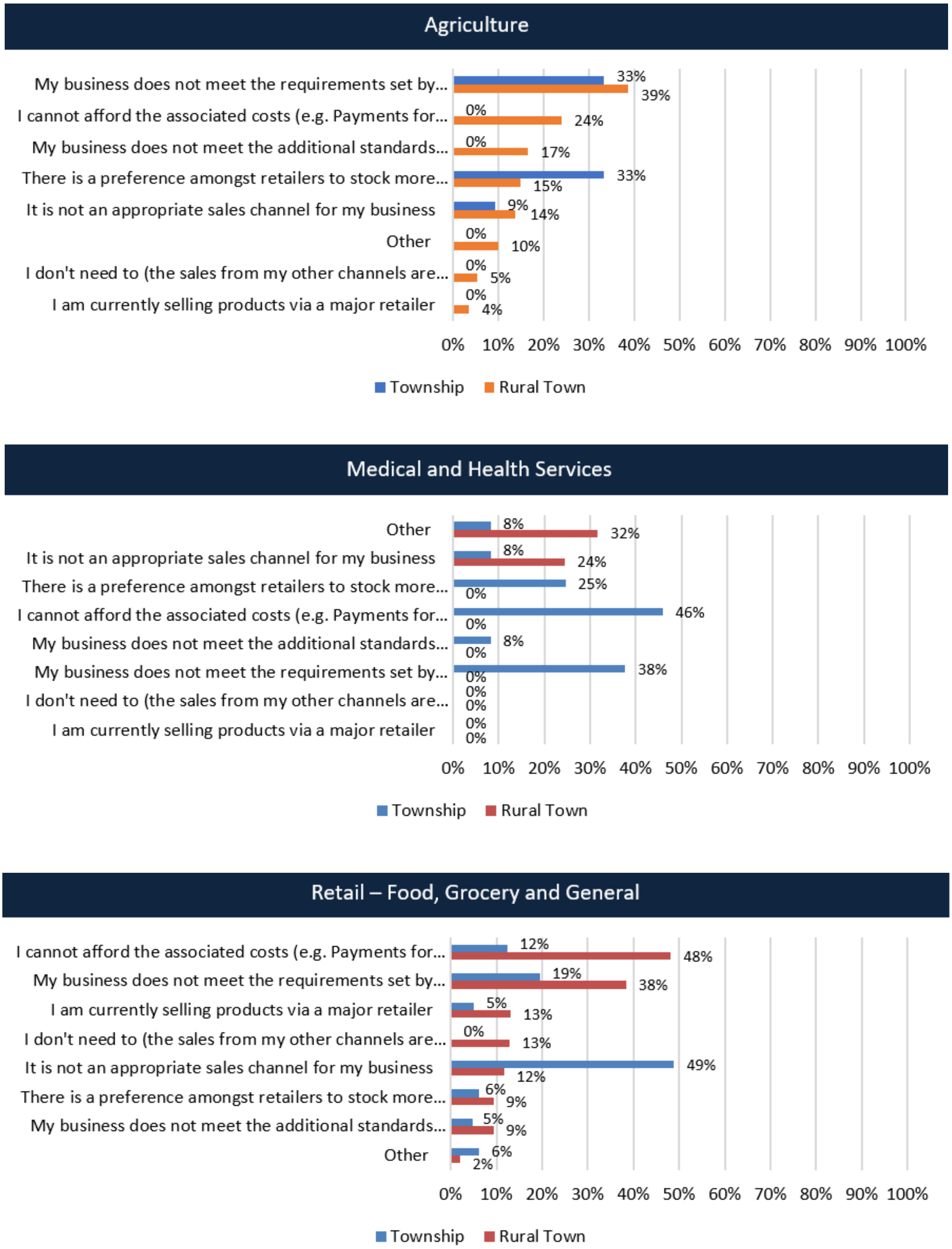
129. These patterns are consistent with retailer onboarding requirements relating to volumes, standards, packaging, administration and traceability, acting as practical barriers for smaller suppliers.[85]

130. The sector-level data further shows, as seen in the figures below, that different sectors face different difficulties in accessing major retailers, although the same broad problems – retailer requirements, cost, and channel suitability – appear repeatedly across the data.

The figures below present the results for some of the key sectors – agriculture, construction, hospitality & Food, manufacturing, medical & healthcare, and Retail (food, groceries, and general) to illustrate.

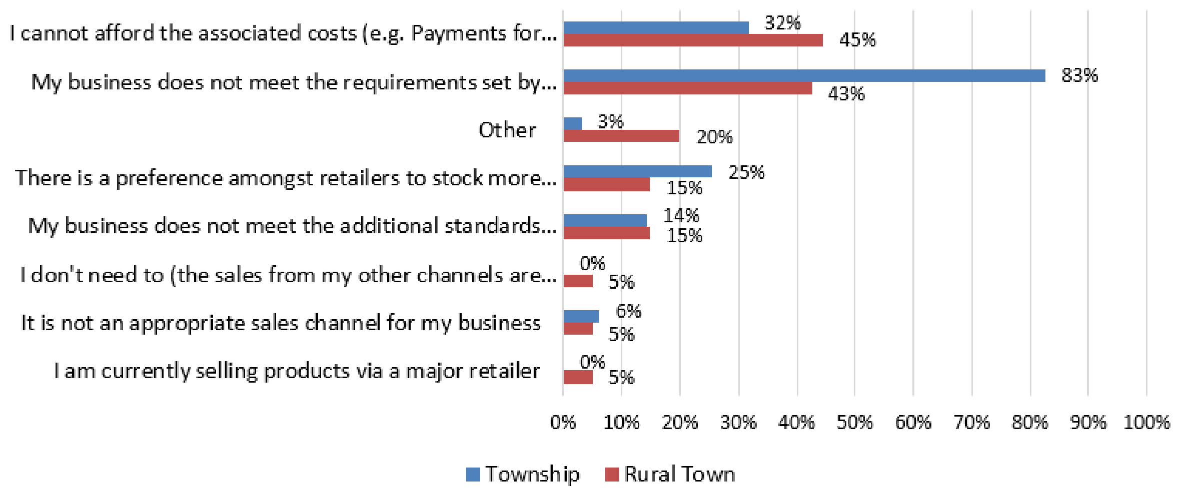
85 RedFlank Survey of Township and Rural Town Businesses Demographics and Ownership (slides 34, 37).

Figure 22: Sales challenges by sector

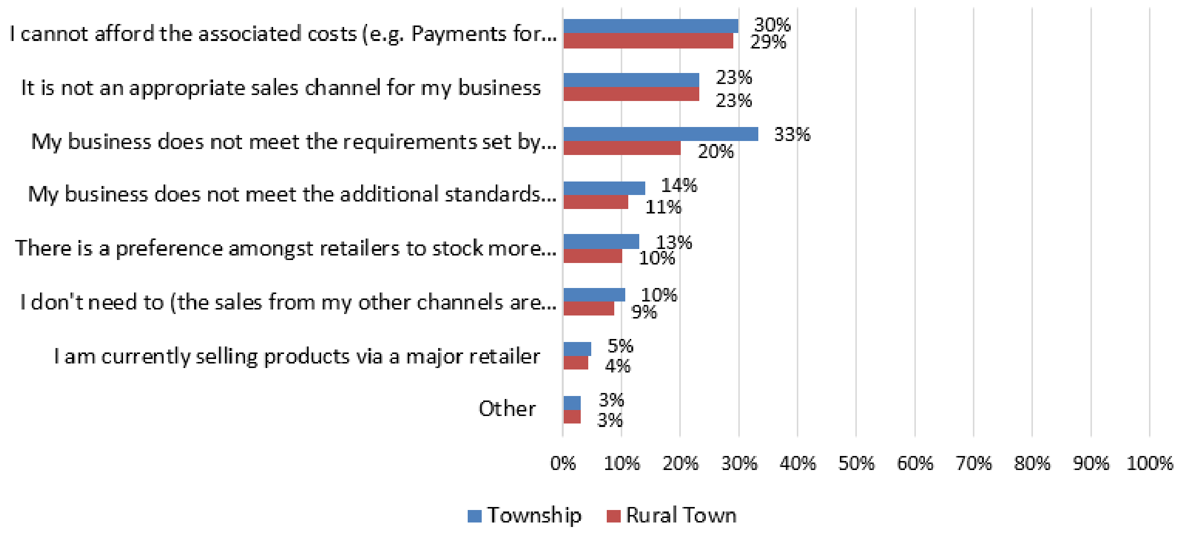


Source: RedFlank's Business Survey Report, slides 181, 185 & 186

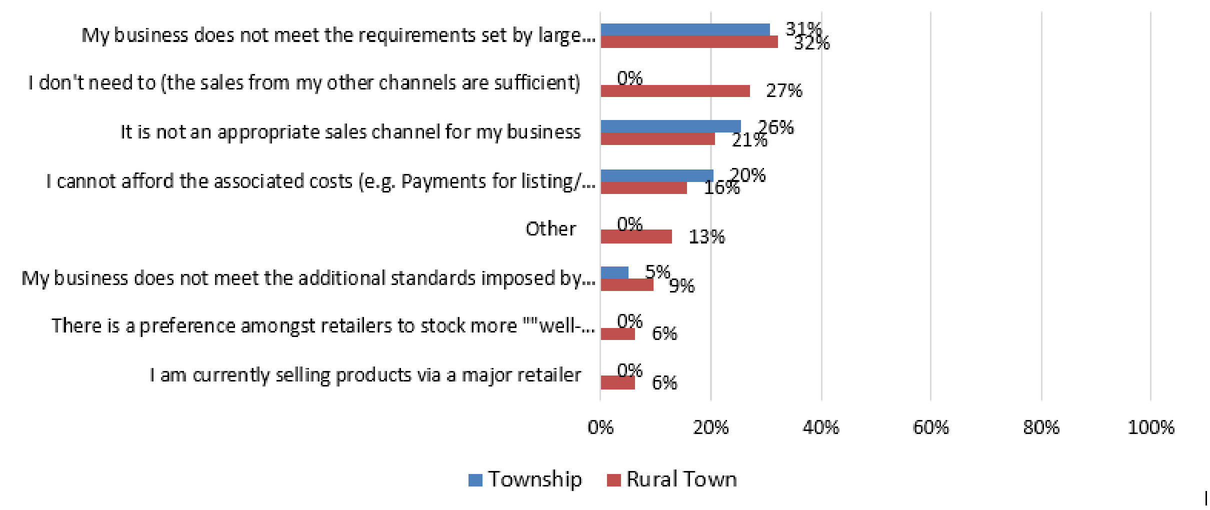
Manufacturing



Hospitality and Food



Construction



Source: RedFlank's Business Survey, slides 182, 185 & 186

131. The evidence therefore suggests that market access (whether online or to major retailers) is constrained primarily by scale and capability requirements, but also a cost mismatch between their product or service model and the channel itself.

132. The sector-level results also show that limited knowledge of the requirements for accessing formal retail locations is more evident in certain sectors (such as agriculture, hospitality and food services, retail, and hair and beauty services, particularly in townships), while challenges linked to exclusive lease agreements or preferences for established brands are also reported in automotive, ICT and electronics, manufacturing and retail.[86] The evidence therefore points to a broad-based formal retail-space access constraint, but one that combines cost, information and leasing frictions in different ways across sectors.

4.2.2.2 Behavioural market access constraints

133. The OIPMI provides applied, local evidence on how platform rules, ranking and visibility, commissions and fees, and access terms can affect business users' ability to compete and reach customers through online channels. Although the OIPMI covers multiple platform categories, its core analysis is directly relevant to township and rural market access because online intermediation can function as a route to market where physical retail access is constrained, but only if platform conditions enable fair participation by smaller sellers.[87]

134. The GRMI provides direct evidence on how shopping center tenancy arrangements can shape routes to market. The GRMI documents the prevalence of exclusivity clauses (including complete and partial exclusivity) in lease agreements with anchor tenants and explains how such clauses can limit landlords' ability to lease to competing or specialist retailers, thereby affecting entry, tenant mix and consumer choice within shopping centers.[88]

135. The GRMI further records stakeholder evidence of instances where exclusivity arrangements constrained smaller and specialist retailers' ability to enter particular shopping centers, with knock-on effects for consumers' access to choice and competitive prices. This reinforces the relevance of retail property access as a competition issue where high-footfall nodes act as gatekeepers for entry and expansion.[89]

136. In response to these concerns, the GRMI includes a retail property-focused code of conduct and related commitments, including requirements around good-faith negotiation, transparency in lease decisions, written reasons when a lease is declined, and a commitment that future new leases should not incorporate exclusivity clauses or letting restriction provisions. The code also addresses fairness and transparency in deposits and rental escalation methodologies, which are particularly important for small and independent tenants.[90]

137. Evidence from the Business Survey reinforces the view that formal retail nodes can operate as gatekeepers rather than neutral platforms for entry and expansion, with implications for downstream competition and consumer outcomes.[91] When considering relocation to

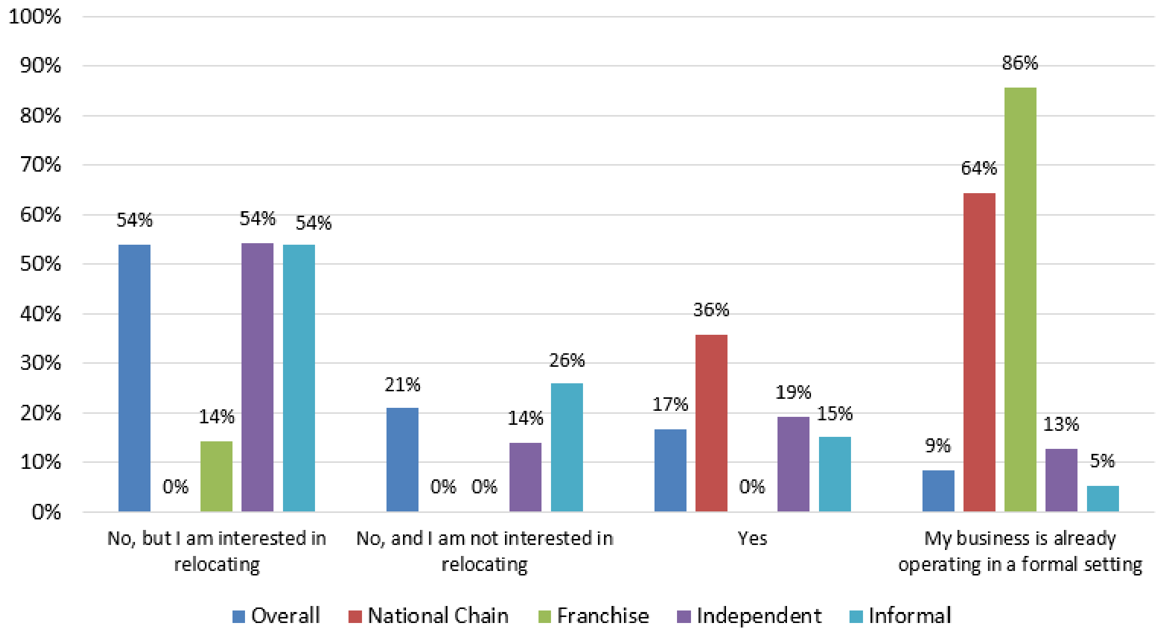
86 RedFlank. 2026. *Survey of Township and Rural Town Businesses (Final report, March 2026)*. Slides 212-219.
87 CCSA. 2023. Online intermediation platforms market inquiry: final report and decision (non-confidential). Pretoria. Available at: https://www.compcom.co.za/wp-content/uploads/2023/07/CC_OIPMI-Final-Report.pdf
88 CCSA. 2019. The grocery retail market inquiry: final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf
89 CCSA. 2019. The grocery retail market inquiry: final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf
90 CCSA. 2019. The grocery retail market inquiry: final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf
91 CCSA. 2025. *CCSA Submission to the OECD for the 24th Global Forum on Competition Law and Enforcement in Informal Markets.* (unpublished).

formal premises, respondents most often cite high rentals, exclusivity or brand preference, and information gaps about requirements, as obstacles.[92]

138. Access to more formal retail settings appears to be an important market access constraint for many township and rural town businesses. The survey results show that a large proportion of smaller businesses are not currently operating in formal retail settings such as malls or shopping centres but would be interested in doing so.

139. The figure below shows that most independent and informal businesses do not operate in a formal setting. While 54% of both independent and informal businesses in townships indicated that they have not tried to move to a formal setting, they expressed that they would be interested in doing so.

Figure 23: Relocation attempts for Township businesses



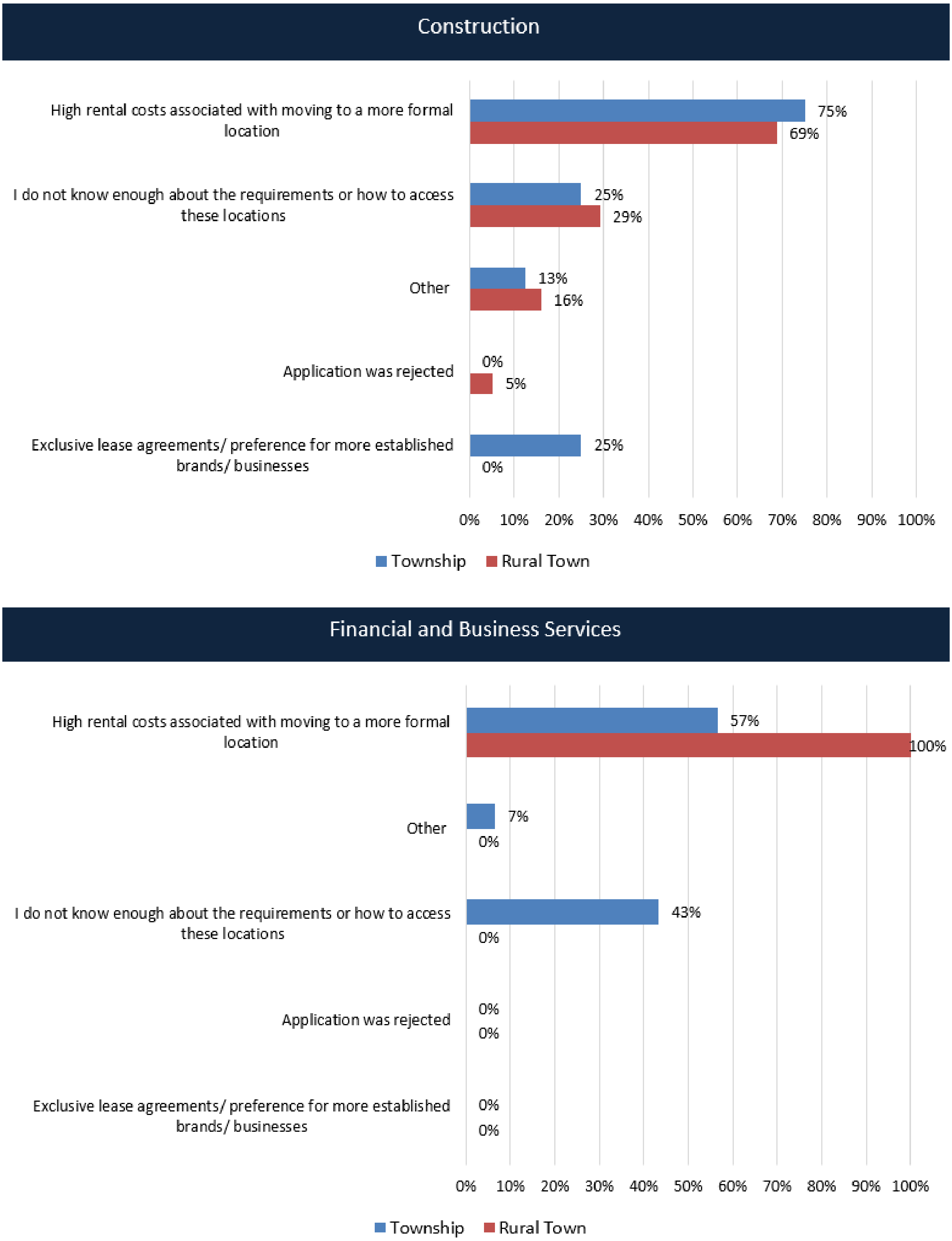
Source: RedFlank's Business Survey Report, slide 42

140. A similar pattern is observed in rural towns with substantial shares of smaller firms in these areas indicating an interest in moving to a formal setting.

141. However, high costs of moving, exclusive lease agreements, and preference of more established brands hinder the relocation of business to more formal and larger routes to market. This pattern is most pronounced in sectors like retail, hospitality and food services, and hair and beauty, where these types of operators dominate. The figures below illustrate.

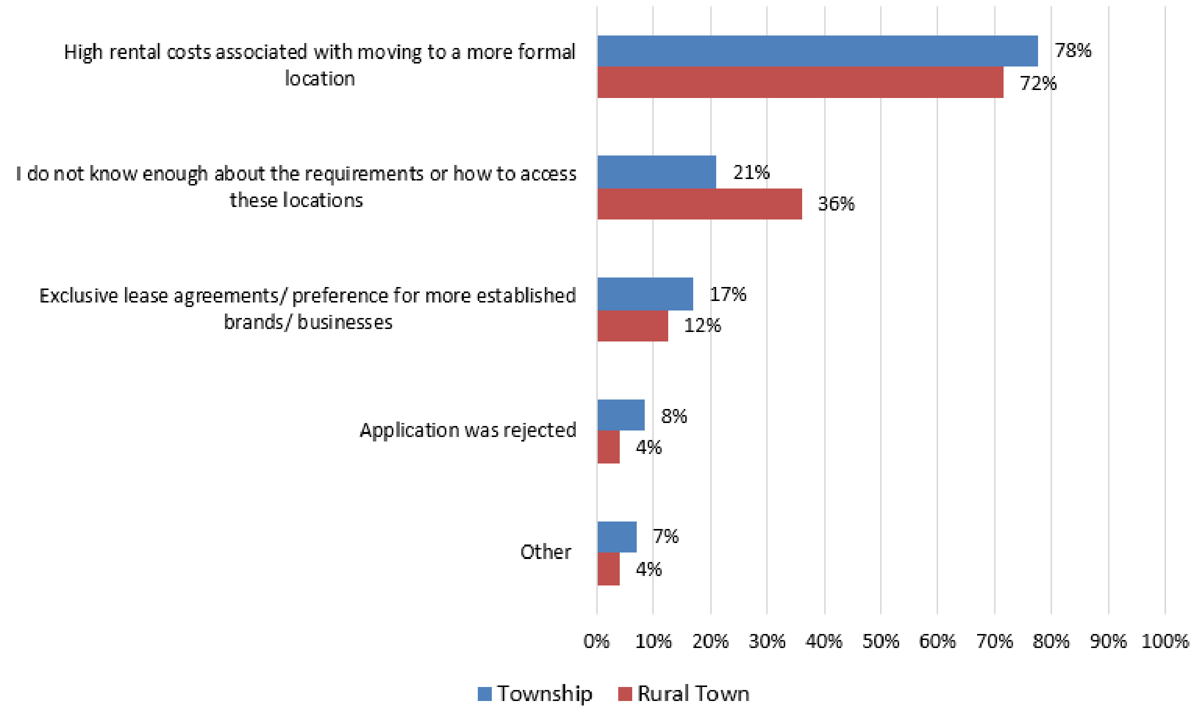
92 RedFlank. 2025/2026. *Business study on townships and rural towns: results report.* (unpublished survey results, prepared for CCSA), Slides 40 – 43.

Figure 24: Barriers to access formal retail channels by sector

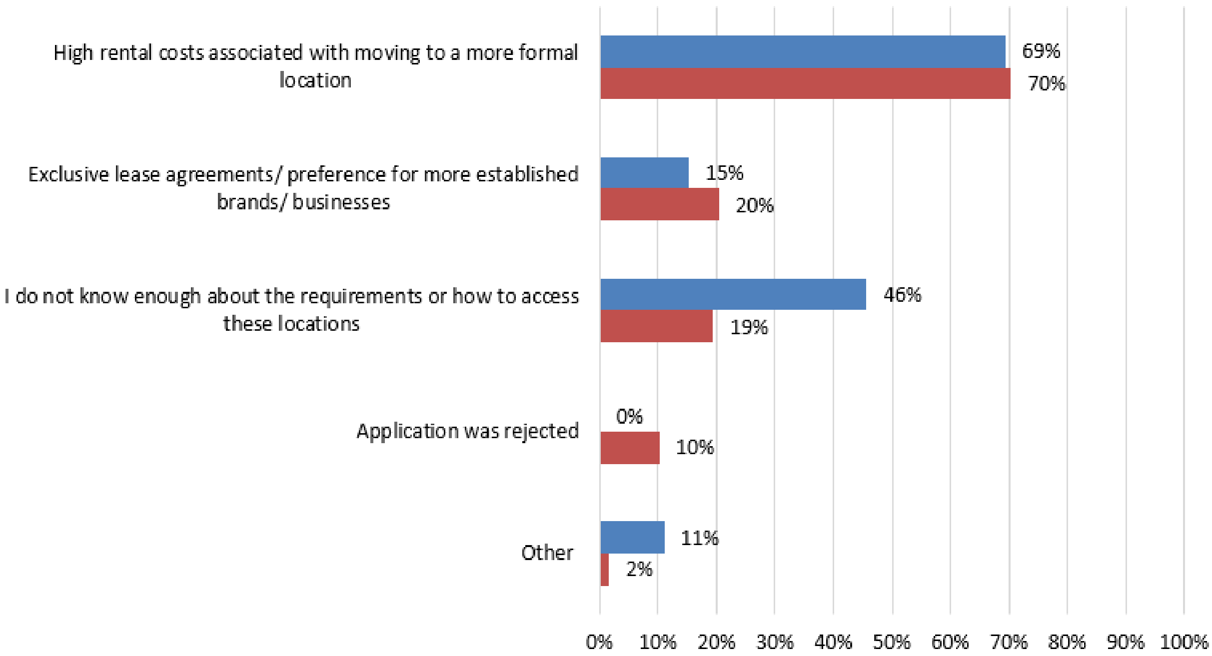


Source: RedFlank's Business Survey Report, slides 214 & 215

Hospitality and Food Services



Retail – Food, Grocery, and General

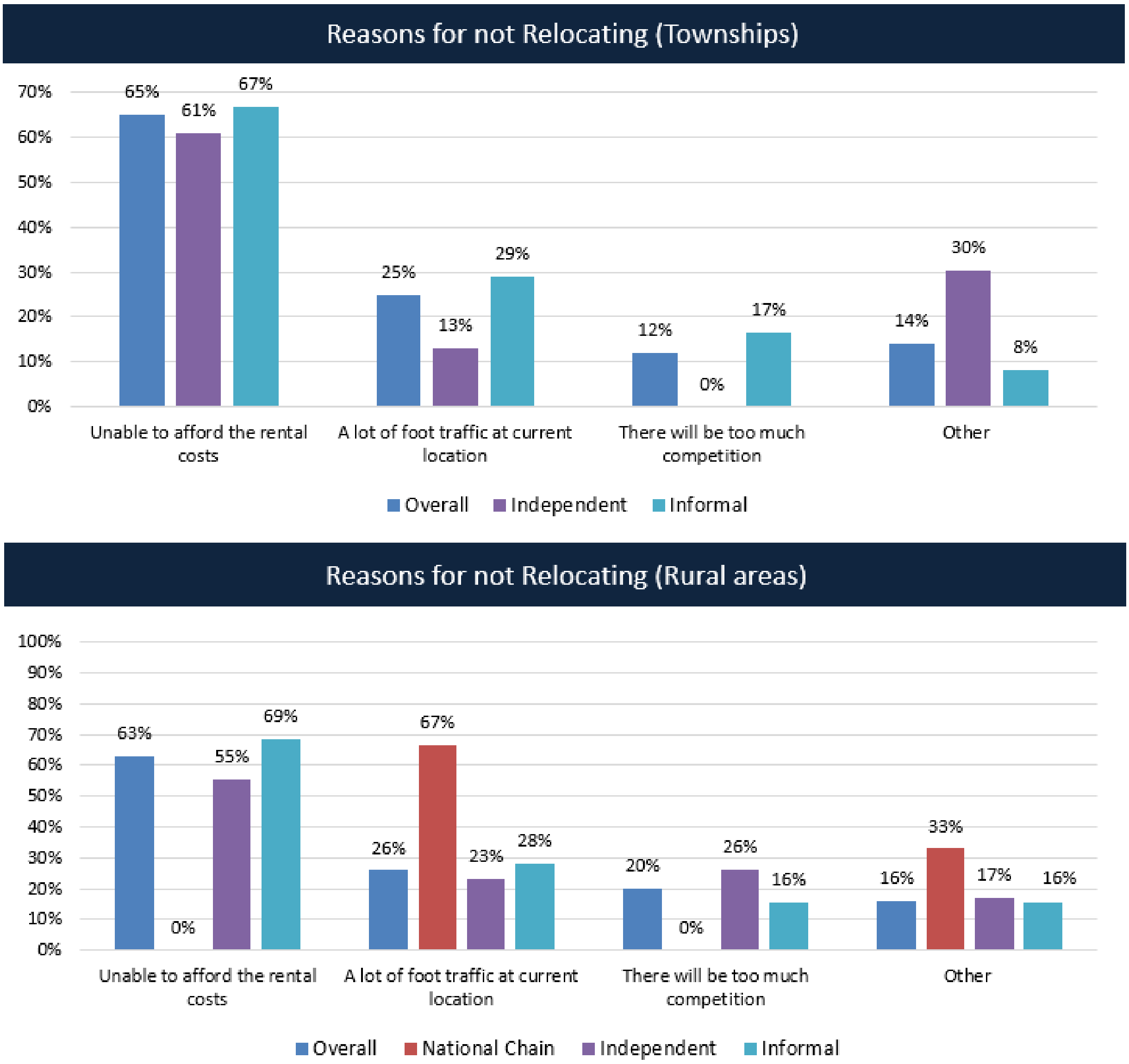


Source: RedFlank's Business Survey Report, slides 216 & 218

142. The foregoing suggests that the limited presence of smaller businesses in formal retail nodes should not necessarily be interpreted as a lack of interest in formalisation or expansion, but rather as evidence of latent demand for access to more formal retail space and limited access.

143. The reasons given by businesses that were not interested in relocating further suggest that affordability is a significant constraint. In townships, the figure below shows that 61% of independent businesses and 67% of informal businesses that were not interested in relocating stated that they could not afford the rental costs associated with a formal setting. In rural towns, the same was reported by 55% of independent businesses and 69% of informal businesses.

Figure 25: Reasons for not relocating to a formal retail setting

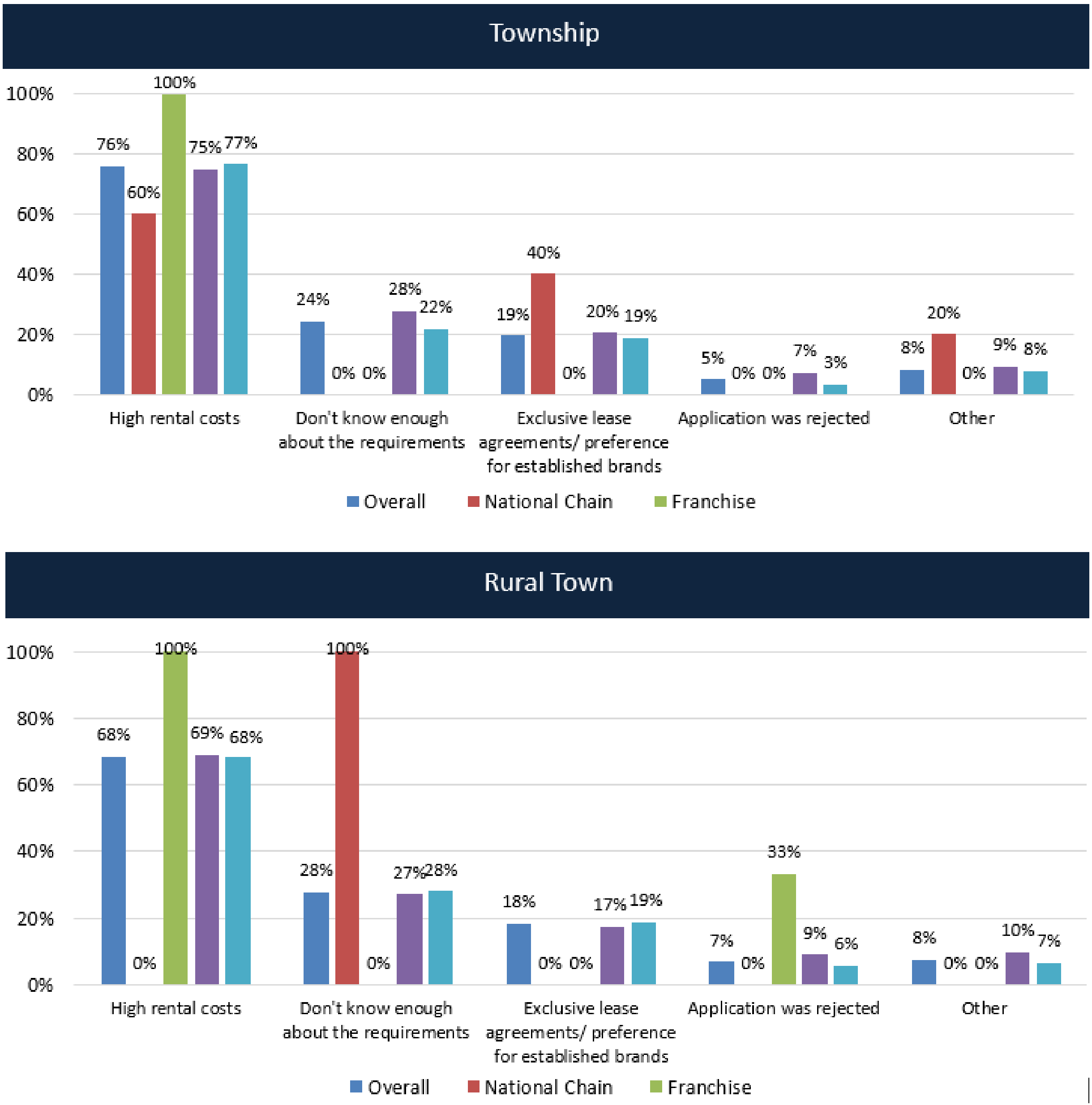


Source: RedFlank's Businesss Survey Report, slide 42, and 43

144. By contrast, some larger firms, particularly national chains, were more likely to point to the strength of their current locations, including sufficient foot traffic, as a reason for not relocating. This suggests an important competitive distinction between smaller firms, for whom non-relocation may reflect exclusion by cost, and larger firms, for whom it is more likely to reflect a strategic choice between commercially viable locations.

145. When businesses were asked directly what had prevented them from relocating to a more formal setting, rental costs emerged as the clearest and most consistent barrier (76% of township businesses, and 69% of businesses), particularly among independents and informal businesses. This is seen in the figures below

Figure 26: Challenges faced when attempting to relocate to a formal retail setting



Source: RedFlank's Business Survey Report, slide 44, and 45

146. The sector-level business survey data shows that access to formal retail space is a barrier to almost all businesses formats, including Arts & Craft (slide 205), construction (slide 206), ICT and electronics, manufacturing, medical or health services, food and grocery retail, and other retail.[93] Other reasons cited for not relocating include fear of confronting competition head-on, while others are satisfied with the traffic at their current locations. What is interesting to note, however, is that while a sizable share of businesses in the healthcare and construction sector (17-18%) have attempted to relocate, the barrier is almost entirely (78% rural, and 100% township rental costs rather than satisfaction with current premises or fear of competition in the new location.

147. From a competition perspective, this matters because businesses that are unable to access formal retail nodes may remain confined to lower-traffic or more precarious trading environments, limiting their ability to expand, formalise and compete effectively. In this way, limited access to formal retail space may reinforce an uneven route to market between smaller local businesses on the one hand, and chains or more established firms on the other.

4.2.3 Implications for growth, competitiveness, and consumers

148. When businesses mainly depend on local walk-in customers, competition tends to be very local, and small differences in costs, footfall, or location can lead to lasting advantages for some firms over others. Where access to wider customer bases is controlled by large retailers or online platforms, the requirements for entry can effectively act as a gate that smaller firms struggle to pass through. In turn, limited ability to use multiple sales channels can become self-reinforcing: firms that cannot reach broader markets remain small, which makes it harder for them to meet the volume, compliance, or logistics requirements needed to access those broader markets.[94]

149. Access and routes to market also link business-side constraints to consumer outcomes. Where local firms cannot scale or diversify channels, consumers may then face less choice locally and may travel to the nearest town or to larger retail nodes for certain product categories. At the same time, where transport costs are high, local consumers may be 'captured' by nearby options, intensifying the importance of local entry and the availability of viable local trading nodes.[95]

150. Access to formal retail space, including shopping centers, is a specific and important route to market because it determines which firms can locate in high-footfall nodes that offer security, convenience and stable demand. From a competition perspective, this links routes to market to retail property market dynamics: where shopping center space is scarce or controlled by a limited set of landlords or center managers, tenancy selection and leasing terms can influence

93 RedFlank. 2026. *Survey of Township and Rural Town Businesses (Final report, March 2026)*. Slides 196 & 204.

94 CCSA. 2019.The Grocery Retail Market Inquiry- final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; CCSA. 2023. Buyer power guidelines for dominant buyers in agroprocessing, grocery wholesale and retail, e-commerce and online services. Available at: https://www.compcom.co.za/wp-content/uploads/2023/04/Buyer-Power-Guidelines-for-Dominant-Buyers-in-Agroprocessing-Grocery-Wholesale-and-Retail-E-Commerce-and-Online-Services.pdf ; CCSA.2023. *Online intermediation platforms market inquiry: final report and decision (non-confidential)*. Available at: https://www.compcom.co.za/wp-content/uploads/2023/07/CC_OIPMI-Final-Report.pdf; World Bank.2025. *Enterprise surveys manual and guide*. Available at: https://www.worldbank.org/content/dam/enterprisesurveys/documents/methodology/Enterprise%20Surveys_Manual%20and%20Guide.pdf; W&RSETA. 2024. *Transforming the township retail market in South Africa: a sustainable growth and development model for spaza shops*.W&RSETA. Available at: https://www.wrseta.org.za/downloads/24%20June/WRSETA%20Project_3%20Transforming%20the%20Township%20Retail%20Market%20in%20South%20Africa%20A%20Sustainable%20Growth%20and%20Development%20Model%20for%20Spaza%20Shops%202024%20 11.11.24.pdf;

95 CCSA. 2019.*The Grocery Retail Market Inquiry- final report (non-confidential)*. Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf ; Redflank Research.2025. *Township and Rural Town Consumer survey: final report*. Prepared for the Competition Commission South Africa (unpublished/internal project document); CCSA. 2025. *Pepkor / Shoprite Furniture merger case- supplementary report*. (Case no. LM106Oct24; dated 6 February 2025).

business entry, product variety and the intensity of rivalry in downstream product markets.[96]

151. Conceptually, restrictions on access to shopping centers can arise through (i) explicit exclusivity clauses and letting restrictions that limit competing tenants; (ii) 'soft' exclusion through tenant rules and selection practices that favour established national brands; and (iii) fixed-cost barriers such as high rentals, deposits and center levies that are particularly binding for SMEs with limited working capital.[97]

152. The survey findings also point to both aspiration and constraint regarding expansion into formal retail premises. Businesses report that shopping centers are attractive because they offer better locations, more customers and more stable demand, but that entry is often difficult. The business survey asked whether firms have tried to expand or relocate to a more formal retail setting (such as a mall or shopping center) and then asked what challenges prevented relocation; where the reported constraints center on high rentals, information gaps about requirements, and leasing terms that may favour established brands.[98]

153. Among businesses that indicated challenges in attempting to relocate to a more formal setting, high rental costs were the most frequently cited barrier in both townships and rural towns. In townships, respondents also cited lack of knowledge about requirements and exclusive lease agreements or preference for established brands as material obstacles for independent and informal businesses. In rural towns, the same pattern is observed, alongside a notable share of franchises reporting that relocation applications were rejected, and national chains indicating limited awareness of requirements.[99]

154. While consumers appear to show awareness of, and some interest in online purchasing, the survey evidence suggests that online purchasing remains limited in practice.[100] A plausible explanation is that relatively few township and rural businesses are meaningfully onboarded onto online channels – whether because of registration, capability, infrastructure or delivery capabilities. This keeps consumer dependence on physical outlets relatively high and, in turn, increases the importance of distance, transport costs and travel time in shaping their access to goods and services. The competitive harm associated with long-distance travel may therefore be greater than it would be in a setting where online channels were more widely available and more effectively used by local businesses.

155. Section 5 below deals considers 'red tape', with the aim of identifying regulatory barriers affecting rural and township businesses and highlights the effect these barriers might have on growth and competition.

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96 CCSA. 2019. The grocery retail market inquiry: final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; Chapter 5 on long-term exclusive lease agreements in the final report); GRMI Annexure 5: Objective Two - the impact of long-term exclusive lease agreements entered into between property developers and national supermarket chains and the role of financiers in these agreements on competition in the grocery retail sector (within the final report).

97 CCSA. 2019. The grocery retail market inquiry: final report (non-confidential). Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf; GRMI Annexure 5: Objective Two - the impact of long-term exclusive lease agreements entered into between property developers and national supermarket chains and the role of financiers in these agreements on competition in the grocery retail sector (within the final report).

98 RedFlank. 2025. *CCSA township and rural town Business survey: results report*. December 2025. Prepared for the Competition Commission South Africa (unpublished/internal document), slides 31-37, 42, 43.

99 RedFlank. 2025. *CCSA township and rural town Business survey: results report*. December 2025. Prepared for the Competition Commission South Africa (unpublished/internal document), slides 31-37, 42, 43.

100 Majority of customers purchase in physical outlets. For example, a majority of respondents report purchasing clothing and footwear in the nearest town/urban area (large townships: 58%; rural towns: 55%), while about a third purchase within their own township/rural town (34% in both). For household goods and furniture, purchases are more evenly split between within the township/rural town (large townships: 43%; rural towns: 44%) and the nearest town/urban area (large townships: 49%; rural towns: 43%).

5. REGULATORY BARRIERS AFFECTING THE TOWNSHIP AND RURAL ECONOMY

156. Regulation shapes the conditions under which township and rural town enterprises can enter, operate, and expand. While regulation is meant to enable the ease of doing business, more often than not, it also comes with the unintended consequence of acting as 'red tape', raising the cost of doing business and making it difficult for businesses to operate to the best of their capability, thereby acting as a barrier, not only to entry, but also to growth, expansion, and transformation.

157. In principle, regulations such as licensing, zoning, and compliance standards can protect consumers and the public interest (for example, health and safety) and can support orderly spatial planning. However, when the administrative burden of complying with these requirements is high, when information is inaccessible, or when enforcement is uneven or disproportionate, regulation may function as a barrier to entry and a constraint on business survival and growth.

158. For government to realize its objectives of reducing 'red tape' to stimulate economic growth and transformation in the township and rural economy, identifying and addressing regulatory barriers, improving the ease of doing business in townships and rural areas is of paramount importance, especially where these affect SMMEs and HDIs (as these types of entities are critical for employment, economic growth and participation).

159. Below we explore the body of literature in conjunction with the Commission's interventions and survey results to paint a picture of regulatory barriers affecting township and rural entities.

5.1 Regulatory barriers ('red tape') and local economic development

160. South African policy and research emphasise that the structure of the local economy and enterprise constraints in local economies are shaped by the interaction of local rules, enforcement practices, and spatial planning regimes. The 2024 Standard Draft By-Law for Township Economies explicitly positions municipal regulation as an instrument that can either facilitate or hinder township enterprise development, including through permitting, designated trading areas, restrictions, and enforcement provisions.[101] This highlights that local regulatory design is a key determinant of entry conditions and of whether businesses can transition towards the mainstream economy.[102]

161. Literature also stresses that reducing bureaucratic burdens and improving the regulatory environment can support entrepreneurship and small business growth, particularly where licensing and administrative requirements are onerous and disproportionate relative to firm size. Cross-country regulatory evidence highlights

101 Department of Co-operative Governance and Traditional Affairs. 2024. *Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000): Standard draft by-law for township economies* (Government Gazette No. 51529, Notice 2826 of 2024). Available at: https://www.gov.za/sites/default/files/gcis_document/202411/51529gen2826.pdf

102 SACN & Gauteng Provincial Government. 2021. *Township economies: institutional barriers and enabling instruments in law (TED Report 1)*. Available at: https://www.sacities.net/wp-content/uploads/2021/02/TED_Report1_0802.pdf

how administrative steps, time, and costs can meaningfully affect the feasibility of starting and operating a business, with small firms being most exposed to compliance frictions.[103]

162. This can discourage investment and expansion by smaller local firms, weaken their ability to formalise and scale, and may lead some township and rural town enterprises to operate partially or wholly outside formal regulatory channels in order to remain viable. When discretion is high and procedures are complex, the scope for inconsistent application and rent-seeking increases, which further deters entry and can unevenly disadvantage particular business types or ownership groups.[104]

5.2 Regulatory barriers ('red tape') and competition

163. Regulatory barriers to entry and scaling matter for competition because they shape *who* can enter, *how quickly* they can expand, and *whether* smaller firms can survive long enough to become effective rivals.[105] Where licensing, permitting, zoning, and by-law compliance impose fixed and recurring costs, these costs tend to be proportionately higher for micro and small firms than their larger counterparts, thereby raising minimum efficient scale and favouring incumbents or larger chain stores. In competition terms, this can reduce local rivalry, slow down entry/expansion, and weaken the competitive constraint that township and rural town firms might otherwise exert on larger players (and on each other).[106]

164. A further competition concern is that the predictability and administrative efficiency of regulatory processes can matter as much as the written rules. Delays, uncertainty, and officials' discretion in local licensing, permitting, zoning approvals, and by-law enforcement can raise transaction costs for township and rural town businesses and increase the risk that upfront expenditures (for example on securing premises, fitting out a shop, or purchasing stock) become sunk and unrecoverable if approvals are refused, delayed, or applied inconsistently.

165. Regulations ultimately also impacts consumers indirectly through the availability, variety, and affordability of local retail and services. When compliance burdens discourage formalisation or constrain expansion into mainstream economies such as high-footfall nodes (like formal retail space), households may face fewer nearby options and may travel further to access better-stocked outlets, with travel costs acting as an additional implicit price that shapes effective competition in local markets. This links the consumer experience of accessibility and choice, to upstream constraints on firm entry and scaling.[107]

103 World Bank. (2020) *Doing business 2020: comparing business regulation in 190 economies*. Available at: https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

104 OECD.2025. *Licensing and permitting: how to manage risks while supporting growth (OECD Best Practice Principles for Regulatory Policy)*Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/10/licensing-and-permitting_f2b74324/68fc3301-en.pdf; World Bank (2020). *Doing Business 2020: comparing business regulation in 190 economies*. Available at: https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

105 World Bank. 2014. Economics of South African townships: special focus on Diepsloot. World Bank studies. Available at: https://documents1.worldbank.org/curated/en/217211468302413395/pdf/Economics-of-South-African-townships-special-focus-on-Diepsloot.pdf; Urban-Econ Development Economists. 2020. KwaZulu-Natal rural and township economies revitalisation strategy: situation analysis report (draft), December 2020.

106 Lewis, C. and B. Gasealahwe (2017), *"Lowering barriers to entrepreneurship and promoting small business growth in South Africa"*, OECD Economics Department Working Papers, No. 1449 Available at: https://doi.org/10.1787/d60e254f-en ; Urban-Econ Development Economists. 2020. KwaZulu-Natal rural and township economies revitalisation strategy: situation analysis report (draft), December 2020; RedFlank. 2025. *CCSA township and rural town Business survey: results report. December 2025*. Prepared for the Competition Commission South Africa (unpublished/internal document).

107 Lewis, C. and B. Gasealahwe (2017), *"Lowering barriers to entrepreneurship and promoting small business growth in South Africa"*, OECD Economics Department Working Papers, No. 1449 Available at: https://doi.org/10.1787/d60e254f-en; Department of Co-operative Governance. 2024. Standard draft by-law for township economies (Government Gazette No. 51529, 7 Nov 2024). Available at: https://www.gov.za/sites/default/files/gcis_document/202411/51529gen2826.pdf

166. The Commission's work indicates a sustained focus on regulation and administration as *competition-relevant* determinants of entry, scaling and market access. In particular, the Commission has used advocacy submissions to caution against regulatory design choices that can entrench incumbency or inhibit smaller entrants. For example, in its policy engagement on the Draft Electricity Regulation Amendment Bill (2022), the Commission emphasised the need to avoid licensing requirements that raise barriers to entry, especially for smaller firms, and to ensure that regulatory design supports contestability and fair access.[108] This approach is consistent with its broader advocacy mandate to provide policy comments and responses that align laws and administrative frameworks with the purposes of the Competition Act.[109]

167. Alongside advocacy, the Commission's market inquiries provide an established method for treating regulatory and administrative issues as potentially 'structural' features that can weaken rivalry even where many small firms exist. The GRMI examined features shaping participation and competitive dynamics in local grocery retailing, including constraints affecting smaller and independent retailers[110]. The Public Passenger Transport Market Inquiry similarly addressed market features linked to route allocation, licensing and operating conditions that can segment local markets and shape whether smaller operators can expand into higher-volume nodes.[111]

168. In June 2025 the Commission held a Spaza Shop Roundtable discussion, namely *"Unlocking Economic Potential: A collaborative Roundtable on Supporting Spaza Shop"* – wherein the Commission seeks to support individuals operating spaza shop businesses.[112] This points to the Commission's understanding that competition concerns in townships and rural towns are often linked to problems with regulation and infrastructure and compliance alongside wholesale, business support, and funding issues.

169. More recently, the Fresh Produce Market Inquiry has highlighted how governance and regulatory constraints at municipal fresh produce markets can shape participation and competitive outcomes, with remedies that require practical cooperation across government departments and municipalities and, in some instances, changes to municipal operating models.[113]

5.3 Prevalence of regulatory barriers affecting Competition and LED in township and rural economies

170. Having outlined how regulatory barriers can affect both local economic development and competition, this subsection seeks to identify the barriers that are prevalent in the township and rural economy. The regulatory barriers that prevail in the township and rural economy relate to permits and licences, zoning rules, municipal by-laws, and compliance obligations relating to health and safety, labour, tax and industry standards. These are discussed below.

171. In particular, the business survey responses indicate that firms that are not registered, or do not meet formal requirements, may be prevented from accessing important

108 *CCSA. 2023. Annual report 2022/23*. Pretoria:, pp. 87–88. Department of Mineral Resources and Energy. 2022.*Electricity Regulation Amendment Bill* [B—2021]. *Government Gazette*, No. 45898, Government Notice No. 1746. Available at: https://www.gov.za/sites/default/files/gcis_document/202203/45898gon1746.pdf

109 Competition Commission South Africa. (1998) *Competition Act 89 of 1998 (as amended; updated version applying from 13 February 2020)*. Available at: https://www.compcom.co.za/wp-content/uploads/2021/03/Competition-Act-A6.pdf ;

110 CCSA. 2019. *The Grocery Retail Market Inquiry – Final report*. Available at: : https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf

111 CCSA. 2021. *Land-based public passenger transport market inquiry: final report (non-confidential)*. Pretoria. Available at: https://www.compcom.co.za/wp-content/uploads/2021/03/Competition-Act-A6.pdf

112 https://www.compcom.co.za/wp-content/uploads/2025/06/Programme_Spaza-Shops_Roundtable-Discussion-004.pdf

113 CCSA. 2022. *The Fresh produce market inquiry: final report (non-confidential)*. Pretoria. Available at: https://www.compcom.co.za/wp-content/uploads/2025/01/CC_FPMI-Final-Non-Confidential-Report-2025.pdf

growth opportunities, especially supplying larger buyers and/or selling online. These barriers are often worsened by capability and infrastructure constraints. Overall, the evidence suggests that regulatory requirements and firm-level limitations work together to restrict market access, with more integrated business formats or types (such as franchises and chain stores) generally better able to diversify their sales channels than smaller independent township and rural town firms.[114]

172. If local firms struggle to secure suitable premises, comply with relevant requirements, or access reliable sales channels, the effects extend beyond formalisation. These constraints can limit their ability to access funding, reach customers, expand output, compete with larger, integrated rivals, and participate effectively in more dynamic parts of the market. In this way, the relevant concern for competition is not only whether firms formalise, but whether the overall business environment enables township and rural firms to operate, grow and compete on viable terms.[115]

Permits and licences

173. The study finds that the burden of navigating local approval processes is not evenly experienced across business types, and that the main issues relate to process and administrative capability rather than the rules alone.

174. The figure below shows that while larger businesses such as national chains (82%) and franchises (50%) have not experienced any challenges obtaining local permits and licenses in townships and rural areas, a considerable share of businesses 13% of franchises and 17% of independent businesses) experienced administrative complexity, reporting that the application process was unclear or too complicated. The picture is similar for rural towns, with 17% of franchises and 13% of informal and independent businesses citing delays, long waiting times for approval and high costs of applying.

114 RedFlank. 2025/2026. *Business study on townships and rural towns: results report.* (unpublished survey results, prepared for CCSA.

115 RedFlank. 2025/2026. *Business study on townships and rural towns: results report.* (unpublished survey results, prepared for CCSA); *RedFlank Survey of Township and Rural Town Consumer Geographics, Source of Goods and Services- Final report* December 2025; Strydom, J.W. (2011) '*Retailing in disadvantaged communities: the outshopping phenomenon revisited*', Available at: https://www.scielo.org.za/pdf/jcm/v8n1/07.pdf ; WRSETA. 2024. *Transforming the Township Retail Market in South Africa: A Sustainable Growth and Development Model for Spaza Shops*. Available at: https://www.wrseta.org.za/downloads/24 June/WRSETA Project_3 Transforming the Township Retail Market in South Africa A Sustainable Growth and Development Model for Spaza Shops 2024 11.11.24.pdf

Figure 27: Challenges obtaining local permits or licences (by kind of business)

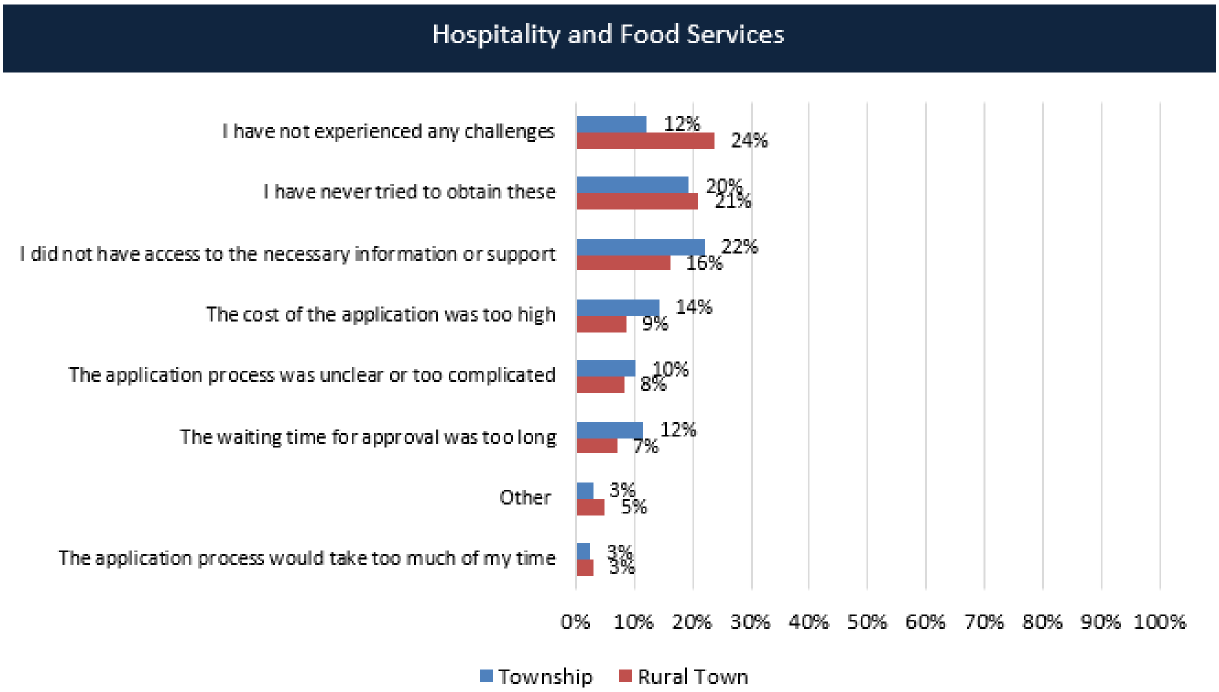
Source: RedFlank's Business Survey Report, slide 48 & 49

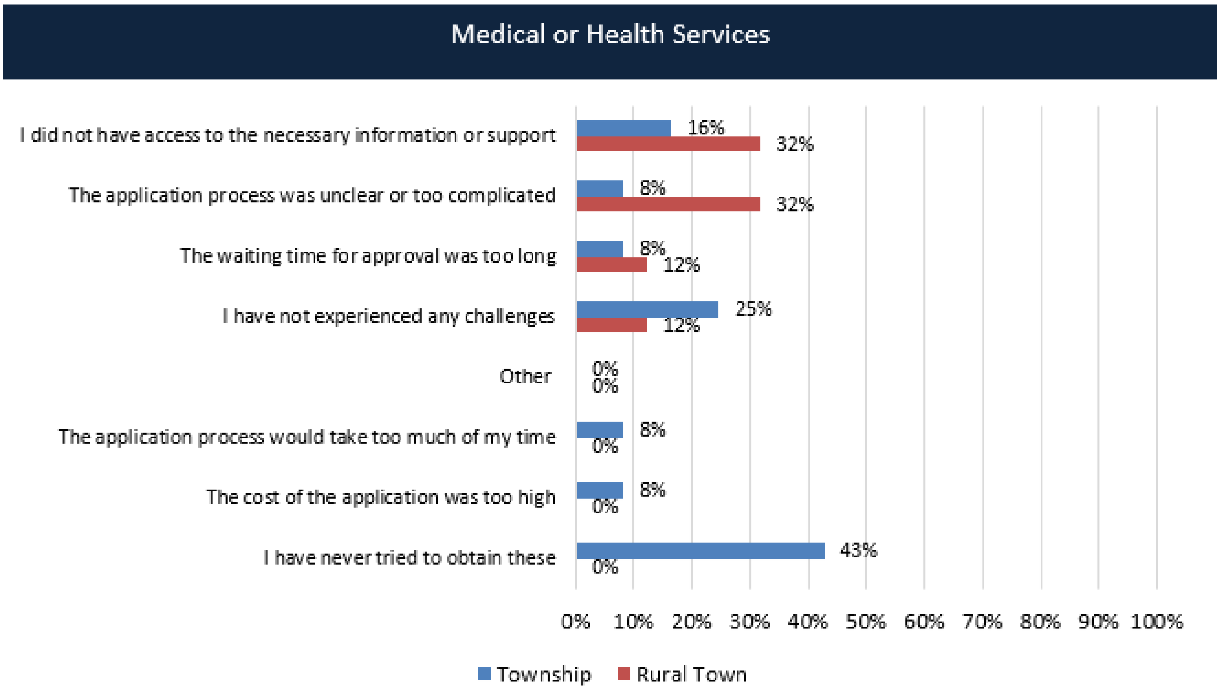
175. These patterns are consistent with permitting and licensing acting as a practical barrier to growth, competition and formalisation: firms with stronger administrative capacity and established processes (more common among integrated businesses) are more likely to report smooth navigation of permits and licences, while independent and informal firms face higher effective burdens through information gaps, delays, and costs.

176. Across business sectors, as shown in the figures below, many firms report either that they have never attempted to obtain permits or that they face information and administrative barriers when they do. In rural towns for instance, these process-related difficulties appear especially evident in retail, medical or health services and hospitality and food services, while cost barriers also arise in automotive, construction, ICT and electronics and retail.[116]

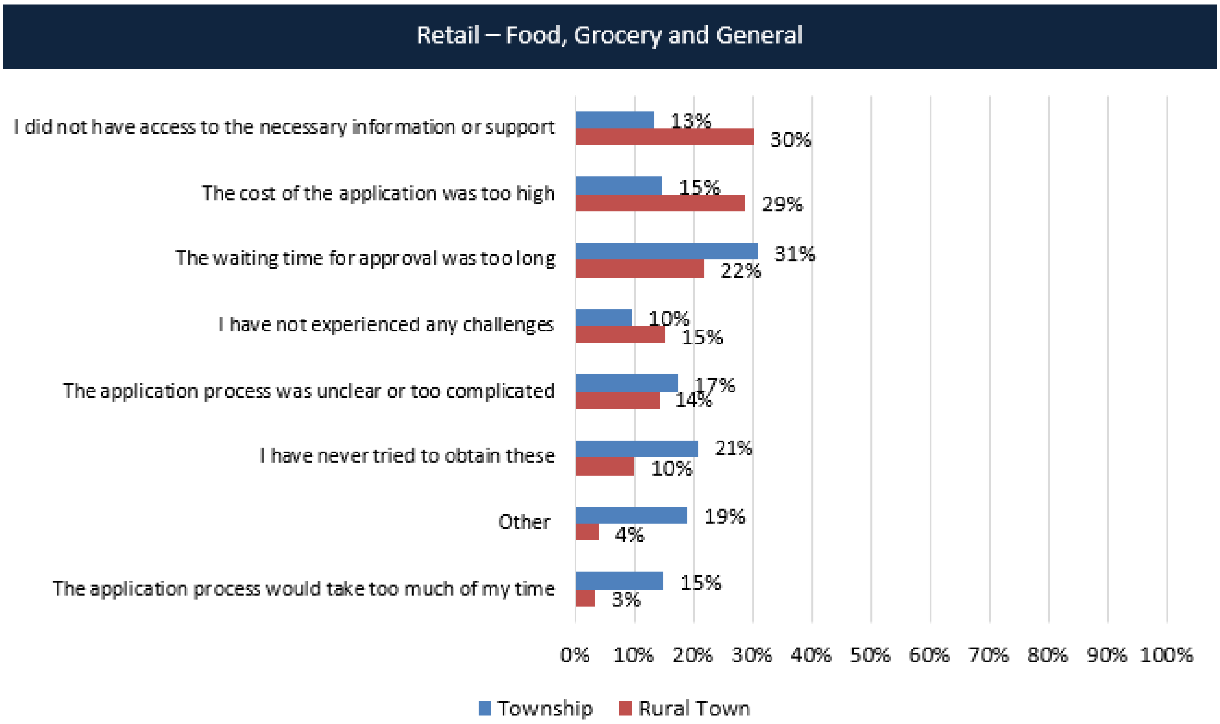
116 RedFlank. 2026. *Survey of Township and Rural Town Businesses* (Final report, March 2026). Slides 236-243.

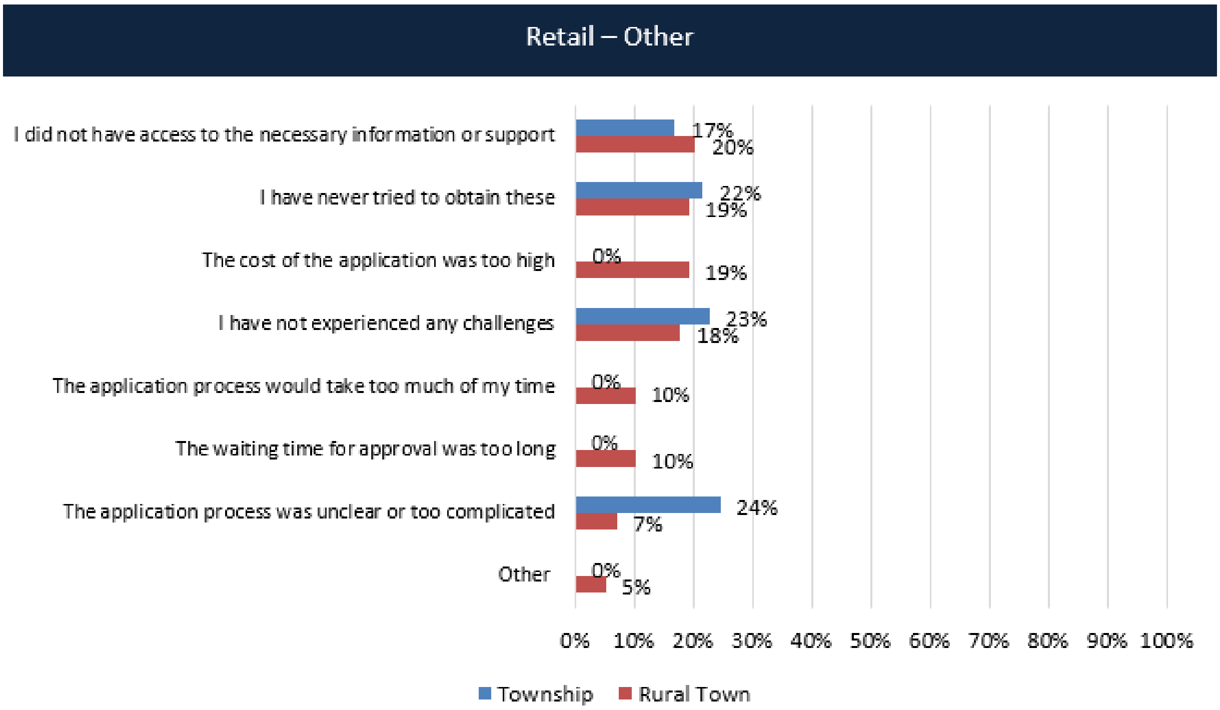
Figure 28: Challenges obtaining permits by sector





Source: RedFlank's Business Survey Report, slides 240 & 241





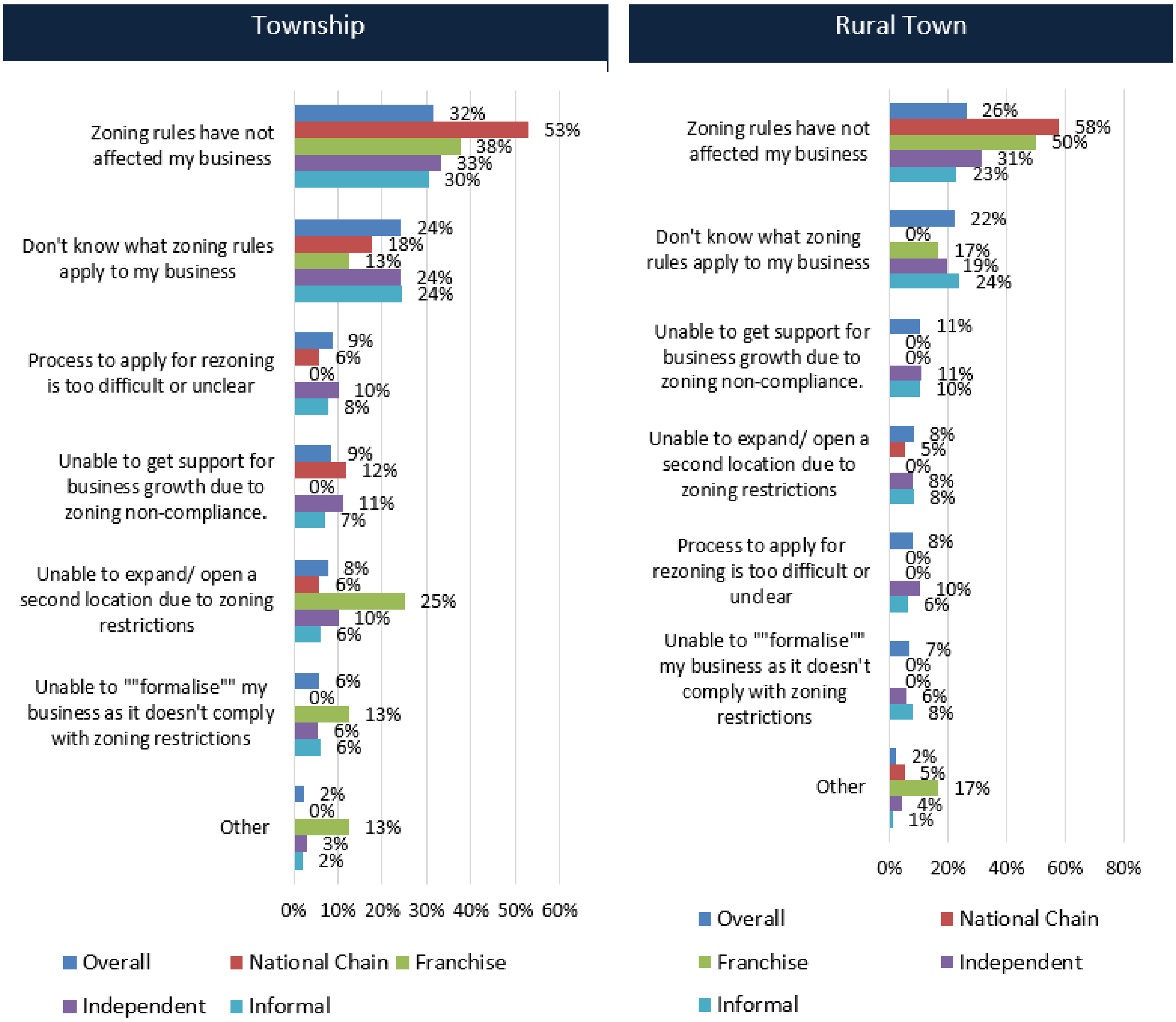
Source: RedFlank's Business Survey Report, slides 242 & 243

Zoning regulations

177. The zoning results are consistent with zoning operating as a practical scaling constraint as the figure below illustrates: better-resourced business formats appear more able to operate without zoning issues, while smaller formats face more uncertainty and, in some cases, direct restrictions on expansion, which may contribute to persistent segmentation

in local markets (in that zoning rules may keep some businesses stuck in smaller, more limited trading spaces, while better sourced businesses are more able to operate in compliant or advantaged locations.

Figure 29: Impact of Zoning regulations (by kind of business)

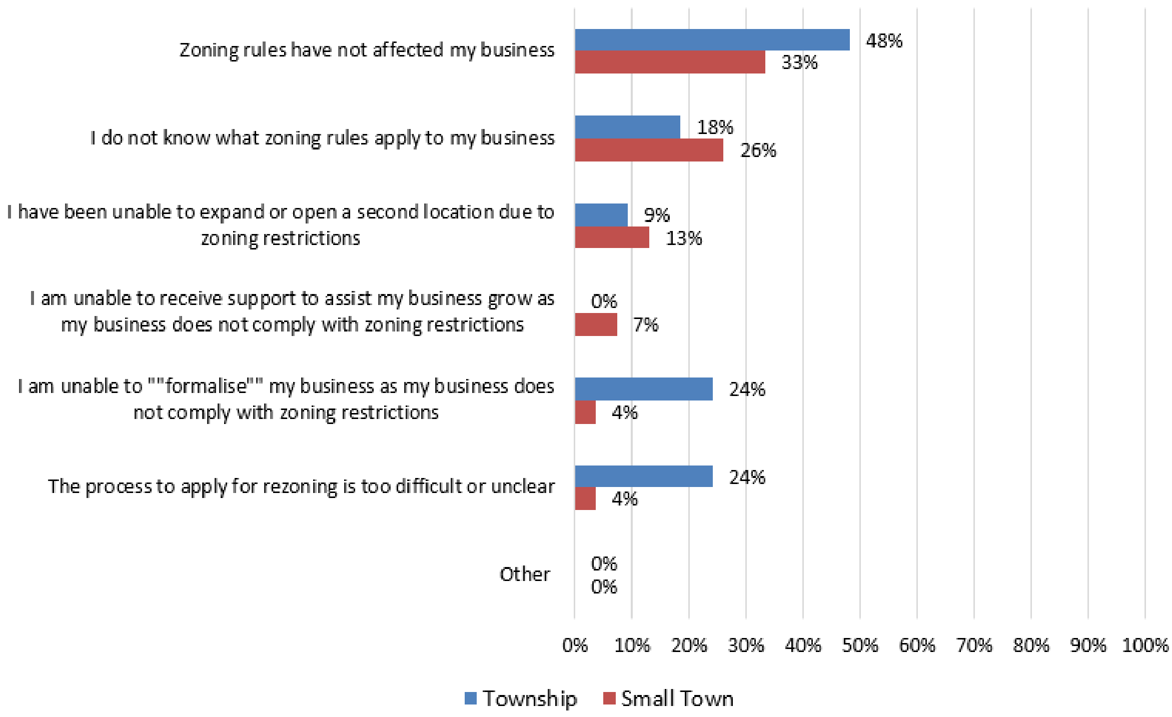


Source: RedFlank's Business Survey Report, slide 50 & 51

178. Sizable shares of businesses in the automotive sector (33% township; 24% rural), agriculture (9% township; 26% rural),[117] construction (10% township; 12% rural) and the hospitality and food (32% township; 28% rural) report being *"unable to expand or open a second location due to zoning restrictions"*; that being *"unable to receive support to assist my business grow as my business does not comply with zoning restrictions"* or an inability to formalise their businesses as the business *"does not comply with zoning restrictions"*. The figure below illustrates this, using the automotive sector as an example.

117 For the automotive sector, 33% is the summed total of 9% (unable to expand or open a second location) plus 0% (unable to receive support to assist my business growth), plus 24% (unable to formalise my business as my business does not comply with zoning restrictions); and for rural (captured as small towns), the 24% is likewise the summed total of 13% plus 7% plus 4%. (this is illustrated in Figure 27)

Figure 30: Impact of zoning regulations (Automotive sector)



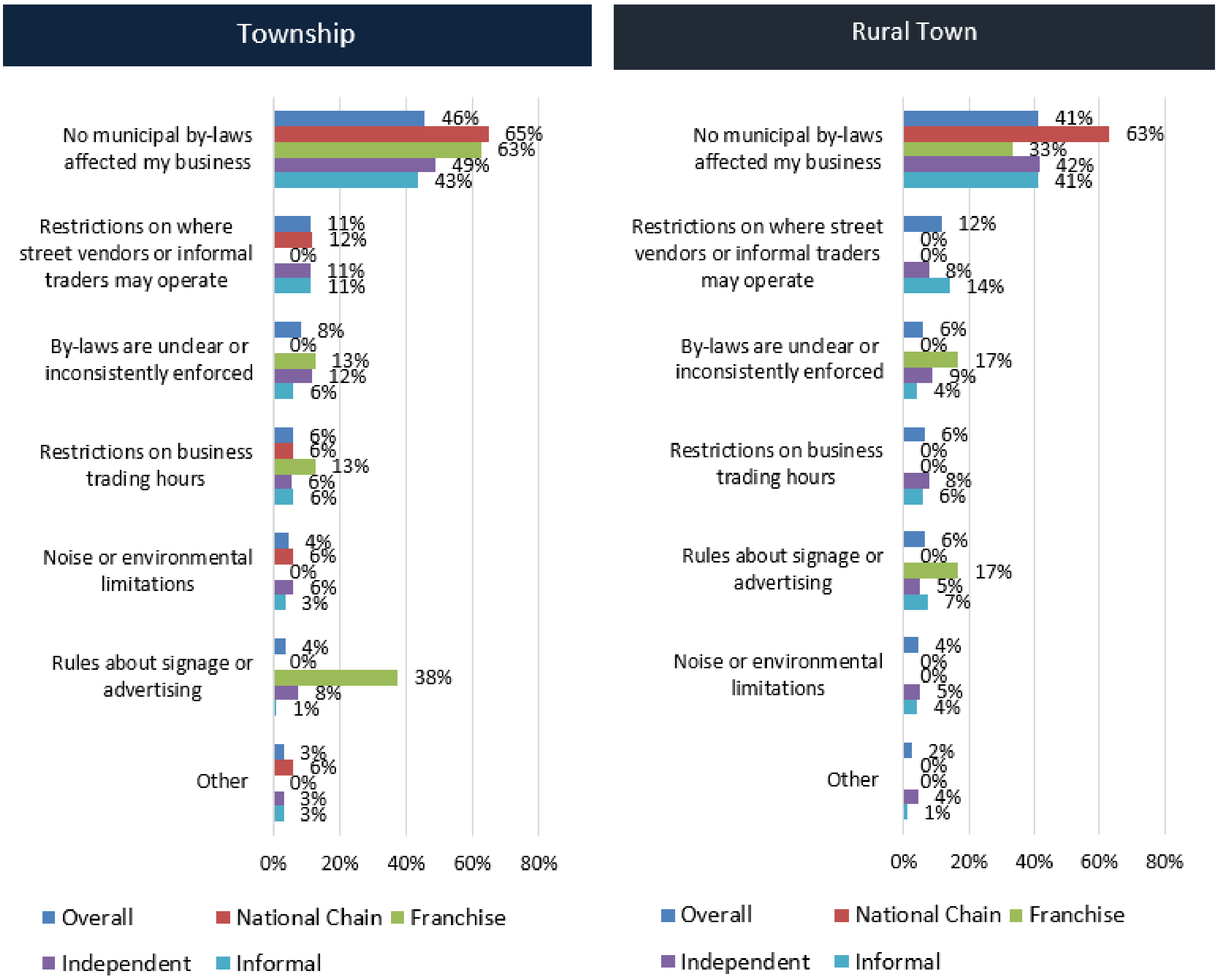
Source: RedFlank's Business Survey Report, slide 246

179. These issues are cited alongside a common problem of the process for applying for rezoning of land being too difficult or unclear.

Municipal by-laws

The most commonly cited by-law issue overall is restrictions on where street vendors or informal traders may operate (12% overall), affecting mostly informal and independent businesses (with this at 14% among informal businesses in rural towns). This pattern suggests, indeed, that by-laws are important in shaping market outcomes, and may disproportionately disadvantage certain classes of businesses, in particular, small, independent, and informal.

Figure 31: Impact of Municipal by-laws (by business type)

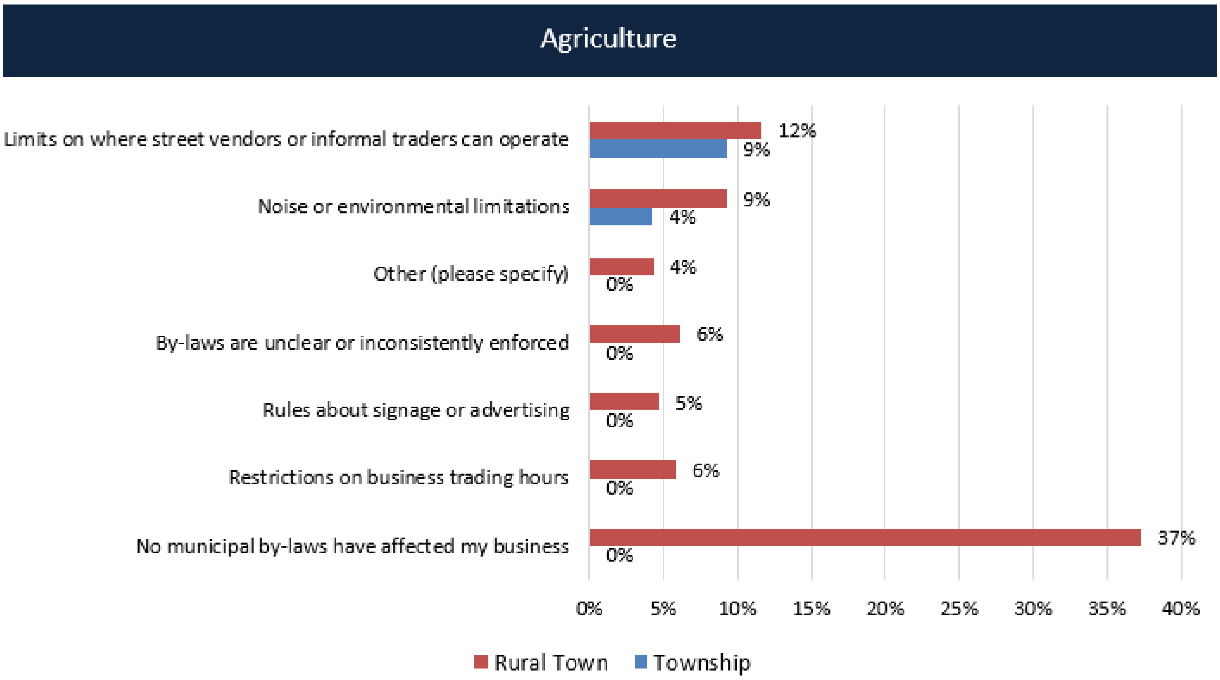


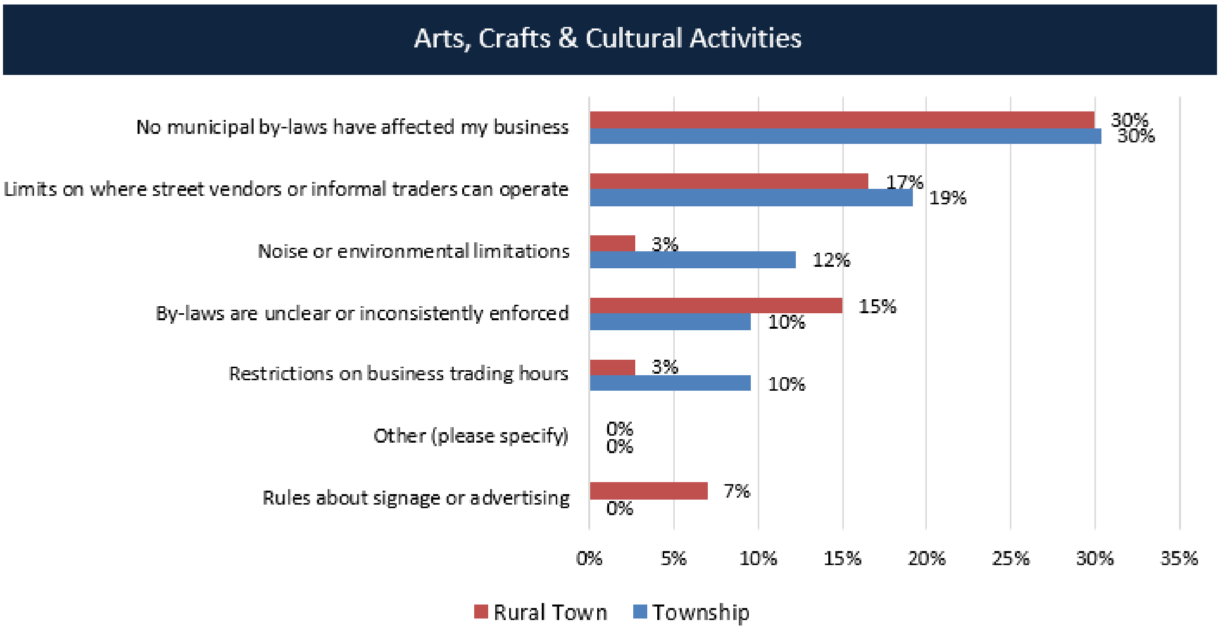
Source: RedFlank's Business Survey Report, slide 52 & 53

180. Other cited by-laws that serve as red-tape in these areas include signage, location and trading-rule issues remain visible across the sector results.[118] These are more visible in sectors such as agriculture, hospitality and food services, hair and beauty services, arts and crafts, and food, grocery and general retail ('Retail – other') as the figures below illustrate[119].

118 RedFlank. 2026. *Survey of Township and Rural Town Businesses* (Final report, March 2026). Slides 252-259.
119 RedFlank. 2026. *Survey of Township and Rural Town Businesses* (Final report, March 2026). Slides 252-259.

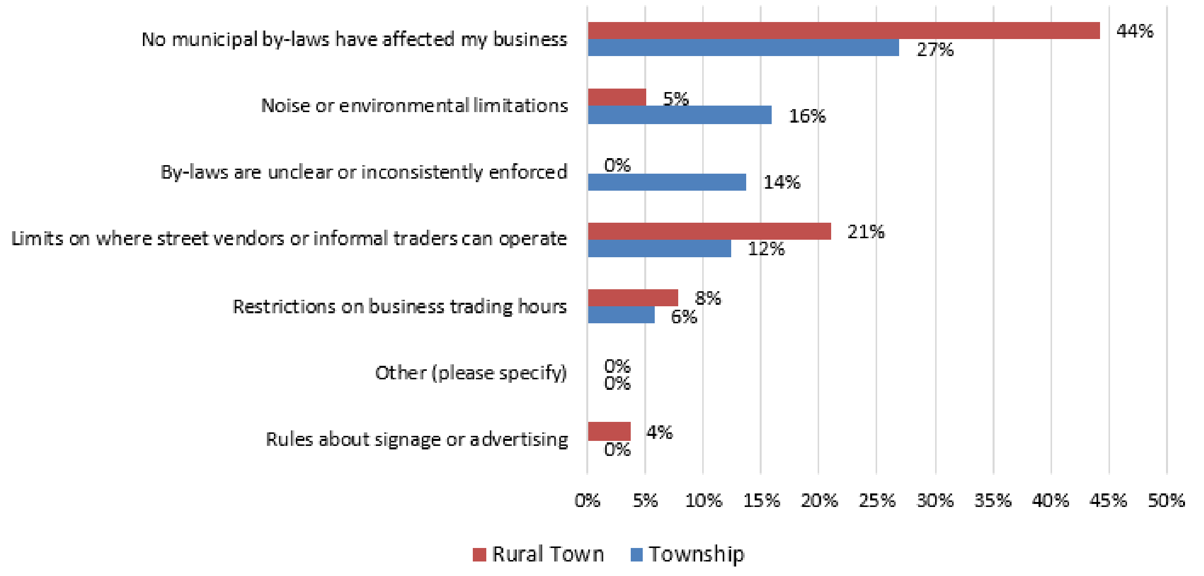
Figure 32: Impact of municipal by-laws by sector



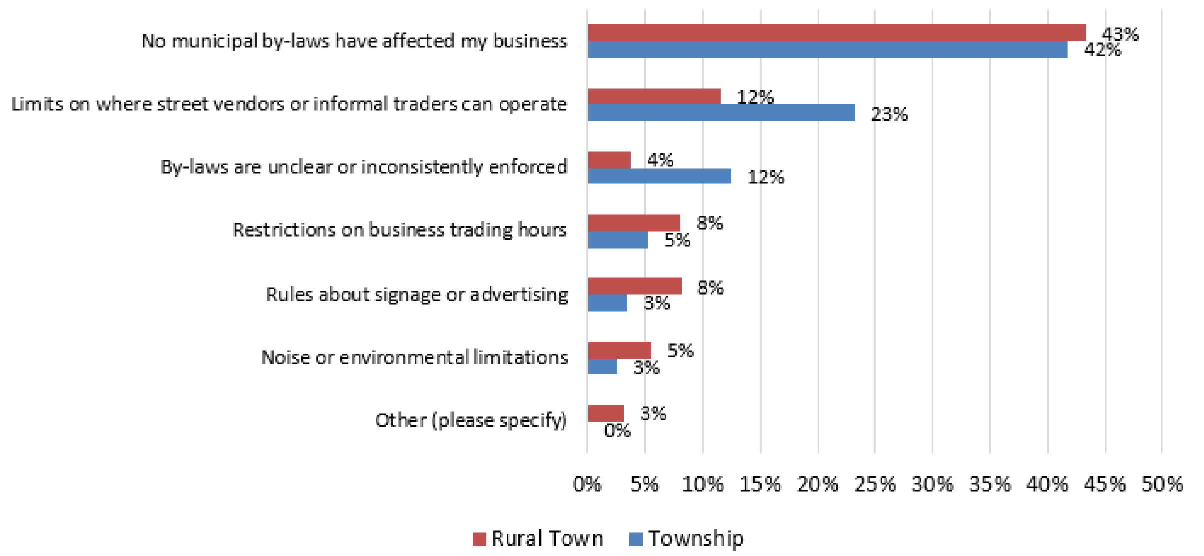


Source: RedFlank's Business Survey Report, slide 253

Hair, Beauty and Personal Care

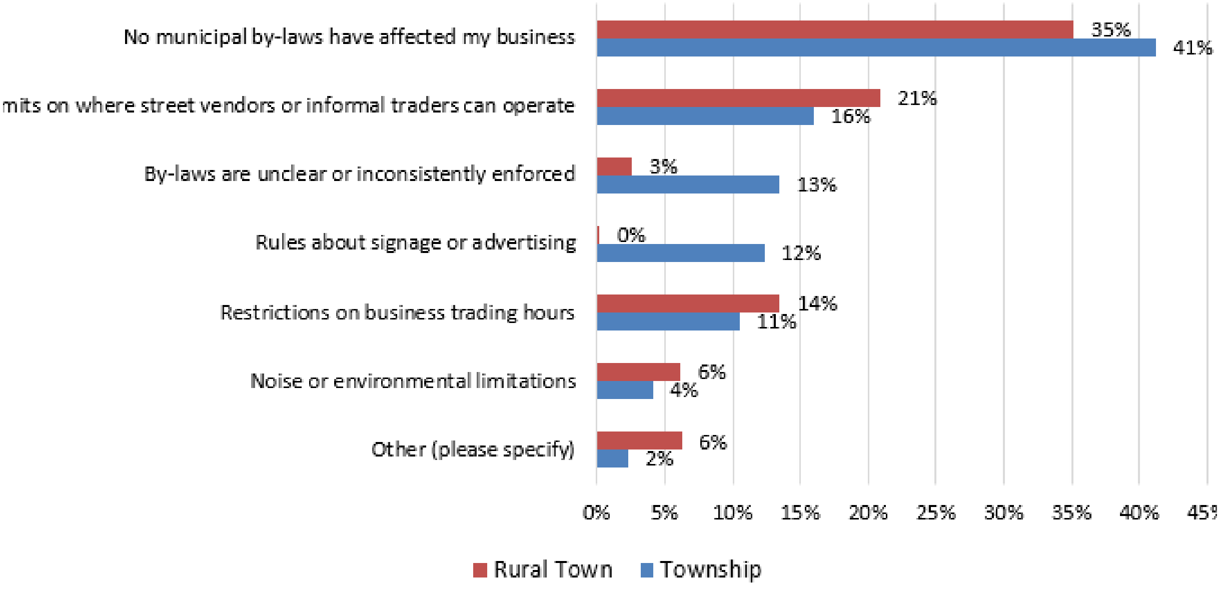


Hospitality and Food

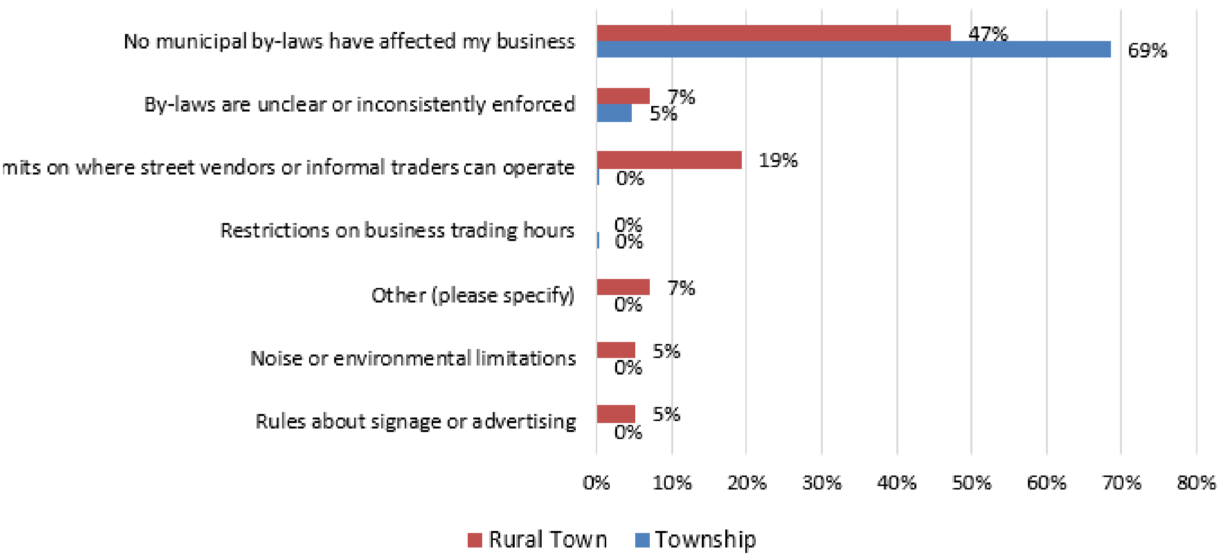


Source: RedFlank's Business Survey Report, slides 255 & 256

Retail – Food, Grocery and General



Retail - Other

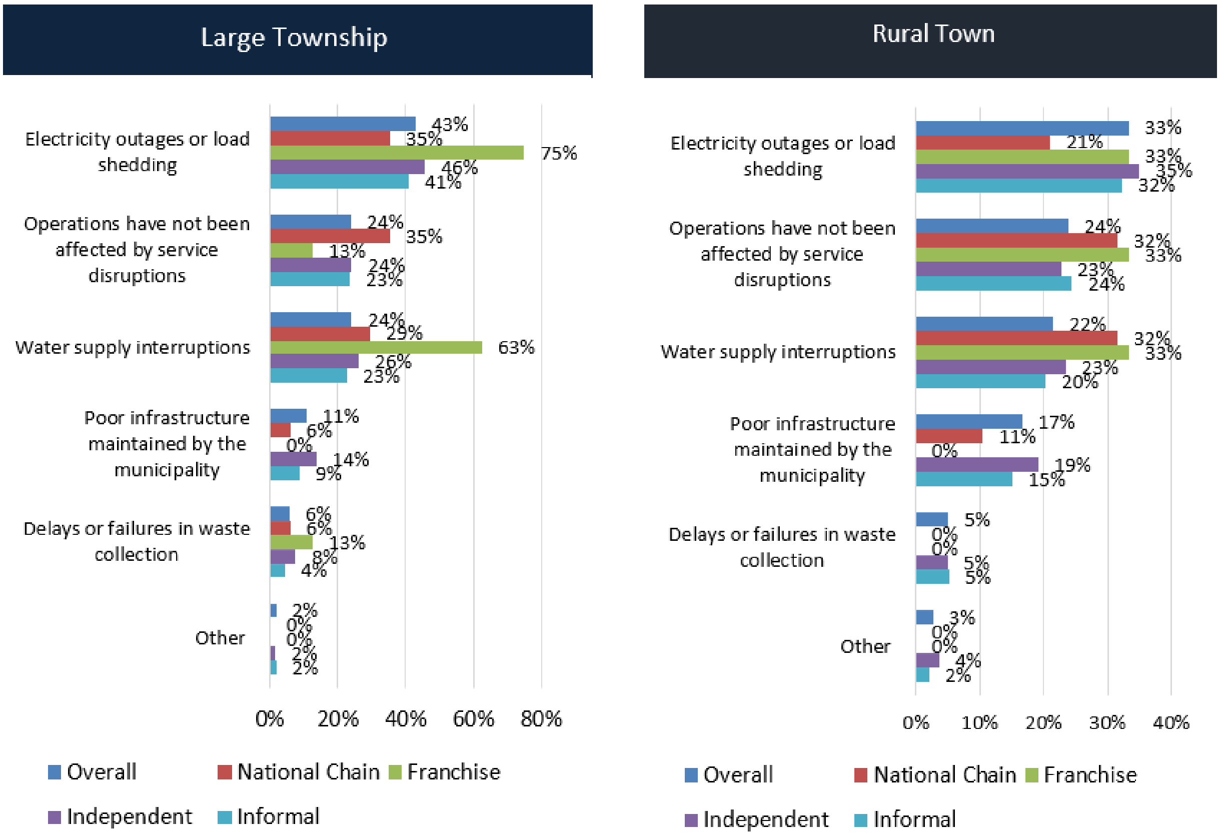


Source: RedFlank's Business Survey Report, slides 258 & 258

Service disruptions

181. The survey results relating to service disruptions, as shown below, indicate that basic reliability of municipal services is a material operating constraint, particularly through electricity and water interruptions. In townships, electricity outages/load shedding are the most frequently reported disruption (43% overall), and this rises sharply for franchises (75%). In rural towns, electricity outages/load shedding remain the most common disruption (33% overall), while a sizeable share also report poor municipal infrastructure maintenance (17% overall).

Figure 33: Impact of Service disruption (by business types)



Source: RedFlank's Business Survey Report, slide 54 &55

182. Local service disruptions are broad-based across business sectors: electricity outages and load shedding are the most commonly reported disruption across most sectors. Businesses also report water supply interruptions as a notable challenge in sectors such as agriculture, automotive services, hair and beauty services, hospitality and food services, ICT and electronics, and retail. In rural towns, poor road or transport infrastructure maintained by municipalities is another commonly reported issue, particularly in agriculture, automotive services, medical or health services, and retail.[120]

183. If service reliability operates as a cost and risk factor, it can widen performance gaps between business formats. Firms that can afford backup or contingencies (generators, storage, alternative logistics, working capital buffers) are better able to maintain trading hours and product quality, while smaller firms are more exposed to lost sales and spoilage, which can weaken their ability to compete and scale in already localised markets.

Other regulatory compliance burdens

184. In addition to service disruptions, the survey also highlights a set of compliance burdens that shape day-to-day operating costs and the feasibility of formalisation. For health and safety requirements, around 42% of township businesses report no issues, but this is highly uneven across formats (82% of national chains report no issues versus 37% of informal businesses), and the most commonly cited

120 RedFlank. 2026. *Survey of Township and Rural Town Businesses* (Final report, March 2026). Slides 260-267.

challenge is the volume of administrative requirements (11% overall in townships); in rural towns, "*requirements are too costly*" is the most frequently cited issue (13% overall), with only 38% reporting no issues.

185. A similar pattern appears across other compliance categories: for environmental compliance, infrastructure limitations are a leading constraint in rural towns (9% overall), while complexity is prominent in townships (9% overall reporting requirements are too complicated), and national chains again report far fewer issues (82% "no issues" in townships; 68% in rural towns). For labour laws, the main reported frictions relate to complexity and cost (townships: 7% and 6% overall; rural towns: 9% and 9% overall), with around 46% of township businesses and 41% of rural town businesses reporting no issues. Tax compliance shows the same general direction: complexity is the dominant reported issue (10% overall in townships; 9% overall in rural towns), and fewer informal businesses report "no issues" than chains (townships: 40% informal vs 82% chains; rural towns: 37% informal vs 68% chains). Finally, industry standards are most often described as costly and/or complicated (townships: 10% and 8% overall; rural towns: 9% and 9% overall), and again chains report markedly fewer compliance difficulties than smaller formats.

186. Overall, the survey evidence suggests that regulatory barriers in township and rural town economies operate through cumulative compliance and administrative burdens rather than through a single binding constraint. Permits and licensing processes, zoning rules, and municipal by-laws appear to shape both business entry and the scope for expansion by influencing where firms may operate, the conditions under which they may trade, and the predictability of the local enforcement environment. In this way, regulatory barriers affect not only individual firms, but also the broader prospects for local economic development by limiting business formation, constraining growth, and weakening the ability of local economies to retain and build commercial activity.

187. Compliance requirements relating to health and safety, labour, tax, environmental and industry standards can make formalisation harder. Better-resourced firms are more able to manage these layered requirements, while smaller and more informal businesses face higher costs, greater uncertainty, and heavier compliance burdens. This matters for local economic development because it can slow the transition of local firms into more secure and sustainable forms of operation, reduce the number of businesses able to scale, and limit the extent to which township and rural town economies can develop local production, employment and service provision.

188. These findings align with the broader survey pattern in which meeting regulatory requirements and the affordability of compliance are repeatedly identified as key constraints.[121]

189. Further, the sector-level results show that compliance difficulties are not limited to one or two sectors. Rather, they are spread across many sectors, although the nature and intensity of the burden differs by sector. For example, in environmental compliance, businesses in agriculture, automotive services, hospitality and food services, manufacturing and retail more often reported problems linked to infrastructure limitations, electricity constraints and the cost of compliance. By contrast, for labour-law compliance, the more common difficulties were the cost, administrative burden and complexity of the rules, especially in sectors like automotive services, ICT and electronics, manufacturing and retail.[122]

121 RedFlank *Survey of Township and Rural Town Businesses Demographics and Ownership*
122 RedFlank. 2026. *Survey of Township and Rural Town Businesses (Final report,* March 2026). Slides 276- 283; 284-291.

6. IMPLICATIONS FOR COMPETITION ASSESSMENT

190. The market and regulatory barriers discussed in Sections 4 and 5 above may be important in informing how the Commission and competition practitioners might approach competition assessment in cases or interventions implicating the township and rural economy, such as in instances where the concerned or affected parties are businesses operating within townships or rural towns. As noted in the sections above, the upstream barriers affecting businesses have implications for the consumer as they affect the options available to consumers, including product range, quality, and alternatives, but also impact on price and the distances that customers travel to purchase various goods and services.

191. These dynamics have an implication for closeness of competition between businesses operating in the township and rural economy, as well as on market definition – geographic markets in particular. As we discuss in detail below, closeness of competition and geographic markets should be approached with attention to local realities given the market and regulatory barriers affecting township and rural businesses.

6.1. Closeness of competition

192. As indicated earlier, the township and rural economy is characterised by higher shares of informal, micro, small, and independent businesses. The Commission has previously examined markets where formal and informal players operate together. Specifically, in the Retail Grocery Market Inquiry (GRMI), the Commission separated the retail segment into formal and informal channels, acknowledging that grocery sales occur via both channels. The formal retail sector features established supermarket chains, speciality stores and emerging retailers. In contrast, the informal sector is dominated by small, independent retailers including general dealers and spaza shops among others.[123]

193. The GRMI found that while there is competitive interaction between the formal and informal stores, the competition is asymmetrical, as the inquiry found that informal stores do not exert a strong competitive restraint on national supermarkets.[124] This is because the informal segment mainly serves as a convenient, local top-up option with limited product range, catering for community needs and used by customers for quick replenishments. This finding is consistent with case precedence in a previous merger decision in retail markets. In the *Cashbuild Management Services (Pty) Ltd and The Building Company (Pty) Ltd*[125] merger case,[126] the Commission assessed whether the independent retailers in rural towns exert a significant competitive constraint on the merging parties, who are national chain stores, in terms of product offering

123 Competition Commission South Africa (2019) Grocery Retail Market Inquiry – Final report (nonconfidential). Pretoria. Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf
124 Competition Commission South Africa (2019) Grocery Retail Market Inquiry – Final report (nonconfidential). Pretoria. Available at: https://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf
125 CC case no: 2020Oct0033.
126 A merger involving two firms active in the market for the supply of building materials, hardware and related products.

and pricing. The Commission's investigation found that based on quality, product range and price, independent retailers do not exert a significant competitive constraint on national retailers.

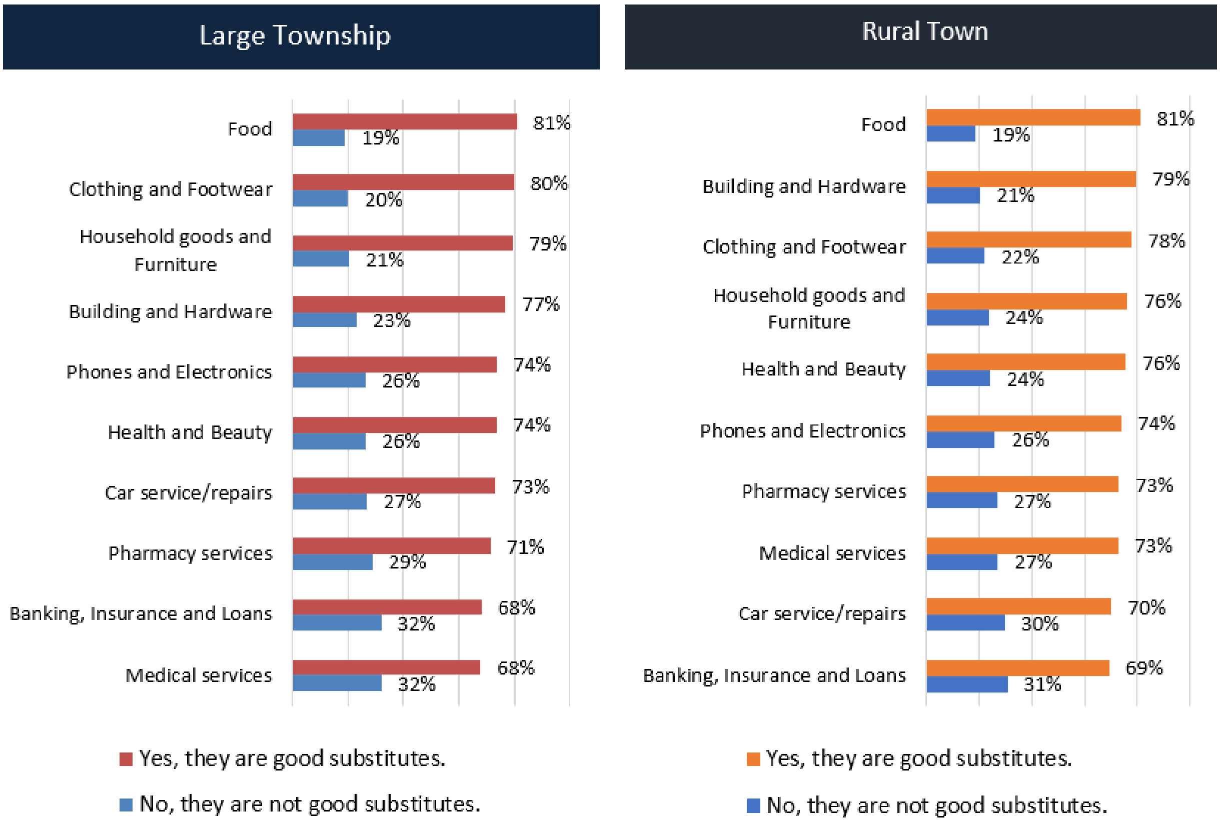
194. This is an important consideration because closeness of competition in differentiated markets such as retail – groceries, furniture, hardware, homeware, pharmaceuticals, etc., depends not only on whether outlets are nearby, but also on whether they compete for the same customer segment and on similar price points, product range, quality and payment options. For example, in lower to mid-segments of the market for retail of furniture, competition may be shaped by affordability and access to credit, while higher-income competition is shaped more by quality, design and style. Thus, a distinction may be made between regional chains, which may have enough scale to compete with national chains, and small independent retailers, which may not compete with these chains but could potentially be considered in the local market assessment.

195. This reasoning is helpful in the township and rural economy context because it supports a more careful assessment of whether informal or independent businesses are genuinely close substitutes for chain stores. Even where businesses are geographically close, they may not constrain one another strongly if they differ materially in quality, assortment, target customers, payment options or consumer perceptions or reliability. In this sense, closeness of competition in township and rural markets should be assessed not only through location, but also through the practical dimensions on which consumers make choices.

196. While the figure below (Figure 34) indicates a contrary view to the above as it indicates broadly that customers consider local stores as substitutes to national chain, a closer look at the survey results (as shown in Figures 35 and 36) suggests limited substitutability for a number of reasons including quality, product variety, and that local outlets are normally considered for convenience shopping.

197. The results indicate that the majority (more than 60%) of respondents across rural towns, large townships and metro townships view independent and informal stores as good substitutes to chain stores, across all categories. This is more so, when it comes to food products, with 80-81% of the respondents indicating that informal stores are suitable substitutes for chain stores.

Figure 34: Substitutability of Chain Stores with Independent and Informal stores (in Township and Rural Towns)



Source: RedFlank's Consumer Survey Report, slide 36 & 37

198. The responses to subsequent questions relating to the reasons for the perceived substitutability are inconsistent with the initially perceived high substitutability, suggesting low levels of substitution. Lower quality was reported as the main concern with respondents stating that independent/ informal stores offer lower quality than chain stores. Another reason that was cited by respondents was limited variety. Respondents reported that independent/ informal stores offer less variety, especially in large and metro townships for clothing, health and beauty, household goods, medical and pharmacy services.

Figure 35: Reasons independent and informal stores are not preferred substitutes to chain stores

Source: RedFlank's Consumer Survey Report, slides 42 - 44

199. These results suggest that when consumers are faced with a choice between a local store (small, independent, informal) and a national chain store operating locally, consumers are likely to choose a chain store because of reasons shown in the figures above.

200. These insights are relevant for competition authorities as they have implications for market boundaries and definition. The observation from the survey results is that quality and variety are important factors that are taken into consideration when deciding to buy goods and services from chain stores or independent/ informal stores. This could potentially mean that using price only tests such as SSNIP can misidentify the relevant market, especially since the survey results indicate that quality and range are key parameters.

6.2. Geographic Market Definition

Customer preferences and purchasing power

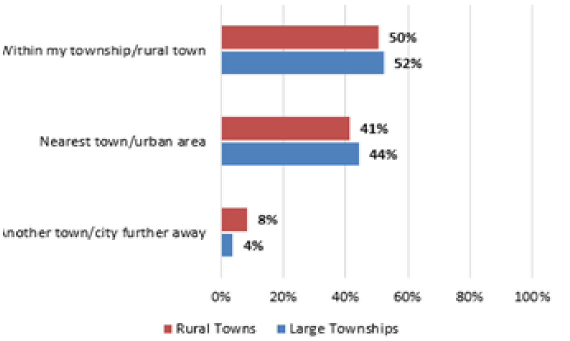
201. From an economic perspective, consumer behaviour plays an important role in defining geographic markets. Consumers' purchasing patterns, preferences, and willingness to travel affect the area within which firms meaningfully constrain one another. Where customers tend to shop locally, the geographic market is likely to be narrower. Where they are willing to travel further, or regularly shop in nearby towns or urban centres, the effective geographic scope of competition may be broader. Differences in income, transport options, product needs, and perceptions of quality and variety can therefore affect the geographic market differently across product categories.

202. The consumer survey results show that usual purchase location differs materially by product category, but the more important point to note is that a substantial share of consumers continue to shop outside their own township or rural town across many categories. The figures below show where respondents usually buy different types of goods and services – whether within their own township or rural town, in the nearest town or urban area, or in another town or city further away. These figures are important because they help indicate whether competition is primarily local, split between local and nearby centres, or broader in scope depending on the category.

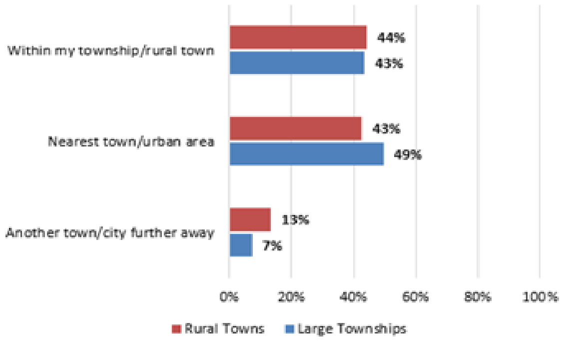
Figure 36: Usual purchase location by product for consumers in townships and rural towns

Source: RedFlank's Consumer Survey Report, slide 46-48

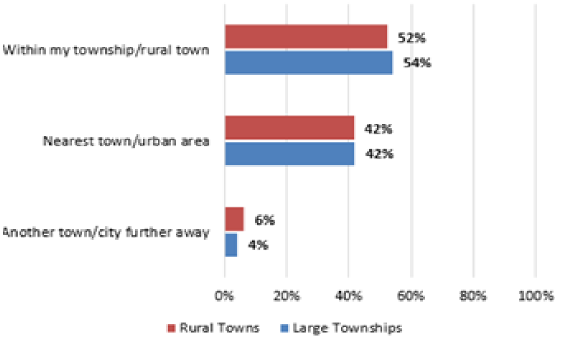
Health and Beauty



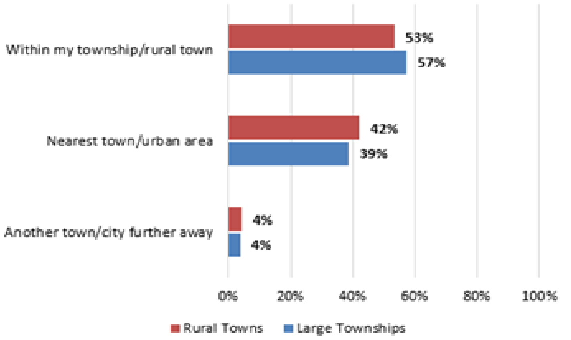
Household Goods and Furniture



Medical Services



Pharmacy Services



Source: RedFlank's Consumer Survey Report, slide 49 & 50

203. The figures above importantly show that, even where the largest single share of respondents report buying within their own area, there is still a significant portion – often in the 40% range – that usually shop elsewhere in the nearest town or urban area instead. This suggests that local suppliers do not always fully retain local consumer demand, which could likely be due to consumers perceiving better product quality, range, price, reliability or service in nearest towns or urban areas.

204. This outward shopping pattern is visible not only in more discretionary or comparison-based categories such as clothing and footwear, phones and electronics, and household goods and furniture, but also several everyday or service categories, including building and hardware, banking and financial services, car services and repairs, and health and beauty services. Even in categories that appear more localised in general (or overall) – like food, pharmacy services and medical services – the figures (and survey results) still show that a meaningful portion of consumers shop outside their own area. The implication is that geographic competition in township and rural settings is often not confined to the immediate locality alone: in many categories, nearby towns and urban centres form an important part of the effective area of competition.

205. For competition assessment, this means that geographic market definition should not proceed from the assumption that township and rural consumers shop only locally. Rather, the evidence suggests a mixed pattern in which local firms may face some constraint from nearby centres, especially where local supply is weaker in terms of quality, variety, service or availability. At the same time, the extent of that competitive constraint remains linked to the relevant product or service category, and may still be narrower in essential categories than in more comparison-driven purchases.

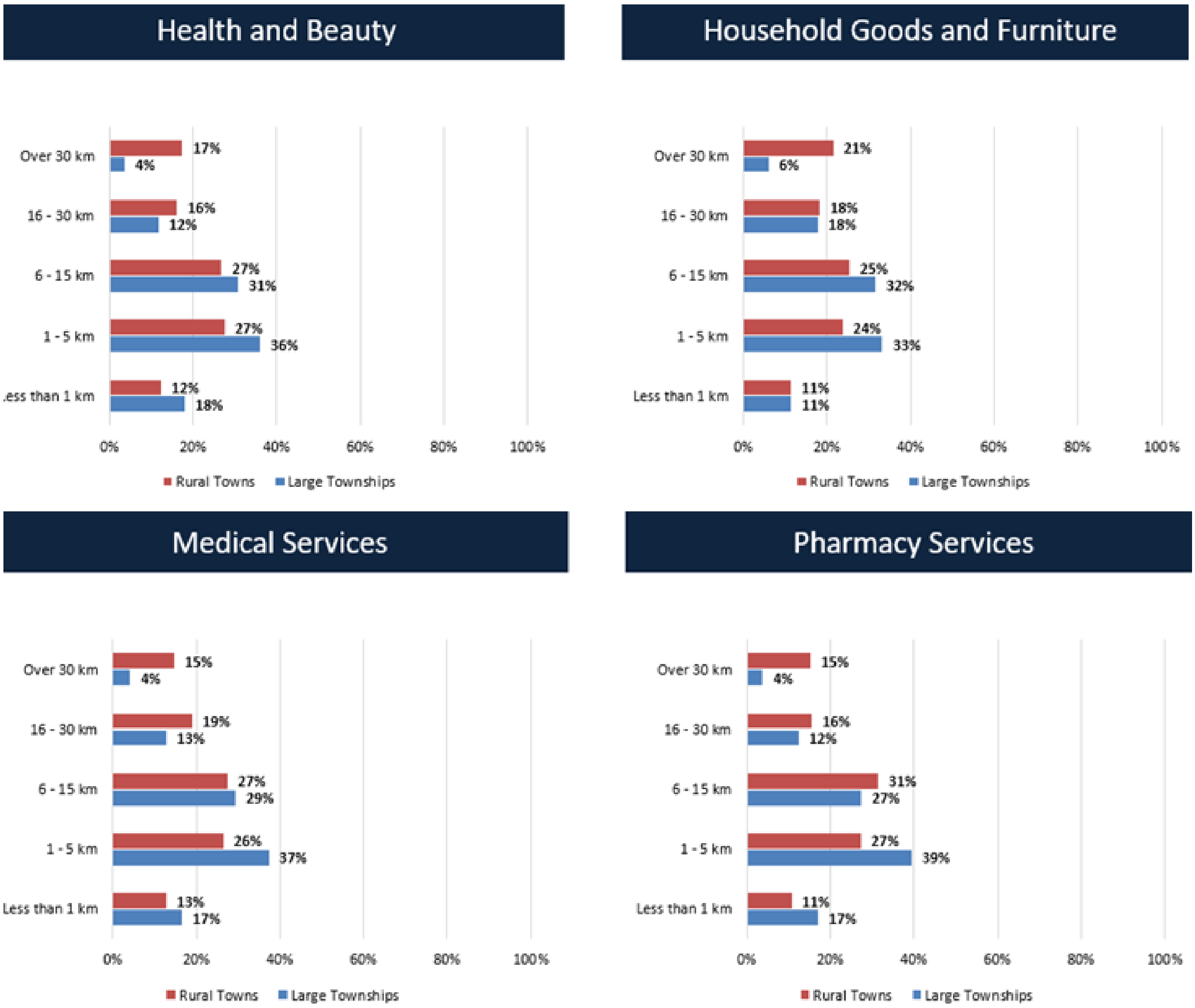
Distance-related factors, transport and catchment areas

206. The survey results also provide evidence on the distances consumers travel and the transport they use when shopping for different products and services, as shown in the figures below. This evidence is relevant for competition analysis because catchment areas depend not only on where consumers say they usually shop, but also on how far they are able or willing to travel in practice, and on whether suppliers outside the immediate locality can meaningfully constrain local firms.

Figure 37: Average Travel Distance When Shopping

Source: RedFlank's Consumer Survey Report, slides 60-62

Figure 38: Average Travel Distance When Shopping



Source: RedFlank's Consumer Survey Report, slides 63-64

207. The figures above suggest that rural-town consumers generally travel longer distances than township consumers across most product categories. This is evident not only in more comparison-driven categories such as clothing and footwear, phones and electronics, household goods and furniture, and car services and repairs, but also in categories such as food, banking, insurance and loans, building and hardware, health and beauty, pharmacy services and medical services.

208. This suggests that, in rural areas, nearby alternatives are often more dispersed and consumers may need to travel further to access the quality, range, price or service they require. In turn, this implies that effective catchment areas in rural towns are often wider than in township settings.

209. This difference in travel distances between rural-town and township consumers is particularly pronounced in clothing and footwear, phones and electronics, household goods and furniture, and car services and repairs, where rural respondents are much more likely than township respondents to travel over longer distances. This points to categories in which consumers are more likely to shop beyond their immediate area in search of better variety, lower prices, more

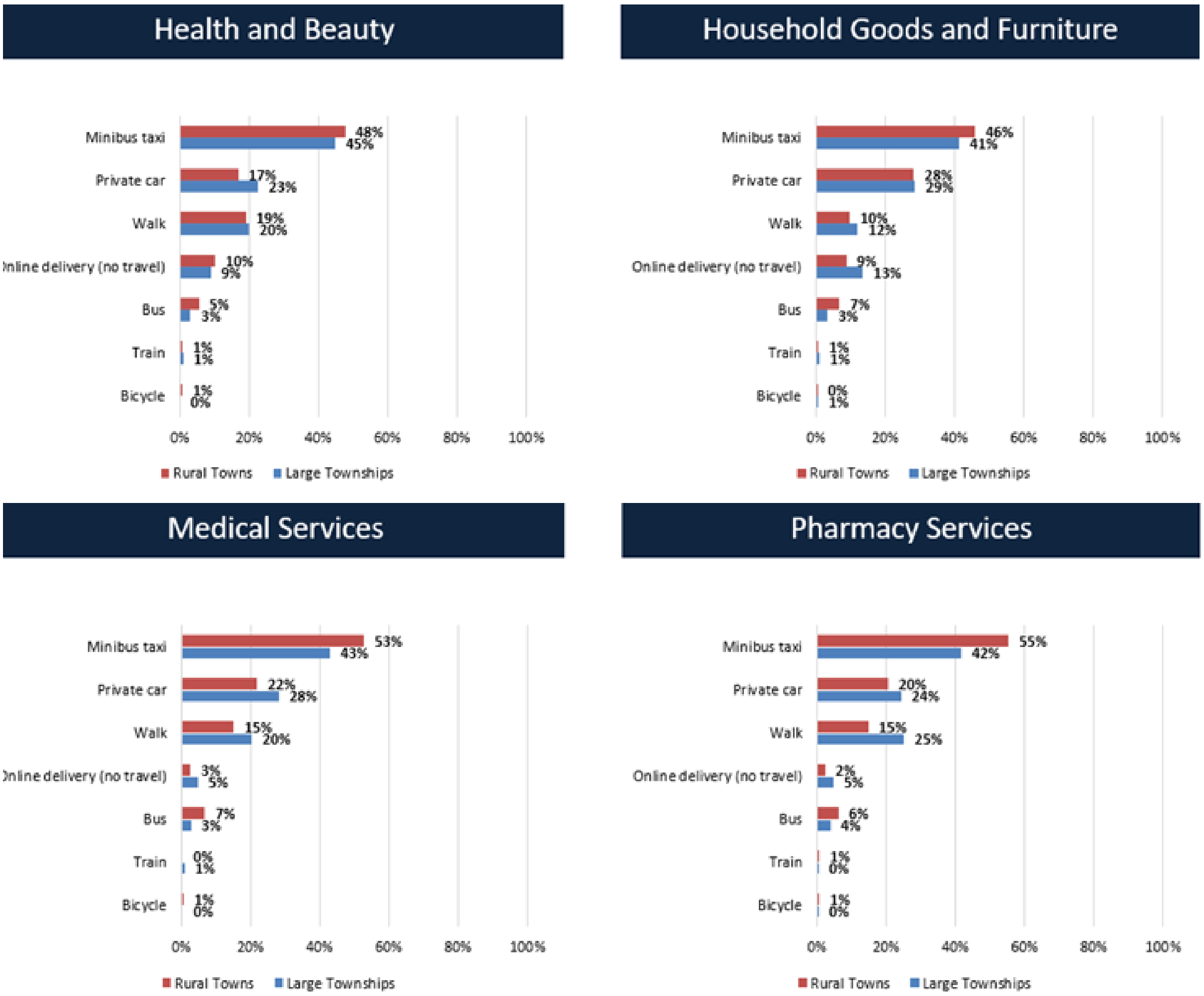
specialised supply or better perceived quality. At the same time, even categories that remain relatively more local in character – such as food, pharmacy services and medical services – still show materially longer travel distances in rural towns than in townships. This indicates that even essential categories may be subject to wider catchment areas in rural contexts than might otherwise be assumed.

210. The transport mode figures, as seen below (for main mode of transport used when shopping) help explain why distance alone should not be used mechanically in geographic market definition. Across many categories, minibus taxis are the main mode of transport, including for food, banking, insurance and loans, phones and electronics, household goods and furniture, pharmacy services and medical services, while private cars are also important in some categories and walking remains more relevant for routine local purchases.

Figure 39: Main Mode of Transport Used When Shopping

Source: RedFlank's Consumer Survey Report, slides 53-55

Figure 40: Main Mode of Transport Used When Shopping



Source: RedFlank's Consumer Survey Report, slides 56-57

211. These results suggest that what matters is not only the number of kilometres travelled, but whether consumers can realistically reach nearby towns or urban centres using available transport. In practical terms, the combination of longer travel distances and widespread use of minibus taxis indicates that consumers in many cases can and do access a broader set of suppliers than those located only within their immediate area, especially in rural settings.

212. The consumer survey evidence, overall, suggests that catchment areas are likely to be narrower in township settings and wider in rural settings, although the extent of this differs by category. For competition assessment, this means that geographic market definition should remain category-specific. Some categories, especially essential goods and services, may still be relatively local, while others are more likely to include nearby towns or urban centres as part of the effective competitive field. The combined distance and transport evidence reinforces the conclusion that geographic market definition in township and rural contexts should be sensitive to product category and the realities of the economy.

7. DISCUSSION AND CONCLUSION

213. The study finds that the township and rural economies contend with a wide range of market and regulatory constraints to businesses, limiting entry, growth and expansion, as well as the effective participation of businesses in these areas, most of which are independent, informal, micro and small enterprises, owned and/or controlled by historically disadvantaged persons. These barriers ultimately raise the cost of doing business for these enterprises, inhibit transformation, and also raise the cost of living for consumers who either have to buy expensive local products (from local businesses who face higher costs) or are forced to travel farther to look for quality products and product range as the growth inhibitors make it difficult for local businesses to offer sufficient product range and quality to consumers at competitive prices.

214. In industrial organisation, it is widely recognised that barriers to entry make it hard for new firms to start up or grow. When these barriers are strong, existing firms can keep prices higher (or quality lower) because potential rivals cannot enter or expand quickly enough to put real pressure on them. This is why licensing, permitting and zoning rules matter for competition when they materially slow down entry or prevent smaller firms from scaling.[127] Empirically, cross-country evidence on 'entry regulation' shows that higher procedural burdens (more steps, time and official cost) are associated with worse governance outcomes and larger informal sectors, consistent with the proposition that overly burdensome regimes can impede formal entry and expansion rather than simply managing risk.[128]

215. Licensing, permits and other compliance requirements often come with set-up costs (for example, application fees, paperwork, inspections, and time spent dealing with officials) as well as ongoing costs (renewals, reporting, and continued compliance). These costs usually take up a much bigger share of income for micro and small firms than for larger firms. As a result, small businesses may need to reach a larger minimum scale before they can operate profitably, which can favour bigger firms and formal chains. Cross-country regulatory indicators also show that the number of procedures, time delays and official costs involved in basic business processes (such as starting a business, getting permits and registering property) can be substantial, and these burdens can materially affect whether a firm can enter, stay formal, and

127 Pepall, L., Richards, D.J. and Norman, G. (2014) *Industrial organisation: contemporary theory and empirical applications. 5th edn.* Chichester: Wiley. (See contents including 'Significant entry barriers'.)

128 Djankov, S., La Porta, R., López-de-Silanes, F. and Shleifer, A. (2002) '*The regulation of entry*', The Quarterly Journal of Economics, 117(1), pp. 1–37; World Bank. (2019) *Global economic prospects, January 2019: darkening skies (Topical issue: 'Growing in the shadow: challenges of informality').*Available at: https://thedocs.worldbank.org/en/doc/196001542819699601-0050022018/original/GlobalEconomicProspectsJan2019TopicalIssueinformality.pdf ; Ulyssea, G. (2018) '*Firms, informality, and development: theory and evidence from Brazil*', American Economic Review, 108(8), pp. 2015-2047.

grow.[129] Related research on entry regulation finds that higher regulatory costs can depress new firm creation and are associated with entrants being larger on average – consistent with the notion that regulation can 'select' firms with greater resources and compliance capacity.[130]

216. The competition impact is that potential entrants and smaller rivals expand more slowly (or not at all), especially into high-footfall locations and formal routes to market, which weakens the competitive pressure they would otherwise place on larger incumbents.[131] Consumers do not only compare the prices they see on the shelf. They also consider what it costs to reach the shop (like money, time and effort or hassle). This means the "real" cost to the consumer is often the shop price plus travel/transport costs. When travel costs are high, a cheaper shop that is far away may not be a realistic option for many households, so it does not put much pressure on local prices. In that way, distance and transport costs can reduce how strongly different outlets compete with one another, and can contribute to price differences across locations.[132]

217. The consumer survey evidence also suggests that the geographic scope of competition differs materially by category. More routine and essential purchases, such as food, pharmacy services and medical services, appear more localised, while categories such as clothing and footwear, phones and electronics, and household goods and furniture show a stronger pull toward the nearest town or urban area. This means that the extent to which distance and transport costs insulate local suppliers from outside competition is not uniform across markets: in some categories competition is more strongly local, whereas in others nearby towns and urban centres may form part of the effective competitive field.

218. The survey evidence further indicates that these broader shopping patterns are especially visible in rural towns, where consumers travel materially further across most categories than consumers in township areas. In addition, the prevalence of minibus taxis as the main mode of transport across many categories suggests that nearby towns may often be practically accessible to consumers even where private car ownership is limited. For competition assessment, this implies that catchment areas in rural contexts may often be wider than in township settings, and that transport realities should be incorporated directly into the analysis of geographic scope.

219. From a policy perspective, the implication is not deregulation per se, but risk proportionate, competition-friendly regulation. This kind of regulation would simplify licensing and permits where risks are low, and standardise procedures, which would reduce unnecessary steps, improve transparency,

129 World Bank. 2020. *Doing business 2020: comparing business regulation in 190 economies*. Available at: https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf ; OECD. (2025) Best practice principles for licensing and permitting: how to manage risks while supporting growth (OECD best practice principles for regulatory policy). Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/10/licensing-and-permitting_f2b74324/68fc3301-en.pdf

130 Igan, D., Mirzaei, A. and Moore, T. 2018. *How do regulations of entry and credit access relate to industry competition?* International evidence (IMF Working Paper WP/18/84). Available at: https://www.imf.org/-/media/files/publications/wp/2018/wp1884.pdf ; Forth, J.2019. *'The impact of entry regulations on business growth'*. Available at: https://openaccess.city.ac.uk/id/eprint/22413/ ; Klapper, L., Laeven, L. and Rajan, R.2006. *Entry regulation as a barrier to entrepreneurship*. Journal of Financial Economics, 82(3), pp. 591–629.

131 Stokey, N.L.2016. '*Wait-and-see: investment options under policy uncertainty*', Review of Economic Dynamics, 21, pp. 246–265; OECD. 2025. Licensing and permitting: how to manage risks while supporting growth (OECD Best Practice Principles for Regulatory Policy). Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/10/licensing-and-permitting_f2b74324/68fc3301-en.pdf

132 Lederer, P.J. 2020. '*Location-price competition with delivered pricing and elastic demand*', Networks and Spatial Economics, 20(2), pp. 449–477. Available at: https://ideas.repec.org/a/kap/netspa/v20y2020i2d10.1007_s11067-019-09484-3.html ; Ellickson, P.B., Grieco, P.L.E. and Khvastunov, O. 2019. *Measuring competition in spatial retail*. Working paper. Available at: https://paulgrieco.github.io/files/preprint/groceries.pdf ;

and embed credible service standards for decision-making.[133] The OECD's best-practice principles emphasise that licensing and permitting systems, when overused or poorly designed, can become slow and fragmented, creating unnecessary costs and delays that hinder growth and innovation. It recommends risk-based design and improved regulatory delivery to maintain protections while reducing unnecessary burden.[134]

220. Finally, because regulation transmits to consumers through reduced local choice and higher delivered prices (including travel costs), competition-oriented interventions should explicitly connect business enablement to consumer welfare by prioritising reforms that expand feasible routes to market while ensuring compliance requirements are not used – intentionally or unintentionally – to exclude smaller entrants.[135]

221. Local economic development in townships and rural towns should not be understood only as a matter of supporting more small businesses to start operating. The literature and the Commission's work suggest that the important question is whether these firms can enter better-value parts of the market, secure reliable supply, reach consumers effectively, and participate in wider value chains. Where firms remain stuck in low-profit, survivalist activities, a local economy may have many small businesses, but still not create strong growth, decent jobs, or much money circulating within the community.

222. Another implication is that consumer outcomes and business outcomes in these economies need to be analysed together. If township consumers continue to shop outside their area, or prefer large formal retailers, this may reflect not only household preferences but also upstream problems affecting local firms, including weaker access to stock, poorer trading infrastructure, limited bargaining power, and barriers to entering more formal retail spaces.[136] The Commission's grocery and fresh produce work is useful because it treats market access, value-chain conditions and consumer effects as connected issues rather than separate ones.

223. A third implication is that better evidence matters. One of the recurring themes in the South African literature is that township business activity is substantial but still poorly measured, and that weak data can make it harder to design effective interventions. The Commission's efforts to develop more data here (using township and rural town business and consumer surveys) are therefore important in its own right. It suggests that future policy and interventions should be based less on broad assumptions about township enterprise and more on detailed evidence regarding ownership patterns, routes to market, pricing, sourcing, consumer switching and barriers to expansion.

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133 OECD. (2019) Competition assessment toolkit: guidance (version 4.0, volume 2). Paris: OECD Publishing. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/01/competition-assessment-toolkit-principles-version-4-0-volume-2_59982ed7/b6b938e9-en.pdf; OECD. 2025 *Licensing and permitting: how to manage risks while supporting growth (OECD Best Practice Principles for Regulatory Policy).* Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/10/licensing-and-permitting_f2b74324/68fc3301-en.pdf

134 OECD. 2025. *Licensing and permitting: how to manage risks while supporting growth (OECD Best Practice Principles for Regulatory Policy).* Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/10/licensing-and-permitting_f2b74324/68fc3301-en.pdf

135 Ellickson, P.B., Grieco, P.L.E. and Khvastunov, O. 2020. *'Measuring competition in spatial retail'*, RAND Journal of Economics, 51(1), pp. 189–232. Available at: https://paulellickson.com/SpatialRetail.pdf; OECD. 2019. *Competition assessment toolkit: guidance (version 4.0, volume 2).* Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/01/competition-assessment-toolkit-principles-version-4-0-volume-2_59982ed7/b6b938e9-en.pdf ; OECD. 2025. *Licensing and permitting: how to manage risks while supporting growth (OECD Best Practice Principles for Regulatory Policy).* Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/10/licensing-and-permitting_f2b74324/68fc3301-en.pdf

136 Wieland, T. 2021. *Spatial shopping behaviour in a multi-channel environment. Berlin.* Discussion Paper. Available at: https://www.econstor.eu/bitstream/10419/312616/1/1788795679.pdf; OECD. 2019. Competition assessment toolkit: guidance (version 4.0, volume 2). Paris. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/01/competition-assessment-toolkit-principles-version-4-0-volume-2_59982ed7/b6b938e9-en.pdf

224. Competition policy can complement local economic development policy in practical ways. Local development strategies often focus on infrastructure, permits, support programmes and municipal planning, all of which remain important. However, the Commission's work shows that local economies may also be constrained by exclusionary leasing arrangements, concentrated buyer power, unequal access to formal channels, and market rules that favour established players. This means that competition interventions can support local development of townships and rural towns by opening routes to market and reducing structural barriers.

225. Overall, this theme shows that township and rural economic development should not simply be framed as a question of stimulating local trade, but as a question of improving the quality of participation in markets. A stronger local economy is one in which local firms are not only present, but are able to compete, expand, upgrade and serve consumers through fairer and more effective market linkages.

226. The barriers identified in the report (Sections 4 and 5) imply that some barriers are competition concerns that may warrant direct Commission attention through advocacy, market monitoring or enforcement, while others are more regulatory or administrative constraints that would likely require coordinated engagement with the relevant departments, agencies and municipalities.

227. A first priority area is regulatory and administrative red tape. The evidence points to a set of recurring barriers affecting smaller township and rural businesses, including difficulties in obtaining permits and licences, limited access to information and support, zoning uncertainty, restrictive or unclear municipal by-laws, and burdensome compliance obligations relating to tax, labour, health and safety, and industry standards.

228. In this area, the Commission could consider structured engagement with municipalities, South African Local Government Association (SALGA), provincial departments responsible for local economic development and cooperative governance, as well as the DTIC and Department of Small Business Development (DSBD) and their agencies, with a view to identifying which regulatory burdens can be simplified, standardised or better supported.

229. A second priority area is market access and route-to-market barriers. Here, the Commission could pursue follow-on work with a more specific competition focus. This may include engagement with the DTIC, DSBD, retail-property stakeholders, major retailers, e-commerce platforms, and relevant municipalities on practical ways to widen access to formal retail and digital channels for smaller firms.

230. A third priority area is procurement and upstream access. The findings here suggest scope for further Commission work in relation to (i) advocacy and stakeholder engagement on pro-competitive mechanisms such as buyer groups, shared logistics, and local sourcing initiatives; (ii) potential further, targeted research in sectors where procurement disadvantages appear especially important for consumer outcomes, such as grocery, food services, building materials and selected manufacturing activities; (iii) and where facts warrant it, screening of conduct involving discriminatory supply terms, priority supply, or exclusionary procurement arrangements affecting SMEs and HDP-owned businesses.

231. A fourth priority area is service delivery and infrastructure as competition conditions. The evidence suggests that electricity interruptions, water disruptions, poor road maintenance and weak municipal service delivery affect business viability and market access, especially for smaller firms that lack buffers or backup systems. In this area, the Commission's role is likely to be primarily

one of advocacy and intergovernmental engagement, especially with municipalities, provincial governments, infrastructure agencies and departments responsible for local economic development.

232. Overall, the appropriate follow-on response and targeted action from this study, is therefore not a single intervention, but a combination of competition advocacy, stakeholder coordination, potential focused further research, and where warranted, screening.

Notes

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