TWO CENT SOLUTIONS

A tale of a Township spaza shop

DIRECTORS REMARKS

By Retshegofetse Prince Moeng

I was raised in the North West, where my grandmother ran a small tuckshop from the front room of her house. To most, it was just a few shelves stacked with tomatoes, bread, and cold drinks. To me, it was my first classroom in business. I watched her turn that tuckshop into a lifeline for the community — feeding families, extending credit until grants were paid, and reinvesting profits to renovate her home and buy cars, all in cash. With no formal education, she built a system of trust, discipline, and customer loyalty that rivaled any modern retail model.

Her story is not unique. Across townships and rural areas, thousands of families have built their livelihoods through spaza shops and tuckshops. These businesses have educated children, built homes, and sustained households for generations. They are the backbone of township economies, yet for decades they have been overlooked, written off as “informal” and too risky for formal finance.

At Two Cent Solutions, we believe it is time to change that narrative. This report, A Tale of the Township Spaza, is more than a set of statistics. It is a recognition of the resilience of this industry, an honest reflection on its challenges, and a demonstration of how financial innovation can unlock its future. By creating access to capital and digital tools, we are not only professionalizing the spaza ecosystem, but also restoring its role as a genuine engine of wealth creation in South Africa.

Overview

SPAZA ECO-SYSTEM

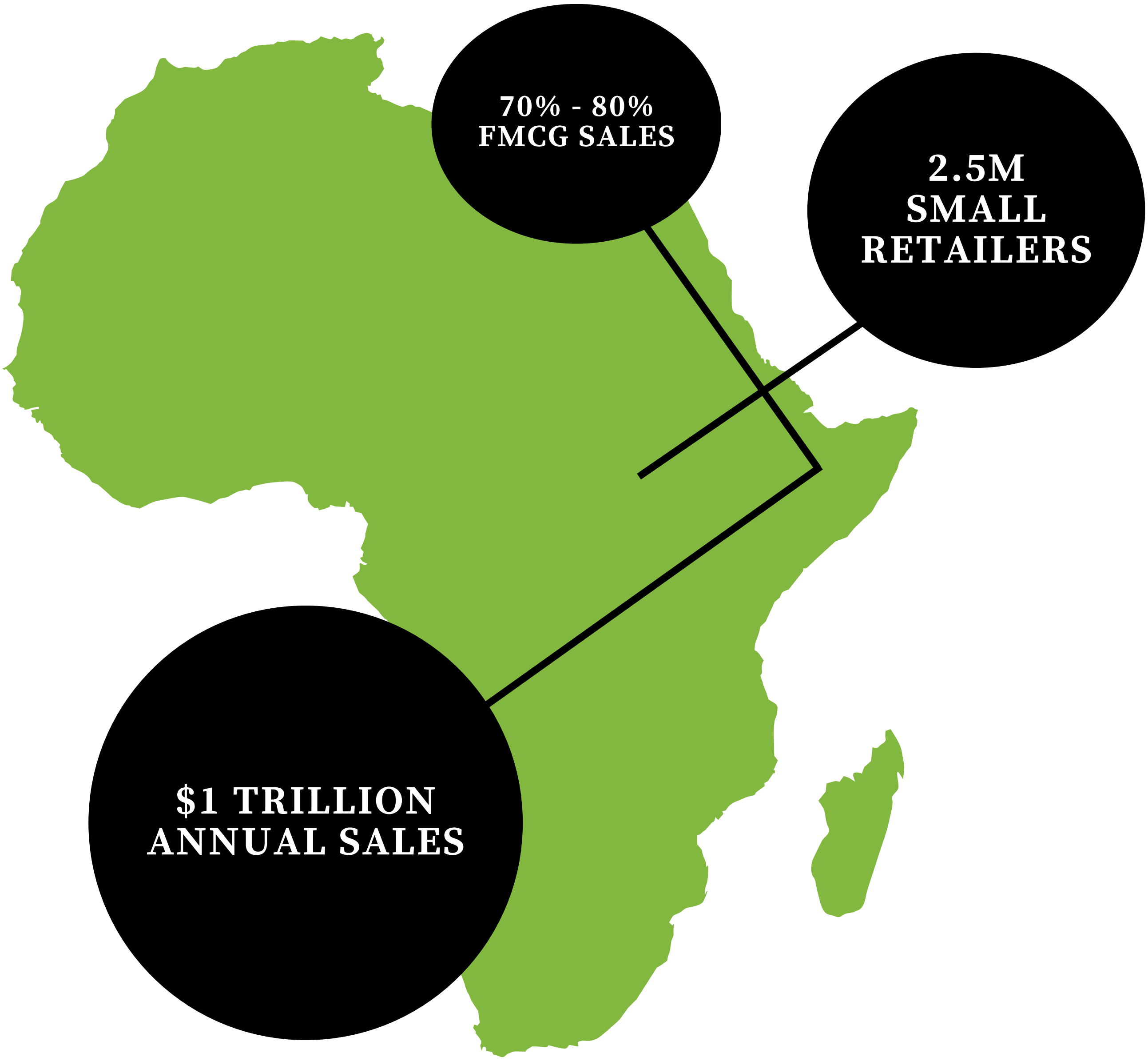
The spaza sector is a major, though often under-recognized, pillar of South Africa’s retail fabric. Conservative industry estimates place the number of spaza shops in South Africa between 150,000 and 200,000 outlets, with the sector generating an estimated R100–R150 billion in annual turnover. These shops are a critical distribution channel for fast-moving consumer goods (FMCG) in townships and rural settlements and support livelihoods across hundreds of thousands of households.

At the continental level, informal micro-retail is even larger: there are an estimated 2.5 million small retailers across Africa, generating roughly $1 trillion in annual sales and accounting for the majority of FMCG distribution in many countries. This underscores how fundamental micro-retailers are to food security, convenience retail, and household consumption across the continent.

- Ownership split:
    - 60–80% in urban and peri-urban areas are operated by foreign nationals (Somali, Bangladeshi, Ethiopian, Pakistani). Their networks allow bulk buying, low prices, and efficient distribution.
    - 20–40% South African-owned, largely in rural and semi-urban areas. These are more fragmented and have been losing market share due to lack of funding, supply chain disadvantages, and infrastructure gaps.

- Structural challenges for South African-owned spazas:
    - Limited access to working capital.
    - Poor infrastructure (refrigeration, shelving, point-of-sale technology).
    - Exclusion from formal supplier programs.
    - Lack of compliance (permits, licenses).
    - Vulnerability to crime, looting, and municipal enforcement.

- Operational issues:
    - Inconsistent distribution and product display limit sales growth.
    - Many shops lack proper refrigeration or storage, raising food safety risks.
    - The fragmented nature of the sector makes it hard to build reliable supplier relationships, affecting pricing and consistency.
    - Competition from supermarkets and foreign-owned collective models makes it difficult for small, independent South African spazas to compete.



CONTINENTAL OVERVIEW

- Spaza shops are ubiquitous and indispensable to township consumption patterns.
- The aggregate economic scale is vast, yet highly fragmented - creating both difficulty and opportunity for structured investment.

THE TOWNSHIP SPAZA MARKET

Through our financial inclusion program at Two Cent Solutions, we have engaged with thousands of spaza operators, uncovering both the resilience and the challenges of this vital sector. On average, a spaza shop records a turnover of around R40,000 per month, with sales largely cash-based and closely tied to social grant payment cycles that shape township household spending patterns. Despite these strong and consistent cashflows, spaza shops remain excluded from mainstream banking systems and supplier credit, limiting their ability to scale and sustain growth. Recognizing this gap, Two Cent Solutions and its partners are committed to changing the narrative by embarking on an ambitious initiative to assess and support 125,000 spaza shops across South Africa, creating pathways for financial inclusion, supply chain integration, and long-term sustainability.

20% - 40%
Potential uplift

70–80%
of FMCG sales in Kenya

From our survey of 2,990 spaza shops in the Emfuleni District, we observed:

1. Formalization & registration: Only 189 South African-owned spazas in our sample were registered with CIPC. Some foreign-owned operators have registered, but most trade informally. Formal registration remains a major barrier to conventional financing.
2. Credit & eligibility: Using a blend of traditional checks and alternative scoring (transaction cadence, grant-payment cycles, supplier reliability, and foot-traffic proxies):
   - 101 shops met immediate financing eligibility.
   - 95 newly registered entities needed additional transactional history.
   - A measurable minority were flagged for deregistration, legal judgments, or credit defaults.

3. Operational observations: Stockouts are frequent, refrigeration is rare, and inventory management is rudimentary; many owners do not maintain reliable sales records. These operational constraints translate into lost revenue and customer dissatisfaction.

2990

our dataset of 2,990 spaza shops in Emfuleni District

189

Compliance & Formalization:

- 189 South African-owned spazas are registered with CIPC.
- A small number of foreign-owned shops are also registered, though the majority remain informal.
- Many still operate as sole proprietors, with personal and business finances intertwined.

196

- 101 businesses were immediately eligible for funding.
- 95 newly registered but required additional transactional history.
- A subset flagged for deregistration, defaults, or judgments.
- We used alternative credit scoring tools: foot traffic analysis, repayment cycles around social grants, and supplier reliability.

20%

Revenue leakage: Up to 20% of potential sales lost due to stockouts.
Our model: Ensures continuous access to goods, improves customer loyalty, and increases shop revenues by keeping shelves stocked.

62%

Approximately 62% of SMEs assessed in the sector qualify for approval under our framework.

12%

Conversely, only 12% fall into ineligibility categories, primarily due to deregistration with the Companies and Intellectual Property Commission (CIPC) or adverse credit records such as defaults and judgements.

UNLOCKING THE FUTURE OF SPAZA SHOP DEVELOPMENT IN SOUTH AFRICA

Building on the Emfuleni engagement, we are scaling our approach nationally with partners to assess 125,000 spaza shops. This program is ambitious by design: it aims to combine data capture, alternative credit scoring, fintech onboarding, and supplier integration into a single, replicable pipeline.

Key program pillars:

1. Comprehensive mapping & onboarding: Field teams and digital intake will capture registration status, trading footprint, inventory habits, and financial behaviour.
2. Alternative credit engine: Use transactional proxies (A2Pay/Yoco/Kazang flow), social grant cycles, supplier repayment histories, and foot-traffic scoring to underwrite credit where bureau data is absent.
3. Fintech & payments rollout: Equip merchants with payments acceptance (card terminals and QR), digital wallets, and basic point-of-sale (POS) systems to build a verifiable transaction trail.
4. Operational uplift: Offer training in inventory rotation, basic food safety, merchandising, and simple accounting.
5. Supplier & distribution tie-ins: Link spazas to discounted wholesale procurement through partner distributors and mid-size wholesalers to reduce input costs and stabilize supply.
6. Monitoring & portfolio management: Ongoing data capture to track performance, defaults, and upsell opportunities (fridge financing, expansion loans).

Projected outcomes:

- Formalize a significant share of the 125,000 shops, increasing formal sales visibility and enabling scale financing.
- Reduce stockouts, increasing average monthly turnover (conservative uplift 20–40%).
- Establish a lending portfolio with diversified risk, backed by transactional history rather than solely by traditional credit bureau references.

REPRESENTATIVE BODIES & INDUSTRY SUPPORT STRUCTURES

To drive formalization and to offer advocacy and training, a number of bodies and initiatives exist:

- SASTA — South African Spaza & Tuckshop Association: Sector-specific advocacy group pushing for supplier access, training, and formal recognition.
- SAITA — South African Informal Traders Alliance: Represents a broader set of informal traders, including spaza owners, and lobbies municipal and national governments for legal recognition and support.
- NIBUS — National Informal Business Upliftment Strategy (or analogous government-led initiatives): Programs designed to mainstream informal enterprises through training, infrastructure support, and finance.
- DTIC & Local Economic Development Programmes: Initiatives focused on integrating small traders into formal supply chains and providing bulk procurement mechanisms.

While these bodies exist and have achieved measurable wins (training programmes, local procurement linkages), representation often lacks the coordinated, large-scale financing mechanisms required to catalyse sector-wide transformation.

Lessons from Kenya, Ghana, Nigeria

COMPARATIVE ANALYSIS

To guide investor expectations and strategy, it's instructive to compare South African spazas with analogous micro-retail formats elsewhere in Africa - specifically Nigeria's kiosks and small retailers, Kenya's dukas, and Ghana's provision stores. These comparisons highlight proven interventions and pitfalls.

Nigeria - kiosks & small retailers (scale & networks):
Nigeria's informal retail landscape is enormous; a BCG study found that more than 600,000 small retailers account for a substantial share of national retail sales (traditional retail overwhelmingly dominates grocery sales), and traditional retail formats represent up to 97% of national sales in some segments. Nigerian retailers often operate within dense supplier-wholesaler networks, and many are part of informal co-operatives that enable bulk purchasing and supply consistency. These collective purchasing structures give many operators competitive pricing power despite limited formal finance penetration. For investors, the lesson is that networked procurement and aggregation platforms can dramatically improve margins and resilience for small retailers.

Kenya - dukas & the Smart Duka model (professionalization & training):
Kenya's "dukas" are neighbourhood micro-stores that serve the overwhelming majority of grocery shoppers. Programs such as Smart Dukas (Nairobi) and other B2B pilots (supported by NGOs and development finance) have shown that in-store consulting, record-keeping training, and supply-chain linking measurably increase sales and profitability for dukas. Studies estimate that informal retail accounts for 70–80% of FMCG sales in Kenya, and training plus digital support helps dukas increase inventory turns and reduce stockouts. The Kenyan experience suggests that capacity building and continuous coaching, when paired with access to affordable working capital and digital tools, produces scalable uplift.

Ghana - provision stores (local trust & supply challenges):
In Ghana, informal provision stores and market vendors are critical to urban and peri-urban life. Research highlights that fragmented supply chains, stockouts, and limited finance are primary constraints, while shops that receive training and better supplier linkages demonstrate improved performance and stability. The Ghanaian context validates the need for better logistics, formal supplier relationships, and local capacity development to improve stock availability and customer trust.

Across these markets, recurring success factors include: aggregation of demand (group purchasing), fintech-enabled payments (to create transactional records), on-the-ground coaching and store-improvement interventions, and logistics integration (frequent, reliable deliveries from mid-size wholesalers). Where these elements align, micro-retailers graduate from survivalist merchants to predictable small businesses — scalable, bankable, and investable.

Conclusion

The township spaza is not merely a convenience store — it is an enduring social institution and a powerful micro-economy. Across South Africa and the continent, informal retail channels are the primary arteries of FMCG distribution. The comparative evidence from Nigeria, Kenya, and Ghana shows that digital payments, aggregation, training, and supplier integration convert informal shops from vulnerability to resilience.

Two Cent Solutions' strategic program to assess 125,000 spaza shops is therefore more than a data exercise: it is a roadmap to formalization and investment-grade portfolio creation. We invite investors and institutional partners to join us in scaling capital, technology, and operational support across this vital sector — to professionalize the spaza economy and to unlock inclusive growth at scale.