



Why are so many South Africans renting out their Spaza Shops to foreign nationals?

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Abstract

The main aim of this paper is to advise the Office of the Mayor on the reasons why black South Africans have increasingly preferred to rent out their spaza shops to foreign nationals. It has become evident that many tuck shops run by foreign nationals are thriving in townships. There is a strong need to understand why black South Africans are largely not operating their own spaza shops and rather opting to rent spaza shops to foreign nationals. The locals don't leverage their social networks, often limited to immediate family members. The scale of operation of foreign nationals is what makes them out-compete their local counterparts, they are able to capture the market because they are cheaper and better stocked. Spaza shops remain an extremely controversial issue in that there is a long-held view that many foreign nationals occupying this space are doing so illegally and the Minister of Home Affairs has pointed out that spaza shops are not licensed and that municipalities are not doing anything to control this space. Given the high levels of unemployment, poverty and inequality in the townships, this paper reviews current literature in an attempt to understand this phenomenon. The paper found that renting out spaza shops was financially beneficial for black South Africans, while it provided easy opportunities for foreign nationals to operate without the need for formal registration. This partnership is mutually beneficial in that foreign nationals do the most work while South Africans earn passive incomes through rentals. The second finding was that township communities lack strong business networks to create viable businesses, as compared to foreign nationals who have strong networks, some of which are based on religion or ethnicity. Other reasons were lower levels of education, lack of support and poor business skills among South Africans, as well as the poor viability of some spaza shops. The study concludes that quotas alone won't be sufficient and that the City needs to continue to assist with skills development, access to funding, strengthening social networks, and bulk buying strategies.

Introduction and background

The majority of spaza shops in the townships often involve a mutually beneficial relationship between a foreign national and a South African, the former being an owner of the spaza shop, the latter being a landlord. The Gauteng Township Economic Development Bill is meant to create quotas and trading areas which are exclusively reserved for black South Africans (Gastrow, 2020).

While there is no evidence to suggest that foreign nationals are heavily funded by their governments, they continue to thrive in the spaza shop business. It is apparent that the foreign traders are ousting the local traders in the township retailing sector. While the South African small business retail sector is struggling to survive, foreign traders are thriving because they have a competitive edge compared to local traders (Mohamed,



2015). There is also some evidence that foreign owned spaza shops use business models 'to discourage competition such as forming monopolies, evading taxes, avoiding customs and selling illegal and expired goods' (Collocott, 2020).

Foreign nationals are seen as taking up opportunities that are perceived as belonging to South Africans in the township economy. A study by Ntema and Marais (2010) showed that South African small business retailers employ fellow South Africans while foreign national retailers employ foreign nationals which becomes a lost opportunity for the South African economy to reduce unemployment. According to Ligthelm (2003), after 1994 there has also been a surge in the number of foreign nationals residing in South African townships.

The current literature points to **four broad reasons** why black South Africa are renting out spaza shops to foreign nationals.

- o Firstly, there are mutual interests between foreign nationals and South Africans. Foreign nationals often do not have clear legal permission to occupy the township economy space. By facilitating the entry of foreign nationals, South African landlords receive a passive income in the form of rental income. South Africans have long given up on spaza shops given the lack of business skills, they find it difficult to handle the pressure of sustaining the spaza shops.
- o Secondly, there are strong trust and social bonds among foreign nationals, which many black South Africans do not have. Many foreign nationals in the small business retail sector are bound by religious love and relations of trust. Most black South Africans often do not have viable networks and associations in the townships to work with each other. South Africans do not take advantage of economies of scale as a result they do not have the same purchasing power as foreign nationals. Foreign nationals buy in bulk to get discounts, which enables them to charge lower prices compared to South African spazas, this then makes their businesses more profitable. The business model and strategies of foreign spaza shops are way better than the survivalist approach of South African spaza shops.
- o Thirdly, there are lower levels of education among South Africans combined with poor support instruments and low levels of business skills which contribute to the poor viability of spaza shops. While education levels among foreign nationals are not high due to the volatile nations they come from, their bonds of trust based on religion and knowledge of running businesses have provided them with a strong base to run their businesses. In addition, there is no protection for South Africans who want to get into the spaza shops space, and South Africans are vulnerable to informally organised foreign nationals.

- o Fourthly, the highly competitive nature of the spaza shop sector which South African spaza owners have failed to keep up with resulting in higher prices and a resultant loss of market share.

Research objectives

This study sought to understand why South Africans tend to rent spaza shops to foreign nationals instead of operating the spaza shops themselves. Therefore, the main objective is to identify the challenges that local traders are confronted with that have led them to rent out their spaza shops to foreign nationals and the interventions they require from the government in improving the retail environments.

Research Questions:

- o Why do South Africans prefer to lease or rent out their spaza shops to foreign nationals?
- o How can government assist South Africans to viably participate in the spaza shops economy?
- o What can South Africans learn from foreign nationals in the spaza shops economy?

Data and methodology

There are numerous studies that have been conducted on spaza shops in South Africa. This study aims to identify the challenges of local traders in South Africa which force them to rent their spaza shops to foreign nationals. The study applies a descriptive approach to evaluate the constraints experienced by local traders. The analytical technique used is a literature review which is qualitative and empirical. The study used secondary literature to review the subject matter and finally provides the reasons why local traders rent out their spaza shops.

Mutually based interests between foreign nationals and South Africans

Most of these spaza shops' businesses are run from residential premises, although an increasing proportion has operated on commercial premises in recent years (Charman et al., 2011). However, Malgas and Zondi, (2020) noted that the majority (65.5) percent of foreign national traders fully own their small retail stores and 34,5 percent rent the premises. In relation to South Africans, only 37.3 percent of local traders own their stores and 62.7 percent rent their stores from other South African locals. Charman, Peterson, and Piper (2012) noted that in financial terms, the majority of spaza shops owned by foreign nationals equate to small-size enterprises rather than micro-enterprises, as the scale of their operation and turnover is significantly greater than that of the average South African spaza. (p. 66). Robertson (2019) affirms that most South Africans preferred to rent out their spaza shops to foreigners rather than operate them. The spaza shop owners



were categorised into Black, Mixed, and Indian/Asian to capture the racial composition of the sample. The study indicates that there were more mixed-owned spaza shops (70 percent), followed by Black (28 percent) and Indian/Asian (2 percent). Most of the shop owners in the mixed group were of Ethiopian and Somalian origin. Rent is one of the high expense items in the income statement of retailers, and it is apparent that foreign nationals rent in groups to save on rental which ease the cash flow. It is worth noting that despite the research topic; it appears that the majority of foreign nationals actually own their shops and do not rent them and they are able to get cheap loans from their home countries to purchase property/ stock in order to begin operating (e.g. Chinese Chambers, Somali Chambers of Commerce; etc).

Trust, social bonds and unity

Research has shown that the major problem that South African traders have is their inability to trust one another and form cooperatives to buy in bulk and operate multiple businesses (Liedeman et al., 2013). Related to that are issues around jealousy, dishonesty and pride which makes local traders fail to be united (Hare and Walwyn, 2019). A study focusing on 6000 spaza shops in various localities showed that spaza shops owned by foreign nationals out compete South African owned spaza shops because of the social networks they have which enables them to access cheap labour and capital. South African sole traders do not compete well to the foreign owned spaza shops who have a collective purchasing power (SME South Africa, 2014; Masibane, Godfrey, and Robertson, 2019). This makes the prices in South African owned spaza shops higher. Liedeman (2013) and Hare and Walwyn (2019), add that the customer base of local spaza shops shrinks as customers tend to patronize spaza shops that are cheaper and owned by foreigners. While buying is a cost-saving method for retailers, it also ties the retailer's cash flow on merchandise thus leaving less cash on hand available for other transactions (Maphelo and Wellington, 2020). Liedeman (2013) therefore argues that foreign traders use economies of scale, social systems that put them at a competitive advantage such as cheap labour, social connections, strategic investments, and collective buying. Customers of small business retailers in the township environment are more likely to find what they are looking for in a spaza shop owned by a foreign national retailer than at a spaza shop owned by a South African small business retailer. For instance, even if customers view foreign national traders to have inferior quality stock they are forced to buy from foreign national traders because stocks are always available (Ntema & Marais 2010).

Lower levels of education, poor support and poor business skills

Evidence shows that South Africans are sole traders and have relatively poor education and business skills (Malgas and Zondi, 2020). It is important to note that spaza shops have become a less viable business model and many South African businesses cannot afford the higher input costs such as labour, whereas foreign nationals can use their social

networks to hire their individuals from their country of origin for free. Other problems faced by South African traders included competition, crime, lack of finance, poor infrastructure and inability to give low prices and credit. Research by Hare and Walwyn (2019) shows that many South African traders do not use their kinship ties to assist in their businesses.

Maphelo and Wellington (2020) note that in relation to local traders, 7.3 percent have more than 15 years of trading experience in the selected township area, 16.4 percent have more than 10 years and 65.4 percent have less than 6 years. In relation to foreign traders, none of the foreign national traders have more than 15 years of trading experience in the selected township area and 5.3 percent have more than 10 years, and 84 percent have less than 6 years. Interestingly enough, foreign traders had no trading experience 15 years ago but of late they seem to have ousted local traders in the township economy space who started trading longer than them they had no trading experience. off late they have more trading experience than locals at 84 percent and locals at 65.4 percent. South Africans seem to be giving up on operating spaza shops.

Cutthroat competition among local and foreign traders

According to Ligthelm (2005) and Charman et al. (2011), spaza shops have shifted from local to foreign ownership and from small to large-scale entrepreneurship. The drastic shift in the structure and operations of spaza shops in South Africa can be attributed to many factors, including competition.

For businesses to become competitive, traders must develop relationships with customers and suppliers, and have easier access to business-related information, it is important that they have both access to technology and the capacity to use it effectively (Antonites and Kliphuis, 2011:2). Masibane, Godfrey, and Robertson (2019) noted that like the formal economy, the informal economy is not immune to challenges, especially those that relate to finance, competition, and government support.

For instance, some authors claim that foreign spaza shop owners use favourable price discrimination techniques to undercut their local counterparts (Liedeman, 2013; Hare & Walwyn, 2019). Moreover, Liedeman (2013) noted that migrant traders have competitive prices that benefit consumers. South African small business retailers face competition on different fronts as their survival is threatened.

The level of education is important as a form of literacy assessment (financial literacy included). Maphelo and Wellington (2020) observe that most local traders have a lower level of education compared to their migrant trader counterparts.



In addition, the constraint facing small businesses in South Africa is the lack of entrepreneurship education in schools. Furthermore, Cant and Wiid (2013) noted that South African small business retailers need training and workshops to enhance their knowledge base and skills.

Conclusion

The goal of this paper was to explore reasons why South Africans prefer to rent their spaza shops to foreign nationals, or at least to find reasons for the disinterest of South Africans to venture into spaza shops business. South Africans have been largely ousted in the spaza shops economy and hence they choose to rent out their spaces to foreign nationals.

The following are the main reasons:

- Firstly, South Africans have long realised that they cannot compete in the spaza shops spaces, and they have chosen to derive passive incomes through rentals from foreign nationals. There is therefore a mutual based interest between destitute foreigners and South Africans. There is no sign that foreign nationals strictly follow the bylaws, and only a few of them are registered.
- Secondly, South Africans do not leverage the social networks that they have for business, and their preference for sole trading makes their spaza shops less competitive, which eventually collapses.
- Thirdly, South Africans tend to have poor business skills and lower education, and they lack proper support and protection from the government.
- Fourthly, South Africans are not a match to socially organised foreign nationals when it comes to running spaza shops. Hence, they easily get out-competed in the space.

The recommendations of this paper are as follows:

The government has neglected small businesses for a long time, and there is no business sector which can flourish without state support and protection. The South African government is not creating an environment conducive for local citizens to start small businesses and create jobs (Adisa, Abdulraheem & Mordi 2014). The best way to be viable in the spaza shop is to have entrepreneurial skills, and partnerships between foreign nationals and South Africa will assist in the transfer of skills (Mohamed, 2015).

- Quotas are “low-hanging fruits”, they will make a difference if the municipality is consistent in implementing them. The municipality needs to be proactive in

protecting South Africans from cutthroat competition. There is a strong need to enforce compliance with bylaws, especially with the townships.

- The municipality must initiate funding mechanisms for South African spaza shop owners.
- The municipalities need to start facilitating the grouping of South African spaza shop owners into viable associations and providing them with start-up and working capital and other forms of support. An incentives system could be created to entice South Africans to unite into associations for spaza shops.
- Training for business skills would also be a viable strategy for the sustainability of South African-owned spaza shops. This includes introducing classes on “spaza shops entrepreneurship” financial literacy, and access to technology in high schools. What is more ideal is group training of South African spaza shop owners and creating partnerships with foreign owners of spaza shops and other stakeholders for skills transfer.

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