

SOMALINOMICS

A CASE STUDY ON THE ECONOMICS
OF SOMALI INFORMAL TRADE
IN THE WESTERN CAPE

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2013 | ACMS RESEARCH REPORT

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EXECUTIVE SUMMARY

Introduction

This report explores the role of the Somali spaza shops in Western Cape local economies and addresses some of the concerns often levelled at these shops. It examines the business strategies that Somali traders employ and the effects that Somali trade has on a range of stakeholders. Although Somali spaza shops compete with their South African counterparts, the report finds that Somali spaza shops also provide a range of benefits to local economies.

Methodology

This is the second in a series of three reports examining the situation of Somali traders in the Western Cape. Examining the economic, community, and institutional dynamics at work, the reports focus specifically on Somali nationals because they make up the majority of foreign spaza shopkeepers in the region.¹

The research covers three field sites near Cape Town: Philippi, Khayelitsha, and Kraaifontein (specifically Bloekombos and Wallacedene). It also includes more limited research on the experiences of Somali traders in small towns in the Western Cape. Sites visited include Ceres, Tulbagh, Prince Albert Hamlet, Vredenberg and Caledon.

The findings are based on qualitative interviews with 66 Somali traders: 49 who were working in townships in Cape Town and seventeen in small towns in the Western Cape. ACMS also interviewed South African township residents, local community leaders, police, prosecutors and members of civil society. Finally, ACMS organised a focus group of ten Somali spaza shop owners to specifically discuss their trading practices.

The initial research project focused on access to justice for foreign shopkeeper victims of crime. During the course of this research, many respondents raised economic concerns and discussed trade competition. Specifically, Somali traders believed that a skills gap between them and South African traders had given rise to local antagonism against them, while local residents shared their experiences as shop customers. Economic perceptions also framed state and community responses to crime against Somali traders. In light of the significance of economic factors, this report explores some of the economic dimensions of Somali trade as a complement to the primary access to justice report. The report offers a preliminary picture of economic dynamics, pointing to the need for more in-depth research.

¹ ACMS carried out research in three townships in Cape Town where residents, Somali traders and police all confirmed that the vast majority of foreign shopkeepers in their areas were Somali nationals. ACMS also visited a number of small towns in the province where there was a higher ratio of Ethiopian traders, but Somali traders still operated the majority of foreign national businesses.

Findings and implications

The findings identify the trade practices contributing to Somali success. They also point to a range of factors in addition to competition from Somali shopkeepers that affect the viability of South African spaza shops. Finally, the report examines the overall effect of Somali shops on the local economy by expanding the focus beyond South African spaza shop owners to include the various parties affected by Somali trade.

Somali trade practices

For the most part, Somali traders rely on similar trade practices; these practices have contributed to the growth and success of Somali spaza shops in the Western Cape. At the same time, Somali shopkeepers are disadvantaged by high crime rates and social and financial barriers in accessing property in townships. This has necessitated certain practices that are not necessarily beneficial, such as renting from South African landlords because of barriers to purchasing property. Key Somali trade practices—both advantageous and disadvantageous—include:

- Low mark-up on goods and reliance on high turnover;
- Location of shops in high pedestrian traffic areas;
- Shop rental from South African landlords;
- Individual buying from wholesalers combined with shared transport to collect goods from a variety of wholesalers;
- Price comparisons and identification of special offers from wholesalers,
- Guarding shop contents by sleeping in shops or in rooms behind shops;
- Collective investment in shops;
- Shareholding in multiple shops;
- Early opening and late closing times; and
- Customer-focussed practices.

Somali shops and local economies

The report finds that the expansion of Somali spaza shops is not the sole contributor to the business difficulties of South African shops. Additional factors affecting the profitability of South African spaza shops include:

- The expansion of retail supermarkets into the townships;
- Food price increases that have reduced consumer spending capacity;
- South African traders' lack of business skills; and
- Personal and management factors including drug abuse, unpaid customer debts, and the transfer of businesses to relatives.

Furthermore, the exclusive focus on the South African shopkeeper presents only a partial picture of the economic dynamics at play. A range of parties interacts with and is affected by the presence of Somali shops:

- Landlords: most Somali traders rent their shop premises from South African landlords;

- Small scale suppliers and manufacturers: spaza shops potentially open up opportunities for small scale suppliers and manufacturers who lack capacity to supply large supermarkets;
- Wholesalers: Somali spaza shops source goods from wholesalers;
- Employees: Somali shops employ South Africans;
- Consumers: South Africans buy food and basic household items at spaza shops;
- South African job seekers and state social services: Somali spaza shops reduce potential Somali reliance on social services and prevent increased competition in the job market; and
- The South African Revenue Service: spaza shops are a current and potential source of tax revenue.

By exploring these factors, which are often overlooked in discussions around foreign-owned shops, the report aims to widen the discussion on the role that these shops play in local economies.

INTRODUCTION

Much of the rhetoric around migration in South Africa focuses on the perceived threat that foreigners pose to the local economy. Citizens and government officials alike often express the view that migrants (particularly those from African and other developing nations) take jobs and resources away from South Africans. Although prevalent in popular discourse, there is little empirical evidence to support this view (nor is there much empirical evidence to counter it). Far less frequently mentioned is the fact that entrepreneurial migrants also bring economic value to South Africa.

This report explores these economic benefits. The findings are based on twelve months of field research investigating access to justice for Somali traders in the Western Cape. During the course of this research, ACMS observed the trade operations of many Somali traders and spoke to local residents and the police about their perceptions of and experiences with Somali shops. These interactions brought to light the ways in which Somali spaza shops not only competed with locally-run shops—the view commonly presented in migration discourse—but also brought a range of benefits to a wide set of community actors—a development that is often overlooked in this discourse.

This is the second in a series of three reports examining the situation of Somali traders in the Western Cape. All three reports focus specifically on Somali nationals because they make up the majority of foreign township shopkeepers in the region.² The first report examined the access to justice dimension of the Somali experience in the Western Cape. This report looks more closely at the operations of Somali spaza shops in the Western Cape and their role in the local economy. The final report will explore some of the socio-political dynamics at work, investigating various government and civil society interventions aimed at regulating Somali shops and addressing threats or complaints by South African shopkeepers.

Because it originated in the access to justice research, this report is admittedly limited in scope and does not provide quantitative measures of economic benefits and costs. Instead, it highlights important considerations that are often overlooked in discussions around the economics of migration. These considerations provide a basis for reshaping the discourse and point to the need for further research into the economic effects of migration.

The next section of the report briefly outlines the research methodology. The following section describes the background of Somali migration to South Africa. The report then turns to Somali trade practices and the effects on local economies.

² ACMS carried out research in three townships in Cape Town where residents, Somali traders and police all confirmed that the vast majority of foreign shopkeepers in their areas were Somali nationals. ACMS also visited a number of small towns in the province where there was a higher ratio of Ethiopian traders, but Somali traders still operated the majority of foreign national businesses. Surveys also back up these accounts. According to Philippi East police records, 67 percent of foreign national spaza shopkeepers in the stations' jurisdiction were Somali nationals. A survey conducted in Delft South found that 89 percent of foreign national spaza shopkeepers were Somali. See Andrew Charman, Leif Petersen and Laurence Piper 'Spaza shops in Delft: the changing face of township entrepreneurship' (2011) working paper 6, African Centre for Citizenship and Democracy at 15.

RESEARCH METHODOLOGY

Introduction

The findings described below are primarily based on research conducted over two periods totalling twelve months: from September 2010 to February 2011, and from October 2011 to March 2012. During the investigation around access to justice for Somali traders affected by crime, many interviewees pointed to economic factors—specifically business competition between Somali and South African spaza shops—as motivating many of the crimes against Somali traders. Local residents also referenced their experiences as customers of Somali shops during the course of the research. In addition, ACMS observed Somali trade practices first-hand while conducting interviews in Somali neighbourhoods in Cape Town and the township field sites. In light of this information, ACMS conducted additional interviews specifically targeting Somali trade practices. These interviews took place in mid-2012 and early 2013.

Field sites

The three primary field sites, located in townships around Cape Town, were selected on the basis of the high levels of crime experienced by Somalis in these sites. Much of this crime was driven by economic perceptions of Somali trade practices. Such economically motivated crime included attempted evictions of Somali traders and attempted murder or murder of Somali traders by South African competitors. The primary township field sites and areas of focus within these townships are listed below:

1. Kraaifontein: Bloekombos and Wallacedene
2. Philippi: Philippi East and Browns Farm
3. Khayelitsha: Site B, Site C and Harare

Because police statistics on reported crime affecting Somali and other foreign shopkeepers are not public, field sites were chosen on the basis of information provided by the Somali Association of South Africa (SASA), a Somali community organisation operating in Cape Town, Johannesburg and Port Elisabeth. SASA identified Kraaifontein and Philippi as crime ‘hot spots,’ which corresponded with media reports. In contrast, SASA advised that crime rates against foreign shopkeepers in Khayelitsha had decreased. Accordingly, ACMS selected Khayelitsha as a useful comparison site. However, during the course of the research it became clear that Somali shopkeepers in Khayelitsha also experienced high levels of crime, especially robberies and looting. But there did appear to be fewer incidents of orchestrated crime in which South African traders organised the murders of Somali traders. ACMS retained Khayelitsha as a field site because we deemed the absence of crime orchestrated by South African traders to be an important feature for comparison. ACMS was unable to identify any townships in the Cape Town area where general crime rates against foreign shopkeepers were comparatively low.

The field researcher also interviewed a small number of shopkeepers in more rural Western Cape towns to compare circumstances in rural versus urban townships. The towns of Vredenburg, Hopland, Velddrif, Tulbagh, Ceres, Prince Albert Hamlet and Caledon were selected largely on the basis of their geographical location, as well as their differing economies (e.g. farming versus fishing).

Additionally, the field researcher spent significant time in Somali residential neighbourhoods in the coloured township of Mitchells Plain and the largely white Afrikaans suburb of Bellville. Bellville is located approximately 25 kilometres from Cape Town's city centre, and Mitchells Plain lies approximately 30 kilometres from the city centre. Many Somali traders from the field sites preferred to be interviewed in these neighbourhoods rather than in their shops.

In all of the main sites, the researcher interviewed Somali shopkeepers, residents and members of the formal and informal justice sectors, including police, prosecutors, legal aid practitioners, and local community leaders. In addition to site interviews, the researcher observed mediation meetings between Somali and South African traders in Khayelitsha.

Interviews

ACMS interviewed 66 Somali shopkeepers on their experiences in accessing justice. Many Somali traders spoke of economic factors and pointed to trade competition between Somalis and South Africans as a central factor contributing to crimes against their shops. In response to these recurring issues, ACMS organised a focus group of ten Somali shop owners to get a more detailed view of Somali trade practices. ACMS conducted six follow-up interviews focused exclusively on Somali supply practices. Recognising that shopkeepers may be reluctant to discuss their business practices with an outsider, ACMS selected interviewees who were more open to discussing their shop operations because of their familiarity with the field researcher. Although these interviews are insufficient to provide a representative picture of Somali trade practices, individual accounts of supply practices were consistent and provide some insight into supply methods.

The field researcher interviewed 65 South African township residents about their perceptions of Somali shops and the extent to which Somali traders relied on informal township systems of justice. During these interviews, many respondents described why they preferred Somali shops. The field researcher also interviewed 20 police officers in the field sites. Police sector managers in particular raised the subject of economic issues in the townships and the role of informal traders.

Community workers in both Philippi and Kraaifontein cautioned that conducting research in the field sites could reinvigorate dormant conflicts.³ This risk was greatest with South African shopkeepers, many of whom had previously attempted to forcibly remove foreign shopkeepers from all three of the field sites. Some had also allegedly ordered the murders of their Somali competitors. To minimise the risk of reviving these resentments, the researcher conducted only a limited number of interviews with South African shopkeepers and relied largely on observations made during attendance at four open meetings hosted by police in Khayelitsha. Local shopkeepers from several different townships attended these meetings to voice their concerns, much of which involved hostility toward foreign traders.

Formal interview questions were both specific and open-ended. All interviewees gave informed consent after the researcher explained the nature of the research. All interviews were kept confidential and anonymous, and interviewees were free to stop the interview at any time.

³ This concern was raised by a representative of a non-profit organisation in Philippi, and by a city-appointed mediator in Kraaifontein.

INTERVIEWS								
Area	Somali traders	SA residents	SA traders	Police	Land-lords	Legal Aid	Prosecutors	Other stakeholders
Khayelitsha	15	14	0	11	1	1	0	3
Kraaifontein	10	10	3	5	2	2	0	2
Philippi	15	35	5	4	4	1	4	3
Small towns	17	0	0	0	0	0	0	0
Other areas	9	6	1	0	0	0	0	5
Total	66	65	9	20	7	4	4	13

ADDITIONAL INTERVIEWS	
Area	Somali traders
Khayelitsha	2
Franschhoek	1
Philippi East	1
Masiphumelele	1
Ravensmead and Grassy Park	1
Total	6

FOCUS GROUP	
Area	Somali traders
Khayelitsha	10

Most interviews with Somali traders occurred in neutral locations in Bellville and Mitchells Plain, where many Somali nationals reside and operate businesses. The focus group with Somali shop owners took place in Bellville. Somali interviewees in the Cape Town area preferred that the interviews take place away from their spaza shops for a range of reasons: they felt uncomfortable responding to questions in front of customers, they did not like being interrupted while serving customers, and they did not want to draw attention to themselves. Most Somali shopkeepers in small towns, by contrast, consented to being interviewed in their shops because they felt more at ease in their communities and had fewer customers.

Initially, Somali interviewees were identified through SASA. These initial interviewees then identified additional Somali traders as potential interviewees. The researcher conducted each interview individually, as Somali traders had particular experiences of crime that would be difficult to record in detail in a group setting. A Somali community activist invited Somali focus group participants.

Interviews with South Africans covered as wide a demographic of residents as possible, including young, middle-aged and elderly residents—both male and female. ACMS identified some community leaders in Philippi and Khayelitsha via referrals from residents. For most local residents, the field researcher spoke directly with individuals who happened to be on the streets while she was in the field site. This approach was chosen over the snowball technique in order to obtain a more random, broad spectrum of opinion that would not limit the respondents to particular social networks. The interviews were conducted both individually and in groups, depending on whether residents were encountered alone or with friends or family. Residents were not invited to focus groups because the possible existence of community divisions on the issue of foreign shops meant that residents might feel uneasy sharing their views amongst strangers.

Most interviews were conducted on weekends in order to access both employed and unemployed South Africans. Where residents could not speak English, interviews were carried out with the assistance of a translator.

Participant observation

The field worker attended four meetings hosted by police in response to threats from South African traders seeking to forcibly close Somali shops. The meetings were held in Khayelitsha and concerned a 2008 agreement between Somali and South African traders that prohibited new Somali shops in Khayelitsha. South African traders from Khayelitsha as well as neighbouring townships including Mfuleni and Nyanga voiced their concerns about Somali shops at these meetings. The police and local government authorities worked to mediate tensions.

The researcher also observed Somali trade practices first-hand while spending time in Somali neighbourhoods in Bellville and Mitchells Pain, which have become central business districts of Somali trade, as well as in the townships where the researcher interviewed South African residents and some Somali traders.

THE SOMALI PRESENCE IN THE WESTERN CAPE

Somali migrants in the Western Cape engage in diverse economic activities and participate in Somali-based community structures. Somali migrants have established a tightly knit community in the Cape Town suburb of Bellville. Community organisations such as local mosques, charities and activist groups provide services and advice to community members and represent Somali interests in engagements with South African civil society and government bodies. The most popular Somali business ventures are informal spaza shops, usually located in township neighbourhoods where levels of state regulation are low. This section briefly discusses Somali migration to South Africa and the establishment of shops and other businesses.

Somali migration to South Africa

Somalis fleeing both large-scale political violence and ethnic persecution began arriving in South Africa in the mid-1990s. Most of them were fleeing the civil war that erupted in 1991 following the collapse of dictator Siad Barre's government. Somalis also fled from the Somali region of Ethiopia (known as the Ogaden Region), where the Ethiopian government has carried out widespread human rights violations against ethnic Somalis.⁴

According to Somali respondents, migration to South Africa increased following the Ethiopian invasion of Somalia in December 2006. The invasion ousted the ruling Islamic Courts Union and saw the rise of the militant Islamist group al-Shabaab.⁵ Two-thirds of the population of Mogadishu fled the city between 2007 and 2008 as a result of renewed conflict.⁶ These events led to a second wave of migration to South Africa from mid-2007, made up of Somalis primarily from the areas surrounding Mogadishu where most of the fighting took place.⁷ This 'second wave' of migration has recently slowed down following a return to relative stability in Mogadishu.⁸

The establishment of Somali businesses

Most Somali migrants in South Africa are asylum seekers or refugees who have fled the civil war in Somalia. This status legally entitles them to work in the country.⁹ In the Western Cape, Somali traders have established shops and engaged in other economic activities in cities and small towns, often in the central business districts (CBDs) as well as in the surrounding townships.

⁴ Human Rights Watch Collective Punishment: War Crimes and Crimes against Humanity in the Ogaden area of Ethiopia's Somali Regional State, 2008 at 20, available at www.hrw.org/sites/default/files/reports/ethiopia0608_1.pdf, date accessed 12 August 2012.

⁵ International Crisis Group Africa Briefing, no 87, 22 February 2012 at 3, available at <http://www.crisisgroup.org/~media/Files/africa/horn-of-africa/somalia/b87-somalia-an-opportunity-that-should-not-be-missed.pdf> date accessed 20 July 2012.

⁶ Anna Lindley 'Leaving Mogadishu: Towards a sociology of conflict-related mobility' *Journal of Refugee Studies* (2010) vol 23(1) 2 - 22 at 2. Human Rights Watch 'So much to fear': War crimes and the devastation of Somalia, December 2008 at 5.

⁷ Informal conversations with various Somali migrants in Cape Town.

⁸ Ibid.

⁹ See, Refugees Act 130 of 1998, section 27, guaranteeing refugees full socio-economic rights, and *Minister of Home Affairs and Others v Watchenuka and Another*, 2004 (4) SA 326 (SCA), finding a blanket prohibition on asylum seekers' right to work unlawful on the basis of human dignity.

Cape Town

The first Somalis to arrive in Cape Town in the 1990s began establishing trading stalls and shops in central business districts, including the city centre, the Mitchells Plain town centre and the area around the Bellville train station and taxi rank. Bellville proved particularly popular because of the high numbers of commuters combined with much lower rents than in the city centre. Somali migrants often started as hawkers selling clothing, snacks, or cigarettes before opening their own shops.¹⁰ Their economic activities gradually expanded and today Cape Town's city centre houses Somali internet cafes, grocery stores, clothing shops, and restaurants. Mitchells Plain and Bellville now have densely populated Somali neighbourhoods with Somali-run grocery stores, furniture and upholstery shops, clothing shops, restaurants, cafes, bulk 'cash and carry' stores, internet and printing shops, tailor shops, travel agents and guest lodges.

Somali traders eventually sought business opportunities in the spaza market in the surrounding townships. Spaza shops are small, informal grocery shops that provide basic food and household items such as bread, milk, sugar, cooking oil, soft drinks, cigarettes and paraffin. The earliest Somali traders began opening spaza shops in township areas in the mid to late 1990s.¹¹ These shops became a noticeable presence in the townships in the early 2000s.¹² Somali traders turned to the township spaza market because of the untapped business opportunity, the low start-up costs of spaza shops, and the informal nature of business in these townships, where permit and paper requirements are low and often not enforced.¹³ Increased competition in other markets also enhanced the lure of the spaza shop. Growing competition from Chinese traders in the clothing market, for example, pushed two Somali traders into the grocery market.¹⁴

Small towns

From about 2005, Somali traders also began searching for opportunities in small towns across the province.¹⁵ Today, Somali businesses can be found in many small towns, including Barrydale, Tulbagh, Caledon, Vredenburg and Prince Albert Hamlet. Somali traders in small towns engage in a variety of business activities. In the town centres they operate restaurants, cigarette and snack stands, and clothing, electronics and household goods shops, while in the neighbouring townships spaza shops are the primary business. The latter are more numerous than businesses in the town centres.

Eleven of the seventeen small town shopkeepers ACMS interviewed had spent several years working in cities such as Cape Town and Port Elizabeth before seeking opportunities in small towns. Some left the city to escape violent crime, while others went in search of new business or job opportunities. A trader in Caledon pointed to the cheaper rent in small towns. A Vredenburg shopkeeper had come to the town hoping to find work as an electrician at a steel plant but was unsuccessful. Six traders had bypassed the cities altogether and come directly to small towns because their relatives or friends were already living there.

¹⁰ Interviews with five Somali traders who arrived in Cape Town between 1997 and 2000.

¹¹ Harare crime intelligence officer, Harare police station, Khayelitsha, 24 May 2012.

¹² Police officer, Khayelitsha, 25 October 2012. Somali Retailers Association representative, Bellville, 10 January 2011.

¹³ Somali Retailers Association representative, Bellville, 10 January 2011.

¹⁴ Somali trader, Tulbagh, Western Cape, 1 March 2012. Somali traders, Vredenburg, 8 March 2012.

¹⁵ Of the 17 traders interviewed in small towns, the earliest arrivals had opened their shops in 2005.

The first Somali to settle in Tulbagh started out as a hawker travelling between cities and towns including Cape Town, De Doorns, and Worcester selling belts and socks at local markets and municipal buildings on pension day. After saving up some capital, he opened a clothing shop in Worcester, but because of competition from Chinese clothing traders he began exploring opportunities in nearby towns. He eventually discovered a vacant shop in the Tulbagh town centre where he and his wife opened a clothing store. Tulbagh is a smaller and more rural town than Worcester, so there were no Chinese clothing shops to compete with at the time. He connected a few of his relatives with local South African landlords, leading them to open their own spaza shops in a nearby township.

Somalis in larger towns and cities also moved to small towns after meeting landlords who offered them rental properties. For example, a Somali shopkeeper from Barrydale met his first landlord in George via a mutual acquaintance (a mechanic).¹⁶ A clothing shop owner in Prince Albert Hamlet similarly met his South African landlord in Mitchells Plain, where the landlord also owned property.¹⁷

For all their advantages, small towns offered less profitable trade opportunities. Somali shopkeepers in farming towns such as Ceres, Caledon, Tulbagh and Prince Albert Hamlet in particular struggled to survive. Many residents only enjoyed seasonal employment on farms and left the towns in the winter months. Even during seasonal months, high levels of employment on farms over these periods meant that neighbourhoods were empty of customers most of the day and only experienced activity at night when workers returned. A number of Somali shops in farming towns had gone bankrupt and shop numbers were declining. Those who stayed despite these conditions did so out of fear of the violent crime in city townships. Somali shops in coastal or industrial towns such as Vredenburg and Saldanha were more stable, and shop numbers remained constant. However, traders in these areas reported higher levels of gang activity and violent crime than in farming towns.



Somali spaza shop in Tulbagh (2012)

¹⁶ Somali trader, Voeltjedorp, Caledon, 6 March 2012.

¹⁷ Somali trader, Prince Albert Hamlet, 27 February 2012.

Laws regulating spaza shops in townships

Low regulatory barriers to entry have facilitated the arrival of Somali shops in the townships. In most townships around Cape Town, re-zoning is not required to start a business on residential property.¹⁸ Traders operating shops from private homes do not need to contend with zoning requirements and procedures. Traders selling perishable foodstuffs, however, do require a business license in terms of the Business Act 71 of 1991.¹⁹ This includes spaza shopkeepers, who stock perishable items such as milk, bread and meat.

Although spaza traders are required by law to possess business licenses, Cape Town city officials have generally been reluctant to enforce licensing requirements in townships. A municipal officer in Kraaifontein reported that her office did not have the capacity to regulate informal settlements in the area, adding that implementing these requirements might force the closure of all spaza shops, both Somali and South African.²⁰ The City of Cape Town's website does not specify that business licences are required for spaza shops or for the sale of perishable items. It states that business licenses are only required for 'health and entertainment' and the sale and supply of prepared meals and hawking in meals (such as hot dogs or hamburgers).²¹ At a public meeting between Somali and South African shopkeepers in Khayelitsha held to allay threats by South African traders against their Somali counterparts, a representative from the City of Cape Town Department of Law Enforcement informed shopkeepers that Khayelitsha was a free trading area and the City's law enforcement department could not prevent people from trading.²²

Low regulatory requirements, as well as the lack of enforcement of applicable legislation have benefited spaza traders who might otherwise struggle to meet the complex legal, technical and bureaucratic requirements in more regulated areas. Individuals with low levels of education and income can set up businesses to support themselves and create employment without navigating too much bureaucracy. Those spaza traders who did seek legal permissions for their shops were often obstructed by technical requirements such as providing copies of registered property deeds, or by incompetent officials who provided traders with incorrect advice.²³ More of these challenges will be discussed in the third report on government and civil society attempts to regulate Somali trade in Cape Town.

Conclusion

Despite originating from regions experiencing civil strife, the Somali community in the Western Cape has formed unified community structures. Over time Somalis have experimented with a range of trade and service enterprises and today many have entered the township spaza market. This has been facilitated by

¹⁸ See section 5.2.1(b) of the City of Cape Town Zoning Regulations, which came into effect on 1 March 2013. In the rest of the Western Cape Province, the Black Communities Development Act 4 of 1984 (BCDA) regulates land use in older townships, while the Less Formal Township Establishment Act 113 of 1991 (LFTEA) regulates township land use in newer townships. The BCDA permits residential properties to be used for business purposes, subject to certain conditions such as not posing a nuisance to neighbours. LFTEA areas have been zoned as 'informal residential' under the Land Use Planning Ordinance Act 15 of 1995 (LUPO), which also provides that residential premises can be used for business purposes (see section 6 of LUPO scheme regulations) These Acts applied in Cape Town before 1 March 2013.

¹⁹ Section 2(3) read with schedule 1 of the Business Act 71 of 1991.

²⁰ Municipal official, Land Use Department, Kraaifontein, 12 January 2012.

²¹ City of Cape Town website, available at

<http://www.capetown.gov.za/en/CityHealth/EnviroHealth/FoodQualityandSafety/Pages/LicencingandCertification.aspx>, date accessed 31 March 2013.

²² Meeting at Lingeletu West police station, Khayelitsha, 20 March 2012.

²³ The Gugulethu municipal office, for example, issued Somali traders with informal trading permits (at a monthly fee of R150) instead of Business Act licenses. Informal trading permits are only required for trading on public land; most Somali traders operate from private properties.

the regulatory context of township areas, where individuals can open shops without having to navigate bureaucratic systems. These shops have largely proven to be sustainable enterprises for Somalis. The following chapter will examine Somali trade practices and their contribution to establishing sustainable self-employment in the Western Cape.

SOMALI TRADE PRACTICES

Introduction

Somali traders both cooperate and compete with one another. While competing to provide efficient service and lower prices to customers, traders also work together by sharing transport and collaborating to open new shops. This chapter discusses Somali trade practices in township and CBD areas. These strategies are easily replicable and, if adopted by comparable South African shopkeepers, can contribute to business development in informal economies.

Somali spaza trade practices

The spaza shop is the most common Somali business venture in the townships. Many Somali traders have achieved success in this market through business strategies that include low mark-ups and the location of shops in high pedestrian traffic areas. But Somali traders also suffer particular disadvantages. For example, lack of funding (for instance Somalis do not benefit from state subsidized housing schemes), insecurity (such as fear of xenophobic attacks, or aspirations to eventually return to Somalia), as well as fears of negative local reactions to their purchase of land lead most traders to rent rather than buy their shop premises from South African landlords.²⁴ High crime rates also force many traders to sleep in their shops to guard shop contents.

The key features of Somali trade practices in the spaza market are summarised below.

Low mark-up and high turnover

Somali traders sell their goods at relatively low mark-ups for both cultural and commercial reasons.²⁵ Two traders explained that placing high mark-ups on goods went against Islamic principles requiring that they sell items at fair value to customers. Commercially, lower prices drew more customers who could buy more goods, particularly in the lower-income areas where most shops were located.²⁶ Somali traders who had raised their prices in response to complaints from South African traders eventually lowered prices again after losing customers.²⁷ Given their low mark-ups, fast turnover is vital for the survival of Somali shops. This is summed up in the Somali saying: 'Early loss is better than late profit.' In other words, slow trade turnover is worse than immediate losses.²⁸

Not all Somali traders charged lower prices than their South African counterparts. Some reported that their prices were the same or higher than South African prices because they stocked a wider product range

²⁴ Focus group with Somali traders, Bellville, 16 September 2012. Franschoek Somali trader, Bellville, 8 August 2013.

²⁵ Somali traders reported that they offered reasonable prices to customers at low mark-up rates. Kraaifontein Somali trader, Bellville, 18 November 2010. Khayelitsha Somali trader, Bellville, 8 January 2011. Kraaifontein Somali trader, Bellville, 14 December 2010. Representative of the Somali Retailers Association, Bellville, 6 November 2011. Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013.

²⁶ Informal discussion with a Masiphumelele Somali trader, May 2011. Kraaifontein Somali trader, Bellville 14 December 2010.

²⁷ Khayelitsha Somali trader, Mitchells Plain, 8 Jan 2011. Khayelitsha Somali trader 8 Jan 2011, Mitchells Plain. Kraaifontein Somali trader, Bellville 19 November 2010. Kraaifontein Somali trader, Bellville 18 November 2010.

²⁸ Informal discussion with a Masiphumelele Somali trader, May 2011.

(resulting in higher transport overheads as they needed to travel further to buy stock)²⁹, bought from the same wholesalers as South Africans³⁰, or paid rents to landlords—an expense that South Africans who owned the properties from which they operated did not carry.³¹

Location of shops in high pedestrian traffic areas

High pedestrian traffic makes townships a thriving market for Somali spaza shops.³² Given their generally lower mark-ups on goods, Somali traders rely on quick turnover from many customers. Many township customers do not own cars and cannot easily reach more distant supermarkets. These residents walk past local spaza shops en route to taxi ranks or train stations.³³

Because of higher start-up costs, higher rents, greater regulations, and low levels of pedestrian traffic, few Somali spaza shops are found in wealthy suburbs. However, Somalis have opened shops and stalls in certain suburban commercial streets such as Lower Main Road in Observatory, Main Road in Mowbray and Claremont, and Kloof Street in Gardens, where there are high levels of pedestrian traffic.

Somali traders frequently open spaza shops on streets or intersections with existing South African shops, often in areas with high levels of pedestrian traffic.³⁴ This practice angers many South African traders who feel that Somalis are attempting to take over the market.³⁵ Somali community representatives expressed differing views on the issue. A member of the Somali Retailers Association agreed that the practice was inconsiderate to South Africans, while a Somali community representative in Kraaifontein argued that that when many shops existed in one place it drew crowds, and more crowds meant more customers: ‘In our experience where business is more the benefit is more.’³⁶

Shop rental

Somali spaza shop owners rent their shops from South African landlords for several reasons. They generally cannot afford to buy properties and have little if any access to state subsidised housing schemes. They also experience insecurity about their future (for example they fear being chased from their shops, or foresee themselves eventually returning to Somalia or moving to a third country) and fear a local backlash if they buy property or land in townships.³⁷ Traders either search for suitable rental premises, or are approached by South African landlords.³⁸ Shop owners may set up a container shop on the landlord’s yard, convert garages or bedrooms of houses into shops, or simply move into an existing shop.³⁹ Landlords mentioned rental amounts ranging from R900 to R4,000 per month.⁴⁰

²⁹ Kraaifontein Somali trader, Bellville, 14 December 2010.

³⁰ Khayelitsha Somali trader, Mitchells Plain, 8 January 2011.

³¹ Khayelitsha Somali trader, Bellville, 7 January 2011.

³² Informal discussions with Somali traders.

³³ Personal observation in field sites.

³⁴ Personal observations in field sites. Informal discussions with Somali traders.

³⁵ Crime prevention officer, Harare, Khayelitsha, 24 May 2012. Representative of the Somali Retailers Association, Bellville, 26 October 2011.

³⁶ Kraaifontein Somali community activist, Bellville, 3 December 2012. Representative of the Somali Retailers Association, Bellville, 26 October 2011.

³⁷ Focus group with Somali traders, Bellville, 16 September 2012. Franschoek Somali trader, telephone interview, 8 August 2013. A Somali trader in the focus group explained that if Somali traders were to attempt to buy shop property, South Africans might complain that not only are Somalis taking away shops, but also taking away houses.

³⁸ Kraaifontein Somali trader, Bellville, 19 November 2010. Philippi Somali trader, Bellville, 13 November 2010.

³⁹ Personal observations in field sites and informal discussions with Somali traders.

⁴⁰ The lowest rent paid to a landlord was R900,00 per month for providing land for a container shop in Philippi East. The highest rent mentioned was R4,000 per month for a house in Philippi East.

Supply practices

Somali spaza shop owners invest considerable effort into sourcing low prices for their products. Individual Somali shopkeepers often buy in bulk in order to obtain discounts from wholesalers. High turnover at Somali shops also facilitates buying in bulk, as the cash return on sales is made quicker. Shops with high mark-ups and slow turnover, on the other hand, may have to wait much longer before they can raise enough cash from their sales to bulk buy.

Despite common perceptions, Somali traders do not collectively bulk buy goods together with other Somali traders.⁴¹ However, they do often coordinate the transporting of their goods to reduce transport costs.⁴² Somali traders jointly rent vehicles or coordinate stock collection with shop owners who have vehicles.⁴³ This practice may have created the misperception that Somalis engage in collective or group purchasing aimed at obtaining bulk discounts from wholesalers.⁴⁴

Traders said that it was impractical to bulk buy in groups, as each shop had differing and varying stock requirements that needed to be met quickly and regularly.⁴⁵ Furthermore, because each shop is managed and accounted for separately, joint purchasing could result in confusion over amounts paid and division of stock. Traders relied on their individual relationships with wholesale managers and staff to negotiate discounts, which would be lost in collective negotiations.⁴⁶ Most traders felt that bulk discounts (ranging from one to five percent) from collective buying were not high enough to justify the amount of time and coordination it would take to separate and re-account for goods, especially given that traders stock their shops several times a week and often visit more than one wholesaler in a day.⁴⁷

The only exception was in the case of collective ownership of business, which sometimes resulted in bulk buying. One trader who owned a share in three shops sometimes bought stock for all his shops in the same trip so that his shops would receive greater bulk discounts than if he were to buy stock for only one shop.⁴⁸ However, most co-owners who collectively owned more than one shop reported that they bought and paid for goods separately at wholesalers, as generally each co-owner managed and was responsible for his

⁴¹ Somali Retailers Association representative, telephone interview, 1 May 2012. Three Khayelitsha traders, Mitchells Plain, 6 July 2012 – none of whom knew of any traders engaged in collective buying. Focus group with Somali traders, Bellville, 16 September 2012. Franschoek Somali trader, Bellville, 30 March 2013. Masiphumelele Somali trader, telephone interview, 1 May 2012. Somali translator at Philippi Cash and Carry, 7 May 2013. Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013. See similar finding in Jonny Steinberg 'A living to be made from fear and loathing, so they say' Times Live, 1 January 2011. ACMS did not come across any Somali spaza traders who reported engaging in collective buying.

⁴² Somali Retailers Association representative, telephone interview, 1 May 2012. Focus Group with Somali traders, Bellville, 16 September 2012. Franschoek Somali trader, Bellville, 30 March 2013. Somali translator at Philippi Cash and Carry, 7 May 2013.

⁴³ Somali Retailers Association representative, telephone interview, 1 May 2012. Somali translator at Philippi Cash and Carry, 7 May 2013. Focus group with Somali traders, Bellville. Masiphumelele Somali trader, telephone interview, 1 May 2012. Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013.

⁴⁴ Somali Retailers Association representative, telephone interview, 1 May 2012. Somali translator at Philippi Cash and Carry, 7 May 2013. Three Khayelitsha traders, Mitchells Plain, 6 July 2012. Focus group with Somali traders, Bellville, 16 September 2012.

⁴⁵ Somali Retailers Association representative, telephone interview, 1 May 2012. Franschoek Somali trader, Bellville, 30 March 2013. Three Khayelitsha traders, Mitchells Plain, 6 July 2012. Focus group with Somali traders, Bellville, 16 September 2012.

⁴⁶ Somali Retailers Association representative, telephone interview, 1 May 2012. Somali translator at Philippi Cash and Carry, 7 May 2013. Franschoek Somali trader, Bellville, 30 March 2013.

⁴⁷ Franschoek Somali trader, Bellville, 30 March 2013. Somali translator at Philippi Cash and Carry, 7 May 2013. Masiphumelele Somali trader, telephone interview, 1 May 2012.

⁴⁸ Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013.

own particular shop.⁴⁹ By buying stock separately, co-owners could better manage their inventory and also determine which shops were doing well.⁵⁰

Apart from bulk discounts, Somalis also source low prices by investigating which wholesalers have specials before choosing where to buy stock, often through conversations with other traders or by examining printed leaflets collected at wholesalers.⁵¹ Traders often divide their purchases between four or more wholesalers to benefit from the wider range of price offerings and specials.⁵² Traders also negotiate discounts with wholesalers by referencing lower prices charged by competing wholesalers or by frequenting the same suppliers and developing relationships with the managers.⁵³

Somali traders therefore act both individually and collectively in stocking their shops. While they share transport and information about special offers, they shop and negotiate discounts separately. The reliance on both competitive and cooperative practices helps them source the best prices for their goods. These price savings are then passed on to consumers, contributing to the popularity of Somali shops in low-income areas.

Employment and housing practices

Somali spaza shop owners or their employees often sleep in spaza shops themselves (for example, on a mattress behind the till), or in a separate room behind the shop in order to guard the shop's contents. A number of shop owners who were interviewed worked and lived in their shops along with one or more co-owners. Shop owners who lived in outside neighbourhoods such as Bellville, Mitchells Plain or the Kraaifontein town centre sometimes employed young male Somalis (usually relatives or members of the same sub-clan) to work and sleep in their shops.⁵⁴ Shop owners who did live in their shops often pretended to be employees in order to avoid unwanted attention and claimed that the shop owner was in Bellville.⁵⁵ This has created the perception amongst residents and the police that all Somali shop owners live outside of the townships.⁵⁶

ACMS was unable to estimate what proportion of township traders in the field sites were owners as opposed to employees. The only quantitative study on Somali spaza ownership was conducted in the township of Motherwell in Port Elizabeth (the 'Motherwell study')⁵⁷. The study was based on interviews with 65 South African and 64 Somali spaza shopkeepers. It reported that 63.5 per cent of Somali

⁴⁹ Somali translator at Philippi Cash and Carry, 7 May 2013. Somali Retailers Association representative, telephone interview, 1 May 2012. Franschhoek Somali trader, Bellville, 30 March 2013. Masiphumelele Somali trader, telephone interview, 1 May 2012.

⁵⁰ Somali translator at Philippi Cash and Carry, 7 May 2013. Franschhoek Somali trader, Bellville, 30 March 2013.

⁵¹ Somali Retailers Association representative, telephone interview, 1 May 2012. Masiphumelele Somali trader, telephone interview, 1 May 2012. Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013. Somali translator at Philippi Cash and Carry, 7 May 2013. Franschhoek Somali trader, Bellville, 30 March 2013.

⁵² Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013. Masiphumelele Somali trader, telephone interview, 1 May 2012. Franschhoek Somali trader, Bellville, 30 March 2013.

⁵³ Somali Retailers Association representative, telephone interview, 1 May 2012. Franschhoek Somali trader, Bellville, 30 March 2013. Masiphumelele Somali trader, telephone interview, 1 May 2012.

⁵⁴ Focus group with Somali traders, Bellville, 16 September 2012. Informal discussions with Somali traders.

⁵⁵ Focus group with Somali traders, Bellville, 16 September 2012.

⁵⁶ Focus group with Somali traders, Bellville, 16 September 2012.

⁵⁷ Abdu Sh Mohamed Hikam 'An exploratory study on the Somali immigrants' involvement in the informal economy of Nelson Mandela Bay' 2011 masters dissertation, Nelson Mandela Metropolitan University.

shopkeepers (41 individuals) surveyed described themselves as shop owners, while 36.5 per cent (23 individuals) described themselves as employees.⁵⁸

Somali shop owners and employees almost always situate their families in suburbs outside of the townships. A notable exception was in the Masiphumelele township near Fishhoek, where the three Somali spaza shop owners who were interviewed lived with their families. Not only did they live in the townships, but the wives also worked in the shops (sometimes assisted by their children), while the husbands focussed more on travelling long distances to wholesalers in Cape Town to collect stock.

Establishing shops through co-investment

Many shop employees save enough to start their own shops after two to three years of working.⁵⁹ Savings amounts vary greatly, ranging from R5,000 to R15,000.⁶⁰ Somali spaza employees often pool their savings with two or three similarly positioned employees to invest in a shop together.⁶¹ These traders then live in and operate the shop together as co-owners. Sometimes relatives loan a portion of the investment. New owners also may pay the seller in instalments from shop profits. In some cases, an existing shop owner will give a competent, hard-working employee a share in the shop.⁶² Approximately 46 of the 64 Somalis in the Motherwell study had financed their shops via savings earned in South Africa.⁶³ Furthermore, the vast majority (87.5%) of Somali shop owners in the Motherwell study indicated they were shareholders (ie not sole owners) in the shop; on average, each Somali shop was co-owned by 2.45 people.⁶⁴

Holding shares in multiple shops

Shopkeepers frequently own shares in more than one shop. This is because co-owners often combine savings from their initial shop to invest in a second or third shop. One of the co-owners then moves to the new shop to manage it, sometimes with the help of an employee.⁶⁵ Co-owners usually reported having invested in two or three shops. However, one trader interviewed owned small stakes in five shops. According to him, minority shareholding enabled him to spend less time in the townships where he felt unsafe (two of his brothers had been murdered in spaza shops in separate incidents).⁶⁶ Instead, he dedicated most of his time to bulk buying sweets at wholesalers and supplying them to various spaza shops. In some cases, co-owners decide to separate and become sole owners of the sustainable shops they established together.⁶⁷

Early opening and late closing times

Somali shops opened as early as 6am and stayed open past 10pm. Later hours helped traders compete with supermarkets that residents were more likely to frequent during the day.⁶⁸ The early morning and late

⁵⁸ Hikam (note 57) at 63.

⁵⁹ Focus group with Somali traders, Bellville, 16 September 2012. Informal discussions with Somali traders.

⁶⁰ Masiphumelele trader, telephone interview, 1 May 2012. Focus group with Somali traders, Bellville, 16 September 2012.

⁶¹ Informal discussions with Somali traders. Somali Retailers Association representative, telephone interview, 1 May 2012. Franschhoek Somali trader, Bellville, 30 March 2013. Masiphumelele Somali trader, telephone interview, 1 May 2012. Mfuleni Somali trader, Bellville, 6 November 2011. Khayelitsha Somali trader, Mitchells Plain, 6 July 2012.

⁶² Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013.

⁶³ Hikam (note 57) at 70.

⁶⁴ Ibid at 72.

⁶⁵ Franschhoek Somali trader, Bellville, 7 May 2013. Mfuleni Somali trader, Bellville, 6 November 2011. Khayelitsha Somali trader, Mitchells Plain, 6 July 2012.

⁶⁶ Kraaifontein and Khayelitsha Somali trader, Bellville, 22 March 2013.

⁶⁷ Franschhoek Somali trader, Bellville, 7 May 2013. Ravensmead and Grassy Park Somali trader, Bellville, 30 May 2013.

⁶⁸ This was particularly the case with Somali traders in the 'coloured' township of Cravenby in Elsies Rivier.

evening hours also targeted customers on their way to and from work.⁶⁹ Finally, traders kept their shops open late in response to customer demand.⁷⁰

Customer focussed

Somali traders attract customers through a variety of flexible selling practices. For example, they allow customers who are short of cash to buy smaller quantities of products, e.g. a small plastic pouch of sugar (also known as ‘one Rand sugar’) rather than a kilogram package, or a single tea bag as opposed to a box.⁷¹ They allow pensioners to buy on credit and pay for their purchases at the end of the month when their pension payments come through.⁷² Traders also utilise competitive practices such as sales and special offers to draw customers to their shops in the hopes that they will then buy non-sale products.⁷³ They offer end of month specials and ‘hampers’—collections of bulk products sold at discounted prices.⁷⁴ They also compete through enhanced services, which include not running out of stock, offering exact change, providing wide product ranges, and maintaining shorter queues. These offerings make Somali spaza shops popular amongst township customers.



Bulk hampers for sale in a spaza shop (2011)

Trade activities in CBD areas

This section provides some preliminary observations about trade practices in CBDs areas in Bellville, the Cape Town city centre, Mitchell’s Plain and small towns.

Somali trade activities in CBD areas are not limited to spaza shops. Business activities include clothing shops, fabric stores, grocery shops, small wholesalers, internet cafes, coffee shops, travel agents, DVD stores, photographic studios, tailors, spice shops, restaurants and guest lodges. Some shops specialise in

⁶⁹ Interviews with residents, personal observations in field sites.

⁷⁰ Informal conversations with four Somali traders discussing the City of Cape Town’s recently legislated ‘house shop’ curfews. Franschhoek Somali trader, Bellville, 7 May 2013.

⁷¹ Franschhoek Somali trader, Bellville, 7 May 2013.

⁷² Focus group with Somali traders, Bellville, 16 September 2012. Police officer in Philippi East, 8 November 2011.

⁷³ Somali Retailers Association representative, Bellville, 6 November 2011.

⁷⁴ Interviews with residents, and personal observations.

East African and Middle Eastern products targeting Somali customers, such as sarongs, prayer shawls, dates, veils, basmati rice and cooking oils.

Numerous Somali stalls, shops and other businesses are located around the Bellville train station, where many Somali migrants and their families live. Almost all Somali clothing, fabric and furniture shops hire South African staff who can communicate better with South African customers.⁷⁵ But even businesses with predominantly Somali clientele (such as restaurants, coffee shops and guest lodges), hire South African employees as Somali men often avoid cleaning and cooking jobs.

Restaurants are diverse—cafeterias catering to Somali clientele, non-alcoholic pubs providing a venue for football viewing, and tea or coffee shops that provide a meeting spot for traders. Like spaza shops, restaurants offer credit. Regular customers receive accounts that they pay off at the end of the month.

Unlike in the township spaza market, Somali women engage in many CBD business activities, either owning their own stalls or shops, working as employees, or entering into joint trading ventures with their husbands.



Durban Road near Bellville train station (2012)

Conclusion

Somali trade activities rely on cooperation and support between shopkeepers. Somali traders jointly invest to start shops and Somali competitors cooperate by sharing transport to carry products from wholesalers. At the same time, competitive practices such as flexible customer offerings and low prices draw customers to these shops. Somali traders also target areas with high pedestrian traffic and continually adapt their services to draw more customers.

⁷⁵ Somali clothing shopkeeper, Cape Town City Centre, 4 March 2012. ACMS also observed that most of these shops employed South African shop assistants.

The key trade practices of Somali spaza shops are set out below:

- Low mark-up on goods and reliance on high turnover;
- Location of shops in high pedestrian traffic areas;
- Shop rental from South African landlords;
- Individual buying from wholesalers combined with shared transport to collect goods from wholesalers;
- Price comparisons and identification of special offers from wholesalers;
- Guarding of shop contents by sleeping in shops or in rooms behind shops;
- Collective investment in shops;
- Shareholding in multiple shops;
- Early opening and late closing times; and
- Customer-focussed practices.

Many of the trade practices adopted by Somali spaza shop owners may be replicated by competing South African shops. These practices can improve local economic growth and help South African spaza businesses to become sustainable and expand while providing benefits to the local community.

SOMALI SPAZA SHOPS AND LOCAL ECONOMIES

South African traders in the Western Cape have vocally opposed the presence of Somali and other foreign spaza shops, arguing that the foreign presence in their townships is illegitimate and is responsible for their struggling and failed businesses.⁷⁶ These anti-foreigner mobilisations have contributed to the public perception that foreign spaza shops limit local economic growth.⁷⁷ Exploring the economic picture more closely calls this view into question. This section identifies a range of factors that affect the spaza shop market and shows that the effects attributed to foreign traders are often exaggerated.

In addition, the exclusive focus on the South African shopkeeper presents only a partial picture of the economic situation. Examining a range of stakeholders and parties affected by Somali trade reveals a less negative economic picture. These parties include:

- Landlords: most Somali traders rent their shop premises from South African landlords;
- Small scale suppliers and manufacturers: spaza shops potentially open up opportunities for small scale suppliers and manufacturers who lack capacity to supply large supermarkets;
- Wholesalers: Somali spaza shops source goods from wholesalers;
- Employees: Somali shops employ South Africans;
- Consumers: South Africans buy food and basic household items at spaza shops;
- South African job seekers and state social services: Somali spaza shops reduce potential Somali reliance on social services and prevent increased competition in the job market.
- The South African Revenue Service: spaza shops are a current and potential source of tax revenue.

Factors affecting the profitability of South African spaza shops

South African traders frequently blame their non-competitiveness in the spaza market on the presence of foreign traders in the townships, often simultaneously implying that this presence is illegitimate. They have even gone so far as to send threatening letters to Somali traders instructing them to close their shops and leave the area.⁷⁸ While the expansion of Somali spaza shops likely has affected the fortunes of many South African traders, other factors such as expanding supermarket chains, increasing food prices, and the lack of basic business skills have also played a role.

Expansion of retail supermarkets into townships

In recent years, large supermarket chains have entered many of Cape Town's townships, bringing with them lower prices and wide product ranges. Khayelitsha, for example, has six supermarkets - three Shoprites, two Spars and one Pick n Pay. These shops—offering greater product range and cheaper prices—draw customers away from less competitive spaza shops.⁷⁹ Somali-owned shops are generally

⁷⁶ The researcher attended four meetings between South African and Somali traders in Khayelitsha in 2012, where South African traders made such claims.

⁷⁷ For example, the Cape Times quoted former national police commissioner Bheki Cele as stating that 'Our people have been economically displaced; all these spaza shops (in the townships) are not run by locals', Quinton Mtyala 'Cele's xenophobic outburst' Cape Times 7 October 2011, available at <http://www.iol.co.za/news/crime-courts/cele-s-xenophobic-outburst-1.1152621#.UA1-6GjQ9UQ>, date accessed 23 July 2012. A number of residents and police interviewed also believed that Somali traders were an economic threat to the South African economy.

⁷⁸ This occurred in Khayelitsha in 2008, Gugulethu in 2009, Kraaifontein in 2010 and Philippi East in 2011.

⁷⁹ Many residents weighed the prices and services offered at Somali shops against those of supermarkets, indicating that supermarkets were a shopping alternative. Several Somali traders mentioned having to adapt their trade practices in response to supermarket expansion; one trader

better able to compete than South African ones because of their low mark-ups and broader product range.⁸⁰ Somali traders have also adapted their trade practices in response to supermarkets by extending their opening and closing times to reach customers when the supermarkets are closed. According to residents interviewed, South African shops have not extended their hours,⁸¹ making them less competitive.

Increased food prices

Food prices have risen dramatically over the past few years.⁸² Because recent food price inflation has generally been higher than standard inflation, consumers are spending larger portions of their income to buy the same quantity of food.⁸³ As a result, many South Africans have had to buy less food.⁸⁴ Lower consumer demand for food negatively affects the spaza market. Accordingly, a Somali shopkeeper complained that his key business struggle was not competition, but rising food prices:

Everything is going up up up... Flour was R20 in 2005 and now it's R51... Sugar was about R40 or R50 [in 2005], now is R76,99... Everything is going up, everything is going up... People are not employed, where are they going to get the money?⁸⁵

South African lack of business skills

Many South African traders lack basic business knowledge, which may harm the profitability and sustainability of their spaza shops. A survey conducted by the City of Cape Town of 214 foreign and 138 South African spaza traders in Khayelitsha found that 93 percent of Somali respondents kept business records, while only 28 percent of South African traders did. Similarly, 94 percent of Somali traders utilised cashbooks, in comparison to 58 percent of South African traders.⁸⁶

Other factors

The African Centre for Citizenship and Democracy (ACCD) surveyed 50 South African households in Delft South (in Cape Town) and found that 11 households had run a spaza or house shop in the last five years. It found that of the households that had previously operated spaza shops, four cited foreign shopkeeper competition as their reason for exiting the market.⁸⁷ The remaining seven left for other reasons,

eventually closed his shop near Wellington (interview in Bellville, 30 May 2013). Whitey Basson, the CEO of Shoprite Holdings, which has opened many new supermarkets in low income areas explained in a media interview that the group's USave stores were 'capturing share from informal traders, independent retailers and previously under-serviced areas', see Claude Harding, 'Interview: Shoprite CEO talks retail in Africa' *How We Made it in Africa*, 11 October 2012, available at <http://www.howwemadeitinafrica.com/interview-shoprite-ceo-talks-retail-in-africa/21086/>, date accessed: 28 May 2013. See also Charman et al (note 2) at 20 to 21, which discusses the threat posed by supermarkets as a result of South African traders' failure to adapt their trade strategies.

⁸⁰ Charman et al (supra) at 17 and 20, which discusses Somali competitiveness in pricing and product diversity.

⁸¹ Resident, Philippi East, 19 December 2012. Resident, Philippi East, 19 December 2012. Resident, Khayelitsha, 20 January 2011. A number of police officials also complained that Somali traders kept their shops open later than South African traders.

⁸² Labour Research Service 'Inflation Monitor' February 2012 at 5, available at <http://www.lrs.org.za/docs/LRS%20Inflation%20Monitor%20February%202012.pdf>, date accessed 10 November 2012.

⁸³ National Agricultural Marketing Council 'Food Price Monitor February 2012' at 6, available at <http://www.namc.co.za/dnn/LinkClick.aspx?fileticket=SOwneUqgeIU%3D&tabid=73&mid=649>, date accessed 10 November 2012.

⁸⁴ Jacobs, P 'Protecting food insecure households against rapid food price inflation' policy brief, March 2012, at 1, available at <http://www.hsrc.ac.za/uploads/pageContent/1067/Food%20Prices.pdf>. Bruce Frayne et al 'The state of urban food insecurity in Southern Africa' (2010) *Urban Food Security Series no 2*, Queens University and AFSUN, at 43 to 44, available at <http://queensu.ca/samp/afsun/files/Afsun%202%20web.pdf>.

⁸⁵ Mfuleni Somali trader, Bellville, 6 November 2011.

⁸⁶ Knowledge Link Services, 'Khayelitsha business survey', commissioned by the City of Cape Town, 2009.

⁸⁷ Charman et al (note 2) at 21.

including the transfer of the business to relatives, debt stemming from outstanding customer credit, drug addiction, and witchcraft.⁸⁸

South African inability to keep up with Somali spaza competition

Despite its own finding that most South African households who had previously operated spaza shops did not leave the market due to foreign trader competition, the ACCD claims that foreign traders are primarily responsible for the demise of South African spaza shops.⁸⁹ It blames Somali trade practices for this development, and asserts in particular that bulk discounts obtained through collective procurement give Somali traders a competitive edge over South African traders. It maintains that South Africans cannot mirror these practices due to a lack of trust.⁹⁰ The ACCD also portrays Somali traders as mostly ‘wealthy entrepreneurs’ with an economic advantage over their South African counterparts.⁹¹ It contends that Somali shopkeepers often invest R25,000 to R35,000 into starting up shops, and ‘buying collectives’ can ‘afford to maintain a vehicle permanently on the road.’⁹²

These views perpetuate common misconceptions regarding Somali trade practices and wealth attainment. The complaint that South Africans cannot imitate Somali buying practices is based on the false assumption that most Somali traders achieve bulk discounts through collective bulk buying. As explained in the previous section, Somali shopkeepers generally do not collectively bulk buy. Instead, they share transport and source products at wholesalers offering the best specials and lowest prices. The funds that Somalis invest reflect savings over several years of work, as well as joint investments by several shareholders.⁹³ Finally, access to vehicles is not a reflection of affluence, but is based on shared transport between those with and without vehicles. No barriers prevent South Africans from adopting similar practices.

In fact, ACMS encountered some South African shopkeepers whose shops were thriving in the face of Somali competition because of adaptive business practices. A shopkeeper in Kraaifontein, for example, reported increased profits in 2011 despite the presence of several Somali shops in his area.⁹⁴ A variety of practices contributed to his profitability: structural improvements to his shop, the availability of hampers, a wide product range, and a regular supply of stock. The shopkeeper also saved enough to enable him to buy stock in bulk. A shop in Gugulethu similarly prospered through adaptive practices that included selling electricity (even Somali shopkeepers bought electricity there) and installing a ‘save-rite’ machine that weighed products such as sugar and flour so that customers could buy various quantities.⁹⁵

South African shopkeepers who do not adapt their trade practices may struggle to compete against foreign traders. These shopkeepers may require business guidance, but the spaza market itself is not closed to them. Somali trade practices have not made market survival conditional on being able to collectively procure bulk discounts or on possessing private wealth. Instead Somali traders rely on collaborative ownership and supply arrangements that contribute to business efficiency, reducing the need to elevate

⁸⁸ Ibid at 21 and 22.

⁸⁹ Ibid 21 and 24.

⁹⁰ Ibid at 20.

⁹¹ Ibid at 2.

⁹² Ibid at 15 and 19.

⁹³ See discussion on page 18 and 19 above.

⁹⁴ South African trader, Kraaifontein, 16 November 2011.

⁹⁵ South African trader, Gugulethu 10 February 2012.

prices to protect individual businesses.⁹⁶ South African shopkeepers also hold a competitive advantage because they generally do not have rent as a business overhead. They also face a lower risk of looting, arson and armed robbery, crimes that disproportionately affect Somali and other foreign traders.⁹⁷

The effects of the spaza market on other parties

Competing traders are not the only parties affected by Somali spaza shops. These shops influence the local economy and play a role in the lives of a range of other parties and stakeholders, as described below.

Landlords

Most Somali shopkeepers rent their shops from South African landlords. Some South African shopkeepers have opted to forego their own shops to rent to Somalis, enabling them to work elsewhere or live off their rental income. According to the Motherwell study, 89 per cent of those landlords who had occupied their premises before renting them to Somalis had used the premises for business purposes.⁹⁸ Similarly, the ACCD's working paper reported that many South African shopkeepers found it more lucrative to rent out their businesses than to operate them.⁹⁹

Two stories illustrate this point. A former South African shopkeeper turned landlord in Philippi East had struggled to keep his shop afloat because his unmonitored employees stole from the shop while he operated his second business—a licensed shebeen. He eventually sold his spaza business to Somalis in 2003 for R70,000 and now earns R4,000 per month in rent. Since freeing his time from the spaza business, his shebeen has become a sustainable and successful business, enabling him to support his family.¹⁰⁰ The wife of a former South African spaza shopkeeper in Philippi East had a similar story of economic gain. Her husband (who was bedridden and could not be interviewed) rented out his spaza shop to foreigners after he fell ill and could no longer operate the shop himself. The rent is a central source of their livelihood.

In addition to former shopkeepers, landlords include single mothers and volunteer community workers with no income.¹⁰¹ The rents provided by foreign shopkeepers thus produce economic benefits for a variety of South African households. According to landlords and Somali interviewees, rental for front yard container shops in Philippi was approximately R900 to R1,500. Renting part or the whole of a small brick house ranged from R2,000 to R4,000. Police in Kraaifontein, Philippi East, and Harare, Khayelitsha described landlords in their sectors as generally satisfied with these arrangements.¹⁰²

⁹⁶ South African traders have frequently called on Somali traders to charge fixed prices to consumers. In Gugulethu this culminated in a written price fixing agreement being entered into between South African and Somali traders in August 2009, which obliged Somali trader to charge the same prices for basic items as South African traders. Charman et al describe that Somali price discounting 'stands in conflict with the 'ubuntu' (mutual support) ethos in the spaza market that insured informal price collusion' (note 2) at 24.

⁹⁷ Gastrow, V with Amit, R 'Elusive justice: Somali traders' access to formal and informal justice mechanisms in the Western Cape' African Centre for Migration & Society, 2012.

⁹⁸ Hikam (note 57) 67 and 68.

⁹⁹ Ibid at 15.

¹⁰⁰ South African landlord, Philippi East, 22 November 2011.

¹⁰¹ Daughter of single parent landlord, Philippi East, 22 November 2011. A Somali trader in Kraaifontein described that rental paid by Somali traders had enabled some South African residents to engage full time in voluntary community work.

¹⁰² Harare police sector managers, 20 December 2011. Kraaifontein police officer, telephone interview, 24 April 2012. Philippi East sector managers, Philippi East, 8 November 2011. All landlords interviewed were also happy with their rental arrangements, although one landlord foresaw evicting his Somali tenants in the near future, and attempting to enter the spaza business himself.

Some members of government have expressed concern that South Africans have chosen to rent out state-subsidised houses to Somali shopkeepers,¹⁰³ transforming government investment in housing for the poor into income generation. While this has negative consequences for state housing provision, it has positive consequences for poverty alleviation, a factor that should be taken into account in discussions around socio-economic and urban development.

Opportunities for small-scale suppliers and manufacturers

The increase in foreign spaza shops has also opened opportunities for small-scale suppliers and manufacturers who are typically unable to access larger supermarkets. Although ACMS did not conduct extensive research on the phenomenon, informal discussions with Somali shopkeepers and chance encounters in field sites suggest that South African small entrepreneurs are taking advantage of the accessibility and proximity of Somali shops. For example, ACMS came across small fruit and vegetable suppliers in Kraaifontein who supplied Somali shops in the area with fruit and vegetables sourced from nearby farms. Somali shopkeepers also reported selling locally made ‘vet koek’ (a type of fried dough) and fudge, cosmetics bought from South African door-to-door salesmen, and traditional medicines supplied by a South African traditional healer. Other small-scale local manufacturers and traders may also potentially enter this market.



South African small vegetable suppliers in Kraaifontein (2011)

The growth in the wholesale industry

Somali shops have also contributed to the growth of certain wholesale businesses, potentially increasing South African job opportunities in the sector. In Cape Town, Somali shops source their products primarily from large wholesalers such as Makro, Metro Cash and Carry and Philippi Cash and Carry. These

¹⁰³ Lynette Johns ‘Myriad laws on foreigners must change’ Cape Argus 22 September 2011 at 20 describes Western Cape Premier Helen Zille as stating that the renting out of state subsidised housing to foreigners is a skewed economic model. Police in Harare, Khayelitsha had looked into the legality of renting properties out to foreigners and found that South African recipients of state subsidised housing could rent out their properties after occupying the premises for five years, which prevented police from taking action against traders operating from state subsidised houses, interview in Harare, 24 May 2012. At a City of Cape Town Department of Social Development meeting on 20 April 2011 attendees complained about South Africans renting state subsidised properties to foreign nationals, with the suggestion that authorities should increase inspections of such properties.

wholesalers employ hundreds if not thousands of South African workers in the Western Cape. The manager of Philippi Cash and Carry—himself a foreigner—reported that the business employed 103 South Africans and two foreign nationals (himself and a Somali translator, who was employed to facilitate communication with the wholesaler’s large Somali customer base).¹⁰⁴ Approximately 50 percent of his customers were foreign nationals. The growth of foreign shops expanded his customer base and resulted in higher sales, enabling him to hire more South African workers.¹⁰⁵ Somalis themselves opened a wholesale shop in Kraaifontein’s central business district and were servicing nearby township spaza shops. Police were initially apprehensive about this development, fearing that it would steal jobs away from South Africans, but they discovered that these Somali wholesalers employed a number of South African workers.¹⁰⁶

South African employment opportunities in Somali neighbourhoods and townships

The success of Somali spaza shops contributes to the growth of CBD businesses in areas such as Bellville and Mitchells Plain, as well as in Cape Town’s city centre, which in turn contributes to employment. Somali spaza traders travel to CBD areas to eat at Somali restaurants, socialise at Somali coffee shops, and use internet cafes to communicate with relatives abroad. Some spaza shopkeepers also use shop profits to invest in CBD businesses.¹⁰⁷ As mentioned in the previous section, CBD businesses employ South Africans as shop assistants, cleaners, waiters or cooks. In this way, spaza shops have indirectly contributed to South African job creation in CBD areas such as Bellville and Mitchells Plain.

Although the practice is more limited, Somali spaza shops in townships also employ some South Africans to clean shops and stack shelves.¹⁰⁸ Because of security fears, these employees are almost always women.¹⁰⁹



A South African and Somali shop assistant in a Somali clothing shop, Bellville (2012)

(Photo: Kai von Kotze)

¹⁰⁴ Manager of Philippi Cash and Carry, Philippi East, 12 July 2012.

¹⁰⁵ Manager of Philippi Cash and Carry, Philippi East, 12 July 2012.

¹⁰⁶ Kraaifontein police officer, Kraaifontein, 10 August 2012.

¹⁰⁷ A trader in Harare subsequently opened an internet café in the Golden Acre shopping mall near Cape Town train station. A Somali trader from Atlantis established a corner shop in Long Street in Cape Town City Centre.

¹⁰⁸ Some residents in Philippi East and Khayelitsha reported that local Somali traders hired South African shop assistants. Some Somali shopkeepers interviewed employed South African workers in their spaza shops. Two prosecutors reported that South African shop assistants working in Somali shops were frequently witnesses in business robbery cases.

¹⁰⁹ Informal conversations with Somali traders.

Consumer interests

Consumers far outnumber any other stakeholder. Most consumers believed Somali shops made a positive contribution to their communities. The most common complaints involved those around hygiene, in part stemming from the fact that many Somali shopkeepers slept in their shops. Somali traders also attributed South African concerns over hygiene to ignorance of Islamic prayer ablution practices. Prayer ablution involves washing one's hands, face, head and feet. When Somalis did this outside their shops, local residents assumed that Somalis were bathing and that they therefore bathed improperly.¹¹⁰

Consumers outlined a range of advantages from Somali shops, including:

- Lower prices: Residents cited low prices as a key reason for frequenting Somali shops.
- Hours of operation: Somali shops opened earlier in the morning and closed later in the evening. Customers could shop on their way to work and when they returned home late.
- Product range: Somali shops sold a greater range of products.
- Exact change: Somali shops always supplied change, while South African shops often lacked change for their customers.
- Availability of hampers: Somali shopkeepers introduced the practice of selling 'hampers,' which are combinations of basic items, such as flour, oil, sugar and canned foods, sold together at discounted prices.
- Quantity flexibility: Somali shops allowed customers running short on money to buy small amounts of certain items, such as sugar.
- Waiting times: Somali shops had shorter queues.
- Stock on shelves: Somali shops did not run out of stock.
- Price flexibility: Somali shopkeepers sold products at reduced prices if customers could not pay full price. As one shopkeeper explained 'I am not going to chase away a customer for ten cents.'¹¹¹
- Availability of credit: Somali shopkeepers provided credit to customers. Some pensioners, for example, bought hampers on credit at Somali shops until their state pensions came through at the end of the month.¹¹² In line with Islamic law, traders did not charge any interest on credit provided.
- Proximity of affordable spaza shops: Before the arrival of foreign spaza shops, many customers shopped at distant supermarket chains that were significantly cheaper than local shops. This meant paying taxi fare and spending substantial time travelling. Somali spaza shops offered cheaper prices within walking distance. As one Philippi resident described: 'I cannot go to Shoprite to buy Lux [a brand of soap]. That will cost me R5,00 taxi fare. Here they sell Lux at a reasonable price.'¹¹³

Many of these benefits may ultimately contribute to greater food security. A recent study found that 80 percent of poor urban households in Cape Town experienced food insecurity.¹¹⁴ Somali shops may improve

¹¹⁰ Residents frequently described that Somali bathed using a 'cup' or 'bucket' and were therefore unhygienic. A Somali community representative stated that this was a common misconception and that traders only used buckets for carrying out prayer ablution.

¹¹¹ Mfuleni Somali trader, Bellville, 6 November 2011.

¹¹² Focus Group with Somali traders, Bellville, 16 September 2012. Philippi East police sector managers, Philippi East, 8 November 2011. Harare crime intelligence officer, Harare, Khayelitsha, 24 May 2012.

¹¹³ South African resident, Philippi East, 18 December 2010.

¹¹⁴ Bruce Frayne et al (2010) The State of Urban Food Insecurity in Southern Africa Urban Food Security Series No. 2. Queen's University and AFSUN: Kingston and Cape Town at 29.

household access to food by selling goods at reasonable prices, on flexible terms (for example providing interest-free credit), in varied quantities and in close proximity to where residents live.

Reducing potential reliance on social services and preventing increased competition in the job market. Somali spaza shops provide other net benefits to the South African economy. Somali shopkeepers are economically self-reliant and do not depend on the state and the taxpayer for financial aid. Somalis who open their own shops do not compete on the job market with South African workers. A Somali shop owner in Kraaifontein explained his choice to open a spaza shop in Bloekombos:

That's my shop, where I lost my elder brother [killed by robbers in 2010]. But I have no choice - I have to carry on. Should I be a beggar? Coming to your house and knocking and say 'sister I need a bread'. No. I have more great dignity than becoming a beggar.¹¹⁵

Taxes

There is no precise data on tax payments by Somali shopkeepers in Cape Town. According to the Motherwell study in Port Elizabeth, 74 percent of Somali shopkeepers surveyed were registered for income tax, as opposed to 17 percent of South African shopkeepers. Twenty four percent of Somalis and 14 percent of South African shopkeepers were registered for VAT.¹¹⁶ VAT registration is not compulsory for traders whose sales total less than R1 million annually.¹¹⁷ Although wholesalers charge spaza shopkeepers VAT (the Motherwell study found that on average each Somali spaza shop paid R38,740 in VAT annually),¹¹⁸ the informal nature of the spaza industry makes income tax collection more challenging. The barriers Somali traders face in opening bank accounts further impedes the state's ability to collect taxes, as much of the cash remains in the informal sector. Yet, as Somali trade activities grow and formalise, they will potentially become valuable sources of tax revenue.

Conclusion

South African spaza traders' business challenges are not exclusively the result of competition from foreign spaza shops. Nor are Somali shops disastrous to local economies. When the interests of all stakeholders are taken into account, Somali traders make a positive contribution to the local economy. Somalis are largely self-employed and do not compete on the South African job market. Somali businesses in central business districts and on a smaller scale in the townships employ South Africans. Somali spazas shops also contribute to growth in other sectors such as the wholesale industry and possibly small-scale manufacturers and suppliers. Perhaps most important, Somali shops offer their customers—many of whom live below the breadline—low prices and enhanced services, improving household sufficiency. These benefits must be weighed against the interests of South African spaza shopkeepers, many of whom have been critical of foreign competition while refusing to adapt their trade practices to compete and offer similar benefits to local residents.

¹¹⁵ Kraaifontein Somali trader, Kraaifontein, 5 June 2012.

¹¹⁶ Hikam (note 57) at 75.

¹¹⁷ South African Revenue Service, 'VAT 404: guide for venders' at 8, available at 6808_VAT404GuideforVendors30March2010.pdf, date accessed 11 September 2012.

¹¹⁸ Hikam (note 57) at 100.

CONCLUSION

This report has sought to counter popular portrayals of foreign-owned shops as having a net negative effect on the South African economy. It also counters some of the myths around the business practices of these shops, particularly Somali-owned spaza shops. Contrary to commonly-held notions, Somali traders are not 'wealthy business people'. They jointly invest in shops, primarily relying on their savings as spaza shop employees. Nor are trade practices such as sharing transport, sourcing special offers at wholesalers, and negotiating discounts impossible for South Africans to implement.

The experiences of Somali traders in the Western Cape show how low income individuals are able to establish sustainable businesses. Their trade practices have enabled them to withstand the pressures of food price increases, crime, and competition from large supermarket chains. At the same time, Somali businesses have provided direct economic benefits to local communities by opening up new job opportunities, providing income to landlords, and offering cheaper prices.

The report does not provide conclusive findings about the exact scale of the impact that Somali traders have had on local economies, but it does widen the debate beyond the exclusive focus on South African shopkeepers. This broader perspective highlights the benefits received by a range of stakeholders, while also pointing to opportunities for South African entrepreneurialism.



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