

What Price Cheap Goods?

Survivalists, informalists and
competition in the township
retail grocery trade

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WORKING PAPER 59

AUGUST 2019

PLAAS Working Paper 59: What Price

Cheap Goods? Survivalists, informalists and competition in the township retail grocery trade

The PLAAS Working Paper Series is designed to share work in progress.

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Copy Editor: Ursula Arends

Layout: Esté Beerwinkel

Cite as: Petersen, L., Thorogood, C., Charman, A., and Du Toit, A. 2019. "What Price Cheap Goods? Survivalists, informalists and competition in the township retail grocery trade." Working Paper No. 59. Institute for Poverty, Land and Agrarian Studies, University of the Western Cape, Bellville, South Africa.

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ACRONYMS & ABBREVIATIONS

B-BBEE	Broad-Based Black Economic Empowerment
BCEA	Basic Conditions of Employment Act
BEE	Black Economic Empowerment
SLF	Sustainable Livelihoods Foundation
StatsSA	Statistics South Africa

GLOSSARY

Business fronting	A deliberate or attempted circumvention of the B-BBEE Act.
Churning	The movement of microenterprises in, and out of, business over time.
Container	An enclosed, rectangular-shaped, metal structure for storing cargo on ships, adapted for use as business premises for a range of microenterprises, including spaza shops.
Economic survivalist	In this context, an economic survivalist microenterprise would generate enough income to sustain the owner, but not enough to facilitate processes of business growth beyond the minimum, which would include undertaking bulk buying, investing in business premises or the medium- to long-term saving of income.
Essentialism	An account of social identity that sees it not as socially constructed but as reflecting innate differences, e.g. between races or ethnic groups.
Food security	Physical, social and economic access by individuals and households to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life.
House shop	A small-scale retail grocery outlet with a limited product range operating from within residential premises (see also spaza shop).
Informal economy	Those business environments in which informal enterprises and individual operators predominate, both spatially (geographically) and within the value chain of the production and distribution of goods or services. It comprises economic activities that are unregulated and unrecorded for taxation purposes. It includes both enterprises (including self-employment) and undocumented employees. Informal economic activities can include licit and illicit products and services.

Informal enterprise	Statistics South Africa (StatsSA) considers informal enterprises to be “[t]hose businesses that are not registered in any way. They are generally small in nature, and are seldom run from business premises. Instead, they are generally run from homes, street pavements and other informal arrangements”.
Informal sector	The term is used to refer to marginalised, informal enterprises, operating within the informal economy. For ‘informal economy’ see above.
Informalist	A business operator who capitalises on the terms and nature of informality in order to gain competitive advantage over formal and/or informal business rivals in a strategy to maximise financial profits.
Microenterprise	In the National Small Business Act (1996 and 2003 amendment), a microenterprise in the wholesale trade sector and catering and accommodation sector has fewer than five full-time employees, a turnover below R0.2 million and total gross assets valued at less than R0.1 million.
Peri-urban	A location adjoining an urban area; between the suburbs and the countryside.
‘Race to the bottom’	A competitive state where (in reference to this study) a company attempts to undercut the competition’s prices by sacrificing quality standards or worker safety, defying regulations, or paying low wages.
Reciprocal exchange	In cultural anthropology, this refers to the non-market exchange of goods or labour ranging from direct barter (immediate exchange) to forms of gift exchange where a return is eventually expected (delayed exchange).
Regulatory avoidance	Workplace and employer practices to avoid workplace laws and other statutory obligations, which undermine the coverage and effectiveness of regulations established to maintain minimum labour standards.
Regulatory exclusion	Where a microenterprise is unable to meet the necessary criteria for falling within the regulatory fold. Involuntary exclusion comes about when the business breaks the law through its very existence – e.g. in a township or operating without certain licences or permits, and that it cannot ever fall within the ambit of the law, or that doing so will require considerable bureaucratic, legal or financial efforts.
Rural	The countryside, especially areas of predominant agricultural production.
Shack	A small, crudely built cabin; colloquially known as a ‘shanty’ or ‘bungalow’.

Shopkeeper

This is the individual who owns and runs the spaza shop. Commonly shop employees are incorrectly referred to as shopkeepers. Employees are, however, shop assistants.

Spaza shop

A general retailer of household goods within a township context. For the purposes of this study, a spaza shop enterprise has the following features:

- situated in a stand-alone and dedicated structure/space (not operating from a room primarily used as private residence);
- has a sign advertising the business;
- has at least one glass-door (commercial) fridge;
- is open to retail customers for five days per week or more; and
- sells at least six of the following eight grocery items: maize meal, rice, bread, milk, sugar, cool drinks, cigarettes, and/or cooking oil.

Survivalist

In this study, a survivalist business refers to a microenterprise, run by a sole proprietor who provides a minimum livelihood for the entrepreneur but generates insufficient income to allow for investment into the business.

Township

In South Africa, a term for racially designated urban areas, usually located far from commercial or business centres, which were set aside during the apartheid period for black population groups. More recently, the term has become synonymous with housing developments and planned settlements for poor black South Africans and includes recently established low-cost housing settlements.

Tuckshop

A common name for a retail grocery outlet in the township setting. In this study we have interviewed enterprises of this nature and classified them in either 'house shop' or 'spaza shop' categories as per their best category fit.

Wholesaler

A business that sells to retailers who in turn on-sell to consumers. These enterprises can be formal or informal businesses. The category includes independent operators as well as corporate and multinational businesses.

EXECUTIVE SUMMARY

About 54% of South Africa's township microenterprises trade in food or drink. More than two-thirds of these are grocery retail businesses in the form of spaza shops and smaller 'house shops'. These are the predominant businesses within the 'township economy' and play an important role in food security, self-employment and community cohesion. In the last decade, the business of spaza shops (dedicated, signposted businesses with a range of foodstuffs and open five days per week or more) has undergone extensive change towards a new class of entrepreneurial traders – mostly foreign nationals. This change has meant that the sector has become increasingly controversial and associated with chauvinistic and xenophobic discourses targeting immigrants. While the nature, causes and extent of change in informal grocery retail markets have been noted by various authors over the past decade, there is as yet no comprehensive account of the changing nature of business dynamics and competitiveness in the sector.

Methods

Building on previous work, and to further explore the nature of changes in the sector, from January to October 2017 the Sustainable Livelihoods Foundation NPC (SLF) conducted a qualitative research programme in nine urban, peri-urban and rural township settlements across all provinces of South Africa. The research included a business census that located, mapped and interviewed over 1 100 township-based informal retail grocery outlets in order to draw a comprehensive picture of business and competitive dynamics in informal retail grocery markets. Simultaneously, the researchers also purchased a range of products such as cigarettes and grocery items from each of these outlets, and conducted extensive discussions with relevant stakeholders in supply chains, local communities and the retail grocery sector in general.

Results

Across the research sites the researchers noted demographic trends of change in the sector. First, overall spaza shop numbers are declining in what appears to be market contraction. Secondly, the share of foreign ownership is increasing, with South African microenterprises bearing the brunt of business decline. About 72% of all spaza shops in our sample are now owned by foreign (primarily Ethiopian, Bangladeshi and Somali) nationals. While we cannot claim that our sample is statistically representative, we believe it is broadly indicative of changes happening across the sector.

What is behind these changes? At first glance, the findings show that on many levels – product range, operational hours and in some cases pricing – these new spaza shops offer a superior customer experience to South African-owned shops.

However, a simplistic notion that the changes are simply owing to entrepreneurial foreign nationals outcompeting undynamic South Africans is misleading: in fact, there is a risk that these binary narratives fuel conflict and xenophobic violence. What we learned is far more nuanced. First, the dynamics of change in the informal sector are not solely driven by competition between spaza outlets, but also by supermarket and shopping mall encroachment, which has precipitated a ‘race to the bottom’ in the township retail grocery sector. Secondly, for *both* foreign-owned *and* South African businesses, the competitive edge that allows them to survive in this context is increasingly not simply entrepreneurial excellence but a significant process of value chain re-organisation, coupled with the adoption of strategies to avoid regulation.

The South African spaza sector is increasingly being characterised by differentiation between two kinds of businesses: on the one hand, traditional ‘survivalist’ operators, who are typically poor and South African, and who operate informally because of structural constraints; and on the other hand an emerging category of ‘informalist’ enterprises (comprising both foreign nationals and South Africans) that are significantly larger and more resilient, but which have embraced informality as a business strategy. These ‘informalist’ enterprises constitute a new and important phenomenon in the South African township economy, partly owing to distinctive business strategies that set them apart from the traditional spaza sector. These business strategies concern the nature of supply chain integration, the terms of employment and the reliance on contraband and counterfeit goods.

Supply chain integration and ownership of multiple retail outlets

Instead of ‘traditional’ independent owner-operated spaza shops, the sector is increasingly being characterised by outlets tightly linked to wholesalers through their supply lines. The researchers found wholesalers of this nature based adjacent to all the township research sites in the sample. These wholesale operators (often referred to as the spaza owner or ‘boss’) commonly serve as sponsors, employers or business partners of the ‘shop assistants’ responsible for running downstream spaza outlets. Supply agreements between spaza shops and wholesale outlets allow for enhanced economies of scale in stock procurement and aggregation of orders to spaza shops through which groceries are sold, but they also ‘lock in’ the spaza shops to their upstream sponsors. The implications of this value-chain arrangement are that many ‘informalist’ spaza shops should be seen as the retail ‘front end’ of a larger, vertically integrated informal grocery business entity, rather than (as is common in the South African and survivalist case) a stand-alone informal business activity.

Employment

Informalist spaza shops are staffed by employee shop assistants (in our sample at least 45% of respondents were employees). Nearly a third of all spaza shops have two employees or more, making them quite different from survivalist enterprises that typically rely on an owner-operator, supported by household labour. Workplace conditions are generally extremely poor. While our research could not ascertain complete details across all the South African study sites, in urban township sites of eThekweni, Cape Town and the rural Eastern Cape, shop assistants routinely reported that they lived inside the shop, often working 15+ hours per day for a seven-days-a-week service. Salaries varied, but in many cases (such as in eThekweni) wages were R400 to R800 per month plus food while working under these conditions. In Cape Town wages were higher (between R1 500 and R3 000). Migrants are particularly vulnerable to exploitation. Building on anecdotal learning throughout the study, a subsequent small investigation of Ethiopian shop assistants in Cape Town revealed that portions of wages are commonly retained by the employer for travel and other debts (61% of the subsample). Similarly, over 90% of spaza employees in this group have their passports retained by employers and do not receive written employment contracts. While different and varied employment models exist (such as working towards outlet shareholding), these employment scenarios clearly violate South Africa's Basic Conditions of Employment Act (BCEA).

Contraband and counterfeit goods

The South African media occasionally reports allegations that contraband and counterfeit goods are being sold in the informal sector. This research revealed an abundance of illegal cigarettes and counterfeit groceries, sold by both South African and foreign operators. Of the 577 retail spaza outlets where loose cigarettes were purchased, about 52% of the cigarettes were untaxed (determined on the basis of the retail price) and therefore contraband. Of the 177 spaza outlets with two employees or more (considered to be informalist in nature) that volunteered cigarette retailing data (including 21 South African shops), 138 outlets (78%) retailed contraband cigarettes. A variety of independently verified counterfeit grocery items was identified in 90% of the informalist outlets visited, in some cases representing up to 30% of set items purchased at an outlet. This included a variety of consumer products such as spices, matches, cigarette papers, sanitary pads, tea and razor blades. Contraband and counterfeit goods of this nature are sourced through supply chains that link to national and transnational criminal networks. These features and links are important characteristics of informalist businesses. The researchers were unable to find any evidence of 'fake foods' as recently reported in the media.

Discussion

Informality in South Africa reflects both the apartheid past and the future for the economically marginalised. Yet, unlike economic survivalism, which involves involuntary regulatory exclusion, the nature of informalist entrepreneurship in the spaza sector often also represents a strategy of *embracing* informality. While it offers significant trading advantages, the implications for inclusive growth are negative: it sustains a segmented labour market, leaves workers unprotected, reduces state revenue through taxation, weakens the influence of the state to minimise any negative impacts of these enterprises (such as societal impacts arising from contraband and counterfeit goods) and affects the ability of government programmes to shape macroeconomic development.

Public debate about the changing dynamics in the South African township grocery sector have tended to be couched in a misleading dichotomy between ‘pro- versus anti-immigration’ stances. This provides a poor framework for understanding the emerging business dynamics of a sector that, instead of competing *within* the regulatory framework now relies on competitive strategies that *circumvent* that framework; including trading in ways that subvert the law and squeeze survivalist businesses out of the market. This has, at times, resulted in violent and xenophobic responses. Further driving the informalist strategy is the emergence of shopping malls and supermarkets in the townships that use their considerable muscle to leverage the state for land access, zoning and licensing. The long-term effect, however, is to start a ‘race to the bottom’ in the grocery sector.

Survivalist spaza outlets are sandwiched between these market participants and constrained by their enforced informality. Their reliance on alternative competitive strategies (such as kinship and loyalty arrangements) has meant they have collectively lost out in this race, being largely unable to compete within the changing competitive environment. A further important group of victims of this rapidly changing dynamic, often missed in the binary lens of xenophobic discourse, is the vulnerable newly arrived foreign-national shop assistant employees themselves, residing and operating in isolated outlets, some of them in highly exploitative working arrangements.

‘Informalist’ strategies for spaza competitiveness capitalise on the legal space of informality accorded to survivalist enterprises (such as municipal concessions to operate home-based businesses in townships) and also bypass other important forms of regulation (such as labour laws and trading in legal products) in pursuit of profits. The implications are complex. While a wider range of grocery items are now available to township residents at reasonable cost, the unintended consequence of this transition (in the absence of the enforcement of state regulations) is market concentration via new, and potentially deeper, terms of informality and illegality.

Where does this lead? One precedent of this economic dynamic already exists: South Africa's minibus-taxi sector gives a sense of what the future could look like in an industry built on systematic regulatory avoidance. Over the course of the last few decades, the minibus-taxi sector has become an almost impenetrable, politically powerful and concentrated network that operates vast local and regional transport services across South Africa. This network is largely beyond the control of state authorities, picking and choosing the elements of formality that suit its operations, and generally ignoring those that do not. Its drivers serve at the coalface of the business, earning the least money and carrying the majority of the personal risk. The situation for spaza shop employees in the face of embraced informality, crime and an atmosphere of xenophobia (which is in part fostered by these changing market conditions) is not dissimilar.

What is to be done?

The fact that debates about informal township businesses are dominated by the concern with foreign incursion has had an unhelpful effect on discussions about regulatory intervention, often framing the matter as if the choice is between 'protectionist' regulations protecting South Africans, or deregulation and tolerance of immigrant entrepreneurs. This approach underestimates the seriousness of the situation, misses its connection to the restructuring of South Africa's retail sector and the growing dominance of supermarkets, and misrepresents the nature of the regulatory choices that need to be made. The sheer number and spatial distribution of informalist retailers, the encroachment of supermarkets and malls, and South Africa's overarching poorly performing macroeconomic environment suggest the probable demise of survivalist spaza shops.

The present situation reflects this culmination of state failures. The South African government has failed to limit informalist regulatory avoidance throughout the value chain while simultaneously succumbing to the corporate power of shopping mall developers and supermarkets. Increasing numbers of politicians have come to simplify the development challenge, stoking xenophobic tensions by scapegoating foreign-national spaza shop workers. Many of these workers number among the most vulnerable and exploited, operating at the coalface of xenophobia and violence. Note that many South Africans currently profit from this state of affairs – from the 36% of South African spaza outlets that we estimate sell contraband cigarettes (and their local manufacturers), through to South Africa's corporates that supply spazas and sponsor their branding.

Active state engagement is required, but more with respect to *how* township grocery retailing is presently conducted than *who* now retails groceries. Suggested policy-maker interventions include the following:

First, state attention must begin at the apex of grocery markets, working to understand the power structures, networks and individuals that have come to dominate the sector. This includes not only owners and employers in informal spazas but also any of the wholesalers, manufacturers and importers who capitalise on regulatory avoidance and have variously supported the evolution of the market conditions to their present state.

Secondly, a regulatory approach to enhance fair competition and business practice is necessary. This should address the macroeconomic environment underpinning the 'race to the bottom' with genuine transformation of the shopping mall and supermarket environments in ways that support the principles of broad-based black economic empowerment (B-BBEE) and emerging microenterprises. It further requires reconsideration of current municipal approaches to land-use zoning that reinforce economic inequality in townships.

Thirdly, a process to 'normalise' the informal retail grocery sector must bring it towards a path of formalisation. This is not a call for protectionism. There are existing state tools and mechanisms to rein in the socially and economically undesirable consequences of this unrestrained capitalism and the embracing of informality. A carefully considered approach towards an appropriate regulatory environment must occur in ways that do not drive informal economy grocery businesses into deeper states of informality – or out of business altogether. While driving compliance poses capacity challenges, the financial opportunity in recouping lost tax revenue from the illicit cigarette trade alone represents billions of Rands to the fiscus annually.

Finally, the South African government must do more to recognise the informal economy (which collectively employs more people than any individual sector) and embrace the opportunity it represents. With township settlements being the epicentre of population growth, it is critical that these local economies are stimulated in ways that benefit all entrepreneurs, employees and consumers.



Shop assistant in secured spaza outlet, Philippi, Cape Town
2018. Photograph by J Patrick.

ACKNOWLEDGEMENTS

The Competition Commission of South Africa (CCSA), Economics of Tobacco Control Project (University of Cape Town), and the National Research Foundation (NRF) Centre of Excellence in Food Security (CoE-FS) made resources available for various data-collection programmes relevant to the nature and scale of these interests. At the time, the principal author (Petersen) held a post-doctoral scholarship with the NRF CoE-FS. Various subsets of the collective findings dataset were shared with the resource providers above as per their separate briefs for their own analysis and interpretation.

The Sustainable Livelihoods Foundation NPC (SLF) and the Institute for Poverty, Land and Agrarian Studies (PLAAS) at the University of the Western Cape funded the production of this report. Analysis developed for this study is based on the amalgamated dataset that is held by SLF alone – as such, the subsequent interpretations are entirely those of the authors.

1. Introduction

Spaza shops play an important role in food security by retailing household groceries in South African townships. These townships are home to as many as 50% of South Africans. Spaza shops are widespread residential-based businesses in these settings, predominating among the 54% of township businesses that retail food and drink (Petersen and Charman, 2017). Historically, spaza shops have functioned as incubators for township entrepreneurship and have been an important and accessible business opportunity for numerous generations of South African families. Spaza retailers allowed consumers access to daily necessities in township residential settings where formal retailers and shopping malls had limited presence, and in areas with high formal unemployment. These small shops traded items easily acquired from wholesalers or distributors and regularly demanded by neighbours. These items include products such as bread, milk, grain staples, cooking oil, cold drinks, soap, cigarettes and alcohol. The majority of spaza shops are unregistered, cash-based informal businesses and do not adhere, in the strict sense, to municipal rules for conducting business in residential areas (Liedeman et al, 2013).

Spaza shops are visible and iconic township enterprises deeply ingrained in the South African imagination. Research to date has focused on various aspects of this sector (Ibrahim, 2016; Ligthelm, 2005; Rogerson and Beavon, 1982; Van Scheers, 2010). While few studies of the spaza trade at national scale have been made, Nielsen Holdings Plc (2016) have suggested that there are about 134 000 'traditional trade' outlets, worth R46 billion in trade per annum. As much as 40% of all food in South Africa may be retailed through these outlets (Trade Intelligence, 2016). Growth in this sector has been stimulated, among other reasons, by post-apartheid economic expansion and the densification of township populations. Recent years have seen considerable change in the sector, evidenced by the emergence of new forms of grocery businesses and a growing class of immigrant entrepreneurs. Simultaneously, national supermarket chains have aggressively pursued a share in township consumer markets (Brown et al, 2018). The impact of the changes associated with the entry of migrants in particular has been widely reported in the media and academia (such as Charman and Piper, 2012; Crush and Ramachandran, 2015) stimulating a highly polarised debate on the merits or demerits of change for South African township business, consumers and society.

In 2017, in order to broaden the state of knowledge and explore competitive dynamics in the sector, the Sustainable Livelihoods Foundation NPC (SLF) conducted small-area censuses of nine township settlements representing over 450 000 people across South Africa. Over 1 100 township-based informal grocery retailers were located and interviewed. This report begins with a brief background discussion on the nature of the South African informal economy, followed by an account of the research methodology used in this study. This is followed by a description of the profile of informal retail traders that emerged, a discussion of their demographic composition and an exploration of the ways in which traders have used informality as a competitive strategy. In the concluding section we discuss the implications of the findings as to the nature of competition in the retail grocery sector and make recommendations for regulatory

strategies that can support inclusive growth and avert or reduce xenophobic tensions and violence.

2. Background

2.1 The informal economy

South Africa's cities are characterised by sprawling, poorly serviced residential townships with limited employment opportunities and high levels of poverty. These localities include formal and informal settlements originating from pre-1994 apartheid and segregation planning as dormitories for black citizens, legally established and perpetuated through the Group Areas Act 41 of 1950 (Union of South Africa, 1950). Throughout the 19th and 20th centuries, informal traders and hawkers in these townships were legally considered 'beggars'. This persecution was exacerbated under apartheid-era segregation, where black township residents were 'temporary sojourners' in white South Africa. Despite efforts to actively discourage informal economic activity in these areas, considerable and varied trade emerged and persisted anyway.

With the abolition of influx control in the 1980s, townships became host to rapidly growing residential populations and expanding economic activity. Apartheid policy was reformulated to provide a measure of accommodation for an urban black population, and the South African government of the time slowly started to recognise the existence of 'microenterprise' activities that formed part of the 'informal economy'. The state broadly characterised this sector as consisting of 'businesses that are not registered in any way ... small in nature ... operated from homes, street pavements and other informal arrangements' (StatsSA, 2007). The National Small Business Act 102 of 1996 (DTI, 1996) and subsequent amendment (26 of 2003) classifies as 'microenterprises' all business activities employing fewer than five people, having a turnover of less than R200 000 and assets of less than R100 000. The South African Revenue Service considers businesses as informal when the operators (employers, employees or own-account workers) are unregistered for income or value-added tax and where the employers do not deduct income tax from salaries/wages (StatsSA, 2013). While South Africa's informal economy is a small contributor to the national gross domestic product, Ranchhod et al (2015) showed that in Cape Town informal microenterprises bring about important localised economic impacts and represent the city's single largest employment option (in terms of numbers of people). Furthermore, although historically conceptualised as separate from the 'first economy', the township informal economy is characterised by strong forward and backward links to the formal sector (Devey et al, 2006; Rogan and Skinner, 2017; Valodia, 2006).

Using StatsSA Quarterly Labour Force Survey data, Valodia et al (2005) and Wills (2009) determined that trade constituted half of all informal business and employment activities. Wills (2009) identifies the main occupations for informal self-employed persons as street vending (38.4% of total non-agricultural informal employment), craft and related trade workers (including construction workers, tailors, mechanics; 29.9%), service workers (including shebeen owners and spaza shopkeepers; 16.5%) and technical occupations (5.7%). Over the course of the last decade, the authors have undertaken mapping and analysis of these businesses in townships

across South Africa. This information has been visually mapped in a number of publications (see e.g. Charman and Petersen, 2015).

2.2 Food in the informal economy

Food and drink are the mainstay of the informal township economy. Charman et al (2015), reporting on a census of over 10 000 microenterprises at eight sites, found that the townships hosted a well-established and fairly diverse local economy dominated by informal trade in liquor (taverns, shebeens and ad hoc liquor sales) and groceries (spaza and house shops). Building on that study, Petersen and Charman (2017) concluded that, when taking into account all related businesses such as agriculture, greengrocers, butcheries, restaurants and informal food service, 54% of all township microenterprises were food- and drink-related. The food economy is a basis for microenterprise establishment (particularly for women with dependent children). Of all township food-related microenterprises, nearly 70% are grocery retailers in the form of spaza and house shops – making them the predominant business activity in the sector (Petersen and Charman, 2018).

2.3 Spaza shops and house shops

Spaza shops and smaller ‘house’ shops (see ‘Definitions’) are small retail grocery outlets or convenience stores. Data from StatsSA’s Labour Force Survey (2007) indicates that spaza shops account for 6.6% of self-employment and 9.2% of home-based self-employment (Wills, 2009).

Plate 1: A stand-alone, signposted township spaza shop in a Cape Town township, with researchers’ bicycles.



While both spaza and house shop outlets are retail grocers, they are distinguished by important differences in operations, scale and owner outlooks. Recognising these differences, Charman et al. (2012) and Liedeman (2013) determined enterprise definitions for these outlets. In practical terms, where a township retail grocery outlet traded from dedicated premises, had business name signboards, a commercial (glass-door) fridge, operated five days a week or more and traded six of eight staple products including bread, milk, maize meal, rice, eggs, sugar, soft drinks and cigarettes, it was considered a 'spaza shop'. Conversely, 'house shops' comprised smaller retail outlets trading from residential households with limited ranges of items such as chips (crisps), sweets, paraffin and frozen food, generally on an ad hoc basis. House shops are largely economic survivalist in nature, whereas spaza shops (even if small) demonstrate characteristics associated with entrepreneurial growth.

Box 1: House and spaza shops – definitions and the law (see Charman et al, 2017)¹

There are legal and general ambiguities in defining spaza shops, house shops and other forms of informal businesses. In general, municipalities consider **house shops** as those operating from a dwelling house / outbuilding on a residential property, which retail grocery items, including perishable foods. Where the land-use scheme requires municipal permission to operate a house shop, this is usually subject to the conditions that the primary use of the property should be residential and the business operator reside permanently on the property. Some land-use schemes specify maximum floor area thresholds to ensure that the area devoted to business activities does not materially reduce the residential area. The operation of house shops would be severely curtailed if municipal land-use management regulations were systematically applied. But enforcement is very uneven, not least owing to the absence of a national regulatory framework on house shops, and limited municipal capacity to enforce land-use infringements.

Spaza shops are considered in legislation as similar to house shops, but can operate from within a residential property or structure and/or a container situated on public open land, within a road reserve or informal settlement.

Each municipality has discretionary authority to permit or restrict business activities on a particular land unit, as per their zoning scheme and high-order Spatial Development Framework objectives. In the City of Cape Town Metro, for example, house shops are permitted as a use right on properties zoned SR2, subject to a number of conditions. In other residential zones, property owners require permission to operate a home-based enterprise, unless the goods sold are produced or assembled on the property. In the City of Johannesburg, house shops are a consent right and therefore can only be established with municipal approval.

¹ livelhoods.org.za/wp-content/uploads/2018/05/Post-Apartheid_Spatial_Inequality.pdf.

Most municipalities permit home-based enterprises on condition that the business proprietor resides on the property. The intention is to prevent a situation where a house enterprise is operated by an absentee owner(s) (i.e. an entrepreneur who has placed his/her employees in the house business). Furthermore, most schemes require a separation of business and residential space through, for example, separate entrances. This is to reduce the risk of harm to individuals in the household as a result of the business operation, the operation of equipment and exposure to products. These concerns are justified, not least in the context of the situation in which a business operator (or his/her employee) resides within the home business floor space itself.

Understanding the strategies and practices of spaza shop operators presents students of the South African urban economy with some important challenges. Much of the literature, particularly that emanating from a business-school environment, has tended to approach spaza shops as if they are classical firms. While a 'firm analysis' can clearly contribute much to the understanding of spaza enterprises, these analyses have often tended to misunderstand the social context and the nature of the economic rationality that determine small-scale spaza operations. First, as Neves and Du Toit (2012) have pointed out, it is important to understand that these enterprises are often deeply entangled in the domestic economy of the operating household, being characterised by complex and hard-to-measure 'hidden transfers' between the domestic and the enterprise economy. This manifests, for instance, in the reliance on free labour by a household member, or in 'offtake' from the enterprise stocks by those same members.

Secondly, the operations of these enterprises are profoundly entangled with the underlying social networks of reciprocal exchange on which poor South Africans depend. This extreme reliance on 'social capital' both enables and constrains the strategies available to them. South African spaza operators, for instance, are able to exploit significant resources of 'social solidarity' via their access to social capital and social networks to remain trading in the oversubscribed context of township markets. At the same time, their reliance on these resources also limits their ability to rely on traditional forms of competitive behaviour (e.g. price competition or the refusal of credit to defaulting customers) (Neves and Du Toit, 2012). These aspects of South African spaza economic strategy means that spaza operators are poorly positioned to compete with entrants from outside the township economy – whether these are powerful supermarkets, or foreign nationals with social and economic networks of their own.

2.4 The township food-retailing environment

The literature reveals considerable demographic and competitive change in informal retail grocery markets since 1994. An important finding of informal microenterprise research from 2010 to 2015 by Charman et al (2015) is the extent to which foreign nationals (including citizens

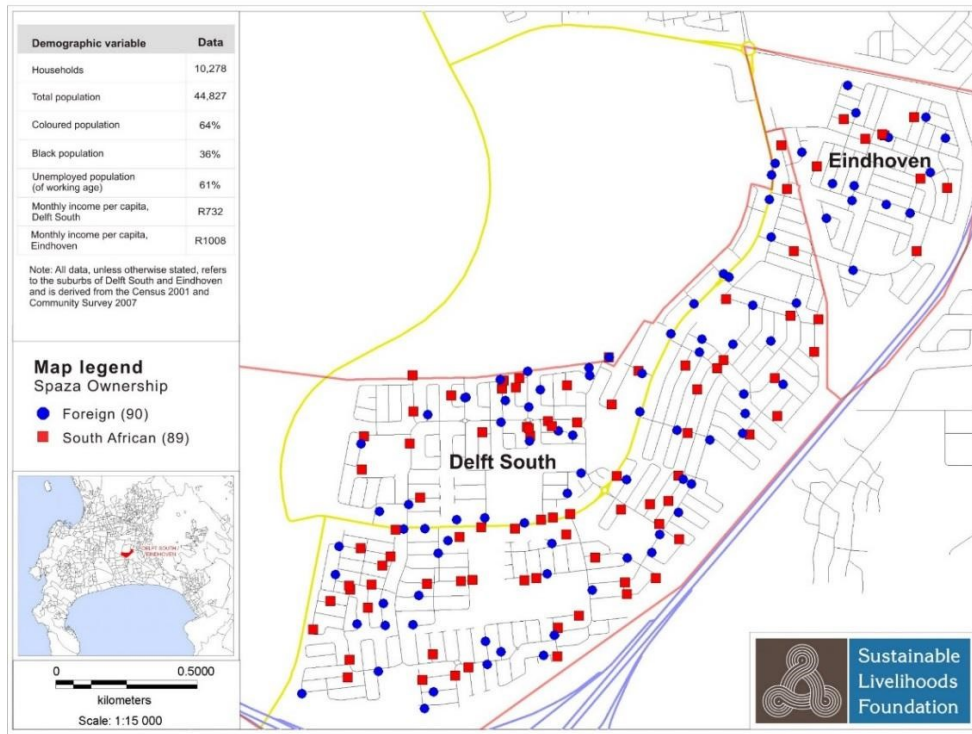
of Somalia, Ethiopia and Bangladesh) have come to dominate the sector, owning and operating up to 80% of spaza businesses in certain township sites. Similarly, Das Nair and Dube (2016) cite Minanawe Marketing (2015), which estimated that 70% of spaza shops were foreign-operated. Where research has been done on these markets, it has focused on primarily three broad areas:

1. general business characteristics (Charman et al, 2012; Liedeman, 2013; Rogerson and Beavon, 1980, 1982);
2. the entrepreneurial characteristics (or deficiencies) of spaza operators (Crush et al, 2017; Gastrow and Amit, 2013; Ligthelm, 2004); and
3. the impact of external factors on these businesses, in particular competition from supermarkets (Ligthelm, 2008).

With respect to business competitiveness, Charman et al (2012) in Delft South (Cape Town) identified that an emerging sector of entrepreneurial grocery retailers has taken advantage of local spatial opportunities. This involved strategically positioning retail shops within residential areas and in close proximity to existing spaza shops. In addition, Charman et al (2012) and Liedeman (2013) identified different business strategies explaining the rise and competitive edge of immigrant (primarily Somali) spaza retailers. These strategies include collective purchases, price discounting and accessing efficient distribution networks. These shops also had multiple owners and were largely employee-operated. Liedeman (2013) further showed that illegal and transnational labour-supply networks played a key role in securing shop workers. In recent years, the collective impact of strategies like these has resulted in considerable advantage, driving demographic change in the sector. In a panel study of Delft South, Charman and Petersen (2015) found that the proportion of South African-operated spaza shops had decreased from 50% to 18% of all outlets between 2010 and 2015 (see Maps 1 and 2). Their research further identified significant churning in the spatial positioning and ownership of foreign-national shops: few remained operated by the same persons or remained in the same place (rather moving to nearby sites).

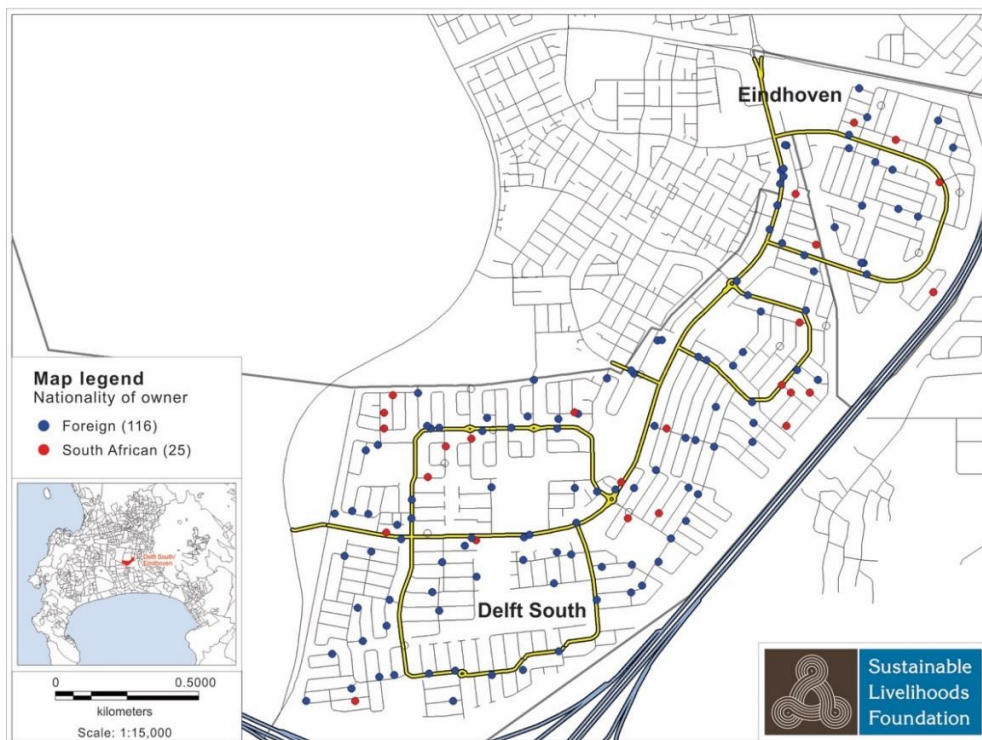
Map 1: Delft South with relative distribution of foreign- and South African-owned spaza shops, 2011

Spaza shops showing the relative distribution of foreign vs South African owned spaza shops: Delft South and Eindhoven, May 2011



Map 2: Delft South with relative distribution of foreign- and South African-owned spaza shops, 2015

Spaza ownership by nationality
Delft South and Eindhoven, September 2015



The influx of foreign nationals is not the only significant change taking place in the township economy. Simultaneous to this transition, there has been considerable growth in the market share of South Africa's corporate businesses in serving township populations. The rapidly growing South African township population represents a new frontier for corporate supermarket businesses and shopping mall developers. Authors such as Ligthelm (2005) posited that South African spaza shops were poorly positioned in the early 1990s for the emerging challenges of such competition. This was for myriad reasons, but importantly because many spaza businesses were operated by economic survivalists, and their enterprises were highly vulnerable to shocks (such as family crises). While supermarkets increase food procurement options for township households (accommodating 65% of township household food purchases in Philippi, according to Brown et al (2018) they pressurise spaza shops on price competitiveness. While supermarkets are not necessarily always cheaper, they are better positioned to take advantage of rising demands at month-end when township residents conduct bulk household shopping. Township shopping malls (with supermarkets as anchor tenants) have wrought significant business impacts with, for example, Ligthelm (2010) reporting that 38.3% of township businesses in the vicinity of Soweto's Maponya Mall closed down within a year of the mall opening.

2.5 Interpreting the decline in South African-operated spaza shops

The changes in the township grocery retailing sector reflect a decline in South African spaza outlets and a range of new competitive and social dynamics. In much of the academic and popular literature, the interpretation of these changes and their significance is dominated by a focus on the implications of the inflow of foreign nationals with differing perspectives on the rights to trade and pursue livelihoods that should be afforded to the new generation of (foreign) spaza operators as opposed to South African shopkeepers.

Perspectives favouring foreign-national spaza rights to trade

Advocates of the new generation of foreign-national shops highlight how the evolving informal retail grocery market has given rise to new forms of entrepreneurship, decreased consumer prices and enhanced customer service. In this respect, Gastrow and Amit (2013) and Ibrahim (2016) in their respective studies argue that the competitive practice of Somali traders was to provide better service to customers and offer broader product ranges and lower prices on goods than their South African counterparts. These 'flexible selling practices' included end-of-month sales, passing on wholesaler discounts, hampers comprising high-demand products, interest-free credit and extended trading hours. Similarly, Plastow (2015, pg 2) claims that foreign-national businesses provide shoppers with "what they want, reducing margins and selling more, whilst cutting ... overheads to the bone", and compares this with retail supermarket chains that have increasingly competed with informal grocery retailers in the last decade.

Gastrow and Amit (2013) and Ibrahim (2016) found Somali collective investment business models in terms of establishing business partnerships, multiple shop shareholdings, diversified business interests and pooled logistics. While some of these practices are not altogether innovative in general business practice, their emergence in the spaza sector has potentially resulted in cheaper groceries (albeit marginally, according to Charman et al, 2012) and reportedly other benefits to the township economy. For example, both Tawodzera et al (2015) and Gastrow and Amit (2013) claim that foreign-national spaza shops actively participate in job creation both directly (for predominantly South African women) and indirectly (acquiring their products from South African-owned businesses).

Gastrow and Amit (2013) see the decline in the number of South Africans in the spaza sector as a consequence of South Africans' resistance to changing their operating practices (such as not extending their operating hours and lacking business acumen), thus limiting their competitiveness. In this school of thought, the blame for the decline in South African-owned spaza shops is largely apportioned to insufficiently entrepreneurial South Africans themselves. These accounts do not acknowledge the broader structural constraints historically endured by South African spaza shop owners, their lack of finance and weak negotiating position with suppliers, and the social role of spaza shops in communities.

Perspectives favouring South African shopkeeper livelihoods

On the other side of the debate, a range of authors and bodies has argued that there is a need to moderate the change in dynamics in the spaza sector, highlighting the social costs of the current market-led trajectory.² Charman et al (2012) argued that these demographic changes have had a disproportionate impact on South African women, the traditional spaza shop operators who bear the brunt of business closures. The same authors also considered that, while foreign-owned spaza shops may provide groceries to township residents at cheaper prices, the loss of South African businesses may erode the local social fabric. Changing ownership and retailing dynamics and churning in the sector weaken personal ties and the community fabric, as shops change hands and store employees are regularly rotated.

In the absence of other interventions in the sector, various South African spaza shop owners' associations have emerged, purportedly in the interests of their constituents. The South African Spaza and Tuckshop Association³ emerged in the late 1990s under the guidance of Johannesburg's then-mayor, Isaac Mogase, alongside regional outlets such as Cape Town's Khayelitsha-based Zankhanyo Retailers' Association. These bodies highlighted the nature of change in the spaza market and lobbied for protection against foreign encroachment. Some have taken practical steps to this end, in some cases advocating for the physical removal of foreign-national shops from the townships. This ongoing social and economic dynamic has almost

² Later in this paper we introduce the term 'informalist' to describe the capitalist, entrepreneurial and informal businesses that characterise this market-led trajectory.

³ <https://www.sastaa.org.za/>

certainly contributed to the rise of xenophobic discourse and violence in township communities. Antagonism towards foreign nationals has been noticeable since about 2008, with regular media reports of sporadic attacks on spaza shops in particular. Charman and Piper (2012) indicate that violence may also be used as a competitive strategy to keep foreigners out of local markets, and between businesses (both South African and foreign) to preserve market share.

The real-world implications of this transition are complex: while customers have welcomed the greater convenience and better prices from these new businesses, others have also articulated a sense of frustration and anti-foreigner sentiment, leading at times to violent conflict.⁴ The looting of foreign-national spaza shops and the associated loss of lives have rightly been condemned.⁵ These negative sentiments have led Crush (2008, pg 7) to declare that “South Africans have let themselves down by tending and nurturing xenophobia”. Violent events of this nature have also tarnished South Africa’s international standing.

Looking beyond identity

The direct link between positions on regulatory intervention with stances for or against the rights to trade of foreign migrants has contributed to an increasingly unhelpful polarisation of the debate on economic policy in the township economy. In these arguments, normative stances on the desirability of affording rights to trade are closely linked to deeply differing assessments of the reasons for demographic change and the factors underpinning the success of foreign traders. As a result, commentators have tended to frame the policy debate as a choice between ‘deregulation’ (allowing more efficient traders to succeed) and ‘protectionism’ (shoring up possibly inefficient but socially desirable survivalist traders).

However, blunt criticism of South Africans as xenophobes (or conversely blaming foreign nationals for ‘taking over’ the spaza sector) does not reflect the many nuances in this story. The changes in the retail grocery sector across the various research sites demonstrate a rapid and remarkable transition.⁶ As the field investigations unfolded, the researchers realised that the nature of these changes was not simply a consequence of the supposed lack of business acumen of (mostly South African) grocery survivalists. These changes were also caused by the changing structural position of spaza outlets in the value chains that supply the township economy and the changing entrepreneurial business strategies that have emerged to accompany this.

In this paper, we argue for a different, less morally and ideologically overdetermined angle from which to assess the nature and implications of change in the township economy. Rather than seeking to explain socio-economic change via essentialist appeals to the entrepreneurial cultures of South African spaza owners and their foreign counterparts, we argue that competitive success

⁴ There are many media articles on this topic. The link below is a summary of matters: dailymaverick.co.za/opinionista/2015-04-20-spaza-shops-xenophobia-and-their-impact-on-the-south-african-consumer/#.VUccZl6qpHz

⁵ dailymaverick.co.za/opinionista/2018-05-21-south-africas-shameful-xenophobic-decade

⁶ mg.co.za/article/2015-01-29-spazas-its-not-just-the-economy-stupid

needs to be understood structurally, by paying attention to the changing nature of value-chain governance in the township economy, and considering the context of supermarket encroachment (Peyton et al, 2015). Competitive outcomes in the township economy are related, not simply to the entrepreneurial efficiency or inefficiency of particular spaza operators, but rather to their changing structural position in the township economy and their ability to make use of the opportunities (and avoid the downsides) of the local regulatory environment.

2.6 Why was this study conducted?

While the extent of change in informal grocery retail markets – in urban, peri-urban and rural environments – has been noted by various authors over the past decade, little comprehensive understanding has been gained on business dynamics within the sector across the geographic breadth of South Africa. With spaza shops being an important part of the fabric of township life and under new and different business pressures, changes in this sector may have unpredictable and significant economic and social impacts. Through conducting primary field research across a range of urban, peri-urban and rural research sites throughout South Africa, we aimed to draw a comprehensive picture of the nature of business and competition in informal retail grocery markets. Aggregating this data for analysis and then interpreting the findings through livelihoods and rights perspectives will illuminate the nature, scope and scale of changes in the sector and what this means for the spaza business, informal retail grocery markets, township businesses and consumers in general.

3. Methodology

The research aimed to locate and interview owners and operators of retail spaza shops and smaller house shops trading in residential township settings in rural, peri-urban and urban townships in each of the nine provinces across South Africa. A cross-section of township localities included the following:

- urban sites in Cape Town, Johannesburg and eThekweni;
- peri-urban areas in the North West, Northern Cape and Free State provinces;
- rural sites in the Limpopo and Eastern Cape provinces; and
- a cross-border locality in Mpumalanga to consider relevant international dynamics – such as import-export trade, cultural or cross-border influences.

For four of these localities (Cape Town, Johannesburg, eThekweni and the Free State) prior small-area census data on township spaza shops was available (respectively from 2011, 2012, 2013 and 2015). This created a panel of comparative data. Building on that dataset, prior definitions for categorising spazas and house shops were retained (see Charman et al, 2012).

After refining the methodological approach in Cape Town, the team embarked upon the national programme of field investigation. Over the course of the research, data collection was undertaken by a team of experienced researchers, diverse in linguistic skills, racial profile and gender. The primary researchers (Leif Petersen, Nathi Tshabalala, Anthony Muteti, Camilla Thorogood, Phumzile Ntozana and Arthur Collier) travelled over 9 000 km by road to conduct field investigations in each locality. At each site local maps and bicycles were used to traverse the research areas on a street-by-street basis in a small-area census approach (Charman et al, 2015). The aim was to comprehensively locate and GPS-record all retail grocery outlets within a set defined geographic space (bounded by StatsSA enumeration areas) and conduct interviews with each outlet. Interviews consisted of both quantitative and qualitative inquiry, recording socioeconomic and demographic characteristics and exploring themes of business characteristics, pricing, supply chains and business challenges. Open-ended questions and opportunities for informal discussions were included to allow the researchers to inquire without unintended influence, and were iterative through allowing broader discussion to emerge. The questionnaire is included as Annexure I.

Although appointments were not made beforehand, where possible the researchers sought to interview business owners. Through both discussion and the presentation of a brief introductory letter, the business representative was informed of the research objectives. Interviews were conducted upon securing consent. As the research took place during business hours, all businesses were open and trading. The majority of the identified research participants (99%) agreed to participate in the study. The interview took place in the shop premises and lasted approximately 30 minutes.

Table 1: Research sites for informal grocery market competitiveness study

Province	Location* / Designation	Investigation dates (2017)
Western Cape	Cape Town – Urban**	16–27 January / 19–23 June / 16–18 November
Northern Cape	Peri-urban	22–26 March
Free State	Peri-urban	27–31 March
Gauteng	Johannesburg – Urban	1–5 April / 9–12 October
North West	Peri-urban	18–22 April
Limpopo	Rural	23–26 April
Mpumalanga	Rural – cross-border	27 April to 2 May
KwaZulu-Natal	eThekwinini – Urban	22–27 May / 16–19 October
Eastern Cape	Rural	28 May to 4 June / 13–15 October

*All sites have been de-identified for this paper

**Also served as a pilot site for testing the research inquiry and methodology

Furthermore, at each site the researchers visited and engaged with at least six upstream grocery wholesalers that had links to the spaza outlet operators. In all cases these wholesalers were found in the directly adjacent towns and suburbs. The wholesale outlets were visited and where possible, discussions took place with operators. These discussions focused on business links and operations upwards and downwards in the supply chain. Products were purchased at these

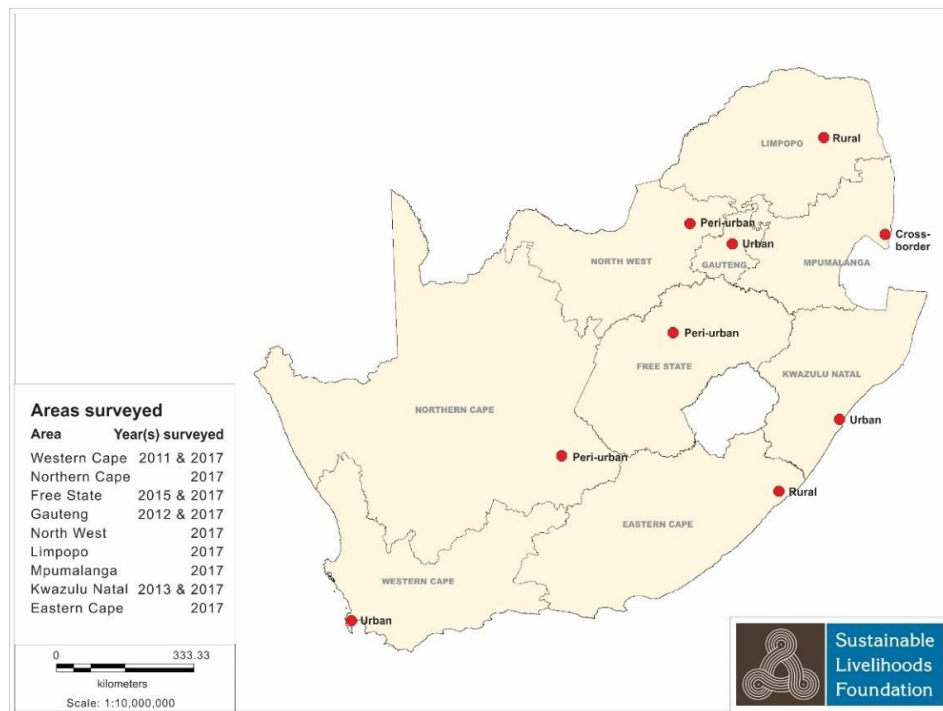
outlets, in particular where products and specific brands had been noted in the spaza sector of the local township. Interviews and discussions helped the researchers to learn how the business models and supply chains work.

This field approach meant that the research team was immersed in the township context for periods of four days to three weeks at a time. At least two local research assistants and community liaison persons were employed in each locality to ease the path of the researchers by explaining the nature of the inquiry, and to assist with translation and interpretation. On reinvestigating the Cape Town site before concluding the study, an Ethiopian field worker was employed to assist with interpretation and discussion. This was particularly important to assess new learning and contextualise insights from previous sites, ensuring the accuracy of assessments made.

As the research progressed and the extensive presence of counterfeit goods was realised, we specifically investigated this matter in four provinces (the Western Cape, KwaZulu-Natal, Gauteng and the Eastern Cape). Purchases from a shopping list of 23 specific grocery items were made to review product availability, examine supply chain links, identify counterfeit products and scrutinise expiry dates. These items were scrutinised for authenticity by a range of individuals from the research team, corporate manufacturers and a private investigator fraud specialist.

Map 3: South African township research sites for informal economy grocery

South African informal grocery retail economy map - by site



The research process generated findings from 1 181 informal retail grocery outlets in township localities across all nine provinces. These localities predominately included spaza and house shops. A small number of other grocery-based business outlets – in particular table-based grocery retailers in Gauteng and Limpopo (see Table 2) – were also included owing to their prevalence in these sites. While all grocery retailers were mapped, interviews focused on spaza and house shops in order to present comparable analyses. This report specifically interrogates the findings pertaining to spaza shops.

Table 2: Summary table of total informal retail grocery retailers located by type

Province	Total grocery retailers located at target site	Spaza shops	House shops	Other*
Western Cape	108	93	15	0
Northern Cape	90	67	13	10
Gauteng	329	120	82	127
North West	110	67	25	18
Mpumalanga	89	82	7	0
Limpopo	122	80	10	32
Free State	125	61	64	0
KwaZulu-Natal	106	78	19	9
Eastern Cape	102	70	13	19
South Africa	1 181	718	248	215

*The category 'Other' includes general dealers, fruit and vegetable traders and street hawkers selling grocery items. They were located and/or interviewed in this study to create a context with reference to other predominant business types.

3.1 Study limitations

While this study uniquely considers informal retail grocery trading across South Africa, it is not statistically representative. Because the extent of these outlets in South Africa is unknown, it was impossible to develop a sampling frame that would guarantee statistically representative data. Any generalisations about the spaza sector as a whole should therefore be treated with caution. The findings of this study are broadly reflective of prior findings in the sector but also

demonstrate the impact of the broad knowledge gaps and the need for valid statistical studies, where possible.

At least 45% of foreign-owned outlets were employee-operated. Some of these employees (in particular Somali and Ethiopian nationals) were not fluent in any South African language. In these cases, while it was possible to collect pricing and general data, it was not possible to obtain a deeper insight into business practices.

Suspicion of outsiders – including researchers – was occasionally apparent. This was evident where inquiries had potential legal consequences, for example when researchers purchased loose, cheap cigarettes (an illegal retail practice) or enquired about labour conditions. This will have led to an underreporting of certain activities and therefore low estimates of these activities.

4. Findings

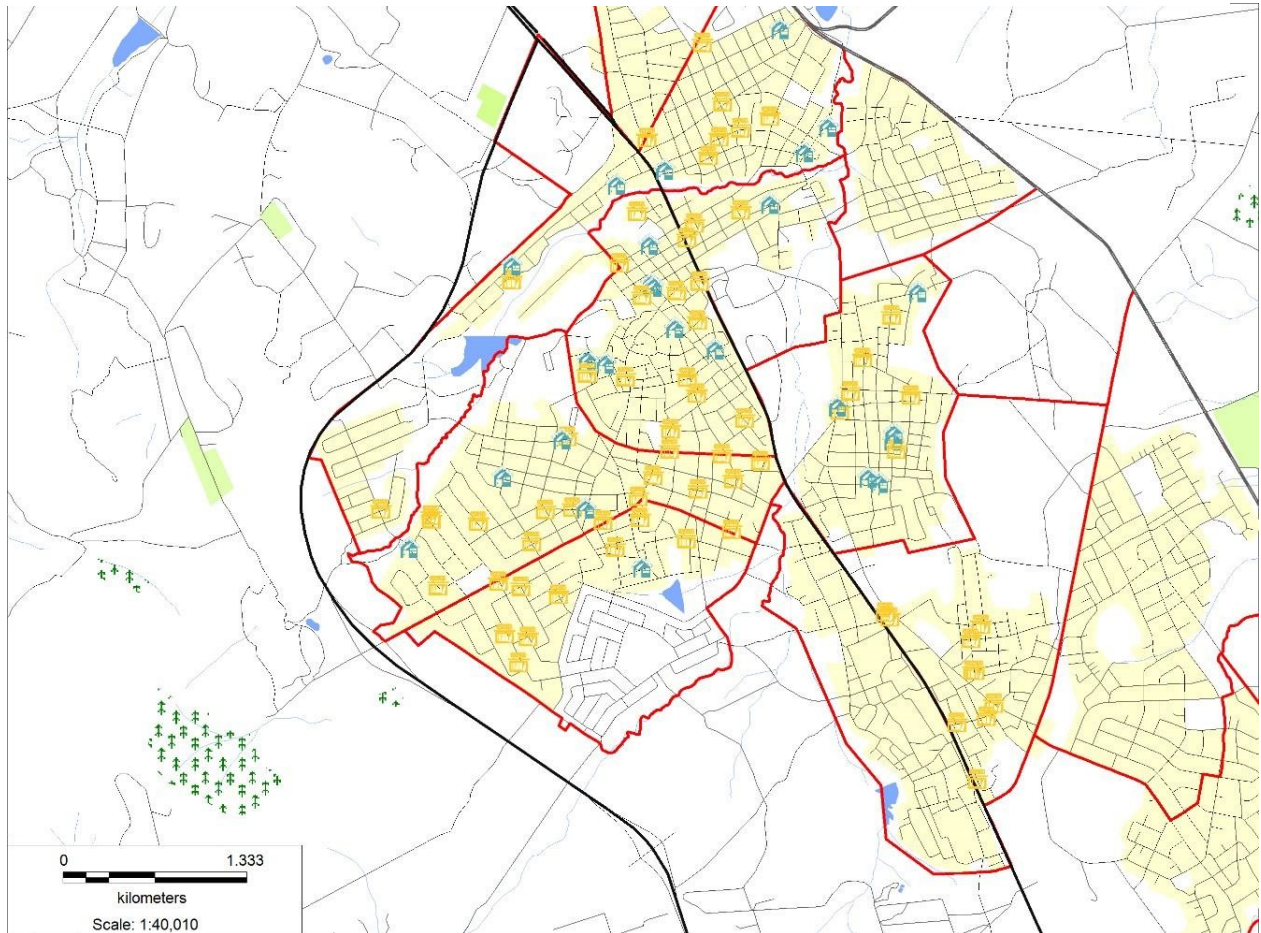
4.1 General

Based on the 1 181 outlets surveyed and interviewed, the spaza sector was reconfirmed to be both geographically widespread throughout the visited townships and in the process of a large-scale transition from South African to foreign ownership. Furthermore, findings from the panel study (four provinces) show that overall the number of spaza outlets, and South African-owned outlets in particular, appears to be in decline.

4.1.1 High prevalence of residential grocery retail outlets

The survey confirmed that township retail grocery businesses are densely distributed throughout residential areas and high streets in all the township sites (see Map 4 on the next page).

Map 4: Peri-urban area (North West Province) showing distribution of house shops and spaza shops in May 2017



As reported in Charman and Piper (2012), spaza shop consumers prefer shopping at the ‘cheapest, closest’ (walking distance) retailer. Their location in residential areas raises important policy challenges such as the implications for municipal land-use systems and for legitimisation, given that the majority potentially break municipal by-laws.

4.1.2 Foreign-national dominance in the spaza market

The findings confirm that increasing numbers of non-South Africans have entered informal retail grocery markets in recent years. About 72% of all spaza shops located in the collective study sample are now owned by non-South Africans. As can be seen in Table 3, Ethiopian, Bangladeshi and Somali nationals predominate. In three of the study areas, namely peri-urban Northern Cape, urban Cape Town, and Johannesburg sites, 89% of township grocery outlets surveyed were foreign-national owned.

Table 3: Spaza shop ownership by province and nationality

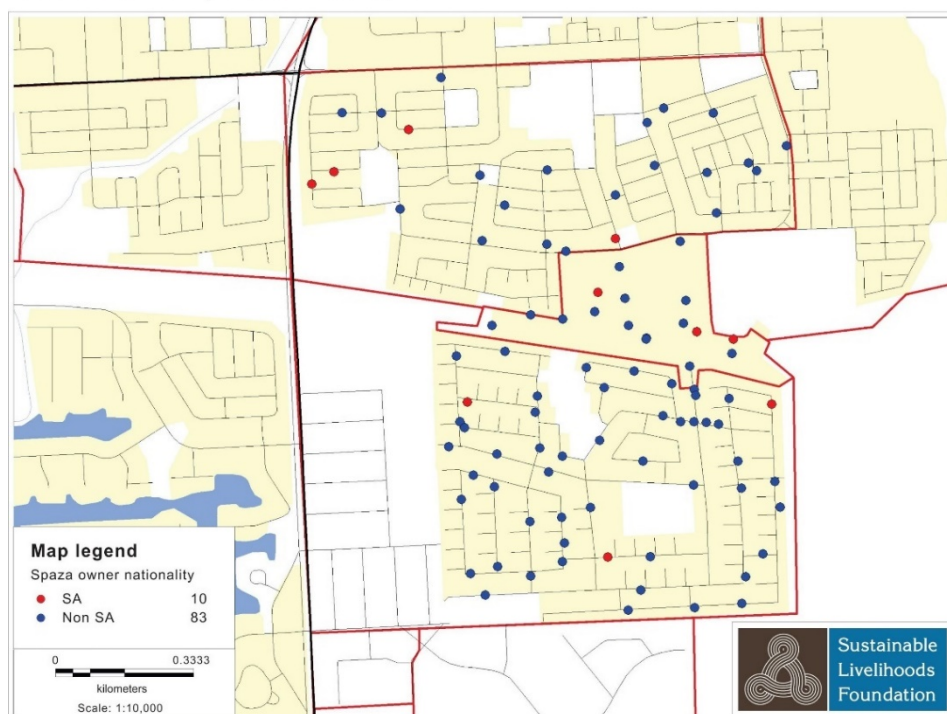
Province	Somalian	Ethiopian	Bangladeshi	Other (known)*	South African	Total	% foreign owned
Western Cape	53	16	3	11	10	93	89%
Northern Cape	0	25	34	1	7	67	89%
Gauteng	3	81	13	10	13	120	89%
North West	0	13	7	33	13	66	80%
Mpumalanga	6	48	2	9	18	83	78%
Limpopo	5	31	3	16	24	79	70%
Free State	0	27	9	5	20	61	67%
Eastern Cape	0	13	1	6	37	57	35%
KwaZulu-Natal	2	12	0	0	49	63	22%
South Africa	69	241	71	117	192	690	72%
% Total	10%	35%	10%	17%	28%	100%	

* The category 'Other' includes a wide variety of nationalities, including spaza shops operated by Mozambicans, Swazis, Indians, Pakistanis, Nigerians, Ghanaians and Lesotho nationals. A further 28 interviewees across the entire study were of unknown (but non-South African) nationalities. These were excluded from further analysis.

The data indicates regional trends of settlement: Ethiopians make up the largest spaza trader groups identified in peri-urban Northern Cape, Johannesburg, rural Limpopo and Mpumalanga sites. Zimbabweans predominate at the North West site, and Somalis in Cape Town. South African-owned spaza businesses visited during the course of the research are numerically dominant only at the eThekweni and rural Eastern Cape sites (see Map 5).

Map 5: Spaza shop operations by nationality: urban Cape Town, Western Cape, 2017

**Spaza shop ownership by Nationality
Urban Township Settlements, 2017**



When comparing the 2017 findings with the Sustainable Livelihood Foundation's historic spaza data, it appears that the proportion of foreign-operated enterprises has grown over time relative to South African retailers, in a market that is potentially saturated and declining in overall business numbers. Comparative data from 2012 to 2017 for the urban Gauteng site suggests that the demographic profile of spaza ownership has substantively changed and the total number of spaza shops has fallen from 184 to 120 outlets in the five-year period to 2017 (see Maps 6 and 7).

Map 6: Spaza shop population, relative distribution and ownership status, urban township, Gauteng, 2012

Spaza shop ownership by Nationality Urban Township Settlements, 2012



Map 7: Spaza shop population, relative distribution and ownership status, urban township, Gauteng, 2017

Spaza shop ownership by Nationality Urban Township Settlements, 2017



4.1.3 South African spaza business decline over time

Building on the Sustainable Livelihood Foundation's prior researched township sites, the market trends suggest that while spaza business numbers are in collective decline, South African microenterprises have proportionally closed down in higher numbers.

Table 4: Changes in spaza outlet numbers at four sites over time

Cape Town urban township				Free State peri-urban area			Johannesburg urban township			eThekweni urban township			Overall
Spaza operator	2011	2017	% change	2015	2017	% change	2012	2017	% change	2013	2017	% change	% change
Foreign national	84	83	-1%	25	26	+4%	126	107	-15%	13	14	+7%	-7%
South African	37	10	-73%	17	11	-35%	58	13	-78%	86	49	-43%	-58%
Total	121	93	-23%	42	37	-12%	184	120	-35%	99	63	-36%	-30%

Box 2: Stories of migration

Many of the migrant spaza operators interviewed reported having sought employment and business opportunities in South Africa, which they had learnt of in their home countries, generally from extended family members already based here. Anecdotal evidence from research participants reveals that some of the operators were sponsored, while others self-financed their journey and establishment in South Africa. Many made considerable sacrifices for the opportunity. The researchers heard stories of families selling land, of a shop assistant that had stolen his father's cow to pay for the trip, and others who hiked on foot illegally from Ethiopia to South Africa. They also heard accounts of imprisonment in detention camps and bribery of government officials. Virtually all these respondents were employee spaza shop assistants, with the majority indicating an ambition to return to their home countries in the future. Here are some of the stories.

The journey to South Africa

"I have been in South Africa since the end of 2008 ... but I left Somalia in 2006 ... to try and establish business in Kenya ... I stayed there for one month and left a lot of the money I had saved in a bank account with a relative living there ... about \$20 000 in total, then I took a boat to Tanzania ... I was arrested there and captured for one year as I had no documentation and did not have enough money to pay the officials off. I was eventually released in 2007 and then I went to Malawi as this was the preferred route into South Africa before 2010. I stayed in Malawi for about eight months, from there I went to Zimbabwe and then straight into South Africa ... I did not leave Somalia with the intention of coming to stay in SA, I was merely travelling to various countries for places to work or set up business. It was difficult to set up proper businesses in these other countries because the police ask for work permits for

everything ... I was told things were easier in SA and so I came here. When I left Somalia in 2006 the \$20 000 saved up, this was about R204 000 that time, but I spent about \$5 000 of this while trying to find a place to set up business before coming to South Africa in 2009 ... I also spent another \$3 000 on my journey to get to South Africa but did not have to wait too long as I had enough cash to get into the country without any problems ... when I came to South Africa I had access to about R140 000 in my Kenyan bank account ... my relative was able to assist me when I needed cash to be sent via money order, bank draft or relatives coming to this country.”

Why South Africa?

“Jobs back home [in Bangladesh] were very hard to come by as there is much competition for limited jobs which don’t pay well, but the main reason why I left nine years ago was due to political reasons. At the time I did not support the government ... I supported the opposition and so it was difficult to get a job in government which is one of a few well-paid vocations in Bangladesh. It was difficult to get a work visa in places like the USA and in England so South Africa was my next option, it was quicker and easier to get a more permanent work visa in South Africa compared to these countries. I was surprised to see that unemployment was so high in South Africa and realised that if locals were struggling to find work that it would be even worse for immigrants. So, I decided to start a spaza business but I had to first raise money to do this ... I contacted my father back [home] for assistance to set up a business ... the person [who] assisted me through all of this was a lifelong friend who eventually became a business partner of mine, he was the first person I contacted in South Africa. When I first came into South Africa we did not experience all the problems foreigners now have to deal with when they want to come and work or live here on a more permanent basis ... now there is so much paperwork and standing in huge lines at places like Home Affairs and so on. Unlike many other foreign nationals, I came into the country legally, on a plane straight to Johannesburg ... but I know of some of my own people who, like the Somalis and Ethiopians ... travelled through countries like Mozambique and Tanzania as they could not get work visas so easily or did not have money ... When I first came to South Africa the visa policy, though not as strict as the United States or the United Kingdom, was a lot more relaxed than what it is now.”

4.1.4 Various retail factors

Some important new differences were identified between South African and foreign-national grocery retail outlets. These factors had not been discussed in previous analyses. They include employment practices, operating hours, price competitiveness and premises rentals, and help to explain important business dynamics in the sector.

Employee vs owner operations

Over the course of the field research, the researchers learned that 45% (221/491 interviewed) of foreign spaza traders self-reported as employees rather than as owners, with the ‘boss’ or employer being absent. Conversely, over 80% of South African spaza operators in the sample were the business owners. A total of 76% of foreign-operated spaza shops (374/491 outlets) and 46% (96/194) of South African spaza outlets were providers of paid employment. The 122 South African-owned spaza outlets that employed one person or more claimed to employ 153 South Africans (a ratio of 1.25 South African employees per outlet). This was in marked contrast to 496 foreign outlets with one employee or more, who collectively employed 68 South Africans (0.13 South African employees per outlet). This confirms Ibrahim’s research (2016), where Somali spaza businesses highlighted that employing fellow compatriots was considered an important success factor in business.

Table 5: Spaza outlets that employ one person or more, by nationality, and the number of South African jobs they create

Nationality of spaza owner	Number of outlets with one employee or more	Number of South Africans employed	South African employee ratio per outlet
Bangladeshi	102	7	0.07
Ethiopian	280	34	0.12
Somali	90	7	0.08
Other	24	20	0.83
Subtotal	496	68	0.13
South African	122	153	1.25

Operational hours

As a business of convenience, there is a reasonable expectation that spaza shops would be open for long hours. On average, foreign spaza outlets reported considerably longer operating hours than South African outlets in general and South African owner-operators in particular. Table 6 shows 54% of foreign national outlets operating over 15.5 hours/day, whereas over two-thirds of South African outlets operate 14.5 hours or less.

Table 6: Aggregated findings of operating hours in spaza shops (South African and non-South African outlets)

Operating hours	≥17 h/day	≤16.5 h/day	≤15.5 h/day	≤14.5 h/day	≤13 h/day
South Africans	3 (2%)	10 (7%)	32 (23%)	31 (22%)	62 (45%)
Non-South Africans	14 (3%)	79 (19%)	135 (32%)	84 (20%)	104 (25%)

Price competition

In terms of product pricing, foreign-national outlets are (marginally) cheaper than South African businesses on the majority of baseline groceries. While South Africans retailed the cheapest milk and sugar and are largely on parity for bread, eggs were an additional R1 per half dozen, and cold drinks, cooking oil and rice were R0.50 more expensive. While this is generally only up to a 5% cost difference on various products, it may affect consumer behaviour in price-conscious markets (see Table 7). Generally speaking, South African outlets showed reasonable cost competitiveness in the grocery trade.

Table 7: Aggregated survey data of products purchased in South African and non-South African spaza shops and their prices

Products (sample size)	500 g rice (N=309)	1 kg maize meal (N=234)	1 L milk (N=195)	Half dozen eggs (N=384)	Half loaf bread (N=246)	Full loaf bread (N=451)	250 g sugar (N=154)	375 ml oil (N=396)	1.25 L Coca-Cola (N=321)	2 L cold drink (N=441)
South African	10.31	11.46	11.92	10.03	5.97	10.26	5.72	10.78	11.83	11.10
Non-South African	9.58	11.10	12.60	9.00	5.95	10.15	6.29	10.28	11.18	10.62

Income and rent

Income data in the spaza sector is scarce and unreliable. Self-reported revenues are commonly underestimates (to hide business profitability from nosy outsiders) or employee guesswork made without complete knowledge of the business. Nevertheless, just over two-thirds of South African spaza outlets reported earning less than R5 000 per month, suggesting that they were operating survivalist businesses. Foreign-national traders regularly reported higher shop takings than South Africans, with 32% reporting profits upwards of R10 000 per month. These are most likely considerable underestimates, given that Liedeman (2013) highlighted that profits of R20 000 per month can be attained.

Table 8: Aggregated survey data of profits for South African and foreign-national spaza shops (South African N = 102 / foreign national N = 189)

Reported profits	R0-R5 000	R5 000-R10 000	R10 000-R15 000	R15 000-R20 000	R20 000+
Number of South African spaza outlets	68 (68%)	21 (21%)	6 (6%)	3 (5%)	4 (4%)
Number of foreign-national spaza outlets	69 (37%)	59 (31%)	32 (17%)	19 (10%)	10 (5%)

According to Plastow (2015), many of the South Africans who have left the spaza sector in the face of competition have instead become landlords to this new generation of spaza traders. With historical access to land, this has been an important gain for local residents. In this study, 387/469 (82.5%) of foreign-national spaza shops rented their venues, with 63% of these from a South African. In the Johannesburg township, some landlords claimed to be earning at least double the rent from letting to foreign-national spaza operators compared to letting for purely residential purposes. Subsequently we learned that the majority of foreign-national spaza operators pay shop rentals of R750-R800 per month with some landlords receiving up to R3000.

General dynamics

As in most enterprises, competitiveness in the informal retail grocery sector is based on accumulating incremental profits and savings. There is no universally applicable business model that guarantees success and a variety of strategies is used to generate profit. Success requires competitive outlooks, entrepreneurial flair and acceptance of risk. Based on our visual impression of shops, stock and operations, survivalist spaza outlets are in a weak competitive position. Survivalists stock a smaller number of products, a narrower range of items and are open for shorter hours than their larger counterparts.

The time-series data reveals that most South African businesses have closed down in the face of competition, with others scaling down, either being relegated to the 'house shop' category, or leaving the sector altogether. Many have become landlords to this new generation of shops, while some South Africans (9%) have responded to competition by diversifying into illegal liquor retailing and fast-food take-aways. Some of this diversification may provide clues as to how 'embracing informality' has become key to retaining a foothold in spaza markets.

Box 3: A snapshot of survivalist and entrepreneurial spaza shops

Survivalist shops have a limited variety of goods to sell, small quantities of stock and few items on display, retailing at marginally higher prices than their competitors.



Entrepreneurial shops were well-lit, large spaces with a wide range of stock and product variety, providing customers with the opportunity to select the brand and quantity of their choice at marginally lower prices than survivalist shops.



4.2 A spectrum from survivalists to informalist entrepreneurs

So far, the findings of this study broadly agree with existing literature. The decline in South African-owned and -operated spaza outlets reflects the consequences of South Africans being largely uncompetitive in business practices when compared to a new generation of township grocery retailers. This confirms the argument of Charman et al (2012) that there has been a transition towards more entrepreneurially oriented businesses. In this study, the researchers identified a spectrum of business operations along a continuum ranging from 'survivalists' to 'informalists'. Generally speaking, the survivalists represent the declining 'traditional' industry of spaza shops: micro-informal businesses operated by a family from their home, with a short supply chain and associations with other activities including informal food service and, occasionally, (illegal) alcohol retail.

Conversely, the informalists include businesses that have come to dominate the township grocery retailing scene. This was achieved through various entrepreneurial attributes previously described, and including business investment, group purchasing and longer operating hours. The informalists have also embraced business practices to exploit opportunities arising from outside the regulatory framework. The demographic changes in the township spaza market have coincided with the rise of informalist businesses – with both foreign nationals and South Africans operating businesses in each category. It became apparent that spaza entrepreneurs who have embraced informality and regulatory avoidance as business practices have been successful in gaining economic advantage. In line with the speculation of Liedeman (2013) and Malan (2017), the changing demographic profile of informal retail grocery markets has come about as a consequence of an emerging class of spaza entrepreneur able to leverage competitive advantage through a range of informal, semi-legal or illegal business strategies. Examples of some of these strategies are summarised in Table 9.

Table 9: Researchers' systematic observations of legal/extra-legal/illegal business tactics used by survivalist and informalist outlets for competitive gain in the spaza sector

<i>Survivalist</i>		spectrum		<i>Informalist</i>	
←				→	
Legal		Extra-legal		Illegal	
<ul style="list-style-type: none"> • Local convenience • Interpersonal relationships 	<ul style="list-style-type: none"> • Extended trading hours • Product packages • Stock diversity and choice • Cooperative procurement • Co-ownership • Multiple employees • Multiple outlets • Links into wholesalers 	<ul style="list-style-type: none"> • Employment of family members in-kind • Circumventing regulatory pressure with respect to business licensing, land-use management and product controls • Credit 	<ul style="list-style-type: none"> • Sale of contraband and illicit goods, including alcohol • Credit • Circumventing regulatory pressure with respect to business licensing, land-use management and product controls • Joint residence/business location • Illegal labour practices • Business fronting 		

The changing nature of the spaza sector reflects new dynamics of business competitiveness that are increasingly characterised by the deliberate evasion of regulations by business owners. Regardless of the nationality of the operator, the rise of informalists in the retail grocery sector represents a new regulatory challenge for South Africa with significant economic, social and legal implications.

Consolidating the prior findings and the information in the table above, informalists maintain competitive advantage using the following means:

- supply-chain integration and multiple retail-outlet ownership;
- employment strategies (including labour exploitation); and
- supply and retail of contraband and counterfeit goods.

The last two decades have seen the emergence of corporate shopping malls and supermarkets in the township economy, which has further affected grocery-retailing dynamics.

4.2.1 Supply-chain links and multiple retail-outlet ownership

With at least 45% of spaza respondents being foreign-national employees working for a 'boss' who is located elsewhere, we noted a common trend (for all sites and across various nationalities) of supply-chain integration between spaza shops and independent upstream wholesale enterprises. These wholesalers commonly operate from high street and central business district (CBD) retail spaces vacated by corporate retailers who have relocated to shopping malls. We visited these outlets to observe the business linkages first-hand. All were large (commonly 100 m² or more), logistically sophisticated outlets with a broad range of grocery items traded to downstream spaza shops. These supply chains were tightly governed and strongly socially networked, based on ethnic and national ties.

Supply agreements between spaza shops and these wholesale outlets allow for enhanced economies of scale in stock procurement and aggregation of orders. The respective outlets are linked by distribution vehicles (generally a small 'bakkie' driven by a trusted person from within the business network) that deliver grocery supplies to spaza shops and (according to shop assistants) collect accumulated cash takings for return to the wholesaler. Links into this socially networked supply-chain system bring about efficiencies in stock procurement for members. In addition, these links appeared to reduce the need for formal banking services by keeping both financial and stock management in-house, relying on trust and informality to ensure competitiveness.

Business ownership of many spaza outlets in the sector remains opaque. Altogether 291/496 (59%) of foreign-operated outlets in the study reported ownership by multiple partners rather than individuals. Where retail employees in shops (N=285) provided their boss's phone number, there were nine cases of two or more shops in an area reporting to the same superior (Ethiopians = 5; Zimbabweans = 2; Somalis = 1). In the follow-up Ethiopian spaza survey in Cape Town, respondents in 17 spaza outlets reported that they directly knew of at least 45 spaza shops within surrounding township areas that were owned by their collective 'bosses'. At the time of the interview, the same sample reported that 8/17 shop owners were in Bellville, two were 'in town', and three were in other spaza shops.

While it was impractical in this study to fully quantify how these complex models of supply, partnership and ownership work, the implications of wholesaler and distribution practice seem to be that many township-based foreign-national spaza shops should not be seen as stand-alone businesses but rather as downstream and linked retail 'outlets' of larger, vertically integrated grocery business entities. Understanding their stock and financial retail arrangements is an important area for future research.

Box 4: Bangladeshi wholesaler, rural Eastern Cape

The research site has a bustling but structurally run-down main street with multiple wholesalers, mostly run by a number of foreign nationals. We encountered a young Bangladeshi wholesaler who has been in the area for five years. Two of his brothers followed him to South Africa within a few years and his youngest brother arrived a few months ago. He has not seen his parents or wife since he left Bangladesh. He will not bring his wife out to South Africa as he says it is not safe at all. He also wants to go home in the near future as his parents are getting old and need looking after. His brothers will stay behind to run the shop. They chose to come to South Africa as there was opportunity to run a business and make money but he says it is not a friendly place to live.

His residential neighbours, a Chinese family, suffered an armed robbery and were all shot and killed. His shop closes at 15h00 every day because of the crime. Every wholesaler employs armed security to stay in the shop at night because after 16h00 the area becomes very unsafe and many wholesalers have been broken into by armed robbers and stock was stolen. He has had two security guards shot and killed while they were in his service.

He sells a diverse range of products from food, house appliances and basic clothes to cosmetics, as well as cigarettes in a caged corner-section in the shop next door to his business. The researchers purchased two boxes of differently branded cigarettes (20s) sold in his shop at R6 per box of 20s.

4.2.2 Employment

In the context of self-employment (commonly the South African situation) poor working conditions (such as low wages) may be accepted as part of the process of growing the business to commercial scale. However, when these conditions are endured by shop employees with no business ownership share, labour exploitation can be a concern. The working conditions for employees, regardless of nationality, in informal businesses such as spaza shops are unlikely to meet the criteria for ‘decent work’.⁷ Poor wages, long hours and difficult working conditions are the norm, and a significant element of exploitation is evident in spaza employment. Conditions for employees vary from shop to shop but are generally extremely poor. For example, 260/363 employee respondents (72%) claimed to sleep at the shop property, with 123 (34%) of these sleeping in the premises. At least 126 reported being the only employee in a retail outlet which they stated to be open for at least 12 hours/day and seven days/week; 80 of these individuals reported working 15 hours/day or more.

Foreign nationals employed as shop assistants seemed particularly vulnerable to exploitation. Ethiopian shop assistants in eThekweni reported that they earned R400–R800 per month plus food. In Cape Town, reported earnings were higher, with Ethiopian shop assistants reporting earnings of R1 500–R3 000 per month, and one individual earning up to R4 000 (‘in a good month’). Three of the 17 reported working towards shareholding in the outlet and saw themselves as ‘partners’ (their payment terms were not further explored). Thirteen of the remaining Ethiopians considered themselves employees only, with no written employment contract. Fourteen of the 15 who responded to the question claimed not to have a South African bank account. Eight of the 17 Ethiopian employees reported that some or all of their wages were retained by the employer, with some apportioned to the employee and the balance paid directly to the employee’s family in their home country. Nine of the 17 respondents in this group reported paying back their travel expenses to South Africa through employer deductions from their earnings – mostly over a two- to three-year period. These working conditions violate the sectoral determination of South Africa’s Basic Conditions of Employment Act (BCEA), which stipulates that the minimum an employee in the sector (in 2017) can earn is R3 701.82 (in Area ‘A’, which equates to four research sites) and R3 207.97 per month (in Area ‘B’ – the remaining areas),⁸ for a 45-hour work week. Furthermore, employees must be given 12 hours rest in each 24-hour period; and 36 consecutive rest hours per week (which must include Sunday, unless otherwise agreed in writing). Despite the small scale of the Cape Town revisit, it suggested a practice of highly exploitative employment models in the sector.

⁷ ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_229374.pdf

⁸ www.labour.gov.za/DOL/downloads/legislation/sectoral-determinations/basic-conditions-of-employment/wholesalewagefin2017.pdf

Box 5: Financial informality

An important gap in the study was how informalist spaza businesses dealt with cash. Various discussions with shop assistants revealed that few of these businesses had South African bank accounts and all relied on alternative financial systems. The researchers were unable to gain a coherent understanding of how these financial systems operated but did gather some anecdotal stories.

According to interview respondents, remittances are typically transferred in cash through various social networks and also via the broker system responsible for transporting employees into South Africa. Money was also sent in various other ways: via bank draft, money order and other for example Somali money systems such as the *Xawilaad* or *Taar* (Lindley, 2008). In most cases, spaza investors use remittances to add capital to the savings accumulated while working in South Africa or the investments secured from relatives, friends or other businessmen who already owned successful spaza shops. They noted this financial assistance as ‘crucial’ to their ability to grow their spaza businesses quickly and in such competitive conditions. Somali respondents noted the primary means of raising capital for their businesses came in the form of either a loan (from relatives or friends) or from the profits they had acquired through the sale of previous spaza businesses. One operator explained: ‘... after being in Cape Town for a few months, my sister sent me some dollars through some Swedish people who own a business here in South Africa ... from this I got capital for my first business with two other Somali relatives [distant cousins from the same Abgal subclan]’. Some of these matters are discussed in Ibrahim (2016) and Liedeman (2013).

In addition, respondents reported (in eThekweni, Cape Town and the rural Eastern Cape) that their passports were held by their employers (although they retained their asylum permits). This assertion was demonstrated in the Cape Town resurvey for 12 of the 13 Ethiopian spaza employees interviewed.

The researchers were unable to fully assess the relationship between shop assistants and their employers – especially where the shop assistant could be deferring compensation to work towards an ‘investment’ in a shop, paying back their passage to South Africa (reported by 11/17 Ethiopians in the follow-up study), having a part or all of their wages sent to Ethiopia to family (8/17 respondents), or simply being a wage worker. Employment conditions are likely to be influenced by their family relationship to the business network, the entrepreneurial orientation of the individuals concerned and the relative economic position of the shop assistant. In the case of Ethiopians, these relationships are overseen using the Oromo people’s *Gadaa* life and justice system, which was considered by various respondents to override South African law. In this system, contracts are verbal but include an outside witness to agreements. Such undocumented employment arrangements are also reportedly common for Somali nationals – see Liedeman (2013).

It is important to note that employment arrangements are not necessarily always exploitative. In the informal retail grocery sector, a range of employment and ownership/business arrangements are in place, which vary from site to site and culture to culture. For example, Bangladeshi wholesalers interviewed in the rural Eastern Cape reported starting salaries for new spaza operators at R5 500 per month, with some earning R7 500. In some cases, individuals in spaza shops were able to save money and attain partner status to become business shareholders, or planned to start new enterprises in their own right. While bound by informal employment terms, various individuals reported that they preferred the opportunities presented by working in South Africa to conditions

they faced at home. It is apparent that the informalist business model capitalises on the availability of such migrant labour.

Box 6: What is labour exploitation?

According to the United Kingdom Gangmasters and Labour Abuse Authority (GLAA, undated) there are a number of signs indicating the presence of human trafficking and labour exploitation within the ambit of what is termed 'modern slavery'. Not all of these signs need to be present, but where some are apparent, 'cases of forced labour and victims of modern slavery are likely to exist'. The GLAA have highlighted a number of indicators, including the following:

- The employees' passport is held by somebody else.
- Employees are unable to leave the work environment and find themselves in a situation of dependence.
- Employees are scared of revealing their immigration status.
- Employees have no work contract and receive little or no payment.
- The perception that workers are bonded by debt and that transport to the destination country was paid by a facilitator who they must then pay back by working for them.
- Employees are unable to choose where or when they work, they are forced to work under certain conditions such as excessively long hours over long periods with no time off.
- Employees have no choice where they live and are living in degrading, unsuitable places. Working under conditions such as these does not equate to giving 'consent'.

Quantifying the scale of this dynamic in South Africa for foreign-national migrant employees is challenging given the terms of informality in the township economy. However, as derived from the main national dataset and the smaller Cape Town subset, the following features should give cause for concern:

- 22% of respondents reported working 15 hours per day or more (n=126; also see Liedeman, 2013);
- 34% of respondents reported sleeping in the shop premises (n=123; also see Liedeman, 2013);
- 12/13 employees' passports were being withheld (Cape Town subset; also see Liedeman, 2013);
- 13/14 employees had no written contract (Cape Town subset; also see Liedeman, 2013);
- 11/18 individuals were paying back debts to their employers for their passage to South Africa (Cape Town subset).

Box 7: Excerpts of interview transcript with Ethiopian spaza employee at 'Robot Shop', eThekweni site, 24 May 2017 – Researcher and Interpreter

Where is your passport?

'The boss keeps his passport so that he does not run away.'

'This is kept for security as the employee sits in the shop with lots of cash.'

How many bosses are there?

'There are so many. Some come to deliver, but he does not know if they are bosses or not.'

'Some bosses come to collect R800–R1 000 every day from the shop.'

When do you get paid?

'The boss sends some of the money home and otherwise keeps the money for him. He can get the money from the boss when he needs it. If the boss finds money in his pocket he will be suspicious. Therefore he gets his money after he leaves when the boss pays him out. He is saving money via the boss who holds it for him.'

Do you plan to open your own shop?

'He has been in South Africa for two years. He worked in Umlazi for a different boss, then came here. He earns R300 per month plus R300 to Ethiopia, which is sent home. The boss supplies him with food and he lives in this container. He can eat anything from the container. If he needs time he asks the boss for time off. When the R300 is taken to Ethiopia, it is a lot of money.'

Do you own any portion or shareholding of this shop or are you just working for the boss?

'He is just an employee and he can change shops. He is just working.'

Why did you have a conflict with the previous boss? Why did you leave?

'He was paid R200 + R200. He came here for R200 (R100 + R100) more.'

'There is another boss who can offer him R400 + R400. When he wants to leave he must tell his boss, who must return his passport and his saved money.'

Can you trust that the boss will give back the passport and the money?

'The boss always tells the truth. He trusts the boss. There is a written contract for three months. He gets his money when his contract is over. The money is only sent home and paid after the conclusion of the contract.'

How many Robot Shops are there?

'He does not know how many Robot Shops there are but there are so many ...'

'He would want to go back to Ethiopia and pursue an education. He is raising money to pursue his education.'

'The container is not safe and it is hot. He would love to move if given the opportunity at any time. He would like to get a job with [a] wholesaler in Phoenix who does a special deal for Ethiopian shops. He hopes to get a job there in time.'

'He has a friend on the outside who connects him with the outside world. He gives him a little money and the guy is an agent. While he is here in the container someone is out there networking for him – you have to get connections outside. When you are working in a shop that is air conditioned you are a free man.'

4.2.3 Contraband and counterfeit goods

Contraband cigarettes

Retailing contraband cigarettes (either grey-market products or illegal imports) is another important aspect of informalist competitiveness. Spaza shops sell cigarettes on a ‘loose-draw’ basis, with individual cigarettes (depending on the brand) selling for between R0.50 and R3.00 per stick. Pricing is determined by brand and segmented into ‘economy’ and ‘premium’ products. Economy tobacco includes ostensibly legitimate brands where the requisite duties are not paid, or illegal imports. According to the National Treasury, in 2017 the tax on a box of 20 cigarettes was R14.30 plus 14% VAT (totalling R16.45 per pack, or 85c per stick). Cigarettes retailed loose and sold at below 85c per stick are thus certainly contraband. Similarly, those retailed at R1.00 per stick are most likely contraband, as only 15c per stick (a 15% margin) remains for the additional direct costs of growing, manufacturing, marketing, wholesaling, distribution and retail pricing. Note that while cheap pricing is an obvious measure of illegality, it is only one indicator of likely contraband status (others include untaxed full-price cigarettes and counterfeit products, neither of which we could assess). This, and underreporting by respondents, make estimates in this study conservative.

Of the 577 retail spaza outlets where loose-draw cigarettes were purchased, there was abundant evidence of contraband. While all sites, and all nationalities, are involved in the trade, South African shopkeepers had the least access (36% trading in contraband), and Somalis and Bangladeshis the most (respectively 77% and 67% of retailers) (see Table 10).

Table 10: Evidence of under-priced cigarettes (actual purchases from spaza shops at R1.00 or less), by nationality*

Province	Somali	Ethiopian	Bangladeshi	South African	Other	Total*	% in sites
Western Cape	47 / 53	14 / 16	3 / 3	6 / 10	8 / 11	78 / 93	84%
Northern Cape	0	18 / 25	24 / 34	3 / 7	0 / 1	45 / 67	67%
Gauteng	0 / 3	41 / 81	6 / 13	3 / 13	5 / 10	55 / 120	46%
North West	0	9 / 12	5 / 7	4 / 14	20 / 33	38 / 66	58%
Mpumalanga	3 / 6	23 / 49	0 / 2	6 / 18	4 / 8	36 / 83	43%
Limpopo	2 / 5	12 / 31	1 / 3	0 / 24	4 / 16	19 / 79	24%
Free State	0	4 / 9	21 / 27	12 / 20	3 / 5	40 / 61	66%
Eastern Cape	0	4 / 13	0 / 1	10 / 38	1 / 6	15 / 58	26%
KwaZulu-Natal	1 / 2	8 / 12	0	25 / 49	0	34 / 63	54%
South Africa	53 / 69	133 / 248	60 / 90	69 / 193	45 / 90	360 / 690	52%
% by nationality	77%	54%	67%	36%	50%	52%	

*This will be an underestimate, as some refused to serve the researchers.

**27% of all cigarettes retailed (legal and illegal) were below 84c per stick (contraband) while 25% were sold at 85c–R1.00 (likely contraband) – based on metrics from the University of Cape Town Economics of Tobacco Control Project. Note that cigarettes sold above R1.00 in the township market have no guarantee of legitimacy.

Breaking down the data differently shows the important role of contraband in the informalist business model. Taking the 210 outlets with two employees or more, 177 of these volunteered cigarette retailing data (including 21 South African shops). Of these, only 39 outlets reported selling full-price cigarettes (theoretically including the tax portion), while 138 outlets (78%) also sold cigarettes that were probably or certainly contraband.

Despite the regional variation, the popular ‘economy cigarette’ brands sold in the township are made by companies linked to high-profile Southern African Development Community (SADC) political families⁹ and those not averse to using criminal tactics.¹⁰ A variety of contraband cigarettes originate in South Africa, but Zimbabwe and Mozambique are also important sources of supply.

It was reported by ‘survivalist’ shopkeepers that without established contacts or high levels of financial investment, it is difficult to access wholesale contraband cigarettes. Such links require strong underground networks that break the law through tax avoidance and fraudulent invoicing. The researchers were able to openly buy wholesale cartons of cigarettes for R60 (R6 per box / 30c per stick) in Limpopo; a retailed box (20) for R6 from traders in the rural Eastern Cape (30c per stick); a carton of cigarettes for R58 (equating to R5.80 per box of 20 cigarettes / 29c per stick) from a wholesaler in the Free State; and a carton of cigarettes for R45 (R4.50 per box / 23c per stick) from a Cape Town wholesaler.

Plate 2: A range of under-priced cigarette boxes sampled from spaza shops across South Africa



⁹ Jacques Pauw’s 2017 book *The President’s Keepers* details some of these individuals and their activities – a summary can be found here: timeslive.co.za/sunday-times/news/2017-10-29-gangster-republic-dirty-cigarette-money-is-funding-ndzs-bid-for-president and here: timeslive.co.za/sunday-times/lifestyle/2013-12-29-mugabe-link-to-illegal-cigarette-trade.

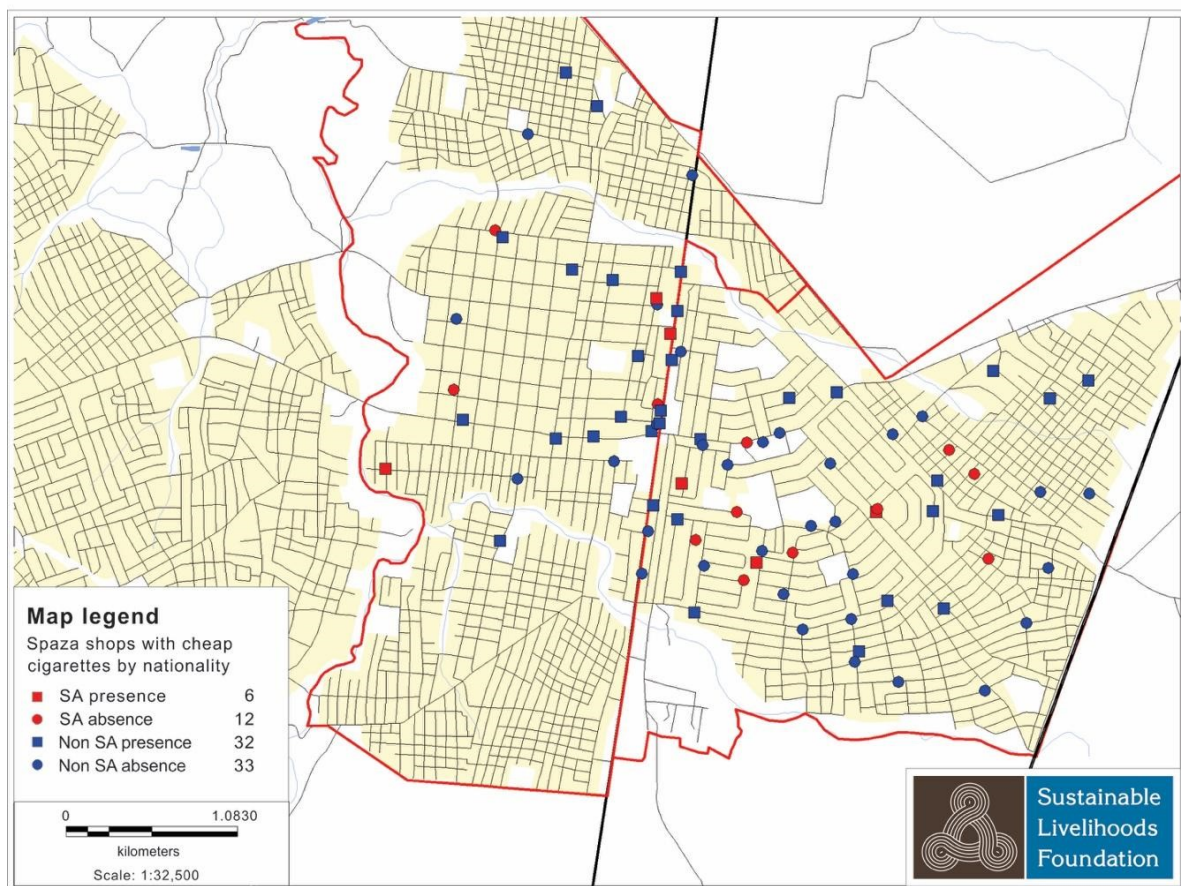
¹⁰ pressreader.com/south-africa/the-sunday-independent/20160306/281638189296919.

It is important to note that the spaza shop assistants selling contraband commonly appeared unaware of the illegal nature of this trade (aside from Mpumalanga, where there was active policing of illegal imports from Mozambique).

In addition to the complexities of informalist businesses, including close-knit wholesalers and deliveries, contraband tobacco forms a critical component of the informal economy of grocery retailing – as can be seen in Map 8.

Map 8: Presence or absence of cheap cigarettes in spaza shops by nationality of operations, Mpumalanga, 2017

**Presence of cheap cigarettes by Nationality
Cross-border Settlements, 2017**



Counterfeit goods

There are many different kinds of counterfeiting. In this study, counterfeit goods were considered to be unauthorised and fake replicas of a genuine product. The implications of the trade in counterfeit goods require nuanced assessment. While these products may violate trademarks and brand protection, they are in many cases not necessarily unsafe for consumers. Counterfeit goods

therefore represent cost-effective alternatives to items that rely on their branded status for steep mark-ups. However, counterfeit foodstuffs or pharmaceutical products of unknown origin and composition can pose genuine health concerns, bring legal and integrity risks to the original brand owners, and can support national and transnational criminal networks. After ascertaining the presence of counterfeits in township markets from media reports¹¹ and a spaza shop owner in Johannesburg (who referred to specific items) the researchers conducted physical inspections of and purchased selected grocery items from spaza shops and upstream wholesalers. Building on the investigation in four provinces (Gauteng, the Western Cape, KwaZulu-Natal and the Eastern Cape) the research sites were revisited and up to 23 predetermined specific items were purchased (when available) from each of up to 15 retail outlets per site. Spaza shops were selected proportionally in number to overall trader nationalities and business characteristics, alongside two to three local supermarkets at each site. All purchases were labelled, aggregated, scrutinised and compared to established product baselines. They were also examined for any discrepancies in packaging, standards, appearance, smell, taste, ‘feel’ and other factors.

Table 11: Research sites for the purchase and study of counterfeit items

Province	Designation	Number of outlets visited	Outlet types / nationality	Investigation date: 2017
Western Cape	Urban	15	<ul style="list-style-type: none"> • Supermarket: 2 • Spaza (South African): 1 • Spaza (Somali, Bangladeshi, Ethiopian): 14 	8–11 November
Gauteng	Urban	15	<ul style="list-style-type: none"> • Supermarket: 3 • Spaza (South African): 2 • Spaza (Ethiopian, Bangladeshi): 13 	10–14 October
KwaZulu-Natal	Urban	15	<ul style="list-style-type: none"> • Supermarket: 3 • Spaza (South African): 8 • Spaza (Ethiopian, Bangladeshi): 5 	16–19 October
Eastern Cape	Rural	15	<ul style="list-style-type: none"> • Supermarket: 3 • Spaza (South African): 2 • Spaza (Ethiopian, Bangladeshi) Pakistani, Chinese): 10 	13–15 October

The researchers submitted these samples to the brand owners and ‘brand protection’ lawyers, and a private fraud specialist for product assessment. The specialist conducted a blind review of uniquely coded stock items (unaware of which products were purchased from which outlets or localities) and spent numerous days working through the sample collection. The consolidated findings for each region are given in Table 12.

¹¹ heraldlive.co.za/business/2017-04-03-more-fakes-on-the-make.

Table 12: Incidence of likely counterfeit goods in relation to research area

Province	Total number of likely counterfeit goods identified	Percentage of likely counterfeit goods from sample group
Gauteng	50 / 116 samples	43.1%
Western Cape	46 / 157 samples	29.2%
Eastern Cape	41 / 150 samples	27.3%
KwaZulu-Natal	20 / 131 samples	15.2%

Counterfeit goods were found to be relatively commonplace, representing nearly 30% of all purchased samples. The shopping list and findings are summarised in Table 13.

Table 13: Item type, brand and percentage incidence of fraudulence in informal retail grocery outlets

Item type	Evidence of fraud or illegality Yes or No	Percentage of likely counterfeit items in sample group
Matches	Yes	Indeterminate
Infant formula milk	No	-
Infant nappy	No	-
Bread (cheapest)	No	-
Rice (cheapest)	Yes	Indeterminate
Maize meal	Yes	11.5%
Spice sachet	No	-
Stock cubes	Yes	5.8%
Loose sweets	No	-
Razor blades	Yes	76%
Sanitary pads	Yes	47.2%
Curry powder	No	-
Shoe polish	Yes	26.6%
Cigarette papers	Yes	78%
Cortisone cream	Yes	Samples illegally traded (prescription required)
Headache medicine	Yes	25%
Deodorant	No	-
Instant coffee	No	-

Medicinal tea	Yes	87.5%
Yeast	Yes	24.2%
Toilet paper	No	-
Lip balm	Yes	58%
Eggs	No	-

* Note: Aside from clear impersonators (pictured below in Plates 3 and 4), brands and manufacturers have been omitted from this publication.

As with contraband cigarettes, counterfeit goods in spaza shops are commonly sourced from upstream wholesalers who in turn access them through their own supply-chain networks. Formal-sector supermarkets visited by the researchers did not stock obvious counterfeits such as those pictured in this report, yet many independent wholesalers did. Similar to the sale of contraband cigarettes, many spaza shop assistants appeared to be retailing these goods to consumers without being aware of their counterfeit nature.

While the sample size was small (albeit widespread in four provinces), of the 50 spaza shops from which products were purchased, between one and 10 counterfeit items were detected in 45 outlets. This suggests the likelihood that counterfeit goods are widespread in township markets (note that no 'fake' foods were found). Reconsidering the findings in terms of survivalist and informalist outlets (as previously discussed) shows a link between the type of business and the availability of counterfeit goods.

Table 14: Survivalist and informalist spaza outlets and retailing of counterfeit grocery items

Nature of spaza shop	Percentage of counterfeit items purchased
Survivalist	10.8% (10 / 93 items)
Informalist	26.1% (120 / 460 items)

While some survivalist retailers stocked counterfeit goods, the greater prevalence of this practice occurred among informalists. This suggests a stronger degree of connectivity with alternative and sometimes criminal¹² supply chains. The following plates (3 and 4) show genuine (original brand) products and packaging on the left, and examples of commonly purchased counterfeits on the right-hand side. The spelling, branding and packaging likely represent trademark infringements on the original products.

¹² bowmanslaw.com/insights/corporate-risk/counterfeiting-not-victimous-crime.

Plate 3: Commonly purchased counterfeit example 1: Razor blades

1.



2.

BLADES

- Blades snap when bent




BRAND TRADEMARK INFRINGEMENTS

- Brand trademark infringements e.g Super Marx, Jufeng, Gillmany
- Use of superceded branding
- Poor quality printing




Plate 4: Commonly purchased counterfeit goods example 2: Matches

1.




2.




BRANDING

- Brand trademark infringements
- Missing or non conforming text and graphics
- Poor quality printing



BOX FOLD & QUALITY

- Poor quality "inner" boxes
- Incorrectly placed box fold/glue marks
- Incorrect colour shading on box overwraps
- Ignition strips non-uniform



Box 8: South African spaza owner Steve – a story of survival

Steve has been running his spaza shop for more than 11 years. He has a large, walk-in shop and employs various people in jobs behind the cash register and in stock management and procurement. Steve used to be a project manager for Sasol but after many years he decided to set up his own business. Investing private savings, he purchased a property in a major Johannesburg township and converted the house garage into a spaza shop. Steve has observed the change in spaza ownership demographics over the years and told us that he was the last remaining South African-owned outlet in his area, with a number of Ethiopian shops having opened up around him [the geospatial data confirms this]. As a consequence, he has included the illegal retailing of liquor into his business mix and has expanded his business space to include a pool table and 1980s-style arcade games. This, he says, is one of his only competitive strategies as foreigners either won't risk selling alcohol or they cannot as they are of Muslim faith. Steve proudly states that all the products he sells are genuine and that most of the surrounding shops sell fake items. He claims to pay more for his products and therefore makes less profit, which is why he says the other shops are doing better. Steve believes that foreign traders buy exclusively from wholesalers that do not trade with South African spaza shop owners.¹³

4.2.4 Supermarkets and shopping malls

South Africa's corporate supermarket chains have undoubtedly influenced the competitive dynamics in informal sector grocery markets. Industry submissions to the Competition Commission Retail Grocery Inquiry in 2017 assert that collective supermarket outlet numbers have a compound annual growth rate of 4.7%. Over five years, between FY2011 and FY2015, Pick n Pay reported a 6%, and Shoprite a 7%, compounded net annual increase in new stores. With Pick n Pay claiming to have 'approximately 1 000 stores' nationwide, this equates to about 60 new retail outlets per annum. Similarly, the Shoprite Checkers Group operates about 1 324 outlets with growth at 7% per year (90+ new stores per annum) (Shoprite Holdings, 2017). For Cape Town alone, an illustrative view of just Pick n Pay and Shoprite outlet growth over five years using phone directories (2012 and 2017 editions) reveals the newly listed supermarket localities given in Table 15.

The outlets listed in **bold** are proximal to township consumer markets and would directly compete with informal retail grocery outlets. Those in *italics*, while not located in township settings, actively market and serve commuting township consumers. It is likely that this trend is considerably more widespread across South Africa.¹⁴

¹³ Considering the extent of vertical integration between wholesalers and township retail outlets revealed in this study, it is likely that trade arrangements could favour those within these networks compared to those outside.

¹⁴ Supermarkets and shopping malls were largely beyond the scope of this study, but are equally worthy of deeper investigation for their competitive tactics and market behaviour in the township economy.

Table 15: New Pick n Pay and Shoprite supermarkets as listed in the Cape Peninsula Telkom White Pages Telephone Directory 2017 (unlisted in 2012)

Pick n Pay		Shoprite	
Adelphi	Philippi	Du Noon	Nonqubela
Lotus River	Atlantis	Khayelitsha Site C	Pelican Park
<i>Middestad Mall</i>	Big Bay	Langa	Retreat
Pinehurst	Graanendal	Lansdowne	Woodstock
Parklands	Khayelitsha	Nyanga Junction	
<i>Wynberg</i>	<i>Maitland</i>		

The push of malls and supermarkets into the township sector has increased competition in informal township grocery markets. This coincided with the emergence of informalist grocery practices. When these forces combine, they are likely to squeeze survivalists and stand-alone spaza outlets out of the sector.

5. Conclusion: Survivalists, informalists and competition in the retail grocery trade

5.1 Survivalists and informalists

Informality is both a product of South Africa's history of economic marginalisation of certain population groups and a key part of its future trajectory for economic development. Marginalised in economic terms, the perceptions and practices of microenterprise owners in South Africa are shaped by a 'culture of informality' characterised by deeply ambivalent and sometimes suspicious perceptions of regulation. The government is often perceived as unduly authoritarian and unfair in its treatment of its poorest citizens in informal enterprises, anti-democratic in its framing of policies, and unaccountable for the actions of its agents of law enforcement and regulation.

These perceptions in the public imagination are understandable, given South Africa's long history of arbitrary and repressive state action with respect to informal businesses. Inappropriate laws and regulations create *enforced* informality, where the impossibility of legal compliance (such as through inflexible land-use zoning and rigid licensing systems) means that many businesses perforce operate in a legal vacuum, unable to benefit from the protection or support of the state (Charman et al, 2012). At the same time, many enterprises in the spaza sector have chosen a strategy of *embracing* informality. By deliberately avoiding regulation, these businesses entrench labour market segmentation, leave workers unprotected, reduce state taxation revenue, and weaken state influence in minimising the negative impacts of dubious business practices (such as trading in contraband and counterfeit goods).

This study demonstrates the interconnections between demographic and competitive change in the informal retail grocery sector in South African townships. An important dimension of change has been the decline of survivalist spaza shops. Based on our general findings of shops, stock and operations, survivalist outlets are unable to compete effectively with their better-resourced informalist competitors. Survivalist businesses stock fewer products and a narrower range of items, are heavily reliant on family labour, and also trade for shorter hours. They are less able to scale up, and the time series data suggests that they are being crowded out of the township economy. Some of the South Africans who have closed shop have instead rented their premises to informalist retailers, while others have responded by diversifying into activities such as liquor retailing. However, entry into the highly policed liquor sector without prospects of obtaining a retailer's licence subsequently exposes those entrepreneurs to police raiding, criminalising many in their pursuit of a livelihood (Charman et al, 2013). As spaza shops are not legislated or policed in the same way as liquor outlets, the lower risks of punitive action from the state has meant that informalist grocery retailers are able to leverage competitive opportunities from illegal business practices without fearing state penalties.

5.2 Revisiting 'rights to trade' and 'livelihoods' perspectives

South Africa is undergoing a long-running and ongoing process of demographic change. Migration into South Africa has brought about important strides in entrepreneurship and social dynamics with many societal and economic benefits. It is certainly clear that the arrival of foreign-national spaza operators with distinctive traditions of entrepreneurship and commercial practice has influenced the workings of township markets. Various authors, such as Gastrow and Amit (2013), Tawodzera et al (2015) and Plastow (2015), acknowledge that these changes have also brought some detriment to the sector, primarily in the form of South African spaza business closures, but they argue that these disadvantages are outweighed by enhanced consumer well-being from greater business competition.

At face value, foreign-national spaza outlets are more diverse in their product range compared to South African shops. Furthermore, owing to their higher turnover, these shops are generally well stocked as they are linked to reliable distribution networks that serve to keep shelves full with grocery items. These spaza shops are well located within the township geography and are open for long hours, making them accessible in both space and time. Owing to enhanced entrepreneurial and competitive practices (such as integration with wholesalers) these outlets can sometimes offer cheaper prices on certain goods than their South African counterparts. In poor communities (which predominate in South Africa) reliable access to cheap food must be seen as critical in enhancing food security. South Africans have also benefited from opportunities to let their premises to these emerging spaza businesses.

Any business attempting to operate legally from the trenches of the township economy deserves state support. Township enterprises in general, and migrant businesses in particular, also have the hard-won legal and constitutional right to engage in economic activities anywhere in South Africa (including operating spaza shops). In particular, when the enterprises in question are survivalist businesses operated by victims of structural economic marginalisation, as is commonplace in South Africa's townships, then at the least these enterprises should be left alone. However, the right to trade is not universal and should not include the ability to gain competitive advantage through active regulatory avoidance. Where informalist competitive practices (regardless of the nationality of the business owner) involve labour and trading practices that violate South African law, a *laissez faire* approach is not appropriate.

The impact of ignoring active regulatory avoidance by the spaza sector has resulted in the decline of survivalist spaza shops and in the loss of an important economic empowerment opportunity – particularly for black South African women. While South Africans have benefited from letting opportunities to accommodate new foreign-national entrants into the spaza market, this does not counter the loss of income from self-employment nor the broader social/community impacts where spaza businesses were closed down (see Neves and Du Toit, 2012).

The widespread emergence of contraband cigarettes and counterfeit goods is of particular concern. While these products may counter the effects of over-priced branded consumer goods, they also transfer profits to criminal groups who seek to violate intellectual property and branding rights, mislead the consumer, reduce tax contributions to the government, allow poor labour practice and possibly bring about unknown health risks for consumers.

Finally, an important group of direct victims of this rapidly changing dynamic are migrant shop assistants themselves, who are exploited in opaque employment agreements with low incomes, exceedingly long hours and poor working conditions. Many are unwittingly retailing contraband or counterfeit goods on behalf of their 'bosses'. They reside and operate from isolated township outlets, where they are on the receiving end of xenophobia and violent crime from thugs and disgruntled community members. Indeed, the Somali Community Board noted 723 recorded deaths of Somali spaza operators within five years in South Africa (*Mail and Guardian*, 2017). It is certain that many of these murder victims served as township-based employees in larger businesses.

Informalist spaza outlets capitalise on the tolerance extended to poor and survivalist enterprises (including municipal concessions to operate home-based businesses in townships), but also potentially bypass other important regulations (labour laws and trading in legal products) in pursuit of profits. Conversely, supermarket chains and shopping malls use their power to buy township land and influence municipalities to amend land-use zoning and award business rights (including trading and liquor licences) to expand their business footprint.

Survivalist grocery retailers have thus found themselves competitively and geographically squeezed between informalists, supermarkets and shopping malls. They are constrained by regulatory exclusion and their reliance on competitive approaches based on social capital (embodied in kinship, family and social networks) rather than price competition, and have collectively lost market share because they are unable to compete in the changing dynamics. Informalist operators in particular have ignored the local cultural context in their business approach by (for example) using aggressive price discounting and employing few local community members (Ibrahim, 2016). At face value, while advocates of competition have encouraged this transition in the spaza market, the unintended consequence (in the absence of regulatory enforcement) is market concentration, driven by new and deeper terms of informality.

It is misleading to consider township spaza shop competition simply in terms of 'locals versus foreigners'. Instead, the competitive dynamic is better understood as the replacement of spaza survivalists experiencing regulatory exclusion by informalist spaza businesses (including some operated by South Africans) who have actively *circumvented* legislation in order to gain competitive advantage. The emerging market conditions now benefit a new cohort of informalist spaza 'bosses' at varying scales of operation, who have come to dominate the spaza business through a capitalist embrace of informality. Despite the exit of survivalists, the scramble for customers continues, for the growing presence of supermarkets and malls means that informalists will have to continue to cut costs to maintain market share, likely further deepening their informality.

The embrace of informality is not unprecedented in South Africa, nor is it the exclusive prerogative of spaza informalists. A review of the business practices of the minibus-taxi sector (Ntsebeza, 1995) provides another example of an industry that actively embraces informality to evade regulation. In recent decades this sector has become an impenetrable, concentrated and politically powerful network. It operates local and regional transport services largely beyond the control of state authorities, picking and choosing the elements of formality that suit its operations, and generally ignoring those that do not. The small network of taxi bosses that dominate in the sector operates a seemingly parallel system to the state in a strictly enforced hierarchy that involves extortionate membership fees, informally determined routes and territories, intimidation, threats and violence. In the minibus-taxi sector, the taxi drivers serve at the coalface of the business, tend to earn the least money and carry the majority of the personal risk. The situation for informalist spaza shop employees in the face of embraced informality, crime and an atmosphere of xenophobia (which is in part fostered by these changing market conditions) is not dissimilar. Learning from the minibus-taxi sector, it is clear that the entrepreneurial embrace of informality poses very real development challenges for South African markets.

5.3 What is to be done?

The sheer number and spatial distribution of informalist retailers, the rise of supermarkets and malls, and South Africa's overarching poorly performing macroeconomic environment mean the demise of survivalist spaza shops that are unable to compete on informalist and corporate terms. Considering that 134 000 'traditional trade' (township grocery) outlets likely exist in South Africa, the implications of the industry change revealed by this study are considerable. The demise of spaza shops as an emerging township business activity restricts wealth creation and limits South African entrepreneurship in communities where it is most needed.

This outcome reflects a culmination of state failures. The South African government has failed to limit informalist regulatory avoidance throughout the value chain, while simultaneously succumbing to the corporate power of shopping mall developers and supermarkets. Increasing numbers of politicians have chosen to simplify the development challenge, stoking xenophobic tensions by scapegoating foreign spaza shop workers and '... throwing immigration as red meat to their base for their own, narrow and very personal advantage' (Grootes, 2018). The polarised discussion on this subject has stifled genuine debate over the last decade, while deepening informalisation and transformation of the sector has continued largely unabated.

Active state engagement is required, but more with respect to *how* township grocery retailing is presently conducted than *who* now retails groceries. The rise of informalist behaviour throughout supply chains represents a fundamental development challenge. This will not be resolved by simply pandering to xenophobic interests and targeting foreign-national spaza shop operators – many of whom already work under exploitative conditions. What the simplistic 'local versus foreign' narrative misses is that many South Africans currently profit from this state of affairs –

from the 36% of South African spaza outlets that sell contraband cigarettes (and their respective local manufacturers) through to South Africa's soft-drink and cell phone companies that sponsor spaza shop branding, to a new generation of township landlords who rent property to these outlets. The situation that has evolved thus presents a complex and nuanced development challenge.

Suggested policy-maker interventions include the following four actions:

1. State investigation of all stakeholder roles in the spaza sector

State attention must investigate the apex of grocery markets – working to understand the power structures, networks and individuals that have come to dominate in the sector. This includes not only owners and employers of informalist spaza shops but also wholesalers, manufacturers and importers who capitalise on this regulatory avoidance and have variously supported the evolution of the market conditions to their present state. The investigation should also cover patron-client networks that have developed around interests in the spaza sector within and around the state. Specific and deeper investigation into informalist business tactics including labour relations, financial modalities (cash management and cash transfer processes) and national- and international-scale grey and black markets is urgently required. At a strategic level, the South African government must reconfirm its international commitments to deal with matters of labour exploitation.

2. Regulatory approach for fair competition and business practice

A regulatory approach for enhancing fair competition and business practice is required. The tensions between foreigners and South Africans in the spaza sector should in many ways be seen as an indirect result of the 'race to the bottom' in part initiated by supermarket expansion into the township economy. Policy should address the macroeconomic environment underpinning this dynamic with genuine transformation of the shopping mall and supermarket environments in ways that support the principles of broad-based black economic empowerment (BBBEE), inclusive growth and emerging microenterprises. This includes share-ownership requirements, supplier development and the minimum thresholds for retail mall occupancy and supermarket shelf space. It further requires reconsideration of current municipal approaches to land-use zoning that reinforce ongoing economic inequality in townships.

3. Normalising and formalising the spaza sector

Furthermore, a process to 'normalise' the informal retail grocery sector must bring it towards a path of formalisation. There are existing state tools and mechanisms to rein in the socially and economically undesirable consequences of this unrestrained capitalism and the embracing of informality. A carefully considered approach towards an appropriate regulatory environment occurs in ways that do not drive informal-economy grocery

businesses into deeper states of informality or out of business altogether. Such an approach requires the following framework:

- **Acknowledging survivalist microenterprises as a safety-net**

Genuine survivalist microenterprises do not threaten the state and represent a business opportunity for economically marginalised survivalists. With a careful balancing of objectives, the regulatory environment must be revised to end the involuntary regulatory exclusion of survivalist businesses.

- **Nurturing microenterprises towards formalisation**

Ensuring basic standards including the payment of sectorally determined wages, trading in legal and taxed products and utilising FICA-compliant monetary systems should be the minimum business benchmarks in the spaza sector. Like liquor outlets, all cigarette retailers should be individually licensed by the state, with supply chains strictly monitored. While there are clear capacity challenges for the state to ensure the above compliance, the financial opportunity to recoup lost tax revenue from the illicit cigarette trade alone potentially represents multiple billions of rands to the fiscus annually.

4. Effective engagement of the informal economy

Finally, and critically, the South African government must more effectively engage the informal economy (which collectively employs more people than any individual sector) and embrace the opportunity it represents. With township settlements being the epicentre of population growth, it is critical that these local economies are stimulated in ways that benefit all entrepreneurs, employees and consumers – whether they are South African citizens or not.

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Annexure I: Fieldwork Questionnaire

1. Please enter survey number
 2. Please enter the location details of the business
 3. Shop Name
 4. Which countries are the owners/partners from?
 - a. Bangladesh
 - b. Ethiopia
 - c. Mozambique
 - d. Pakistan
 - e. South Africa
 - f. Somalia
 - g. Other
 5. Other countries of origin for owners
 6. Which countries are the employees from?
 - a. Bangladesh
 - b. Ethiopia
 - c. Malawi
 - d. Mozambique
 - e. Pakistan
 - f. South Africa
 - g. Somalia
 - h. Zimbabwe
 - i. Other
 7. Other countries of origin for employees
 8. Excluding you, how many people are employed and their duties?
 9. Owners Gender
 - a. Female
 - b. Male
 10. Type of operation
 - a. House Shop
 - b. Spaza Shop
 - c. Butcher
 - d. Fruit/veg
 - e. Other
 11. Trading structure
 - a. Brick House
 - b. Container
 - c. Ground
 - d. Self built structure
 - e. Shack
 - f. Table
 - g. Garage
 - h. Wendy House
 - i. Other
 12. Describe the floor and general shop hygiene
 13. How did the owner start this business?
 14. How long has the owner been in the grocery trade?
 15. How many owners/partners are in this business?
 16. Owners age?
 17. Owners Highest education level
 - a. No Education
 - b. Primary School (Gr1-Gr7/Std5)
 - c. Secondary School (Gr8/Std6+)
 - d. Matric
 - e. Certificate
 - f. Diploma
 - g. Degree
 - h. Other
 - i. Don't know
- (linked Qs to above):
18. Certificates
 19. Diploma
 20. Degree
 21. Please list owners other qualification?
 22. Is rent paid for this space?
 - a. No I own this space
 - b. No I don't pay rent
 - c. Yes
- (linked Qs to above):
23. Who do you pay rent to?
 24. Where do you sleep?
 - a. In the shop
 - b. In the shop structure
 - c. On the property
 - d. Elsewhere
 25. What time do you open and close?
 26. What times in the day bring the most customers to your shop?
 - a. 05:00 - 07:00
 - b. 07:00 - 09:00
 - c. 09:00 - 11:00
 - d. 11:00 - 13:00
 - e. 13:00 - 15:00
 - f. 15:00 - 17:00
 - g. 17:00 - 19:00
 - h. 19:00 - 21:00
 - i. 21:00 - 23:00

27. What days of the week do you have the most customers at your shop?
- Monday
 - Tuesday
 - Wednesday
 - Thursday
 - Friday
 - Saturday
 - Sunday
28. On average, how much credit do you give your customers in a month?
29. If you give credit, what interest do you charge?
30. Monthly profit from this business
- R20,000+
 - R15,000 - R20,000
 - R10,000 - R15,000
 - R5,000 - R10,000
 - R0 - R5,000
 - Not Confident?
 - Don't know
 - Won't tell
31. Five most purchased goods in store?
32. Do you buy your stock in a group?
- Yes
 - No
 - Don't know
 - Won't tell
- (linked Qs to above):
33. Name the group and explain how this group works?
34. Why not?
35. Does any owner/partner own a vehicle used in this business?
- Yes
 - No
36. How many goods are delivered to your shop?
- All
 - Some
 - None
37. Describe deliveries
38. How many other shops do they deliver to?
39. What laws/licenses do you know of that apply for operating this business?
40. Are there problems with trading after dark?
41. Describe your last interaction with the police or government officials?
42. Size, brand and price of the cheapest smallest packet of RICE?
43. Size, brand and price of the cheapest smallest packet of MAIZE MEAL?
44. Brand and price of One Litre Fridge MILK?
45. Price of Half a dozen EGGS?
46. Price of half a loaf of white BREAD?
47. Brand and price of the cheapest Full loaf of white BREAD?
48. Size, brand and price of the cheapest smallest packet of SUGAR?
49. Brand and price of the cheapest 375ml cooking OIL?
50. Price of a quart of BEER?
51. Price of a 1.5L bottle of Coke?
52. Brand and price of the cheapest 2L cooldrink?
53. (NB! if not visible, don't ask for it) Take a photo of the hamper
54. (NB! only ask if you took a picture) Price of a hamper
55. Brands and number of CIGARETTE sticks sold per day?
56. Do you sell other tobacco products?
57. Buy: small Bar one, cheapest packet of soup and cigarette, and loose unmarked packet of baby formula. Bag and tag goods with survey number
58. Do you sell dark green leafy veg?
- Yes
 - No
59. Specify leafy vegetables
60. Take a photo of any visible fruit/veg sold
61. What's the boss's cell phone number?
62. How long have you been in South Africa?
63. How long have you been working in this shop?
64. Where are your original papers? (e.g. asylum seeker permit, passport etc...)
65. What are the terms of your employment?
66. Where does the money go? How do you deal with the cash in this business?
67. Take a photo of the shop inside
68. Take a photo of the shop outside
69. Notes/Interesting Information