Trans-Border Migration of African Migrants into South Africa – A Case Study of Somalian Informal Traders in Motherwell Township, South Africa

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Abstract: *The informal economy in South Africa and other parts of the continent is a safe haven for many who are unable to find jobs in the formal sector of the economy. In the case of South Africa, it is not only the nationals of the country who are striving to survive and generate income from this sector but also foreign nationals.*

Since 1994, the country has experienced a huge influx of immigrants from other parts of the continent some escaping from dire living conditions in their home countries and looking for better life opportunities while many others were forced to migrate from their own countries as a result of political unrest and lack of stability and security. Among these latter example is the Somali community who are the subject matter of this study. Many of these mainly African immigrants including Somalis got themselves involved in the informal sector of South Africa. This has increased competition in this sector and caused clashes between South Africans and immigrants who are also involved in the informal sector. Despite facing high levels of crime where many Somalis were killed and their property looted, they are still determined to stay in the South African townships.

Using a cross-sectional panel data analysis, this study proves that, amongst other variables, nationality is significant in profit determination of the informal businesses in South African townships. Further, using a logitand Panel Least Squares Models the study proves that Somalian owned informal businesses have the probability to contribute towards South African tax base, employment creation and gross value added (GVA) product in the Nelson Mandela Bay, South Africa.It is recommended that root causes of xenophobia be addressed rather than just the symptoms.

Keywords: *Informal economy, Small businesses, Trans-border migration.*

1. INTRODUCTION

The informal sector is that part of the economy which is covering the marginal livelihoods and survival activities which are outside the reach of the regulatory bodies of the state. This sector has in fact always been seen as a temporary safety net for the unemployed and marginalized groups of people. Its contribution to national economies has been growing significantly in many developing countries. Informal sector creates employment for the majority of people whilst labour absorption capacity of the formal sector declines (Beeton, 2010).

South Africa as a developing nation is not an exception. Studies have repeatedly shown the importance of this sector to the country's economy. The share of the informal sector was estimated to be at R32 billion in 2002. This represented approximately 10% of retail trade sales in South Africa (Ligthelm, 2006). The City of Johannesburg for example, has also estimated the number of informal traders in the greater Johannesburg alone to be around 85 000. According to the Traders Crisis Committee, there are nearly two million informal traders in the country who, through their informal economic activities support the lives of about 10 million people. Although individually, the income of informal traders is low, in general, its contribution to the Gross Domestic Product is currently 8-12 percent (%) and still continues to grow. Around 25-30% of the labour-force in the country are involved in the informal economy. Furthermore, it is one of the few areas of the economy where the number of workers continues to increase and the majority of workers in the sector are from historically disadvantaged communities (Beeton, 2010).

According to Crush and McDonald (2002), it is not only the South African unemployed citizens who generate their income from the informal sector. As it is not easy for many new unskilled immigrants such as Somalis to get employment in the formal sector of the South African economy, they tend to become involved in the informal sector. As a result, the Johannesburg inner city streets are bursting with informal sector traders who are selling a variety of commodities such as fruit, vegetables, bags, clothes, shoes, chewing gum, cooked foods, cigarettes and many more. This has triggered riots against these immigrants in some parts of the country notably in the Johannesburg inner city streets where a group of people led by the local hawkers' association protested on various occasions. These riots sometimes changed into violence accompanied by anti-immigrants rhetoric (Crush & McDonald, 2002).

Rimmer et al (1978) states that an informal sector has distinctive characteristics which make it attractive to the poor include:

- easy entry
- reliance on indigenous resources
- family ownership
- small scale of operation
- labour intensive and personalized technology
- skills gained outside the formal school systems
- and unregulated and competitive markets

2. THE MAGNITUDE OF AFRICAN MIGRANTS IN SOUTH AFRICA

South Arica has been a destination for regional migration for many decades. It was also a receiving hub for a large number of white Europeans before 1994. South Africa after the democracy in 1994 was faced with global, continental as well as regional migration. However large the migration to South Africa may be, the real figures are much lower than the popular view about the number of foreign immigrants in the country. South Africa's 2001 census recorded that the people who were born outside South Africa or non-nationals as being 1,025,072, or 2.3% of the total population. Twenty two percent (22%) of these figures were Europeans. Sixty seven percent (67%) were from neighbouring Southern African countries. Furthermore, 4% were said to be from other parts of Africa while a further four per cent were Asians. The figures from Africa other than SADC are not particularly in line with the public perception that the country is flooded with poor Africans from other parts of the continent (Crush & Williams, 2005).

3. SOMALIANS AND INFORMAL SECTOR ACTIVITIES

The informal economy is important to the lives of the Somalis in their home country, Somalia. According to the Economist Intelligence Unit, Somalia's retail trade is largely dependent on the informal sector (Economic Intelligence Unit, 2008). The economic success achieved in Somalia despite not having any properly functioning government, through informal economy is surprising. Throughout Somalia, trade networks and connections have been established to carry out the transport and distribution of imported goods from the larger towns and centers to the villages and other remote parts of the country (Bakonyi & Abdullahi, 2006). Many of the traders, middlemen and business people involved in these networks, as a result of lack of properly working judicial system, depend heavily on verbal agreements and unwritten but socially established and enforced norms and traditions (Bakonyi & Abdullahi, 2006).

It is not only in Somalia or South Africa where Somalis distinguish themselves in small businesses. Eastleigh, a suburb in Nairobi, has now turned into the second largest market in eastern and central Africa. It became known as little Mogadishu. Somali business people transport goods and services through regions such as Congo, Southern Sudan, the Horn, and Southern Africa. Only Iran exports more than Somalis do from Dubai (Goldsmith, 2010). This accounted for Goldsmith (2010: www.theeastafrican.co.ke) calling Somalis "the thickest-skinned entrepreneurs worldwide".

4. THE PROBLEM AND ITS SETTING

After the political change in South Africa in 1994, the country experienced a great deal of net international migration particularly from other parts of Africa (Crush & McDonald, 2002.). Among

these African immigrants was a Somali community whose home country had collapsed totally in 1991 (Kleist, 2004). According to United Nations High Commissioner for Refugees protection officer, the Somalis started settling in local communities living in the remote areas of Eastern Cape, Western Cape and Gauteng who had minimum interaction with foreign immigrants in the past (Rulashe, 2006). Port Elizabeth was one of the first places in which Somali immigrants settled and got involved in the township informal trading and Motherwell was also among the first townships in which Somalis started doing their businesses (Raabi, 2010).

According to Landau, et al. (2008), in the last few years, there were various incidences of violence which were xenophobic in nature where foreign nationals in Motherwell, particularly Somali immigrants, were targeted. According to Longman Exams Dictionary (2006:1782) xenophobia is a "strong fear or dislike of people from other countries" that results from international migration. Timberg (2006) suggests that this reaction may be as a result of the host communities thinking that they will be overtaken by the newcomers. He adds that this could trigger conflict and wars between the two groups and place the government in difficult situations.

Today, xenophobia is a big problem facing the African immigrants in South Africa and as a result, the country has experienced xenophobic-related social unrest, of which the 2008 xenophobic violence is perhaps the best known. Research conducted by the South African Human Rights Commission (SAHRC) even before the outbreak of the 2008 violence, found that xenophobia in South Africa, especially towards African immigrants, was alarming. The research shows that it is not only hurting the immigrants but is also impacting on the country's economy (www.sahrc.org.za, 2006). Somalis, as African immigrants living in South Africa, were not safe from xenophobic reactions.

In the Western Cape alone, 28 Somalis were killed before September in 2006 (www.queensu.ca, 2006). There are various explanations for the killings including business competitions. According to National Federation of Chamber of Commerce (Nafcoc)South African small business people in the townships are not as competitive as Somalis because they lack the necessary skills and the ability to get finance hence as a result are jealous of these Somalis (www.queensu.ca, 2006).

The first Somali-owned grocery shop in South Africa was opened in 1997 and the first in Motherwell started operating in 1999 (Interview with Abdulahi Dhere, 2010). But today, in Port Elizabeth townships there are hundreds of grocery shops owned by Somalis and in Motherwell alone there are more than 150 Somalis (Interview with Lothana, 2010).

5. OBJECTIVES OF THE STUDY

This study focuses on the economic activities of Somalis. The main aims and objectives are as follows:

- To establish the magnitude of Somalians informal sector activities in Motherwell township near Port Elizabeth

- To compare the performance of Somalians informal sector businesses with those owned by South Africans

- To provide recommendations based on the findings.

The above objectives are outlined further in terms of the following hypotheses:

H_{10}: *Somalian owned small businesses are not more successful than South African owned small businesses in terms of profits.*

H_{1A}: *Somalian owned small businesses are more successful than South African owned small businesses in terms of profits.*

H_{20}: *The probability of Somalian owned small businesses to contribute towards South African tax base is negative.*

H_{2A}: *The probability of Somalian owned small businesses to contribute towards South African tax base is positive.*

H_{30}: *The probability of Somalian owned small businesses to create job opportunities in Nelson Mandela Bay is negative.*

$H_{3A:}$ The probability of Somalian owned small businesses to create job opportunities in Nelson Mandela Bay is positive.

$H4_0$: Somalian owned small businesses are not making a positive contribution towards gross added value product in Nelson Mandela Bay.

$H4_{A:}$ Somalian owned small businesses are making a positive contribution towards gross added value product in Nelson Mandela Bay

6. RESEARCH DESIGN

This research is based on both qualitative and quantitative research methods. Both structured and unstructured interviews were used in order to obtain the information needed from the participants. Greenstein (2006: 49) defines qualitative research method as a "broad approach in the social research that is based upon the need to understand human and social interaction from the perspectives of the insiders and participants in the interaction". Observation method was also used in order to obtain information. One police station was visited in order to find the type of crime mainly reported by Somali traders in the area. The director of the Somali Association of South Africa, which is a national organisation with an office in Korsten, Port Elizabeth, was also interviewed in order to find out more about the nature and character of the Somali informal traders in the greater Nelson Mandela Bay.

The quantitative research method was based on descriptive statistics together with two econometric techniques, namely cross sectional panel data analysis and a logit model. The econometric model used in a cross-sectional panel data analysis takes the following functional form:

$$\sum_{t=2007}^{2010} (r_{it} - c_{it}) = \pi \qquad (1)$$

Where

r = Sum of annual sales revenue in an individual business at time t

c = Sum of annual costs in an individual business at time t

π = annual profits in an individual business at time t

Flowing from equation (1) above, the panel data econometric equation takes the following functional form:

$\pi t \beta 0 + \beta 1 Y_{it} + \beta 2 infl_t + \beta 3 int_t + \beta 4 edu_{it} + \beta 5 GVAnmb_t + \mu_{it}, \mu \sim I.I.D(0, \varsigma 2)$ \qquad (2)

where:

π_t = annual profits calculated as total revenue minus total costs (*see equation 1*)

β_0 = constant

Y = dummy variable (1 = Somalian, 0 otherwise)

$Infl_t$ = inflation at time t

Int_t = interest rates at time t

Edu_{it} = years of education of the individual at time t

GVA_{nmbt} = Nelson Mandela Bay Gross Value Added Product at time t

μ_{it} = Stochastic error term of the individual at time t and is assumed to be individually and identically distributed around the mean zero (0) and has constant variance.

t = time period

$\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 are coefficients of the parameters in the model.

B_0 = Constant

Cross-sectional data, or a cross section of a study population, in statistics and econometrics is a type data collected by observing many subjects (such as individuals, firms, countries, or regions) at the same point of time, or without regard to differences in time. Analysis of cross-sectional data usually consists of comparing the differences among the subjects. Cross-sectional data differs

from time series data, in which the same small-scale or aggregate entity is observed at various points in time—for example, longitudinal data, which follows one subject's changes over the course of time. Another variant, panel data (or time-series cross-sectional (TSCS) data), combines both and looks at multiple subjects and how they change over the course of time. Panel analysis uses panel data to examine changes in variables over time and differences in variables between subjects. Panel data analysis requires tests of fixed versus random effects.

6.1. Fixed vs. Random Effects

Use of fixed-effects (FE) is relevant whenever one is interested in analyzing the impact of variables that vary over time. FE explores the relationship between predictor and outcome variables within an entity (country, person, company, etc.). Each entity has its own individual characteristics that may or may not influence the predictor variables (for example, being a male or female could influence the opinion toward certain issue; or the political system of a particular country could have some effect on trade or GDP; or the business practices of a company may influence its stock price). When using FE we assume that something within the individual may impact or bias the predictor or outcome variables and we need to control for this. This is the rationale behind the assumption of the correlation between entity's error term and predictor variables. FE removes the effect of those time-invariant characteristics so we can assess the net effect of the predictors on the outcome variable. Another important assumption of the FE model is that those time-invariant characteristics are unique to the individual and should not be correlated with other individual characteristics. Each entity is different therefore the entity's error term and the constant (which captures individual characteristics) should not be correlated with the others. If the error terms are correlated, then FE is not suitable since inferences may not be correct and one need to model that relationship (probably using random-effects), this is the main rationale for the Hausman test (presented later on in this document).

The equation for the fixed effects model becomes:

$$Y_{it} = \beta_1 X_{it} + \alpha_i + u_{it} \qquad (3)$$

Where:

α_i (i=1….n) is the unknown intercept for each entity (n entity-specific intercepts).

Y_{it} is the dependent variable (DV) where i = entity and t = time.

X_{it} represents one independent variable (IV),

β_1 is the coefficient for that IV,

u_{it} is the error term

The key insight is that if the unobserved variable does not change over time, then any changes in the dependent variable must be due to influences other than these fixed characteristics(Stock and Watson, 2003, p.289-290). In the case of time-series cross-sectional data the interpretation of the beta coefficients would be "…for a given country, as X varies across time by one unit, Y increases or decreases by β units" (Bartels, 2008). Fixed-effects will not work well with data for which within-cluster variation is minimal or for slow changing variables over time.

Another way to see the fixed effects model is by using binary variables. So the equation for the fixed effects model becomes:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + … + \beta_k X_{kit} + \gamma_2 E_2 + … + \gamma_n E_n + u_{it} \qquad (4)$$

Where

Y_{it} is the dependent variable (DV)

 i = entity and t = time.

X_{kit} represents independent variables (IV),

β_k is the coefficient for the IVs,

u_{it} is the error term

E_n is the entity n.

Since they are binary (dummies) you have n-1 entities included in the model.

γ_2 is the coefficient for the binary repressors (entities)

Both eq.3 and eq.4 are equivalents: "the slope coefficient on X is the same from one [entity] to the next. The [entity]-specific intercepts in [eq.3] and the binary regressors in [eq.] have the same source: the unobserved variable Zi that varies across states but not over time." (Stock and Watson, 2003, p.280)

The fixed-effects model controls for all time-invariant differences between the individuals, so the estimated coefficients of the fixed-effects models cannot be biased because of omitted time-invariant characteristics…[like culture, religion, gender, race, etc]. One side effect of the features of fixed-effects models is that they cannot be used to investigate time-invariant causes of the dependent variables. Technically, time-invariant characteristics of the individuals are perfectly collinear with the person [or entity] dummies. Substantively, fixed-effects models are designed to study the causes of changes within a person [or entity]. A time-invariant characteristic cannot cause such a change, because it is constant for each person." (Kohler &Kreuter, 2012:245)

6.2. Random Effects

The rationale behind random effects model is that, unlike the fixed effects model, the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model:

"...the crucial distinction between fixed and random effects is whether the unobserved individual effect embodies elements that are correlated with the regressors in the model, not whether these effects are stochastic or not" [Green, 2008, p.183]

If one has reason to believe that differences across entities have some influence on your dependent variable then one should use random effects. An advantage of random effects is that one can include time invariant variables (i.e. gender). In the fixed effects model these variables are absorbed by the intercept.

The model for random effects takes the following functional form:

$$Y_{it} = \beta X_{it} + \alpha + u_{it} + \varepsilon_{it} \tag{5}$$

Where the u_{it} is between entity error and ε_{it} is within entity entry.

Random effects assume that the entity's error term is not correlated with the predictors which allows for time-invariant variables to play a role as explanatory variables. In random-effects one needs to specify those individual characteristics that may or may not influence the predictor variables. The problem with this is that some variables may not be available therefore leading to omitted variable bias in the model. RE allows to generalize the inferences beyond the sample used in the model.

6.3. Choosing between Fixed and Random Effects

The generally accepted way of choosing between fixed and random effects is running a Hausman test. Statistically, fixed effects are always a reasonable thing to do with panel data (they always give consistent results) but they may not be the most efficient model to run. Random effects gives better P-values as they are a more efficient estimator. The Hausman test checks a more efficient model against a less efficient but consistent model to make sure that the more efficient model also gives consistent results.

In order to decide between a random effects and fixed effects model, researchers used Hausman (1978) specification test (e.g., Greene 2008, 208-209). The Hausman test is designed to detect violation of the random effects modelling assumption that the explanatory variables are orthogonal to the unit effects. If there is no correlation between the independent variable(s) and the unit effects, then estimates of β in the fixed effects model ($\hat{\beta}FE$) should be similar to estimates of β in the random effects model ($\hat{\beta}RE$). The Hausman test statistic H is a measure of the difference between the two estimates:

$$H = (\hat{\beta}_{RE} - \hat{\beta}_{FE})'[Var(\hat{\beta}_{FE}) - Var(\hat{\beta}_{RE})]^{-1} (\hat{\beta}_{RE} - \hat{\beta}_{FE}) \tag{6}$$

Under the null hypothesis of orthogonality, H is distributed chi-square with degrees of freedom equal to the number of regressors in the model. A finding that $p < 0:05$ is taken as evidence that, at

conventional levels of significance, the two models are different enough to reject the null hypothesis, and hence to reject the random effects model in favour of the fixed effects model. If the Hausman test does not indicate a significant difference ($p > 0:05$) then random effects is preferable to an unbiased estimator (i.e., fixed effects).

6.4. Probability of Somalian Owned Small Businesses for Contribution towards South African Tax Base, Job Creation and Gross Value Added Product (GVA) in Nelson Mandela Bay

Informal sector has a potential to generate wealth through job creation and also broaden the tax base in South Africa (Ismael, 1995; Ncwadi, 2003; Mosdell, 1994). The interest here is to test whether or not the involvement of Somalian in informal sector in Motherwell Township presents any opportunity for job creation and broadening tax base in South Africa. Since foreign owned businesses share in consumption of public resources in South Africa it is fair to expect some contribution towards the South African tax base. In order this hypothesis, two regression models, namely a logistic regression model and an OLS regression model on a cross sectional panel data were run. These models are discussed in the following section.

6.4.1. Logistic and Panel Least Squares regression models

Logistic regression, or logit regression, or logit model (Freedman, 2009) is a regression model where the dependent variable (DV) is categorical. Logistic regression was developed by statistician David Cox in 1958 (Cox, 1958; Duncan, 1967)(*although much work was done in the single independent variable case almost two decades earlier*).The binary logistic model is used to predict a binary response based on one or more predictor (or independent) variables (features), making it a probabilistic classification model or a qualitative response model the terminology of economics (Christopher, 2006).

Logistic regression measures the relationship between a categorical dependent variable and one or more independent variables by estimating probabilities using a logistic function. Thus, it treats the same set of problems as does probit regression using similar techniques; the first assumes a logistic function and the second a standard normal distribution function.

Logistic regression can be seen as a special case of model and thus analogous to linear regression. The model of logistic regression, however, is based on quite different assumptions (about the relationship between dependent and independent variables) from those of linear regression. In particular the key differences of these two models can be seen in the following two features of logistic regression.

First, the conditional distribution Y/X is a Bernoulli distribution rather than a Gaussian distribution, because the dependent variable is binary. Second, the predicted values are probabilities and are therefore restricted to [0, 1] through the logistic distribution function because logistic regression predicts the probability of particular outcomes.The binomial logit is an estimation technique for equations with dummy dependent variables that avoids the unboundedness problem of the linear probability model. It does so by using a variant of the cumulative logistic function.An explanation of logistic regression begins with an explanation of the logistic function. The logistic function is useful because it can take an input with any value from negative to positive infinity, whereas the output always takes values between zero and one (Brian, 1998)and hence is interpretable as a probability (David & Stanley, 2000). The logistic function $\sigma(t)$ is defined as follows:

$$\sigma(t) = \qquad\qquad (7)$$

If t is viewed as a linear function of an explanatory variable X (or of a linear combination of explanatory variables), then we express t as follows:

$$t = \beta_0 + \beta_1 x \qquad\qquad (8)$$

And the logistic function can now be written as:

$$F(x) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 x)}} \qquad\qquad (9)$$

Note that $F(x)$ is interpreted as the probability of the dependent variable equalling a "success" or "case" rather than a failure or non-case. It's clear that the response variables Y_i are not identically distributed: $P(Y_i = 1/X)$ differs from one data point X_i to another, though they are independent given design matrix X and shared with parameters β (Freedman, 2009). Logits are estimated by

maximum likelihood (ML), an iterative estimation technique that is especially useful for equations that are nonlinear in the coefficients.

In this section two regression models were used, one being a logistic regression model and a cross sectional panel data analysis using random effects. The first equation (10) is to test tax liability probability whilst the second one (11) tests job creation probability and contribution towards gross value product in Nelson Mandela Bay.

The first functional form of a logistic regression model used to test for tax liability probability is as follows:

$$\varphi it = \beta 0 + \beta 1 Y it + \mu it \qquad (10)$$

Where:

φ = dummy variable for tax liability probability (1,realising annual total revenue threshold of R500 0003, otherwise 0)

Y = dummy variable for nationality (1 if Somalian, otherwise 0)

μ = Stochastic error term

it = (individual small business at time t)

β_0, β_1 = coefficients of the parameters in the equation

6.4.2. Somalian Small Businesses Contribution towards Job Creation and Gross Value Added(GVA) in Nelson Mandela Bay

In order to test the above hypothesis, Panel Least Squares regression using the following functional form is presented:

$$\Gamma it = \beta 0 + \beta 1 \pi it + \beta 2 (Y.\pi) it + \mu it \qquad (11)$$

Where:

Γ = set of variables representing *job creation* and *gross value added (GVA)*

π = Annual profits

$(Y.\pi)$ = interaction dummy variable on nationality and profits

it = subscript representing individual small business at time t

μ = stochastic error term

$\beta_0, \beta_1, \beta_2,$ are coefficients of the parameters in the model

6.5. The Effects of Inflation and Interest Rates on Somalian and South African Owned Small Businesses Profits

Having considered issues of probability of tax contribution and job creation amongst informal sector businesses, it is important to test the effects of inflation on informal sector business profits. Inflation refers to general price increase. One of the fundamentals of microeconomics is that at high prices demand decreases leading to lower profits (Mohr & Fourie, 2008). It is expected therefore that the profits of the informal sector businesses will decrease. Notwithstanding this assumption, it is reported that Somalian owned businesses cushion against inflation through organised bulk buying (Hikam, 2010). Bulk buying helps reduce costs through discounts from wholesalers. Based on this premise we hypothesise that Somalian owned business profits are not negatively affected by inflation.

Similarly, interest rates are expected to affect profits of the informal sector businesses negatively. Interest rates reflect cost of borrowing meaning that in times of high interest rates, profits should be low. Usually increase in interest rates is accompanies by a general increases in loan repayments, which transmits itself in decreased disposable incomes. In the same vein, high interest rates lead to reduction in investments (Mohr & Fourie, 2008). Given these assumptions, high interest rates will negatively affect business profits. We hypothesise that Somalian owned businesses are not negatively affected by interest rates. This hypothesis is based on the premise that Islam prohibits interest charging.

The prohibition on paying or receiving fixed interest is based on the Islamic tenet that money is only a medium of exchange, a way of defining the value of a thing; it has no value in itself, and therefore should not be allowed to give rise to more money, via fixed interest payments, simply by being put in a bank or lent to someone else. The human effort, initiative, and risk involved in a productive venture are more important than the money used to finance it. This implies that the is no real 'lending' in Islam since all 'lenders' obtain ownership interests in the assets that they finance, or earn a profit-share or purely fee-based remuneration. (Institute of Islamic Banking and insurance, 1990).

6.6. Sampling Procedures and Techniques

This research uses 64 Somali informal traders in the Motherwell Township as well as 65 South African informal businesspeople from the same township. Probability sampling technique was used in the study. This meant that every informal trader in Motherwell from either the Somali or SA national group has an equal chance of being interviewed. This was not a problem in the case of South Africans as there were many business outlets of informal nature owned by the nationals in all over Motherwell. However, the Somali owned businesses were a different case. At the time of data gathering in the field, there were 150 Somali owned businesses in the 13 units of the Motherwell Township known as NUs. These businesses which are scattered across a wide area need to be given an equal chance of being included in the study. However, because of the large sample drawn, it meant that 43% of all Somali businesses in Motherwell were covered in all the Motherwell NUs.

6.7. Interviews

The interviewer asked questions while the interviewee answers it in an oral form. The questionnaires were set in English, however the majority of the Somalis in Motherwell, were not English speakers hence they needed help. This meant that in the case of the Somalis, the respondents were asked questions in their home language, with the answers being recorded Somali and English. The South African nationals' situation was more or less the same where the vast majority of the respondents needed the questions to be translated into Xhosa and many of them could not answer in English. This required translators to ask the question in Xhosa and then write it in English

6.8. The Research Area

This research was conducted in Motherwell Township, near Port Elizabeth. Mothewell is one of the biggest townships in South Africa and of course in the Nelson Mandela Bay (Landau & Polzer, 2007). It is also the place that has the highest concentration of Somali informal trading in the Port Elizabeth area (Raabi, 2010). As the director of the Somali Association of South Africa, Mr Abdirahman Raabi stated, in 2009, the Motherwell local community and the Somali informal traders agreed that the number of the Somali owned shops should remain fixed to a specific figure with no new Somali shops opening in the area. However, the community leaders were later lenient with this and many other shops have since opened.

The involvement of these African immigrants in the township's informal economy created a competitive environment and hence animosity to some business people in the township (Rulashe, 2006).

6.9. Ethical Considerations

The confidentiality of the people involved in the research was taken seriously. The Names of the people, shops or their street addresses were not written down. Hence, identities of the people involved in this research, as a matter of ethical issue, are not revealed. A few individuals allowed their names to be written down including the Somali Association of South Africa's Eastern Cape director as well the Somali business who was the first one to open a grocery shop both in South Africa and in Motherwell.

7. RESULTS OF ECONOMETRIC MODELS

This section presents the results of the models outlined above.

7.1. Correlated Random Effects – Hausman Test

H_0: *Random Effects*

H_A: *Fixed Effects*

Table1. *Hausman Test*

Test Summary	Ch-Sq.Statistic	Chi-Sq.d.f.	Prob.	Decision
Cross-section random	0.000000	4	1.0000	Fail to reject H_0

The results in table 1 above shows that the null hypothesis of Random Effects cannot be rejected.

7.2. Determinants of Informal Sector Small Businesses Profits in Motherwell Using Random Effects

Table2. *Panel Least Squares results (RE)*

Variable (dep.var = annual profits)	Coefficients (SE)[t-stat]	Level of significance *=10%, **=5%; ***=1%
Nationality	177208.1 (28853.36) [6.141680]	***
Inflation rate	44704.21 (13468.24) [3.319233]	***
Interest rates	-75285.41 (23188.07) [-3.246731]	***
Education	-319.5495 (8952.872) [-0.035692	*Insignificant*
GVA	11.37219 (4.712875) [2.413004]	***

F-Statistics 61.63540

Prob (F-statistic) 0.000000

$R^2 = 0.78$ *adj R2 = 0.70*

The results in table 2 above show that all the exogenous variables except education are significant at 1% level. Our variable of interest, namely, nationality proves that there is a significant relationship between profit generation and nationality in informal sector small businesses in Motherwell. The annual profits of the Somalian owned informal businesses are likely to exceed South African informal businesses by approximately R177000 per annum, *ceteris paribus.* Contrary to our a priori expectations, the results provides evidence that inflation rate does not affect the informal sector profits negatively. This may be explained by the fact that when there is a general price increase in the economy, the informal sector businesses simply shift this price increase to the consumers and thus maintain their profit margins. However, interest rates have a negative impact on informal sector profits. A rise in interest rates means that the cost of borrowing increases, leading to reduced disposable incomes. This permeates to demand levels leading to reduced profit margins in the informal sector. Further, increased interest rates means increased property rentals. Most of the foreign owned informal businesses operate in rented properties; meaning that when rents increase due to high interest rates, profit margins of the informal businesses also decrease. The results further shows a negative relationship between years of education and profits in the informal sector. However this relationship is statistically insignificant. This means that running an informal business profitably needs far more than just formal education. It is not the intention of this paper to water down the role of education in informal sector activities; however, it is equally important to ensure that the informal sector operators are also exposed to practical business principles. As indicated by Ncwadi(2010) entrepreneurs must possess some inborn entrepreneurial traits such risk taking, identifying opportunities and being creative and innovative. These skills are outside the confines of the classroom and lecture halls. Finally the results show a positive and statistically significant relationship between GVA and informal businesses profits. GVA is a measure of productivity and output in the economy. It is obvious to expect that small businesses should thrive in a growing economy.

The above model is statistically significant (F-stat =61.6 > F_c @ 1% level of significance. The model also explains 78% (R^2 =0.78) of the variations in the dependent variable (profits). Using a wild test statistic, the results prove that all explanatory variables used in the model are jointly significant in explaining the variations in the dependent variable, namely, profits. Wald test results are shown in table 3 below:

Table3. *Wald Test*

Test Statistics	Value	Df	Prob
F-statistic	40.35147	(5,318)	0.0000
Chi-square	201.7574	5	0.0000

Null hypothesis: C(1)=C(2)=C(3)=C(4)=C(5)=0

Given the above statistics in table 3 above, the null hypothesis is rejected and accept that all exogenous variables are jointly significant too explain the variations in the dependent variable.

7.3. Probability of Contribution towards the South African Tax Base

Table4. *Binomial Logistic Regression Model on tax probability*

Variable (dep.var=tax_prob) Small Business Tax threshold=R500 000	Coefficients (SE) [z-stat]	Level of significance *=10%, **=5%; ***=1%
Nationality	2.301302 (0.393490) [5.848445]	***

LR statistic 51.82637

Prob (LR statistic) 0.000000

The results in table 4 above show a positive and significant relationship between nationality and tax probability. There probability of Somalian owned informal businesses to contribute towards the South African tax base as compared with South African owned informal businesses in Motherwellis approximately2.3%.

7.4. Somalian Owned Informal Businesses Contribution towards Creation of Job Opportunities

7.4.1. Correlated Random Effects – Hausman Test

Table5. *Hausman Test*

Test Summary	Ch-Sq.Statistic	Chi-Sq.d.f.	Prob.	Decision
Cross-section random	9.290571	2	0.0096	Reject H_0

Since we reject the null hypothesis of Random Effects, the following Panel Least Squares model uses Fixed Effects (FE).

Table6. *Panel Least Squares (FE) on contribution towards job creation in Motherwell*

Variable (dep.var = job creation)	Coefficients (SE)[t-stat]	Level of significance *=10%, **=5%; ***=1%
Annual profits	-2.36E-07 (1.88E-06) [-0.125762]	*Insignificant*
Interaction dummy variable on nationality and profits	**3.69E-06 (1.93E-06) [1.914494]**	**

F-Statistics35.07987

Prob (F-statistic) 0.000000

R2 =0.92   adj R2 = 0.89

The results in table 6 above shows that relationship between annual profits and job creation is statistically insignificant and that it is negative. The informal sector fails to create the necessary jobs in Motherwell Township. The results show that a unit increase in annual profits will ead to a 0.0023% decrease in job creation. However testing interaction dummy variable on profits and nationality the results suggest that a unit increase in the Somalian annual profits will lead to a 0.0003% increase in job creation. Further the results show evidence of a statistically significant relationship between the interaction dummy variable (nationality and profits) and job creation.

7.5. Somalian Owned Informal Businesses Contribution towards Nelson Mandela Bay Gross Value Added (GVA) Output

Table7. *Hausman test*

Test Summary	Ch-Sq.Statistic	Chi-Sq.d.f.	Prob.	Decision
Cross-section random	123.213982	2	0.0000	Reject H$_0$

Since we reject the null hypothesis of Random Effects, the following Panel Least Squared model uses Fixed Effects:

Table8. *Panel Least Squares (FE) on contribution towards Nelson Mandela Bay GVA*

Variable (dep.var = GVA)	Coefficients (SE) [t-stat]	Level of significance *=10%, **=5%; ***=1%
Annual profits	0.014364 (0.005875) [2.445025]	*0.0152**
Interaction dummy representing nationality and profits	0.006498 (0.006025) [1.078428]	*Insignificant*

F-Statistics 3.034075

Prob(F-statistic) 0.000000

$R^2 = 0.51$ *adj R2 = 0.34*

The results in table 8 above show that the informal businesses in Motherwell contribute approximately 1% towards GVA in Nelson Mandela Bay. The relationship between informal business profits and GVA is positive and statistically significant at 5% level. However, the interaction dummy variable on nationality and profits provide evidence that the Somalian owned informal businesses contribute approximately 0.6% towards GVA in the Nelson Mandela Bay. However the relationship between the interactive dummy variable on nationality and profits and GVA is statistically insignificant.

Having outline the quantitative analysis of the Somalian and South African owned informal businesses, the following section presents qualitative results.

8. THE ECONOMIC ACTIVITIES OF SOMALIS IN MOTHERWELL TOWNSHIP

The Somali informal traders in the Motherwell Township were typically young single males with a minimal level of education. They are mainly Muslim by religion. Somalia by country of origin have non-drinking, non-smoking habits and minimal level of business training. The majority of the Somalis had low level of educational attainment. Immigrants in the country generally have a considerable level of education.

The Somalis were almost all involved in grocery shops that did not sell some items seen as unlawful in Islam including, beer, pork products and even some cigarette and artificial hair products. Their businesses were not family businesses but instead a partnerships with the same countrymen. Somalis choose to be involved in the Motherwell Township because they thought it was more affordable than in places such as central business districts (CBDs). They saw Motherwell as a business opportunity for them. Choice of business operation was a function of overhead costs.

The Somalians who are trading in Motherwell pay rent amounting to an average of R2000 per month. This means that the annual rental amount flowing to the hands of the South African property owners amounts to R1 536 000 (R2000 x 12 x 64). The targeted average profit of the Somalis is 26% of the original cost price. The average sales revenue per month amounts to R23 060. This amount, R230 60 multiplied by12 months gives an annual sales revenue of R276 720. If this amount is multiplied by the number in the sample size it gives a total sum of R17 710 080 per annum. The Somalis respondents stated that they buy their stock from Port Elizabeth wholesalers particularly, two grand wholesalers in Korsten. Obviously when they are buying stock, the 14% Value-Added-Tax (VAT) is deducted which contributes towards tax revenue in South Africa. In addition to this, 74% of the interviewed Somalis indicated that they were registered with South African Revenue Services (SARS). Clearly there is a welfare gain from the amounts of taxes contributed by the Somalis who run businesses in South Africa. Such welfare gains accrue mainly to South Africans in form of social services.

Approximately 59% of the Somalis interviewed indicated that they mostly used their income to further invest in the township businesses. This means that there is a capital injection into the townships emanating from Somalis who run businesses in the townships. The manager of the Korsten wholesaler, whom the Somalis mentioned repeatedly in the interviews, indicated that around two hundred Somalis stocked from his business every day. Although it does not necessarily mean that these two hundreds are from Motherwell, obviously they are among those purchasers. Through a multiplier effect it is expected that Somalis economic activity in Motherwell Township stimulates the local economy. Such economic stimulation in the local economy should result in further gains in the economy of Nelson Mandela Bay in form of job creation and economic growth.

9. COMPETITION BETWEEN SOMALIAN AND SOUTH AFRICAN OWNED INFORMAL BUSINESSES

In terms of business competition between Somalis and South African nationals, only 34% of the local informal traders interviewed were involved in the same industry of Somalis, grocery. The rest 66% were in various other industries that Somalis were not involved in at all. There is therefore no compelling reason why South African informal traders should feel unfair competition from the Somalians. However, the feeling that Somalians are taking over township businesses still persists. South Africa has a history of racial violence and there could be a fear of the 'other'.

In the main, perceptions of unfair competition arise as a result of price differences between Somalian owned informal businesses and those owned by South Africans. Township residents are human beings who are rational. The find low prices from the Somali shops. The low prices was mentioned repeatedly by the South African respondents. This is something both business groups mentioned during the interviews. Even during the focus group discussions low prices charged by the Somalis was dominant. The manager of the wholesaler from whom the Somalis mostly buy their stock also mentioned that Somalis charge low prices for their goods.

But the question is, who benefits from the competition amongst businesses? Obviously it is the general public in the Motherwell Township. Lack of competition is a monopoly situation where a few businesses can charge whatever prices they want which in turn will mean higher prices for basic items. Most of the people who will be harmed by this kind of situation in Motherwell are again the poor people. Hence the lower the price of the basic items, the better for the people of Motherwell.

The implication of the above discussion is that not all the people of Motherwell had bad intensions towards the Somali informal traders. Instead, the local traders who were involved in the same economic activities were the ones that felt that the presence of the Somalis in the township was a threat to their profitability.

Both Somalis and South African nationals were asked what they thought was the main difference between the informal businesses of the two groups. The answers were very different not only from group to group but also within the same group. To begin with the Somali answers, the two most cited differences were customer treatment and infrustructural differences. The South Africans owned properties Many Somalis mentioned that their attitudes towards customers was much better and appealed more to the customers than their South African counterparts.

Some Somalis mentioned some of the ways of winning the hearts of the customers and these included:

- Giving credit to customers when they run out of money and having customers pay as soon as they get money;

- Always ensuring stock is available thus preventing the loss of customers;

- Giving good discount when customers buy more stuff and delivering these stocks to the customer's house when necessary;

- Giving children free sweets, chips and some other items to win the loyalty of the customers;

- Forging good relationships with the parents, chating with them and being friendly; and

- To quote one of the interviewees statement

"at the beginning, my neighbours, my customers and I were not in good terms. We could not understand each other. I had a lot of problems as a result. However, as time passed , I tried to win the hearts of the people in the area and I won at last. Now, small kids come to us with R100 and R200 rolled in a paper stating the items parents need, we give them the change and take them and the stock to their house. I remember during the xenophobic incidence in 2007 an elderly man whom I help his child in this way was arguing in our defence. Even some elderly women now bring the pocket money of their school-going children to us and the children get it from us, taking daily small amount of that money. We are truly part of the community" (Somali informal trader interviewee, 2010).*

A further difference that was mentioned was hours of work. Somalis opened earlier and closed later than the South African owned informal businesses.

Some Somalis also mentioned that there was a difference in the work attitude of the two groups. They believed they are more hardworking than the local informal business owners. They reasoned this by saying that South African nationals had another source of income if their businesses ran bankrupt, namely government agencies who help the South African nationals in the form of social grants. Also some indicated that in general South African nationals were more privileged as they are the citizens of the country while the Somalis were at a disadvantage as no one would help them if they did not work hard.

The South African respondents were also given opportunity to voice out what they thought were the differences between their businesses and the Somali owned businesses. The South African national indicated that differences were manily on prices and business industry. Many South Africans believed that Somalis were cheaper in terms of price than theirs. The reasons given for this were also different. Some stated that Somalis worked as groups and hence get good discounted prices from the wholesalers. Others said Somalis worked in the wholesalers and hence were given a good discount and as a result could sell their goods cheaper. However, others saw the reason as being the inferiority and lack of quality of the products sold by Somalis as the reason for lower prices.

South Africans believed that the quality of the services given by Somalis were better than theirs. The reason according to them was that Somalis worked in their businesses as a group and hence were able to attend to customers unlike them who worked alone in their businesses. This meant that when more than one customer came to buy, the customers had to wait thus wating time.

The income difference was cited a number of times. Some South Africans believed that Somalis earn higher incomes than South Africans. They also acknowledged the fact that Somalians worked long hours.

10. IMPLICATIONS, RECOMMENDATIONS AND CONCLUSIONS

From the foregoing discussion and econometric results it is clear that the informal businesses, particularly the Somalian owned businesses play an important role in the economy of the Nelson Mandela Bay. In order to ensure that this sector thrives in this region several things needs to be addressed. The first and foremost is to deal with the environment within which the Somalians trade in the township. The attacks and violence against the Somalians can no longer be left unattended. At the same time, the informal businesses which are South African owned must be supported in such a way that they can also be able to perform at the same level as the Somalian owned businesses.

Drawing from the econometric results, the government needs to focus on the macroeconomic environment. The results of this study show that both the South African owned and Somalian owned informal businesses are negatively impacted by interest rates. Interest rates makes borrowing costly and thus leading to high costs for running a business. This is particularly relevant to those businesses which are operated from rented sites. A country like South Africa which uses interest rates as its monetary policy, it becomes important to ensure that there is price stability in order to avoid ever increasing interest rates. A stable interest rate regime will enhance the performance of both Somalian and South African owned informal businesses.

Education was found to be negatively related with profits and statistically insignificant. This finding is against our priori expectation. However this can be explained by the fact that most of the informal traders have lower levels of education which is not business related. It is important to sensitise the nation towards business related programmes including studies on entrepreneurship. The learners must

be groomed to be job creators than job seekers. It is only through this strategy that successful entrepreneurship can be guaranteed.

GVA was found to be positively related to informal traders' profits. Small businesses can thrive under a growing economy. Gross Value Added product measure the output and productivity in the economy. Strategies to ensure a sustainable growth path are important to ensure successful entrepreneurial activities. In fact the relationship between growth and entrepreneurship is a two way function in that growth presents opportunities for businesses to grow whilst growth itself stimulates a vibrant business environment.

Although informal sector is an unregistered sector, it is a bedding ground to bring forth successful entrepreneurs. Also this sector presents an opportunity to broaden the tax base in South Africa. This study found that the Somali owned informal businesses presents a probability to contribute towards tax in South Africa. It is important therefore to ensure that informal businesses are encouraged to register and formalise. Such a stance will help transcending informal businesses from '*main streets*' to the '*mainstream*' economic activities.

Although this study shows evidence of failure of the informal sector to create jobs in Motherwell, it is notable that Somali owned informal businesses presents a probability to create jobs. However these jobs are filled either by Somalian families or other Somalians. The mere fact that Somali owned informal enterprises presents opportunity to create jobs it becomes more compelling to encourage them to formalise but such a move will require that all legal papers relating to the stay of Somalians in South Africa be in order. Both the probability for tax contribution and job creation indicate that Somali owned informal businesses presents a potential to yield positive social return for South Africans. Both tax contributions and job creation will improve the welfare of South Africans (i.e. if Somalians employ South Africans).

Drawing from the qualitative results of this study, it quite clear that the conflict between Somalians and South Africans is not necessarily xenophobic, meaning hate of the 'other'; but merely an economic battle. In this paper we dismiss the myth that South Africa is a xenophobic nations. It is the principles of competition that are misunderstood by the South African informal traders. Similar violent attacks have been witnessed in many instances amongst taxi owners in South Africa and lots of lives have been lost in this process. These violent attacks are as a result of a lack of understanding of basic principles of competition. This assertion came out strongly during the interviews. The main differences between Somalian and South African owned businesses in the townships, amongst others, are pricing strategy, group work, customer care, work ethic, reservation wage (*as a result of social grants*), and negotiations with the suppliers in bulk buying and discounts. Based on these findings we are of the view that addressing xenophobia is only treating the *symptoms* and not the cause.

11. RECOMMENDATIONS

Based on the above-mentioned research findings, the following recommendations can be given:

- Somalis in Motherwell seem to be a permanent feature of that township and hence their entrepreneurship skills need to be nurtured and developed. This can be done through interventions by the government departments, Somali community elders and organisations such as Somali Associations of South Africa, Somali Community Board as well as institutions of higher learning.

- The relationship between Somalis and local business people need to be reconciled and strengthened under a spirit of '*Ubuntu' (meaning kindness)*.This can be done through forums, seminars and other kinds of gatherings between Somalis and South African business men and women. Through these forums young South African entrepreneurs could get motivated when they see Somali young people who are less educated and less privileged but yet running successful businesses. The stories of the Somalis can encourage many young South African entrepreneurs to focus and become productive.

- It is in the best interest of both the country and Somalis if Home Affairs can be efficient in issuing identity documents and other legal papers to Somalis. This will enhance their productivity because they will be able to open bank accounts, get loans, and increase their economic activities.

- Somali Association in the Eastern Cape, Somali business community in Motherwell, school principals and teachers of IsiXhosa language should think how the language ability of Somalis

could be developed. This will help illuminate the language misunderstanding that can in some cases trigger a negative incident. Opening institutions in the townships to teach foreigners the local conversational language is in itself a business opportunity for local South Africans. This will foster good and health relationships between foreigners and the locals.

- The must be working relationship between the South African Police Service (SAPS) and Somali traders in Motherwell in order to ensure the safety and security of the foreigners.

- Finally Somalis who are making huge profits from township businesses should consider employing locals or forming joint ventures with the locals. This will help transfer of skills to the locals.

12. CONCLUSION

As shown in this paper, a considerable amount of effort has been given in order to ensure that this research reliable and that the sources of information and the methods used are relevant and suitable for the study. Given the results of this research all null hypotheses presented in this paper are rejected in favour of the alternative. We therefore conclude that trans-border migration of Somalian informal traders into South African townships, particularly Motherwell, presents economic opportunities for South Africa.

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