

# “Effects of migration and immigration on SMMEs: the case study of Diepsloot informal settlement, South Africa”

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## ARTICLE INFO

Evelyn Chiloane-Tsoka and Nthabeleng Mmako (2014). Effects of migration and immigration on SMMEs: the case study of Diepsloot informal settlement, South Africa. *Problems and Perspectives in Management*, 12(4)

## RELEASED ON

Monday, 15 December 2014

## JOURNAL

"Problems and Perspectives in Management"

## FOUNDER

LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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## Effects of migration and immigration on SMMEs: the case study of Diepsloot informal settlement, South Africa

### Abstract

Rapid urban growth throughout the developing world has outstripped the capacity of most cities to provide adequate basic services for their citizens. Urban congestion and the sprawl of informal settlements are further hampering local authority's abilities to create a conducive environment for the support of SMMEs. This leads to a shifted focus on improving basic infrastructure and delivering essential services such as healthcare which include providing treatment for HIV/AIDS for a growing number of people within South Africa's urban areas. As a result, SMMEs become a panacea for survival in an attempt to provide for daily necessities which government cannot support. This paper provides a conceptual framework of rural migration and immigration with specific focus on Diepsloot informal settlement as a cause of concern for urban poverty. Lack of proper housing, poor sanitation and higher costs of living lead to poor urban conditions that undermine the sustainability of socio-economic development of large cities in the South Africa. Thus giving rise to emerging informal SMMEs survivalist entities. The aim of this paper is to explain the effects of rural migration and immigration on SMMEs in Diepsloot. Secondary data from books, reports, archives, the internet, government reports and municipality reports were analyzed in formulating this article.

**Keywords:** SMMEs, migration, immigration, Diepsloot, South Africa.

**JEL Classification:** J46, L26, J6, I38, L29, O17.

### Introduction

South Africa is a nation with a history rich in migration. Historically, South African nationals left rural homelands to live in more urban settlements with the hopes of being closer to sources of employment. The transition of South Africa to a democratic state, with the influx of immigrants, has changed the country's entrepreneurial landscape, creating a strong connection of Small Medium Macro Enterprises (SMMEs) to informal and formal transnational networks of trade and migration (Pederby & Rogerson, 2000). Migration in South Africa is considered an important process in shaping the age structure and distribution of provincial populations (Statistics South Africa, 2013).

According to the Human Sciences Research Council (HSRC, 2009) South Africa has five major migration corridors. These are Limpopo, North West, Free State, Mpumalanga and northern KwaZulu Natal (KZN); where rural dwellers migrate into Gauteng province. Other migration in South Africa takes place from southern KZN through Eastern Cape into Cape Town. It is estimated that between 2006 to 2011, Gauteng province alone experienced a net inflow of 1046641 migrants (Statistics South Africa, 2013).

Gauteng province is the economic hub of the country. The province contributes 33.9% towards the gross domestic product (GDP) of the country which constitutes 10% of the total GDP of the entire African continent (Gauteng Online, 2014). Industries such as manufacturing, finance and real estate, wholesale and retail, transport, storage and communication as well

as construction contribute significantly to the province's GDP and employment; therefore attracting rural migrants and immigrants to Gauteng province for better livelihood opportunities. The City of Johannesburg is the biggest city in Gauteng province. The City of Johannesburg is also the largest economy of any metropolitan region in Sub-Saharan Africa (South African Local Government Handbook, 2012). The City is made up of seven regions divided into a northern and southern region. Region A, which forms the northern region of the city, is made up of areas such as Dainfern, Farmall and Chartwell which are considered to be the upper income end of the socio-economic spectrum of the City, and informal settlements such as Diepsloot at the lower income end (City of Johannesburg, 2014). Diepsloot was established in 1994 as a relocation area for people moved from shackland informal settlements. In the past 20 years, the informal settlement has grown into a township that is plagued by crime, poverty and drug problems. Many small businesses have sprung up in the past 10 years but sectors such as construction, manufacturing, mining and agriculture dominate as sectors for formal employment. Yet, many of the residents in Diepsloot still experience difficulty in finding formal employment, this exacerbated by the distance from the Johannesburg Central Business District (CBD). With the high cost of living for people in informal settlements, it is estimated that those with jobs in Diepsloot spend up to 50% of their salaries on transport costs alone (Davie, 2014).

While migration is considered a normal element in developing societies, it cannot be denied that it has negative effects on the overall development and poverty of a nation. Rural migration is said to

worsen already problematic employment issues in developing counties (Cornwell & Inder, 2004). In Johannesburg, the influx of cross boarder migrants from other provinces for better living standards is often blamed for the heavy burden on the healthcare system and its negative impact on social services. The City of Johannesburg considers Diepsloot a cosmopolitan community with a large number of foreign inhabitants and inhabitants that hail from other parts of South Africa. Efforts by the City of Johannesburg to improve Diepsloot are mainly concentrated improving healthcare, hygiene, service delivery and the socio-economic fabric of the community (City of Johannesburg, 2011).

As Crush (2000) predicted, the lack of solid integration policies between foreign immigrants and local inhabitants would lead to destabilization in poorer communities in South Africa. This was evident in the xenophobic attacks of 2008 that brought South Africa to shame globally. This could be interpreted as a reflection of the fight for limited resources in a considerably new democracy where local inhabitants of the country were not realizing the promise of employment, service delivery, economic equality and improved living standards in the new South Africa. There exists a great gap divide in South Africa between the rich and the poor; the skilled and unskilled as well as the foreign inhabitants who arrive in South Africa find themselves as a fit between these demographics (Jost, Popp, Schuster & Ziebarth, 2010). In their expectations not being met, the frustrations of South African locals led to countless protests on service delivery and attacks on foreign inhabitants who were accused of taking employment meant for South Africans. Like other shacklands in South Africa, Diepsloot still remains clouded by constant xenophobic attacks. With the above mentioned problems in mind, SMMEs in Diepsloot emerge out of a combination of necessity for local inhabitants of South Africa and opportunity for foreign inhabitants.

## 1. Background

The Global Entrepreneurial Monitor (GEM, 2012) defines necessity-driven entrepreneurs as those who are pushed into starting businesses because they have no other work options and need a source of income. In South Africa, the National Credit Regulator (NCR, 2011) categorizes the definition of SMMEs as either statistical or economical. Under their statistical definition, a SMME is defined by the following: 1) the size of the small firm sector and its contribution to GDP, which includes employment and exports; 2) the extent to which the small firm sector's economic contribution has changed over time; and 3) in a cross-country comparison of the small firms' economic

contribution. The National Credit Regulator's economic definition states that to qualify as a SMME, a company must meet three criteria; namely: 1) have a relatively small share in the market place, 2) the firm must be managed in a personalized manner by its owners with little or no formalized structures and 3) it should be independent and not part of a larger enterprise. Contrary to existing definitions, SMMEs in Diepsloot cannot be classified under the above definitions. Albeit, the growth of small businesses in Diepsloot in the past 10 years, many of these SMMEs do not grow beyond survivalist entities and jobs remain hard to find (Davie, 2014).

GEM (2010) indicates that most entrepreneurs operating small businesses have a grade 12 qualification or less. In South Africa, a grade 12 qualification is the equivalent of high school diploma. As a result of poor education and lack of employment opportunities, people enter the field of entrepreneurship out of necessity. Although there are training programs offered by government agencies such as the Small Enterprise Development Agency (SEDA); such programs do not often become accessed by those who operate in the sector out of necessity. With levels of literacy below the grade 12 qualification, entrepreneurs are often unable to understand programs and policies put in place to aid their empowerment. A proper structure to disseminate information is one of the weaknesses of government owned agencies such as SEDA. This leads to criticism of the agency based on its lack of adequate monitoring and evaluation program offerings (Chiloane-Tsoka, 2009). While Ladzani and Van Vuuren (2002) state that a wide range of education and training programs exist, many institutions conduct training in only one functional area of business. They further argue that very few training and educational programs are assessed and this highlights a need for research to be undertaken to assess the content and impact of these training programs. Chiloane-Tsoka (2009) adds that entrepreneurs who do not possess higher educational qualifications or come from a strong educational background are further biased by tender procurement practices that are difficult to understand. While this is the fact; most of these tenders are disseminated via the internet and newspapers; mediums which a large majority of survivalist entrepreneurs do not have access to. Entrepreneurs who do not have access to these types of information sources obtain most of their information from television and radio. These are worrying concerns that contribute to entrepreneurs starting small businesses that fail within the first three years of operation. Other significant factors that also contribute towards failure of SMMEs include lack of managerial skills, lack of proper business planning and proper record keeping by entrepreneurs (Ligthelm,

2011). The failure rate of small businesses in South Africa is estimated to be between 70-80% (Fatoki, 2014). It is at this level that small businesses within Diepsloot that are owned by South Africans operate. The lack of conceptual and operational skills by local businesses opened a gap for foreign nationals. As a means by the apartheid government to avoid sanctions, relationships were established with other African countries. During this period, immigrants from Francophone and Anglophone in western and central Africa became increasingly visible on South Africa's city streets and these relationships were at times cemented with temporary residence in the country (Pederby & Rogerson, 2000, p. 23). Today, "new arrival immigrants" who are not part of South Africa's traditional immigrant history from other parts of Africa, Europe and Asia identified gaps for small emerging businesses for the poor. Like many other informal settlements in South Africa, Diepsloot is flooded with these emerging small businesses owned by foreign inhabitants. These foreign nationals such as Somalians and Pakistanis brought with them networking models to build and grow their small businesses in other areas in informal settlements and townships across South Africa. Through this they were able to negotiate lower prices with suppliers, offer real price reductions in the sale of their goods to customers and credit terms for the poor thus in turn creating a unique selling proposition for these foreign owned businesses. These issues coupled with government's inability to address unemployment and service delivery led to unfairly placed blame on foreign immigrants who own small businesses (Jost et al., 2010). Furthermore, Jost et al. (2010) add that foreign nationals might also contribute to xenophobic attacks in their discussions of how lazy, uneducated and diseased South Africans are. Host populations often require respect and these discussions in their presence may also give another source of tension. In consideration of various factors, the identification of a business gap by foreign inhabitants was not welcomed with positivity by local inhabitants.

## 2. Importance of SMMEs in South Africa

Developing economies such as South Africa are unable to employ much of their employable population. SMMEs employ half of the working class population and contribute 50% of South Africa's GDP (Rodgers, 2008). Where South Africa faces high inflation rates and unemployment rates, SMMEs afford the country an important vehicle in addressing these issues by promoting growth and equity (Mutezo, 2013).

While unemployment remains a problem in South Africa with the official unemployment rate standing at 25.2% (Statistics South Africa, 2014) people

often find themselves employed in the informal sector. Such employment is mainly rooted in areas such as secondary cities flooded by informal settlements with a small employment base thus creating a critical problem of unemployment and poverty. However, government remains uncertain about how far it can reduce the decline in the rural economy (HRSC, 2009). Conversely, South African government also recognizes the important role SMMEs play as job creators to fuel the economy; with many small business support initiatives led by government (Abor & Quartey, 2010). It is believed that SMMEs in South Africa have the potential to grow and develop much of employable population that remains unemployed because of the country's inability to provide formal employment. Lack of proper education inherited from past policies gave rise to the sector being unable to be formalized.

In South Africa, where previous policies such as apartheid have had adverse effects on societal division, entrepreneurship can play a critical role in adjusting the well-being of society (Briere, Tremblay & Daou, 2014). In such economies, entrepreneurship often takes place in the form of necessity-driven entrepreneurship. In contrast to necessity-driven entrepreneurship, opportunity-driven entrepreneurs are those entering entrepreneurial activity primarily to pursue an opportunity. The latter are further distinguished as improvement-driven if they additionally seek to improve their income or independence through entrepreneurship (GEM, 2012).

In a study of small businesses, FinScope (2011) developed a segmentation model that measured the varying levels of sophistication of small businesses in South Africa. It was found that a majority of SMMEs in South Africa lay on the extreme end of the continuum and could be classified as micro business and survivalist businesses. On the other extreme end of the continuum were more sophisticated businesses who when compared with other international SMMEs were only moderately sophisticated.

## 3. The rise of the foreign owned small businesses in South Africa

The emergence of informal micro businesses can be seen as a result of necessity. The lack of livelihood and the competition for limited resources gave rise to informal businesses in South Africa. Traditionally, businesses in townships and informal settlements were in the form of spaza shops, hair salons, car washes and required technical skills, minimal capital and little formalities to start up. The influx of foreign inhabitants, led to increased competition and lowered prices. This led to overall diminished profits for businesses owned by local inhabitants. With them

foreign inhabitants brought networking skills which led to the sprawling of more foreign owned informal businesses. The rapid growth of foreign owned small businesses rendered Diepsloot's local inhabitants powerless as they were unable to compete with the foreign owned pricing models and skills. This consequently led to disintegration of local inhabitants' small businesses. Negative views regarding this disintegration caused tension within Diepsloot informal business owners resulting in a series of xenophobic attacks where properties were looted by local residents and foreign inhabitants killed (Bauer, 2013; South African Broadcasting Services, 2013).

#### **4. Municipality and government responses to disintegration in Diepsloot**

Municipality reactions to disintegration in Diepsloot are often reactive. This can be seen in recent efforts by the Johannesburg to develop the surrounding road infrastructure in Diepsloot where the objective is to provide an interconnected network of inner and outer ring roads to help ease congestion between the two cities, which will also ease access to townships like Diepsloot. As a matter of concern, an incubation hub that will fully cater for all sizes of businesses, providing vital support and job creation to a marginalized residential node is being developed near Diepsloot. The innovation hub is expected to help create more than 50 000 permanent jobs in its 1.8-million square metres of commercial space (Davie, 2014).

Such government led initiatives aim to address skills shortages of informal businesses such as mentorship, support, accountancy, marketing, tax, law, labor law, engineering, and best practice. The newly established portfolio Minister of Small Business articulates that SMMEs are the backbone of the country's economy. In assisting small businesses in South Africa, the Minister of Small Business, Lindiwe Zulu (2014) suggests that like foreign owned business owners who come to South Africa with little or nothing; their networking and support skills would be beneficial to local small businesses in order to help these local businesses connect and support each other. Nonetheless, Diepsloot's micro survivalist businesses remain at the peripheral for sustainability. Radipere and Dhlwayo (2013) argue that businesses owned by foreign inhabitants do not necessarily perform better than locally owned businesses but they also suggest that the nation's people and government need to set the stage to allow for a more accessible and inclusive culture of entrepreneurship. The lack of integration of foreign nationals who have already established networks in the informal settlement of

Diepsloot, makes it difficult to understand how the innovation hub will harmonize already existing tension. It is anticipated that this model of the innovation hub will further disintegrate the existing gap between local residents and foreign inhabitants. Although, this innovation hub is mandated to resolve the existing unemployment problem in Diepsloot the policy of exclusiveness on other nationals seems not to provide a model sustaining the harmonization of the community.

The argument for Diepsloot's innovation hub's sustainability would seem to be more appropriate if it included foreign nationals even if at a specified quota. This relates to the naturalization of some foreign nationals. If no provision is made for foreign nationals who have already carved a niche market for themselves, it will be to the dismay of the community of Diepsloot over the long term. It is critical that any model that is government led to alleviate the problems in Diepsloot be strategically thought out as foreign nationals within the community have established a unique selling proposition from their networking schemes.

#### **5. Policy implications on small business and migration**

The impact of rural migration exodus can be expected to have not only a direct impact on rural communities through reduced income and unemployment, but also knock-on effects on urban economies as well. The increased burden on urban municipalities will rise as a result of the continued view of South Africa in the African continent as a beacon of hope to the neighboring countries and rural migration influx in cities. This may put considerable strain on rural local governments, which provide services and promote development at a local level. Local municipalities will therefore need to plan and adapt strategies in creating a conducive environment that assists small business initiatives' impact on growth. Rural communities and local municipalities will need to find appropriate and efficient ways of developing the resilience of rural local municipalities in order to create a viable economy that will discourage people to come to cities to stay with their families. These measures will need to be supported at a systemic level, including governmental financial mechanisms.

South African immigration policies could also be tightened which could be met with hostility by the international community. The South African government encourages small business initiatives after realizing that the sector is the backbone of unemployment reduction and poverty alleviation. Urgent measures on policy action and strategies to reduce unemployment; especially youth unemploy-

ment; are critical to mitigate disintegration of communities and call for urgent attention. In this way, development efforts and programs to reduce poverty should lessen livelihood vulnerability ultimately reducing the need for families to migrate because of seeking opportunities in urban areas that are only met by hostility as a result of competing for scarce resources. The development of the rural economy for local rural inhabitants could see less overcrowding of hospitals, ultimately improved service delivery and better economic acceleration.

## 6. Research design

According to Hussey and Hussy (1997), research design is the overall approach to the research process from the theoretical underpinning to the collection and analysis of the data.

**6.1. Research methods.** The research method used in this paper is classified as content analysis. Content analysis is defined as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns” (Hsieh & Shannon, 2005, p. 1278). Content analysis allows for the broad description and categorization of phenomena and is more than a simplistic technique for counting data (Elo & Kygnas, 2008, p. 108). The objective of the article was to explain the effects of rural migration and immigration on SMMEs in Diepsloot. For the purpose of this article, literature was used to give an overview of the context of SMME operation in South Africa as well as to gain insight of the varying perspectives on migration and immigration in Diepsloot. Sources consulted included academic books, journal articles, reports and electronic media. However, the authors also consulted relevant literature from researchers in the SMME Development and entrepreneurship disciplines. Furthermore, literature in this article also relied on the local economic development from the City of Johannesburg. Through this, this article seeks to contribute to the existing literature on the effects of migration and immigration in Southern Africa and to present future study and research areas.

**6.2. Units of observation.** The units of observation for this research were predominantly written material in the form of relevant scholarly and official documents. These included literature from journals, books, policy documents, government publications, municipality publications and South African media publications. Much of the research material used included literature of the most topical books and journal articles that helped in improving insight into the various discourses on the effects of

rural migration on SMMEs in the context of Diepsloot in South Africa. Reading, analyzing and interpreting texts were seen as the main method of research.

## Conclusion

The importance of SMMEs in areas such as Diepsloot cannot be ignored as well as the need for a cohesive living environment for foreign and local residents. Initiatives that strive to improve SMMEs are necessary but need to take into account the unique factors present in Diepsloot. The focus of the paper was to provide a conceptual understanding of the role played by SMMEs in Diepsloot and the lack of integration between foreign owned small businesses and locals of South Africa. The lack of inclusiveness and integration of the proposed hub could hamper an already strained relationship between locals and the foreign inhabitants of Diepsloot. The lack of local inhabitant’s managerial skills could be countered through collaboration with other foreign owned businesses. This collaboration could reduce tension and expand the knowledge base for South African owned business through the development of their networking, managerial and conceptual skills necessary to grow businesses from survivalists to more sustainable entrepreneurial ventures that contribute more meaningfully to the country’s objectives of creating sustainable employment and economic growth.

## Recommendations

- ◆ If government wants to achieve the desired results of incubation it is recommended that the existing business structures led by foreign inhabitants be adopted in their strategy for growth and development of SMMEs within the area.
- ◆ Government should conduct pilot study in order to investigate how many small businesses owned by local residents exist in Diepsloot.
- ◆ The City of Johannesburg should seek ways that will not further alienate the dwellers of Diepsloot using the exclusive model of training needs.
- ◆ Provision should be put in place for encouraging healthier business networks and not extend division.
- ◆ It is recommended that government should incorporate the Pakistanis’ model of networking and include a limited number of Pakistani entrepreneurs in the incubation hub for mentoring South African small businesses for sustainability.
- ◆ A specified quota of small foreign owned businesses could be nurtured from the survivalist stage to growth and used as outlets to create employment for South Africans.

- ◆ Efforts by the City of Johannesburg to improve Diepsloot should not only focus on health, hygiene, service delivery and improving the socio-economic fabric of the community but also include creating harmony between local residents and foreign inhabitants.
- ◆ Government programs should address skill shortages by providing a coherent framework that is sustainable for training SMMEs in relation to skill to reduce the business failure rate.
- ◆ Local municipalities should be proactive in implementing their strategic initiatives rather than being late in their infrastructural developments only to find that foreign inhabitants had already put measures in place for their networks. Destroying such endeavors would

compromise many problems that should have been avoided.

#### Limitations

- ◆ The paper specifically addressed Diepsloot informal settlement in Gauteng province.
- ◆ There are there are other provinces with similar informal settlements in South Africa that are also affected by foreign and rural migration.

#### Further study

- ◆ The paper was conceptual and an empirical study could assist in validating the authors contributions.
- ◆ An empirical study should be conducted in other provinces.

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