“A socioeconomic analysis of Ethiopian migrant entrepreneurs in South Africa”

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A SOCIOECONOMIC ANALYSIS OF ETHIOPIAN MIGRANT ENTREPRENEURS IN SOUTH AFRICA

Abstract

The objective of study was to assess and evaluate factors that affect entrepreneurial activities carried out by formal and informal migrant entrepreneurs from Ethiopia who conduct business operations in the nine provinces of South Africa. The study was descriptive and exploratory in nature. The design of the study was descriptive and cross-sectional. Data were collected from a stratified random sample of 3,045 migrant entrepreneurs from Ethiopia who conduct business in the nine provinces of South Africa. Stratified random sampling was used for the selection of eligible entrepreneurs. The study found that about 76% of businesses operated by migrant entrepreneurs from Ethiopia were profitable, whereas the remaining 24% of businesses were not profitable. About 32% of entrepreneurs were attracted to South Africa due to better infrastructural facilities. About 25% of entrepreneurs were attracted to South Africa due to better socioeconomic conditions. About 78% of migrant entrepreneurs had conducted business in South Africa for five years or more at the time of data collection. About 34% of businesses paid tax to the South African Revenue Service (SARS) on a regular basis. About 38% of businesses employed at least one South African in their businesses. About 85% of entrepreneurs stated that they had good working relationships with members of the various local communities in South Africa.

Keywords South Africa, Ethiopian migrant entrepreneurs, economic analysis, logit analysis

JEL Classification E24, F18, F22, G23

INTRODUCTION

The study was conducted in order to assess and evaluate socioeconomic factors that are known to affect entrepreneurial activities conducted by migrant entrepreneurs of Ethiopian origin in South Africa. Data were collected from a stratified random sample of 3,045 formal and informal migrant entrepreneurs of Ethiopian origin who conduct business in the nine provinces of South Africa. One of the specific objectives of the study was to identify the key attractions and motivations of migrant entrepreneurs from Ethiopia who come to South Africa to live as entrepreneurs. The other specific objective of study was to assess and evaluate how well migrant entrepreneurs of Ethiopian origin were doing in South African cities and townships. There is a shortage of studies that could be used for assessing and evaluating the working and living conditions of migrant entrepreneurs of Ethiopian origin in South Africa. The study aims to fill the gap by collecting empirical data from migrant entrepreneurs.

1. OBJECTIVES OF THE STUDY

The overall objective of the study is to assess and evaluate the economic activities and contributions of migrant entrepreneurs from Ethiopia.

The specific objective of the study is to identify and quantify factors that motivate formal and informal migrant entrepreneurs from Ethiopia to migrate to South Africa in pursuit of entrepreneurship.

2. LITERATURE REVIEW

According to Trujano (2008, p. 12), Ethiopia is challenged by different migration patterns and dynamics, which have motivated the youth to migrate formally and informally to other countries in search of career opportunities and livelihood. The study conducted by Molla, Mitiku, Worku, and Yamin (2015) has shown that a combination of socioeconomic, demographic and political factors motivates the youth to migrate out of Ethiopia by formal and informal means to countries such as South Africa, and that the trend of migration has increased significantly since the mid-1990s. Formal and informal migrant entrepreneurs arrive in South African regions in search of career and business opportunities. The study conducted by Cookson, Abaza, Clarke, Burton, Sabrah, Rumman, and Naoum (2015) has pointed out that informal migrants from developing nations, in which there is civil war and political unrest, are often exposed to extreme socioeconomic difficulties in the course of seeking a better life in foreign countries. The migration pattern from the Horn of Africa has steadily remained the same since the mid-1990s, in which the unemployed youth often seek better socioeconomic opportunities in foreign nations that are relatively more stable and prosperous. Most of the young adults who migrate to the South Africa are economically active and are heading in pursuit of dream of capturing the green pasture there. The study aims to identify and quantify the socioeconomic conditions and economic contributions of migrant entrepreneurs who travel to South African cities and townships in search of improved socioeconomic and political conditions. Migratory patterns into South Africa vary depending on the socioeconomic and political circumstances that apply to migrants.

Migrant entrepreneurs make a significant contribution to national economies in all parts of the world. Fatoki and Patswawairi (2012) and Dalhammar (2004) have reported that migrant entrepreneurs encourage and motivate local populations and communities to work harder for economic opportunities.

According to Statistics South Africa (2017), the population size of South Africa is about 56 million. The number of foreign-born people in South Africa is about 1.6 million. There are an estimated 65,500 refugees and 230,000 asylum-seekers in South Africa. According to Akanle, Alemu, and Adesina (2016, pp. 39-158), there are about 45,000 migrant entrepreneurs of Ethiopian origin who conduct business in South Africa. According to Africa Check (2018), South Africa is host to about 381,754 asylum-seekers. A report issued by the United Nations High Commission for Refugees (UNHCR, 2017) indicates that South Africa has 120,000 recognized refugees and one million asylum-seekers with pending cases. A report published by Statistics South Africa (2015) shows that there were over 65,000 refugees and 230,000 asylum-seekers in South Africa in 2014. The major countries of origin were Somalia, the DRC, Angola and Ethiopia. According to the UNHCR (2017), there are between 2.7 million and 3.1 million foreign-born people living in South Africa. According to Statistics South Africa (2016), the population size of South Africa is about 55.7 million. According to the United Nations Department of Economic and Social Affairs (DESA, 2016), there were over 3.14 million international migrants living in South Africa in 2015.

South Africa is a member of the Southern African Development Community (SADC) and the biggest economy in the region. South African companies are a major attraction and source of livelihood to laborers from SADC member nations. For example, the mining sector attracts mineworkers from the neighboring countries in large numbers. People from SADC share similar cultures, languages and tradition. A report published by Statistics South Africa (2014) shows that a total of 69,216 temporary residence permits were issued to applicants in 2014, and the applicants were from Zimbabwe (18.1%), India (9%), Nigeria (8.8%), China (8.3%), Pakistan (6.6%), Bangladesh (4.5%), United Kingdom (3.5%), Lesotho (3.4%), DRC (2.3%) and Angola (2.3%).

South Africa's advanced infrastructure, modern banking industry, advanced manufacturing sector and mature democracy is a major attraction to migrant entrepreneurs from the rest of Africa. In this regard, South Africa has attracted a large number

of migrant entrepreneurs from key African nations such as Nigeria, Kenya, the DRC, Zimbabwe and others. Following the inauguration of the late President Nelson Mandela on April 27, 1994, a large number of migrant entrepreneurs from the rest of Africa migrated to South Africa in order to set up shop and thrive in business. According to a report published by the UNHCR (2013), more than 25% of the world's refugee populations live in Sub-Saharan African countries as a result of political instability in their home countries, lack of economic opportunities, poor infrastructure, lack of access to basic educational, health-related and social services, population explosion, and lack of good leadership and governance by national governments in their home countries. In the year 2015, South Africa was home to at least 576,113 refugees and asylum-seekers who came to South African cities and townships from the rest of Africa and countries such as India, Pakistan, Bangladesh, China and others (UNHCR, 2015). As many of the refugees from Ethiopia enter the economic space, there is a growing concern with their presence and the competition they establish for locals and a desire on the part of policy-makers to understand how such economic activities unfold. The proposed research responds to this policy imperative and is directed towards developing an explorative understanding of the factors that drive entrepreneurialism amongst the Ethiopians migrants.

In South Africa, there are no designated refugee camps as is the case in the rest of the world, although there are a few repatriation centres for illegal immigrants. These are temporary detention and processing centres for illegal immigrants who need to be deported from South Africa due to violation of immigration regulations set out by South Africa. The ANC-led South African Government has held a sympathetic view of refugees and illegal immigrants coming to South Africa from the rest of Africa since April 1994, when the Late President Nelson Mandela was inaugurated. This is evidenced by the reluctance of the South African Government to move refugees and illegal immigrants to designated camps. According to Landau (2006), Fatoki and Patswawairi (2012), Lindley (2010), Mitchell (2012), Mbuli (2008), Antoni and Umejesi (2014), Alonso (2011) and Atkinson and Storey (2016), the free movement granted to refugees, asylum-seekers and illegal immigrants in South Africa by the South African Government is consistent with humanitarian values and economic pragmatism. The authors have pointed out that migrants could be transformed into an economically productive and self-sustaining workforce with proper strategic and operational planning and good leadership. Since the mid-1990s, the number of refugees and asylum-seekers coming to South Africa has increased steadily. Campbell (2006), Hovil (2007) and Lindley (2010) have argued that there is a need for developing a realistic, relevant, economically pragmatic and feasible policy that could be used for recruiting deserving migrants for settlement in South Africa as part of the plan to grow the national economy. What has been proposed by the authors is based on classic empirical studies conducted by Kim and Hurh (1985), Knight (1921), Marx (1967), Birch (1979), Blalock (1967), Sombart (1914), Schumpeter (1934), Rath (2006), Simmel (1950), Salaff (2002) and Dana (2007, 2008), in which the benefits of welcoming and empowering migrant communities have been documented in graphic detail and numerous tangible examples. The authors have by and large called for improved assistance to migrant communities as a means of transforming them into a self-sustaining and productive segment of society.

3. METHODS AND MATERIALS OF THE STUDY

Data were collected by the Pretoria-based research company Leap Specialist Strategic and Planning Solutions (PTY) Ltd (LEAP). A stratified random sample of 3,045 was drawn for the study from the nine provinces of South Africa (Gauteng, KwaZulu-Natal, Limpopo, North-West, Northern Cape, the Free State, Mpumalanga, the Eastern Cape and the Western Cape). The population of formal and informal migrant entrepreneurs from Ethiopia includes all Ethiopian entrepreneurs who conduct business operations in the nine provinces of South Africa. These are formal business people, informal business people, as well as recognized and unrecognized asylum-seekers or refugees living and conducting business operations in the nine provinces of South Africa. The criteria of inclusion into the study was business operation and having Ethiopia as the country of origin. South Africa allows refugees to live, study and work in

South Africa freely. In this study, the possession of a formal trade license and payment of tax to the South African Receiver of Revenue Service (SARS) were not used as criteria of inclusion into the study. Additional secondary data sets obtained from the Ethiopian Embassy in Pretoria, South Africa were used for performing data analyses as part of the study.

4. RESULTS OF DATA ANALYSES

The 3,045 migrant entrepreneurs who participated in the study were asked to provide answers to various socio-economic questions that were related to their socio-economic characteristics, the profitability of their business operations, the employment of local South Africans in their businesses and the payment of tax money to SARS.

Table 1 shows the general characteristics of the 3,045 migrant entrepreneurs who took part in the study. The table shows that about 76% of businesses were profitable, whereas the remaining 24% of businesses were not profitable. About 11% of entrepreneurs migrated to South Africa in search of free society. About 32% of respondents migrated to South Africa in search of better infrastructure. About 16% of entrepreneurs migrated to South Africa in search of safety and security. About 25% of entrepreneurs migrated to South Africa in search of better socioeconomic conditions. About 17% of entrepreneurs migrated to South Africa in search of better socioeconomic values.

Table 2 shows percentages for the various types of difficulties experienced by the 3,045 migrant entrepreneurs who were selected for the study.

Table 2. Difficulties experienced by migrant entrepreneurs (*n* = 3,045)

Difficulty experienced by migrant entrepreneurs	Number (percentage)
Immigration permit related problems	608 (19.97%)
Tax assessment problems	201 (6.60%)
Theft of goods	153 (5.02%)
Collection of debt from customers	127 (4.17%)
Difficulty in obtaining bank account	127 (4.17%)
Difficulty in obtaining bank account	127 (4.17%)
Driver's license related problems	127 (4.17%)
Property ownership problems	126 (4.14%)
Rental problems	127 (4.17%)
Electricity problems	101 (3.32%)
Financial problems	102 (3.35%)
Health-related problems	101 (3.32%)

Table 1. General characteristics of migrant entrepreneurs (*n* = 3,045)

Characteristic	Number of respondents and percentage
Profitability of business operation	Yes: 2,310 (75.86%) No: 735 (24.14%)
Motivation for migrating to South Africa	Free society: 330 (10.84%) Better infrastructure: 963 (31.63%) Safety and security: 481 (15.80%) Better socioeconomic conditions: 763 (25.06%) Better socioeconomic values: 508 (16.68%)
Immigration status of respondent	Formal: 2,509 (82.40%) Informal: 536 (17.60%)
Ownership status of business operator	Owner: 2,740 (89.98%) Employee: 305 (10.02%)
Ownership of premises used for business	Own: 9 (0.30%) Rented: 3,036 (99.70%)
Duration of operation of business	Two years or less: 433 (14.22%) Three to four years: 228 (7.49%) Five years or more: 2,384 (78.29%)
Gender of business operator	Male: 2,788 (91.56%) Female: 257 (8.44%)
Age category in years	18 to 35 years: 2,028 (66.60%) 36 to 50 years: 814 (26.73%) 51 years or more: 203 (6.67%)

Table 2 (cont.). Difficulties experienced by migrant entrepreneurs (*n* = 3,045)

Difficulty experienced by migrant entrepreneurs	Number (percentage)
Trade license	102 (3.35%)
Transportation problems	102 (3.35%)
Violent attack by robbers or thugs	101 (3.32%)
Water problems	102 (3.35%)
Corruption	102 (3.35%)
Cultural problems	76 (2.50%)
Customs-related problems	76 (2.50%)
Education of children	76 (2.50%)
Language-related problems	76 (2.50%)
Legal problems	76 (2.50%)
Storage room for merchandise	77 (2.53%)
Religious problems	76 (2.50%)
Labor-related problems	51 (1.67%)
Sanitation problems	52 (1.71%)

Table 3 below shows percentages for the highest educational levels of migrant entrepreneurs. The table also shows percentages for sources of loan. It can be seen from the table that about 47% of migrant entrepreneurs had matric level or lower educational levels.

Table 3. Level of education and access to finance (*n* = 3,045)

Characteristic	Number of respondents and percentage
Highest level of formal education	Matric level or less: 1,422 (46.70%) Diploma level: 813 (26.70%) Bachelor's degree: 607 (19.93%) Master's degree: 178 (5.85%) Doctoral level or more: 25 (0.82%)
Source of formal education	Ethiopia: 2,739 (89.95%) South Africa: 306 (10.05%)
Borrowing money from social capital associations similar to South African stockvel associations	Yes: 2,488 (81.71%) No: 557 (18.29%)
History of defaulting on loan repayment	Yes: 176 (5.78%) No: 2,869 (94.22%)

Table 4 shows percentages for the perceived level of support provided to migrant entrepreneurs by the South African Government. The table shows that about 80% of migrant entrepreneurs believed that the level of support provided to them by the South African Government was enough, whereas the remaining 20% believed that not enough support was provided to them by the South African Government. It can be seen from the table that about 33% of migrant entrepreneurs paid tax to SARS on a regular basis, whereas the remaining 67% did not do the same. Those who did not pay tax were mostly informal migrant entrepreneurs who sold goods in local communities by going door-to-door.

Table 4. Perception on level of support to migrant entrepreneurs (*n* = 3,045)

Characteristic	Number and percentage
Perceived level of support provided to migrant entrepreneurs by the South African Government	Adequate: 2,438 (80.07%) Inadequate: 607 (19.93%)
Payment of tax to SARS on a regular basis	Yes: 1,016 (33.37%) No: 2,029 (66.63%)

Table 5 shows percentages for the employment of at least one local South African in businesses operated by migrant entrepreneurs in South Africa. The table shows that 1,169 of the 3,045 respondents (38.39%) in the study employed at least one local South African in their businesses.

Table 5. Employment of local South Africans by migrant entrepreneurs (*n* = 3,045)

Characteristic	Number and percentage
Number of local South Africans employed by migrant entrepreneurs	None: 1,876 (61.61%) One: 25 (0.82%) Two: 406 (13.33%) Three: 382 (12.55%) Four: 254 (8.34%) Five: 102 (3.35%)

Table 6 below shows *p*-values obtained from Pearson's chi-square tests of associations obtained from the top 5 significant associations with the profitability of businesses operated by migrant entrepreneurs.

Table 6. Top five significant two-by-two associations from cross-tab analyses (*n* = 3,045)

Factors that affect the profitability of businesses operated by migrant entrepreneurs	Observed chi-square value	P-value
Degree of support for migrant entrepreneurs	2400.0000	0.000***
Ability to raise initial start-up capital from Ethiopia	1100.0000	0.000***
Participation in social capital associations for raising loans	949.1809	0.000***
Growth of business	612.5617	0.000***
Median monthly net profit from business	493.9370	0.000***

Note: Key: significance of association at * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 7. Results from binary logistic regression analysis (*n* = 3,045)

Factors affecting the profitability of businesses	Odds ratio	P-value	95% C. I.
Support from the South African Government	6.93	0.000	(5.56, 8.63)
Ability to raise initial start-up capital from Ethiopia	2.19	0.000	(1.76, 2.74)
Participation in social capital associations	2.01	0.000	(1.61, 2.56)

It can be seen from Table 6 above that all 5 two-by-two associations are highly significant at the 5% level of significance. Results obtained from cross-tab analyses show that the profitability of businesses operated by migrant entrepreneurs was affected by the following 5 factors. In a decreasing order of strength, these 5 factors are:

1. Degree of support for migrant entrepreneurs.
2. Ability to raise initial start-up capital from Ethiopia.
3. Participation in social capital associations for raising loans.
4. Growth of business.
5. Median monthly net profit from business.

Table 7 shows odds ratios estimated from logit analysis (Hosmer & Lemeshow, 2013). The results show that the profitability of businesses was significantly affected by degree of support from the South African Government, ability to raise initial start-up capital from Ethiopia, and participation in social capital associations as a means of raising money needed for business operation, in a decreasing order of strength.

5. DISCUSSION OF RESULTS

The study has found that about 80% of migrant entrepreneurs believed that the level of support provided to them by the South African Government was enough, whereas the remaining 20% believe that not enough support was provided to them by the South African Government. It can be seen from the table that about 33% of migrant entrepreneurs paid tax to SARS on a regular basis, whereas the remaining 67% did not do the same. Those who did not pay tax were mostly informal migrant entrepreneurs who sold goods in local communities by going door-to-door. About 67% of migrant entrepreneurs believed that their services were of some benefit to local communities. About 85% of migrant entrepreneurs felt that they had good working relationships with members of the local communities where they conducted business, whereas the remaining 15% of migrant entrepreneurs felt that their working relationships with members of the local communities were poor. Those migrant entrepreneurs who felt that their working relationships were poor cited language barriers as key obstacles.

CONCLUSION

The key finding of study is that about 76% of businesses operated by migrant entrepreneurs from Ethiopia were profitable, whereas the remaining 24% of businesses were not profitable.

About 32% of entrepreneurs were attracted to South Africa due to better infrastructural facilities. About 25% of entrepreneurs were attracted to South Africa due to better socioeconomic conditions. About 78% of migrant entrepreneurs had conducted business in South Africa for five years or more at the time of data collection. About 34% of businesses paid tax to the South African Revenue Service (SARS) on a regular basis. About 38% of businesses employed at least one South African in their businesses. About 85% of entrepreneurs stated that they had good working relationships with members of the various local communities in South Africa. About 35% of migrant entrepreneurs earned an estimated median monthly net profit of R10,000 or more by conducting business. About 20% of migrant entrepreneurs cited difficulty in obtaining residence permits as a key obstacle to sustained growth. About 4% of migrant entrepreneurs cited difficulty in opening up bank accounts as a key obstacle to sustained growth. Almost all (99.70%) migrant entrepreneurs rented their business premises. The study found that migrant entrepreneurs raised start-up capital by joining social capital associations. This is a classic method of raising start-up capital among small, micro and medium sized enterprises operating in Ethiopia (Bekele

& Worku, 2008), and is quite similar to South African stockvel associations. The method is quite helpful for businesses that are unable to raise collateral as a means of securing loan from commercial banks and microfinance institutions.

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