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A F R I C A N S T U D I E S I N S T I T U T E

African Studies Seminar Paper
to be presented in RW 7003 (7th floor) at
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Title: Some Aspects of the Development of Capitalism from below in Lebowa.

by: John Sender

No 325

This seminr paper contains unpublished data and in no circumstances may any part be quoted.

Some Aspects of the Development of Capitalism from Below in Lebowa

Introduction

The field research upon which this paper is based involved over 100 interviews, most of which were completed by Andrew Feinstein over a period of a couple of months in mid-1991. The Development Bank of South Africa may, or may not, decide to make available the full results of this work as a joint publication, for which my co-author will receive most of the credit[1]. However, the blame for the content of this seminar paper is my own; it is designed to provoke academic discussion of the currently fashionable policies of small business promotion and the views expressed cannot be attributed to anyone but me.

The issues raised in this paper are not new and it may be useful to refer very briefly to earlier research, which has provided a framework for the arguments presented here. In his work on the development of capitalism in Europe, Dobb (1963) recognised the critical role of state intervention in, as he put it, "aiding the emergence of the bourgeoisie". He referred to this support as the development of capitalism from above. A similar stress on the role of state intervention in 'short-cutting' the process of forming a national bourgeoisie in late-industrialising economies is an important aspect of Gerschenkron's (1962) analysis. More recently, Amsden (1989) and Sender and Smith (1986) have provided an account of the economic logic underlying this nurturing role of the state in a range of East Asian and African economies in the period since 1960. Finally, this paper's interpretation of the data from Lebowa has clearly been influenced by the results of my own earlier research in rural Tanzania in the 1970s and 1980s, where privileged access to state (or parastatal or CCM/TANU) resources was a crucial element in the accumulation strategies of rural capitalists (Sender and Smith, 1990).

One issue to be explored in this seminar paper is the paradoxical inefficiency, or the relative lack of success, with which branches of the South African state (the Homeland Development Corporations, the Development Bank of South Africa) have intervened to support black capitalists in rural South Africa. The most vigorous and dynamic black capitalist employers in the fieldwork area appeared to be developing "from below"; they are not relying on privileged connections to either the local or national apartheid state. More specifically, they are accumulating without the support of the Small Business Development Programme (SBDP) of the Development Bank of Southern Africa, a programme which is implemented by the Lebowa

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[1]A.J. Feinstein and J.B. Sender, "The Impact of the Small Business Development Programme in Mapulaneng: A Pilot Evaluation", (October 1991).

Development Corporation.

Dobb also recognised the growth of capitalist production "from below" or, at least in some respects, in opposition to and unsupported by those in control of the state. And, in the South African rural context, Peires (1992) has argued that there is a "disjunction between the homeland leadership and the homeland bourgeoisie". He refers to the existence of "a robust and independent black bourgeoisie which was not (my emphasis) reliant on the Ciskei government for ..... trading licenses or other economic necessities"[2]. The research results from Lebowa provide some support to the arguments in Peires' recent ASI seminar paper. Perhaps the most successful of the black businessmen interviewed were, by scrambling to establish links with the ANC, preparing themselves for a period in which a new South African state will, they hope, promote their interests far more effectively. The content of the most recent ANC policy document suggests that their hopes will not be in vain. The Policy guidelines assert that, "Small business activities, which contribute significantly to job creation, should be actively encouraged by the democratic state. Special attention will have to be given to the informal sector, small and medium-sized businesses..." (ANC, 1992).

One possible conclusion to be drawn is that, whatever the failures of the South African state in promoting dynamic capitalist accumulation in recent decades, there may now be some expectation that a post-apartheid state will prove capable of orchestrating more rapid accumulation in rural areas. However, some of those who have opposed the apartheid state, may be less sanguine concerning the benefits of a more effective development of capitalism from above. Their response to some of the results presented in this paper may be to question the desirability of the current vogue for state subsidisation of small business or, at the very least, to insist on the introduction of legislation and the development of other forms of protection for the employees of these small capitalist enterprises.

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[2]Bank (1987) also provides an account of the development of capitalism from below: "... when one critically investigates the role of the BIC in Witsiehoek, it is not at all clear that the major objective of the Corporation was to stimulate the interests of local black entrepreneurs. During the period 1960 to 1974 the Corporation ... undermined [the interests] of local bus owners, dairy farmers and brick merchants by establishing state monopolies... It seems clear that black commercial advancement in Qwaqwa in the 1960s did not occur because of BIC initiatives, but rather in spite of them!" (p.59).

The Survey

The survey was carried out in Mapulaneng (see map), which is fairly typical of other districts in Lebowa. Mapulaneng has a total population of about 220,000 and about 500 small businesses are believed to be operating in the district. The aim of the survey was to compare the characteristics of a group of small enterprises which had been supported by the Small Business Development Programme of the DBSA through the Lebowa Development Corporation, with some other small businesses in Mapulaneng.

A total of 30 small businesses which had benefitted from the SBDP were studied (Table 5.1). Their characteristics and performance were compared with those of 21 other small businesses, which were not randomly selected, but were chosen to provide some information concerning the most dynamic small capitalists in the area (10 businesses) as well as some remotely located/very small businesses (11). None of this second group of 21 businesses had received any support from the SBDP.

In addition, data was collected concerning 320 employees of the businesses surveyed. Detailed interviews were conducted covering 49 of these employees (see Table 6.1).

Characteristics of the Operators of Small Businesses in Mapulaneng

In terms of some conventional socio-economic indicators, the operators of small businesses, particularly those operating somewhat larger businesses in the less remote areas of Mapulaneng, appear to be rather privileged. They have completed a relatively large number of years at school (see Table 5.4), and their fathers, too, were more likely to have been educated (Table 5.5). Although none of the smallest/remote business operators grew up in families where the mother had been to school, about a third of the other business operators came from families with educated mothers. However, the educational status of all the business operators set them apart from other people in Mapulaneng, where about 40% of the population is illiterate.

Other socio-economic indicators, such as the possession of consumer durables, confirm the relative wealth of the successful business operators (and the business operators supported by the SBDP) as compared with other people in Mapulaneng (Table 5.7).

As employers, the performance of the different groups of businesses has been rather diverse. The data suggest that the SBDP, in common with similar programmes elsewhere in the world, has been remarkably unsuccessful in allocating support to those capitalists capable of generating substantial levels of stable employment at adequate wage

rates and with reasonable working conditions[3]. The status of female employees (73% of the total employed in these businesses) is a particular cause for concern. These conclusions were arrived at by comparing the performance as employers of the businesses supported by the SBDP with the performance of all the other small businesses studied in the survey. The following results should be highlighted:

- The SBDP beneficiaries employed a lower proportion of females and a lower mean number of females per business (4.1 versus 7.9) than the other businesses.

- The employees of the SBDP beneficiaries were more likely to be over 30 years old than the employees of other businesses (50% versus 30%). Since a high proportion of the unemployed in Mapulaneng are youth, this is a serious criticism of their contribution to alleviating the district's economic problems.

- The total employment generated by the SBDP beneficiaries was lower than the total generated by successful businesses (see Table 6.4).

- The SBDP beneficiaries had a higher ratio of casual to permanent workers than the other businesses.

- The relative instability of employment generated by the SBDP beneficiaries is also shown in Tables 6.5 and 6.6.

- All employees wages were low, but the wages of a) females and b) the employees of the SBDP beneficiaries, who generally paid lower wages to their female employees, were particularly low.

- The lowest wages were received by divorced or widowed women (about 15% of all female employees), who earned only about 60% of average male wages in Mapulaneng's small businesses.

- Female employees worked for more hours per day and for more days per week than male employees. They were also less likely ever to receive pay when they were ill, or to receive paid leave or overtime (see Table 6.10).

Apart from their relatively poor record as employers, the beneficiaries of the SBDP were also less successful than non-supported businesses in Mapulaneng in other respects. They appeared to be less able to keep accurate accounts (Table 8.2); their monthly revenues and the value of their enterprises, as reflected in their estimates of total replacement costs, were also smaller (see Table 8.3). Moreover, the businesses which had not been supported by the SBDP appeared to be able to expand their

[3]See Kilby 1988, Mead 1991, Liedholm 1989, Dessing 1990.

operations on the basis of retained profits; the SBDP beneficiaries were more dependent on sources of finance other than enterprise profits.

The inability to generate sufficient profits for expansion must be considered a particularly important constraint on the performance of the SBDP beneficiary businesses, since the SBDP itself has proved to be an extremely inefficient distributor of finance. The average time taken to process loan requests by the SBDP in Mapulaneng was 8.46 months; only 42 percent of applications were processed in less than 6 months and more than one third of applications took 10 months or longer (see Table 9.2). This record is inferior to that of many small business credit agencies in other developing countries, e.g. Kenya (Kilby 1988). It is also very inferior to the record of the Standard Bank in the Mapulaneng area, whose commercial loan applications took an average of only 1.3 months to be processed. The costs to the small businesses reliant on SBDP loans involved not only these inordinate delays, but also substantial transaction costs taking the form of bribes, kickbacks, etc. which were widely reported by the businessmen interviewed.

To summarise, out of 500 or so small businesses in Mapulaneng, the LDC/DBSA chose to allocate considerable resources to those small businesses which were:

a) not very poor or disadvantaged, ie. no coherent equity principles were involved;

b) not particularly dynamic or successful, since even the most casual tourist in the area could identify other, much more successful businessmen.

In addition, high transaction costs were incurred by any small business seeking to obtain resources from the SBDP.

The Political Context

It is difficult to understand the inefficient and inequitable characteristics of state intervention in support of small businesses in Mapulaneng as outlined above without considering the political context. An attempt was made to account for the observed patterns of operation of Mapulaneng's SBDP by examining the fieldwork results concerning the respondents' political connections. None of the employees interviewed, and hardly any of the very small businesses located in remote areas, were able to call upon any local networks of political support or patronage. In contrast, the other small businesses and most especially the SBDP beneficiaries had extremely close connections with the Tribal Authority (one third fell into this category), or were themselves Lebowa M.P.s or policemen or very closely related to these salaried state officials. The most successful small businessmen, who were not reliant on the SBDP and were in some case commercially

competing with the Lebowa Development Corporation, had no hesitation whatsoever in providing detailed complaints concerning the degree of corruption affecting the Lebowa Development Corporation's allocation of resources[4]. In this context, it would be surprising if resources were to be systematically allocated on efficiency or poverty-alleviating criteria, or if the outcome of such allocations was a dynamic growth in employment.

More generally, the macro-political context for the SBDP reflects the ideological dominance of "enterprise culture" in the 1980s. This ideology remains hegemonic in the early 1990s and consists of a set of propositions concerning the central role of de-regulated small business in restructuring economies everywhere, but especially in the historically highly concentrated South African economy. A very clear statement of these beliefs concerning small businesses' "primary role in the intermediate term for effectively rebalancing the economy", their potential to expand employment opportunities for women and achieve income gains for the poor and for black "empowerment" is provided in a recent document from the DBSA's Centre for Policy Analysis (1992).

This ideology has, at least within the UK and the USA, remained remarkably immune to detailed, empirically based criticism of the limited economic benefits observed to stem from a decade of self-employment promotion and the subsidisation of small business . In fact, the growth of self employment and small business has been most rapid in precisely those OECD economies which have the worst growth and unemployment records. Moreover, any observed rise in the share of total employment accounted for by small firms in these economies in the 1980s was simply the outcome of stability or decline in actual employment in the smallest firms, combined with a collapse in overall manufacturing employment (Hughes, 1992; Loutfi,1991).

This record in the OECD economies, and the more dispassionate accounts of the performance of small business in developing economies, should be brought to the forefront of policy debates in South Africa. One aim of this paper is to draw attention to the absence of rigorous, micro-based evaluations of the impact of the plethora of small business promotion projects currently being subsidised by the South African state, as well as NGOs and "Service

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[4]In Qwaqwa, Bank (1987) notes that: "The wives of influential bureaucrats were seen to acquire [trading] licences relatively easily" (p.146), and that "... of all the licensed traders in the sample some 70% admitted to having paid monies at various levels to ensure the rapid passage of licence applications" (p.201).

Organisations"[5]. If a less stagnant and backward form of capitalist development is to characterise the 1990s, the time is probably ripe for a more serious academic debate concerning the form which subsidies promoting a new generation of rural capitalists should take.

[5]The resources involved are considerable: The Small Business Development Corporation alone has nine different revolving funds for "small" business, which were capitalized at R245 million in 1990. Some of the other organisations involved include the Get Ahead Foundation, Matchmaker Services, the African Development Bank Small Business Unit and the First National Bank Small Business Unit.

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Table 5.1: *The Sample of Small Business Operators**

	No	*Per cent*
a) Small Business Loanees	15	29.4
b) Imerging Industry Clients	10	19.6
c) Informal Sector Loanees	4	7.8
d) LDC Loan Defaulter	1	2.0
SUBTOTAL SBDP BENEFICIARIES:	*30*	*58.8*
e) Most Successful Businesses	3	5.9
f) Standard Bank Loanees	3	5.9
g) LDC Loan Refusees	3	5.9
h) Ex-Client of Factory Centre	1	2.0
SUBTOTAL NON-SBDP BENEFICIARIES:	*10*	*19.6*
i) Remote Small Businesses	8	15.7
j) Informal Sector Non Loanees	3	5.9
SUBTOTAL POOR NON SBDP BENEFICIARIES:	*11*	*21.6*
TOTAL	*51*	*100*

Table 5.4: Number of Years of School Completed

	Mean	Standard Deviation	Cases
SBDP Beneficiaries	8.6667	3.0999	30
Non-SBDP Beneficiaries	9.5000	1.6499	10
Poor Non-SBDP Beneficiaries	3.6364	3.7755	11
Entire Population	7.7451	3.7086	51

Table 5.5: *Mean Number of Years of Schooling of Fathers*

	Mean	*Standard Deviation*
SBDP Beneficiaries	2.6071	3.6039
Non-SBDP Beneficiaries	1.5000	2.5495
Poor Non-SBDP Beneficiaries	1.2000	2.6998
Entire Population:	2.0833	3.2409

Table 5.7: *Indicators of Wealth/Acquisition of Consumer Durables for Small Business Operators and Their Employees*

Percentage of Household Owning None of

	Flush Toilets	*Refrigerator*	*Modern Cooking Facility*
SBDP Beneficiaries:	73.3	36.7	6.6
Non-SBDP Beneficiaries:	40.0	10.0	0
Poor Non-SBDP Beneficiaries:	100.0	100.0	36.4
(Employees of the Above)	(98.0)	(87.8)	(25.0)

	Domestic Electricity Supply	*Piped Water*	*Car*
SBDP Beneficiaries	63.3	63.3	20.0
Non-SBDP Beneficiaries	40.0	30.0	0
Poor Non-SBDP Beneficiaries	100.0	100.00	36.4
(Employees of the Above)	(100.0)	(98.0)	(75.5)

Mean Number of Items in the Household:

	Radios	*Tables*	*Clocks*	*Tele-vision*
SBDP Beneficiaries:	1.33	2.43	1.07	0.97
Non-SBDP Beneficiaries:	1.8	2.60	2.2	1.0
Poor Non-SBDP Beneficiaries:	1.0	1.81	0.69	0.18
(Employees of the Above):	(1.12)	(2.14)	(0.51)	(0.12)

Table 6.1: *The Sample of Employees*

	No.	Percent
Employees of:		
a) Small Business Loanees	17	34.7
b) Emerging Industry Clients	10	20.4
c) Informal Sector Loanees	4	8.2
SUBTOTAL = Employees of SBDP Beneficiaries:	31	63.3
d) Most Successful Businesses	6	12.2
e) Informal Sector Non-Loanees	1	2.0
f) Standard Bank Loanees	4	8.2
g) Remote Small Businesses	6	12.2
h) Ex-Client of Factory Centre	1	2.0
SUBTOTAL = Employees of Non-SBDP Beneficiaries	*18*	*36.7*
TOTAL	*49*	

Table 6.4: *Mean Total Number of Employees by Category of Employer*

	Mean	Standard Deviation
SBDP Beneficiaries	5.73	5.771
Non-SBDP Beneficiaries	12.6	10.255
Poor Non-SBDP Beneficiaries	2.0	2.449

Table 6.5: *Percentage Decline in Total Number of Employees: Peak to Current*

	Mean Percentage	Standard Deviation
SBDP Beneficiaries	21.29	30.44
Non-SBDP Beneficiaries	11.82	25.95
Poor Non-SBDP Beneficiaries	19.75	37.18

Table 6.6: *Months of Employment in Current Job, by Category of Employer*

	Mean Months Employment	Standard Deviation
SBDP Supported Businesses	26.7	36.45
Non-SBDP Supported Businesses	30.6	33.84

Table 6.9: *Indicators of Acquisition of Consumer Durables by Category of Employee.*

	Mean No. Clocks	*Mean No.TV's*	*Mean No.Stoves*
All Employees:	0.51	0.122	0.49
Females			
Widowed, Divorced, Unmarried Employees:	0.19	0.095	0.29
[All Employers:]	(1.176)	(0.804)	(0.706)

Information on working conditions is provided in Table 6.10, which indicates that all employees were on average working for 9.84 hours per day, with female employees working for an average of 10.07 hours and males for 9.19 hours per day. This Table also shows that females worked for more days per week on average, and were less likely ever to receive pay when they were ill, or to receive paid leave or overtime pay.

Table 6.10 *Working Conditions, by Sex*

	Hours Worked Per Day	*Days Worked Per Week*	*No Sickpay(%)*	*No Overtime Pay (%)*	*No Paid Leave(%)*
Males	9.19	5.57	76.9%	45.5%	27.3%
Females	10.07	6.38	86.1%	81.5%	38.9%
All Employees	9.84	6.16	83.7%	71.1%	36.2%

Table 8.1: *Physical Characteristics of Business Premises and Facilities, by Category of Business*

	Temporary Structure (%)	*Flimsy Structure (%)*	*Small Premises (%)*	*No Phone Connected (%)*
SBDP Beneficiaries	3	7	20	60
Non-SBDP Beneficiaries	0	0	0	30
Poor Non-SBDP Beneficiaries	45	45	73	100

Table 8.2: *Bookkeeping Facilities, by Category of Business*

	Mean No. Tills	*Mean No. Calculators*	*No Book-keeping (%)*	*Unsophisticated Book-keeping (%)*
SBDP Beneficiaries	0.65	0.7	7%	31%
Non-SBDP Beneficiaries	2.5	3.8	0%	20%
Poor Non-SBDP Beneficiaries	0.27	0.6	36%	36%

Table 8.3: *Total Replacement Costs and Highest Monthly Revenues, by Category of Business*

	% With Replacement Costs less than 50,000	*% With Highest Monthly Revenues less than R9,000*
SBDP Beneficiaries	50%	59%
Non-SBDP Beneficiaries	10%	0%
Poor Non-SBDP Beneficiaries	73%	81%

Table: 9.2: *Number of Months Taken to Process SBDP Loan Applications*

	No. of Loans	*Percentage of Loans*
Less than 3 months	4	15.4%
3 to 5 months	7	26.9%
6 to 9 months	6	23.1%
10 to 12 months	7	26.9%
More than 24 months	2	7.7%
	26	100

MAP OF LEBOWA

