

**THE CREATION AND SUSTAINABILITY OF THE BLACK MIDDLE CLASS IN THE
WESTERN CAPE**

by

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DECLARATION

I, Makhotso Mokotso, declare that the content of this thesis represent my own unaided work, and that the thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own findings and not necessarily those of the Cape Peninsula University of Technology.

Signed

Date

ABSTRACT

In order to understand the phenomenon of the rising black middle class, Bruger *et al.*, (2004:134) concluded in their study of the black middle class that, it was the asset deficit which was evident in the African population that accounts for the difference in the consumption behaviour of the black middle class from their counterparts in other races. Asset deficit is described as the accumulation of luxury goods that include expensive automobiles and property. When the acquisition of such assets is gained through credit, as is the case with the credit worthy middle class, the individual debt of these individuals rises as the acquisition of such assets continue.

The purpose of this study was to investigate the creation and sustainability of the black middle class that anchored in political stability encourages social contentment and economic development. The findings of this process offered an opportunity for the state, banks and corporate organisations to review its policy priorities in order to make savings, investment and 'special structure' support networks a priority when dealing with sustainability matters for the black middle class.

It is therefore, important that the recommendations provided in the study will sustain the black middle class, which would maintain social peace by indicating economic progress that has only now, since democracy, been available to Africans through the expansion of the black middle class.

The thesis explains the challenges, which this class faces in its sustainability that will foster a deeper appreciation of the most effective ways to alleviate poverty and to economically enfranchise Africans. These had been the original objectives behind the government's programmes and initiatives.

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ABBREVIATIONS

ANC	African National Congress.
ASGISA	Accelerated and Shared Growth South Africa.
AZASO	Azanian Student Organization.
BEE	Black Economic Empowerment.
BMF	Black Management Forum.
BBBEE	Broad Based Black Economic Empowerment.
COSAS	Congress of South African Students.
COSATU	Congress of South African Trade Unions.
DTI	Department of Trade Industry.
FET	Further Education and Training colleges.
GDP	Gross Domestic Product.
GEAR	Growth Employment and Redistribution.
HBU	Historically Black Universities.
IFI	International Financial Institutions.
JIPSA	Joint Initiative for Priority Skills Acquisition.
RDP	Reconstruction and Development Programme.
SA WISE	South African Women in Science and Engineering.
SAEP	South African Education Programme.

DEFINITIONS

The black middle class The black middle class, previously defined as Africans, earning between R3000-R13999 per month pertains only to the post Apartheid era. In the pre Apartheid era, the accepted definition of the black middle class forwarded by Dreyer (1989) is Africans who achieved economic power and independence and simultaneously attained esteem, status and led privileged lives relative to the average African. The black middle class in the pre Apartheid era can be identified to be businesspeople and professionals such as lawyers and doctors and so on.

Capitalism Capitalism is a social system characterized by economic resources being owned by a minority in that society. They use these resources in addition to the labour from the poorer majority (i.e. the working class) to produce goods and services to sell to that society for a profit. Capitalism is seen as inherently exploitive as the working class is paid less than the actual value of their labour and individualist as the capitalists happily profits from minimizing the labour cost of production. For a more detailed explanation please see <http://www.worldsocialism.org>

Credit agreements Credit agreements are defined as those transactions between a credit provider and a consumer where the former supplies a good or service to the latter on credit which is payable on a future date in a lump sum or in instalments. Additionally, a credit agreement is also defined as credit transactions in which the consumer has to be pay fees, charges or interest incurred on an outstanding amount borrowed from, or owed on good and services provided by, a credit provider.

Credit guarantee agreement Credit guarantee agreement is one in which a consumer pays a credit provider for credit received by another consumer.

Gross Domestic Product GDP means a country's entire domestic expenditure or income. It is divided into various strata; consumer demand, exports, imports, government net expenditure and investment.

Gini coefficient	Gini coefficient is a measure of inequality. It measures the income disparity between the highest income earners in a society and the lowest income earners of that society. A very small numbers is indicative of inequality it means that only a small percentage of total income is earned by the poorest in that society.
Laissez- faire	The political system that maintains that state intervention within and between economies must be minimised.
Liberalism	Liberalism can be interpreted politically, socially or economically. Economically liberalism is that economic system that advances free trade, that is, trade that is not inhibited by state and other stakeholders.
Washington Consensus	Formulated in the United States as a combined effort of first world economists, the Consensus is a list of policies developing nations should follow to achieve economic growth. These policies later became the conditions to developing countries attaining loans from the International Financial Institutes.
Unemployment	Unemployment is here defined in the “narrow” sense to exclude those people who are not seeking employment having been discouraged from continued failure of finding employment.
Wealth	Wealth thus defined excludes the often difficult to quantify foreign assets, financial assets of unincorporated business, ownership of unlisted business on the Johannesburg Stock Exchange and proceeds from social security.

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 Introduction and background of the problem

The end of the Apartheid era heralded freedom for Africans living within South Africa's borders. The newfound democracy enabled Africans to claim political freedom by choosing their leaders and gaining economic freedom that had never before been realised and altogether denied the servitude positions, which they occupied during Apartheid. Democracy therefore began in South Africa with an unequal distribution of resources in terms of race.

It is now thirteen years since the inception of South African democracy and Africans have had to admit that while they have gained political freedom, they remain largely in economic deprivation. The recent efforts by the government to address economic inequalities that continue to exist between races through various programme and initiatives, which include legislation such as Affirmative Action, Employment Equity, Black Economic Empowerment (BEE) and Broad Based Black Economic Empowerment (BBBEE), have all contributed to at least some resource allocations, which particularly favour the Africans. More than reallocating resources to the most deprived race in South Africa namely the African, these initiatives are aimed at not only restoring the wealth of Africans but permanently empowering Africans. This permanent empowerment of Africans will happen across all generations, in their increasing access to the labour market, as well as business opportunities.

The result of these initiatives by the government, has translated into a rapid expansion of the "black middle class" to encompass new entrants to this class that are now candidly referred to as the "Black Diamonds"- here defined as Africans who earn between R3000 and R13999 per month (Mafu, 2007:1). It is hereby acknowledged that this very definition is under contest. Some definitions limit the black middle class to Africans whose gross earnings are between R5000 and R12000 (Piliso, 2007:13).

The South African Institute of Race Relations (SAIRR) maintains that this definition is too broad. Critics highlight the fact that even in the surveys conducted the definition of the black middle class is not consistent. For the purpose of this study however, the black middle class is defined as Africans who earn between R3000 to R13999 a month.

This definition is chosen because it concurs with the generally accepted definition of this class. This black middle class, thus defined, is presently part of the driving forces behind the country's recent consumption boom.

The black middle class', increasing extensive contribution to the economy is, as many fear, unsustainable. The conclusion drawn by (Kruger Research and the Bureau of Market Research, 2006:14), which has conducted extensive investigations of this class, is that their spending has not been aimed at attaining wealth-creating assets. Rather, it has been largely used to finance what (Nyanto, 2006:56) called "*durables*", which refer to items such as automobiles and retail items. Worse still, is the fact that this spending is itself financed by a growing level of personal debt, which has been attained through credit extension allowances by banks.

The result that such credit allowances have had on the South African public at large is that household debt stands at 76 % of disposable income (UCT/Unilever Institute of Strategic Marketing, 2007:98). The above situation necessitated the adoption of the "New Credit Act" assented to 10 March 2006 and enacted on 1 June 2007. The intention behind this Act is to help prevent consumers from falling in position of over-indebtedness and minimise the grating of reckless credit. The effectiveness of these Acts to curb debt-financed consumption is yet to be explored and investigated as its effects may affect the economy. This thesis seeks to explore, the creation and sustainability of the black middle class particularly in the Western Cape with specific reference to Nyamane Civils and Projects CC.

1.2 Defining the research problem

The problem, which this research wishes to address, is the reported consumption behaviour of the South African black middle class in general, specifically located in Western Cape. According to (Burger, *et.al* 2004:123), the black middle class increases personal debt in order to finance the consumption of non-wealth creating assets. The result is that the wealth of this class is being threatened by personal debt. Should the group's income decrease, the result would be their immediate exit from the black middle class.

1.3 Objectives of the study

The objectives of this study are to:

- Provide a historical overview of the South African black middle class;
- Investigate the economic challenges of the black middle class by researching problems that contribute to the class' lack of financial sustainability;
- Provide a theoretical overview of the South African credit legislation;
- Develop a set of recommendations and conclusions aimed at creating a financially sustainable black middle class.

1.4 Delimitation of the study

This study is undertaken at Nyamane Civils and Projects CC: Western Cape Province in South Africa.

1.5 Importance and motivation of the study

The creation and sustainability of the black middle class anchored in political stability encourages social contentment and economic development. Without the black middle class, masses of Africans would remain poor, while minority groups continue to enjoy economic prosperity. It is thus important that the existence of the middle class be sustained, which would maintain social peace by indicating economic progress that has only now, since democracy, been available to Africans through the expansion of the black middle class.

It is, therefore, in the interests of general social coherence and economic development that this class is fostered and encouraged to grow in numbers. Hence, the importance of understanding the driving force behind its creation, maintenance and prospects for sustainability as a subject, which is investigated in this thesis. The complexities behind maintaining the growth of this class should not be understated. Piliso (2007:11) writes that the Business Map Foundation found that "the true black middle class is highly dependant on political power to secure government tenders and jobs in government." This cast a shadow over this class's self-reliance in expanding its own economic growth. Furthermore, the thesis will explain the challenges, which this class faces in its sustainability that will foster a deeper appreciation of the most effective ways to alleviate poverty and economically enfranchise Africans. Poverty alleviation and economically enfranchising Africans are key original objectives behind the government's programmes and initiatives.

1.6 Research methodology

According to Locke (1993:20), “the presentation of methodology requires great attention to detail. The discussion of method must include sources of data, the collection of data, and the analysis of data. The section dealing with methodology must be freely adapted to the purpose of the study”. Therefore, the literature mentioned herein provides information about research methodology in the area and items that deal with both theory and application as they relate to this study.

1.6.1 Qualitative and quantitative methodologies

The nature of this study lends itself more to a qualitative research methodology in that it seeks to provide a detailed description of events. Qualitative methodology refers to “research which produces descriptive data, generally people’s own written or spoken word” (Brynard and Hankom, 2007: 29). Moreover, this qualitative approach allows the study to investigate “people personally and see them as they are, to experience their daily struggles when confronted with real life situations.

In qualitative research, methods used for example are case studies, in depth interviewing of key informants, questionnaires and perusal of personal documents. (Brynard and Hankom, 2007:30). A qualitative approach is important for the study because it employs questionnaires, case studies and interviews. These methods assist in questioning broadly responses and information provided by participants.

1.6.2 Interviews

Interviewing is the preferred method of data collection from interviewees because this “allows the researcher to explain his or her questions if the respondent...is not clear on what was asked. It also allows the researcher to probe deeper following the answer of a respondent (De Wet *et al* cited in Brynard and Hankom, 2007:32). This approach increases the depth of the investigation and the richness of the study, hence its use in this study. All interviews will be semi-structured which are defined as “those organised around areas of particular interest while still allowing considerable flexibility in scope and depth (Vos *et al*, 2005:299). The interviews will be used to gain a deeper understanding of the interviewees’ knowledge of the topics investigated, which will differ across them (interviewees).

The subjects that are to be interviewed in this study include, representatives from four leading commercial banks in Cape Town. The commercial banks are interviewed to obtain first hand knowledge regarding ways by which the New Credit Act (Act No.34 of

2005) has influenced the banks' leading practices. This is important for the purpose of the study to determine whether the Act has been successful in forcing banks to curb their credit allowance to South Africans, at large, particularly the black middle class.

1.6.3. Questionnaires

Questionnaires are defined by the New Dictionary of Social Work as "a set of questions on a form which is completed by the respondent in respect of a research project" (Vos *et al* 2006: 172). The questionnaire approach is used because of its appeal in allowing the respondents to complete the document at their own time as this increases the subjects to be included in the investigation, who would have otherwise been excluded due to their unavailability at pre-specified time of gathering. The other appeal of questionnaires lays in the fact that its average response rates are increased because the author's presence ensures that the questionnaires are all returned timely.

Structured questionnaires will be used. According to Brynard and Hankom (2007: 322) structured questionnaires are necessary to supply respondents with standardised instructions on how to complete the questionnaire and explain what is expected from them. Questionnaires will consist of open and closed questions. In an open question, the respondent will be given an opportunity to elaborate on his responses, which adds to the depth and richness of the investigation. The closed questions will be used to limit responses to a predetermined range from which analysis is said to ensue.

Questionnaires will be distributed to the debt counsellors from the National Credit Regulator (NCR), and the employees of Nyamane Civils and Projects CC that aim to enhance the quality of life of the growing black middle class. The sample will include 30 employees in the company of Nyamane Civils and Projects CC who satisfy the definition of the black middle class.

1.6.4 Case study

A case study is defined as an in depth analysis of a "bounded system" (bounded by location and/or time), comes in three different types (in (Vos *et al*, 2006:275). The first type of a case study is the intrinsic case study which "is focused on the aim of gaining a better understanding of the individual case" hence its greatest appeal and the reason why it is employed in this study when investigating businesses such as Nyamane Civils and Projects CC (Vos *et al*, 2006:276).

1.7 The literature review

Locke *et al* (1993: 66-67) contend that a literature review is, “an area of inquiry within the disciplines existing as ongoing conversation among those who do the work of scholarships. The published literature of an area constitutes the archival record of those conversations: research reports, research reviews and theoretical speculation. The process of listening carefully to the on going discourse about a topic of inquiry is called: review. That involves studying items previously retrieved until both the history and the current conversation are understood”.

The research instruments used in gathering information or data such as, books, journals and newspaper articles will be used extensively to examine the research topic. Legislation such as the National Credit Act (Act No. 34 of 2005), which was later revised to be the New Credit Act, effective from 1 June 2007, will also be frequently consulted in efforts to get as holistic a view of all factors that affect the creation and sustainability of the black middle class.

1.8 Related studies and debates

In order to understand the phenomenon of the rising black middle class, Bruger *et a.*, (2004:5) concluded in their study of the black middle class that, it was the asset deficit which was evident in the African population that accounts for the difference in the consumption behaviour of the black middle class to their counterparts in other races. Asset deficit is described as the accumulation of luxury goods that include expensive automobiles and property. When the acquisition of such assets is gained through credit, as is the case with the credit worthy middle class, the individual debt of these individuals rises as the acquisition of such assets continues.

In order to stop the rapidly increasing personal debt of all South Africans, in general, the Department of Trade and Industry administered the Usury Act (Act No.66 of 1968) which was aimed at protecting seekers of credit from illegal actions by credit providers (Bamu *et.al* 2005:119). Since then, the National Credit Act (Act No.34 of 2005) and, recently the New Credit Act (Act No.34 of 2005), have been formulated to disallow banks to lend money to the public beyond the financial ability of the public. Government Gazette 28864 of 31 May 2006.

If successful, these Acts will cause the individual debts of the black middle class to decrease, since less credit will be allowed for them to borrow from the banks. Their

wealth is thus encouraged to be maintained at higher levels than otherwise, in that the Acts hope to encourage the black middle class to save rather than relying on credit, in which their wealth can gradually grow and be sustained. Therefore, while the black middle class of today is forced, through Acts, to maintain their wealth, the black middle class of pre- Apartheid were not concerned to catch up and attain the number of assets that other races' middle class had. Rather, the black middle class of before was concerned with creating wealth by:

"[S]topping to be a nation of consumers and start being a nation of producers and manufacturers... We do not even produce items, for which we are major consumers. That trend has got to stop...In this way we can capture and deepen the power of the economy in our own hands...We can have all the political power, but unless we have economic power, we are nothing" (Maseko, 1998:43).

This shows a real shift in the wealth creating prospects of the black middle class from their pre-apartheid counterparts. The result is that the black middle class of today, having accumulated a high personal debt to finance their increased spending, have unsustainable wealth that will all but decline, should their incomes reduce, since this group shows very little propensity to accumulate savings.

Thus, in evaluating the progress that the current political dispensation of South Africa has brought to Africans, it should be investigated whether the economic empowerment of the Africans has indeed occurred. To those Africans that have realised the economic benefits of the current political dispensation, it should be investigated whether the created wealth is permanent and growing. Evidence of wealth and growth would prove that there has been some economic advancement of the race since Apartheid.

The answer to this question helps to determine the success of the reallocation policies amongst the races that the government has been concerned with since 1994. Should economic benefits of Africans who currently benefit from the initiatives of the government and the employment equity and affirmative action be temporary, then Africans would have only modestly risen from the level that they were economically at, at the end of Apartheid.

1.9 Organisation of the study

The study is structured in the following manner:

Chapter One

General Introduction

This Chapter introduces the study and focuses on the background of the problem, defining the research problem, the purpose and objectives of the study, delimitation of the study, research methodology and an organisation of the study.

Chapter Two

A historical overview of the South African black middle class

This Chapter investigates the creation of the black middle class and its evolution pre and post 1994.

Chapter Three

A theoretical overview of the South African Credit Legislation

This Chapter provides a theoretical overview of credit curbing legislation in South Africa.

Chapter Four

Research methodology utilised to investigate the creation and sustainability of the black middle class.

This Chapter discusses about the data collection techniques used.

Chapter Five

Research data presentation analysis and discussion.

Research findings and data analysis are presented in this chapter.

Chapter Six

Conclusions and recommendations aimed at sustaining the black middle class in the Western Cape

This final Chapter presents recommendations and conclusions, which are based on the findings of the research study.

CHAPTER TWO

A HISTORICAL OVERVIEW OF THE SOUTH AFRICAN BLACK MIDDLE CLASS

2.1 Introduction

By tracing the creation of the black middle class, which arose during the Apartheid (translated literally as “apartness”) era until presently, a richer understanding of the psychology, aspirations and other intricate dynamics of this African middle class, can be attained. This, in turn, aids the comprehension of the factors that determine this class’ continued existence and maintenance, as well as ultimate sustainability. This chapter facilitates this investigation by evaluating the evolution of the black middle class in South Africa from roughly the 1950’s until the present.

The chapter is divided into two subsections, namely pre-1994 and post-1994 black middle class. The former subsection investigates the political question of Apartheid by uncovering the role it played in shaping the socio-economic climate of that time, which succeeded to limit the Africans, except in rare circumstances, to the lowest social and economic class in South Africa, which was stripped off by political power. The post-1994 black middle class subsection elaborates on policies that the government, which is dominated by the democratically elected African National Congress (ANC), have implemented to correctly restore the economic independence, which should create prosperity for Africans in current day South Africa.

It extends upon the ongoing debate on the effectiveness of these policies against a background of existing (income) inequality, which is not as much between races as it is between classes thereof and inequality between rich and poor.

2.2 Pre-1994 black middle class

Unknown to some vehement racists and the most economically deprived Africans; there was the black middle class that lived in South Africa during Apartheid. It was borne out of and tolerated because of a compromise between the Apartheid government and a small section of the African people. The factors that determined the success of this class- the little that they were allowed- were, firstly, exclusive education that was of a higher quality than that allowed to the masses of Africans. Secondly, a lack of white competition in places of business in the homelands and Bantustans and, thirdly,

increased attempts by governments under international pressure to relax imposed restrictions of African trade and business in urban areas and other factors that jointly created and sustained the moderate success of African businesses. And, with that, the creation and expansion of the black middle class (Southall, 2004:250 Hudson and Sarakinsky, 1986:4). In order to understand the incredible odds faced by this class in spite of the mentioned factors, consider the difficulties imposed by Apartheid- the political tool that was used to achieve a dual society of stark contrasts; white and non-white, privileged and degraded, and the most poignant of all, rich and poor.

2.2.1 Apartheid defined and its effects explained

In explaining Apartheid and its intentions, Erasmus (1960:62) contends that, "Apartheid... starts by accepting that there are these various peoples and [it] provides for the separate and parallel development of them all. There is no ceiling to this development; the policy of apartheid makes specific provision for the development of the Bantu peoples of South Africa to become sovereign peoples and nations".

If Erasmus (1960:61) was truthful in his explanation of the intention behind Apartheid, then it was not South Africa that he was describing. If "parallel development" was sought by Apartheid and its architects, then resources of South Africa would have been equally divided among all its people even if this division occurred on racial grounds, since the division was in any case, based on "the belief that no individual or group inherently or permanently, was inferior to another" (Erasmus, 1960:61)¹. Rather, the Apartheid legislation guaranteed that the development of the white race in South Africa meant the underdevelopment of the non-whites, especially the African.

The Group Areas Act (Act No. 41 of 1950), forcibly removed masses of Africans from land of high value and placed them in overcrowded pieces of land that later become known as the townships. These forced removals were complemented with the establishment of homelands that housed only Africans, like the former Transkei, Ciskei and others. The Bantu Authorities Act (Act No. 68 of 1951) legitimised the forced assembly of millions of Africans and relocated them to homelands and Bantustans.

The African's very movement was restricted even in white-owned areas of work through the Natives (Abolition of Passes and Co-ordination of Documents) Act (Act No. 67 of 1952). Humiliation awaited the African who was made defenceless, at every turn.

¹ P.W. Botha, first the head of Native Affairs then the Prime Minister of South Africa, would later contradict Erasmus.

The Native Labour (Settlement of Disputes) Act of 1953 prohibited the African from using strike action to defend himself while the Reservation of Separate Amenities Act (Act No. 49 of 1953), ensured that segregation guaranteed that whites meet, sit, eat and commute separately from “non Europeans”².

These and other Acts operated to secure the privileged existence of whites on luscious and spacious land, which was kept clean by Africans who lived in circumstances of sharp contrast. Any thinking person would concur that to deny that Apartheid did not strip Africans of economic independence and political power, would be untruthful and insulting to scores of Africans who lived, died and survived the cruelty of Apartheid. However, few Africans escaped this reality that had been faced by so many other Africans. Certainly, the elite of their race were called the black middle class. How this class existed in Apartheid South Africa that spared no efforts in obliterating anything that suggested even economic success of an African, which worked to elevate him above the class already designated for him and his race as the hewers of wood and drawers of water for whites and other races, is investigated below.

2.2.2 Emergence of the black middle class

Whether by choice or not, the black middle class in Apartheid South Africa was borne into an order that intended to discourage its expansion and threatened its very existence.

According to Southall, (2004:314) despite attempts of the Apartheid government to frustrate their ambitions, a few affluent Africans- at least relative to the masses in that class, flourished in the townships and homelands of South Africa. They were the black middle class and comprised mainly of teachers, lawyers, small to medium scale businesspersons and “subordinate officials” (Southall, 2004:314).

While the two former professionals were borne out of a need for Africans (using state stipulated curricula and legislation) to teach and legally defend themselves, the latter was more intimately involved with the state who, in turn, readily regulated their creation and expansion. (Southall, 2004: 316) describes how after the 1976 Soweto uprising the state had more actively implemented policies that promoted African business, which

² Please see: <http://africanhistory.about.com> for a complete list of Acts.

appeased the black middle class. Among these actions was the permitted extension of (property) ownership rights to Africans in urban areas, which served to encourage African business and trade in urban areas and in the homelands. Even with the relaxation of some restrictions, the Apartheid government did not permit an extensive growth of this class so the class remained very small. Often unwilling to compromise their success relative to masses, the black middle class did not readily lead the struggle against Apartheid, a system, which some clearly benefited from. Rather, it was the masses of Africans who, unshielded from the oppression of Apartheid, collectively placed themselves at "...the head of the struggle for freedom" (ANC, 1997:10). This in my opinion ensured that there is a distinct economic class division amongst Africans themselves. A wide gap between the black middle class and the working class was quite evident. In which case, this embraced the purpose of the Apartheid system, which is seeing blacks in the position of servitude as opposed to be crucial role players and contributors towards economic growth.

And with good reason, masses of Africans were reared from birth to occupy positions of servitude within South Africa's white capitalist economy. More than restrict their movement, Apartheid sought to deliberately and systematically prepare masses of Africans for servitude. In furthering this objective, Apartheid architects realised that far more effective than the bullet and the gun, was premising this upon education. This means offering black South Africans inadequate education, which prepared them for certain, jobs.

2.2.3 Education in Apartheid South Africa

It was Hendrick Verwoerd who set the tone:

"When I am controller of Native Education, I will reform it so that the natives will be taught from childhood to realize that equality with Europeans is not for them...The Bantu must be guided to serve his own community. There is no place for him in the European community ..." (Birley, cited in Johnson, 1982:219). His aspirations were realised. The Eiselen Commission of Native Education (1949-1951) produced what became known as the Bantu Education Act (Act No.47 of 1953), which was legislation which Verwoerd [co]authored (Johnson, 1982; Rebusuajoang, 1978:229).

Mr. Johnson vividly explained the goal of Bantu Education as follows: *“There is no place for [the African] in the European community above the level of certain forms of labour...Until now, he has been subjected to a school system -the missionary school system³- which drew him away from his own community and misled him by showing him the green pastures of European society in which he was not allowed to graze”* (Johnson; 1982:219).

The “certain forms of labour” to which Verwoerd refers to, were menial positions in the Apartheid governed capitalist economy of South Africa. Africans would supply their labour to white-owned and controlled mines, farms, businesses and homes as boys or girls built an industrial South Africa for the comfortable existence of their white masters. The Education Act (Act No.47 of 1953) was long overdue, since Verwoerd had become increasingly frustrated at how mission schools created African elites who were, taught to look down on their fellow Africans and their inferiority, and aspired to occupy a place in the European community, a community in which he was absolutely not welcome or wanted. Forced to return to the African’s place in South Africa, several of these elites naturally grew resentful and, at worst, rebellious. Verwoerd would use this piece of legislation to eliminate such misguided, “misdirected and alien ambition” (Shepherd, 1955:138).

Consequently, investment in the African’s education was kept at a bare minimum. Afrikaans and English children were educated free of charge and school was compulsory from 7 to 16 years of age, after obtaining the school leaving certificate (Johnson, 1982:219). Where education was available to the African, he paid dearly to attain it. With already scarce resources, African parents were forced to supplement financing their children’s education, during periods when Africans earned less than their white counterparts in the same sector of the economy (Johnson, 1982:345; Erichsen and Wakeford, 2001:23). Yet, African parents remained willing to meet the education expenses of their children. From the taxes of these parents and other South Africans, more technical, secondary and vocational schools were built for the Afrikaner, while facilities at Afrikaner universities reached standards set by English universities such as the University of Cape Town and Wits University (Johnson, 1982:254).

³ Italics are the authors own additions.

Between 1960 and 1980, “government expenditure on whites was well over 10 times that of Africans” (Johnson, 1982:220). Facilities at African schools were deliberately kept at a poor quality, if they existed at all, while facilities at white schools were made to be more than adequate. Consequently whites were, therefore, prepared and encouraged to pursue education and to take up professions that were freely available to them, and only them, within the public and private sector, resources in African schools were being stretched to every possible limit. Many African children were turned away, citing reasons such as overcapacity. Johnson (1982:220) explains that because of overcapacity, “only 50 % of African children ...reached the fourth year [of primary school]...one fourth...completed primary school... and one tenth entered secondary school [and prospects for higher education were lower]”. The poor quality of education that resulted from this state of affairs was certain. Shortages of books, basic equipment and poor teacher training, led to poor student training and skills development to exhume themselves from the subordinate position that had already been set out for them.

The African’s reward for education was disheartening considering its high cost. The curricular of white and African students advanced the racist ideology of the time. For more than Africans could afford, the Apartheid era textbooks taught that, “...blacks are inferior...South Africa rightfully belongs to the Afrikaner... [and that] the Afrikaner is militarily ingenious and stronger, [dampening any hopes of resistance or a better life]” (Abdi, 2001:231).The result was that masses of Africans were semi or altogether illiterate, unskilled and whose lack of education immediately relegated them to the lowest paying positions in the economy, which was further lowered by the fact that they were African. They became the cheap labour that was the backbone of South Africa’s economy.

This would have a negative effect on future adequately skilled labour force. As a result South Africa would later pay dearly for not having developed skills amongst Africans that were necessary to achieve the desirable economic growth as South Africa tried to counteract the dramatic reductions in economic growth that was imposed by sanctions during Apartheid, and later, as South Africa re-entered the global economy after 1994. Structural unemployment (that is, employment that occurs because the desired skill is not available in the labour pool) and skills shortages impede and frustrate economic growth in South Africa, even today.

The black middle class scarcely escaped this reality. For a dear price, some of the children of this class could be educated alongside whites. They would thus acquire the skills to join the private sector as entrepreneurs alongside what (Randall, 1996:666-669) calls the “educated exiles” and “corporate sophisticates in the private sector”. The former refers to Africans who left the country after the 1970s and returned educated. The latter refers to Africans hired by corporations as international pressure grew for South Africa to alter its corporate codes of conduct.

However, as their aspirations dissolved under the cruelty of racism, masses of Africans who continued to receive Bantu education, miraculously did not surrender completely. Instead, they rebelled. African students, fuelled with anger, went on to strike a dangerous chord amongst whites. A chord that ensured whites, that as sure as African students are the future of South Africa, they will certainly carry their anger with them as they age until there is a change within their socio-economic standing. During the riots in the Apartheid era, African youth carried stones. As they aged, it was understood that they would surely carry guns and do all that is necessary to end their oppression.

The 1976 Soweto uprising and the subsequent student marches throughout the country, illustrated their willingness to be in the frontline of that ultimate confrontation and war against Apartheid. The war was against what they, as masses of Africans, called oppression, racism, injustice and economic deprivation, which they understood to all be products of South Africa’s racist capitalism.

One country more readily admitted than did the Apartheid government that these youngsters and masses of Africans would fight Apartheid as sure as they would the economic system that created and sustained it- capitalism. That country was the United States of America. The country’s newspaper, the Financial Mail (NUSAS, 1982:1), warned that: “If blacks [in South Africa] are to be persuaded that free enterprise is not merely an extension of a discriminating system, commerce, industry and government must give to education the same urgent attention financially and in all other ways, as is given to defence. Otherwise, free enterprise itself will not survive.”

As Davies (1985:180) explains, “the ...political [brought on by resistance against Apartheid] crisis did not only undermine South Africa’s status as a profitable outlet for overseas investment, but also threatened the existence of a racially structured capitalism itself”. The Reagan administration of United States of America and a few of that

country's corporations, therefore, began to sponsor educational programmes aimed at Africans. The administration and corporations alike wanted to protect their stake within the South African economy.

This stake was estimated at \$2.5 billion (Davies, 1985:180). In order to stress upon Africans the merits of capitalism, the goal of the Reagan Administration and, eventually the Apartheid government was to use education to moderately expand the black middle class with a view to co-opt it.

2.2.4 Capitalism

Education would prove most suitable to advance the goal stated above as the Apartheid system had, until then, served only to create a dangerous increase in African student militancy and workers who were, as General Malan warned, "*the best medium to create a revolutionary climate*" (Legum, 1981:740). Of course, revolution was the last thing that the Apartheid government needed. Proof of this was in the government's harsh treatment of black student organisations that refused to co-opt such as the black mass led Congress of South African Students (COSAS) and the Azanian Student Organisation (AZASO) (Davies, 1985). The sentiment among Apartheid supporters and enforcers was that, apart from violence, education was the next most useful tool that would be [an] agent of "*counterinsurgency and counterrevolution... [education] would [serve to] neutralize the black student movement*" (Davies, 1985:179). With this, the government of South Africa and the USA set off to create the impression that they were jointly, finally mending ways and integrating Africans into the mainstream economy.

One of the most striking examples of the USA backed attempts to rear the stratum of the black middle class from the Africans to detach them from the African working class, came from the establishment of the Pace College in Soweto (Davies, 1985:67). Educational schemes such as the United States-South Africa Leadership Exchange Programme (USSALEP), the South African Education Programme and others, were all formed with the objective of creating what (Bissell, 1982:90) calls a "black merchant class" who owed their every success to the apartheid government that allowed them to be and the social order of that time. It is, therefore, obvious why the black middle class and the emerging black capitalists of the Apartheid era showed a tendency not to resist Apartheid and the capitalism that sustains it. In fact, they embraced it.

Randall (1996: 666-669) classified black capitalists (who come from the black middle and upper class) of the Apartheid era as follows: "*educated exiles*", "*corporate*

sophisticates”, “*activist capitalists*”, “*consultants of change*” and “*conference circuit champions*”. The two former categories have been previously described.

An activist capitalist referred to black capitalists that were recruited by large corporations straight after imprisonment. Consultants of change were those who made their money from aiding white businesses to adjust to the inevitable end of Apartheid while conference circuit champions were black capitalists that came from black business organisations such as the Black Management Forum (BMF) and other organisations. From this discussion, it is clear that whether welcome or not in the white corporate world, the black middle class in Apartheid South Africa existed and thrived on its capitalism.

2.2.5 The black middle class and socio-economic responsibilities

For the pleasure of belonging to the black middle class, Africans in it had to co-opt with the Apartheid government that had, through relaxed restrictions on African business and increased access to quality education, moderately expanded it or faced the same violent fate as the masses actively resisted Apartheid. The black middle class and capitalists that evolved from this class, therefore, did not rebel and overtly supported the fight against Apartheid alongside the masses.

It is appreciated that, indeed, the individual testimonies of members of the black middle class would differ in terms of the degree and capacity to which they participated in the struggle against Apartheid. In fact, a certain strand of literature suggests that the black middle class who were always unwelcome in whites' circles, found a home in the liberation movement, while the literature simultaneously admits to the existence of tension between the black middle class and the masses (Southall, 2004:318).

Nevertheless, after having evaluated the factors behind the creation and growth of this class and their sometimes-intimate links to the Apartheid government, their collective contributions to the struggle for freedom, is clear (Dreyer, 1989:318). Few ever used their skills and financial resources to advance the struggle. The responsibility they owed to their brethren to fight oppression in all its forms, arguably, largely dissolved under the promise of a more comfortable existence for them.

The struggle for freedom was then left in the hands of the masses. Political freedom and economic freedom were the prizes of that struggle, the benefits of which would be made to accrue to all South Africans and, in turn, all Africans regardless of class and status- a

feat that would not be without its challenges. In order to understand what then were the normative political, social and economic priorities and economic challenges that were inherited from the Apartheid regime by the ANC when it took power in 1994, it is best to attain an understanding of the Apartheid economy before democracy (Dreyer, 1989:321).

2.2.6 Apartheid economy: normative priorities of the ANC

From the discussion above, it seems that the priorities as far as restoring human dignity to Africans of the newly democratically elected government of 1994, i.e. the ANC, should have been obvious. In order to counteract the effects of centuries of degrading, murdering, humiliating and raping of Africans through a deliberate and systematic cruelty of white people that made it legal to maintain scores of African people at a level of servitude, work on the African's psychology and economic dispensation had to begin immediately. The rest of this section attempts to display the status quo for Africans before democratic rule and thus illustrates the normative priorities of the ANC.

2.2.6.1 Social welfare

Recipients of social welfare during Apartheid were whites. As Terreblanche (1990:18) writes, "the Apartheid system was deliberately structured to create a position of protection and privilege for mainly the white group". Subsidised farming, housing, education and greater job opportunities in the corporate world, all created "a position of protection and privilege" for whites. As a result of limited opportunity in employment and the ownership of productive assets, such as land to make a living Africans were further impoverished and South Africa's inequality further entrenched. South Africa's Gini coefficient of 0.68 in 1990, which proved that South Africa was among those small group of countries that had a high unequal distribution of income and economic power- if it was indeed not the only country with such gross inequality (Terreblanche, 1990:19). With public resources skewed to favour whites and the Apartheid government deliberately securing the protection and privilege of whites, "50 % of the population-and over 60 % of the [Africans]- received an income below the breadline". The poverty that resulted from oppression and economic deprivation had to be changed. Therefore, social welfare had to be extended to Africans immediately.

2.2.6.2 Education

Even when Africans could miraculously progress through the Apartheid school system and pursue higher education in the Historically Black Universities (HBU), the Apartheid programmes had made these, “ institutions... generate the administrative corps for the black separate development bureaucracies, wear new generations of students away from black nationalist ... sentiments, and win them to the separate development project through the appropriate mix of repressive controls and the economic opportunities in the Bantustans and around the social services needs of blacks” (Wolpe, 1995:279).

True to Apartheid policies, education was made to be deliberately inferior and to further entrench the underdevelopment of Africans with the educated black middle class, since it was they who could afford higher education “willing and collaborating agents in that scheme” (Abdi, 2001:236). The purpose of education of Africans required immediate revision in post Apartheid South Africa.

At primary and secondary schools, Africans should enjoy unrestricted access to education. If necessary, the state would have to subsidize this but access to education had to be given to Africans who were previously denied this. Moreover, the quality of that education, both at primary and higher education, needed to match that of their counterparts if they were to realistically occupy positions at professional levels. This increase in access and quality of education should, however, not come at a greater cost to African households, as this would immediately exclude many Africans who still remain poor in post Apartheid South Africa.

By educating Africans, with the goal of developing their skills and expertise, their contribution to themselves and to the economy of the new democratic South Africa, would be much greater than that, which they achieved as labourers in a white-owned and controlled economy. The education of the Africans would inevitably mean increases in literacy levels and would have other important benefits. One of which is an expansion of the black middle class in post Apartheid South Africa. Living in the more equal employment opportunity democratic South Africa, this class could, in a single generation, with the aid of education of course, move from low to middle class.

2.2.6.3 Employment

Opportunities in employment for Africans, was pivotal. The immediate lifting of imposed barriers on all occupations had to be made. Africans who would join the private sector had to be unapologetically granted access to the very positions that Apartheid denied them. As education prepared whites for occupations in the private sector, African women and men had to be similarly prepared. In all sectors of the economy and everywhere in South Africa, Africans had to be encouraged to join other professionals in those fields. An increase in a black middle was, indeed, intentional and ultimately inevitable.

However, for those Africans who would not experience the benefits of education and, therefore, entry into the middle class would prove more difficult, still had to be employable. These lower skilled individuals had been absorbed in labour intensive industries and be paid the same wage as their counterparts of other races. Such dignified existence of low and highly skilled Africans, would allow them the means to make a decent living, the bedrock of all social cohesion.

2.2.7 Apartheid economy: the inheritance of the African National Congress

The ANC chose to protect the interests of the white minority, while correctly advancing the interests of the Africans in 1994. With regard to politics, Apartheid had stripped Africans of viable political power. Basic human rights of Africans were not acknowledged nor respected during Apartheid. In post Apartheid South Africa, the ANC had the responsibility to restore political freedom and human rights to Africans. These benefits had to accrue to all Africans whether middle class or not.

Control of economic resources and productive assets lay in the hands of whites during Apartheid. As Terreblanche (1990:19) writes, "*Whites are in almost total control of trade, industry and mining*". The economic deprivation suffered by Africans during Apartheid had to end. A transfer of this wealth was a foreboding, albeit necessary, reality that should be faced by all whites in post Apartheid South Africa.

The ANC inherited an economy on its knees. Since the 1970's oil shocks, the South African economy had grown at a disappointing 2 % (Terreblanche, 1990:15). Outflows of foreign capital was 8 % annually and net domestic saving declined from 13.5 % of the Gross Domestic Product (GDP) (1947 to 1975) to 7.5 % (1982 to 1988) which not only meant that South Africans were becoming poorer, but that poverty was more acute among Africans (Terreblanche, 1990:16).

All these factors, directly or indirectly, were the consequence of a more decisive growing international movement against Apartheid. Whatever the economic policy used by the ANC to achieve economic growth, the GDP had to grow at a level of at least 5.5 % in order to generate the wealth, which would rescue many Africans from economic deprivation and poverty.

The atmosphere within South Africa was racially charged and violent with many on both sides of the war willing to die for what they each called *their* country. The economic, social and political policies of the ANC in post Apartheid South Africa would, therefore, have to strike a delicate balance. The black middle class, like so many South Africans, would benefit from a victory against Apartheid- a war, which they arguably did not fight but that the poor, working class of Africans did.

2.3 Post 1994 black middle class

Having evaluated the normative priorities of the ANC in the previous subsection, this section describes the positive priorities of the ANC post 1994 i.e. their actual priorities. This, in turn, will explain the rise of the black middle class and provide a more comprehensive detailed explanation of the changing dynamics behind the creation and sustainability of the class.

The discussion begins by briefly describing economic policies and programmes that were advanced by the ANC from 1994 until the present that the black middle class, like every other South African, found themselves having to work and live under. An evaluation of government policies in education and employment is also made. This critical analysis is conducted against a backdrop of the attempted expansion of the black middle class. The sub-section concludes with a critique of the policies advanced by government and their success in serving the interests of all Africans, middle class or not.

2.3.1 Economic policies and programmes of the ANC- 1994 until present

2.3.1.1 Reconstruction and Development Programme

Considering the South African economy that the ANC inherited and the normative priorities discussed earlier, the first economic policy that was employed by the ANC was the Reconstruction and Development Programme produced in 1994. Wolpe (1995:275) explains the RDP as “a complex, integrated programme of reconstruction, which [was] built on a two-pronged approach”.

The first approach was aimed at providing the masses of Africans [and other disadvantaged groups] with the basic goods and services that they had been previously denied. These included, among other things, the provision of electricity, housing, health and education. The second approach proposed to facilitate the creation of technological systems that would increase domestic economic growth and, thereby, turn the South African economy into an export oriented one (Abdi, 2001:56).

From the RDP, the African masses benefited from the provision of necessities. Access to education would “provide opportunities to all, young and old, men and women, rural and urban. RDP was also to address the development of knowledge and skills that can be used to produce high quality goods and services in such a way as to enable us to develop our cultures, our society and our economy” (ANC, 1994:28).

However, the hope of lifting a substantial number of Africans from poverty into the middle class through education and increased employment opportunities, dissolved under stubborn inhibitors of the Africans’ “low education standards, lack of business training and management skills, lack of adequate infrastructure, lack of access to capital and psychological factors such as lack of confidence” (SAIRR, 1993:1). In 1996 this economic strategy was abandoned, as its implementation would require immense financial resources from an economy that was only starting to recover from imposed sanctions and low levels of growth in achieving substantive socio-economic change.

2.3.1.2 Growth Employment and Redistribution

The next macro-economic strategy implemented by the ANC government was the Growth, Employment and Redistribution (GEAR) programme. Under the impetus and even dearly encouragement of the International Financial Institutions (IFIs), which assured South African stakeholders that it was a favourable economic programme to pursue, the former President of South Africa, Thabo Mbeki, reasoned the abandoning of RDP that even though it was “... the blueprint for better quality of life in South Africa, GEAR was the vehicle to attain it” (Stromquist, 1999:15). Others preferred to interpret GEAR as follows: *“Its immediate aim was to reassure potential – especially foreign – investors that the government was committed to the neo-liberal orthodoxies of the ‘Washington consensus’. Decorated with all the trimmings of globalization, GEAR represents an almost desperate attempt to attract FDI [i.e. foreign direct investment]”* (Terreblanche cited in Scipes and Zine, 2007:1).

An objective analysis of the merits of GEAR, as far as advancing the interests of the poor, can only be conducted through a careful evaluation of its effects on the poor. In doing so, considering the following, true to the laissez-faire economics that advises it, GEAR required a reduction of government programmes such as the provision of health care, housing and education (Abdi, 2001: 114).

With the government practicing fiscal constraint, GEAR had reasoned that South Africa would be viewed as an internationally attractive investment destination. As international investment confidence increased, GEAR reasoned that real private investment would also increase and this would induce a rise of economic growth through job opportunities, domestic production, consumption and exports. However, even with the relatively stable macroeconomic and political environment of post Apartheid South Africa, GEAR had not produced the job opportunities and increases in economic growth, which it had promised. Yet, the government had decreased expenditure on social development programmes such as housing. Moreover, the post Apartheid economy grew at a disappointing 2.4 % per annum from 1996 to 1999, instead of GEAR's projected GDP growth of 4.2 %. Foreign investment remained stubbornly low, while unemployment had risen to 30.5 % in 2002 from 16 % in 1995 (Makgela, 2004:264-269).

The effect that GEAR had on the masses of Africans was self-evident. Unemployment was more acute for, among other groups, Africans (Makgetla, 2004). While RDP had created some improvements in the lives of the masses of Africans through the provision of basic services such as water and housing, GEAR had consequently depressed the potential improvements in the economic dispensation of the African masses by restricting government expenditure in social development programmes. Jobless and poor, the African masses of South Africa grew increasingly weary of the GEAR programme and, not surprisingly, so did the ANC. Meanwhile, for the black middle class the dawn of, "*democracy had set in motion a rapid mobility whereby propertied and professional sections of the black community gain[ed] from advancement*" (Southall, 2004:314). Throughout RDP and GEAR, African businesses profited from increased business opportunities (as did many white businesses) that came from a new constitution that protected their property rights and allowed them to trade anywhere in South Africa (and internationally). Africans from the middle class were free to use their resources to attain education anywhere in South Africa including institutions that previously denied them access. Indeed, the black middle class had long benefited from democracy.

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Embarrassed that GEAR had not become the useful “*vehicle to attain a quality of life... for all in South Africa*” which was hoped to be, the ANC then embarked on the formation and implementation of a series of Acts that are meant to fast track slow transformation of the South African economy (Stromquist, 1999:15). Acts and policies were aimed at taking a more decisive position as far as encouraging the African economic success was concerned. These Acts were Affirmative Action Act (Act No. 66 of 1995), Employment Equity Act (Act 55 of 1998), Black Economic Empowerment Act (Act No.53 of 2003) and Broad Based Black Economic Empowerment Act (Act 53 of 2004).

2.3.1.3 Accelerated and Shared Growth- South Africa (ASGISA).

Later, in 26 February 2006, a new economic programme was introduced by the ANC; it was called Accelerated and Shared Growth South Africa (ASGISA). Under the mandate of halving unemployment by 2014, ASGISA would be the tool to achieve this and other objectives in efforts to improve the lives of all South Africans (Mlambo-Ngcuka, 2006:1). This “national growth initiative” sought to achieve GDP growth of 4.5 % (2005-2009) and 6 %age (2010-2014) (Mlambo-Ngcuka, 2006:2). Having abandoned neo-liberal growth policies in GEAR, ASGISA’s strategy had important social implications since its social agenda involved a direct facilitation of labour absorbing industries by the government. This would absorb millions of the unskilled African masses into the mainstream economy and allow them to benefit directly from it. With employment increasing, both skilled and unskilled, as well as middle to upper class Africans stood to benefit from increased economic growth.

Efforts to achieve the stipulated economic growth would be centred on the following areas:

- Macroeconomic related issues;
- Second economy intervention; and
- Skills and education initiatives

(Mlambo-Ngcuka, 2006:4).

Macroeconomic related issues involved the government’s acknowledgment that ASGISA would have to work and be successful under “binding constraints” that it or other domestic stakeholders had little or no control over (Mlambo-Ngcuka, 2006:5)⁴. The

⁴ Binding constraints include the domestic problems that could occur because of volatility in the Rand, shortages of existing skill, backlogs of the necessary physical infrastructure such as roads etc that would facilitate economic activity and other constraints.

second economy intervention involved increasing public expenditure to develop small businesses and broad based empowerment. The ANC remained adamant that education and skill would resolve the skills shortage and so the Joint Initiative for Priority Skills Acquisition (JIPSA) was tasked with identifying areas characterised by skills shortage and the provision of effective solutions. Education initiatives involved upgrading Further Education and Training colleges (FET), increasing public schools' maths and science graduates to 50 000 in 2008, among others (Mlambo-Ngcuka, 2006:7). The immediate problem of this specific initiative is that it does not seem to be adequate in inducing substantial changes in increasing both the quantity and the quality of education offered at public high schools or FET colleges. The numbers remain small; 50 000 maths and science graduates fall short of the number that an economy positioning itself for economic growth of 6 %, will require. Education can be used as both a sign of higher intellectual and productivity levels or it can *lead* to increases in productivity levels. It is only in the latter case that economic growth explicitly results from higher education for it is only in that case that innovation necessitates the expansion of industry and employment. (Behar, 2006:10) argues that, presently, there is no conclusion that education and skills development in present-day South Africa, directly leads to increases in economic growth.

An immediate response to (Behar, 2006: 10) is that the link between education and increased economic growth need not be one of causality or correlation to prove that the link exists. Even in South Africa's own history, education facilitated the growth of the economy until exogenous factors such as imposed sanctions and a volatile socio-political climate, broke that positive relationship between economic growth and education. It is, therefore, argued that education facilitates economic growth. But, it is also argued that the education of masses of Africans remains below that of the affluent middle class who attains their education from the private school system. Then it should be expected that the benefits of increased economic growth would divide themselves according to that disparity with the greatest winners being those who have the highest skills and are, therefore, the better competitors. Better-educated and skilled Africans, which are by no means the majority of Africans, benefit further from other economic policies and programmes of the ANC.

In the subsections that follow, a critical evaluation of the Acts stated earlier and their success, if any, in elevating the African from poverty, ensues. This analysis is made against a backdrop of the government's current economic programme. Such an analysis is important because the fate of the black middle class lies central to it. In the discussion

lies the key in understanding the factors that currently determine the expansion and sustainability of the black middle class in South Africa and, in turn, in the Western Cape.

2.3.2 Economic policies and programmes of the ANC- the rise of the black middle class

It has been stated previously that the ANC, having grown frustrated by the slow movement of transformation and equitable distribution of income and wealth, formulated and implemented various Acts and programmes. This section lists factors that the ANC, through economic policy, programmes or legislature used to create an environment conducive to the rise of the black middle class in post Apartheid South Africa.

These factors are as follows:

- Relatively better socio economic climate that is conducive to investment and economic growth;
- The subsequent rise of black businesses;
- The restructuring of civil service to rapidly absorb African labour;
- Employment Equity, Black Economic Empowerment and Affirmative action laws; and
- Improved levels education from basic and higher learning

(Daradagam, 2006:50).

As Seekings (2004:299) writes, “[the economic policies advanced by the ANC through the abandonment of RDP and the support for GEAR made the ANC]...serve the interests of a nascent black bourgeoisie, as well as domestic and international capital. This was achieved through the pursuit of] neo-liberal policies, including fiscal conservatism or constraint, trade liberalisation, cost recovery in the provision of basic services, tax cuts for the rich, and privatisation [while] inequality and unemployment persisted”. Stated differently, the economic policies of GEAR encouraged reductions in government expenditure on social development programmes, privatisation and the resulting reduction in state losses that accrued from financing state enterprises that operated at losses, minimal state intervention in the economy, tax relief of the rich and promoted free trade.

These neo-liberal policies would (it was hoped), in turn, encourage an increase in domestic and foreign direct investment within South Africa as domestic investors (who of which were increasingly African and from the middle class), while foreign investors jubilantly profited from low tax rates. As profits increased, more investment and further job creation was set to follow.

But it did not. And the left i.e. organised labour that largely represented the masses of Africans, applied increasingly more pressure on the ANC to aid the losers of GEAR, i.e. the poor. They demanded what (Seekings 2004: 300) calls the “social wage“, which is the price that the capitalist class, i.e. the rich, pay the poor in efforts to redistribute income and so reach a compromise. Hence, further entrenchment of the welfare state in post apartheid South Africa will have as its main beneficiaries the Africans (Seekings, 2004:302).

From the discussion above, there is, thus, a consensus voiced by Seekings and others that black enterprises and business benefit from the economic policies at play in South Africa, which leads to an increasing number of Africans in the middle class. However, their expansion was not fast enough because economic power is largely in white hands while the pool of poor Africans has increased following increases in unemployment since 1994.

In the words of Southall (2004:326) *“[the ANC had, therefore, become increasingly] prepared to use its power, influence and divestment of assets to [further] create a black bourgeoisie, expand the black middle class, and to generally produce a seismic transfer of wealth from white to black over a ten to twenty year period”*. In addition, to complement economic policies, the ANC implemented Acts and programs aimed at fast-tracking the ownership and control of economic resources and the benefits thereof from white to African hands. The most far-reaching and effective (if only in its potential outcomes), were those that were directed at achieving educational change, employment and business expansion in realising that goal.

2.3.3 Educational change

“Let me again reiterate that the most important investment in South Africa’s near and distant future is the quality of the country’s post-Apartheid educational programmes. These should be aggressively formulated and implemented for the genuine inclusion of South African’s uneducated millions. Needless to add that, without the majority of South Africans having a stake in the post-Apartheid enterprise, the country will create more problems for itself” (Abdi, 2001:242). If education is investment to quality future of the country, there is a need for our education system to provide sound economic strategies to allow financial support for black Africans who were once excluded to access education. This would ensure a balanced future for all South Africans irrespective of the

economic background and viability. Our economic policies should be considerate of the cost of education. In which case all will be included because till to date the previously advantaged and the black middle class remain highly favoured by our current laws. They seem to have the upper hand, compared to the poor South Africans for whom the balance is much desired.

The evidence is clear, the joined impacts of Bantu education and economic deprivation of Africans prevented a substantial number of Africans from pursuing higher education in Apartheid South Africa and this entrenched their underdevelopment. The educational agenda in post-Apartheid South Africa was to grant education to all, including Africans who had been blatantly denied it (Abdi, 2001:56; Greenstein *et.al* 1994; ANC, 1994). The objectives behind the education of Africans since 1994 were to increase transformation of all professions and to develop their skills. Education became a tool, which was used by the ANC to remedy inequality and to achieve the restructuring of society by moulding South Africa into a country of equal opportunity and access to education. In order to achieve this, laws were enacted to increase the access of education to all.

2.2.3.1 Legal access to education

The Constitution of South Africa (1996) awarded every child the right to basic education. The South African Schools Act (Act No. 84 of 1996) and the National Education Policy Act (Act No. 27 of 1996) were used in regulating the school funding system. The Constitution had also enshrined the right of the establishment of private schools, which divided South African schools into private and public schools (Hofmeyr, 2000:167). Masses of Africans would take their education from the former, the black middle class and privileged whites from the latter (Fataar, 1997:13, Saunders, 1996:67). The former would have its expenditures subsidised by the government, while the latter did not. However, the right to even publicly funded education, did not initially mean that it would be freely received by the African poor.

2.3.3.2 Financial cost of access to education

The underdevelopment of the African's education was so acute that in order for it to reach the level of that of the whites, fiscal expenditure on the African's education would have to be US\$8 billion per annum from 1994 to 2004, a great but necessary amount to pay in order to achieve the objectives (Murray, 1994: 28). However, this much-needed

amount was never invested in the African's education. Rather, between 21 % and 24 % of the budget is spent on education, which is equivalent to 6 % of GDP (Seekings, 2004:302). This amount falls short of achieving substantial socio-economic change that would come from the masses of Africans being educated to a level of that of whites. This underinvestment also meant that school fees had to be provided by the guardians of children who attend public schools.

Even with this, most of the fiscal expenditure goes to support schools rather than universities. Yet, in spite of efforts by the government and guardians, the monies spent on education have not resulted in children attending public schools acquiring skills (Seekings, 2004:300). Inhibited by public schools that are largely "badly managed, their teachers [using] inferior teaching methods ...too few textbooks, physical conditions that are not conducive to learning, teachers and pupils that are too often absent with many teachers... not displaying even basic subject competence", the gross development of the African through public school education, is largely dismissed as an impossible task (Seekings, 2004:302). Because what the ANC had succeeded in doing through its fiscal expenditure was to increase the quantity of schools for the masses and not necessarily improve the quality of that education that their counterparts in private schools enjoy. The black middle class who are still relatively a small but growing class are able to attain, at a higher price of course, the same level of education as whites and have their skills similarly developed.

However, much more than perpetuate inequalities; the inferior educational development of the masses of African students robs the economy of the benefits that would accrue from increasing the pool of educated professionals who contribute to increased economic growth. And even more dangerously, this divide between the rich and poor serves only to contribute to a dissatisfaction that, if allowed to breed, will surely grow to challenge South Africa's already fragile social cohesion.

2.3.3.3 Government attempts to finance the cost of higher education

Realising the potential problem stated above, "...former Minister of Education, of the time pointed out that the government was anxious to do all in its power to help academically deserving students who are financially destitute and that national bursary loan schemes were in the pipe-line to achieve this purpose [and allow the masses to

pursue education in institutions of higher learning]” (Hugo, 1998:11). In later years, the establishment of Further Education and Training colleges (FET), further government financial assistance in the form of bursaries and scholarships to students with financial needs and the government’s recent introduction of free schooling for primary schools in selected parts of the country, are all measures that financially aid the masses. These measures assist the poor African to attain basic and higher education, skills development and training, but it is still a small fraction of African students who achieve satisfactory results considering the challenges brought on by their poverty and a persistent lack of resources in public schools, which would enable them to pursue higher education (Hugo, 1998:15).

2.3.3.4 Changing roles brought on by education and the intended growth of African professionals and the middle class

Whether a product of private or public schooling, Africans who enter who institutions of higher learning, if successful, take on roles in the private or public sectors that many in their previous generation had only dreamed of. Traditionally the fields of white men, Africans can attain education and progress through the corporate ladder to occupy powerful positions within financial, mining, engineering and scientific fields. From “having been clustered in disciplines such as teaching and nursing”, African women can be found in the scientific and engineering fields. In fact, they are encouraged to take on careers in these and other fields by organisations such as South African Women in Science and Engineering (SA WISE) and others related to their disciplines (Martineau, 1997:388). However, challenges continue to exist.

Financial barriers to entry threaten the strides in the African’s skills development and the consequent facilitation of economic growth. If the cost for quality education, which is increasingly found largely in private schools, is allowed to continue to be prohibitively dangerous, discontent may brew. Moreover, there exists the challenge of Africans successfully attaining basic and higher education but not occupying positions of power in corporate South Africa. Corporate South Africa has not embraced them as readily and fully competent as the public sector demands, which has helped to maintain managerial and executive power in the hands of whites. However, this is gradually beginning to change.

2.3.4 Employment change

In order to increase the speed of transformation in many occupational levels such as managerial levels in the workplace, the following laws were enacted:

- Affirmative Action Act (Act No. 66 of 1995); and
- Employment Equity Act (Act No. 34 of 1998).

2.3.4.1 Affirmation Action Act (Act No. 66 of 1995)

The former President of South Africa, Nelson Mandela, described affirmative action as “[a] corrective action to bring previously disadvantaged people to the same competitive levels as those who were advantaged” (Wilmot, 1995:3).

Others chose to interpret affirmative action differently; “reverse discrimination even “reverse racism” were the usual euphemisms (Adam, 1997:1). The Affirmative Action Act (Act No.66 of 1995) sought to achieve the “corrective action” by legitimising the employment of Africans (along with other previously disadvantaged groups) over similarly qualified whites. Yet, even this objective was misinterpreted to mean that Africans’ employment would occur on the exclusive basis of their race and not their qualifications and skills (Johnson and Schlemmer, 1996:78). Whatever the misconceptions or interpretations of affirmative action and its implementation, “everyone knew what affirmative was: it meant taking special measures to ensure that black people... who had been unfairly discriminated against in the past would have real chances in life. It particularly signified a concerted effect to enable them to overcome obstacles that had been put in their way, which would develop their capacities to the full and receive appropriate reward for their efforts,” (Sachs, 1994:2). In my view this refers to providing Africans with employment opportunities they did not have in the past, but with great potential on the basis that they get developed, mentored and trained on the job.

Consequently, after the enactment of affirmative action, employment opportunities increased and Africans in growing numbers found work on different occupational levels from casual workers to (although in small numbers from the early to mid nineties), management levels and beyond. The black middle class began to increase and so was the market.

Change in the political climate had meant that white owned businesses had to expand to the black market in order to grow their businesses. While some companies remained hesitant to absorb Africans on higher value added occupational levels, like management levels citing an uneasiness in encouraging employment on the same racial divide that

they thought underpinned Apartheid, some companies embraced affirmative action. This difference in choice explains “why some of South Africa’s most successful organisations appear to [be those] who embrace affirmative action wholeheartedly” (Adam, 1997:236). As firms had their employees reflect their market, they found that they were more successful in reaching the black expanding market. This expanding market had, as its chief driver, the growing buying power of the expanding middle class who enjoyed increased employment from corporate South Africa. It therefore, becomes evident that the growth of the black middle class in post-Apartheid can be traced back to affirmative action (Adam, 1997:476).

2.3.4.2 Employment Equity Act (Act No. 55 of 1998)

The employment benefits of affirmative action, however, needed to be refined. Women, and more devastatingly African women, faced a challenge in that education as the prerequisite for pursuing careers in the corporate world had been denied them because of a variety of reasons. Cultural norms, poverty, ideologies and stereotypes have almost uniformly succeeded in discouraging, in particular, the African woman’s ambition to pursue careers in male dominated areas of work (Martineau, 1997:354). Furthermore, even among educated and employed Africans, the average salaries for women were lower than that of men, which further entrenched gender inequality (Budlender, 1998:89). Even after democracy, the labour market remained discriminatory in what should be a non-sexist and non-racial equal society. Clearly, this state of affairs needed immediately change.

- Affirmative Action Act (Act No. 66 of 1995); and
- Employment Equity Act (Act 34 of 1998).

In 1998 the Employment Equity Act 34 of 1998).The Jobs Summit Final Declaration and Skill Development Act (Act No. 97 of 1997) became law. The aim of the Employment Equity Act 34 of 1998) would ensure fair remuneration for all labour, including African women and the disabled. Further, the Employment Equity Act (Act No. 34 of 1998) aimed at enforcing equitable representation on all occupational levels within firms (Samson, 1999). The latter two legislatures worked to complement the objectives of the Employment Equity Act (Act No. 34 of 1998).

Following the Employment Equity Act (Act No. 34 of 1998), employers of fifty people or more were required to develop strategies and goals that advanced equity in their organisations (Samson, 1999:7). By so doing, inequality and, more importantly, gender inequality and discrimination, would reduce at large. The Employment Equity Act (Act No. 34 of 1998) purported that training be the method used to facilitate a reduction of

gender inequality by bridging the skills development gap between the genders. Yet, critics later argued that training was not conducted with the objective of decreasing inequality by the organisations; rather, it was worked to increase the profits for capitalists (Samson, 1999). Whatever its merits and effects, the Employment Equity Act (Act No. 34 of 1998) is responsible for the drive to achieve equitable representation of and reductions in discrimination against, among others, Africans and African women on different levels of the organisation. This worked to develop the skills of Africans in those organisations and of the African people at large.

With the acquired training, the number of African professionals increased and the momentum of the growth of the black middle class, intensified. However, even with Employment Equity and Affirmative Action, inadequacies in ownership and control of South Africa's economic resources, persisted. The next Act that would be enacted would prove to change the economic landscape of South Africa in a way that was never before witnessed. It was the Black Economic Empowerment Act (Act No. 53 of 2003) and its effects on the economy and socio-political landscape of South Africa would only be fully realised several years after its enactment.

2.3.5 Employment and business: Black Economic Empowerment Act (Act No. 53 of 2003)

The origins of black economic empowerment can be traced back to the Freedom Charter of 1955. That document maintained that South Africans would share in the wealth and land of their country (Ponte *et.al* 2006:343). Similar empowerment strategies had been achieved with relative success in Malaysia through their New Economic Policy. Encouraged by their success, the Black Economic Empowerment Commission (BEE Commission), under orders of the South African government, proceeded to formulate South Africa's empowerment strategy. As per the Constitution of South Africa Section 9 (2), which provides for legislation to be used to defend or advance people or categories thereof that were disadvantaged by the Apartheid era, the South African government enacted what was the product of the BEE Commission, which would come to be known as the Black Economic Empowerment Act (Act No. 53 of 2003).

This was a direct and deliberate response by the ANC to address the skewed control, ownership and enjoyment of South African's wealth in favour of whites that persisted in spite of previous attempts that were aimed at addressing them. In order to empower blacks who were previously disadvantaged, the Act provided for a transfer of management positions, ownership and control into black hands (Ponte *et. al*, 2006).

Blacks, as did Africans, received the Act fairly well, although there were concerns raised by some organisations such as the Congress of South African Trade Unions (COSATU) (Southall, 2004: 368). (Ponte *et al*, 2006:78) shared these concerns. They argued that the Act had the potential to be seen as one that was concerned with advancing the interests, not of groups but of individuals. Furthermore, it would surely propel the formation of the black capitalist forward to the detriment of the poor. At best, they concluded, the Act was an African nationalist initiative.

In spite of these sensationalist interpretations of BEE and its intentions, they are different from the interpretation that was provided by the BEE Commission. The Commission maintains that the Act facilitates national transformation with the objective of advancing the interests of all previously disadvantaged groups, which the African is only a part of. If Africans sought to be exclusively empowered, the definition of black in the Act would not have included Coloureds and Indians.

Furthermore, the Black Economic Act (Act No. 53 of 2003) is governed by principals of inclusivity, broad based orientation and is centred on good governance, (Department of Trade and Industry, 2003:19). Yet, (Ponte *et.al* 2006:7) and others have remained unsure that the Act's creation of the black middle class and the capitalists that arise would induce the necessary economic growth that would improve the lives of their poor African, Coloured or Indian brethren. This sentiment eventually fuelled the belief that the black middle class was singularly becoming incredibly rich (Southall, 2004:389). Several sceptics of the Act wanted to argue that this came at a cost, which economically elevated the masses (Edigheji, 1999:12). In limiting the discussion to Africans' wealth, the sceptics continue, that wealth has not been readily transferred from the black middle class to the African masses even as economic growth picked up from 1998. Therefore, the Act's objectives of reducing inequality and transferring wealth into black hands, were, at best, merely hot air or, at worst, objectives aimed at the creation of increased inequality between middle and lower class. Hence, the consequent formation of the Broad Based Black Economic Empowerment (BBBEE) to ensure that business benefits get extended to all involved.

One of the problems of BEE was that it targeted employment that was not widely defined enough and its benefits too restrictive. Another definition of empowerment was, therefore, encouraged. This included skills development, education, employment and the encouragement of enterprise in favour of blacks (Ponte *et.al* 2006). Expanding on the

intentions of BEE, Broad Based BEE extends to businesses benefits in terms of whether they have satisfied the stipulated levels of black representation in ownership, management, employment and skills development. Having reached the stipulated levels, benefits such as government procurement and outsourcing accrue to business.

Moreover, Broad Based BEE is also aimed at the development of small to medium sized enterprises in which many blacks and Africans operate. BEE and Broad Based BEE would jointly work to develop the empowerment of blacks and in limiting the discussion to Africans; the Acts would empower both the black middle class and the African masses through tackling diverse areas of empowerment such as ownership of large corporations operating in South Africa or providing finance to establish small businesses. This empowerment, the ANC argued, would generate the rate of growth that would certainly induce further increases in the black middle class and reductions in poverty levels and *so deliver on the promise of a better life for all previously disadvantaged peoples*. However, sceptics argue that the Acts could inhibit the realisation of those perceived benefits in at least two ways:

Firstly, the link between poverty and inequality reduction and BEE enactment remains vague. Theoretically of course, one can determine that, should the BEE objectives of skills development be realised, then the African's productivity will be increased and their buying power, (which results from increased remuneration for their now higher skills), would also increase. But the sceptics maintain that the practical benefits that are proposed to accrue to the unskilled masses remain elusive. This is because, save for taxes, the skilled African such as accountants and artisans, have little to do with including the masses into the mainstream economy. That is the sole responsibility of the government and that agenda should be carried out more directly to achieve any substantial change in the economic climate of South Africa (Ponte *et. al* 2006:256).

Secondly, the outsourcing of functions to the private sector may signal a foreboding future outcome. The government currently uses the Act to outsource management from the government to the private sector in its auditory duties among other duties. This becomes problematic and even dangerous when the next outsourcing that could be done is that which involves previously political roles that have been made managerial. Time will tell whether such speculation is warranted or not.

In spite of these objections and the different conflicting sentiments on BEE and Broad Based BEE and their benefits (real or imagined) to the poor, especially the African masses, this much is true. Only after their enactment, did the South African economic landscape dramatically change in favour of Africans. The enduring argument is whether this African is predominately middle class, unskilled poor Africans, or both.

The evidence of the growth of a middle class since 1998 (the year BEE was enacted) can be readily found on the front pages of newspaper under titles such as “Black diamonds”, “witness the birth of the black middle class” and the like (Naidoo, 2006: 2 and Dardagan, 2005:87). The black middle class is behind the recent increases in South Africa’s consumption and, in turn, its GDP. They represent a buying power of R130 billion strong (Naidoo, 2006:2). Whether welcome or not, aspired to or looked down upon by incumbents of the middle class in other races the fact remains that the black middle class is growing at an unprecedented speed. The question that should be asked is whether or not the class is sustainable. That question, for reasons previously discussed in the chapter, has an important bearing of inequality, employment opportunity, economic advancement of the African and social cohesion within the Republic.

2.4 Conclusion

This chapter traced the black middle class from the Apartheid era until today. A thorough evaluation into the factors that determined the creation and the sustainability of the black middle class during Apartheid led to the discovery that education played a critical role in co-opting this class and turning most of its members into silent partners of the Apartheid regime. While it is acknowledged that not all members of the black middle class co-opted and readily admitted that some did, indeed, resist Apartheid and lost the privilege, esteem and financial security enjoyed by other members of the black middle class; there remains a question to be evaluated. And it is if the mass-led victory against Apartheid would look out for the specific interests of the masses during democracy.

Since the late 1990s, the ANC has formulated economic policies such as GEAR and Acts such as BBE and Broad Based BEE that jointly and largely benefited the middle (an upper) classes in South Africa among which was the black middle class. Now the intended expansion of the black middle class, the black capitalist and bourgeoisie was justified, since all previously disadvantaged people should enjoy the wealth of this land.

If their expansion meant that with the now increased economic growth, poor Africans would be through increased employment, - carried out of poverty, inequality and a lack of education, which further entrenches their poverty.

A redistribution of such wealth, especially between the affluent black middle and upper classes and the African poor, does not seem to occur in spite of several attempts such as BEE and Broad Based BEE, which prove to arguably favour only some Africans. The *outcome defeats the purpose of striving to create a better life for all*. With existing literature and the status quo finding and proving, respectively, that the link between firstly the black middle class, economic growth and, secondly, poverty and inequality reduction, is elusive; only one solution to the persistently unequal distribution in wealth remains.

Debt curbing legislation forwarded by NCA will be beneficial to the poor in particular the black middle class. Hence, the ANC begun to think of more creative ways to mould the South African economy to benefit the masses of Africans and South Africans at large. ASGISA would integrate and complement earlier Acts in an effort to become a national growth initiative from which all South Africans, and in turn, Africans, would benefit from whether skilled or unskilled, rich or poor and, lastly, upper or lower classes. Having clearly benefited from government policies both in the past and present, the question now is *whether the growing black middle class can sustain its wealth*.

The next chapter investigates the challenges faced by present day black middle class in South African and, in turn, the Western Cape to uncover the often misunderstood dynamics that drives and sustains and, in later chapters, their triumphs and aspirations.

CHAPTER THREE

A THEORETICAL OVERVIEW OF THE SOUTH AFRICAN CREDIT LEGISLATION

3.1 Introduction

This chapter is intended to reveal the methods that have been employed by the government in attempt to sustain the financial wealth of South Africans and, in turn, the black middle class. The evaluation will be conducted specifically on the credit legislation implemented by the government. However, more than merely describe the credit legislation, this chapter will review its efficacy, first theoretically then practically, in aiding to sustain the specific wealth of the black middle class. In the analysis, further evaluation is made on the financial challenges faced by the black middle class. By forming a deep-seated understanding of these challenges, effective methods, in addition to the existing credit legislation, can be formulated and employed to maintain the sustainability of the black middle class- a topic discussed later in chapter five.

Chapter two is arranged as follows. The first subsection provides a background that aims to justify why credit legislation, above any other alternative, was defended and used by the government as one of the most effective ways of aiding the financial sustainability of South Africans and, in turn, the black middle class. In this subsection, the status quo of South Africans' and the black middle class' wealth are described and the need for credit legislation justified. The second subsection contains the description and evaluation of the existing credit legislature. Moreover, the impact of this legislation as far as curbing excessive consumption beyond an individual's, and in particular the black middle class', ability to repay the incurred debt is analysed, because its success in doing so would mean that credit legislature is aiding to, at least in one way, sustain the wealth of the black middle class.

3.2 Sustainability and wealth explained

In analysing the sustainability of the black middle class on an individual and/or corporate basis, sustainability has been defined as economic sustainability, in other words, wealth. *In order to vindicate this definition; class is itself defined by economic disposition i.e. wealth.* Hence, the employed definition of the black middle class as Africans who earn between R3000 and R13999 per month (Mafu, 2007:1). Although this is the largely accepted definition, it ignores factors of wealth other than monthly income, that also play

a part in ensuring or jeopardising the economic sustainability of any class in South Africa including the black middle class.

In order to understand what these other factors are, it must be understood that wealth is an encompassing term that includes tangible assets (e.g. property and other durables), financial assets that are categorised into liquid assets (e.g. money) or illiquid assets (e.g. equities, bonds etc.) and debt (Aron *et al* 2006:243). It is, therefore, evident that in investigating the sustainability of the black middle class, an analysis has to be made on the mentioned factors of wealth that also affect its sustainability. Now, the determinants of South Africans' wealth are generally economic growth and policy advanced by the government.

The determinants of the wealth of the black middle class include the factors mentioned in the previous chapter, economic growth, and economic policy and, when these prove unable to ensure this class' self reliance, political links (Piliso, 2007:89). Whatever the perceived fairness of the wealth determinants of South Africans juxtaposed to those of the black middle class is, the resulting economic status quo of South Africans and the black middle class' wealth are evaluated below.

3.3 The status quo of South Africans' wealth

Starting the analysis from 1975, Aron *et al.* (2006:168) illustrate that South African households have been getting wealthier. The study excludes many South Africans that were not included in the analysis because they simply did not own the necessary assets or liabilities in the financial market or services sector especially during the Apartheid era which deliberately denied them the benefits of these sectors.

However, limiting the analysis from 1990 until the present, a period where more and more South Africans freely engaged with the financial market and financial services sector as barriers to entry were increasingly lifted. Aron *et al.* (2006:170) conclude that South Africans have indeed become wealthier.

Below is graphic illustration of that wealth.

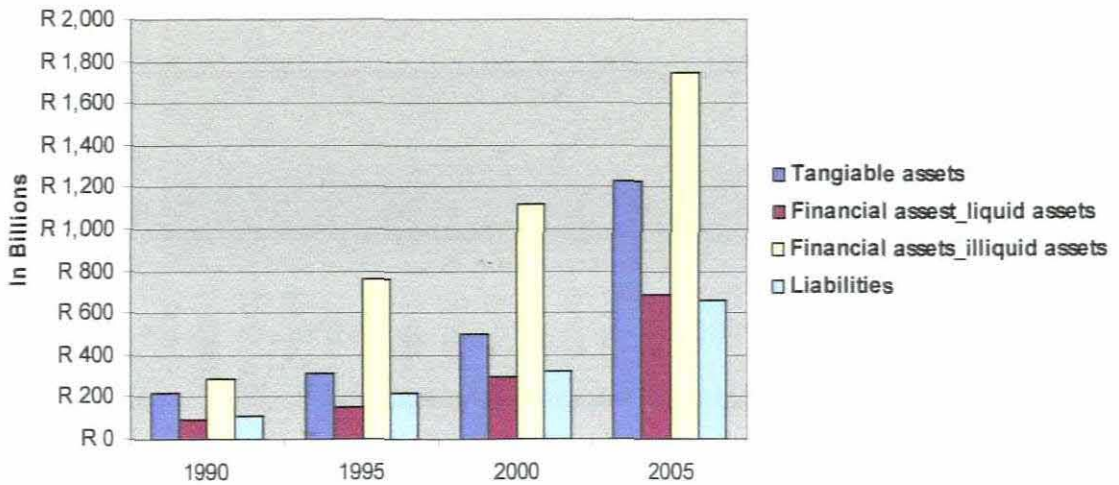


Figure 3.1: Illustration of South Africans' different wealth category growth from 1990 to 2005⁵ (Source: Aron et.al 2006:67)

The graph depicts that from 1995 South Africans have become wealthier with the largest increments to that wealth occurring between 2000 and 2005. As (Aron *et.al* 2006:6) explain, "the recent growth in wealth can be attributed to increases in asset prices". These asset prices are specifically private property and equity assets. By logical deduction, one can conclude that it has not been the masses of South Africans that benefited from the increase in economic growth that resulted in the increase in household wealth because it is not they who own private property and if they did, it certainly is not of the same value as that of their more affluent counterparts. In addition, they have little to no involvement in the financial markets. It follows, then, that it has been roughly the middle to upper class South Africans whether incumbents or newcomers, whose wealth has escalated since 1990.

As South Africans became wealthier, their consumption also increased validating the existence of a positive relationship between wealth and consumption that has been long held to be true in economic literature and confirmed in studies in other parts of the world (Boone *et.al* 2001:456; Catte *et.al* 2004:365). In current prices, South Africans' total consumption is illustrated below.

⁵ Projected figures are used for the year 2005.

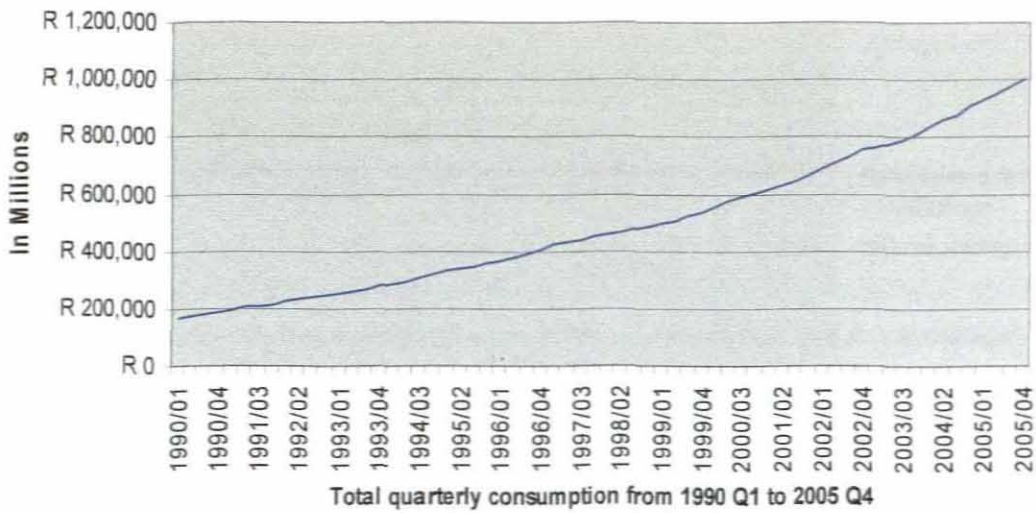


Figure 3. 2: Illustration of South African’s total consumption measured in current prices per quarter from 1990 to 2005 (Source: South African Reserve Bank: 2005)

Figure 3.2 illustrates that South Africans' total consumption has increased along side their wealth and consumption has done so at an escalating rate. Consumption rose from R 186871 to R1002767 million in 1990 quarter 4 and 2005 quarter 4 respectively. To finance this increase in consumption, South Africans have either used the proceeds of their assets or have taken up debt.

Rather than taking the prudent approach and finance consumption using assets many South Africans, whether out of need or poor financial planning, have opted to incur debt to increase their consumption. Following Aron *et al.* (2006:67), between 1990 and 2005, household debt has increased over 250 %. With the access to financial services being granted to more South Africans after the end of the Apartheid era in 1994, South Africans took more advantage of credit allowance than they did of saving as shown in the following graph.

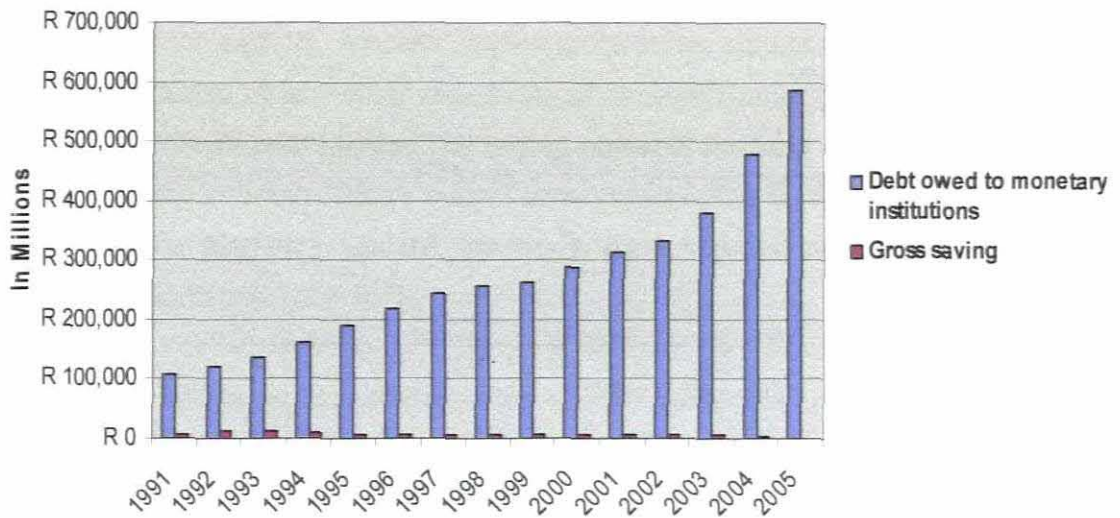


Figure 3.3: Illustration of debt and saving by South Africans from 1991⁶ to 2005
(Source: South African Reserve Bank 2005)

The result has been that at the first quarter of the year 2000, just under 60 % of South Africans' disposable income serviced debt (Prinsloo, 2000: 21). Moreover, with credit use increasing at faster rates than before the year 2000, that %age is steadily rising. Consequently, a number of South Africans today that are struggling to pay off their debt yet, consumption remains higher. While this group depends on their monthly disposable income to fund their ever increasing consumption, other South Africans enjoy the benefits of increased wealth that resulted from having saved and invested into the financial and property markets, which Fig 3.3 demonstrates. The financial futures of these two groups of South Africans are therefore obvious. The former will live on the brink of bankruptcy and the latter will live a comfortable and financially secure life. Eventually, the economic sustainability and wealth of the former is heading for an inevitable end while the latter's only beginning.

Behind the recent increase in South Africa's consumption, has been the buying power of the black middle class (Dardagan, 2005:345; Naidoo, 2006:245; Nyanto, 2006:453). The next section investigates how the black middle class is funding their dramatic increase in consumption which ultimately determines which of the two groups of South Africans they belong to which thereby answers the question of their sustainability.

⁶ The 1990 figures are unavailable from the South African Reserve Bank therefore the analysis had to start from 1991.

3.4 The socio-economic status of the South African black middle class

At the turn of the century, Africans' consumption levels increased at an unprecedented speed unparalleled by any other race's rate of consumption at that time or at any other time in the African's own history. The buying power of Africans was quickly becoming a formidable force in South Africa's overall consumption (The Bureau of Market Research, the International Marketing Council, the Kruger Research and the UCT/Unilever Institute of Strategic Marketing 2007:567)

Market and academic researchers alike quickly undertook many studies aimed at understanding this new phenomenon. The Bureau of Market Research, the International Marketing Council, the Kruger Research and the UCT/Unilever Institute of Strategic Marketing 2007 found the driving force behind that rapid increase in consumption to be the black middle class. It is from the findings of these institutes that the analysis of the black middle class is conducted.

Arguably the most well known studies that study the black middle class are the UCT/Unilever Institutes' Black Diamond surveys. The latest study, the Black Diamond 2007 Survey: *On the Move* discovered that in the past 15 months starting July 2007, members of the black middle class have increased by 30 %, bringing the total number of members of the black middle class to 2.4 million Africans. As Naidoo (2006:367) learned and related that this class represented a buying power of R130 billion, their buying power has since grown by an astonishing 38 % to R180 billion in the first quarter of 2007 (Bisseker, 2007: 36). That buying power represents 54 % of the buying power of all Africans and 28 % of South Africans at large. To illustrate the sheer speed of this class' growth, Professor Simpson of the UCT/Unilever Institute explains, "Perhaps the most important figure here is that 12 % of South Africa's black population, that is Black Diamonds also known as the black middle class account for over half (54 %) of all black buying power. This compares with 10 % accounting for 43 % of black buying power 15 months ago" (Biz Community, 2007:1).

The black middle class, better known for the exponential increases in consumption rate rather than investing and saving the newly found wealth, has been at the centre of great debates. One debate questions the legitimacy of the existing black middle class amidst growing inequality even among Africans (Makgetla, 2004:97; Southall, 2004:390). This inequality is clearly supported by the fact that the black middle class, which is only 12 % of the total African population, is consuming more than half of the African's total

consumption. Despite obvious attempts by marketers to shamelessly capitalise on a growing black middle class by engineering their marketing campaigns to attract the black middle class through appealing to their sense of achievement, esteem and aspirations in the sole pursuit of higher profits, the black middle class continues to insist on consuming more than saving or investing its wealth (Biz Community, 2006:17). This leads to the second debate that questions the consumption behaviour of the black middle class. Perceived status symbols such as luxury cars, home size and location, types of home décor, designers wear and so on. All seem to be items that the black middle class is demanding and, in turn, consuming (Bisseker, 2007; UCT/Unilever Institute, 2007:57).

Nyanto (2006: 29) explains this as a “psychological result of years of poverty and deprivation.” The black middle class has adopted the lifestyle of their former white bosses without any asset foundation [that whites have]... Aspiring to a white world, the black middle class [stands ready] to guzzle...what they do not produce [calling into question the economic contribution of this class outside being a mere consumer]. In fact, this explains why the black middle class’ wealth never really trickles down to African masses. Usually showing an unwillingness to invest their wealth and use their skills to create businesses in the townships of South Africa to help lift the weight of unemployment and poverty off the shoulders of their brethren, the black middle class is nevertheless willing to offer their skills to corporate South Africa to further enrich businesses that are still dominantly owned and controlled by whites. As the black middle class plays catch up to the white lifestyle without the necessary foundation of an accumulated asset wealth possessed by whites, the result is as simple as it is inevitable. Onyeani (2007:12), the author of the critically acclaimed book called *Capitalist Nigger*, eloquently explains it as follows: “[I]f the black middle class does not get a month’s pay cheque, they would revert to the poverty class immediately”.

With the black middle class’ economic contribution being largely that of a consumer, the third debate questions the ability of the class to maintain even this function in the economy. The black middle class is largely funding its consumption through debt (Nieftagodien and Van Der Berg, 2007:286). They have been the primary cause of the increase in the demand of credit from financial institutions and that demand is set to remain strong (The Economist, 2007:1).

On the black middle class’ ability to sustain their wealth with their consumption thus financed, the existing literature divides it into two schools of thought that argue both for

and against the capability of the black middle class sustainability with their consumption thus financed (Bisseker, 2007: 395; Nyanto, 2006:19). Below is a graphical justification of why it is argued herein that after having considered the status quo of the black middle class, the wealth of the black middle class is unsustainable.

	Rand value	%age
Current buying power	180 billion	
Total debt	114.5 billion	63.6
%Age of total debt to disposable income		
Debt is comprised of:		
1.Home loans and bonds	77.5 billion	68
2.Motor vehicle	27.3 billion	24
3.Credit card debt	2.28 billion	2
Net worth after debt service	41.678 billion	

Table 3.1: Net worth of the black middle class and its sustainability

(Source: Bisseker, 2007: 36; UCT/Unilever Institute of Strategic Marketing)

Bisseker argue that South Africans, that have a total of 76 % of disposable income having to service debt, live off only 24 % of their disposable income (Bisseker, 2007:36). Bisseker continues to illustrate that the black middle class is not as indebted as is often alleged. In fact, the critics conclude that that the black middle class lives off 40 instead of 24 % of disposable income proves their ability to sustain their wealth, specifically their wealth as measured by disposable income, relatively better than the average South African. This argument misses one important fact. While the critic's conclusion may just be true, it certainly does not mean that the black middle class is any better off than its counterparts of other races and upper classes because in the relative lack of savings and investments the assets of the black middle class, the car, the house and the refrigerator, remain the assets of the bank until they are all paid off- which is something that itself depends on their sole source of income, which is the disposable income, without which the black middle class would certainly join the masses of Africans. That is the crucial difference between the black and white middle class- the ability to remain in

the middle class despite decreases in disposable income owing to the presence of asset wealth, be it savings or investments. However, what truly threatens the wealth and therefore the sustainability of the black middle class is that, even in the relatively large absence of asset wealth when compared to other races, like the white race, the black middle class funds its excessive consumption, which was found earlier to be on, with the exception of property, mostly luxury goods (or stated differently on status oriented items) -on debt. While it is readily admitted that individual differences do occur between members of the black middle class regarding the different manners of financing consumption.

The finding of this investigation is that the black middle class largely belongs to that group of South Africans whose wealth is heading for an inevitable end eventually and whose wealth is therefore unsustainable.

3.5 The need for credit legislation

Having investigated, from the discussion above, the status quo of the black middle class' wealth in relation to South Africans' wealth there is a need to curb that consumption that is detrimental to the wealth of the black middle class and indeed of South Africans as a whole as it contributes to excessive debt which is self evident. Consumption can be curbed in one of two ways if not by a combination of the two. First, interest rates can be increased so as to make the cost of borrowing from financial institutions such as banks expensive for the South African consumer. This would decrease the consumers' propensity to take on more debt to finance the purchasing of additional houses, cars and other goods. The second way to curb wealth-eroding consumption is to formulate and enact legislation that regulates that means of financing consumption itself, which is credit that results in excessive debt. National Credit Act (Act No.34 of 2005) is the second alternative that can be used to curb wealth-eroding consumption. The two alternatives explained above, although both theoretically effective at curbing consumption have very different impacts (positive or negative).

In the instance of wealth eroding consumption being very high, as is currently the case particularly in the black middle class, the first alternative would suggest that interest rates be increased by an amount adequate to induce a reduction in the consumer's credit demand and, in effect, consumption itself.

But the now increased rates of interest have an effect, through the monetary transmission mechanism, on other areas of the economy that have little or nothing to do with consumption such as, exports, investments and so on (Witta-Jacobsen, 2005:95). This is the major drawback of solely or even partially using the first alternative as a means to curb consumption- it has far reaching implications than consumption for the economy at large that may unintentionally adversely affect economic growth. The second alternative does not have the same drawback as the first. Credit legislation isolates its impact on consumption alone and more specifically wealth eroding consumption that is financed by means of debt. Hence its appeal and use in attempting to curb wealth eroding consumption in efforts to sustain the wealth of South Africans including the black middle class.

3.6 Credit legislation

Until 1994, the key Acts that regulated credit in South Africa were the Usury Act (Act No.73 of 1968), the Credit Agreements Act (Act No.75 of 1980) and the Usury Exemption Notice of 1992 (Department of Trade and Industry, 2004:16). All the products of the Apartheid government, these Acts deliberately limited the access of credit to the African working class. The incentives of many Africans to invest in property, education and business ventures were consequently eroding until only a few of them, even among the middle class, were able to attain credit to further these objectives. Below is a brief discussion of the effects the mentioned Acts have on the asset base of the Africans, and a general description on the Acts' flaws and the resulting inefficiency of extending credit to South Africans, at large. Lastly a description is made on the effect that this legislation have on the consumption behaviour of South Africans and, in turn, the black middle class.

3.6.1 Africans, credit legislation during the Apartheid era and the legislation's inherent shortfalls

To appreciate the repealing of pre 1994 credit legislation, the enactment of the current credit legislation and the intentions behind it, it is important to understand the outcomes of the credit legislation during Apartheid especially with regard to Africans' economic deprivation. Credit access for the African was, as said before, limited. The Usury Act 73 of 1968) through the stipulation of payable interest rates and the differing security to be provided when attaining loans, worked in conjunction with Apartheid policies to limit the capital accumulation of Africans (Department of Trade and Industry, 2004:20).

It was only in the late 1980s and early 1990s that credit allowance to Africans increased (Department of Trade and Industry, 2004:16). Yet even when credit was extended to Africans, it almost never served the primary need for business finance. Instead, credit was extended to Africans for the purpose of acquiring assets such as furniture and clothes which did little, if anything at all, for their wealth accumulation (Department of Trade and Industry, 2004:57).

The Usury Exemption Notice of 1992 increased money-loan access to Africans and came with the much welcome prerogative of Africans choosing the use of the attained credit. But due to the short-term nature of repaying the loans, substantial amounts necessary to finance property and businesses were seldom acquired and therefore the avenue for the African to use credit, acquired from money-loans, to accumulate their wealth was seldom explored. In addition, the seldom presence of collateral, demanded by mainstream financial institutions in acquiring their credit, placed the Africans at the mercy of over charging informal credit providers or being without credit at all. In 1994 the result was that Africans formed an overwhelming majority of South Africa's 60 % is the adult population without access to credit in the financial institutions (Kirsten, 2006:2).

3.6.1.1 Characteristics of the credit market

The consumer credit market in South Africa has always been marked by controversy. Even in post Apartheid South Africa, the credit market has been characterised by racial discrimination in the allowance of credit and the credit bureau's discriminatory tendency to blacklist particularly Africans (Department of Trade and Industry, 2004:54)⁷. The various bureau deliberately negated complainants the opportunity to clear their names and in this manner deny them, most of whom were Africans, the prospect of attaining credit to better their lives, often followed their blacklisting. The next factor that characterised the South African credit market was its lack of transparency vis-à-vis the cost of credit and the details behind the refusal of credit to consumers. Without legislation preventing the inflating of credit cost and the legislation requiring credit providers to disclose the details behind the refusal to provide credit, the resulting lack of transparency has allowed many credit providers to benefit, often exclusively unilaterally, from credit provision while never being compelled to disclose and also defend the basis behind that increasingly bias benefit.

⁷ As of 2007, the existing credit bureau in South African are TransUnion, Experian S.A., Xpert Decisions Systems (XDS), Micro Lenders Credit Bureau (Microlending), Compascan (Microlending), Consumer Profile Bureau, Kreditinform and LexisNexis Risk Management.

The result has been that differential treatment, with regard to cost of credit and manners of enforcements when payment of the credit given is due, have been given to consumers by credit providers who also unjustifiably base such decisions on demographic profiling that is often unfair.

But it is the credit market's exploitation of the lesser-educated people (regarding the legal and practical implications of the credit contracts signed) and the general lack of competition between the credit providers (who inflate the cost of credit beyond the levels that would prevail in an otherwise competitive credit market) that cumulatively contribute to this market's predatory lending practices. And this is what better justifies the immediate revision of the credit legislature mentioned above (Department of Trade and Industry, 2004:34).

3.6.1.2 Shortcomings of the pre-1994 credit legislation

It is not even all the previously mentioned characteristics of this market, that prove to run counter to efforts made to create a fair and equal society where credit was allowed to all, that were the only grounds behind the repealing of the mentioned credit legislation. The other justification comes from the credit legislature being plagued by undeniable flaws that have become more acute with time. In the Department of Trade and Industry's (2004:16) own words "a review of South Africa's consumer credit policies is necessitated by... [an] outdated and fragmented legislation".

While the credit market has evolved quite significantly over the past 30 years, the credit legislation itself has not generally changed since its inception. The need to modernize it has eventually become self-evident. The old credit legislation was also in fact fragmented and this is what caused legal and practical problems. For example, there was an inherent difference in the products protected by the Consumer Protection Act (Act No. 71 of 1988) and the Usury Act (Act No.66 of 1995), which was more comprehensive. A product can appear under one or both Acts or not appear at all. This had meant that in the latter case the product, although purchased with credit, was not recognised or protected by the legislation (Department of Trade and Industry, 2004:40). Other inconsistencies also occurred in the different regulatory requirements of transactions that were inherently similar.

This caused differences in registration, compliance costs and standards relating to the following:

- Money lending (including bank loans) that fall under the Usury Act(Act No. 66 of 1995);
- Money lending (including bank loans) that fall under the Credit Exemption Notice of 1992;
- Credit for items listed in the Credit Agreement Act 34 of 2005);
- Credit for items that are not listed and are therefore not governed by either law.

(Source: Department of Trade and Industry, 2004:22)

Such inconsistencies have created incentives for regulatory arbitrage and circumvention by the credit provider and consumer alike. For example, a consumer has been able to avoid paying deposit on an item, say a refrigerator, by attaining money loans instead of acquiring the asset by way of hire purchase, which requires a deposit (Department of Trade and Industry, 2004:45). The last characteristic of the credit market has been that enforcement under the Usury Act (Act No. 66 of 1995) and the Credit Agreement Act (Act No. 34 of 2005); has been largely ineffective. This has deterred some credit providers, particularly commercial banks, from providing credit to lower income consumers at affordable rates (Department of Trade and Industry, 2004:46).

It is for the above reasons, an outdated and fragmented old legislation and the characteristics of the credit market discussed earlier, that the adaptation of new credit legislation in the new South Africa was imminent. The new credit legislation would seek to protect the South African consumers and, in effect, African consumers from every income group, particularly the lower and middle-income groups, against the problems identified above. By way of increasing the credit access at reasonable rates to South Africans and, in effect, Africans, the new credit legislature would seek to construct and sustain the asset base and wealth of Africans and thus create a better life for all as more and more Africans, through wealth increasing credit utilisation, move from lower to middle class. In forwarding that goal in post apartheid South Africa, the most significant development in credit legislation has been the enactment of the National Credit Act (Act No. 34 of 2005). Below is a description and evaluation of that National Credit Act (Act No. 34 of 2005).

3.6.2 The National Credit Act (Act No. 34 of 2005)

“The purposes of this Act are to promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers”
(NCR, 2005:1).

Repealing the Usury Act (Act 66 of 1995), the Credit Agreements Act (Act No. 79 of 1995 and the Usury Exemption Notice of 1999, the National Credit Act (Act 34 of 2005) was phased into effect on the 1 June 2006 and was fully adapted as law on the 1 June 2007. It regulates the credit bureau and following credit providers; commercial banks, clothing and furniture retailers, businesses who sell on, or provide, credit, micro lenders. It regulates credit agreements such as; mortgage bonds, store and credit cards, personal loans, leases, pawn, instalment sales, credit guarantees. The Act also regulates incidental credit (which is credit that came from buyers defaulting on payments on items that were originally purchased on non credit terms) and developmental credit (which are loans to finance either education, the building or extension of low cost housing or the start up costs of small to medium sized enterprises). To counteract the stated long-standing characteristics of the credit market, the National Credit Act (Act No. 34 of 2005) would achieve the said purpose in the manner described below.

3.6.2.1 The National Credit Act's (Act No. 34 of 2005) theoretical benefits

In order to increase the access of credit, Section 60 of the Act provides every individual, group of people or company with the right to apply for credit from any credit provider. However, the credit provider reserves the right to provide credit (granted that the reason to refuse to do so is based on those business grounds that were the sole outcome of the credit risk evaluation process performed by the credit provider, which assesses the ability of the consumer to repay the debt incurred). Nevertheless, the right to apply for credit access is extended to all South Africans.

The National Credit Act (Act No. 34 of 2005) grants consumers the right not to be discriminated against when applying for credit. Section 61 of the Act clearly prohibits discrimination based on race, age, religious belief and trade union affiliation as credit providers determine whether to extend credit to applicants. Furthermore, the Act permits the consumer to take the credit provider to the Equality Court or complain to the National Credit Regular, the enforcer of the National Credit (Act 34 of 2005) on the very suspicion of discrimination.

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In order to promote transparency, Section 62 of the National Credit Act (Act 34 of 2005) stipulates that consumers have the right to request, from the credit provider, a written reason for the refusal to provide credit. Should credit be refused because of information gathered from the credit bureau, the consumer is entitled to demand that the credit provider provides the name, address and other details of the credit bureau. The bureau is obliged to keep only corrected details of the consumers resulting from its annual communication with each consumer at no charge to that consumer him/herself (Section 72)⁸.

This was done in an effort to discourage the tendency of the credit bureau to blacklist consumers without their knowledge whilst denying them the opportunities to clear their names. To further the goal of decreasing the negative impact of blacklisting upon a consumer's ability to access credit, Section 73 requires the removal of certain information from the credit bureau (National Credit Regulator, 2007:2). Firstly, the information on dormant accounts (which are accounts where consumers have made, in the absence of a contractual obligation, no payments and/or the credit providers has taken no enforcement action to collect the monies due to them) are to be removed from the records held by the credit bureau. And so is the information classifying consumer behaviour such as delinquent and not contactable and any civil court judgements.

In fact, much more than extend to consumers the right to access the information held by the credit bureau on themselves, the National Credit Act (Act No. 34 of 2005) gives consumers the right to challenge that information by obliging the bureau to provide proof of accuracy in the consumers' detail, failing which the disputed information is to be immediately removed from its records (Section 73). Moreover, a credit provider is obligated to alert the consumer if any adverse information on him/her is given to the bureau. The above factors culminate in a deliberate effort by the government to bring to an end the practices, which have long been accepted as the norm in the credit market, which have limited credit access and forced consumers, who are mostly African, into an inferior way of life. These practices have included credit providers refusing to disclose the reasons behind the refusal to provide credit and in so doing disallowing consumers the means to settle existing disputes and thereby limiting their credit access and denying them the ability to use credit to improve their standard of living.

⁸ For a fee not exceeding R20, a consumer can access information held by the credit bureau at anytime during the 12-month period.

The National Credit Act (Act No. 34 of 2005) seeks to increase transparency by regulating the cost of credit to discourage credit providers from inflating these costs and unscrupulously profiting from this practice. Interest rates, initiation and services fees level, i.e. the cost of credit, are all stipulated in the Act according to the type of credit agreement entered into (Section 101) (Regulations 36, 39, 40, 41, 42, 44 and 45). This has brought much needed uniformity and less fragmentation in the new legislation relative to the old legislation regarding items protected by legislation and credit agreements.

In order to protect consumers from unscrupulous lending and reckless credit allowance by the credit providers in pursuit of profit, Section 80 of the National Credit Act (Act No. 34 of 2005) requires that a credit provider ensure that the consumer applying for credit they can afford to repay the debt before providing him/her with credit. In addition, the National Credit Act (Act No. 34 of 2005) requires that the credit providers ensure that consumers fully understand his/her rights and responsibilities in the credit agreements entered into. Should the credit provider fail to perform any of these duties, the consumer is encouraged to take the matter to the magistrate's court. The court will then decide whether to suspend the agreement if found indeed reckless- in which case the consumer is relieved of the duty to continue to pay the credit provider any interest or fees due- or simply restructure its terms of payment if it found not to be reckless.

The National Credit Act (Act No. 34 of 2005) also introduces debt-counselling services that are aimed at assisting consumers who are over-indebted. These services were created with the intention to aid those consumers who are unable to service the incurred debt by redesigning their debt obligations with the help of a National Credit Regular registered debt counsellor (Section 86) (Regulation 24 and 26). The debt counsellor; accessed by a consumer either voluntarily or referred to by a credit provider or a court, will then carry out an assessment to determine whether the consumer in question is over-indebted or not (Section 79). Under this debt review process, the debt counsellor, with the permission of the relevant credit provider, reschedules the terms of payment of the credit purchases taken by the consumer to suite the consumer's financial ability to service the debt in a sustainable manner.

This is what the National Credit Act (Act No.34 of 2005) defines as debt restructuring (Section 86) (Regulation 24). Should the consumer default on payments stipulated in the resulting debt restructuring agreement, only then, can the credit provider in question take legal action against the individual.

In order to put to an end to the exploitation of consumers that comes from their lack of understanding the legal and practical implications of the credit agreements entered into. Section 63 of the Act grants consumers the right to have these agreements written in a language they understand.

3.6.2.2 Important features of the National Credit Act (Act No. 34 of 2005)

The Act strictly prohibits predatory credit marketing practices. These have previously included, in essence, the harassment of consumers by credit providers seeking to lure them into their client base. Section 75 of the National Credit Act (Act No. 34 of 2005) prohibits the marketing of credit at consumer's private homes or places of employment, except in particular circumstances. These are when the consumer has invited the credit provider to the stated places and when the credit provider is selling development credit. Additionally, credit providers are required to reveal, among other cost details, the prevailing credit levels on goods and services advertised. This disclosure allows the consumers to make informed decisions regarding costs when deciding to take on credit and choosing between credit providers.

The National Credit Act (Act No.34 of 2005) is also designed to advance, within the credit market, a standardised enforcement framework. When consumers defaulted on payments due before the enactment of the National Credit Act (Act No. 34 of 2005), credit providers were able ensure that the money due to them is collected using often different, and sometimes unsympathetic, enforcement mechanisms. In possession of a client's, identity document, Automatic Teller Machine (ATM), debit or credit card and pin number, credit providers have been able to use these items for the purposes of forcibly collecting the monies due to them from clients that have defaulted on payment and have previously done so unhindered by legislation. Unsurprisingly, the new (National Credit Act: Section 90 and 133) strictly prohibits this method of collecting monies owed. Instead, it outlines this procedure: the credit provider is to notify the consumer, through written correspondence, that their account is in arrears and suggest that the matter be referred to a debt counsellor or Ombudsman, which are bodies that handles such disputes, in an attempt to settle the dispute before involving the courts.

The consumer not respond to the credit provider's communication then the latter is permitted to approach the Magistrate's court and settle the matter there (National Credit Act (Act No. 2005: Section 129). The National Credit Act (Act 34 of 2005) also protects consumers against those clauses that credit providers had previously thrived on, in forwarding their own agenda of maximum profit extraction. The National Credit Act (Act 34 of 2005) declares provisions or clauses to be unlawful if they; mislead the consumer, subject him/her to fraud, suggest that the consumer has waived some fundamental right such as that of having repossessed goods sold at the prevailing market price. In addition, the National Credit Act (Act No. 34 of 2005) also declares provisions or clauses that require that the credit provider set off the consumer's debt on his/her assets without that consumer's consent as unlawful (National Credit Act: Section 90 and 121). The avenues able to assist all consumers in laying complaints and settling disputes are clearly described by the Act. A consumer can lay a complaint on services received from, or treatment of a credit provider, debt counsellor or credit bureau to the National Credit Regular (NCR).

3.6.2.3 The entities identified in the National Credit Act (Act 34 of 2005) and their roles in the new credit system.

The National Credit Regulator, as the enforcer of the National Credit Act (Act 34 of 2005), handles complaints made to it by consumers relating specifically to credit agreements (National Credit Act: Section 15). The NCR's other duties include registering and monitoring the conduct of credit providers, credit bureau and debt councillors. It is tasked with the responsibility of identifying and informing government on factors that hamper the access of credit, consumer protection and competition among credit providers (National Credit Regular, 2007). In this way, it aids to advance the objectives of the Consumer Protection Act (Act No. 68 of 2008).

The Alternative Dispute Resolution Agent itself however is a body that acts as a mediator, arbitrator and conciliator of disputes brought before it by consumers. Should a resolution not be reached by the ADR, the case is then referred to the National Consumer Tribunal of Section 164 and Regulation 51. When the complaint could not be resolved either through the ADR or an Ombudsman and where the consumer's complaint was referred by the NCR but was without a resolution, the National Consumer Tribunal is obliged to investigate the consumer's complaint (National Credit Act: Section 137 and 141) (Regulations 49 and 51).

3.6.3 The socio-economic impact of the National Credit Act on black middle class

The National Credit Act (Act of No. 34 of 2005), as described above, clearly benefits consumers on many levels. The Act extends rights to consumers and obligations are placed on credit providers and credit bureau to ensure consumer protection. The National Credit Act (Act No. 34 of 2005) provides for cost transparency, legal contract comprehension, debt counselling and facilitates the implementation and practice of stricter measures to prevent unscrupulous lending. For these reasons, it can be concluded that all consumers and Africans, in particular, and subsequently the black middle class, have a lot to gain from the current credit legislation.

In substantiating this conclusion, consider that, although the National Credit Act (Act No. 34 of 2005) benefits are extended to all South Africans; the Act particularly benefits Africans themselves in the following ways. It renders the discrimination as unlawful. Whereas their credit access was limited in the past to finance mediocre assets at best if credit access was allowed at all, Africans now have the right to apply for credit from any credit provider and the law obligates that credit provider to provide written reasons for credit refusal, when asked to do by all consumers including Africans. Moreover, Africans can use the attained credit to finance personal and/or their small to medium enterprises' needs. With more businesspersons that are African being able to apply and, hopefully, receive much needed capital the asset base and therefore the wealth of Africans in general can increase. The National Credit Act (Act No. 34 of 2005) also provides the African credit applicant or user with organisations that are equipped and willing to handle any complaints brought to them by him/her.

This increases Africans' consumer protection while simultaneously holding the credit providers and bureaus accountable for decisions they make, be they credit refusal or stereotypical blacklisting, which have previously served to maintain Africans' inferior standard of living relative to other South African credit utilising consumers.

In addition, the Act stipulates the cost of credit in accordance to credit agreements which prevent the inflating of the cost of credit by credit providers or the different levels of credit cost they offer to consumers with the poor, mostly Africans, being made to pay higher interest rate because of their perceived risk of defaulting on payments. This particular practice served to exclude especially poorer Africans from credit access even after the end of apartheid (Department of Trade and Industry, 2004). The current legislation ensures that they too pay the same rates as their counterparts. This has

increased the affordability of credit to poorer Africans attained from reputable credit providers, thereby liberating them from the often merciless, loan sharks. The National Credit Act (Act No. 34 of 2005) protects Africans from exploitation by requiring that credit agreements be written in comprehensible terms and in an indigenous language, at the African's request. This, brings to halt known efforts on the part of some credit providers to capitalise on unwary and uneducated consumers, particularly Africans, regarding the terms and conditions of the contract entered into.

Therefore, in the absence of over-indebtedness and other possible complications that could arise from credit utilisation (which are dealt with through debt counselling provided by organisations described in and provided by the Act itself), extending credit to the African consumers and/or their business community has the ability to bring many Africans into the middle and upper classes. With the possible consequence of the National Credit Act (Act No. 34 of 2005) being able to assist the growth of the Africans' wealth and thereby bringing them into the middle or upper classes as explained.

The question, which arises now, is whether this and other said benefits of the National Credit Act (Act No. 35 of 2005) are being realised by Africans. The next heading is a discussion that evaluates the events in the economy since the implementation of the National Credit Act (Act No. 34 of 2005) with a specific focus on Africans especially the black middle class.

3.6.4 The practical effects of National Credit Act (Act No. 34 of 2005) on Africans and the black middle class since its implementation

With the National Credit Act (Act No. 34 of 2005) having been implemented on 1 June 2007, literature, which explores its effects, lacks. Where it exists, the literature is usually qualitative and not quantitative, thereby limiting any evaluation of the tangible economic impact of the Act. This subsection, therefore, analyses the impact of the Act on the black middle class by drawing on the available literature as of 1 June 2007.

3.6.4.1 Credit access and use

The implementation of the Act coincided with increased efforts from the South African Reserve Bank (SARB) to decrease Consumer Price Inflation. The SARB has been increasing the cost of borrowing money i.e. interest rates in the attempt to reduce inflation, which is a general increase in the prices goods and services (SARB, 2006:297). This is done to reduce the cost of living for all South Africans, not just the affluent ones whose spending is contributing to rapid increases in prices.

For the consumer, including black middle class, such increases in the interest rates have increased the money payable on credit purchases, which in short means that the cost of credit has increased. Therefore, on Africans, as well as other South Africans, credit financed assets (whether personal or business related) the level of debt servicing has rapidly increased in the recent years (Laubscher, 2007:257). With inflation being 8.4% on November 2007, the consensus is that interest rates will be further increased by SARB to get it back within the allowed band of between 3 to 6 % (StatsSA, 2007:134).

These two forces, a higher interest rate and stricter measures imposed by the Act to depress unscrupulous lending, which jointly contribute to the decrease in credit utilisation to finance assets. Indeed this characteristic of the National Credit Act (Act No. 35 of 2005), although formulated with good intentions, is further exacerbated by the prevailing high interest rates, and therefore the high cost of credit, in the economy. The results have been rapid declines in the credit purchases of retail items, vehicle and to a smaller extent, household credit (Laubscher, 2007:258).

Yet with household debt of South Africans and their debt servicing increasing, Bisseker (2007:36) and others still insist that the black middle class is better off than the average South African who lives on 24 instead of 40 % of income lived on by the black middle class. Such statements have often led to, by way of rough implication, the untrue belief that the black middle class's credit utilisation and consumption, is unscathed and should continue in the fashion it has been recently.

The indication against such an assertion is clear. Whether by prevailing circumstances of high interest rates or by choice, the black middle class among other South Africans have drastically reduced their consumption of retail items, vehicles and the like. This has happened despite the Act having made provision for increased credit access to Africans. This leads one to the conclusion that the black middle class, despite their personal aspirations of living a lifestyle which resembles their much-improved current economic standing, is still susceptible to having that lifestyle change depending on the interest rate and other economic factors of the time. The majority of their counterparts of other races who maintain their wealth and lifestyles, whatever the situation on interest rates or the economy at large, clearly do not face this teething limitation.

As Laubscher (2007:3) explains that for the largest part, South Africans' personal income from other sources; be they non-corporate business enterprise profits, capital gains and dividends received from the financial markets and income received from the leasing of property, have progressively increased from 20 % to 33 % between 1998 and 2007. With the black middle class having only recently started to accumulate assets and wealth, if at all, it is safe to conclude that the rest of South Africans enjoy diversified sources of income that has helped the majority of them to maintain their consumption and lifestyles despite the higher interest rates and other economic woes. The black middle class still needs time to accumulate the assets that would allow the same diversified sources of income, if they were willing. For now, despite increased access to credit, the lack of accumulated assets jeopardises their lifestyles and this is evident in their declining consumption of retail goods, automobiles and other possessions like that. It is good to remember that, these possessions remain the actual property of the relevant credit providers until they are fully paid for.

3.6.4.2 Educating the public the use of National Credit Act (Act of No. 34 of 2005)

With the effects of the National Credit Act (Act of No. 34 of 2005) yet to unfold fully, one study that gives an indication of the response to the Act by the public is that conducted by Synovate. It surveyed 676 people in metropolitan areas. It describes the public's response as largely positive. However, on testing the efficacy of the National Credit Regular to educate people on the Act, an overwhelming 177, that is over 25 % of, people surveyed did not know that the Act even existed (Synovate Cited in Biz Community, 2006:1).

The study that showed how marketers can better connect with South African black middle class next assessed whether credit providers are disclosing critical information during and after the credit application process to ensure that applicants are fully aware of all the rights and obligations of all parties to the credit agreement and can thus hold the credit providers accountable for decisions they make. It revealed that 25 % of the respondents described the credit application process as "difficult" to "very difficult" owing to the fact that they remain ignorant of the entire process until their signature is required. There exists no overt effort on the part of the credit providers to attempt to make these respondents understand the "fine print".

The conclusion of the survey on this matter is alarming; this particular problem is most pronounced among the African and Coloured respondents who, for the latter, could be either incumbents or new entrants of the black middle class. This serves to embellish excessive ignorance on the National Credit Act (Act No. 34 of 2005) by South Africans at large, to their own detriment. Obviously, the National Credit Regulator and credit providers still have a long way to go in educating the black middle class and the public at large about the National Credit Act (Act No. 34 of 2005).

3.6.4.3 On the utilisation of consumer assistance provided by the organisations described in the National Credit Act (Act No. 34 of 2005)

Of the South Africans, and in turn Africans, that are aware of the National Credit Act (Act No.34 of 2005) Act have made good use of organisations provided for by the National Credit Act (Act No.34 of 2005) in pursuing consumer support on varying levels. Although the existing literature does not consider this issue, there is reason to believe, through observing the media, that increasing amounts of cases are being brought to the attention of the organisations described in the National Credit Act (Act No. 34 of 2005) and are being resolved in that way. However, the degree of consumer satisfaction, and indeed African consumer satisfaction on the services received from these organisations, remain unknown. This leaves the question of whether these organisations are practically achieving their objectives of consumer protection and general assistance, unanswered.

3.6.5 Public's inability to settle debt

A small study conducted by Syvocate clearly finds the respondents to their survey admitting that they are not in a position to pay off their debt by the stipulated dates. To establish themselves, respondents of up to 34 years of age described themselves as facing overwhelming costs that make timely payment of debts nearly impossible. It was among the African respondents that this problem was most articulated and experienced (Synovate Cited in Biz Community, 2006:2). The thinking that their spending spree would end was altogether inevitable.

In the worse case scenarios, despair on financial circumstances has led many employees to depression, absenteeism, illness and poor work performance which even compromises their job retention, which is, as described before, one of the few, if not the only source of income for many Africans (Bosman, 2007:234).

3.7 Conclusion

This chapter first forwarded the reasons why credit legislation, alongside other policies forwarded by government, was paramount in advancing the objective of creating and sustaining the black middle class. A graphical description of South Africans' wealth was given and this was contrasted with the prevailing wealth of the African race. The conclusion from that discussion was clear; at their current rate of consumption, the black middle class' wealth was less sustainable than that of their counterparts e.g. (white middle class). This is clearly demonstrated by the fact that over two thirds of their disposable income, goes to debt service. This causes a high level of indebtedness for those without a financially sound asset base. In order to attempt to, at least, slow down the rate of wealth eroding credit financed consumption, among other aspirations, the government implemented the new National Credit Act (Act of No.34 of 2005) repealing the outdated and inherently inconsistent legislature. The National Credit Act (Act No. 34 of 2005) was fully described. This evaluation revealed that there are substantial benefits, at least theoretically, that accrue to South African credit users and, in particular, the Africans and the black middle class.

Whether on the level of increased access to credit or regulated credit cost, Africans have the opportunity to use credit to do what they have been denied to do in the past; to improve their standard of living or, in financing small to medium business enterprises, increase their asset base and, in turn, their wealth. Whether this is in fact practically happening is still unclear. There are indications suggesting that there is still ignorance, among Africans, around the country on the purpose of the National Credit Act (Act No. 34 of 2005) and even more ignorance exists on the rights of credit applicants and obligations of the credit providers. This significantly hinders the benefits of the National Credit Act (Act No. 34 of 2005) from materialising in the lives of those it was meant to serve. Clearly, the National Credit Regulator, the organisation charged with educating South Africans on the National Credit Act (Act No. 34 of 2005) still has a lot to do. Until this particular problem is addressed, Africans' economic progression, the creation and sustainability of the black middle class through credit utilisation will be severely hampered. It is the conclusion of this chapter that the current credit legislature theoretically supports the creation and sustainability of the black middle class. However, the extent to which Africans and, in particular, the black middle class will use it to create and maintain their wealth remains yet to be fully seen in the years to come. The next chapter investigates the research methodology utilised to investigate the creation and sustainability of the black middle class.

CHAPTER FOUR

RESEARCH METHODOLOGY UTILISED TO INVESTIGATE THE CREATION AND SUSTAINABILITY OF THE BLACK MIDDLE CLASS

4.1 Introduction

The end of policies of separate development ushered in constitutional democracy in South Africa; however, basic inequalities persisted after the end of apartheid. Various initiatives and programmes, initiated by Government to address economic inequalities, have all contributed substantially to some resource redistribution, which has translated into rapid development and expansion of the black middle class. It was, therefore necessary to establish impacts of the New Credit Act of 1 June 2007 on the black middle class and perceptions of the black middle class. The result that such credit allowances has had on the South African public at large, is that household debt stands at 76 percent of disposable income (UCT/Unilever Institute of Strategic Marketing, 2007:245)

The situation led to the adoption of the "New Credit Act" of 1 June 2007, with the intention to prevent consumer over-indebtedness and minimise the granting of reckless credit. The effectiveness of the Act at curbing debt is yet to be investigated and its impact on national economy. Until then, the imperative question, which this thesis seeks to explore, is the sustainability of black middle class particularly in the Western Cape Province with specific reference to Nyamane Civils and Projects CC. The imperative question, which this chapter seeks to explore, is the sustainability of the black middle class. In order to answer this question, various sources of information had to be consulted.

4.2 Research design

According to Mouton (1996:55), as quoted in De Vos and Fouche (2002:137) a research design is a plan, blueprint or recipe for the investigation provides guidelines according to the selection of data collection method(s) which will be appropriate to the researcher's goal and to the selected design.

The nature of this study lends itself more to a qualitative research methodology in that it seeks to provide a detailed description of events. Qualitative methodology refers to "research which produces descriptive data, generally people's own written or spoken word" (Brynard and Hankom, 2007: 29). Moreover, this qualitative approach allows the

study to investigate “people personally and see them as they are, to experience their daily struggles when confronted with real life situations.”

In qualitative research, methods used are case studies, in depth interviewing of key informants, questionnaires and perusal of personal documents (Brynard and Hankom, 2007:30). A qualitative approach is important for the study because it employs questionnaires, case studies and interviews. A qualitative approach is important for the study because it employs questionnaires, case studies and interviews. These methods assist in questioning broadly responses and information provided by participants.

4.3 Types of data collection

Selected techniques of data collection for the purpose of this study are:

- Questionnaires;
- Interviews; and
- Relevant literature.

4.3.1 Questionnaires

Qualitative methods of research were adopted during the process of conducting this study, as it relates to a confined target called the black middle class where data was obtained by using a questionnaire to substantiate prevailing phenomenon that was under investigation. Qualitative research investigates people’s lives, and inner experiences of social and cultural conditions (Gall, Borg and Gall: 1996 as quoted in De Vos and Fouche (2002:137). Methodologically, it assumes that the researcher is a fundamental component of the research process (Rossman and Rallis; 1998) as quoted in De Vos and Fouche (2002:137). The other appeal of questionnaires laid in the fact that its average response rates are increased because the author’s presence ensures that the questionnaires are all returned timely.

Structured questionnaires will be used; According to Brynard and Hankom (2007:34) structured questionnaires are necessary to supply respondents with standardised instructions on how to complete the questionnaire and explain what is expected from them. Questionnaires would consist of open and closed questions. In an open question, the respondent was given an opportunity to elaborate on his responses, which adds to the depth and richness of the investigation. The closed questions were used to limit responses to a predetermined range from which analysis is said to ensue.

A permission letter, a brief summary of the study and a copy of the questionnaire were submitted to the Director of the Civil Engineering Company, "Nyamane Civils and Projects CC". According to Dane (1990:124) as quoted in De Vos and Fouche (2002:137) anonymity of respondents should be guaranteed and a clear indication should be given that all information will be treated with confidentiality. The name, address and, telephone number of the contact person should appear on the permission letter, so that the respondent can contact him/her if he/she requires further information regarding the questionnaire.

4.3.1.1 Completion of questionnaires

The study took place at the "Nyamane Civils and Projects CC". The sample used to conduct the research numbered thirty employees from the company who satisfy a definition of black middle class, including a fundamental criterion, which is that they earn between R3000.00 to R13999.00 per month in monetary terms. Representatives from Nyamane Civils and Projects CC black owned firm was interviewed to understand challenges that they face which impacts directly on the sustainability of the black middle class as their economic success relates directly to their abilities to sustain their lifestyles.

Group administered questionnaires used and, according to De Vos and Fouche (2002:174); respondents in this group complete the questionnaire on their own. Preferably, each respondent should receive the same stimulus and complete his/her own questionnaire without discussing it with other members of the group. Each one was given the same questionnaire, which consisted of open-ended questions that provided the respondents with an opportunity to write of answers in the space provided. According to De Vos and Fouche (2002:179) open-ended questions will enable the researcher to explore the variable better and obtain some idea of the spectrum of possible responses.

Completion of the questionnaire by the 30 participants took place in the company's boardroom, which allowed time for completion and immediate collection. Some had left certain open-ended questions incomplete. According to De Vos and Fouche (2002:179), having several open-ended questions lengthens the time of completion and respondents may be tempted to leave sections incomplete, which may decrease the real value of the data that should be obtained from the questionnaire. Of the thirty questionnaires, 24 completed the questionnaires for immediate collection while six were returned the next day.

4.3.1.2 Data Analysis

According to De Vos and Fouche (2002:177) in the view of the comprehensive work involved in analysing data collected, the researcher can divide the questionnaire into different sections in order to facilitate eventual processing of the data.

All of the 30 completed questionnaires were submitted to a statistical consultant at Cape Peninsula University of Technology in order to analyse the data.

4.3.2.2 Appointments

As people are busy with their respective work schedules, telephonic appointments were made well in advance to establish times for appointments. Before the date of the appointment submission of permission a letter and a copy of the questionnaire were handed to relevant parties in order to familiarise them with the questions that were going to be posed.

4.3.2 Interviews

According to Bynard and Hanekom (1997:32), researchers in the field of Public Administration will make use of various methods to collect data, interviewing will most probably be used more frequently than others. This is because interviewing as a method of collecting data allows the researcher to explain his or her question if the (interviewee) is not clear about what was asked. It also allows the researcher to probe deeper following the answer of the respondent (De Wet *et al.*, 1981: 161-163 as quoted in De Vos and Fouche (2002:137).

Interviews were conducted as follows:

- Registered Debt Councillors from the National Credit Regulator (NCR) were interviewed to uncover information on the impact of the New Credit Act on the South African economy, at large, and, specifically the black middle class. Two debt councillors were selected, one deals with predominately white debt councillor services and the other deals with predominately black debt councillor services. It was asked that the researcher does not mention the names of these debt councillors, therefore they were referred to as X and Y within the study.
- A representative from four leading commercial banks in Cape Town namely: First National Bank was also interviewed. These representatives were interviewed in

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- A representative from four leading commercial banks in Cape Town namely: First National Bank was also interviewed. These representatives were interviewed in

order to obtain first-hand knowledge about how the New National Credit Act (Act 34 of 2005) has influenced the banks' leading practices. This information is important for the purpose of the study in order to determine if the Act has been successful as a means to force banks to curb their credit allowance to South Africans, at large, particularly the black middle class. First National Bank was the only bank that was willing to participate in the interview, while the rest of the banks referred the researcher to their respective websites and literature reviews as means to obtain answers to the interview questions.

4.3.2.1 One-on-One Interviewing

Semi-structured, one-on-one interviews were conducted with debt counselor, and these are also known as in-depth interviews. Greeff (2002: 297) as quoted in De Vos and Fouche (2002:137) explains that researchers use semi-structured interviews to gain a detailed representation of a participant's beliefs about, perceptions or account, of a particular topic.

It also gives the researcher and participant much more flexibility. However, semi-structured interviews are especially suitable where one is particularly interested in the complexity or process where an issue is controversial or personal. The questions in this study were open and closed-ended questions.

4.3.2.2 Interviews utilising tape recorder

Permission was obtained from participants to record the interviews on tape. Smit *et al.* (1995: 17) mention that a tape recorder allows a much fuller record as opposed to notes during the interview. It also means that the researcher can concentrate on how the interview is proceeding and where to go next. Process notes were taken of the interviews. This would analyse as possible upon completion of the interview (Holstein and Gubrium, 1995: 78) as quoted in De Vos and Fouche (2002:137).

4.3.2.3 Credentials

Because of the sensitivity of the topic, it was necessary to show the researcher's student card and identity number, in case of an emergency. For purpose of research interviewing a person with professional status is usually accorded specific consideration, assert Bayat and Hanekom (1997: 32).

4.3.3 Literature Review

According to (Mouton, 2001:87), a literature review refers to a scrutiny of all relevant sources of information. The most relevant sources used are journal articles, dissertations, scientific books, newspapers, radio/television broadcasts, and the Internet. (Mouton, 2001:35) emphasizes that the following aspects should be observed when a researcher utilises the Internet.

These are as follows:

- The Internet is a powerful means of making new and recent information available expeditiously;
- The Internet should not be seen as a substitute for traditional forms of literature reviews. The most scientific information is still disseminated through traditional media such as books and journals;
- A researcher should always remember that anyone is at liberty to make information available on the Internet. However, the information is not necessarily controlled, reliable or verified.

4.3.3.1 Purpose and relevance of a literature review

According to De Wet *et.al* (1981:39-41), literature is reviewed for the following reasons:

- To obtain perspective on the most recent research findings;
- To obtain an indication of the best methods, instruments for measurement and statistics which can be used;
- To improve the interpretation of own's research results; and
- To help determine the actuality of the research on a particular topic.

Locke et al (1993: 66-67) contends that a literature review is an "area of inquiry within the disciplines exists as ongoing conversation among those who do the work of scholarships. The published literature of an area constitutes the archival record of those conversations: research reports, research reviews and theoretical speculation. The process of listening carefully to the on going discourse about a topic of inquiry is called: review. That involves studying items previously retrieved until both the history and the current conversation are understood".

The research instruments used in gathering information or data such as, books, journals and newspaper articles will be used extensively to examine the research topic. Legislation such as the National Credit Act No.34 of 2005 which was later revised to be the New Credit Act, effective from 1 June 2007 will also be frequently consulted in efforts to get as holistic a view of all factors that affect the creation and sustainability of the black middle class.

4.3.4 Related Studies and Debates

The researcher consulted the banks websites. It was necessary to consult the research questions in order to obtain a broad overview of how the black middle class spend their money. According to Delport and Fouche (2002:166), a review of literature is aimed at contributing towards a clearer understanding of the nature and meaning of the problems that have been identified.

The emerging black middle class has been a subject of much debate after research by UCT's Unilever Institute found this group responsible for 28 %, or R180 billion, of all annual consumption expenditure. While observers have expressed concern, this segment has had little experience in utilising debt, taken loans to buy homes, cars and other goods, fuelling a strong consumer-led growth.

In order to understand the phenomenon of the rising black middle class, Bruger *et.al* (2004:345) concluded in their study of the black middle class that it was the asset deficit which was evident in the African population that accounts for the difference in the consumption behaviour of the black middle class to their counterparts in other races. Asset deficit is described as the accumulation of luxury goods that include expensive automobiles and property. When the acquisition of such assets is gained through credit, as is the case with the credit worthy middle class, the individual debt of these individuals rises as the acquisition of such assets continues.

In order to stop the rapidly increasing personal debt of all South Africans, in general, the Department of Trade and Industry administered the Usury Act of 1968, which was aimed at protecting seekers of credit from illegal actions by credit providers (Bamu *et.al* 2005:67). Since then, the New Credit Act (Act No.34 of 2005), have been formulated to disallow banks to lend money to the public beyond the financial ability of the public, including the black middle class, to repay the loans (Government Gazette, 2005).

4.3.4.1 First National Bank

According to Mr. X (preferred to remain anonymous) at FNB, prior to the National Credit Act, financial institutions used to rely on one's package (CTC) and work out RTI (Repayment To Income) of 30% and this system benefited the black middle class, as they tend to earn slightly higher. Post- NCA, additional tools or checks were introduced, which compelled lenders to also look at affordability. Analysing current payment profiles on other credit bureaus mainly does this. This method of credit vetting has exposed perceived wealth and the status of the black middle class, as they were indebted and expenses tended to be more than their income. Although their income was higher/better, it was also constant whilst expenses that included additional credit procured were ever increasing. This has resulted in this sector not being able to procure additional credit and expenses were becoming higher than income, hence they began to decline into debt.

4.3.4.2 Standard Bank

With the National Credit Act, it has become difficult for the black middle class to access credit, coupled with high interest rate, ever increasing petrol prices and food prices increases. This sector is under pressure to weather the storm if it is to keep its reputation intact. Goolam Ballim, group economist at Standard Bank, has said that the increase in interest rates was "a striking introduction to the need for prudent management of personal finance"(<http://www.standardbank.co.za/SBIC.html>), 11 May 2004. The recent experience of higher interest rates would create a healthier and stable environment.

4.3.5. Limitations of the study

4.3.5.1 Questionnaires

Some participants had difficulties with some questions, hence they were left incomplete. The researcher explained the concerned questions again and suggested that they complete the black spaces at home during their free time. According to (De Vos and Fouche, 2002:179), having several open-ended questions lengthens the time of completion and respondents may be tempted to leave sections incomplete, which decrease the real value of the data that should be obtained from the questionnaire. Of the thirty questionnaires, 24 completed the questionnaire for immediate collection while six respondents took the questionnaire for completion later and was returned the next day.

4.3.5.2 Interview

Interviewing is the preferred method of data collection from interviewees because this “allows the researcher to explain his or her questions if the respondent...is not clear on what was asked. It also allows the researcher to probe deeper following the answer of a respondent (De Wet et al cited in Brynard and Hankom, 2007:32). This approach increases the depth of the investigation and the richness of the study, hence its use in this study. All interviews will be semi-structured interviews, which are defined as “those organised around areas of particular interest while still allowing considerable flexibility in scope and depth (Vos et al, 2005:299). The interviews will be used to gain a deeper understanding of the interviewees’ knowledge of the topics investigated, which will differ across interviewees. A telephone interruption occurred during the interview session, which resulted in time wasted and thoughts lost.

4.3.6 Conclusions

This chapter reviewed the research methodology utilised, both quantitative and qualitative methodologies. It provides a legible line to the readers to understand the research framework and research design. These techniques are appropriate to the study because it reveal the precise situation, and explore the feelings around government economic development policies, policy positions and practice of the business community, include obligations of a true and genuine black middle class.

According to Locke (1993:20) “the presentation of methodology requires great attention to details during the process of securing”,

- Source of data
- Collection of data, and
- Analysis of data

The results of the questionnaire and interviews are presented in the next chapter.

CHAPTER FIVE

RESEARCH DATA PRESENTATION ANALYSIS AND DISCUSSION

5.1 Introduction

This chapter investigates the challenges faced by present day black middle class in South Africa and, in turn, the Western Cape to uncover the often misunderstood dynamics that drives and sustains their triumphs and aspirations.

The researcher has preferred to perform the investigation at Nyamane Civils and Projects CC, as it is 100 % owned by African Historically Disadvantaged Individuals.

5.2 Historical Overview

It was founded in 2000, but only became a registered company in October 2004. The company is primarily aiming at providing the entire business sector with a range of building and civil engineering services. The activities are as follows:

- Transportation,
- Road maintenance and;
- Civil work.

Nyamane Civils and Projects CC vision is to become the most innovative and reliable Black-owned Construction Company in South Africa that is nationally competitive through visionary and dynamic leadership. Nyamane Civils and Projects CC subscribe to and is committed to the following fundamental principles: Integrity, business ethics, and team work through mutual commitment, service excellence, quality and profitability.

Nyamane Civils and Projects CC is managed by one black Managing Director (Executive) and one non-executive member (female). 10 % of the staff of Nyamane staff are permanent black employees whilst 90 % are semi-permanent and part time employees.

5.3 Analysis of questionnaires

5.3.1 Questionnaires: Staff Members of Nyamane Civils and Projects CC

Question One

What are your current credit purchases?

Table 5.3.1: Current credit purchases

How do you finance your debt?	Count	Column Responses %	Column Response % (Base: Count)
Q2_Overdraft	4	9.3%	13.3%
Q2_Another loan	27	62.8%	90.0%
Q2_Credit card	4	9.3%	13.3%
Q2_Other	8	18.6%	26.7%
Total	30	100.0%	143.3%

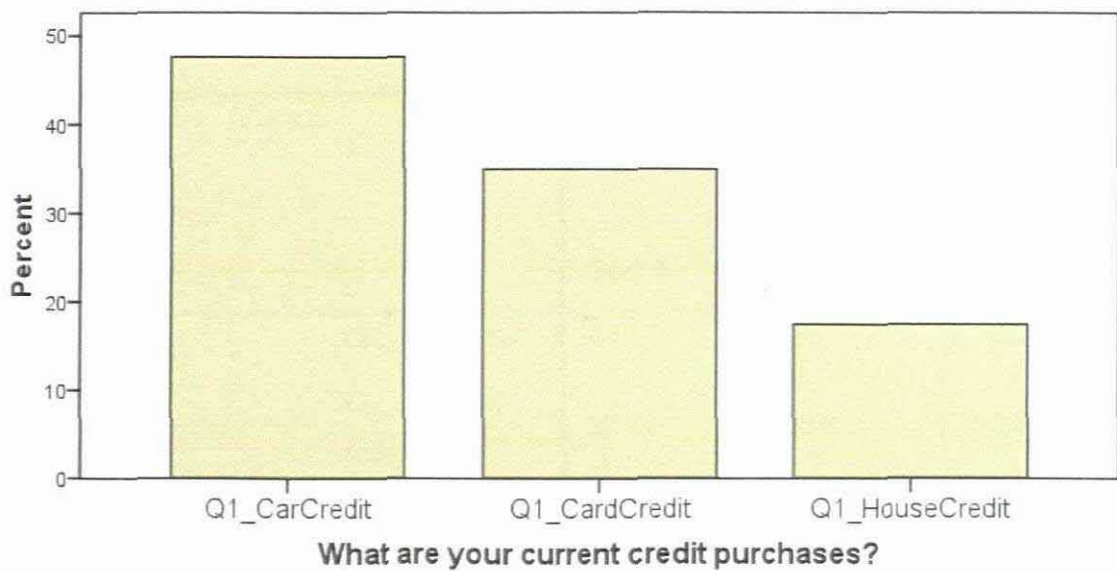


Figure: 5.3.1

Response

Eleven (11) respondents bought houses on credit, which represent 17.5% of the thirty participants. All thirty respondents consented to having bought their cars on credit, in addition to 34.9% who use credit cards as a regular means of payment for goods and services.

Interpretation

All admitted to buying their basic essential commodities on credit. The base count column's calculation amounted to 21.0% of respondents who are indebted to banks and other retail stores. This means that, they do not a save and invest their finances.

Changes were noted in terms of peer's material outfits and possessions which were known to have been known bought on credit, especially cars and up market residential properties. Personal gratification is priority for many; therefore, for the largest part of each month, they had no money in their bank accounts.

Question Two

How do you finance the current credit purchases?

Table 5.3.2

How do you finance your debt?	Count	Column Responses %	Column Response % (Base: Count)
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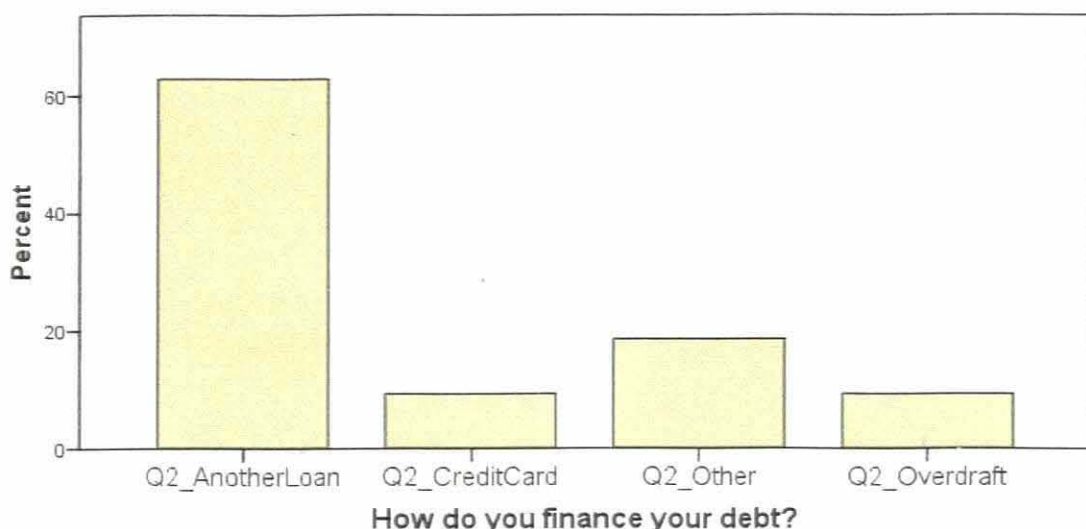


Figure 5.3.2

Response

A total of 9.3 % use bank overdrafts and 62.8% make use of another loan as a loan repayment option. A total of 9.3% use credit card and a further 18.6% utilise other form of loan for debt repayments.

Interpretation

A total of 18.6% utilise other forms of borrowing for service debts, which suggests little awareness regarding financial management at an individual level, as well as the adverse consequences of being indebted. A total of 14.3%, virtually have to service their debts substantially each month.

Question Three

What are your non- movable assets?

Table 5.3.3

Non-movable asserts

	Frequency	%	Valid %	Cumulative %
Other institutions	9	30.0	30.0	30.0
Neither of the above	21	70.0	70.0	100.0
Total	30	100.0	100.0	

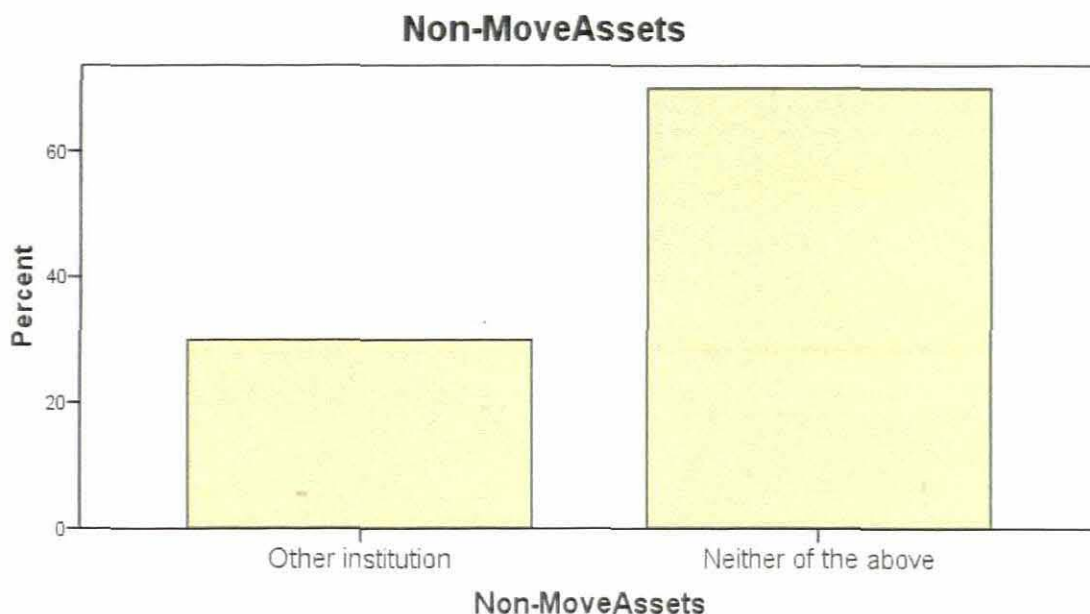


Figure 5.3.3

Response

A total 21 respondents, which accounts for 70.0% of employees interviewed, indicated that they do not own any non-movable assets, whilst 30.0% own some non-movable assets with other institutions other than traditional pension and provident funds.

Interpretation

None of the respondents save or invest with pension or provident funds, as a means to earn something upon retirement or if they are suddenly out of work.

The reasons are unclear, perhaps because it does not create wealth for policyholders, especially from a semiliterate and illiterate perspective, however, most importantly, the fact that minimal finances are left at the end of each month, may not be sufficient for food and leisure.

Apart from that, a lack of information may be responsible, as there is still a great deal of distrust amongst racial groupings in the Western Cape, and South Africa, as a whole. All are of the opinion that the current situation is certainly not a sign of financial prudence by any standard.

Question Four

Are you blacklisted?

Figure 5.3.4

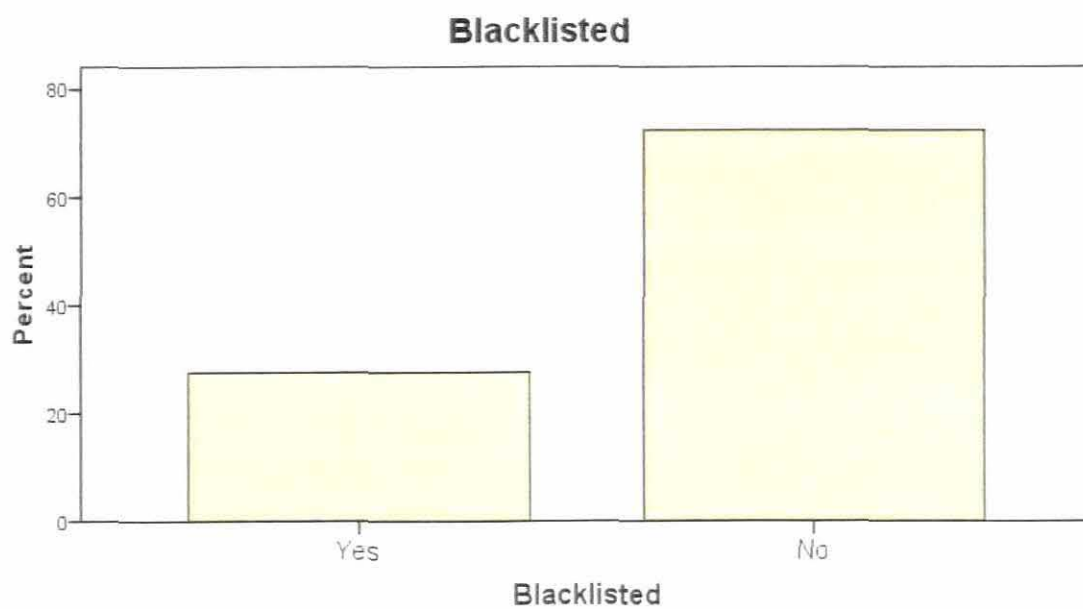


Table 5.3.4

		Frequency	%	Valid %	Cumulative %
Valid	Yes	8	26.7	27.6	27.6
	No	21	70.0	72.4	100.0
	Total	29	96.7	100.0	
Missing	System	1	3.3		
Total		30	100.0		

Response

A total of 27.6% of respondents are blacklisted, while 72.4% are not. The twenty-nine (29) employees that responded to this question still want to be able to buy on credit. However, eight respondents cannot because the privilege of buying on credit has been taken away, as a result of defaults in payment arrangements.

Interpretation

Blacklisted respondents were unhappy, since the general feeling among this group is that, in addition to indebtedness, they are not allowed to purchase goods or seek services on credit. A total of 72.4% still have official credit lines available to them, which means that, prudent financial management, debts consolidation and lucrative investment in assets that generate regular income, the unsustainable nature of the black middle class is turned around for the better.

It is also implied that 72.4% who are not blacklisted as yet, should take appropriate precaution, and responsibility to avoid stigma and hence service their debts promptly. All respondents believed, as a universal principle, of being creditworthy by paying regularly for goods and services that they receive on credit.

Question Five

If you are blacklisted, what assistance have you received in this regard?

Response

Eight of the affected respondents who are blacklisted indicated that they have received little or no assistance since they have become blacklisted. Almost all were not contacted or issued prior warnings before their names were removed from list of creditworthy South Africans.

Interpretation

All felt angry and victimised and suggested that there are still people who are keen to repress socio-economic rights of black people. They expressed little hope in the new National Credit Act (Act No. 34 of 2005) to ameliorate their plights.

Several had heard of the Act; however they are unclear how it could translate into tangible benefits for consumers especially those that are blacklisted. Two of the respondents indicated how they were sent from 'pillar to post' without real assistance,

feeling that people within the system are working to isolate them from economic opportunities in the new democratic dispensation.

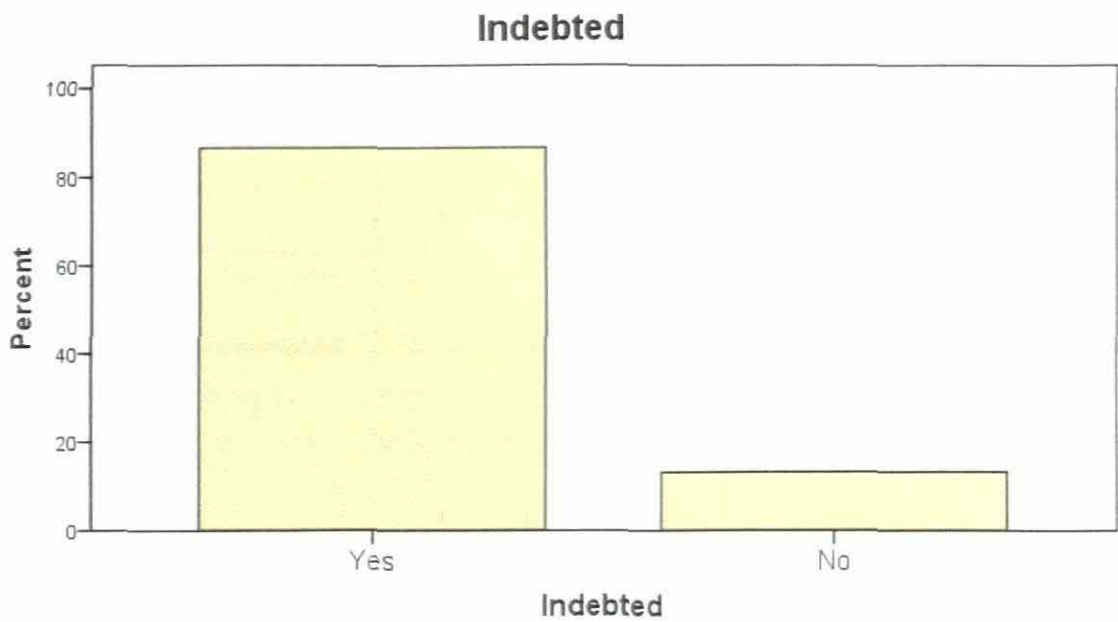
Question Six

Considering your current debt, do you feel that you are indebted?

Table 5.3.6

Indebted		Frequency	%	Valid %	Cumulative %
Valid	Yes	26	86.7	86.7	86.7
	No	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

Figure 5.3.6



Response

A total of 86.7% feel that they are indebted, accounting for 26 respondents of the total of thirty (30) were interviewed, whilst 13.3% felt the contrary.

Interpretation

Respondents certainly feel the burden of indebtedness, as an inability to cope with monthly financial obligations and the stresses of intimidation and stigma, are unbearable. Their debts have become repressive of their progressive view of the world, threatening the health status of some of them and periodically affecting their social judgements.

All those respondents who are affected are willing to seek professional assistance from a credible financial consultant in a committed move to escape the scourge of debts. The economic climate has rendered people distrusting of others especially with arrangements of their finances. They also feel that financial prudence should be an integral part of management skills that employees are periodically exposed to at their respective workplaces.

Question Seven

Do you think that the black middle class is sustainable, given their current debt?

Table 5.3.7

Black Middle Class Sustainability

		Frequency	%	Valid %	Cumulative %
Valid	Very little	11	36.7	36.7	36.7
	Adequate	17	56.7	56.7	93.3
	High	2	6.7	6.7	100.0

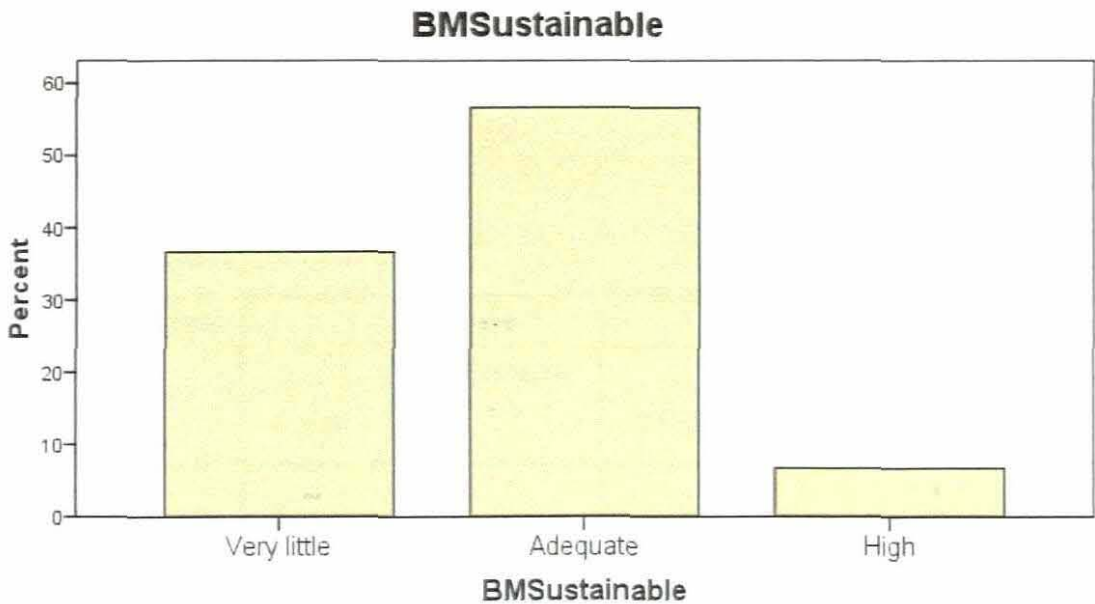


Figure 5.3.7

Response

A total of 36.7% believe that there is little sustainability among black middle class. A total of 56.7% is of the opinion that sustainability is adequate, while 6.7% are optimistic and believe that the black middle class is highly sustainable.

Interpretation

All consented to feeling financial pressure, even though 63.4% are optimistic that the black middle class may become more sustainable with an improved national economic outlook. Several believe that it is difficult to compete in a climate of consumer price inflation (excluding mortgage costs) and producer price index (price at factory gate), have accelerated to 10.4% and 12.4%, respectively.

At communal level, financial pressures, lower consumer buying power, this, in turn, slows down the economy. Financial pressures also increase unemployment, resulting in an inability to support job creation initiatives or initiating one itself.

Question Eight

If you responded no to the previous question, why do you think that the black middle class is not sustainable?

Table 5.3.8

Black Middle Class Sustainability

Black middle class sustainability	Count	Column Responses %	Column Response % (Base: Count)
NCA not understood	4	9.0%	13.3%
Consumerism	27	62.8%	90.0%
Lack of financial literacy	4	9.3%	13.3%
Total	30	100.0%	143.3%

Response

Thirteen % responded that they do not understand the National Credit Act (Act of No.35 of 2005), while ninety % responded that it is because of extensive consumerism while the rest indicated that there is a lack of financial literacy among the black middle class.

Interpretation

It appears that the black middle class have little knowledge of financial concepts such as budgeting and how to practice it in order to sustain one's self. The black middle class tends to consume more than they save.

Question Nine

What are perception skills shortages among black middle class?

Table 5.3.9

	Skills shortage perception	Frequency	%	Valid %	Cumulative %
Valid	Apartheid legacy	17	56.7	56.7	56.7
	Higher education costs are prohibiting	13	43.3	43.3	100.0
	Total	30	100.0	100.0	

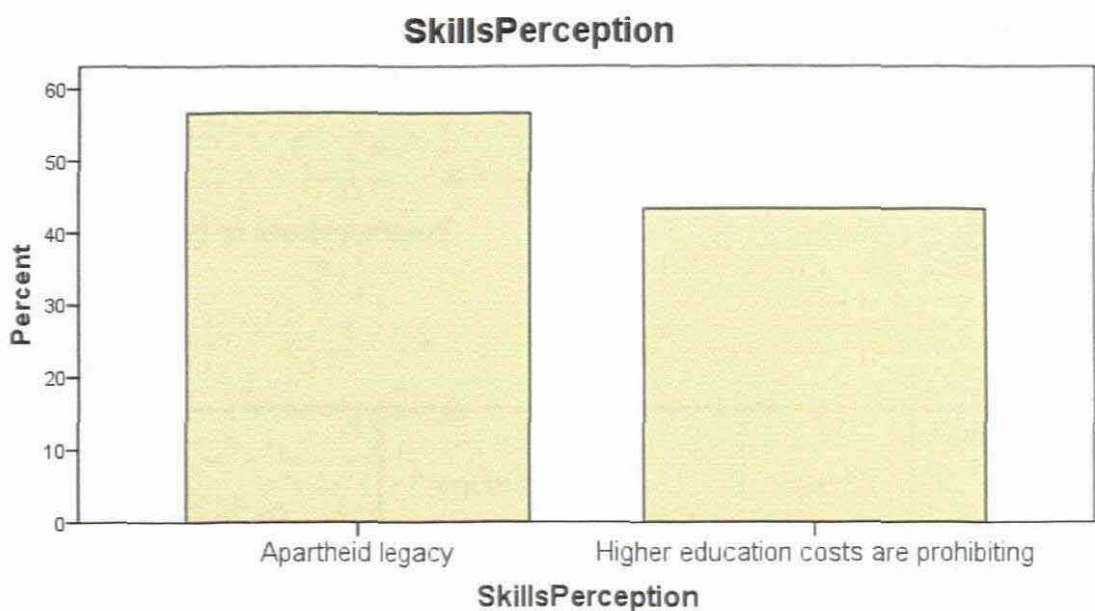


Figure 5.3.9

Response

A total of 56.7%, that is, 17 respondents, blamed apartheid for shortages, while a further, 43.3% attributed skills shortages to the costs of attaining a higher education, which they regard as prohibiting.

Interpretation

43.3% of respondents may be disadvantaged by a lack of finances, arising from servitude positions and low wages that several were subjected to, however, they remained undeterred by threats of apartheid.

It also indicates the grievous implication of oppression and racism because a skills shortage is a result of historical deprivation and not any other reason. Intellectual and human resources capital is certainly available, when it merely requires enhancement. Professional competence is not what is under investigation here; rather, it is sustainability of is their financial lifestyles. Statistics however point to claims of skills shortages. Because the percentage has declined, when assessing the number of people who have tertiary qualifications, hence consequential reflections of historical policies of separate development in South Africa. But how will their dedication to long term growth of institutions be durable if, at individual levels, they are not economically self-sufficient as a result of bad debts and a lack of savings and investments on income generating assets?

Question Ten

Are you planning to study further?

Table 5.3.10

		Frequency	%	Valid %	Cumulative %
Valid	Yes	11	36.7	36.7	36.7
	No	19	63.3	63.3	100.0
	Total	30	100.0	100.0	

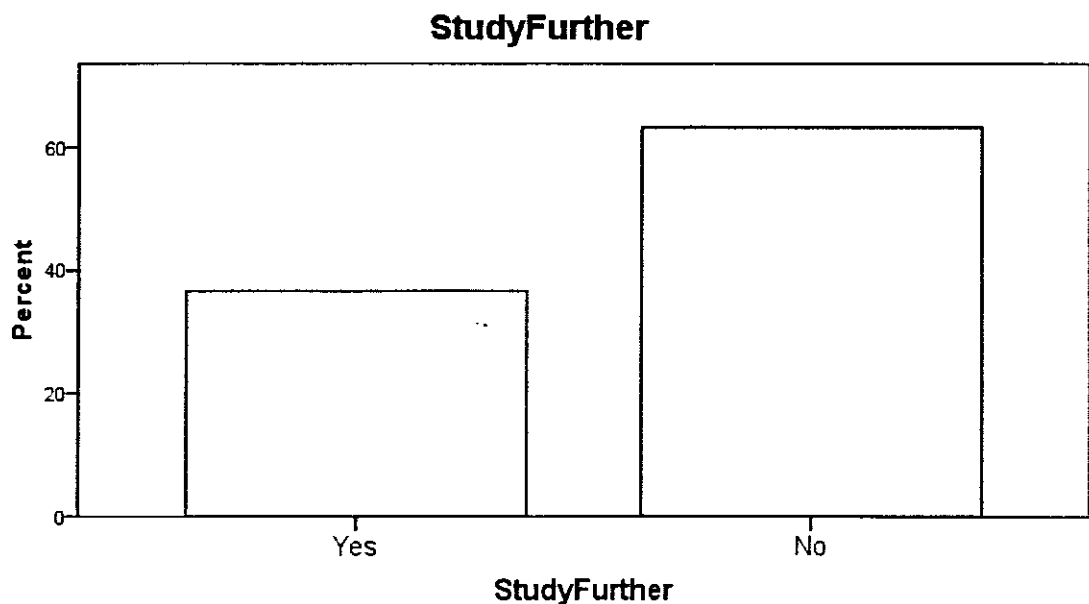


Figure 5.3.10

Response

A total 36.7% of respondents expressed their willingness to pursue further education. Furthermore, 19 respondents, accounting for 63.3%, do not.

Interpretation

This view reinforces popular belief among South Africans that education is key to a better life for all. However, it may become unproductive when institutions need to juxtapose human resource development obligations towards employees, against the inherent need for increased productivity.

Also due to increased work pressures and an ability to learn on- the- job, maintaining competitive production and keeping-up with debt burden may be responsible for the 63.3% who declined to further their education, including the need to care for social and educational needs of their children.

Several still find it difficult to maintain sound financial health, even in the absence of costs for personal tertiary education. Society is made to believe that, one’s neighbour who is economically empowered will in turn create conditions for others to be employed, especially in those homes that are yet to produce an individual or individuals of middle class status. The next section will deal with the responses that of the interviews took place.

5.4 Interviews: Debt councilors

The intention behind interviewing the debt councilors from the National Credit Regular is to uncover information on the impact of the New Credit Act (Act No. 34 of 2005) on the South African economy at large and specifically the black middle class. The researcher also want to uncover if there are underlying differences between a white owned dept councilor, where the majority of the clients are white and a black owned dept councilors, where the majority of the clients are black.

Question One

How many cases of consumer complaints have you had before the National Consumer Tribunal (NCT) and how many of these have the NCT resolved?

Response

X response was not applicable. Y responded that they receive many cases and that many of these are resolved.

Interpretation

It seems that the National Consumer Tribunal is not doing much more, than they claim to be.

Question Two

What are typical cases before the Alternative Dispute Resolution agent (ADR) and the Ombudsman and what has been the success these in resolving these cases thus far?

Response

X mentioned that one of the typical cases from clients is that they are charged penalties for not paying timeously in the absence of a contract. Y explained that there are cases where certain clauses were not explained properly and in detail.

Interpretation

It has always been said that knowledge is power .The black middle class should begin to read in order to increase their knowledge. When one is knowledgeable, one cannot be cheated easily.

Question Three

According to race, particularly the African race, please provide a list of typical complaints brought by this race to the ADR, Ombudsman and/or the NCT.

Response

X mentioned that the question is not applicable in this case. Y responded that it is often difficult to have debt orders of their clients cancelled and that there are sometimes “money grabs” by the banks.

Interpretation

Even beyond the NCA, there are still some banks that still offer clients loans when they cannot afford them.

Question Four

Please provide an indication of general consumer satisfaction, particularly African consumer satisfaction, services received by the above entities.

Response

X mentioned that the entities preserve relationships with clients as it can be a less adversarial and hostile way to resolve a dispute. For example, an experienced mediator can help parties effectively communicate their needs and point-of-view to the other. This can be an important advantage where the parties have a relationship to preserve. Y started that the entities save time and money, since when cases are resolved earlier through ADR; parties may save some money that they would have spent on attorney fees, court costs and experts' fees.

Interpretation

Entities save a lot of money as people do not spend money on attorney fees and time is saved, as procedures of going via the ADR is less than going directly to the courts.

Question Five

What are the various challenges that are faced by particularly the ADR agent and the Ombudsman especially when attempting to enforce the National Credit Act (Act No. 34 of 2005)?

Response

X stated that there is a lack of co-operation from credit service providers and that there are certain procedural shortcomings in the National Credit Act (Act 34 of 2005) itself. Y stated that they have sufficient funding and black qualified staff.

Interpretation

A skills audit is required in order to provide *National Credit Act (Act No. 34 of 2005)* training for black unqualified staff.

Question Six

What challenges does the NCT face that is unique to it when attempting to enforce the National Credit Act (Act No. 34 of 2005).

Response

X suggested that the NCT ensures that certain clauses of the National Credit Act (Act 34 of 2005) in order to make it more effective, while Y stated some clients complained that although the NCA was introduced with good intentions, it is now difficult for some to obtain credit even though they settle their dues well within time.

Interpretation

Perhaps the NCA should amend certain clauses, which would make it more effective and efficient.

Question Seven

What steps are taken to address the above challenges to aid these entities to enforce the National Credit Act (Act No. 34 of 2005)?

Response

X explained that the Debt Counsellors Association (DCA) are informed. There are currently negotiations between the DCA, NCR and credit providers to resolve problem areas and streamline the process. Y is not aware of steps being taken to address current challenges.

Interpretation

It is mere ignorance that Y (because of not reading) does not know the steps taken to address the challenges. If Y is not aware of what is happening around his/her subject,

how will he/she be able to assist his/her clients, or is information not filtering down to the right people?

Question Eight

Has the aim of the National Credit Act 34 of 2005) achieved its objectives?

Response

X mentioned that in as far as reckless or irresponsible lending is concerned; the New Credit Act (Act No.34 of 2005) has achieved its objectives to reduce reckless lending. Due to certain shortcomings in the NCA, debt counselling is, at this stage, not yet effective as it should be. Y mentions that the NCA has not achieved its objectives. There are not enough black debt counsellors and clients have not gone via courts.

Interpretation

Issues of reckless lending and indebtedness will not be solved overnight. It will take some time for South Africa to get used to the operations of the NCA.

5.5 Conclusions

This chapter has mainly focused on the research tools that were used to collect revealing findings of the black middle class in the Western Cape, which includes structured questionnaires, participant observations and literature reviews. The methodology was freely adapted to the purpose of the study.

Therefore, the literature mentioned herein provides information about research methodology in the area and items that deal with both theory and application as they relate to this study.

The next chapter presents recommendations and conclusions, which are based on the findings of the current research study.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS AIMED AT SUSTAINING THE BLACK MIDDLE CLASS IN THE WESTERN CAPE

6.1 Introduction

As indicated earlier in Chapter One, the black middle class's increasing extensive contribution to the economy is, as many fear, unsustainable. Conclusions drawn by (Kruger Research and the Bureau of Market Research, 2006:67), which conducted extensive investigations of this class, is that their spending has not been aimed at attaining wealth-creating assets. Rather, it has been largely used to finance what Nyanto (2006:29) called "*durables*", which refer to items such as automobiles and retail items. A consequence of this development is that, when official sources of income decrease, owing to a high national economic crunch, the livelihood of selves and entire family is gravely threatened. Repossession of luxury goods by banks and private employers are common, since majorities are highly in debt. It is, therefore, crucial to develop recommendations that will assist the black middle class to become sustainable, as outlined in the following text.

6.2 The research objectives of this study are:

- To investigate the creation of a black middle class and its evolution pre and post 1994. An account is provided of how Africans entered the middle class and an investigation is conducted into their numbers, composition, economic, as well as demographic characteristics.
- To provide a detailed account of what sources claim this Class spends its income on. The investigation comprises the spending trends of this Class on the levels of personal consumption and wealth accumulation and, finally the effects this expenditure has on a macroeconomic level.
- To provide a detailed analysis of the economic impact, which current Government policies have induced on the economy:
- To list the effects that Affirmative Action and Employment Equity have on the economy.
- To elaborate on BEE and BBBEE Acts, policies and programs within South Africa and their implementation by listing successes, which would create and failures on creating an economically empowered Africans. Contrasting similar programs, which have empowered previously disadvantaged groups in other countries, where

comparisons are made on the successes and failures of these programs and the lessons that South Africa can learn from these experiences.

- To investigate on debt intervention by Government on a National level through the New Credit Act.
- To examine the reasons why this Class is unsustainable and provide recommendations that may assist the black middle class to be sustainable.

6.3 Findings of the research

The outcome of this process offers an opportunity for the State, banks, and corporate organisations to review its policy priorities in order to make savings, investment and 'special structure' support networks a priority when dealing with sustainability matters for the black middle class. This attested to the fact that, indeed, black middle classes are created; the question is, how sustainable is it or rather, how sustainable can it be?

In this chapter the data collected for the purpose of this research was analysed. The finding collected from the questionnaire was outlined, interpreted and presented. Quotes in the transcribed questionnaire were presented and deductions were made to answer the research question. The questionnaire was explored and finality was researched with regard to validating the research question. The data was analysed from this information and conclusions were reached regarding the research.

6.4. Recommendations

6.4.1 Credit legislation: National Credit Act (Act No. 34 of 2005)

Recommendation One

Introduction of the New Credit Act (Act No. 34 of 2005) was aimed at addressing issues of inattentive finance lending. This was brought about partly to address the issue of the black middle class borrowing recklessly from finance institutes, however it opened another door for exploitation to occur. Through the New Credit Act, (Act No. 34 of 2005) vehicle financing can be repaid over 72 months as opposed to the maximum of 60 months, an advantage point which ideally reduces the monthly repayments by a fair amount. For the black middle class person, this solely means that they can afford to buy a vehicle, irrespective of the long-term consequences of extended payments and possibilities of inflation effects.

Recommendation Two

The black middle class should begin to think out- of- the box and be able to see or read the bigger picture. In a quest to attain assets, they get caught in the spider's web and, ultimately never, unless otherwise knowledgeable, emerge from the debt cycle.

Recommendation Three

Stokvels in the townships lend money to their people at an interest rate of between 50 to 100 %. The NCR does not conduct intelligence; search and seizure operations at premises that are used by stokvel members charge them and haul them before the courts accordingly.

6.3.2 Banks

Recommendation One

South African banks, through introduction of the National Credit Act (Act No.34 of 2005) have felt the pressure of getting less customers or clients as far as credit applications are concerned. Certain banks, owing to the above realities above, have been willing to provide credit to those who are not worthy. These somehow accredited applicants would not, in their financial state, not be able to sustain the required repayments. This problem has culminated itself to an extent of seeing an increased number of unaffordability figures in the black middle Class. Somehow one would comment that the National Credit Act (Act No.34 of 2005) has opened the door too wide, however, banks and of course individuals like-wise should practice effective credit and loan management. The black middle classes should not allow themselves to be fooled by the fact that the introduction of the New Credit Act (Act 34 of 2005) gives them keys to reckless, irresponsible lending.

Recommendation Two

Doubtful legal agreements from "loan sharks" are often not understood and, as a result of financial pressure, vital questions are not asked in the process, so that they are not perceived as ungrateful or attempting to block a lucrative deal. The absence of skills, a localised system, credible information and qualified support agencies that provide ongoing technical assistance, are deterrents to increasing the number of black middle class persons who are in debt.

Recommendation Three

Investments with the mainstream financial services sector are not often created in the townships. It functions as a redundant cover in case of accident or for potential future projects. Employed middle class persons do not make extra cash. They are often in debt *and attempt to survive, for the greater part of the month, without a cent in their pockets, waiting for retirement age to start collecting state pension grants.*

Recommendation Four

Compulsory supporting legislation and co-operation from employment agencies to take a %age from employees' wages, for saving in order to generate income investment projects and to generate extra income monthly, would sustain the black middle class.

6.3.3. Black Middle Class

Recommendation One

From a historical perspective, black society has been typically known as the non-knowledgeable and non-reading society. This history has led the black community to become more dependant on "learned white colleagues" to think for them and they would take or receive instructions. However, after the introduction of government initiatives such as BEE, the black middle class began to be involved, at least with some initiation, in engaging in some type of literacy initiatives.

It is in this context that the black middle class should, therefore, participate more in basic literacy enterprises in order to succumb to the problem of being followers rather than leaders in some perspective. Furthermore, in time, they will learn to become self starters and, in turn, instigate and cultivate a custom of "reading to enrich knowledge."

Recommendation Two

Since the emergence democracy in South Africa, the black middle class have enjoyed the benefits that came with introduction of BEE in several different ways, one of them being largely, through acquiring of vehicles through hire purchases whilst setting themselves up for debt. This method of acquiring assets has led to realities of being faced with indebtedness, leading to repossessions and, ultimately, being blacklisted within the credit bureau.

In the quest to address the issues of imbalances and ways to acquire assets, the above has left nothing but the notation that the black middle class has been either uninformed

or not thoroughly knowledgeable to manage competent ways to enrich oneself while trying to attain what has not been largely possible before. A lesson to be learned is that, through proper research and advice, they could indeed still attain the very same asserts in a rather cautious manner with help from more research and knowledge.

Recommendation Three

At their workplaces the black middle class should establish a network data of institutions (mentorship) whose activities complement professional obligation and one's personal life. They should surround themselves with people who are in the line of thinking that they intend to be in order to sustain their lifestyles.

Recommendation Four

The changes that people are hoping for in the world, lies inside them. Thoughts and actions do not often reflect their legal and moral obligation to build a sustainable, competitive black middle class in terms of knowledge, resources and money. Many discriminate because it is convenient to blame other people and apartheid for their misfortune.

6.4 Conclusions

The psychology of debt, particularly amongst black middle class, should be exploited. On the other side, why is wealth, or the projection of wealth to the community, so important to Black people? One can also regard this as the psychology of wealth. Consider the cultural importance of owning cattle and goats; ownership of a small business was perceived as wealth, even when it operated at a loss. The transfer of this perception to the debt scenario in the black middle class situation makes sense. Individuals are prepared to live with debt because they are perceived as being successful, or wealthy for that matter. The question is, which of these two psychologies does the credit legislation address?

Are the legislators trying to curtail banks to not exploit the cultural based wealth psychology of people or are they trying to protect the broader economy against over inflation (or demand) driven expenditure that one normally finds in a medium to fast growing economy?

Have some of the new generation middle class elite forgotten the road that was travelled to get them the opportunity for economic freedom? It sometimes seems that many of them have forgotten their cultural roots, since economic wealth is at time pursued at the cost of cultural identity. Debt has empowered many a middle class black person to tell the world that he/she has “made” it, however, according to whose standards? The western way of life, perhaps? Remember the expression: “Keeping up with the Jones’s”, meaning you want to be one up on your neighbour at all costs. If one wants to pull that into the scenario of apartheid legacy, one can easily argue that subconsciously there is a force to prove to the white oppressors of former years that they (Blacks) are good enough or even better. This is a dangerous psychological element in the psychology of debt that cannot be discarded; particularly in South Africa with its unique political history.

Many black middle class persons were raised in an environment where family spending patterns were different to what they are now being exposed to. Legislation will not fix these deep-seated realities overnight. Debt has become an easy option to finance an artificial perception of wealth. When debt can no longer be maintained (falling behind in payments), the legacy of apartheid is often blamed mainly from a very real subconscious perception of past experiences. If black people can live their cultural values with more passion, the dangers of debt would be better dealt with.

Many South African’s black middle class is trying to survive within an artificial cultural environment. Their lifestyles are filled with western influences, which, over time, will erode their hard earned better life.

Escaping from the “township lifestyles” is a demanding journey and many of black middle class persons have not been prepared for that adventure. The psychology of saving and conservative spending of hard earned money has not yet become an integral part of their lifestyles. The chase for comfort and style has made many a society of debt-freaks. Surely that there are several socio-economic factors that can be explored to better understand the prevailing debt scenario in South Africa. People are strange beings when it comes to the desire wealth – that inner force of wanting a better life. Debt is merely an easy way, to satisfy that desire.

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Cape Peninsula
University of Technology

26 February 2008

TO WHOM IT MAY CONCERN

Dear Sir/Madam

Please be advised that Ms Makhotso Mokotso (Student number: 202014894) is registered for a Masters Degree in Technology: Public Management in the Department of Public Management at the above institution.

The title of her research dissertation is: *Investigating the creation and sustainability of a Black Middle Class in the Western Cape*. Kindly assist her in the completion of a questionnaire or assist her with information relevant to her research in an interview session.

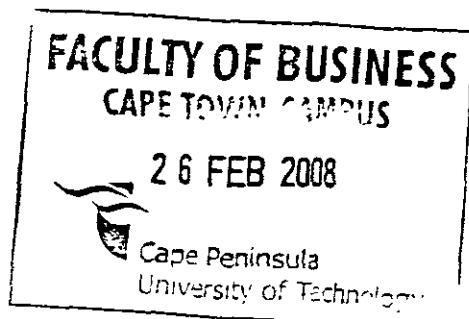
Please be assured that the information is for academic purposes only.

Should any further clarity be required, kindly contact me, her supervisor, on Tel: 021 – 460 3929 or email: hendrickser@cput.ac.za

Yours faithfully

A handwritten signature in black ink, appearing to read 'Rozenda'.

**MS ROZENDA HENDRICKSE
LECTURER: DEPT OF PUBLIC MANAGEMENT**



3. According to race particularly the African race, please provide a list of typical complaints brought by this race to the ADR, Ombudsman and/or the NCT.

4. Please provide an indication of general consumer satisfaction and particularly African consumer satisfaction on the services received by the above entities.

Evaluating the challenges faced by the entities charged with enforcing the National Credit Act.

5. What are the various challenges faced by particularly the Alternative Dispute Resolution agent and the Ombudsman particular when attempting to enforce the National Credit Act?

6. Then what challenges does the NCT face that is unique to it when attempting to enforce the National Credit Act?

7. What steps are being taken to address all these challenges so as to aid these entities in enforcing the National Credit Act?

8. Has the aim the National Credit Act achieved its objectives?

QUESTIONNAIRE

Questions relating to Black African Employees employed by Black-owned business in Western Cape.

Note: Please tick X in the appropriate box.

1. What are your current credit purchases?

A) House

B) Car

C) Credit Card

2. How do you repay the above?

A) Overdraft

B) Another Loan

C) Credit Card

D) Other

3. What are your current non movable assets?

A) Pension Fund/Providence Fund

B) Other Institution

C) Neither of the above

4. Are you black listed?

A) Yes

B) No

5. If yes, what assistance have you received, in this regard?

.....
.....
.....

6. Considering your current debt, do you feel that you are indebted?

A) Yes

B) No

C) If yes. Please elaborate

.....
.....
.....

7. Do you think the black middle class is sustainable, given the current debt?

A) Yes

B) No

C) Don't know

8. If you responded, no to the question, why do you think it's not?

.....
.....
.....

9. What are perception skills shortages among black middle class?

A) Apartheid legacy

B) Higher education costs are prohibiting

10. Are you planning to study further? (Why?)

A) Yes

B) No

C) If no, please motivate

.....
.....
.....