

ASPECTS OF THE DEVELOPMENT OF MINORITY
BUSINESSMEN: THE COLOURED BUSINESSMAN
OF SOUTH AFRICA

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P.E.B. Wilson,
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P R E F A C E

My interest in the problems and issues relating to the development of a class of businessmen among so-called minority groups, was nurtured by three factors. Firstly, employment in a research capacity with the Coloured Development Corporation in Cape Town gave me the opportunity to observe closely the problems associated with stimulating the growth of independent businesses, and provided an invaluable practical insight into the development of businessmen in poor groups. Secondly, employment with the Mitchells Plain Planning and Design Unit, where I was responsible for planning commercial and industrial facilities, provided further involvement at local authority level with problems faced by disadvantaged businessmen. Thirdly, the counsel and assistance given by Wolfgang H. Thomas were possibly of paramount importance as stimuli for producing this study, and I am grateful to him for this.

I should also like to express my gratitude to Brian S. Kantor for his invaluable eleventh hour assistance and supervision. Any inconsistencies or inaccuracies are, however, entirely the product of my own work.

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INTRODUCTION

Policies for the economic development of South Africa's "non-White" groups can be categorised into two broad courses of action: separatism on the one hand, and non-discriminatory integration on the other. The former approach is embodied in the prevailing political dispensation, while the latter is often propagated by liberal and humanitarian groups, and is particularly strongly adhered to by "non-White" groups themselves. There is, however, an alternative course of action. This recognises the interdependence of different groups in the economy, but argues that economic and social forces tend to favour the developed vis-a-vis the underdeveloped sections of the national community. Thus a pure non-discriminatory approach would not only fail to achieve an equitable allocation of resources and opportunities, but may over the course of time aggravate the prevailing disparities in income and wealth. This approach may even, in some cases, (1) bolster the existing privileges enjoyed by favoured sections of the community, effectively limiting rapid upward mobility and denying the best opportunities and inputs to poor groups.

The alternative course of action would seek to overcome imperfections in the market place, by augmenting the flow of resources to disadvantaged groups, by ameliorating problems of access to these resources, and by increasing income-earning and other opportunities for exploitation by such groups. In effect, a development strategy would be positively discriminatory, on the basis that only by consciously favouring

(1) An example is found in the slogan "the rate for the job", which is an ostensibly non-discriminatory and egalitarian principle used to ensure that labour practices of employers are "fair". In fact, when applied, this principle favours organised, privileged groups by effectively precluding undercutting by deprived groups. The latter cannot, therefore, sell their labour competitively.

disadvantaged groups, will the developmental gap be closed and an equitable distribution of both resources and opportunities be effected. The trickling-down effect of a laissez-faire approach is either too slow, not effectual at all, or in some cases may even further distort inequalities.

A business development strategy for minority groups (or for any "target" group within the wider community) should form part of the broader development programme, and should therefore be tailored to the particular needs of the group in question. The Coloured community, a heterogeneous and ill-defined category of persons, (1) can be accepted as a minority group on the grounds that general social, economic and political deprivation are features of the "Coloured" lifestyle. These features are embodied in a "culture of poverty" in which a part of the community finds itself. Whisson notes two aspects of this sub-culture:

"The majority of 'Coloured' people participate to some extent in a culture of poverty, which involves not only the direct effects of the lack of economic opportunities to them, but also their conditioned response to that situation over generations." (2)

This statement gives a clue to the scope of a programme for community development, for it indicates that the problem of exclusion goes far deeper than mere economic deprivation. To overcome barriers that have been maintained over centuries, and to compensate for a long history of unequal distribution of opportunities, any programme for development must offer more than equality and equal opportunity. Discrimination

(1) While this analysis uses the term "group" frequently, what is envisaged is a loosely bound community of persons. Whisson remarks:

"to define Coloured persons as members of a group ... is ... semantically and sociologically highly dubious. The people so classified are not 'an integrated social structure' but are indeed a 'mere category of individuals' sharing only exclusion from the categories of 'White' and 'Bantu'."

(2) Ibid. p.12.

must, in fact, be used to the advantage of the poor, which implies that some interference with market forces may be warranted.

Whether, in fact, the Coloured community can be called a group at all, is not crucial to this analysis. It is sufficient that Coloured businessmen are identifiable as a deprived or disadvantaged group of individuals, and that they belong to and serve an equally deprived community. To catalogue the disadvantages incurred by the community as a whole, is beyond the scope of this study. There is sufficient evidence of poverty in the Coloured community to justify an overall strategy for development, and there is equal evidence to support a definitive study of problems facing the Coloured businessman specifically, and minority groups generally. Many of the problems pertaining to Coloured business development apply *mutatis mutandis* to the development of Indian and Black businessmen in South Africa.

The relevance of the business sector for development is outlined in detail in the "rationale for development" below. Very broadly, unless an increasing share of income-earning opportunities is opened up to poor groups, the chances of overcoming poverty in an acceptable period of time are considerably diminished. One important (yet overlooked) instrument as a generator of income and wealth, is the business organisation. As pointed out by Chenery and others (1), in a growing economy it is possible to effect a redirection of the pattern of accumulation of assets in such a way that poor groups are provided with an increasing share of a continually growing stock of capital. The business enterprise provides the medium for increasing the asset holdings of poor groups, and by increasing their participation in business, it may be possible to hasten the process of development and narrow the gap between rich and poor. It is clear, however, that

(1) H. Chenery et al. (1974).

increased involvement in business is not sufficient for development - other programmes will also be required.

The shortcomings of purely sociological approaches to solutions to the problems posed by poverty are to be found in the nature of sociological programmes, which treat the symptoms of poverty without treating the causes. While programmes aimed at crime prevention, birth control, educational reform and the provision of housing, amongst others, are clearly necessary, unless more opportunities are opened up, and more resources for exploitation of these opportunities, are channelled to the poor, poverty will continue to restrain the pace of economic development. There has been virtually no recognition of the need to formulate a programme for the development of South Africa's minorities, other than a number of unco-ordinated attempts at providing welfare services, education and training facilities and housing. The problems of employment and business opportunities, however, have been largely disregarded. While the recent report of the Theron Commission (1) has illuminated some of the problems faced by Coloured entrepreneurs, no clearly defined strategy has been forthcoming from its work, and even those few constructive recommendations made by the Commission have been largely rejected by government.(2)

A definitive study of the problems facing minority businessmen can therefore identify constraints and indicate new paths for development in the future. In addition, a development strategy may draw on the experience of developing countries, of developing minorities in other countries and even of the development of Afrikaner and Indian businessmen in South Africa. Programmes to assist the Negro businessman in the United States are particularly relevant for this study, for they provide a precedent on which programmes for South African minorities can be fashioned. And if the problems facing LDC's can occupy the attention of social scientists to the extent that they have done in the past, there is a strong case for drawing

(1) South Africa. R.P. 38. (1976).

(2) South Africa. W.P. D. (1977).

greater attention to the problems facing developing minorities.

The following study places the minority-owned business in perspective and seeks to justify the need for a categorical policy for development aimed at correcting the low participation of minorities in general, and Coloured persons in particular, in the business sector. Part I clarifies the concept "businessman" (as distinct from "entrepreneur"), as well as several conceptual problems relating to the development of minority businessmen in South Africa, particularly in the light of legislation affecting business activities. In order to provide a basis for the ensuing analysis, the rationale for the development of minority businessmen is then stated, in both economic and non-economic terms. This is followed by an analysis of analogous situations both in and outside South Africa. In the United States, programmes for the development of Negro businessmen are instructive, while in South Africa the rise of Afrikaner and Indian businessmen illustrates a number of facets of the development process that are essential to growth and change.

The statistical background to business involvement by the Coloured community is provided in Part II. The number, type, scale and distribution of firms in commerce and industry in the hands of Coloured entrepreneurs indicate the extent of their penetration and provide an insight into some of the problems facing minorities. Factual evidence of characteristics of the Coloured-owned firm and businessman further highlight existing and potential problem areas in the business environment.

Possibly the greatest value of this study lies in Part III, which analyses the "environment" in which the Coloured businessman conducts his activities. In this section the writer has drawn on his experience in the field of business development in order to catalogue some of the central issues as they operate in theory and practice. Non-economic aspects such as legislation are carefully examined to determine whether

parallel development has assisted or retarded the progress of Coloured businessmen. Legal opinion on certain aspects of the legislation as it affects business development is provided in Appendix B. Similarly, planning of commercial areas and certain land issues are analysed to determine their effect on business participation.

The effect of economic factors on the business environment is then considered, and evidence from a number of surveys undertaken by the writer, by the Coloured Development Corporation and by the City Council of Cape Town, is led to support the contention that the status quo works to the disadvantage of Coloured businessmen. Thus consumer preferences and buying behaviour are shown to support more developed White business precincts (where Coloured businessmen may not operate), while competition between Coloured, Indian and White businesses in both retailing and manufacturing tends to negate the principles on which the long term development of separate Coloured businesses is based, despite the theoretical protection offered by group areas encapsulation. These considerations are followed by a brief analysis of the Coloured entrepreneur qua entrepreneur and factors retarding his progress, and finally, the role of capital formation in business development, the extent of accumulation and sources of business finance are analysed, paying particular attention to the function and effectiveness of the Coloured Development Corporation. Where possible, comparisons are drawn with Negro, Afrikaner and Indian businessmen in order to assess the validity of present policies and to identify possible future directions for development programmes. To illustrate some of the aspects of the business environment discussed in this study, an appendix provides a few select case studies of firms surveyed recently.

Finally, the conclusion assesses the applicability of certain aspects of development discussed in the study, to a programme for the development of a class of Coloured businessmen who will be able to compete unassisted with established business.

New directions for a development strategy, revitalisation of existing programmes and the elimination of constraints are proposed as the essential elements of future business development of minority groups.

A BROAD PERSPECTIVE

It has not been altogether clear that there is sufficient justification for considering the development of specifically "Coloured" businessmen apart from the development of the business sector of the economy as a whole. The attention currently being accorded minority groups in other countries, particularly in the U.S.A., has not as yet permeated economic debate in South Africa to any great extent. Currently only African economic development has received much coverage in the literature and popular fora. If, therefore, the economic problems of South Africa's non-African minorities, numbering over 2½ million persons (1) (fractionally over 12% of total population), are to be subjected to rigorous investigation, research and analysis, a persuasive argument must be formulated justifying preferential treatment.

Though poverty and deprivation are relatively well-documented features of Coloured, Asian and Black groups in South Africa, and therefore require little elaboration to justify programmes for upliftment, the specific problems of minority groups relating to business activities are somewhat clouded and, as already mentioned, have received little illumination to date. After clarifying several concepts used in the text, it is the intention of this section to throw some light on the justification or rationale for considering minority business in general, and Coloured business in particular, as a problem in economic development. Thereafter, the development of businessmen in three selected groups is considered as being instructive for the formulation of a development programme for Coloured businessmen.

(1) South Africa. Population Census, 1970. Report O2-05-01.

1. CONCEPTUAL ASPECTS

The interpretation of the concept "Coloured business development" requires a distinction to be drawn firstly, between businesses owned by Coloured persons and those not owned by Coloured persons, but in which they are employed in some business capacity. In the widest possible interpretation the term would imply the promotion and encouragement of Coloured persons in business generally, either as employees or employers. As employees, particular attention is focused on managerial grades, though supervisory grades, depending on the degree of authority and responsibility vested in the incumbent, may also be relevant. In addition, those grades of employment from which managerial or supervisory personnel emanate, namely certain skilled occupations, administrative and clerical categories, and probably most important, professional, technical and related categories, must also be included, particularly as potential sources of businessmen.

On the other hand, one may assume that employers are ipso facto businessmen in the sense that they are employing others in the running of a business. Employers may include managers, professional and technical workers, sales workers and any small businessman or individual proprietor trading for his own account. It is the variegated nature of the category "employers" that makes an assessment of business development dependent not only on those categories normally associated with business management, viz. professional, technical, managerial and administrative categories, but also on an analysis of the entire labour force. Justification for this statement can be found in the occupational distribution of the labour force in 1970, which shows that the category "production and transport workers" had by far the largest number of Coloured employers, namely 5831, or 42,6% of all employers(1).

(1) South Africa. Population Census. 1970. Report O2-05-04.

In contrast, the 4 traditionally important categories, professional, administrative, sales and clerical workers, only accounted for 32,3% of all employers (1).

Because this study is concerned with development in its widest sense, and not merely the development of an entrepreneurial elite, it is necessary to redefine business development, for conventional definitions accentuate the role of solely formal trading and manufacturing activities of independent operators, as vehicles for business advancement. If business development is to be placed in the wider context of economic development, the meaning of business must be amplified to include not only employers in the formal sense, but also operators in the informal sector and the extensive group of employees with managerial and technical responsibilities, existing in both large and small organisations throughout the economy. These organisations need not be confined to commerce and industry, but may also be found in agriculture, for instance. In 1970, the farming sector itself accounted for 23% of all employers (2), which makes it an important source of businessmen in the wider meaning. While it should be recognised that businessmen and more specifically, entrepreneurs, are to be found in all economic sectors, it is the participation of businessmen in trading and manufacturing industries that will be closely examined in this study.

Though the role of the entrepreneur will be discussed fully in Part III, it will be expedient to clarify the meaning of the terms "entrepreneur" and "businessman" as used in the text. A definitive study of entrepreneurship qua entrepreneurship would form the subject of a separate dissertation, therefore it is intended merely to clarify a number of issues at this stage.

(1) South Africa. Population Census, 1970. Report 02-05-04.

(2) Ibid.

Though the received theory of economic development has little to say about the functions of the entrepreneur vis-a-vis those of the pure manager, the literature on entrepreneurship and its role in economic development provides a number of distinctions between the two concepts, even if these are not always clear. Leibenstein gives a relatively straightforward answer by distinguishing:

"two broad types of entrepreneurial activity: at one pole there is routine entrepreneurship, which is really a type of management, and for the rest of the spectrum we have Schumpeterian or 'new type' entrepreneurship."

He goes on to define the two:

"By routine entrepreneurship we mean the activities involved in coordinating and carrying on a well-established, going concern in which the parts of the production function in use ... are well known and which operates in well-established and clearly defined markets. By 'new type' entrepreneurship we mean the activities necessary to create or carry on an enterprise where not all the markets are well-established or clearly defined and/or in which the relevant parts of the production function are not completely known." (1)

Taking this definition as an acceptable basis for a survey of Coloured businesses, it is possible to fit all businessmen into the spectrum. What Leibenstein calls "routine entrepreneurship" would best apply to those numerous small undertakings in the retail and service sector, which are normally individual proprietorships or partnerships. These small businessmen do display an element of traditional entrepreneurial behaviour, though their gap-filling, initiating and innovating qualities are without doubt of an extremely rudimentary nature. These qualities do exist, however, as the degree of uncertainty prevalent in the business environment of minority groups makes risk-taking and innovation a continuous task. Group areas removals and resettlement schemes are a constant threat to security of tenure, as has been witnessed by the declaration of Cape Town's District Six as a White area and

(1) H. Leibenstein (1968), pp.72,73.

the subsequent resettlement of many traders in alien environments. Similarly, the eviction of Indian traders from traditional business areas throughout the country has emphasized the uncertainty of trading activities of minority businessmen.

Another contemporary example of the adaptive nature of entrepreneurial action is the willingness of certain minority businessmen to operate as "disqualified" (1) traders, particularly in White areas. This is readily noticeable in regional shopping centres and other areas of high commercial concentration where the higher returns associated with economies of agglomeration make more risky ventures worthwhile. Because these "routine entrepreneurs" also act as managers, thus providing one of the vital inputs in the undertaking themselves, their entrepreneurial role as input coordinators seems to confirm their position in the entrepreneurial spectrum, even if at the lower end. In the light of Leibenstein's definition, these small men must be classed as entrepreneurs, tenuous though the term may be.

Such a wide description of the entrepreneur is not universally acceptable, and a more rigorous definition would probably exclude many of the small undertakings described in Part II. Baumol's entrepreneur would

"locate new ideas and ... put them into effect. He must lead, perhaps even inspire; he cannot allow things to get into a rut and for him today's practice is never good enough for tomorrow. In short, he is the Schumpeterian innovator and some more. He is the individual who exercises ... leadership." (2)

In terms of this definition, few minority businessmen would be classed as entrepreneurs, though it is clear that Baumol refers to a select band of individuals readily identifiable by its distinctive innovative characteristics.

(1) See Part III.

(2) W.J. Baumol (1968), p.65.

Whether the narrower definition of entrepreneurship is accepted, thus excluding most minority undertakings, because they are operated in the main by conservative, family-bound, traditional businessmen who feel little necessity to innovate or diversify into more profitable ventures, or Leibenstein's wider "spectrum" approach is accepted, the crucial elements of entrepreneurship can still be found among Coloured businessmen.

Though a broad-based entrepreneurial cadre might be lacking in the Coloured community, as it is in most developing groups, there is sufficient evidence to suggest that where opportunities have presented themselves, they have been readily exploited. If entrepreneurs have not been forthcoming, conversely, there is equal evidence that opportunities are not distributed equitably among various groups.

The role of legislation as a barrier to development will be discussed fully in Part III, but at this stage it will be useful to clarify the concepts "disqualified" and "qualified" business activities. Disqualified businesses are those operating illegally in a particular group area, because they are owned or occupied by members of a group other than the group for which the group area has been proclaimed. Thus businesses owned by Indians in a Coloured area would, in terms of the Act, be classified as disqualified businesses. Similarly, Coloured business activities in White areas would also be termed "disqualified". The Act does, however, confer legality on certain types of disqualified businesses. (1) Such indispensable services, for instance, as banks (which are not provided by Coloured entrepreneurs), may under permit operate in group areas from which they would normally be disqualified. These exceptions are only permitted very rarely.

(1) The Act referred to is the Group Areas Act no.36 of 1966.

2. RATIONALE OF COLOURED BUSINESS DEVELOPMENT

The most fundamental rationale of the development of Coloured business is that the small retail outlets so characteristic of poor areas provide the purely functional activity of supplying goods and services to residents of Coloured suburbs. The existing political framework in South Africa dictates that only Coloured retail and service outlets, with a few permitted and many illegal exceptions, may cater to the needs of Coloured consumers in Coloured areas. And it follows that once the principle of the existence of Coloured businesses has been established, their development must naturally be promoted in order to meet the demands of a rapidly growing and increasingly affluent population.

Though a more complete exposition of the market facing Coloured entrepreneurs will be given in Part III, a few observations at this stage will be useful. Generalisations about the Coloured market are not valid in view of the great disparity in social strata and standards of living in the community. If a distinction is drawn between two broad ranges of disposable income, namely a higher and a lower range, a cursory examination establishes that those households in the higher range rely to a large extent on retail and service outlets in White areas, while many of those in the lower range have come to depend on the local convenience store or "corner shop". Frequency of wage disbursements, place of employment, storage facilities and consumer ignorance are only some of the factors that determine shopping habits and the dependence of low-income households on local outlets. In other words, the small outlets described in detail in Part II provide an indispensable service to local consumers. The convenience of their location, credit facilities, after-hours trade and the supply of merchandise in very small quantities constitute this service. This does not, however, imply that local shops are important only in poor areas, for households of all income levels make constant use of them. And although these

small outlets usually charge higher prices than large retailers, their convenience, measured in terms of time and distance, is still a considerable benefit particularly to those households making frequent small purchases.

The efficacy of local retail and service outlets in providing increased consumer welfare needs no further elaboration at this stage. Many writers have emphasized the role of these outlets in the urban poverty environment in developed and in developing countries (1), and it is clear that the businessmen needed to operate them are indispensable. Whether they are minority businessmen or not will depend on the particular political dispensation, as outlined below.

An extension of the above rationale, but distinct from the functional basis of serving the local community, is the ideological concept of parallel development and the "dubbele dorpsstelsel", embodied in the present regime's political dispensation for the Coloured community. Briefly, three distinct policies with regard to the political future of the Coloured community may be identified. These range from the concept of a separate Coloured homeland (on the extreme right), through a system of parallel development to complete political and social integration. There are, in addition, various permutations of these three concepts which will be disregarded in this analysis. Complete integration would not permit the compartmentalisation of business zones along racial lines and the encapsulation of minority businesses in their "own" areas.

Separatism requires that retail and service operations be established by Coloured businessmen in Coloured areas for the benefit of Coloured consumers. Within separatism, two divergent views can be identified, and are described by Venter as follows:

(1) e.g. O. Lewis (1968) and A. Goldman (1974).

"(There) are those who maintain that the logical consistency of the policy of Apartheid requires the creation of a 'homeland' for the Coloureds, i.e. that they should have their own national territory, their own national freedom and an independent destiny. They foresee a future for the Coloureds further away from the Whites ... They oppose any form of integration with the Coloureds on a permanent basis within the territorial boundaries of the same political system. As the only alternative to integration they propose the consolidation of the scattered rural and urban areas for Coloureds into a Coloured 'homeland' ... "

Secondly:

"(there) are those who reject the idea of a Bantustan-type 'homeland' for Coloureds. It is maintained that White and Brown are destined to a parallel plural co-existence which means neither independence in an adjacent homeland nor integration in the sense of uniting into a single nation. The Coloured is regarded as the political ally or junior partner of the Whites within the framework of parallel development for White and Brown, both living as organic communities in 'twin towns' ..."(1)

Though the recent publication of the report of the Theron Commission (2) was received with initial enthusiasm, a government statement that "any recommendations to the effect that direct representation be granted to Coloureds in the existing Parliamentary, Provincial and local institutions is ... not acceptable" (3) has largely excluded any hope of a dispensation for the Coloured community in which full equality between race groups would be guaranteed. Consideration of business development in the light of the continued existence of the present political system will therefore be necessary and probably of greater practical application than an analysis based on hypothetical future arrangements. Though this analysis accepts as a sine qua non for meaningful development the

(1) A.J. Venter (1975), p.514.

(2) Op.cit.

(3) South Africa, WP, S'76.

adoption of an integrationist approach to the problems posed for minority group participation in commerce and industry, to evaluate the "present policies choice" it will be necessary to accept for further discussion the principle of parallel development. This realism is consistent with Maasdorp's contention, when dealing with the development of the homelands, that such an approach may be -

"regarded as a more fruitful and satisfying analytical framework",

and that

"the failure (or perhaps the unwillingness) of many writers to take the full implication of the policy of separate (parallel) development to its logical conclusion" (1)

has led to an inadequate approach. It is the contention of this analysis, in adopting a realistic basis for further discussion, to consider the implications of present policies for the development of a Coloured business class and viable commercial and industrial participation in the broader economy.

Because it seems unlikely that the extreme solution - a Coloured homeland - will be implemented by government, it will be practical to consider the system of parallelism only. This system does, in fact, generate a number of additional problems for minority businessmen, arising from the proximity of Coloured and White suburbs and the competitive nature of retailing and manufacturing, which transcends the geographical boundaries imposed by group areas. Within parallelism, therefore, the dichotomy between creating an entrepreneurial cadre and satisfying the immediate wants of consumers has led to a serious clash of interests. The political rationale of Coloured business development, however, has remained the prime incentive for sustained efforts at persuading Coloured consumers to support their "own" outlets. Thus a government

(1) G. Maasdorp (1974), p.1.

spokesman recently stated:

"The establishment of Coloured business facilities by Coloureds for Coloureds is a matter of the highest priority. Coloured entrepreneurship ... stands or falls on two issues. The first is the availability of premises and the second is the channelling of Coloured purchasing power and consumption expenditure back to the Coloured areas ... I feel that in the planning and replanning of Coloured areas, attention must be devoted to the establishment of a dynamic business centre where the Coloured businessman can actively carry on his affairs ... We must also move in the direction of certain concessions and encourage the establishment of Coloured business within the Coloured areas."(1)

Though implementation of these exhortations would benefit Coloured businessmen if they operated in a vacuum, the realities of the urban economy indicate that they are based on misconceptions about the nature of competition, consumer preferences and the process of economic development.

Thus parallelism has provided a rationale for Coloured business development, encouraged considerably by the partial protection offered by group areas. The Rostowian notion of the "take-off into self-sustained growth" has even been applied, albeit incorrectly, to the separate "Coloured economy" which has been fostered in close geographical proximity to White areas. The development of a Coloured entrepreneurial elite on which the "take-off" depends, has been an important objective of parallelism. There are, however, serious doubts that parallel development will ever generate a class of Coloured businessmen who can compete effectively with the established business sector. These doubts are examined below.

The political rationale as outlined above has a wider meaning. Because bourgeois values are associated with ownership of the means of production, and the entrepreneur is a vital element in the acquisition of these means, the development of an

(1) A. van der Walt, Hansard, No. 21 to 25, June, 1976, Column 10388,9.

entrepreneurial class with capitalistic characteristics may be an important goal of national policy. For the proponents of "Black Capitalism" in the United States this has been the case. Lee states that Negroes must acquire the means of production in order to advance economically:

"In America, economic power and political power go hand in hand, and those who have little or no economic power have little or no political power ... In order to acquire power, one must acquire the instruments of power, in this case the business organisation." (1)

It has been the objective of corrective aid programmes in the United States to give minority groups a greater "piece of the action" and a chance to enter the "mainstream" economy. This has been accomplished by promoting entrepreneurship and providing incentives for Blacks to acquire business ventures which operate both within and outside the Negro community. Thus the ownership and control of assets provides an important field for policy intervention by government, and the deliberate promotion of entrepreneurs may materially increase the assets accruing to the poorer sections of the community, transferring to them the means of production and a vested interest in stability and orderly economic growth. The rationale of business development based on the transfer of assets to minority groups in order to establish or strengthen middle-class values, has some relevance in South Africa where it is bolstered by the desire to promote a parallel Coloured business sector.

The fourth rationale rests on the moral issue of increasing the proportion of Coloured businessmen relative to other occupational categories in the total labour force. This is based on the value judgment that all identifiable groups within society should have a "fair share" of representation in all forms of economic activity. This naturally is further

(1) R. Lee (1972), preface.

supported by the political rationale of creating a stable middle class either within an integrated community, or, as in South Africa, within parallel or separate communities. The problem of an equitable distribution of economic benefits and opportunities as contained in the term "a fair share", is usually resolved by comparing a particular group's proportional representation in total population with their representation in the business sector. Thus in the United States the emphasis is on increasing the Negro's share of business activity. In 1973, Negroes constituted 5,7% of total United States employment in white collar jobs (1), 5,8% of professional and technical jobs and only 3,2% of managerial and administrative employment, whereas their share in the total population was 11,3% (23,7 million persons) (2). There had, however, been an improvement in the decade 1963 to 1973. In 1963, 15,3% of the Negro labour force were in white collar employment, 3,5% were in management and administration and 4,9% were in professional and technical jobs. In 1973, 22,9% of the Negro labour force were in white collar employment, 5,2% in management and 8,2% in professional and technical employment (3). This type of upward mobility has been encouraged by employment and redistributional programmes in the United States and the attention devoted to business in these programmes has contributed markedly to overall development. Negroes are still, however, under-represented in business, relative to their share of the population. In 1968 only some 45 000 out of 5 million businesses were owned by Negroes, amounting to 0,9% of all business activity (4). Even in entirely Black areas like Harlem, this proportion is under 20% (5). Bailey confirms that the share of Black ownership in United States business is disproportionately small. This share amounted to 1,2% in manufacturing,

(1) These include the categories professional, technical, administrative, managerial and sales.

(2) United States Bureau of the Census (1974).

(3) Ibid.

(4) R. McKersie (1968), p.89.

(5) Ibid.

1,9% in retailing, and only in personal services were Negroes equitably represented (8,4%) (1). In the United States, the rationale for the devotion of special attention to Black business is based partially on correction of this mal-representation, and has led to calls for immediate large scale redistributive measures. One writer has even suggested that an agency for corporate transfer (ACT) be established to transfer to Black control about 10% of major national corporations, equivalent approximately to the Negro share of the total population (2).

As a rationale for minority business development, increasing the share of business ownership of a particular group has a strong attraction as the basis for a development strategy aimed at increasing the involvement of previously excluded or deprived groups in the mainstream economy. The Coloured community displays the symptoms of exclusion or deprivation typical of a minority group. These symptoms are not only due to political rejection, but also economic and social exclusion. In the business sector, the Coloured community is considerably under-represented in relation to its share of South Africa's population, which in 1970 was 9,4%. A breakdown of population, labour force characteristics and business involvement is given in Table 1.1.

TABLE 1.1: Proportional Representation in Total Population, White Collar Employment and Business 1970

Group	Population Share %	White Collar Share %	Employer* Share %	Working Proprietors** %
White	17,5	67,3	32,5	65,5
Coloured	9,4	6,7	2,6	2,7
Asian	2,9	5,3	3,2	23,1
African	70,2	20,7	61,7	8,6

* Includes primary sector. Several hundred thousand African subsistence farmers are included in this column.

** Wholesale and retail trades only: 1961 figures.

Source: South Africa. Population Census, 1970. Reports 02-05-06 and 02-05-04. Also Table 2.2.

(1) R. Bailey (1971), p.8.

(2) R. America in R. Bailey. Ibid. pp. 129, 130.

That the Coloured group is inadequately represented in business is not sufficient to provide a rationale for preferential treatment. It must be proved that this situation will not automatically correct itself. In other words, will sufficient opportunities be created within and outside the Coloured areas to enable potential entrepreneurs to exploit them, without interfering with the market mechanism? The rationale of Coloured business development rests on the contention that market forces will not lead to a greater proportion of Coloured businessmen emanating from the labour force, and may actually lead to a decrease in this proportion. Official statistics provide some indication that the imbalance is not self-correcting. Though not conclusive, the marginal decrease in the managerial category between 1960 and 1970, from 0,3% to 0,1% of the labour force (an absolute drop of about 400 individuals) (1), may be evidence of such a decline. Additional evidence is to be found in the growth of working proprietors between 1936 and 1970. Though numbers increased slowly, the annual rate of growth declined from 8,0% between 1936 and 1946 (an absolute annual increase of 36 working proprietors), to 2,3% between 1960 and 1970 (an increase of 26 working proprietors per annum) (2).

If the hypothesis that market forces will not lead to a greater degree of business participation is correct, there might well be a valid argument for rendering special assistance to these businessmen. The analysis in Part III will show that in a plural society such as that of South Africa,

"racial or ethnic coalitions arise to influence the allocation of benefits whenever clear group identifications exist and the potential power of one group is greater than the potential power of the other." (3)

(1) See Table 2.17.

(2) See Table 2.3.

(3) D. Swinton (1975), p.53.

In the light of members of one collusive group discriminating against other (weaker) groups, the distribution of resources and opportunities may be materially influenced, thus inhibiting the development of the affected group. Denying a minority group the educational and training facilities consumed by the majority group, limiting access to capital and land inputs, imposing rigid social barriers between groups and generally stifling competition and the transfer of the vital resources necessary in the development process, considerably affect the ability of minorities to exploit opportunities in the market place. The propensity to seek out and undertake profitable ventures, which characterises the actions of the entrepreneur, may be bolstered by facilitating access to those resources that are in short supply, by increasing the opportunities confronting businessmen or by a combination of both. Most probably an element of both will be necessary in order to overcome market deficiencies.

Even if the market mechanism were to effect a redistribution of resources, opportunities and rewards in such a way that minorities could close the gap on the larger society, the evolutionary trickling-down process would be too slow to markedly affect the real balance of benefits and costs in an acceptable (to minorities) period of time. For this reason, too, intervention in the market place might be justified. The rationale of Coloured business development has a time dimension as well as a qualitative and quantitative dimension. To secure a more equitable or fairer share of the benefits accruing from participation in commerce and industry, it will be necessary to implement a development policy that increases and broadens the penetration of Coloured businessmen in these fields. This is the rationale based on giving minorities a "bigger piece of the action".

The fifth rationale emphasizes the role of the entrepreneur in economic development, particularly in the process of capital formation in the poverty environment. "It is entrepreneurship and individual initiative which are the most important

ingredients of development" (1) and it is the entrepreneur who is responsible for "new combinations" of factors of production, called by Schumpeter "the fundamental phenomenon of economic development" (2). The encouragement of "new combinations" by entrepreneurs may increase the supply of capital in depressed urban areas and augment the share of assets accruing to minorities, particularly in a situation where assets would not normally increase in the wake of economic growth.

Because poor areas are generally unattractive for investors, and firms in these areas are unable to raise sufficient capital in the market, many new enterprises are financed from personal savings or from loans raised within the community. The expansion of existing small businesses is also often limited by the extent of profits for reinvestment. The entrepreneur is instrumental in augmenting the financial resources of the firm, through conventional banking channels or from other sources available to the firm. The rationale that stresses the promotion of entrepreneurship is therefore based on the notion that the "best" entrepreneurs are more likely to acquire the capital necessary for development, and are also more likely to utilise scarce resources more efficiently.

In a programme against poverty, promotion of business interests may significantly increase the asset holdings of minorities, which will have a cumulative effect on future growth and the share of rewards and benefits accruing to "target" or disadvantaged groups. Thus Montek S. Ahluwalia states that:

"if lack of ownership or access to particular types of assets limit incomes in the lower-income groups, the government can attempt to build up these assets by redirection of the pattern of investment in the economy." (3)

Direct financial help and training of businessmen by government agencies may be politically expedient too:

(1) J. Adler in G. Meier (1964), p.49.

(2) J. Schumpeter (1951), p.74.

(3) In H. Chenery et al. (1974), p.80.

"The political appeal of this direct approach to poverty lies in the fact that it constitutes immediate (and politically visible) action to help target groups in the population. Its economic justification obviously rests on the economic costs in terms of productivity of capital in alternative uses appropriately evaluated in terms of distributional impact." (1)

Providing special treatment for minority businessmen (at least on a temporary basis) has strong appeal, though by itself is not sufficient for development. The impact of several programmes aimed at different facets of poverty would be far more penetrative. The opportunity costs of employing capital in poverty areas may be a deterrent in terms of economic efficiency in the short run, but in the longer run these costs are likely to be handsomely recouped as protection and special privileges are gradually removed. (This will be analysed in Part III.) This rationale rests therefore on the building up of assets in minority areas by ensuring that minority businessmen acquire greater control of the means of production.

The sixth rationale of Coloured business development may be ascribed to the role of small business in the economy. In South Africa, aspects of institutionalised discrimination in the market create special problems for small firms. Though programmes to support small business should be selective, in order not to provide unwarranted protection for inefficient, marginal undertakings with little or no growth potential, blanket encouragement by way of removing all obstacles to the growth of minority enterprises will be more efficient in terms of allocation of scarce resources among competing uses. These obstacles include resources and opportunities available to minorities, as well as rewards arising out of exploitation of these opportunities. Thus improving access to resources and opportunities for small businesses owned by minorities will increase their competitiveness in the wider economy. A selective programme of resource redistribution and guaranteed

(1) In H. Chenery et al. (1974), p.81.

markets which favours efficient, competitive firms need not be wasteful in terms of the allocation of scarce resources. A policy of protectionism based on the infant industry argument will be discussed in greater detail in Part III, and a case could even be made for "greenhouse" industries (1) where protection would be applied continuously, on the assumption that they could never achieve a competitive state.

When considering programmes to aid minority businesses it is necessary to distinguish between small businesses proper and cottage or "backyard" activities. This distinction is particularly pertinent to the Coloured community where the informal sector often provides the platform from which fully-fledged small industries and retailing activities develop. The informal sector, by creating employment opportunities which supplement formal sector income and provide the sole source of income for many unemployables and others on the fringe of the labour market, plays a vital role in the poverty environment.

Another advantage of promoting business in the informal sector relates to capital inputs. By their very nature most "backyard" or cottage industries are capital-saving and their part-time entrepreneurs are often particularly innovative in the use of obsolete or discarded equipment. Because informal activities are usually undertaken in a house or yard, there are considerable savings in building costs, too. Finally, the informal sector requires the minimum social overhead capital as most services already exist in residential areas. Where services are absent, entrepreneurs seem to circumvent this obstacle anyway.

Small business in the formal sector offers a number of advantages vis-a-vis large-scale enterprises and thus a case for its promotion, whether owned by minorities or not, is easily justifiable. The fact that most businesses owned by minorities are small-scale enterprises, underlines the importance of small

(1) T. Vietorisz and B. Harrison (1970), p.67.

enterprise development in a minority development programme. The Coloured business undertaking is no exception to this. Quantitative data in the following section show conclusively that Coloured enterprises may be classed as small businesses in terms of employment, area coverage, value of production or sales and capital utilisation. Retail outlets are considerably smaller than those in the economy as a whole and the virtual absence of large chain and department stores which characterise modern retailing, is particularly noticeable. Manufacturing industries in the formal sector may also be classed as small industries in terms of most criteria.

Staley and Morse (1) have identified several facets of small enterprises which justify their encouragement and promotion. The first of these is economic efficiency, for small enterprises promote a more efficient use of scarce resources, particularly in the manufacture of certain products where large-scale operations would provide no significant scale economies. They are also more adaptive to changes in demand and are more flexible in technology, capital requirements and managerial utilisation. Thus products required in small amounts necessitating rapid changes in production techniques and inputs of capital and labour, will be more efficiently manufactured by small-scale operations. With shorter production runs, alterations are made quickly and high precision artifacts in small volume lend themselves to small-scale manufacturing more readily. Sub-contracting by large firms requires the presence of small, specialised enterprises, which can undertake component manufacture because of their flexibility.

As with the informal sector, there are employment advantages with small enterprises. Many of the skills required in small firms are readily available in minority groups, or are easily acquired. Of relevance to the Coloured community is the clothing industry, where small firms, employing mainly women, provide useful employment opportunities for workers with some knowledge of dressmaking or tailoring. From the manufacturing survey

(1) E. Staley and R. Morse (1965).

it appeared that many workers would not in fact have entered the labour force at all, if it had not been for small factories situated in close proximity to residential areas (1).

Besides the creation of gainful employment, these small industries generate human capital by providing valuable training grounds for the acquisition of skills. The relative ease of entry into certain industries, in terms of capital and skills, has ensured that minorities are not excluded from participation in small industrial enterprises. This has provided an outlet for minority aspirations and a nursery for the development of entrepreneurial skills. An interesting alternative justification for small firm assistance from the employment point of view relates specifically to discrimination in the labour market. Overt discrimination in grades of employment where Whites and minorities compete, has been known to force employees out of jobs and into self-employment (2). Many small firms have developed from self-employed status, providing an employment opportunity for their owners away from the vagaries of discriminatory factor markets. The numerous small retail establishments found in the Coloured suburbs are an example of this phenomenon, for here the owner and his family are secured against competition in the labour market, and their small, marginal businesses provide a guaranteed income for workers with relatively few skills and little education.

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- (1) P.E.B. Wilson (1976). The high costs of transport as well as the severe lack of creches in Coloured residential areas discourage many employable women (with families) from entering or re-entering the labour force. The economic incentives to resume work after bearing and raising children are usually quite strong, given the presence of acute poverty, e.g. in Ocean View township, in an investigation to determine whether a small Cut, Make and Trim (CMT) factory could be established locally, it was found that many women who had once worked in the clothing industry, were no longer in the labour force. This was partly due to the isolation of Ocean View and lack of frequent public transport, which prompted employees to relinquish their jobs when they were forced to move from their traditional residential areas closer to town.
- (2) In the manufacturing survey (op.cit.) respondents on more than one occasion stated that they had started their own business after such an occurrence. As they were artisans, they were usually well placed to provide the technical expertise required in a new undertaking (see Appendix A, Profile No. 3).

Small businesses tend to tap both physical and human capital resources not usually open to exploitation. The type of capital not exploitable by large-scale industrial and commercial enterprises emanates from family funds, individuals' savings and labour time. Large firms are invariably not controlled solely by families, thus denying access to family funds. This is particularly important in the Moslem communities where family and community funds are sometimes available to entrepreneurs. This is due to family and community solidarity, particularly when financial assistance is urgently needed. Kharsany states explicitly:

"The advantage of the close, family bond is that businessmen come to each other's rescue in times of financial or other distress"

and

"the prohibition of usury in Islam has limited investment opportunities ... Islam permits the receiving of rent, dividends and profits, but the taking or giving of interest is forbidden." (1)

Similarly, the savings of individuals (usually the entrepreneurs themselves) can be more easily tapped in small firms. Large organisations would not be able to utilise the labour time that many small firms' owners and families contribute to the building up of the business, and for which there is no direct remuneration.

A number of other advantages of small enterprises are mentioned in the literature (2). Small industry has a lower import propensity than large; it has certain decentralisation advantages; it has political appeal in so far as it tends to minimise concentration of economic power; it promotes a stable middle class; it is a channel for social mobility; and it provides opportunities for indigenous ownership of the means of production, as opposed to foreign ownership.

(1) E. Kharsany, (1971), p.23.

(2) e.g. E. Staley and R. Morse (1965); R. Davenport (1967).

This brief exposition of the rationale of Coloured business development based on the advantages of small businesses is summarised succinctly by Staley and Morse. They point to the mobilisation of local capital, indigenous managerial and technical skills and the effective exploitation of profitable opportunities as "the sources of self-regenerating growth" (1). Thus the measures aimed at small businesses -

"to mobilise their full output and employment potential must be selective and well-integrated. Different approaches are implied for different products, processes and localities. And the unique entrepreneur ... who gives promise of growth may warrant significant credit, management or other assistance ..." (2).

Elements of a development strategy will be outlined in the following analysis.

The final two rationales account for the more radical spectrum of redistributational strategies. These are, firstly, the case for reparations to Black minorities and secondly, the need for countervailing power. A number of protagonists of reparations in the United States have pleaded both on economic and moral/political grounds for its adoption. Browne states that the most acceptable objective of a reparations deal would be -

"to provide the Black community with the share of the national wealth and income it would have had if it had been treated as other immigrant communities were, rather than enslaved". (3)

He notes that American Indians were offered indemnity for land seized from them, but that Negroes have never been accorded any compensation for their role as slaves in building up the United States economy.

(1) op.cit. p.219.

(2) Ibid. p.222.

(3) R. Browne (1972), p.39.

"African slave labour was the sine qua non of the cotton culture. Black labour, then, provided an integral, perhaps the integral input into America's first major industrial mainstay and thus indirectly made possible the transformation of an agricultural into an industrial economy." (1)

Browne differentiates between reparations for pre-emancipation slave work and underpayment of freedmen and their descendents since emancipation, but makes no computation of the magnitude of reparations for the latter, which is fraught with calculation hazards. Several computations have been made for the former and Browne opts for the one which arrives at an amount of \$448 to \$995 billion, termed the "unpaid Black equity" for the years 1790 to 1860 (2).

Besides the issue of underpayment, Browne identifies a third basis for indemnity, which notes that by the time emancipation was achieved, the frontier was almost closed and the vast tracts of land acquired by White Americans were no longer available to Blacks. The denial of these national resources to Blacks, claims Browne, has impeded their economic development and therefore requires some form of compensation.

Reparations are merely a very direct form of redistribution, and payment may be made in different forms. For instance, payment may be used to fund a government minority development programme aimed at providing better educational facilities, improving skills training, building houses and promoting minority business. While reparations based on the unjust exploitation of slaves in South Africa would yield a relatively small sum, this might be considerably augmented by compensatory payments to factors detrimentally affected by discriminatory practices. Computing such a sum, however, would involve highly subjective value judgments about the nature and extent of economic losses, and psychic losses arising from discrimination would be beyond calculation. Applying the reparations

(1) op.cit. p.41.

(2) Ibid. p.42.

rationale to the Coloured community may, therefore, be valid, but estimating the monetary extent of actual damages is beyond the scope of this study.

A final case for the separate development of Coloured businesses may be based on the concept of countervailing power, analogous to the creation of a parallel Coloured business sector as discussed earlier in this section. The basic difference, however, is that here Coloured separatists would call for the promotion of businesses for their own group as a countervailing force against the established White business sector. The Theron Commission reported, however, that only 20% of respondents to a survey concerning the desire for a separate Coloured homeland replied in favour thereof, while less than 10% of those with at least a standard 10 level of education replied in the affirmative (1). This rationale for Coloured business development will not be considered further in this analysis.

Though there may be several other possible arguments for special dispensation to minority business, the above eight cover the spectrum adequately, including both separatist- and integrationist-based motives. While it is the intention of this study to examine all arguments carefully, in order to determine those sympathetic to a programme incorporating new directions for development, in the final analysis only those options at the integrationist end of the spectrum will be considered as being consistent with the purpose of this study, as stated in the introduction. A number of facets arising out of separatism will, however, have a direct influence on suggested new directions. Of particular importance is the principle of protectionism which may be embodied to a certain extent in both ideologies.

(1) op.cit. p.451. Table 20.17.

3. COMPARATIVE ASPECTS

Strategies for the economic development of the Coloured community are based on the understanding that the community, as an identifiable or "target" group, exhibits many typical characteristics associated with developing countries. The analogy is only realistically applicable in so far as certain indicators of underdevelopment are concerned, and it may be more correct to compare the development of minorities in other parts of the world with that of local minorities. There may be a number of limiting factors in the case of the Coloured businessman which necessitate an adjustment in traditional development strategies. Two such constraints may be identified. Firstly, there is the political constraint, briefly described earlier in this section. This is the policy of parallel development. Secondly, the inextricable involvement of the Coloured community in the economic life of the country makes the application of remedial measures in the field of business development a highly selective task.

Because the socio-economic status of the Negro is in many respects similar to that of the Coloured community, the progress of the Negro businessman can provide an invaluable lesson for local development policies, particularly in the field of selective business development. Similarly, the experience of the Afrikaner community accentuates the role of group cohesiveness and political power as vital forces in economic development. The success achieved by the Indian businessman in spite of many of the same institutional disabilities suffered by the Coloured businessman, is also a notable lesson for minority business development. The establishment of a business cadre in the Negro, Afrikaner and Indian communities will be considered in turn, and factors facilitating or constraining the process of advancement will be identified in the analysis, in the belief that they will indicate paths for future development of a business class in the Coloured community.

THE NEGRO AMERICAN

A comparison between the Coloured and Negro groups is validated by a number of common socio-economic characteristics, which leave a clear impression of deprivation and to some extent, of conformity with the "culture of poverty" syndrome. Though Blacks in the United States far outnumber the Coloured community, relative to their respective dominant groups, several similarities do occur. Most notable is the share of each in the total population, while their growth rates, though somewhat different, are both considerably higher than those of their respective dominant groups. There is virtually no growth in the White American population, and the growth of the White South African population has fallen to 1,4% per annum (1). Secondly, poverty has adversely affected both groups. The substantial income differentials and proportion of all families living below the accepted poverty line have militated against internal capital formation and acquisition of a larger share of business undertakings.

The relative representation of each group in various categories of employment further underlines their minority status, and their particularly low representation in the managerial category is of special relevance to this study. Finally, Table 1.2 shows that ownership of retail activities in both cases is extremely low, and while Bailey puts the Negro share of manufacturing at 1,2% of all enterprise (2), there are no comparable data for Coloured-owned manufacturing industries. It is certain, however, that this proportion is negligible.

Significant differences between the two groups are found in the political arena. While the Coloured group has no meaningful legislative power, there were 2 991 Negro legislators in 1970, accounting for 11,1% of all legislators. These comprised mainly local officials (2 627), but also 108 mayors, 239

(1) South Africa. Population Censuses, 1960 and 1970.

(2) R. Bailey (1971), p.8.

TABLE 1.2: Some Socio-Economic Characteristics of the Coloured and Negro Communities: A Comparison

Characteristic	Negro		Coloured	
	Year	No.	Year	No.
1. Population - size	1973	23,7m	1970	2,0m
- annual growth rate	1970-73	1,6%	1960-70	3,0%
- share of total population	1973	11,3%	1970	9,4%
2. Income - differential*	1973	58 %	1975	19,6%
- below poverty level**	1973	31,4%	1975	30,1%
3. Education - population share at school and university	1973	30,4%	1973	24,7%
- population share at university	1973	2,9%	1973	0,1%
4. Employment				
- white collar ***	1973	5,7%	1970	6,7%
- professional, technical***	1973	5,8%	1970	7,1%
- managerial, administrative***	1973	3,2%	1970	1,2%
5. Business ownership				
- retail****	1968	1,9%	1961	2,7%

* Black as % of White.

** \$4540 for Negro families; R1553 for Coloured families.

*** As % of total employment in each category.

**** As % of total number of businesses.

- Sources: 1. Negroes - U.S. Bureau of the Census (1974); R. Bailey (1971).
2. Coloureds - South Africa. Population Census 1970 (various reports); S.A. Statistics (1974); Theron Commission. op.cit.

state legislators, 16 Congressmen and 1 Senator (1). It is this measure of political power that gives Negroes important leverage in the distribution and allocation of resources, but which is so patently lacking in the Coloured community. The

(1) U.S. Bureau of the Census (1974).

emphasis on political power as a means of ensuring acquisition of the means of production is particularly relevant to the Afrikaner group, as will be seen below.

While the attention of social scientists in America has been focused to an increasing extent on the economic problems of minority groups, especially over the last decade, the subject of business development had not been granted specific attention until quite recently, when it was realised that the major problems of poverty, employment creation and worker deployment, racial discrimination and education, to mention just a few, could be considerably mitigated by concentrating to an increasing extent on the transfer of income-generating means to the poor, rather than utilising only conventional employment, education and skills training programmes. This could be accomplished in part by facilitating the acquisition of manufacturing and retail businesses by Negro businessmen, who would be offered inducements such as low interest loans repayable over long periods with little collateral required, guaranteed markets in the form of procurement contracts with government and private organisations, and general business advice and aid provided without charge. A supplementary policy would encourage the training of Black managers in White firms and the unrestrained mobility of Blacks up the management hierarchy to board level, if necessary. This policy of increasing the participation of minority groups in the "mainstream" economy is based on the philosophy of a more equitable distribution of the benefits of economic growth and that -

"without some increase in the investment in capital stocks owned or controlled by the poor - above what can be provided from their own savings - it seems inevitable that their per capita income will grow more slowly than that of higher-income groups ..." (1).

Strategies for business development in the Negro community are based on government assistance, private sector participation

(1) H. Chenery et al. (1974), p.47.

and self-development by the community. Though the principle of private individual and company ownership is adhered to in these strategies (in other words, the medium for development is capitalism), the alternative medium of community ownership of productive assets has also been attempted with some degree of success. There is, in fact, extensive controversial debate as to the merits of the two systems. Negroes began organising their business interests in the late eighteenth century and there have consistently been proponents of both capitalism and co-operative development up to the present day. Ofari (1) mentions the Free African Society formed in Philadelphia in 1787 which was based on co-operative advancement of Black interests, but the real awakening of Negro interest in the acquisition of business enterprises only manifested itself in the late nineteenth century and early twentieth century when Negro leaders such as Booker T. Washington, W.E.B. Dubois and Marcus Garvey attempted to stimulate American Blacks into an awareness of their role in the wider economy. Thus in 1900 Booker T. Washington was instrumental in establishing the National Negro Business League which was to promote Black business interests and further the notion of "Black Capitalism", based on the proposition that economic progress would eventually lead to dissolution of racial barriers and to a fuller Negro involvement in all facets of life in the United States. At the turn of the century Negroes had made relatively little progress in business involvement though a number of enterprising ventures had been initiated by Blacks. Most noteworthy was the establishment of a Freedmen's Bank in 1865, which, though it only operated until 1874, provided a grounding for Negro incursions into the business sphere.

Another protagonist of Black Capitalism was Marcus Garvey who was to become famous for his "return to Africa" movement. A believer in Black Consciousness and a Black nation based on geographical separation, Garvey saw the salvation of the Negro lying in economic self-sufficiency on capitalistic lines in a

(1) E. Ofari (1970), p.13.

newly-created state. To this end he organised the "repatriation" of Negroes to the African state of Liberia.

The remaining influential figure in the generation of Negro business consciousness is W.E.B. Dubois, the first Negro leader to call for a co-operative strategy for the development of Negro business enterprise. He claimed that capitalism held no real benefits for the Negro businessman and community, as it would merely replace White with Black exploitation of Blacks. He advocated control of each stage of production and distribution by the community, based on the rationale that -

"Black people in America have not been oppressed primarily as individuals, but as a group. The history of this country suggests that it is only on this group basis that any people, once excluded, have struggled successfully to enjoy whatever America has to offer. Black economic, political and social freedom must also be sought on this basis." (1).

The result of a growing Negro awareness of the benefits to be derived from increased participation in business, was a mushrooming of organisations established either by Negroes themselves or by government. The former were usually conservative institutions adhering to the capitalistic medium of development, but were designed to promote and encourage Negro business enterprise. By giving Negroes a greater voice in the overall business community, it was intended to increase their participation in the wider economy. There were a number of institutions promoting a co-operative system of development but as these did not receive much federal or state support, they were not very significant. Government organisations were established to provide financial, marketing or managerial assistance to Negro business, based on the contention that Negro businessmen had not been able to procure these inputs in the open market, because of various disabilities inherent in the status of minority groups and impediments in the allocation process.

These disabilities and impediments have been enumerated by

(1) R. Bailey (1971), p.13.

most writers in the literature (1), but there does not seem to be consensus as to the major problem in minority business development. McKersie, for example, states that the "most significant factor in the under-representation of Negroes in business is their lack of managerial skills and attitudes" (2) while Lee concurs when he says that education is the "first essential step the Black American must take" (3). Lack of expertise is not generally regarded as the primary disability. Rather a "package" consisting of several factors has been described by most writers as the underlying problem in Negro business participation. This package consists of capital and credit shortages; competitive disadvantages; lack of opportunities; entrepreneurial and managerial expertise deficiencies; inferior education; irregularities in the market place; and several other disadvantages related to the operation of a small business in the ghetto (4) environment.

Because most Negro businesses are small by employment, capital investment and floor area criteria, it will be appropriate firstly to consider those disadvantages pertaining particularly to Negro businesses as small enterprises. The non-economic elements of discrimination will be considered thereafter.

Finance for both fixed and working capital has been described as one of the main obstacles to small-firm development, and is particularly pertinent to Negro businesses. Lack of necessary contacts with financial institutions; insufficient collateral because of small assets; inability to generate

(1) Inter alia, F. Allvine (1970); R. Bailey (1971); T. Cross (1971); R. Lee (1972); R. McKersie (1968); T. Vietorisz & B. Harrison (1970); W. Henderson & L. Ledebur (1970).

(2) R. McKersie (1968), p.90.

(3) R. Lee (1972), p.77.

(4) The word "ghetto" is used occasionally in the text in accordance with usage in the literature. Although its origins are to be found in Italian cities describing areas where Jews were restricted, "ghetto" today has retained the connotation of restriction and poverty, even if the restriction is only social and economic, and not actively enforced.

internal funding because of low turnover; and inability to tap private sources of funds have contributed in one way or another to the lack of capital. In addition, suppliers are reluctant to grant extensive credit facilities to small, unknown undertakings, which further inhibits growth.

Though these are problems pertaining to small undertakings universally, minority groups suffer further disabilities. Investors have been unwilling to commit funds to ghetto businesses, because risks have tended to be much higher in the ghetto for several reasons. Many small Black businesses have a high failure rate because of internal deficiencies, such as lack of access to capital, credit, management and other resources required not only in the daily operation of the firm, but also in the process of rationalisation and growth. Externally, the ghetto firm is affected by the physical impoverishment of the area as well as the atomistic form of competition, while civil unrest and vandalism have increased the costs of operating in poor areas. Vietorisz and Harrison have enumerated a number of operating difficulties reported by Black firms in Harlem, which accentuate the high degree of risk in the ghetto (Table 1.3).

These difficulties, particularly inadequate physical protection of premises, considerably increase the opportunity costs of investment in the ghetto, and where there are no incentives for ghetto investment specially introduced by government, prospective investors will opt for less risky ventures outside the ghetto. Thus Sturdivant (1) has noted that after the riots in the 1960's, many traders did not return to the ghettos, and Black Enterprise claims that the impact of crime and vandalism has been "a worse threat to Black businesses than to White-owned ones" (2).

(1) F. Sturdivant (1969), preface.

(2) Black Enterprise. August, 1975, p.25.

TABLE 1.3: Operating Difficulties of Firms in Harlem

Type of Difficulty	% of all replies
Inadequate police protection	33,3
Difficulty getting commercial insurance	22,4
Difficulty getting credit	15,7
Difficulty getting skilled labour	7,7
High costs of doing business	6,7
Poor plant and location	5,3
Can't compete with larger firms	3,9
Changes in consumer preferences	3,6
No support for Black business	0,7
Poor location	0,5
Failure of businessman	0,2
Total	100,0

Source: T. Vietorisz and B. Harrison (1970)
p.49.

The existence of higher risk in the ghetto is not the only exceptional factor precluding rapid, extensive capital injection into impoverished areas. Though its effects are undetermined, largely immeasurable and thus open to exaggeration, discrimination is cited by many researchers as an explanation for the reluctance of financial institutions to fund ghetto businessmen. This may be due to unwarranted assumptions (possibly discriminatory) made by the appraiser about the applicant, usually exacerbated by imperfect knowledge and the inability of many minority businessmen to present themselves in the most favourable light. So-called "discriminatory" rejection of loan applications from Negro businessmen may be ascribed partly to the normal risks attached to financing small businesses, but partly to the lack of perception on the part of bank managers, as well as unwarranted assumptions by them. The latter might not, in their calculations, perceive the benefits to be gained from financing Negro businessmen, as the benefits may be hidden or of a social nature and therefore difficult to compute. Thus the advantages, firstly, of

increasing the share of Negro business in total United States business activity, and secondly, of generating scarce capital in poor areas, somewhat increase the total benefits accruing to society at large, particularly in the longer run. The "discriminatory" element in the decision-making process - prompted by unwarranted assumptions and imperfect knowledge - is not necessarily inconsistent with maximising behaviour of the individual bank manager, if only private costs and benefits are taken into account. But the implications of funding Negro businessmen, for long term social stability and development, are that social benefits considerably outweigh private benefits, though the former are not easily quantifiable. In this way, therefore, Negro businessmen may feel they are being discriminated against. Government-sponsored incentives and direct aid programmes can be justified by social externalities, and have to a certain degree improved the prospects for development, though ghettos still remain high risk areas unreceptive (or at best, poorly receptive) to profitable exploitation.

A second problem is posed by the presence of competition from the highly developed White-owned sector of the economy. Because Negro businesses, mostly young, small concerns with limited resources at their disposal, are trying to enter the "mainstream" of economic activity with its high barriers to entry, their failure rate is relatively high. In addition, small businesses generally have to face up to the changing economic environment of the city, and Negro undertakings have the additional cost of trading in the ghetto to consider. McKersie has stated succinctly that -

"as a result of urban renewal, concentration of retailing into shopping centres, and dispersal of industry to the urban perimeter, small business opportunities in the city are diminishing regardless of whether the would-be entrepreneurs are White or Black" (1).

The relative backwardness of Negro business has therefore prompted many Black leaders to question the developmental

(1) R. McKersie (1968), p.90.

approach that has evolved from the capitalist ethic of competitive, laissez-faire growth. They claim that -

"the cost of starting a few successful Black businesses will be high in relation to the gains by the Black community" (1)

and that

"they would prefer to have a large portion of the monies being appropriated for Black capitalism channelled into financing buy-outs of existing business. These might include major U.S. corporations or ghetto businesses run by nonblacks" (2).

Because competition is seen as a promoter of efficiency in the capitalist system, in that it acts to allocate scarce resources among competing ends in an optimal way, it is the only basis for a solution acceptable to many when programmes for ghetto business development are being evolved. Isolation and protection of ghetto business as well as the appropriation of existing corporations for Negroes en masse, have been seen as futile and wasteful attempts to develop a Negro business class. Allen, for instance, adopts the competitive approach when he states that -

"any programme that would isolate small business in the ghetto or separate it from the mainstream of business affairs will fail. Any effort to donate capitalism ready-made must also fail. The best economic tool we have ever had is good, old-fashioned, no-nonsense capitalism" (3).

In the context of the rationale for minority business development, this statement ignores those particular disabilities and disadvantages incurred by Negro businessmen in their relation to the wider economy. Overcoming these problems in a

(1) F. Allvine (1970), p.3.

(2) Ibid. p.4.

(3) L. Allen (1969), p.92.

competitive system has been the objective of current assistance programmes in the United States.

Another major disability suffered by Negro businessmen is that they do not have sufficient expertise and technical skill necessary to run large undertakings, nor is there an entrepreneurial cadre sophisticated enough to exploit large-scale opportunities. This does not imply that all Negro businesses are small, inefficient operations, but rather their penetration into larger, more diverse, corporate activities with greater employment impact and positive effects on capital formation, has been limited to date. Negroes own a very small proportion of total business activity and they contribute even less in terms of asset value or value of production. They constituted only 3,2% of the managerial and administrative category in 1973 and only 5,8% of professional and technical workers (see Table 1.2).

The reasons for this lack of entrepreneurial and technical skill may be ascribed historically to the status of the Negro and more recently to absence of perceived opportunity. Because Negroes were predominantly slaves, they forfeited the early opportunities created in the United States with the opening up of new frontiers and new cities. Lack of educational facilities combined with poverty precluded successful entrepreneurial activity even at a very elementary level. The cultural hold of the plantation system restricted contact with the urban money economy while White America urbanised rapidly, establishing what has become the quintessence of competitive capitalism. Negroes are now engaged in the "catching-up" process, which has been best articulated by the desire for a greater share of overall business activity and a concerted attempt to enter the "mainstream" economy. Yet the share of Negroes in business continues to remain insignificant. McKersie (1) has attributed this to the lack of prestige accorded business. With so many problems confronting the Negro entrepreneur in the establishment and operation of a new business,

(1) R. McKersie (1968), p.90.

prospective entrants to the labour market are faced with high opportunity costs when choosing business as a career. These costs may include the psychic cost of low esteem.

Whether the problems confronting Black businessmen arise from the small scale of their activities, or from discriminatory and other elements peculiar to ghetto business operation, it has become government policy that measures to offset the various disadvantages are necessary both for the welfare of Negro businessmen and consumers, as well as for national objectives. These measures have been aimed at the structure of opportunity and the distribution of resources between groups. The exogenous element of discrimination has also been the target of federal and state programmes, for it affects both opportunities and resources. The roles of government, the private sector and the community itself will now be considered in turn.

The multiplicity of government and private organisations established to aid minority businesses are ample witness to efforts aimed at ensuring improved access to resources for Negro businessmen. The most important government agencies are the Small Business Administration (SBA) and the Office of Minority Business Enterprise (OMBE). The former does not restrict its activities only to minority enterprise but to all small business, while the latter was established solely to aid Negro and other minorities. The SBA has generally had a poor record in so far as financing minority businesses is concerned. In 1968 only 13% of all loans went to minority businesses, representing only 3,7% of guaranteed loans (1). One of the major problems pointed out by Allvine (2) is that SBA loans require "reasonable assurance" of repayment, which considerably diminishes Negro businesses' borrowing powers, as they usually have poor credit records and little collateral. In addition, applicants are required to raise 15% of the amount required, which also severely restricts their borrowing powers. Other disadvantages of using SBA facilities are that there is extensive red tape and

(1) W. Henderson and L. Ledebur (1970), p.275.

(2) F. Allvine (1970), p.6.

lengthy delays are usual before loans become available.

Besides these drawbacks, the SBA has come in for much criticism, particularly from Blacks. Because the SBA was established primarily to confer some of the benefits of capitalism on small, disadvantaged businesses, those protagonists of community ownership of resources who reject capitalism in any form, have constantly inveighed against it. Ofari (1) for example, claims that the SBA has not made loans to more untypical Black businesses and thus has restricted Blacks to conventional, slow-growth enterprises. Harrison (2), too, asserts that both the SBA and OMBE prohibit support of co-operatives. The SBA's preoccupation with low bad debt ratios in the face of high risks in ghetto areas has also received criticism. Henderson and Ledebur are particularly critical of the Federal Government's unwillingness to make high-risk loans to minorities:

"The concept of compensatory capitalism ... assumed that high risks are acceptable for higher priority social and economic objectives. It now appears that ... officials have pulled back because of concern with the loss rate of loans to minority businesses ... But it should be noted that on a cost-effectiveness basis, regardless of the loss rate of the loan, a program using compensatory capitalism principles is an extremely low cost method of achieving selected economic and social objectives within the inner city." (3).

Financial assistance is not the only service offered by the SBA, however, as both managerial assistance and procurement contracts are valuable facilities offered to small businesses. Procurement contracts, a form of guaranteed market, are arranged by the SBA and OMBE for the benefit of small businesses. Where imperfections in the information process preclude the numerous lucrative contracts offered by public authorities from coming to the attention of small businesses, these agencies provide the necessary information and facilitate tenders for these contracts.

(1) E. Ofari (1970), p.78.

(2) B. Harrison (1974), p.22.

(3) W. Henderson and L. Ledebur (1970), p.276.

The SBA assists those businesses meeting certain criteria, which are as follows: firms must be independently operated and controlled; not dominant in their field; meet a particular size standard for its industry; and must be operated for profit. Assistance is supplied to firms with 250 employees or less in manufacturing; annual receipts of \$9 million or less in wholesaling; annual receipts of \$2 million or less in retailing and services; and average receipts of \$9,5 million or less for the preceding 3 years in construction (1).

The OMBE was established in 1969 to provide for the needs of minority groups, numbering about 35 million in 1974, or 16% of the population of the United States. They accounted, however, for only 4% of all businesses and a mere fraction of one percent of gross business receipts (2). OMBE acts as a catalyst, mobilising the resources of the public and private sectors, and directing the attention and energies of both to the needs of minority businessmen. In this way OMBE does not actually fund development itself, but directs the resources of the Office of Economic Opportunity (OEO), the Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), the Department of Labour (DOL) and private sector organisations to those minority businesses in need of financial, managerial or other assistance.

As with the SBA, OMBE facilitates the flow of information to minority businesses with regard to government contracts. Procurement contracts with minority businesses amounted to \$731,5 million in 1973 (3). To encourage the private sector to do more business with minorities, OMBE helped to establish the National Minority Purchasing Council, which assists minority businessmen to meet purchasing agents of large corporations.

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- (1) T. Kleppe (Director of the SBA). The Role of the SBA in Enterprise Development; in ISEED (1975).
 - (2) I.P.S. (1974), p.2.
 - (3) Ibid. p.5.

Regional and local councils have now been established and this marketing network has considerably augmented minority sales to the private sector. Black Enterprise reports that purchases from minorities by corporate members of these councils amounted to \$500 million in 1975 (1). There were about 350 corporations participating in 1974, of which over 100 were among the largest 500 in the United States (2). OMBE has not, therefore, confined itself to financial assistance only, but has directed its main thrusts at marketing and managerial problems, too.

Although OMBE has diversified its assistance programme, the important element is still financial assistance, and here the Minority Enterprise Small Business Investment Companies (MESBICs) have played an increasingly valuable role in the generation of new and larger business. These arose from the 1958 Small Business Investment Act, which created Small Business Investment Companies (SBICs) and made provision for -

"concessions intended to lure private capital out of less risky investments into the financing of small businesses. The most important of these incentives were the promise of matching government funds and favourable tax treatment on profits and losses." (3)

The establishment of SBICs was based on the rationale -

"that there was indeed a shortage of funds for small businesses which had outgrown the resources of their original founders but were not large enough to seek public ownership through a public offering of their securities." (4)

SBICs could be established by prospective investors who obtained government funds to supplement their own contributions. These investors could be individuals, corporations or financial

(1) Black Enterprise. March, 1976, p.42.

(2) I.P.S. op.cit., p.9.

(3) S. Hayes and D. Woods, (1963), p.10.

(4) Ibid.

institutions, and once the SBIC was established, it was able to supply funds to small businesses either in the form of equity investments or loan capital. MESBICs arose from the same programme that spawned OMBE, and it was hoped that large corporations would sponsor them. But MESBICs have failed to achieve their stated goal, namely providing minority businessmen with financial leverage, mainly because banks have been hesitant to deal with minorities. Federal assistance for MESBICs has also been inadequate, and Lee concludes that -

"the power of the private sector will hardly be brought to bear unless the federal government is solidly behind the program." (1).

A business development programme somewhat differently orientated has emerged with the creation of Community Development Corporations (CDC's), organised in communities with certain symptoms of deprivation, usually particularly high unemployment or low average family income levels. The community owns the equity capital and funding comes from government or the private sector. Because the CDC programme is relatively recent, there has not been much indication of success or failure. The Special Impact Programme of OEO has been the main source of funds for CDC's which have generally aimed to give the community a share in local business, as well as promote non-business ventures contributing to the welfare of the community. Although they have been hailed as a meaningful departure from the more narrow-based concept of individual ownership, CDC's have still incurred certain drawbacks. Firstly, because they have adopted cooperative forms of business as their modus operandi in a number of instances, sources of finance have been restricted considerably. The SBA and OMBE prohibit support of cooperatives. Secondly, a severe limitation on development is that CDC's cannot operate outside the ghettos, thus are committed to investments solely in high-risk poverty areas. Despite the uncertainty surrounding the effectiveness of CDC's, at least one example shows that their establishment may have a significant impact on business

(1) R. Lee (1972), p.145.

development in the ghettos. This is the Rochester Business Opportunities Corporation (RBOC), established in the Rochester community with support from Eastman Kodak, the Rochester Chamber and other corporations. A non-profit CDC, it also receives federal funds, and arranges finance from banks and other sources, backed by security offered by its patron firms. Its services, administered by a small staff and personnel from Eastman Kodak and other companies, consist of financing new and existing businesses, technical and advisory assistance, research and development of new opportunities for Negroes, and the provision of procurement contracts for infant enterprises.

An ambitious programme to meet the needs of Negro businessmen as well as provide a solution to community problems, has been devised by McLaurin, and called the Ghetto Economic Development and Industrialisation Plan (Ghediplan) (1). This plan views the ghetto as an LDC and attempts to diversify, strengthen and expand its economic base in order to increase the Ghetto National Product and establish a competitive industrial platform for participation in the "mainstream" economy. The essential ingredients of the plan are the guaranteeing of finance and markets for ghetto businesses. The machinery and operational aspects are as follows: the city would establish an Office of Minority Economic Development (OMED) which would appoint consultants and professional and technical advisers to establish Local Development Corporations (LDC) and SBICs. The former could be the instruments for identifying business opportunities and creating new ventures, while the latter, as described above, would generate equity and loan capital from private and public sources. OMED could also establish several Small Business Development Centres (SBDCs), one to each ghetto, to which some of the functions of OMED could be delegated. SBDCs would in turn control LDCs and SBICs and be responsible for all recruiting, organising and planning of activities in the establishment of ghetto business ventures.

(1) D. McLaurin, in R. Bailey (1971) and N. Chamberlain (1970).

The Chicago Economic Development Corporation (CEDCO) has incorporated some of the elements of Ghediplan (1). Entrepreneurs are identified through community-based offices and are matched with opportunities found through local research. CEDCO ensures financial, marketing and technical assistance for newly established businesses, by enlisting the services of its own staff or voluntary counsellors from large corporations. By coordinating the resources of public and private organisations, CEDCO facilitates the transfer of capital and expertise to minorities, and guarantees a degree of protection for new ventures. The following successful example of a company developed by CEDCO illustrates how a programme such as Ghediplan might provide a workable solution for the problems encountered above.

CEDCO -

"identified a business opportunity in metal stamping by observing the large backlog of orders and listening to suggestions by corporations. Then (they) found 5 qualified entrepreneurs who were considering this type of business venture. They had only \$15 000, the enterprise needed \$350 000. Fortunately a major corporation furnished the equipment needed, on consignment, with first payment deferred for approximately eighteen months. This major corporation also provided a two-year job order valued at \$500 000. A bank loan of \$150 000 provided the final ingredient to launch the enterprise. Today the firm has sales exceeding \$2 000 000 and a work force which has totalled as many as 68 people." (2).

The construction industry has its own programme to help minority firms. Minority Contractors Assistance Projects (MCAP) establishes credit lines and loan facilities for minority businesses, and between December, 1975, and May, 1976, made 183 loans totaling \$2,6 million, which generated construction work to the value of \$20,2 million. OMBE provides operating funds for MCAP, but its credit programme operates through a \$2 million loan fund from 5 major insurance companies (3).

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- (1) G. Guice: Minority Enterprise Development in a Depressed Region; in ISEED (1975).
 - (2) Ibid. p.393.
 - (3) Black Enterprise. May, 1976, p.9.

Programmes to assist Negro businessmen have not only emanated from the public authorities. A number of organisations have been established within the Negro community, operating their own programmes with or without Federal assistance. Already mentioned is the National Business League (NBL) founded by Washington in 1900. An example of an institution operating within the system, the NBL has adopted a 3 stage programme which identifies opportunities and sets up new businesses with financial, managerial and marketing assistance arranged with the cooperation of the private and public sectors; secondly, which fosters and develops fledgling and struggling enterprises; and thirdly, which coordinates all available aid to minority businesses in order to promote participation in the wider, competitive economy outside the ghettos.

Other organisations such as the National Urban League and the National Association for the Advancement of Coloured People (NAACP) operate conventional skills training and job mobility programmes, with little emphasis on business development per se. But, as Henderson and Ledebur point out, these conservative associations are being eclipsed by more radical groups demanding increased transfers of productive resources to disadvantaged minorities. The conventional employment orientated approach, stressing evolutionary acquisition of skills and expertise and the gradual, trickling-down benefits of economic growth, has been abandoned to a large extent by such organisations as the Congress of Racial Equality (CORE), the Black Muslims and Black Panthers. The change in orientation has also affected the conservative groups. Henderson and Ledebur, in summing up this change, state that -

"Economic integration through jobs and skills training is no longer the focus of Negro actions for economic and social equality. The primary and current orientation is the quest for economic participation and the drive for Black control of resources" (1).

(1) W. Henderson and L. Ledebur. op.cit. p.17.

The role of Negro organisations in the development of Negro business has been an important facet of progress. These organisations stand out as a necessary medium for expression of Negro rights and the articulation of the needs of the general community. The political dimension, as observed by Lee, *inter alia*, is no less important than any other:

"Economic progress cannot be made while there is deprivation of political rights." (1)

Negro organisations such as the NBL, CORE, NAACP and others, have proved to be effective in the dissemination of information on economic deprivation in the Negro community, and in the generation of assistance from both the public and private sectors to combat poverty and effect a redistribution of national resources to overcome underdevelopment in the business sector.

The multiplicity of organisations representing a broad spectrum of politico-economic thinking, from integrationism based on capitalist lines to cooperative separatism, have not, however, achieved the remotest measure of parity with White-controlled business. Efforts to coordinate community programmes with those of the private and public sectors have not been successful, and internal differences of opinion as to the optimum strategy for development, have continued to exist. Despite a lack of consensus and internal criticism (Ofari has called NAACP and NUL "hired frontmen for America's ruling elite" (2)), these organisations have been instrumental in facilitating the acquisition of capital, managerial assistance and guaranteed markets for Negro businessmen. In this respect they provide a valuable lesson for minority business development in South Africa, where the low priority accorded minority-owned business ventures has militated against large-scale community involvement and the adoption of redistributive measures or improved access to scarce resources.

(1) R. Lee (1972), p.20.

(2) E. Ofari, *op.cit.* p.70.

The second notable feature of minority business development in the United States, is the participation of the private sector in all forms of assistance. While the role of large corporations, in terms of the wealth of resources at their disposal, has been disappointing, their impact has been increasing steadily as they provide the indispensable financial and managerial backing for Negro firms, and guarantee new producers a market for their products (1). The latter has proved its value in highly competitive markets. Once established, however, many firms have proved that they can achieve the same degree of efficiency as their White-owned rivals. The provision of capital and managerial assistance is no less important. The quoted examples of the Rochester Corporation and CEDCO adequately illustrate how the private sector may help Black business. White business also offers opportunities within its management and technical hierarchy for the advancement of Negroes, who may be found at board level in many corporations. This has been labelled "tokenism" by sceptics, but hailed by many writers. The NUL is of the following opinion:

"Companies need Black directors who can bring not only expertise in their chosen fields ... but also a humanism and a knowledge and concern about issues that ultimately will determine whether a company can adapt to the new needs, new constituencies, and new challenges of the changing society in which it does business" (2).

Without the support of government, however, the efforts of Negro organisations and the private sector would be minimal. Federal programmes cover not only capital requirements of minority business, but provide skills training and marketing guidance too. Procurement contracts offered to minority businesses, by harnessing the combined purchasing power of federal, state and local government, have assured new entrants to the market a

(1) Black Enterprise. April, 1975. The Westinghouse Corporation had 90 minority suppliers in 1975 and hoped to increase this to 300 in 1980, with a sales volume of \$8 million.

(2) Race Relations and Industry (1972), p.1.

secure and viable base on which to build a competitive enterprise. Federal procurement amounted to \$731,5 million in 1973, a considerable increase from \$12,7 million in 1969. Federal financial assistance amounted to a massive \$1 400 million in 1973, and since 1969, approximately \$3 400 million of federal funds have been committed to minority business activities (1). The director of the OMBE has stated that -

"by providing the potential minority businessmen with the capital, the management expertise, and the entrepreneurial opportunities which would allow them to gain a foothold in the U.S. economic system" (2)

the Federal Government has contributed significantly to the solution of a national problem. Further assistance is aimed -

"not to graft the minority businessmen onto the periphery of (the) economic system, but to bring them directly into the mainstream" (3).

While the options for development are heatedly debated by Negroes, it is clear that no single remedy will solve the economic problems of the community, which is inextricably involved in the wider United States economy. Those factions calling for cooperative development along communalistic lines, where benefits accruing from business undertakings are distributed among members of the community, do not have a solution capable of uplifting the entire Negro population of nearly 24 million. Where these ventures depend solely on expenditure of the immediate ghetto community, the market restricts the growth and diversification necessary for a large increase in productive assets accruing to the poor. On the other hand, by ignoring the disabilities of Negroes and obstacles to development inherent in the capitalist system, the problem remains insoluble.

Probably the answer lies in some mixture of the two systems. Lee opts for this:

(1) I.P.S. (1974), p.5.

(2) Ibid. p.3.

(3) Ibid.

"Capitalist ownership alongside communal-type systems should be the orientation of any plan for developing Black businesses" (1).

Successful examples of both exist, but because private ownership of property and the means of production are the basis of the American economy, the inescapable conclusion is that Black firms will be forced to develop along the well-established capitalist lines of business operation, with the possibility of enclaves of communal ownership where these are deemed to be in the interest of the community. Certainly, there is little private and public sector support and material assistance for the latter and this may hamper communal projects considerably.

Business development is increasingly being seen in the United States as the primary medium for the general upliftment of depressed minorities. The institutional approach concentrating on skills training, employment opportunities and social improvement programmes, while playing a necessary role, is not considered sufficient for economic development any longer. Black control of resources and wider participation in the so-called "mainstream" economy are gaining ground as the only meaningful solutions to Negro development. Control by Blacks of the means of production, either through the Black Capitalism or community ownership concepts, has become universally accepted as the logical objective of any development programme. The LDC analogy has been invoked in this context, for the actions of national governments in promoting indigenous entrepreneurs and in transferring ownership and operation of business from the foreign-dominated enclave sector to indigenous businessmen, have provided a precedent for the development of minorities. While the LDC analogy is widely used in explaining the relationship of the ghetto to the "mainstream" economy, the interdependence of the two and the juxtaposition of the ghetto to the city partially negate the analogy. Thus the building up of a separate Negro economy for the development of Black business, as advocated by separatists such as the Black Muslims and

(1) R. Lee (1972), p.38.

Black Panthers, is based on an erroneous interpretation of the status quo. Successful Negro businesses have achieved competitiveness in the wider economy particularly because they have not restricted their activities to the narrower ghetto market. It is the dispersal of ghetto activities throughout the city that holds the key to economic development, while at the same time investment in the decaying inner city can assist in the improvement of the quality of life for ghetto inhabitants.

THE AFRIKANER

The process of acquisition of an increasing proportion of business activities by the Afrikaner community contains several important lessons for the formulation of a development strategy for minority groups. Though the Afrikaner community cannot be described as a minority today, before the 1940's there was considerable economic evidence of minority status. The economic backwardness of the group in relation to the dominance of other White groups was evident particularly in the business sector.

The share of business activity owned by Afrikaner interests has increased significantly since then. Sadie puts the increase from 0,45% (as a contribution to GDP) in 1939 to 18,6% in 1964, though if agriculture is included, this has risen to about 26% (1). While this proportion appears to be quite arbitrary, its magnitude indicates a sizeable increase since the pre-war era. If, as evidence suggests, Afrikaner entrepreneurs had not reacted to the opportunities abounding in pre-war South Africa, the sudden economic "great leap forward" thereafter must have been attributable to certain changes in the structure of opportunity and the allocation of resources. In addition, there was an important endogenous variable bearing to a large extent on the supply of entrepreneurs. Afrikaner nationalism evoked in the "volk" a determined drive for self-realisation

(1) J. Sadie: Die Ekonomiese Faktor in die Afrikaner-gemeenskap in H.W. van der Merwe (1975), p.93.

and the desire for a greater share of the fruits of economic progress. This could best be attained by increased participation in manufacturing, commerce and finance, and acquisition of a greater share of productive assets. Afrikaner agencies set out to achieve this goal.

While a parallel may be drawn between the Afrikaner, the Negro, the Coloured and the Indian in so far as deprivation of economic power is concerned, there are essential differences between the four groups that prohibit extensive use of the parallel. Unlike the Negro, whose slave status prevented acquisition of land at the time of the frontier extension, and South African Black groups whose areas of free movement were severely circumscribed, the Afrikaner was relatively free to acquire the vastness that lay within and beyond the frontiers of the Cape Colony. The first essential difference, therefore, is that the Afrikaner owned a vital productive asset on a large scale. The ownership of land has conferred important political benefits on the community, which has not been the case for other minorities.

Land ownership has not been sufficient for participation in the wider economy, where the vast capital requirements of mining and industry have militated against extensive Afrikaner control. In the formative years of the large mining and financial corporations, capital was provided largely by overseas investors and local residents of European descent. Afrikaners were poor in both capital and expertise, and it is here that a parallel may be drawn with the Negro community of the United States and the Coloured and Indian groups of South Africa. This situation persisted well into the twentieth century and the problem of Afrikaner rural impoverishment was the subject of a special commission of enquiry in 1932, when it was estimated that more than 300 000 Whites (mostly Afrikaners) were "very poor" (1). Lacking the essential inputs for business participation, Afrikaners were slow to exploit the new opportunities,

(1) Carnegie Commission, (1932), p.vii. Data for 1929/1930.

and were forced to seek employment in the primary and expanding secondary sectors, which led the acquisition of skills, capital and business expertise.

The Pact Government which came to power in 1924 ensured through its "civilised labour" policy that the rapidly urbanising Afrikaner community was protected against competition from poorly organised Black labour. Large employers like the Railways and the Civil Service provided numerous opportunities for emerging technical and managerial skills. Fostered in this environment, Afrikaner entrepreneurs gradually began to emerge, though it was not without the conscious effort of the Central Government and Afrikaner nationalist organisations that a business elite developed. In other words, the Afrikaner entrepreneur was not solely the result of a response to the impersonal competitive spirit of capitalism that pervaded the South African economy at the time. His impoverished state precluded extensive reaction to the new opportunities, for he lacked capital and experience. The Afrikaner initially regarded capitalism as something exploitative and repugnant, with the result that an entrepreneurial class was slow to materialise. Sadie states in support:

"Die ontstaan en gedying van hierdie klas is saamgewerf met die lewenswyse, die sosiale instellings, die godsdienstige, die etiese en kulturele waardes, en aldus met die gehele atmosfeer waarin 'n volk lewe" (1).

But the growing Afrikaner business class gradually began to participate in the fruits of economic progress, and resistance to capitalism had to be eliminated. In order to overcome this resistance, therefore, a carefully implemented programme for the creation of greater awareness of the Afrikaner's role in the economy was necessary. This was found in the activities of central government as well as Afrikaner organisations.

In the vanguard of Afrikaner reawakening were two major organisations, the Reddingsdaadbond and the Ekonomiese Instituut.

(1) J. Sadie. (SAUK), p.13.

These supplemented the initial thrust made by such business enterprises as Die Burger, Santam, Sanlam, Avbob, KWV, Sasbank and Volkskas, which Sadie (1) sees as the first economic movement of Afrikaners to appropriate for themselves a share of South Africa's wealth. The Reddingsdaadbond provided many of the services that are currently being provided to Negroes by the SBA and OMBE, namely the identification of potential entrepreneurs and matching opportunities, the supply of capital and management services and where possible, the assurance of a secure market for the goods and services of the emergent entrepreneurial class. The Ekonomiese Instituut was largely responsible for planning and guiding the economic upliftment of Afrikaners and for the creation of large new ventures, especially financial institutions, in which Afrikaners could exercise effective economic power. The momentum generated by these organisations is summarised by Sadie as follows:

"Om inligting oor die ekonomiese posisie van die Afrikaner en sy ondernemingsbedrywighede te versprei, is vergaderings van klein groepe, persoonlike kontak en omsendskrywes as kommunikasie-media gebruik ... Propaganda is gemaak vir die kanalisering van koopkrag na Afrikaanse ondernemings en gratis publisiteit en leiding is in die verband gegee. Die Afrikaner-Kopersgids is deur 'n private maatskappy gepubliseer. Die name van ondernemings bestuur deur Afrikaners, of diegene wat simpatiek gesind was jeens hul saak is onder die aandag van verbruikers gebring ... Ondersteuners is aangemoedig om in goedgekeurde maatskappye te belê ... as gevolg van die nuwe bemoeiing het vele nuwe sakeondernemings tot stand gekom." (2)

Without pursuing the origins and genesis of Afrikaner businessmen too extensively, it will be instructive to evaluate the interaction of economic opportunity and group collectivity, as espoused by Afrikaner nationalism, in order to determine whether this might influence a proposed strategy for development of minority businessmen. Stokes (3) has attempted to isolate the role of nationalism in the generation of an entrepreneurial

(1) J. Sadie in H. van der Merwe (1975), p.88.

(2) Ibid., p.89.

(3) R. Stokes (1974).

elite in the Afrikaner community. He claims that in a developing society, cultural values may outweigh the traditional economic stimuli responsible for entrepreneurial action. Thus -

"the modernization of Afrikaner society ... and the emergence of Afrikaner industrial entrepreneurship can be best understood by reference to the value changes brought about by Afrikaner nationalism." (1).

Despite the existence of several Afrikaner business organisations in the early decades of this century, which managed effectively to exploit opportunities in the growing economy, the real genesis of Afrikaner entrepreneurial activity only established itself from the 1940's onwards, after the Volkskongres of 1939 and the establishment of the Reddingsdaadbond, the Ekonomiese Instituut and other instruments of nationalism. Of course, this period also saw a rapid increase in industrialisation and new opportunities. Stokes argues that -

"one major key to the rise of Afrikaner industrial entrepreneurship lies in the value transformations brought about by the Afrikaner nationalist movement. By redefining modernizing economic activity as a service to the collectivity, the nationalist movement provided a new and powerful motivational nexus for the seeking out of entrepreneurial roles." (2).

He admits, however, that the interrelationship of economic and non-economic, emotional variables is difficult to conceptualise, and that the role of purely economic factors has played a major part in the generation of opportunities for Afrikaners. Because Afrikaner entrepreneurs could reap substantial economic benefits from participating in the collectivity, the isolation of the nationalism factor as the major motivational force is not possible. Stokes' evidence is inconclusive, for although the "altruistic" reason for occupational choice was cited by 35,5% of respondents to his survey, 55,7% cited the "achievement" motive and 58,1% the "intrinsic" motive (i.e. career motive) (3).

(1) R. Stokes (1974), p.560.

(2) Ibid., p.578.

(3) Ibid., p.576.

The substantial economic benefits provided by Afrikaner organisations and the central government have facilitated expansion of an Afrikaner business class. Stokes notes that several respondents reported enjoying government contracts (1). Sadie corroborates this evidence:

„As beheerder van natuurlike hulpbronne was die Nasionale regering in 'n posisie om 'n wanbalans in die benutting van sulke bronne reg te stel deur die toewysing van kwotas en die toekenning van konsessies aan Afrikaners. Ook het 'n lid van die party aan bewind soms vooraf tot inligting aangaande nuwe ontwikkelings en ondernemings in die beplanningsfase wat hy tot eie voordeel kan aanwend. Sommiges het ... deel gehad in die daarstelling van maatskappye in die hoop dat hul invloed by die regering voorregte vir die ondernemings kon verseker." (2).

While Afrikaner entrepreneurs enjoyed privileged treatment at the hands of government, the diversity of government institutions and agencies also provided valuable opportunities to develop the managerial and technical skills acquired by other sections of the White population. Sadie observes, though, that in the retail and wholesale sectors, Afrikaners have not been as successful as in the financial, industrial and public sectors. This, he says, is due to the failure of the "buy Afrikaner" campaign. Afrikaner consumers have been rationally influenced by price, quality and convenience and have largely ignored emotional appeals to patronise Afrikaner retail organisations.

The outstanding lesson from this brief analysis of Afrikaner business development, is that political power has been an important instrument in the acquisition of productive assets and the securing of opportunities for emerging entrepreneurs. The importance of the contribution of nationalism qua nationalism is less certain. While adherence to the Afrikaner collectivity and its cultural values has conferred considerable economic

(1) R. Stokes (1974), p.577.

(2) J. Sadie in H.W. van der Merwe (1975), p.98.

benefits on businessmen who have sought to take advantage thereof, the degree of protection accorded Afrikaner businessmen has been a sufficient incentive itself in fostering new business activities. Political power has successfully effected a redistribution of resources in favour of the Afrikaner businessman and at the same time has guaranteed a greater share of profitable opportunities for him, through contracts and other preferential treatment. The result is that a large proportion of Afrikaner businessmen has effectively competed for opportunities in the wider economy. Though Afrikaner businessmen are still under-represented, in a comparative sense, they have, in fact, entered the "mainstream" of economic activity.

THE INDIAN

Despite certain obstacles to development, the Indian businessman has succeeded in attaining a relatively high level of participation in a number of commercial and industrial fields. Though the Indian community is considerably smaller than any other group in the country, only accounting for 2,9% of the population, it controls a disproportionately large share of retail business activity. In 1961 Indians accounted for 23% of working proprietors in retail activities (see Table 2.2). In 1970 there were 17 129 Indian employers in South Africa accounting for 3,2% of the total (see Table 2.20). This discrepancy emphasizes the concentration of Indian businessmen in the retail sector, which has tended to work to their disadvantage in recent years with the implementation of group areas legislation, for Indian retailers have traditionally served all sections of the community. In spite of regular assurances by government officials that no retailer would be denied his existence (1), if legislation is to be strictly and thoroughly implemented, there will not be sufficient opportunities for Indian retailers in Indian group areas.

(1) See for instance Fiat Lux (1969), p.180.

The history of Indian traders may be traced back to the arrival of the first Indian indentured labourers in South Africa in 1860, for with this community came traders to serve its immediate needs. Indians established themselves in East Africa centuries before this, however, so could draw on a history of entrepreneurial experience and a knowledge of African conditions. These petty traders spread their activities throughout Natal and soon penetrated the other provinces. They were generally astute businessmen with assured lines of credit. Müller notes that London shipping agents were usually prepared to grant extensive credit facilities to Indian traders (1). In addition, their Moslem background with its sense of justice and fairness, lent them a reputation of respectability. Small trading activities grew larger and manufacturing entrepreneurs followed. Barriers were overcome and today the Indian businessman is represented not only in retail and wholesale undertakings but also to an increasing extent in manufacturing activities. In Natal alone there were over 700 industrial concerns belonging to Indians in 1975, and in Transvaal, approximately 100 such undertakings (2). That Indians have been able to diversify to such an extent in the face of many of the same obstacles confronting Coloured businessmen, is instructive for this analysis in so far as the interaction of the business environment and internal deficiencies of the firm are concerned.

Though there has been a shortage of sophisticated entrepreneurs in the Indian community, this has not been as critical as in the Coloured community. There have generally been sufficient small businessmen who have responded gradually to new ideas and new opportunities. This is not entirely divorced from the relative poverty and deprivation in which the Indian community has found itself. Inadequate educational facilities and the propensity to leave school early - assisting in the family shop was more remunerative, particularly in the light of inferior and uncertain employment opportunities in the wider economy - have restricted the benefits of education in the process of

(1) A. Müller (1968), p.10.

(2) Fiat Lux (1975), p.7.

development of a business class. This is, however, now changing. The Indian community provides over 5% of white-collar workers, and nearly 38% of the Indian labour force are in white-collar employment. In contrast, this proportion is considerably greater than that for the Coloured community, as only 12,1% of the Coloured labour force were in white-collar employment in 1970 (1).

While the impact of small businessmen has been diminishing in an economy which has increasingly spawned large-scale enterprises, the transition from small trader to industrialist has been a hard one for Indian businessmen. Reddy has warned that Indian businessmen must not rely on their traditional trading activities in the future. Competition from chain stores and the threat of displacement by group areas enactments necessitate diversification into manufacturing. He states that -

"the present position, if allowed to continue, will most certainly lead to a stage where economic forces will reduce the Indian business community to a handful of traders in group areas and in other business areas where Indians will be allowed to trade" (2).

The incentive to diversify is therefore quite strong, though the supply of entrepreneurs and capital may prove to be inhibitive for a large-scale attempt at industrialisation. Reddy recognises these shortcomings but calls for a change -

"from family enterprises to companies which will ensure larger capital participation by the public and will be directed by men selected on merit for their ability" (3).

The role of the family in the Indian business venture has been important in many respects, the most notable of which are employment and financial assistance. In a community where average income is low (annual per capita income in 1970 was

(1) South Africa. Population Census, 1970, Report O2-05-04.

(2) Fiat Lux (1969), p.180.

(3) Ibid., p.181.

R252) (1), individual savings cannot be expected to contribute much to the financial needs of business, particularly where large initial injections of capital are required. Thus the availability of family funds provides a useful source of finance to be tapped by the Indian businessman.

The implementation of group areas legislation has usually resulted in substantial losses for Indian businesses, though Khar-sany notes that in a few cases relocation has resulted in gains. It has already been noted that Indians are disproportionately represented in business, and the resettlement of displaced businesses has, as a result, not always been possible in areas where retailing has already reached a point of saturation. Permission to trade temporarily in existing (illegal) premises, has, on most occasions, been granted though the continual threat of displacement is a variable affecting the everyday decision-making process of Indian retailers. This is particularly relevant to certain regions of South Africa, where Indian small traders cannot possibly be accommodated in Indian group areas. An example of this problem can be found in Cape Town, where Indian retailers account for a large proportion of total retail activity, while only comprising 1% of the population (2). It is inconceivable that these traders will be able to operate profitably in the Indian group areas of Cape Town, which are already saturated with marginal general dealer and cafe outlets.

Group areas have not provided the only barriers to Indian business activity. Various legislative enactments since the late nineteenth century have curtailed the mobility of Indians and restricted their business operations. The most extreme of these have been in the O.F.S. and Transvaal. In the former, Indians were prohibited from living there by an 1891 State Law. They were deported without compensation. In the latter, Indians were restricted from the earliest times to specified areas, while in Natal, the home of the Indian community, business

(1) South Africa. Population Census, 1970. Personal Income. Report 02-01-08.

(2) See Table 2.2.

licences at one time were withheld from Indians and only granted to some privileged traders (1).

Legislative barriers to business acquisition and expansion have not deterred Indian businessmen from contributing significantly to the economic growth of the country. Not only have they provided retail and wholesale services, but the more recent diversification into manufacturing has enabled the Indian community to expand its economic horizons considerably. An important spillover effect of this increase in wealth and productive assets has been the opening up of employment opportunities for potential entrepreneurs and managers, as well as technical workers. Though capital shortages have not hindered the growth of Indian business in the past, the large investments needed in modern large-scale industry may prove to be an inhibiting factor, unless family-based small activities can successfully make the transition to public ownership. The Industrial Development Corporation has made loans of about R1 million to Indian industrialists (2), though this has not been sufficient to meet the needs of these businessmen. The recent establishment of a bank specifically for Indians may, however, increase the supply of loanable funds to the community, particularly as the mobilising of internal financial resources may not produce sufficiently large amounts for the "lumpy" investments required in modern industry.

Finally, Indian businessmen have responded more readily than other minorities in South Africa to the opportunities offered by growth. Historically, they have a tradition of small business endeavour and have adapted to the requirements of modern industry in increasing numbers. Entrepreneurs have gradually emerged from small, inefficient trading concerns, and, fortified by familial commitment to the provision of finance and other assistance, have considerably increased the share of productive means accruing to the Indian community.

(1) For a comprehensive analysis of restrictive legislation, see E. Kharsany (1971).

(2) Fiat Lux (1975), p.8.

SUMMARY: FRAMEWORK FOR NEW DIRECTIONS

The foregoing summary has produced several important lessons for the development of minority businessmen, and throws some light on the economic relationship between minority and dominant groups. It is the contention here that economic development of minorities cannot be left to the vagaries of market forces, but that corrective measures will have to be implemented in order to redistribute resources and opportunities, and to eliminate obstacles and constraints to the efficient working of the market mechanism. This twin objective, namely redistribution and correction of market imbalances, is well illustrated by the development policies formulated for the Negroes in the United States and so successfully implemented in the case of the Afrikaner of South Africa. Whether these strategies will have to be adapted or considerably altered to the particular needs of the Coloured community, will be analysed after a consideration of the Coloured businessman and his environment in Parts II and III.

Interference with the market mechanism may in certain cases effect a more optimal distribution of scarce resources and a more equitable division of the benefits accruing from exploitation of these resources. This will particularly be justified where there are constraints to the most efficient working of the market mechanism and where the removal of or compensation for such constraints will increase the national income.

Johnson favours the "market forces" approach to development:

"from the point of view of development policy, it seems to me that much of development planning could usefully be devoted to the improvement and strengthening of the market system" (1)

though he concedes that where malfunctioning or undesirable results of the market mechanism occur, remedial measures may be warranted.

(1) H. Johnson, in G. Meier (1964), p.686.

Malfunctioning has been partly attributable to information and knowledge bottlenecks. While the competitive economic model assumes that there is an optimum distribution of information as regards opportunities, reality dictates that all entrepreneurs are not equally well informed. This has been true of both the Afrikaner and the Negro, and is well illustrated by Marris in the case of the African businessman, whose progress is considerably impeded by social barriers:

"a businessman (in Britain) speaks the same language as his bank manager, his suppliers, and though he may not know them personally, they share a common culture, and a common knowledge of their society. Dress, manner, background, personal history are mutually intelligible, and they are backed by routines of checking and referring. There are clubs and informal social networks which facilitate and reinforce business relationships. An African businessman shares few of these advantages. His bank manager is probably European, and his suppliers Asian. They move in different social worlds, and even if they are willing to trust each other, lack the familiar cues to judge each other's worth." (1)

Cultural and social differences between the Afrikaner and other White South Africans have been held to be partly responsible for the tardy emergence of the Afrikaner industrial entrepreneur (2), and Sadie asserts that the English South African saw the Afrikaner not as a less-privileged group but as a separate nation, which could only participate in the benefits accruing to the dominant group if it accepted the English culture and adopted its communication medium (3). The establishment of Afrikaner institutions to overcome this exclusion was an effective way of bridging the information and distribution gaps. The *Ekonomiese Instituut* and *Reddingsdaadbond* were the instruments initially capable of identifying and evaluating entrepreneurial opportunities, and the overcoming of social barriers to business advancement was perpetuated thereafter by the many Afrikaner-controlled enterprises. Nationalism created the

(1) P. Marris (1968), p.33.

(2) See for instance R. Stokes (1974).

(3) J. Sadie in H.W. van der Merwe (1975), p.96.

group cohesiveness necessary to provide an alternative medium for the transmission of information and knowledge. This was considerably assisted by government, which reinforced the informational flow to Afrikaner businessmen, particularly for procurement contracts with state, provincial and local authorities. Political power and group solidarity have therefore been largely responsible for correcting and improving information signals in the market, where collusive elements have distorted the mechanism.

Despite the importance of these conditions for the development of the Afrikaner businessman, they are clearly not sufficient for development. The rapid pace of industrialisation and accompanying urbanisation in South Africa after 1940, were possibly of major significance, providing new opportunities in manufacturing and commerce for emergent entrepreneurs. Thus the Afrikaner businessman was able to exploit these new opportunities in a rapidly expanding market.

Unlike the Afrikaner, however, Negroes have not responded to nationalistic exhortations and have adopted many of the cultural traits of the dominant White group. It can be said -

"that the Black community as a whole has a value orientation that is decidedly middle class with a strong adherence to the dominant ideology of mainstream America regarding capitalism, private property and a conservative reverence for its institutions."(1)

Black consciousness movements have achieved a degree of success from time to time, but "buy Black" campaigns have not been effective in redirecting consumer purchasing power from White to Black outlets. Negro organisations, such as NBL, CORE, NAACP and Black Muslims have not been as effective as Afrikaner organisations in generating group solidarity, with the result that informational flows to Negro businessmen have normally taken traditional channels. Both Afrikaner and Negro organisations have provided considerable countervailing power against

(1) T. Spratlin (1970), p.72.

the established institutions of their respective dominant groups, and in this way have at least voiced their grievances, though other benefits have followed as well.

The essential difference between the two is that the Afrikaner has acquired considerable political power and control, while the Negro has only a small measure of political power and this mainly in unimportant southern rural areas. It has been political power above all else that provided the Afrikaner with the ability to establish for his own business community a set of highly favourable conditions, conducive to the rapid emergence of an entrepreneurial class. Figures quoted by Sadie in this text are evidence of the fruits of politically inspired redistributive policies. With the government firmly in the hands of the Afrikaner, the civil service was able to provide administration and managerial experience on a larger scale for an emerging middle class. Semi-government organisations such as ISCOR, established in 1928, ESCOM, established in 1922, as well as the South African Railways, were a useful entrepreneurial nursery, while in the private sector Afrikaners advanced rapidly in Afrikaner-controlled and other organisations, supported and encouraged by government.

Though the Negro as a numerical minority does not enjoy effective political power, the multiplicity of government programmes headed by the SBA and OMBE, as well as the financial assistance granted by federal authorities, are evidence of concern and the realisation that minorities have not participated to their full potential in the mainstream economy of the United States. The intention is broadly to increase the flow of national resources to Blacks by facilitating access to capital, providing scarce managerial and technical assistance and ensuring that fledgling Black businesses have a market for their products and services. Although most Black businesses confine their activities to ghetto areas, there are no legislative barriers preventing Blacks from trading elsewhere. It was pointed out earlier in the text that Blacks will have to broaden their market if they are to succeed, and will have to operate across or outside ghetto boundaries to reach the affluence and diversity of the

American consumer. In addition, Blacks are to be encouraged to accept employment in White corporations where their skills in management and technical fields will benefit from better opportunities and a greater degree of sophistication and specialization. In short, the transfer to Blacks of expertise and know-how accumulated by the developed White sector, can be most effectively carried out in the daily routine of large corporations

The disabilities incurred by a group may be due, *inter alia*, to poverty or externally imposed factors. Valentine states that -

"there can be no doubt that living in poverty has its own destructive effect on human capacities and that these impairments become part of the whole process perpetuating deprivation. The vital questions are, how important are the internal disabilities of the lower class, and how are they related to significant external factors" (1).

In all three groups studied in this section, poverty has played a crucial role in restricting economic participation, though it has been considerably reinforced by external pressure. The "poor White" problem of the 1920's and 1930's was mainly an Afrikaner problem. Poverty denied access to the capital needed for business involvement, while the Afrikaner was traditionally an agriculturalist unfamiliar with the workings of the modern urban economy. In addition, the wealth created by the mineral discoveries in the late nineteenth century was mostly in the hands of alien companies, and thus little was available to Afrikaner entrepreneurs. The self-perpetuating nature of poverty (2) requires an exogenous force to break its restrictive bonds, and this is what Afrikaner nationalism and government intervention did in the late 1930's and 1940's. The instruments of nationalism, such as the Reddingsdaadbond, provided the necessary capital and expertise inputs, to a large extent, while government helped to create unparalleled opportunities for the

(1) C. Valentine (1968), p.145.

(2) See for example D. Jackson (1972), especially Chapter 4.

Afrikaner community.

The conclusion that political power has been the indispensable factor in the articulation of group cohesiveness, is well supported by the emergence of Afrikaner businessmen. Though the Indian community has benefitted from group solidarity, in that the capital requirements for business participation have been facilitated by close family and community bonds, the real gains from development have not materialised and this may be partly attributable to the lack of political leverage. One of the most important missing factors has been the protection and encouragement of emergent entrepreneurs, and the guaranteeing of certain markets either overtly or covertly, by government. Thus while the Afrikaner has had negligible entrepreneurial and capital inputs available within the community, the extensive involvement of the public sector, particularly in the guaranteeing of markets and protection of employment opportunities, has overcome these disabilities in the course of time, and reinforced by the Afrikaner collectivity, has considerably increased the participation of Afrikaners in the business sphere. The Indian businessman, on the other hand, though possessing the indispensable entrepreneurial and capital inputs, has not had the benefit of public sector assistance. In contrast, restrictive legislation has been largely destructive of development.

The Negro community, conversely, has weak cohesive bonds and though it enjoys the vote, political power has been largely ineffectual in appropriating a larger share of business activity for Negro businessmen. This is held to have been partly responsible for the relative lack of participation in business, as already discussed above. Three important supplementary factors have tended to counter this disadvantage. These are the strength of Negro business organisations, the involvement of the public sector and the conscious participation of the private sector in development programmes. While business organisations have not always reinforced the Negro collectivity, they have focused attention on problems and sought to effect

solutions, both with the resources of the Central Government and the private sector. In addition, they have provided a useful medium through which the grievances of Negro businessmen could be articulated.

The resources of the public sector have been crucial to the development of a Negro business class and the multiplicity of programmes sponsored by federal, state and local government has benefitted the community considerably. These programmes have concentrated on three vital areas, namely the promotion and transfer of entrepreneurial and technical skills and expertise, from the developed White sector to the developing Negro community; the provision of capital for the establishment and acquisition of productive assets, particularly by facilitating access to financial resources; and finally, the guaranteeing of markets for infant industries, mainly through contracts of federal, state and local authorities. This third element has been seen as essential to the entry and continued presence of Negro businessmen in the mainstream economy.

The third supplementary factor, private sector involvement, plays an increasingly important role in the transfer of business expertise, the provision of capital and the granting of procurement contracts for minority businesses. Though Negro leaders complain that the private sector has not fulfilled its social commitments to minorities in view of the massive resources at its disposal, large corporations have become increasingly aware that they can make a vital contribution to the solution of the problem, particularly where discrimination and collusive practices in some industries preclude the participation of minority businesses. Finally, though subjected to legislative discrimination in the past, Negroes now enjoy freedom of movement and may establish businesses anywhere. The effect of social discrimination, however, is still pervasive, though difficult to quantify.

In the light of the foregoing analysis, a framework for new directions may be identified. Positive or successful factors

in the three groups analysed above may be isolated into three broad economic categories, namely redistribution, competition and protection.

Redistributive measures have accounted for a large degree of the success of business development, particularly of the Afrikaner community. Dynamic redistribution as described by Chenery -

"focuses attention not on the distribution of existing assets but on the pattern of accumulation in the economy which determines the growth of different assets over time" (1).

It is this "dynamic redistribution" that underlies the current efforts of the public and private sectors in the United States in the development of Negro business, and that was so successful in increasing the business participation of the Afrikaner in the 1940's and later. While political power has been the mobilising force for redistribution in the case of the Afrikaner, the Negro has relied on public and private sector awareness of their respective responsibilities towards minority groups, as well as the articulation of grievances by community organisations. The latter has been clearly less successful in increasing his share of productive assets. The transfer of entrepreneurial expertise, technical skill and capital has not been sufficient, however, and the redistribution of opportunities has been equally important in the "big push" programmes of the authorities.

Measures to increase competition will generally lead to improvements in efficiency and welfare, except as outlined below. The removal of barriers to the mobility of factors of production can be expected to increase the share of the national income accruing to previously restrained factors, as well as to facilitate the transfer of skills, expertise, capital and opportunities to disadvantaged groups. The Indian businessman has been constrained by restrictions imposed by group areas and has not been able to take advantage of the agglomeration economies

(1) H. Chenery et al. (1974), p.80.

offered in central city shopping areas. Legislative restrictions on employment, especially in higher managerial capacities, have further inhibited the important transfer of skills and know-how from the White group to Indian businessmen. Conversely, the "integrated dispersal" programme propagated in America emphasizes opportunities outside the ghettos and the high risk, low yield character of trading operations in the ghetto. In addition, the role of large corporations in transferring expertise to minority businessmen can only be maximised in an open society. The promotion of competition by removing constraints is an effective method of mobilising dormant resources and an efficient tool in the transfer of resources from rich to poor groups.

The three elements of a framework for new directions can operate most effectively in an integrated economic environment, though a policy incorporating selective protectionism, based not on geographical segregation but on economic merit, does imply the acceptance of a form of positive discrimination. While the disabilities of minority enterprises should be eliminated, the simultaneous promotion of these businesses should be based on economic efficiency criteria, though not necessarily only in the short-run. The potential for competitive operation in the longer-run should be taken into consideration too.

QUANTITATIVE ANALYSIS

Statistical evidence of the penetration of Coloured business in the industrial and distributive sectors is to be found in a number of dated industrial and distributive trade censuses, and inconsistent data in regular population censuses since 1936. Prior to these, censuses took little or no cognisance of racial disparities in business representation, usually combining all minority enterprises under the term "non-White" (or non-European). Since these first attempts at business classification by race, though data on trade have attained a useful complexity, there have been no subsequent industrial analyses on racial lines. Thus the benefits of comparisons over a substantial period of time are minimised, adding somewhat to the problem of evaluating growth, diversification and penetration of Coloured business in recent years. The dearth of an historical record of Coloured business participation is further underlined by the almost complete absence of any mention of the subject in the 1937 Coloured Commission, which made the following remarks:

"only in rare instances have Cape Coloured, up to the present, achieved any marked degree of success in commercial activities. Few are shopkeepers, and their businesses are, with few exceptions, small and struggling." (1)

Evidence from the 1936 census is ample witness to this statement (see below).

Though the only recent official surveys of business activity by race have been undertaken in the various population censuses, a number of detailed surveys of selected Coloured areas are

(1) South Africa. U.G. 54 (1937), p.80.

available (1). The major concentrations of Coloured population, namely Cape Town, Port Elizabeth and Johannesburg, have been surveyed, providing invaluable evidence of Coloured business activity in the major metropolitan areas. In addition, a survey of the Southern Cape is enlightening with respect to undertakings in smaller towns. Surveys of Coloured participation in both the retail and manufacturing sectors of Cape Town complete the statistical picture, giving a comprehensive insight into the operational aspects of small ghetto businesses.

The lack of comprehensive data on Coloured business activity is consistent with the disinterested approach to minority enterprise problems in South Africa. Though, as has already been mentioned, there have been attempts to correct this imbalance, many publications are not for general consumption. Indian and African businesses suffer equal neglect, except for a few irregular surveys by individuals and research institutions, thus precluding any meaningful comparative analysis. The rationale for accumulating statistics on racial or group lines appears to be sound, based as it is on the proposition that minority, or target groups deserve preferred attention, due to artificial disabilities incurred by them in the process of economic growth and development. Unless the progress of these target groups is consistently monitored, it will not be possible to assess the impact of corrective or redistributive measures imposed by central, regional and local authorities. The literature on the Negro in the U.S.A. is replete with analyses of Black business penetration and advancement, which would have been impossible without some form of differentiation - this precedent provides guidance for future research in South Africa.

(1) These surveys are unpublished and confidential. They are listed in the bibliography.

1. NUMBER AND TYPE OF BUSINESSES

THE DISTRIBUTIVE TRADE

The retail distributive trade, because of low entry costs (1), skills that are easily acquired and partial protection offered by group areas, provides a ready vehicle for business participation by Coloured businessmen who are generally hampered by capital and expertise deficiencies, and who are faced with established competition in White areas. According to the most comprehensive and recent census in 1961, there were a total of 1 053 Coloured working proprietors in the retail sector, of which 444 (42,2%) were in the Cape Town region (2). These outlets were distributed as in Table 2.1.

TABLE 2.1: Coloured Working Proprietors, 1961.
Distributive Trade

Type of Activity	South Africa	Cape Town
A. Retail	1053	444
Food outlets	775	387
Clothing and Footwear	32	18
Furniture & Household Goods	8	4
General Dealers & Trading Stores	202	17
Chemists	1	1
Jewellers	1	1
Florists	9	9
Other	25	7
B. Wholesale & Agents	16	12
Total	1069	456

Source: South Africa. Census of Wholesale and Retail Distributive Trade. 1960 - 61.

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- (1) In 1971 grocery stores had total assets of R13 554, while retail outlets generally had assets of R37 526 per store. (S.A. Statistics, 1976).
- (2) Ol region - magisterial districts Cape Town, Bellville, Simonstown, Wynberg.

The most striking feature of Coloured retail activity is the lack of specialisation and high incidence of food outlets, which accounted for over 90% of all retail activity in 1961. Together with clothing, these two basic activities comprised 95% of all retail activities in Cape Town, an indication of the lack of sophistication and elementary level of business participation at that time. As a proportion of total retail activity in South Africa, Coloured penetration has also been modest.

TABLE 2.2: Working Proprietors, 1961.
Retail Trade

Area	White	Coloured	Asian	African	Total
South Africa	25219	1055	8908	3323	38505
Cape Province	10798	892	2445	633	14768
Cape Town	2152	445	1180	29	3806

Source: As Table 2.1

Coloured retail activities only accounted for 2,7% of all retail trade in South Africa in 1961, while the Coloured community constituted 9,4% of the total population of the country. Asian traders, on the other hand, fared significantly better, with 23,1% of all retail trade, while they only constituted 3,0% of the total population of South Africa at that time. The position in Cape Town was considerably worse for Coloured traders, who only managed 11,7% of total retail activity, while their population share in 1960 was 51,8% of Cape Town's total population. Again, in contrast, Asian traders recorded 31% of all retail activity with a mere 1,1% share of total population. This malrepresentation has important implications for business development in the South African politico-economic context, where ethnocentricity is encouraged even in the business sphere - the concept of parallel development (or the 'dubbeledorpstel-sel') and its implications for business development have been discussed in Part I. The dominance of Indian retailers in the

Coloured areas of Cape Town poses an insoluble problem for those government departments entrusted with resettlement of dislocated businesses under the Group Areas Act.

National statistics do not provide a detailed account of progress by Coloured businessmen. The following table, however, shows declining growth in the retail and wholesale sectors between 1936 and 1970.

TABLE 2.3: Coloured Working Proprietors: Wholesale and Retail Trade

Year	No.	Average Increase P.A. (%)
1936	451	
1946	814	8,0
1960	1168	3,1
1970	1434	2,3

Sources: South Africa.

- Population Census, 1936. Vol. VII. Occupations and Industries.
- Population Census, 1946. Vol. V. Occupations and Industries.
- Population Census, 1960. Vol. 8 (1). Occupations.
- Population Census, 1970. Report O2-05-04. Occupations.

It is unlikely that the above trend can be explained in terms of rationalisation of business activities or the declining share of small business in the process of economic growth. The reasons are more complex and lie in the business environment and economic stimuli confronting the minority businessman.

Unofficial surveys provide more detailed data, but suffer from the important disadvantage that they only record the nature and extent of business activity in Coloured areas, without recording the race of the owner. Though the Group Areas Act prohibits, in theory, the ownership and occupation of immovable property or premises by "disqualified" persons in a specified area, the enforcement of this law has not been practicably possible where

alternative opportunities are absent. This is currently more the rule than the exception in Cape Town, Port Elizabeth and, to a lesser extent, Johannesburg, where large numbers of Indian and Chinese businesses operate in the Coloured areas. In addition, certain "disqualified" businesses are permitted to trade under official sanction, either where no buyers are forthcoming or where comparable services cannot be rendered by Coloured companies. Also, many "disqualified" traders operate with Coloured "fronts" or "nominees". The result of these anomalies, is that data recorded below are only representative of business activity in Coloured Group Areas, and not of businesses owned wholly by Coloured traders.

The towns and cities in Table 2.4 account for 47% of the total Coloured population of the country, but possess 58% of all businesses in Coloured areas. Cape Town, Port Elizabeth and Johannesburg alone account for 40% of the Coloured population and 54% of all businesses in Coloured areas (1). It is estimated that in 1975 there were approximately 4 300 retail and service businesses in South Africa's Coloured areas, of which 2 400 were retail activities (2). This amounted to approximately 3,8% of total national retail activity in 1975 (3).

The question of ownership of business in Coloured areas is an important one, as will be clarified later, and quantification of "disqualified" businesses at this stage will be instructive. A superficial interpretation of Tables 2.1 and 2.4 leads to the conclusion that progress by Coloured retail and service outlets has been outstanding in the 15 years since 1960. In Cape Town, retailers increased their number by 750 over this period, or on an average of 50 outlets per annum. It appears that Müller's assertion is valid:

"The establishment of Coloured group areas has now created unprecedented opportunities for Coloured

(1) Coloured Development Corporation. Survey No. 6 (1975); Survey No. 7 (1975); Survey No. 8 (1976).

(2) Ibid.

(3) S.A. Statistics (1976).

TABLE 2.4: Distribution of Retail and Service Outlets in Selected Areas,* 1975.

Type of Activity	Cape Town	Port Elizabeth	Uitenhage	Johannesburg	Boksburg	Pretoria	Durban	George	Mossel Bay	Oudtshoorn
A. Retail										
Butcher	154	26	1	41	3	4	6	2	1	2
Supermarket	22	5	-	-	1	-	2	-	1	-
Other food	710	143	3	182	17	15	43	8	5	18
Clothing	148	30	1	44	3	3	4	-	1	5
Shoes	38	8	-	13	2	-	-	-	-	-
Furniture	60	6	-	21	-	3	2	-	-	-
Chemist	22	2	-	6	-	-	1	-	-	1
Other	40	1	-	17	-	2	1	-	-	-
TOTAL	1194	221	5	324	26	27	59	10	8	26
B. Services										
Hairdresser	103	9	-	7	2	1	3	-	2	-
Dry Cleaner	75	13	-	26	2	1	3	-	-	1
Shoe Repair	26	-	-	-	-	-	2	-	2	-
Service Stn.	49	5	-	6	-	2	3	-	-	1
Tailor	37	5	-	3	-	-	-	-	-	-
Liquor Outlet	34	5	1	5	-	1	3	1	1	1
Hotel	6	1	1	1	-	-	1	-	1	1
Cinema	17	5	-	4	-	-	-	-	-	1
Bank	25	1	-	-	-	1	-	-	-	1
Undertaker	6	3	-	4	-	-	-	-	1	-
Other	69	4	-	4	-	3	4	-	-	-
TOTAL	447	51	2	60	4	9	19	1	7	6
TOTAL A & B	1641	272	7	384	30	36	78	11	15	32

* Proclaimed Coloured Group Areas in terms of Act 36 of 1966.

Source: Coloured Development Corporation Survey Nos. 6 (1975); 7 (1975); 8 (1976); 9 (1976).

entrepreneurs, as members of other groups are not permitted to own or occupy property in Coloured areas." (1)

The Group Areas Act has not, however, been totally enforceable, with the result that all undertakings in Coloured areas cannot be presumed to be controlled by Coloured interests. Although no precise quantification of "disqualified" ownership or operation of business in Coloured group areas has been undertaken (2), it is evident from data presented in this analysis that a large proportion of businesses is not controlled by Coloured businessmen. On the assumption that the growth rate of business participation has not increased markedly since 1970, it is estimated that 30% of retail business activity in Coloured areas is actually in the hands of Indian businessmen (3). Though the relative position of Coloured retailers cannot be accurately gauged, it is unlikely that they have increased their penetration in business at all, in view of the declining growth rate of proprietors (Table 2.3).

If Coloured businessmen have not achieved a greater share in overall retail activity, a greater degree of diversification is evident from Table 2.4. A considerably lower proportion of retail activity (74%) in Cape Town is now devoted to the supply of foodstuffs, than the previous census in 1961 indicated. Of equal importance is the appearance of larger units of distribution - supermarkets, though somewhat smaller than those of national chain organisations, have important implications for entrepreneurial emergence and consumer satisfaction.

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- (1) A.L. Müller (1968), p.27.
 - (2) The Department of Community Development, responsible for resettlement of disqualified businesses, has an extensive list of Indian and other businesses awaiting alternative locations.
 - (3) The unpublished survey of the retail sector in the Coloured group areas of greater Cape Town states that the "majority" of respondents to the survey "seemed to be Indian". (op.cit.).

Typical business activity in small towns normally consists of grocery stores, cafes and butchers, while larger towns have a sprinkling of hairdressers, dry cleaners and outfitters. This pattern repeats itself in most of the approximately 230 smaller towns where Coloured group areas have been proclaimed.

Thus Coloured business activity confines itself to the provision of a few basic commodities in food and clothing, except in the larger metropolitan areas where to an increasing degree, elements of specialisation and diversification have begun to manifest themselves.

Though numerically less important than retail undertakings, services do provide an increasing number of opportunities for Coloured businessmen. Except for financial institutions, which are without exception, merely branches of national institutions, a wide variety of service outlets has emerged in the Coloured areas. Table 2.4 (B) gives some indication of progress in selected areas, which is really limited to those centres of high population concentration. Small rural towns have virtually no service activities, as these are usually provided by White businessmen. Small populations do not warrant duplication of these activities in Coloured areas.

THE MANUFACTURING SECTOR

Like the foregoing analysis of the retail sector, manufacturing statistics depend on the now outdated census of the early 1960's and more recent unpublished regional surveys.

Assuming that these figures are comparable (1), there appears to have been considerable growth in Coloured-owned manufacturing industry over this period. Absolute numbers increased by 44% while all except 4 industry divisions showed numerical progress.

(1) For purposes of comparison, these figures are taken to be identical.

TABLE 2.5: Coloured Manufacturing Industry 1960-1961, 1962-1963.

Type	1960-61*	1962-63**
Bakeries	3	3
Beverages	5	1
Clothing, Footwear	92	145
Wood products	9	12
Furniture	15	25
Printing	4	8
Non-metallic mineral products	20	23
Metal products	3	5
Machinery	7	2
Transport Equipment	10	18
Miscellaneous	2	2
TOTAL	170***	244

* Private limited companies, partnership and individual proprietorships.

** Working proprietors.

*** Population Census, 1946, Vol. 5, recorded 21 Coloured manufacturing proprietors.

Sources: South Africa. Industrial Censuses 1950-51 to 1960-61. Reports I.C. 1-69.

South Africa. Industrial Census 1962-63, Report 302.

Two of these remained static. Only 7 out of 170 enterprises (4%) were private limited liability companies, the remainder being individual proprietorships or partnerships. During 1959-60, 9 out of 151 industries were private limited liability companies (6%) (1).

Coloured manufacturers have not achieved the degree of penetration reached by Indians. Out of 5 773 working proprietors in 1962-63, the 244 Coloured proprietors represented only 4,2% of the total, while Asians constituted 13,1%. In the construction

(1) South Africa. Industrial Censuses, 1950-51 to 1960-61, Report I.C. 69.

industry, there were 236 working proprietors representing 6,2% of the total (1).

Coloured participation in the industrial sector has been negligible in terms of total industrial activity, and many activities do not in fact constitute manufacturing in the strictest sense. Many "industries" are merely servicing concerns or small repair workshops. Entrepreneurs have concentrated mainly in the clothing, furniture, non-metallic, mineral products and transport equipment fields. In the clothing and footwear industry, the definition of manufacturing has been somewhat extended to include tailoring and shoe repairs, which in fact contributed 81 out of the 92 activities recorded in 1960-61. In the transport equipment field, 4 out of 10 activities were panel beaters and spray painters. The evolution from artisan or skilled worker to individual proprietor, as a process explaining the early stages of industrial development, is typified by Coloured progress in manufacturing industry, particularly the clothing, furniture and transport equipment sectors, where participation by the Coloured community in skilled and operative grades of employment is a well-documented feature. This, of course, is not the only factor explaining Coloured participation in these sectors - low industry entry costs arising mainly from minimal capital utilisation and the viability of enterprises undertaken on a small scale are other important reasons.

A recent survey of Cape Town reveals that Coloured entrepreneurs have not progressed much in the manufacturing sector since the 1960-61 census cited above, when there were only 88 Coloured-owned manufacturing industries in Cape Town (excluding, for purposes of comparison, shoe repairs and tailoring).

Traditional skills and low entry costs as prime stimuli of participation in specific sectors are well corroborated in the table overleaf (see also Table 2.5). Clothing, furniture and wood products comprise 50% of all manufacturing enterprises in

(1) South Africa. Industrial Census 1962-63, Report 302.

TABLE 2.6: Coloured Manufacturing Industries in Cape Town, 1976.

Type	No.
Clothing	20
Leather products	1
Furniture	19
Wood products	11
Metal Products	12
Transport Equipment	8
Jewellery	3
Beverages	8
Paint	1
Retreaders	4
Silencers	1
Waste salvage/scrap	4
Glazing	1
Concrete Products	2
Printers	6
Other	1
TOTAL	102

Source: Coloured Development Corporation Survey No. 8 (1976); P.E.B. Wilson (1976).

Cape Town, while metal products and transport equipment constitute another 20%. Metal products consists mainly of welders who have formed individual proprietorships, making burglar bars, crayfish traps and other small artefacts, and transport equipment is comprised mainly of panel beaters. Clothing manufacturers are, with 2 exceptions, all C.M.T. operations, closely associated with either retail chain stores or large clothing manufacturers. This process of sub-contracting, an important strategy in the development of minority industrial activities, is examined in Part III. It appears to have contributed substantially to the formation of independent business activities and as such has been an invaluable element in the generation of an entrepreneurial class amongst the Coloured community.

Data on manufacturing industries in other centres are incomplete or not available. Johannesburg and Port Elizabeth are known to have about 15 Coloured-owned industrial activities, most of which are panel beaters, upholsterers and metal workers. As no satisfactory survey of industrial activities has been undertaken outside Cape Town, the extent, growth and penetration of Coloured manufacturing industries cannot be gauged.

There is, however, little evidence of progress in Cape Town, where 30% of the Coloured community is concentrated. The Theron Commission unfortunately gave little consideration to this aspect of development and was therefore not in a position to offer any recommendation for future development, other than to suggest that greater attention be devoted to manufacturing in the future. To say that -

„die Kleurlingondernemer (het) hom feitlik uitsluitlik beperk tot die handel. Die vervaardigingsaktiwiteit is slegs in baie geringe mate betree in die vorm van klein, veral diensnywerhede, soos sweisers, skrynwerkers, klerasie, meubels op bestelling, ens." (1)

is therefore essentially true. On the basis that there are approximately 1 100 retail and service outlets in Cape Town actually owned by Coloured persons (see Table 2.4), the 102 manufacturing enterprises constitute about 8,5% of all Coloured-owned business activity. Though numerically small, this proportion cannot be said to be insignificant, and individual industries have important contributions to make in terms of employment, training of entrepreneurs, capital formation and channelling of personal and business savings. Industrial undertakings have considerably larger turnovers and employment than retail activities, and thus are collectively more significant than their numbers imply.

(1) op.cit. p.74.

2. SCALE OF BUSINESS

THE DISTRIBUTIVE TRADE

Scale may be determined by employment, area of premises, turnover and capital utilisation criteria. In the case of retail activities, only the first three criteria are relevant as investment is limited to the premises (where scale may be determined by floor area), small equipment and display units which are insignificant as scale factors, and inventory which is determined by storage capacity and turnover.

The retail sector is dominated by small "corner shops", or general dealers (see Table 2.4). Smallness is confirmed by the following floor areas.

TABLE 2.7: Average Sales and Storage Areas of Retail Activities

Retail Type	Average Sales Area Square Metres	Average Storage Area Square Metres
General Dealers	73,4	33,2
Butcheries	61,7	30,5
Clothing	61,0	30,5
Hardware	59,5	40,7

Source: Coloured Development Corporation, Survey No. 10 (1976).

The above table adequately suggests the smallness of retail undertakings. The survey showed that most general dealers (30% of the sample) were to be found in the 30 square metres to 60 square metres class, while most specialised shops (42% of the sample) fell in the 60 square metres to 90 square metres class. However, 16% of general dealers had sales areas of

over 120 square metres, while 13% of specialised shops (1) were bigger than this. Only 5% of general dealers were above 200 square metres in sales area. A further indication of size is that only 17% of general dealers were self-service shops - the majority offered counter service only. Storage areas were correspondingly small, indicating low turnovers and low stock holdings.

Turning to employment in the retail sector, a distinction can be drawn between working proprietors, non-paid family employees and paid employees. (Proprietors are examined in greater depth below.) It was found that there were on average 3,1 full-time and 1,3 part-time employees per general dealer (including proprietors), and for specialised shops the averages were 3,1 and 0,5 respectively (2). These are somewhat lower than comparable data for the retail sector nationally, which averaged 7 persons per outlet in 1971. In the case of grocery stores the national average was 5,2 persons in 1971 (3). The impact of retailing on employment is therefore minimal, and is even smaller still when one considers that a large proportion of employees are merely members of the owner's family, who normally would not be classified as being economically active. Wives, daughters-in-law, mothers and children of school-going age are included in this category. Thus the 4,4 workers per general dealer cannot be construed as genuine employees - an element of underemployment is present. This is further corroborated by the disproportionate number of unpaid staff per general dealer, indicating that many enterprises are staffed mainly by family members, who draw irregular payments or consume directly from the store's inventory. 34,3% of all respondents who were general dealers did not have any paid employees at all, while 11,2% had more unpaid than paid employees, and could therefore still be regarded as family businesses (4).

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- (1) These include all retail activities other than general dealers.
 - (2) Coloured Development Corporation, Survey No. 10 (1976).
 - (3) S.A. Statistics (1976).
 - (4) Coloured Development Corporation, Survey No. 10, op.cit.

The retail survey throws some light on the turnovers of these small businesses. Employment and floor area data already indicate that retail activities are generally of a small scale, and it is not surprising that the turnover data cited below merely serve to confirm the smallness characteristic of minority business undertakings. It should be mentioned here that turnovers stated by respondents were accepted at face value and were not verified by annual statements of account (1).

TABLE 2.8: Turnover of Selected Outlets in Cape Town

Turnover R per month	General Dealers %	Specialised Shops * %	Butcher- ies %	Hardware Shops %	Clothing Shops %
Less than 1 000	12,1	6,7	-	11,1	13,3
1 001 - 3 000	24,3	26,7	28,6	22,2	26,7
3 001 - 5 000	20,6	26,7	33,3	22,2	20,0
5 001 - 10 000	18,7	31,1	33,3	33,3	26,7
10 001 - 15 000	15,9	6,7	-	11,1	13,3
Over 15 000	8,4	2,2	4,8	-	-
TOTAL	100,0	100,1	100,0	100,0	100,0

* Includes all outlets other than general dealers.

Source: Coloured Development Corporation, Survey No. 10, (1976)

TABLE 2.9: Monthly Turnovers of Selected Outlets

Measure	General Dealers R	Specialised Shops R
Mean	6 715	4 925
Median	4 318	4 250
Mode	2 529	5 769

Source: As Table 2.8.

(1) Natural suspicion of the bona fides of interviewers might, therefore, have jeopardised the objectiveness of replies - respondents could understate turnovers where they considered this to be in their favour, and vice versa.

The above measurements of average tendency confirm assumptions about low turnovers. In comparison, average sales per retail outlet for the country as a whole were R6 032 per month in 1971, equivalent to over R9 000 in 1975 (1).

Similarly, turnovers for grocery stores were R4 482 per month in 1971, equivalent to over R8 000 in 1975 (2). It appears that turnovers for grocery outlets identified in the survey were on average far smaller than those for the national economy, and retailing generally showed a similar trend. These results confirm the impression that businesses in the Coloured areas are almost without exception considerably smaller than those retail outlets located in other areas.

The generally low overall level of all three values has important implications for business development. As far as growth and diversification are concerned, internally generated savings in these small firms are extremely low, resulting in diminished potential for investment. The little business savings accumulated, however, are an important source of capital formation in a community beset by poverty and deprivation. The reasons for low turnovers can be broadly attributed to atomistic competition within the Coloured areas, insufficient patronage by local inhabitants because of competition in adjacent White areas, lack of a dynamic approach to retailing by Coloured businessmen and fragmentation of retailing activities when concentrations of commercial undertakings provide extensive agglomeration economies. Low turnovers and the consequent marginal existence of many firms ensures that there is a continuous replacement of unsuccessful businesses. Low entry costs guarantee a steady stream of aspirant traders, and the availability of the family to work for little or no wage further adds to ease of entry.

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- (1) S.A. Statistics (1976). The 1975 equivalent has been approximated by roughly projecting 1971 data in line with increases since 1967 and normal growth of the GDP in the same period. No data on retail activities are available beyond 1971.
- (2) S.A. Statistics (1976).

THE MANUFACTURING SECTOR

To determine the scale of manufacturing undertakings, employment, factory area and value of output were investigated. Mean factory floor area was found to be 760 square metres and median area 450 square metres, with only 23% of the sample above 1 000 square metres. 63% of respondents intended to expand their businesses in the near future, however, and of these, 54% were to either extend their existing premises (19%) or acquire new premises (35%) (1).

In addition, 53% of those with intentions to expand or move into new premises currently had premises under 1 000 square metres. Although existing factory premises were relatively small, given the right set of environmental conditions, they could have been considerably larger. Shortage of factory accommodation, lack of working capital and lack of entrepreneurial foresight all contributed to size inadequacies.

Employment varied considerably between firms. Only one firm encountered had over 200 employees, while only one other employed over 100. Median employment was 40 persons per enterprise and mean employment 50 persons (2). This was somewhat lower than the national figure of 90 employees per establishment in 1972 (3). Most firms, therefore, though small, make important contributions to employment, as they often provide some of the few work opportunities for the ghetto labour force. Many small undertakings are situated in close proximity to Coloured residential areas, which helps to reduce the incidence of high transport costs on poor sections of the labour force.

A breakdown of average employment shows that most undertakings relied to a large extent on skilled, or artisan, labour. The majority of employment was in the hands of Coloured labourers.

(1) P.E.B. Wilson, op.cit.

(2) Ibid.

(3) S.A. Statistics (1976).

TABLE 2.10: Average Employment per Manufacturing Firm

Grade	No.
Skilled, operators	21
Semi-skilled	3
Unskilled	19
Foreman/Supervisor	1
Administrative	1
Managerial	1
Other	4
TOTAL	50

Source: P.E.B. Wilson, op.cit.

Reliance on skilled labour may be attributed to the nature of the firm's activities. 80% of firms interviewed were in the clothing, furniture and wood products or engineering fields, which require a high proportion of skilled workers, such as machine operators. Table 2.10 also shows that 4% of total employment consisted of managerial or supervisory grades. The manager himself was usually closely involved in the firm's activities. The category "other" consists of sales staff, drivers and miscellaneous personnel.

Turnovers of industrial concerns are subject to the same pitfalls mentioned in the case of retailers, viz. no verification by way of annual accounts was available. Without exception, though, respondents readily provided the required information.

There can be no doubt that manufacturing industries have a considerably greater impact than retail activities as far as employment and output are concerned, and for these reasons should be emphasized to a greater extent in any business development strategy. While retail activities had an average

TABLE 2.11: Annual Turnovers of Selected Manufacturing Industries in Cape Town.

Class (R)	Frequency (%)	Average Turnover (R)
0 - 50 000	13,3	45 000
51 - 100 000	23,3	78 143
101 - 150 000	16,7	142 000
151 - 200 000	13,3	179 000
201 - 300 000	10,0	283 333
301 - 500 000	13,3	398 750
501 - 750 000	6,7	675 000
751 - 1 000 000	-	-
Over 1 million	3,3	1 600 000
TOTAL	100,1	252 000

Source: P.E.B. Wilson, op.cit.

annual turnover of R74 000 (see Table 2.9), manufacturing industry owned by minorities had an average turnover of R252 000. Median turnover for the latter was R140 000, about 3½ times greater than the median for retail activities. If one considers that the numerous "backyard" industries were not included in the universum of this survey, the average turnover is probably not representative of minority industrial activity as a whole. The distinction between formal and informal manufacturing is important for the development of minority groups, and will be touched on at a later stage.

To gauge the contribution of the various industrial sectors to employment and value of output, the table overleaf further analyses turnover data.

Coloured manufacturers in the food industry have made the greatest contribution in terms of employment and value of output, followed by the clothing industry. Value of output of the latter is probably considerably understated, as it represents

TABLE 2.12: Annual Turnover and Employment in Selected Sectors

Sector	Annual Turnover (R) per Firm	Employment per Firm
Clothing	163 000	57
Food and beverages	548 000	78
Furniture/wood products	110 000	17
Other	112 000	10

Source: P.E.B. Wilson, op.cit.

a net rather than gross value of output. This is attributed to the nature of most clothing activities, which are mainly C.M.T. operations. These firms are provided with cloth by clients, with the result that the value of the major raw material in the production process is not reflected in the value of output. From this it may be deduced that clothing contributes more to manufacturing output than the above data imply.

An interesting comparison with related data for the economy as a whole, indicates that minority firms are in all cases considerably smaller on average than firms in the wider economy, in terms of both employment and value of output criteria. (Table 2.13

Except for furniture, which had an output per worker roughly equivalent to that of total manufacturing, Coloured manufacturing activities lagged considerably behind the rest of the economy in respect of output per worker. Because of low capital utilisation by most firms, the labour/capital ratio for Coloured manufacturing activities is somewhat higher than that for the economy as a whole.

Turning briefly to capital as a determinant of scale in the firm, one observes that most Coloured entrepreneurs have turned to a particular industry precisely because entry costs in terms

TABLE 2.13: Comparison Between Coloured and Overall South African Manufacturing Industry, 1976.

Criteria	Coloured Industry Values as a Proportion of National Values, by Sector. %			
	Total Manufacturing	Food and Beverages	Clothing	Furniture
Employment	50	85	50	40
Value of Output	25	50	40	45

Note: National values have been roughly projected to 1976 in line with historical growth and recent trends. Most recent data available are for 1972.

Source: Table 2.12 and S.A. Statistics (1976).

of capital utilisation are relatively low. The use of skills and easily trainable labour is a notable feature of many activities. The labour intensive and capital saving manufacturing industries typical of many developing countries are also a characteristic of Coloured business activity. No quantitative data are available at present though a partial analysis of the types of capital investment may be useful. Only 20% of respondents owned their factory premises though a number wished to erect their own premises when finance could be arranged. The desire to invest in buildings was not very strong, however, and most of those who intended expanding preferred to invest in additional plant and equipment and rent factory space. This may be prompted by the factory-building activities of the Coloured Development Corporation, which is providing factory accommodation at highly subsidised rentals, namely in the region of 6c per square foot.

Though manufacturers in the established industrial areas of central Cape Town were paying only a little more than this (7c to 9c), their premises were generally inadequate in layout,

situation and size. Modern premises occupied by Coloured manufacturers are leased at about 12c per square foot.

Investment in plant and equipment was generally not considerable. Many proprietors built up their businesses gradually, adding regularly to the existing capital stock when internal savings permitted. Credit from suppliers of machinery could also often be arranged. The value of equipment varied substantially, from a few thousand Rand in the case of small engineering firms and joiners, to R10 000 and more for furniture manufacturers and small beverage producers. Clothing manufacturers' capital investment ranged from R30 000 to R60 000, while larger beverage producers had equipment from over R100 000 to R500 000. The latter amounts were exceptional, however, and most plant value probably fell in the below R100 000 category. In comparison, the average value of capital in manufacturing throughout the economy in 1972, was R250 000, equivalent to over R350 000 by 1976. (1)

3. SPATIAL DISTRIBUTION

The distribution of retail and industrial activities has already been referred to in some detail. A distinction may be drawn between inter-city and intra-city (or town) distribution. The former has been discussed following Tables 2.1, 2.2 and 2.4 in the case of retail activities, and Table 2.6 in the case of manufacturing industry. It shows that only in the larger metropolitan areas has there been any marked degree of diversification and sophistication in retailing and service activities, though outlets providing basic commodities are still the predominant form of activity. It has also been suggested that the lack of specialised outlets in small rural towns and villages is due to the proximity of the White business sector with its long-established tradition of business and control of large

(1) S.A. Statistics, 1976).

national chain stores. Industries, too, are limited to larger towns and cities, and because of its large Coloured community, Cape Town has the vast majority of Coloured-owned manufacturing and service industries.

The spatial distribution of retail and service outlets within the urban areas is an important contributor to the business environment, and the implications of the existing situation are discussed fully in the following section.

The statistical basis, however, for the ensuing analysis is an important starting point. A vital factor in retail development is the degree of competition in any trade area.

TABLE 2.14: Population and Commercial Activity in Selected Areas

Area	Population 1975	Retail Outlets	Service Outlets	Persons/Outlet	
				Retail	Service
<u>Cape</u>					
Athlone (trade area)	243 100	467	638	521	381
Elsies River	160 400	220	91	729	1 763
Kensington	40 100	95	126	422	318
Wynberg	12 500	55	80	227	156
Bonteheuwel	50 600	58	66	872	767
Manenberg	35 100	7	11	5 014	3 191
Bishop Lavis	30 800	8	4	3 850	7 700
Ocean View	8 800	7	2	1 257	4 400
Kleinvlei	6 800	1	0	6 800	-
Macassar	5 000	7	2	714	2 500
Scottsdene	3 900	0	0	-	-
<u>Johannesburg</u>					
Newclare	35 300	141	40	250	883
Eldorado Park	40 400	161	21	251	1 924
Riverlea	10 200	8	1	1 275	10 200
<u>Port Elizabeth</u>					
Bethelsdorp	33 900	33	7	1 027	4 843

Source: Coloured Development Corporation, Survey Nos. 6 (1975); 7 (1975); 8 (1976).

The difficulty of delimiting trade areas makes the above table of limited value, especially in high density residential areas like those of Cape Town's Coloured townships. Group area boundaries are often seen as trade area boundaries, though more careful analysis reveals that shopping patterns transcend artificially imposed racial borders. Table 2.14 should be seen as an example of the magnitude of the problem of spatial distribution rather than an arithmetic determination of the extent of over- or under-trading. The table shows broadly the mal-distribution of retail and service activities in the three metropolitan areas. In Cape Town one finds a degree of over-trading in the older, traditional Coloured residential areas, where there is generally a proliferation of the small general dealer businesses enumerated in Table 2.4. On the other hand, newer areas are often partially or completely devoid of any business activity, as in Scottsdene, Kleinvlei, Macassar and Manenberg, to the detriment of businessmen and consumers alike. In the case of overtrading, the marginality of small businesses precludes growth and diversification, mainly because of the lack of an investible surplus, while in the case of under-trading, monopoly conditions are created for illegal peripheral businesses, house-shops and irregular hawking activities. While the absence of convenience stores in wealthier suburbs can be overcome by greater consumer mobility, in areas such as Manenberg, where most households fall into the sub-economic category, (household heads earning less than R200 per month) (1), local residents rely on their "corner shops" to a greater extent.

The problem is not confined to Cape Town alone. The table shows that Riverlea in Johannesburg and Bethelsdorp in Port Elizabeth lack adequate facilities. What this table does not show, however, is the distribution of commercial activities within the suburbs or townships. Bethelsdorp is a good example of the growth of numerous small fragmented nodes of retail and

(1) 52% of households in Manenberg are sub-economic. The average for Cape Town's Municipal areas is 28% (Coloured Development Corporation, Survey No. 8, 1976).

and service activity. Multiplication of basic retailing activities thus arises - in Bethelsdorp 31 out of 33 retail outlets provide food only. Similarly in Cape Town, Bonteheuwel's retailing activities consist primarily of food outlets, mostly small general dealers. Out of 58 retail outlets, 48 supply food, and 36 of these are stores epitomised in Tables 2.7 and 2.9, where employment averages about 4 persons per shop, turnover is normally just over R4 000 per month and floor area about 45 square metres.

A further indication of distortion in the distribution of retail activities is given in the following table, where monthly turnover per square metre of general dealers is compared in various areas.

TABLE 2.15: Returns per Square Metre of General Dealers in Selected Areas of Cape Town

Below Average Returns		Above Average Returns	
Area	R/Sq.M. (monthly)	Area	R/Sq.M. (monthly)
Athlone	81	Bishop Lavis	244
Elsies River	75	Heideveld	224
Grassy Park	74	Manenberg	208
Kensington	51	Bonteheuwel	189
Surrey Estate	46	Kewtown	106

Source: Coloured Development Corporation, Survey No. 10, op.cit.

The average return per square metre in Cape Town in 1976 was found to be R102 per month. Table 2.15 indicates which areas are overtraded (where returns are below average) and which are undertraded (returns above average). Again the problem of marginal retail activities arises - the above figures are merely averages and do not show that returns actually varied from R7 per square metre to R390 in the case of general dealers and from R6 to R330 per square metre in the case of specialised

outlets. In addition, there was a very low correlation between floor area and turnover (1), as those outlets in overtraded areas showed low turnovers despite the size of their selling area. Other physical and human factors were also prominent, however, and the low correlation can be seen more as a symptom of environmental conditions generally, rather than just the degree of competition. Because market forces are considerably hindered by artificial control factors, a movement towards equilibrium cannot occur.

The provision of certain services by "non-Coloured" organisations, granted permits under group areas legislation to operate services in Coloured areas on the grounds that they would not otherwise be supplied, completes this quantification. The obvious example is financial institutions. Very few branches of banks, building societies or insurance companies actually exist in the Coloured areas at present, as the following table shows.

TABLE 2.16: Distribution of Financial Institutions in Selected Coloured Areas Throughout South Africa.

Area	No.
Cape Town:	
Athlone	10
Lansdowne	2
Elsies River	8
Grassy Park	3
Bellville South	2
Oudtshoorn	1
Port Elizabeth	1
Pretoria	1
TOTAL	28

Source: Coloured Development Corporation, Survey Nos. 6 (1975); 7 (1975); 8 (1976); 9 (1976).

(1) A Correlation Co-efficient of 0,15 was recorded.

The presence of financial institutions is of vital importance in three respects. As investors, they can play a determining part in the development of business districts in the Coloured areas. This is already partially corroborated by the prominence of Athlone, Lansdowne, Elsie's River and Grassy Park as minor nodes of commercial concentration, with their attendant agglomeration economies.

Secondly, in fulfilling their traditional functions as financial intermediaries, they provide an important service to private individuals and businesses. Their presence or absence within accessible proximity to households may either stimulate or retard the willingness to save.

Thirdly, the employment of managers and other staff from minority groups can be more readily implemented in these branches than in other areas.

Business activities located in White areas owned by Coloured businessmen are equally difficult to identify. This form of evasion of legislation is gaining prominence as minority groups begin to realise the advantages of trading in superior locations in White areas. Services for minorities in White areas, such as restaurant facilities, are few in number and are operated by Whites. The service sector does, however, offer opportunities to minorities to operate anywhere irrespective of group area boundaries. The supplying of materials such as gas, sand and paraffin, as well as plumbing, electrical and building activities are difficult to restrict to particular areas, and this provides rewarding opportunities in a wider market. Some indication of the extent of service activities is given in the following section.

4. THE BUSINESSMAN AND THE FIRM

The foregoing analysis has been based primarily on the firm, its penetration, sophistication, growth and general characteristics. Though the data obtained from official sources have been supplemented by several recent surveys, they have tended to be fragmentary and cannot therefore be used to give a clear picture of the number and activities of businessmen generally and entrepreneurs in particular. The following analysis firstly looks at the Coloured businessman in a broader framework, and secondly provides a profile of retail and manufacturing enterprises as an additional basis for the ensuing discussion.

THE BUSINESSMAN

TABLE 2.17: Coloured Employment in Certain Categories 1936 - 1970.

Category	1970		1960		1946		1936	
	No.	%	No.	%	No.	%	No.	%
Professional, technical and related	25 733	3,6	13 973	2,5	10 864	3,1	28 476	10,3
Administrative managerial	1 033	0,1	1 442	0,3	6 420	1,8		
Clerical	36 088	5,0	8 965	1,6				
Sales	23 473	3,3	10 415	1,9				

Source: South Africa.

Population Censuses 1970 - Report O2-05-06
 1960 - Volume 8 (1)
 1946 - Volume 5
 1936 - Volume 7

Though the above table does not explicitly state the number of entrepreneurs or businessmen in each class, a comparison between those categories relevant for business participation indicates

that there has been a perceptible increase in the proportion of employment in the professional, administrative, clerical and sales categories. Excluding 1936, when employment data for these categories were unreliable, the proportion has increased steadily from 4,9% in 1946, 6,3% in 1960 to 12,1% in 1970. This represented numerical increases from 17 000 in 1946, to 35 000 in 1960, and 86 000 in 1970. There is some concern about the absolute decrease in numbers of administrative/managerial workers between 1960 and 1970. This will be discussed in Part III.

When the position of Coloured business advancement is viewed in the light of progress of other groups in South Africa, the penetration of the former vis-a-vis the latter shows that the gap is still considerable.

TABLE 2.18: Employment in Professional, Administrative, Clerical and Sales Categories in 1960 and 1970.

Group	1960	%*	% of total	1970	%*	% of total
White	570 734	49,6	76,4	871 819	57,8	67,3
Coloured	34 795	6,3	4,7	86 327	12,1	6,7
Asian	38 708	30,8	5,2	68 542	37,6	5,3
African	102 373	2,6	13,7	268 600	4,7	20,7
TOTAL	746 610	13,1	100,0	1 295 288	16,0	100,0

* as a % of the economically active population of each group.

Source: South Africa.

Population Censuses 1970 - Report 02-05-06
1960 - Volume 8(1).

Table 2.18 cannot be utilised to quantify existing entrepreneurial activities, but does give an indication of potential business participation by analysing those grades most likely to yield entrepreneurial or managerial skills. The share of these categories in the Coloured labour force increased from

6,3% to 12,1%, an increase of 148% over the period. This was only bettered by African employment which increased by 162%.

Businessmen are not, however, only found in these grades of employment. In the 1970 census a large class of "employers" is identified, consisting of owners of businesses as well as "workers on own account and family assistants employed in the business" (1). As an important source of entrepreneurial activity, these small one-man and family businesses must be recognised. The manufacturing survey showed that 37% of businessmen developed their businesses from embryonic, one-man activities (2). Including both these and other employers, there were 13 677 Coloured employers at the time of the 1970 census. This compared accurately with the estimate of the Theron Commission, which put the number of Coloured entrepreneurs between 12 000 and 15 000 in 1970 (3).

The following table shows, however, that these estimates may be somewhat low in determining the total penetration of Coloured businessmen in commerce and industry.

TABLE: 2.19: Coloured Managers, Supervisors and Employers in 1970.

Category	Managers, Supervisors	Employers	Total
Professional, technical	-	319	319
Administrative, managerial	396	637	1 033
Clerical	467	48	500
Sales	526	3 405	3 931
Service	85	322	407
Farming	522	3 115	3 637
Production, transport	3 819	5 831	9 650
TOTAL	5 815	13 677	19 492

Source: South Africa. Population Census 1970, Report 02-05-04.

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- (1) South Africa. Population Census 1970. Report 02-05-04.
 (2) op.cit.
 (3) op.cit., p.61.

In the broadest sense, there were about 20 000 Coloured persons in 1970 who could be construed as entrepreneurs, managers or businessmen generally. This does not include professional or technical employees and sales staff, numbering 45 000, though it does include street vendors and hawkers, numbering about 2 000 persons. General clerical grades are also excluded. Two important categories normally not included in determining entrepreneurial or business penetration, are farming and production. Table 2.19 shows, however, that together these two contributed a large share of managers and employers. 65% of all employers were in these categories, and 75% of managers. Though employers alone constituted only 1,9% of total employment, the combined figure in Table 2.19 increases this share to 2,7%. This is still considerably lower than participation by other races in South Africa, as shown by Table 2.20.

TABLE 2.20: Employers in South Africa, 1970.

	White	Coloured	Asian	African	Total
Employers	171 558	13 677	17 129	325 660	528 024
As % of each group's labour force	11,4	1,9	9,4	5,7	6,5
Share of total	32,5	2,6	3,2	61,7	100,0

Source: South Africa. Population Census 1970. Report 02-05-04.

Although the foregoing analysis indicates a very limited role for the relatively few Coloured businesses in the wider economy, in the ghetto economy these enterprises perform a vital function. Not only do they provide employment in areas where the jobless are a permanent problem, but they also cater for the unlimited wants of ghetto residents, providing goods and services at unconventional times in an unconventional manner. To place the businessman and his business in perspective, the following

profile indicates some of the characteristics of retail and manufacturing activities. As far as these features affect the operation of the enterprise, they will be discussed in detail in Part III.

THE RETAIL SECTOR (1)

1. As already mentioned in some detail, many respondents were not "Coloured", and it could not be ascertained whether the owner of the outlet was actually Coloured, acting as a "nominee" for an Indian shopkeeper. The race of the owner is of some relevance, particularly in view of legislation affecting the status of "disqualified" operators in group areas.
2. Most respondents (34,2%) were the sole owners of their businesses, or members of the owner's family (27,9%). This emphasizes the degree of family control over retail outlets. The residual was made up of partners, managers or senior staff.
3. Occupation of premises did not usually accompany ownership. Most general dealers rented the premises (64,5%) while the same applied to specialised shops (84,4%). The residual was made up of owners. The reasons for the high proportion of rented premises are twofold. Firstly, as stated above, many shopkeepers were "disqualified" in terms of group areas legislation and therefore were not able to own premises. Secondly, many shops in Council housing schemes were rented. Most of these schemes have not been proclaimed as townships, due to delays in surveying, for instance, which precludes the alienation of land to private individuals. Traders are obliged, therefore, to rent premises.

Another factor arising from the aspect of ownership, is that

(1) Coloured Development Corporation, Survey No. 10 (1976).

47,7% of general dealers live on the premises, while only 6,7% of specialist traders do so. This emphasizes the degree of personal control exercised by the small retailer and partly explains why these outlets can operate at unconventional hours.

4. General dealers were paying rent at an average of R3 per square metre per month, while clothing outlets were paying R2,70 and hardware stores R2,10. These figures are considerably lower than rentals charged in Cape Town's prime trading areas (1), though when differences in the business environment are taken into account, the disparities in rentals do not seem to reflect adequately the inferior conditions prevailing in Coloured areas. Rentals may be disproportionately higher in Coloured areas than in White areas for two reasons. Firstly, a premium is placed on trading space because of the presence of infiltrating "disqualified" operators, who augment the supply of trading establishments without there being a counterbalancing increase in the availability of zoned business land. Secondly, although there are numerous undeveloped sites in the townships, complications in the process of the disposal of land to businessmen cause extensive delays, and in many instances business sites never reach the open market. The procedures of the Housing Code are partly responsible for these delays.

5. Most general dealers are old, well-established businesses, having been in operation for an average of 15 years. Only 26% were less than 10 years old while 60% were 15 or more years in operation. Specialised shops, on the other hand, were on average 13 years in existence, 37% for 10 years or less and 42% for 15 years or more. While the traditional small corner-store has dominated retail activity in poverty areas, there appears to be a perceptible change in this long-lived static situation, as shown by the above data.

(1) Rentals for small shops in Cavendish Square (Claremont) vary from R7,50 to R10,00 per square metre, and in Werdmuller Centre from R5 to R7,50 per square metre.

6. Despite some considerable retailing experience, businessmen operated their small undertakings along traditional lines, which were in many cases very rudimentary. This seemed to confirm the marginality of such businesses.

They showed distrust of new methods and in the majority of cases were not prepared to attend business courses. In fact, only 18% of general dealers and 24% of specialist operators expressed interest in such courses. This apparent lack of interest probably stems from their close personal involvement in the firm, for many supported the idea of a business consulting service where advice could be given in situ.

7. Underlining the traditionalism of ghetto businesses was the response to the question "Why are you in business?". In the case of general dealers, 60% claimed to have inherited the business from their family, while for hardware stores and butcheries, this proportion was 44% and 43% respectively. Most retailers did not expect to earn more than outside employment could offer, nor were they in business because of a special interest or aptitude. The profit motive, whilst probably implicit in most answers, was mentioned less often among general dealers (3,7%) than specialised shop-owners (11,1%).
8. Not surprisingly, fewer general dealers than specialised outlets resorted to advertising or promotional campaigns. 41,2% of the former and 76,7% of the latter attempted in various ways to attract new custom. Of the methods utilised, general dealers resorted to the least costly, such as weekly "specials" (21,2% favoured this), while newspaper and cinema advertisements featured less prominently (7,1% of the respondents favoured this). Clothing stores preferred using the press and their shop windows (both were mentioned in 33,3% of cases), while hardware stores favoured press advertising (55,6%) above all other forms.

9. With regard to suppliers, there was a marked difference between general dealers and specialised outlets. Virtually all general dealers bought solely from wholesalers and only 18% of respondents went directly to manufacturers for one or more products. Clothing outlets bought directly from manufacturers (67%) or from both manufacturers and wholesalers (60%). All hardware stores bought from wholesalers while 30% of them went directly to manufacturers as well. Supply problems were few, as only 2,8% of general dealers were dissatisfied with suppliers while no specialised outlets had complaints.
10. Only 26,2% of general dealers did not receive credit facilities from suppliers, though of those that did receive them, 47,7% were only given 7 days, and 20,3% 14 days credit. All specialised outlets had credit facilities. Clothing stores generally paid within 120 to 180 days, and hardware stores within 30 to 60 days.
11. The small businesses typical of the ghetto environment provide important services to local residents. Extended shopping hours enable the ghetto resident to purchase commodities at unconventional times - though shops are only permitted to sell grocery lines in normal trading hours, their willingness to sell after-hours and on Sundays is a universal phenomenon. This evasion of the law, however, often entails bribery or "protection" payments to police and local community law enforcement groups (such as vigilantes), though these extra costs are probably built into the prices of goods already.
12. A delivery service is seldom provided by general dealers. Only 18% of respondents ran deliveries and then only if large quantities were bought. A large proportion of butcheries (48%) and hardware stores (44%) did make deliveries.
13. One of the most important services offered is that of credit to customers. The following proportions of respondents granted credit: general dealers, 43%; clothing outlets,

47%; hardware stores, 56%; and butcheries 67%. Credit was only granted to selected customers.

14. Another vital function is the provision of goods in very small quantities. For low-income households the ability to buy smaller than pre-packed quantities contributes much to the welfare of the individual household, for most families are unable to incur regular expenditure on large items. Day-to-day budgeting is a feature of urban poverty groups, necessitating frequent small purchases. Goldman states that -

"In Recife, Brazil, consumers shopped an average of 4 times a week in neighbourhood stores, and in La Paz, Bolivia, some 90% of the consumers surveyed were found to shop at least once per day in food stores." (1)

He goes on to say that the mean purchase per shopping trip in Recife was \$1,79 (2). The position amongst poorer sections of the Coloured community is identical. The survey revealed that many shopkeepers broke open packs in order to sell single units of cigarettes, blades, candles and many other products. Shopkeepers were asked what proportion of their customers bought in the smallest available quantities, and 17,6% answered that "few" in fact did so, 23,5% stated that "many" did and 58,8% stated that "most" of their customers did. Though in many cases packages were broken open for distribution of single units, manufacturers have adapted to some of these needs and basic commodities are now delivered in 5c or 10c packages.

(1) A. Goldman (1974), p.9,10.

(2) Ibid.

THE MANUFACTURING SECTOR (1)

1. Only a very small proportion of respondents were not owners of the enterprise (10%) and in all cases were managers. With the odd exception, all undertakings were either partnerships or individual proprietorships, ownership normally remaining in control of the family. In 73% of cases, members of the owner's family were actually employed in the business. The strong familial presence found in retail outlets is also a feature of manufacturing enterprises, though in the latter their relative importance is considerably diminished and usually limited to an administrative or supervisory position. Only 20% of respondents owned their factory premises.
2. The average age of respondents was 43 years. They had been in the particular business for an average of 10 years while the business itself had been in existence for 12 years, indicating that not all businesses were started by the present owner. This was, however, usually the case.
3. An important feature of business inception among Coloured manufacturers was that 50% of respondents were trained in the particular field and eventually decided to start their own independent operation.

It has already been seen (see Tables 2.5 and 2.6) that most enterprises are in the clothing, furniture, wood and metal products industrial categories, which are traditionally dominated by Coloured employees in skilled grades of work. This has enabled potential independent operators to effect a rapid transfer of the skill and technical expertise required in the new undertaking. Another reason for business participation was that the undertaking belonged to the family (13,3% of the cases) and therefore offered a ready opportunity for entrepreneurial endeavour. A surprisingly

(1) P.E.B. Wilson, (1976).

high proportion (36,7%) offered other reasons for being in manufacturing. The majority of these had no previous experience in a related field and had merely perceived an opportunity for profitable investment. Only 63% of all respondents had been in related fields before commencing manufacturing.

4. 17% of respondents had achieved primary school education only, while 70% had gone no further than secondary levels. Of these the majority had progressed beyond the eighth grade (50% of all respondents). University attendance was more unusual (13%) though 23% of respondents had obtained a university degree or diploma in technical or managerial courses. Participation in business courses was exceptional and had only occurred in 27% of cases, mainly at one of the local universities. The majority (57%) of businessmen, however, expressed interest in such courses and indicated a preference for general management training. Manufacturers therefore showed greater receptivity to the principle of business instruction than did retailers, who were generally uninterested in any form of extramural training.
5. Only 13% of businesses imported raw materials from abroad, while all except one purchased materials within South Africa. Dependence on local sources of supply was a satisfactory choice for manufacturers and only 17% expressed difficulties in obtaining supplies, due mainly to import restrictions and minor bottlenecks. No preference was shown for minority suppliers, thus linkage effects between minority firms were merely incidental. The virtual absence of minority suppliers of raw materials obviously militates against linkages, though forward linkages with retailers are more prevalent.
6. Only two businesses were refused credit by suppliers. Of the 93% who were granted credit facilities, 14,3% did not actually use them, preferring to pay cash for purchases. Credit terms ranged from 30 to 90 days depending on the

industry and prevailing economic climate.

7. The market of Coloured manufacturers was predominantly locally bound, and only 13% of respondents sold their products throughout South Africa. Although none was currently exporting, a number expressed interest in the export market and two were investigating export potential for their products. The large majority of businesses sold to retailers, (73%), 17% sold to individuals and 33% sold to manufacturers, wholesalers or agents. (Some sold to more than one of these groups.) There was no preference among the majority of firms for any race group, as 63% sold to a "mixed" clientele. Only 20% sold to Whites and 17% to non-Whites. This lack of ethnocentricity in the market for manufactured products distinguishes manufacturing somewhat from retailing and services where group area boundaries determine to a certain extent shopping patterns of consumers. That Coloured retail outlets are, by virtue of their location, forced to sell to a mainly Coloured clientele, while White outlets are reliant on consumers of all groups in society, places them at a distinct disadvantage. Manufacturers, on the other hand, do not suffer such market disabilities, which has an important bearing on future strategies for business development.
8. The role of supply tenders for contracts of central government, provincial and local authorities, and of contracts with private organisations, contributes significantly to the development and growth of manufacturing enterprise. 87% of respondents were aware of central and local government contracts, though only 20% had ever submitted tenders. Of these, however, 83% had been successful and had found tendering a remunerative and worthwhile form of securing a market for their products. 70% of firms had been approached by large private sector organisations to supply them on a contractual or regular basis, and of these 86% were actually supplying at the time. Most of the contracts were merely verbal agreements though, which posed serious problems for the small manufacturer.

5. SUMMARY

One of the first features indicated by recent surveys is that many businesses in Coloured suburbs are not, in fact, operated by Coloured traders but by "disqualified" Asian and White traders, thus negating the basis of group areas legislation, which has attempted to provide the developing Coloured businessman with geographical protection from his more experienced competitors. If number, scale and sophistication of enterprise are criteria on which to base an appraisal of business advancement, one can only conclude that the gulf that exists between the developed "White" sector and the backward "Coloured" sector has remained a chasm in spite of the ideological underwriting of efforts to promote a parallel Coloured economy. The increase in the penetration of Coloured businessmen has been negligible, particularly in retailing. Manufacturing, too, has shown little progress, though one may be optimistic in the assessment of its impact, especially with regard to employment creation for ghetto residents and as a vehicle for developing entrepreneurial skills. Comparative data show that in some respects minority businesses are similar or identical to small businesses throughout South Africa. The employment impact of retail outlets everywhere is negligible while sales are generally much lower among Coloured outlets than the average for the country as a whole. There is, however, a conspicuous absence of large outlets in the form of chain and departmental stores in the Coloured areas, and the advantages provided by these are lost to both consumers and businessmen.

The surveys of general characteristics of both retail and manufacturing enterprises indicate a lack of sophistication in operational methods, due in most cases to the scale factor and the familial tradition inherent in small businesses. The foregoing profile of the businessman corroborates the impression that the dynamism and socio-economic significance normally associated with the entrepreneur are generally lacking among

minority businessmen. In fact, there is some doubt that the entrepreneur as defined in neo-classical or Schumpeterian terms actually exists in the poverty environment. For this reason, it is necessary to utilise the broader term "businessman".

In the light of the foregoing analysis, the present dispensation for the development of a Coloured entrepreneurial class or cadre of businessmen appears to be ineffectual, if we assume that it is based on the generation of a separate business sector. This has certainly not materialised and the prognosis is that a parallel economy is unlikely to develop, in view of non-racial consumption patterns and the backwardness of Coloured retail and manufacturing enterprise. Thus a new dispensation is needed, based on -

"a growing demand and realisation of the need to make more opportunities for Black (Coloured) participation and meaningful partnership in the economy of South Africa available" (1).

(1) S. Motsuenyane (1974), p.12.

THE BUSINESS ENVIRONMENT

This section takes a detailed look at the Coloured businessman and those environmental factors that directly or indirectly affect the operation of both retail and service outlets on the one hand, and manufacturing undertakings on the other. The environment as defined here is taken in its widest possible form, including both factors external to the operation of the individual firm as well as those arising from internal sources. The former include the legal and legislative framework governing the firm's operations and location; planning and infrastructure in Coloured suburbs and other areas where Coloured businessmen may operate; consumer preferences and shopping behaviour; and competition in the market place and economies of scale in the industry. Internal factors include capital formation by the firm, channelling of funds, entrepreneurial inputs and other minor factors. Though many of these factors are interrelated, their isolation is necessary if retardative influences are to be identified in the environment.

1. THE LEGISLATIVE FRAMEWORK

There are at present basically four Acts that must be considered as affecting the development of Coloured businessmen. These are the Group Areas Act No. 36 of 1966, as amended, the Factories, Machinery and Building Work Act No. 22 of 1941, as amended, the Shops and Offices Act No. 75 of 1964, as amended, and the Industrial Conciliation Act No. 28 of 1956, as amended. In addition, these Acts have a number of accompanying regulations. It will be expedient to consider the Group Areas Act first, as this Act exerts the greatest influence on the location, establishment and development of businesses for all racial groups in South Africa, as well as on the employment of persons in managerial or professional categories in commerce and industry. In addition to considering the letter and spirit of these Acts, it will be necessary to determine to what extent the provisions have been enforced by the courts and by the Department of Labour, and whether the private sector has seen these provisions as being insurmountable or flexible.

GROUP AREAS ACT (1)

This Act seeks to establish residential separation of the various races in South Africa, by creating the machinery for specifying which race group may occupy "group areas" set aside by government proclamation. In addition, the Act makes provision for the setting aside of certain areas for specified or defined uses, in terms of ownership and occupation of property by members of different groups. The Act has effectively divided the country's urban areas into White, Coloured, Indian, Chinese and Bantu group areas, though certain parts remain unproclaimed and are referred to as "controlled" areas.

(1) South Africa - Statutes. Group Areas Act No. 36 of 1966, as amended.

The government-nominated Theron Commission has expressed certain reservations about group areas, based on Coloured opposition to the Act:

„Dit (het) geblyk dat daar geen ander statutêre maatreël is wat soveel bitterheid, wantroue en vyandiggesindheid by die Kleurling verwek as die Wet op Groepsgebiede nie" (1)

By establishing group areas specifically for individual race groups, legislation has effectively imposed rigid barriers on factor mobility, which militate against efficient exploitation of resources and opportunities and discriminate in favour of some and against other factors of production. This disrupts the efficient working of the market mechanism by distorting the costs of utilising factors as well as the benefits accruing to society as a whole. To gauge the net effects of this disruption it will be necessary to examine here the theoretical implications of the Group Areas Act, as well as the practical workings thereof.

The essential feature of the Group Areas Act is that where a certain area has been set aside for occupation and ownership by a specified group, a member (or members) of a "disqualified" group may not occupy immovable property in that area. The relevant section of the Act (Section 26.1) states that:

"No disqualified person shall occupy and no person shall allow a disqualified person to occupy any land or premises in the area to which the proclamation relates except under the authority of a permit".

"Disqualified" persons or groups are those who are not of the same group as that for which the group area has been proclaimed. Where the area has been proclaimed a "controlled" area, a "disqualified" person is one who is not a member of the same group as the owner or occupier of the property. Proclamations

(1) Op.cit., p.27. Though the Commission noted these grievances, redressing them did not include repealing the Act.

may also differentiate between ownership and occupation of property in specified areas. Thus sections 23 (1)a and 23 (1)b state that a group area proclamation may declare -

"that the area defined in the proclamation shall be an area for occupation by members of the group so specified"

and

"that ... the area ... shall be ... for ownership by members of the group so specified."

Thus if an area has been set aside for occupation and ownership by Coloured persons, only Coloured persons or companies may operate businesses there. Conversely, Coloured businessmen may not operate businesses in White or other group areas. This is broadly what the Group Areas Act seeks to do. By restricting the activities of each race group to certain areas, the regime hopes to minimise social and residential contact, ostensibly in order to avoid racial friction. While this has perpetrated the greatest social dislocation and inter-group resentment, often bordering on hostility and violent reaction, it has not been remotely effective in achieving its ends.

For purposes of analysis it will be necessary to distinguish between two areas of possible conflict. These are the existence of "mixed" companies, where persons of two or more groups own shares, and the employment of "disqualified" persons in a group area. In the case of the former, the Act has not been altogether clear. Where investors have considered that the risk of contravening the Act has been considerably outweighed by possible benefits, they have been quick to exploit anomalies and loopholes. These arise because the Act is neither explicit in its definitions nor all-encompassing in its provisions. There has been some uncertainty as to the operation of mixed companies in group areas, especially where the control of the company cannot be determined accurately. We may distinguish here between ownership and occupation of

premises. The Act is quite explicit as regards ownership of immovable property by disqualified persons. Any shares in a company owned by a disqualified person, where this company owns immovable property, may be forfeited to the State (Section 36 (1)). In addition, the company secretary and directors are obliged to inform the registrar of companies about disqualified persons with interests in the company (Section 36(2)), and where the Minister feels it is necessary, he may call on a company to disclose particulars of ownership and control, (Section 38 (1)). Further, where this information is not forthcoming, the Minister may declare the company to be controlled by a certain group (Section 38 (2)). If these provisions are not adequate to cover all possible permutations, Section 40 of the Act attempts to block any loopholes with this all-embracing provision:

"No person shall acquire or hold on behalf or in the interests of any other person any immovable property which such other person may not lawfully acquire or hold in terms of this Act."

The Act appears to be quite explicit about the ownership of immovable property in group areas. Under these provisions it is not possible for a company owned by Whites or owned jointly by White and Coloured interests (even if the White group controls less than 50% of the share capital) to acquire premises in a Coloured area.

There are, however, circumstances where it may be possible for disqualified persons or groups to own property. Permits to operate under these conditions have been granted, though very infrequently, and usually only apply to businesses owned by disqualified persons in newly proclaimed group areas, or where alternative trading premises cannot be obtained in the disqualified person's own group area. This has frequently occurred in the case of Indian businessmen, who have traditionally served all sections of the community. It has been observed in Part II that a large proportion of retail activities currently operating in Coloured areas, are in fact owned by

Indian businessmen. In Cape Town, this is particularly prevalent and it will be impossible for the Indian group areas of Cravenby and Rylands to accommodate the numerous existing small traders. For this reason, their presence will continue to influence the trading patterns in the Coloured group areas of Cape Town.

While provisions regarding the ownership of immovable property have been clear, there is considerable confusion over the interpretation of the meaning of "occupation" of property as defined in the Act. The possibilities for exploiting ambiguities in the Act have been readily recognised by businessmen of all groups. The use of the term "occupation" in the Act has important implications for both company operations and employment practices. Section 26 is the relevant section here. Sub-section 1 states that a disqualified person or company cannot occupy land or premises in a specified group area, except under permit. Now it is clear that an individual, if he is Coloured, cannot operate a business in a White area, as he is then deemed to be occupying the business premises illegally. The essential ingredient, however, in the case of a company occupying land or premises in a certain area, is not whether there is participation by members of different race groups, but rather which group holds the controlling interest in the company. The Act states that a company takes its racial character from the group with a controlling interest in the company. Thus where a mixed company has Coloured and White shareholders, if the Coloured shareholders have a controlling interest in the company, it will be deemed to be a Coloured company. A "controlling interest" is defined in Section 1 (1) of the Act in fairly broad terms, and may include the following: where an individual or group holds a majority of a company's shares; or holds shares representing more than half of its share capital; or holds shares of a value in excess of half the aggregate value of all its shares; or shares entitling holders to a majority of votes; or any interest acquired by virtue of the grant of loans for an amount exceeding in the aggregate half its share capital or debentures for this

amount; or the power to exercise control directly or indirectly, by holding any interest in any other company or any control whatsoever over the activities or assets of the company.

In practice, it has been relatively easy to create companies conforming with all the provisions of the Act, yet effectively controlled by disqualified groups. (This does not include firms operating as disqualified businesses by permit.) This may occur in two ways. Firstly, where a firm wishes to operate in an area in which it would normally be disqualified, by forming a company with 51% of shares owned by the qualified group (the group that may legally operate in the area), it conforms with legal provisions, despite the fact that it may exercise effective control over the new venture. An example of this phenomenon is found in the operation of a national soft goods group, trading in White areas as Pep Stores, and in other areas as Pep Stores Peninsula. The physical appearance and operating techniques are probably identical in both companies. Dissatisfaction with this new mixed venture was expressed by the Coloured Development Corporation which challenged the legality of Pep Stores Peninsula. The general manager of the CDC stated that he wished -

"to guard against the establishment in the Coloured areas of mixed companies, the effective control and benefits of which are controlled by people of other races, to the detriment of the Coloured trader." (1)

It transpired, however, that out of a total share capital of R70 750, exactly 51% was held by members of the Coloured group, and the remainder by the parent company, Pep Stores, which, if one analyses the relationship between the two parties, does exercise de facto control over the new operation. While Coloured shareholders own a controlling interest in the new company, it is not altogether clear that they have effective de facto control.

(1) Cape Times, 21 June, 1974.

It has been held that it is "the power to exercise control in any way over the assets of (a) company" that really determines who has the controlling interest (1). It may not be possible to determine which group exercises such control unless a detailed investigation of the company's activities is instituted.

Circumventing the Group Areas Act by establishing mixed companies effectively controlled by a disqualified group, has not been confined to only a few instances. Attempts to overcome barriers to factor mobility have been made by all groups and not only by those establishing themselves in Coloured suburbs. Because the Indian businessman's horizons have been considerably limited by the implementation of group areas legislation, he has been forced to resort to sometimes illegal methods of operation. Thus a second method of overcoming legislation has evolved. This is particularly prevalent in Cape Town's Coloured areas where Indian traders actively pursue their business interests. It is not uncommon to find Indian traders in Coloured group areas operating without a permit. This is accomplished by "acquiring" Coloured status or by registering the firm in the name of a Coloured person. The use of a "front" or "nominee" to overcome group areas barriers to free trade is now a commonplace occurrence. For instance, Indian men married to Malay women have been able to register their firms in their wives' names. (Malays are classed as "Coloureds"). This evasion of the law has led to a growing resentment between Coloured and Indian traders, who are now competing for the already limited expenditure of households in the Coloured areas. Thus a decision by the Athlone Management Committee (an arm of local government) in 1975 to resist the incursions of Indian traders into Coloured areas was labelled a "witchhunt" by both Coloured and Indian businessmen (2). According to a report at the time -

(1) Two cases dealing with the aspect of control are: Ex parte Liquidator Varachia Stores (Pty.) Ltd., 1940. T.P.D.; Adbro Investment Co. Ltd., v Minister of the Interior, 1956 (3) S.A. 350 (A.D.) (see Scholtz, H.M., 1976).

(2) The Argus, 28 February, 1976.

"the committee has also recently refused to support the licence applications of at least two Coloured people believed to be 'fronting' for Indians and questioned the application of several people with Indian-sounding names".

This report goes on to say that -

"a number of Indians are believed to have side-stepped the law by opening businesses using the names of Coloured people or the names of their Coloured or Malay wives." (1)

The use of a "front" has not always worked to the disadvantage of minorities, for increasingly both Coloured and Indian businessmen have started trading in White areas. This method of evasion of group areas legislation is still in its infancy but is an important indicator of a growing awareness among minorities that regional and central shopping districts offer the most profitable returns. Though there is an additional cost imposed by the higher risk incurred by operating under a "front", disadvantages are partially offset by the high returns in these areas. Group areas provisions are usually overcome in these cases by using a White nominee to "front" for the operation. In this way, companies owned by minorities but registered in the name of a person who may legally occupy premises in a White group area, have penetrated the barriers imposed by group areas legislation.

From the point of view of employment, there is some ambiguity as to the legality of employees in a firm operating in a particular group area, where these employees are not of the same group as that of the firm in question (2). This is particularly relevant where employees may be in managerial positions and as such occupying the premises. There has been some confusion as to the meaning and interpretation of "occupation". Perel states that -

(1) The Argus, 28 February, 1976.

(2) e.g. Coloured employees in a White firm operating in a White group area.

"In law the accepted test concerns the measure of control exercised over the premises. For purposes of the Group Areas Act, to occupy premises is to exercise some measure of control over those premises, where control is taken to mean exercising the right to determine who shall be admitted or excluded. In this sense, a businessman controls the premises from which he conducts his business" (1).

He goes on to say that Coloured employees may only work in a White area if they are -

"under the ultimate control or supervision of White employees"

and

"are not employed in a 'managerial' capacity." (2)

This is particularly important for the employment of Coloured managers in White firms as well as the operations of Coloured companies with White "fronts" in White areas. Where Coloured managers are responsible for the premises and have certain authority over others in the firm, they may be deemed to be illegally occupying the premises even though they have no share in the ownership of the firm. Perel states further that -

"the meaning of 'occupation' assumes critical importance. The Courts have held that anyone who controls the admission of outsiders (i.e. the public) into his business premises, and furthermore holds the door-keys to such premises, is deemed to be the manager, and he may therefore occupy the premises only if he is qualified." (3)

Legal counsel (4) confirms Perel's observations. The problems posed by employment of persons of one group in a group area of

(1) M. Perel (1975/76), p.48.

(2) Ibid.

(3) Ibid.

(4) H.M. Scholtz (1976). See Appendix B.

another group are highlighted in the Act and certain proclamations promulgated under it. Disqualified persons may not occupy land or premises in group areas in terms of Section 26(1), in specified areas in terms of Section 17(1) and in controlled areas, in terms of Section 20(1). Exceptions, however, arise from proclamations relating to these sections (1). Bona fide disqualified employees are exempt from provisions under the Act, provided that they do not fall into certain categories of work or are not employed in positions where they exercise control over the premises. These proclamations severely circumscribe the conditions under which employees are exempt from the Act's provisions, and effectively restrict exemptions to menial labourers and other non-supervisory and non-managerial grades of work. For instance, exempted persons are required to work under the full-time personal supervision and control of the employer, who is further required to be continuously present on the premises; also they cannot be employed as chargehands, executives, professionals, technical employees, managers or supervisors. An additional constraint is that the onus is on employees to show that on a balance of probabilities they are exempt in terms of provisions of the proclamation.

The Group Areas Act and its proclamations were enacted with the exclusive intention of preventing interaction between race groups, with the exception of employment of those few classes of labour that in no way involve the delegation of responsibility and authority to employees. In other words, the Act empowers the authorities to regulate the activities of employees and employers throughout the country, where members of one race group are employed by members of another group. Because of the interdependence of the different races in the economic life of the country, this power is extensive, affecting the transfer of skills and know-how from the developed to the underdeveloped sections of the population.

(1) H.M. Scholtz (1976). Proclamations R5 of 1968; R3 of 1968, as amended by R310 of 1969; R4 of 1968, as amended by R311 of 1969.

There is, however, a noticeable divergence between the intention of the Act and its practical application and implementation. While the policy of parallel development has been maintained fairly rigidly in most facets of national life, practical considerations have dictated that legislation supporting this policy has not always been possible to implement. In addition, government departments have not enforced the Act's provisions in all cases, and permits have been made available to firms requesting permission to employ disqualified persons in managerial or supervisory positions, where special circumstances obtain. These are exceptional, however, and may be discounted for practical purposes.

The provisions of the Act have certainly been seen as a deterrent to the employment of minority managers and supervisors, as well as to the mobility of personnel up the management hierarchy. The Cape Town Chamber of Commerce noted in its memorandum to the Theron Commission:

"(The Group Areas Act's) existence has a definite deterrent effect on White employers" (1)

and

"the effect of these control measures and the constant threat of the introduction of more stringent legislation has been to influence employers to limit the employment of Coloureds to the lower employment levels." (2)

While it seems certain that this Act as well as other legislation have detrimentally affected the mobility of Coloured personnel and the acquisition of managerial and entrepreneurial skills by the Coloured community, Perel presents some evidence that where firms have gone ahead and employed Coloured personnel in managerial positions, they have not encountered any opposition from government departments. Out of 8 firms surveyed, only 2 approached the Department of Labour for clarification of the

(1) Cape Town Chamber of Commerce (1973), p.7.

(2) Ibid., p.8.

Act and permission to employ Coloureds in these positions. The remaining 6 did not refer to any government department though one of these only employs Coloured management in Coloured areas. Perel further states that the Act has not been invoked against employers in the Western Cape (1).

In the light of this evidence it would seem that the Group Areas Act has been circumvented on a number of occasions. Contemporary evidence suggests that the stringent implementation of the Act may have been relaxed in accordance with a more lenient application of government policy, though there is no indisputable confirmation of this. To conclude that there is now tacit agreement by government to the employment of disqualified persons in certain areas is clearly erroneous. Recent statements by the authorities in connection with Group Areas legislation does, however, deserve recognition as a movement to ease the rigid application of its provisions. The gross injustices perpetrated by the Act, particularly as to the constraints on various groups in exploiting the most profitable trading opportunities in the urban areas, have to a limited extent been identified by the Theron Commission, and articulated most effectively by minority leaders in the wake of recent unrest in the country. It is possible as a result of these events that some concessions have been made to businessmen. These concessions affect both the establishment and operation of retailing and industrial undertakings. In September, 1976, it was announced that government had decided to open up all general industrial areas to all races (i.e. these areas would in future have no racial character) and to allow -

"more freedom ... to Coloured and Indian businessmen to trade outside Coloured and Indian group areas in larger towns and cities" (2)

The first concession has little practical significance as many industrial areas do not have a racial character anyway, while

(1) M. Perel, op.cit., p.48.

(2) The Argus, 10 September, 1976. From statements by Senator Viljoen.

there are in fact relatively few minority industrial enterprises at present. Because this does remove an artificially created constraint to the free interplay of market forces and to the mobility of minority factors of production, it must be welcomed as a positive step. The second concession is seen as being potentially far-reaching, though somewhat vague. In so far as "more freedom" certainly only means that permits at the Minister's discretion will be issued more liberally in future, there is no doubt that the Act will still be invoked where deemed to be necessary by the government, and that the most efficient allocation of resources among prospective users will not materialise. In October, 1976, the offer of these concessions was repeated, but the issue has been further obfuscated, as this statement shows:

"although the Group Areas Act remained in force, applications for permits to acquire land adjoining Coloured group areas, rural Coloured areas and Coloured settlements would be considered sympathetically. Other cases which differed from these would be considered on merit." (1)

A more precise statement of government intentions is contained in the recent White Paper on the Theron Commission (2). While certain insignificant concessions may be forthcoming, what does seem clear is that there is no move to scrap the Group Areas Act, and as long as this remains in force, minority businesses will continue to be restricted to ghetto areas.

The reaction of Coloured businessmen to questions concerning the importance of group areas as a problem in their business was mixed. In the retail survey (3) only 2% of respondents actually saw group areas as an absolute barrier to advancement,

(1) The Argus, 11 October, 1976. From statements by Dr. S. van der Merwe.

(2) South Africa. W.P.D. (1977).

(3) Coloured Development Corporation, Survey No. 10. op.cit.

though a number of the other problems and complaints advanced may be partially attributable to group areas encapsulation. The most important of these were excess competition (29%), unsafe environment (35,5%) and dirty environment (12%). Because of geographical immobility, particularly into lower risk areas, these three problems are insurmountable for the individual trader. The manufacturing survey (1), on the other hand, revealed that dissatisfaction with group areas was a major complaint of businessmen. As many as 40% of respondents had actually been inconvenienced by forced removal and resettlement though 73% claimed that they saw group areas as an obstacle to development. Only 20% thought that group areas provided protection for Coloured businesses, while 7% were undecided.

Though businessmen have not been unanimous in their condemnation of group areas as a barrier to the development and expansion of business owned by minorities, there appears to be considerable criticism of legislation. As indicated above, many businessmen experienced the effects of the legislation personally, while the majority saw it as a barrier to their advancement. The quantification of the costs of the Act to minority businesses is largely impossible, though the costs of dislocation of business activities are likely to be considerable.

THE FACTORIES ACT (2) AND SHOPS AND OFFICES ACT (3)

These two Acts and the various regulations promulgated under them regulate the conditions of work in factories, shops and offices. Like the Group Areas Act, these Acts are intended to prevent racial "friction" by segregating the working environment and ensuring that separate facilities are provided for all races in places of employment.

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- (1) Op.cit.
 - (2) South Africa - Statutes. Factories, Machinery and Building Work Act No. 22 of 1941, as amended.
 - (3) South Africa - Statutes. Shops and Offices Act No. 75 of 1964.

The essential feature of these Acts as they affect the employment of persons of different groups are as follows. The Factories Act (Sections 51.1(h) and 51.1(h)bis) empowers the Minister of Labour to make regulations where these may "safeguard the physical, moral or social welfare" of employees. These regulations are implemented by inspectors who are given wide discretion as to the manner and degree of implementation. The relevant regulations under Section 51.1 of the Act are contained in the chapter on Health and Welfare (1). Regulations B3, B4, B7 and B8 stipulate how sanitary conveniences, washing facilities, change rooms and rest and dining rooms, are to be provided in factories for Whites and non-Whites, and regulation B16, headed "Welfare in Factories", governs the working conditions between races and sexes. Where persons of different races or sexes work in a factory -

"those steps as are practicable in order to ensure that the employees of one race or sex work apart from the employees of any other race or sex, must be taken".

Section B 16 further states that -

"where, in the opinion of an inspector the steps taken in pursuance of this regulation are inadequate, he may require those further steps to be taken as in his opinion are practicable and desirable." (2)

The Shops and Offices Act, inter alia, provides for the regulation of conditions of work in shops and offices in much the same way as the Factories Act (see Section 31.1(f) and (g)). Regulation 7 states that when -

"employees of different sexes, races or class work together in the same room and in the opinion of the opinion of the inspector, it is reasonable or necessary ... he may by notice ... require the owner or employer to ensure that the employees of a particular

(1) Business Blue-Book of South Africa, (1976). Regulations under the Act.

(2) Ibid.

sex, race or class work apart from the employees of any sex, race or class." (1)

In addition, separate facilities must be provided, as under the Factories Act.

The implications of these two Acts are twofold. Firstly, their regulations make it extremely inconvenient and costly in some instances to provide completely separate facilities, where a firm may decide to employ Coloureds at managerial level. Secondly, because the inspectors have been given such wide discretion in implementing the Acts, and have been known to come down hard on firms contravening these regulations, firms may be reluctant to create a situation where considerable embarrassment and cost might result from complaints by White workers or their trade unions. Though the Acts are supposed to apply to all races equally, in practice they detrimentally affect the mobility of mainly minority employees. Firms will be reluctant to upgrade workers to supervisory or managerial positions where they might be contravening these Acts.

THE INDUSTRIAL CONCILIATION ACT (2)

The Act governs relations between employers and employees and the relevant regulation affecting business development is Section 77, which introduced job reservation. The Minister of Labour may instruct an Industrial Tribunal to investigate work situations and make job reservation recommendations, which if accepted, would reserve certain categories of work for specified race groups. Although 26 job reservations are in force, it is reported that they affect only a small proportion of the country's labour force, namely less than 3%. Perel observes, however, that they do affect the higher paid, senior positions and were originally implemented to -

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- (1) South Africa. Government Gazette Extraordinary. 27 November, 1964. Government Notice R1945, as amended by Government Gazette 16 June, 1972. (No. 3565) Government Notice R565 of 28 April, 1967 and R1013 of 16 June, 1972.
- (2) South Africa - Statutes. Industrial Conciliation Act No. 28 of 1956, as amended.

"safeguard the standard of living of the White workers in South Africa." (1)

Scheepers has stated, more correctly, that -

"statutory job reservation does not preserve the status quo in the racial make-up of industry and gives little protection to those it seeks to protect, while its cost in ill will and antagonisms between the races is high." (2)

The debate on job reservation and its effects on the economy has raged for some time, but it does seem clear that the practical implementation of Section 77 has had little significant impact on employment practices in the past. Van der Horst summarises the position nicely:

"It is frequently said that these determinations have had little effect. Successive Ministers of Labour have reiterated that they have only affected 2 per cent of the whole work force. While they have not in fact prevented the increasing employment of Coloured persons in an increasing variety of positions and in positions higher up the industrial ladder, they have nevertheless almost certainly had an inhibiting effect." (3).

This is well brought out in the following statement by a representative of the Cape Chamber of Industries, who pointed out -

"the completely erroneous impression of many employers that Coloureds may not be employed in senior administrative or supervisory positions. The employers concerned have such a hazy knowledge of job reservation that they firmly believe that all the higher paid jobs are reserved for Whites!" (4)

While firms are probably misinformed about job reservation, this is not surprising in view of the multiplicity and complexity of

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- (1) M. Perel. op.cit., p.46, quoting the Minister of Labour in 1956.
 - (2) J. Scheepers, in W.H. Thomas (1974), p.73.
 - (3) S. van der Horst, in H.W. van der Merwe et al. (1976), p.155.
 - (4) Ibid.

legislative measures enacted by successive regimes. The "do's" and "don'ts" of the four Acts mentioned in this section and the penalties provided in them, are sufficient to deter most business organisations from attempting to institute changes in traditional employment practices.

To these statutory measures must be added the effects of customary and administrative discrimination. Perel (1) gives a number of examples which emphasize that there is still much uncertainty as to the implementation of the legislation. He quotes the Minister of Labour as having said that -

"Job reservation is implemented not only in a statutory way, but also in an administrative way." (2)

This is particularly true for the functions of the Department of Labour, which is responsible for implementing government policy and legislation and ensuring that the interests of White workers, primarily, are protected. This analysis has already noted the extensive discretionary powers of the Department's inspectors, in terms of the various Acts. It will be instructive to quote Perel at length here in an interview with the Divisional Inspector of Labour for the Western Cape:

"The Inspector said he was aware that many White-owned companies were training Coloureds for management positions. Where this was being done in order to develop and staff branches in Coloured group areas with Coloured staff, his Department took little or no action. But where training led to managerial appointments in White areas, this situation could violate the provisions of the Group Areas Act ... and/or government policy in relation to Coloureds in authority over Whites, or qualified Whites being kept out of these jobs by Coloureds. He maintained that he had from time to time received representations from companies who wanted to upgrade Coloured staff, as well as appeals to prevent the upgrading from White staff of those same companies. His guiding principle was to treat every case on its merits." (3)

(1) M. Perel, op.cit., pp.46,47.

(2) Ibid.

(3) Ibid.

This authoritative statement emphasizes that where employers wish to upgrade or employ Coloured employees in managerial or supervisory positions, not only the provisions of the relevant legislation must be considered, but also the possible reaction of Department of Labour officials intent on implementing government policy with regard to relations between White and non-White workers. Perel's survey of 8 large organisations in Cape Town to determine to what extent the private sector took cognisance of possible retributive measures by the Department of Labour, indicates that in most cases firms employed Coloureds in senior positions without consulting the Department. The survey included firms in the retailing, banking, insurance, financial and manufacturing fields, and all had at one time or another employed Coloureds in senior managerial positions. Only two firms actually approached the Department of Labour prior to making the appointment, and only one was given permission. The second was refused permission but later made the appointment without permission. A third firm employed Coloured management in Coloured areas, and in departments staffed only by Coloured personnel, while the remaining five promoted Coloured staff without consulting the Department. At least one of these firms had a Coloured manager in authority over White staff. Respondents generally saw the Department of Labour as the chief obstacle, and not the government, which they felt, was genuinely intent on developing the Coloured community. White employees in these firms were generally in sympathy with the changes though those who objected were dealt with harshly by the firms. Coloured employees, Perel further reports, were favourably disposed to the appointment of Coloured managers. Finally, Perel notes that the key element in the promotion of Coloured personnel to senior positions was that firms were certain that success would be achieved (1).

It has been shown that, despite the obvious intentions of the legislation, some employers have nevertheless ignored the

(1) M. Perel, op.cit., p.47.

provisions and employed disqualified persons in managerial positions. But the combination of legislative measures, the wide discretionary powers of the Department of Labour in implementing not only this legislation but also government policy, as well as the power of unions in preventing the upgrading of minorities where the interests of Whites are threatened, has had a considerable deterrent effect on the business development of minorities, by preventing or at least inhibiting their employment in responsible, senior managerial positions in White firms.

An important medium through which the necessary entrepreneurial and managerial skills can develop, has been effectively blocked by restrictive measures. The private sector's ability to transfer skills and expertise to developing groups at a low cost to the economy would normally play an important part in any development strategy for minority upliftment. Part I has shown that this is an important element in business development programmes in the United States. Blacks are being encouraged to join large corporations where there are no limits to advancement up the management hierarchy. Though social and economic barriers still have to be broken down, a positive effort is being made by the private sector to give Blacks "a share of the action". The Afrikaner, too, acquired valuable experience in the large Afrikaner-dominated financial and banking organisations. Because there are no such large undertakings owned by the Coloured community, and the likelihood of these arising in the foreseeable future is minimal, the best vehicle for the effective transfer of skills is the White-owned business organisation. (Note, too, that the benefits derived from protective government employment are not available to the Coloured community, as they were in the Afrikaner businessman's formative years.)

Employment restrictions have not been the only obstacle to development. The Group Areas Act has compounded the problem of resource redistribution by preventing the free movement of factors in cities. This directly conflicts with the desired objective of expediting and facilitating the acquisition of

productive assets by minorities, and undermines the basic competitiveness of the free enterprise system. Blanket protection as embodied in group areas has been ineffective and in addition, economically inefficient. It favours both good and bad entrepreneurs and perpetuates inefficiencies. A policy of selective protectionism, as seen in the development of Negro and Afrikaner businessmen, would, on the other hand, only favour those who have the ability in the first place, but who are unable, through external forces, to enter the market and compete favourably with established enterprises. Protection would in this instance be desirable.

The following arguments against the principle of group areas as protection for Coloured business are based on economic criteria only, and reflect the fundamental inefficiencies of the system, as well as the misconceptions about the nature of development of business enterprise.

1. As mentioned above, group areas prevent competitive forces from driving out weak, inefficient units, which are utilising valuable scarce resources in sub-optimal ways.
2. Group areas prevent the free flow of capital between groups and firms. This is particularly detrimental to the formation of capital in poorer areas and among poverty or target groups. The need to redistribute income-producing assets to the poor is both desirable and urgent.
3. In a similar way, they inhibit the acquisition of skills, both technical and managerial, by minorities. Employment restrictions are compounded by the Factories Act, the Shops and Offices Act and the Industrial Conciliation Act.
4. The third factor affected by group areas is land. Prime business land, despite its inferiority, cannot be effectively exploited by the most efficient users. Lack of availability of land within Coloured group areas is often cited by businessmen as an obstacle to growth and diversification. By placing artificial restrictions on the acquisition of land,

prices are considerably distorted, as the market for business premises cannot function effectively.

5. Because agglomeration economies are only available in large regional and central business districts, these areas have generally become the most profitable in the trading hierarchy of urban areas. Group areas, however, prevent minorities from exploiting these opportunities, which are usually only to be found in White areas.
6. Conversely, because of factor immobility, lack of infrastructure and social overhead capital and the pathologies that are typical of poverty cultures, the Coloured suburbs, particularly those that accommodate the poorer classes, are the high risk, low yield areas, and are therefore unsuitable and fundamentally unprofitable for exploitation by business enterprise. Coloured businessmen have been restricted to these areas only.
7. An often ignored aspect is the considerable inconvenience caused by group areas to consumers. Where large national chain stores offer the advantages of lower prices, superior quality and greater convenience to shoppers, the benefits to low income households may be significant in terms of increasing real incomes. Group areas legislation prevents these multiples from operating in Coloured areas. Consumer satisfaction is therefore considerably reduced.
8. The uncertainty arising from group areas proclamations is an additional hazard in the market place. Firms trading for a long period in one place have been uprooted and resettled in foreign surroundings. This has led to uncertainty among those firms operating in mixed areas or areas due for re-classification. This, in turn, has militated against investment in new premises and the renovation of old ones, and has contributed to the ugliness and dilapidation found in ghettos. An example of this can be found in Salt River and Woodstock in Cape Town, where large sections of the area are proclaimed for neither White nor Coloured occupation and ownership. After the lessons of

District Six, businessmen operating in these areas cannot be sure of their future.

9. Besides the element of uncertainty, group areas have caused dislocation and costly resettlement schemes for minority businessmen. Infrastructure in new areas is often inadequate or of poor quality and businessmen have to adjust to alien environments, where risks are high and yields low.

2. LAND ISSUES, PLANNING AND INFRASTRUCTURE

The role of land issues in the development of Coloured businessmen revolves around the implementation of the Group Areas Act and the alienation of business land by the Department of Community Development, in terms of provisions under the Housing Code. The planning of group areas, which includes both their location in relation to the urban community and their internal layout, is an important adjunct to land issues. Infrastructural development by central, provincial and local authorities will be examined as a possible factor affecting business development.

LAND ISSUES

The previous section analysed the effects of group areas legislation, which made provision for the establishment of group areas for each race group. A number of state departments as well as provincial and local authorities are involved in the administration of group areas, and the vast array of bureaucratic procedures of these various bodies, makes the administration of group areas a time-consuming task. As a result of these procedures, delays in the proclamation of group areas frequently affect the establishment of business undertakings, as prospective businessmen are not able to acquire land in such

areas until the proclamation has been gazetted (1). What is probably more important, however, is the uncertainty surrounding the proclamation of group areas. In Cape Town, for example, Walmer Estate, traditionally an area occupied by the Coloured community, has only recently been proclaimed a Coloured group area. The fate of neighbouring District Six places the future of the Woodstock/Salt River areas of Cape Town in jeopardy. Businessmen operating here will be reluctant to invest in new equipment and new buildings, but because of locational preferences be unwilling to move away. Such uncertainty is likely to produce speculative buying and selling of land which is largely unproductive and wasteful.

Another problem arising from delays in group areas proclamations is that the Coloured Development Corporation cannot assist businessmen or establish businesses in areas that have not been proclaimed. The Theron Commission notes that -

"In baie gevalle is ... 'n gebied nog nie tot 'n Kleurlinggroepsgebied ... verklaar nie en gevolglik kan daar nie sake-ontwikkeling plaasvind nie. In gevalle waar 'n gebied nog nie tot 'n Kleurling-groepsgebied verklaar is nie ... mag Kokor volgens die bepalings van sy stigtingswet nie optree deur óf self sake op te rig óf dit te finansier nie." (2)

The Coloured Development Corporation Act (3) states that the Corporation may only operate in Coloured group areas or industrial areas. For example, in Bellville South in Cape Town, the Corporation has only recently been able to provide much needed business premises, despite the existence of the housing scheme for some years.

Besides the unavoidable red tape and general bureaucratic nature of township applications, proclamation and establishment delays

(1) e.g. Bellville South in Cape Town.

(2) Op.cit., p.64.

(3) South Africa - Statutes. Act No. 4 of 1962, Section 3.

are also caused by a lack of interest on the part of local authorities. It can be expected that the needs of the Coloured community will not always be accorded priority. Where it is feared that Coloured business activities will usurp custom normally going to White outlets in close proximity to Coloured areas, vested interests may force delays in the surveying and alienation of business sites to Coloured businessmen. The Theron Commission has taken cognisance of this problem and Recommendation 16 of its Report (1) refers to the existence of vested interests in local and provincial authorities, and recommends that the necessary measures be implemented to accelerate the development of businesses.

A major obstacle and cause of delay has been the alienation procedure for business land as laid down in the Housing Code (2). Section 18.1(e) states that a local authority may not alienate land bought with Housing Funds without approval of the Minister. Such land is sold -

"in the case of business sites, on the conditions and in the order of preference as indicated below:

- (i) to the Community Development Board at cost to date of sale if the Board itself intends developing and at market value if the Board intends using the sites for resale;
- (ii) if the Community Development Board is not interested in purchasing, to the Coloured Development Corporation at market value ...; and
- (iii) to the public by tender or auction."

Section 19 goes on to state that -

"If any business sites are provided on land acquired with Housing Funds and development thereof has not commenced within one year after the date of approval of a housing scheme on the land, the local authority must dispose of such business sites as prescribed (above)."

(1) Op.cit., p.484.

(2) South Africa. Housing Code. (Department of Community Development).

This order of preference militates against the most efficient and prompt development of business land. The private sector, which can be expected to develop the land more efficiently than public authorities, actually has little chance of acquiring land for development. If the developer itself does not wish to develop the business sites (in the case of the Coloured community this is nearly always a local authority), they are sold to the Community Development Board (of the Department of Community Development) at cost if the Board wishes to develop them. If not, the Coloured Development Corporation may exercise its pre-emptive right and only thereafter, if not required by the Corporation, will the land be offered to the Coloured community. Three aspects of this procedure are remarkable. Firstly, where there is no incentive for haste in disposing of land, negotiations to the point of public auction or tender may take years, and have actually been known to do so. The lengthy correspondence in connection with negotiations and investigations by interested parties is itself subject to long delays. Not only is the exploitation of opportunities by Coloured businessmen unnecessarily delayed but consumers are also prejudiced.

A second aspect of this procedure concerns the abilities of the various authorities to develop the land. While the planning and erection of convenience outlets for small communities can present little problem, the optimum provision of facilities for large communities may require detailed investigation and planning to ascertain the number, size and type of retail and service outlets needed by the community, particularly where larger capital-consuming ventures such as service stations, hotels, liquor outlets, cinemas and super-markets are necessary. Many local authorities do not have the experience and expertise that make planning such an important facet of township development, nor are the necessary statistics available to them. Thus although the local authority may have the right to develop business sites before any other body or the private sector, it may not be qualified to do so, and may be reluctant to forgo its privileged position by offering business land to other entities.

Further problems in planning of townships will be analysed below. These problems are often compounded by the ignorance of local authorities about assistance available to them from the Coloured Development Corporation. Although the Corporation is well known to most large municipalities throughout the country, small local authorities are often unaware of the Corporation and completely ignorant of its activities, despite regular publicising of its presence and functions. The qualifications of the Department of Community Development as township developers are suspect too, as will be explained below. That this body should have preference over both the Corporation and the private sector, is illogical, and it is questionable whether it should be involved in the development of business sites at all. Certainly the Corporation's expertise and experience in developing businesses should enable it to perform more effectively than either the Department or local authorities.

The Theron Commission has recognised these procedural difficulties:

"Dit is inherent aan hierdie prosedure dat daar in geen stadium enige verpligting bestaan tot die ontwikkeling van sakepersele nie. Die afbakening van persele, die opmeet daarvan, voltooiing van verskillende verslae, prysonderhandelings, aansoeke deur die plaaslike owerheid by die Gemeenskapsontwikkelingsraad om afstanddoening van voorkeurreg op die ontwikkeling van grond, ens., kan tot twee jaar en selfs langer duur." (1)

The Commission has not, however, advanced any solution but has merely recommended that the procedure be simplified (vereenvoudig) to increase the supply of business land as expeditiously as possible (2). While simplification is necessary, the ultimate objective should be to facilitate the acquisition of business land by the private sector. This can only be achieved by placing the private sector first in the order, and ensuring that both the local authority and Coloured Development Corporation

(1) Op.cit., p.64.

(2) Ibid. Recommendation 15, p.484.

are able to assist and guide the development through all stages, if the purchaser desires this assistance. These bodies may point out that in the past the private sector has been unable to provide the optimum type of development, which justifies interference from the public sector. This can be avoided by firstly, including the Corporation and other bodies offering expertise in the field, in the planning of the scheme and the determination of the extent of business land and type of development envisaged, bearing in mind the needs of the community. If necessary, this procedure may become mandatory for local authorities. Secondly, to ensure that the private sector has the resources, including capital, developmental know-how and entrepreneurial skill, to undertake the development, and does in fact develop the land in accordance with stipulated conditions, the Corporation may offer its assistance again, and, together with the local authority, act as "watchdog" to ensure that both businessman and consumer are satisfied. These alternatives are consistent with the principles of competition and selective protectionism. By offering business land firstly to the private sector and only thereafter, if not taken up, to government bodies, the competitive element is accentuated. Participation by an appropriate development corporation or the developed White business sector, where required, may include some of the instruments associated with protection, such as the provision of free advice and managerial expertise, capital at "soft" rates of interest and equipment and supplies with repayment moratoria and long-term repayment terms.

A third aspect of alienation concerns the price of the land and the method of disposal to the private sector. The price of the land to the Coloured Development Corporation is determined at market value, but it has been pointed out that a realistic market price is often incalculable where new townships are developed in areas where no market for business land even exists (1). Market prices are determined usually by professional valuers. In view of the absence of a true market for

(1) Theron Commission, op.cit., p.63.

business land in new townships, price may be more justly determined by a "cost-plus" method, where the basic cost of the land, cost of services and a reasonable profit margin would be the constituent elements. This problem may be largely avoided, however, if the private sector is offered the land first. The Theron Commission has pointed out that disposing of the land by tender tends to cause abnormally high prices being paid, as the shortage of business land in the Coloured suburbs prompts prospective purchasers to tender far above market value in order to secure the property (1). Sale by public auction has been recommended as a more equitable method of disposal.

PLANNING

The planning of group areas, both internally and in relation to the wider conurbation has been an important retardative factor in the development of minority business. Planning is important as it establishes the relationship among various land uses in an area and those outside. These relationships may be either competitive or complementary and their strength will depend on their scale and juxtapositioning vis-a-vis one another.

The location of group areas in relation to existing conurbations has tended to negate the policy goal of separate business sectors for different groups. Group areas are inextricably interwoven with the wider urban fabric, which makes their existence as separate entities impossible. The movement of labour to industrial and commercial undertakings, a movement of non-White labour to White industry, and the flow of goods and services from the latter back to the former, are characteristic of this interdependence. The factor inputs into the firm, namely capital, entrepreneurship and raw materials mostly from White-owned sources, and labour, both highly skilled and unskilled,

(1) Theron Commission, op.cit. p.64.

emanating from the non-White groups, are inseparable in the production process, and to speak of a White economy, on the one hand, and Coloured economy on the other, is clearly unjustifiable.

While residential separation has been implemented throughout the country, the degree of separation differs substantially from town to town. This may be expected to have an important bearing on the number, size and type of businesses established in Coloured group areas, as consumers will offset the costs of travelling to competing facilities, in terms of both transport and inconvenience, against the benefits, which might include lower prices, a wider range of merchandise, better quality and certain social benefits. (These will be discussed in depth under Competition.) Because there are strong competitive forces operating between businesses within the Coloured areas and those in other areas, these forces will be considerably weakened or strengthened according to two variables. These are the nature of shopping activities in the two areas and the ease of access to outside facilities. These competitive forces always favour businesses outside Coloured areas (the businesses of the more developed White and Indian groups), while the second factor depends on the distance between the areas and mobility of the local population. There is no generalised policy as regards the distance between group areas of different groups, though the tendency is for non-White group areas to be located further away from the city centre and concentrations of White population.

The Coloured group area in Alberton provides an example of locational disabilities. Located about 20 km. outside the urban periphery, the Coloured area is separated from the town centre and major shopping facilities by industrial areas, African locations and tracts of undeveloped agricultural land. A town centre is planned with basic shopping facilities and a limited number of services to cater to the small population of about 5 000. But because Alberton's Coloured population is only expected to grow to about 40 000 at full capacity in

several decades, businessmen operating there have limited opportunities for investment, as the growth of large undertakings will be considerably curtailed by the future extent of the market. Agglomeration economies cannot possibly result from such a small-scale situation, and both increasing mobility and consumer awareness, coupled with the fact that working opportunities for Alberton's Coloured population are to be found throughout the eastern and south-eastern Witwatersrand (Alberton is a regional settlement area for the Coloured population of Edenvale, Kempton Park and Germiston), preclude the possibility of a significant share of consumption expenditure flowing to Coloured-owned enterprises. Dynamic changes in consumer behaviour and the realities of a non-racial shopping pattern would seem to prejudice minority businessmen, whether they have the advantages of encapsulation and distance from established facilities, or not.

Examples of this type of predicament abound throughout the country. It appears that the location of group areas vis-à-vis central shopping areas has a direct influence on the establishment of a separate Coloured business sector. The separation of race groups is not a sufficient step in the creation of an independent class of businessmen, as the above examples show. Competitive forces between group areas cannot be overcome by mere geographical dispersion of these areas, unless all economic ties between areas are severed. This would clearly be impracticable where group interdependence is firmly established. Not only are competitive linkages between areas an obstacle to development, but the shallow dispersion of the Coloured population outside the Cape Province, accounting for only 13,2% of the total (1), precludes the possibility of creating extensive viable Coloured businesses within Coloured group areas. Within the Cape Province itself, 64% of the Coloured population resides in the western and south-western regions, Port Elizabeth and Kimberley, which further emphasizes the market problems facing prospective and existing businessmen in Coloured areas.

(1) South Africa. Population Census, 1970. Report O2-05-01

The dispersion of group areas is not the only problem encountered by businessmen. Even where areas are concentrated adjacent to and are integrated closely with the wider conurbation, they are generally poorly located in relation to other areas of the same group or are juxtaposed to existing business zones in such a way as to preclude extensive development by Coloured businessmen. An example of the latter case is found in George, where the Coloured group areas are spread peripherally around the south-eastern boundary of the town and are therefore not sufficiently compact to support extensive business development. Like most towns in the Cape, George's White business community is dependent to a large extent on its Coloured clientele. In 1970, 62% of the population of George was non-White (58% Coloured (1)) and the proportion has probably increased since then. Between 1970 and 1976 George District showed an annual Coloured population increase of 6,4% and the town itself an increase of 7,8% (2). In view of the dependence on Coloured consumers, there is unlikely to be pressure from White business interests to develop a separate class of Coloured retailers.

A second example is that of Great Brak River where there are over 3 000 Coloured persons (3). No commercial facilities have been provided in the Coloured area, which is situated within walking distance of the White group area and its retail facilities. Great Brak River is a microcosm of the economic relationship between the underdeveloped Coloured areas and the developed White areas. The local Coloured population is, almost without exception, employed in the factory, saw-milling and trading operations of a large local organisation. Because the community has no income-earning assets of its own (besides its labour) and the opportunities for acquiring such assets do not exist, the flow of income to the community is restricted to the returns to its labour. The only attempt to augment the community's welfare (other than providing employment

(1) South Africa. Population Census, 1970. Report O2-05-01.

(2) Coloured Development Corporation, Survey No. 9 (1976).

(3) Ibid.

opportunities) is the provision of a few community facilities. While this is a valuable redistributive measure, it is a once-and-for-all transfer and not to be equated with the transfer of income-earning assets, which produce a return for their owners over a longer period of time. Such assets are found in the business undertaking, but the location of Coloured group areas in close proximity to established White shopping facilities, virtually precludes the development of a separate Coloured business class.

The location of group areas in larger metropolises further underlines the disadvantages imposed on minorities. Although Johannesburg's Coloured community numbers over 100 000, it is so dispersed that the advantages normally conferred by extensive markets are lost to Coloured businessmen. Coloured group areas have been proclaimed in the Bosmont/Newclare complex and Riverlea in the west, Eldorado Park in the south-west and Ennerdale even further south of Johannesburg. In Cape Town the locating of group areas has similarly prejudiced the expansion and diversification of Coloured business interests. Many isolated pockets of residential land have been allocated to the Coloured community with the result that scale economies are negligible. As many of these areas are peripheral to existing facilities in the city and its suburbs, competition from business in the White areas, which is characterised by large retail operations, has limited the development of Coloured businesses to small, convenience outlets.

The internal layout of Coloured group areas has further compounded the difficulties of operating viable business undertakings. The Theron Commission states this problem as follows:

„Die interne uitleg van nuwe Kleurlinggebiede maak in die meerderheid van gevalle nie voorsiening vir voldoende en goed geleë sakepersele nie. Dit kom egter ook voor dat selfs waar daar voldoende sakepersele beskikbaar is, hulle dikwels in terme van sonering, ligging en grootte ongunstig is vir sakebedrywigheid." (1)

(1) Op.cit., p.63.

While recognising that local convenience shops provide an important service to the immediate community, their overprovision is detrimental to the evolution of a class of entrepreneurs. The commercial planning of townships has generally been based on the principle of providing a multitude of small sites without due consideration for growth and diversification of activities. While competition ensures that consumer interests are not prejudiced, fragmentation and over-supply of business sites preclude the profitable operation of the numerous small outlets operating in the Coloured group areas. Many of these outlets are marginal undertakings and in most instances it is only exceptionally low opportunity costs that keep their owners from transferring to alternative forms of remunerative employment.

It has already been pointed out that local authorities do not generally have the expertise required to plan residential areas, and even more senior bodies, such as the Department of Community Development and the Provincial Authorities are lacking in the finer skill requirements and knowledge of business development that is necessary for the most effective planning of new areas. The Coloured Development Corporation, one of the few bodies with some knowledge of the needs of the businessman and with a well established data bank to provide statistical backing for recommendations, has not been included in the planning process, though more recently the Corporation has been consulted by various planning bodies. Unfortunately, this is not mandatory and once plans have been passed by the various authorities, and the township has been registered, the Corporation has been powerless to intervene and amend potential problem areas. These problems include the fragmentation of business sites, the inefficient distribution of these sites through the townships and the lack of regard for complementary land-uses.

Fragmentation of business sites, as already mentioned, leads to a multiplication of identical types of trading activities, and the preponderance of general dealers, grocers and cafes to be found in the Coloured areas is ample witness to the

disadvantages imposed by poor planning. These outlets offer little variety of goods to consumers and usually only sell the day-to-day needs of low-income households. A modal turnover of R2 500 per month (1), while possibly providing the shopkeeper with a small income, precludes business savings and dynamic growth of assets among minority groups and thus hinders development - fragmentation of business sites has encouraged small, marginal undertakings and militated against the formation of large-scale business in the retail sector. The concentration of retail and service activities in large regional centres that has come to characterise cities, has been singularly lacking in Coloured suburbs, with a few notable exceptions. Thus the economies of agglomeration associated with concentrations of business activity have not been available to Coloured businessmen, and, coupled with diseconomies created by crime, vandalism and fragmentation, have contributed substantially to the high cost of operation in the Coloured suburbs.

The third problem associated with the planning of housing schemes is that local authorities do not always take cognisance of complementary or conflicting land uses. Where community and business facilities are zoned, they should be juxtaposed to each other in order to facilitate use by the community as well as to reinforce one another. Integrating business sites with community halls and rent offices can diminish travelling costs for local residents, while simultaneously strengthening the role of shopkeepers in community life. On the other hand, certain land uses are conflicting. Thus the zoning of church sites or old age houses has created problems for developers of liquor outlets, who cannot obtain liquor licences where their sites are in close proximity to certain community facilities. In addition, planners do not always take into account transport routes. Because in many housing schemes business sites are not located on arterial transport routes, available "passing trade" is lost.

(1) Coloured Development Corporation. Survey No. 10 (1976).

Planning shortcomings have been responsible to a large extent for the problems confronting Coloured businessmen. When planning authorities have had the expertise to provide a well-structured development, they have often neglected to consider sympathetically the needs of the business community and the satisfaction of consumer wants. Emphasis has usually fallen on community facilities such as schools, hospitals, halls and churches, while the benefits of a balanced range of business activities have not been clearly perceived. Planning of business sites has tended to accentuate fragmentation, when the trend towards greater concentration of commercial activities has led to extensive agglomeration economies. Rezoning of land uses is a lengthy and slow procedure, thus once errors have been made, their rectification is susceptible to the vagaries of the bureaucracy.

The Theron Commission has noted that -

„Alhoewel herbeplanning van sodanige gebiede noodsaaklik is met die oog op die daarstelling van 'n meer positiewe sakeklimaat, het getuies beweer dat sommige plaaslike owerhede traag is om dit te onderneem." (1)

With financial resources committed to providing more urgent community needs, business replanning and redevelopment have not been seen as priority tasks, particularly as minority groups do not have the political leverage that may prompt local authorities to consider their interests more sympathetically. Central and local authorities are not generally aware of the problems associated with minority business development, and thus corrective measures in future planning of the business component of new areas are unlikely to be instituted. Until these problems are recognised and planners make provision for organic, optimum business development, business interests of minorities will continue to be prejudiced and the process of rationalisation and specialisation will be retarded.

(1) Op.cit., p.63.

Where expertise is lacking, developing authorities should be compelled to call on the services of public and private bodies with experience of planning business activities. The Coloured Development Corporation, for example, can offer advice and guidance to local authorities and is generally willing to offer its services. But local authorities have in the past been reluctant to call on outside bodies for assistance, with the result that in the long term, costs are high. Conflicting land uses and over-provision of small, fragmented sites, have contributed to development barriers. Well researched planning might restrict the number of business sites available within an area, and the scarce capital resources of the community would then be diverted to more efficient and remunerative utilisation of these sites.

INFRASTRUCTURE

The provision of infrastructure for commercial and industrial enterprises, as well as the physical environment, are two factors that have further retarded the development of Coloured business. Commercial activities are generally severely prejudiced by inadequate provision of basic amenities. In many cases roads are very rudimentary, and storm-water drainage, electricity, water and sewerage are completely lacking. In complete contrast, this situation is rarely, if ever, found in White business areas. In winter, many Coloured areas are often water-bound, while in the summer the prevailing winds blow sand and litter about indiscriminately.

Lack of police protection against vandalism and theft is another hazard faced by minority businessmen, which forces them to introduce costly measures to combat the problem. In the retail survey, theft and vandalism were listed as the most important problem confronting retailers. In 35,5% of cases, areas were pronounced as being "unsafe" (1). Similar problems exist in

(1) Op.cit.

in the Negro ghettos. Table 1.3 shows that "lack of police protection" was mentioned as the main problem area in Harlem.

Minority industrialists labour under similar disadvantages. In some instances, they have struggled to obtain telephones, properly surfaced roads and regular municipal cleansing services. The manufacturing survey showed that 17% of respondents had complaints about roads (some had actually gone to their own expense to improve road access), while 17% had no telephone. Vandalism was a source of complaint in 13% of cases (1).

Land issues, planning and infrastructure have contributed considerably to the problems of minority businessmen. The Coloured businessman is forced to trade on land and in areas where costs of operation are often higher and risks greater than traditional shopping areas located in White group areas. Because most new residential areas are developed with state funds, certain procedural difficulties in acquiring land have made business sites scarcer and more expensive, while running costs are also higher due to environmental and infrastructural disadvantages. The basic conflict here is that while the procedures for acquisition of land and premises by minorities should be simple and easy to negotiate, they are in fact so complicated and costly that minorities are considerably disadvantaged, and the process of allocation is severely distorted. This is particularly unwarranted in a situation where the redistribution of opportunities to minorities is a prerequisite for faster and more effective development. The current system has in fact seriously hindered the acquisition of assets by the Coloured community, and has perpetuated the inequalities inherent in the "dual town" philosophy. It is an irreversible fact of economic life of cities that clustering of commercial activities in central business districts and regional centres provides substantial cost advantages to businesses locating there, and the benefits may be passed on to consumers in the

(1) Op.cit.

form of lower prices and greater variety of goods and services. These disadvantages further emphasize the disparities between returns in established, modern commercial nodes and those in less developed, poor areas. Cilliers has stated that -

"in a metropolitan complex ... (the policy of separate development) implies in fact the evolvement of so-called 'double cities' side by side to one another. The established economic and ecological structure of the city, however, militates very strongly against such development." (1)

The planning of group areas, the alienation of land to minorities and the lack of infrastructural development and an environment conducive to profitable business operation, have in reality strengthened consumer dependence on shopping facilities in White areas, and weakened the attractiveness of minority business activities.

3. CONSUMER PREFERENCES

An analysis of consumer preferences is important for two reasons. Firstly, the growth and development of a larger, more sophisticated business class in the Coloured community may be inhibited by prevailing consumer preferences and shopping patterns, and secondly, consumer interests themselves may be prejudiced by the adoption of a particular development strategy. Thomas states that -

"the entrepreneurial class is important for dynamic economic development and steps should thus be taken to encourage them. Yet, the interests of the other (far larger) groups are at least as important. Besides, the question has to be posed whether there are not other strategies for the strengthening of business leadership, without the implicit disadvantages for local consumers." (2)

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- (1) S.P. Cilliers, (1973), p.12.
 (2) W.H. Thomas (1976), p.3.

The dichotomy between protecting businessmen with artificial barriers and simultaneously maximizing consumer welfare is a direct result of group area legislation. The establishment and development of a separate Coloured business sector in Coloured group areas is explicitly stated as a policy goal of the present government. The implication of this objective is that the interests of consumers are of secondary importance, despite the presence of extreme poverty and the necessity to increase incomes of poor households.

Inherent in a segregationist strategy is the basic conflict between fostering business development through blanket geographical protection, and the satisfaction of consumer wants and economic development of the community as a whole. This conflict has been largely neglected by the Theron Commission, which alluded to some of the problems without offering a realistic solution. The following analysis tries to elucidate the nature of the conflict and the dynamic processes exacerbating the problem.

The nature of retail and service operations has been detailed in Part II and it is evident that Coloured business activities are characterised by small, single proprietorships trading mainly as general dealers, grocers or cafes. Turnovers are generally low and mark-ups high, and the range of merchandise stocked is limited to basic convenience foodstuffs, both perishable and non-perishable. Even where activities are more diversified, they are generally small, with the exception of service stations, cinemas and hotels. The larger chain and departmental stores found in the White areas are significantly absent from Coloured areas. Given the existence of this distribution of retail and service outlets, it will be necessary to assess what underlying consumer preferences and shopping patterns determine such a distribution, and how consumer spending perpetuates this situation, despite the presence of dynamic market forces.

Generalisations about the Coloured market are normally based

on the erroneous belief that the Coloured community is homogeneous, and that it is basically living below the breadline. This simplistic notion is often based on a misconception of the community as a nation or "nation-in-the-making". The Theron Commission, however, has pointed out correctly that -

„Sommige van die belangrikste misvattinge wat rondom aangeleenthede rakende die Kleurlingbevolkingsgroep bestaan, juis ontspring uit die geneigdheid om te veralgemeen omtrent 'die Kleurlinge' asof hulle 'n homogene groep met dieselfde behoeftes is wat hulle eenders gedra. Die Kleurling bevolkingsgroep is saamgestel uit 'n mosaïek van groepe met 'n eie stratifikasiepatroon na aanleiding van hulle afkoms, velkleur, godsdiens ... ontwikkelingspeil, inkomste, sosiale en beroepstatus ... " (1).

This statement is consistent with Whisson's observations of the Coloured community. In his view, it lacks the cohesive nature of a group yet portrays some of the characteristics displayed universally by minorities (2). It would, therefore, be more accurate to divide the community into a number of socio-economic strata for a consideration of income and expenditure behaviour, though for all practical purposes this division might differentiate between high and low income levels only. A further distinction must be made between large conurbations and rural towns and villages, for spending patterns may be expected to differ between metropole and rural settlement. Because rural household income is generally low, however, consumer preferences of these households are assumed to conform to those of low income households in urban areas. It will not, therefore, be necessary to distinguish between consumption in rural and urban areas.

A few general remarks about income will clarify the following expenditure analysis. Per capita incomes for the various groups in 1970 were as follows:

(1) Op.cit., p.463.

(2) M. Whisson (1972).

TABLE 3.1: South Africa: Per Capita Income, 1970.

Whites	R1 658
Coloureds	275
Asians	338
Africans	132
TOTAL	417

Source: Theron Commission, op.cit., p.40.

Because expenditure is a function of income, the very low absolute incomes of minorities as shown in the above table pose particular problems for minority businessmen. It will be necessary to distinguish between basic and discretionary spending in order to clarify these problems, for the ability of households to distribute their spending over a wide range of goods and services at their own discretion, will determine to some extent the level of sophistication of retail and service outlets as well as the range of firms locating in poor areas.

A concept that embodies basic expenditure only is the Household Subsistence Level (HSL) (1), which is determined by the fundamental requirements for living, namely food, clothing and shelter as well as a number of necessary though not luxury expenditure items such as recreation, personal care, transport and household goods. In April, 1975, the HSL for Coloured households in Cape Town was R127 per month (2), while average household income was estimated to be R233 (3), with the result that discretionary spending, the difference between actual income and an accepted minimum (in this case, the HSL), was approximately R100 per month. It is this amount that is

(1) J. Potgieter (1975).

(2) Ibid., p.35.

(3) Coloured Development Corporation, Survey No. 8 (1976).

important for an analysis of consumer behaviour. While the HSL determines expenditure on basic items, discretionary spending is important in determining the degree of specialisation and sophistication of shopping facilities required by consumers. Those households below the HSL can be expected to contribute little to the development of more specialised business activities while those in higher income categories can be expected to have wider, more sophisticated needs.

Despite low disposable incomes and discretionary spending, the concentration of Coloured households, particularly in the Cape Peninsula, implies that the overall impact of spending by the Coloured community is not inconsiderable, and is in fact an important asset to many towns and cities throughout the country. Consumer behaviour of the broad mass of Coloured households in the urban areas determines to a large extent the potential for growth of a Coloured business class. Cape Town provides a good example of this phenomenon. (The Coloured community accounted for 55% of Cape Town's population in 1970.) In 1975, it was estimated that Coloured households had a total income of some R480 million (1), of which about 74% (2), or R355 million, was spent at retail and service outlets. Of this, about R120 million, or 34% (3), was actually spent at Coloured or Indian establishments, leaving a substantial majority of expenditure flowing to White-owned outlets. It will now be possible to assess the factors underlying this leakage of consumption expenditure from Coloured to White areas.

To facilitate a clear understanding of Coloured consumer preferences, the above remarks concerning the distinction between

(1) M. Loubser and J.H. Martins (1976), p.15.

(2) Theron Commission, *op.cit.*, p.44. Table 3.7.

(3) The assessment of expenditure at outlets belonging to various groups is fraught with hazards, and is therefore open to conjecture. The Theron Commission (p.46) quotes a figure of 34% of total expenditure being spent at minority-owned outlets. This is consistent with estimates in the survey of Cape Town (Coloured Development Corporation, Survey No. 8, *op.cit.*) where it was found that approximately 30% of consumer expenditure is channelled to minority outlets.

preferences of different income and social groups bear further elaboration. The acute poverty suffered by a large proportion of the community is in itself a very real barrier to progress of an entrepreneurial elite, which would depend on modernisation and rationalisation of business undertakings to provide it with a base from which to develop. The dominance of low-order shops in the poorer areas is attributable to the shopping behaviour of households in these areas. The advantages of local "corner shops" are very real for these households. The primary advantage of convenience is, of course, universal to households of all income groups - the local grocer or cafe satisfies the needs of the immediate neighbourhood, particularly for such items as perishable foodstuffs. Although the local store has an important function in both poorer and wealthier neighbourhoods, there can be no doubt that it is indispensable in poor areas, where households do not have the option of purchasing at higher order outlets. There are several reasons for this phenomenon, all aptly summed up by Goldman's concept of "low outreach" (1). It is a commonly held fallacy that the location of supermarkets in proximity to poor neighbourhoods (or in less developed countries, as in Goldman's hypothesis) will lead to a reduction in food prices, which in turn will significantly raise the real incomes of poor households. It is Goldman's contention that the propensity of shoppers to utilise higher order retail outlets is extremely low in poorer communities. In other words, the shopping behaviour of poor households is characterised by "low outreach" and this is a direct obstacle to the development of more sophisticated, higher order retail and service activities.

The propensity to patronise higher order outlets will depend on the perceived costs and benefits to the household. Supermarkets, operating on a high volume, low markup basis, require a large market area to ensure viability and are therefore inclined to locate at existing central shopping areas or other areas where there is a high concentration of activity, easy

(1) A. Goldman (1974), p.9.

accessibility and a well-defined market area. The major implication of this locational principle is that most consumers are forced to travel some distance if they wish to take advantage of lower prices, which itself is not a costless decision. There is a cost/benefit calculation implicit in the consumer's decision to support higher order shopping - the benefits generated by purchasing goods at more distant regional centres where definite price advantages exist, must exceed the costs involved in reaching these centres, otherwise consumers will support local outlets where benefits are greater.

The costs and benefits in this process are not only confined to savings on purchases and expenditure on transport, though these form the largest share. On the cost side may be included the inconvenience of using public transport, particularly where numerous changes in the mode of transport are required. While car ownership among the Coloured community is increasing rapidly, a large proportion of the community is still dependent on public transport. Thus a survey of shoppers in Athlone, Cape Town, showed that on a Friday and Saturday, 53% of shoppers travelled by bus to Athlone, 3% went by train, 31% walked to the centre, and only 13% travelled by car (1). The high dependence on public transport, as well as the large proportion of shoppers within walking distance of the centre, are two factors bearing directly on the development of higher order shopping activities. The costs of accessibility and inconvenience in respect of shopping centres, have a direct influence on the ability of poor households to patronise these centres. This tends to limit the concentration of commercial activities in poor areas, and emphasizes the role of small, local "corner shops".

An unquantifiable factor that affects the benefits of shopping at central business districts is that many households look upon their shopping activities as recreation. Thus the shopping trip may involve the whole family and confer considerable social benefits on all members of the household.

(1) Cape Town City Council, Survey No. 3, (1975).

Local shopping also confers substantial benefits on poor households. Transport costs are minimised when consumers support local convenience stores, and as many poor households purchase food and other requirements daily, it is clear that substantial savings in transport costs are provided by local stores. The above survey showed that nearly 16% of respondents shopped daily (1) and a survey in Retreat, Cape Town, showed that 54% of respondents shopped daily. 72% actually walked to local shopping in Retreat, and 83% lived within a mile radius of the shopping area (2).

Daily shopping and hence dependence on local stores is prompted by several factors. Many of the poorest households do not have storage facilities for perishables. Refrigerators are beyond the means of some households, with the result that purchases of meat, dairy products and other perishables must be made several times a week. The Bureau of Market Research, in a recent survey of Cape Town, found that only 62% of households owned electric and paraffin refrigerators (3). Secondly, the poorest consumers may be less conscious of the advantages of making purchases at higher order outlets - consumer ignorance is closely related to lack of educational attainment and low susceptibility to advertising in the media. Thirdly, most Coloured households are paid weekly, and the low absolute wages brought home by many breadwinners mean that households are forced to purchase victuals daily. This is particularly true of households where employment is irregular and infrequent, and where there is only one earner in the household. In times when unemployment is high, many households depend on occasional handouts from neighbours or the general public, or on credit obtained from the local corner shop. Credit from local shops is an important factor in their location, in contrast to multiple stores where purchases must be made with cash. The retail survey of Cape Town established that most small outlets

(1) Cape Town City Council, Survey No. 3 (1975).

(2) Cape Town City Council, Survey No. 2 (1975).

(3) M. Loubser and J.H. Martins (1976), p.20.

grant credit to customers, some selectively but others to anyone requiring credit. Among general dealers questioned, 43% stated that they granted credit, while the proportion was slightly higher among other outlets (58%) (1).

Fourthly, preferences of poor households for local shopping are not based only on the proximity and credit advantages described above, but also on extended trading hours, often until late in the evening and usually on Sundays, too. This is one of the services offered by local grocers and cafes to households of all income groups. But because of the distant location of many minority communities in relation to places of work and shopping facilities, which is exacerbated further by reliance on irregular public transport, poor consumers rely on local shops to supply their needs outside normal shopping hours to a far greater extent than wealthy groups.

Although shops may not sell grocery lines outside stipulated hours, many provide this valuable service illegally. The retail survey disclosed that many shops actually pay "protection" money to police or self-appointed vigilante groups in order that their illicit trading operations may continue to function (2). Of course, if shopkeepers see these disbursements as operating costs, they may include them in the price of goods, which further increases the price differential between local shopping and higher order shopping.

Finally, corner shops offer to local households the advantage of purchasing very small quantities of goods. In the poverty environment this is particularly important as many households are unable to set aside sufficient money to purchase commodities in normal pre-packed quantities. To meet this situation, many of the household's daily requirements are available in 5c and 10c pre-packed quantities. Where specially packed quantities are not available, shopkeepers sell single units or weigh out

(1) Op.cit.

(2) Ibid.

small purchases themselves. To the poor, this is a valuable service, and one not provided by supermarkets. It was established that one out of every two shops provided this service, and of shopkeepers who offered abnormally small amounts of merchandise, 18% claimed that "few" of their customers took advantage of the service, 23% answered "many" and 59% claimed that "most" of their customers bought in very small amounts (1).

TABLE 3.2: South Africa: Annual Population Growth Rates for Selected Years

Period	Whites. %	Coloureds. %	Total S.A. %
1921 - 1936	1,9	2,3	2,2
1936 - 1951	1,9	2,4	1,9
1951 - 1960	1,7	3,5	2,6
1960 - 1970	2,0	3,0	2,8

Source: South Africa. Population Censuses for 1921, 1936, 1951, 1960, 1970.

The growth rate of the Coloured population has been consistently higher than that for South Africa as a whole, with important consequences for economic development in general and consumer preferences in particular. While total income has grown considerably over the last few years, household income has been retarded to a certain extent by high population growth rates. This has two effects, namely to increase the dependency ratio and to increase consumption on basic household wants, such as shelter, food and clothing. An increase in the dependency ratio implies in itself a relative decline in the standard of living, or at least an arrest in the increase of this standard, while the juvenation of the population reorientates consumption in favour of the particular needs of children, such as food,

(1) Op.cit.

clothing and educational requirements (1). The Bureau of Market Research reports that households in Cape Town consisting of 4 to 6 members earning over R3 000 per annum, devoted 42% of their income to food and clothing (R2 030), while households consisting of 7 to 9 members spent 59% of their income in these categories (R1 272) (2). Larger, poorer families clearly do not have the discretion to spend on non-basic items, to the extent that smaller wealthier families do. While larger households do have more wage earners, additional earners do not contribute significantly to total household income. Thus in 1975 there were on average 1,7 earners per household in Cape Town, though secondary earners only contributed some 26% of total household income. Household heads were contributing 74%, wives only 10% and the remainder was contributed by other earners (3).

In poorer households the breadwinner is usually in unskilled employment (if in regular employment at all). In 1975, 30% of all Coloured wage earners were unskilled, earning on average R1 232, while another 26% were semi-skilled, earning on average R1 854 (4). Even the additional earnings of other wage earners did little to raise household incomes significantly and more often than not were in fact needed to sustain the family at the breadline. It is estimated that in Cape Town in 1975, 40,8% of households were living in so-called sub-economic dwellings, earning on average R118 per month (5), which was below the acceptable minimum level of living, given at that time as R127 (6).

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- (1) 45% of the Coloured population fall into the age group 0 - 14 years (Theron Commission, op.cit., p.42).
 - (2) M. Loubser and J.H. Martins (1976), Table 24M
 - (3) Ibid., p.12 and Table 7M.
 - (4) Ibid., p.12.
 - (5) Coloured Development Corporation, Survey No. 8, (1976).
 - (6) J. Potgieter. Op.cit., p.35. The household consists of 6 members.

Such low household income levels have been an important contributor to the typical expenditure patterns found in the poorer sections of the Coloured community and have restricted the development of larger, higher order shopping activities by limiting individual needs to the basic requirements of everyday living, namely food, shelter and clothing.

The importance of expenditure on basic commodities is exemplified in the following table - 74% of household income goes towards food, clothing, housing, transport and education. In comparison, Lewis found that in a Puerto Rican slum, low income families spent 88% of their income on basic necessities (food, clothing, rent, transport, education), while high income families spent about 64% in these categories. Of this, 35,1% was spent on food, 13,9% on clothing, 7,5% on housing and 5,8% on furniture and household goods (1).

TABLE 3.3: Expenditure Patterns of Households Earning R118 per Month*

Expenditure Category	% of Income
Food	48,9
Clothing and footwear	8,8
Furniture and household goods	5,1
Alcohol	2,5
Cigarettes and tobacco	3,2
Washing material	2,2
Personal care	3,3
Reading matter	0,6
Housing	11,4
Transport	5,0
Medical	0,2
Education	-
Recreation	0,8
Other (including taxes and savings)	8,0
TOTAL	100,0

* Average household income for the sub-economic group.

Source: M. Loubser and J.H. Martins, op.cit.
Table 23 M.

(1) O. Lewis (1968), p.176. Data relate to 1964.

It is clear that the low average household income of poor groups is an important determinant of the number and diversity of business opportunities available to minority businessmen. Because the price advantages of purchasing goods in large, high volume, low markup multiples cannot be effectively exploited by many of the residents of metropolitan ghettos, the distribution of retail outlets is characterised by an infinite number of small, local convenience stores, operating on traditional family lines and offering a limited range of goods at inflated prices. This form of "atomistic" competition is described in Part II.

While poverty is a real barrier to entrepreneurial advancement, there are two factors peculiar to minorities in South Africa that tend to reinforce inequality of opportunity between groups. The first is that, to some extent, places of work determine shopping behaviour. Any analyses of concentrations of employment in South Africa show that work opportunities in urban areas are frequently located in close proximity to concentrations of shopping activity. All Central Business Districts (CBDs) of large towns and cities are proclaimed for ownership and occupation solely of White-owned companies, despite the presence of a large and growing proportion of non-White employees in these areas. A feature of the trend in employment changes over the last 20 years has, in fact, been the rapidly growing participation of minorities in the tertiary sector. For instance, in Cape Town the proportion of Coloured employees in commerce and finance increased from 11,4% in 1960 to 15,6% in 1970, an annual growth rate of 6,9%. The average annual growth rate of employment in all sectors was only 3,6% (1). The result of increased participation by minorities in the commercial life of South African cities is that many retail and service outlets depend to an increasing degree on minority clientele, who in turn patronise central city and regional centres where their wants can be most satisfactorily met. Because most places of work are located in those areas proclaimed

(1) South Africa. Population Censuses: 1960, Vol. 7(2); 1970, Report O2-05-06.

for White occupation and ownership, minority traders are placed at a considerable disadvantage.

The trend for high-income consumers to do most shopping at out-of-town regional shopping centres has accentuated the role of low income shoppers in the CBDs of large cities. Because many low income households are dependent on public transport, they tend to utilise central city shopping facilities to a greater degree than those households with private transport at their disposal. Both modes of public transport (bus and train) generally converge on the CBDs of large cities, while it has become easier for shoppers using private transport to patronise regional centres. Because low-income households are, in the South African situation, usually synonymous with "non-White" groups, to an increasing extent there has developed the anomalous position that White businessmen are becoming more dependent on minorities, while the minority businessman is forced to serve a declining proportion of all consumers. This deterioration in the size of the market available to minority businessmen has been caused to some extent by the movement of Blacks, Coloureds and Indians into employment in White areas. While a strategy for the development of minority businesses would normally call for an increasing proportion of opportunities (or at least a "fair share" of opportunities) for minorities, one finds, in fact, that these businessmen are being denied opportunities in the most rewarding areas of operation.

Another factor determining shopping patterns is the preference of many consumers for old, established trading areas. This is particularly pertinent for the Coloured community (other minorities are also affected) of Cape Town. In many cases, the removal of families from central city areas has not changed their shopping behaviour, for they still do a major part of their shopping in areas from which they have been removed under provisions of the Group Areas Act. Thus a survey of City Council housing estates found that residents relied on Salt River and Woodstock commercial areas for a large part of their durable goods, such as furniture, household equipment and clothing. Respondents in Bonteheuwel, for instance, purchased

53% of furniture and 36% of clothing from these areas (1). There were similar trends in Hanover Park, Heideveld and Retreat. Because the population of the older areas is a stable, community-conscious one, many township dwellers prefer the shopping environment of these areas, where the vagrant element is absent and molesting of women and children does not occur. (Complaints concerning the latter were clear reasons for some shoppers avoiding areas such as Athlone (2)). The essence of this argument is that while minorities are being progressively pushed out to the peripheries of urban areas, and minority businessmen are expected to provide for the wants of consumers in these new areas, shopping behaviour actually determines that many households retain their preference for established and familiar trading precincts. The opportunities in new townships for minority businessmen are therefore correspondingly fewer.

The preceding analysis of preferences and behaviour of shoppers has dealt largely with low-income households, for whom the provision of goods and services accentuates the role of the local convenience store, or "corner shop". These households are in most cases the lifeblood of the small independent trader, and the presence of widespread poverty among the Coloured community has ensured the proliferation of these corner shops.

The inducement to establish larger retail business which can compete with national chain operations has recently been prompted by rapid real increases in household income of minorities. South Africa's economic expansion over the last 15 years as well as a growing humanitarian awareness that wage differentials could not be maintained and had to be narrowed in the short term, have led to an unprecedented increase in real per capita incomes among the country's African, Coloured and Indian communities. While a detailed analysis of remuneration does not fall within the scope of this study, the dynamic changes in income

(1) Cape Town City Council, Survey No. 1 (1973).

(2) Cape Town City Council, Survey No. 3 (1975).

in recent years as a direct stimulus to the broadening of entrepreneurial opportunities for minorities, must be mentioned.

Between 1960 and 1970, per capita income of the Coloured community grew from R102 p.a. to R197 p.a., an annual rate of growth of 7%, which represents a considerable real increase in per capita income. There were, naturally, regional disparities as well as disparities between urban and rural income growth. In Johannesburg, per capita income grew from R178 in 1960 to R334 in 1970, an annual increase of 6,8%. In Cape Town, corresponding growth was from R164 to R308, an annual increase of 6,7% (1). Since 1970, however, growth in per capita income has been even more rapid and real increases in the income of the household have important implications for the growth and diversification of retail and service activities. A recent survey by the Bureau of Market Research reveals that household income in Cape Town increased from R1 586 to R3 131 between 1970 and 1975, an annual rate of 14,5% (2). When adjusted for increases in the Consumer Price Index, a real annual increase of 4,7% was experienced by these households (3), which is somewhat larger than the 3,1% real annual increase between 1963 and 1970, as reported in a previous survey by the Bureau (4).

Rapid increases in real income do not, in the light of careful observation of consumer behaviour, automatically generate opportunities for entrepreneurs of all groups. It is evident that, because group areas legislation forbids the free movement of capital and skills from one area to another, minorities have not been able to take advantage of changes in consumer preferences and behaviour, which have for various reasons favoured established concentrations of commercial activity.

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- (1) Coloured Development Corporation, Survey Nos. 6 (1975) and 8 (1976).
 - (2) M. Loubser and J.H. Martins, op.cit., pp.11,12.
 - (3) Ibid., p.15.
 - (4) P.A. Nel, op.cit., p.1.

Possibly the most notable feature of the consumer revolution is the impact of the motor car on shopping habits. This has been no less a feature of the change in consumer behaviour of the Coloured community than any other developing or emergent group, and partially explains the inability of Coloured businessmen to capture a larger share of an increasing market. While the role of the private vehicle has been paramount, public transport has assumed an important, if minor role, in the dynamics of consumer behaviour. Both train and bus routes tend to converge on concentrations of commercial activity in White areas and have brought a large proportion of minorities' spending with them. A survey in 1975 of peak-hour travel modes to Cape Town's CBD showed that 59,4% and 13,3% of "non-White" commuters used the train and bus respectively, while the remainder (27,3%) travelled by car (1).

It is expected, however, that these relative proportions will change over the next 30 years and that the car will become the primary transport mode among South Africa's minorities. Thus the Driessen Commission, in an extrapolation of car ownership rates, estimates that Coloured car ownership will increase from 28,2 cars per 1 000 persons in 1970 to 66 in 1980 and eventually 387 cars in the year 2000 (2). This is not far short of White ownership rates in 1970 (466 cars per 1 000 persons) (3). Though the Driessen Commission appears to have taken a highly optimistic view of progress in the Coloured community, there can be no doubt that car ownership will spread. Not only are there definite status benefits accruing to car owners, but the economic benefits are substantial. The large average household size (probably between 5 and 6 persons per family) (4) generates

(1) Cape Town City Council, Survey No. 3 (1975).

(2) South Africa, R.P. 60 (1974), p.83.

(3) Ibid.

(4) See, inter alia, M. Loubser and J.H. Martins, op.cit.; Coloured Development Corporation, Survey Nos. 6,7, and 8, op.cit.

transport economies for the individual family - while transporting the entire family by bus or train would be costly, both in terms of financial outlay and inconvenience, the cost of using a car would appear relatively cheaper. While the use of public transport still predominates as the major mode for getting shoppers to their destinations, the private vehicle is expected to assume greater importance in the future. Though there are no data to corroborate the evidence, it would seem reasonable to assume that the forced movement of many families from central residential areas to outlying districts either on or beyond the urban periphery, has encouraged the acquisition of private transport, given the existence of inadequate public transport, the lack of local shopping, recreational and welfare facilities, and the usually distant location of employment opportunities.

It is not only growing affluence among the Coloured community that has, and will in the future, lead to increased car ownership, but increased costs, both in terms of distance travelled as well as inconvenience suffered, are likely to reinforce the trend towards less reliance on public transportation. (This rules out any radical change in the relative prices of different transport modes, though recommendations by the Driessen Commission do make provision for altering these relative prices) (1). Increased use of private transport as well as improvement in the efficiency of public transport have led to greater consumer mobility, which in turn has had a marked impact on shopping habits. The poor are to an increasing degree able to reach previously inaccessible central and regional shopping areas, where the greatest benefits in terms of prices, quality and variety of goods and services are concentrated, and are no longer solely dependent on inadequate local shopping areas.

Greater mobility has been complemented by a number of other changes in the socio-economic characteristics of households. As household size declines and the average age of the family rises, the change in dependency on earners in the household

(1) Op.cit., pp.1-4.

implies greater expenditure on luxuries and conversely less on basic commodities, such as food and clothing. Educational advancement - the Bureau of Market Research states that the proportion of earners with a standard 7 and upwards increased from 19% in 1970 to 28% in 1975 (1) - has resulted in greater consumer awareness, and together with greater penetration by the media, has increased receptiveness to advertising, which in turn has affected consumer preferences and behaviour.

The preferences of consumers for different trading locations are important indicators of the factors contributing to a desirable shopping environment. Though the so-called "take-off" of a Coloured entrepreneurial class should, according to the policies of the present regime, be based exclusively on the market offered by Coloured households, both the limitations of and dynamic changes in this market preclude the possibility of such a take-off. Limitations arise out of the poverty in which a large proportion of the Coloured community is still enveloped, for this group has neither the financial means nor consumer awareness to stimulate growth and change in retailing. The above analysis of consumer behaviour of this segment of the community shows quite clearly that household consumption is characterised by "low outreach" which is the direct result of poverty. That these households tend to patronise local grocery outlets is due less to the absence of large supermarkets than to socio-economic characteristics of households (2). It is therefore unreasonable to expect businessmen to confine themselves to the opportunities generated by the poorest segment of the market.

Dynamic changes in the Coloured community's economic status include, inter alia, greater mobility through increased use of the motor car; a higher labour force participation rate; lower household size; rapidly growing remuneration per earner; rising educational attainments which lead to wider consumer

(1) M. Loubser and J.H. Martins, op.cit., p.12.

(2) See A. Goldman (1974).

response to media advertising; and generally increasing affluence which prompts shoppers to patronise higher order and higher status centres. Most of these changes are ironically inimical to increased entrepreneurial participation by minorities in larger ventures. The implicit move from basic to discretionary spending has not resulted in an expected expansion of opportunities for minority businessmen. A recent statement by the Minister of Economic Affairs that "opportunities available to Coloured entrepreneurs were virtually unlimited" (1) is clearly fallacious in the light of consumer preferences. The desire for a sophisticated shopping environment, where superior goods and services are obtainable, has created a non-racial shopping pattern. Despite the disadvantage (in terms of cost and inconvenience) of lengthy commuting distances, minorities increasingly prefer to shop outside the ghetto in areas where both environmental and economic benefits are substantial. Environmental costs in the ghettos are exemplified in the following extract from a recent newspaper article on the Athlone business district:

"Shoppers (businessmen said) were terrified to shop in Athlone and were rather going to the White areas ... there are robberies almost every day in the area, the shoplifting rate is very high, many old-age pensioners are waylaid after collecting their pensions ... and delivery trucks have become the target of organised gangs of robbers." (2)

The growing incidence of crime and vandalism, often quite overt, in the Coloured areas is a major cause of many shoppers preferring the safety and comfort of centres in the White areas. It is these areas, where returns are higher and shoppers of all races mingle, that are out of bounds to minority businessmen.

It is a perverse developmental strategy that reserves the low-yield opportunities for underdeveloped groups while preserving the more profitable ones for the developed group. This is an unwarranted approach to the problem of creating an entrepreneurial

(1) The Argus, 17 January, 1977.

(2) The Argus, 6 December, 1976.

elite among minorities. An analysis of consumer preferences and buyer behaviour shows clearly that locational controls by government are merely exacerbating the problem of business development. While government policy does not seek to prohibit the mixing of races in shopping activities, the continuation of a non-racial shopping pattern will ensure that those opportunities with the highest yield occur in White areas. Thus -

"if we are serious in wanting to advance Coloured entrepreneurship ... we have to put the prime emphasis on their increased participation in the areas with the greatest potential and the most dynamic business development." (1)

These are unquestionably the areas presently proclaimed solely for White occupation and ownership.

Like their trading counterparts, minority industrialists derive no advantage from the system of forced residential segregation, as their market is almost without exception non-racial. Thus the problem of consumer preferences does not play a central role as a barrier to entrepreneurial advancement in industry. A number of minor exceptions were identified in the manufacturing survey, however, where only 17% of respondents reported that their market lay predominantly in the Coloured areas (2). Among these firms were mineral water bottlers and a few clothing manufacturers selling mainly to minority-owned outlets. It is clear, however, that because minority manufacturers do not supply solely their own group, but cater to a wider "colour-blind" market, they do not incur the disadvantages associated with the distributive trade. Minority manufacturers have reached a competitive status largely through the rational and most productive utilisation of their resources. The problems encountered by industrialists in the business environment must therefore be sought in the field of competition, the scarcity of capital and lack of entrepreneurial skills.

(1) W.H. Thomas (1976), p.6.

(2) Op.cit.

4. COMPETITION AND SCALE OF THE FIRM

Because the retail organisation is faced with a segregated market, while the manufacturer competes in a colour-blind market, it will be necessary to analyse competitive and scale aspects of the business environment as they affect retailing and manufacturing separately. Despite market differences, however, many of the essential features of both retailing and manufacturing firms are similar. In manufacturing, most criteria of size point to this: median employment was shown to be 40 persons, median floor area was 450 m², annual value of production amounted to R140 000 and capital equipment and plant employed in most firms were relatively insignificant in terms of cost. The archetypal firm relies relatively less on sophisticated capital equipment and more on the skills and knowledge of the entrepreneur in a particular field of activity, than larger, more capital intensive undertakings. Where competitive disadvantages do exist, these can be attributed in part to the small size of firms, which in turn are the result of a particular mix of contributory factors. Competitive problems are also partly due to "discrimination" in the market place. Minority firms do not base their *raison d'être* solely on their contribution to the GNP, but also make valuable contributions to the economic well-being of the community as a whole, in terms of employment generation, capital accumulation and the development of entrepreneurial skills. What this section will attempt to show is that minority industrial undertakings make a positive contribution, both in the formal and informal sectors, to the maintenance of a competitive environment and to the economic and social welfare of deprived groups. These benefits provide justification for a policy of promotion and protection by both the public and private sectors. This policy is based on both economic efficiency criteria and realisation of the social and other non-economic barriers to the development of minority industrial enterprise.

A useful distinction may firstly be drawn between formal and informal manufacturing enterprise. (Staley and Morse distinguish

between factory and non-factory production, which are broadly synonymous with the distinction adopted in this study (1).) Though very little information exists on the activities of informal manufacturing concerns, they can be shown to play a useful role in community development and despite inefficient and obsolete production techniques, deserve recognition as a source of skill training, capital accumulation and employment.

The informal sector provides a variety of industrial activities for the Coloured community, and in terms of scale, capital intensity and technological sophistication is frequently not easy to differentiate from similar activities in the formal sector. To define the informal sector in terms of scale, capital inputs and production methods would therefore be semantically and functionally misleading. While all informal sector activities are small in scale, requiring small labour and capital inputs, technologically they may be similar to the formal sector.

Informal sector activities need not be the sole source of income for their operators. Because artisan skills abound in the Coloured community, one finds that many such skilled workers supplement their formal sector activities with after-hours informal work. Thus carpenters, builders and motor mechanics can be found outside regular working hours doing small-scale repair or construction work.

Because little is known empirically about the existence of informal sector activities, in terms of quantity, operation and production technology, the problems confronting these minority enterprises cannot be accurately gauged. The nature of their activities and their modus operandi militate against a fuller understanding of their function in a modern capitalistic society. Because they operate irregular hours and produce discontinuously they are not to be found in conventional industrial and commercial areas, and statistical evidence of their presence is also

(1) E. Staley and R. Morse (1965).

difficult to collect. Their modus operandi is generally based on home production where identification by the authorities is minimised. In this way, overheads are generally low and competitiveness is ensured - advertising is shunned (other than through discrete media such as "word-of-mouth") and rent is not imputed in the price of the final product. Labour time, which often occurs outside normal working hours, and costs of capital redemption are usually also extremely low. In short, informal sector activities have an unusually low opportunity cost, as they use little capital (often obsolete), small production areas (which usually double as residential premises) and relatively large amounts of otherwise un- or underemployed labour.

Competitive and scale problems do not in fact hamper the existence of informal sector activities, for it is precisely on competitive inequalities and scale differences that the informal sector is justified. The competitiveness of the informal sector is based on marginal operating procedures in a twilight economy, away from municipal controls and tax authorities. The disadvantages of this non-factory type of organisation are manifold, and include poor working conditions, irregular and uncertain income, and low productivity. For these reasons it may be argued that the existence of the informal sector should not be encouraged, as it merely promotes impoverishment and does little to increase the assets of poorer groups.

There are, however, a number of sound reasons for recognising the informal sector. Possibly the most important one for economic development and growth of the city itself is that these marginal activities are often the forerunners of more sophisticated ventures. As the embryos of larger manufacturing activities, informal sector industries have an important part to play in the process of adding new work to old, despite their inefficiencies. An example of this in the Coloured community is the evolution from informal sector tailor to clothing manufacturer. Of 13 clothing manufacturers interviewed in the manufacturing survey (1), 8 started work as tailors operating

(1) Op.cit.

from their homes, either as one-man businesses or with an assistant. Eventually, however, they were obliged to accept their role as recognised manufacturers as the scale of operation necessitated moving into factory premises, and production became geared to an established market.

This process of adding new work to old is an important contributor to the development of cities in general (1), and of minorities in particular. Because the informal sector is an important link in the urban developmental chain, destroying the environment in which small manufacturing activities are spawned is detrimental both to city and minorities' development. The destruction of areas such as Cape Town's District Six and other commercial/residential zones peripheral to the Central Business District, which have been occupied mostly by the Coloured community, has not only created housing problems but has also prejudiced the continued operation of many small businesses, both in retailing and manufacturing. Many such undertakings occur in disused garages or spare rooms in houses. Where shelter is not available, these may even take place in backyards or on the street. New townships situated some distance from the centre of town, do not provide the environment conducive to casual business activities. Garages are non-existent, roads are too narrow to accommodate stationary activities and the pressure on residential accommodation precludes the possibility of using houses for informal manufacturing. In addition, most houses are council-owned and are constantly open to surveillance and control. In the older ghettos of cities, houses are generally privately owned and can easily be converted to non-residential use.

By curbing the informal sector's manufacturing activities, the particular service offered by these small producers is also restricted. Differentially produced commodities in very small quantities provide the consumer with a service not readily obtainable in the formal sector, where mass production is often the key to competitiveness. Other economic and social advantages

(1) See J. Jacobs (1969).

of informal sector activities indicate the desirability of fostering the type of environment conducive to their operation. As this is fundamentally a laissez-faire approach, where neither municipal zoning regulations nor group areas controls are enforced, the policy is virtually costless. Such a policy has distinct economic and social benefits. Because informal sector activities are capital savers, no financial commitment to their continued existence is required. They generally use little machinery, and even this is often obsolete or discarded plant from the formal sector. As a medium for the mobilisation of capital resources of the Coloured community, the informal sector is valuable. This applies, too, to the utilisation of otherwise unemployed human skills. By mobilising both capital and human resources at grassroots level, the informal sector deserves recognition as a vital contributor to the economy of the city, and to the strengthening of assets in the hands of the poor. As has already been pointed out, a strategy for the encouragement of these activities requires very little action on the part of the authorities.

Small-scale activities in the formal sector, which constitute the major share of manufacturing activities identified in the Coloured community, require more than a laissez-faire policy if they are to be stimulated and developed beyond their present stage. The reasons for formulating an industrial "package" for developing minority manufacturers are based on more than an emotional appeal for a "fair" distribution of the returns from manufacturing or equally irrational ideological considerations, such as creating a "Coloured" manufacturing class to serve its "own" group. It has already been noted that manufacturing is based on a non-racial market for goods and services - the final product bears no semblance of racial differentiation. Like the foregoing brief analysis of the informal sector, manufacturing activities in the formal sector offer clear economic and social benefits to the city's economy as well as to the welfare of the minority group in question.

Most of those benefits described above apply to a lesser or

greater degree to the formal sector, and need no further elaboration. Thus the mobilisation of capital and human skills initiated by the many small clothing and furniture establishments, mineral water bottlers, retreaders and panel beaters, plays an important part in the development of a business class in the Coloured community. As most of these undertakings are either sole proprietorships or partnerships, they provide an opportunity for minorities to gain leadership and managerial experience, as neither of these entrepreneurial functions are widely performed by minorities in firms owned by Whites. Legislative and conventional barriers to managerial mobility preclude the rapid acquisition of entrepreneurial skills in the more advanced industrial organisations of South Africa.

Without discussing in detail the problems encountered by small manufacturers, it will be pertinent at least to mention them briefly. Staley and Morse (1), for instance, mention several advantages of small-scale manufacturing. These are greater economic efficiency of short runs and the ability to effect rapid changes in response to changes in demand; the ability of small firms to articulate their production with the needs of larger firms (such as component manufacture); the mobilisation of human activities and hidden capital in developing groups; the creation of employment for groups where un- and underemployment are rife; the geographic spread of small firms with its decentralisation benefits; the spread of a medium for self-development; and a vehicle for social mobility in the light of national ideological objectives for disadvantaged groups.

Some of the disadvantages may also be briefly mentioned. Possibly the main advantage of large firms (as a disadvantage of small firms) is that economies of scale accrue at certain plant sizes. These economies include greater speed and efficiency of operation over longer runs and repetitive tasks; cost saving physical and engineering relationships; indivisibility of certain types of plant and equipment favouring larger firms; savings in purchase of materials and their transport to the

(1) E. Staley and R. Morse, op.cit.

points of production; ability to spread research and development costs over large output; marketing, administrative and advertising costs are spread over total output; and access to capital markets and managerial skills is easier.

Despite the advantages of larger-scale manufacturers, small factory industry cannot be ignored as being merely the forerunner of something bigger and better. Existing minority factories have proved themselves to be competitive over the course of time, and, like their counterparts all over the world, constitute part of the large body of small undertakings.

TABLE 3.4: Small Industry* in Selected Countries

Country	Year	% of All Manufacturing Establishments	% of All Manufacturing Employees	% of All Manufacturing Output
U.S.A.	1958	91	27	23
U.K.	1961	92	26	n.a.
West Germany	1953	89	27	23
New Zealand	1959/60	97	62	55
Argentina	1954	98	52	39
Japan	1959	98	56	34

* Defined as smaller than 100 employees.

Source: Staley and Morse (1965), p.17.

While these data are somewhat out of date, the authors emphasize that the role of small industry has remained more or less constant in terms of employment generation. Thus in 1909 small industry in the U.S.A. accounted for 26% of all manufacturing employees, and in Japan in 1921 47%, not much less than the proportion in 1959 (1).

No detailed analysis of small industry in South Africa is available for an assessment of the contribution of minorities to

(1) E. Staley and R. Morse, op.cit., p.17 following.

total employment, output and capital formation. As small-scale operations, their impact is probably confined to employment creation and the supply of consumer goods to the regional economy. As vehicles for entrepreneurial experience they are, of course, equally important, while the importance of their contribution to capital accumulation is probably confined to the broader objective of increasing income-earning assets among the poor. Despite the somewhat limited importance of minority manufacturers, barriers to their growth and diversification, where these exist, and whether real or imaginary, should be overcome if strategies are not to be in conflict with broad economic goals.

Problems arising from scale operations and competition can mainly be ascribed to the small size of firms. In a market where large manufacturers gain considerable economies with mass productive techniques over long production runs, small firms which cannot exploit such economies are clearly not competitive where there is any degree of homogeneity of product. Of course, in real life small firms can compete effectively as products are often differentiated, even if only marginally, and buyers are not always provided with sufficient information to assist them in their purchasing decisions. The evidence presented in the section on quantitative data shows clearly that minority businesses exist mainly in highly competitive fields, yet the longevity of many of these firms confirms that they have managed to operate successfully and in some instances have grown considerably in response to demand for their products. Many of the clothing manufacturers identified in the survey were clearly very competitive, employing the latest technology and requiring an intimate knowledge of the field. Most supplied leading retailers in the clothing trade and as such had to compete with far larger manufacturers. The success of these firms depended entirely on their ability to compete in terms of price, quality and quantity with larger undertakings. As is to be expected, access to capital (particularly self-generated savings), expertise and experience of the entrepreneur and access to markets have largely determined the success of firms.

Despite their evident success, many entrepreneurs expressed the opinion that their White competitors had an advantage over them. About 70% of those interviewed thought that as minority businessmen, they were at a competitive disadvantage, though 40% attributed this mainly to the difference in size of undertaking. 37% claimed that discrimination was the cause of their lack of competitiveness and attributed any apparent shortcomings in their state of competitiveness, to the superior contacts of White businessmen in money and goods markets (1). It is this discriminatory factor that bears further consideration.

From the outset, it should be noted that discrimination as a purely arbitrary market bias is not quantifiable and as such deserves little consideration as a positive barrier to development. Protagonists of market forces would point out that the market is "colour blind" and it is objective product attributes such as price and quality that have a bearing on equilibrating forces that tend to clear the market. It is the contention here, however, that there are certain forces at work in the market-place that militate against the most efficient functioning of the market mechanism. An element of discrimination may well appear in the form of "unwarranted assumptions" either about products manufactured by minority industrialists or about individuals themselves. On more than one occasion it was found that a manufacturer employed a White salesman to market his products, on the basis that prospective buyers would, firstly, negotiate more willingly with a White person and, secondly, be less inclined to expect a considerably lower price for commodities manufactured by Coloured or Indian firms. Whether this phenomenon is real or imaginary cannot be attested to by survey data. Respondents to the survey were adamant that this was a real barrier to their growth, yet failed to provide quantifiable proof.

The problem may be attributed partly to defective signals in the market, and partly to a lack of information about sellers

(1) P.E.B. Wilson, op.cit.

and their products. While some manufacturers resorted to a certain amount of advertising, many relied on a more informal system of contact through old, established customers and acquaintances. These social contacts are important, particularly to fledgling enterprises which do not have a tried and tested product. After a brief analysis of Black entrepreneurs in Kenya, Marris concludes that -

"they are socially isolated from the wider economy by a profound mutual ignorance." (1)

He points out that White businessmen share a common culture and social platform with their bank managers, suppliers and clientele.

It is not implied here that all South African minorities are culturally significantly different to the White group. In fact, as was pointed out in an earlier chapter, cultural differences between Coloured and White businessmen are largely imagined. The imposition of legislated or conventional segregation on South African society automatically places severe strain on the efficient functioning of the market, and the dissemination of information becomes an increasingly difficult task. This has tended to prejudice the activities of minorities, who are considerably less well integrated into the social network and has forced them to rely, in certain instances (2), on limited opportunities in their own group areas.

The solution, according to Marris, lies in integration and mutual cooperation between businessmen of different cultures. While the problem of cultural differences is irrelevant for this study, this solution is the only sensible one. By reinforcing the market mechanism, minority businessmen can compete more effectively. While this may be effected at least cost by removing all artificial barriers to business development and relying on free market forces for a more equitable and

(1) P. Marris (1968), p.33.

(2) e.g. tyre retreaders, mineral water bottlers and panel beaters.

efficient distribution of opportunities and resources, the process of information dissemination may be assisted by commercial and industrial organisations. The manufacturing survey found that only 27% of respondents were members of the local Chamber of Industries and most industrialists felt that, as a pressure group working in the interests of minorities, this body was largely ineffectual. The so-called Management Committees were deemed to be equally irrelevant for the needs of minority businessmen. The remaining alternative, a pressure group working solely for minorities, evoked some interest among industrialists. (53% of respondents agreed that small manufacturers should form some kind of group with countervailing power) (1).

Pressure groups have been a feature of the history of Negro business development in the U.S.A., where such organisations as N.A.A.C.P. (2) and the Urban Business League have gained certain benefits for Black businessmen. Akeredolu-Ale takes a similar approach when dealing with the environment of African businessmen, for he observes that in the short and medium terms, the cultural gap between indigenous African businessmen and others (largely expatriates and foreign companies) is unlikely to close sufficiently for social interaction between the two groups to occur to a significant degree (3). The creation of pressure groups acting on behalf of minority businessmen in South Africa, in the light of rigidities in legislative and conventional barriers to increased participation in the economic system, may, in the long term, be an effective means of ensuring that a larger share of business opportunities and resources flows to minorities.

In a free enterprise system where firms compete with others in the market place, it is only natural that in some instances small firms will be at a competitive disadvantage to larger undertakings, particularly where the latter are able to exploit scale economies and access to capital, credit and entrepreneurial

(1) Op.cit.

(2) National Association for Advancement of Coloured People.

(3) E. Akeredolu-Ale (1972), p.254.

expertise. The latter inputs into the production process are clearly in short supply to smaller, less well known and established operations, particularly in a highly competitive situation where all firms are judged on their economic merit with respect to loan and credit applications. These aspects are discussed in detail in the following two sections. The oligopolistic or even monopolistic structure of some industries precludes entry by small manufacturers of all race groups. It is not significant, therefore, that small firms exist mainly in those industries where capital and skill barriers to entry are extremely low, and where entrepreneurs can finance initial plant and equipment needs from accumulated savings and small loans or overdrafts, as well as utilise their innate abilities or acquired skills.

This situation is no different for minorities, with the possibility that their problems are considerably compounded by imperfections in the market. Capital and entrepreneurial skills are the subject of further discussion, and the barriers to capital, skill and locational mobility imposed by legislation have been discussed in depth. The unquantifiable factors - discrimination and exclusion - remain largely speculative, though in the light of social and legislative constraints to the free flow of information about products, prices, buyers and sellers, can be attributed to market imperfections. The dissemination of information is clearly a crucial prerequisite if competition is to lead to an efficient and equitable distribution of rewards. Those manufacturers either wholly or partially excluded from the market cannot successfully compete in the system. It is not only the removal of legislative barriers that will ensure the fullest participation of minorities in the capitalist system, but the overcoming of conventional or social barriers is also clearly necessary.

Some of the above problems apply mutatis mutandis to the retail sector, though the artificial attempts at controlling competition by way of group areas, play a more significant role in regulating competitive forces among retail outlets. It is the

contention here that, notwithstanding certain disadvantages resulting from scale of operation, minority retailers suffer severe competitive disadvantages, as a result of group areas legislation and restrictions inherent therein. This study challenges the conventional wisdom that minority retailers require strong protective measures against established White competitors and in fact attempts to show that protection has not only failed to assist retailers, but has actually militated against the development of a sophisticated entrepreneurial class.

The two most remarkable characteristics of the vast majority of retail outlets in the Coloured areas of South African cities are firstly, the scale of operation, and secondly, the proliferation of identical types of outlets. Details of size and type of operation are given in Part II, and need little further elaboration.

The implications of small size in retailing for development are in many ways identical to manufacturing. A distinction may firstly be drawn between the formal and informal sector, though the latter is of marginal importance to this study. It consists of some hawking activities, as well as a number of illegal activities such as selling drugs (dagga), lending money and operating shebeens. Though these are not legal, they are in most cases legitimate and flourish in ghetto conditions where controls are difficult to enforce. While their benefits to entrepreneurs are of little relevance to this study, they do provide the community with certain services not readily obtainable in the formal sector, as well as augment employment among un- and underemployed groups, and mobilise capital and organisational skills where these may ordinarily remain dormant. The social and economic usefulness of such illegal activities is largely speculative and would form the subject of a separate study. The possibility exists, however, that in a situation where a wide range of legal controls and social barriers hamper the legitimate operation of certain types of business, the

incentive among certain groups to resort to highly rewarding yet illegal activities is very strong (1).

Small retail outlets in the formal sector suffer from internal and external disadvantages. The former include those factors endemic to small ghetto undertakings, such as lack of capital and credit facilities, poor quality entrepreneurship, low turn-overs precluding bulk buying and the generally inferior physical state of the shop itself. The latter include consumer preference competition from other small and large outlets, the ghetto environment, transportation routes and modal preferences, and the problems imposed by group areas legislation. These will be discussed briefly in turn and it will be shown that despite a clear demand for the services of small units of distribution, the dynamics of competitive retail development have tended to reinforce the marginality of small minority businesses.

Problems of access to credit and finance, as well as entrepreneurial shortcomings, will be analysed in detail in the following sections. The small turnover of most units precludes retailers from obtaining quantity discounts when purchasing from suppliers. Most outlets, particularly grocery stores, purchase from wholesalers and not from manufacturers directly. The retail survey found that only 17,8% of respondents purchased commodities from manufacturers, while, of the remainder, 34% patronised wholesale "cash and carry" organisations where goods were collected and small discounts were available for cash purchases. The remaining 66% had goods delivered by wholesalers and paid a delivery fee of 1½% of the value of the invoice. Non-grocery stores showed a slightly different purchasing pattern. Clothing stores bought directly from manufacturers in 67% of cases and from wholesalers in 60% of cases. All hardware stores purchased from wholesalers though 30% also bought directly from manufacturers, and all butchers purchased from meat wholesalers (2).

(1) e.g. the Mafia and similar groups.

(2) Op.cit.

Although most small outlets were able to procure supplies from wholesale organisations, and had no trouble in doing so, they were unable to take advantage of quantity discounts which would have allowed them to compete more effectively with large units. While manufacturers and wholesalers were offering considerable discounts to supermarkets and other large multiple operations, small units were actually incurring further costs by having to pay delivery charges.

Bulk-buying organisations can offer to small units those benefits associated with larger units. The Spar organisation, for example, provides substantial advantages to member stores. Members pay an annual fee and are able to obtain discounts from suppliers through the organisation. In addition, advertising and promotion are handled by the organisation and certain managerial and administrative advice is available from the organisation's officials. Members are obliged to maintain a relatively high standard of store and product appearance under the scheme. It was evident from the retail survey that stores belonging to this organisation were both more efficiently organised and more attractive than their competitors. Despite the apparent advantages of such a scheme, the survey revealed that the majority of respondents were not interested in joining such an organisation. Only 33% of grocery stores stated that they were (1).

While many of those interviewed would not have qualified for membership of such an organisation anyway, most proprietors regarded any attempt to control or supervise their undertakings with suspicion. This is unfortunate in the light of the need for dynamic changes in the structure of retailing. While it is recognised that the small unit has an important part to play in the total distribution of retail outlets, mainly because of the unique services offered by such small stores to the consumer, changing consumer preferences have forced many small units either to rationalise or to be eclipsed by the large multiples

(1) Op.cit.

and chain stores. Unless many minority businesses adapt to these changes, they will be eliminated by competitive forces. Organisations such as that described above, can assist in the metamorphosis. Not only will lower prices eventuate from bulk-buying discounts, but entrepreneurs can also be given direct managerial and general administrative advice and assistance in the working environment. This has two major advantages over other educational methods. Firstly, training is done on the job. The reluctance of these store-owners to leave their businesses to attend training seminars or courses is thus circumvented. Secondly, advisors come into direct contact with the work environment in ghetto communities and should therefore be able to adapt retail policies to each particular situation more readily. The rationale for creating a bulk buying organisation to assist minority retailers rests on the competitiveness of such a venture, in the light of the move to larger, more efficient operations. The development of these small units in Harlem, for instance, was based to a large degree on business alliances, and this strategy has shown itself to be an effective vehicle for bridging the growing gap between the traditional small corner grocery stores (the so-called Mom-'n-Pop stores) and established supermarkets (1).

The price structure of goods and services in the ghettos is one of the main determinants of the competitiveness of ghetto enterprise. That prices are higher in poor areas is generally accepted in the literature, though most writers note that outside the ghettos, the poor are generally not discriminated against. Sturdivant claims that consumers in Watts pay from 7% to 21% more for a particular basket of goods bought in a local store, than wealthier families purchasing the same basket of goods in more affluent areas (2). Sexton observes that most studies show that Blacks are not charged more outside Black areas, though within these areas a basket of goods costs more than a similar basket in the suburbs (3). Though price

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- (1) T. Vietorisz & B. Harrison (1970), pp.110 & 111.
 - (2) F. Sturdivant (1968), p.132.
 - (3) D. Sexton (1971), p.40 following.

differentials between ghetto and suburb are generally large enough to be measured, Goodman notes that Black consumers have responded to the differentials by doing more shopping outside the ghetto. They tend to perceive these differentials quite well (1). The degree of responsiveness, however, is highly variable with the level of poverty in the community, for it has been shown that location and not price and quality largely determines shopping patterns (2). The influencing factor appears to be the degree of mobility of shoppers and access to public transport where private transport is not available.

The responsiveness of Black consumers in South Africa to price differentials is evident from the large proportion of retail expenditure flowing to White outlets. The Bureau of Market Research reports that only 34% of expenditure by Coloured households in the Cape Peninsula was channelled to Coloured or Indian outlets (3).

In the analysis of shopping facilities for Africans, Lucas notes that prices in the African townships were consistently higher than in White areas (4). A study in Port Elizabeth showed that prices were at least 8% higher in the townships for a given basket of goods (5). In Cape Town's African townships, "certain traders were found to be pricing their goods up to 50% higher than the normal charge for the items concerned" though "prices fluctuated widely from shop to shop" (6).

Though no survey data are readily available for other minority residential areas, the trend is clear. Prices are generally higher in the poor areas, and there are a number of sound

(1) C. Goodman (1968), p.23.

(2) D. Sexton (1972), p.37.

(3) B.A. Moolman and J. Loubser (1970), p.57, Table 4,7.

(4) G. Lucas (1974), p.180.

(5) Ibid.

(6) The Argus, 21 May, 1976. See also The Argus, 26 May, 1976.

economic reasons for this phenomenon. It has already been noted that the small units to be found in these areas do not have recourse to quantity discounts, as turnovers are generally low. Markups are therefore high with the result that prices are high. Though in the older, well established areas the atomistic form of competition tends to keep prices down, new townships usually contain few business outlets with the result that those few that do exist, enjoy a form of monopoly, as group areas legislation prevents "disqualified" entrepreneurs from establishing businesses in these areas. Businessmen who may operate legally do not have the requisite capital to establish new undertakings. As many new townships are remote from existing shopping facilities, those stores operating in these areas benefit from their encapsulation - shoppers must patronise them or travel long distances to obtain their convenience goods.

With the price structure of goods in poor areas somewhat higher than other areas, minority businesses are forced to rely to an increasing degree on the poorest section of the community for their clientele, for it is this section that is least mobile with the lowest "outreach". Poverty has ensured that many minority businesses serve a captive market. The more affluent groups are able to move out of the ghettos to shopping districts where greater advantages are to be gained, in terms of price and variety.

It is the contention here that small minority businesses have not been able to maintain a competitive position in the face of increased consumer mobility and awareness, which are in turn the results of rapid increases in real income and the spread of education. The presence of large amounts of Coloured, African and Indian shoppers in White areas is a clear indication that the policy whereby each ethnic group serves the needs of its own group in respect of business facilities, is merely exacerbating the already non-competitive state of minority business. The result is that these small undertakings are being forced to serve a decreasing proportion of the total population. It is further overlooked that this declining proportion is chiefly

the poorest group in society, and it is this group that can least afford the higher prices charged by ghetto businesses.

To complete the analysis of external problems, it will be necessary to look at the competitors of small minority undertakings, as well as the trend to larger, more efficient units of distribution, on the one hand, and to greater specialisation on the other.

The latter two phenomena, as has already been observed in the analysis of consumer preferences, are mainly responsible for the large proportion of expenditure flowing out of minority areas to the developed White sector. The changes from small to large and from general dealer to specialist trader are a well-documented feature of the dynamics of retailing. Thomas refers to two conflicting trends in this change: one is through rationalisation of operations producing fewer and larger stores and the other is the demand for more goods and services through rapid increases in real income (1). The latter trend is clearly relevant to South Africa where recent rapid advances in the standard of living of minorities have led to a far wider range of goods and services being offered to consumers. The emergence of an affluent, acquisitive middle-class among these groups has had a marked impact on retailing and will continue to do so if real increases in household income are maintained in the future.

Thomas further notes that with the decline in the number of distributive establishments has gone an increase in the share of total retail turnover accruing to "multiples" (2). This, he argues, is due to the considerable economies of scale generated by large outlets which are usually part of a chain organisation. While these observations were made in England, they could equally apply to South Africa. In an analysis of shopping centre development, Jefferies notes that -

(1) B. Thomas (1973), p.122.

(2) Ibid., p.123. Multiples are defined as chains of stores with 10 or more branches.

"the retail trade has moved rapidly into the control of fewer and fewer hands. We are all aware of the disappearance of the local grocer and the emergence of the chain store." (1)

This changing structure is complemented by the concentration of retailing and service activities in the Central Business Districts (CBDs) of large and small cities and the growing importance of regional or decentralised shopping centres. Jefferies states that South Africa's CBDs have remained prime shopping areas mainly because they have not suffered from diseconomies of agglomeration and also because they have retained their popularity with the Black population, which is largely dependent on public transport (2). Regional shopping centres, strategically located on major transport routes and at centres of activity, have become increasingly important for suburban consumers as well as the growing affluent body of minority consumers.

The attraction of agglomeration economies in central and local shopping areas has prompted the establishment there of a large number of undertakings, catering to the needs of poor and wealthy consumers alike. Examples of this diversity are to be found in such regional centres as Claremont, Wynberg and Athlone, as shown in the table overleaf.

Unlike Athlone, the scale and diversity of retailing and service activities in Claremont and Wynberg are not based on expenditure generated by one race group alone, but have taken into account the non-racial shopping patterns that characterise the cities. In fact, recent developments have expressly based their delimitations of potential market area on the concentrated mass of consumer spending from the poor sections of cities. Athlone, which is located in a Coloured area and therefore is for exclusive occupation by Coloured businessmen, is clearly at a considerable disadvantage in relation to Claremont and Wynberg, as it is unable to offer the sophistication and diversification found in these centres. Large departmental stores,

(1) D. Jefferies (1974), p.40.

(2) Ibid., p.45.

TABLE 3.5: Claremont, Wynberg and Athlone Shopping Centres : A Comparison

Activity	Claremont		Wynberg		Athlone	
	Units	Gross Leasable Area(m ²)	Units	Gross Leasable Area(m ²)	Units	Gross Leasable Area(m ²)
Supermarket	1	2 250	2	2 640	4	3 375
Butchery & Fish Shop	20	1 870	25	2 350	11	720
Eating House	19	2 310	12	1 610	2	135
Departmental Store	8	70 400	6	6 610	1	600
Clothing, Footwear, Accessories	117	13 680	90	11 380	57	5 088
Stationery, Sport & Toys	15	3 000	10	1 430	7	488
Chemist	8	1 140	7	1 170	4	300
Furniture } Hardware }	37	9 740	41	8 490	10	1 790
Other Retail	41	18 110	27	3 610	22	1 660
Liquor Outlet	4	1 070	3	1 120	3	1 380
Dry Cleaner	7	770	7	600	7	560
Hairdresser	20	1 910	13	1 020	9	860
Financial Institution	25	9 300	18	3 420	8	1 255
Other Services	23	2 030	22	2 910	8	1 235
Service Station	6	4 540	4	3 200	3	900
Cinema	1	1 700	2	3 430	3	1 860
Hotel	1	4 000	2	4 400	1	1 954
Profession Services	77	9 820	33	2 750	47	6 775
Total	430	157 640	324	62 140	207	30 935
Average Size	-	366,6	-	191,8	-	149,4

Source: Cape Town City Council, Survey Nos. 4 (1976) and 3 (1975).

supermarkets, restaurants and other specialised services have not been able to locate in Athlone. The agglomeration economies generated in Claremont and Wynberg are largely missing in Athlone, because of the absence of such important generators of activity as large retailing outlets.

In the light of these general statements about the dynamics of retailing, it will be necessary to examine the competitive role of commercial development within the Coloured areas, on the borders of these areas and external to these areas in regional and central precincts.

Within proclaimed Coloured areas, Coloured businesses are finding that the theoretical protection offered by group areas boundaries does not arise, due mainly to the presence of businessmen of other race groups. This presence is firstly the result of the evolutionary development of retailing in urban areas, and secondly the result of adjustment and innovation by disqualified groups. Before apartheid was implemented, the Indian trader had established himself throughout the urban economy as a necessary facility in the daily life of households. Indian merchants were the efficient providers of local convenience goods both in the more affluent and ghetto areas of the cities. Before the advent of rationalisation of retailing and the growth of supermarkets and multiple stores, the Indian trader had progressed from serving his own community to becoming an integral part of urban commercial life, so much so that in some areas he began to dominate the small retailing sector. His presence in the Coloured areas of the city became an established fact, particularly in the light of the paucity of Coloured businessmen, and in spite of persistent attempts by central and local authorities to curtail his development.

With the proclamation of group areas and their accompanying restrictions, the anomalous situation whereby too many Indian traders existed for too few Indian consumers posed a major problem for the authorities, and to this day has not been fully resolved. Müller notes that -

"as a disproportionate number of Indians are commercial entrepreneurs, the possibility of being restricted to their own area is an understandable cause for concern." (1).

(1) A. Müller (1968), p.39.

Many Indian traders have been evicted from premises where they had traded for years, and resettled in other areas.

Despite the regularity of group areas displacements, the sheer abundance of disqualified traders in Coloured areas precludes the possibility of finding sufficient alternative profitable locations elsewhere. Unless these traders are forced to cease operating, they will continue to flourish as disqualified businesses, yet with the tacit consent of the authorities. They will therefore continue to be a competitive force in Coloured areas. Group areas are not likely to provide protection from this well-established trading community.

The second facet of internal competition is the increasing ability of new firms to circumvent group areas legislation. This is accomplished in two ways. Firstly, many entrepreneurs who, in terms of the Group Areas Act, are disqualified from operating in Coloured areas, have resorted to registering their firms in the name of persons qualified to operate a company in Coloured areas, yet have exercised effective control of the operations themselves. The adoption of a "front" to comply with the Group Areas Act is not uncommon practice. A nominal shareholding can be established, with the disqualified party only retaining 49% of the equity, though in effect exercising complete control through, for example, a loan account. There are several mechanisms whereby an individual can effect de facto control of a company without registering the company in his name, and in this way many disqualified businessmen have been able to trade, albeit rather tenuously.

A second method of circumventing restrictions imposed by group areas is the formation of "joint" or "mixed" ventures, whereby businessmen of different race groups pool their individual capital and skill assets to form a company which may legally operate in a particular group area. This is an effective way of overcoming legislative barriers to the mobility of capital and expertise, though it is by no means certain that all joint ventures are legal. Where they involve Coloured and White

shareholders, there can be little doubt that in most cases, White interests exercise de facto control of the new venture, even if only through production, distribution and marketing channels. Protection offered by group areas, in the light of encroachment by joint ventures, has not been an effective barrier to strong competitive elements in the market place of minority firms.

Internal competition has not been the only constraint to the development of minority businessmen. Competition on the borders of group areas as well as at regional centres and CBDs, where minorities are unable to acquire ownership or occupancy rights, have been partly responsible for the slow growth of large units of distribution owned by minorities. The former, described here as peripheral developments, have been particularly effective in drawing off buying power of Coloured households from Coloured areas.

Examples of peripheral commercial developments illustrate the problems posed for minorities. In Port Elizabeth, the Korsten "free trade zone" abuts the Coloured areas of the city, and is in a position to intercept workers and shoppers on their way to the city centre. With the advent of group areas restrictions, these zones were created in order to allow mainly Indian traders to pursue their traditional trading activities. In Korsten, the system has worked well for non-Coloured businessmen, but has imposed strong competitive constraints on Coloured businesses, which consist mainly of small retail food outlets. The creation of these "free trade zones" has undermined the spirit of group areas legislation with regard to business development. By encapsulating Coloured business in Coloured areas, the intention was to provide a protected market for fledgling businesses, based on the assumption that the local population would support local businesses. Peripheral "free trade zones", by drawing off retail spending from Coloured areas, have considerably negated the basis of group areas legislation.

Similar situations in Cape Town have led to a highly inequitable distribution of opportunities. In such suburbs as Kensington

and Woodstock, where "controlled" areas allow the operation of businesses under permit by any race group, several large multiples have established outlets with the clear intention of capturing a share of the expenditure of Coloured households in the vicinity.

The roles of the CBD and suburban shopping centres (as distinct from peripheral developments), have already been discussed in this study, and the conclusion that these large concentrations of commercial activity have influenced the shopping behaviour and preferences of shoppers is an indicator of their competitiveness vis-a-vis minority businesses. In short, the latter cannot compete with the range and depth of merchandise offered in these centres, nor their sophistication and superior shopping environment (see Table 3.5). Competitive forces favour downtown and suburban shopping areas, and the increasing mobility of consumers, both through greater private car ownership as well as improved public transportation, has led to consistently greater reliance on White shopping areas.

Combined with the unique disabilities incurred by minorities under group areas legislation, competitive backwardness has further undermined the share of business opportunities open to minority businessmen. Not only do ghetto businesses have a higher price structure than retail outlets in White areas, but they also suffer from other competitive disadvantages. Notably absent from minority areas are the large-scale commercial ventures that create agglomeration economies for smaller "parasite" retail firms. There are good reasons why these large-scale ventures are missing. Because the ghettos themselves are fundamentally undesirable locations of economic activity, entrepreneurs have not been prepared to commit capital and other resources in large quantities to the development of retailing in these areas. With few exceptions, retail outlets are generally small and often squalid, run-down establishments, offering a limited range of goods to mainly local households. The service provided by these outlets is socially and economically useful, particularly in poor heighbourhoods where consumers are less mobile and "outreach" is low, though in the urban arena where

trends in retailing indicate a progressive move to larger, more diversified ventures, the surfeit of small ghetto businesses is an anachronism.

Unless minority businessmen are able to adjust to competitive pressures, it is likely that they will in future enjoy an even smaller share of retailing opportunities. While the continued presence of the poor will ensure that many small retailers remain in business, rapid growth of incomes necessitates an adjustment to changes in demand and shopping preferences. This adjustment must include greater specialisation and rationalisation of retailing to accommodate the needs of consumers. Whether this can occur in minority areas in the future is doubtful. Not only are the capital requirements to establish competitive ventures in short supply, but capital for infrastructural changes is probably even scarcer. The creation of separate, competitive commercial areas for minorities will require vast capital outlays on road and service infrastructure, both in existing areas where considerable changes are required and in new areas.

In the light of consumer preferences and the dynamic changes in retailing in response to these preferences, it is clear that businesses owned by minorities are placed in a disadvantageous position with regard to their competitiveness. Group areas have not provided the protection for these small undertakings as intended in the legislation, but have in fact restricted the progress of minorities by encapsulating them inside their "own" areas. Government envisaged that minority businesses would grow in response to the growth in consumer spending of their own groups. This has not been the case, as the leakage of expenditure to White outlets has been considerable.

"Non-Coloured" retailers have responded to the rapid growth of incomes of Coloured households by strengthening their competitiveness and by circumventing group areas legislation. Not only are opportunities for minorities growing at a slower rate, but competition from White retailers is increasing progressively. Because the latter are more mobile with larger capital and skill resources at their disposal, they have been able to adjust to

restrictive legislative barriers more rapidly than poorer minority groups. The processes of rationalisation and specialisation have characterised the operations of White retailers far more pervasively than minorities, and this has tended to favour the former. The preferences of a growing middle class in minority groups are clearly in favour of the greater diversity and sophistication of retail outlets found in White areas, and this has also tended to redistribute opportunities and rewards away from minority businessmen. By restricting minorities to the low yield, high risk opportunities found in their own areas, commercial policy has militated against increased competitiveness. This is contrary to the most efficient allocation of resources, as well as to a policy determining the future pattern of distribution of opportunities, on which the development of minority businessmen depends.

5. ENTREPRENEURSHIP

THE SUPPLY OF ENTREPRENEURS

The mix of political, economic and social factors generating the supply of entrepreneurs deserves careful and intensive analysis in order to determine those factors favourable and those inimical to the development of an entrepreneurial class. In this analysis, however, a wider definition of "entrepreneur" has been adopted to include the entire spectrum of entrepreneurship, from the routine managerial functions of small retail operations, to the dynamic activities of leaders in large-scale commerce and industry. The wider definition encompasses the classical entrepreneur-capitalist, but seeks to include the small marginal man, too, whose immediate object is short-term survival and not long-term capital growth or exploitation of new opportunities.

What this definition implies is a highly generalised entrepreneurial function, which has been substituted by the term "businessman" in the analysis. The businessman in this study is

the investor, the manager, the decision-maker and the Schumpeterian "new man". He may or may not have McClellands' "need for achievement" and he will react to different economic and social stimuli according to his own biological, sociological and economic attributes and idiosyncracies. The relevance of such a generalised concept arises from the benefits accruing to minority groups from their involvement in business in general, and in the ownership of the means of production in particular. The former confers employment benefits both in managerial as well as other grades of work, and the impact of employment creation in higher professional and managerial echelons should considerably augment average remuneration in poor groups.

An indirect effect of greater business involvement on income and the training of scarce professional, technical and managerial personnel, is that potential entrants into the labour force may perceive the material advantages accruing to businessmen and adjust their job intentions accordingly. The poor status and material attributes of businessmen as well as the rather bleak prospects for improvement in the foreseeable future have been severe disincentives to increased participation by young work-seekers in business. In addition to the economic advantages, non-economic benefits from business involvement include increases in status and social mobility. Morally, too, the distribution of new opportunities in an equitable manner will confer benefits, as stated so emphatically by Seers:

"Equality should ... be considered an objective in its own right ... Inequalities to be found now in the world ... are objectionable by any religious or ethical standards. The social barriers and inhibitions of an unequal society distort the personalities of those with high incomes no less than those who are poor." (1)

The ownership of income-producing assets which are created directly by some kinds of business participation, is itself an important goal of development policy. Such assets need not be owned by entrepreneurs specifically, as long as they are in the

(1) D. Seers (1970), p.2.

control of minority businessmen, defined in the broadest sense. In terms of the rationale for a development policy aimed at a particular target group, it has already been stated that the direct transfer of income-earning assets to poor groups is a politically favourable method of indicating to such recipients that their economic and social development has been accorded a position of some importance (1). A less radical alternative would require the active promotion of minority business interests and more specifically would seek to increase the supply of businessmen in the community.

The well-documented shortage of Coloured businessmen is usually ascribed to a lack of business tradition. This is merely a tautology, however, for the real reasons are to be found by examining the historical development of the Coloured community. The lack of business tradition is itself a product of inter-group development and relationships over centuries, and is explained by the same factors that have denied many of the benefits of economic growth to South Africa's minorities, and that have largely determined the pattern of distribution of assets among the population.

These restrictions have been documented to some extent in the foregoing analysis. Legislative barriers to business involvement have restricted the development of minority businessmen by denying them the most profitable trading areas and impeding the mobility of capital and skills among various groups. The highly developed retail sector in the hands of mainly White entrepreneurs has appropriated a large share of consumer spending emanating from minorities, while conversely minority retailers have had to draw on a progressively smaller proportion of the total consumer market. In manufacturing, too, an overall lack of resources and opportunities has limited economic participation by minorities. Not only have economic problems been at the core of minority backwardness, but also social and conventional barriers among groups have interfered with the market mechanism by distorting informational signals, which in

(1) See Part I.

turn have limited access to markets for minority producers.

The lack of opportunities in other sectors has been of paramount importance in the development of leadership qualities. Minorities have, with very few exceptions, been excluded from the governmental and administrative organs of South Africa. The public sector has proved to be a useful nursery for the acquisition of leadership skills, which in turn have stimulated the development of entrepreneurial and managerial qualities. This has been particularly true of the development of the Afrikaner businessman, as noted earlier in this study. Thomas notes that the public sector has been instrumental in providing a platform for the development of Afrikaner businessmen, while the experience gained as employees in the private sector and various large Afrikaner organisations supplemented the supply of businessmen:

"The present Afrikaner business elite grew mainly as employees of other firms, as civil servants who later went into private enterprise and as professionals with a secondary interest in business. A few large Afrikaner-dominated enterprises like SANLAM, F.V.B., I.S.C.O.R., I.D.C., etc., served as training and recruitment fields for many business leaders and as the source of much business capital." (1)

Despite these economic, social and political disadvantages, not all minority groups have been tardy in exploiting trading and manufacturing opportunities. In Part II it was noted that Indian businessmen, with a long tradition of business involvement, have surmounted obstacles and through specialisation and rationalisation have adapted progressively to the changing trends in retailing and manufacturing.

"Once the kings of retailing, the Indians have found that because of the tough competition from large organisations, and the restrictions and insecurity caused by the Group Areas Act, they have had to move into a sphere where the market is not limited." (2)

(1) W.H. Thomas (1972), p.4.

(2) Business South Africa (1969), p.28.

Success in business has depended not only on the large number of trading families that originally immigrated with the Indian community into South Africa, but also on well-established lines of credit and finance within the community and a strong sense of community belonging, which has facilitated borrowing and in times of recession has provided a degree of protection to traders. Religious bonds have probably also engendered a sense of mutual trust among businessmen.

Unlike the Indians of South Africa, there is no esprit de corps in the Coloured community. The Indian and Afrikaner businessman have thrived on group homogeneity. Because the "Coloured" businessman is not a clearly definable person, a strategy for the development of a Coloured entrepreneurial class cannot be based on group consciousness, from which there have been clear material benefits for other South African groups.

The Coloured group exhibits all the traits of a minority yet cannot be said to be homogeneous. This is clearly brought out in the case of the Malay businessman, for whom substantial rewards have been earned through the advantages of group solidarity. The tradition of business in the Malay community goes back centuries. Theal reported that Malays first came to the Cape in 1667 (1), and because of their skills in certain sectors, were able to acquire experience in business at an early stage. Kollisch noted that:

"There is scarcely a trade or calling with which they are not familiar. In building and architectural improvement their services are in ready demand. They are excellent masons and carpenters ... (and) another branch of their occupation consists in the supply to the shipping of Table Bay ... of fish, vegetables and poultry ... They drive a large trade also, by the supply of fish to the markets ... " (2).

The Malay community has retained its involvement in business and has diversified its interests from the distributive trade

(1) I. du Plessis (1947), p.3.

(2) M. Kollisch: The Musselman Population at the Cape, in I.D. du Plessis (1947), p.44.

into manufacturing. Malay businessmen are particularly active in the manufacture of clothing (1), which has evolved from their tailoring activities.

The paucity of Coloured businessmen has been documented in Part II. Until recently a large proportion of the Coloured population (36% in 1936) was still engaged in agricultural and other primary sector employment (Table 2.16) and in the same year, 43% of the population were resident in rural areas (2). Recent urbanisation has meant that the process of adjustment to urban living for a large part of the community has probably militated against the formation of a business class. Not only are rural migrants materially poorer than urban residents, but they also have lower educational qualifications and less awareness of opportunities in alternative avenues of employment. (This may arise simply because of illiteracy or semi-literacy.)

In addition, the pattern of distribution of rewarding opportunities militated against rapid participation in the capitalist system by existing and potential Coloured businessmen. As noted by De Kiewiet, *inter alia*, a relationship of master and servant evolved between White and Black South African from the earliest days at the Cape.

"At the very beginning ... there was woven the double strand of South African history: the servile worker and the free colonist"

and further

"the limited wealth of the Colony became the privilege of its White population, whose higher standard of living was at the expense of the economic and social welfare of a numerous servile population." (3)

Businessmen have developed both as independent proprietors and as employees in large and small organisations. The irony of

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- (1) P.E.B. Wilson, *op.cit.* Although the survey did not specifically record the religious affiliations of respondents, many were in fact Moslem.
- (2) Theron Commission, *op.cit.*, p.17, Table 1.26.
- (3) C. de Kiewiet (1957), pp.21 and 22.

present policies is that minorities are expected to generate an entrepreneurial class solely from businesses owned and operated by themselves. The development of the Afrikaner businessman, however, emphasizes that it is the larger organisations that create many of the opportunities for emerging entrepreneurs, in this way complementing the role played by the small firm. The lesson for future business development is that opportunities must not only be created in Coloured areas, but that openings in the large retailing, manufacturing and financial organisations of this country must also be created for minorities. In addition, positions of authority and responsibility in government, including central, provincial and local government, must be opened up to minorities as a means of stimulating leadership qualities. In short, a policy for the development of businessmen of all groups can look to the evolution of successful White businessmen in this country, and to the development of successful businessmen universally. There is no reason why Coloured businessmen, for instance should be treated any differently. There is no functional difference between businessmen of various groups, and for this reason it is the universal organic development of entrepreneurs, in response to economic opportunities and within the constraints imposed by the distribution of resources and individual characteristics, that provides the basis on which future progress must be fashioned.

EDUCATION AND TRAINING

Education, including formal schooling, college and university, as well as informal on-the-job training and business courses, as a determinant of success in business deserves brief consideration. There is some indication in the literature that formal education, at least to the point of literacy, is necessary for successful business participation, though Hart states that there is no distinct correlation between formal education and entrepreneurial effectiveness, in the light of Kenyan and Nigerian experiences(1). Because the stock of human capital in society directly affects the tempo of development, however, education (both formal and informal) may well contain the answer

(1) G. Hart (1972), pp.85 to 88.

to greater involvement in business (1). Jolly states quite unequivocally that -

"over the long run, education is one of the most potent influences on the distribution of income and of opportunities." (2)

The overall low educational attainment of the Coloured community has probably contributed significantly to its incapacity to absorb higher skills, both at the technical and managerial levels.

Formal schooling has until very recently not been compulsory for Coloured youth, though even if it were, it is unlikely that existing school facilities would have been able to accommodate everyone. The shortage of adequate facilities is well-documented and is epitomised by the "double-shift" system, whereby primary schools run two school sessions a day to cope with the demand for schooling. Although the problems arising from a lack of primary education are manifold, the creation of a business class depends on secondary and post-school education. For reasons associated with both the "culture of poverty" and economic necessity, secondary education has for many households been a luxury, while the possibility of university or college education has been exceptional. This situation is gradually changing, however, due to a greater realisation of the benefits of education for future generations of workers, as well as considerably improved economic circumstances of individual households. In addition, government has allocated increasingly larger sums of money to the provision of school facilities and the training of teachers. Because the benefits of higher education are becoming more apparent, the supply of well educated work seekers is bound to increase dramatically in the future.

Secondary education has until recently been of minor significance in the Coloured community. Venter observes that in 1930,

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- (1) See W. Bowen: *Assessing the Economic Contribution of Education*, in M. Blaug (1968), p.67, foll., in which he assesses contributions to the subject in the literature on education.
- (2) R. Jolly: *Manpower and Education*, in D. Sears and L. Joy (1970), p.214.

a mere 1139 Coloured children were enrolled at secondary schools in the Cape Province (1), and while in absolute terms this number has grown, there are still relatively few pupils in high schools. In 1972 there were only 63 124 Coloured high school pupils, equivalent to 11,9% of total school enrolment. In comparison, there were 314 579 White pupils in high schools throughout the country in 1972, representing 35,5% of total school enrolment (2). Despite such low enrolment, there have been notable increases over the last few years. Between 1964 and 1974, high school enrolment increased by 110%, while total school enrolment only grew by 53% (3). The following table illustrates both the lack of secondary schooling in the community as well as the disparities between urban and rural schooling. These traits are not characteristic of the White community, for which figures are included as a comparison.

TABLE 3.6: Coloured Schooling in 1970 : Standard Passed

Standard Passed	Urban %	Rural %	Total %	Whites: Total %
None	30,5	60,3	38,2	14,4
Sub A & B	69,2	39,5	61,6	84,9
Std 1 & 2	60,5	30,4	52,7	80,9
3	47,7	17,6	39,9	76,2
4	40,2	12,0	32,9	73,7
5	31,1	7,4	25,0	70,8
6	21,3	3,9	16,8	67,4
7	10,2	1,5	8,0	54,5
8	5,9	0,9	4,6	46,2
9	2,0	0,3	1,5	28,1
10	1,2	0,2	0,9	22,8
Uncertain	0,3	0,2	0,2	0,7
Total Population	100,0	100,0	100,0	100,0

Source: South Africa. Population Census, 1970, Report 02-01-03.

(1) A. Venter (1975), p.309.

(2) Theron Commission, op.cit., Table 8.8., p.170.

(3) Ibid., Table 8.9, p.170.

The problem of insufficient formal schooling begs the question of the quality of education in Coloured schools. It is a further disadvantage to potential recruits in the business field that their schooling has been of an inferior standard. This is caused largely by such factors as overcrowding, inadequate teaching aids and generally poorly qualified teachers. Not only are there few graduates on the teaching staff of Coloured schools, but leadership is also lacking, with the result that schools do not play their full role in community life.

Of the subjects taken in high schools, Van der Ross has observed that commercial courses have been relatively popular. In 1967 there were 10 729 pupils in Standards 6 to 10 throughout South Africa enrolled for commercial courses, representing about 25% of total school enrolment, and reflecting "a very high degree of interest in the subject" (1). A problems arises after Standard 8, however, when many pupils are -

"snapped up into low-level commercial jobs ... (preventing) them from staying on at school and so qualifying really well with commercial subjects up to Std. 10 and beyond." (2)

Beyond secondary schooling there has been little progress made in academic education. Not only has university, and technical and training college enrolment been low, but interest shown in commerce, either through commercial or allied subjects, has been negligible. There were only 3 078 Coloured students at South African universities in 1973. Most of these were at the University of the Western Cape (1 572) (3). By 1975 the latter figure had grown to 2 073 students, though at the same time only 5 graduates were awarded commerce degrees. Between 1962 and 1975 only 30 commerce degrees were awarded, with another 23 diplomas in commerce (4). While it is not implied that only

(1) R. van der Ross (1972), p.3.

(2) Ibid., p.4.

(3) Theron Commission, op.cit., p.195.

(4) Ibid., p.196, Tables 8.41 and 8.42.

commerce degrees or diplomas are any use as formal business education, it is clear that there is little interest in business as a premeditated career choice.

A number of possible explanations for lack of interest in business may be identified. In so far as the opportunities for potential entrants to the business sector may affect business participation, this study has shown that there are good economic reasons for avoiding a career in commerce or industry. Openings in business facing potential recruits of different groups are not identical. Because of a long history of customary and legislated employment barriers, the distribution of job opportunities in most higher grade managerial, administrative, professional and technical positions does not favour minorities, and substantial changes in this distribution will have to be effected before an equitable situation is reached.

The prospects facing White entrants to the labour market are unimpeded by legislative and conventional obstacles. Either as independent entrepreneurs or as employees in large firms, there are few insurmountable obstacles to job advancement. It is evident that, while group areas legislation militates against the mobility of capital and skills from more to less developed groups, as a constraint to development, this does not affect White businessmen significantly. Not only are nearly all the prime retail areas in White group areas already, but virtually all manufacturing industry in the country is under the control of White companies.

On the other hand, prospects for minorities in business are less rewarding. As independent entrepreneurs they are restricted to less profitable areas, and even though they may perceive certain benefits arising from group areas encapsulation, it is quite clear that such advantages are heavily outweighed by the costs of opportunities foregone. As employees in large organizations in White areas, minorities are severely prejudiced by the Group Areas Act, which places categorical restrictions on their employment in supervisory or managerial positions, where

they are able to control the operations of the firm in any way, or where they are deemed to be "occupying" premises in terms of this Act.

Because the pattern of distribution of opportunities favours White businessmen, prospective Coloured entrants into the field will be faced with high employment opportunity costs. Whereas many of the restrictions discussed in this analysis pertain almost exclusively to employment in business, employment in many other fields is not subject to the same constraints. When faced with choosing a career, business does not offer the young graduate or school-leaver the chance to advance to the highest rungs on the managerial or entrepreneurial ladder. Even if junior positions are open to minorities, senior management and board level ranks are almost without exception the preserve of Whites. Unlike certain professions, business severely limits the material and psychic rewards accruing to participants. This is possibly an important reason for the lack of interest shown in business education at universities and colleges.

A second explanation not entirely divorced from the above, is the low status accorded businessmen by the community. Edelstein found that only 3% of respondents to his survey of attitudes among the Coloured population ranked "businessman" as the highest status occupation (1). Businessmen only ranked sixth as a group with high status. Status may be linked to rewards and seniority in a particular position, and it is doubtful whether business can meet these two criteria on an equal footing with other occupations.

Acceptance by the community of a class of "Coloured Capitalists" established in terms of the policy of parallel development, has not been unequivocal, which may lead to further rejection of business as a meaningful career. The experience of Negro business development has shown that there is a large body of writers who totally reject any attempt to establish a "Black

(1) M. Edelstein (1974), p.82, Table 38.

Capitalist" class. Frazier, for instance, criticizes the Negro bourgeoisie for their futile attempts to attain equality in American society through involvement in business (1). In a similar tone, Ofari (2) and Boggs (3) have both condemned Black Capitalism as a "social myth", based on the premise that replacing White exploitative entrepreneurs by Black, will not assist the Negro in the process of development, but will merely replace one capitalist with another. While such an approach has not been articulated by minorities in South Africa to a significant degree, it cannot be ruled out as an explanation of lack of interest in business. If minorities are not given access to the most profitable opportunities in business, and are continually seen as an "employee" class, an approach that finds capitalism repugnant, may well develop.

In so far as guidance and advice on careers may stimulate interest in business in the case of future entrants to the labour market, the lack of interest shown at universities can be attributed to defects in informational flows about opportunities. In an economy where the job market is prevented from functioning effectively by artificial restrictions on employment in certain areas and in certain occupations, it can be expected that signals will be distorted, and that the demand for trainee businessmen will not be balanced by the supply. Despite the gradual breaking-down of conventional barriers to mobility and the circumvention of legislative obstacles, many higher grade technical and managerial positions are still closed to minorities. The expectations of potential recruits to the business field have accordingly been affected by uncertainty as to which firms offer unlimited opportunities. Unless guidance and information on careers are forthcoming, it is unlikely that business as a career will be any more attractive to a larger share of new entrants to the labour force, than it has been in the past.

(1) E. Frazier (1957).

(2) E. Ofari (1970).

(3) J. Boggs, in R. Bailey (1971).

While the role of formal education as a determinant of success in business is probably a positive one, in that at least a few years of schooling are necessary in order to attain literacy, it is evident that there are successful businesses conducted by entrepreneurs with little formal educational qualifications. This would apply to undertakings in specific fields, particularly where the embryonic stages of the business are found in small, sole proprietorships in the informal sector. In some instances it may even be the lack of education that forces workseekers into independent businesses in the informal sector. Because many jobs favour those with secondary schooling qualifications, otherwise capable workseekers with initiative may attempt to establish their own enterprise, where lack of formal schooling would be less of a handicap than in established employment. Such a phenomenon would be relevant in the case of a developing group, where capital and credit shortages generally accompany the lack of human skills and education.

Coloured manufacturers, particularly those in traditional industries such as clothing, furniture and leather goods, have shown that advanced educational qualifications are not a sine qua non for success in business, though it is also clear that in an increasingly competitive economy, the ability to respond to the actions of rivals necessitates an understanding of scientific business methods, changing consumer tastes and continually improving technology. Education provides the key to business advancement in such a competitive environment. The manufacturing survey (1) showed that 63% of respondents had attained an educational level above Standard 8, while 13% had attended a university. Over 23% had obtained a degree or diploma from one of a number of higher educational institutions. Only 17% of respondents had a primary level of schooling, though it was evident that this was no indicator of lack of success. The results of the survey seemed to indicate that there was no obvious correlation between educational qualification and ability to control successful, growing undertakings. There were

(1) Op.cit.

instances where entrepreneurs with little formal education operated profitable manufacturing concerns, and conversely, in a few cases entrepreneurs with secondary schooling were clearly struggling. Because so many factors contribute to the inputs of a profitable manufacturing undertaking, it would not be correct to isolate only one, namely education, without due consideration for the role of such other factors as capital availability, supplier credit and competition. Thus the only conclusion to be drawn from this survey of independent minority businesses is that, while advanced education is conventionally held to be important for success in business, it does not guarantee success. In smaller concerns where traditional artisan and trade skills are required, practical experience is an effective substitute for formal education.

Business training is important as a vehicle for the transfer of business skills from the developed to the less developed group. These skills include general administrative or managerial know-how as well as specific aspects of business planning, organising and controlling. Training may be offered in the form of organised programmes, which in turn may consist of either in-house training or external business courses.

While the respective advantages of on-the-job training and business training courses are by no means clear, a strong case for both forms of instruction can be made on the ground that both provide a superior medium for the channelling of business skills to minorities, in relation to the benefits of formal school and university education. In so far as business training is usually financed by the private sector, there is less pressure on scarce government funds for educational purposes, and an additional advantage is that funds will probably be used more efficiently by individual firms than by government departments. Because business training concentrates on the transfer of skills and knowledge to minorities, it plays an important part in the redistribution of assets and in the allocation of opportunities in the economy. Meier states that -

"the economic quality of the population remains low when there is little knowledge of what natural resources are available, the alternative production techniques that are possible, the necessary skills, the existing market conditions and opportunities, and the institutions that might be created to favour economising effort and economic rationality. An improvement in the quality of the 'human factor' is then as essential as investment in physical capital". (1)

Business training courses are offered by a number of organisations, among which are the Coloured Development Corporation, the Universities, Technical Colleges, non-profit business institutions, private educational institutions and firms in the private sector. In addition, training is effected by certain bulk-buying organisations, such as the Spar group. The types of training offered by these bodies differ somewhat from one another, and are directed at businessmen with varying educational qualifications, but their importance as vehicles for the transfer of know-how is significant, despite the possible lack of direction and coordination in their presentation. One of the greatest benefits of these courses is that they not only impart business knowledge, but also contribute significantly to the training of relationships among businessmen, thus facilitating personal contacts. This aspect is emphasized by Marris and Somerset in their analysis of social barriers to business advancement. In their view the main obstacle is -

"the lack of a social network with conventions, values and points of contact to facilitate both the internal and external relationships of business." (2)

While their work relates more to African businessmen, similar problems arise in the milieu of the Coloured businessman, which distort the pattern of distribution of opportunities. In a society where social contact between groups is discouraged, if not actually prohibited, any form of exchange of ideas among businessmen should be welcomed, as this tends to assist in the process of occupational mobility. Business courses are a useful forum for such social intercourse.

(1) G. Meier (1964), p.399.

(2) P. Marris and A. Somerset (1971), p.234.

It is not intended to elaborate on the composition of business training courses. They cover a wide spectrum of subjects and are offered to all levels of businessmen. While many courses are of dubious benefit to participants, it is likely that overall they have a positive effect on business development. An assessment of the efficacy of training, however, will have to take into account differences between Coloured-owned firms and firms in the wider economy in which Coloured managers are employed.

Independent Coloured businessmen have access to three types of business training. Firstly, as already mentioned, a number of business courses are offered by various institutions, though these are mainly given outside the firm, with the result that the participant is obliged to pay relatively large sums of money and may even have to leave his business during operating times, if courses are run during working hours. To the small businessman who characterises the Coloured areas of the cities, this may be a considerable sacrifice, particularly if the benefits derived from the course are not quantifiable in terms of increased profits in the short to medium terms. The survey of independent retailers showed that only 19,7% of respondents were interested in training courses, and the rest had very negative attitudes to this form of business education (1). Manufacturers showed greater interest, however, as 43,3% of replies in the manufacturing survey favoured business courses. Only 27% of respondents had actually attended such courses (2). Negative replies in both retailing and manufacturing probably reflect the individual respondent's perception of the benefits from such courses, and in some cases it is doubtful what the real value of business courses actually is. The reluctance of these small entrepreneurs to participate in courses is therefore understandable.

Secondly, the in-service experience gained from both the routine managerial and entrepreneurial functions of the businessman, is

(1) Op.cit.

(2) Op.cit.

itself a valuable source of business know-how and expertise. The role of the independent firm as a nursery for minority businessmen is an important one in the process of acquisition and business skills. In so far as management is as much an art as a science, the small firm is an important vehicle for the articulation of the inventiveness and ingenuity of people. Because businessmen are required to respond to new situations in the day-to-day running of their businesses, it is clear that scientific instruction is no surrogate for entrepreneurial experience. This is summed up by Mokoatle, who suggests -

"that any programme aimed at the stimulation and development of Black entrepreneurs should be pitched at a level which will enable the entrepreneur to learn by doing. He should see the applicability of these business principles in practice in his own business." (1)

Thirdly, in-service experience can be bolstered by advisory assistance, and here the Coloured Development Corporation and such organisations as Spar contribute to the development of independent retailers. The retail survey showed that, while most small retailers were not interested in external training programmes, approximately 50% of those interviewed favoured the idea of internal assistance offered by either the private or public sector (2). Over 90% of those favouring this system were even prepared to pay for such a service. The significance of the answers to questions relating to internal and external training, lies in the approach of the two systems. External training requires attendance either during or outside business hours at some institution, and knowledge imbibed at these courses must then be translated into positive action within the firm, whereas individual consulting places greater emphasis on personal contact and direct action, which are easily perceived by the businessman.

The scope of Corporation advisory services is considerably

(1) B. Mokoatle (1976), p.21.

(2) Op.cit.

narrowed because only businesses receiving financial assistance are eligible for such advice. The provision of advice and training is, however, one of the Corporation's main objectives -

"Businessmen who have received assistance from the Corporation are visited regularly, and receive advice, particularly if they have little or no previous business experience. Corporation staff visit such businesses to help the businessman with accounting, marketing, costing and other problems." (1)

The Corporation acknowledges the primacy of advice and training, though it has not unfortunately developed its advisory service to encompass firms that have not received financial assistance. Because of the preference of small businessmen for in-service advice and training, such an extension would be a more effective method of improving the stock of management skills in the Coloured community. While this may prove to be a more costly strategy than formal training courses for businessmen, in qualitative terms the impact would be more meaningful.

The Spar organisation offers to independent retailers the advantages of bulk-buying and assistance, and encourages members to discuss problems and confer on issues that affect their trading. Officials of the organisation assist in the layout of stores, placing of orders and advertising, and offer managerial advice to members. A fee is charged for membership which entitles the trader to display the Spar sign as well as to engage the advisory services of the organisation. Members are generally accepted only if they display some business acumen or experience, and in this way the organisation retains its adherence to quality rather than quantity. Competition among Spar outlets is tightly controlled by determining the location of each outlet. This form of direct business advice and assistance is valued highly by retailers, and in terms of cost effectiveness is possibly a more efficient way of imparting know-how to minorities, than through the medium of formal business training courses.

(1) M. Pentz (1972), p.9.

As managerial employees in large organisations, Coloured businessmen are offered a far wider range of training alternatives than small, independent firms. Not only are facilities quantitatively in greater supply, but the superior quality of training confers greater benefits on the recipients, than is available in small firms. In the case of courses offered by external organisations, employees are usually sponsored by their firms and they may even attend in working hours. In the case of internal courses and in-service experience, employees of large organisations are also in a better position to acquire managerial skills and know-how. Many large organisations run their own training programmes, and Coloured businessmen are usually included with their White counterparts in such programmes. Not only are there the advantages of direct transfer of knowledge from the developed sector to developing minority businessmen, but the social integration in the firm and in such courses is also an important benefit, in terms of facilitating informational flows between employees at supervisory or managerial levels.

MIXED VENTURES

A medium for the acquisition of entrepreneurial skills that has not been fully explored is the establishment of "mixed" ventures. Under the present political dispensation, this phenomenon has been used by a number of White companies to gain entry to Coloured areas, though as a means of operating in White areas, Coloured businessmen have not effectively exploited its possibilities. Despite the ease with which some firms have been able to circumvent group areas restrictions, it is unlikely that mixed ventures will expand significantly, as most large organisations are reluctant to relinquish control of companies in which they have a considerable share. In addition, the pattern of retail location in most urban areas shows clearly that White groups have not been slow in exploiting opportunities on the borders of minority areas, and in the past this has been a rewarding business manoeuvre for firms wishing to capture a share of the rapidly growing Coloured market. Such developments obviate having to resort to mixed ventures.

The Theron Commission has come out strongly in favour of mixed companies, and has even gone so far as to recommend that initially

non-Coloured interests may hold more than 50% of share capital, on the condition that after 10 years, 51% of share capital is handed over to Coloured shareholders (1).

Such conditions are unlikely to attract sufficient mixed ventures on a scale large enough to make a significant contribution to the development of Coloured businessmen. In a minority recommendation, Van der Ross suggests that -

„daar wel in the huidige opset 'n plek vir die gemengde maatskappy is, dat daar geen perke op die aandeelbesit van enige besondere bevolkingsgroep ... behoort te wees nie, en dat daar geen voorwaardes van geleidelike oorgawe aan enige bevolkingsgroep behoort te wees nie." (2)

This approach shows greater realism and is likely to be more attractive to firms.

Stringent qualifications on control of mixed ventures will merely lessen the impact of their advantages. These extend further than the transfer of expertise and managerial skill, and include the availability of capital and credit from the developed sector; the provision of employment for poor groups; a means of operating in previously prohibited areas; enhancement of the business environment; and the provision of retail services in poor areas. The transfer of entrepreneurial skill is possibly the most important. Existing mixed companies in Coloured areas employ Coloured personnel up to managerial level, thus providing new managerial opportunities in these areas. That Coloured directors represent minority interests at board level, also provides an important benefit to emergent businessmen. One of the reasons for lack of business participation (as identified earlier), is that opportunities for advancement up the managerial hierarchy are usually blocked at lower or middle management level. Mixed ventures, however, provide the opportunity for Coloured and White senior management and directors to work together. An increase in such opportunities will have

(1) Op.cit., p.484,5. Recommendation 18.

(2) Ibid.

a positive effect on business participation by providing channels for the transfer of business know-how to the developing group.

Similarly, the mobilisation of capital in the community through mixed ventures is an important facet of any development programme. Though small amounts of capital have been forthcoming in the typical small undertakings referred to in this study, the lumpiness of larger investments has tended to restrict the involvement of Coloured businessmen to these small firms. Where funds can be augmented by joining forces with businessmen of other groups, mixed ventures deserve encouragement in a development programme.

Because mixed ventures would employ a greater proportion of minorities (where these are situated in minority areas) than Whites, they may also be used in conventional employment creation programmes. Not only are senior management positions created for minorities, but other grades of work will augment employment opportunities in depressed areas.

A hitherto unexploited opportunity for minorities to penetrate the high yield commercial areas of the cities arises with the formation of mixed ventures. While group areas legislation prohibits free mobility for firms, businessmen can increase their mobility through the establishment of mixed ventures. So far this strategy has been recognised by White companies only. Despite de jure ownership by Coloured businessmen, these mixed companies are generally effectively controlled by Whites, even if not through direct financial leverage. Although this contravenes the spirit (if not the letter) of the Group Areas Act, there is no reason to believe that this will not remain a feasible investment alternative for companies wishing to increase their market penetration. White entrepreneurs can be expected to increase their penetration of Coloured areas, and unless Coloured entrepreneurs do likewise in White areas, the existing disparity in the distribution of rewards in business will not only be perpetuated, but will probably also deteriorate even further.

Finally, mixed ventures offer improved services to consumers and tend to enhance the shopping environment. By providing goods and services on a more sophisticated scale than existing minority-owned outlets, large-scale mixed ventures can bring to poor neighbourhoods some of the agglomeration economies generated in CBDs.

PRESSURE GROUPS

The role of business chambers as pressure groups for promoting the interests of the business community in general, and minorities in particular, is important in a minority business development programme. The analysis of Negro business development is replete with examples of organisations both in the public and private sectors, with the specific object of furthering the interests of Negro businessmen by increasing their participation in the mainstream economy. An example of this is the Rochester Chamber which, as mentioned earlier, has actively promoted Negro businesses in alliance with Eastman Kodak and other large corporations. The Rochester Business Opportunities Corporation (RBOC) is an illustration of the effectiveness of combined action by private sector firms and business chambers to promote Negro business.

Although local business chambers do purport to take an interest in minority businessmen, there is no known programme for the active encouragement of minorities in business. Chambers of Commerce and Industry prefer to adopt a non-racial attitude to business, and have limited their efforts in respect of Coloured and Black advancement to conventional employment and skills training programmes. A recent example is the "manifesto" of the Cape Town Chamber of Commerce, which urges all its member firms "to give equal treatment to employees of all races" (1). Unfortunately, these chambers have not developed their thinking beyond the laissez-faire stage, with the result that no special treatment is accorded Black business. Until these chambers, which represent primarily White business interests, recognise the problems of minority business development, it is unlikely that new directions for development indicated in this study will gain acceptance.

(1) The Argus, 13 December, 1976.

Organisations of minority businessmen instead, can adequately fulfill the functions of business chambers by articulating the aspirations and voicing the grievances of minorities. The African Chamber of Commerce, for instance, performs these tasks on behalf of African businessmen, and in the light of the lack of representation on White-controlled chambers, provides a useful service to businessmen. Though there are a few Coloured organisations similar to the African Chamber, none has proved to be effectual. Most successful Coloured businessmen have preferred to join the powerful White bodies, despite their lack of knowledge of minority business problems. Certain local business associations have evolved, providing a forum for discussion of business problems. The Athlone Commercial and Professional Association (1), for instance, has brought some of the problems of Coloured businessmen to the attention of the public, though it remains to be seen what power such a group can wield.

Because the development of a class of Coloured businessmen will ultimately depend on the future pattern of distribution of both opportunities and resources among various groups, any method of predetermining this pattern in favour of previously disadvantaged groups should be included in a "package" development strategy. While greater attention must be focused on conventional educational and training programmes, other equally important vehicles for the creation of business opportunities and transfer of resources deserve consideration. The history of entrepreneurship of other minorities shows that small, independent firms are in some instances inadequate vehicles for the development of an entrepreneurial class. A programme for future development must recognise the value of training offered to businessmen in large corporations as well as small enterprises.

(1) The Argus, 6 December, 1976.

6. CAPITAL FORMATION AND FINANCIAL ASPECTS

GENERAL

The primacy of capital formation in economic development is disputed in the literature, particularly in the light of other factor inputs, such as entrepreneurship. It is generally agreed, however, that large amounts of capital are needed in the process of economic development. Whether these amounts are necessary or sufficient for development is arguable. Schatz claims that -

"the accumulation of capital is the most effective way to create the other conditions required for economic growth; these requisites are created concurrently with and primarily by a high rate of capital formation." (1)

In his opinion, it is the external effects of capital accumulation that confirm its primacy. This is in contrast to the opinions of Nurkse and Hart. Nurkse states that -

"capital is a necessary but not sufficient condition of progress." (2)

and Hart, in an assessment of African enterprise, notes that -

"the general impression ... is that capital shortage does not assume the overriding importance which is frequently attributed to it." (3)

The importance of capital in development is based on its use in producing goods and income. A development policy for minorities would attempt to augment the productive assets (capital) under the control of businessmen of minority groups. The rationale for capital accumulation would therefore be based on

(1) S. Schatz (1968), p.40.

(2) R. Nurkse (1953), p.1.

(3) G. Hart (1972), p.175.

broadening the income-earning assets of poor groups, and creating an employer class with ownership of the means of production. While the acquisition of productive assets by poor groups is a necessary step in their development, it is clearly not a sufficient step. Their reliance on employment opportunities in the wider economy implies that a development policy aimed at increasing productive assets only of poor groups, can only be a partial solution to the problems created by poverty. In this instance, capital accumulation cannot be sufficient for economic development.

The shortage of capital in the Coloured community is broadly attributable to the poverty in which the community finds itself, as well as lack of access to established external sources of capital. Poverty affects the internal generation of capital through the savings/investment process. Average household income in the community is relatively low, and it has already been noted that a large proportion of Coloured families live below the minimum acceptable level of living. Because of low incomes, household savings are negligible. The position in firms is similar, as low turnovers generally preclude the generation of business savings. The net result of negligible household and firms' savings, is that investible funds generated by the community are insufficient to meet the needs of businessmen.

Not only are savings inadequate, but leakages from the community to White institutions are considerable. Except for the Spes Bona Bank, a savings and finance bank established by the Coloured Development Corporation, all savings institutions are White-owned, investing principally in White areas. Because minorities cannot operate business undertakings in White areas, the bulk of investment by financial institutions does not help them. Minority businesses are further disadvantaged by the large-scale leakage of expenditure from poor areas. It has been pointed out that approximately 67% of total household expenditure flows out of Coloured areas to outlets owned by other groups. This outflow of funds further prejudices minority businesses by reducing their market and increasing competition for the small amount of local expenditure. Consequently operating surpluses are equally small.

The large capital shortage in the Coloured areas is partly due to the policy of parallelism and partly to the inherent riskiness of the ghetto for potential investors. The creation of twin or parallel cities for Coloured communities throughout the country has necessitated large-scale investment by the public sector in social overhead capital. In many towns where total population is small, the requirements of individual groups in terms of social infrastructure are exhaustive in the light of resources available for the provision of separate facilities. The removal of families from the inner city to the urban periphery has necessitated the establishment of townships where considerable investment in infrastructure is required before housing development can commence. While cities are always growing and hence requiring extensive capital investment by the authorities, the destruction of the inner city where poor groups derive substantial benefits, merely exacerbates the problems of capital accumulation in poor areas, and inhibits the redistribution of income-earning assets in favour of deprived groups.

The provision of large amounts of social overhead capital extends further than its use for community facilities. Parallelism also sees as its ultimate goal the creation of separate business districts in White and Coloured areas. A number of forces within cities tend to counteract the establishment of second central business districts. Possibly the main counter-productive force is that established commerce in CBDs of cities has a vested interest in maintaining the status quo. Many businesses locate in CBDs because of agglomeration economies or externalities arising from the operations of other firms such as large national chain stores. These businesses generally invest large sums in CBDs and would be understandably reluctant to pursue any course of action that would jeopardise their existence. The demand for decentralised shopping facilities, however, has forced many firms to move out to the suburbs, though reliance of a major share of the population of cities on central shopping facilities, continues to confirm the importance of the CBD in the life of the city.

The second force militating against the establishment of twin CBDs, as well as lower order commercial centres, is the future pattern of investment in cities. While CBDs are still expanding, or undergoing renovation, established suburban or regional centres are also absorbing a large share of investible funds. The recent growth of out-of-town retailing will also account for a large proportion of future commercial investment expenditure, in the light of rapid real increases in income and the accompanying growth in the utilisation of private vehicles.

Local authorities, too, are reluctant to encourage the movement of capital away from commercial areas under their jurisdiction, particularly from CBDs, as these areas are an important source of revenue for the city. While the development of commercial zones in Coloured group areas would normally also enhance the rateable land in areas controlled by White local authorities, the possibility of these areas being transferred to a Coloured local authority in the future is very real, and has received considerable support as a power base from which to launch further demands. Autonomous Coloured local authorities would be able to articulate the aspirations and desires of Coloured groups and would

"present a far more formidable opposition to Whites than one or two Black city councillors" (1).

Other barriers to the development of separate CBDs for Coloured businessmen have been dealt with in some detail, and include restrictions on mobility of expertise and capital from the developed White to the developing Coloured sector; the preference of Coloured consumers for the benefits offered by large concentrations of retailing in White areas; and the existence of established competitive forces within Coloured group areas, on the borders of these areas and in regional centres within easy commuting distance of Coloured consumers.

Despite the unlimited needs of the Coloured group areas in terms

(1) The Argus, 30 June, 1976.

of capital for infrastructure and business development, forces restricting the rapid inflow of capital to these areas are likely to retain their effectiveness, and in some instances are likely to be strengthened. Competition from new regional and peripheral developments will remain a powerful inhibitory factor in the future development of retailing in Coloured areas, and changing consumer preferences will continue to support these developments to the detriment of independent Coloured traders. These factors tend to reinforce the riskiness of ghettos and compound the social and economic problems afflicting the community already. Thus vandalism and crime are more prevalent in poor areas than in the established commercial areas of the cities, while social unrest and rioting have tended to exacerbate the already inferior business environment in the ghettos. This has two aspects. Not only are losses sustained through damage to property and loss of stock, but -

"of more significance to the average small businessman (is) the drop in turnover, and consequently profit, due in part to the community's fear of going out to shop." (1)

Other factors contributing to high risk in the ghettos have been mentioned in earlier discussion. Fragmentation of business sites in both new and old townships has diminished the chances of concentration or clustering of activities which would provide greater benefits to shoppers and shopkeepers alike. This has further discouraged rationalisation and specialisation and has reinforced the trend in consumer behaviour to shop outside the ghettos. Planning has also often neglected to take into account the role of transport routes as creators of activity. The growth and development of commercial activities in the established city areas emphasize the importance of interception of consumer movement in the city, as a fundamental principle of commercial location.

Not only are Coloured entrepreneurs short of capital and experience, but they are also deficient in the political means to

(1) Coloured Development Corporation, Annual Report, 1976.

acquire these resources. The lack of power groups with political leverage tends to leave the community at the mercy of central and local bureaucrats. The arbitrary imposition of controls on businessmen impedes freedom of movement and adjustment to competitive excesses or deficiencies, which in turn are contradictory to the efficient functioning of the free enterprise system. At the central government level, Coloured businessmen are subject to the hazards of group areas removals and resettlements, while at a more local level, municipal controls and planning regulations have militated against an equitable distribution of the benefits arising from business participation. This is particularly true in the case of the Athlone business centre, where zoning regulations and building limits have been major contributors to the stunted growth of the centre. The risks of trading in such a centre are considerable, given the obstacles to growth and consumer preferences for more sophisticated regional shopping centres in close proximity to Athlone. While political pressure from Coloured business interests would have assisted in ameliorating the stagnating situation in Athlone, lack of such pressure has caused a delay of over three years in implementing development proposals, which are not in any way costly, in terms of the benefits to be derived from the proposed new scheme (1).

The riskiness attached to funding ghetto businesses does not only arise from the economic interrelationships among the environment, the role of consumers, planning issues and political factors, inter alia, but also hinges on the characteristics of the individual firm and entrepreneur. One of the major problems facing minority firms when they require capital, is that their small size tends to restrict access to most conventional sources. Reliance on internally generated capital (either from profits or from personal savings of the entrepreneur) is a result of such restriction. Many small retailers, being marginal, unstable concerns, find that banks are unwilling to grant loans or overdraft facilities to them, and suppliers' credit is not

(1) The Argus, 5 May, 1977.

forthcoming either. Not only are these firms inherently bad risks for investors, but their owners are often markedly inferior businessmen, too. While the shortage of capital to these small retailers has been acute, to small manufacturers the scarcity has not been as problematical. Generally, they have managed to acquire funds when needed, albeit in small amounts. Large quantities of capital have not been forthcoming as a rule, however, which has tended to restrict progress and expansion of production.

Because minority entrepreneurs are in an overall sense less experienced and articulate than entrepreneurs in the wider economy, they have often failed to present their applications for loans in the most convincing manner. More experienced businessmen are able to absorb product knowledge more rapidly, display greater awareness of market ramifications and assess actions of competitors more intelligently. In addition, they have more information about the market than less experienced minorities. These shortcomings are reinforced further by social discrimination, about which Marris and others (1) have commented extensively. Not only are many minority businessmen to be found in the poorer sections of the urban community (and as a result, in a different milieu to affluent Whites), but legislated discrimination has effectively precluded businessmen from participating fully in the benefits of the free enterprise system. Discrimination has affected the ability of businesses to attract capital from alternative uses in several ways. Firstly, the Group Areas Act and other legislation have artificially effected a redistribution of the most rewarding opportunities away from minorities and in favour of the dominant White group. Capital is therefore channelled to favoured areas. Secondly, legislation has inhibited the most efficient transfer of capital (and the expertise necessary to maximise the use of this capital) from the developed economy to the underdeveloped minority group, by rigidly circumscribing social relationships, the conditions of ownership of so-called mixed companies, and restricting the

(1) P. Marris (1968); P. Marris and A. Somerset (1971),
inter alia.

employment of persons of a particular group to their "own" group areas. Thirdly, because of a long history of deprivation, minority businessmen are often unable to utilise capital efficiently, which tends to discourage lending to such businessmen. As mentioned earlier, deprivation has also diminished the creditability of minority borrowers, as inferior education, employment constraints and other developmental impediments have retarded progress and consequently also the acquisition of skills and experience that confer trustworthiness and creditworthiness on borrowers. Fourthly, social barriers have tended to exacerbate the already disadvantaged position of minorities. Marris has pointed out that social barriers to the advancement of entrepreneurs have been significant in East Africa (1), and a similar process inhibits the efficient functioning of the market for capital in South Africa. While it is difficult to quantify the precise effects of racial discrimination, in that specific examples of discrimination are not scientifically measureable, the reactions of businessmen to questions concerning the availability of capital seem to indicate that (in their opinion, at least) an element of discrimination does affect the supply of loanable funds. While as many as 43% of industrialists surveyed indicated that banks discriminate against minorities, many were basing their opinions on hearsay and not on actual experience. Of those who had financial problems (33% of the sample), only 33% attributed their inability to procure loans directly to racial discrimination (2).

Despite the abovementioned constraints to capital formation in poor groups, it would be incorrect to deny that accumulation does occur. The growth of business ownership in the hands of minorities (as shown in Part II) indicates clearly that income-earning assets have been gradually accruing to minorities, though it has also been pointed out that progress is unacceptably slow. The extent of capital formation is limited mainly to the numerous

(1) P. Marris (1968), op.cit.

(2) P.E.B. Wilson, op.cit.

small retail firms that characterise poor areas and a small number of industrial undertakings. The former have little potential for expansion that is the product of rationalisation or specialisation, although the increasing propensity of entrepreneurs to locate outside their "own" group areas does open up more rewarding opportunities for investors. Intensive exploitation of such new opportunities will increase the possibility that the future pattern of capital accumulation moves in favour of poor groups. A second means of promoting increased accumulation among poor groups is the formation of joint or mixed ventures, where businessmen of different groups combine their resources to operate in new areas and to exploit new opportunities.

While the extent of capital formation in minority industrial concerns is not significant in terms of capital formation in the economy as a whole, the benefits accruing to poor groups from manufacturing activity are considerable, in terms of both capital formation and employment creation. It is important to include both the formal and informal sectors in quantifying the extent of capital formation in poor groups, for the latter can be expected to play a dominant part in a situation where many of the most lucrative sources of accumulation of income-earning assets are either fully or partially reserved for the dominant group. The mere nature of informal sector activities makes a computation of capital accumulation an impossible task, yet these small twilight activities are important sources of capital.

SOURCES OF CAPITAL

While the role of institutional finance is important for the economy as a whole, internal funding is generally the only source of finance in developing countries. Davenport illustrates this point with reference to India.

TABLE 3.7: Financing of Small Industry in India, 1957 and 1961

Source of Funds	Share in 1957 (%)	Share in 1961 (%)
Internal funds	88,0	81,0
Private Nonbanking	3,6	6,6
Banking sector	7,3	6,5
Government	1,1	5,9
TOTAL	100,0	100,0

Source: R.W. Davenport (1967), p.21.

Despite the increasing importance of government and private non-banking sources, internal generation of funds remained the primary source over this period. Reasons for the inability of small firms to tap other sources have already been discussed in depth, and they include both economic and non-economic factors. In Natal, for instance, Natrass found that -

"small companies make less use of public offers as a source of finance than large firms and find it difficult, if not impossible, to obtain funds from insurance companies and pension funds ... as one can see, a wider selection of sources of funds is available to large firms, particularly if they are public companies, than to small firms." (1)

Minority businesses are afflicted with similar problems of small size (2), because most are individual proprietorships or partnerships. They have accordingly been forced to rely to a large extent on internally generated funds, either from the personal savings of the owner or from profits.

(1) J. Natrass (1970), p.292.

(2) Small firms are defined as those with capital of less than R100 000.

TABLE 3.8: Sources of Funds for Acquisition and Expansion of Manufacturing Concerns in Cape Town, 1976

Source	Acquisition (%)	Expansion (%)
Personal savings	46,2	} 45,8
Internal profits	19,2	
Bank loan	9,6	16,7
C.D.C.	-	20,8
Family funds	7,7	-
Supplier credit	5,8	4,2
Other nonbanking	11,5	12,5
TOTAL	100,0	100,0

Source: P.E.B. Wilson, op.cit.

Clearly, internally generated finance for acquisition and future expansion of manufacturing undertakings is the most important source of funds, though other sources are of relatively greater importance in the case of business expansion. This would seem to indicate that the individual businessman's perception of his own creditworthiness or stature had increased considerably since inception of the enterprise. The age of the enterprise (average of 12 years) may be responsible for this change (1), for in this space of time the entrepreneur would have been able to ingratiate himself to his bank manager and the latter, in turn, would have been able to appraise the entrepreneur and his business as risk bearers.

The utilisation of internally generated funds is a factor favouring the encouragement and promotion of small minority businesses, for these enterprises tend to tap sources of funds not otherwise available for development. While individually these small firms generate small quantities of capital, in view of the lack of income-earning assets belonging to the poor,

(1) P.E.B. Wilson, op.cit.

their joint importance in increasing investible funds for minority businessmen cannot be overestimated. By mobilising the savings of poor groups, small sole proprietorships and partnerships play a necessary part in the movement away from poverty.

The personal savings of individuals appeared to make the greatest contribution to capital for acquisition of the business. This may be explained by the capital saving nature of many manufacturing activities. Most capital equipment in minority-owned enterprises is highly divisible and consequently can be installed in quantities commensurate with funds available from the personal savings of the entrepreneur. A typical example of this is found in the clothing industry, where small CMT manufacturers have been able to acquire machines over a long period of time and expand their activities as internally generated profits become available.

The mobilisation of savings within the community for utilisation by community entrepreneurs is problematical in the light of close economic integration between groups in South Africa, as there is no real incentive for savers to channel investible funds to entrepreneurs of minority groups. This familiar problem is found on a larger scale in most developing countries where gross domestic capital formation exceeds the supply of domestic savings. The result is that capital must be obtained from external sources, and an analogous situation applies to minorities in South Africa. Abraham points out that in Latin America, households have contributed almost nothing to saving:

"Unlike the industrial countries, where the saving done by households, including proprietors, generally forms the main source of net saving ..., the countries of Latin America derived only meager amounts from this source when in fact households managed to save at all; in nearly as large a number of instances they overspent their income, absorbing saving." (1)

(1) W.I. Abraham (1964), p.383.

There is ample evidence in the literature that developing countries struggle to meet their gross domestic capital formation needs from private household savings. For instance, UNESCO has observed that -

"Personal savings contribute in a minor proportion to GDCF, the bulk being provided by public savings, enterprises self-financing ... and external aid." (1)

The reasons for the relative insignificance of personal savings can be attributed to a host of factors, such as low economically active population, low life expectation, traditional religious beliefs and tribal customs and laws, the extended family system, the degree of illiteracy, the lack of economic motivation to save, the low level of monetary income, and many others (2)

While not all factors that tend to limit savings in poor communities are found in minority groups, many are in fact a strong disincentive to increased saving. Thus socio-economic factors relating to the size of the family, the proportion of persons economically active, the age structure of the group and the degree of illiteracy will all influence the total amount available to businessmen. An additional disincentive, as shown in Part II, is the lack of physically accessible banking facilities in the townships and the difficulty in reaching such facilities in more centrally located commercial areas.

Possibly the main problem with channelling private savings of minorities to minority businessmen, is that virtually all savings are deposited with financial institutions owned and managed largely by Whites, with the result that the special problems associated with minority economic development from the point of view of increasing the stock of income-earning assets in the hands of minorities, are overlooked by these institutions. This leakage of personal savings to White-owned financial institutions poses a major problem for business development, for

(1) UNESCO (1973), p.18.

(2) Ibid., pp.63-68.

unless these institutions are prepared either to invest on their own account, or to fund investment in minority areas, the imbalance between funds channelled to White and minority business will persist.

The availability of personal savings to fund the growth of minority enterprise has not been significant in terms of capital requirements for industrial and retail activities. Further, the lack of group consciousness and close family bonds, particularly in the Coloured community, have denied entrepreneurs access to the family funds that have assisted Indian businessmen so significantly. But, as a surrogate, many savings groups, or clubs, have developed in order to create sufficient quantities of capital for investment in larger, "lumpy" projects. This applies almost solely to retail or service activities and is a feature of business financing in many developing countries. In India, for example, rotating credit associations, which are simply voluntary savings groups -

"provide capital to people who find the accumulation of lump sums of money extremely difficult." (1)

In East Africa savings associations are not uncommon though are confined mainly to Asians -

"who save their money together and make low cost loans to each other for worthwhile purposes at low rates of interest." (2)

UNESCO describes the function of savings associations as follows:

"These associations convene on fixed dates ... and all the members pay a specified sum: the whole amount collected is then given to one of the members, who is either drawn by lot or chosen according to a list of priority or selected during the meeting itself with regard to his needs and requests. This

(1) R.T. Anderson (1966), p.335.

(2) G. Hübner (1970), p.121.

person will then reimburse the sum received by paying his regular contribution to the association for the time needed to cancel the debt. Normally no interest is charged on either of these loans or paid on the savings contributed by each member." (1)

Unlike this system, savings clubs among the Coloured community are generally formed with the object of accumulating funds for a specific venture. A survey of such associations reveals that the average amount saved among 26 groups was R10 000, and this was contributed by an average of 24 persons per group. Out of the total number of groups identified, 61% were established specifically to raise funds for purchasing liquor outlets, which are one of the most profitable ventures available to Coloured businessmen. The remaining 39% desired to exploit opportunities mainly in retailing, though others were interested in cinemas, service stations and other service activities (2).

These associations were generally administered by committees and normally consisted of businessmen, professionals, artisans and other workers in higher-paid categories. The average size of savings clubs was dependent to a large extent on the legal provisions for establishing liquor outlets. At least 20 persons are required in terms of the Liquor Act before a liquor outlet can be acquired by Coloured and Indian businessmen.

While these clubs were not able to raise the entire capital requirements of the enterprise in which they were interested (3), they did raise a proportion thereof, to which such institutions as the Coloured Development Corporation were able to contribute the outstanding amounts. Savings clubs have therefore been useful instruments for accumulating investible funds for minority businessmen, although they have not been able to raise very large amounts of capital.

(1) UNESCO, op.cit., p.45.

(2) Coloured Development Corporation, Survey No. 5 (1976). 83 groups were identified.

(3) In the case of liquor outlets, savings clubs were able to raise approx. 6% to 7½% of the total construction requirements (Coloured Development Corporation, Survey No. 5, op.cit.).

The role of financial institutions in providing funds for business growth is less significant in poor areas than in central, well-established commercial and industrial areas. While small firms are reliant to a large extent on loans supplied by commercial banks and other private sector financial institutions, the paradoxical situation in the case of minorities is that conventional sources are not generally open to them (Table 3.8). The outlook for the future demand for funds is more promising, however, as revealed in the anticipations of entrepreneurs with regard to methods of financing expansion of their activities. The importance of commercial banks for the funding of small enterprise is emphasized by the following data, obtained for firms in the Umgeni Catchment Area in Natal.

TABLE 3.9: Sources of Loans by Size of Capital (Firm) Employed

Source	Loans made to firms with capital	
	Under R100 000 (%)	Over R100 000 (%)
Commercial banks	37,2	29,9
Other institutions	17,5	30,9
Inter-company loans	9,3	22,4
Other	36,0	16,8
TOTAL	100,0	100,0

Source: J. Nattrass (1970), p.290.

While the survey of manufacturing activities showed that minority enterprises relied largely on internally generated funds, small businesses generally obtain most financial assistance from banks. This may indicate that banks have not taken into account the special circumstances and needs of minorities, their economic backwardness and the urgent need to stimulate growth and development. This problem is symptomatic of the relationship between expatriate banks and indigenous businesses in many developing countries. Thus Diaku claims that expatriate banks in

Nigeria have failed to structure their lending policies according to the needs of local businessmen:

"foreign banks strictly adhere to established banking principles of their parent banks in apparent disregard of the economic circumstances of Nigeria." (1)

A major problem is that indigenous banks tend to model their lending policies on those of foreign banks, which is further to the detriment of businessmen. Diaku states further that -

"where the objective of policy is to encourage and nurture a new entrepreneurial class, a policy of denying loans to new industrial entrepreneurs is at cross-purposes with the overall development strategy." (2)

A similar situation obtains between commercial banks and minority businessmen in South Africa. Even where entrepreneurs are able to project themselves and their undertakings most favourably, banks insist on collateral that is often not within the means of minority businessmen. The high risk factor in financing businesses in poor areas may even increase the collateral requirements for small businesses, while the withdrawal of White investment from the ghettos also tends to increase the scepticism of lenders. This problem may be partially offset by government or its agencies, which could guarantee loans from the banking sector, in those cases where insufficient collateral was forthcoming. This has worked effectively in the U.S.A. where federal and private organisations have played an important role in underwriting loans to Negroes.

Unfortunately, the State has not been prepared to extend such facilities to minorities in South Africa, other than creating development corporations empowered to undertake business development on behalf of various race groups. The latter have not, however, extended their activities to guaranteeing investments by financial institutions in poor areas. It is difficult

(1) I. Diaku (1972), p.176.

(2) Ibid., p.189.

for private institutions to perceive the longer term social costs and benefits accruing from either denying or granting credit to minorities, particularly when proposed ventures are not clearly feasible, or when entrepreneurs themselves appear to be bad risks. Until adjustments to the risk factor are effected or relative prices of factors of production are changed, private sector financial institutions will probably remain unwilling to lend to minorities, or at best will insist on substantial collateral. Davenport criticises this dispensation as being inimical to developmental objectives:

"A serious criticism of relying on the criterion of collateral in making loan decisions is that it does not differentiate between finance used for development and non-development purposes. If applied conservatively, it tends to allocate financing according to applicants' relative wealth ... In practice, this is likely to give a poor allocation for development purposes ... Heavy collateral requirements in practice tend to keep growing firms and small firms generally from obtaining the finance they require ... " (1)

As direct investors in poor areas, financial institutions do not have a good record. The large shopping complexes that dominate central and suburban areas, providing prime accommodation for both small and large retailers, and stimulating economies of agglomeration and the high activity nodes that create consumer interest, are noticeably absent from poor areas. These complexes are frequently financed by institutional investors. It is not only economic factors that deter such investment in minority areas, but problems posed by group areas legislation are additional obstacles to the occupation and ownership of property. Financial institutions are precluded from investing in Coloured areas, for example, by virtue of provisions of the Group Areas Act. The circumvention of these provisions does, however, provide investors with a way out of the dilemma. The formation of mixed ventures, whereby minorities would retain a controlling interest (and so conform to provisions of the Group Areas Act), with financial institutions contributing a

(1) R.W. Davenport (1967), p.240.

minor yet substantial share of capital, has already been suggested as the most realistic and effective method of rapidly increasing the share of income-earning assets in the hands of poor groups.

The final source of funds for business growth and development is found in the public sector, mainly through the Coloured Development Corporation in the case of the Coloured community, but also through other government departments and local authorities. Except for the Coloured Development Corporation, public sector assistance is negligible. The Department of Community Development has in the past erected shops, though these have mainly been for displaced Indian traders. Several of the large local authorities have also contributed to the erection of trading premises (1), though assistance for industrial undertakings has not been forthcoming. In the light of lucrative supply contracts put out to tender by central and local authorities, there is considerable scope for these bodies to assist minority manufacturers. Procurement contracts offered to minorities in the U.S.A. by the public sector have in many cases enabled new entrepreneurs to initiate manufacturing ventures, protected initially by a guaranteed market. Of course, certain infrastructural developments are undertaken by local authorities, particularly in new areas where the private sector may initially be reluctant to commit scarce resources. Generally however, local authorities are content to leave all business development and assistance to the Coloured Development Corporation.

THE COLOURED DEVELOPMENT CORPORATION (CDC)

The CDC was established in 1962 (2) with the following objects:

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- (1) Local authorities have been particularly active in townships where proclamation has been delayed. Because businessmen cannot purchase sites in this case, local authorities erect premises and lease them to traders. At a later stage purchase may be effected.
 - (2) South Africa. Statutes. Coloured Development Act, No. 4 of 1962, as amended.

"the encouragement and promotion of the advancement of Coloureds in Coloured and industrial areas, in the field of industry, trade and finance, and the performance of such other tasks as the State President may ... determine." (1)

The CDC is the prime government agency for assisting Coloured businessmen and establishing enterprise in Coloured and industrial areas where private entrepreneurs are not forthcoming. Not only was the CDC established by Act of Parliament, but its Board of Directors is appointed by the State President and, most important in determining its degree of autonomy, the Central Government provides the vast bulk of its operating capital.

As a government agency, the CDC has been subjected to repeated condemnation and criticism, mostly on political grounds, for economic arguments in favour of preferential treatment for minority groups are often (at least superficially) very convincing. When the CDC Bill went before Parliament, it was referred to as -

"an apartheid measure" (2)

and

"another milestone in the creation of economically self-contained racial groups" (3)

and the view was submitted that -

"a much better Bill could be produced, a Bill which would not single out the Coloured people, but which would include them in a wider measure designed to assist the smaller businessman of any race; because ... there are small businessmen, White, Indian, Coloured and Native ..." (4)

On the other hand, justification for preferential treatment may

(1) Op.cit., Section 3.

(2) Hansard, 19 January to 23 June, 1962, Vols. 2,3,4, Column 317

(3) Ibid., Column 336.

(4) Ibid., Column 319.

be based on the following type of argument:

"It is not necessary for the person who can offer security to go to this corporation, because he can get assistance somewhere else. But the person who has no security to offer and who has a good position - and in hundreds of cases all he lacks is a little capital in order to make a success of his business - will now be assisted." (1)

In the light of attempts both to justify such an organisation and to condemn it, the *raison d'être* of the CDC needs brief re-examination, bearing in mind the rationale for development of minority business interests and effectiveness of such a development corporation in achieving some hypothetical objective.

In order to assess the impact of and justification for such an organisation, it will first be necessary to examine its activities and performance. The CDC is active in three main fields. These are the provision of finance to businessmen at "soft" rates of interest together with follow-up advice and other "after-care" services to successful loans applicants; the implementation of a wide range of business training courses, either independently or in conjunction with existing business and educational institutions; and thirdly, the development of CDC-initiated and controlled projects (so-called "own" undertakings). It will be appropriate to consider the CDC as institutional investor first, and to follow this with an analysis of training activities.

In providing the necessary capital for business development, the CDC performs a function similar to government lending institutions in many developing countries. In these countries established enterprise, often foreign owned, has recourse to normal banking channels, due to a long period of well-established ties with bank officials, stable borrowing patterns and a history of regular loan repayments. In short, established enterprise has found little difficulty in finding the necessary capital

(1) Hansard, 19 January to 23 June, 1962, Vol.2,3,4, Column 339.

for operating or expansionary purposes. Not only have conventional institutional sources been willing to advance money to such well-tried and trusted firms, but other sources, such as inter-company financing and offers of equity to the public, have also contributed substantially to the supply of development capital.

But a large volume of the demand for loanable funds emanates from small, struggling, indigenous firms, which are severely handicapped in the market for capital. Marris states the problem as follows:

"The need for loans usually arises because the investment is too uncertain, or the profit too small, to attract commercial capital. The borrower may have little or no security to offer, his creditworthiness may be impossible to assess, the viability of his enterprise may be speculative. The purpose of the loan, therefore, is to supply a need for capital where commercial safeguards against bad risks and sanctions against default cannot easily be applied. And the lending agency is looking for a different kind of return; even if it loses money, it has achieved its essential aim if it has promoted significant growth in the economy." (1)

The problems inherent in funding small businesses in developing countries are well illustrated by Marris, though not all his solutions are generally accepted. He suggests that more attention be paid to qualitative inputs in terms of assistance and secure markets, and that government rather takes an equity stake in financed businesses, so ensuring that loan repayment commitments do not jeopardise the successful operation of the business.

While not entirely disagreeing with Marris, Schatz takes the more opposite view, and suggests that because businessmen in developing countries in Africa do not have potentially profitable ventures to offer in the first place, development policies should not place great store on funding indigenous enterprise.

(1) P. Marris (1967), p.221.

Indiscriminate funding merely leads to a wastage of scarce capital and is based on the erroneous belief that businesses fail because capital is not forthcoming. Schatz claims that capital is not forthcoming precisely because most businesses are not a proposition ab initio. He suggests that if government wishes to augment income-producing capital among indigenous businessmen, it should enter into directly productive activities itself. This would tend to minimise wastage of funds on small marginal firms, as government would aim to establish large ventures where economies were more likely to be forthcoming (1). Government intervention in promoting development is based on the familiar private versus social benefits argument. Schatz expresses this as follows:

"Loans programmes, business-assistance measures, and government enterprise are all means of generating socially warranted investments that would not occur in a laissez-faire situation." (2).

Like development programmes in developing countries and programmes to assist minorities in such industrialised economies as the U.S.A., a number of development agencies have been established in South Africa, and the Coloured Development Corporation has been created specifically to assist the Coloured group in developing a class of entrepreneurs and raising the requisite capital to finance their businesses. The preceding analysis has shown that most Coloured-owned businesses are small undertakings, therefore the bulk of the demand for capital for these concerns comes from the typical high risk, low yield firms that characterise undeveloped countries. In addition, entrepreneurs are generally inferior to those in the wider economy, which further diminishes the ability of small firms to acquire the necessary funds. Coupled with the numerous disadvantages and disabilities that befall the Coloured community as a minority group, the lack of a class of secure, well-established businessmen has considerably lessened the income-earning potential and hence development prospects of the group.

(1) S.P. Schatz (1968), p.527.

(2) Ibid., p.528.

The CDC is itself funded from various sources, of which the major one is the central government.

TABLE 3.10: CDC - Sources of Funds

Source	1974 %	1975 %	1976	
			%	Amount (R)
Net income from operation	5,1	6,4	6,2	569 000
Increase in share capital	27,6	48,9	52,3	4 844 000
Net proceeds from diamond concessions	25,7	19,5	7,1	660 000
Repayment of loans	11,2	22,8	18,5	1 714 000
Rock lobster quota a/c	1,0	0,2	5,0	460 000
Funds with Public Debt Commissioners	24,1	-	6,4	596 000
Other	5,3	2,2	4,5	411 000
TOTAL	100,0	100,0	100,0	9 255 000*

* Total does not tally due to rounding.

Source: Coloured Development Corporation, Annual Reports, 1974, 1975, and 1976.

Share capital is provided by the State and forms the largest share of funding of the CDC's activities. This has not always been the case, as in 1974 proceeds from diamond concessions and withdrawal of funds from the Public Debt Commissioners accounted for nearly 50% of funds. But recently state funding has become dominant as the activities of the CDC have expanded. Between 1962 and 1973 the State had only provided R8 470 000 in share capital, though between 1973 and 1976, another R10 235 500 was added, giving a total of R18 705 500 (1). The earlier tardiness of central government to come forward with larger funding was probably largely due to the CDC's own slow rate of investment growth. CDC budgetary estimates have continually overstated requirements with the result that large sums have

(1) CDC Annual Reports, 1974, 1975 and 1976.

been deposited with the Public Debt Commissioners and in bank accounts (1). These overestimates have been due to both controllable and uncontrollable factors. The former may be ascribed to inefficiencies in the organisation itself, while the latter are the result largely of administrative delays, and other constraints external to the operations of the CDC (2). Internal inefficiencies can be corrected through improved management skills and techniques and recruitment of staff with the necessary qualifications and experience. This is within the range of possible improvements. External factors are more difficult to ameliorate as a host of different bodies is able to impose conditions on the process of business development. These factors are largely out of the direct sphere of influence of the CDC and lie in the main with central and local government.

Proceeds from diamond concessions have in the past been an important source of funds. The CDC was granted prospecting rights in respect of precious stones in certain rural Coloured areas, and companies may contract with the organisation to operate in these areas. Income generated by these concessions is used to augment the capital reserves of the CDC and thus flows to business development.

Similarly, the CDC has derived certain funds from a rock lobster export quota, granted in 1963 for the benefit of Coloured fishermen. These funds were used to establish a packing company which the CDC runs for fishermen operating from a number of west coast locations. Certain financial and housing loans are available for fishermen, though progress has been slow in this unstable and poor community.

The remaining sources are comprised mainly of loan repayments, which vary according to historical lending policies. As will be seen below, these were initially very conservative, though more recently have become more flexible.

(1) In 1976, R1 277 411 was placed with the Public Debt Commissioners.

(2) Theron Commission, op.cit. p.70.

A potential major source of funds not used by the CDC since its inception, is to be found in its borrowing powers. Because the future demand for loans may exceed the supply from current available sources, the CDC may be forced to use its borrowing powers if it is to maintain an adequate rate of investment in development. Section 8 of the CDC establishing Act permits up to 50% of share and reserve fund capital to be borrowed in the open market. In 1976 this amount stood at R26,6 million (1), which allowed the CDC to borrow some R13 million if it so wished. This facility has not been utilised, however, and until alternative sources become inadequate or the investment policies of the CDC are amended, it is unlikely that this source will be used to expand the lending capacity of the CDC.

Financial commitments by the CDC to the development of Coloured business consist of loans to independent businesses, shares taken up in independent businesses, financial guarantees in respect of loans to independent businesses and investment in CDC-initiated and controlled projects. Since 1962, assistance has been granted to a wide variety of firms.

The two most remarkable points to be gleaned from the table overleaf are firstly, that the CDC channels the bulk of its financing to commercial projects (and 25,4% to specifically retail ventures), and secondly, that the CDC has played an increasingly important role as investor on its own account, to the extent that the majority of funds (52,7%) in 1976 was channelled to the CDC's own projects.

The dominance of commercial loans (they comprised 82,5% of all financing) can be explained by a number of factors. Firstly, the acute shortage of commercial services, particularly outlets offering a wide range of goods and services, requires that even the most basic facilities must be provided. The rapid growth of housing schemes for the Coloured community has created many new opportunities for entrepreneurs, albeit at a relatively low level. Secondly, there are few Coloured industrialists - most

(1) CDC, Annual Report, 1976.

TABLE 3.11: Financing by the CDC, 1962 - 1976.

Type of Enterprise	Number	%	Amount (R)	%
<u>A. Independent Firms</u>	414	86,5	16 074 600	47,3
1. Industrial	59	12,3	1 617 200	4,8
Boat builder & sawmill	1	0,2	16 900	0,1
Building contractors	13	2,7	487 500	1,4
Manufacturers	26	5,4	681 400	2,0
Panel Beater & Sprayers	6	1,3	230 600	0,7
Printer	1	0,2	16 800	0,1
Transport	11	2,3	168 900	0,5
Tyre Retreader	1	0,2	15 100	-
2. Retail and Service	355	74,2	14 457 400	42,5
Cinemas	12	2,5	1 541 800	4,5
Commercial buildings	41	8,6	3 097 500	9,1
Dry Cleaners	8	1,7	205 700	0,6
Filling stations	7	1,5	273 900	0,8
Holiday resort	1	0,2	40 100	0,1
Hotels	20	4,2	3 114 600	9,2
Liquor outlets	38	7,9	2 636 500	7,8
Motor traders	2	0,4	77 800	0,2
Retailers	190	39,7	3 078 900	9,1
Other	36	7,5	390 600	1,1
<u>B. CDC Projects</u>	65	13,5	17 929 900	52,7
1. Industrial	11	2,3	4 331 000	12,7
Clothing factory	1	0,2	1 228 500	3,6
Factory flats	9	1,9	2 229 700	6,6
Rock lobster packing factory	1	0,2	872 800	2,6
2. Retail and service	54	11,2	13 598 900	40,0
Bank	1	0,2	1 458 500	4,3
Cinemas	8	1,7	1 308 900	3,9
Commercial buildings	2	0,4	829 000	2,4
Filling stations	9	1,9	432 700	1,3
Holiday resort	1	0,2	275 000	0,8
Hotel	1	0,2	325 000	1,0
Liquor outlets	4	0,8	51 700	0,2
Property development	4	0,8	3 563 700	10,5
Shopping centres	22	4,6	4 927 800	14,5
Supermarkets	2	0,4	426 600	1,3
TOTAL	479	100,0	34 004 500	100,0

Note: Percentages do not necessarily tally, due to rounding.

Source: CDC Annual Report, 1976.

business activity is limited to retailing and services. The CDC has never actively pursued a policy of deliberate promotion of industrial activities, hence contributions to their funding are minimal. In fact, the largest share of industrial financing has been directed to the CDC's own projects, mainly in the form of factory accommodation. Thirdly, it is relatively less risky and more simple financing retail and service undertakings, particularly in those areas where competition is minimal and the consumer population is captive. The delimitation of trade areas for retail activities is a simpler task for CDC loans officials than the assessment of the ability of industrial undertakings to compete in an unprotected market.

TABLE 3.12: Channelling of Funds by CDC, 1962-1976.

Year	Independent Firms		CDC Projects		Total	
	R million	Growth %	R million	Growth %	R million	Growth %
1963	0,426	-	-	-	0,426	-
1964	0,774	82	0,2	-	0,974	129
1965	1,183	53	0,2	0	1,383	42
1966	1,431	21	0,2	0	1,631	18
1967	1,858	30	0,692	246	2,551	56
1968	2,304	24	1,532	121	3,836	50
1969	2,525	10	2,011	31	4,536	18
1970	3,005	19	3,278	63	6,282	39
1971	4,404	47	4,98	52	9,383	49
1972	5,429	23	6,012	21	11,440	22
1973	7,041	30	6,092	1	13,133	15
1974	10,361	47	9,008	48	19,369	47
1975	13,988	35	14,744	64	28,732	48
1976	16,074	15	17,930	22	34,004	18

Note: Figures are cumulative and do not necessarily tally, due to rounding.

Source: Theron Commission, op.cit., Table 4.1, p.70.

Since 1970, the CDC has invested the majority of its funds in its own projects (with exceptions in 1973 and 1974), and there is a clear trend of greater CDC participation in the generation of businesses in Coloured areas. Between 1962 and 1969, the

average share of "own" projects in total investment was 23%, while between 1969 and 1976 this average grew to 51%. There are three possible reasons for this trend. Firstly, the CDC has adopted a fairly rigid attitude to business viability when assessing applications from businessmen. The sifting process takes place both at an investigatory level and at Board level. Applications for loans are assessed by loans officials who are generally experienced in business analyses, and feasibility studies are prepared, taking into account the trade area of the undertaking, or the market in the case of industrial concerns, the experience and integrity of the businessman, the operating history of the concern (if not a new undertaking), and other criteria. In addition the contribution of the applicant is important, as the CDC prefers the applicant to have a financial stake in his business. Such contributions tend to vary considerably. In 1976, applicants contributed an average 30,6% of the total financial needs of their firms, while the CDC funded the remaining 69,4% (1).

Once applications have been investigated and appear to be feasible, viability studies are prepared and are then considered by the CDC's Board of Directors. All loan applications, however small, are processed in this way. The Board may either grant or reject the application. By September, 1976, out of 1 440 applications considered by the Board, only 658 (45,7%) had been approved, though only 562 (39%) were actually assisted by the CDC (2). This discrepancy was due to some loans being rejected by the applicants. In fact, a mere 25,5% of all loan applications received by the CDC have received assistance at all (3), and because many businesses had been assisted previously, only 18,8% of all applications have actually received financial assistance from the CDC for the first time.

(1) CDC, Annual Report, 1976.

(2) Ibid.

(3) Ibid. 31,1% of loan applications lapsed during the period and were therefore not considered at all.

Financial assistance is granted at varying interest rates and over differing time periods. The average interest rate on outstanding loans in 1976 was 8,35%, though rates varied from around 7% to 9% or more, depending on the nature of the project. Industrial loans are usually at the lower level while for such concerns as liquor outlets, rates are higher. Interest rates are considerably lower than long-term market rates, as -

"the Corporation uses low interest rates as an inducement to overall development and differentiates between different business sectors to favour those sectors where development needs to be accelerated." (1)

In 1976, the average loan period was 17,4 years, and loans are repayable as soon as the business earns an income (2). Although interest rates are soft in terms of prevailing market rates, in order to stimulate business development, the paradoxical situation arises in that only a small proportion of loan applications is actually approved. This implies some degree of contradiction in the goals of the CDC.

A second reason for the trend to greater CDC participation in development through its own projects, is that most loan applications emanate from small retail undertakings. Not only are funds required on average very small, but applications from businessmen for funding of large retail and industrial ventures are not forthcoming in significant quantities. The CDC sees its role as providing such undertakings as supermarkets, cinemas, shopping centres, factory premises and other ventures requiring substantial, lumpy capital injection, where these are not provided by Coloured businessmen. Table 3.11 illustrates this problem. Independent businesses received small loans in comparison to CDC projects. By 1976 the average loan to the former was R38 828, while to the latter it was R275 845. Independent retailers only received on average R16 205 per application granted

(1) CDC, Annual Report, 1974.

(2) CDC, Annual Report, 1976.

CDC's own projects have become quite diversified in recent years, resulting in the creation of a growing "empire" under CDC control. A distinction may be drawn between trading subsidiaries of the CDC and property-owning companies established by the CDC. The former include the Spes Bona Savings and Finance Bank, the Superama supermarket chain, the Landdrost Hotel, a clothing manufacturer, a rock lobster packing factory, a holiday resort and a property development company. These companies were established principally to provide facilities in the Coloured areas, to lay the foundation for Coloured ownership of large undertakings, and to provide training opportunities for Coloured businessmen in large ventures. Property owning companies established by the CDC are the vehicles for creating the necessary commercial and industrial facilities in Coloured areas. These companies erect shopping centres, cinemas, liquor outlets and factory premises, inter alia, for eventual transfer to Coloured ownership. To date, very few such companies have actually been transferred to Coloured businessmen.

The second major function of the CDC is to provide business training. This may take place in independent firms, in CDC undertakings and in business courses offered either by the CDC or by educational institutions in collaboration with the CDC. In the case of independent firms, CDC loans officials are able to offer advice to businessmen who have been financed by the CDC, and a comprehensive service including managerial, administrative, bookkeeping and general accounting assistance is offered. This form of business training, though more costly than group instruction, is possibly the most effective means of transferring skills to an emergent entrepreneurial class, as pointed out earlier. Unfortunately, these services are effectively limited to those businesses that have received financial assistance from the CDC, thus excluding many firms that would possibly require such assistance. Training in CDC undertakings also provides an important vehicle for the transfer of skills to aspirant businessmen. The Landdrost Hotel, for instance, offers opportunities in the fields of hotel management and food preparation. The Spes Bona Bank provides a useful training

ground for bank personnel, while the Superama group trains young managers in its stores. Finally, business courses are arranged by the CDC in collaboration with local technical colleges. While they have been fairly popular, as pointed out earlier they are probably of limited value in the light of alternative means of transferring skills.

An analysis of the CDC in the light of its modus operandi and effectiveness in pursuing its objectives, brings a number of points to light. The first notable feature is that the CDC's directors have interpreted the establishing Act in possibly its narrowest sense, by concentrating solely on the development of Coloured businesses, and ignoring other broader developmental goals:

"The Corporation's ultimate objective is the establishment of independent businessmen who can act on their own in every respect." (1)

While the CDC is probably justified in restricting its activities to the business sector, the future pattern of race relations in South Africa will inevitably require greater cooperation between groups than is presently experienced, and the rapprochement between businessmen of different groups should not be jeopardised in the short-run by developmental policies that reinforce segregation and the creation of Coloured-only enterprises. An example of this misinterpretation can be found in an earlier report of the CDC, where the policy of concentrating efforts in the retail sector -

"was pursued to create markets which could later be served by Coloured manufacturers." (2)

As a development policy, this approach falls down as it is based on a fallacious interpretation of the interdependence between Coloured and White groups. The history of business development shows clearly that businessmen do not only mature

(1) CDC, Annual Report, 1976.

(2) CDC, Annual Report, 1974.

in independent businesses, but also (and possibly even to a large extent) in large enterprises and other small undertakings where leadership qualities and general managerial attributes are required.

Other aspects of the CDC's interpretation of its role in development bear consideration. Although the manufacturing sector currently makes the greatest single contribution to GDP (1), the CDC has paid little attention to industrial development, having channelled only 17,5% of its total investment, in both independent firms and own projects, to industrial undertakings. In fact, less than 5% of total investment has been channelled to independent industrial concerns, at an average of R27 410 per undertaking. This is an extremely small average amount, given that in 1972 the average value of land, building, plant and machinery in manufacturing was R255 127 (2).

A programme for industrial stimulation can learn much from the activities of development agencies in the U.S.A. Not only are capital and entrepreneurial inputs required in new and existing undertakings, but infant producers may also require temporary protection in the market place. The economic argument for infant industry protection can be justified if such protection is a short-run phenomenon. In the longer run, however, these industries will be expected to reach a state of competitiveness without protection, and it is difficult to justify continued protection on purely economic grounds. As already mentioned, there may be justification for so-called "greenhouse" industries (3), where protection would be almost or entirely a continual feature of operation, based on social or political motivations.

Although an intensive investigation into possible industries for exploitation by Coloured businessmen was undertaken for the

(1) Manufacturing contributed 23,8% to GDP in 1975 (S.A. Statistics, 1976).

(2) S.A. Statistics, 1976.

(3) T. Vietorisz and B. Harrison (1970), p.67.

CDC, there has been no change in its attitude to industrial development. The American experience shows that many programmes can be almost costless to implement while benefits (particularly in the longer-run) can be substantial. Possibly the most important programme, besides conventional funding and advisory assistance, identifies opportunities for either new or existing industrialists and guarantees a market for the product of new producers. The activities of CEDCO and RBOC (1) typify such a programme, and the advantages of such an organisation as the National Minority Purchasing Council (2) where information about the products of minority businessmen is brought to the attention of purchasing agents for large corporations, are an example of the success of market guarantees. Procurement contracts put out to tender by the public authorities in South Africa may in some cases be harnessed by the CDC for the benefit of Coloured businessmen, even if this means subsidising tender prices to some extent to ensure competitiveness. This could still be a less costly and more effective way of promoting Coloured industrial activity than present programmes.

According to the manufacturing survey, most respondents (87%) had at one time or another heard of supply tenders from the public sector, while 17% had actually won a contract (3). These firms were not committed to supplying solely the contracted parties, but were able to supplement existing business with newly won public sector procurement contracts. An indefinite number of firms expressed a desire for greater efforts on the part of the CDC to facilitate access to public sector contracts.

A procurement programme can be extended to the private sector. The CDC, as the prime agency for promoting Coloured business, could investigate the manufacturing sector to identify firms which contract out a proportion of production to smaller firms. This process of sub-contracting has been employed in the U.S.A.

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- (1) Chicago Economic Development Corporation and Rochester Business Opportunities Corporation.
 - (2) Black Enterprise, March, 1976, p.42.
 - (3) Op.cit.

to the advantage of minorities and has also been utilised to some extent in developing countries. Sub-contracting may be utilised for capacity or specialisation reasons. The former is justified where the principal firm cannot accommodate production and has to contract certain quantities out to sub-contractors. The latter is justified where specialised components require production by smaller units, on the basis that these components cannot be economically produced by the principal firm (1).

As a means of incorporating small, marginal concerns in the mainstream economy, sub-contracting can be extensively used in South Africa. This is recognised by the Theron Commission as a means of developing Coloured industrialists:

„'n Klein vervaardiger kan ook van 'n afsetmark ver-
seker word deur as subkontraakteur vir 'n groot bedryf
op te tree." (2)

Other market guarantees may be used, such as linking a manufacturer with a retail chain, or with a group of retail outlets. The manufacturing survey showed that large retail organisations had approached 70% of respondents with a view to entering into supply contracts, and of these, 86% were currently supplying retailers with goods on a regular basis (3). Sub-contracting has proved to be an effective way of providing minority producers with a share of the manufacturing market in the past, and judicious use of this system by the CDC in the future will increase opportunities for Coloured industrialists.

A further contentious issue relates to the CDC's policy in funding businesses. There are two central features of this policy, one being that loans are on average small and the other that the bad debt ratio on these loans is negligible. While the CDC claims to operate on strict business principles, in that loans applications are assessed according to conventional

(1) United Nations. ECAFE (1973), p.41.

(2) Op.cit. p.75.

(3) Op.cit.

profitability criteria, there is clearly some trade-off between rigid profit-orientated and developmental objectives. The Theron Commission has recognised the dichotomy in the CDC's objectives and modus operandi. The externalities arising from development financing are difficult to compute and are generally not taken into account when assessing loan applications. It was shown earlier that the proportion of applications actually approved is small. There is clearly a strong case for rejecting ventures that have an unreasonably large chance of failing, particularly where benefits to be derived from their success are marginal. These benefits may be measured in terms of profits in the long-run, services offered to the community and employment creation. On the other hand, the CDC has tended to view profitability purely as a short-run phenomenon, and has given little or no consideration to longer-run objectives. Only in CDC-initiated projects have non-profit goals been accorded any significance. The obsession with immediate profitability extends even to loan repayments, which fall due as soon as the firm has an income. Although moratoria are granted from time to time when difficulties are experienced, the insistence on immediate repayment coupled with frequent shortages of working capital tend to militate against the formation of a stable entrepreneurial class. To ensure that firms are on a sound footing before repayments commence, moratoria could be granted selectively for periods of six to eighteen months, depending on the requirements of each situation.

Such a policy would diminish the rigidity presently existing in CDC loan programmes and enable more risky ventures to be funded. Because the nature of business development in poor areas is fundamentally highly risky, a development agency must be prepared to finance ventures that are not necessarily profitable in the short-run, but which have alternative beneficial impact in the short-run and profitability in the long-run. The analysis of factors constraining business growth in this study has illustrated that minority businessmen are at a considerable disadvantage from the point of view of both resource allocation and the distribution of opportunities. This implies that loans programmes

should be tailored to the particular needs of minority businessmen. The Theron Commission expressed a similar opinion on CDC financing:

„Indien Kokor 'n wesenlike bydrae wil lewer tot die rehabilitasie en ontwikkeling van 'n ekonomies agtergeblewe bevolkingsgroep en tot die toestandkoming van 'n ekonomiese leierskorps in die Kleurlinggemeenskap, dan sal dit blykbaar van die Korporasie verwag kan word dat hy bereid moet wees om aansoeke goed te keur waaraan daar moontlik 'n relatief lang vestigingstydperk verbonde kan wees, alvorens die ondernemings winsgewend word en met terugbetaling van die lening kan begin." (1)

Another major point of dissatisfaction emerges from the CDC's increasing involvement in business development through its own projects. If the trend since 1962 is pursued, it can be expected that in the future the CDC will increase its involvement through its own projects even further. Unless considerably larger funds are made available by the State in the future, there will be some conflict between the financial needs of independent businessmen and the needs of the CDC itself. This conflict of interest could be ameliorated to some extent by vastly increasing the CDC's capital, to enable a greater share to be distributed to independent businessmen. Recourse to its borrowing powers could provide the CDC with a source of funds as yet untapped. As already pointed out, the CDC may borrow from conventional sources of financial assistance, which considerably increases the CDC's range of possible activities.

The inability of the CDC to dispose of its own projects once they are completed and fully operational, has led to the criticism that the CDC is accumulating an "empire" under its control. The problem is partly explained by the lack of institutional investors and public companies in the hands of Coloured shareholders, which are normally largely responsible for purchasing or funding the purchase of large commercial and industrial undertakings. Those individual businessmen who control the

(1) Op.cit., p.73.

resources necessary to acquire costly undertakings, have been reluctant to purchase CDC projects and have preferred to undertake their own developments. This may be ascribed to the preference of businessmen to commit funds to ventures they have initiated themselves, on the basis that in this way their needs may be more precisely met. Although it is difficult to quantify, businessmen may be reluctant to approach the CDC for political or other reasons. Many of the CDC's actions have not allayed the impression that it is merely a vehicle for hastening the birth of separate, independent Coloured businesses in a separate, or parallel, "Coloured" economy.

While the relative absence of large amounts of capital may be a valid explanation for this phenomenon, there is no reason why the CDC cannot itself fund the sale of its own projects to independent businessmen or groups of investors.

Although the CDC has provided much-needed business premises, there is some justification for complaints levelled by businessmen that many of the prime business sites are developed by the CDC. This is not only a question of ethics. That a State agency should have priority over the private sector in a free enterprise economy is a prima facie case of encroachment by the public sector. This stems from the CDC's pre-emptive right over business sites in townships established with National Housing Fund assistance. The private sector may only develop business sites in such a case if the CDC waives its right, and this is normally only the case where adequate business facilities have already been provided.

The case for large-scale participation by the CDC in providing business facilities is not only based on providing such facilities for emergent entrepreneurs and providing consumers with greater choice, but it is also necessary to provide premises for CDC trading subsidiaries, particularly the supermarket organisation. One of the main benefits arising from this supermarket chain, is that opportunities are opened up to Coloured persons in fields where the existing segmentation of employment opportunities prevents management training (or makes it legally hazardous) of

Coloureds in White firms in White areas. It is in these firms that management training is effected most efficiently and at least cost. But regulations promulgated under the Group Areas Act have restricted employment of non-White persons in White areas to menial tasks. CDC subsidiaries attempt to fill the management training void by providing management positions in Coloured areas. While this is a partial solution to the lack of opportunities for Coloured work-seekers, it is clear that without enforced segregation, there would be more such opportunities in White-owned companies. Social and economic as well as moral factors would in the course of time create opportunities throughout the business sector, and in Coloured areas there would be a particularly strong stimulus to employ local employees in menial as well as higher category positions.

It appears that separate development has provided the need for separate "Coloured" business facilities, and that the CDC has provided some of these facilities. It is doubtful whether Coloured ownership of these undertakings will materialise in the short term, and the opportunities foregone in the large institutions of the economy cannot be compensated for by a few CDC-controlled ventures. The broad goal of creating a class of Coloured entrepreneurs and increasing the income-earning assets of poor groups cannot be meaningfully fulfilled by establishing large ventures under the sole control of a government agency. Rather, business should be financed and placed under the control of deprived groups, where their income-earning ability will confer benefits more directly than if controlled by outside bodies.

Of a more fundamental nature is the social and economic usefulness of a developmental agency. While there are valid criticisms of its operation, as there are clear benefits, there are serious doubts as to the need and desirability for such an institution. Some of the more important issues have been raised in the above analysis, but there is still the fundamental issue of the role of such an institution in a free enterprise system. The objective economic benefits accruing to the

Coloured community are often obscured by political objections. Strong reservations have been expressed by the Coloured Representative Council. The view has been expressed that -

"the Government had established the CDC for purely political purposes"

and that

"the economic position of the Coloured community today was pitiful, and the CDC was doing little to help where help was most needed." (1)

Furthermore, according to the manufacturing survey, 65% of all comments on the CDC were unfavourable (2). While many of these were of a subjective nature, it does appear that many small businessmen are not favourably disposed towards the CDC. Many complaints were of a political nature, for businessmen saw the CDC as an agency of apartheid, providing financial and other underpinning of the system. There can be no doubt that many CDC activities would be superfluous in an integrated system, for private enterprise would then be in a position to exploit opportunities, and labour and capital would be free to move to most rewarding employment, without institutional constraints and artificially-created social barriers.

But even in a normalised society a strong case can still be made for an agency to assist minority or disadvantaged groups. This could take the form of a small business development agency (as the SBA in the U.S.A.) or a minority business development agency (as the OMBE), where assistance could be offered in the form of development financing and advice, as well as generally promoting the interests of minorities by facilitating access to funds, markets and information. In other words, there is a need for a non-racial agency that would assist -

"where specific needs arise and shortcomings exist, first and foremost by overcoming the institutional obstacles and by filling the gaps in such a way that regular state departments and the private sector

(1) Cape Times, 21 August, 1971.

(2) Op.cit.

as well as local authorities can thereafter fulfill the needs in the normal way." (1)

This system would maximise private sector participation and supplement private initiative where investment was socially warranted, instead of replacing many of the functions of private enterprise with those of the State. By mobilising private resources to a greater degree, such a system would fulfill efficiency and cost-effectiveness criteria as well as be politically more acceptable to minorities.

Finally, it is questionable in the light of the above remarks, whether "soft" rates of interest on loans are necessary at all, and whether free advice and assistance are the most effective ways of providing Coloured entrepreneurs with additional resources. With limited resources at its disposal, the CDC cannot possibly provide the necessary inputs into the development of Coloured business alone, in quantitative as well as qualitative terms, in the light of the unlimited needs of a development programme based on greater participation in business. This implies that the resources of the private sector must be harnessed to a greater degree for the benefit of minorities. The CDC could devote its attention to this problem in the future. The shortage of capital does not arise from a shortage at the right price (interest rate), but is rather caused by a lack of access to capital, which in turn is the result of entrepreneurial shortcomings and other constraints in the market place. The CDC could facilitate access to capital from financial institutions at market rates of interest, by providing guarantees and undertaking viability studies on behalf of banks. While this may increase the CDC's bad debt ratio somewhat (at present below 2%) (2), this ratio is already unusually low, in terms of investment risk in the private sector. Such a programme would obviate large transfers of scarce resources from the State to the CDC, much of which is put to unproductive use. Similarly, advice and other commercial assistance can only be justified if benefits are forthcoming.

(1) W.H. Thomas (1976), p.20.

(2) Theron Commission, op.cit., p.73.

It may be more efficient to charge for these services, even if such a charge were only to cover costs. In this case, services could be extended to firms that do not currently receive CDC financial assistance. According to the retail survey, 48,7% of respondents were interested in the concept of an advisory service for small businessmen, and of these the vast majority (90,5%) were prepared to pay for such services (1). This would seem to justify the extension of business training to include in-service advice and assistance by the private sector.

There is a clear need for long-term assistance to minority firms in the light of the many disadvantages incurred by poor groups. Assistance should not, however, attempt to replace the activities of the private sector, but should seek to facilitate development by supplementing existing relationships and providing access to essential capital and skill inputs, as well as to business opportunities. The CDC falls down somewhat in this respect, for it has to some extent usurped the role of the private sector. Nevertheless, there is a definite need for a development corporation and the CDC has shown some positive contribution to development. If evaluated in strict cost/benefit terms, however, many of the CDC's programmes would not be economically justifiable even in the long-run. This indicates that a reassessment of the CDC's role is needed.

(1) Coloured Development Corporation, Survey No. 10, op.cit.

CONCLUSION

The slow pace of minority business development necessitates revitalisation of existing policies and positive changes in the attitudes of both the public and private sectors to the future growth of an entrepreneurial class in minority groups. There is no inherent reason why business should be the preserve of any particular group in the national community - to the contrary, in the interests of morality, social stability and economic efficiency, there is a strong case for actively promoting business involvement by minorities in South Africa. Such involvement should not be restricted to particular types of business activity, or to scale of activity, or to a particular geographical location, but rather should be encouraged throughout the economy without restraint of any description. While there may be sectors in which developing businessmen can more easily establish independent businesses, barriers to participation in sectors where entry is more costly cannot be justified. Similarly, barriers to participation in business controlled by the dominant group are equally unjustifiable - historically, businessmen have matured both as independent proprietors and as employees of large organisations.

Businesses owned by Coloured entrepreneurs are essentially small, and the processes of specialisation and rationalisation that have characterised distribution and manufacturing in the wider economy have not affected Coloured concerns significantly. While small firms have a vital role to play in both the manufacture and distribution of goods and services, large units are equally essential if economies are to be effected and consumption needs of households are to be satisfied.

Coloured businesses have remained small for a number of reasons, as outlined in the above analysis. It has been pointed out that artificial barriers to the movement of capital, labour and entrepreneurial skills, as embodied in the Group Areas Act, the Industrial Conciliation Act, the Shops and

Offices Act and the Factories Act, have restricted the growth and diversification of firms by preventing cooperation between developed and developing groups, and consequently the transfer of capital and expertise to the latter. In addition, legislation has denied to developing groups the most profitable opportunities, not only in respect of independent businesses, but also in the fields of employment, education and training. As an underdeveloped group, the Coloured community lacks the necessary capital and entrepreneurial inputs that are required for economic development, but is unable to acquire these rapidly because of political constraints. Combined with the present inequitable distribution of resources and opportunities, a long, sustained history of deprivation of economic, social and political rights has created a substantial developmental gap between White and Coloured businessmen in South Africa.

Present policies to narrow this gap are, in the estimation of this study, inadequate. Not only are they bringing about a pace of development that is too slow, but in terms of the gap, their inputs are in absolute quantities insignificant. Legislation has been shown to be a major constraint in this regard. In retailing, Coloured businessmen must be permitted to operate in commercial areas where they can exploit economies of agglomeration as well as the purchasing power of more affluent sections of the urban community. By confining them to the ghettos, where purchasing power is limited essentially to basic commodities, the growth and diversification of firms is severely restricted. Consumer preferences have also tended to favour shopping centres where large multiples combine with convenience, comparative and service outlets to form ideal shopping conditions. These conditions are found only in the CBD and sub-centres of cities, which are with very few exceptions in White areas. In industry, too, legislation has inhibited development by reserving jobs for certain groups, by introducing the mandatory provision of costly separate facilities, by preventing the employment of "non-Whites" in White areas in managerial and professional positions, and by limiting the possibilities for cooperation between businessmen of developed and developing groups.

Geographical protection offered by group areas to retailers is insignificant, and in terms of alternative courses of action, is a costly policy choice. It is the contention of this study that group area encapsulation has harmed Coloured businessmen, rather than assisted them. Firstly, they have been denied access to the best opportunities in other areas; and secondly, several factors have tended to negate protection in practice. Not only have Coloured businessmen been unable to secure for themselves all business rights in their own areas, but non-racial shopping patterns have ensured that consumers support facilities according to economic, social and other non-economic criteria, and not according to race of the owner. The rapid growth of car ownership and gradual improvement of public transportation will ensure that in the future (as in the past) consumers will not be bound by walking distances to shopping facilities.

The creation of parallel towns and cities for Coloureds implies the development of a separate "Coloured" business sector. Unless these new residential areas are located considerable distances from existing urban areas, where commercial facilities are well-established, it is unlikely that a separate "Coloured" economy will take off. As long as there is interdependence between peoples of South Africa, the creation of separate business sectors will be fraught with obstacles. Leakages of expenditure and savings from the newly created "periphery" to the developed "core" will ensure that development is retarded.

In order to expedite development, a policy of categorical selective protection combined with the removal of all obstacles is clearly the most effective alternative to the "present policies" choice. To bring the minority businessman into the mainstream of economic activity, legislation affecting the mobility of the firm, the capital and labour necessary for its operation, and its entrepreneurial inputs, must be repealed. Unless businessmen are free to take up business rights without restraint, the best opportunities will continue to be denied to minorities. Greater use of the market as the mechanism for the allocation of opportunities and resources will also

be politically more acceptable to minorities. Milton Friedman has expressed the need to utilise the market more extensively as follows:

"The widespread use of the market reduces the strain on the social fabric by rendering conformity unnecessary with respect to any activity it encompasses. The wider the range of activities covered by the market the fewer are the issues on which explicitly political decisions are required ... " (1)

The removal of artificial barriers to development conforms to the fundamental principles of the free enterprise system, and is consistent with the most efficient allocation of scarce resources, while permitting ostensibly unrestricted access to opportunities as well. Not only will previously deprived groups be able to move into the most profitable areas, but other interest groups, such as consumers, will benefit considerably.

As stated earlier the mere removal of obstacles will not be sufficient for business development, and a policy must incorporate special features that will actively promote minority involvement in business. Many of these features have been noted in the course of this study, and they take the form of selective protection and assistance, rather than blanket protection, which has been shown to be both inefficient and ineffective. A development policy should extend its ambit to both the public and private sectors, and a number of possible facets are summarised below.

THE PUBLIC SECTOR

Unless a programme for minority business development has the unqualified support of the central government, it will be unlikely to succeed. Support can be provided firstly, in the form of an agency to foster business development and secondly, through financial and market incentives. A development agency,

(1) M. Friedman (1962), p.24.

to be acceptable to minorities, would have to be of a non-racial character, assisting minority businessmen principally, but with authority to assist other small businessmen, too. This recognises that minority business development is fundamentally associated with the problems of small enterprise. This does not exclude the need to stimulate larger ventures, however, for any programme must aim to involve minorities at all levels of business activity. Such an agency, however, would recognise the sovereignty of the private sector as the most efficient producer and distributor of goods and services, and hence would undertake projects only where entrepreneurs were not forthcoming. A development agency would function in the main as a catalyst for development, by facilitating access to finance, credit and markets, and selectively assisting firms where developmental criteria are met. This implies that financial assistance need not be provided directly, nor even at "soft" rates of interest. An agency could guarantee loans and credit arrangements between firms and banks or suppliers (thus reducing the relative costs of doing business with more risky small enterprise); advice and assistance for firms could be provided by officials of the agency, or access could be improved to such assistance from the private sector; educational and business training programmes for small businessmen could be arranged; and market information and advice could be provided on a regular basis. This would include greater access to state and local authority procurement contracts, and assistance with tendering for private sector contracts. Indirectly, a development agency could open up more opportunities and channel more resources to minorities by ensuring that it was consulted on the planning of commercial and industrial components of new areas; it could investigate new products and markets for exploitation by small business; and, finally, it could work closely with the private sector in order to encourage its involvement in the business development of deprived groups.

Central government incentives would consist mainly of financial stimulation of developing businesses. Such incentives could include tax holidays, depreciation and investment allowances for selected new and existing firms that are either directly

controlled by minorities, or that offer a substantial equity share to minorities. This would tend to encourage cooperation between businessmen of different groups by altering the costs of business involvement in poor areas or with less experienced businessmen, in favour of more rapid development. Other state assistance could take the form of guaranteeing infant producers a market in their formative years through procurement contracts, and influencing central planning to recognise the problems associated with poverty and development. At local authority level, assistance may be offered through rates rebates or reductions, subsidised electricity tariffs to industry, availability of land for commercial and industrial activities, and the most effective planning of new areas and re-planning of old areas where necessary. In order to ensure that such assistance is utilised, local authorities (particularly in larger cities) could appoint an "ombudsman" to look after the interests of minorities.

THE PRIVATE SECTOR

As a prerequisite for greater private sector involvement in the development of minority businesses, firms must be made more aware of the problems facing minority businessmen and the difficulties inherent in the poverty environment. Not only greater social awareness but also positive commitment to development is required from the private sector. Assistance can take the form of opening up senior management and Board positions to minorities, as well as providing in-service training. To encourage the growth of independent businesses, established individual firms could guarantee a market for the products of new manufacturing firms owned by minorities, or they could sub-contract production to smaller firms. By providing financial assistance and credit facilities to minority enterprise, the private sector can channel greater quantities of scarce funds to minorities. Finally, organised chambers of commerce and industry can provide an effective pressure group to promote the interests of minority businessmen and to bring them into the mainstream of economic activity.

Unless the pace and quality of development are accelerated, there is little chance of bringing about the necessary changes in society that are required to ensure stability and justice. Both the public and private sectors are required to fulfill their roles in this development process, for without a conscious effort at vesting an increasing share of productive assets - in this case, the business enterprise - in previously deprived groups, problems associated with poverty and exclusion from the benefits of the capitalist system will not be resolved.

APPENDIX A.PROFILE NO. 1

Mr. A. owns a typical small clothing factory, operating both as a "cut, make and trim" supplier to a large retail organisation and as a manufacturer of clothing under a private brand name. Although the C.M.T. production is the firm's major revenue earner, Mr. A. is attempting to expand production under his own label, as this will in the longer-run reduce his dependence on his retail client. While the firm is reputed to be a producer of high quality merchandise at competitive prices, and therefore is not likely to be "dropped" by the client, there is no written contract between the parties, which tends to make C.M.T. manufacturing a hazardous venture. In an attempt to increase sales of his own merchandise, Mr. A. has appointed a White salesman who, he claims, will be more readily accepted by retailers than will a Coloured salesman.

Mr. A. has only a primary school education, as at the age of 13 he left school to find employment. Working as a tailor initially, he soon developed skills as a manufacturer of clothing and eventually started a small business with a few machines. Funding of the new venture came from a loan obtained from a White acquaintance and the sale of family property. He operated in premises in the central city and was forced to use the name of a White person to acquire a lease on the premises, as the area had been declared a White group area. Although government officials were sympathetic and were prepared to overlook his illegal activities, the arrangement was unsatisfactory and he eventually moved out to Athlone into new premises built by the Coloured Development Corporation, where he pays only 5,75 cents per square foot rental. (The market rate is around 12 cents per square foot).

Starting as a tailor and moving from self-employment to owner/manager of a well-established clothing manufacturer (the business has been in operation for 10 years), Mr. A. runs an efficient

unit of production, employing 104 persons with a gross value of output of about R190 000 per annum.

PROFILE NO. 2.

Mr. B. owns a mineral water bottling firm. He has been in the industry for 27 years, although his firm, which he established after buying out an existing company, is only 7 years old. The firm produces under its own brand name, though Mr. B. has also acquired several established soft drink brand names. His market lies predominantly in the Coloured areas of Cape Town, and he sells both to retail outlets and on a door-to-door basis to individual households.

Mr. B. acquired the business with personal savings. He emphasises the role of Islam in business, particularly with regard to the availability of community sponsored finance, for which there is strictly no interest payment. The Koran prohibits this. There is also a religious injunction to reinvest profits in the business or in the community rather than in conventional external institutions. Allied to the religious aspect is the social responsibility of the firm. In this respect, there is an obligation to donate a certain proportion of profits to needy persons. Although Mr. B. did not state what this proportion should be, an interview with the manager of a meat processing firm indicated that 2½% of "idle" capital was an acceptable amount.

Although the firm does not belong to the Chamber of Industries, Mr. B. intends joining this organisation, particularly as he wishes to enter the export market, and will need information. There is an association of mineral water bottlers but Mr. B. claims that agreements are often broken. For this reason his firm has not joined the association. At one stage, a Coloured mineral water manufacturers' association was mooted, but nothing transpired, although Mr. B. agrees there would have been some benefits from such a pressure group.

The firm employs 60 persons, mainly as unskilled labourers, and has an annual gross value of output of R750 000. Assets total some R1 million.

PROFILE NO. 3.

Mr. C. owns a small engineering firm working mainly in metal products. During the last war, he served his apprenticeship in Simonstown Dockyard, and thereafter joined an engineering firm. Because all other artisans were White, Mr. C. was forced to leave this firm, and he subsequently decided to start his own venture some 25 years ago. He bought the necessary equipment at an auction and encouraged by the advice of a friend, started with general repair work. This led to an order for burglar bars which necessitated expanding the operation, and other contracts (particularly with a retailer selling wrought iron products) assisted with the growth of the venture. Through a network of personal and business contacts, the firm has gradually grown into a well-established though small undertaking. Mr. C. has declined assistance from external sources, for religious reasons - he does not want to be associated with a non-believer, and anyway feels that to grow bigger would be a sign of greed and as such against his religious principles.

The firm is centrally located in the commercial area of Wynberg, though is hidden behind retail frontage. The type of operation does not need sophisticated or even covered premises, which has considerably reduced Mr. C.'s dependence on expensive factory accommodation. Although the firm is situated in a White group area, no permit has even been acquired by Mr. C., nor has he been forced to operate under a "nominee".

Mr. C. is a well qualified entrepreneur, having passed the Standard 10 level of schooling as well as having a trade qualification. Although only 14 persons are employed in the firm, it provides a useful service and has an established clientele that ensures stability even in hard times. Because equipment

requirements are rudimentary and technology is unsophisticated, the costs of entry into such an industry are very low. To this, as well as his skills and a certain degree of divine intervention, Mr. C. attributes his success.

PROFILE NO. 4.

Mr. D. owns a boatbuilding and repair firm, and has been in the industry for 27 years, although his firm is only 15 years old. The founder of the firm was Mr. D.'s father, but Mr. D. took it over with financial assistance from the Coloured Development Corporation, which insisted on taking a 25% equity share of the business. The small loan has now been repaid and the Corporation no longer has the share.

Mr. D. formed a separate company with a White engineer, who was in a position to offer expertise in a new venture, as the firm had recently won a government contract to build three steel launches for the S.A.R. and H., and this was seen by Mr. D. as the "open sesame" to larger, more diversified production in the future. The contract was won with a competitive tender as a result of low overheads and low capital intensity, but procrastination by the client had forced up costs and Mr. D.'s company was now in trouble, as it had not negotiated an inflationary clause in the contract. A loan application to the Coloured Development Corporation had failed, and although some assistance might have been expected from this agency, no help was forthcoming and the once promising venture appeared to be doomed.

Mr. D. does not rely solely on his boatbuilding activities as a source of income, fortunately, but has diversified into cartage contracting too. This has proved to be a major income earner when boatbuilding activities have been dormant. The firm is small, employing 10 persons, with a value of production of R50 000 per annum. This is derived partly from boatbuilding and partly from cartage activities.

APPENDIX BEX PARTE: P.E.B. WILSON

OPINION

Consultant requires an opinion on: A. The legality of the employment of disqualified persons as managers in terms of the Group Areas Act, No. 36 of 1966, as amended; and B. The effect on the classification of a company, with shareholders from different groups, of loans granted to it in terms of the Group Areas Act, No. 36 of 1966, as amended.

A. THE LEGALITY OF THE EMPLOYMENT OF DISQUALIFIED PERSONS AS MANAGERS IN THE VARIOUS CONTROL AREAS IN TERMS OF THE GROUP AREAS ACT, NO. 36 OF 1966, AS AMENDED.

1.

It is necessary to determine whether an employee is "occupying" the premises where he is performing his work, under the Group Areas Act, No. 36 of 1966, as amended, hereinafter referred to as "the Act". In R. v. Ghoor and others, 1960(3) S.A. 42(C) de Villiers, J. says on p.44 B:

"The words 'occupy' and 'occupation' are not defined in the Group Areas Act. The present inquiry is ... confined to the meaning of the words in relation to land and premises; but even in this relatively narrow sphere the potential diversity of meaning is considerable."

and on p.44 F-G the learned Judge continues:

"One element is common to them all, and, it seems to me common to all meanings of 'occupy' in relation to land or premises, viz. a state of control. A person cannot truly be said to occupy a house or room, as distinct from merely being present in it, unless he exercises some form of control over the whole of it."

See: Van Reenen, T.H.: Land. It's Ownership and Occupation in South Africa, E 6.19 at p.180 and Southern Durban Civic Federation v. Durban Corporation and others, 1972(2) S.A. 133 (D) at 139A.

For the purposes of this opinion it can be accepted that a disqualified person employed as a manager "exercises control over the premises" and, therefore, occupies such premises in terms of the Act.

2.

Disqualified persons may not occupy land or premises in group areas (Section 26(1)), specified areas (Section 17(1)) or controlled areas (Section 20(1)). The only exceptions relevant for the purposes of this opinion are those contained in:

- (i) Proclamation No. R.5 of 1968, regulating group areas in terms of Section 26(3)(a) of the Act.
- (ii) Proclamation No. R.3 of 1968, as amended by Proclamation No. R. 310 of 1969, regulating specified areas in terms of Section 17(4) of the Act.
- (iii) Proclamation No. R.4 of 1968, as amended by Proclamation No. R.311 of 1969, regulating controlled areas in terms of Section 20(2)(h) of the Act.

The provisions of these Proclamations regulating the position of employees are similar in scope and effect.

These Proclamations exempt bona fide disqualified employees from the operation of Section 26(1), Section 17(1) and Section 20(1) of the Act, provided:

- (a) their employers are occupying the land or premises legally;
- (b) where they are employed by a company, the company is a homogeneous one, i.e. all the controlling interests in the company are held by or on behalf of members of the same group;
- (c) while the disqualified employee is on the land or premises, he/she works under the full-time personal supervision and control of his/her employer or of a person who is of the same group as his/her employer and provided further that such employer or person is ordinarily continuously present on such land or premises;
- (d) the employer is occupying the land or the premises for the purpose of trading or conducting a business thereon. In terms of the Proclamations "trading or a business" does not include:
 - (i) farming or activities incidental thereto;
 - (ii) the conducting of any factory as defined in section three of the Factories, Machinery and Building Work Act, 1941 (Act No. 22 of 1941);
 - (iii) the conducting of a duly licensed hotel, bar or bottle store;
 - (iv) the sale of lubricating oil and motor fuel by garages and service stations to members of the public;
 - (v) the conducting of any civil engineering or building work by a civil engineering contractor or an employer in the building trade, as the case may be;

- (vi) the conducting of a sports club;
 - (vii) the conducting of a mine or works defined in the Mines and Works Act, 1956 (Act No. 27 of 1956);
 - (viii) the conducting of a research laboratory in which research connected with science, medicine, industry or mining is carried on;
 - (ix) the conducting of a banking institution as defined in section one of the Banking Act, 1965 (Act No. 23 of 1965);
 - (x) the conducting of a building society registered under the Building Societies Act, 1965 (Act No. 24 of 1965);
 - (xi) the conducting of an insurance business as defined in the Insurance Act, 1943 (Act No. 27 of 1943);
 - (xii) the conducting of a funeral undertaking;
 - (xiii) the conducting of a distributing depot of a factory;
 - (xiv) the conducting of a shipping line, and clearing and forwarding or warehousing or stevedoring business;
 - (xv) the conducting of an auction mart;
- (e) the disqualified employees are not employed as chargehands, executives, professionals, technical employees, administrative employees, managers or supervisors.
- (i) "chargehand" is defined in the Proclamations as:

"an employee who exercises supervisory responsibility for the conduct of sales, the safe custody of stock and the conduct

of business with the public within any demarcated section or sections of the premises or in respect of any specific class or classes of merchandise in an establishment"

"establishment" is defined in the Proclamations as:

"any premises in or in connection with one or more employees are employed in any trade or business";

(ii) "executive, professional, technical or administrative employee" is defined in the Proclamations as:

"an employee who performs work entailing responsibility for regularly taking decisions of an executive, professional, technical or administrative character, respectively, in or in connection with the activities of an establishment";

(iii) "manager" is defined in the Proclamations as:

"an employee who supervises and takes overall responsibility for and directs the activities carried on in or in connection with an establishment or any separate department of branch thereof";

(iv) "supervisor" is defined in the Proclamations as:

"an employee who supervises the service of customers in an establishment".

It was decided in R. v. Chan King and others, 1961(1) S.A. 530 (T) that where a disqualified person is charged with contravening the Act by occupying in a specified area (this would also apply to group and controlled areas) and he raises the defence of being an exempted employee in terms of the provisions of the Proclamations, the onus is on the accused to show on a balance of probabilities that he was exempted. It was found in Chan King's case that a person who "during the greater part of the day was engaged single-handed in serving customers" was performing the functions of a "manager" in terms of the Proclamations.

- (f) the provisions of the Proclamations are not applicable to disqualified employees who are members of the White group.

Employees who are exempted by the provisions of the Proclamations are exempted only for the purposes of performing the work they are engaged to perform.

A disqualified person who occupies land or premises and who is not exempted in terms of the Act, is committing an offence in terms of the Act, unless he does so under the authority of a permit granted in terms of Section 21 of the Act.

3.

The Minister, or a person to whom the Minister's powers are delegated in terms of Section 22, may in terms of Section 21(1)(a)(ii) direct that a permit be issued for the "occupation or use of or the granting of permission to occupy or use any building, land or premises" in a group, controlled or specified area.

"Individual hardship is catered for by the permit system" per Hiemstra, J. in R. v. Desai, 1959(1) S.A. 328 (T).

In terms of Section 21(2) of the Act, the issue of permits is entirely at the discretion of the Minister, except in regard to a permit authorising occupation of land or premises in a group area. The Minister may not, in terms of Section 21(2)(a) of the Act, issue such a permit unless he is of the opinion that:

- (a) the refusal of the permit would cause undue hardship;
or
- (b) the issue of the permit would be in the interest of the group for which the group area has been established.

The meaning of "undue" in (a) above has been defined in Lockhat and others v. Minister of the Interior, 1960(3) S.A. 765 (N) at 789 H - 790 A per Henochsberg, J.:

"'Undue' means unjustifiable or excessive. Mere hardship or partial or unequal treatment is not therefore a ground for the grant of a permit".

When dealing with (b) above, van Reenen, supra, E. 14.7 says on p.271:

"But occupation by a disqualified person may be in the interest of the group, for example, in the case where that person can or does render a service to the community which cannot readily, to the same extent or with the same benefit be rendered

- (a) by some qualified person; or
- (b) by the disqualified person from outside the group area."

In terms of Section 21(8) of the Act:

"A permit authorising the occupation of any land or premises by any employee or the granting of permission to any employee to occupy land or premises, may be issued in respect of any individual employee or in respect of any number and class of employees specified in the permit, and in the latter case either for a specified period or until withdrawn at the discretion of the Minister."

In terms of Section 21(4) of the Act a permit issued to an individual

"may be issued for an indefinite or a specified period or until withdrawn at the discretion of the Minister."

When deciding whether to issue a permit the Minister has an absolute discretion and his decision can only be reviewed by a Court on one or more of the following grounds:

- (i) that he did not exercise his discretion;

- (ii) that he acted for improper or ulterior purposes or motives;
- (iii) that he acted disregarding the provisions of the Act;
- (iv) that there was fraud, bad faith or corruption.

It would be contrary to the provisions of the Act, read together with the Proclamations referred to in paragraph 2 above, to employ a disqualified person as a manager unless a permit in terms of Section 21 of the Act has been obtained.

B. THE EFFECT ON THE CLASSIFICATION OF A COMPANY, WITH SHAREHOLDERS FROM DIFFERENT GROUPS, OF LOANS GRANTED TO IT, IN TERMS OF THE ACT.

1.

In terms of Section 1 of the Act the classification(s) of a company is determined by the classification(s) of the person(s) holding a controlling interest(s) in the company. It will appear below that more than one person can hold a controlling interest in a company.

In terms of Section 1 of the Act "controlling interest" is defined as ("in relation to any company"):

- (a) a majority of its shares; or
- (b) shares representing more than half its share capital;
or
- (c) shares of a value in excess of half the aggregate value of all its shares; or

- (d) shares entitling the holders thereof to more than half its profits or assets; or
- (e) shares entitling the holders thereof to a majority or preponderance of votes; or
- (f) any interest acquired by virtue of a grant of loans for an amount exceeding in the aggregate half its share capital, or debentures for such an amount; or
- (g) the power to exercise, directly or indirectly, by holding any interest, whether or not of the nature referred to in paragraphs (a) to and including (f), in any other company, or otherwise, any control whatsoever over the activities or assets of the company".

In the light of the different factors set out in the definition above it is conceivable that more than one person can hold a controlling interest in the same company. If, for example, a company issues two classes of shares: 10 "A" shares at a nominal value of R100 each and 5 "B" shares at a nominal value of R10 each. The holders of "B" shares are entitled to 90% of the profits and the holders of "B" shares have no voting powers. The "A" shares are taken up by members of group A and the "B" shares by members of group B. The company borrows R600 from individual C, an individual belonging to group C. In terms of (a), (b), (c) and (e) the members belonging to group A have a controlling interest. In terms of (d) of the definition the members of group B have a controlling interest. And in terms of (f) of the definition the individual belonging to group C has a controlling interest. (Share capital R1 050; loan R600).

In Ex parte Liquidator Varachia Stores (Pty.) Ltd., 1940 T.P.D. Solomon, J., as he then was, said on p.22:

"The concluding words of this definition mean "the power to exercise control in any way over the

assets of such company" and in my opinion these words give the clue to the whole definition."

Where, as in the case set out on p.282, various groups hold controlling interests, the company will be classified according to the one who has the power to control the company. The test in terms of paragraph (g) of the definition is who is in effective de facto control. For example, in Adbro Investment Co. Ltd. vs. Minister of the Interior, 1956(3) S.A. 350 (A.D.) the seven shares issued by the company were held by whites as nominees for persons belonging to the Asiatic group. Centlivres, C J. says at p.351 D:

"There can be no doubt from the above facts that the de facto control of the appellant was in the hands of Asiatics."

What is the effect of the granting of a loan by an individual belonging to group C, as in the case set out on p.282 on the classification of the company in terms of the Act.

- (a) The only circumstances under which the granting of the loan by C to the company would result in C obtaining the de facto control over the company are:
- (i) where C makes it conditional to the granting of the loan that the company delegates functions to him and that he is allowed to exercise these functions without the consent of any members of the company. If the exercising of these functions amounts to the controlling of the affairs of the company, the company would in terms of (g) of the definition be classified as belonging to C's group. The company will be able to accept this condition if its articles of association make provision for the delegation of powers to third persons.

It was decided in Manton v. Brighton Corporation, (1951) 2 All E.R. 101; (1951) 2 K.B. 393 that the board of directors can

revoke a delegation of its powers. In the example, above of C's loan the revocation of the delegation would constitute a breach of contract, but the company would nevertheless revert to its previous group classification.

Unless the granting of a loan results in the gaining of control over the company's affairs as set out in (a)(i), directly above, the granting of loans will not affect the classification of a company under the Act.

H.M. SCHOLTZ

CHAMBERS

15TH OCTOBER, 1976.

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