

**University of the Western Cape**  
**Faculty of Arts**  
**Department of Anthropology & Sociology**

**THE LORDS OF POVERTY? MICRO-CREDIT INSTITUTIONS AND SOCIAL  
REPRODUCTION IN SOUTH AFRICA**

**Kolawole Emmanuel Omomowo**  
**(3175993)**



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**Supervisor: Professor 'Jimi O Adesina**

## Abstract

The broader conception of poverty as ‘quality of social reproduction’ demonstrates the delicate nature of the interaction between the institutions of the family/household, the economy and the state. These institutions interact in the dispensation of individual, productive and collective consumptions important for social well-being and social reproduction in society.

The gap in the configuration of these consumptions relationship opens the space for the institution of micro-credits to thrive in South Africa to the detriment of adequate ‘quality of social reproduction’ especially for people living in ‘poverty range’ or ‘precarious prosperity’. The lack of comprehensive social policy regime provides the recipe for the consumption of micro-credit at the desperate, need and choice dimensions, in order to close the gap between income and consumption needs to facilitate social reproduction of concerned family/households. Micro-credit consumption is viewed as an individual response, in the absence of collective consumption in the form of social policy, to smoothen individual consumption, and to cater for the strain or challenges of social reproduction.

The implications of this, for concerned family/households, are imperative to how poverty is perceived, hence, the question ‘the lords of poverty’? In addition to the income and expenditure conception of poverty, the understanding of poverty dynamics will be enriched by engaging with the method through which the poor and ‘precarious prosperous’ (people living within ‘poverty range’) respond to the gap between their income and expenditure to finance shortfalls in their consumption needs. The relief sought from micro-credit (the focus of this study) to finance the gap in consumption needs can alleviate poverty, and at the same time perpetuates it through chronic indebtedness. The patronage of micro-credit in the form of cash loan, retail goods credit and informal micro-credit in the way people living within the ‘poverty range’ live their lives, as well as the activities of micro-credit institutions are highlighted in this study.

Consumer credit consumption has become such a permanent feature of the social reproduction efforts of individual households in South Africa that it is crucial to understand the broader institutional interaction that may account for this. Further, it is important to understand how the patronage of consumer credit impact on the need that prompted it in the first place and other implications that may speak to the quality of social reproduction of

households. These are the core problematics that are engaged in this study. The relationship between poverty (as well-being) and the consumption of micro-credit is considered within the broader framework of political economy. The effects of predatory institutions, such as micro-credit, could be significant for the quality of social reproduction of households.

**Key Words:**

Social reproduction, poverty, well-being, social policy, political economy, micro-credit, precarious prosperity, poverty range.



## DECLARATION

I declare that *The Lords of Poverty? Micro-credit Institutions and Social Reproduction in South Africa* is my own work, that it has not been submitted before for any degree or examination at any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

Kolawole Emmanuel Omomowo

January 2015



Signed.....





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## CONTENT


Abstract.....	i
Declaration.....	iii
Acknowledgement.....	iv
List of Tables.....	x
List of Figures.....	xi
List of Acronyms.....	xii

### **Chapter 1: The Lords of Poverty? Micro-credit and Social**

<b>Reproduction in South Africa.....</b>	<b>1</b>
1.0 Introduction.....	1
1.1 Political Economy.....	5
1.2 Research Category.....	7
1.3 Poverty, Social Reproduction and Social Policy.....	9
1.4 The Thesis.....	12
1.5 The Goals of the Study and Actions.....	13
1.6 Structure of the Thesis.....	14

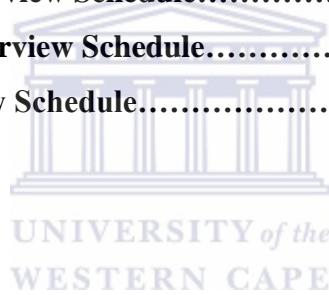
### **Chapter 2: Political Economy – Choices and Consequences.....17**

2.0 Introduction.....	17
2.1 Behaviour Motive – Individual or Social Choice.....	20
2.1.1 Truth, Social Justice or Rational Calculation – The Nature of Rationality.....	24
2.2 Well-being as Political Economy – Abstraction and Contextual Peculiarities.....	29
2.2.1 Well-being – Production, Distribution and Consumption.....	32
2.3 Wealth – Social Reproduction, Poverty and Social Policy.....	34
2.4 Social Reproduction.....	39
2.5 Poverty.....	42
2.5.1 Poverty as a Level of Well-being.....	43
2.5.2 Contested Conception of Poverty.....	44

2.5.3	Poverty Concepts, Definitions and Measurements.....	48
2.5.4	Absolute Poverty.....	50
2.5.4.1	Poverty as a Threat to Subsistence.....	50
2.5.4.2	Poverty as Inability to Meet Basic Needs.....	51
2.5.4.3	Defining and Measuring Absolute Poverty.....	52
2.5.5	Relative Poverty.....	55
2.5.5.1	Poverty as Relative Deprivation.....	55
2.5.5.2	Defining and Measuring Relative Poverty.....	56
2.5.6	Capabilities Poverty.....	57
2.5.6.1	Lack of Capability to Function as Poverty.....	57
2.5.6.2	Defining and Measuring Capabilities Poverty.....	58
2.5.7	Poverty as Social Exclusion.....	59
2.5.7.1	Defining and Measuring Social Exclusion.....	60
2.5.8	Other Conceptions of Poverty.....	61
2.5.9	Dimensions of Poverty.....	67
2.5.10	Poverty in Africa.....	70
2.5.11	Poverty in South Africa.....	83
2.6	Concluding Remarks.....	89
		
<b>Chapter 3:</b>	<b>Methodology.....</b>	<b>90</b>
3.0	Introduction.....	91
3.1	Appropriating Grounded Theory.....	92
3.2	Adapting Grounded Theory – Critical Realism.....	95
3.2.1	Critical Realism – Ontological Basis.....	96
3.3	Theory and Empirical Data.....	98
3.4	Research Design.....	100
3.5	Selection of Participants – Study Sites.....	102
3.6	Selection of Participants – Sampling Method.....	105
3.6.1	Participants’ Recruitment Process.....	108
3.7	Data Collection – Qualitative In-depth Interviews.....	113
3.7.1	Knowledge Creation and Reflexivity in Interview.....	115
3.7.2	The Structure of the Interviews.....	116
3.8	Data Analysis.....	119
3.9	Research Ethics.....	122

<b>Chapter 4: The Social, Political and Economic Contexts of South Africa.....</b>	<b>124</b>
4.0 Introduction.....	124
4.1 Historical Background of South Africa – A Glance.....	126
4.2 Post-apartheid (Democratic) South Africa.....	131
4.3 The South African Economy.....	145
4.4 The South African Socio-economic Context – Precariously Poor (Poverty Range).....	161
4.5 The South African Socio-economic Context – Human Development and Poverty.....	168
4.6 Conclusion.....	176
<b>Chapter 5: Micro-credit in Social Reproduction – An Overview.....</b>	<b>177</b>
5.0 Introduction.....	177
5.1 Micro-credit and Micro-finance – Conceptual Clarification.....	180
5.2 Micro-credit in South Africa.....	188
5.2.1 The Supply of Credit in South Africa.....	190
5.2.2 Demand for Credit in South Africa.....	193
5.2.3 Institutions of the South African Credit Industry.....	199
<b>Chapter 6: Micro-credit in Social Reproduction – Analysis and Synthesis of Data 1.....</b>	<b>214</b>
6.0 Introduction.....	214
6.1 Discussion of Empirical Data.....	216
6.1.1 Nature and Activities of Micro-credit Institutions in South Africa.....	218
6.1.2 Understanding Micro-credit Relationship Process.....	224
<b>Chapter 7: Micro-credit in Social Reproduction – Analysis and Synthesis of Data 2.....</b>	<b>254</b>
7.0 Introduction.....	254
7.1 Social Reproduction of Households and Micro-credit Institutions.....	255
7.1.1 The Characteristics of Social Reproduction.....	257
7.2 Credit in Social Reproduction.....	271

7.2.1	Credit in Individual Consumption.....	283
7.2.2	Dimensions of Credit Consumption.....	284
7.3	Effects of Credit on Social Relations and Households.....	295
<b>Chapter 8: Social Policy – Collective Response to Social Reproduction.....</b>		<b>297</b>
8.0	Introduction.....	297
8.1	Explanation of Data.....	299
8.1.1	Re-appropriating Emerged Categories.....	303
8.2	Conceptualising Social Policy – Social Response to Social Reproduction.....	309
8.3	The South African Context in Brief.....	322
8.4	Concluding Remarks – Revisiting the Argument.....	327
<b>References.....</b>		<b>333</b>
<b>Appendix A: Life History Interview Schedule.....</b>		<b>358</b>
<b>Appendix B: Micro-credit Interview Schedule.....</b>		<b>361</b>
<b>Appendix C: Culture Interview Schedule.....</b>		<b>363</b>



## List of Tables

Table 4.1:	Monthly value of social grants and total amount paid in 2009 – 2014 budget years.....	136
Table 4.2:	Other social expenditure from 2009 – 2014.....	138
Table 4.3a:	Per capita inflation-adjusted poverty lines for 2006, 2009 and 2011 (Rand per month).....	140
Table 4.3b:	Poverty trends in South Africa.....	140
Table 4.4:	South Africa Annual Gross Domestic Product (GDP) at Constant 2005 Prices (In Rand Millions) 2000 – 2013 (1994 – 1999 are in Constant 2000 Prices).....	150
Table 4.5:	South Africa Annual Gross Domestic Product (GDP) at Current Prices (In Rand Millions) 1994 – 2013.....	151
Table 4.6:	Labour Market Indicator – Unemployment and Employment Trends in figures and percentages (in thousands).....	156
Table 4.7:	Unemployed by population groups (figures in thousands and rates).....	157
Table 4.8:	South Africa Human Development Index.....	169
Table 4.9:	South Africa Inequality-adjusted Human Development Index.....	169
Table 4.10:	Subjective Poverty Estimates in South Africa (Headcount).....	173
Table 5.1:	Industry/Credit Providers - Gross debtors' book.....	192
Table 5.2:	Type of Credit & Number of Accounts - Gross Debtors' Book.....	193
Table 5.3:	SAARF SU-LSM (December 2011).....	196
Table 5.4:	LSM Groups Credit Consumption Estimate 2010 (R Billion).....	196
Table 8.1:	The population on different types of grants as at February 28, 2014 .....	324

## List of Figures

Figure 1.1:	Poverty as a level of well-being (quality of social reproduction).....	3
Figure 3.1:	Map of South Africa showing two study sites (Pretoria and Cape Town)...	104
Figure 3.2:	The spread of interviewees according to Pretoria suburbs.....	110
Figure 3.3:	The spread of interviewees according to Cape Town suburbs.....	113
Figure 4.1:	Precarious Prosperity.....	163
Figure 8.1:	Dimensions of credit consumption and implication for households quality of social reproduction.....	309





## **List of Acronyms**

AA	-	Affirmative Action
ABIL	-	African Bank Investment Limited
AEDO	-	Authenticated Early Debit Order
ANC	-	African National Congress
APR	-	Annual Percentage Rate
ASA	-	Association for Social Advancement
B-BBEE	-	Broad-Based Black Economic Empowerment
BEE	-	Black Economic Empowerment
BIG	-	Basic Income Grant
CBM	-	Credit Bureau Monitor
CCA	-	Consumer Credit Association
CCMR	-	Consumer Credit Market Report
CDC	-	Council for Debt Collectors
CGT	-	Constructivist Grounded Theory
COSATU	-	Confederation of South Africa Trade Unions
CSG	-	Child Support Grant
CPA	-	Consumer Protection Act
CPA	-	Credit Providers Association
CSG	-	Child Support Grant
CST	-	Colonialism of a Special Type
DBSA	-	Development Bank Southern Africa
DCA	-	Debt Collectors Act
DG	-	Disability Grant
DMTN	-	Domestic Medium Term Note
DTI	-	Department of Trade and Industry
EHL	-	Ellerine Holdings Limited
EMTN	-	European Medium Term Note
EPWP	-	Extended Public Works Programme
FGT	-	Formal Grounded Theory
FPL	-	Food Poverty Line

GDP	-	Gross Domestic Product
GEAR	-	Growth Employment and Redistribution
GHS	-	General Household Survey
GNU	-	Government of National Unity
HDI	-	Human Development Index
HDR	-	Human Development Report
HPI	-	Human Poverty Index
IDC	-	Industrial Development Corporation
IEQ	-	Income Evaluation Question
IES	-	Income and Expenditure Survey
IFIs	-	International Financial Institutions
IHDI	-	Inequality-adjusted Human Development Index
IKS	-	Indigenous Knowledge Systems
ILO	-	International Labour Organisation
IMF	-	International Monetary Fund
JSE	-	Johannesburg Stock Exchange
LBPL	-	Lower-bound Poverty Line
LCS	-	Living Condition Survey
LFS	-	Labour Force Survey
LSM	-	Living Standard Measure
MDGs	-	Millennium Development Goals
MFI	-	Micro Finance Institutions
MFRC	-	Micro Finance Regulatory Council
MFSA	-	Micro Finance South Africa
MIQ	-	Minimum Income Question
MRC	-	Medical Research Council
NAEDO	-	Non-Authenticated Early Debit Order
NCA	-	National Credit Act
NCC	-	National Consumer Commission
NCR	-	National Credit Regulator
NCT	-	National Consumer Tribunal
NDP	-	National Development Plan
NDR	-	National Democratic Revolution
NGOs	-	Non Governmental Organisations

NHI	-	National Health Insurance
NHS	-	National Health Service
NLR	-	National Loan Register
NLRMC	-	National Loan Register Management Committee
NPM	-	New Public Management
NSFAS	-	National Student Financial Aid Scheme
NUMSA	-	National Union of Mine Workers of South Africa
OAG	-	Old Age Grant
OHS	-	October Household Survey
PIMD	-	Provincial Indices of Multiple Deprivation
PPA	-	Participatory Poverty Assessment
POS	-	Point-of-Sale
PWP	-	Public Works Programme
QLFS	-	Quarterly Labour Force Survey
RAF	-	Road Accident Fund
RDP	-	Reconstruction and Development Programme
RSCA	-	Rotating Savings and Credit Association
SAARF	-	South African Audience Research Foundation
SACP	-	South African Communist Party
SAIMD	-	South African Index of Multiple Deprivation
SANDF	-	South African National Defence Force
SAP	-	Structural Adjustment Programme
SARB	-	South African Reserve Bank
SER	-	Standard Employment Relationship
SPWQ	-	Self-Perceived Wealth Question
Stats SA	-	Statistics South Africa
SU-LSM	-	SAARF Universal Living Standard Measure
THP	-	Traditional Health Practices
UBPL	-	Upper-bound Poverty Line
UIF	-	Unemployment Insurance Fund
UNDP	-	United Nations Development Programme
UNISA	-	University of South Africa
UNO	-	United Nations Organisation
USA	-	United States of America



## Chapter 1

### The Lords of Poverty? Micro-credit Institutions and Social Reproduction in South Africa

#### 1.0 Introduction

The discourse of poverty has often been reduced to the talk of households' income and expenditure as a reflection of the quality of the standard of living with little attention to the social interaction context, within which the daily lived experiences take place (Miller, 1996; Jones, 2006). Households do not exist in a vacuum, but in social contexts that could have significant consequences for the quality of their social reproduction. The engagement with poverty, focused on income and expenditure of family/households, is narrow and limiting because it fails to properly connect the productive, individual and collective consumptions that are imperative for the social reproduction of a society. While the family/household is central in the organisation of human society, the nature of consumption within the household, to facilitate social reproduction, can best be understood in relation to other modes of consumption within the broader society (Dickinson & Russell, 1986).

A distinction can be made between poverty and well-being in relation to social reproduction of a society. Sen (2008:276) was of the view that:

“the well-being achievement of a person can be seen as an evaluation of the ‘well-ness’ of the person’s state of being (rather than, say, the goodness of her contribution to a country, or her success in achieving her overall goals). The exercise, then, is that of assessing the constituent elements of the person’s being, seen from the perspective of her own personal welfare. The different functioning of a person will make up these constituent elements”.

He further suggests that a person can wish for another person’s well-being, but the characteristics of the being of the person under consideration must provide the guide. The origin of well-being may be internal or external to the subject person. A person’s functionings (see Chapter 2) are pivotal as the constituent elements of a person’s being, imperative to the evaluation of well-being. Functionings may include avoiding mortality, sufficiently nourished, happiness, self-esteem and social participation, among others (Sen, 2008).

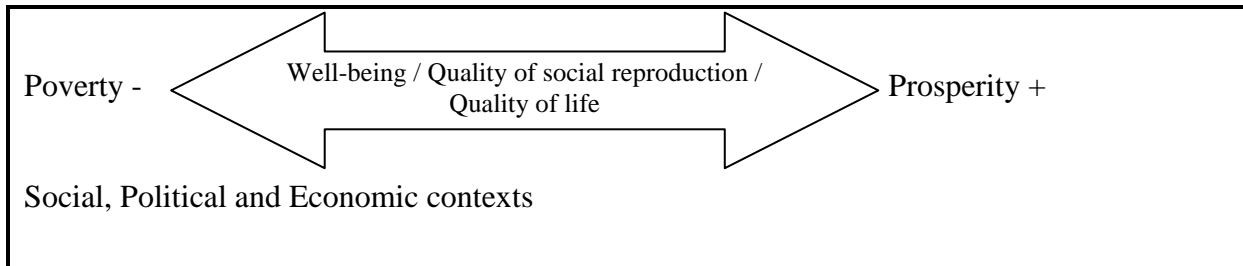
For Sen (2008; 2009), a conscious distinction must be made with regard to ‘agency achievement’ and ‘well-being achievement’. The former transcends a person’s condition of being (informed by functionings), to include all other goals that he/she has cause to advance. Therefore ‘agency achievement’ is broader than ‘well-being achievement’. Standard of living, however, is narrower than well-being because it speaks to those functionings that concerns a person’s well-being, deriving only from the nature of his/her living.

Andrews (1974, cited in Levy & Guttman, 1975:361) conceive well-being as “level of life quality – i.e., the extent to which pleasure and satisfaction characterize human existence and the extent to which people can avoid the various miseries, which are potentially the lot of each of us”. This partially speaks to the utility notion of welfare that suggests mental feeling of happiness or satisfaction limited by interpersonal comparison (Sen, 1999). Another strand of utility approach is what Griffin (1988) refers to, as the state of the world to capture actual and informed desires. Levy and Guttman (1975) emphasise the multivariate nature of well-being, to suggest that welfare is not unidimensional, but multidimensional. They contend that well-being can be considered at the level of the individual or group, different areas of life such as social and economic among others and who sets the norms. They viewed well-being from three sub-universe of the self, reference groups and treatment by government in their hypothesis of the structure of well-being as the interaction between the state of the self, the community and the treatment of both by the state, taking into consideration the different spheres of well-being (Levy & Guttman, 1975). We can speak of material needs of well-being (Marshall, 1890[1920]), which informs income approach to well-being. However, the conversion of material possession, in the form of income, to well-being can be influenced by individual innate differences, environmental differences, differences in social conditions, social relational differences and income distribution patterns within different families (Sen, 1999).

The notion of ‘well-being achievement’ seems to speak to the quality of life and how material possession is converted to real living experiences (or functionings). For the purpose of this study, poverty (see Chapter 2) is taken to be an opposite end of a continuum with prosperity to signify a different degree of well-being. That is, the quality of well-being decreases as the person or group under consideration moves closer to poverty. Hence poverty is viewed as a low quality of well-being. The ‘Quality of social reproduction’ is used to describe the range

between poverty and prosperity. Figure 1.1 below is a pictorial depiction of how well-being and poverty is considered in this study.

**Figure 1.1: Poverty as a Level of Well-being (Quality of Social Reproduction)**



The socio-economic and political contexts could be important influence on either the development or the undermining of individual capabilities development, without discounting the imperative of individual innate gifting at achieving development in the midst of adversity. In this consideration, poverty is viewed as a particular level of well-being. I take it that the different conceptions of poverty (see Chapter 2) speak to how this level of well-being (characterised as poverty) is defined.

The three centres of consumption within a society are productive consumption, individual consumption and collective consumption (Dickinson & Russell, 1986). These modes of consumption are imperative for a society to drive production, distribution/exchange and consumption, which are important for social reproduction of a society. The institutions of the state, economy and family/household do interact in order for this process to evolve (Dickinson & Russell, 1986; Picchio, 1992). Wage-labour and capital must interact in the economy to foster production, which is fundamental to the continuous existence of a capitalist society (Marx cited in Arnot, 1940). The interaction between capital and wage-labour in the economy is imperative to productive consumption and individual consumptions. Productive assets and resources are consumed in the production process. The payment for labour power consumed in the process of production becomes the main source of individual consumption within households (Heinrich, 2012).

Therefore, households supply labour-power to the capitalist in the process of production in return for wages, which is important to fund individual consumption within the household. The nature that the interaction between capital and labour takes in the process of production has been variously conceived, described, and explained. Explanations range from classical

political economy through the notion of free market enterprise to the critique of Marx and Marxism that, the capitalist mode of production is exploitative to the neo-classical political economy (see Chapter 2). All these contrasting views about how a society works and/or ought to work come down to the fact that wealth must be created, distributed and consumed on a continuous basis in order for a society to exist enduringly (Marshall, 1890[1920]; Pack, 2010; Say, 1971; Heinrich, 2012; Marx, 1976).

A look at classical, neo-classical and Marxist conceptions, shows that they placed emphasis on a point on the chain of production, distribution and consumption as pivotal to how a society works and/or ought to work (Heinrich, 2012; Pack, 2010; Sotiropoulos, 2009; Sen, 1999; Marx, 1976; 1973). For example, emphasis is placed on exchange and consumption by classical and neo-classical economists respectively in their explanation. Adam Smith emphasizes market exchange over production and consumption (Heinrich, 2012; Pack, 2010). Utility derived from consumption of goods and services by a rational man/woman is crucial for neo-classical economists such as Thorstein Veblen, William Stanley Jevon, John Stuart Mill, Alfred Marshall, Leon Walras and Carl Menger among others (Endres, 1997; Sen, 1999; Sotiropoulos, 2009).

Contrary to classical and neo-classical economists' positions, Marx emphasized production relations as fundamental to the other points in the chain (Marx, 1973). Be that as it may, the most important issue of concern, at least for this study, is how the structure of the social relations of production, distribution and consumption impacts the well-being of the members of a society. Therefore no matter how we look at it, the well-being of the majority of households should be the driving force and justification for policy choices that are made with regard to production, distribution and consumption.

If social well-being is the objective for production, distribution and the consumption of wealth, then collective consumption should be treated as an integral part of productive and individual consumptions. Collective consumption is the third leg of consumptions to facilitate social well-being. It is either treated as residual or integral, depending on the structure of social and economic policies (see Chapter 8). In essence, the three categories of consumption are important for social well-being, hence how they are met is important. In other words, the three modes of consumptions facilitate capital production and accumulation, labour and



labour-power reproduction in particular and social reproduction in general, in order to sustain a society (Dickinson & Russell, 1986; Picchio, 1992).

### **1.1 Political Economy**

The political economy of a society provides the framework that defines the nature and boundary of the interaction between the institutions that enables productive, individual and collective consumptions (Reisman, 2010; Dickinson & Russell, 1986; Marshall, 1890 [1920]). The imperative of power in this interaction was demonstrated by Terreblanche (2002) with the notion of ‘power constellation’ in the South African context (see Chapter 4). The subtlety of power in the Foucauldian view as located in social relations is imperative (McHoul & Grace, 1993; Mills, 2004). The institutions of the state, the family/households and the economy, must interact continuously, in order to fulfil these consumption needs of a society (Dickinson & Russell, 1986).

The framework of the political economy is either informed by ideological underpinnings or contextual (socio-economic and political) realities of the society under consideration. The prevalent one is often informed by local and international power constellations that may speak to sectional ‘vested interests’ (Terreblanche, 2002; Mafeje, 1986). The remoteness of socio-economic policies to contextual realities; might have dire consequences for the qualitative satisfaction of the consumption needs of a society. The Electronic Sage English dictionary defines ‘vested interests’ as “groups that seek to control a social system or activity from which they derive private benefit”.

The author suspect that, arguably, when the structure of political economy is not well articulated or in sync with contextual experiences, with regards to dispensing productive, individual and collective consumptions, poverty may result (see Chapter 2). By implication, the quality of social reproduction might be negatively affected. The way poverty is considered here, is not a state of discontinuity in social reproduction; rather, it is a downgrade in the quality of social reproduction. It is the proposition of this study that between the institutions of the economy, the family and the state that serve productive, individual and collective consumptions functions respectively (Dickinson & Russell, 1986), there may be other institutions that thrive in the gap between these institutions and various consumption needs of a society (see Chapter 2).

This study identified micro-credit institutions as an institution that may lurk between the institutions of the economy, the family/households and the state, where they fail to appropriately address productive, individual and collective consumption needs of a society. It is viewed in this study that the productive and collective consumption should both be in the service of individual consumption. Therefore the quality of individual consumption and the interaction with economic consumption (wage bills) and collective consumption as reflected in social policy, will determine the quality of social reproduction. The barometer for measuring the well-being of a society, therefore speaks to the quality of individual consumption. The quality of social reproduction of the majority of households in a society is imperative to how such society is fairing.

How a society responds to strains in the quality of social reproduction also speaks to the prevailing structure of the political economy. Response to strain in the quality of individual consumption and social reproduction can either be left to the individual agency or collective agency. Individual and/or collective response, to a large extent, depends on the prevailing regimes of socio-economic and political policies that are driven by ideological and/or contextual practical concerns. Further, it will be informed by the structure of collective consumption as informed by social policy. A residual conception and practice of social policy will see individual response to strains in social reproduction being given precedence over collective response. A developmental comprehensive regime of social policy in the alternative will see collective response taking precedence over individual response (see Chapter 8).

Lack of comprehensive social policy regime to facilitate collective consumption creates a gap, I argue, to the dependence on micro-credit institutions in particular and consumer credit in general, as one of the limited ways, in which individuals will respond to the challenges of social reproduction. The consumption of credit, which may appear to cushion the strain on social reproduction or individual consumption in the short run, may have damaging consequences for the quality of social reproduction in the long run (see Chapter 8). Entering into a credit relationship by household to compensate for shortfall in consumption needs and household income, is most times, beyond the control of the consuming households. In the

words of American Poet, Robert Frost: “A bank is a place where they lend you an umbrella in fair weather and ask for it back when it begins to rain” (cited in Hahnel, 2002:160).

Credit consumption for productive venture, is easy to repay because the returns on investment (which is higher than the principal credit amount, if it is a profitable venture) can cater for the principal amount and the cost of credit with left over to channel into individual consumption. This is not the case with household consumer credit, where household income remains constant. The repayment of credit principal amount and cost will translate into the gradual depletion of future income available for individual consumption. In the long run, this puts a strain on the quality of social reproduction of such household. This study reveals that this is the experience of households, whose only source of income is wage/salary from third party employment – one of the key requirements to access micro-credit (see Chapters 6 and 7).

This is usually the experience of households that live within poverty range (see Chapters 5 and 7) and consumes credit in order to fill gaps in social reproduction. ‘Range’ is used consciously to denote low income categories, whose quality of social reproduction is most adversely affected by any shock. I use ‘quality of social reproduction’ in order to capture households that can be easily sucked into poverty, even when they currently command resources and lead a life considered not poor in their society. Jacobs and Smit (2010) conclude that, in South Africa, low income is more likely to stimulate indebtedness. They found no association between materialism (consumerism) and indebtedness. However, over-indebtedness remains prevalent in South Africa (Feasibility 2011, FinScope, 2013) and there is no clear indication that this speaks to the poor alone, where third party employment is required to access credit (see Chapters 6 and 7).

## **1.2 Research Category**

A wider view of poverty means that it must be treated as a process and not limited to the chronically poor or judged only by poverty line(s) (see Chapter 2). For the purpose of this study, the focus is not people living below the poverty lines in South Africa (see Chapters 2 and 4), rather it targets those that are employed (rarely with other sources of income) or unemployed, who are beneficiaries of pension and other social grants (Old Age and Child Support Grants in particular). These households often have only one adult member employed in the lower end of the labour market or getting old age or disability grant. Their jobs include cleaning, security, retail store attendants, petrol garage attendants, and drivers among others

(see Chapter 7). What defines this category of households is low income (whether wages, salary or social grant), which could not accommodate any shock or do anything outside routine monthly expenses.

Households that are not poor, but are susceptible to poverty have been variously conceptualised. Standing (2011) referred to them as the 'Precariat'. He argues that the increase in the number of people that fall within this category could be linked to increasing flexibility of the labour market globally, which facilitate increase share of insecurity and risk by workers. He made a distinction between 'Precariat' and 'Salariat' to suggest difference in the level of trust in the relationship between them, capital and the state. 'Precariats' are deprived of labour-related security, such as labour market security, employment security, job security, work security, skill security, income security and representation security. In addition to low money income, the 'precariat' also lack complementary state and/or private benefits.

Fields (2012) speaks to working poor propagated by low wage regime. At the lower end of the labour market, hard work does not translate into better pay. He warns that poverty cannot be reduced to the consequences of unemployment, to suggest that substantial proportion of the poor are engaged in paid employment. Concentrating solely on unemployment with regard to poverty may miss the imperative of low income earnings in creating and sustaining poverty. This view speaks to the South African context, where job creation is highlighted as the appropriate response to poverty with less attention to the type of job to be created (see Chapter 4).

Altman (2007) also highlighted low wage, compared to living cost, as characteristic of low and semi-skilled workers in the South African formal sector. This results in the growing population of the working poor. The International Labour Organisation's (ILO) conception of "a 'working poor household' is one, in which at least one member is working but the household lives on less than \$2 per person per day" (cited in Fields, 2012). Altman (2007) in the South African context defines 'working poor' as "anyone who is 'employed' by the definition of the Labour Force Survey (LFS), working in the formal or informal sector, and earning less than R2,500 per month in 2004". Working with this definition, 65% and 39% of workers earn below R2,500 and R1,000 per month respectively, citing Valodia et al (2005) calculation from LFS of March 2004. The data also shows that working poor traverse formal

and informal employment, with approximately 58% of formal sector workers earning less than R2,500 compared to 42% in the informal sector.

Perhaps, this is a continuation of the apartheid legacy of cheap labour-power (Wolpe, 1972). Taking this further, Altman (2007) contends that employment, without social transfers, might not be adequate to reduce poverty in a low wage work regime as it is the case in South Africa. She suggested social policy that will complement “money wage” with “social wage” and redistribute the ratio of profit to wage in the economy. Broadly speaking the blame for low wages and ‘working poor’ lies with the growing precarious work. Economic justification and flexibility to drive competitiveness are credited with its growth and the need for regulation to protect vulnerable workers (Rodgers, 2013, Kalleberg, 2009; Altman, 2007; ILO, 2012). Instructive for this study, is how the resulting low wages affect the quality of life of concerned households.

The ILO (2012) was of the view that ‘precarious work’ is a precursor to ‘precarious lives’ and subsequently ‘precarious society’. Budowski, Tillmann, Keim & Amacker (2010) show that Hübinger’s (1996) concept of ‘precarious prosperity’ is applicable in other contexts in their comparative study of four countries. ‘Precarious prosperity’ describes the socio-economic characteristics of the category of people living just above the poverty line, but below secure prosperity. It is a dynamic position, where households are not poor, but their prosperity is not secured at the same time. It is a fragile situation where households can easily slip into poverty because they have not reached the threshold of prosperity, where minor shock will not affect them.

Their conception shows that there is a range of incomes between poverty line and prosperity threshold. Households in this position live at the edge of poverty; their prosperity is tenuous, precarious and insecure. This conception is important for the focused category in this study as described above. They are not poor, but they live at the margin between poverty and secure prosperity. This is what I have referred to as ‘poverty range’ for the purpose of this study to depict the fluid nature of the location of households in this category. For the purpose of this study, four population (race) groups were identified: Black African, Coloured, Indian/Asian and White. This classification was drawn from Statistics South Africa’s presentation of the national statistics (Stats SA, 2014a). Where Black is used, it refers collectively to “Black African”, “Coloured” and “Indian/Asian.”

### **1.3 Poverty, Social Reproduction and Social Policy**

The South African literature on poverty and social policy could be enriched by considering the connection between poverty and social reproduction. Poverty, social reproduction and social policy discourses can best be understood, when they are located within the framework of political economy and how productive, individual and collective consumption institutions interact in the satisfaction of these consumption needs of a society. In addition to this, the institutions that may impact on these relationships in significant ways must be considered for better understanding of what we see in practice.

Poverty must be located within these broader institutional interactions, for the satisfaction of social reproduction needs of a society. Poverty from this point of view should be understood beyond the boundaries of family/households. The interaction between family/households and the economy on the one hand, and the state as an expression of the collective becomes imperative. The income that is available for individual consumption is a function of the interaction between the economy, family/household and the state in the satisfaction of various consumptions. The understanding of poverty in this broad term makes it safe to consider poverty as a matter of the quality of social reproduction of households. Poverty in this sense will depend on how much claim households have on the economy's productive consumption, in terms of wage fund, to support individual consumption and the impact of collective consumption through the institutions of social policy.

Poverty and social inequality is a defining feature of the South African socio-economic and political contexts. With food poverty (R321), lower bound (R443) and upper bound (R620) poverty rates at approximately 20%, 32% and 46% respectively (Stats SA, 2014a), poverty remains enduring. The Gini Coefficient of 0.69, for all groups (Stats SA, 2014a), shows skewed distribution of available wealth across the population. This situation is compounded by the high rate of unemployment (see Chapter 2), which affects and is affected by poverty. Poverty tends to lengthen unemployment by deterring the search for jobs in South Africa (Kingdom & Knight, 2003). This has caused government to think that job creation is the “magic bullet” that will rid the land of poverty.

The neoliberal informed macro-economic policy and social policy mean that the prescribed solution to the challenge of social reproduction informed by strain on individual consumption



as poverty (diminishing quality of social reproduction), resides in the economy in the first instance. That is why job creation seems to be elevated above other possible policy responses to the challenge of poverty. A distinction must be made between precarious and decent work with regard to poverty reduction as indicated above (ILO, 2012). The battle cry for economic growth and job creation is chorused without cognisance of the limitation of potential Gross Domestic Product (GDP) (Hahnel, 2002) to the extent that, it has turned into political rhetoric. The response to the challenge of social reproduction due to gaps in individual consumption, does not reside in the economy alone. Collective consumption in the form of social policy informed by the state or other forms of social co-operation could be very important in this regard (see Chapter 8).

A distinction must be made between residual and comprehensive conceptions of social policy with different implications for efficient and effective response to the strain on the quality of social reproduction. Residual conception of social policy sees social policy as subordinate to economic policy. Therefore the market and family are saddled with the primary responsibility of catering for individual consumption to facilitate social reproduction. Social policy is only a temporary stopgap when there is market failure. Social provisions are therefore means-tested as in the case of the South African social grant system (see Chapter 8). Alternatively the comprehensive view of social policy sees it as integral and mutually embedded with economic policy to articulate social well-being of a society. It is transformative in orientation and transcends redistribution of resources to perform production and social integration functions in a society (Adesina, 2011; 2009; Hall & Midgley, 2004; Titmuss, 1970).

Social policy in South Africa is to an extent informed by neoliberal ideological underpinnings, and hence, takes a residual approach to addressing market failures. It is means-tested and might therefore omit some members of the vulnerable segments of society (see Chapter 8). The history of colonialism, segregation and apartheid and the prevailing power constellation at these different periods, mean that previously disadvantaged groups might struggle to lead a quality life (see Chapter 4). The prevailing post-apartheid or democratic regime is not insulated from this historical trajectory and continuity. Poverty, inequality, unemployment and crime are all important relics and continuities from the past. Partial means-tested and not well co-ordinated social provisioning (see Chapter 8) and markets might be very slow at increasing the prosperity of a significant proportion of the population. Hahnel (2002:99) argues that “markets undermine the ties that bind us”.

Market mediated resources distribution and means-tested partial social provisioning, with the prevailing level of inequality and poverty, might devolve to the elevation of ‘vested interests’ in the appropriation of socio-economic benefits. This might sustain the status quo and undermine socio-economic transformation. The prevailing means-tested targeting of cash transfers and the delivery of RDP houses to the ‘poor’ is inefficient. It has not been able to foster social integration; rather social divisions persist (see Chapter 8). It is suggested that compressive social policy that is development-oriented that draws on communitarian values, such as ‘ubuntu’, to care for others informed by local ontology and social realities (Andreasson, 2010) has the potential to foster social integration and socio-economic transformation.

#### **1.4 The Thesis**

The focus of this study is on the interaction between poverty, social reproduction and social policy in South Africa. It is argued that the broader conception of poverty as ‘quality of social reproduction’ demonstrates the delicate nature of the interaction between the institutions of the family/household, the economy and the state. These institutions interact in the dispensation of individual, productive and collective consumptions important for social well-being and social reproduction in society. An understanding of these relationships is the missing link in the discourse of poverty and social policy in South Africa.

The gap in the configuration of these consumptions relationship opens the space for the institution of micro-credits to thrive in South Africa, to the detriment of adequate ‘quality of social reproduction’ especially for people in the low-income categories. The lack of comprehensive social policy regime provides the recipe for the consumption of micro-credit at different dimensions (see Chapter 7), in order to close the gap between income and consumption needs, to facilitate social reproduction of concerned family/households. In the absence of comprehensive, well-co-ordinated and contextual realities-driven collective consumption to cater for strain on social reproduction, such strains prompts individuals to seek the smoothening of consumption, through the consumption micro-credit (see Chapter 5).

The implications of this, for concerned family/households, are imperative to how poverty is perceived in this study, hence, the question ‘the lords of poverty’? In addition to the income and expenditure conception of poverty, the understanding of poverty dynamics will be



enriched by engaging with the method through which the poor and ‘precarious prosperous’ (people living within ‘poverty range’) respond to the gap between their income and expenditure to finance shortfalls in their consumption needs. The relief sought from micro-credit (the focus of this study) to finance gaps in consumption needs can alleviate poverty, and at the same time perpetuates it through chronic indebtedness. The patronage of micro-credit in the form of cash loan, retail goods credit and informal micro-credit in the way people living within the ‘poverty range’ live their lives, as well as the activities of micro-credit institutions are highlighted in this study.

Detailed attention to the way people live their lives in interaction with structural institutions, to maintain their social reproduction, individual and social choices within the parameters of such institution could provide important perspectives in the understanding of poverty. Importantly, a focus on lived experiences of concerned households shows the ways different institutions play out in their lives. It shows important interaction between individuals and social structure and the consequences of such interaction. It also shows how individual actions can reinforce social structure.

Consumer credit consumption has become such a permanent feature of the social reproduction efforts of individual households, that, it is crucial to understand the broader institutional interaction that may account for this. Further, it is important to understand how the patronage of consumer credit impact on the need that prompted it in the first place and other implications that may speak to the quality of social reproduction of households. These are the core problems that this study set out to engage. The not too apparent underlying social structures that account for what we see or experience in society could provide in-depth understanding of a social phenomenon such as poverty.

The relationship between poverty or quality of social reproduction and the consumption of micro-credit is considered within the broader framework of political economy. The interaction between the economy, family/household and the state as informed by ideology and/or contextual realities in serving different forms of consumption in society, could inform social well-being in different ways. The effects of predatory institutions, such as micro-credit, could be significant for the quality of social reproduction of households.

## 1.5 The Goals of the Study and Actions

Drawing on the proposition and the problem of understanding poverty in the broader sense of the interaction between basic consumption institutions and the predatory institutions as a function of political economy, poverty is considered as a problem of the quality of social reproduction. The author studied the intervening effects of the activities of micro-credit institutions and the consumption of their products by households in their quest to maintain the quality of their social reproduction. This forms the core objective of this study. This study is limited to three types of micro-credit provision and consumption: cash loan, retail goods credit and informal money lending (locally referred to as *Mashonisa*).

The historical and lived experiences of households were studied, using life history, and semi-structured interviews to understand how they live their lives from month-to-month. Issues of social reproduction and the consumption of consumer credit emerge in the course of our interviews/conversations. This study shows that most of the interviewees' households consume at least one type of micro-credit. Retail goods credit consumption is most prevalent among the interviewees' households. Feasibility (2011) in their study of access, cost and other credit market practices, commissioned by the National Credit Regulator (NCR), reports that store cards (retail goods credit) provide initiation into credit consumption and stepping stone to the consumption of other types of credits. It serves as a platform to build credit history to access other types of credit (Feasibility 2011; see Chapter 7).

The activities of micro-credit institutions (cash loans, retail goods credit and *Mashonisa*) were studied to reveal their processes and the nature of credit relationship with individual credit consumers. The affordability test, verification of formal employment status, and the assessment of credit history as recorded in credit bureaus are important elements in a micro-credit relationship, when credit is provided. The collection stage is defined by debit order, debt review, garnishee order and handing over of account, among others.

The study reveals the welfare implication of the relationship between family/households and micro-credit institutions. The implications of the consumption of cash loan, retail goods credit and informal credit for the quality of social reproduction of households were revealing. The interaction was considered within the framework of broader social structures and interacting institutions driving the different modes of consumption to facilitate social reproduction of capital, labour and the society at large.

## 1.6 Structure of the Thesis

This thesis is structured into eight chapters to cover the scope of the study, which revolves around poverty, social reproduction, micro-credit and social policy. The details of the respective chapters are as follows:

Chapter 2: *Political Economy – Choices and Consequence* is the review of literature. It contends that, the prevailing structure of the political economy of any society could be viewed as the consequences of different individuals and interests group choices, which are made at one point or another in the life of a society. The prevailing structure of socio-economic welfare is arguably the result of the dominant (with regards to the nature of power relations) interest groups and individual choices, often informed by their vested interests. Utility maximisation, capability development and social justice are some of the positions that have been argued to be most imperative to informed choice. The possibility of social choice and the imperative of information bases are discussed.

Chapter 3: *Methodology* speaks to the underlying philosophy and method that inform this study. The critical realism adaptation of grounded theory forms the philosophical backbone of this study. Case study research design was used for the selection of study sites. The selection of interviewees and method of data collection and analysis as well as field experience are covered in this chapter.

Chapter 4: *The Social, Political and Economic Contexts of South Africa* engages with the socio-economic and political specificities of South Africa. An historical approach was taken to reflect on how the history of colonialism, segregation and apartheid shaped the present character of South African political economy. The enduring nature of the consequences of this historical experience was emphasised. Racially defined poverty, unemployment and inequality stand out. The prevailing neoliberal informed macro-economic policy has not been able to forge significant social transformation after 20 years of democracy.

Chapter 5: *Micro-credit In Social Reproduction – An Overview* engages with the conception of micro-credit and an overview of micro-credit industry in South Africa. The demand, supply, types and the institutions of micro-credit were covered in this chapter to set the background for the next two chapters.

Chapter 6: *Micro-credit In Social Reproduction – Analysis and Synthesis of Data 1* deals extensively with empirical data description. The micro-credit process was described from the application, through evaluation and approval to disbursement and repayment. It shows how households interact with credit providers in the conception, provision, consumption and repayment of credit.

Chapter 7: *Micro-credit in Social Reproduction: Analysis and Synthesis of Data 2* details the social reproduction process of interviewees' households and how the consumption of micro-credit featured. It discusses the dimensions of micro-credit consumption as it emerged from the empirical data to show the nature of relationship between households and micro-credit institutions. It concludes with an explanatory model of the implications of micro-credit consumption for the interviewees' households.

Chapter 8: *Social Policy – Collective Response to Social Reproduction* discussed the imperative of collective consumption in social reproduction. The cost of individual response to the challenges of social reproduction is due to a lack of comprehensive social response mechanism. Residual and comprehensive development oriented social policy regimes are discussed with a peep at the South African context. The chapter concludes with a recap of the key arguments of the thesis.

## Chapter 2

### Political Economy – Choices and Consequences

#### 2.0 Introduction

The political economy of a country is, beyond the technicalities of production, distribution/exchange and consumption within a particular geo-political space or the globe at large. It is about individual and collective decision and/or choices and the consequences emanating there for the society at large. Therefore, the challenge of a rigorous understanding of the notion of political economy both as an abstract and concrete historical phenomenon, revolves around the basis or guide to decision and choices that are made. It relates as well to projected and/or real consequences of such choices. The explanation of the basis for economic behaviour or decision/choices has informed economic theories over the years. There is a divide as to whether economic decisions are crafted at individual or social levels. Much of economic analysis is rooted in the idea of the rational individual economic man (and woman), the so-called *homo economicus*. This thinking has remained dominant against alternative intellectual arguments that economic behaviour is embedded within social relations and historically path dependent (May, 2010; Reisman, 2007; 2004; Boyer & Saillard, 2002; Coriat & Dosi, 1998; Jessop, 1997).

Deriving from the divide noted above, is whether economic behaviour is a function of rational individual (selfish) calculation or of social norms and conventions that are rooted in selflessness and, at times, altruism. This in essence pitched the viability of a bilateral transfer, deriving from competitive exchange with unilateral transfer of social altruism (Reisman, 2004; May, 2010). Be it individually rational motivated behaviour, or socially structured or institutionalized behaviour, Reisman (2010) notes that political economy is the interaction between “economy, society and the state”. His thinking was triggered by the neoclassical work of Alfred Marshall (1890[1920]) in relation to alternative conceptions of the notion of political economy, until contemporary times. He argues that economics must move away from mono-paradigmatic to a multi-paradigmatic approach of political economy in the combination of the society, economy and the state to transcend disciplinary boundaries; what he called the “revival of political economy”.

Marshall (1890 [1920]: 1) did not make a distinction between economics and political economics when he wrote that “Political economy or economics is a study of mankind in the

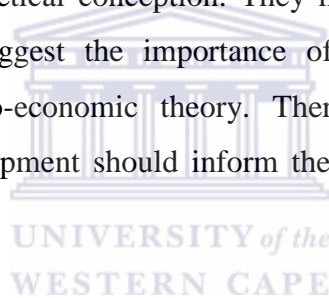
ordinary business of life; it examines that part of individual and social action, which is most closely connected with the attainment and with the use of the material requisites of well-being". For him political economy is the study of wealth and man (and woman), whose characters are best shaped by economic activities and religion, with family and friendship affections to a lesser extent. Therefore, human well-being and how it is achieved are crucial to the notion of political economy. Implicit to this, is how human well-being can best be served. Is it through competition or cooperation, selfish or unselfish action, individual rational choice or social collective choice or norms?

It is important to note that there are other traditions of political economy, before and after Marshall's neoliberal conception that is highlighted above. Marxism, institutional and evolutionary economics are worth mentioning as alternative conceptions that seem to gain currency at specific periods in the discourse of political economy. For these conceptions, the prevailing latent power structure in a society is important for the consideration of political economy (Lowenberg, 1990). However, the neoliberal conception remains dominant, even when there are arguments that its domination is waning (Hodgson, 2002; Smelser & Swedberg, 2005; Davis, 2006). It continues to retain its orthodox status, while other conceptions are referred to as heterodox approaches. Karl Marx's (1976, 1978; 1981; Heinrich, 2012) *Capital* is a critique of classical political economy, with particular emphasis on the work of David Ricardo and Adam Smith that he viewed as the key representative of that idea. Classical political economy and its neoclassical offshoot are concerned with the individual as central to economic analysis, *homo economicus*. What Schumpeter referred to as methodological individualism (1908:90 cited in Smelser & Swedberg, 2005). Broadly speaking, neoclassical economics is based on the assumptions that individual actor is rational, seeks to maximize utility, has access to free and complete information, and there is equilibrium of the system (Smelser & Swedberg, 2005; Hodgson, 2002; Lowenberg, 1990). Therefore aggregating individual informed rational action (only limited by scarce resources and taste), driven by self-interest and resulting equilibrium, is important for the nature of political economy (Lowenberg, 1990; Smelser & Swedberg, 2005).

Alternatively Marx was of the view that the nature of the social relation of production (the economy) serves as a base that determines the broader society (superstructure). He contends that the social relation of production is accountable for the evolution of society. His starting point is that there must be production and labour in order for a society to exist continuously

(Arnot, 1940; Smelser & Swedberg, 2005). Production involves co-operation, hence, labour is social rather than individual. While material interest is central, it is best expressed in the collective, what he referred to as “class interest”. The activation of “class interest” is dependent on “class consciousness”, transition from “class in itself” to “class for itself”. (Marx, 1976; Smelser & Swedberg, 2005; Heinrich, 2012). For him, social relation of production that brings together two classes in the pursuit of their class interests informs class struggle, exploitation and the evolution of society.

While Marx emphasized structure over individual action, the institutional economists are of the view that the interaction between individual and social institutions is important in the analysis of political economy. Institutions and evolution influence economic behaviour. While distinction can be made between old and new institutional economics, they converge on the ground that the reality of a socio-economic context defined by history and social institutions, should inform theoretical conception. They highlight the limitation of general theory (Hodgson, 2002), to suggest the importance of historically and geographically informed assumptions in socio-economic theory. Therefore, the nature of prevailing institutions and historical development should inform the conception of political economy (Hodgson, 2002).



“Institutions are rules, habits, and evolution” (Veblen, 1994[1919]:241, cited in Reisman, 2007). “Institutions are humanly devised constraints, both informal (customs, codes, sanctions) and formal (constitution, laws, property rights). Diffuse or politicized, they reduce uncertainty and create order in the economic sequence. Institutions are not substitutes but complements to the textbook market. They influence costs, production, profits, and the path-dependence of the incentive structure” (North, 2005[1991]:97, cited in Reisman, 2007). New Institutional Economists are of the view that human behaviour is not only informed by rational utility or wealth maximization, but “individual’s self limitations” and altruism can also inform behaviour. Subjective processing of incomplete information and perception, rather than reality, often influences individual behaviour (North, 1990, cited in Caballero & Arias, 2013). Beyond the individual, institutional and evolutionary economics speak to processes and structural changes, viewed from the interaction between structure and the individual. Therefore it is not limited to methodological individualism or collectivism (Hodgson, 2002).



There continues to be arguments in support of the prevailing expansion and dominance of the neoliberal approach to political economy (Lowenberg, 1990) and suggestion that the dominance is gradually being replaced by emerging plural approaches (Davis, 2006). The divide remains, whether analysis of the nature of political economy should commence from the subjective individual actors' motive (self-interest, which could include the good of others, driven utility maximization for neoliberal economists), or historical path-dependent and social structure constrain individual actions (social class collective for Marx and historically structured social institutions for institutional economists). The choice of starting with Alfred Marshall (via Reisman) is informed by his position as one of the early neoliberal theorist that promotes the core of subjective utility maximisations as crucial to economic analysis. He contends that Ricardo and Mill did not achieve this objective (Marshall, 1956:176, cited in Sotiropoulos, 2009). The continuity of the object of economic analysis was "corrected", but not "re-specified" (Sotiropoulos, 2009).

As indicated above, Reisman (2010) warned against the limitation of mono-paradigm in the analysis of political economy. He suggests embracing multiple paradigmatic approaches to enhance our understanding of the interaction between the society, state and the economy. The treatment of the phenomenon of political economy should therefore transcend disciplinary and paradigmatic boundaries. For him, being inquisitive with open-mind is important to the understanding of political economy, rather than arguing for paradigmatic purism and superiority.

## **2.1 Behaviour Motive – Individual or Social Choice?**

The motive and drive for behaviour has formed the core of social science theorizing. This is the same for the conception and understanding of political economy or economics. The dichotomy between individual rational motive and socially structured motive with regard to theorizing economic behaviour is perhaps suggestive of a clear boundary between individually motivated behaviour and socially conditioned behaviour. More problematic is the inherent implication that human beings can switch between the two broad motives for behaviour, when they choose. Engel and Weber (2007) argue that the human mind offers multiple elements, ranging from calculated deliberations, through habit, to affective impulse as imperative to decision-making. They suggest that institutions have a profound effect on how we decide and our decisions, with eventual influence on our behaviour. For them decision-making transcend rational calculation based on available information to derive



maximum utility, roles, routine, rules and affect could be imperative. Hence, human draws on internal (rational choice) and external resources in decision-making process.

At variant to the above thinking, Marshall's work on the principles of economics or political economy, suggests that humans are not capable of what he called 'pure ideal altruism', except rarely within small religious groups. While he is of the view that economics is concerned with human beings "of flesh and blood" (and not an abstraction), it highlights the rational calculated behaviour that weighs the advantages and disadvantages before choosing a particular line of action. This position is, however, limited on the ground that economic agents rarely have access to all information necessary for rational decision-making (Lowenberg, 1990; Tool, 2002; Reisman, 2007). Hence, economic actions are more often driven by selfish motives. While human beings could also be engaged in unselfish actions to better their families and communities, the motives are not regular enough to be predictable; therefore it cannot be scientifically established. Economics is concerned with motives that are measurable in money price terms (Marshall, 1890 [1920]: 20-37). What is not clear about Marshall's position is whether social actions, whose regularity cannot be scientifically established, should be jettisoned by social scientists as irrelevant. Therefore, actions that are not regular enough to be conceptualized in a general law become irrelevant to the disciplinary concern of economics. This should reignite the question of the meeting point between philosophy and science: Are they complementary or are they disjointed? Or is this a suggestion that other methods of scientific enquiry that are inductive and make lesser use of general laws have nothing to contribute to knowledge?

May (2010) and Henderson (2000) in reiteration of the John Ruskin's political economy highlighted his 'ethic of responsibility' as more important than economic rationality and utility maximization as the dominant explanation for economic behaviour. It emphasizes the notions of choice and consequence as important for social relations, and ethical choices are imperative to economic change. For Ruskin, the former authors note, that the analysis of political economy should include the material and non-material factors that are crucial to human economic relations. The compass of analysis of a market society should be broadened beyond the notion of the rational economic man (and woman), to include non-economic factors that provide important motive for behaviours (material and non-material). Ruskin prides 'soul' over rationality and empathy over instrumentality so that economic choices are informed by practices to achieve a just society. There is evidence to suggest collective ethical

actions and political economy should be about improved quality of life and not quantity maximization.

What the position of Ruskin, highlighted by May (2010) above, suggests is that we have to think of real people, in concrete historical terms, when we engage with the concept of political economy, much more beyond theoretical abstraction. Particularly, political economy should be conceived as embedded within social interaction, hence, we should be concerned with how our actions will affect other people around us. This brings to the fore, the fostering of ethically empathetic behaviour, where wealth is measured by the level of improvement in the social standard of living rather than individual accumulation and growth. This thinking speaks to the challenge of inequality, where economic growth does not translate into improved standard of living for the majority of people in a society. “There is no wealth but life” (Ruskin, cited in May, 2010:191 & Henderson, 2000:100) is a suggestion that the wealth of a nation must reflect communally in improved social welfare for the majority of people to be meaningful. The context and method, through which wealth is accumulated gives substance to the actuality of its existence. Therefore, not all wealth is of equal social imperative, the proceeds of crime is an example.

In a nutshell, May (2010) and Henderson (2000) highlighted that Ruskin was of the view that the market is socially embedded, therefore the dealings of political economy should be rooted in more of a concrete context (and less of abstraction) and how it breeds ethically responsible economic actors, who make ethical choices in their economic dealings. Ethically responsible social actors cannot be removed from the prevalence of just social institutions within a social system. The formation of just social institutions therefore is the sine-qua-non of the political economy, which Ruskin seeks. Rawls’ (1971) idea of justice was largely devoted to how a society can evolve just social institutions. He contends that a just society is a society that is able to develop just social institutions. For him, the prevalence of such institutions in a society has the capacity to breed just individuals.

The concept of embeddedness was at the centre of Karl Polanyi critique of free market liberalism. Using historical approach, he contends that the economy is always embedded in the society, hence, a free self-regulating market is not possible. The notion of a self-regulating market suggests a disembedded free market economy, and that the society is subordinate to the economy, is utopian and cannot be achieved (Polanyi, 2001). Disembedded

economy is not possible because the state manages fictitious commodities: money, land and labour. So the market economy might appear to be self-regulating, while, in fact, it is planned. For him, money, land and labour were not initially produced for sale in a market, therefore, they cannot be treated as real commodities (Block, 2003).

The role of the state in managing fictitious commodities in a market involves policy decisions, which may involve balancing money supply and demand, employment, and land-use, to protect farmers and sustain food supply, for example (Block, cited in Polanyi, 2001). This seems to suggest that these commodities (fictitious in Polanyi's view), can be appropriated as social policy instruments, to foster socio-economic development. It is Polanyi's (2001) view that individuals and nature must be protected from the disembodied self-regulating market by what he called "double movement". The movement (*laissez-faire* movement) to free the economy from societal structures, will often be met by counter-movement (protective movement), preventing the realization of full free market liberalism (Polanyi, 2001; Block, 2003).

In sum, Polanyi (2001) suggests that the economy is always submerged in social relations in the broader social structures of societies. The push for free self-regulating market economy by liberals in the 19<sup>th</sup> Century was not achievable as historical reviews of all forms of societies that have existed before then demonstrated (Block, 2003; Polanyi, 2001). Gemici (2008) has criticized Polanyi's notion of embeddedness of the economy, as inconsistent from his reading, that he suggests that 19<sup>th</sup> Century market economy is disembodied contrary to all forms of society before then. He argues that while the concept may be useful as a methodological (holism) perspective, it cannot at the same time explain the changing nature of the relationship between the economy and society. Firstly, the economy is seen as always embedded, and secondly, the economy was historically embedded, but disembodied in market economy (what he called gradational embeddedness).

For Block (2003), however, the seeming contradiction in Polanyi can be viewed from the perspective of his changing theoretical development. He contends that the idea of "always embedded market economy" (276), which he did not name or expatiate, could inform a better understanding of *The Great Transformation*. Contrary to Gemici's (2008) dual interpretation of 'embeddedness', Polanyi did not suggest a change in the relationship between economy and society (disembodied economy) in the market economy. Rather, he argues that

disembeddedness is impossible, to suggest an “always embedded market economy” (Block, 2003). He wrote that:

“The always embedded concept makes it very hard to gloss over or hide the state’s fundamental role in shaping actually existing economies. Because the state establishes the non-contractual bases of contract and is centrally involved in constructing the markets for the fictitious commodities of land, labour, and money, it becomes impossible to imagine how the economy would run if only the state would cease its unnecessary meddling. Moreover, Polanyi also lays the basis for understanding that tax policies, technology policies, competition policies, and trade policies are not incidentals, but fundamental to structuring how different market societies operate” (Block, 2003:300).

The seemingly hidden role of the state in the economy can easily be exposed by the notion of “always embedded market economy”. He suggests that continuous state action is important for sustained competitive market. Therefore, Polanyi’s idea of “always embedded market economy” could be important in the analysis of market societies (Block, 2003).

### ***2.1.1 Truth, Social Justice or Rational Calculation – the nature of rationality***

The virtues of truth and social justice are important and necessary qualities of individuals and social institutions for Rawls, when he wrote: “Justice is the first virtue of social institutions, as truth is of the system of thought... being the first virtues of human activities, truth and justice are uncompromising” (Rawls, 1971:3-4). For Rawls (1971), every society is obliged to develop sets of principles, to serve as guides for the process of choosing between different social organizations, to determine how the rewards and costs should be shared in any social system. Truth and social justice, Rawls contends, should form the foundation for the development of such principles within a society as they are capable of bestowing the basic institutions of a society with the tools to apportion rights and duties for an enduring society (Rawls, 1971:4). Without bothering with Rawls’ conception of how just institutions can be achieved in a society, at least for our present purpose, this thinking brings us back to the imperative of choice and consequences as inherent to the notion of political economy.

Rawls’ theory of justice, conceptually offers an alternative to the process of making choices or decision in a society, apart from the dominant utilitarianism. Utility maximization is not rooted in justice and fairness, and it has no mechanism for engaging with social inequality. It is rooted in individual rational choice (and not social choice), but conspicuously oblivious of the differences between individuals and group welfare conceptually (Rawls, 1971). The

differences between individuals highlight what Sen (1999; 2009) calls the conversion of available primary goods into capabilities by different individual; vary according to different innate and contextual characteristics. So, individuals with the same access to primary goods may achieve different result with it, depending on their innate endowment, in terms of developing their capabilities for functioning. Also contextual differences may condition different outcome, where there is a uniformity of goods and natural endowment. Therefore the conversion of resources first to capabilities, and then to functioning, varies between individuals, and utility theory is not responsive to that. It seems the assumption of rational economic man (and woman), treat rationality as a constant that is not susceptible to variation. Rationality is determined, and every man (and woman) is rational at all times and will act rationally instinctively. The conception of Marx that individuals and the social class are the personification of a particular type of rationality rooted in the logic of capitalism as a conditioning structure, is an indication that rationality is far from being determined (Heinrich, 2012, Marx, 1976, 1978, 1981).

What Sen's *Idea of Justice* did to Rawls' *Justice as Fairness* is to show that the fact that different individuals start with the same fair access to primary goods (as indicated by Rawls) is not a guarantee that their outcome will be the same. The innate and contextual differences make for the possibility of different outcomes, even when the starting point is the same in terms of resources. The South African socio-political and economic contexts defined by different starting points for different groups of people could be useful to deepening this idea, which emphasizes equality of opportunity and access (see chapter 4). For Sen (1999, 2009) therefore, the decision and choices about political economy should be focused on the promotion of individual capabilities, in order to enhance their functioning. The development of capabilities will stimulate the ability to convert available resources into an improved desired outcome (functioning). Immanent to this conception is the respect of the social context(s) within which individuals are expected to deploy their capabilities, in order to achieve the desired functioning. Context has the capacity to foster or stifle the successful deployment of capabilities to achieve the desired functioning.

The above suggests the imperative of thinking about motive for social behaviour (including economic behaviour) as much more the outcome of the interaction between agency and structures. The intention here is not to try and reconcile the theoretical quagmire of the sociological explanation of behaviour, as rooted in individual agency or social structures.

However, there is a meeting point between agents and structures; the existence of both in human society is not in dispute. What is in dispute is which one of them is predominant in accounting for human behaviour. Giddens (1984), in his structuration theory, argues that social structures and individual agents are mutually interdependent for their existence. For one to exist, the other must necessarily be present and vice versa. It is recurring patterned behaviour from individual activities that lead to the emergence of institutions on one hand; and on the other hand it is institutions that provide the boundary for individual behaviour.

If there is a meeting point between individual and social structure, then it becomes a delicate oversight to account for the basis or motive for behaviour, by taking account of one of them without acknowledging the other. Whether individuals are shaped or respond to social structures is debatable, but there is a meeting point; how we characterize this meeting point is another thing. Whether individuals respond to social structures, or they are conditioned by them, does not remove from the position that human behaviour is socially embedded. More importantly, rationality does not make a distinction between the individual and the group or social (Max Weber's conception of bureaucratic organizations as rational organisations is an example). It speaks to the logic of arriving at a specific conclusion, based on clearly considered premises. Bartley (1987:205-214) states that "rationality is action and opinion in accordance with reason". The dominant account of rationality, therefore, is rooted in justification for a particular action or opinion. Justification must be founded on rational authority based on intellectual reasoning or empiricism. However, justification limits rationality because of the difficulty of providing justification for the "standards, frameworks or way of life" appealed to in the process of justification. He proposed rationality based on non-justification, but open to criticism to make rationality unlimited.

Implicit in Bartley's (1987:205-214) classification of the theories of rationality above, is that individuals' rationality are often consummated and executed within the framework of institutional boundaries or principles (at least the dominant conception), in order to justify that a particular action is rational. In sociology it is indicative of the contested positions between reason and sense experience as a precursor to knowledge (Marshall, 1994:550). There is a broad divide between the arguments that sense experience or reason is fundamental to knowledge creation. The work of Max Weber revolves around the notion of rationality, particularly, how the character of rationality has changed between pre-modern and modern societies. What kind of rationality defines the modern society? Essentially, this is an



historical account of rationality to identify its variation in different types of society (Brubaker, 1991:1).

Brubaker (1991) noted the complexity and the multiple meanings of rationality as used in Weber's work. To add to the complexity, a bureaucratic organization is rational, whilst capitalism is a rational system and ascetic Protestantism is rational. The need to think about the balance between individual freedom and rational organisation of society, or social order is imperative. Weber was concerned about the process of rationalization in the different spheres of life, namely: economic, administration, law and religious ethics to see its effect on the depersonalization of social relations, calculation of behaviour, the prevalence of technical rationality of social and natural processes and elevation of specialized knowledge (Brubaker, 1991:2). For Weber, rationality has not been known to, without ambiguity, promote human well-being. He argues that material well-being stimulated by rationality is counteracted by its deployment to negative uses politically, socially and in human oppression. For him rationality is problematic morally and politically.

Significant for this study is Weber's classification of formal and substantive rationality. Weber conceives formal rationality as objective calculative action, directed at any substantive end. Substantive rationality on the other hand is rationality from a substantive position or end with a defined value or belief (Marshall, 1994:235-236; Brubaker, 1991:4). The contradiction between formal and substantive rationality means that what is rational is a matter of the point of view of the observer. It is only when people share the same ends and beliefs that what they presume to be rational and irrational coincide. However, Weber noted that conflicting ends and beliefs, devoid of neutral resolution, are characteristic of social life, hence, the limitation of rationality as a basis for social organisation. Objective rationality is defined with a reference to a particular objective standard and can only deal with few problems without conflict of ends and values because our social reality is filled with contrasting ends and values (Brubaker, 1991).

So, the limit of rationality for Weber is premised on the irreconcilable value differences that define the modern world at both the individual value orientation and social value spheres levels. While value orientations are subjective and differ, value spheres are objective independent areas of social activities, with different inherent structure of social action, such as political, economic and religious institutions (Brubaker, 1991). Rationality therefore, could

be morally disabling in constraining individual freedom, such as in capitalism and bureaucracy. It could otherwise be enabling, such as in extending human knowledge of our world to bestow the “ethic of responsibility” (Brubaker, 1991:7). What the work of Weber, highlighted by Brubaker above suggests, is that rational economic man (and woman) is not devoid of social embeddedness, even when it seems as such. Objective and formal rationality makes reference to particular standards that are socially agreed and subjective. Substantive rationality is defined by social location and institutional orientation.

Therefore, rational economic decision or choice, could be argued to transcend the notion of the economic man (and woman), to include rational institutions or what Weber refers to as “spheres of social activities” (Brubaker, 1991). Capitalism is a rational system and bureaucracy is a rational form of organisation for example, hence, a rational individual may, in fact, be acting within the framework of a rational institution, when we think they are acting independently. The presumed balance achieved by a political economy, from individual actions driven by self-interest in competition with other individuals, independent of every other forms and justification for social action, leaves a lot to be thought about. Social groups or the broad political economy are capable of taking rational decisions. Developing just institutions will do this for Rawls (1971), while Sen (2009) tends to support the conception of the social choice theorist, about the possibility of taking a social decision that is rational. The social choice theory suggests the how and the possibility of making rational and democratic decision or choice by a social group in a sustained standardized process, in order to avoid arbitrariness. This process should be able to cater for the interests of all members of the group.

The attempt by social choice theorists, to mathematically justify the possibility of social choice, resulted in impossibility of social choice. From the foundational work of Marquis de Condorcet (‘Condorcet Paradox’) to the contemporary engagement by Kenneth Arrow (‘Arrow’s impossibility theorem’), they demonstrated that social choice is not possible, and rational and democratic decision, where all interests are taken care of, in a social group or society is not possible (Sen, 2009). The interests of members of society cannot be simultaneously satisfied by rational and democratic social choice procedure. Sen (2009:87-113), argues that, the limitation of the conception of social choice theory, lies in the inadequate information taken into consideration in their analysis. He contends that more



information and scrutiny are important in order to foster social choice in the form of public policy, taking cognizance of social justice for social organisation and institutions.

For Sen (2009), enriched information basis will foster the possibility of rational and democratic social choice, imperative for social policy. Increasing available information for analysis will facilitate the comparison of groups or interpersonal well-being information and relative advantage information imperative for effective, rational and democratic social decision. He was of the view that through sustained public discussion and the broadening of information basis to facilitate social choice, a society is capable of enhancing social justice, rather than dwelling on the theories that suggest a state of perfect social justice, rooted in just institutions. If political economy therefore is concerned with the understanding of well-being of man and woman in day-to-day life (Giddens, 1984), it has to be concerned with choices and decisions that are made on day-to-day basis, both at individual and social levels within the contexts of competition and co-operation, driven by selfish and unselfish altruistic motives, shaped by the prevailing level of social justice and the dominant values in a society. Decision and/or choices are only one part of the scale; they are balanced out with expected and unexpected consequences or outcomes, bearing on well-being and/or ill-being.

## **2.2 Well-being as Political Economy - abstraction and contextual peculiarities**

Day-to-day life cannot easily be divided in real concrete terms between different modes of social relations and the different motives for different observed behaviours. That can only be done abstractly, with the possibility of oversimplifying social processes. Therefore, there is a possibility for multiple (conscious and unconscious, calculated and uncalculated instinctive, institutionalized normative and habitual) composite driver of behaviour. More and more, we are compelled to get down from our abstract theoretical horse, and get dirty with the concrete social contexts of the day-to-day lived realities of the particular society or social processes we seek to understand. Theory tends to trade contextual concrete complexity for abstract lucidity (Stark, 2009). Tying the strings of social actions together in systematic and logical ways in order to account for social processes is the task of social scientists, political economists or social scientists that seek to understand political economy. At times theoretical explanation seems to suggest a simplistic cutting and isolation of social processes in order to foster explanation and understanding. The understanding of the well-being of a society has to move from abstraction to contextual concrete explanation and vice-versa.

If well-being is at the core of political economy, contextual particularities become imperative. The outcome of the dominant interest group and individual choices in a particular society can only be visualized on its socio-economic and political dispensation, particularly, how this plays-out on the living standards of individuals, families or households and social groups within the society. I think there is much more to this than the money measure of utility and its aggregation (Sen, 2009; 1999; Marshall, 1890 [1920]). Marshall (1890[1920]), as suggested by dominant economic analysis, contends that anything that cannot be measured in monetary term, becomes difficult to include in the subject of political economy. It is the view here that the money measure is a narrow approach to human well-being, located at the sphere of bilateral competitive exchange, to the neglect of other forms of exchange such as; unilateral transfers, co-operative and social altruistic behaviour. The social context, within which exchange takes place, is also imperative in shaping its nature and outcome. For example, the nature of public goods, available to facilitate individual exchange transaction, could be very instructive, as is the dominant value system within a society.

The works of Rawls' (1971) "justice as fairness" and Sen's (1999; 2009) "capability approach" offer alternative theoretical accounts to the utility approach. They demonstrated that a 'just society' and 'increasing justice in a society' respectively cannot be achieved by depending on utility alone, as a guiding principle to facilitate the distribution of benefits and costs in a social co-operation, where the value of equality and mutual advantage prevails. They showed that well-being is conceptually problematic, with regard to whether it is an individual or a social phenomenon. Do we derive well-being by the direct consumption of commodities or can it come from the well-being of others for example? Or how do we measure interpersonal well-being? The Electronic Sage English dictionary defines well-being as "a contented state of being happy and healthy and prosperous". This definition is loaded with multiple meanings and interpretation, if we try to unpack it. For example how do we account for or measure the transformation of prosperity (whatever that means) or wealth into well-being?

Political economy as well-being has been taken to mean many things in the course of the development of economic science as a discipline. The conception has traverse the initial Physiocrats emphasis on nature's rules, the reduction of poverty and its effects to the ground-breaking work of Adam Smith on the wealth of nation. He took further, the conception of free trade, driven by individual self interest and sees state intervention as a disadvantage. He

posits a theory of value as a driver of human motive. Bentham espoused free enterprise and individual self interest driven action and relegate collective action. Further, the promotion of deductive reasoning by David Ricardo to the work of John Stuart Mill and Jevons that show the importance of context and the notion of social duty; human character, can influence and be influenced by the prevailing social contexts. The prevailing structure of production, distribution and consumption for example is capable of shaping the character of human (Marshall, 1971: 755-769).

While the intention here is not to give an historical account of the development of economic science, it is imperative to highlight the people, whose ideas have shaped the notion of political economy in order to be able to draw on what is referred to here as the ‘pivot idea of history’. That is, the discussion can be rotated back and forth for lucidness without linearity. This is not to suggest that history is cyclical, but a view that the rotation of history (of ideas in particular) around a phenomenon may provide clarity of understanding. Pack (2010) posits that economics is a subsection of social theory and historical by its nature. He compares the work of Aristotle, Adam Smith and Karl Marx on issues that are still relevant to our 21<sup>st</sup> Century political economy: “exchange value, money, capital; character, government and change” (Pack, 2010:xi). For him, Aristotelian political economy can be summed-up to be welfarist with regard to his claim that in chrematistic, where money is used to acquire more money, is not natural, and it has the capacity of corrupting human character. This was capped by his position that the role of the state is to develop citizens’ potentials and capacities. He maintains that the state will eventually become corrupt and rule in self interest rather than in the interest of the citizens. Only the development and maintenance of strong middle class supported by the state can bring stability (Pack, 2010).

Adam Smith, however, could be taken to be substantially laissez-faire (not dogmatically so), when he argued for the viability of a commercial or capitalist society. It is good to use money (capital) to make more money and a capitalist or chrematistic society will not corrupt people’s character as advanced by Aristotle. However, he alluded that there will be some flaws in the character created by a capitalist society between the various social actors; workers, landlords, capitalists and managers. Capitalists will be disposed to lie (not honest) and workers will have the tendency of being attracted to extreme religious groups. For Smith the state will emerge as society develops to protect the interests of the rich with property from the poor without property (Pack, 2010).

Pack (2010) sees Karl Marx's conception of political economy, as a return to Aristotle with his critique of classical political economy. He applied the four causes of Aristotle in his analysis of a capitalist society. Marx makes a clear distinction between a commercial society based on trade (and goods) as proposed by Smith and a capitalist society based on a mode of production. Using money to acquire money for Marx is only possible due to the exploitation of labour-power in a capitalist mode of production, reminiscent of Aristotle's claim that it is unnatural. The final cause of a capitalist society is profit and continuous accumulation of capital. The character of the capitalist (as mere embodiment of capital) is "brutal" to certain extent, but the capitalist mode of production degrades the character of the workers. The state, for Marx, has become an object of class struggle, it serves the interest of the dominant class, this echoes Smith's position. For Marx, political economy is concerned with social, and not natural issues because we live in a social world.

The four conception of causality by Aristotle are imperative for the understanding of political economy and it is instructive to Marx's analysis. He posits four types of causality: formal cause, material cause, efficient cause and final cause. The formal cause is the definite form, which an abstract or a concrete phenomenon takes to be able to perform its function; material cause or matter is the component of the phenomenon; efficient cause is the root or driver of change in the phenomenon; and final cause is the purpose, the goal or end for an action or a thing done or a phenomenon executed. The final cause is the most important for Aristotle (Pack, 2010:17). Marx deployed all these causes in his analysis of the political economy of a capitalist society, as such deepening Aristotle's conception of political economy. I think it provides a good heuristic tool for the analysis of social phenomena, even if it cannot provide us with all the answers. For example, it could be argued as indicated above, that the final cause of the political economy of any society is the well-being of the citizens.

### ***2.2.1 Well-being - Production, Distribution and Consumption***

Political economy has been taken to be concerned with three strands of production, distribution/exchange and consumption, which are important for the improvement of well-being of the population of a society (Reisman, 2010; Pack, 2010; Hahnel, 2002; Marx, 1973; Say, 1971:xv; Marshall, 1920 [1890]). These three strands have been approached in different ways by different theorists of political economy. For example, Adam Smith, in his analysis of political economy, emphasizes exchange as central to the functioning of a commercial

society. Alternatively, Karl Marx was more concerned with the production (capitalist mode of production) strand as the hub of understanding political economy (Pack, 2010). Marx argues that the understanding of the underlying mode of production is central to the analysis of the political economy of a society. For him, it is the mode of production that shapes all the other aspects of a capitalist society (Heinrich, 2012; Hahnel, 2002; Marx, 1981, 1978, 1976, 1973). In essence, the mode of production determines the nature of distribution and consumption. To understand the social relations of distribution/exchange and consumption, we must first understand the social relation of production as the foundation.

Pack (2010), in comparing the works of Adam Smith and Karl Marx, noted that Smith was more concerned with looking back in time to maintain that a commercial society is an improvement from the other previous types of societies. Marx in his own analysis was critical of the capitalist society (though an improvement over preceding modes of production) as not good and egalitarian; it thrives on the exploitation of one category of people for the benefit of the other. Hence, it will destroy itself because of its nature, and to be replaced by a more egalitarian society. Therefore, he looked forward for a better society, than the one in which he lived. The creation and consumption of wealth implies that, it must be distributed among the population of a society, in order to improve well-being. Different theorists therefore have accounted for the interrelationship between the three strands of political economy with regard to the improvement of the well-being of the society. Some have emphasized the growth of wealth as automatically implying the enhancement of well-being; others have concentrated on the distribution (particularly the how) of wealth. In a similar vein, is the improvement of well-being an individual endeavour or a collective endeavour?

How best can a society achieve improvement in the well-being of its people? Should each individual pursue his/her self-interest in competitive relationships as suggested by Smith and other political economists? It is argued that within this seeming disorganization of individuals pursuing their selfish interests, a type of order that will lead to general improvement in the living standard of the population will be achieved. The question that follows is how do we account for the increasing level of poverty, though the overall wealth of the society is on the rise? Or if improving the well-being of a society is a social or collective endeavour, how does a society organize the achievement of such collective goal in a democratic and just manner? How does a society deal with the question of free riders? How do we account for unselfishness and social altruism? It therefore means that there are

decisions or choices to be made by a society with the final cause of improving the well-being of its people.

The attempt to answer all these questions and understand the choices and consequences that define a society's political economy highlight the intersection between the triad of social reproduction, poverty and social policy. We will deal with them subsequently. They are directly or indirectly shaped by the nature of production, distribution/exchange and consumption prevalent in a society. In other words, the architecture of production, distribution and consumption has implication for how social reproduction is achieved within a society, the level of poverty and how a society is positioned for poverty alleviation and the characteristics of its social policy (whether it is treated as residual substitute for economic policy, otherwise referred to as market failures or as an integral part of its political economy in general and social reproduction in particular). How should a society organize its affairs with regards to production, exchange and consumption for sustained social reproduction with reduced poverty for broad improvement in the quality of the standard of living of its citizens?

### **2.3 Wealth – Social Reproduction, Poverty and Social Policy**

The consequences of the choices that a society makes with regard to production, distribution/exchange and consumption of wealth is reflected in the nature and/or quality of its social reproduction, level of poverty and its social policy architecture. This assertion brings to the fore, three important questions: What is wealth? What distinguishes ownership from the use of wealth? and what is the nature of the consumption of wealth? In order to provide answers to these questions, there is a need to consider how the consumption of wealth translates into the improvement in the level of well-being or welfare of individuals, families/households and the society at large. Sen (1999) for example, indicated at least five criteria that will affect the conversion of resources into improved welfare in the form of functioning: different personal physical characteristics; environmental peculiarities; differences in social contexts; relational disparities; and intra-family or household income distribution. His observation is an indication that the availability of wealth or resources does not necessarily translate into similar standard of living or well-being.

Marx emphasized the fundamental need for food, water, shelter and clothing by human before the consideration of other concerns such as religion, politics and science among other things (Arnot, 1940). For him, the production of these primary needs and the resulting ways



of life or day-to-day living at any point in time is fundamental to a society, its institutions and ideas. Wealth could be taken to mean the value of all net assets arrogated to an individual or a group. It should not be conflated with income. However, income can flow into assets and vice versa (Marshall, 1994). This flow could be understood in the light of Aristotle's conception of contradiction and contrary. He posits that contradiction of opposites is rigid and excludes intermediaries. Distinctive to this, contraries permits intermediaries and can change into each other (Pack, 2010). This seems an attempt to resolve the limitation of the Aristotelian binary logic, which Adesina (2002), using Yoruba ontology and epistemology, maintains that knowledge is first idiographic before it can be universal to suggest what he called 'tibi tire' logic. For him 'tibi tire' logic entails the mutual embeddedness of seeming opposites.

Is wealth determined? What constitutes wealth has been variously conceptualized as one of the imperatives of political economy. As a contrary, a clear distinction cannot be made between wealth and income as indicated above. However, classical and neo-classical political economy, as indicated above, seeks to understand or account for the production or creation, distribution or exchange and the consumption of wealth within a society. Marshall (1890 [1920]:54-62) posits that wealth are things that are desirable to human and capable of satisfying their wants directly and indirectly. Desirable things are goods (material and non material). Material goods are useable and humans can derive benefit from them. Non-material goods can be internal, that is, qualities that are inherent to the person, or external, such as beneficial social relations with other people. Goods can also be transferable and non-transferable. So to talk of wealth we must consider the stocks of material goods, which through property rights are bestowed by law and custom and exchangeable on the one hand, and non-material external goods that can facilitate the acquisition of material goods on the other hand.

The notion of wealth is a bit more complex than as suggested above. For example, should only economic goods (goods that can be personalized and measurable in money term) be included? Adam Smith and other economists are of the view that personal wealth should include individual personal endowments that can be positively deployed industrially. This speaks to Sen's notion of capabilities and Aristotle's take that the state must seek to improve the capacities of its citizens (Pack, 2010; Sen, 1999; Marshall, 1890 [1920]). How should public or collective goods (goods that we do not have to pay for in order to enjoy) be accounted for, with its variation at times between different places within the same society?

Should wealth be considered as a social or individual phenomenon? For example, the notion of national wealth includes both individual and collective wealth. The implication of law and customs in the definition of right to wealth in particular and socio-economic condition in general is also imperative.

Wealth has a close affinity to the concept of value. For Karl Marx, commodity is “the elementary form of capitalist wealth” (Marx, 1976:32; Heinrich, 2012). Therefore, wealth is commodity and it is imbued with value. The accumulation of commodity is hence, the accumulation of wealth. Marx’s displeasure with the accumulation of wealth in a capitalist society was informed by his conception that it is exploitative. For him, wealth is associated with value production and the extraction of surplus value from living labour (Marx, 1976:36). For Say (1971), wealth exist where there is a possession of things with intrinsic value. Therefore, wealth creation involves the accumulation of things of value.

Value has been variously conceptualized, such as Adam Smith’s labour conception of value to Ricardo’s notion that the cost of production, as in the labour plus capital assets expended in production, is imperative for value. Jevons, as is most neo-classical economists, is of the view that utility is central to the value of commodities. Marx makes a distinction between labour and labour-power, to argue that the amount of the latter in terms of time is imperative to value (Heinrich, 2012; Pack, 2010; Marx, 1976; Say, 1971; Marshall, 1890[1920]; Jevons, 1888;). The three distinctive positions on value are the classical economics, which emphasizes the labour time inputted into commodity production; neo-classical economics that emphasizes the utility derived from the consumption of a commodity; and Marxism that emphasizes labour-power in “socially necessary labour-time” (Marx, 1976:129; Heinrich, 2012).

The transition of value to wealth is enabled through the process of exchange. Hence wealth is derived from the exchange-value of commodities, argued Smith. Marx makes a distinction between use-value and exchange-value to suggest that the latter is a peculiar characteristic of a capitalist society. Commodities are goods planned for or have an exchange-value in addition to its use-value. Production, extraction and exchange of value, speak to the accumulation of wealth, to be destroyed in the process of its consumption, to satisfy needs and thereby facilitate well-being. However, Marx was of the view that the primary purpose of capital is self-valorization – continuous hunger to increase its own value. Needs satisfaction



therefore becomes secondary and must be in alignment with capital valorization (Say, 1971; Heinrich, 2012; Marx, 1976).

Needs satisfaction and capital valorization speak to the purpose of wealth. Perhaps what implication does wealth accumulation have for a society? Aristotle was concerned by the insatiable drive for wealth accumulation for its own sake (limitless) in chrematistics, and he dubbed it as unnatural, when money is used to make more money instead of satisfying human consumption needs. He is of the view that wealth getting is natural, when it is targeted at the maintenance of a family/household because it has limit. He is critical of retail trade, and exchange by implication in this regard. For him, wealth accumulation for the purpose of household management is respectable and essential. But its accumulation through trade is not the production of wealth; rather it is humans gaining from each other, through exchange (Pack, 2010). Aristotle is an advocate of wealth that is derived from natural activities such as farming and fishing. Wealth creation therefore should be driven by the object of promoting the welfare or well-being of households and the society at large.

If wealth is imperative to the promotion of individual and social welfare as it is suggested, then the ownership of wealth or the structure of the ownership of wealth in a society becomes imperative. Marx's contention that the production of wealth is primary to any other social process in a society and Adam Smith's emphasis on commerce and exchange as fundamental to political economy suggest certain types of wealth ownership in a society. For Marx, the control over commodity in the social relation of production, bestows wealth ownership to the capitalist class (derived from their ownership and control of the means of production), as against the working or labour class that, in a sense, whose labour-power has become part of the wealth of the capitalist class through the process of the commoditization of labour-power (Heinrich, 2012; Pack, 2010; Marx, 1976, 1973).

It seems the only wealth that the working or labour class can lay direct claim to, is labour-power in exchange for income. Marx did argue that, they only earn income adequate for their subsistence from 'necessary labour-time', because the 'surplus labour-time' is appropriated by the capitalists (Heinrich, 2012). I will contend that wealth ownership and access to wealth should be consciously separated. In essence, the ownership of wealth does not necessarily translate into its consumption on the one hand. And the non-ownership of wealth does not necessarily translate into lack of its consumption on the other hand. The probability of

consumption is arguably higher with ownership than non-ownership of wealth. The conception of political economy, seems to miss-out on all other social processes prevalent in a society that have the capacity of mediating between the ownership, non-ownership and consumption of wealth, in order to promote individual and social well-being. This gap, I will argue, partly accounts for the residual treatment of social policy.

If the consumption of wealth is totally determined by its ownership, then how do we account for unilateral transfer; such as social altruism broadly speaking? How do we account for extended family dependence that is prevalent in the African context? How do we explain 'Zakat' or 'Zakah', the third pillar of Islam that sanctioned that the wealthy should allocate a portion of their wealth to the people that deserve it such as the poor (Holy Quran, Chapter 2 verse 3, 43; Chapter 9 verse 60 & 103)? How do we account for social or public goods (what economists refer to as free goods)? How do we account for borrowing to smoothen consumption as against capital valorization? These are few instances that suggest that economic behaviour and choices are beyond the limits of production and exchange as a precursor to consumption of wealth. In essence, the distribution and consumption of wealth, is beyond strict economic relations or rationalities, to include broader social relations that dwell on the dominant values and social practices in a particular society. Some of these practices are viewed as economic irrationalities.

Sen (1981) in his conception of ownership and entitlements as imperative to the analysis of poverty and starvation indicated that ownership is a form of entitlement relation that is backed by law. For him entitlement right might be bestowed by production, trade, individual labour-power, inheritance, and transfers. He contends that relation between "ownership bundle" and "exchange entitlement mapping" define the propensity for starvation, if there is non-entitlement transfers (such as charity). While he identified social security as a form of exchange entitlement in addition to market exchange, he seems to treat it as supplementary, suggesting a residual notion of social policy. He contends that the prevailing economic system in a society, determines the structure and scope of entitlements. Those consumptions that do not fit into the logic of the prevailing economic system, he describes as complex entitlements.

The processes of production, distribution/exchange and consumption is therefore imperative to the creation, appropriation and consumption of wealth; whether seen as primarily, for the

valorization of capital as contended by Marx, or it is primarily for consumption as use-value as conceived by the neo-classical economics utilitarian approach. If we locate these processes within broader social relations (Polanyi, 2001; Block, 2003), it could be argued that other social practices that are peculiar to a society also have implications for the production, distribution and the consumption of wealth in order to foster social reproduction. It may also be limiting to place a particular order on these three processes, production can stimulate consumption and vice versa for example. Imperative for this study, as earlier indicated, is how the balancing of these processes within the broader social system impact social reproduction, poverty and social policy. We will look at these in the subsequent sub-sections below.

## **2.4 Social Reproduction**

Marx's historical materialism hinges on the argument that the production of the basic necessities of life such as food, clothing and shelter is fundamental to human societies. The form that this production takes, for him, defines historically the different forms of human societies (Arnot, 1940; Marx, 1976; Heinrich, 2012). Production, distribution/exchange and consumption are therefore fundamental to the social reproduction of a society. The way a society organizes its production, exchange/distribution and consumption, inform the prevailing standard of living and well-being of its population.

The organization of production, distribution/exchange and consumption to foster the social reproduction of a society bring to the fore, the interaction between three institutions: the family/households, the economy, and the state. The interaction between these institutions is to a large extent, informed by the nature of the relationship between wage-labour and capital, as well as how individual, productive and collective consumptions are structured by the framework of these institutions. These consumptions are imperative to the production and accumulation of capital, the reproduction of labour and labour-power in particular and the reproduction and enduring of a society (Dickinson & Russell, 1986; Picchio, 1992).

Individual consumption is the province of the maintenance and reproduction of the family/households (all social classes are engaged in a form of subsistence consumption, though the capitalist class has the privilege of the consumption of luxury goods). Productive consumption include wage fund incurred on labour-power (variable capital) and means of production (constant capital) used-up in the course of production, within economic

institution, to facilitate labour subsistence and capital production. Collective consumption is more often, but not limited to state intervention in the form of social policy or social provisioning. The analysis and the understanding of social reproduction, therefore, will be greatly enriched by engaging with the interaction between these institutions in general and the processes and mechanisms involved in particular (Heinrich, 2012; Picchio, 1992; Dickinson & Russell, 1986; Marx, 1976).

Collective consumption can take different forms peculiar to the contextual characteristics of a particular society. It has been viewed as the provision of social welfare, which include wage supplement and/or replacement in the form of social insurance and/or assistance. For Wayne (1986:56-81), it is imperative to the functioning of a capitalist society in two ways: it facilitates the social reproduction of the labour class that is useful for the survival of a capitalist society, due to the inherent inequality in the market for labour-power. It thereby fosters the extraction of surplus value and the valorisation of capital. This position is informed by a limited assumption that the problem of social reproduction of the working class is stimulated by the inappropriate distribution/exchange of wealth. This prompts intervention by the state, to mediate or direct welfare for social redistribution of wealth in order to close the shortfall of wages and what is required to facilitate social reproduction.

Zaretsky (1986) contends that the roles of the family/households and the state are complementary, and the market only serves a mediation role drawing on political rights, with space for interdependence and altruism. For him, there has been a shift away from paternalistic communal responsibility defined by charity, to individual responsibility propagated by the emerging market economy, in view of the increasing commodification of social relations. Access to social welfare services is now more defined by social justice. In essence, there is a move away from the conception of social welfare as charity, to its conception as social justice. For Bandyopadhyay (1986), the state provides public goods in order to foster social reproduction. Public goods may benefit different social collectives (capitalist and non-capitalist), and the population of the society at large.

We are aware of other conceptions of social reproduction. Bourdieu's was concerned with what he called cultural reproduction. For him, social reproduction should emphasise the reproduction of cultural practices, which may reinforce dominant social relations. We may look at this in relation to social relation of production and reproduction, to show how cultural

reproduction may perpetuate a mode of social relations. This conception, therefore, can also be indirectly linked to material relations or the consumption or wealth as fundamental to social reproduction (Tzanakis, 2011; Katz, 2001:712; Jenkins, 1992; Bourdieu & Passeron, 1990; Bourdieu, 1973).

Humphries and Rubery (1984) indicated that the theoretical analysis of social reproduction can be divided into two broad methodological approaches in their treatment of the relationship between the spheres of reproduction and production: 'absolute autonomy' and 'reductionist/functionalist'. Social reproduction is independent of production, but it is conditioned by it, as an integral part of the production system respectively. Using the institution of the family as the dominant site of social reproduction, Humphries and Rubery (1984) maintained that it is either independent of the economy or dependent on it. For them, both methods did little to show how the institution of social reproduction could affect the economy with regards to its nature and development. Though social reproduction responds to the productive system as it develops, the nature of the response should be historically understood. Social reproduction dynamics could be instructive in this regard. They propose what they called 'relative autonomy', which deploys a historical and non-functional approach, to engaging with social reproduction. The productive system therefore, only features as one of the conditioning factors of social reproduction.

Humphries and Rubery's (1984) idea is instructive for our purpose in this study, as we hinted above that other social processes that transcend the logic of the market economy, could be important for social reproduction. Particularly instructive for this study, are those institutions that occupy the interstices between the family/households, the productive economy and the state that have bearings on the nature of social reproduction, such as the micro-credit institutions. Humphries and Rubery (1984) observe that social reproduction is both independent and dependent on the sphere of production. Therefore the relationship between both is not predetermined, but can be historically understood and should not be viewed functionally. Suffice it to say it is problematic to say that one informs the other, or that one precedes the other. Therefore it will be limiting, to consider social reproduction only within the framework of wage-capital nexus in capital production and labour-power reproduction. There could be peasant production and subsistence existing simultaneously. Assets ownership, such as land, could give rental income to facilitate social reproduction.

The above speaks to Sen's (1981) mapping of ownership and exchange entitlements cited earlier. It indicates that entitlement is not limited to production relations. Individual consumption for subsistence is important for the social reproduction of family/households, but there are several methods of achieving this goal. An assault on this objective breeds poverty. The quality of social reproduction (often referred to as the standard of living) is inversely related to the notion of poverty. Poverty and social reproduction are therefore connected, and the nature of their connection speaks to the notions and/or institutions of social policy, social inequality, social justice, human development, labour market, social exclusion, social inclusion and social protection among others. The nature of these institutions in a particular society has implications for social reproduction and its mechanisms. Poverty and social policy will be considered as the core concepts, in relation to other indicated concepts that have affinity to social reproduction. More importantly, they speak to the objective of this study.

## **2.5 Poverty**

Two things are fundamental to the way, in which many analysts have, over the years, engaged with the notion of poverty: its conceptual understanding and explanation, and its measurement. The measurement of poverty, however, is largely dependent on the way it is conceptualised. Therefore, conceptual understanding and explanation of poverty is pivotal to how a society engages with poverty as a concrete social process. In essence, the conception of poverty will determine how it is measured to ascertain its prevalence and the various steps that a society might take to deal with it. However, this is not implying that these processes are determined; rather it is defined by politics of the peculiar context that is under consideration. Hence, the discourse of poverty is mixed with the politics of the prevailing socio-economic system in a society. Poverty discourse, therefore, is not devoid of the prevailing social and economic discourses and policies in a society.

Lister (2004) contends that clear distinction must be made between concepts, definitions and the measurements of poverty. She observes the tendency to conflate these three features in the treatment of poverty in the literature. Concepts of poverty speak to the general approach to poverty. It provides a broad frame of reference for the definition and measurement of poverty. Concept is the meaning of poverty to different groups (the poor and the non-poor) within a society. It involves the discourses, how people see and talk about poverty (Lister, 2004). The conception of poverty is often a reflection of competing ideologies. The powerful



groups understanding of poverty usually prevails as the dominant conception of poverty (Lister, 2004; Noble, Ratcliffe & Wright, 2004). The definitions of poverty provide the criteria for differentiating ‘the poor’ from ‘the non-poor’. It is a more specific statement about the characteristics of a condition of poverty, and what sets the poor apart from the non-poor as informed by the conception of poverty. The measurement of poverty is the operationalisation of its definitions. It facilitates the headcount and depth of poverty (Lister, 2004).

Noble et al (2004) drawing on Lister (2004) identified four broad conceptualisations of poverty: absolute, relative, capabilities and commodities and social exclusion conceptions. These different conceptions of poverty inform how poverty is defined and measured (see their full table with respective definitions and measures in Noble et al, 2004:3-4). While their table is not exhaustive, it gives a clear indication of distinctions between concepts, definition and measurement of poverty. They contend, for the measurement of poverty to be effective, it must derive from an unambiguous conceptualisation and definition. The discussion here is organised according to the framework of concepts, definition and measurement of poverty. Before delving into the discussion of concepts, definition and measurement of poverty, it is important to look at poverty as a level of well-being, as appropriated in this study.

### ***2.5.1 Poverty as a Level of Well-being***

Before discussing the various conceptions of poverty, it is important to note that poverty is conceived as a level of well-being, for the purpose of this study (see Chapter 1 and Figure 1.1). Poverty is taken as an opposing end of a continuum with prosperity. The different points on the continuum can be taken as different levels of well-being, which we described as ‘the quality of social reproduction’ in this study. We thought that the dynamics of the positioning of individuals and family/households between poverty and prosperity is better captured by the notion of the ‘quality of social reproduction’. It implies that we can talk of poverty as a particular level of well-being. It is the view here that the different conceptions of poverty speak to the definition of this level of well-being (characterised as poverty). This conception of poverty speaks to the objective of this study. It is informed by our take that individual and social well-being is central to the discourse of political economy, expressed in the structure of productive, individual and collective consumptions as indicated above.

We draw on Sen's (1997; 2008) notion of "well-being achievement" and his distinction between "income inequality" and "economic inequality" (See Chapters 1 and 4). These concepts speak to his broad conception of capability approach to poverty (Sen, 1999; see below and Chapter 4). The thrust of this idea is to highlight the limitation of the income and expenditure conceptions of poverty. There are intervening individual and social variables that could affect the conversion of income to individual and family/households' "well-being achievement" or functionings. Differences in individual advantages mean that the same level of income can be used to achieve different functionings or level of well-being. For Sen, capability, the freedom to choose from alternative functionings, is important for "well-being achievement". This idea resonates with our focus on the people living within 'poverty range' or "precarious prosperity" in this study (see Chapters 1 & 4). The different conceptions of poverty, could be argued, speak to the characteristics of the level of well-being, defined as poverty or the physical and/or social requirements to move to a higher level of well-being viewed as non-poor.

### 2.5.2 *Contested Conception of Poverty*

In view of the above, the conception, definition, and measurement of poverty have remained highly contested (Noble *et al*, 2007; Noble *et al*, 2004; Lister, 2004). This contestation has significant implications for social science research on poverty and policy evolved by different society, in order to deal with poverty. Also very important and instructive for how poverty is viewed globally and within specific societies, are the dominant socio-economic and political ideologies. The prevailing ideologies have the potential of tainting the window, through which poverty is viewed and engaged. Stark (2009) in a paper titled *Theories of Poverty/The Poverty of Theory*, emphasizes the importance of the dominant socio-economic and political ideologies, on how poverty is conceptualised and its contested conception. While she makes reference to the objective and relative deprivation (such as living on less than X amount of money a day, comparing the poor with the non-poor and with the poor in different contexts respectively) conceptions of poverty, she was more concerned about how the dominant socio-economic and political ideology shapes the conception of poverty.

Stark (2009) writing from a legal perspective, argues that the neoliberal theoretical conception of poverty became dominant after the Cold War, and alternative theoretical conceptions of poverty has been viewed as discontents with neoliberal conception. More so, the alternatives are no more visible. She highlighted the limitation of theory by drawing on



Marx's conception that "being creates consciousness", hence, the global context of the prevalence of neoliberalism has, to a large extent, removed the consciousness of alternatives to it. Because theory is a product of its context and time, the theoretical product of our neoliberal world lacks the content to deal with global poverty. She notes three fundamental liberal ideas of poverty: poverty has to do with the issues of morality, justice and utility.

The moral conception of poverty speaks less of the causes of poverty, but emphasises moral obligation founded on the compassion of the non-poor for the poor. It is limited in that it speaks to individual obligation to each other, with no obligation on the state and obligation is voluntary, not compulsory. Moral view makes a distinction between the "unfortunate" poor, that deserve the compassion of the non-poor and the "undeserving" poor, who are to blame for their poverty. The justice conception of poverty speaks to socio-economic and political injustice as the cause of poverty, hence, the poor have the right to make a claim on the state for relief. The poor are active "right-bearers" that can engage the state to claim their rights. The utility notion of poverty speaks to the improper organisation of economic institutions, which must be analysed and rectified. Social actions are informed by their tendencies to promote or stifle happiness. Therefore, the state should take steps to alleviate poverty because of its negative impact on the happiness of the poor and non-poor. These conceptions are addressed to the individual benefactors of the poor, the poor and the bearer of rights and the utilitarian state respectively (Stark, 2009).

The seemingly normalisation and the dominance of the liberal conception of poverty are reflected in the qualification of alternative views of poverty as discontented radicals and sceptics for example. Theocrats are viewed as transmitting pre-enlightenment ideas, which are bankrupt of reason and progress, and the premise and promise of enlightenment (Stark, 2009). Stark, though critical, also fell victim of this normalisation by using these words instead of making emphasis on alternative views of poverty. The context and the knowledge of a researcher could have limiting effect on the conception of poverty (Novak, 1996). This is reminiscent of the notion of "being creates consciousness" above (Stark, 2009).

The idea of poverty has travelled many phases from its initial conception as inability to afford subsistence, to the lack of basic needs and relative deprivation. The multiple conceptions of poverty are clearly highlighted in the contrasting conception of absolute poverty and relative poverty, heralding the introduction of the notion of inequality into poverty discourse.

Connected to material resources deprivation is the fact that the poor are bereft of choice in their lifestyle in terms of quality and quantity. They are compelled to live in conditions that are socially considered to be below acceptable living standards. Therefore, poverty research should be focused concretely on the ways of life of different social categories (gender, age, race, level of education and geographical location) of the poor; and feeling of deprivation should be sequel to this (Novak, 1996). There are contestations as to whether poverty analysis should be focused on the micro or macro levels of society. This is instructive with regard to viability of macro-economic indicators as the focus of analysis or micro level analysis; such as individuals and family/household, should be the focus of analysis. There is a divide between a focus on the notion of structural poverty in contrast to the culture of poverty.

These different conceptions of poverty, however, converge on two fundamental ideas of poverty; the “causes” and “outcomes” of poverty (Novak, 1996). Every conception of poverty gives a specific account of the causes of poverty and the effects of poverty on the poor in particular, and the broader society in general. Significantly, conceptions of poverty are reduced to lack of resources, whose measurement is reduced to disposable income. Most of them originated from the West, Novak (1996) contends, and are centred on individual and/or family/households’ understanding of poverty. These understandings of poverty may be problematic, when they are replicated in an attempt to understand poverty in a developing country’s context. In a developing country’s context the experiences of different groups within the society are significantly different. There is lack of adequate food supply and underdevelopment is a reality. All these contextual characteristics should inform and be given significant attention in the analysis of poverty.

The idea of the significance of taking contextual peculiarities into consideration in the analysis of poverty could be viewed as lack of two-way global communication on poverty conception, definition and measurement. When Western conceptions of poverty, informed by Western experiences of poverty, are transferred to the developing countries of the world without consideration for contextual peculiarities (and their experiences of poverty), there is bound to be lacunas in the knowledge produced due to disjunction in contextual realities and conceptual propositions. This thinking could have informed Miller’s (1996) conception of “the great chain of poverty explanations”. The varied nature of poverty both within the same context and across different contexts can be analysed with the consolidation of different conceptual approaches to poverty by deploying the framework of the “great chain of poverty

explanation”. This approach is imperative because of the diverse characteristics of the poor, the multiple causes of poverty, and the diverse forms and processes of poverty will be better served by deploying multiple conceptual approaches. Allowing and deploying multiple conceptions of poverty, have the potential to capture contextual differences “because poverty is a name for many varied situations” (Miller, 1996:583), hence, one explanation, no matter how comprehensive may be problematic. Different manifestation of poverty may need multiple conceptual views to capture. Therefore contextual peculiarities could be important to the analysis of poverty.

In Lister (2004:3) words, “there is no single concept of poverty that stands outside history and culture. It is a construct of specific societies”. Stewart et al (2007:1-35) were also vocal on the contextual imperative in the analysis of poverty. They argue that different explanations of poverty could be informed by the peculiarity of different contexts with regard to time and social space. The use of the poverty concept, developed in one context, for the analysis of poverty in another context, may fail to unpack the full extent of poverty dynamics. This is particularly significant for consideration of the contextual differences between the so-called First and Third Worlds. Therefore, contextual realities of the developing countries, should be given serious consideration, the replication of Western orientated conceptions of poverty, may not do justice to the analysis of poverty in Africa, for example.

Also important, as the contextual peculiarities, to the conception of poverty are the dimensions of poverty, whether within the same context or across contexts. The multidimensionality view of poverty suggests that the different dimensions of poverty have tendency to reinforce each other in interaction. This might be instructive to the notion of social exclusion. Income poverty for example, may lead to the dearth of social capital or drive social exclusion (White et al, 2001). Looking at poverty in Africa, White et al (2001) conclude that the experiences and nature of poverty between countries differs. The poor, even within the same country, are also differentiated; there are different groups of people that are poor for different reasons. Therefore, the conception, definition and measurement of poverty should be conversant of these dynamics within and across contexts (White et al, 2001; Blakemore & Griggs, 2007).

Amartya Sen’s and Peter Townsend’s conceptions of poverty have significant impacts on the contemporary theoretical discourse of poverty. Townsend’s work was to a large extent

informed by the United Kingdom's experiences of poverty, and was seminal to the development of the conception of 'relative deprivation' in the analysis of poverty. He subsequently applied the concept of 'relative deprivation' in the analysis of poverty to the developing countries of the world (Townsend, 1993). In essence, the concept that was developed in the analysis of the experiences of poverty in the United Kingdom was later adapted to understand poverty in the developing countries' context. Sen's analysis and conception of poverty on the other hand, was informed by the experiences of poverty in the developing world context. He contends that there is an "irreducible core of 'absolute deprivation'" in the analysis and conception of poverty. For him, the notion of 'relative deprivation' is complementary to the notion of 'absolute deprivation', not its replacement in poverty analysis (Sen, 1981:17; Lister, 2004; Noble *et al*, 2007).

Sen's conception of poverty as 'absolute deprivation' connects to his idea of poverty as the lack of capabilities to function – what a person can be and/or do. Therefore, the notions of 'capabilities' and 'functioning' are central to his analysis of poverty and standard of living (Sen, 1985; 1987a & 1987b). The 'capabilities' (such as level of education, access to health care) re-conception of poverty, ushered in a significant shift away from the income conception of poverty. It revolutionised how we view development (Stark, 2009:387). The interrelationship between poverty and development was highlighted by Mafeje (2001), when he asserts that the prevalence of poverty is a development problem, and not of poverty alleviation, hence it requires fundamental change. We will briefly discuss the different conceptions of poverty in the next sub-section.

### **2.5.3 Poverty: Concepts, Definitions and Measurements**

As indicated above, the conception of poverty is contested. It is contested because it is imperative to how poverty is measured and it defines the policy response to it. Of crucial importance to the conception of poverty, is the dominant socio-economic system in the global world in general and in specific countries in particular. The views of poverty are tainted by the prevailing socio-economic and political system in a context or society. The socio-economic and political system provides the framework for how poverty is seen, how it is defined and the policy options for dealing with it. It may be argue that an objective research study is capable of revealing the reality of poverty. However, "being creates consciousness" (Stark, 2009) as Marx argues. Therefore, contextual characteristics, such as prevailing socio-

economic and political systems, can define the scope of research due to its impact on the consciousness of the researcher.

As earlier indicated, the liberal notions of poverty are dominant in the analysis of poverty, informed by the global dominance of neoliberal socio-economic and political system. Alternative views have often been classified as dissenting, and to a large extent, offering what is not practical in an enlightened rational world. As Stark (2009) indicated, the liberal view of poverty could be categorised into issues of morality, justice and utility. It is imperative to engage with the details of different conceptions of poverty to make sense of any form of classification that we might deem necessary to take its analysis further. Pioneered by Charles Booth and Seebohm Rowntree's research report on poverty (Townsend, 2009a; Gordon, 2003), various concepts were developed in the evolution of the study of poverty, as it remains a significant pigment of our world. The notions of threat to subsistence, lack of basic needs, absolute deprivation, relative deprivation, structural poverty, culture of poverty and lack of capabilities to function are some of the major conceptions of poverty.

According to Baulch (1996) and Lister (2004), the different conceptions of poverty can be categorised as placing emphasis on either material or relational/symbolic variables, or the mixture of both. Baulch (1996:2) captured the range of poverty concepts in literature with a schema, "a pyramid of poverty concepts". The pyramid depicts how the conception of poverty range from the consideration of private consumption (PC) only to common property resources (CPR), and state provided commodities (SPC). Broader conception of poverty includes the possession of human and physical capital assets, human dignity and freedom. Lister (2004:8) replaced the "pyramid of poverty concepts" with "Material and non-material wheel of poverty", in order to remove the implied sense of hierarchy, that a pyramid projects. A wheel shows interdependence and equality between the material and non-material (relational/symbolic) aspects of poverty. The hub of the wheel depicts the material core and the rim represents the relational/symbolic poverty. The material core and the relational/symbolic poverty are the product of the social structure.

The discussion will be focused on absolute poverty, relative poverty, capabilities and commodities poverty and social exclusion approach to poverty. Noble et al (2004) noted that the four identified concepts and their classifications are not exhaustive and mutually exclusive respectively. Also, the distinction between the conception and the definition of

poverty is not clear-cut. A look at Noble et al (2004) and Lister (2004) distinctions between concepts and definition reflect the complexity. For example, Noble et al (2004) treat absolute and relative poverty as concepts, while Lister (2004) captured the same as definitions. Lister (2004) is of the view that the definitions of poverty are differentiated by whether they are narrowly focused on the material core or they include the relational/symbolic conceptions of poverty. She observed that other differences in the definition of poverty are, whether they depend on material resources (such as income), actual living standards or capabilities conceptualisation of poverty.

#### **2.5.4 Absolute Poverty**

The notion of absolute poverty is the determination of poverty without a reference group. It is at times referred to as objective conception of poverty because it can be applied across time and different societies (Noble et al, 2004). This conception of poverty finds expression in the treatment of poverty as a threat to subsistence and the inability to meet human basic needs.

##### *2.5.4.1 Poverty as Threat to Subsistence*

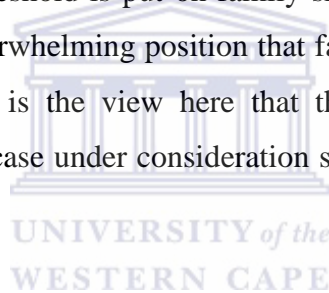
The idea of poverty as a threat to subsistence is rooted in the income approach to poverty. It speaks to the amount of income that is necessary for subsistence in a particular society. Subsistence refers to the minimum requirement to maintain the physical functioning of the human body, in terms of food or nutritional calories (Townsend, 1987, 1993; Gordon, 2002). This conception of poverty is credited to the 1918 Rowntree pioneering poverty research and was deemed to have informed Britain's Beveridge Report of the early 1940s. It involves costing a minimum food basket needed for subsistence consumption with a little margin for inefficient spending behaviour to inform the rate of welfare assistance. It is seen as an emergency approach and incapable of reducing poverty. It has, however, come to define social security policies in several contexts across the globe (Gordon, 2002).

The subsistence conception has informed some development plans in some developing countries and has been used to defend low wages and social security rates. Families/households are deemed to be poor, when their income cannot afford the minimum food (caloric intake) required for its members to function physically. The income of a poor family/household minus rent will fall below the poverty line. This conception of poverty has been criticised on the grounds that it is oblivious of human social needs by considering only physical needs such as food, clothes and shelter. It misses the point that needs are to a large



extent informed by social relationships (Townsend, 1987, 1993). This conception of poverty is fundamental to the notion of the poverty line, and what some have referred to as objective poverty. The poor seem to have little or no say in what constitutes adequate income requirement. This is a conception of poverty that seems to suggest that ‘man should live by food alone’, an inversion of the biblical teaching that “Man shall not live by bread alone” (Mathew 4:4). If we agree that humans are social beings, then this conception of poverty is limiting or overlooks significant parts of the human ‘being’. Note also that different dimensions of poverty may reinforce each other (White et al. 2001).

We could make a case for the application of this conception and measurement of poverty as capable of undermining the dignity and autonomy of the poor (White et al. 2001; Reisman, 2001). We have seen instances, where the government and the ruling elite stipulate what the family size should be, and the amount that is needed for subsistence (Townsend, 1987). In extreme situations, a specific threshold is put on family size as a condition to access social security benefits. There is an overwhelming position that family size is capable of deepening poverty (White et al. 2001). It is the view here that this assertion is problematic. The contextual characteristics of the case under consideration should speak to this to avoid over-generalisation.



#### *2.5.4.2 Poverty as inability to meet basic needs*

Basic needs conception of poverty became prevalent in the 1970s. It is a combination of the subsistence idea of poverty and social provisioning of essential services at a societal level. It is also the broadening of subsistence conception of poverty to focus on the need requirement at a community level for physical survival. It transcends individual or family subsistence needs (Townsend, 1993). Basic needs is composed of two elements: what a family/household needs for private consumption in terms of food, clothing and shelter with the necessary household furniture to make the shelter habitable; and essential services such as education, health, tap water etc, that are provided at a community level. Basic needs approach speaks to the socio-economic development of a society. It elevates the dignity of the poor, through social provisions unlike the subsistence approach (Townsend, 1987).

Basic needs conception of poverty dwells on individual entitlements to social provisioning in addition to food and shelter, it has been criticised on the ground that the determination of the social needs of a society is problematic. Social needs cannot be taken as the aggregation of

individual needs in a society. Social provision of infrastructures and services may be limiting and leaves out significant parts of human needs. This approach also fails to capture the level of disparity in the experiences of poverty between different social groups, and different individual experience, such as the disabled, children and the old people, cannot benefit from social provisioning at the same level. “Different groups are poor for different reasons and will require different interventions” (White et al, 2001:xvii). In essence, social provision of essential amenities and services will have different impacts on different groups of people within a society. The implication of this is that some categories of people or groups might not be able to tap into the benefits of social services and infrastructure; hence, their situation will not be impacted positively. The rate of inequality, therefore, might not be reduced by the provision of social services and infrastructure (Townsend, 1987).

Donkor (2002) argues, however, that basic needs approach to poverty is imperative for low and middle income developing countries. Drawing on the Ghanaian context, he maintained that basic needs indicators are particularly useful, where the informal sector forms substantial part of the economy; hence, the national accounting system may not capture the full picture of the economy. In addition to this, he argues that the extended family system and social cohesive relation (I will say social altruism), may cloud the effects of inequality in the distribution of wealth, and therefore, undermine poverty analysis based on it. Poverty analysis in a developing country context should therefore, not be limited to private consumption (in the form of goods and services provided by the market), social or public consumption in the form of basic needs amenities and services must be included.

#### *2.5.4.3 Defining and Measuring Absolute Poverty*

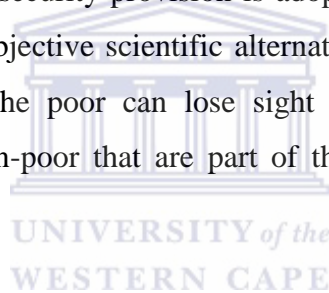
Noble et al (2004) make reference to “Rowntree primary poverty”, Copenhagen absolute poverty declaration and poverty lines as examples of definitions of poverty deriving from the absolute conception of poverty. The 1995 Copenhagen World Summit for Social Development and the United Nations Organisation (UNO) defines ‘absolute’ poverty as:

“A condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services” (cited in Gordon, 2002:59; Noble et al, 2007; 2004).



Absolute poverty has been taken to mean; identifying poverty lines as cut-offs to determine those, who are poor and not poor. Individuals and households, whose income falls below the line, are deemed poor. The absolute line measure of poverty could be problematic because the poor are less involved in its determination. Therefore, this measure cannot claim complete objectivity, and it is problematic for those living just above the poverty line (Blakemore & Griggs, 2007). The conception of transitory poverty, even, makes poverty lines problematic in identifying the poor.

The measure of absolute poverty could also be arbitrary because of the lack of clarity, of whose interest the lines are fixed, the poor or different interest groups within and outside the state. Depending on which interest prevails, there is a possibility of setting the minimum income and the poverty line very low, thereby underestimate the level of poverty and possibly reduce the social security budget. This is particularly problematic, where the means-test targeting approach to social security provision is adopted. Absolute poverty conception therefore, does not provide an objective scientific alternative to relative poverty as is often claimed. Its distinct focus on the poor can lose sight of inequality; the poor must be considered in relation to the non-poor that are part of the same social context or society (Blakemore & Griggs, 2007).



### Poverty Line

The notion of poverty line remains dominant in the analysis (conception and measurement) of poverty. It is founded on the economic theory of utility; satisfaction derived from the consumption of commodities, as driver of consumption behaviour. This conception has been adopted by international agencies, such as the World Bank (Townsend, 1993). Ravallion (1998:3) defines the poverty line as:

“the monetary cost to a given person, at a given place and time, of a reference level of welfare. People who do not attain that level of welfare are deemed poor, and those who do are not... a point on the consumer’s expenditure function, given the minimum cost to a household of attaining a given level of utility at the prevailing prices and for given household characteristics”.

It implies that poverty of utility can be measured in monetary terms. However, there is the problem of what the reference utility is and identification of the consumer cost function, due to individual differences, household characteristics and composition. Poverty lines can be

measured objectively (requirement for achieving basic capabilities) and subjectively (people's perception of their own well-being requirements) and it can be absolute or relative in its conception of poverty (Ravallion, 1998).

The World Bank's conception of poverty as "the inability to attain a minimum standard of living" is operationalised by setting a universal poverty line founded on household consumption defined by:

"...two elements: the expenditure necessary to buy a minimum standard of nutrition and other basic necessities and a further amount that varies from country to country, reflecting the cost of participating in the everyday life of society" (World Bank, 1990, cited in Gordon, 2002).

The World Bank poverty line was described by Allen (2013) as canonical "dollar a day" line. It was initially set at \$1 a day in 1985 prices. It was subsequently adjusted to \$1.08 a day in 1993 prices and further to \$1.25 a day in 2005 prices (Allen, 2013). The line does not refer to any subsistence basket, but was statistically computed using the correlation between national poverty lines and per capita GDP. It is adjusted for purchasing power parity and inflation to take care of different country exchange rates and time. Chronic poverty (extreme poverty) line is currently set at \$1.25 a day and moderate poverty (mild poverty) line at \$2.50 a day (Bigman, 2011; Allen, 2013).

This treatment of poverty remains prevalent across the world, though it has been criticised as unable to capture poverty dynamics. For example, it cannot capture the difference between transitory and chronic poverty (Kumar, 2002). It is also limited by the idea of commodity without consideration for the capability to transform commodity into functioning (Blakemore and Griggs, 2007). What is achieved with available commodities is important for the treatment of poverty as a question of development. In most cases, it limits the discourse of poverty to material needs and to the neglect of social needs. The subsequent inclusion of social needs in the World Bank definition was not effected in the measurement of poverty in the following years. Needs are often not reworked based on the changing norms of consumption, but only calibrated with the consumer price index, which leaves room for under-estimation (Townsend, 2009b).

Townsend (2009b) contends that the World Bank might have underestimated international poverty, using the international poverty line it set in view of the above limitations. As such, all anti-poverty policies have failed to reduce global poverty, which continues to rise. He suggests social security, enabled by the growing human rights guaranty, as the feasible route to alleviate global poverty. This position is however, limited by the seeming conflation of social security for social policy. Social security and social protection are narrower and limited compared to a comprehensive social policy regime. They are at best temporary measures to deal with poverty. Comprehensive social policy regime remains a permanent and long run treatment of poverty, if viewed as an assault to human development. Therefore, social security should not be traded for social policy (Adesina, 2011).

### **2.5.5 *Relative Poverty***

The relative conception of poverty is, when reference is made to an acceptable living standard of a reference group, in the consideration of poverty within a society. It also speaks to the minimum resources requirement to participate in normal social activities of a society, to which a person belongs (Nobel et al, 2004). Relative poverty, therefore, includes comparison with others in a society and comparison with historical conditions of individuals themselves or their society, what (Townsend, 1979:40) described as “relative with others and relative with past”. This conception of poverty could be viewed, as a response to the limitations of absolute conception of poverty.

#### **2.5.5.1 *Poverty as Relative Deprivation***

The gap in the subsistence and basic needs approach to the conception of poverty motivated Townsend (1993, 1987) to develop the relative deprivation conception of poverty. Subsistence and basic needs approach to poverty are limiting in the sense that, they limit the conception of poverty to lack of adequate income to cover individual and collective goods for consumption. These conceptions of poverty, suggest that the growth of national wealth, economic growth, is what is needed to take care of poverty. This must be complemented by the provision of social amenities and services (health, education, clean drinking water, etc) (Townsend 1993).

Conceiving of poverty as relative deprivation provides an alternative to the subsistence and basic needs approaches. It suggests that the conception of poverty must emphasise the social nature of human beings. Therefore, the conception of poverty must highlight the current

social conditions, rights and obligations, customs and practices of a particular social context, beyond an historical absolute standard (Townsend, 1987). He argues that:

“People are relatively deprived if they cannot obtain, at all or sufficiently, the conditions of life, that is, the diets, amenities, standards and services, which allow them to play the roles, participate in the relationships and follow the customs which are expected of them by virtue of their membership of society. If they lack or are denied resources to obtain access to these conditions of life and so fulfil membership of society, they are in poverty” (Townsend, 1987:37).

The conception of relative poverty, therefore, emphasises the deprivation of the resources that will enable an individual or family to live socially acceptable standard of life, as defined by their society or social context.

#### 2.5.5.2 *Defining and Measuring Relative Poverty*

Townsend (1979:31) defined poverty as such:

“Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions which are customary, or at least widely encouraged or approved, in societies to which they belong. Their resources are so seriously below those commanded by the average family or individual that they are in effect excluded from ordinary living patterns, customs and activities”.

What is taken as poverty, therefore, could vary with regards to socio-geographical space and time. Deprivation can happen in all spheres of life, depending on the level of resources that is available to a person. Hence, there is a relationship between poverty or lack of access to resources and social institutional arrangements. The conception of poverty, therefore, should be located temporally vis-à-vis social institutional arrangements and preferences. It is limiting to reduce it to inadequate disposable income. Relating it to social institutional structures, reveals the distinction between poverty and inequality, which subsistence and basic needs approaches may hide (Townsend, 1993). Apart from the lack of resources for subsistence and basic needs, poverty could mean the loss of dignity, social isolation and uneven distribution of infrastructure in a society, could constitute poverty or are reflections of poverty.

What this conception of poverty suggests, is that there is an interaction between available resources (income and other forms of resources and basic needs, social infrastructure and

services) and social institutional structures in a society. The participation of individuals in the social structures of society may be informed by their access to resources. Therefore, a rigorous engagement with poverty, should take this broad approach to the understanding of poverty. It emphasises the social nature of human beings, and the connection between social needs and physical needs. It could be argued that humans and their needs are embedded within and driven to some extent by social structures. This conception of poverty as relative deprivation by Townsend is a sociological treatment of poverty. This is because it speaks to people's inability to participate in social activities that are socially deemed normal in their society. He contends that the objective definition and measure of poverty, is a deprivation of what a society deemed as normal social activities (Blakemore & Griggs, 2007).

Though Townsend developed a "deprivation index" (Townsend, 1979:250), he measured poverty with a combination of "Deprivation Index" and household income. This shows that, the relative deprivation conception of poverty is much more the broadening of the analysis of poverty beyond the limitations of income and basic needs. The "Deprivation Index" is designed to cover the different spheres of life and a list of sixty different indicators to capture the "style of living" of a society. It is designed to compare the participation in customary activities and amenities and the level of income and other resources distribution (Townsend, 1979). Socially perceived necessities survey and income and expenditure surveys are other methods of measuring relative deprivation (Noble et al, 2004). It has been criticised that it may identify people with low income and inequality rather than poverty (Blakemore & Griggs, 2007; Noble et al, 2004).

### **2.5.6 Capabilities Poverty**

This is the conception of poverty in terms of human capabilities and commodities. This conception of poverty seems to combine the absolute and relative notions of poverty. Noble et al (2004), drawing on the works of Amartya Sen, observed that, while capability is absolute, commodities and resources are relative in this conception of poverty. Capabilities such as health, shelter and nutrition are definable in absolute terms. The commodities, resources or income required to achieve them are relative to individual, social and environmental characteristics (Noble et al, 2004). This is what Sen (1999) refers to, as differences in advantages or conversion factors, important in the conversion of commodities or income into functionings.

### *2.5.6.1 Lack of Capabilities to Function as Poverty*

The Capability Approach to poverty is an audacious conception of poverty that moves away from the limitation of income conception of poverty. It offers an alternative explanation to well-being and 'advantage' beyond 'opulence' (real income estimate) and utility (satisfaction derived from the consumption of a commodity) at the core of neo-classical economics. Sen (1985; 1999; 2009) makes a distinction between well-being and advantage as achievements and opportunities respectively. The opportunities that a person has is not measured by the achieved result, hence it does not automatically translate into well-being. The real achievement in view of available advantage is a person's well-being. In other words, 'advantage' is opportunities and well-being is achievement.

Commodities are consumed based on the characteristics they possess. However, the characteristic of a commodity says little about what a person achieves with it. Therefore, well-being cannot be reduced to the features of the goods or commodities in an individual's possession, but what the person is able to achieve with them, 'functioning'. Functioning is a person's achievement; it is what a person does or be. There is a close affinity between functioning and well-being. Personal and social factors are imperative to the conversion of commodity characteristics to achievement or functioning. These personal and social factors; such as individual endowment, level of education, access to health care, gives an individual the power to choose from alternative functioning bundle, which reflects a person's 'capabilities' (Sen, 1985; 1999; 2009).

Therefore, the command over commodities plus the capability to convert their characteristics to a particular functioning defines well-being. It speaks to the nature of life a person lives or can live. Capability therefore, is the intermediating capacity in the process of conversion of commodities to functioning. Capability gives the freedom to choose the type of lives (functioning) that a person wants to live or can live. Therefore, functioning is achievement, while capability is the capacity to achieve (Blakemore & Griggs, 2007).

### *2.5.6.2 Defining and Measuring Capabilities Poverty*

Poverty is therefore, defined from the capability conception as "the denial of choices and opportunities for a tolerable life" (UNDP 1997, cited in Gordon, 2002). This conception of poverty heralds a significant shift away from other conceptions and treatment of poverty. It is

instructive to the expansion of the United Nations Development Programmes (UNDP) re-conception of poverty as a problem of human development (Gordon, 2002).

Poverty, in the capabilities conception, is defined as “the failure of basic capabilities to reach certain minimally acceptable levels” (Sen, 1992, cited in Lister, 2004:16). While Sen is modest in his reference to basic capabilities, Nussbaum (2003; 2011) is of the view that content must be given to capabilities. This she did through her development of a “central capabilities list”. For her, the preservation of “a life that is worthy of human dignity, should inform the definition of poverty.”

The UNDP developed the Human Development Index (HDI) to measure poverty. HDI is a composite index that combines the life expectancy at birth, level of education and standard of living in real per capita income of the population to determine the level of human development. The concept of ‘human poverty’ was added in 1997, drawing on the capability conception of poverty. This was expressed with the development of the Human Poverty Index (HPI), to focus on the deprived groups rather than the national average measured by HDI. The HPI’s five indicators are: expected death rate before 40 years, adult literacy, access to health care, access to safe water, and malnutrition of children below 5 years (Gordon, 2002).

Sen’s capability approach unveils the nature of commodities with regards to what people achieve with its possession as more important. Commodity possession does not automatically translate into improved well-being; there is an intermediation of capability. Therefore, the capability approach reveals the nature of well-being and the limitation of the income conception of poverty. To a large extent, it added sociological perspectives to the economic understanding of poverty (Blakemore & Griggs, 2007).

### ***2.5.7 Poverty as Social Exclusion***

Social exclusion is the broadening of the conception of poverty to include capability to function as members of a society. It speaks to full participation in the normal activities of a society (Noble et al, 2004). The conception of social exclusion has to do with the relational aspect of deprivation, which suggests the lack of integration or participation of individuals or groups in the normal activities of the society, to which they belong (Sen, 2000; O’Reilly, 2005; Abrams & Christian, 2007; Millar, 2007). This conception of social exclusion has close affinity with the notion of relative poverty (Townsend, 1779; 1987). Social exclusion in this

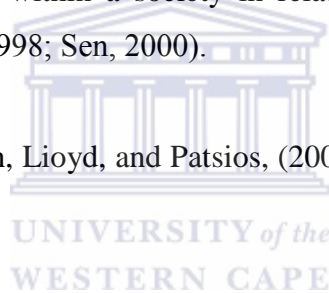


sense is considered in relation to the average level of social integration and participation that is normal to a particular society. Viewed within the framework of social relation, social exclusion could be instrumental or constitutive deprivation (See Sen, 2000).

#### *2.5.7.1 Defining and Measuring Social Exclusion*

The European Foundation (1995, cited in De Haan, 1998:10) defines social exclusion as, “the process through which individuals or groups are wholly or partially excluded from full participation in the society within which they live”. The Social Exclusion Unit (2001, cited in O’Reilly, 2005) sees social exclusion as “a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environment, bad health and family breakdown”. Social exclusion is a multidimensional concept because exclusion could manifest in different forms. Therefore, its nature can be captured by multiple indicators on the quality of life of different individuals and groups within a society in relation to average standard. (Millar, 2007; de Haan, O’Reilly, 2005; 1998; Sen, 2000).

Levitas, Pantazis, Fahmy, Gordon, Lloyd, and Patsios, (2007:9) definition of social exclusion is more comprehensive.



“Social exclusion is a complex and multi-dimensional process. It involves the lack or denial of resources, rights, goods and services, and the inability to participate in the normal relationships and activities, available to the majority of people in a society, whether in economic, social, cultural or political arenas. It affects both the quality of life of individuals and the equity and cohesion of society as a whole”.

The multiple dimensions of social exclusion is reflected by this definition, as it is set out in the Bristol Social Exclusion Matrix (B-SEM) to capture resources, participation and quality of life. It also reflects the “material and non-material wheel of poverty”, as conceived by Lister (2000:8), by combining the material core and the relational/symbolic rim aspects of poverty.

Sen (2000) distinguishes active and passive social exclusion. The former speaks to when social exclusion is propagated by active policies and/or practices directed at a category of people. The latter could result from unintended consequences of policies and/or practices. Silver (1994, cited in de Haan, 1998) contends the different definitions of social exclusion

derive from three paradigms: solidarity, specialisation and monopoly. Social exclusion could therefore, result from the lack of social solidarity or integration, over-emphasis on individual liberty and social mobility, and the monopoly of resources by powerful groups within a society respectively (O'Reilly, 2005).

In a similar vein, Levitas (2005) highlighted three discourses of social exclusion: redistribution discourse (RED), social integration discourse (SID), and Moral underclass discourse (MUD). With RED social exclusion is argued to be caused by the lack of access to resources. Material poverty could therefore, trigger social exclusion. Social inequality in this case triggers social exclusion, which can be ameliorated with the redistribution of resources. SID is the view that social exclusion is caused by exclusion from the labour market. Therefore social exclusion can be dealt with by reintegrating people into the labour market. According to the MUD conception, social exclusion is the fault of the socially excluded due to their cultural deviation from the mainstream culture of a society (Levitas, 2005; O'Reilly, 2005).

The key question is what does the notion of social exclusion offer to the discourse of poverty. The dominant voice is that it complements poverty discourse. It is not an alternative explanation of deprivation; rather, it enriches our understanding (Sen, 2000; de Haan, 1998; 2001). De Haan (1998) argues that it highlights the interaction between structure and agency as important to thinking about deprivation. Sen (2000) sees it as an element of capability approach to poverty constitutively and instrumentally. Constitutive in its inherent capability deprivation, and it could be instrumental by causing capability deficit.

### ***2.5.8 Other Conceptions of Poverty***

There are other conceptions of poverty, which speak to the temporal nature of poverty. We can also speak of the characteristic of poverty and the poor. Poverty can be chronic or transitory, we can distinguish between the poor and the destitute, and we can speak of the dependent poor and the economically active poor.

#### ***Chronic Poverty***

Chronic poverty can be viewed as a situation, where a person's or family's capability deprivation is perpetuated for a sustained period of time, up to or over five years (Hulme & Shepherd, 2003). It describes a situation, where a person is poor for a significant part of

his/her life, which can be passed to the next generation. It is best measured with the multidimensional approach to poverty because income and consumption are prone to fluctuations in a short period of time. It is best conceived at the individual level but data are usually available at the household level. It is often measured using the absolute conception of poverty, though it can also be assessed in relative terms (Hulme & Shepherd, 2003). The chronic poor are more prone to remain poor, if they do not get external assistance, and they are more challenging to help (Aliber, 2003).

Chronic poverty has the potential of resulting in a *poverty trap*, a notion that suggests irreversibility of the poverty. When people become poor, they are unable to get out of poverty because they lack the resources (physical, human and social capital) to do so (White et al, 2001). The chronic poor are referred to as *always poor*, when they are below the poverty line at all times, and *usually poor*, when they are on average below the poverty line, but are not poor at all times (Martins, 2007).

#### Transitory Poverty

Transitory poor refers to the vulnerable, who move back and forth between being poor and non-poor. The *fluctuating poor* are poor people, whose average poverty is around the poverty line. They are poor some times and not poor at other times. The *occasionally poor* are poor at least in a period, though their average income is above the poverty line (Martins, 2007; Hulme & Shepherd, 2003). There are further classifications that are connected to the notions of chronic and transitory poverty. We can make a distinction between the *poor* and *destitute*. The *poor* function at a low level because of their meagre capacity and resources. Elderly and disabled people, who are mostly dependent without any form of assets and capacity, can be categorised as destitute, which can feed the chronically poor conception (White et al, 2001). This is often common in a context, where there are no social security transfers, and these categories of people have to depend on their family for survival.

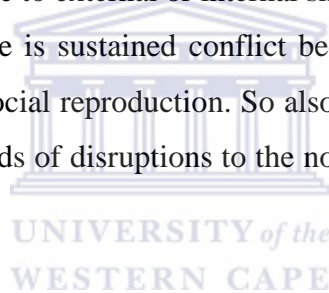
#### Economically Active and Dependent Poor

We can also make a distinction between the *economically active* and *dependent poor*. The *economically active poor* are described as the *working poor* in some instances. They are vulnerable to poverty, if there is any form of disruption to their normal course of life, such as sickness, fall victim of theft or robbery. Or they are exposed to structural and natural shock such as drought, conflict and economic recession. These conditions might limit their access to

market, which may be aggravated by the lack of assets and social services (White et al, 2001). Very low income can also push people to the margin of the economy, and vulnerable to poverty. The case of subcontracted workers is instructive to this in the South African context (Omomowo, 2011). The economically active poor are more likely to be transitorily poor, moving in and out of poverty. The *dependent poor* are those that are out of economic activity and lack assets to get out of poverty. They are therefore, dependent on their families and/or social security transfers (where they are available) for survival. The disabled, elderly, the sick and even children can find themselves in this situation. They are more likely to experience poverty or chronic poverty (White et al, 2001).

### Catastrophic Poverty

Poverty can result from disruption to the normal ways of life, if there are outbreaks of catastrophes; such as conflict, famine and diseases among others (White et al, 2001). This dimension of poverty could be due to external or internal shock. The question of development becomes an albatross, when there is sustained conflict because it will disrupt all economic and social activities targeted at social reproduction. So also, is the incidence of famine or the outbreak of epidemics. These kinds of disruptions to the normal order of life could propagate poverty.



### Culture and structure of Poverty

The conceptions of the culture versus the structure of poverty are contrasting views, to blame the victims of poverty for their poverty or to blame other macro-economic socio-structural issues, such as unemployment for the prevalence of poverty. These conceptions of the causes of poverty are closely associated with the notions of the non-deserving and deserving poor. *Culture of poverty* suggests that poverty is caused by deficiencies in the personal behaviour of the poor. *Structure of poverty* on the other hand, emphasise social structures as conditioning poverty (Miller, 1996).

Deserving and undeserving poor is rooted in the 1600s Poor Laws in England. Different governments in different countries have latched on this idea in different modes to justify targeting of the so-called deserving poor with social security benefits and excluding the undeserving poor, which are often rooted in economic ideology and politics, rather than scientific justification. Rowntree's study, for example, reveals that poverty is a condition that can affect honest hard-working families, and should not be viewed as a peculiar condition of

the lazy and the weak and the decadent (Everatt, 2008). Undeserving poor are viewed as ‘dependent’ and relying on state ‘handouts’, and lacking the decency to tap into the rewards of economic growth. Welfare is viewed as creating dependency in this regard. Policies are often structured to stop dependencies rather than deal with the root causes of poverty (Everatt, 2008).

The origin of the concept of the *culture of poverty* is credited to the Oscar Lewis’ study of the poor in Mexico and later Puerto Rico. He posits that the sustained poverty of a group over generations, leads to the development of poverty sub-culture that is at variance to the culture of the broader society (Lewis, 1966). Perhaps, the notion of the ‘culture of poverty’ seems to conflate the characteristics and causes of poverty. Miller (1996) noted the tendency for poverty explanation to misread the features of the poor as its causes. The same question can be posed to the case of poverty and social exclusion. Are people poor because they are socially excluded or they are socially excluded because they are poor? The conception of poverty as relative deprivation, for example, will argue that the poor are socially excluded because they are poor. The notion of culture of poverty may have it otherwise. Which one precedes the other? Is it poverty that precedes the culture of poverty or it is culture of poverty that precedes poverty? The notion of the non-deserving poor highlighted above is rooted in the latter.

The idea of the culture of poverty is fundamental to the idea of the “underclass”, which gained currency in the United States of America (USA) in the 1980s. The argument for the creation and/or the existence of the “underclass” is rooted in two contrasting explanation of structural and behavioural causes and characteristics of the phenomenon. For example, while Murray (1996) emphasises behavioural (cultural) causes and characteristic, Wilson (1987) alludes to Structural cause, especially the changing socio-economic structure of the labour market. However, both positions seem to converge on the ground that the creation and the existence of a group of people with deviant culture (in a negative way) from the dominant culture of a society is a reality. In the final analysis, they contend that a culture of dependency is the result. This has, at times, been the basis for arguing against welfare provision.

Jencks (1996) observes that there is no empirical justification to the claim that welfare provisions create dependency. Also, there is no adequate evidence to confirm that welfare

receipt is worse than other options available to beneficiaries. For him, class analysis, which assumes the homogeneity of a group, could obscure reality. The same person could be categorised into different classes, depending on the issue under consideration. Murray (1996) argues that “underclass” is a type of poverty characterised by illegitimacy (which he describes as having children out of marriage, especially single mothers), violent crime and unemployment. For him, these three conditions defines the “underclass”, when he wrote: “If illegitimate births are the leading indicator of underclass and violent crime a proxy measure of its development, the definitive proof that an underclass has arrived is that large numbers of young, healthy, low income males choose not to take jobs” (Murray, 1996:38). Wilson (1987:8) defines the “underclass” as:

“that heterogeneous grouping of families and individuals who are outside the mainstream of the American occupational system. Included in this group are individual who lack training and skills and either experience long-term unemployment or are not members of the labor force, individuals who are engaged in street crime and other forms of aberrant behaviour, and families that experience long-term spells of poverty and/or welfare dependency.”

For Wilson, the result of this characterisation is the creation of “ghetto culture”, that seems to normalise crime, welfare receipt, joblessness and illegitimacy (Jencks, 1992:16). There is no unified position on the definition of the “underclass”. Lister (1996) observed the fluidity of the different definitions of the “underclass” to question its validity as a sociological concept. Lister (1996:10) condemns the “underclass” as value-laden language, which can turn the rest of the society against the poor and influence policy accordingly. It carries an undertone of blame, hence it cannot reconcile agency and structure in the understanding of poverty.

Therefore, we can talk about the politics of the conception of poverty because of its implication for policy. The political nature of poverty discourse is imperative to the culture and structure of the poverty divide with regard to the explanations of poverty (Miller, 1996). Contrary to the position of the culture of poverty, which blames the poor for their condition, the structure of poverty accounts for the causes of poverty in social structures that are external and constraining on individuals, the poor and the non-poor inclusive. The explanation for poverty is sought in the socio-economic and political structures of a society. In essence, the balances of the prevailing institutional structures in a society are imperative to creating the poor and the non-poor. The culture and structure of poverty are viewed as the



conservative and radical views respectively (Miller, 1996). The question that this divide in the treatment of poverty highlighted is: should society treat poverty as an individual problem or social problem?

The answer that a society gives to this question will to a large extent affect its disposition to the treatment of poverty; the national official definition and measurement that are adopted. This will provide the background for the structure of the political economy and the anti-poverty policy that is evolved. This is also fundamental to how a society conceives social policy; whether as comprehensive and integral to economic policy or as residual and filling the gap in market failure. The institution of social security is informed by the cultural view of poverty, while a structural view of poverty is akin to the development of a comprehensive social policy that is integral to economic policy. This is a recognition that production, distribution and consumption of resources, should transcend the domain of economic policy, to include a comprehensive social policy regime. The significance of comprehensive social policy, universal and inclusive, in the African context, has been argued to foster social cohesion, development and reduce poverty (Mkandawire, 2004; Adesina, 2007).

The structural conception of poverty is instructive to this study. The understanding of poverty should transcend the individual households and the economic choices they make, to include a broader view that looks at the poor and non-poor as the opposing sides of the same coin in the analysis of poverty. The socio-economic and political structures and institutional set-up of a society, should be given due attention in poverty analysis. In other words, understanding poverty (cause, consequences, nature and dimensions) requires us to cast our net wider beyond the poor individuals or households. We have to look at a society as a whole in order to make sense of poverty. The social institutional structures and the social positioning of different categories of people within this framework become crucial to how we view poverty. In particular, how do different categories of people with different 'vested interests', interact in social relations to mould and re-mould the prevailing social institutional structures? The nature of power constellation in social relations becomes important because there is often no unity of 'vested interest'.

This study is particularly interested in looking beyond the conventional institutions of production, individual and collective consumptions. These three modes of consumption stimulate the social interaction of the economic production institutions; the family/households



institutions as a site of individual consumption; and the state as a driver of collective consumption. All these institutions interact to guaranty the production of goods and services, to feed the different modes of consumption, in order to ensure social reproduction of the society. Sustained production and distribution of goods and services for consumption is therefore, imperative to social reproduction. The achievement of social reproduction with quality or decent standard of living is what poverty affects.

The institutions that exist, in the interstices of these broad social institutions, in interaction to guaranty production and social reproduction, are the focus of this study. This is an attempt to look beyond the wage-capital nexus in engaging with poverty. Income and expenditure, we will argue, does not tell us all that we need to know about poverty. The socio-economic and political embedded institutions that may alleviate or perpetrate the condition of poverty could make for unveiling the underlying causes of poverty. With this conception in mind, this study looks at the activities of formal and informal micro-credit institutions and their implications for alleviating or perpetrating poverty. Perhaps there is a misconception that access to credit can lead to poverty alleviation without any clear qualification of the type of credit in question (see Chapter 5). It is the position here that credit can alleviate or perpetrate poverty depending on the particularity of the case under review. A clear distinction must be made between credit for production or investment function and credit deployed to smooth consumption. The purpose, for which credit is granted and/or used, could have a telling implication for the standard of living of the receiving family/household. So also is the knowledge of how to manage received credit, whether it is for production or direct consumption (see Chapter 5).

Structural view of poverty will afford the opportunity to build historical antecedents to the present incidence of poverty in a society, which may inform the response to poverty. The lack of proper structural understanding means that anti-poverty policy may target the symptoms of poverty, rather than the causes of poverty. The structural view of poverty could easily reveal the different dimensions of poverty; hence, anti-poverty policy can be well focused.

### ***2.5.9 Dimensions of Poverty***

In addition to the conception and the measurement of poverty and their implications for policy initiatives, we need to consider the dimensions of poverty. The different dimensions of poverty can interact to reinforce each other (White et al, 2001; Samson, 2009). The

understanding of the dimensions of poverty therefore, is like understanding the length, breadth and depth of poverty in a particular social context. The dimensions of poverty could also reflect the structural nature of poverty. It could reflect on social exclusion and how different categories of people are located within the socio-economic and political structures of a society.

Dimensions of poverty are viewed as the categories or the characteristics of the poor. Some of the dimensions have been briefly discussed under sub-section 3.6.3.6 (*other conceptions of poverty*). We have discussed *chronic and transitory poverty* to suggest that poverty could be permanent or temporary; the *poor* and *destitute* as those with limited capacity and resources, who function at low level and those without capacity and assets and therefore totally dependent respectively; *dependent* and *economically active poor* to distinguish the poor without capacity and resources from the working poor respectively (Hulme & Shepherd, 2003; Aliber, 2003; White et al, 2001; Martins, 2007). Other dimensions of poverty have close affinity to the context under consideration. Some dimensions may be more pronounced in one context than another.

#### Geographical Dimension of Poverty

One of the important dimensions of poverty is the geography of poverty. Distinctions are usually made between *urban* and *rural poverty* to highlight how the different contexts could impact residents' access to income, resources and social services. There is higher incidence of poverty in the rural areas, compared to the urban areas in Africa and South Africa (White et al, 2001; Cheru, 2001). In South Africa, 68.8% of the rural population is poor compared to 30.9% of the urban population as at 2011 (Stats SA, 2014a; see Table 4.3b). However, we should be careful of the rural-urban divide because the division are blurred in some cases. There are people that commute between rural and urban areas every day. There are families that have members living in the rural and urban area simultaneously.

Lack of access to jobs, cultivable land and social services has been argued to be at the centre of rural poverty in Africa. In the urban areas, lack of access to jobs is aggravated by the continuous reduction (race to the bottom) in wages of the jobs that are available. The real wages of the informal sectors are very low and there is a gradual decline of formal sector real wages, which continue to increase the constituency of the working poor (White et al, 2001). We have a case of growing atypical employment and declining standard employment

relations in the South African context. The increasing level of subcontracting of work is a case in point. What this means is that wages continues to go down, hence increasing the population of the working poor (Aliber, 2003; Omomowo, 2011).

### Gender Dimension of Poverty

Poverty could be characterised on gender basis. Who are the poor in terms of gender categories? The South African case shows that there is more incidence of poverty among the female-headed households compared to male-headed household (Cheru, 2001). In South Africa, 43.9% of female-headed households are poor compared to 25.7% of male-headed households as at 2011 (Stats SA, 2014a; see Table 4.3b). The comparison of the level of poverty between a female-headed and male-headed household can be problematic. There is a possibility of an absent male that is part of and supporting a female-headed household and vice-versa (White et al, 2001). Also we need to take cognisance of the fact that a male-headed household is more likely to have an adult female, who contributes to the income of the household, than the case with a female-headed household having an adult male to contribute to the income of the household.

More importantly this dimension of poverty is rooted in the nature of the dominant social structure within a society. This has to do with how the different genders are located within the social system with regard to those things that may have positive bearing on well-being. Where there is gender skewness in access to different resources such as; land and other assets (whether ownership or user rights) and social services such as; health and education that can enhance human capability, there is bound to be gender dimension to poverty (White et al, 2003). The deep structural divide between genders in terms of access to these material and human capital, has a way of replicating itself in terms of the gender dimension of poverty.

### Racial Dimension of Poverty

‘Race’ discourse is always a sensitive one, no matter the context in which it is engaged. The intention here is not to engage with the conception of ‘race’ or ‘racism’. However, when social discrimination and/or inequality takes a racial line, the social positioning of the different races will be affected, and it will define their life chances. When poverty is defined by racial differences, we talk of a racial dimension of poverty (Cheru, 2001). Poverty in this instance is influenced by socio-economic structural conditions that are informed by racial discrimination, founded on power relations between the different races in a society.

Racial dimension of poverty, therefore, is often rooted in the historical events and trajectory that a society takes and how those events shape socio-economic and political dispositions in the present. The case of the legacy of apartheid in South Africa is an example. A case where the black population (especially black Africans) were systematically deprived for many years, left the country with one of the highest level of inequality in the world with a Gini Coefficient of 0.69 (Stats SA, 2014a). This continues to endure after nineteen years of the enthronement of universal democratic governance. We now have a case, where inequality and poverty are defined along racial lines. There is a coincidence of race and class differences; the rich are whites and the poor are blacks (Cheru, 2001). The 2011 figures in South Africa, show that 54% of the black African population are poor compared to 17% of coloureds, 3.4% of Indian/Asian and 0.8% of the white population (Stats SA, 2014a; see Table 4.3b). In other words, poverty in South Africa has a colour; the colour is black.

White et al (2001) argue that the dimensions of poverty are defined by three factors: time, social positioning and location or economic distance. Time is instructive to the conception of chronic and transitory poverty, whether poverty is permanent or temporary. Social position could be seen as structural, the positioning of the poor within the broader societal framework is imperative. Social positioning speaks to the gender and racial dimensions of poverty and whether the poor are dependent or economically active. Location and/or economic distance are important to the geographical dimension of poverty. For example, what is the location or distance of the poor to economic activities and social infrastructure and services? Urban, rural and remote locations of the poor, in relation to means to garner material and social resources, could be telling on the dimension of poverty.

#### ***2.5.10 Poverty in Africa***

The prevalence of poverty in Africa should be viewed within the context of global human development. More so, it should be viewed with regard to the relationship (both past and present) between Africa and the rest of the world, the relationship between the developing world and the developed world. This broad relation between Africa and the rest of the world should be narrowed down to its implications or effects on the different categories of people within Africa. Having said this, the experiences of each African country with the rest of the world (with other African and non-African countries) are unique in certain instances and similar in others. We should also note that different countries respond to similar experience in

dissimilar ways. The experience of the Structural Adjustment Programme (SAP) by several African countries in the recent time (Ali, 2003), or colonialism and neo-colonialism in the past and present respectively are examples of similar experiences, which manifestations are different for different countries.

It could be convenient to apply the conception of the 'culture of poverty' to treat Africa's poverty as a unique African problem and that the cause(s) lies with Africa on the one hand. On the other hand we can view African poverty as a structural problem that places Africa within global socio-economic and political structural relations. Lack of democratic governance, lack of adequate economic growth, the prevalence of conflict and the cultures and traditions of the African people, have featured prominently among the alleged causes and/or aggravating factors to Africa's poverty. I said 'alleged causes' consciously because anti-poverty policies that were designed in response to these alleged causes have failed (Gordon, 2002) to significantly dent the prevalence and effects of poverty in Africa.

The nature of Africa's poverty shows that the situation is getting worse. There has been no significant improvement in getting significant numbers of Africa's population out of poverty. The sustained political instability continues to affect the progress of poverty alleviation and economic growth. However, the experiences of countries vary as well as are the experiences of different groups within a country; various groups are poor because of varied reasons. Outbreak of diseases and sustained conflicts make the situation worse (White et al, 2001). The causes of poverty are many and interacting, hence, the precise pinning down of the causes and effects of poverty becomes problematic. It is easy to trade effects for causes. What was demonstrated in the African situation is that economic growth does not necessarily translate into poverty reduction. Economic growth must be complemented with distribution and redistribution to have a meaningful effect. Therefore, the need for balance between the market and the state is imperative in engaging with poverty in the African context (White et al, 2001).

#### *Poverty and the Structural Adjustment Programme (SAP) in Africa*

What the above suggests is that, market production and distribution must be balanced with social spending from the state, in order to evolve well-being and improved standard of living (especially for the poor) in Africa. Social spending should be complementary, rather than residual in the crafting of socio-economic policy. The World Bank's idea of Structural

Adjustment Programme (SAP) is a prescription to roll back social spending and allowing market forces alone to define production, distribution and consumption. The adoption and implementation of SAP by various African countries prove to return to a colossal failure, broadly because it was the application of policy prescriptions informed by the understanding of poverty in another context to Africa's situation (Ali, 2003; Mafeje, 2001); what Adesina (2011:455) describes as 'aggressive policy merchandising'.

The implementation of SAP did not propel economic growth and alleviate poverty as promised; the reverse was the case because the attached conditions affected poor people because social support was discontinued (Mafeje, 2001). It has a negative impact on poverty because the information bases, on which it is based is inadequate (Ali, 2003). There is no adequate knowledge of the extent and behaviour of poverty in sub-Saharan Africa to inform the proposed policies to reposition the continent on the path of poverty reducing growth. The available information is inconclusive or partial at best. Ali (2003) noted that the response of the World Bank is to commission several researches subsequently to justify that SAP has fostered economic growth in some instances and there is no evidence to show that it has aggravated poverty in Africa.

For Ali (2003) therefore, the leadership of the World Bank with regards to anti-poverty policy direction is flawed. What we ended up with is the suggestion of targeting the poor with social assistance. It has become the dominant idea and approach to alleviating poverty, even when there is an acknowledgement that the achievement of "perfect targeting" (Besley & Kanbur, 1993, cited in Ali, 2003) is saddled with the problem of the nature of the prevailing political economy, the cost of administering target policy and the effects of incentive, a pointer to a more universal social security policy. Targeting is problematic for developing countries contexts, where the majority of the population are living in poverty. He argues that universal policy could best be appended in a situation, where the poor constitute the majority because of the inherent problem with targeting.

Drawing from the above understanding of poverty in Africa, Ali (2003) argues that asking the question 'who are the poor' and targeting them for poverty alleviation is "blatantly irrelevant" because the majority of the population is poor. Hence, a universal policy seems more reasonable for the African context. However, drawing on the lead of the World Bank, most African countries have been influenced in adopting targeting rooted in the social



security paradigmatic understanding of social welfare. It is not clear what Ali means by “universal targeting”, but it is the author’s contention that in developing countries’ context such as Africa, a comprehensive social policy will be more effective in fostering development and elevating the society out of poverty. Adesina’s (2011) conception of *transformative social policy* could be instructive in this regard (see Chapter 8). What this suggests is that the mismatch between the African contextual peculiarities and the policy prescriptions, misinformed policies, could be argued as partly if not wholly accountable for the persistence of poverty in Africa.

### *Poverty, External Debt and International Aid in Africa*

In the same view we talk about SAP in terms of the structural conception of poverty in Africa, we can talk of credit and debt relationship between African countries and international agencies, World Bank and the International Monetary Fund (IMF), and developed countries. Borrowing by African countries has often led to debt burden on their national fiscus, rather than driving infrastructural development and economic growth to foster poverty alleviation as the neoliberal conception of development will argue. The servicing of international debt takes large chunks of money from the national purse that could have been deployed to other infrastructural development purposes. The debt burden of Africa remains huge and its servicing takes a substantial portion of the Gross Domestic Product (GDP) (Hope, 2008; Mweya, 2003; White et al, 2001). Debt is in most cases connected to SAP as a condition to get credit from the international agencies. In essence, African countries are compelled to buy into their idea or conception on how their political economy should be organised.

Debt burden is aggravated by growing corruption of public and private sector officials and politicians that run the state. Perhaps, corruption is often blamed for the failure of structural adjustment and improper deployment of debt funds for developmental purposes. While this claim might be imperative, the problem of external debt burden cannot be reduced to corruption of public-private officials and politicians. Particularly worrying, is in the context, where debt interest rates are higher than the rate of economic growth (Mkandawire & Soludo, 2003; Soludo, 2003; Hope, 2008). Ikejiaku (2008) argues, citing the case of Nigeria, that external debt crisis in Africa should be viewed as collusion between International Financial Institutions (IFIs) (World Bank and IMF), the west and political leaders to facilitate indebtedness of African countries. For him, the structural interrelationship between Africa,



the west and IFIs, should be viewed from a dependency and liberal theories perspective, to understand how Africa debt crisis is a function of these relations.

One of the drawbacks to African social development is external debt crisis because financial resources are tactically extracted via the activities of the IFIs in the form of servicing of debt via high interest payment. Economic development is undermined and poverty sustained (Ikejiaku, 2008). As earlier indicated, Africa's debt and debt crisis is closely linked or it is structurally mediated through the SAP and the condition of unquestioned adoption and implementation of liberal economic policies as prescribed by IFIs, the conveyor of western dominant liberal ideology. The third leg of the structural connection between Africa and the western world is the international aids. As with loan, international aids are tied with conditions of liberal economic policies to foster the connection of Africa to international trade and financial systems. What Africa got out of this relationship are indebtedness and poverty (Ikejiaku, 2008).

Indebtedness and aid-dependence, therefore, define Africa (Hope, 2008). Often, aids are minuscule and insufficient for making any socio-economic development impact, and usually come with unfavourable conditionalities, such as designated destination for the purchases of goods and services determined by the donor. Invariably substantial part of the aid stays with the donor country. In essence the real aid is usually a far-cry from the nominal broadcasted figures. Ikejiaku (2008) describes this as perpetrating exploitative dependent and imperialist relationship. A situation where, "for every dollar that entered the continent in loans, grants (and) investment three dollars left as profit, debt servicing and interest" (Irungu, 1994, cited in Ikejiaku, 2008:5). Talking specifically to the Nigerian case, as reminiscent of the Africa, liberal trade and financial relation with the west and IFIs create the space for external debt crisis, which is linked to stolen wealth of African countries by their political leaders, the west and IFIs, while the citizens (especially the poor) are left to bear the brunt.

Kanbur (2000) notes the connection between aid, debt and conditionality. He argues that the way they are set up is dysfunctional to the objective of African development because they perpetrate aid dependence with unhealthy implications for the giver and taker of aid. He concludes that aid and aid conditionality in Africa has failed. Only change of institutional arrangements and debt relief, with the objective of reducing Africa's debt dependence can put a positive spin to the situation. For him, the debt problem should be viewed on its

undermining of the growth of private investment, debt rescheduling to accommodate outflow, through debt servicing and institutionalisation of aid dependence. This mode must be inverted to foster Africa's development agenda.

### *Structure of Poverty and Counting the Poor in Africa*

Therefore poverty in Africa could be viewed structurally from the interaction of the colossal failure of the ill-informed SAP, external debt and debt crisis and foreign aid (encumbrance in reality). All these are orchestrated by neoliberal ideology prescription for the question of African development. The failure of this economic liberalism driven approach, is an indication that much more is needed to engage with (alleviate and/or eradicate) African poverty. It is imperative to consider structural issues with regards to poverty as development has to do with socio-economic and political positive structural transformation. Overconcentration on counting the poor might obscure clear conception and the consideration of contextual and structural imperatives of poverty. This is not to suggest that the poor should not be counted, however, counting the poor tells us very little about poverty, especially in the African context, where the significant proportion of the population are living in poverty. This is precisely what Ali (2003) suggests, that much is left to be known about poverty in Africa, in order to propose appropriate policy response.

Poverty is a socio-economic and political matter depending on the point of view of the writer (Ikejiaku, 2009a). My sense of the power relation, in the conception of poverty from the liberal ideological point of view of the developed western countries and IFIs in relation to Africa, has always seen African countries and states overwhelmed. African countries are often compelled to adopt the western and IFIs conception of poverty, even when it is at variance with African realities. A case in point is the conditionality of acceptance of the free market economy for obtaining finance from the IMF and the World Bank (Ikejiaku, 2008). We have seen the mushrooming of Non Governmental Organisations (NGOs) in Africa, who claim to speak for the civil society or the masses. Perhaps, when it is convenient for the west, they emphasise corruption of the African states or lack of democratic and good governance; the same people, who lent Nigeria money during the Military regime of Babangida (Ikejiaku, 2008). A military regime that could be argued institutionalised corruption in Nigeria.

NGOs therefore, are used to undermine the African state, when it is convenient for the west. We see instances, where aid is channelled through NGOs on account that the state is corrupt

and undemocratic, perhaps, when such a state differs on socio-economic policy issues with the West. While it is difficult to draw a clear boundary between the state and civil societies (Mamdani, 1995), it is difficult to assert that the NGOs represent the interest of the masses or citizen. Their claim to speak for the masses is problematic, often suggestive of a docile citizenry that is not capable of any activism by itself. What is however clear, is if the state with all its resources cannot foster effective policies to alleviate and eradicate poverty, NGOs, financed by donor stipends, are incapacitated in terms of resources and political power to drive poverty eradication in Africa.

*'Poverty qua Poverty' – Expanded Absolute Poverty Conception for Africa*

Ikejiaku (2009a) has coined the concept of *'poverty qua poverty'* to conceptually account for the character of poverty in Africa. *Poverty qua poverty* is an expanded conception of poverty, rooted in the absolute conception of poverty. For him, people that are absolutely poor will be oblivious of the relative thought of their poverty. The thought of relative poverty only becomes activated, when the challenge of absolute poverty has been surmounted. Africa is still neck deep in absolute poverty, which must be dealt with before considering relative poverty. The challenge of absolute poverty has been solved in developed countries, such as Britain; hence the relative understanding of poverty becomes imperative. This position suggests the imperative of contextual peculiarities in how poverty is viewed, conceptualised and measured. The realities of living or peoples' experiences of living in different contexts, should provide the basis for the conception and measurement of poverty.

*'Poverty qua poverty'* is a conception of absolute poverty in the developing countries (African) contexts. It is an expansion of the narrow conception of absolute poverty by infusing the realities of the African contexts. *'Poverty qua poverty'* refers to absolute poverty, the inability to meet basic needs plus "hunger, thirst, poor health and living without decent shelter... not being able to read... chronic sickness... not finding any opportunities for you or your children; it is about being pushed around by those who are more powerful" (Ikejiaku, 2009a:6). This emphasise the practicality of poverty in Africa that encompass several situations, which may require understanding those different conditions, their underlying reasons to inform policy responses. This also suggests the multidimensionality of poverty and that the category, the poor, is not monolithic. Ikejiaku (2009b) argues that *'poverty qua poverty'* could be instrumental in the prevailing social instability and conflict in Africa. He contends that political corruption may undermine good governance and the ability of a state

to provide basic needs and safety for its citizens. This may aggravate poverty, with the possibility of violence (conflict) from the citizens to reclaim their rights. All these undermine development, reminiscent of the African context.

The notion that “poverty breeds poverty” (Mafeje, 2001:20, Ikejiaku, 2009:9) may have informed the trading of structural reinforcement of poverty for the ‘culture of poverty’. There is high probability for a child born in the context of poverty (family, community, group or society), to grow up poor because of the limitation of choices, which is more structural than cultural. The perception of poverty, therefore, becomes important at a contextual level. Ikejiaku (2009a:9) suggests this, when he wrote that; “where the large majority of the population is poor, and the economy is stagnant, individual characteristics of the poor people are less important than the overall context in determining the overall incidence of poverty”. Therefore, the consideration of poverty in Africa should transcend the limitation of poverty line to include the conception of *‘poverty qua poverty’*.

#### *Poverty as a Question of Development in Africa*

Mafeje (2001) has argued that pervasive poverty, as in the case of Africa, cannot be engaged with policies that speak to poverty alleviation. Rather, it should be engaged as a development problem. It calls for fundamental transformation and not small reforms. Similar to the thinking of Ikejiaku above, Mafeje (2001) emphasises that the conception and treatment of poverty in a context, where the poor form substantial part of the population, such as Africa, should be different from a context, where the poor are relatively small. The treatment of poverty in Africa, therefore, should be informed by African’s development realities and development agenda.

For example, with all the identified down side to the informal sector, such as lack of access to credit, legal clampdown at times and inaccessibility of social amenities and services, it continues to record substantial growth in the African context (Mafeje, 2001; Hope, 2008). Development policy needs to recognise this; it is a case, where a western presumed aberration is the norm in Africa. Policy that stimulates the growth of the informal sector should be considered because it is an alternative way of creating employment in the African context. Mafeje (2001) therefore, argues for what he called “trickle-up” development policy with the objective of poverty eradication. This position emphasises development from below as the best way of engaging poverty in the African context.

The logic behind his position is as such, poverty is a development problem because a significant proportion of the population is living in poverty. Hence, poverty eradication policy must target the poor. Investment in the poor that form a significant part of the population should be more effective in driving development and poverty eradication. This position is a shift from the convention of directing investment at the few big capitalist and hoping for ‘trickle-down’ of the wealth created. We are yet to observe any such ‘trickle-down’ in the African context. This position is akin to Sen’s (1999) on the capability approach to poverty, where anti-poverty policies are conceptualised to target the improvement on the capabilities of the poor, so that they have choice in the functioning they chose.

### *Dimensions of Poverty in Africa*

Having discussed the imperative of a structural view of poverty in Africa, the background is then laid to look at the character and dimension of poverty in Africa. I have to say that I am not suggesting that the structural view of poverty in Africa says everything we need to know about poverty in Africa. It is just one of the several ways to perceive poverty in the African context, a very important one. It shows that we need to consider the underlying structures beneath the figures we see. This becomes imperative in view of the power relations that determine the conception and measurement of poverty. Who determines who is poor and who is not poor? It seems to me for example, that the prevailing application of a poverty line, to measure poverty, highlights the World Bank influential position on the conception and measurement of poverty. While other composite indicators, such as the United Nations Development Programme’s (UNDP’s) HDI and HPI were developed over the years, poverty line remains resilient. The poverty line has been argued to underestimate poverty, in terms of what people need to live, and subsequently underestimate the number of people living in poverty (Gordon, 2002).

It is particularly worrying in the African context, where the poverty line approach continues to prevail, when there is an indication that it could be problematic for measuring poverty in the African context. In a context, where there is limited dependable poverty statistics, the poverty line may not improve our knowledge (Ikejiaku, 2009). No matter the conception and measure of poverty deployed, poverty remains a defining feature of the African continent. Words such as the “Africanization of poverty” (White et al, 2001), “the core of world’s poverty problem” (Bigman, 2011:3), have been used to capture the prevalence of poverty in

Africa. Poverty is much more than the inability to meet basic needs in the African context as the notion of '*poverty qua poverty*' (Ibid) suggests. Hope (2008:2) captured the depth of poverty in Africa as such:

“Poverty in Africa has many facets. It is characterised by a lack of purchasing power, rural predominance, exposure to environmental risk, population displacement, insufficient access to social and economic services, rapid urbanisation, and few opportunities for formal income generation”.

What this suggests again, is that the realities of poverty in Africa are different from the experiences in other parts of the world; hence, its treatment should be informed by these realities. But what we see is a blanket treatment of poverty across the globe, perhaps why the prescribed and adopted socio-economic policies have failed to alleviate or eradicate poverty in Africa. African states lack the confidence to propose and adopt policies that speak to the realities of the African experience that are at variance with the western idea of socio-economic development. South Africa's treatment of socio-economic policies is indicative of this suggestion.

What Hope (2008) above leaves out in the description of poverty in Africa, is that Africa doesn't necessarily have to wait for formal income generation. There are alternative means of income generation that is offered by the informal sector for example. In a context where the informal sector is huge and growing (Hope, 2008), it should be taken seriously on how it can be appropriated for development. Africa cannot be waiting to formalise the informal sector before engaging with the challenge of improving the general well-being of its citizens. This is precisely what Mafeje (2001) argues. It is will argued that the concern for engaging with poverty in Africa, should be focused on how to reduce the vulnerability of the people that find themselves in the informal sector, whether they are working for others or themselves. A sort of a security for the informal sector will go a long way to ameliorate the propensity of poverty. This is imperative because African governments should acknowledge the reality and characteristics of their population to evolve effective policies. If substantial part of the population daily experience socio-economic realities in the informal sector, socio-economic policies should respond to that.

In a situation where economic policies are targeted only at the formal sector, a substantial proportion of the population is left out in the cold. Socio-economic policies in the African context, should therefore speak to the significant proportion of the population in the informal



sector. It should attend to the question of land rights and access to land that transcends the limitation of private property ownership and the legal protection of the same. Policies should be targeted at small scale and/or subsistence agricultural practices, rather than only large scale mechanised agricultural practices. Much more important social and economic policies should tap into the positive local value system rooted in African ontology(ies). This is imperative for buy-in by the majority of the population, especially the middle class. Aristotle notes the importance of the middle class to support public policies to give it a better chance of success (Pack, 2010).

An estimated 371 million sub-Saharan Africans are living in extreme poverty out of an estimated population of 852.5 million in 2012. Extreme poverty is defined as those living below \$1.25 a day poverty line (UNDP, 2013). This means that about 43.5% of the population of sub-Saharan Africa is living in extreme poverty. Paradoxically, the 2013 United Nations (UN) Millennium Development Goals (MDGs) Report celebrates the achievement of goal 1 to half extreme poverty and hunger by 2015, five years in advance of the target date of 2015. It was estimated that 700 million less people are now living in extreme poverty because of the reduction of poverty from 47% to 22% of the world population between 1990 and 2010. It was however, indicated that an estimated 1.2 billion people are still living in extreme poverty (United Nations, 2013).

The number of people living in extreme poverty only fell by 8% from 56% to 48% between 1990 and 2010 in sub-Saharan Africa. In fact the number of people living in extreme poverty increased from 290 million people in 1990 to 414 million people in 2010 in sub-Saharan Africa. By implication, one third of the world's extremely poor people are living in sub-Saharan Africa (United Nations, 2013). Substantial proportion of the reduction of the people living in extreme poverty is credited to one country, China. Over 500 million of the 700 million less people living in extreme poverty live in China, whose extreme poverty rate dropped from 60% to 12% between 1990 and 2010. The implication of this is that the celebration of the advance achievement of the MDG 1 does not speak to Sub-Saharan Africa. The celebration is at best a façade, when viewed from the reality of the African context.

There are two levels of problems associated with the above United Nations estimate of extreme poverty in the world; problems associated with poverty line estimate - the under reporting of the magnitude of the poverty problem and the limitation of income measure of



poverty. The limitation of the poverty line measure was highlighted in the Millennium Development Goals Report 2013. The availability of quality relevant data and the frequency of survey in different (especially developing) countries are obvious problems, yet the poverty line remains the dominant method of treating poverty across the globe. This practice is universalised against the backdrop of its obvious deficiency, in its application in a developing country's context (United Nations, 2013; Ikejiaku, 2009; Ali, 2003; Gordon, 2002; White et al, 2001).

The overwhelming emphasis placed on the treatment of poverty, via the poverty line measure only, could create a condition, where we know very little about poverty. Gordon (2002) indicated that poverty line is oblivious of the contribution of public or social goods and services to the well-being or the standard of living. The poverty line measure of poverty, suggests the limitation of well-being to income and expenditure. Well-being is much more than income and expenditure. The notion of relative poverty line has sought to deal with this limitation, but its application remains second to absolute poverty line. In the same vein, the introduction and adoption of the Human Development Index (HDI) and the Inequality adjusted Human Development Index (IHDI) by the UNDP, could also be viewed as filling the limitation of the poverty line method. It seems to me however, that between the World Bank's poverty line and UNDP's HDI and IHDI, poverty is viewed less as a question of development.

The centring of development as a response to poverty, suggests a structural view of poverty. Two different individuals with the same level of income will not necessarily attain the same level of well-being or standard of living. There are several intervening variables that affect the ability of individual, households or group to convert resources (as well as income) into different levels of well-being or standard of living. This is precisely the concern of Sen (1999) with his capability approach to the treatment of poverty. One of the limitations of poverty line is the blanket assumption that different individuals with the same income or resources will achieve the same level of well-being. The development of institutional structures to enhance the capabilities of individuals to convert resources (including income) to maximum functioning should be the response of anti-poverty policies.

This is imperative to the treatment of poverty in the African context, where a significant proportion of the population is living in extreme poverty. Otherwise, we will be mixed up

with the problem of teleology, where causes and effects are traded for each other. For example, is it the lack of proper education that causes poverty or is it poverty that causes lack of proper education from one generation to the other? This is the kind of question that requires research engagement with the particularities of different contexts. Generalising this kind of contextual specific realities, may conceal important facts about the context under consideration. Since when has education and health, for example, become the problems of individual households? So once a household is earning income from a society, they should sort their member's education and health issues. These are socio-structural issues that every society needs to make clear choices about. Otherwise people will have to shop for education and health like they shop for clothes and other material things. A society and state that is committed to enhancing the capabilities of its citizens will be more engaged with such critical social issues than leave it to market function.

The limitation of the poverty line method of engaging with poverty, thus, conceals much that needed to be known about poverty. The lack of adequate information about poverty is perhaps, accountable for anti-poverty policies not achieving the desired socio-economic transformation, especially in the African context. The implication of our discussion here is that, Africa cannot treat poverty the way it is treated in other parts of the world, especially the west. The daily realities of living in Africa, therefore, become important for how poverty is engaged. Poverty line approach, where there is lack of political will, could provide a space for a government to dodge real socio-structural issues prevalent in a country that are fundamental to the generation and perpetuation of poverty.

Poverty in Africa is prevalent among the disable people, who have no capacity to actively participate in the labour market. On the flip side of it the kinds of work that the poor people are exposed to, often make them prone to physical injury that may undermine their capacity to work. Child poverty is also prevalent in Africa. Children that find themselves in poor households or orphaned characterised poverty in Africa, especially where there is no social security to provide children with the basic nutrition. The working poor and the landless are also well represented among people living in poverty in Africa. Conflict has in some cases aggravated or stimulated poverty in communities, where such conflict disrupts economic activities of members. The high prevalence of communicable diseases is closely associated with poverty in Africa, as is insufficient formal employment (White et al, 2001).

The nature of Africa's poverty shows that the situation retrogressed in the decades of the 1990s till 2010, only for the trend to start to reverse in the last three years (United Nations, 2013, UNDP, 2013; White et al, 2001). Political instability and slow economic growth are often castigated for this. However, economic growth does not automatically translate into poverty reduction, much less its eradication. The experiences of poverty vary among African countries and between different groups of people within the same country because the causes and nature of poverty are often dissimilar (White et al, 2001).

White et al (2001) indicated that economic growth must be complemented with a change in the initial and latter distribution to have any meaningful effect on poverty reduction. So the thinking that economic growth, will automatically trickle down to reduce poverty, is problematic. Therefore, the relationship between economic growth and poverty reduction is the ability of a society to complement it with decisions and choices that will alter the way the wealth and/or resources of the society are redistributed. African countries have to make a choice between subscribing to market distribution advocated by liberalism, or social policy to include those that are excluded from benefiting from the growing wealth of the society. The failure of neoliberal policy in Africa cannot be reduced to the results of conflict and political instability, when most African countries have been compelled to adopt same. There seems to be more to the failure of neoliberal policy in the African context, when applied alone. It seems not in tangent and removed from some contextual peculiarities of the African continent.

The persistence of poverty in Africa is a pointer to the failure of the markets and states in the African context. The market has failed to deliver its promise and the state has been unable to ameliorate the situation, through redistributive policies and the provision of social goods and services. Added to this, is the lack of capital by the poor to pull themselves out of poverty (White et al, 2001). It seems to me a paradox, that the state is often indirectly blamed for the failure of the market against the neoliberal ideology of free market economy. The African states are blamed for not providing the right framework and policies to facilitate economic growth, poor and unequal service provision and not clear anti-poverty polices and social security targeting of the poor. The private sector participants in the market are often left unscrutinized, what Magubane (1986:19) describes as “power without responsibility”.

### ***2.5.11 Poverty in South Africa***

Poverty in South Africa is a microcosm of the African experience of poverty, with its contextual peculiarities, that is fundamentally shaped by the history of colonialism, segregation and apartheid. This historical trajectory that South Africa travelled, to a large extent, defines the character and dimension of poverty in the country. We cannot talk of poverty in South Africa that is devoid of racial discrimination, geographical dimensions rooted in the policy of racial segregation and apartheid. It is also imperative to highlight how the post-apartheid political dispensation has failed to foster socio-economic transformation, to ameliorate or remove these relics of colonialism, segregation and apartheid. Colonialism, segregation, and apartheid are all defined by racial fault lines. Therefore, poverty in South Africa has a racial colour and its geography is rooted in racial segregation and the defunct apartheid regime.

The historical configuration of the present nature and dimensions of poverty in South Africa is therefore, very significant. Also important is how the democratically elected government has responded with socio-economic policies, programmes and their implementation in the last two decades of the demise of apartheid and the birth of democratic South Africa. The evolved policies, should be understood within the context of the influence and response of capital and labour within South Africa and the relationship of South Africa to the rest of the world (the west in particular). When I said the relationship with the rest of the world, it includes other countries, international agencies and global capital. The imperatives of this cluster of interrelationship and their implication for the choices and decision that the government makes on socio-economic policies, is what Terreblanche (2002) called “power constellation” (see Chapter 4). Policies are distilled through the chambers of power constellation. Hence, what we see in policy is the result of the interaction between the various power interest groups that are highlighted above.

Power constellation is fuelled by what Mafeje (1986) referred to as “vested interests” (see chapter 4). Each of the power blocks is driven by its “vested interests”, and the resulting policy, should not be viewed narrowly as a unilateral decision of the ruling African National Congress (ANC) government. Therefore, we should be cautious in castigating the government for deploying some policies that could be argued, are a bit removed from the realities of the majority of South Africans. That does not mean the government does not err with some wrong policy decisions and failure of implementation of good policies. A good

example is the government proceeding with the signing of the e-toll bill into law and setting the commencement date for its implementation against obvious sustained resistance from the citizens.

Policies should be scrutinised to reveal the vested interests it serves, the state and/or the government inclusive, as a vested interest. The critical peculiarity of the South African context however, is the fact that each power block with their vested interest, is racially defined. Government is black (mainly black Africans, reflective of the national population demographics), labour is black (mainly black Africans) and capital is white. Their various vested interests seem divergent, rather than convergent. Hence, the colour of poverty in South Africa is black (see chapter 4). The South African government is overwhelmed by neoliberal ideology and economic policy, which has failed to achieve significant poverty alleviation.

We have witnessed the migration of socio-economic policy in post 1994 South Africa from the social democratic Reconstruction and Development Programme (RDP) to neoliberal Growth, Employment and Redistribution (GEAR) (see chapter 4). Everything that happens in terms of socio-economic policies after GEAR is just a cosmetic embellishment of GEAR. Whether it is christened again or modified to drive popular acceptance, the liberal core of the policy remains constant (see chapter 4). This is not to suggest that the South African political economy is completely devoid of any social services. It continues to witness the provision of RDP houses for the poor and partial social security provision, such as Child Support Grant (CSG), Disability Grant (DG) and Old Age Grant (OAG) (Lund, 2001). Poverty continues to persist in post-apartheid South Africa and no significant reduction has been achieved in the past two decades.

The implication of the power constellation mentioned above, is that the dominant conception and measurement of poverty in South Africa is essentially western. The only extension to this is the recognition of the historical background of colonialism, segregation and apartheid, defined by racial discrimination and oppression. Therefore, poverty is viewed from the perspective of racial socio-economic transformation and development, to correct the historically bestowed racial inequality. Therefore, the interrogation of poverty in the South African context is much more than counting the poor. It is about the restoration of dignity to the previously disadvantaged racial groups. This borders on the anticipated socio-economic

transformation, rooted in national development, where the standard of living of all South Africans are elevated to a decent level.

Poverty has been interrogated from the perspective of these expected developmental transformations, since the election of a democratic government in 1994. Perhaps, the critique of persistent poverty since 1994, has been viewed as the failings of the ruling ANC government, while the private sector has not been held accountable for anything – ‘power without responsibility’ (Magubane, 1986). This can be adapted to read ‘wealth without responsibility’; a situation where the wealth created in the private sector serves the interest of very few South Africans and foreign investor alone, while the government is expected to be responsible for all South Africans.

By implication, socio-economic inequality forms the core of poverty discourse in South Africa. This core is surrounded by issues of access to income often through job creation and employment; and the provision of social services, amenities and infrastructure. The access to employment, social services, amenities and infrastructure are defined by race, gender and space in the South African context. These contextual realities speak to the dimensions or poverty profile of the country. Poverty discourse in South Africa features issues of racial and gender inequality as well as the geographical dimension of inequality, where there is more prevalence of poverty in the rural areas compared to urban areas (see Table 4.3b). Significant proportion of the majority black population (predominantly black Africans) is poor and more women are poor compared to men. Some writers have emphasised social exclusion and high rates of unemployment in their discussion of poverty in South Africa. Others are concerned with lack of access to economic wage and social income (both formal and informal). Unequal access to social services and infrastructure has also been given attention in the analysis of poverty in the South African context (May *et al*, 1998; May *et al*, 2000; May, 2000; Roberts, 2001; Cheru, 2001; Bhorat *et al*, 2001; Aliber, 2003; Adato *et al*, 2006; Seekings, 2007; Du Toit, 2008; Armstrong *et al*, 2008).

What these characteristics and/dimensions of poverty in South Africa have stimulated, is the over-emphasis on job creation and the reduction in the rate of unemployment, as the panacea to poverty reduction. While there are limited means-tested social security provisions in the country, economic growth and job creation has been highly emphasised with socio-economic policies proposed to achieve such objective. What we witnessed was that economic growth



has been modest. More crucial is the fact that the limited growth has not had any meaningful impact on the level of poverty and inequality in the country. The only modest assault on poverty is the partial social security provision of RDP houses and social grants. The liberal thrust of socio-economic policies, have blinded the government to evolving comprehensive social policy capable of fostering a long term and sustained human development and poverty eradication.

### Studying Poverty in South Africa

Quantitative and qualitative studies of poverty have been deployed in the study of poverty in South Africa. However, the adoption of the poverty line to measure poverty, has taken prominence by its adoption by government and Statistics South Africa (see chapter 4). The quantitative study of poverty often leverage on the national statistics compiled by Statistics South Africa. Key statistics that capture poverty data includes the October Household Survey (OHS), which was later replaced by the General Household Survey (GHS), Income and Expenditure Survey (IES) and the Labour Force Survey (LFS) (Roberts, 2001; Seekings, 2007; see Chapter 4). Why quantitative data on poverty is capable of revealing the prevalence and spread of poverty, it is limited in dealing with intra-household poverty and poverty dynamics (Woorlard & Leibbrandt, 2001). It can only identify the difference between transitory and chronic poverty, when a panel study is conducted to measure changes. However panel study is prone to depletion of sample due to death, migration and non-response. There is also the problem of experienced interviewees, who may be biased in their response (Marshall, 1994). Poverty transition matrix on household cohort between two periods to capture poverty dynamics was developed as an attempt to deal with this limitation (Roberts, 2001; Adato *et al*, 2006).

The qualitative approach to poverty was also given attention in the study of poverty in South Africa. May *et al* (1998) used Participatory Poverty Assessment (PPA), by drawing on the conception of Robert Chambers that the poor should be a party to the study of poverty because they are in the best position to understand their daily lived experience. PPA is a methodological position that suggests the understanding of poverty from the perspective of the poor to complement the gap in quantitative approach to poverty. It therefore, provides a comprehensive integrated approach to poverty that is conscious of the multi-dimensionality of poverty as experienced by the poor. The poor should be allowed to play an active part in the analysis of the causes and possible policy response to poverty. May *et al* (1998:3-4)



argues that subjective conception and treatment of poverty has capacity to unveil the historical antecedent of poverty, the process and dimensions of poverty because it speaks directly to the lived realities, views and desires of the poor. This approach, therefore, has the advantage of unifying the divide between the poor, social researchers and policy makers.

It is important to note Noble *et al* (2007, 2013a, 2013b) contribution of the “democratic definition of poverty in South Africa” and the “South African Index of Multiple Deprivation” (SAIMD) to the study of poverty in South Africa. Noble *et al* (2007) argue for the development of “a democratic definition of poverty”, to suggest that ordinary people ought to be involved in the conception of poverty in order to determine “socially perceived necessities”. It will correct the limitation of researchers’ prescription of what constitute poverty, by taking the views of common people into consideration. It could complement other conceptions of poverty with regards to issues of social participation. Their study revealed material possession, infrastructure provisions and social networks as important for the democratic conception of poverty in South Africa.

South African Index of Multiple Deprivations (SAIMD) was constructed sequel to the publication of the Provincial Indices of Multiple Deprivation (PIMD) in 2006 using the 2001 population census figures (Noble & Wright, 2013a). SAIMD 2011, the most recent index, was published in 2013 using the 2011 population census figures (Noble, Zembe, Wright & Avenell, 2013b). The index is designed to measure the level of deprivation using data from demarcated small areas, which allows for comparison of different areas of the country. The index can be used to measure single and multiple dimensions of deprivations in the demarcated areas, hence, it could inform spatial policy targeting.

The SAIMD 2011 is a composite of deprivation at education, employment, living environment and material dimensions. It was complemented with income poverty. Noble *et al* (2013b) found that multiple deprivation and income poverty is more prevalent in the former homelands, compared to other areas of South Africa, which shows a persistent apartheid legacy. This suggests that poverty reduction efforts must prioritise these areas.

What this suggests, is that the understanding of poverty from a research point of view is in tangent with the reality of the daily lived experiences of those living in poverty. Invariably, if correct information is gathered about poverty, policy response will be on point to redress and

eradicate it. Objective study has the tendency to treat poverty as static social pathology without the benefit of the views of the poor, who are studied. A pragmatic study of poverty that combines objective and subjective conception of poverty can foster comprehensive and inclusive understanding of poverty. The context of poverty and the daily lived experiences of poverty by the poor become instructive to a rich understanding of poverty; it is the central approach of this study. Hulme (2003) argues that the dynamics and processes of poverty can better be understood with a life history research.

I have discussed poverty extensively as one of the characteristics of the socio-economic and political context of South Africa in Chapter 4. That will not be repeated here. What I have done here is to make reference to the social and structural conditions that may be instrumental to the poverty figures and dimensions we see in South Africa. A major lacuna in the study of poverty and social policy in South Africa is the lack of the connection between poverty and social reproduction. This is precisely what this study contributes to the discourse. Social reproduction provides the hub, around which the discourses of poverty and social policy should revolve. Poverty is an assault on social reproduction and social policy is about a society planning as a collective on how to facilitate a decent level of social reproduction (often referred to as standard of living) for its members. The objective of an enduring society is the development of a sustainable system that will guarantee social reproduction of the society as a whole. The ordering of this system of social reproduction is contested, hence the debate of political economy.

The discussion of the social policy dimension is deferred to Chapter 8. It is deemed necessary to analyse the empirical data before engaging with the discourse of social policy. The author is particularly interested in how the empirical data will engage the dominant conception of social policy, hence the need to analyse the data before the chapter on social policy. Social policy, it is argued, is a development-centred response to the challenge of poverty and its implication for social reproduction. This study uses the South African case to interrogate the conception of social policy. It seeks to make substantive conceptual contribution to the specific contextual nature of poverty, social reproduction and social policy.

## **2.6 Concluding remark**

What we have done in this chapter is to show that there is a link between poverty, social reproduction and social policy. However, only social reproduction and poverty have been

extensively discussed. In Chapters 5, 6 and 7, I will present the empirical data analysis to see the implications of micro-credit institutions for the interaction between poverty, social reproduction and social policy. This study proposed that the prevalence of micro-credit institutions - formal and informal such as ‘mashonisa’, ‘cash loan’ and retail hire purchase - is an indication of cracks in South Africa’s social policy system. This is reflected in the practice of using credit to fill the shortfall between wages and consumption. Access to credit is only developmental, when it is consumed productively. This study seeks to conceptualise the implication of the practices of these micro-credit institutions, for the social reproduction or poverty of the South African household.

The increasing patronage or interaction between micro-credit institutions and South African households must be interrogated from the perspective of social reproduction and poverty. Micro-credit institutions have become a permanent feature in the daily lived experiences of households in South Africa. It is imperative that we understand the nature and implications of this development. The implication of micro-credit consumption for households can either enhance or stifle social reproduction. In effect, it can alleviate or propagate poverty. This study therefore, seeks to understand poverty beyond the limitation of household income and expenditure, to look at institutions that may alleviate or perpetuate poverty within a society. The specific focus on micro-credit institutions is against the dominant neoliberal conception that credit is good and developmental. This study will interrogate this conception using empirical data from the South African context.

## Chapter 3

### Methodology

#### 3.0 Introduction

The basic proposition of this thesis is to understand the relationship between poverty, social reproduction and social policy, by transcending the focus on family/households income and/or expenditure. It seeks to understand the implications of the patronage of formal and informal micro-credit institutions for families/households. It is imperative because these institutions fill the gap between wages and consumption. Perhaps, the pervasive nature of these institutions speaks to the gap in the prevailing social policy regime in South Africa. In specific terms, this study is focused on the activities of the formal and informal micro-credit institutions – ‘cash loan’, *mashonisa*, and retail hire purchase; to understand the implications of the activities of these institutions for families/households social reproduction and/or poverty; and to understand how this speaks to social welfare of families/households with regards to the prevailing social policy architecture in South Africa.

Ontology and epistemology are imperatives to providing the foundation for social science research work in practice. They should be visibly linked to practical research work in terms of informing the choice of method (Danermark, Ekström, Jakobsen & Karlsson, 2002: 4). In other words social science research should be grounded in ontological theories. The decisions and choices we make in the process of conducting research, “theoretical and practical labour” (Bhaskar, 1986: 68), should take cognizance of our ontological orientation and epistemological standpoint. Several works argue for this grounding with emphasis on the understanding of the nature of the relationship between philosophy and social sciences (Kivinen & Piironen, 2007).

Ontology has been conceived as the nature of being or existence, which is imperative for any attempt to understanding the world or the part of it thereof. So what exists, the nature of their existence and the relationship between them is instructive in this regard, “the inventory of kinds of beings and their relations” is at the core of ontology (Oxford Dictionary of Sociology, 1998:465). Therefore, ontology has to do with the study of ‘being’ and the assumptions about social reality that a particular perspective to social enquiry makes in regard to what exist, their nature and relations (Blaikie, 1993: 6). Epistemology on the other hand has to do with the philosophy of knowledge. How do we know and/or how we can know

about the world generally (Oxford Dictionary of Sociology, 1998). Hence, epistemology speaks to the theory of knowledge, the justification for acceptable knowledge in terms of what and the conditions for its acceptability in order to demarcate it from beliefs (Blaikie, 1993: 6-7; Popper, 1959)

Epistemology is broadly divided into two broad schools of thoughts, rationalism and empiricism (Oxford Dictionary of Sociology, 1998), which seek to provide justified basis for knowledge. Rationalism is founded on logic and mathematics, while empiricism is of the position that reliable knowledge cannot be devoid of sense experience. They therefore, differ on the ground that; whether knowledge is innate and independent of human experience or it is contingent on human experience. These positions are an indication that knowledge and how we know are contested. The consideration of how knowledge is created is fundamental to the presentation of the methodological process of a study of this nature.

The need to be clear about the ontological and epistemological position in designing a research method was succinctly captured by Danermark *et al.* (2004:3), when they wrote that “metatheories deal with ontological and epistemological issues, that is, questions about the nature of reality and how we gain knowledge about it... the history of science shows that theoretical and methodological developments is closely connected to metatheoretical development”. The significance of thinking about ontological belief and epistemological standpoint, when conducting a research is the fact that they provide the researcher with the nature and characteristics of the object(s) of study. This is crucial for how we structure our research problems, research questions and ultimately the methodological decisions we make before and in the course of a research study.

### **3.1 Appropriating grounded theory**

As I worked through my PhD proposal, it became more sensible that grounded theory could be useful in engaging with my research questions, perhaps to bridge the gap between abstract theoretical conception and concrete empirical research (Strauss & Corbin, 1994: 275). More importantly is the promise of the discovery of theory (Glaser & Strauss, 1967), which means I will be able to say something concerning, at least, the substantial area of study. This promise was clearly stated in the foundation text, *The Discovery of Grounded Theory* of Glaser and Strauss (1967:1), when they wrote that the book is focused on “how the discovery of theory from data – systematically obtained and analyzed in social research – can be

furthered”. They further argued, that the objective of social research is to discover theory that ‘fit’ and ‘work’ using comparative analysis on qualitatively or quantitatively obtained data, once the emphasis is placed on theory generation and not theory verification. Added to this, are the interest and training of the researcher and the type of data s/he needs for his/her theory (Glaser & Strauss, 1967:1-17).

What follows is a detailed discussion on how this method is to be applied in practical research process, which featured conceptual discussion and practice of theoretical sampling, coding, constant comparative method of data analysis and memo writing (Glaser & Strauss, 1967; Dey, 1999; Charmaz, 2006). Perhaps, the prescriptive’s guidelines on how to use grounded theory, could be argued, limit the space for creativity and its adaptability to specific research situations. However, Charmaz (2006:9) argues that it emphasizes a set of principles and practices and not prescription. For her, the guidelines are flexible and they are not “methodological rules, recipes and requirements”. Its operation includes collecting, coding and the analysis of data. Charmaz & Bryant (2011:291-309) note that grounded theory has been criticized on the bases of lack of “credibility, precision and coherence” because of the researchers that claim to use it without understanding the method, its development that resulted in the separation between the founders (Barney Glaser and Anselm Strauss) and the lack of conceptual clarity on how theory will emerge from data. They argue that the method is credible and rigorous on the ground that critics have not followed the development in the theory. Essentially, they argue for the Charmaz’s Constructivist Grounded Theory (CGT) (see Charmaz, 2006), citing an epistemological shift from the positivist foundation to interpretivist epistemological standpoint.

Since the foundation text was published in 1967 (Glaser & Strauss, 1967) three theoretical strands of grounded theory have emerged over the years. The separation between Glaser and Strauss has led to the emergence of the Glaserian and the Straussian brands of grounded theory (see Strauss & Corbin, 1998; 1990; Glaser, 1998; 1992; 1978). Kathy Charmaz’s critique of the founding fathers as tending towards positivism epistemologically led her to develop the Constructivist Grounded Theory (CGT) rooted in interpretivism (Charmaz, 2006). Dey (1999:11-12) sums up grounded theory method as involving finding an interesting area of inquiry, then selecting a site(s) relevant to the area of study, collect some data to generate some ideas and deepen the idea through comparative method. Then reconcile the ideas that emerge, and finally put them together around a theme. Dey (2007: 167-190)



suggested the conception of grounded theory as a narrative analysis to ground category as an alternative to coding. He argues that it will provide “interpretive grab” (Dey, 2007:188) by presenting the narrative within the framework of a plot, around which a story is developed. This can provide a space for historical analysis.

There are broad conceptual and structural agreements between the three types (Glaserian, Straussian and Constructivist Grounded Theory) of grounded theories. However, there are differences in the conception and practice of part of the stages. For example Glaser and Strauss diverge on the issue of verification. While the former argues that there is no room for verification in grounded theory, the latter posits otherwise. In the same vein, they disagree on the use of prior theories. Glaser forbids the use of prior theory to prevent the risk of ‘forcing’ data to fit it, while Strauss argues that prior theories can be played against the data (Dey, 1999:21-22). Why all the variants of grounded theory agree that process should be the focus of analysis, Glaser and Strauss differ on their conception of process. Glaser posits that process should be conceived in phases contrary to Strauss and Corbin’s notion of conditional paths, actions and consequences. They argue that analysis should take into consideration the causal, contextual and intervening conditions (Dey, 1999: 151-155).

Charmaz’s constructivist grounded theory’s (CGT) difference from the Glaserian and Straussian brands, stem from her position that grounded theory includes positivist and interpretivist epistemological orientation, which she called objectivist and constructivist grounded theory respectively (Charmaz, 2006:127-132). She argues that the positive way forward for the development of grounded theory is the CGT, which takes the process of data collection and theorizing as social construction involves the researcher in the social interaction process. For her, theory cannot be discovered from data as argued by Glaser and Strauss because the researcher is part of the world they study and the process of data collection (Charmaz, 2006:10). Central to all types of grounded theory is theoretical sampling, coding and analysis through constant comparative method to develop categories and their properties and subsequently connecting the categories around a core category to develop a grounded substantive theory. Memo writing provides the tool for connecting these different stages (Glaser & Strauss, 1967; Dey, 1999; Charmaz, 2006). While Glaser and Strauss (1967) emphasize inductive and deductive logic as key to reasoning through the data, Charmaz (2006:103-104) highlighted abductive reasoning and inference that take into



consideration all possible theoretical explanations for the data, using constructed hypothesis against the data in order to select the best explanation, citing the work of Peirce.

What remained unresolved, however, is how and when to use existing theories and literature in grounded theory. There is a disagreement on whether they should precede or succeed data collection and analysis in consideration of how preconceived ideas and theories may affect the substantive study. The initial position of Glaser and Strauss (1967) was that delaying literature review till after data collection will help researchers articulate their own ideas without being corrupted by existing ideas. The counter position is that researchers are not 'tabula rasa', hence, they are imbued with preconceived knowledge of their field of study (Charmaz, 2006: 165-166). While Charmaz (2006: 166-168) suggested a trick of using literature to address the developed grounded theory by assessing and critiquing it from this point of view, she was not clear on when this engagement should happen.

### **3.2 Adapting grounded theory – critical realism**

This study derives from the ontological assumptions of critical (transcendental) realism. The choice of grounded theory method was informed by this ontological orientation. The method was adapted with a view of this ontological orientation, the nature of the object of study and the research problems of this study. Appropriating grounded theory to critical realist ontology is possible as Charmaz (2006) and Bryant and Charmaz (2007:31-57) note with the notion of objectivist and constructivist epistemology inherent in grounded theory. Bryant and Charmaz (2007) are critical of the positivist tendency in ground theory, which tends to take the data collection process as unproblematic, and advocated for constructivist interpretivism thrust of grounded theory. However, what is important for this study is that, the method provides some space to be creative and adapt it to specific research problems and situations. I am not suggesting that critical realism is the combination of positivism and interpretivism, but grounded theory resonates with critical realist ontology, methodologically. Particularly abductive reasoning, which Bryant and Charmaz (2007:31-57) argue is at the centre of grounded theory logic because it provides a connection between empirical data as well as imaginative interpretation with the objective of developing theory.

This study is biased towards the Straussian variant of grounded theory, using the founding text (Glaser & Strauss, 1967) as the starting point. This choice is informed by the seeming shift (I will say progress) from the founding text by taking into consideration, how social

science research methods have evolved over the years. It is also important for the way this study adapted grounded theory because of Strauss and Corbin (1998:36) suggestion that grounded theory's strength is inherently more useful for data analysis when they wrote; "this is a book about analysis and not about doing fieldwork". My reading of axial coding suggests that its execution is reminiscent of abductive reasoning highlighted by Bryant and Charmaz above. Critical realism emphasizes the use of abduction and retroduction in addition to deduction and induction (Danermark *et al*, 2004:79-114). Also important for this study is the way Strauss and Corbin (1990:50-52) accounted for how literature should be deployed and utilized in the research process. We will look at critical realism in brief in the next section and how it is appropriated to provide an ontological basis for this study with regard to grounded theory method.

### **3.2.1 Critical realism – ontological basis**

Realism as an ontological orientation stems from the conception that the object of scientific enquiry exists independently of the scientist and the research process, explicated by making a distinction between empirical, actual and real domains. Events are observable or experienced at the empirical domain. They happen at the actual domain, whether we can observe them or not, and the real domain is concerned with the mechanisms or processes that generate events (Blaikie, 1993:98). This is an ontological postulation of intransitive mechanisms and structures and the transitive historical, conceptual and theoretical framework developed to understand and explain them in view of their power and tendency to generate observable events (Blaikie, 1993:98).

The idea of critical realism was captured by Danermark *et al* (2004:5), when they wrote: "within philosophy, critical realism involves a switch from epistemology to ontology, and within ontology a switch from events to mechanisms... to switch from events to mechanisms means switching the attention to what produces the events – not just the events themselves... when they are experienced they become an empirical fact. If we are to attain knowledge about underlying causal mechanisms we must focus on these mechanisms, not only on the empirically observable events". This statement emphasizes the importance of taking seriously the nature of being (or existence) of our objects of study and how we can know about them, and not making the mistake of trading epistemology for ontology, and vice versa. This is what Bhaskar (1986:23; 1997:139-147) called epistemic fallacy (reducing being to the knowledge) and ontic fallacy (reducing knowledge to being). He also notes the need to avoid

reducing science to philosophy (speculative illusion), and philosophy to science (positivistic illusion).

For Bhaskar (1986:22), therefore, scientific argument should take into consideration “ontology, epistemology, metaphysics generally; and substantive historical sociology of knowledge” to avoid the above fallacies and illusions. However, there should be a meeting point between philosophy and science in terms of demonstrability and comprehensibility respectively. Hence, philosophy to an extent is dependent on scientific practices, but not limited to scientific belief. In the same manner we cannot conceptually think of method without science and of science without method – “methodological circle, twin-screwing philosophy and science” (Bhaskar, 1986:19). The difference between ontology and epistemology is highlighted by the conception of intransitive (object of scientific enquiry with objective reality) and transitive (socio-historical process of knowledge production about objects that are real) respectively. Transcendental or critical realism speak to the interrelationship between ontological realism, epistemological relativism and judgmental rationality rooted in norms, reflexivity, and ethics responsibilities (Bhasker, 1986:24-25).

Methodology is the borderline between the philosophy of science and the “critical methods or working procedures used in specific studies.” (Danermark *et al*, 2004:79-114). This can be made intelligible methodologically by understanding the characteristics of the object of study. Making generalizing claims through inference (deduction, induction, abduction and retroduction) to explain events and processes by description, conceptualization of properties and causal mechanisms of events and their manifestation in specific conditions is fundamental to all sciences (Danermark *et al*, 2004:73-74). The conception of scientific laws as tendencies in critical realism was clearly stated by Bhaskar (1986:34), when he wrote: “laws are analysed as tendencies of mechanisms which may be possessed unexercised, exercised unrealised and realized undetected (or unperceived) by science.” This argument was espoused by Danermark *et al* (2004:74-75), when they argue that laws are “description of mechanisms existing as a property in reality, but whose observable effect strongly vary depending on the concrete circumstances. Hence laws should be analysed as tendencies. What is usually called a qualitative case study in the literature is a method very well suited for acquiring knowledge about such mechanisms or laws.”

The above argument, for me, provides a possibility for connecting critical realism to grounded theory method and case study research design. Grounded theory is fundamentally a data analysis method (Strauss & Corbin, 1998: 36) concerned primarily with identifying categories, their properties, dimensions and action/interactional strategies and their consequences (Strauss & Corbin, 1990:97). Important in this conception is the condition that generates categories, the embedded context with how the social processes is played out in terms of social actions. This is in tune with the critical realist ontological and epistemological bases. Case study research design provides the space for contextualizing the observations and/or experiences in order to probe the underlying causal mechanisms. Strauss and Corbin (1990:99) in what they called ‘paradigm model’ in their discussion of axial coding is reminiscent of critical realist building models of mechanisms, capable of explaining phenomena, if they exist and acted as postulated (Bhaskar, 1986:61). In grounded theory, Strauss and Corbin (1990:99) posit that categories and subcategories are linked in this order of conditions – phenomenon – context – intervening conditions – action/interaction strategies – consequence. This can also be looked at with a view of the critical realist theoretical and practical explanation models of DREI and PRRE respectively (Bhasker, 1986:68; Danermark *et al.* 2004:193-197; Steinmetz, 1998:170-186).

The departing point of this study is not to be limited by the prescription of the methodology guidelines or principles, but to take seriously the nature of the phenomena of study. The ontological and epistemological precepts of the nature of the phenomena of study are instructive in this regard. Added to this are the research problems and questions posed about these social phenomena. Therefore, the account of the methodological process will be explicit with regard to any adjustments and/or adaptations made to the chosen methodology conceptually and practically. I have indicated above that critical realism provides the ontological and epistemological bases for this study. These have informed the choice of grounded theory as a research method because of its adaptability to critical realism and the nature of the research problems and questions. Case study as the research design provides contextual framework to probe the phenomena of study.

### **3.3 Theory and Empirical Data**

Before speaking to the research design in the next section, it is crucial to be clear on how we think of and use theory in this study. The relationship between theory and empirical data are dominantly captured by middle-range theory devoted to theory verification and/or

falsification (testing) (Popper, 1959) using hypothetico-deductive logic and grounded theory devoted to theory generation from empirical data. Both traditions are empirically biased and overlook the significance of general theory (Danermark *et al*, 2004:135). They argue for the need to go beyond deductive theory verification or falsification and inductive theory generation and work with general theory complementarity by employing abduction and retroduction. General theory that speaks to broad macro social process, system of integration of social processes in principle and ‘transfactual’ or foundational theory that speaks to underlying social structures and mechanisms are important for social science analysis. For Danermark *et al*. (2004:41), general theories are imperative for social analysis, in as much as they can expose real social structures and mechanisms and their manifestation in experiential observable events in distinct socio-cultural and historical contexts.

Speaking to the specifics of grounded theory, the notion of memo writing connects the researcher’s abstract thinking with the empirical data (Strauss & Corbin, 1990:198-203). What they did not specify is what they considered to be abstract thinking and if abstraction could be devoid of the existing theoretical disposition, that can provide a framework for interacting with empirical data, whether they informed the process of data collection or not. They went further to argue that memo transcend people, events or incidence, but speaks to the abstracted concepts that represent them. Also important for this line of discussion is their conception of the use of literature, when they argue that a researcher brings some knowledge of technical literature to the study, the important thing is that it should not obscure emerging insight from the data. Emerged categories should be interrogated with the literature (Strauss & Corbin, 1990:50). They agree that literature is an important stimulus for theoretical sensitivity with regards to providing concepts that can be played against empirical data. Literature can also serve as secondary data, generate questions, shape theoretical sampling and use for validation (Strauss & Corbin, 1990:50-52).

The consideration of extant theory in grounded theory has made Goldkuhl and Cronholm (2010:187-205) to argue for what they called ‘multi-grounded theory’ (MGT). MGT framework speaks to the need to take the grounding of theory beyond the empirical to include theoretical and internal groundings. They argue against the danger of grounded theory disposition of ‘slavery to the data’ on the premise that grounding should also be informed by other sources of knowledge as justification and validation. They argue that existing theories can be used to complement empirical data in the development of the substantive emergent

theory. Therefore, extant theories should be constructively deployed all through the research process.

The germaneness of theory and the need to be able to adapt standard methods in practical research situations was reflected by Danermark *et al* (2004:149), when they posit that using theories and concepts in relation to empirical data in different ways is crucial to social science research, and cannot be limited to a method. We have to reason with concepts through abstraction, grounding, interpretation and verify or falsify, in order to modify extant concepts or develop new ones – logical rules or strictly standardized method, could be limiting in this regard. Conceptual language enables us to understand and categorize reality as concepts are continuously being developed. This presupposes an independent intransitive reality (Danermark *et al* 2004:116).

The foregoing discussion set the tone and justification that extant theory and literature were used actively and passively at the different stages of this research process. Particularly, this study used meta-theoretical assumptions of critical realism to adapt grounded theory research method, taking into cognizance the research problems, research questions and the nature of the phenomena of study. In the light of this, critical realism sees the four modes of inference (deduction, induction, abduction and retroduction) as complementary, and not contradictory. More importantly, it is a move above the limitation of formal logical reasoning, rooted in deductive and inductive inferences to a broad based ‘thought operations’, which combine different methods of reasoning and interpretation to draw conclusions – rooted in the power of abstraction, imagination (see Mills, 1959) and creativity (Danermark *et al.* 2004:78-79). The different modes of inference, therefore, represent different ‘thought operation’ of moving from one thing to something else. As an excess to the formal logical reasoning, abduction and retroduction are ‘thought operations’ that introduces abductive theoretical redescription and retroductive necessary and contingent ‘transfactual’ casual conditions/structures or mechanisms. Therefore, the critical realism model of explanation gives a framework on how to connect the concrete social processes to the abstract ‘thought operation’ and vice versa (Danermark *et al.* 2004:92-109).

### **3.4 Research Design**

Case study provides the framework for this study. The choice of case study as a research design was informed, by the research problem/questions, the ontological orientation and



epistemological standpoint that is rooted in the nature and characteristics of the social phenomena (objects) of study. Also, case study as a research design is synonymous with grounded theory as a research method. Grounded theory is rooted in the study of cases to develop substantive theory that speaks to a particular study context. Substantive theory can be developed into a formal theory, if they are applicable or replicable in different cases or contexts. Hence, grounded theory method is designed, to develop substantive grounded theory (SGT) in the first instance, and subsequently developed to a formal grounded theory (FGT) (Glaser & Strauss, 1967; Glaser 2007:97-113).

Yin (2009:2) noted that the choice of a research design should be informed by the research questions, whether or not the researchers have control over social events or behaviour and whether the focus of the research is on historical or contemporary social phenomena. Case study as a research design is amenable to a study that asks the question of ‘why’ and ‘how’, where the researcher has no control of social events in contemporary real life context. Quantitative or qualitative research methods may be deployed under case study as informed by the research questions (Bryman & Teevan, 2005:42-43). Though Stake (1998:87), argues that a case must be bounded in specific terms and be a “functioning specific”, Yin (2009:18) has noted the applicability of case study to an in-depth study of social phenomena within a real life context, particularly, when the delineation between the social phenomenon and real life context are not clear. Drawing boundary to a case epistemologically is problematic, hence attention must be paid to the socio-historical context of social action and the action itself (Chadderton & Torrance, 2011:53-60).

Case study, as a research design, provides the framework to connect research data to be collected (quantitative or qualitative) to the research questions to inform conclusion. Therefore, it is much more than a work plan or research logistics; it is concerned with logical problems. A case study, therefore, speaks to the five components of research questions, research propositions, research unit(s) of analysis, the logical connection of data to proposition and theory development or testing (Yin, 2009:24-36). Important in the conception of case study is a defined case, real life situation, the importance of context and the flexibility to use different methods of data collection as dictated by the research question. The limitation to generalize a case study result has been one of its major criticisms as a research design. Verschuren (2003:123) and Yin (2009:61-62) have argued, that multiple-case is better than single-case study to improve generalizability. More crucial for case study, is that it should not



be evaluated vis-à-vis population generalisation (statistical generalisation), but by theoretical generalisation which is analytic (Yin, 2009:15).

The argument above about generalisation is close to what Danermark *et al.* (2004:76-77) refer to, as a distinction between empirical generalization rooted in extrapolation from known cases to the broad population, and transfactual underlying mechanisms or central conditions that shape observable objects and make them what they are. The latter speaks to the conception of generality by critical realism. The objective of this study is not to extrapolate from the study cases to the larger population. Rather, it is to uncover the relational workings of the underlying mechanisms and/or structures that can provide theoretical explanation for the observable behaviour and/or events on the social phenomena under study. The conceptual relations between empirical categories and abstract concepts are imperative in this regard. The focus of this study is to probe the interaction between social reproduction, micro-credit institutions and the lesson it can provide with regard to social policy dispensation in the South African context, by drawing on the experiences of households. However, the knowledge gained in this study might provide an important starting point, at least, in engaging with other contexts.

Verschuren (2003) also argues for the imperative of logical inference and the flexibility of the adaptability of different research methods for in-depth study and understanding of case(s). Macpherson, Brooker and Ainsworth (2000:49-61), note that case study as a research design, should be understood in terms of place, purpose, process and products. The context of the study, the explanation and understanding of the phenomena under study, the different research methods of gathering data, analysis and interpretation and the product of the research in terms of findings and/or theory generation are very important in this regard. Flyvbjerg (2006:219-245) speaks to the imperative of context in the production of knowledge about social phenomena, in what he called the power of example (case), and the ability of a case study to provide depth of understanding. More important for him is that, social science research method should be research problem driven.

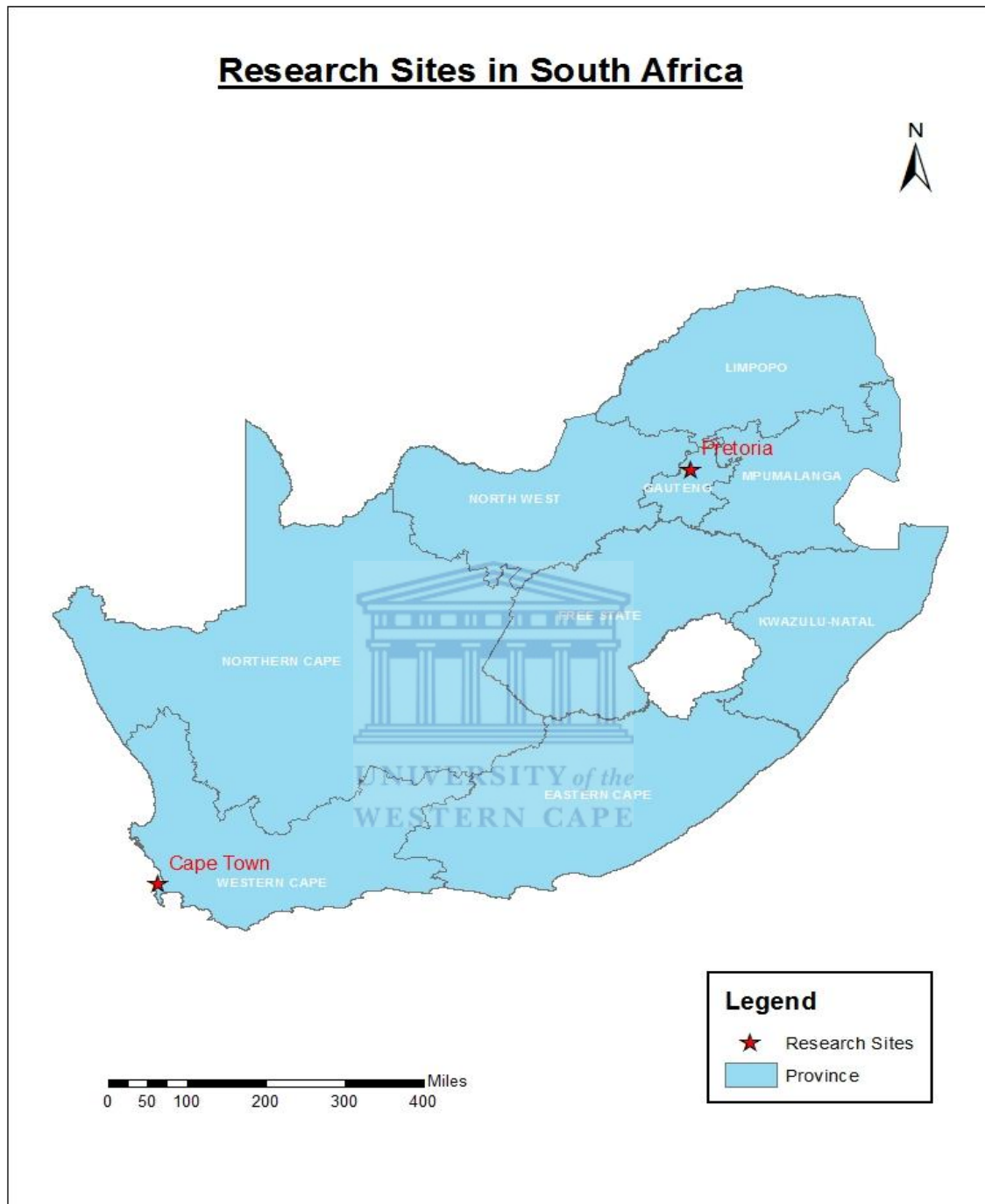
### **3.5 Selection of Participants – Study Sites**

At this stage of the research, two decisions were taken with regard to the selection of participants for this study. It was at this stage of the study that it became apparent that what informs and shape the choice of research method, data collection process and the subsequent

decisions that are taken as the study progresses transcend the issues of ontology, epistemology and the research problems and/or questions to include what I will call ‘practical field experience’. Drawing on my experience of this study the decisions and choices that are made in the course of the research are to a large extent shaped by the ‘practical field experience’. The adoption of a flexible research design, which case study offers in this instance, is crucial to dealing with the ‘practical field experience’. The point here therefore, is that apart from the ontological, and epistemological bases of this study and how they reflect on the research questions, the decisions that were made in the course of the study are to a large extent influenced by the practical experiences of the study field.

The selection of participants for this study was done in two stages; the selection of the study site and the selection of participants. Important for the selection of study site in case study research design, is the selected case (a site with a geo-political boundary in this instance) provides the ‘opportunity to learn’ about the phenomena of study (Stake, 1998:100-102). Therefore, the typicality or atypicality of the case is not the prime concern in the selection of a case. Rather, a case site must provide the contextual and relational space to learn and understand the phenomena under study. While typicality is imperative, the choice of a case study site cannot and should not be reduced to that. While this study investigates social reproduction in South Africa and the featuring of micro-credit institutions in the interstices in the interaction between the economy, the family/households and the state, only Pretoria and Cape Town were selected as study sites (see Figure 3.1). This is a small scale study that seeks to understand and explain how micro-credit institution features in the daily lived experiences of South African family/households, in relation to social reproduction, poverty and social policy. The choice of Pretoria and Cape Town was informed by access to both cities provided in terms of getting participants to participate in the study. I have lived in Pretoria for four years, whilst completing my honours and masters degrees, hence I have friends that could help with regard to accommodation, moving around and most importantly, introduce potential participants to me on visits for my field work. The choice of Cape Town was motivated by my current institution of affiliation, University of the Western Cape, which is located in the city.

**Figure 3.1: Map of South Africa Showing Two Study Sites (Pretoria and Cape Town)**



*Tunji John Fadolapo: Geographical Sourcing Analyst, TomTom Africa*

The decision to draw participants for the study from two cities in South Africa therefore, was not motivated by the need for comparison. Administrative delineation of provinces and cities is at variance with social relations and processes of social reproduction, which permeate administrative boundaries, are very important for this study. The geography of social relations and social reproduction that emerged in the course of this study, suggests that an

attempt to compare the research data on the basis of Pretoria and Cape Town is unwarranted. Whilst any form of dynamism between the data gathered from both cities will be taken cognizance of, the motivation is to treat all data as relating to the South African context. Therefore, I speak to South Africa through cases of two cities. The limitation of the data will be dealt with at a later stage in this chapter.

### **3.6 Selection of Participants – Sampling Methods**

Theoretical, purposive and snowball sampling techniques were used in this study. My reading of theoretical sampling as elucidated by the grounded theory research method reveals a gap that can be filled by purposive and snowball sampling methods. Glaser and Strauss (1967:45) define theoretical sampling as “the process of data collection for generating theory, whereby the analyst jointly collects, codes and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges.” The process they argue must be initiated by what they called ‘local’ concepts that speak to the broad structure, characteristics and processes that relate to the phenomena under study. It suggests that data collection is informed by the emerging theory. Different techniques of data collection could be used as determined by the different ‘slices of data’ that are relevant for the development of categories and their properties. The cycle of theoretical sampling, should only come to a close at theoretical saturation (Glaser & Strauss, 1967:46-70).

In a similar vein, Strauss and Corbin (1990:177-193) contend that theoretical sampling should be driven by the need to conceptually relate categories, their features and dimensions. This must be rooted in the logic of the three coding processes and theoretical sensitivity. Hence, theoretical sampling facilitates the process of developing theory, through the process of building categories, their properties and dimensions (Strauss & Corbin, 1998:201). Charmaz (2006:100-101) emphasizes that theoretical sampling is focused at the explication of categories to stimulate the development of concepts and theory. The motivation is not the sample representativity of the study population and generalization, rather the clarity it brings to the emerging concepts and theory. Significantly, Charmaz (2006:100) made a distinction between initial sampling and theoretical sampling. While the former is concerned with the starting point, the latter gives direction on how to get additional data to build the emerging concepts.

Breckenridge and Jones (2009:113-125) in a bid to criticize the deviation from the prescription of the classical grounded theory in what they called “the use and abuse of theoretical sampling”, make a distinction between purposive sampling and theoretical sampling. They argue that purposive sampling is informed by deductive logic because of the predetermined criteria for the selection of participants. However, conceptual and theoretical imperatives drive selection of participants, based on the type of data that are needed for further development of the emerging theory. Whilst theoretical sampling is purpose (to develop emerging theory) driven, it is not the same as purposive sampling. The attempt to dissociate purposive sampling from theoretical sampling poses the question of the starting point. In a seeming paradox, Breckenridge & Jones (2009:119) agree that purposive sampling provides the necessary starting point for theoretical sampling, when they wrote that “theoretical sampling may involve the purposeful selection of an initial starting point before moving into theoretical sampling when data analysis begins to yield theoretical concepts.” The appositeness of purposive sampling as a foundation to theoretical sampling, is what Charmaz (2006:100) refers to, when she makes a distinction between initial sampling and theoretical sampling without thinking of it in that light.

The claim of the abuse of theoretical sampling by Breckenridge and Jones (2009:117-118) is unwarranted, if we consider that the classical text (Glaser & Strauss, 1967:77) suggests that each researcher’s particular field experience, should contribute to the discussion of theoretical sampling. The important thing for them is that the strategies and techniques used in theoretical sampling, in view of field experience, must be accounted for in the research report. The conception of theoretical sampling, therefore, takes into consideration the development of the emerging theory through categories, their properties and dimensions, but oblivious of the starting point (discussed above) and the practical research process of securing participants in order to generate additional data to densify the concepts and emerging theory. The starting point has been dealt with above as the imperative of purposive sampling in theoretical sampling. The practical research process of selecting participants to generate additional data brings to the fore, the role of snowball sampling as a necessary complement for the effective deployment of theoretical sampling. Though theoretical sampling gives direction on what, who and where to look for additional data in view of the emerging theory, it does not deal with the how of getting the participants. Snowball sampling technique provides the referral process for selecting participants that are relevant for the objective of the emerging theory in the study.

Purposive sampling is a non-probability sampling technique. It does not give equal chance of selection to all the elements of the study population. Participants are selected, based on criteria that are imperative for the study as determined by the researcher (Burgess, 1984:54-55). In this study, it is theoretical sampling that provides the purpose (informed by the emerging theory) that drives the research. Purposive sampling provides the starting point that Glaser referred to as 'abstract wonderment' and Dey distinguish between 'open mind' and 'empty head' (cited in Breckenridge & Jones, 2009:118-119). Snowball sampling was used to identify and recruit participants for the study as directed by the theoretical sampling. It is also a non-probability sampling technique, in which participants are selected for a study drawing on the network of initial participants that are selected for the study, to give referral for the recruitment of other likely participants that may possess the attributes that are of interest to the researcher. The network cycle is continued until the saturation point, when there is no need for further sampling (Kumar, 2005:179).

Therefore, in responding to the practical field experience in this study, theoretical sampling was complemented with purposive and snowball sampling techniques. They all proved very useful in this study; purposive sampling proved useful for the starting point, theoretical sampling provided the direction for the field work and snowball sampling was useful for the recruitment of participants in practical terms. In addition to theoretical sampling providing the direction, practical field experience also shaped the direction and purpose of this study. Participants were selected for this study as it progressed, based on the direction that was given by the information extracted from the participants at different stages of the research. The study commenced in Pretoria. The initial idea was to get information from participants about their family's daily lived experiences of social reproduction, with regards to their income and expenditure, rooted in the background information about the family. My interest was also to speak to anybody that works in any of the micro-credit institutions in their personal capacity in order to get a sense of the work processes and practices of these institutions. A deliberate decision was taken not to go through the official route of speaking to people that work in micro-credit institutions in order to avoid being fed with a regurgitation of the South African National Credit Act of 2007. The focus was on the practices on the ground, and the implications of these practices for the social reproduction of family/households.



As the study progressed, it became clear that I had to speak to a legal practitioner about the legal implications of credit relationship between micro-credit institutions and individuals and their family/households. I also had to talk to traditional healers and academics about black Africans (Xhosa and Tswana in particular) cultural practices, with regards to rituals and their implication for the social reproduction of family/households. In other words, what started as a conversation with individuals, about the social reproduction of their family/households and the implications of the practices of micro-credit institutions, were subsequently extended to a legal practitioner, traditional healers and academics that understood the Xhosa and Tswana cultures. What became clear as the study progressed was that, consideration of social reproduction should be opened-up to social phenomena that affect economic decisions and choices, in order to make sense of observed practices.

### ***3.6.1 Participants' Recruitment Process***

#### *Pretoria Recruitment Process*

The process of recruiting participants in Pretoria was initiated by going back to the site of my master's research work. This only resulted in the recruitment of three participants as the context had changed. Most of the people that participated in the previous study, were no longer working in the organisation (they were subcontracted workers). A participant that would have being the fourth person, agreed to participate, but called the appointment off at the eleventh hour. The majority of the participants that were selected in Pretoria were facilitated by a friend of mine, who lives in Pretoria with his family. He is into the business of buying women hand-bags, bedding duvet and comforters, and jewelleryes in bulk and selling them to people, who pay for the purchased items in two or three monthly instalments. This is a form of informal hire-purchase. He has a network of clients and drives to their places of work daily to show them the items he has for sale. These people assess the various items and either buy or ask him to come at another time or ask him specifically, to help them get a particular item in his line of products. I have had the privilege of sitting in his car, whilst he did his business. I therefore solicited for his assistance in getting some of his clients to participate in the study. He was helpful in two regards, I stayed at his house on my field visits and his clients provided the pool to draw participants. His long established relationship with his clients made them feel comfortable to participate in the study.

His clients in terms of demographic characteristics are predominantly women, with a few men. Their job profiles include domestic workers, petrol attendants, till operators in large



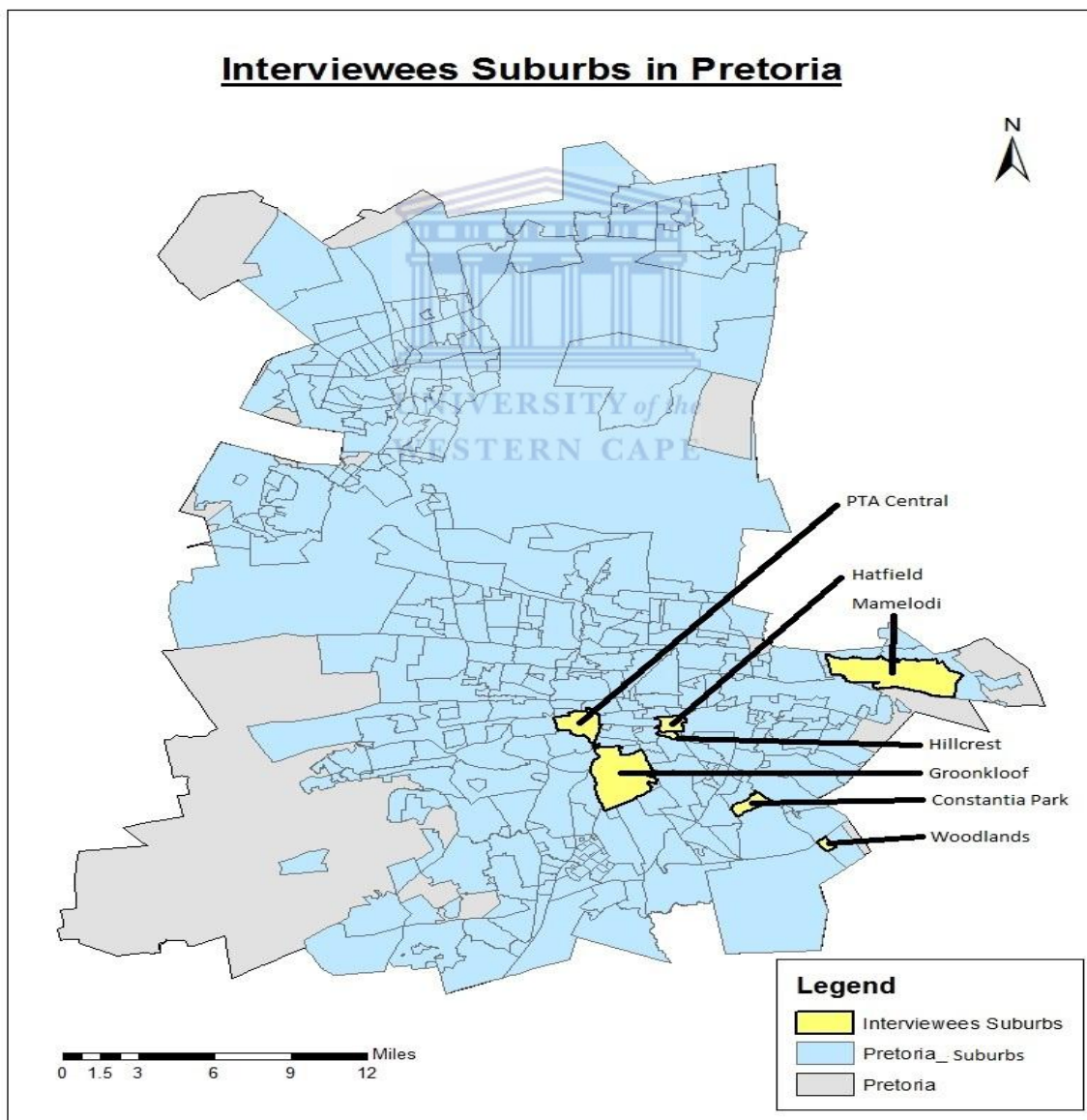
retail stores, a senior administrative officer, cooks at old age homes and high school, civil services workers, waitresses in restaurants and coffee café, among others. One thing that became very clear at this point was that these people did not feel comfortable to schedule our meeting at their homes. The reason for this was not clear, perhaps it has to do with what Tomlinson (1990:21-38) referred to as ‘displaced urbanisation’ around Pretoria, wherein market forces (cost of accommodation) perpetuate apartheid legacy by preventing black African urbanisation. Most of them are forced to commute to work in the city centre from the previously delineated homelands (Bophuthaswana and KwaNdebele) by apartheid legislations. One of the participants, who is a cleaner, told me that I will not survive if she asked me to come to where she lived. Another participant, who is a petrol attendant, told me that she had to sleep in the back room of the petrol station some days of the week because she could not afford to pay for transport every day as it would cost her over R1,000 out of her income of R2,500. Though I had thought that meeting them at home would allow for observation, I had to resort to meeting them at lunch-time or immediately after work.

In one of my several field visits, a former student that I taught while I was completing my masters degree at the University of Pretoria, offered to help me with the recruitment of participants. He lives at Mamelodi Township, about 20 kilometres to the east of Pretoria. On the field visit, he introduced me to his girlfriend, who accompanied me in the various visits to Mamelodi to meet the participants. He and his girlfriend helped with the recruitment and the scheduling of appointments, and I followed-up to keep the appointments with the participants as scheduled. Although his girlfriend accompanied me on the visits to keep the appointments, she was not part of the meeting. Her guidance in terms of locating the houses of potential participants was very useful because of the nature of numbering of Township houses with no clear designated street names around the new developments. The visit to a squatter camp was a clear indication of the need to navigate the terrain with somebody, who understands the context and how to move around.

The Pretoria fieldwork was challenging because of my inability to recruit participants working in micro-credit institutions. Only three participants agreed to participate in that segment of the study. One participant was recruited by walking into a small scale micro-credit institution ‘cash loan’ on Andries Street in the heart of the city. One of the staff agreed to speak to me in her personal capacity. Another participant in one of the big retail furniture and household goods stores also agreed to talk to me (also a walk-in), with the consent of her

manager, who later tried to withdraw his approval. Finally a participant, who processes credit approval for the biggest micro-credit bank in South Africa, agreed to participate through a referral from my former student mentioned above. The spread of interviewees, according to suburbs, is captured in Figure 3.2 below. Subsequently, several referrals by my friend, my student and the participants that work for the bank mentioned above and walk-ins proved abortive. The most difficult group of participants to recruit are the informal micro-credit money-lenders. This peculiar problem will be discussed later, when I speak to the experience of recruiting participants in Cape Town.

**Figure 3.2: The Spread of Interviewees According to Pretoria Suburbs**



*Tunji John Fadolapo: Geographical Sourcing Analyst, TomTom Africa*

### *Cape Town Recruitment Process*

The experience of recruiting participants in Cape Town was initially more challenging, but I recorded some breakthrough after some time. Perhaps it is because I was based in Cape Town. In 2011, my first year of living in Cape Town, the lack of knowledge and social network in the city posed a serious challenge for the recruitment of participants. Google map was very helpful in navigating my way around the city at the early stage. My department was the only network of people I knew in the city; hence access to participants was grossly limited. The initial success came, when it became clear that I have to talk to a legal practitioner that is conversant with credit and credit related issues. My supervisor knew a lawyer in Cape Town, who got his degree at his previous university. He introduced me to him and we had a meeting in his office. He had initially promised to also introduce me to some families in his community, but his tight schedule could not allow this. I gave up on the idea of him linking me up with potential participants, when a consistent push proves unfruitful.

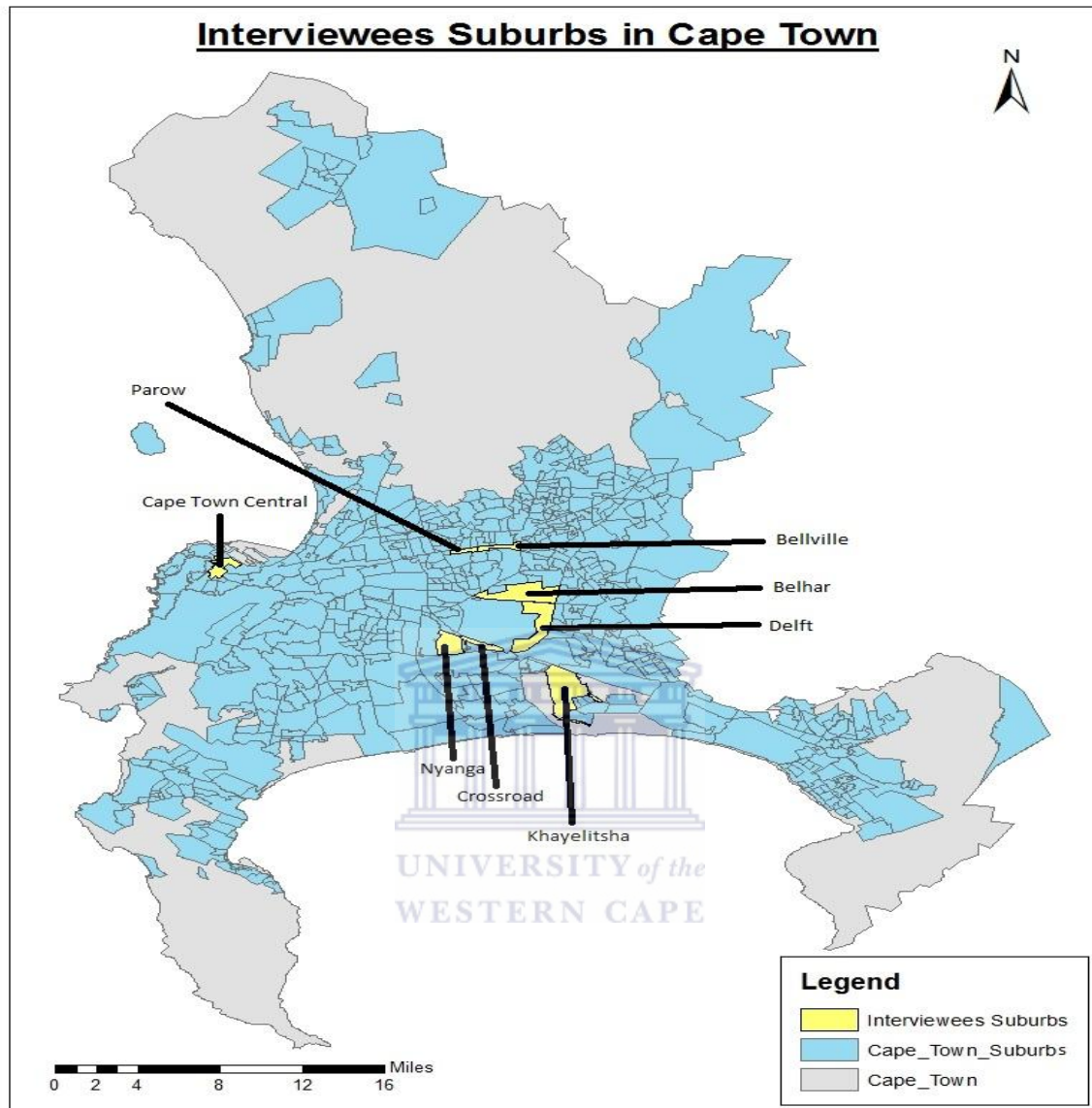
The real breakthrough in the recruitment of participants in Cape Town came, when I spoke to the departmental secretary, who agreed to assist me by introducing me to potential participants in her community. It took six months of living in Cape Town to get to this level. My experience of the city reflects communities of silos (of social relations) that only meet at work and at church and malls to a lesser extent. The location of malls and churches also determine the type of social group that dominate the social space. This had serious implication for the characteristics of the participants that were recruited for the study. By the time I got to the department in the last week of January 2011, the secretary was living at Strand, 35.3 kilometres (Google map) from the university to the east of Cape Town. At that point, she found it difficult to help me because she was removed from where she had contacts; hence she could not create time for taking me to meet potential participants. It was not until she moved back to Delft, 7.8 kilometres (Goole map) from the university, where she had lived before, that she was able to keep our appointment. The delay was also caused by the fact that she was away for three months on maternity leave.

Most of the participants were recruited from Delft, and few from Crossroads, Nyanga. This is because the secretary had lived there for a long time and had built a social network there. We drove around Delft to talk to potential participants, and I scheduled appointments with those that agreed to participate in the study. We also did some walk-ins, such as the participants that were recruited at the Delft Library and the office of one of the Ward Councillors. One of

the participants, who worked at Delft Clinic, introduced some of her colleagues to me. They subsequently participated in the study. Most participants in the micro-credit segment of the study were recruited through walk-ins. There are micro-credit institutions of cash loans and household goods and clothing retail stores that are clustered around central Bellville, which is not far from the university. Perhaps, the concentration could be as a result of the proximity to a central taxi rank and metro rail station that connect all the townships and central Cape Town. I did several walk-ins to talk to potential participants. I recorded few successes with the cash loans micro-credit institutions and even got two branch managers that participated in the study. The response from the retail clothing and household goods was not successful as most of the workers, supervisors and managers were not interested in the study. Some of the managers said I should go and get permission from their head office. The two participants I got in that line were walk-in at Belhar in furniture and electronic retail store. In addition, there was a sales consultant at an electronic retail store at Parow, introduced to me by my department's secretary. The participant happened to have worked and rose to the position of a manager at another household goods retail store, before joining his present employer.

The participants most difficult to recruit were the informal money lenders (*mashonisa*), who are very difficult to locate because they lived within (and are part of) the community, making it very difficult to identify. In addition, what they do is defined as illegal by the state. After the failure in the recruitment of this category of participants in Pretoria, I was very desperate to get some in Cape Town. This was not to be for a long time. Even the participants that claimed to patronise *mashonisa* were reluctant to refer me to any of them. This resonates with the Pretoria experience, where a *mashonisa*, who is my ex student's friend, refused to participate in the study, even after my friend told him it was for his research. The breakthrough came, when my department's secretary introduce me to her aunt, who does money lending business. Her aunt subsequently introduced me to her friend, who does the same type of business. Figure 3.3 shows the spread of interviewees according to suburbs in Cape Town.

**Figure 3.3: The Spread of Interviewees According to Cape Town Suburbs**



*Tunji John Fadolapo: Geographical Sourcing Analyst, TomTom Africa*

### **3.7 Data Collection – Qualitative In-depth Interviews**

In-depth qualitative interviews were used, extensively, for data collection in this study. Though case study research design, allows for the use of different data collection methods, qualitative in-depth interviews are more appropriate for the collection of data in view of the research problem and questions. It was thought appropriate that qualitative in-depth interviews would be most useful to extract the kind of data that speak to the objective of this study. Miller and Glassner (2011:131) observe that an in-depth interview is appropriate for research and theory building, devoid of the ‘objectivist and constructivist’ divide. Therefore, an in-depth interview can help to uncover reality. It has the capacity to lay bare the nature of



social phenomena, the contexts and the situation of its emergence and socio-cultural framework to make sense of the experience of the social world. The interviews were semi-structured to provide space for flexibility and the opportunity to probe deeper into issues that arose in the course of the interview process (Babbie, 2005:313; Neuman, 2000:370-372).

The strength of an in-depth interview is that it allows for the collection and interrogation of the narratives of the lived experiences of the social world. It provides the process for accessing self-reflection among research subjects to give accounts that facilitate theory building to understand the social world (Miller & Glassner, 2011:137-144). Vital for this study, is the use of data collection techniques, most appropriate for the study objective, contextual characteristics, and the philosophy of social science without anxiety. Therefore, methodological prescriptions were adapted by these needs. This thinking is supported by Miller and Glassner (2011:132) when they wrote that “dominant discourses (about research epistemology and methods) are totalizing only for those who view them as such; they are replete with fissures and uncolonized spaces within which people engage in highly satisfying and even resistant practices of knowledge making”. The decision and choices made in this study were not motivated by resistance, rather by the particularities of the research problem and context. The adaptation of research methods, with clear explanation of why and how, can lead to their further development or modifications.

Barbour and Schostak (2011:61-68) were of the view that imposition, grounding and emergence are three strategies for getting at the ‘real’. They argue for open interview, which has the potential to free the voice of the interviewee from the power of imposition by the interviewer (researcher). Hence, data are grounded in the experiences of the interviewees. They argue that the imposing nature of closed interviews could obscure reality. Open-ended interviews flow in conversation, issues and themes that are of relevance to a researcher will be raised in the course of the conversation, if they are of relevance to the lives of the interviewees, without a need to impose. A semi-structured interview was used in this study as indicated above. The interview schedule was used as a loose guide to initiate the conversation and the discussion was allowed to flow. This helped to direct the thought of the interviewees, on which part of their lived experiences to concentrate on in their conversation. This thinking is reminiscent of the grounded theory method position that the emerging data should be freed from existing conceptual frameworks, as much as possible, to allow for the grounding of the emerging categories in the data.

### ***3.7.1 Knowledge Creation and Reflexivity in Interview***

The response we get in an interview process could be affected by the perception of the researcher by the interviewees; hence there is a need to be conscious of how the social positioning of the researcher could have influenced the process. This does not reduce its strength to uncover people's lived experience, but are cognisance of how, who we are, could affect the interview interaction; inform the study; and bring clarity to the data (Miller & Glassner, 2011:134-136). Interview is a knowledge creation process and the role of the researcher becomes imperative and must be reflected (Guillemin & Gilliam, 2007:181). The notion of reflexivity speaks to the how of knowledge production by a research. Therefore, the action and role the researcher plays in the process, should also be considered in data analysis (Guillemin & Gilliam, 2007:181). Building rapport and trust is crucial to the interview process. Who we are, in terms of our social characterization and positioning, is crucial to this process as regard what we get from the interview process. Our consciousness of this is important for the management of the interview process (Miller & Glassner, 2004:131-148).

I am quite aware of how I might have affected this study. I am a male person of foreign nationality involved in a research of this nature. The initial reluctance of the walk-in participants that work for micro-credit institutions was clear evidence of this. I had to reassure them that I was not a journalist and that I did not work for any of the state security outfits. But as the conversation progressed their initial anxiety dissipated and they freely engaged with the interview process. Apart from this, the participants that were referred and introduced by my friend, my student and my department's secretary, with whom they are well acquainted, were quite receptive. I think knowing the person that introduced me to them helped in building trust and rapport in the interview process. Also, showing some of them my identity card and the letter of introduction from my department, did reassure them that the study is for academic purposes, which facilitated trust and rapport.

The social positioning of the researcher within the research field necessitates self-analysis because the perception of the researcher by the participants can influence the data. The expression of views are informed by the positioning of social actors within the social field in relation to one another – 'habitus', the disposition of social actors within the social field (Bourdieu, 2004). Whilst this is very crucial for an interview process, it speaks more to a situation, where the perception of the participants is central to the data that the interviewer seeks. In this study the nature of the data that was required in the interview process, was the



participants lived experiences and their knowledge of the work process of the micro-credit institution that they work for. Therefore, the interview was structured in a way to make them recollect their experiences and give the account. Trust and rapport was dealt with as indicated above, hence, any likely implication of the participants' perception of me is reduced.

### ***3.7.2 The Structure of the Interviews***

There is a need to balance flexibility and structure in every interview situation depending on the objective of the study, as driven by the researcher. Flexibility in in-depth interview allows for interviewees to tell their stories. Therefore, the interview schedule should not be treated as something cast in stone, but should be open and continuous (Babbie, 2005:313). Total flexibility could be difficult to achieve in practice, hence, the theoretical orientation of the researcher, the meaning of the interview process for the interviewee, and the need of the study subject informs the researchers' decision on flexibility (Masson, 2002:231).

There were three core interview schedules that were used to generate data/information for this study. The first was the interview schedule for household interview, which I called life history interview. The second was the interview schedule for the participants that work in the different micro-credit institutions, which are of interest to the study that I called micro-credit interview. The third was the schedule that was used as a guide for the interviews with the traditional healers and two academics, who understood the black African cultures in South Africa. I called this cultural interview. The interview I had with the legal practitioner was an open interview that speaks to his experience of handling clients with credit related matters. I thought since it is a field that I am less conversant with, a schedule could limit the extent of our conversation.

The life history interview schedule was divided into four sections. The first section of the schedule was structured to extract background information from the interviewees about themselves and their family/households. The second section of the schedule probes the life history/biography of the interviewees and their family/households. This provides the platform for the third section, which asks questions relating to the survival strategies and social reproduction of the family/household in terms of income and expenditure. The final section poses questions around the issue of collective consumption and social provisioning. This interview is called life history interview not because the study design is biographical, but because the interview was structured to capture the lived experiences of the interviewees as a

process by covering the experience of growing up, parents and siblings of participants in addition to their family of procreation. It was thought useful that present lived experiences cannot be understood without historical background to it. Structuring the interview in a biographical sense is useful for any type of social process and not limited to what Chamberlayne, Bornat and Wengraf (2000: 21) called 'whole person'. It has the capacity to connect micro and macro levels of analysis, by providing the space to understand the interrelationship between individual agency and social structure by drawing on lived experiences imperative for public policy (Chamberlayne et al, 2000:22-23; Fischer-Rosenthal, 2000:110-118).

It was thought useful to structure the micro-credit interview schedule into three sections. The first section was designed to extract background information about the participants' working experience and the organisation they work for. This is to put the discussion into context as a foundation for the second section of the schedule, which seeks to understand the work process of the micro-credit organisation. The interest here is to understand the micro-credit institutions' work or service process, from when a client approaches them for credit, to when the full repayment of the loan is made. The final section speaks to the micro-credit institutions' customer profile and the perception of the implications of the loan for their clients. The interviews (life history, micro-credit and cultural) combined speak to the interaction between social reproduction and the activities of the micro-credit institutions within the socio-political-economy of South Africa.

A combined total of fifty-four (54) interviews were conducted for this study. The break-down of the interviews into the different categories of interviews are as detailed. A total of thirty-six (36) social reproduction interviews were conducted in Pretoria and Cape Town – twenty-three (23) and thirteen (13) interviews in Pretoria and Cape Town, respectively. Thirteen (13) micro-credit interviews were conducted in total, three (3) in Pretoria and ten (10) in Cape Town. Four (4) cultural interviews were conducted, one (1) in Pretoria and three (3) in Cape Town. Finally one (1) interview was conducted with a legal practitioner in Cape Town. The interview process was discontinued, when a saturation point was reached. Additional interviews were not adding any new information to the data that I already have from previous interviews.

The larger part of the social reproduction interviews in Pretoria were conducted at the participants' work premises during their lunch break and immediately after office hours. These are mostly participants that were introduced by a friend of mine. The decision to conduct these interviews at their workplaces, was because that most of them resume for work as early as 7.00am or 8.00am and their closing time range from 3.00pm to 5.00pm. Their inability or unwillingness to talk to me outside these times was informed by the nature of their daily routine, which was also confirmed by my previous study in Pretoria. Most of the participants live in townships located at the outskirts of the city; hence most of them commute with Metro Rail, which is the cheapest mode of transport between the Townships and the city centre. Most of them buy monthly tickets because of the price discount, but they have to keep the train schedule, which at times put them under time pressure after work. They were very reluctant to grant me an appointment to come to their houses over the weekend, though I initially thought it would have been useful to conduct the interviews in their homes. The interviews of six of the participants that were introduced by my former student were conducted at their homes at Mamelodi Township. Added to this is one of the participants, who lived in a mobile room at a dance school, where she worked as a cook, and one interview was conducted at a restaurant with a participant who worked at a baby accessories' retail store. Two of the three micro-credit interviews were conducted at the work premises of the participants and one of them was conducted at a restaurant in Midrand. The culture interview was conducted at a restaurant at Sandton City.

Some of the social reproduction interviews in Cape Town were conducted in the participants' houses at Delft and Crossroads, Nyanga. Other interviews were conducted at the participants' work premises at the Delft Library and Delft Clinic. Most of the micro-credit interviews were conducted at the participants' work premises during their break. Two of the interviews were conducted at a restaurant, close to their workplace, at lunch time, and one of the interviews was conducted in my office at the university. The interviews with the informal money lenders (mashonisa) were conducted in their houses. Two of the cultural interviews were conducted in the offices of the participants and one was conducted at the participant's house in Khayelisha. I started each interview by restating the objective of the study, requesting the informed consent of the participant, and seeking the permission of the interviewee to record our conversation. Each interviewee was also informed that s/he could withdraw from the interview and study any time they felt s/he needed to.

### **3.8 Data analysis**

The various categories of interviews were audio recorded and transcribed for analysis. These transcripts formed the core data for this study. Complementary to this data are observation, statistical data from Statistics South Africa and information on the micro-credit industry in South Africa from the website of National Credit Regulator (NCR) (attempt to speak to the senior manager research was not successful). Reasoning with the core data in relation to the broader socio-economic and political data put the process of data analysis into context. It helped in the connection of micro and macro issues to foster more clarity. Data analysis was done manually on the collected textual data and the complementary data sources in order to make sense and develop the emerging concepts from the data.

Constant comparative method of data analysis was used for data analysis in this study. This method of data analysis was developed in grounded theory research method, where coding and analysis of data are done concurrently to generate, and not to test theory (Glaser & Strauss, 1967:102; Dey, 1999:97). Data coding is done in a sequence of open coding, selective or theoretical coding and axial coding, as the core category is developed. It involves categorising data, connecting the different categories and narrowing the focus on the core category as the central phenomenon of interest respectively (Dey, 1999:97-98; Charmaz, 2007:57-61; Strauss & Corbin, 1990:62-120; Holton, 2010:21-40; Walker & Myrick, 2006:547-559). In constant comparative method of data analysis, incidents are compared to incidents relating to the same category, categories and their properties are highlighted, a framework is set for the theory and the theory is written (Glaser & Strauss, 1967:105). Strauss & Corbin (1990:116-120) emphasise the connection between coding and analysis to develop categories, subcategories, properties of categories and the dimensions of categories, in order to build the core categories for the emerging theory. The process of developing categories, their properties and dimension, is explicated by the notion of ‘conceptual ordering’ (Strauss & Corbin, 1998:19).

Instructive to this study, is the conception of ‘paradigm model’ by Strauss & Corbin, 1990:99). This model provides the link between categories and subcategories by taking into consideration the phenomenon under study, the causal conditions of the phenomenon, the context and the probable intervening conditions, the social action or interaction tactic and the effects. This conception is complemented by treating social relation as a process, within the framework of ‘conditional matrix’ to highlight the levels of conditions and consequences

deriving from the study phenomenon, thereby revealing the interaction between events (Strauss & Corbin, 1990:143-166). Relating different levels of events and consequences to levels of action and interaction to levels of conditions, would reveal the pattern of their relationship (Strauss & Corbin, 1990:166).

The logic of comparative analysis is imperative because of its possibility to stir the thought process of the researchers around dimensions and properties, when they study research data. The interaction between researchers and data should reflect the combination of science and the art of creativity as the objective of research (Strauss & Corbin, 1998:13-44). The output of the data analysis process in grounded theory is captured by memo writing, where the data and the ideas of the researcher are meshed to develop concepts and emerging theory. Memo connects the abstract thinking of the researcher to the concrete data in the process of data analysis (Strauss & Corbin, 1990:198-203). Memos range from code notes during data coding, conceptual or theoretical note to describe the emerging categories or concepts and their relationship and operational notes to capture the process. In other words the expression of the process of data analysis process in grounded theory is recorded through the various types of memos. It captures the progress of the data analysis process and how the researcher interacts with the data at the different stages, until the conclusion of the research (Lempert, 2007:245-264; Strauss & Corbin, 1990:198-199; Charmaz, 2006:72-93; Holton, 2010:21-40).

As indicated above, the grounded theory method is adapted to the critical realist ontological and epistemological bases in this study. This adaptation has implications for how data analysis was conducted in this research. While grounded theory is focused on observable social interaction to account for regularity in social process, critical realism is more tuned to uncovering the underlying mechanisms that are accountable for the observable events or social processes. For critical realism, the focus is not the regularity in social processes and relations but identifying 'demi-regularities', which may inform explanation (Danermark *et al*, 2004:166). Instructive for this study therefore, is the combination of the power of understanding, interpretation and explanation, offered by the constant comparative method of data analysis and critical realist abductive and retroductive (Danermark *et al*, 2004:109-110; Bhaskar, 1986:61-68) approaches to unveil underlying causal structures of observable social events or processes. There is logical relationship between understanding and explanation. Explanation is preceded by understanding; hence, the understanding of causal mechanisms

may inform the explanation of the observable social events or processes. It is a misconception to treat them as parallels in research (Manicas, 1997:196-198).

For critical realism, the distinction between agency and structure is evident in the ability of agents to set goals and act accordingly set them apart from structure. However, social structure cannot be reduced to individual actions because structure limits and enable human actions. But agents are important for the reproduction and transformation of structures (Danermark *et al*, 2004:178-181; Manicas, 1997:198-200). Data analysis in this study therefore, complemented the constant comparative method with the critical realist analytical model, to uncover underlying structure or mechanism to explain observable events. The critical realist analysis process is captured by Danermark *et al*. (2004:193-194) to include the following six stages: The social phenomenon or event under study must be described; the event or social phenomenon must be broken down analytically; the broken down analytic parts must be re-described with alternative structure and relational theories, through the process of abduction; re-description to uncover the underlying mechanisms to explain the social phenomenon or event; the identified mechanism causing the social phenomenon or event, must be compared to existing theoretical alternative explanations; and detailed concrete account of how the mechanism causes the phenomenon or event must be provided.

What is crucial for this study is that both methods of data analysis can be logically connected to facilitate understanding, interpretation and explanation with regards to the object of study. Central to data analysis, is that it must transcend the summary or description of data, suggest more than what the participants reported (Richards, 2005:127-131). The contextual background, ontological and epistemological orientation and emerging theory provide the platform to take what the participants said further. The application of abduction to re-describe the data is synonymous with the notion of ‘distantiation’, which argue for the value of understanding from without the research context. Existing theory, politics, and historical context become imperative in this regard. This has the advantage to put subjective experience into broader context (Kelly, 1999:399-401). This suggests that understanding is beyond the subjective experience of subjects. For Kelly (1999:401-402), insider and outsider understanding should be combined for effective result in data analysis.



### 3.9 Research Ethics

The use of human subjects places the onus on the researcher to be ethically responsible in the conduct of social research. The participants in the research study must not be subjected to any physical and emotional harm or any form of discrimination as a result of the research. Researchers' affiliated institutional ethical standards and legislation regarding research data protection must be complied with. Of crucial importance, in addition to this two, are issues of confidentiality of information, anonymity and informed consent of research participants (Bryman & Teevan, 2005:237). As stated above, the participants were selected on their individual capacity; therefore, no institutional approval was needed to conduct this study. Verbal informed consents of the participants were obtained during the process of recruiting them for the study. The decision to stick to verbal consent was informed by my previous study, where the potential participants became suspicious, when asked to sign the informed consent form, which most of them refused to sign. Participants' verbal informed consent was requested again at the introduction of each of the interviews that were conducted.

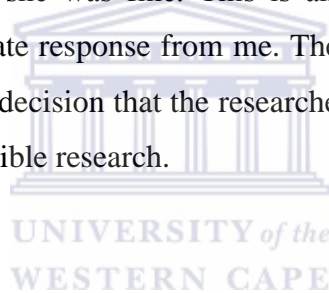
Most of the participants agreed to participate in the study on the conditions of confidentiality and anonymity. This promise was kept by protecting the identity of the participants by not using their real names or the names of the organizations they work for in this thesis. Pseudonyms were used, where it is required to mention names. The decision not to request for written informed consent is also in keeping with their requested confidentiality and anonymity. The institutional ethical requirements of the University of the Western Cape were observed in this study. The statement of institutional ethical requirements does not preclude researchers from engaging in an unethical research once they commence the study. Therefore, the onus of conducting an ethical research lies heavily on researchers, when they are in the research field.

The division between institutional ethical requirements and the practice of ethics in the research field is what Guillemin & Gilliam (2007:167-187) refer to, as "procedural ethics and ethics in practice". For them, the implications of these two ethical divides are important for the consideration of ethics in research. Procedural ethics must be complemented with ethics in practice, in order to deal with what they called "ethically important moments" in the research field. These are unanticipated events and circumstances that arise in the research field that requires immediate response from the researcher. These moments are in the province of 'ethics in practice' that can respond practically, to daily ethical issues that arises



in the research field – procedural ethics cannot deal with these practical ethical issues. Procedural ethics cannot cover what happens on the research field during active research process. The responsibility for an ethically insightful research, weighs heavily on the researcher to deal in an ethically sensitive manner, with “ethically important moments” (Guillemin & Gilliam, 2007:167-187). “Ethics in practice” are “microethics”, the gap between it and “procedural ethics” can be filled by reflexive research to stimulate researchers’ sensitivity to “ethically important moments”.

In the course of this study an interview was abandoned in Pretoria because our discussion opened up some reality about the participant’s life. She realised that her relationship with her boyfriend hinges on the financial support that he provided for her to support her family because her salary as a cleaner could not cover her monthly survival expenses. She started crying profusely and I had to call-off the interview. I called her on phone to ask how she was doing, and she assured me that she was fine. This is an incident of “ethically important moment”, which needed immediate response from me. The interest of the participant should take priority in the research. The decision that the researcher takes in this kind of situation, is important for an ethically responsible research.



## Chapter 4

### The Social, Political and Economic Contexts of South Africa

#### 4.0 Introduction

Any attempt at discussing the social, political and economic contexts of South Africa, should take cognizance of the latest figures of the census 2011, released in the last quarter of 2012 (Statistics South Africa, 2012a). It provides the most recent national snapshot of the country's population dynamics. Also important are statistical publications of Statistics South Africa; such as the Living Condition Survey (LCS), Labour Force Survey (LFS) and Quarterly Labour Force Survey (QLFS), Gross Domestic Product (GDP) and Poverty Profiles of South Africa among others. We should also mention the National Development Plan (NDP) document released on November 11, 2011, detailing the projected year 2030 development plan for South Africa (National Planning Commission, 2011). Be that as it may, these reports are valuable in a review of the social, political and economic contexts of South Africa. The census and other survey reports, give an indication of the current situation in South Africa, while the NDP gives an indication of where the country wants to be, in terms of development in year 2030. The NDP document is important because it gives an indication of how the policy makers understand the current socio-economic context of South Africa and projected development path.

While it is not the intention here to be critical of these documents, what is important for our purpose is that, they provide the pivot on which to frame an understanding of the South African social, economic and political contexts. I use 'pivot' consciously to suggest the possibility of backward and forward rotations. The understanding of the social, economic and political context of any geo-political entity or country can be rooted in the discourse of 'political economy' (see Chapter 2). The structure of political economy may be residual or integral with regard to the treatment of economic and social policies (see Chapters 2 & 8). It is residual, when economic policy is prioritized, and social policy is only activated to fill the gap in economic policy. It is integral, when economic and social policy are treated as mutually reinforcing. Mkandawire (2004: 1-6) has warned against the practice of treating the economic as if it is exclusive of the social. He argues that in development thinking, social policy should be in 'tandem' with economic policy for egalitarian and sustainable social development. He contends that the separation of social and economic policy is only

ideological, and not real. Macro-economic policy is embedded within society; hence, social issues should be mainstreamed into macro-economic policy. Social and economic reproductions are therefore mutually embedded and not contradictory (Mkandawire, 2004: 11).

The treatment of social and economic policies as mutually embedded, is instructive in this study. That is why we are cautious of using 'political economy' to frame this discussion. The social, economic and political context of South Africa will better communicate what we set-out to achieve in this chapter. Crucial therefore, for our purpose, is the symbiotic interaction between the social, economic and political contexts to give the broad picture of a society. The interactions between the social, the economic and the political contexts (or political economy) of a society can be interrogated by asking three crucial questions: Where is a society in terms of key social, economic and political indicators? How did a society get to where it is? Where does a society want to be in terms of these socio-economic and political indicators, with regards to quality standard of living and/or development?

The South African socio-economic context is characterized by poverty, inequality, high rates of unemployment, low wages, labour market flexibility, landlessness and partial means-tested social security provision (Yu, 2012; Go, Kearney, Korman, Robinson & Thierfelder, 2010; Terreblanche, 2008; Altman, 2007; Hoogeveen & Özler, 2006; Van der Berg, 2006; Borat & Oosthuizen, 2006, Altman, 2005a; Gelb, 2005; Hall, 2004; Butler, 2004; Lund, 2002). At the heart of these characterizations is poverty, because it could be the consequence of other identified characteristics. Understanding poverty, as characteristic of the South African socio-economic context, is important because it speaks to the level of well-being (what I have referred to as the 'quality of social reproduction') of concerned households in particular and the level of development of the society in general. Hence, the implication of poverty for the 'quality of social reproduction' of concerned households is instructive to this study.

If poverty and the above features define the current South African socio-economic context, the question of how it came to this could be located in the historical background of the country and the thrust of the socio-economic policies that were evolved, since the political transition to universal democracy in 1994. Hence, history and policy direction could be very important in shaping the present and projecting into the future of a society. The importance of history in sociological analysis was described by Mills (1959:146) as making sociology

“worthy” of its name. This chapter is divided into two major parts, the historical background of South Africa and the post-apartheid (democratic) South Africa. We present the socio-economic indicators and the policy regimes that could be accountable for them, the changes we see and hoped for.

#### **4.1 Historical Background of South Africa – A Glance**

As indicated above, we are taking a pivotal approach to our engagement with the social, economic and political contexts of South Africa. This thinking gives an axis to rotate from the historical past to the present and the future, if we take the present as a base. This approach will enable us to avoid linearity, which is problematic for social analysis. Our brief glance at the historical background is not suggestive in any way that it should be taken as given. We are quite aware that history is contested and open to revisionism, at times, from different political and/or ideological points of view. However, while there can be disagreement as to why some events happen in history, their occurrence cannot be disputed. For example, the different legislations that were enacted during the course of history in South Africa cannot be disputed, but the reasoning behind their enactment and their effects can be contested.

The works of Bernard Makhosezwe Magubane and Sampie Terreblanche are important for us in looking at the South African historical background. Magubane’s understanding of the history of South Africa was captured in the titles of his books, *The Political Economy of Race and Class in South Africa* and *The Making of a Racist State* (published in 1979 and 1996 respectively). For Terreblanche, it is *A History of Inequality in South Africa 1652 – 2002* (published in 2002).

Magubane (1979) argues that South African history was defined by the history of European settler colonialism, which served a specific purpose at a stage in the development of global capitalism and imperialism. These developments were imperative to the structuring of the social formations in South Africa. The hierarchy of social formations is evident in what he described as “a pyramid of wealth and social power” (p1). The difference in wealth, defined by race, translates into inequality of standard of living and life chances. For him the foundation of inequality in South Africa can be located within the global structural divide between the so-called first world and the third world differentiated by the level of capital accumulation and industrialization for the former and colonialism and underdevelopment for the latter. This inequality was sustained by key social and legal institutions of the time. Racial

inequality is therefore, rooted in imperialism and colonialism; hence, racial inequality can best be understood by studying the development of capitalism.

He argues for a strong connection between racism, capitalism and inequality, when he wrote that “the essence of modern capitalism is the ruthless transfer of wealth from the colonized to the colonizer, from black to white, from workers to capitalist. An economic system must not only produce and transfer wealth, but must produce political and ideological systems that facilitate this transfer” (p3-4). In essence, colonialism, imperialism and the expansion of capitalism were complemented with the development of cultural institutions and ideas, such as class and racial inequality (Magubane, 1979). This comment suggests that any dominant social process in a society is always being supported by cultural, ideological and institutional structures to sustain its practice. Therefore, his engagement with racism and inequality in South Africa was driven by historical engagement with the sociology, economic and political views of the country.

Magubane (1996) argues that racism was used to justify slavery, colonialism and imperialism. The gain of the abolition of slavery was usurped by imperialism, described as ‘new slavery’ or ‘forced labour’. He contends that the assumption of power by a ‘racist state’, backed by British Imperialism and the passing of the South African Act in 1909 to legalize the Union of South Africa in 1910 effectively sealed “white dominion” over black Africans. For him, racism was at the core of class exploitation that follows different legislations by the ‘racist state’ to disenfranchise the black African population. In essence, class exploitation was the consequence of racism, contrary to the Marxists idea of a universal working class. Racism in western civilization, he argues, is at the heart of the system of capitalism.

Magubane (1996) maintains that the minority white ‘racist state’ and its laws were designed to foster white capital accumulation and “pauperization of African people”, through low wages. The migrant labour system was the extreme expression of this. This history, for Magubane (1996:35), shaped today’s South Africa when he wrote:

“In South Africa today, we are dealing with a situation in which whites have accumulated advantages derived from the colonial situations. I mean, the struggle is about social and economic power and how that socio-economic power is distributed or, more precisely, polarized in the South African society. And

the failure by university authorities to face this question or even try to answer it suggests on the part of the authorities at best amnesia and at worst bad faith”.

Emanating from Magubane’s (1979; 1996) analysis of the South African social, economic and political history(ies), is that the country has always depended on foreign capital, which has implication for the internal organization of the country in general and the system of production in particular, hence, defining the emerging class structure. Racism was used to justify the exploitative agenda of white capital accumulation and the dispossession of the black African population. Every other form of racial exploitation and oppression thrived on the enabling social processes, which were already in existence. For example, he contends that the biological category race becomes a social category under exploitative condition, which has implications for the emerging socio-economic structure. Therefore, to tackle inequality in South Africa, which has a colour, we must engage with the historical “racist-capitalist power structure” (Magubane, 1979:16).

Magubane (1986; 1996) argues that the black African population in South Africa was not exterminated during colonialism, as it happens in other parts of the colonial worlds. This was because of their resistance, manifested in the frontier wars, and the fact that the African population filled the void of workers (labour) in the logic of capitalism that developed in a periphery-core relationship with Britain. Therefore, the history of South African development is defined by racism, settler colonialism and capitalist political economy (anchored on mineral extraction), which is at the core of every other social process (Magubane, 1986: 6-8; 1996). Capitalism was racially structured to provide white employers with cheap black labour (Wolpe, 1972). The broad structure of the South African society was captured by Magubane (1986:13) when he wrote: “the structure of South Africa sustain a situation in which it is whites (although not all whites) who are the accumulators of capital, the wealthy and the powerful, while the majority of blacks (though not all blacks) are the unemployed, the ultra-exploited, the poor and the powerless”. Perhaps, this description of the political economy of South Africa still reflect the present situation 27 years on and 19 years of democratic governance (Statistics South Africa, 2012b; National Planning Commission, 2011).

To sum up Magubane’s historical view, he contends that gold (to which I will add diamond and other precious metals) is at the heart of South African political economy (using Marx’s notion of key industry), attracting or linked to foreign capital, hence, becoming its

appendage. The control of the key industry by foreign capital he described as “power without responsibility” (Magubane, 1986:19). This is important for the understanding of the interaction between the state, private capital and the population. What Carmody (2002:261) called “negative autonomy”, to argue that the state seems more aligned to global forces, compared to domestic social forces, with the tendency to undermine national development. This is reflected in the notion of “industrialization by invitation” and the government allowing Anglo and Afrikaner capital, to globalise their activities to the neglect of a developmental alternative of expanding the local market in width and depth. Of course capital opted for the former option, to avoid redistribution of assets without questioning, reminiscent of ‘power without responsibility’ (Carmody, 2002).

Important for our engagement with the historical context, is the light it provides for understanding the present (Magubane, 1996:xiii). Terreblanche (2002:4) is of the view that a clear understanding of the past is crucial to the building of a new era. Perhaps, this is the tragedy of the South African political economy, amnesia of or misunderstanding of the social, economic and political history. How this past is remembered and understood, will to a large extent define the effort to build a new epoch. Terreblanche (2002) conceives South African history as defined by colonialism, segregation and apartheid, manifested in systemic exploitation and exclusion. Whites (from settler-colonizer to foreign capital and South African white population) were/are the beneficiary of these processes and black Africans were/are the victims. Therefore, for Terreblanche (2002), the understanding of the South African history, must take three perspectives: the domination of the political economy by whites; land expropriation and domination and; unfree black (predominantly black African) labour.

The history of South Africa was defined by the interaction between unequal distribution of power (political, economic and cultural), land and labour during the historical periods of colonialism, segregation and apartheid. The mobilization, preservation, institutionalization and legalization of white power in these different periods, were important to the understanding of South African history. So, for Terreblanche (2002), the understanding of the ‘power constellation’ at these different periods, is key to the understanding of South African history of inequality. The democratic government’s assumption of power in 1994 marks a significant political shift or transformation in the power constellation, compared to the pre-democratic South Africa. What was mooted, however, was the fact that a shift in one element



of the power constellation (political power), does not necessarily lead to shifts in the socio-economic elements. It will require ‘sustained struggle’, with regard to policy choices and implementation processes adopted by the democratic government. We used ‘struggle’ with a sense that decisions or choices of socio-economic policies under a democratic political dispensation are a function of struggle between various interest groups within a society.

The continuity of the socio-economic dispensation that prevailed in pre-democratic and democratic South Africa, disregarding the political transition was clearly captured by Terreblanche (2000: 15-16), when he wrote: “Since 1990 we have experienced a transition from a politico-economic system of white political domination and racial capitalism to a new system of democratic capitalism. Over the past 12 years a democratic political system – controlled by an African elite – has been successfully institutionalized. Unfortunately a parallel socio-economic transformation has not taken place”. Ten years on from this writing, I think the census 2011 and other socio-economic indicators tell us that much has not changed, with regards to the socio-economic context of South Africa. Terreblanche (2002) argues that the drag on socio-economic transformation is rooted in the contradistinction between the ‘logics’ of capitalism and democracy. The irony is that, it is the same legal system that guarantees democratic rights, based on the logic of equality and freedom, which guarantees capitalist logic, which support and sustain inequality of freedoms, opportunities and rights in property distribution – a contradiction in terms with the notion of “equality before the law”.

For Terreblanche (2002), political transition to universal democratic regime in 1994, did not undermine the power of capital as socio-economic policy continues to reflect neoliberal ideological basis. Therefore, the prevailing socio-economic policy seems like a disjunction with, or misinterpretation of historical experience of the country. He contends that, while the pre-democratic South Africa was defined by systemic exploitation, rooted in different forms of forced labour, democratic South Africa is defined by the seeming exclusion of the previously disadvantage population, the poor from the formal economy with limited social interventions from the government. For him, the socio-economic transformation agenda, should include an ideological paradigm shift to social democracy, a shift in the current structure of power relations and the restoration of social justice and socio-economic redistribution. It seems the adoption of constitutional democracy, contrary to parliamentary democracy speaks to the apartheid historical antecedent and power constellation. This choice

means that, an unelected body (the judiciary), could override the democratically elected parliament.

The historical gazes by Magubane and Terreblanche are important for the understanding of the present social, economic and political contexts of South Africa. Their analyses converge on how the history of colonialism, capitalism, imperialism, segregation and apartheid has shaped the socio-economic and political contexts of South Africa. They communicated the same idea but approaching it in different ways. While Terreblanche emphasizes systemic exploitation and exclusion informed by the changing power constellation, Magubane highlighted adverse inclusion of the black African population into the exploitative structures of capitalism and imperialism with colonialism providing the initial political and socio-economic space. What is clear is the dialectical understanding and analysis of the South African social, economic and political contexts. Whether in terms of contrasting power structure or location within the global capitalism and imperialism, blacks Africans and whites were/are located on the opposing end of the social scale. In essence, the whites were historically privileged socio-economically and politically and the blacks (overwhelmingly black Africans) were oppressed, exploited and deprived. Moving from this background, we can make a better sense of the post-apartheid or democratic South Africa. That is the focus of the next section.

#### **4.2 Post-Apartheid (Democratic) South Africa**

South Africa's apartheid regime officially came to an end in 1994. In the same year a democratic government was voted into power in the first universal adult suffrage election to be held in the country. It is not our objective here to analyse why or how apartheid was brought to an end, but rather to explore how the political shift shaped South Africa going forward. In other words, how has this political shift reconditioned the social, economic and political contexts of South Africa? We need to ask the question of continuity and change with regards to these contexts vis-à-vis the historical legacy of pre-democratic South Africa.

Perhaps the legacies of pre-democratic South Africa remain persistent in democratic South Africa, suggesting lack of significant change or qualified change. Conversely, there has been a significant change in the socio-economic structures of the country. This makes the socio-economic policies that were evolved since the advent of universal democratic transition very important, and their effects on the socio-economic profile of the country. In other words,

what are the necessary socio-economic and political policies necessary to reverse the historical legacies of centuries of exploitation and oppression of black Africans by white South Africans?

Attempts to understand the present social, economic and political contexts of South Africa have been conveyed with the notion of 'transformation', to capture the discontinuities in these contexts. The socio-economic policies and their implementation to transform the South African society from its apartheid state to the desired state become significant. This is not as simple as it sounds; there are complex issues to be dealt with in this process. The question of who identifies the socio-economic problems and how do we define them are problematic. How do we make a decision on the necessary policies to take the country forward? The election of the African National Congress (ANC) as the ruling political party from 1994 till the present, saddled it with the responsibility of leading the country towards the desired state. It is expected that this lead must be informed by the yearnings and aspirations of the South African people, if the direction is to reflect the true democratic dispensation. However, the different interest groups and power constellation will have influence on the socio-economic policy direction (Terreblanche, 2002; 2008; Carmody, 2002).

The question that comes to mind, in order to grapple with the democratic or post-apartheid South Africa is; What are the decisions and/or choices made with regard to socio-economic policies to deal with the legacies of colonialism, segregation and apartheid evident in racially defined poverty and inequality? Terreblanche (2008:107-130) identifies the distributional conflict, which the transition from apartheid to democratic South Africa will release. A clear indication that the how and where the country is headed, is not a unified position, but contested by different interest groups, occupying different positions within the South African socio-economic and political structural landscape. In essence, inequality and poverty and their racial structure are at the heart of the necessary socio-economic transformation that must inform policy decision and choices.

The socio-economic restructuring agenda of the ruling ANC was codified in the Employment Equity Act No. 55 of 1998 and the Broad-Based Black Economic Empowerment Act No. 53 of 2003, which were sequential to the socio-economic policies of the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) in 1994 and 1996 respectively. RDP is a reconstruction policy, driven by the need to

restructure the socio-economic profile of the country, through socio-economic (job creation, social security, land reforms, investment in housing projects and other public services) development projects, in order to alleviate poverty and reduce racial inequality (Hoogeveen & Özler, 2006: 59-60). The idea is to rid South Africa of the injustices of the past and make the society more equitable. This policy was effectively supported by the Reconstruction and Development Programme Fund Act No. 7 of 1994.

The socio-economic policy shift, arguably from left to right on the macro-economic ideological continuum, in democratic South Africa, however, can be traced to the differences in policy thrusts of the RDP-base Document and the RDP White Paper. The social democratic tone of the RDP-base Document seems to have waned in the RDP White Paper. (<https://www.nelsonmandela.org/omalley/index.php/site/q/031v02039/041v02103/051v02120/061v02126.htm>; RDP White Paper, 1994). Adelzadeh and Padayachee (1994) were of the view that the RDP White Paper is a significant neoliberal macro-economic policy, compromise by the ANC, its alliances (Confederation of South African Trade Union [COSATU] and South African Communist Party[SACP]), and the Government of National Unity (GNU). They contend the White Paper is a significant socio-economic policy departure, from the RDP-base Document by highlighting fiscal discipline, economic growth and state disinvestment from the economy over redistribution, state-led economy, national social security and democratic people-driven development process, among other social democratic principles.

This policy shift could be viewed as a result of the different contexts of the formulation of the RDP-base Document and the RDP White Paper. The former is an ANC policy document, formulated with its alliance partners, prior to the 1994 general election, hence it could be viewed as a policy consensus position between ANC and its alliances. The latter could be viewed as a negotiated or agreement document between the ANC, its alliances and the different interest groups that constituted the GNU, and other national and international interest groups. The White Paper could therefore, be a reflection of the prevailing power constellation (Terreblanche, 2002) at the birth of democratic South Africa. As it will be discussed at a later stage, macro-economic policy shift must be considered in relation to high and increasing government expenditure on social wage.

However, RDP was short-lived (though delivery of housing and water to the poor and targeted social grants remain constant features of the socio-economic policies), as it was quickly replaced by the neoliberal orientated GEAR. The adoption of GEAR was informed by the prevailing fiscal monetary contexts of high budget deficit, high government debt, unfavourable balance of payment, high interest rate and high inflation rate. For example, budget deficit and total government debt were -5.6% and 54.8% respectively of the GDP in 1995 (Van der Berg, 2006; National Treasury, 1997; 1998; 1999; Department of Finance, 1996). The high indebtedness was partly due to R14.1 billion inherited from the former TBVC (Transkei, Bophuthatswana, Venda and Ciskei) states and independent territories (homelands), R7.4 billion transferred to pension fund to adjust the public pension system, and R10.6 billion transferred to the Reserve Bank, in the previous year, to cover losses on foreign and Gold exchanges (National Treasury, 1998). It was thought that the weak fiscal and monetary context of the country was caused by weak economic growth, which was at approximately 3% at the time. Therefore, a macro-economic policy that would accelerate growth to facilitate employment generation, provide resources to fund expanding social spending, and redistribute wealth was needed (Department of Finance, 1996; National Treasury, 1997; Van der Berg, 2006).

GEAR is rooted in the neoliberal macro-economic strategic framework presented as a medium for implementing the promises of the RDP (Department of Finance, 1996; Hoogeveen & Özler, 2006: 60). The GEAR strategy is driven by the idea that economic growth, employment and redistribution have linear relationship. This thinking is contestable on the ground that socio-economic redistribution can also stimulate economic growth, their relationship could be reciprocal. It was thought that free market competition should be enhanced to boost investors' confidence and facilitate economic growth. GEAR was committed to the significant reduction of the budget deficit, export driven, anti-inflationary, increasing labour market flexibility (assumed to stimulate increased productivity) and training of the unskilled to boost employment (Van der Berg, 2006:203-204; Hoogeveen & Özler, 2006: 60-61; Department of Finance, 1996). The Human Development Report 2013 indicated that social development is imperative to economic development (UNDP, 2013).

What was mooted in the adoption of GEAR, as the macro-economic strategy to drive development and socio-economic restructuring of the country to correct the apartheid legacy of racial oppression, is what Terreblanche (2008:107) referred to as from “pro-white and pro-

rich to pro-black and pro-poor”. However, this must be considered in relation to the government’s policy of ‘cost recovery’. This policy is being implemented in the practice of users’ fee for the consumption of public goods in South Africa. User charges and lack of economic security, exclude the poor from access to universal public service (Butler, 2004:164). The Public Sector reform programme (*Batho Pele*) (Department of Public Service & Administration, 1997; 2007) modelled after the New Public Management’s (NPM) (see Chipkin & Lipietz, 2012; Vyas-Doorgapersad, 2011; Gruening, 2001) conception of public administration is an expression of this. This is a market-oriented approach to public sector management.

The question that becomes imperative in a response to the policy of ‘cost recovery’ and users’ fee is: How should a government respond to development goals? Should we think of development goals and/or objective before thinking of the resource (mostly financial) implication of the set goals or should available resources (mostly finance) provide a limit to the set development goals? The policy of ‘cost recovery’ and ‘users’ fee’ seems to suggest the latter. This seems a contradiction in terms of the restructuring objective of a shift in the socio-economic profile of the country from “pro-white and pro-rich to pro-black and pro-poor” indicated by Terreblanche (2008:107) above. This is the challenge, which the adoption of a neoliberal macroeconomic strategy of GEAR posed for the South African nascent democracy. Hoogeveen and Özler (2006:59-94) in their analysis, conclude that the GEAR macro-economic strategy fails to achieve the projected economic growth to drive employment to reduce poverty and inequality. Though some positives in the provision of social services such as water, electricity, housing and partial social transfers are welcomed. They argue that, a progressive shift in expenditure structure from the rich to the poor and dedicated poverty reduction strategy is imperative for a significant reduction in poverty. In essence economic growth alone cannot provide impetus for poverty reduction. The nature of growth must facilitate income redistribution.

In line with the conclusion of Hoogeveen and Özler (2006:59-94), and Van der Berg (2006:201-231) note that effective shift in fiscal and real resources in terms of social expenditure from the rich to the poor is imperative for the reduction of poverty and inequality. The transfers have had inadequate effect on the reduction of inequality in social outcomes. They indicated that there were inadequate improvement in social outcomes in education and health. Added to this, is a deficiency in real resources (such as human



resources and production capacity) and management capacity for effective social services delivery. He concludes that improved attention to the quality of social delivery is imperative, and should form the core of social policy regime going into the future. Perhaps, the lack of comprehensive and integrated social policy regime is the huge gap revealed by this analysis. There seems to be a conflation of service delivery with social policy in the South African context. Service delivery has become a buzz word for political parties' election campaign. It is the contention here that service delivery cannot replace a comprehensive social policy regime, designed to respond to the socio-economic demographic profile of South Africa. I suspect delivery is a business language reflective of sales, marketing and customer service in relationship management. Should this be the mode of relationship between government and the citizens?

While the use of 'service delivery' might have been informed by the modelling of public service reform (*Batho Pele*) after the NPM conception of public service provision, substantial government spending on social provision cannot be ignored. Government spending on the "social wage" has been on the increase. It is dispensed through systems of social grants, no-fee schools, free RDP housing, free health care and other free basic services (sanitation, electricity and water). Government expenditure on the social wage has doubled over the past 10 years. It now accounts for approximately 60% (estimated R590 billion of R968 billion and R632 billion of R1.05 trillion in 2012/2013 and 2013/2014 respectively) of public spending (National Treasury, 2013; 2014; Stats SA, 2014a). Approximately, 16.2 million social grants were paid to about 10.9 million beneficiaries at the end of the first quarter of 2014 (South African Social Security Agency, 2014; National Treasury, 2013; see table 8.1 in Chapter 8).

Table 4.1 shows the monthly value of the various social grants and the amount that was paid in respect of each in the budget year 2009 to 2014. It is an indication that social spending is increasing. The amount paid on the various grants is on the rise over the five year period, which could be down to increase in take-up of the various grants and increase in the grant amount. Old age and child support grants take the largest chunk of the grant programme in terms of value and take-up as indicated by table 4.1 (see table 8.1 for number of take-up). The increase in eligibility threshold from 14<sup>th</sup> to 18<sup>th</sup> birthday for child support grant is largely accountable for its expansion (National Treasury, 2013).



**Table 4.1**  
**Monthly value of social grants and total amount paid in 2009 - 2014 budget years**

Grant types	2013/ 2014 amount (ZAR)	Amount paid 2009/2010 (Million)	Amount paid 2010/2011 (Million)	Amount paid 2011/2012 (Million)	Amount paid 2012/2013 (Million)	Amount paid 2013/2014 (Million)*
Child Support	300	26,670	30,342	34,319	38,088	40,029
Foster care	800	4,434	4,616	5,011	5,335	5,478
Care dependency	1,260	1,434	1,586	1,736	1,877	2,028
Disability	1,260	16,567	16,840	17,375	17,637	18,034
Old age	1,260	29,843	33,765	37,131	40,475	44,767
Old age > 75	1,280					
War veteran	1,280					
Grant-in-aid		146	170	204	238	249
Social relief of distress		165	174	185	239	422
<b>Total</b>		<b>79,260</b>	<b>87,493</b>	<b>95,962</b>	<b>103,889</b>	<b>111,007</b>

\* *Estimate*

Source: National Treasury (2013; 2014)

Over half of South African households are beneficiary of social grants, and it is the core source of income for approximately 22% of households. Social grants constitute one of the three elements that constitute government “social wage” or social spending. The other two are provision of social services and amenities (such as health, education, water, electricity and sanitation) and contributory social benefits (Unemployment Insurance Fund [UIF] and Road Accident Fund [RAF]) (National Treasury, 2013). Table 4.2 details other social expenditure (education, social security, housing and community amenities, health, recreation and culture). The trends show gradual increase in each of the social expenditure type.

The rising expenditure on “social wage” as a complement to “economic wage” becomes necessary, as one of the tools to tackle poverty and inequality in view of high rate of unemployment and low wages (see Table 4.5; see Chapter 1; Altman, 2007). Approximately, 60% of workers earn below R5,000 per month, which is the tax exemption threshold. The means tests for child support grants and housing subsidy, for concerned parent or caregiver and households incomes, are R2,800 and R3,500 respectively (National Treasury, 2013). Households that earn less than R2,000 a month are eligible for no-fee school for their children and free basic services. Those earning less than R5,000 can also access public health care at subsidized rate. In a study on the “fiscal incidence of social spending in South Africa, 2006”, commissioned by the National Treasury, Van der Berg (2009) concludes that per capita social spending increased from R2,000 to R2,800 between year 2000 and 2006. There was significant improvement in targeting, with social grant being the best targeted. The share

of government spending for the poorest 40% of South Africans increased to 50.1% from 47.1%, about R1, 200 per person a year. The study shows that, while there has been fiscal redistribution due to improved targeting social spending to the poor, inequality remains persistently high. For Van der Berg (2009), the extent of disparity in pre-transfer income could account for this. The space for improvement can be sought in the efficiency of social delivery.

**Table 4.2**

**Other social expenditure from 2009 – 2014**

Social expenditure	Amount spent 2009/2010 (Million)	Amount spent 2010/2011 (Million)	Amount spent 2011/2012 (Million)	Amount spent 2012/2013 (Million)	Amount spent 2013/2014 (Million)*
Health	93,346	101,743	115,714	126,887	136,494
Social protection	121,887	130,717	140,565	152,048	167,059
Local govt, housing & community amenities	62,783	81,744	93,113	103,405	110,544
Education	155,241	171,723	197,778	211,724	229,801
Recreation & culture	9,094	6,989	7,140	7,448	8,131

\*Estimate

Source: National Treasury (2013; 2014)

Therefore, while there has been modest improvement, the level of poverty and inequality remain considerably high. From the latest Statistic South African figures, the level of poverty has reduced from 57.2% (27.1 million persons) in 2006 to 45.5% (23 million persons) of the population, using the Upper-bound poverty line of R620 in 2011. At the Lower-bound poverty line of R443 poverty reduced from 42.2% (20 million persons) in 2006 to 32.3% (16.3 million persons) in 2011. In the same vein, at Food poverty line of R321, poverty reduced from 26.6% (12.6 million persons) in 2006 to 20.2% (10.2 million persons) in 2011 (Stats SA, 2014a: Table 4.3b). Food poverty line indicates the level below which individuals will be unable to meet their food caloric intake requirements. Lower-bound poverty line leaves a space for non-food items, but often achieved by sacrificing food. Upper-bound poverty line accommodates food and non-food items without substituting one for the other (Stats SA, 2014a; Table 4.3a).

Contrary to the gradual reduction in poverty, inequality has been rather stagnant. The Gini Coefficient from expenditure data (minus taxes) was approximately 0.65 in 2011. It was 0.69 calculated with income data (wages, salaries and social grants) in 2011. This shows a slight

decrease from the 2006 Gini Coefficients of 0.67 and 0.72 respectively. South Africa remains one of the most unequal societies in the world. The poorest and richest 20% per capita distribution of national consumption were 4.3% and 61.3% respectively (Stats SA, 2014a).

Looking at the level of social spending, persistent unemployment and low wages (see tables 4.5 & 4.6; see chapter 1) seems to be at the centre of inadequate poverty and inequality reduction. The means tested social spending, though well targeted, appear to achieve inadequate socio-economic transformation, because the gravity of the initial starting point of poverty and inequality with regard to low wage and unemployment (Van der Berg, 2009). It is our view, that a review of the social policy architecture of South Africa may be necessary to significantly reduce poverty and inequality. Cheap labour-power was central to racial capital accumulation, during racial segregation and apartheid regime (Wolpe, 1972). This historical legacy persist today in the form of low wages that perverse formal and informal employment (see Chapter 1; Altman, 2007). This has been linked to the growing precarious work and the declining decent work, and the need for regulation to reverse this trend or protect vulnerable workers (ILO, 2012).

Low income is important for the focus of this study, as it focuses on households that live in 'precarious prosperity' (poverty range for our purpose) (Budowski *et al*, 2010; see Chapter 1). Salary/wage income remains the dominant source of households' income in South Africa. Out of a total households of 15.1 million in South Africa, salary/wages is the main source of income for 9.8 million (64.7%) households compared to 6.9 million (45.7%) on social grants. Approximately, 2.6 million households depend on remittances, and 2 million households depend on business income. About 650 thousand households depend on pension and 438 thousand earn income from farm produce and services (Stats SA, 2014b). Why caution must be observed because households may have more than one source of income, low salary/wage could have negative effect on the well-being of households.

Tables 4.3a and 4.3b draw on the latest publication of Statistics South Africa (2014a) on "Poverty Trends in South Africa". It uses data from the 2005/2006 Income and Expenditure Survey (IES), 2008/2009 Living Condition Survey (LCS), and 2010/2011 Income and Expenditure Survey (IES) to show poverty trend from 2006 to 2011. The data was presented using inflation adjusted Food poverty line (FPL), lower-bound poverty line (LBPL) and upper-bound poverty line (UBPL) for 2006, 2009 and 2011. The UBPL was used as the

primary line for the three data sources. Table 4.3a shows the inflation adjusted poverty lines that are used to measure poverty in South Africa for the three years that are relevant to the analysis of poverty trends.

**Table 4.3a**

**Per capita inflation-adjusted poverty lines for 2006, 2009 and 2011 (Rands per month)**

Year (March)	Food poverty line	Lower-bound poverty line	Upper-bound poverty line
2006	210	300	431
2009	305	416	577
2011	321	443	620

Source: Stats SA, (2014a) Poverty trends in South Africa

**Table 4.3b**

**Poverty trends in South Africa**

Indicators	Poverty headcounts			Poverty gaps		
	2006	2009	2011	2006	2009	2011
Number of poor (million) UBPL	27.1	27.8	23.0			
% of poor population (UBPL)	57.2%	56.8%	45.5%	26.7%	27.9%	19.6%
Number of poor (million) LBPL	20.0	21.8	16.3			
% of population (LBPL)	42.2%	44.6%	32.3%	16.4%	18.9%	11.8%
Extremely poor (million) FPL	12.6	15.8	10.2			
% of population (FPL)	26.6%	32.4%	20.2%	8.5%	11.6%	6.2%
<b>Individual poverty (UBPL)</b>						
<b>Sex</b>						
Male (%)	54.6	54.9	43.8	25.2	26.8	18.8
Female (%)	59.7	58.6	47.1	28.2	28.9	20.5
<b>Population groups</b>						
Black African (%)	66.8	66.9	54.0	31.6	33.4	23.6
Coloured (%)	41.6	37.8	27.6	17.0	15.1	9.6
Indian/Asian (%)	13.0	11.6	3.4	3.3	2.1	1.0
White (%)	0.6	1.5	0.8	0.2	0.6	0.3
<b>Age</b>						
0-17 (%)	68.9	68.5	55.7	33.9	35.2	24.8
18-24 (%)	60.2	60.5	50.7	28.2	30.1	22.1
25-34 (%)	46.6	49.0	38.7	20.0	22.8	16.2
35-44 (%)	45.1	43.9	35.0	20.0	19.9	14.1
45-54 (%)	44.8	43.5	33.6	19.8	19.9	14.2
55-64 (%)	45.9	45.4	35.0	20.5	21.0	14.4
65+ (%)	55.6	49.1	36.2	24.4	23.4	14.9
<b>Education (Adult 18+)</b>						
None (%)	78.5	79.8	66.0	39.4	41.9	29.9
Some primary (%)	70.5	73.0	60.3	33.4	36.3	26.9
Primary (%)	65.3	65.6	54.6	29.8	31.8	23.6
Some secondary (%)	52.7	55.0	44.4	22.9	25.5	18.3
Matric (%)	30.9	31.5	23.3	11.7	13.3	9.0
Higher (%)	6.0	10.6	5.5	2.0	4.2	1.9
<b>Settlement type</b>						
Urban (%)	40.7	41.0	30.9	16.1	17.6	12.0
Rural (%)	80.8	83.0	68.8	41.9	45.0	31.8

<b>Province</b>						
Western Cape (%)	36.9	35.4	24.7	13.8	13.8	8.5
Eastern Cape (%)	69.5	70.6	60.8	34.1	36.7	27.2
Northern Cape (%)	63.8	63.0	46.8	31.1	29.9	19.1
Free State (%)	53.2	61.9	41.2	22.0	28.4	17.5
KwaZulu-Natal (%)	69.1	65.0	56.6	35.7	33.4	25.5
North West (%)	60.2	61.4	50.5	28.1	29.3	22.6
Gauteng (%)	32.4	33.0	22.9	11.3	13.1	8.1
Mpumulanga (%)	66.3	67.1	52.1	32.0	34.1	21.7
Limpopo (%)	74.4	78.9	63.8	36.8	44.4	30.0
<b>Household poverty (UBPL)</b>						
<b>Total household poverty (%)</b>	<b>42.2</b>	<b>42.7</b>	<b>32.9</b>	<b>17.9</b>	<b>19.1</b>	<b>13.1</b>
<b>Sex of household head</b>						
Male-headed (%)	33.6	34.8	25.7	13.5	14.8	9.9
Female-headed (%)	55.7	54.6	43.9	24.7	25.6	18.2
<b>Population group of household head</b>						
Black African (%)	51.2	52.1	40.3	21.9	23.6	16.3
Coloured (%)	33.3	28.9	22.4	12.8	10.8	7.4
Indian/Asian (%)	9.1	7.5	2.1	2.2	1.2	0.6
White (%)	0.5	0.9	0.4	0.2	0.3	0.1
<b>Education of household head</b>						
None (%)	76.7	78.1	65.0	37.6	39.8	29.2
Some primary (%)	62.9	67.5	54.7	28.3	31.9	23.2
Primary (%)	56.7	57.0	47.0	23.4	25.1	18.5
Some secondary (%)	38.6	42.6	31.9	14.5	17.4	11.7
Matric (%)	16.9	17.4	12.8	5.2	6.4	4.2
Higher (%)	2.5	5.6	2.8	0.7	1.9	0.9
<b>Household settlement type</b>						
Urban (%)	28.7	29.8	22.0	10.5	11.8	8.0
Rural (%)	67.5	69.8	55.2	31.7	34.4	23.8

Source: Stats SA (2014a) Poverty trends in South Africa

Table 4.3a shows the individual and household absolute poverty headcounts and gaps using the Upper-bound poverty line. It shows poverty trends from 2006, through 2009 to 2011. The trend shows a reduction in poverty between 2006 and 2011. Over 4 million persons that were poor in 2006 were out of poverty in 2011. However, over 45% (23 million) of South Africans still live in poverty, when the R620 (UBPL) is used. Household poverty also reduced from approximately 42% in 2006 to about 33% of South African households living in poverty. Women (47%), black African (54%), children (55.7%), youth (50.7%), education below matric (56.25%), rural dwelling (68.8%), female-headed households and black African households (40.3%) defines poverty in South Africa. While the highlighted reduction is a welcome development, having over half of each of these population categories living in

poverty, shows that much is left to be done with regard to eradicating poverty in South Africa.

Perhaps Mashike (2008, cited in Kagwanja, 2008:xv) is hasty to suggest a shift from “age of hope” to “age of despair” to reflect the dwindling hope of the poor and downtrodden in the post apartheid democratic dispensation in South Africa, due to the lack of transformation in their socio-economic condition - a reflection of the inability of the democratic government to reverse the apartheid racial injustice and inequalities. Kagwanja (2008:xix) argues that this provide the space for “ethnonationalism and xenophobia propagated by the failed ‘nation building project’. Perhaps, the failure of GEAR as a macroeconomic strategy to achieve substantial poverty and inequality reduction (Stats SA, 2014a), prompted the ANC government to push the notion of ‘developmental state’ as a strategy to fill the gap in the pure market-driven economy, to foster social transformation. ‘Developmental state’ was voiced as ANC policy in the *Strategy and Tactics* document of the 52<sup>ND</sup> ANC congress of 2007, and expressed in the adoption of the “Accelerated and Shared Growth Initiative for South Africa” (Asgisa) (Kagwanja, 2008; ANC, 2007).

“A proactive developmental state” was identified as one of the drivers of developmental change in the United Nation Development Programme (UNDP) Human Development Report (HDR) 2013. UNDP (2013:66) conceive a ‘developmental state’, as “a state with an activist government and often apolitical elite that sees rapid economic development as their primary aim”. Added to this, they argue, is a bureaucracy that is empowered and authorised to plan and implement policies, with the goal of increased growth rate and better standard of living to foster legitimacy. In other words, a ‘developmental state’ suggests a state led development agenda setting, policy drive and implementation. The other two drivers of change identified in the HDR 2013 are the benefit of tap connection to the global market and ‘determined social policy innovation (UNDP, 2013).

Of importance to our purpose here is that whether the claim of a developmental state (is clearly defined) by the ANC government is complimented by link to global market and comprehensive social policy. Why South Africa may score high in the former, a prevalent partial non-comprehensive social policy regime spells huge challenge for development. High public investment in infrastructure, education and health, were identified by UNDP (2013) as imperative for human development. Growth with high inequality cannot foster human



development, poverty alleviation and social cohesion. South Africa sustained high rate of inequality and poverty, which suggest growth without human development (lack of people-centred growth). South Africa income Gini coefficient is 0.69 (Stats SA 2014a). Using the food poverty (R321), lower-bound (R443) and upper-bound (R620) poverty lines, estimated 20.2%, 32.3% and 45.5% of the population respectively, live below the poverty lines, using the March 2011 figures. 10.7% and 36.4% of the population live below the international poverty lines of \$1.25 and \$2.50 a day respectively as at March 2009 (Stats SA, 2014a; 2008; 2012b; 2012c).

Kagwanja (2008:xxiv) contends that ‘developmental state’ remains rhetoric because its definition is ambiguous, without real substance. I sense that the brandishing of this concept is more reflective of a justification to sustain the GEAR macro-economic strategy, in view of its failure to achieve the goal of poverty alleviation and economic redistribution. There seems to be an anxiety on the part of the government to be labelled welfare state, though the adopted macro-economic strategy is not achieving the desired objective. ‘Developmental state’ seems compatible with the dominance of neoliberal economic thinking. However, the drumming of growth has not translated into the desired improved living for all South Africans. What is clear is the subsequent government policies, after the adoption of GEAR, are tailored to conform to the adopted macro-economic strategy. The challenge, therefore, is that this strategy is holding-up at delivering the desired objective of economic growth and redistribution and poverty alleviation. The Strategy and Tactics document referred to above set out in its Chapter 8, steps to achieving “national democratic transformation”. The steps include “constitution and governance; building a developmental state; accelerated and shared growth; macrosocial tasks of meeting social needs; building social cohesion by promoting values of a caring society and; safety and security” (ANC, 2007).

All the above steps were set out to achieve the objectives of the “National Democratic Revolution” (NDR). The NDR was adopted in the Strategy and Tactics document of the 50<sup>th</sup> National Conference of the ANC in 1997. The political transition of 1994 was acknowledged as an achievement of a crucial element in the NDR. The strategic character of the NDR going forward, within the framework of the balance of forces, was set-out as: “the creation of a united, non-racial, non-sexist and democratic society. This, in essence, means the liberation of Africans in particular and black people in general, from political and economic bondage. It means uplifting the quality of life of all South Africans, especially the poor, majority of



whom are African and female” (ANC, 1997). The NDR framework is therefore, conscious of the interaction between the set objective (tasks), the motive forces (that are united to drive transformation) and the opposition forces (opposed to transformation). The core of the tasks of the NDR are the replacement of apartheid with a democratic state, reconstruction and development to emancipate the deprived sections or groups in the society, to improve the standard of living for all and economic transformation through black economic empowerment (ANC, 2000).

Southall (2007) critique of the ANC state as “more dysfunctional than developmental” dwells on its failure to combine high economic growth with comprehensive social redistribution to tackle poverty to build an equitable and cohesive society. Central to his position is the lack of state capacity, using Cummings and Norgaard (2004) dimensions of ideational, political, implementational and technical (Southall, 2007:2-3). He concludes that dysfunctionality in parts of the state structures threatens transformation to a “developmental state”. He argues that, while dysfunctionality is common at the technical and implementational spheres, the gaps in the ideational and political spheres are of crucial importance (Southall, 2007). Added to the challenge of state capacity, are globalisation and lack of social cohesion, driven by popular mobilisation as imperative to the achievement of a “developmental state” (Southall, 2006a).

In what Terreblanche (2008) described as a ‘difficult road’ toward a “developmental state” in South Africa, he identified four stumbling blocks – lack of public sector capacity; values of profitability, materialism and individualism, driven by globalisation and capitalism; excessive power of business people and; integration into the American controlled global institutions and their influence on government policy. Broader socio-structural counter-forces in the society can also obstruct the emergence of a “developmental state”. Therefore, our gaze should transcend the state, expected post-apartheid socio-economic transformation of the previously disadvantaged citizens, social service delivery and internal division within the ANC. The inability of the ANC state to become a genuine “development state”, therefore, cannot be limited to the fault of the ANC state. It is imperative to think of the state as a product of the broader social context. In other words, the nature of the state is a reflection of the broader society. Therefore, we need to think of the broader social context in our engagement with why the South African state claim to be ‘developmental’ is questionable. We need to consider the dialectical forces that are internal and external to the state.

We know that the ideational and political spheres are contested. Using the language of the NDR above, the balance of forces should be taken into consideration - motive and opposition forces. Terreblanche (2002) analysis of power constellation, could perhaps shed more light on our understanding of why the achievement of a “developmental state” remains rhetoric and elusive in South Africa. Southall (2004) highlighted this point, when he argued that the interest of the white capitalist class is to allow for limited racial transformation of the economy, which is contrary to the objective of the NDR, which is at the core of the social and economic transformation agenda of the ruling ANC government. Therefore, it is the view here that highlighting the lack of service delivery does not help us to understand the complexity of the relationship between a state and its citizens. The nature of social contract between a state and its citizens transcends a clientele notion of service delivery. We need to be conscious of the susceptibility of using political rhetoric for social analysis. Rawls (1971) will argue that it involves re-appropriating the notion of social contract (as espoused by Lock, Rousseau and Kant) to building a just social institution within a society.

Mafeje (1986) asserts over 25 years ago that South Africa is not as ‘self-evident’ as it seems, but it’s rather defined by multiple realities and rationalisations rooted in “vested interests”. This thinking could provide a measured caution, with which to engage with the socio-economic and political contexts of South Africa. ‘Vested interest’ suggests social relations, defined by power constellation (Terreblanche, 2002) that is played-out on ideological, political and economic contexts. It seems however, that the ANC government has succumbed to the ideological power of neoliberalism. This is reflected in its macro-economic policy, perhaps one of the drags to evolving a “developmental state”. What appears to be a unilateral decision of the ANC government might, in fact, be the outcome of the interaction of underlying power structures controlled by different interest groups within the broader polity.

These diverse interests could be linked to the conception of a rainbow nation by Desmond Tutu. Butler (2004:30) has indicated that why the rainbow nation might emphasise the benefits of diversity, it was silent on the possible unintended continuous “apartness” of the constituent colours – a reflection of lack of social integration caused by the enduring legacies of segregation and apartheid. The forgoing discussion provides the platform, from which to understand the socio-economic and political contexts of South Africa. More importantly, it is an indication of the limitations of an attempt to treat these contexts as if they are mutually exclusive. Rather, they are socially embedded and connected.

### 4.3 The South African Economy

Gelb (2005:367-399) has indicated that most analysis of the South African economy focuses on ‘agency’ to the neglect of ‘structure’. The neglect of the character and distribution of political and economic power before and after the 1994 democratic transition limits these analyses. For him, the repositioning of interest groups in policy debate, in view of the political transition, does not suggest a policy clean slate on which new policy options will be made and written. The prevailing political and economic dispensation isolates some possible options and tilted the debate and decision or choices towards others. The structural understanding of the South African economy, with regards to interacting power structures, mean an agency look of castigating the ANC government for example (as indicated above) may be limiting. Gelb (2005) argues that, the objective of restructuring the economic power racially, through ‘capital reform’ and public spending on public goods to address inequality, exclusion and poverty was stifled by what he called ‘implicit bargain’ nature of the political transition (see Tables 4.1 and 4.2 above on social spending). While there is increasing social spending, the transformative effects with regards to poverty and inequality seems inadequate. Modest progress has been achieved (see Table 4.3b).

Butler (2004: 47-50) was correct, when he summed up the South African economy as characterised by “jobless growth, inequality and poverty” (see Tables 4.3b, 4.6, 4.7 & 4.10). Added to these, is landlessness due to failed land redistribution (Hall, 2004; Terreblanche, 2008). The adoption of GEAR as a macroeconomic policy, suggests a residual interventionist social welfare support to alleviate the consequences of economic restructuring for the poor. This is reflected in the means tests targeting of social grants and services as indicated in Tables 4.1 and 4.2 earlier. It is only those people that fall below set income thresholds, can access specific social grants and services, such as no-fee school, free or subsidized housing, water and sanitation among others (National Treasury, 2013). This is not an attempt to discount the level and effects of “social wage” expenditure by the government (Tables 4.1 & 4.2). In hindsight, perhaps this is what the RDP has been reduced to. This feature of the economy is not helped by small direct investment in merger and acquisition, with very small new investment to expand capacity, drive increasing output and create employment (Muradziwa, 2002, cited in Butler, 2004:54).

The policy choices that were made have seen a shift from RDP to GEAR, to show the prevalence of pro-market policies. This shift should be viewed structurally to take cognisance of the political and economic realities and power structures at the intersection of policy choices. Apart from the fiscal and monetary contexts that could have accounted for the adoption of GEAR as I indicated earlier (Van der Berg, 2006; National Treasury, 1997; 1998; 1999; Department of Finance, 1996), the nascent democratic government was faced with political pressure from pro-business media, economists and big business to adopt neoliberalism-informed economic policy. An expression of this, is the Harry Oppenheimer led 'Brenthurst Group' (the epitome of monopoly capital in South Africa), and their influence on ANC elites (Williams & Taylor, 2000). Williams & Taylor (2000) were of the view that, the relationship between ANC and International Financial Institutions (IFIs) and "old apartheid structures" are part of contributory factors to change in economic policy. Carmody (2002) also emphasize the influence of transnational capital and IFIs in shaping the political economy of South Africa.

The choice of this macro-economic policy has not achieved adequate socio-economic transformation. The economy is still characterised by jobless growth, reflected in the high rate of unemployment; inequality as indicated by the racially skewed socio-economic profile of the country; high rate of racially skewed poverty and; landlessness sustained by ineffective land reform system (Butler, 2004; Gelb, 2005; Terreblanche, 2008; Hall, 2004). This sustained racially skewed socio-economic schism that characterised the South African economy, was drummed-up by Thabo Mbeki in the "two nations" thesis (Mbeki, 1998), a reflection of earlier analyses by Mafeje (1986:102) and Magubane (1986:5-6). They disagree with the dualist view. They argue that the "two nations" thesis should be read as an analytical and heuristic conception to capture the reality of the South African socio-economic context. Terreblanche (2008:108-109) understood this, when he emphasized that South Africa has one integrated economy, but divided socio-economic lived reality of its citizens.

The adoption of neoliberal macro-economic policy by the ANC government should therefore be viewed within the local and global economic and political power structures, which are defined by the dominant ideological space of "neoliberalism and market fundamentalism". The ensuing dominance by local and global corporate bodies and the institutionalisation of neoliberalism in the political economy of South Africa means little policy space for the ANC to tackle jobless growth, inequality, poverty and landlessness (Terreblanche, 2008:113-114;

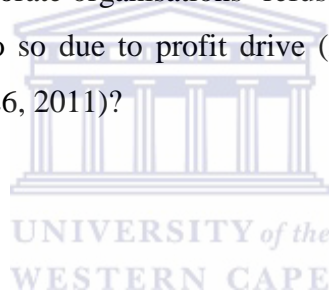
Hall, 2004). It is therefore easy to apportion blame to the democratic government, if we take an ‘agency’ look that the government is failing to deliver on its promise to the people. We need to understand the prevailing socio-economic and political power structures to better comprehend what we see. This is not an attempt to discount other concerns such as rising systemic corruption, political capacity and will and state legitimacy (Southall, 2007).

What follows is how South Africa has fared in view of the socio-economic policy decisions that were made and implemented since the inception of democracy in 1994. What is imperative for our purpose here is to try and see how the policy decisions have played-out on economic and social indices with regard to their promises or projected outcomes or consequences on the economy and people. The central promise of the GEAR macro-economic policy is growth, employment and redistribution; hence, it is imperative that a look at the economic indices starts from the GDP. The South African 2013 annual real GDP was R1.993 trillion in 2005 constant price. The nominal GDP was R3.385 trillion in 2013 current price. A glance at Table 4.4 shows that the GDP has been on the rise looking at the figures at 2000 constant price and 2005 constant prices (using 2000 and 2005 as the base year for 1994 to 1999 and 2000 to 2013 respectively) from 1994 to 1999 the GDP grows at an annual average rate of 2.26%. From 2000 to 2013 it grows at an annual average rate of 3.80%. If we compare the 2000 to 2013 GDP growth to the population increase at an annual average of 1.22% between census 2001 (44, 819, 778) and 2011 (51, 770, 560) population figures, it gives a rough estimate of 2.58% increase in per capita income of the country. This should be taken with caution, given the slight disparity in the GDP and census years (Statistics South Africa, 2012b; 2012c; 2013).

The GDP per capita income using 2013 current price and the 2011 census population figures is approximately R65,392. The real per capita income at 2005 constant price is approximately R38,505. The GDP and the per capita income is the beginning of the story. The next important consideration is how the GDP is shared among the population. A Gini coefficient of 0.69 (Stats SA, 2014a) shows significant inequality on how the GDP of the country is shared among the population. The nominal GDP figures for 2013 (see table 4.5 below) shows the finance, real estate and business services as the dominant sector of the economy with approximate output of R652 billion representing 19.27% of the GDP. This sector is closely followed by the General Government Services at approximately R518 billion (15.31% of the GDP). Wholesale and retail trade, motor, accommodation and catering industry was

approximately R502 billion (14.84% of the GDP), and Manufacturing is approximately R350 billion (10.35% of the GDP) (Statistics South Africa, 2013a; 2014c).

The 2013 annual GDP is R3, 385, 369 trillion at current price (see table 4.5). This was shared between employee compensation, gross operating surplus and tax as R1,576,782 trillion (46.58%), R1,453,480 trillion (42.93%) and R355,107 billion (10.49%) respectively. The employment and unemployment figures will shed more light on how distribution of production is achieved within the economy. Marx (1973) argues for step-by-step relationship between production, distribution, exchange and consumption. He posits that in order to understand a particular stage, we need to make sense of the preceding stage. He submits that the prevailing mode of production shapes the subsequent stages. Beyond this is to look at other forms of power constellation embedded within the social relations of production and the broader socio-economic and political space. For example, how are we to understand the refusal of South African big corporate organisations' refusal to reinvest their surplus, though Marx thinks they will always do so due to profit drive (Bizcommunity.com, December 6, 2012; Mail & Guardian, August 26, 2011)?



**Table: 4.4**

**South Africa Annual Gross Domestic Product (GDP) at Constant 2005 Prices (In Rand Millions) 2000 – 2013 (1994 – 1999 are in Constant 2000 Prices)**

Year/ sector	Agriculture, forestry & fishing	Mining & quarrying	Manu- facturing	Electricity , Gas & Water	Construc- tion	Wholesale, Retail, motor trade & accom- modation	Transport, storage & communi- cation	Finance, real estate & business Services	General Govern- ment Services	Personal Services	Total value added at basic prices	Taxes, less subsidies on products	GDP At Market Prices	Total value added at basic prices excluding agricul- ture
<b>1994</b>	26,040	66,636	132,287	20,191	19,701	94,437	53,290	121,688	131,835	41,034	704,550	74,480	<b>779,424</b>	<b>678,110</b>
<b>1995</b>	20,850	64,567	140,877	20,592	20,401	99,994	58,923	125,955	132,945	43,298	725,682	77,928	<b>803,710</b>	<b>706,532</b>
<b>1996</b>	25,850	64,034	142,824	22,814	20,813	103,682	62,538	134,502	135,513	44,449	756,515	81,738	<b>838,326</b>	<b>731,335</b>
<b>1997</b>	26,070	65,100	146,692	23,699	21,529	104,147	67,312	140,832	136,582	44,434	776,398	84,117	<b>860,515</b>	<b>750,729</b>
<b>1998</b>	24,686	65,011	146,336	22,206	20,260	105,518	70,983	144,074	135,560	47,194	781,828	83,140	<b>864,968</b>	<b>757,142</b>
<b>1999</b>	26,213	64,116	147,179	22,097	19,985	113,553	74,705	151,437	134,403	49,020	802,708	82,657	<b>885,365</b>	<b>776,495</b>
<b>2000</b>	34,787	99,069	222,579	28,597	26,410	161,503	102,874	216,747	191,340	75,735	1,157,441	144,129	<b>1,301,813</b>	<b>1,122,805</b>
<b>2001</b>	33,639	98,970	229,701	27,539	27,711	164,572	108,944	234,450	189,552	77,438	1,191,007	146,201	<b>1,336,962</b>	<b>1,157,612</b>
<b>2002</b>	35,826	99,960	236,133	28,503	29,321	168,357	118,749	249,165	190,910	79,346	1,236,270	150,165	<b>1,386,435</b>	<b>1,200,444</b>
<b>2003</b>	36,070	103,355	232,581	29,344	31,575	172,845	126,287	261,123	196,193	83,756	1,273,129	154,193	<b>1,427,322</b>	<b>1,237,059</b>
<b>2004</b>	36,380	104,915	243,965	31,335	34,451	182,175	132,459	279,544	199,947	85,219	1,330,390	161,940	<b>1,492,330</b>	<b>1,294,010</b>
<b>2005</b>	37,402	105,992	259,101	33,010	38,558	195,012	139,472	295,504	208,561	88,455	1,401,066	170,015	<b>1,571,081</b>	<b>1,363,664</b>
<b>2006</b>	35,359	105,364	275,782	34,139	42,582	206,636	146,607	324,002	214,947	93,073	1,478,492	180,630	<b>1,659,122</b>	<b>1,443,133</b>
<b>2007</b>	36,301	105,336	290,246	35,294	48,971	217,607	156,289	349,501	223,284	98,247	1,561,076	190,089	<b>1,751,165</b>	<b>1,524,775</b>
<b>2008</b>	42,143	99,396	297,889	34,196	53,145	219,749	162,522	375,240	233,416	102,106	1,619,802	194,792	<b>1,814,594</b>	<b>1,577,659</b>
<b>2009</b>	41,454	94,057	267,723	33,712	57,279	217,074	163,999	378,987	242,539	101,233	1,598,057	188,840	<b>1,786,897</b>	<b>1,556,603</b>
<b>2010</b>	41,629	99,383	282,509	34,421	57,707	225,338	167,313	387,152	249,531	101,679	1,646,664	195,390	<b>1,842,054</b>	<b>1,605,034</b>
<b>2011</b>	41,580	99,672	292,733	34,798	57,985	235,404	172,549	402,500	259,346	104,260	1,700,826	204,909	<b>1,905,735</b>	<b>1,659,246</b>
<b>2012</b>	42,539	95,637	299,705	34,382	59,422	243,824	176,508	415,789	267,324	106,419	1,741,549	212,754	<b>1,954,303</b>	<b>1,699,010</b>
<b>2013</b>	43,414	99,076	300,050	34,333	60,879	249,607	180,108	430,597	271,844	108,045	1,777,954	215,479	<b>1,993,433</b>	<b>1,734,540</b>

Source: Statistics South Africa (2009b; 2013, 2014c)



**Table: 4.5****South Africa Annual Gross Domestic Product (GDP) at Current Prices (In Rand Millions) 1994 – 2013**

Year/sector	Agriculture, forestry & fishing	Mining & quarrying	Manufacturing	Electricity, Gas & water	Construction	Wholesale, Retail, motor trade & accommodation	Transport, storage & communication	Finance, real estate & business Services	General Government Services	Personal Services	Total value added at basic prices	Taxes, less subsidies on products	GDP At Market Prices
<b>1994</b>	20, 252	32, 111	92, 069	15, 975	13, 797	62, 474	38, 296	70, 491	71, 278	23, 403	440, 145	41, 974	<b>482, 120</b>
<b>1995</b>	19, 317	34, 830	106, 179	17, 409	15, 774	71, 768	44, 538	82, 162	80, 831	27, 545	500, 353	48, 162	<b>548, 514</b>
<b>1996</b>	23, 721	38, 768	114, 126	18, 602	17, 631	79, 463	51, 787	94, 122	96, 214	31, 040	565, 475	52, 484	<b>617, 959</b>
<b>1997</b>	25, 140	40, 524	124, 603	19, 929	19, 829	85, 859	57, 874	110, 488	107, 744	35, 177	627, 168	58, 563	<b>685, 732</b>
<b>1998</b>	25, 434	45, 879	130, 897	20, 461	19, 953	90, 936	63, 606	122, 227	116, 495	38, 986	674, 874	67, 550	<b>742, 424</b>
<b>1999</b>	26, 179	52, 173	137, 035	21, 200	20, 240	103, 193	70, 071	140, 673	124, 107	44, 002	738, 874	74, 810	<b>813, 684</b>
<b>2000</b>	27, 451	63, 391	159, 107	22, 788	21, 114	122, 702	80, 872	156, 253	133, 158	51, 382	838, 217	83, 930	<b>922, 147</b>
<b>2001</b>	32, 588	77, 214	176, 907	23, 023	22, 416	130, 387	89, 511	177, 531	142, 325	56, 313	928, 216	91, 792	<b>1, 020, 008</b>
<b>2002</b>	44, 232	92, 730	204, 219	26, 489	24, 120	143, 192	100, 983	207, 711	157, 547	64, 474	1, 065, 696	105, 389	<b>1, 171, 085</b>
<b>2003</b>	39, 644	85, 770	223, 917	29, 553	26, 747	158, 786	112, 637	231, 176	174, 106	72, 814	1, 155, 150	117, 387	<b>1, 272, 537</b>
<b>2004</b>	39, 490	91, 199	243, 967	30, 176	32, 039	176, 445	124, 786	261, 285	190, 563	80, 651	1, 270, 600	144, 673	<b>1, 415, 273</b>
<b>2005</b>	37, 402	105, 992	259, 101	33, 010	38, 558	195, 012	139, 472	295, 503	208, 561	88, 455	1, 401, 066	170, 015	<b>1, 571, 081</b>
<b>2006</b>	45, 351	132, 301	274, 502	36, 946	46, 158	215, 830	153, 775	339, 311	230, 116	98, 028	1, 572, 319	195, 103	<b>1, 767, 422</b>
<b>2007</b>	53, 833	156, 970	304, 438	41, 783	56, 908	238, 910	164, 467	405, 520	259, 802	109, 445	1, 792, 075	224, 109	<b>2, 016, 184</b>
<b>2008</b>	60, 547	196, 526	340, 623	45, 902	72, 221	271, 488	189, 782	438, 587	293, 290	118, 785	2, 027, 751	228, 733	<b>2, 256, 484</b>
<b>2009</b>	63, 655	196, 521	331, 703	60, 402	86, 522	298, 511	199, 276	464, 831	342, 725	134, 174	2, 178, 321	228, 081	<b>2, 406, 402</b>
<b>2010</b>	61, 999	221, 731	341, 746	63, 050	91, 899	360, 811	222, 847	509, 822	391, 892	141, 467	2, 407, 264	252, 102	<b>2, 659, 366</b>
<b>2011</b>	64, 578	256, 651	335, 683	72, 816	100, 454	403, 518	243, 444	557, 955	431, 289	154, 991	2, 621, 379	296, 160	<b>2, 917, 539</b>
<b>2012</b>	72, 731	262, 678	351, 087	79, 103	112, 631	452, 717	257, 687	608, 533	469, 785	168, 135	2, 835, 087	320, 108	<b>3, 155, 195</b>
<b>2013</b>	72, 431	279, 691	350, 345	92, 154	113, 556	502, 418	268, 782	652, 217	518, 348	180, 320	3, 030, 263	355, 106	<b>3, 385, 369</b>

Source: Statistics South Africa (2009b; 2013)

High rate of unemployment has been one of the defining features of the South African economy. The assertion of joblessness (Butler, 2004; Borat & Oosthuizen, 2006) could be an indication that the modest growth trend in GDP, has not translated into commensurate job growth within the economy. The growth in the labour force also contributed to this (see Table 4.6). Certain level of economic participation is imperative for sustained high GDP growth rate and more importantly basic livelihood. The imperative of the informal economy should not be discounted in this regard. Altman (2005a) points to jobless growth, as a stagnant or falling employment rates in relation to growing GDP. Employment growth and/or creation should be understood in relation to the growth of the labour force. In essence, a better understanding of the unemployment figures is in relation to the GDP, the characteristic of the working population in general and the labour force trend in particular.

The achievement of a “job-creating or jobless growth” should be informed by sustained GDP growth, with acceptable unemployment or falling unemployment rate. The economy must be able to accommodate the rate of growth of the labour force and some of the existing unemployed and GDP growth must translate into job creation (Altman, 2005a:424-425). In essence, economic growth and labour absorption rate are imperative. The latter is not implied by the former, the nature of growth (intensive or extensive) is imperative. The South African growth has been intensive, expressed as becoming more capital-intensive and less labour-intensive (Altman, 2003; Natrass, 2003).

Table 4.6 shows the employment and unemployment figures in South Africa from year 2000 to 2013. It is imperative to draw on the trends rather than particular point estimates (Altman, 2003). The Table is extracted from the Statistics South Africa Labour Force Survey (LFS) from year 2000 to 2007 and Quarterly Labour Force Survey (QLFS) from year 2008 to 2013. The LFS, which was published half-yearly (March and September) was discontinued in 2008, and replaced with the QLFS, published quarterly (March, July, September and December), due to review of methodology, frequency of survey and processing system. An historical revision of the LFS to align it with the QLFS was conducted in 2008 to allow for the comparability of the LFS September estimates (from 2001 to 2007) with the QLFS data. Therefore, the LFS September figures are directly comparable to the 3<sup>rd</sup> quarter (July to September) figures of the QLFS. Hence, for the reason of comparability, the figures presented in Table 4.6 are the September figures (historically revised) of the LFS and the 3<sup>rd</sup> quarter (July to September) figures of the QLFS.

The LFS and the QLFS published by Statistics South Africa remain a reliable and consistent source of working population and labour force information in South Africa. The working population are all persons between 15 and 65 years old in South Africa. The labour force comprise of all persons within this age range that are economically active. Unemployment is measured in two major ways, determined by how it is defined – the narrow (official definition in South Africa) and the broad (expanded) definitions. The unemployed is defined (in the narrow sense) as all persons within the labour force, who are unemployed (are not working or self employed) within the reference week, but are actively seeking for work one month prior to the survey and are currently available for work or self employment (Statistics South Africa, 2013a:xxi; Borat & Oosthuizen, 2006:144; Altman, 2003:159). The broad definition of unemployment includes the discouraged work-seekers - those who are not employed, are interested in working or start business, but have not taken active steps in this regard in the prior one month to the reference week (Statistics South Africa, 2013a:xxi).

Table 4.6 shows that the working population increased by 7.8 million from 27 million in 2000 to 34.9 million in 2013, an increase of 29.10% with an average yearly increase of 2.07%. The narrow labour force increased from 16.1 million in 2000 to 19.9 million in 2013. This is an increase of 3.8 million new entrants to the labour force, 23.87% and 1.71% total change and yearly increase respectively. The employed increased by 2.7 million (21.89%) persons from approximately 12.3 million in 2000 to 15 million in 2013. The narrow unemployed increased by 1.1 million (30.41%) from approximately 3.7 million in 2000 to 4.9 million in 2013, representing a yearly average of 2.17% increase. If we consider the discouraged work-seekers, the broad labour force increased by 4.6 million (26.11%) from 17.6 million in 2000 to 22.2 million in 2013, yearly average of 1.86%. The implications of these movements are that, out of the approximately 7.9 million people that were added to the working population, 3.8 million of them are economically active and enters the labour force. The remaining 4.1 million persons are not economically active. If we hold the existing unemployed constant, it means 2.7 million of the new additions to the labour force are employed and the remaining 1.1 million are unemployed.

This is an indication that the yearly average growths of 2.26 (from 1994 to 1999 at constant 2000 price) and 3.80% (from 2000 to 2013 at constant 2005 price) of the real GDP compared to the yearly growth rate of 1.71% of the labour force, did not create enough jobs to absorb

the new entrants to the labour force. The addition of the unemployed portion of the new entrants to the labour force and the exiting unemployed is accountable for the high rate of unemployment that characterised the South African economy. As conceptualised by Altman (2005a) above, the GDP growth is not translating into enough job creation to absorb new entrants to the labour force and existing unemployed. The narrow and broad unemployment rate hovers around 25% and 36% respectively between 2000 and 2013. The narrow unemployment rate has been increasing gradually since 2007 and the broad unemployment was over 40% in early 2000s, but dropped to 36% from 2010. Stats SA did not report on broad unemployment from 2005 to 2009. Therefore, we can say that unemployment by any measure remain high and stagnant in South Africa.

The character of the jobless growth satisfies the third conception of Borat & Oosthuizen (2006:158), which posit that jobless growth could be said to occur, when the economy is growing, as indicated by the GDP, but employment is not growing at a 'satisfactory' level. The labour force participation rate and the labour force absorption remains perhaps stagnant around 55% and 41% respectively. The complexity of the relationship between economic growth measured by the GDP and the stagnant or gradually rising unemployment is an indication that economic growth, as the macro-economic policy will suggest, does not provide a magic bullet to fix the legacies of apartheid. More importantly, it does not provide the single dose panacea to fostering human development, through improved standard of living. This gap continues to point to the lack of comprehensive integrated social and economic policies.

A quick peep at inequality as characteristic of the economy can be started from a look at the population groups' structure of the labour force and unemployment. Racial inequality is one of the dominant features of the labour market in South Africa. Deriving the national rate of employment as it is, only tells half of the story. Identifying the groups that are most affected by unemployment is imperative to complete the story about the nature and effects of unemployment. Borat & Oosthuizen (2006:164-166) highlighted that in the measurement of unemployment, we should take into consideration the 'rate' and 'share' of unemployment. Policy choice has to be made either to target the group with the highest rate of unemployment or the group with the most share of unemployment. Table 4.7 shows that the black African population group has the highest unemployment rate and share in South Africa. While this

cannot be divorced from the history of colonialism, segregation and apartheid, it is imperative for policy choices if socio-economic restructuring is a serious agenda of the NDR.



**Table 4.6**

**Labour Market Indicator - Unemployment and Employment trends in figures and percentages (in thousands)**

Year/details	Sept 2000	Sept 2001	Sept 2002	Sept 2003	Sept 2004	Sept 2005	Sept 2006	Sept 2007	Jul – Sept 2008	Jul – Sept 2009	Jul – Sept 2010	Jul – Sept 2011	Jul – Sept 2012	Jul – Sept 2013	Total % change	Average % change
Population aged 15–64 yrs	27,008	27,528	28,068	28,585	29,080	29,556	29,999	30,414	30,801	31,172	32,072	32,555	33,018	34,868	29.10	2.07
Labour force (narrow)	16,078	15,789	16,264	15,906	15,924	17,035	17,460	17,232	17,777	17,077	17,371	17,761	18,313	19,916	23.87	1.71
Employed	12,336	11,660	11,935	11,959	12,265	13,034	13,601	13,609	13,655	12,885	12,975	13,318	13,645	15,036	21.89	1.56
Formal sector (non-agricultural)	8,032	8,086	8,389	8,518	8,688	8,994	9,463	9,933	9,439	9,073	9,043	9,436	9,663	10,709	33.32	2.38
Informal sector (non-agricultural)	3,008	2,307	2,291	2,195	2,289	2,763	2,804	2,409	2,175	1,993	2,172	2,160	2,197	2,323	-22.77 #	-1.63 #
Agriculture	*	*	*	*	*	*	*	*	767	653	640	624	661	740		
Private households	1,297	1,267	1,255	1,246	1,288	1,277	1,334	1,266	1,274	1,166	1,119	1,098	1,124	1,264	-2.54	-0.18
Unemployed (Narrow)	3,742	4,130	4,329	3,947	3,659	4,001	3,859	3,623	4,122	4,192	4,396	4,442	4,667	4,880	30.41	2.17
Not economically active	10,930	11,739	11,804	12,679	13,156	12,521	12,539	13,182	13,024	14,095	14,702	14,795	14,705	14,952	36.80	2.62
Discouraged work-seekers	1,536	2,021	2,006	2,402	2,572	2,350	2,217	2,603	1,071	1,632	2,033	2,204	2,170	2,297	49.54	3.54
Other (not economically active)	9,394	9,718	9,798	10,277	10,584	10,171	10,322	10,579	11,953	12,463	12,669	12,591	12,535	12,655	34.71	2.48
Labour force & discouraged work-seekers (broad labour force)	17,614	17,810	18,270	18,308	18,496	19,385	19,677	19,835	18,848	18,709	19,404	19,965	20,483	22,213	26.11	1.86
Unemployed & discouraged work-seekers (Broad)	5,278	6,151	6,335	6,349	6,231	6,351	6,076	6,226	5,193	5,824	6,429	6,646	6,837	7,177	35.98	2.57
Rates (%)																
Unemployment rate (strict)	23.3	26.2	26.6	24.8	23.0	23.5	22.1	21.0	23.2	24.5	25.3	25.0	25.5	24.5		
Unemployment rate (broad)	35.9	41.5	41.8	41.3	41.0						36.4	36.0	36.3	34.9		
Employed/population ratio (Absorption)	45.7	42.4	42.5	41.8	42.2	44.1	45.3	44.7	44.3	41.3	40.5	40.9	41.3	43.1		
Labour force participation rate	59.5	57.4	57.9	55.6	54.8	57.6	58.2	56.7	57.7	54.8	54.2	54.6	55.5	57.1		

**Source:** Stats SA (2009a) LFS (2000 – 2007) and QLFS (2008 – 2013)

\* Agriculture is included in the figure for informal employment

# Agriculture was added to informal sector for calculation to align with 2003 to 2007.

The unemployment rates among the black African population are consistently higher than the national unemployment rate. This is an indication that the black African population group has proportionally highest unemployment rate and share across the ten year range. This is followed by the coloured, Indian/Asian and white population groups respectively. The White population group has the lowest share and rates proportionally of the unemployed. This is a reflection of persistent legacies of apartheid and the failure of the post-apartheid socio-economic policy to effect socio-economic transformation.

**Table 4.7**

**Unemployed by population groups (figures in thousands and rates)**

Year	Black African	Coloured	Indian/Asian	White	Total
2000	3, 129 (26.9)	401 (22.6)	86 (18.3)	126 (5.7)	3, 742 (23.3)
2001	3, 471 (30.8)	437 (24.0)	93 (18.8)	128 (5.8)	4, 130 (26.2)
2002	3, 646 (31.0)	463 (24.9)	91 (17.8)	129 (6.0)	4, 329 (26.6)
2003	3, 322 (29.2)	441(23.6)	78 (15.7)	105 (4.8)	3, 947 (24.8)
2004	3, 033 (26.6)	448 (24.1)	60 (12.3)	118 (5.5)	3, 659 (23.0)
2005	3, 337 (26.8)	467 (24.2)	89 (16.6)	108 (5.1)	4, 001 (23.5)
2006	3, 303 (25.6)	423 (21.3)	48 (9.4)	86 (4.1)	3, 859 (21.1)
2007	3, 024 (23.9)	465 (23.4)	48 (9.4)	86 (4.1)	3, 623 (21.0)
2008	3, 604 (27.4)	365 (19.2)	64 (11.7)	89 (4.1)	4, 122 (23.2)
2009	3, 609 (28.8)	417 (21.6)	66 (12.7)	101 (4.8)	4, 192 (24.5)
2010	3, 813 (29.8)	427 (22.3)	49 (8.6)	107 (5.1)	4, 396 (25.3)
2011	3, 804 (28.9)	463 (23.6)	57 (10.8)	118 (5.6)	4, 442 (25.0)
2012	3, 995 (29.1)	485 (24.5)	65 (11.7)	122 (5.9)	4, 667 (25.5)
2013	4, 159 (27.5)	509 (24.5)	66 (11.5)	146 (6.7)	4, 880 (24.5)

**Source:** Extracted from Stats SA: LFS (2000 – 2007) and QLFS (2008 – 2013)

Affirmative Action (AA) and Black Economic Empowerment (BEE) are the policies that are directly targeted at dealing with the apartheid legacy of racial discrimination and inequality as indicated in the respective Acts (Ibid). A close reading of the acts, suggests that affirmative action policy is framed to redress racial inequality in the labour market, with regard to employment and unemployment of the historically disadvantage populations, to ensure that the labour market reflects the population ratios with regard to quantity and quality of employment. Table 4.7 indicated that inequality in terms of racial population groups has not been reversed in the South African labour market, if unemployment is not proportional to the different population groups working population and labour force in terms of rate and share.



BEE on the other hand has focused on restructuring capital ownership to reflect the population demographics of the country. In essence, it is intended to drive inclusion of historically disadvantaged population (especially black African and women) groups in the structure of capital ownership in the country. My sense of this pair of policies (Affirmative Action and Black Economic Empowerment) is that, they are designed to drive the socio-economic (racial groups) restructuring of the country to foster development and social integration rooted in social justice and fairness – a cautious move away from the racial inequality propagated by centuries of colonialism, segregation and apartheid. However, some interest groups and sections of the South African society question the implementations of these policies. Whether these policies will achieve what Marshall called “unified political class of citizenship”, driven by ‘principle of equality’, targeted at the ‘equality of status’ (Marshall 1964, cited in Hibbert, 2010), remains to be seen.

Southall (2006b: 175-201) for example, have indicated that black economic empowerment is a possible limitation to the achievement of what he called “more democratic capitalism”. His engagement with BEE, using the concepts of ‘compassionate’ capitalism, ‘patriotic bourgeoisie’, monopoly capitalism, and democratic capitalism seems to view the BEE policy as exclusive of the AA policy. Secondly, the 2004 and 2013 amendments to the BEE Acts, emphasises Broad-Based Black Economic Empowerment (B-BBEE), which suggests an intention to widen the economic empowerment project to reach a much broader set of black people. These amendments specifically define B-BBEE to include the youth, women, worker, rural dwellers and the disabled. Hence, there seems to have been a response to the gap noted by Southall (2006b) to ensure wider participation in the BEE project. Democratic power structures are supposed to counter-balance capitalist power structures in the notion of democratic capitalism (Terreblanche, 2002). Perhaps the notion of monopoly capitalism best describes the South African political economy. BEE policy is aimed at removing the racial colouring of capitalism to bring a bit of legitimacy to the capitalist class if it is represented by all racial groups; perhaps uncoupling race and class, which is one of the defining characteristics of segregation and apartheid. An analysis of BEE and AA as mutually exclusive, may not tell the full story of the socio-economic racial transformation objective of the NDR of the ruling ANC government. These policies together are intended to drive increasing active black participation in the economy as owners of means of production and workers.

A seeming pro-elitist nature of the macro-economic policy support for the prevailing mode of production, rooted in neoliberalism was described by Terreblanche (2008:125) as ‘double madness’, to indicate the ‘pro-rich’ (white and black) nature of the government’s macro-economic policy. However, the expansion of “social wage” (see Tables 4.1 & 4.2) suggests that the direction of socio-economic policy is not as simplistic to be dubbed ‘pro rich’ without caution. It seems policy objectives and outcomes are conflated here. Even if the implementation of BEE has not achieved the intended broad-base, it seems hasty to conclude that it has no wider reach intention. The observation by Southall (2006b) that the BEE policy is not creating additional wealth in terms of creating new businesses, but rather it is dominated by investment in existing business, could be argued, deserve attention. What we continue to see is the ‘unbundling’ of white interest from non-core business of conglomerate capitals and transfer to blacks (especially black Africans) and foreign interests. ‘Unbundling’ proceeds are at times invested abroad by conglomerates (Carmody, 2002), which implies capital flight out of the economy. Some of the ‘unbundled’ assets were ‘rebundled’ at a cheaper rate, due to high interest rate on borrowed funds by blacks to buy them. Finance capital becomes more dominant as a branch of capital, both locally and internationally and much more portfolio investment than real investment in productive and job creating activities (Southall, 2004; 2006b; Carmody, 2002). While this reflects a global neoliberal turn of capitalism, it has local implications for the characteristics of the South African economy.

BEE therefore, is one of the responses of the ANC led government to ‘who owns South Africa’ (Rumney, 2005). How is the democratic government to respond to white ownership, often through conglomerate proxies, and state-owned parastatals after apartheid? A lesser response is land reform, to drive land restitution and the partial divestment from state owned enterprises. I use lesser response consciously because land reform has been less successful (Ibid). Also, partial divestment from state owned enterprises does not necessarily translate into black ownership, as government continues to own controlling shares in State Owned Enterprises (SOE), though they have divested part of their interest to private ownership (Rumney, 2005). Tellkom, Eskom, Denel, Transnet and South African Airways among several others are SoEs that are retained by government (Department of Public Enterprise, 2014).

There are various government initiatives, through the Department of Trade and Industry (DTI), Industrial Development Corporation (IDC) and Development Bank Southern Africa

(DBSA), to fund black ownership of capital apart from funding arrangement through commercial financial system. For example, IDC's 'Risk Capital Facility' and 'Transformation and Entrepreneurship Scheme', fund BEE enterprises and previously disadvantaged population for economic participation respectively. The DBSA also does equity funding of BEE deals ([www.dbsa.org](http://www.dbsa.org); [www.idc.co.za](http://www.idc.co.za)). The Preferential Procurement Policy Framework Act No. 5 of 2000 and Preferential Procurement Regulation, 2011 prescribe the processes for B-BBEE compliant companies to benefit, preferentially, from state tender, depending on their B-BBEE status level (National Treasury, 2011). This is an indirect way of ensuring that companies are B-BBEE compliant, by transferring part ownership to black (mostly black Africans) South Africans and "deracialising capital". However, one of the identified drawbacks to capitalising black (especially black Africans) South Africans is the lack of funds (finance capital). They are at times compelled to borrow to finance deals, which were subsequently affected by the fluctuation in the cost of funds. What this does essentially is to return the discretion to finance capital (Southall, 2004, Carmody, 2002; Romney, 2005). In essence, finance capital is gaining dominance as a branch of capital in South Africa. As indicated in Table 4.5 finance, real estate and business services output at current price in 2012 was approximately R609 billion (21.1% of GDP).

The culmination of jobless growth, inequality, lack of capital and landlessness is poverty. Poverty and inequality are at the centre of the socio-economic challenges faced by South Africa. Economic and social policies evolved to achieve improved standard of living for South Africans are slowly improving the conditions of living, but adequate and expected socio-economic transformation outcomes are still a long way to go. As indicated above, modest economic growth and investment in "social wage" has led to modest reduction in poverty, while inequality remains very high (Stats SA, 2014a; see Tables 4.1, 4.2, 4.3a & 4.3b). Substantial proportion (over 45% of South Africans at UBPL of R620) of the population continues to live in poverty.

The modest growth rate of the economy could be argued contributes to the slow rate of socio-economic transformation. Though the average achieved growth is still above the labour force entrant rate, as indicated above, the lack of employment creation means low labour force activation, indicated by low labour absorption rate of the economy (Table 4.6). However, while increasing participation in the economy through job creation is important, the overemphasis on growth as a basis for job creation needs to be engaged with caution.

Government seems to have become oblivious of the type of jobs that are being created in the economy, giving room for the expansion of the poor working population. A good indication of this is the growing atypical employment, such as subcontracting of work (Omomowo, 2011). UNDP Human Development Report 2013 indicated clearly, that human development cannot be achieved through economic growth alone. It must be complimented by a comprehensive social policy, targeted at averting poverty by investing in human capabilities such as education, health and skills development. In essence, development must be people centred. Sustained poverty and inequality therefore, is what defines the South African socio-economic context. We will take a brief look at it later. For now, it is important to consider the “precariously poor” that hover around the poverty line in the next section as a peculiar characteristic of the South African socio-economic contexts.

#### **4.4 The South African Socio-economic Context – Precariously Poor (Poverty Range)**

It has been emphasised that the socio-economic contexts of South Africa are characterised by poverty and inequality, despite the moderate growth in GDP and the expanding government expenditure on “social wage” (see Tables 4.1, 4.2 & 4.3b). We have also indicated that a seeming suggestion that substantial economic growth will trigger job creation, to absorb the growing number of the unemployed persons in the country (see table 4.6). It is important to note, that we must be cautious not to take a simplistic approach that joblessness is synonymous to poverty, and that job creation stimulated by economic growth will solve the problem. The notion of absolute poverty as measured by poverty lines (see Chapter 2), could hide individuals and households, whose income are slightly above the lines, but are vulnerable to poverty. This category of individuals and households are instructive to this study (see Chapter 1).

The particular conditions that predispose the clustering of the population around the poverty line threshold have been variously conceptualised. Their location between poverty and prosperity leaves them vulnerable to poverty in case of shock. They are described as “downward mobile, precarious middle strata, the working poor, social vulnerability and hidden poverty” (Budowski et al, 2010:269) among other conceptions. Standing (2011) called them the ‘precariat’ to make a distinction from the ‘salarariat’ to suggest that the structure of the labour market with regard to the nature of employment and income could be partly responsible for this. For him, this category of people is more likely to be deprived of labour market security, due to increasing global labour market flexibility and the nature of the

relationship between them and their employer. At the same time, access to social security or “social wage” may not be guaranteed, despite their low money income.

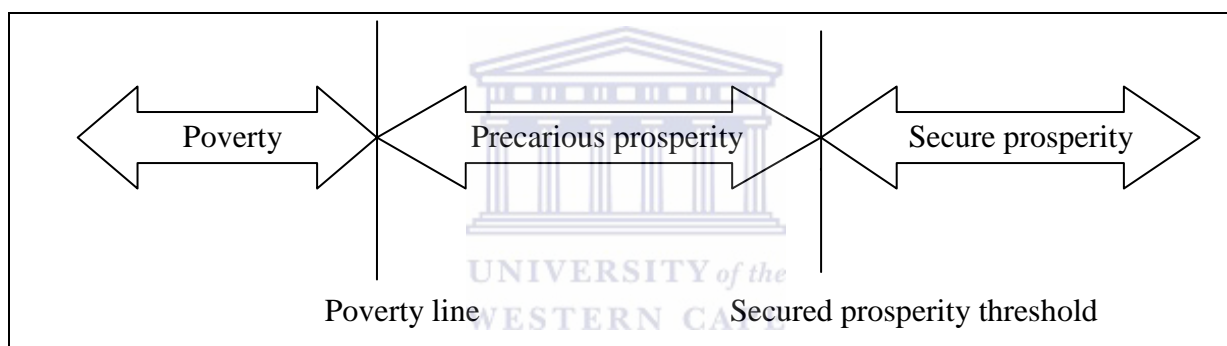
For Fields (2012) ‘working hard’ for those at the lower end of the labour market does not automatically translate into a better income, hence, they are ‘working poor’. The seeming concentration on unemployment might miss people that are “working hard, and working poor” due to low income. ILO (2012) cautioned against the proliferation of precarious work and declining decent work. ILO (2012) contends for the need to reverse this trend by pushing for ‘decent work’. It noted that the continuous replacement of high quality permanent employment with low quality temporary employment might lead to increase possibility of living in poor households. It is the position of ILO (2012) that ‘precarious work’ is the basis for ‘precarious lives’, which leads to ‘precarious societies’. Where these situations prevail, the quality of living will deteriorate, and it could fuel social unrest.

Neo-liberalism, weak social floors, interests group lobbying against protective legislations and policies, labour market flexibility, competition, weak trade unions and weak collective bargaining structures have been argued, creates the condition for the proliferation of precarious work (Kalleberg, 2009; ILO, 2012). Low wage is one of the major consequences of precarious work. Even where there is an increase in a society’s wealth, it is concentrated at the top income category. Labour market flexibility provides the space for employers to shift more burdens to the workers with diminishing labour rights. Legislative prescription and implementation, is lacking behind the changing nature of work. The implications of these are growing inequality, insecurity and possible rise in debt (Kalleberg, 2009). These conditions can partly be ameliorated by more labour market regulation, collective bargaining, social dialogue and social welfare provisions (Theron, 2011; 2014; ILO, 2012).

ILO (2012) suggests that the combination of social and economic policy intervention is important for the reversal of growing precarious work, lives and societies. This is what Altman (2005b) called the need to complement “money wage” with “social wage” in the South African context. This is a suggestion that, attempt to reverse growing precarious lives, does not reside in the economy alone; rather an embedded socio-economic policy approach is important. This resonate with the position of this thesis that economic policy should be viewed as mutual to social policy in order to optimise the well-being of a society.

Budowski *et al* (2010) show the applicability of Hübingers’ (1996) concept of “precarious prosperity” to other context, apart from the context in which it was initially developed. It refers to the category of people or households that lives close to the poor. They are above the poverty line, but they are not far enough from the poverty line for their prosperity to be described as secured. It is a dynamic and vulnerable socio-economic position, where households can easily slide into poverty because they have not reached prosperity threshold, where they will not be affected by minor shock. Therefore, if we put poverty and prosperity on an opposite ends of a continuum, there are some income range between the poverty line and secured prosperity. Households that live within this income range are effectively living at the margin of poverty. Therefore, their prosperity is precarious, tenuous and unsecured. Figure 4.1 is a pictorial description of the conception of “precarious prosperity”.

**Figure 4.1: Precarious prosperity**



Source: Budowski *et al* (2010)

Prosperity comes with some amount of freedom of social action, to choose between alternatives. Contrary to this precariousness speaks to a threatened socio-economic position with limited choice (Budowski *et al*, 2010). We have used the notion of ‘poverty range’ to describe “precarious prosperity” in this study, in order to highlight the fluid nature of the living condition of households in this category. Their choices are limited with regards to alternatives course of action, when there is a threat to the quality of their social reproduction. As earlier indicated, deregulation of the economy and the condition of the labour market are often identified as the drivers of precarious living, but how this manifest is often peculiar to each context. Therefore, the particular nature it takes and its origin are informed by national experience and discourse (Budowski *et al*, 2010). For instance, it has been argued that precarious work does not automatically imply precarious living, as ILO (2012) contends. It will depend on other existing conditions, such as the structure of households, other sources of



income. More importantly, it will depend on the prevailing architecture of social policy regime in different societies, the author argues. ILO (2012) and Altman (2005b) treat social security provisioning as a solution to precarious living, but it could also be a preventive tool.

The South African case of people living in “precarious prosperity” or ‘poverty range’, cannot be divorced from her historical legacies of colonialism, segregation and apartheid, defined by racial line or racism (Terreblanche, 2002; Magubane, 1996; 1979). It is therefore, connected to how labour power has been appropriated at different periods in the history of the country. For Magubane (1996), the brutality of colonialism, driven by racism kept the indigenous black African population of South Africa alive because they became the heart of the capitalist mode of production, as the supplier of labour power. Cheap labour power was at the centre of capitalist racial exploitation during segregation and apartheid (Wolpe, 1972). The legacy of cheap labour power persists in post-apartheid South Africa today, in view of the prevalence of low wage. However, this must be considered in the context of increasing government spending on “social wage” (Altman, 2007; National Treasury, 2013; see Tables 4.1 & 4.2).

Altman (2007:3) was concerned with the vulnerable nature of poor households’ income as a result of “high unemployment, low wages, and high labour turnover”. For her, apartheid legacy of income inequality and low wages is today sustained by low level of skills and low level of human development. She also alluded that the notion of trade off between competitiveness and high wages could also keep wages down. In essence, we are dealing with the case of ‘working poor’ in the South African context. The high rate of unemployment adds to the problem because more people will depend on low income earners.

Labour market flexibility has been presented as workplace restructuring in the South African context, which also have implication for workers that are pushed to the margin of the economy due to the changing nature of work. Von Holdt and Webster (2005:5) identified three categories of workers in the South African workplace. The first category is the core workers, who are in permanent employment with salary/wages with other benefits such as medical aid, pension fund, provident fund and unemployment insurance fund among others. Casualised and externalised workers are in the second category. They are in non-permanent and unsecured employment, such as part-time work and temporary work. The externalised employment relationship includes third party firm, subcontractors and labour brokers. The third category of workers are the periphery workers, who are ‘making a living’ in informal



work activities. They observed a growing trend of the non-core and periphery work and a contraction of core work in South Africa.

Von Holdt and Webster (2005) argue that the growing trend of non-core and peripheral work has negative social reproduction implication for the households of concerned workers, due to poverty. For example, in the case of the subcontracting of work as an externalised form of work, Bezuidenhout and Fakier (2006) argue that, it facilitates the transfer of the burden of social reproduction from the employers to workers family/households. This is reminiscent of apartheid cheap labour power regime they contend. There has been work intensification and the reduction of wages and other benefits. It is the proposition of this study that one of the ways workers and their households are dealing with the increasing burden of social reproduction, is the consumption of micro-credit. Credit consumption in turn, has implication for the quality of their social reproduction.

Theron (2011; 2014) is concerned with the changing nature of work and its erosion of the security of workers in non-standard employment, by reducing their access to labour law protection, workers organisation, collective bargaining and social dialogue. He noted that non-standard employment has also been referred to as “contingent”, “casualised” or “precarious”, more often conceptualised by what it is not, standard employment. The conception of standard employment varies, but converges on two points; it is full-time and permanent. Theron (2011; 2014) divides non-standard employment into two categories; casualisation and externalisation. In casualisation, employment relationship remains binary (direct employment), but employment becomes less secure with regard to labour standard. Externalisation, however, refers to a tripartite employment relationship. It is a situation, where a third party firm, in the form of subcontractor or labour broker, is involved in employment relationship.

For Theron (2011), the proliferation of non-standard employment undermines access to workers’ organisation, effective labour law coverage and engagement in collective bargaining process. Hence, workers protection, in the form of job security and working conditions such as wages and other benefits is undermined. He argues that strategies to involve workers in non-standard employment in workers organisation, collective bargaining and social dialogue are important to improving their condition. The Expanded Public Works Programme (EPWP) in South Africa can be viewed as also contributing to the growing non-standard employment.

EPWP provides temporary employment (piece work) as temporary unemployment and poverty relief (Department of Public Works, 2009; McCord, 2012). However, it is founded on workfare, and not welfare, idea of social policy as indicated in the RDP-base Document and RDP White Paper. Section 2.3.3 of the RDP-base Document states that “a system of ‘handouts’ for the unemployed should be avoided”. This is reminiscent of the Poor Law (and the use of Workhouse) regime in the provision of social relief for the poor in Britain (<http://www.workhouses.org.uk/poorlaws/1834act.shtml>; Blakemore & Griggs, 2007; <http://www.workhouses.org.uk/poorlaws/1782intro.shtml>; Reisman, 2001).

The EPWP remains the main form of social assistance for able-bodied South Africans of working age as unemployment and poverty relief. It is important because the prevailing structural unemployment needs state intervention. However, Public Works Programme (PWP) is more suitable in a context of transient unemployment in comparison to structural employment (McCord, 2004; 2012). However, the problem with the Adoption of the EPWP in South Africa is the over-emphasis that the government places on it, as the major instrument for employment creation, losing sight of its temporary and low wage nature. The two cases that McCord (2004) studied in South Africa show that PWP did not move majority of beneficiary’s households out of poverty at an adjusted poverty line of R486 per month. It however, reduced poverty intensity and poverty gap. There is no evidence that PWP experience and training impact labour market performance positively or facilitate employment under normal condition. Rather, workers revert to unemployment. She concludes PWP is only a partial response, and cannot offer adequate social protection.

McCord (2012) argues that PWP (also known as workfare programme) cannot guarantee sustainable (medium to long term) households livelihood improvement and poverty reduction. Its benefit is therefore not developmental, but temporary. Her position is informed by the characteristics of PWP to provide low wage for labour for the unemployed and underemployed. The low wage is to ensure that it attracts only the poor and that it does not distort the labour market (McCord, 2012). She observed that the evaluation of PWP in literature has been limited to the amount of committed resources and the duration (in days) of employment provided for participants. This omits the real impact on the households of participants. The EPWP in South Africa is guilty of this observation. The evaluation of the EPWP first phase (2004 to 2009) was celebrated as successful for surpassing the target of creating one million work opportunities for the poor. It however, noted the shortcomings in

achieving training objective. It could therefore be argued that the EPWP in view of the temporary nature and low wage contributes to precarious employment in South Africa. The nature of the employment (in wages and term) can only reduce poverty temporarily (McCord, 2012).

Therefore, low wage compared to the cost of living, the erosion of access to labour law protection, workers' organisation, collective bargaining and social dialogue due to the proliferation of non-standard employment are important in the location of households in 'poverty range' or 'precarious prosperity'. Low wage is instructive to this study as it directly speaks to the growing population of 'working poor' in South Africa. ILO defines "a 'working poor household' as one, in which at least one member is working but the household lives in less than \$2 per person per day" (cited in Fields, 2012). In the South African context Altman (2007) defines 'working poor' as "anyone who is 'employed' by the definition of the LFS, working in the formal or informal sector, and earning less than R2,500 per month in 2004". Using this definition, she reported that approximately 65% of workers in South Africa earn less than R2, 500 a month and 39% earn less than R1, 000 a month as at 2004 (citing Valodia *et al*, 2005). About 58% of formal sector workers earn less than R2, 500 in relation to 42% in the informal sector. Hence, the proliferation of 'working poor', traverse both formal and informal sectors and it cannot be reduced to the problem of the informal sector as is often the case.

The nature of the South African context with regards to low wage and 'working poor', in part, informs the focus of household category for this study. This study also includes households that are beneficiary of social grants and other social services as "social wage". To be specific, the people interviewed for this study include those that are employed (but rarely have other sources of income), pensioners and beneficiaries of other social grants (such as child support grant and disability grant). Most of these households have only one member employed at the lower end of the labour market and/or members getting social grants, such as child support grant, disability grant and old age grant. Their job profiles include domestic and subcontracted cleaning, security, retail store attendants, petrol garage attendants and driving (see Chapter 7). These households are defined by low income (whether wages, salary or social grant), which could not be stretched to accommodate any shock or do anything outside their routine monthly expenses.

#### 4.5 The South African Socio-economic context – Human Development and Poverty

There has been a shift in development thinking globally proclaimed by the work of United Nation Development Programme (UNDP) publication of the Human Development Reports. The work of Amartya Sen on *capability* and *functioning* approach to development and poverty alleviation provides the core of the theoretical base for this new development thinking (Sen, 1999). This idea is a major shift from the conception and measurement of development, through economic indicators of the GDP and per capita income alone to include composite economic and social indicator in the Human Development Index (HDI). This is a position that development must be human or people centred. Economic growth must be seen to be transforming peoples' standard of living for the better. One of the limitations of depending on the GDP and per capita income is that they cannot tell us how the general functioning or standard of living of the population is improved.

HDI is a combined human development index that includes education attainment, income and health. The HDI strength is the fact that it measures combined economic and social development. It is a shift away from the thinking of the social as a residual of the economic, but treating them as mutually embedded. The HDI is expressed as a value of 0 to 1 (minimum to maximum) on a dimension scale. The HDI has three dimensions measured with four indicators: health (measured with life expectancy); education (measured with mean schooling years and expected schooling years) and; living standard (measured with Gross national income per capita) (UNDP, 2013; <http://hdr.undp.org/en/statistics/hdi/>). The HDI essentially measures the potential level of development of a country, under the assumption that development achievements in the three dimensions are equally distributed among citizens. The real or actual HDI is achieved by adjusting for inequality. Inequality-adjusted Human Development Index (IHDI), introduced in 2010, considers inequality in the distribution of development achievements in the three dimensions. In a situation where there is no inequality, the HDI and IHDI will be the same. The IHDI therefore, indicates shortfall in potential human development as a result of inequality. IHDI is expressed in percentages, which indicate how the IHDI falls below the HDI as the level of inequality rises (UNDP, 2013; <http://hdr.undp.org/en/statistics/hdi/>).

**Table 4.8****South Africa Human Development Index (HDI)**

Human Development Index (HDI) (value) 2012	Life expectancy at birth (years) 2012	Mean years of schooling (years) 2010	Expected years of schooling (years) 2011	Gross National income (GNI) per capita (2005 PPP \$) 2012	GNI Per Capita rank Minus HDI Rank 2012	Non-income HDI (value) 2012
0.629	53.4	8.5	13.1	9, 594	-42	0.608

**Source:** Extracted from UNDP (2013) HDR.

**Table 4.9****South Africa Inequality-adjusted Human Development Index (IHDI)**

HDI (Value)	Inequality-adjusted life expectancy index (Value) 2012	Adjusted life expectancy index Loss (%) 2012	Inequality-adjusted education index (value) 2012	Adjusted education index Loss (%) 2012	Quintile income ratio 2000 - 2010	Income Gini-coefficient 2000 – 2010
0.629	0.376	28.4	0.558	20.8	25.3	63.1

**Source:** Extracted from UNDP (2013) HDR.

South's Africa HDI was 0.629 as at 2012, with life expectancy, mean schooling years and expected schooling years of 53.4, 8.5 and 13.1 respectively. The Gross National Income (GNI) at 2005 purchasing power parity in dollars is \$9, 594 (Table 4.9). The data for IHDI is not available, but the inequality-adjusted life expectancy for 2012 is 0.376 indicating a loss of 28.4% from the potential life expectancy. Inequality-adjusted education index was 0.558 for 2012, a loss of 20.8% from the potential education index if there is no inequality. The quintile income ratio (average income of 20% richest population to 20% poorest population) is 25.3 from 2000 to 2010 and income Gini-coefficient is 0.631 over the same time period (Table 4.10) (UNDP, 2013). The latest income Gini-Coefficient is 0.69 as at 2014 (Stats SA, 2014a).

South African is classified as a medium human development country and ranked 121 in the world. The significance of the HDI is highlighted because the country dropped 42 places in ranking between the GNI per capita rank and the HDI rank. The simple interpretation of this huge drop in rank between the GNI per capita and HDI could be credited to the high level of inequality, and that economic growth does not translate into improvement in social outcomes. Inequality and poverty continues to be the defining features of the socio-economic context of South Africa despite increasing government spending on “social wage” (see Tables 4.1 & 4.2).

Magasela (2006) noted that the definition of poverty is imperative to the policy choices and actions to alleviate it. However, the definition of poverty is informed by the dominant (social, political and economic) ideologies. Why poverty may not be political, its definition could be. The money-metric measurement of poverty is dominant in South Africa. The socio-economic rights, enshrined in the constitution, should inform how we view quality of life and poverty in South Africa. The lack of comprehensively integrated policies remains the biggest challenge of drive for poverty alleviation. Disjointed economic and social policy means piece-meal policies here and there, will not address the challenges of poverty and inequality (Roberts, 2005). He draws on the work of Sen to argue that socio-economic policies must be assessed on the bases of “reach, range and reason”. Economic growth should be viewed on reaching the poor. A growth that does nothing for the poor is meaningless. Range includes the means and institutional set-up to achieve or reach the ends. Lastly, reason is the why of a particular ends or reach and the choice of the range or means to achieve them. Therefore, poverty alleviation policies and strategies should keep these dimensions as a comprehensive framework.

Sen, (1997) makes a distinction between economic inequality and income inequality to demonstrate the limitation of income measurement of poverty. While income is important, its value lies in what can be achieved with it, which may vary with individual innate abilities and conditions. Therefore, the analysis of poverty should take into consideration individual advantages, defined by their innate differences and non-income conditions, which could influence what they are able to achieve with their income. Sen noted that:

“The important point to note is that the valuation of income is entirely as a means to other ends and also that it is one means among others... Income is, of course, a crucially important means, but its importance lies in the fact that it helps the person to do things that she values doing and to achieve states of being that she has reasons to desire. The worth of incomes cannot stand separated from these deeper concerns, and a society that respects individual well-being and freedom must take note of these concerns in making interpersonal comparisons as well as social evaluations” (Sen, 1997:385)

What is important for him is the functioning (see Chapter 2) that a person can achieve with available income, which can be influenced by several intervening variables such as individual differences, environmental difference, different social conditions, relational inter-society differences and intra-family income distribution. For him, a deeper understanding of poverty



should take note of the relation between income and achievement to highlight how the prevailing individual, physical and social condition (advantages) could influence achieved well-being, even when income are the same. Therefore interpersonal breakdown can shed important light on social evaluation.

The consideration of achievement over income is located in Sen's (1999) capability and functioning approach to poverty (see Chapter 2). For him, well-being is defined by individual's capabilities and freedom to choose functionings they have cause to value. In other words, capability is the freedom to achieve or to choose what one values from alternative set of functionings. Functionings is the actual achievements of a person. The use of "Capability approach" for evaluation, according to Sen (1999:75), "can either be on the *realized* functionings (what a person is actually able to do) or on the *capability set* of alternatives she has (her real opportunities). The two gives different types of information – the former about the things a person does and the latter about the things a person is substantively free to do". Capability deprivation is therefore, more inclusive compared to income poverty because it considers broader information base in the understanding of poverty and freedom to choose a valued life among alternatives.

Therefore, the understanding of poverty, beyond money-metric measure, is the understanding of how the prevailing institutional or social arrangements could generate and reinforce "freedom" and/or "unfreedom". Social arrangement that is conscious of capability deprivations has capacity to improve the "quality of life". "The capability of a person reflects the alternative combinations of functionings the person can achieve, and from which he or she can choose one collection. The approach is based on a view of living as a combination of various 'doings and beings', with the quality of life to be assessed in terms of the capability to achieve valuable functioning" (Sen, 1993:31).

While Sen did not develop a social mechanism for achieving capability enhancement and improved quality of life, his conception can be used to evaluate existing social arrangements, and inform agenda setting for social arrangement that will improve well-being. The social arrangements that could impact on "freedom" and "unfreedom", to enhance or constrain individual capabilities, with consequence for well-being are instructive to this study. Micro-credit institutions were identified, and the impact of their activities and patronage on the well-being of the consuming households was investigated. The freedom to choose by people living



in ‘poverty range’ (precarious prosperity), as a result of precarious work and low wages in the South African context, is constrained. The choice to consume credit to smoothen consumption needs, to facilitate social reproduction, is a demonstration of “unfreedom” propagated by capability deprivation of freedom of choice of alternatives.

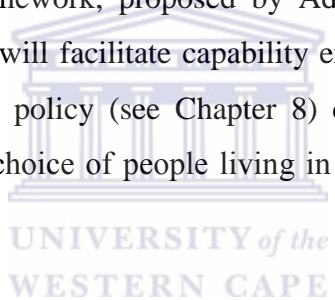
This “unfreedom” is reflected by the different dimensions of credit consumption by households (see Chapter 7). These people (living in poverty range) are prone to being trapped between the labour market insecurity and low wages on the one side, and over indebtedness and debt trap due to consumption financing with micro-credit (see Chapter 7) on the other side. Their “unfreedom”, which was initially propagated by their socio-economic location informed by the relics of apartheid history and precarious labour market, is compounded by their action of consuming credit to deal with the consequence. Over-indebtedness, negative credit history and debt trap are probable situations that could aggravate their “unfreedom”. This must however, be considered with the means tested social grants and social services provision, which is on the increase.

What was revealed was that third party employment and social grants benefits provide the conduits that connect households to the credit market. In cases where salary/wage income cannot cover the consumption needs of households, they are compelled to approach micro-credit institutions to finance their consumption gap. The same situation prevails with social grants (old age grant, disability grant and pension) beneficiaries. When grants cannot cover the consumption needs of concerned households for the month, they are also compelled to approach micro-credit institution to finance the shortfall. Employment income and grant income are the dominant sources of household income in South Africa, 64.7% and 45.7% respectively. Remittances, business income and pension constitute 17.1%, 13% and 4.3% of household income respectively (Stats SA, 2014b). In cases where these major sources of household income (salary/wage and social grants) cannot achieve the functionings that people valued, their individual efforts through credit consumption further dent their capabilities.

While the people that live in ‘poverty range’ cannot be categorised as poor, using the income measure of poverty, they are poor in the sense of capability deprivation manifested as a variety of “unfreedoms”, to achieve the type of functionings they have cause to value. In other words, their capability deprivation hinders them from living the kind of life they would value. Due to capability deprivation and limited alternative course of actions, the choice of

credit consumption to achieve valued functioning, led to further deprivation with regard to alternative course of actions. For example, a consumer with impaired credit record listing at the credit bureau may not be able to access any form of credit subsequently (see Chapters 5, 6 & 7). So also is a consumer that is over-indebted and in debt counselling cannot access further credit until all his or her outstanding debts are fully settled.

It is the proposition of this study that credit consumption is one of the ways individual households respond to the challenges of social reproduction, informed by gap between income and consumption needs. The consumption of credit in turn could lead to capability deprivation. Income from means tested “social wage” in the form of social grants, that defines the South African social policy architecture (see Chapter 8), are partly redistributed in the form of interest and cost of credit to micro-credit institutions leaving the household more deprived. We are of the view that a comprehensive social policy regime, such as the *transformative social policy* framework, proposed by Adesina (2011) could be useful in building social arrangement that will facilitate capability enhancement (see Chapter 8). The proposed multi-tasking of social policy (see Chapter 8) could facilitate the expansion of “capability set” and freedom of choice of people living in ‘poverty range’ in particular and the population in general.



AS indicated in Tables 4.3a and 4.3b poverty persist in South Africa, though there is a declining trend. The use of poverty lines is an indication of objective poverty. Statistics South Africa’s (2011a) Living Condition Survey (LCS), with complementary publications (“Poverty Profile of South Africa”, “Subjective Poverty”, and “Men, Women and Children”), went further to measure subjective poverty in South Africa. The data shows that more people feel they are poor, compared to the objective measure. An indication that no matter the approach to poverty adopted, high rate of poverty persists. Table 4.10 shows the subjective measure of poverty in South Africa as at 2009.

**Table 4.10**  
**Subjective Poverty estimates in South Africa (headcount)**

<b>Subjective poverty (2009)</b>	<b>Individuals</b>	<b>Households</b>
Self-perceived wealth question (SPWQ)	39.5%	37.7%
Minimum income question (MIQ)	55.3%	56.2%
Income evaluation question (IEQ)	58.6%	56.7%

**Source:** Extracted from Stats SA (2011a) LCS: Subjective Poverty

The latest figure available for subjective poverty was the 2009 data extracted from the LCS. The subjective poverty headcount measures apply the SPWQ, MIQ and IEQ. The IEQ returns the highest individual subjective perception of poverty at 58.6%, which was closely followed by the MIQ at 55.3%. The SPWQ was 39.5%. The subjective household poverty follows the same trend as the subjective individual poverty at 56.7%, 56.2% and 37.7% respectively. It is clear that the subjective experience of poverty is also high, compared to objective poverty (see Table 4.3b). There is a possibility that objective measures may omit what is socially important to the specific population under focus.

To round-up our discussion on poverty, as a characteristic of the socio-economic context of South Africa, it is important to highlight the character or dimensions of poverty in South Africa. The three broad dimensions of poverty are race, space and gender. More Black Africans are poor than all other racial groups; poverty is more prevalent among the rural and informal areas compared to the urban and formal households or residents and; poverty rate is higher among female and female-headed household than male and male-headed household (see Table 4.3b).

This contextual dispensation was crucial to the decision or choices that were made in the course of this study. For example, the fact that black African and Coloured population groups represent over 90% share of poverty in South Africa is telling in terms of what should be the focus of a qualitative study of this nature. As I have said earlier on in this chapter, I will not dedicate a specific section to the political context of South Africa. Apart from the transition from an apartheid state to a democratic state, what is important for our purpose with regards to politics, is the power constellation that defines the South African socio-economic and political landscape. Politics as power is therefore, viewed in the Foucauldian sense as located within the capillaries of social relations (McHoul & Grace, 1993; Mills, 2004). Power relations therefore, play-out in political decisions and/or choices that are made by a society. In whose interest and at whose expense are the choices becomes imperative. This is what Mafeje (1986) referred to as ‘vested interest’ as a defining principle and the need to understand the South African society as not “self-determined”.

As I have indicated above, the power structure of social relation is supported by the political structure versus the economic structure that is supported by constitutional rights to private

property. On the balance, it seems the constitutional court seems more powerful than the parliament that is supposed to be the representative of the people. South Africa is a constitutional democracy. Resistance to socio-economic transformation, I will argue, seeks refuge in the constitution. The constitutional court has become the final recourse on every issue, even when clear political decisions are needed. While legal structures are imperative, it must be achieving the objective of poverty alleviation and the socio-economic transformation of the country as hoped for in the NDR, if it is to remain relevant. Socio-economic and political choices in the country continues to be a ground for power struggles and should be viewed in structural terms.

The National Development Plan (NDP) document is viewed as part of the political decisions that were made by the government; hence, it is a socio-economic policy projection for the country for the next two decades. What we can briefly say is that it has not been accepted by all sections of the society. While it might have been accepted by political and economic establishments, the organised workers' union, among other social actors, have rejected it substantially. National Union of Mine Workers of South Africa (NUMSA) has been most vocal in their critique and rejection of the NDP. They are of the view that the NDP is an extension of GEAR, albeit in a disguised form. The underlying assumption is neoliberal, and it deviate substantially from the Freedom Charter and the labour movements' (Cosatu) views on path to development for South Africa. For them, it is detached from the colonial history of South Africa, hence, it is not designed to destroy what they called "Colonialism of a Special Type" (CST), which characterised post-apartheid South Africa. ([http://www.numsa.org.za/admin/assets/articles/attachments/00119\\_the\\_ndp\\_mixed\\_bag\\_or\\_downright\\_neoliberal\\_proposals\\_for\\_south\\_africa1.pdf](http://www.numsa.org.za/admin/assets/articles/attachments/00119_the_ndp_mixed_bag_or_downright_neoliberal_proposals_for_south_africa1.pdf)).

The proposition of the NDP to reduce inequality from Gini Coefficient of approximately 0.7 to 0.6 in 2030 (NDP, 2011:3) is not encouraging with regard to set goals of reducing the level of inequality in the country. It represents a particular structure of political economy with regards to how the country should progress. It may be viewed as a victory for a particular power structure within the society. While it emphasise many aspects of market-oriented transactional logic of neoliberalism, it also differs in substantive ways, with emphasis on government programmes, such as BEE and Affirmative Action among others. Perhaps the government keep pursuing similar policy agenda and hoping that it will yield alternative outcomes as noted by NUMSA in its critique of the NDP policy prescription.

#### **4.6 Conclusion**

What we set out to achieve in this chapter is to get a view of the South African socio-economic and political contexts over a period of time. The rationale is that these will provide the needed background to the theoretical discussion of the issues that emanates from this contextual gaze and the qualitative data gathered in the course of this study. Therefore, engagement with theoretical discussion will be illuminated with the contextual situations. This study is therefore, set-up for continuous dialogue between the contextual background, theoretical discussion and the empirical data generated in the course of this research. Note that this dialogue is not in any particular order, but rather in a forth and back process.

Thus, from the contextual discussion set-out in this chapter, South Africa is a society defined by inequality and poverty that are racially skewed. The choice of macro-economic strategy is bereft of comprehensive and well-integrated social policy, has achieved inadequate reduction in poverty, while inequality persist. The modest growth that has been achieved in the economy has not led to commensurate job creation. Unemployment rate remains very high at both narrow and broad definitions. Labour participation and absorption rate of the economy remains low. The high rate of low wage employment, which cut across formal and informal sectors, mean that job creation alone, cannot solve the problem of poverty. Substantial proportion of working people continues to live in “precarious prosperity” or “poverty range”. While Government increasing expenditure on “social wage” is a welcome development, it seems much more is required to positively transform the socio-economic structure of the society. Attempt to share capital ownership between population groups has also not been very successful. Land redistribution has not been encouraging as access to land capital remains locked-up in legal disputes.

## Chapter 5

### Micro-Credit in Social Reproduction – An Overview

#### 5.0 Introduction

The core of this study is re-conceptualizing the implications of micro-credit institutions in social reproduction in the South African context. I argue that micro-credit institutions fill the interstices left by the interaction between production, individual and collective consumptions. This speaks to the interaction between social reproduction, poverty and social policy in South Africa. More importantly, this approach to engaging with poverty as an assault on the quality of social reproduction and the failings of the structure of social policy regime in this regards, brings to the fore the realities of particular social institution and its cause and consequences for the context in question. Therefore, the pervasiveness of the micro-credit institutions in South Africa, I will argue, is a function of the high level of poverty (what I have referred to as poverty range) and the resulting challenge of social reproduction. The strain on the quality of social reproduction in the form of individual consumption is not being ameliorated with social policy, in the form of collective consumption in the South African case.

A broad look at the South Africa political economy, suggests an assumed disjunction between economic and social policies, rather than treating them as mutually embedded and complimentary. The treatment of social policy as a residual of economic policy, it is argued, is to a large extent, responsible for what we see with regard to a sustained high prevalence of poverty. Despite the provision of mean-tested “social wage” in the form of social grants and other social services such as housing, health and education (National Treasury, 2013; Coleman, 2013), the level of poverty remains high. Approximately 19% of the GDP was spent of “social wage” in 2012/2013 budget year (National Treasury, 2013). The presupposition that poverty can be fixed with a focus on economic policy devoid of social policy, has seen the over emphasis on economic growth as a panacea to poverty alleviation. While there are modest economic growth and high rate of unemployment in South Africa (see Chapter 4), I maintain that it is not enough grounds to reduce poverty alleviation to economic growth and job creation. These have been the thrust of economic policy, which most recent demonstration is the signing of the Employment Tax Incentive Bill (Youth Wage Subsidy) into law (Employment Tax Incentive Act No. 26 of 2013) by President Jacob Zuma on December 18, 2013 (Mail & Guardian, December 19, 2013).



The limiting of the smoothening of consumption to foster social reproduction, through poverty alleviation to economic growth and job creation lose sight of the notion of potential Gross Domestic Product (GDP), which speaks to the limits of driving employment through economic growth alone. Potential GDP is viewed as full employment GDP. It is the GDP, at which the economy has reached its limits of production as a function of available physical, material and human (in terms of number and skills structure) resources. These available resources must be complemented by the level of productive knowledge and capacity (Hahnel, 2002). This process must however, be driven by the level of total demand for goods and services as a motivation for producers to deploy available resources extensively. In essence, actual GDP is determined by the level of aggregate demand, it will move towards potential GDP if aggregate demand expands. Aggregate demand is composed of productive or investment consumption, individual consumption and collective consumption and/or government spending (Hahnel, 2002).

The narrow view, that economic growth and job creation could drive individual consumption and alleviate poverty, is exposed by the interrelation between the above macro-economic indices. This is apart from the reality of the South African context of the experience of jobless growth (see Chapter 4). It is oblivious of the imperative of social policy to drive collective consumption and increase the potential GDP. For example social investment in health, education and training could increase the size and skills of available human resources as a function of potential GDP. The mutually embedded conception of economic and social policy shows that social policy can facilitate labour activation and grow the GDP. The partial nature of social policy in South Africa is not helping the matter. The challenges of individual consumption are left for individual family/households to navigate on their own.

This crack in social policy, in the form of collective consumption responding to the failings of individual consumption, could be argued has led to the proliferation of micro-credit institution. Arguably, the underlying structure of credit mechanism could be accountable for poverty alleviation or aggravation. Government policy response can be understood, as either the lack of knowledge or the overwhelming nature of the prevailing power constellation within and without the country (see Chapters 2 & 4). In the absence of collective response, in the form of social policy, individual response to strains on the quality of social reproduction, results to the patronage of micro-credit institutions due to low income (Jacobs & Smit, 2010) and dwindling support of familial social relations or network.



It is not my intention to discount the possibility of credit consumption behaviour driven by other factors, such as the culture of consumerism. No association was found between consumerism and indebtedness by Jacobs and Smit (2010) in their study on credit granting retailer. What are imperative for this study however, are the implications (causes and consequences) of the prevalence of the consumption of micro-credit for the concerned South Africans in particular and the society in general. Particularly, how can we understand this with regards to the quality of social reproduction, with the prevailing structures of social and economic policies?

The idea of micro-credit in social reproduction, engages with micro-credit in the South African context, as a background to uncovering the nature of the relationship between micro-credit and social reproduction. A simple conceptual analogy is that the quality of social reproduction distinguishes one society from another. For simplicity sake, we can assume that social reproduction is a point between poverty at the extreme negative end and prosperity at the opposite extreme positive end. The quality of the social reproduction of a society therefore, is determined by its location on the continuum between poverty and prosperity. Different factors are in interaction to determine the location of a particular society on this continuum, whether a society has high rate of poverty and underdeveloped or low rate of poverty and developed. For the purpose of this study, the implications of household patronage of micro-credit institutions on the one hand and the activities of micro-credit institutions on the other hand for the quality of social reproduction, are considered.

To take this discussion further, I thought it necessary to discuss micro-credit institutions in the South African context, to serve as a background to the next two Chapters that unpacks and reorganize empirical data to speak to the study problem. The pervasive nature of micro-credit institutions in South Africa is proposed to have implications for poverty and social reproduction. The author contends that it suggests a gap in the prevailing social policy regime. The activities of micro-credit institution, beyond the barometer of income and expenditure in the treatment of poverty and social reproduction, bridge the gap between income and individual consumption. This I argue has implication for the quality of social reproduction

## **5.1 Micro-credit and Micro-finance – Conceptual Clarification**

Micro-credit takes many forms and a clear distinction must be made about the peculiarities of micro-credit that is under focus or that is of concern. For the purpose of this study, I am interested in informal and formal micro-credit institutions in South Africa, limited to ‘mashonisa’ – informal money lenders, ‘cash loan’ – formal small scale salary-based micro-lenders, and retail goods finance institutions – hire purchase. The need to emphasize the type or cluster of micro-credit we speak about will bring clarity to our discussion (Yunus, 2004a, cited in Elahi & Rahman, 2006). Also imperative, is the conceptual distinction between micro-credit and micro-finance. While they are often used interchangeably, they remain conceptually different in meaning.

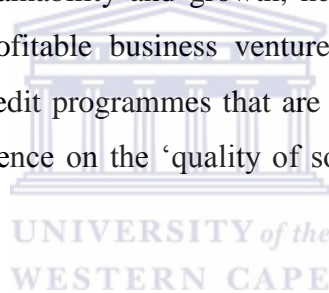
Micro-finance is more encompassing than micro-credit because it includes insurance and savings, in addition to credit granting only institutions (Thabethe, Magezi & Nyuswa, 2011; Elahi & Rahman, 2006; Daniels, 2004; Kidder, 1997). Micro-credit institutions refer to credit only granting institutions, narrower than the notion of micro-finance. It involves the granting of monetary asset on credit, with the condition of repayment of the principal amount and accrued interest with other administrative charges, depending on how the credit is structured. The micro-credit institutions are therefore, saddled with the responsibility of monitoring and enforcing (if there is a need) repayment of the advanced money asset.

Micro-finance has been viewed as developmental provision of financial and social mediation in the forms of credit, savings and insurance transactions in the former and social organization, to foster aspiration to influence socio-economic policy (Elahi & Rahman, 2006). A good and rare example of a micro-finance institution is the Association for Social Advancement (ASA) in Bangladesh (Rutherford, 2009). Hence, micro-credit involves a single service of the extension and recouping of loan on the one hand, while micro-finance concern comprehensive financial services, with micro-credit inclusive (Elahi & Rahman, 2006; Thabethe et al, 2011).

Much of international literature argues that micro-credit is informed by productive activities and says very little about non-productive consumption of micro-credit. The poor are seen to be absorbed into the financial system of the society, in order to drive micro business enterprises and grow their household income as a result. The thrust of this thinking is that,

access to credit enables the poor to help themselves by growing their income through involvement in economic activity. This mode of micro-finance deployment was popularized by the Nobel Prize winning Grameen Bank in Bangladesh (Karim, 2008; Ruben, 2007; Elahi & Rahman, 2006; Hietalahti & Linden, 2006; Muhumuza, 2005; Sankaran, 2005; Makina & Malobola, 2004; Baumann, 2004; Semboja, 2004; Zaman, 2000; Simanowitz, 1999).

This is a developmental conception of micro-credit and micro-finance (more recent broader conception) as capable of improving the welfare of poor households. It is argued that access to micro-credit (and recently savings) is capable of alleviating poverty and enhances the welfare of the poor (Vonderlack & Schreiner, 2002; Kidder, 1997). However, there is no convergence on who and how micro-credit and microfinance should be structured and administered, to achieve the objective of poverty alleviation. There are two major approaches to the administration of credit; the banking and the development approaches. The banking approach is concerned with sustainability and growth, hence, the administration of micro-credit must be dispensed in profitable business ventures. The development approach is concerned with various micro-credit programmes that are evaluated over time, to determine whether they have positive influence on the 'quality of social reproduction' of participants (Kidder, 1997).



The banking approach to micro-credit makes references to the micro-credit industry and clients, to refer to the institutional structures on the supply side and consumers on the demand side of micro-credits system, respectively. In development approach, references are made to programmes to emphasize the institutional structures on the supply side and participants on the demand side of the micro-credit system respectively (Kidder, 1997). This duality of position vis-à-vis micro-credit, speaks to the centrality of the question posed by Korth, Stewart, Van Rooyen & De Wet (2012), on whether “micro-finance is a development intervention or just another bank... is microfinance about providing banking services to the unbanked, or is micro-finance a development intervention that concerns itself with the attainment of long-term sustainable response to high levels of poverty”? The response to this question, I argue, to a large extent, will depend on the peculiarities of the programme and the context under review, rather than a blanket response to the possibility of micro-finance being a silver bullet to alleviate poverty.

A systematic review of the effects of micro-finance on the poor population in sub-Saharan Africa conducted by Korth et al (2012), could not establish a formidable causal connection between micro-finance and the improvement in the quality of social reproduction of the poor (poverty alleviation). At best, only an association or a relation can be established. This means that available evidence to suggest that micro-finance is developmental and fosters poverty alleviation is inconclusive. The proponent of the position that micro-finance has developmental initiatives to foster economic empowerment for self-help by the poor, has been criticized by the counter view that micro-finance is not a solution to underdevelopment, but the support it enjoys is driven by the intention to justify neoliberal free market policy (Bateman 2010, cited in Korth et al, 2012).

The increase or decrease in wealth outcome as a result of micro-finance cannot necessarily be translated into improved or decline in non-wealth outcome such as education and health. Moreover, micro-finance, if not deployed to support micro-enterprise or productive investment, might not sustain long-term welfare because it is subject to repayment. Where modest positive direction was observed with regards to nutrition and health, they are attached to micro-savings rather than micro-credit. Increased (and not decrease) poverty was experienced, where credit fund is not deployed to business venture, but directly on private consumption such as health, nutrition and education, in the absence of social transfers to provide for these needs, because repayment comes with high interest, which may strain households (Korth et al, 2012).

The findings of the systematic review highlighted above are echoed by isolated studies in different countries in the developing world. Studies in Bangladesh, South Africa, Uganda, Tanzania and Senegal have shown that the poorest segment of the population is excluded from access to micro-finance. Therefore, micro-finance alone cannot alleviate poverty, without being complemented by other broader socio-economic infrastructures and social welfare provisions such as education, health care, good road network, good drinking water and proximity to social amenities among others (Hietalahti & Linden, 2006; Karim, 2008; Semboja, 2004; Ruben, 2007; Muhumuza, 2005; Zaman, 2000; Baumann, 2004).

Important for taking the debate further about whether micro-finance is developmental and fosters poverty alleviation or not, is the need to make a distinction about the branch of micro-finance we speak of (micro-credit, insurance or micro-savings). While these units of micro-

finance are often lumped together in some instances, I will argue that their effects or implications should be treated separately in relation to the peculiarity of the context under review.

Rutherford (2000, cited in Vonderlack & Schreiner, 2002) makes a clear conceptual distinction between the credit and saving elements of micro-finance as modes of financial intermediation accessible to the poor with his conceptions of 'saving down' and 'saving up' respectively. This distinguishes the direction of flow between two poles of trickle and accumulated cash flows. On the one hand, 'saving down' is borrowing or credit, in which accumulated cash outflow precedes trickle cash inflow repayment. On the other hand, 'saving up' is saving, in which trickle cash inflow precedes accumulated cash outflow. In both cases trickle cash inflows are converted into accumulated cash outflow to be used in the consumption of expensive goods, in emergency or other household expenses. With 'saving down' cash outflow comes before trickle cash inflow, and in 'saving up' cash outflow comes after trickle cash inflow.

The above divide in micro-finance is imperative so that we don't trade the effects of one for the other. Vonderlack & Schreiner (2002) argue that micro-saving is more advantageous to the poor than micro-credit in several ways. Micro-credit is a debt, which must be repaid and often there is no guaranty over the sources of repayment over a long time. Also, when loan is consumed for non-productive purpose, the repayment has to come from the existing income of the household, which may cause disruption to their regular mode of living. While saving has no restriction and it is voluntary, credit is subject to screening and debt repayment is obligatory. This speaks to saving being associated with freedom and credit associated with constraint. One of the limitations of micro-credit as imperative to poverty alleviation is the unfounded assumption that all poor people are potential entrepreneur, waiting for activation with fund from credit transaction. Johnson & Kidder (1999, cited in Vonderlack & Schreiner, 2002) are of the view that that is not the case; saving facility might be what is needed by the poor.

The purpose for taking and the use, to which credit is deployed, is also important in considering the imperative of credit for development. The proponents of the position that micro-credit can facilitate development and poverty alleviation, tends to assume that all micro-credit taken are put to productive investment as against the smoothening of

consumption. Evidence suggests otherwise (Vonderlack & Schreiner, 2002). In the former the investment might generate additional income for the household, out of which repayment of the debt with interest and other charges will be met. In the latter case, the household will have to repay the debt with interest and other charges out of existing source of income, which has not grown in any form. Both scenarios will have different implications for the 'quality of social reproduction of households'. Therefore, debt trap remains a reality, especially when credit is diverted to individual (and not used for productive) consumption. The poor, however, will deal with individual consumption, to facilitate survival before they can consider productive investment.

Collins, Morduch, Rutherford & Ruthven (2009) also indicated that contrary to the monolithic view of micro-credit, as predominantly driven by the need to finance the purchase of productive assets or support micro enterprise by the poor, micro-credit is used for several other things. Their study of the diaries of the poor reveals that, apart from the finance of micro-enterprise, micro-credit are taken for numerous other uses, such as acquisition of household goods, payment of school fees, payment of health bills and to treat emergencies, among others. More importantly, money from micro-credit is often diverted to other needs (other than the initial purpose) ranked higher in order of importance to households. Therefore, the treatment of micro-credit and micro-finance should be conscious of these nuances.

Another key question that emanated from the Micro-credit Summit (Kidder, 1997) is; who should be saddled with the responsibility of administering micro-credit? Four actors stand out in this regards; informal moneylenders, formal financial institutions, Non Governmental Organisations and government parastatal or agency. Any of these channels of the administration of micro-finance services, suggests a particular ideological view of how a society should function.

The view that NGOs should be at the centre of the administration of micro-finance is suggestive that micro-finance should be appropriated to foster development. However, the question that is posed to the view is, how would such programme become sustainable? Precisely the question that Baumann (2004) posed to pro-poor idea of micro-credit in the South African context. Cost recovery (devoid of subsidy) is fundamental to the idea of sustainability, so that micro-credit institution can exist as a going concern. This thinking is



connected to market-led idea of how society should work. Micro-credit is viewed as a conduit of integrating the poor into the financial system. Therefore, to attract resources, it must at least yield equal returns as alternative uses of the resources channelled to it (Baumann, 2004). The drive for financial sustainability by NGOs is seen to relegate human developmental agenda to the background (Kidder, 1997).

The opposite view to NGOs administration of micro-credit is that micro-credit should be administered through formal financial institutions, through privately owned (for profit) business institutions in line with the banking conception of micro-credit. These are institutions that will cater for the lower end (low income earners and the poor) of the finance and banking industry. The government role will be reduced to regulation, and not active participation (Kidder, 1997).

The involvement of government agency in the micro-credit industry can also be viewed as having a developmental objective like the NGOs. It is usually focused at supporting the initiative of micro-enterprise, in order to grow them and invariably grow the economy at large. In this instance, apart from regulatory intervention, government will provide subsidy for micro-credit institution, to cater for the cost of granting small loans. Good examples of government intervention in the micro-credit industry are the Khula Enterprise Finance Limited and the South African Microfinance Apex Fund in South Africa. It is a government agency that provides wholesale funding to companies that gives credit to microenterprises. It therefore provides direct finance to entrepreneurs (see Calvin & Coetzee, 2010; Makina & Malobola, 2004).

Finally we can talk of the informal finance institutions that include “informal money lenders, Rotating Savings and Credit Association (RSCA), stockvels, door-to-door deposit collectors and Annual Savings Club,” among others (Siyongwana, 2004; Baumann, 2004; Vonderlack & Schreiner, 2002). More importantly, the characteristics of the types of informal micro-financial institutions prevalent in any society are a function of the characteristics of the context itself. In other words, the nature of the society, determined the type of informal micro-financial institutions that becomes prevalent. So an understanding of the broader social-structural context, could account for the nature of the informal micro-credit and micro-savings institutions we see. Vonderlack & Schreiner (2002) argue that the practices of the informal micro-finance (especially saving) institution, could serve as a valuable lesson for the



crafting of the formal micro-financial institutions. I will say formal micro-finance industry should be informed by the ways of life and particular daily experiences of the context or society. We see cases, where what is a normal social practices becomes illegal, because of legislations that may have little remote connection to the daily lived experiences and realities of the context.

The imperative of the particularities of context in the shape and effects of micro-finance cannot be discounted. It seems to me that looking at the character of the four different actors in the administration of micro-finance, two of the actors can be viewed as organic and the remaining two as mechanical. The direct intervention of government and NGOs in micro-credit is mechanical and stimulated by certain ideological and policy underpinnings. The summary, of which can be said to involve the belief that micro-credit is positive and it is effective for poverty alleviation. As earlier highlighted, this is so not in all cases. It is the author view that, the imperative of micro-credit should be informed by the peculiarities of the particular programme and context. Government and NGOs act on the belief that, their interventions will have positive spinoff for the poor in particular and society in general.

On the other hand, informal and formal micro-finance institutions are organically developed institutions that responded to the characteristics or daily-lived realities of a particular context. The nature of the society, therefore, shapes the outlooks of these institutions. The formal micro-credit institutions could be viewed as capitalist response to market for profit. Investment into the micro-finance sector in this regard is attracted because it is projected to yield profit return. In this case micro-finance institutions are business investment, whose primary purpose is profit. Whether access to credit enhance or undermine the quality of social reproduction of the poor, is not of interest in this case. The identification of a market segment that is not catered for, by commercial banks is what attracts investment into this sector. What is important to these institutions is that they can recover the money they give out on loan with interest and other charges as at when due.

The informal micro-finance institutions are also organically formed in response to the lived experiences and realities of a social context. In both savings and credit relationship (transaction), people are involved in social interactions that have implications for the quality of their social reproduction. A distinction must be made between individual moneylenders and group or association type informal micro-finance. This is imperative so that we don't

conflate self-help association or group that are involved in savings, credit and insurance schemes with an individual micro-credit lender for profit. So, we can look at how association type micro-finance affect the social reproduction of members' households on the one hand. On the other hand, we can look at how informal individual money lending affects the social reproduction of the households of the giver and the taker of credit. The response to, or participation in informal micro-finance, is driven by perceived or real imperative for the social reproduction of those involved – whether to support micro-enterprise, consumption or as substantive business for individual money lenders.

A cautious look at the conception of micro-finance and micro-credit brings to the fore two important characterisations. The nature of micro-finance is determined by the prevailing social practices, which shows that what we often characterised as informal is an important knowledge bank for the formal, at least with regards to the practices of micro-finance (Vonderlack & Schreiner, 2002). This position is predominantly challenged by ideological informed mechanical structuring of the micro-finance industry, at least in the South African context. A good example is the suggestion that micro-credit is imperative to poverty alleviation is simplistic and, I will argue, motivated by neoliberal free market conception of the workings of society. This has caused the idea of replicating successful models in one context in others, without regards for local contextual social practices (Kidder, 1997).

There is therefore, a temptation to present micro-credit as a single tool, for fostering human development, without giving credence to other complementary economic and social policies informed interventions or tools. Human development could also be served by sustained comprehensive social policy, such as investment in education, health and other social services, which are capable of building human capabilities. Therefore, micro-credit should be viewed in association with other tools.

This study is concerned with micro-credit in the narrow sense of giving and taking of micro-credit. This focus is informed by the peculiarities of the South African context, and on the conceptual conviction that the three elements (savings, credit and insurance) of micro-finance are better treated separately for clarity, because they each have different implications for the quality of social reproduction of households. In the South African context, only banks are allowed to take deposit (savings), non-banks are not legally sanctioned to collect deposits (Baumann, 2004).

Therefore, micro-credit institutions are not authorised to take deposits, which makes it impossible for them to combine savings with the credit products they offer. There has been transition by globally popular micro-credit institutions, such as the Grameen Bank, ASA and SafeSave, offering micro-savings products in addition to their traditional micro-credit product, in acknowledgement of the imperative of saving for the poor (Collins et al, 2009; Rutherford, 2009; Vonderlack & Schreiner, 2002). Micro-savings has also been well pronounced among the informal micro-finance institutions. However, the distinction between loan taking and savings contribution remains significant to warrant their separate treatment.

## **5.2 Micro-credit In South Africa**

An excerpt from the preamble to the National Credit Act (NCA) No. 34 of 2005, which came into effect in 2007 states the objective of the Act as such:

“to promote a fair and non-discriminatory marketplace for access to consumer credit and for that purpose to provide for the general regulation of consumer credit and improved standards of consumer information; to promote black economic empowerment and ownership within the consumer credit industry; to prohibit certain unfair credit and credit-marketing practices; to promote responsible credit granting and use and for that purpose to prohibit reckless credit granting” (NCA, 2006).

The objective of this Act signifies noble intentions. It defines the present legal context of the credit element of the finance industry in South Africa in general and micro-credit industry in particular. This Act heralded a single legislation definition of the whole credit segment of the finance industry. Prior to the enactment of the NCA, the micro-credit industry was regulated with the Usury Act of 1968 Exemption Notices of 1992 and 1999, which removed interest rate cap on micro loan not more than R6,000 and R10,000 respectively. For the first time a government parastatal was created to oversee compliance and enforcement of the micro-finance legislation. The Micro Finance Regulatory Council (MFRC) was established in 1999 to mark the formal birth of the micro-finance industry in South Africa (Siyongwana, 2004; Daniels, 2005; Hietalahti & Linden, 2006; Skowronski, 2010).

Prior to the formalisation of micro-finance industry in South Africa, the practice of micro-finance, broadly speaking, and micro-credit has been in existence. Micro-credit was practiced informally outside the ambit of the law. I will argue that it should be viewed as social practice

that is imperative to the ways of life of the society. Skowronski, (2010) identified four stages in the development of the micro-credit industry in South Africa: pioneer, breakout, consolidation and maturity. The pioneer stage (spans the 1980s to the mid 1990s) was defined by small commercial lenders, driven by micro-enterprise promotion. They did not respect the interest cap of the Usury Act of 1968, hence, they operated illegally. The removal of interest capping by the Usury Act Exemption Notice of 1992, herald the breakout stage that spans the second half of the 1990s. This period witnessed the growth of the industry, at least in the official sense. The 2000s witnessed the consolidation phase that saw attrition in the proliferation of Micro-finance Institutions (MFIs) due to the size of the market, proscription of payroll lending and the creation of MFRC, which causes shrinking profit margin. Maturity is in sight with a promise for improved access (for the low income earners and previously disadvantaged) and sustainability (Skowronski, 2010).

Calvin & Coetzee (2010) in a review of the South African micro-finance sector (under the auspices of FinMark Trust and the Centre for Microfinance, University of Pretoria) also alluded that the industry is maturing. They categorised the products on offer into micro-savings, salary-based microloans and micro-enterprise loans. They maintained that while there are rapid growths in the former two products, micro-enterprise loans fall short of available potential. A balanced look at the microfinance industry must account for the supply and the demand sides, as well as the contexts (socio-economic and legislative) of interaction. The suppliers and the consumers of micro-finance products and the peculiarities of the socio-structural contexts, in which these actors interact, are important details that must be considered.

While most reviews are interested in these broad categories in terms of numbers (or penetration), this study is particularly interested in the implications of the micro-credit element of the industry for the consuming households. In another words, what prompts credit consumption and how does it impact the quality of the social reproduction of the concerned households? This by implication means, following the consumers of micro-credit home, for our purpose, to know the implications of the consumption of micro-credit for their households. The motivation and the implications of the consumption of micro-credit cannot be viewed only as individuals' or households' idiosyncrasies; rather the conditioning of behaviours may reside in the nature of the prevailing broader social structures in society. Therefore we need to cast our gaze wide in order to make sense of what we see.

### ***5.2.1 The Supply of Credit in South Africa***

Calvin & Coetzee (2010) make out eight categories out of the different types of credit agreements prescribed in the NCA. Four of the eight speaks to the micro-finance industry; short-term credit (capped by amount and term of R8000 and 6 months respectively), unsecured credit, and developmental credits (in respect of micro-enterprise and low income housing acquisition, building and improvement). They identified six broad categories of suppliers of micro-finance in South Africa. It includes micro-enterprise lenders (not-for-profit), co-operatives, commercial banks, micro development finance institutions, alternative bank and micro-lenders. These institutions cover savings receiving, credit advancing and insurance services, the three elements of micro-finance.

The categories of micro-finance suppliers that speak to the objective of this study are the salary-based micro-lender that provides unsecured credit against the salary of their clients, the alternative banks and commercial banks. These are not clearly delineated categories. For instance, most of the salary-based micro-lenders also extend credit to pensioners. The regular commercial banks have forayed into the unsecured credit market with 'personal loan', which is a form of lending against wages or salary. There is no clear demarcation between the salary-based micro-lender and the alternative banks, apart from the fact that, while the former offer single product of unsecured credit extension, the latter offer multiple products, which include; unsecured credit extension (which might be disbursed via credit cards) and savings (African Bank did not take deposit previously).

The credit industry broadly has witnessed substantial growth with regard to credit usage. 14.2 million People consume formal credits in different forms in 2013, compared to 13.1 million people in 2012. Commercial banks credit account for 6.5 million of this number. Other formal credit outlets account for 7.8 million people. The patronage of informal credit shows a decline from 2.1 million people to 1.5 million people between 2012 and 2013. Borrowing from friends and family also declined from 4.2 million people to 3.1 million people from 2012 to 2013. 30.7 million adults (from age 16 and over) have consume one form of financial services; credit, savings and insurance. It shows that more people are included in the financial system. The number of people consuming secured loan rose to 5.1 million in 2013 from 3.4 million in 2012. The consumption of unsecured loan is also on the increase, with additional 1.2 million people taking it (FinScope 2013).

Though the penetration of financial services is on the increase, and more people are consuming credit products. Over-indebtedness remains a serious concern for the credit industry. The FinScope 2013 consumer survey, revealed that 5 million (one third) of the 14.2 million of active credit consumers, show signs of over-indebtedness. Such symptoms include; those that are garnisheed, have applied for debt rescheduling, have thought of consulting someone about their debt, have thought of recouping their policy to settle their debt and are challenged in meeting their needs with payment arrears. The prospect of debt cycle is imminent, because those with the symptoms of over-indebtedness also borrowed from multiple sources, including formal and informal sources concurrently. What could have contributed to this is the increasing trend of people, migrating from secured mortgage to unsecured credit, though unsecured loan is seen as complimentary and not a substitute to secured loan (NCR, 2012).

The National Credit Regulator (NCR) has six major classifications for the types of formal credits that define the South Africa's credit industry. This is informed by their interpretation of the different types of credit agreement that is prescribed by the NCA. It includes mortgages, secured credit, credit facilities, unsecured credit, short-term credit and developmental credit. *Mortgage* agreement is a secured agreement, in which the receiver of credit supports the loan with immovable property. *Secured credit* transactions are classified by NCA as "other credit agreements" that are secured, but not including credit facilities and mortgage. They are credit agreement secured with receivables and movable assets, such as retirement gratuity, surrender value of an insurance policy, motor vehicle and other durable household goods. *Credit facilities* is defined by section 8(3) of NCA. This category of credit agreement includes bank overdraft, store cards, credit cards (including garage cards), and agreements defined as services and others (NCR, 2013a).

*Unsecured credit* includes all credit agreements, where the creditor or the lender does not back the credit advance with any forms of security pledge from the debtor or borrower. It excludes short-term credit and credit facilities. *Short-term credits* are credit agreements, whose rand values are equal to or less than R8000, and whose tenures are equal to or less than 6 months. *Developmental credit* is granted in view of the criteria prescribed by section 10 of the NCA. They are credits granted to foster micro-enterprise development and the acquisition, construction, expansion and rehabilitation of low cost housing. It also include



education loan (NCR, 2013a). It is imperative to note, that boundaries between these classifications are not rigid. For example, most short-term credits are unsecured credit. The same could be said for unsecured credit and credit facilities, such as store cards and credit cards. The two categories that are clearly delineated are mortgage and secured credit agreements.

The NCR classified credit suppliers or providers into four categories: banks, non-bank vehicle financiers, retailers and other credit lenders. The collapsing of micro-credit, developmental credit, insurance credit providers, agricultural credit providers and non-bank mortgage providers into “other credit lenders” (NCR 2013a), means that, study targeted at a sub-set of this category, such as micro-credit, may not get much joy from this data. Banks continue to be the major supplier of credit in South Africa with the gross debtors’ book as at September 2013 as reflected in table 5.1 below:

**Table 5.1:- Industry/Credit Providers: Gross debtors’ book**

Industry/Credit Providers	Value in Rand ('000) (Sept. 2013)	% share of total value	Year-on-year value in rand ('000) (Sept. 2012)	Year-on-year % change
Banks	1,274,615,966	85.35%	1,225,065,956	4.04%
Non-bank vehicle financiers	53,503,145	3.58%	47,588,125	12.43%
Retailers	37,712,598	2.53%	42,988,652	-12.27%
Other credit providers	127,515,893	8.54%	75,189,988	69.59%
<b>Total</b>	<b>1,493,347,602</b>	<b>100%</b>	<b>1,390,832,721</b>	<b>7.37%</b>

**Source:** National Credit Regulator (2013)

Bank credits at 1.28 trillion accounts for approximately 85% share of the supply of credit in South Africa as at September 2013. This is a wide mark off ‘other credit providers’ supply of 8.54% (127.5 billion) share of the credit market. Non-bank vehicle finance and retailers take 3.58% (53.5 billion) and 2.53% (38 billion) respectively. The implication of this is that, people that do not have the requirements to access commercial banks are still being deprived of access to credit. While the ‘other credit providers’ showed a substantial improvement recording approximately 70% increase in credit extension between 2012 and 2013, its composite nature is problematic and overall 8.54% share of the market is still very small. The different types of credit offered are reflected in table 5.2 hereunder. Mortgage remains the biggest type of credit advanced by the industry in terms of value. The debtors book value stood at approximately 810 billion (54.23%) as at September, 2013.



**Table 5.2:- Type of Credit & Number of Accounts: Gross Debtors' Book**

Agreements	Value of credit				Numbers of accounts			
	Value in Rand ('000) (Sept. 2013)	% share of total value	value in rand ('000) (Sept. 2012)	Year-on-year % change	No. of accounts (Sept. 2013) '000	% share of account (Sept. 2013)	No. of account (Sept. 2012) '000	Year-on-year % change
Mortgage	809,892,603	54.23%	819,679,887	-1.19%	1,828	4.44%	1,845	-0.92%
Secured credit	311,369,161	20.85%	271,454,941	14.70%	4,674	11.36%	4,512	3.58%
Credit facilities	179,902,744	12.05%	158,866,811	13.24%	24,418	59.37%	24,413	0.02%
Unsecured credit	167,405,316	11.21%	139,978,673	19.59%	8,621	20.96%	7,430	16.02%
Short-term credit	817,406	0.05%	852,408	-4.11%	443	1.08%	512	-13.60%
Developmental credit	23,960,372	1.60%		0.00%	1,145	2.78%		0.00%
<b>Total</b>	<b>1,493,347,602</b>	<b>100%</b>	<b>1,390,832,721</b>	<b>7.37%</b>	<b>41,129</b>	<b>100%</b>	<b>38,713</b>	<b>6.24%</b>

**Source:** National Credit Regulator (2013)

With a slight drop of 1.19% (10 billion) from September 2012 figure, it remains far above approximately 311 billion (20.85%) balance of secured credit granted. Further are credit facilities and unsecured credit at approximately 179 (12.05%) and 167 (11.21%) billion respectively. Developmental credit and short-term credit only accounted for 1.60% (24 billion) and 0.05% (817 million) respectively. Of note, is a slight decline in mortgage compared to a significant 20% growth in unsecured credit balance compared to the 2012 figures.

The numbers of accounts does not follow the same trend as the type of credit. Mortgage only accounts for 1.8 million accounts (4.44%), compared to credit facilities share of 24 million accounts (59.37%). Unsecured credit is a distant second with 8.6 million accounts (20.96%), and secured credit, third with 4.7 million accounts (11.36%). There are 1.2 million (2.78%) and 443 thousand (1.08%) developmental credit and short-term credit accounts respectively. Similar to the changes in values of credit types, the number of unsecured account grew by 1.2 million new accounts from 2012 to 2013, a change of 16.02%. The numbers of secured credit also grew by 3.58% (162 thousand accounts) between 2012 and 2013; all others recorded a negative growth.

### **5.2.2 Demand for Credit in South Africa**

The demand for credit represents the categories of people that consume the various types of credit that are indicated above. Daniels (2004) indicated that a large chunk of micro-credit

lending goes to direct consumers, and not to micro-enterprises. This conclusion is supported by Calvin and Coetzee (2010) indirectly, when they reported that credit to micro-enterprises has achieved less than 20% of possible market penetration. The South African Reserve Bank (SARB) (2013a) reported that 56.4% of total loan advancement (rand value of outstanding balance) to private sector, was made to the household sector as against 43.6% to the corporate sector as at June 2013, indicating that broadly speaking, more credit are consumed by South African households compared to the corporate sector.

The categorization of consumers in South Africa has often drawn on the Living Standard Measure (LSM). The LSM was established by World Bank in 1980 as an improvement on household survey in developing countries. The objective is to go beyond poverty line and assess the living standard (well-being or welfare) of households, in order to inform government policy or appraise the effects of policies. Various data are collected on household's conditions of living and behaviour, in order to locate households on the LSM scale (Grosh & Glewwe, 1998). The LSM questionnaire is usually set-up in three parts to collect data on the household, the community and price. At times a fourth section containing questions on education and health facilities is added. Households-related questions are structured to extract consumption data in relation to income and expenditure. Community related questions are structures to capture the local structural conditions of households in the same area. Price related question, tracks the price differences in different localities within a country. Information on availability and prices of health and education are sometimes included (Grosh & Glewwe, 1998).

“Living Standard” was viewed by Keynes (1936, cited in Martins, 2006) as distinctive segments of the transfer of wealth. For him, the level of income defines the level of consumption. In essence, there is a positive relationship between income, expenditure and living standard. Summers and Heston (1995, cited in Martins, 2006) posit that it has to do with the material well-being, whether at an individual or country level. The grouping of people into different LSM therefore, is a more robust measure of social welfare and the distribution of wealth, compared to single income measure because welfare is a function of the composition of economic, social and other variables.

However, the relevant variables to be considered in LSM are not universal; it could vary with the peculiarities of the context under consideration. The universal aspect of LSM, which was

argued to include access to sufficient food, assets, job, good health, dignity, security and freedom by Chambers et al (2000, cited in Martins, 2006), was reduced to four categories of physical capital, human capital, social capital and environmental capital by Patel et al (2000, cited in Martins, 2006)

Martins (2006) noted that, in the South African context, attention is only given to the physical capital in the characterization of LSM to the exclusion of human, social and environmental capitals. Significant physical predictor of LSM includes access or ownership of land, type of housing and household goods. Household goods are much prominent in the construction of the South African LSM. The South African Audience Research Foundation, SAARF (formerly known as South African Advertising Research Foundation before July 2012), have to a large extent, assumed the ownership and custodianship of LSM survey and classification of households in South Africa. LSM is often used as a tool for market segmentation by SAARF, and most local surveys on household well-being and behaviour have often drawn on the classification of household, according to LSM definition of segments by SAARF. Several reviews of the variables to be included in the calculation of the SAARF LSM took place from 1989 to 2001, when the “SAARF Universal Living Standard Measure” (SU-LSM) was arrived at to include 10 segments and 29 variables (Martins, 2006; SAARF, 2012).

It is important to note that the LSM only considers adult population from age 15 and above in its classification. The SU-LSM has 10 segmentation of the adult population in South Africa (LSM 1 to LSM 10) and it has been used to segment household in order to suggest uniformity of behaviour. The SU-LSM as at December 2011 is captured in table 5.3 below. The table shows the number of adult population that belongs to each of the LSM categories. Note that LSM 7 to LSM 10 are now treated as ‘lower’ and ‘higher’ to segment them into two groups each. The table shows that the adult population clusters around LSM 4 to LSM 7, with each having over 10% of the adult population. Over 63% of the adult population falls within these categories. The average household income of these LSM ranges from R3,141 to R11,035.

**Table 5.3:- SAARF SU-LSM (December 2011)**

<b>LSM Categories</b>	<b>LSM 1</b>	<b>LSM 2</b>	<b>LSM 3</b>	<b>LSM 4</b>	<b>LSM 5</b>	<b>LSM 6</b>	<b>LSM 7</b>	<b>LSM 8</b>	<b>LSM 9</b>	<b>LSM 10</b>
Population ('000)& %	661 1.9%	1,793 5.1%	2,117 6.1%	4,248 12.2%	6,080 17.4%	7,828 22.4%	4,014 11.5%	2,921 8.3%	3,039 8.8%	2,177 6.3%
Average household income - R	1,369	1,952	2,545	3,141	4,200	6,464	11,035	14,887	20,666	30,699
<b>Population groups: %</b>										
Black African	97.1%	98.4%	97.7%	96.6%	95.4%	84.5%	64.1%	52.0%	37.3%	25.0%
Coloured	2.9%	1.5%	2.3%	3.2%	4.1%	10.7%	17.7%	15.9%	12.3%	5.8%
India	-	0.0%	0.0%	0.1%	0.1%	1.4%	4.1%	5.7%	9.7%	8.3%
White	-	-	-	0.1%	0.3%	3.4%	14.1%	26.4%	40.9%	60.9%

**Source:** SAARF (2011)

The black African adult population has an inverse relationship to the LSM groups, it declined from 97.1% in LSM 1 to 25.0% in LSM 10. The white population on the other hand has a positive relationship with the LSM groups. It increases from nothing in LSM 1, 2 and 3 to 61% in LSM 10. This racial profile reveals the nature of racial inequality of the South African population.

The conception of LSM as deployed in the South African context, could give us an idea of the characteristics of the population that consumes credit products. Feasibility (Pty) Limited (2011), in a report to NCR regrouped the LSM into four categories by merging LSM 1 to 3, LSM 4 to 6, LSM 7 to 9 and LSM 10 alone to report the consumption of different types of credits. The demand for the different credit products by different LSM groupings is presented in table 5.4 below.

**Table 5.4:- LSM Groups Credit Consumption Estimate 2010 (R Billion)**

	<b>LSM 1 - 3</b>	<b>LSM 4 - 6</b>	<b>LSM 7 – 9</b>	<b>LSM 10</b>	<b>Total</b>
Monthly Income R	R0 – R2,441	R2,442–R8,232	R8,233-R22,779	>R22,779	
Mortgages	-	70.3	364.3	247.9	682.5
Asset finance	-	4.6	162.6	24.3	191.5
Pension/equity backed	-	5.5	1.9	0.5	7.8
Overdraft & RCPs	-	2.6	4.5	18.4	25.4
Credit cards	-	8.7	29.4	15.7	53.9
Furniture	3.8	3.8	3.9	2.8	14.1
Store cards	3.2	11.9	4.7	4.7	24.5
Unsecured personal loan	1.5	41.9	21.4	7.1	72.0
<b>Total</b>	<b>8.4</b>	<b>149.3</b>	<b>592.7</b>	<b>321.4</b>	<b>1,071.8</b>
<b>% Share of total credit</b>	<b>0.8%</b>	<b>13.9%</b>	<b>55.3%</b>	<b>30.0%</b>	<b>100%</b>
<b>% share of Adult population</b>	<b>17.0%</b>	<b>50.0%</b>	<b>27.0%</b>	<b>6.0%</b>	<b>100%</b>

**Source:** Feasibility (Pty) Ltd (2011)

Table 5.4 shows that LSM 1 to 3 with 17% of the adult population only consumes 0.8% of the total credit balance. LSM 4 to 6 with 50% of adult population consumes 13.9% of total credit extension. LSM 7 to 9 and LSM 10 with respective 27% and 6% of adult population consume 55.3% and 30% of total credit advancement respectively. This implies that LSM 7 to 10 that are just 33% of the adult population consume over 85% of the total credit advancement in 2010. Mortgage constitutes the greatest portion (over 600 billion) of their credit consumption, followed by asset finance and credit cards. Furniture account, store cards and unsecured personal loan, form the core of credit consumption of LSM 1 to 3. Mortgage and unsecured credit are the dominant credits consumed by LSM 4 to 6. In all, after mortgage and asset finance, unsecured credit is the 3<sup>rd</sup> most consumed credit.

Furniture account, store cards and unsecured personal loan seem to be the three types of credit that are proportionally spread over all the LSM categories. Feasibility (2011) reported that there is a declining trend in the consumption of mortgage, while the consumption of unsecured credit is on the increase. The September 2013 figures presented above also highlighted the same trend. As indicated earlier over-indebtedness and impairment to accounts remains a worry on the demand side of credit in South Africa. Credit-active consumers are people that entered into a credit agreement, and are obligated to pay the creditor company. A consumer record or an account is impaired, when there is a default in payment obligation for over 3 months, has been adversely listed (handed over to debt collectors or written off) and is under administration or judgment order. A consumer or an account is classified as in good standing, when it is current (payment obligation are up to date) or default in payment obligation is not more than 2 months (NCR, 2013b).

Consumer's credit and account statuses are captured by the credit bureau. As at September 2013, of the 20.29 million consumers that were credit-active, 10.53 million (51.9%) of them are in good standing and 9.76 million (48.1%) consumers have impaired credit record. There are 71.17 million credit accounts, of which 51.92 million (73.0%) are in good standing and 19.25 million (27.0%) are impaired (1.99 million accounts become impaired in the last one year). 7.71 million (73.22%) of the 10.53 million consumers with good standing are classified as current, while 2.84 million (26.78%) are in repayment arrears of 1 to 2 months. Of the 9.76 million consumers that have impaired record, 4.26 million (43.66%) are in arrears of over 3 months, 2.84 million (29.11%) has adverse listings and 2.64 million (27.30%) have received judgment and administrative order. Of the 51.92 million accounts judged as having good

standing, 45.55 million (87.73%) are classified as current and 6.4 million (12.27%) are 1 to 2 months in arrears. Out of the 19.25 million impaired accounts 13.52 (69.3%) million are in arrears of over 3 months, 4.3 million (21.2%) are adversely listed and 2.1 million (10.5%) are under judgment and administration (NCR, 2013b).

### *Over-indebtedness*

Consumers of unsecured credit claim to take credit for housing development, education and for monthly bills in order of frequency. However, over 12 million people continue to show financial strain. Over-indebtedness is characterized by more women, people over 30 years old, LSM 5 to 8, people whose monthly income range from R1,000 to R7,999, mostly on salaried income and collecting old age grant (FinScope, 2013). Access to formal credit is not a determinant of good financial or credit standing. Approximately, 5 million people with formal credit are in debt trap: they are mostly women and over 30 years old; they fall in the LSM 6 to 8 categories; they are salary earners and they earn between R2,000 to R16,999. The complexity of credit consumption is unveiled by the fact that people that consume formal credit, also consume other forms of credits, such as patronizing informal sources of credit, taking money from family and friends, store cards, burial societies and 'mashonisas'. Prominent reasons given for borrowing include paying bills, clothes, children education and food. An indication that credit consumption is mainly to support individual consumption. Multiple sources of credit consumption mean that credit consumers consume credit from formal and informal sources concurrently (FinScope, 2013).

### *Formal and informal credit usage*

FinScope (2013) consumer survey revealed that high-income people are more likely to secure credit from formal credit providers. However, the rise in the consumption of secured credit is also complemented with increasing unsecured credit, which is coming mostly from bank personal loans and retail cards. White South Africans are more likely to patronize formal credit providers, compared to black Africans, who are dominant in the usage of informal credits. 21% of people using banks and other formal credit sources are white compare to 64% black Africans. This makes sense, when compared to the national population demographics of South Africa (see Chapter 4). 96% and 93% of the people that use informal credit providers and family and friends respectively are black Africans, compared to respective 2% and 1% for whites. 85% of those that are not served by any credit sources are black Africans, compared to 4% whites.



People between ages 30 – 44 patronize formal and informal credit sources the most. They make up 41% and 51% of the people consuming formal and informal credit, respectively. They are followed by people between ages 18 – 29, 25% and 18% respectively, and people between ages 45 – 59, 22% and 18%, respectively. 39% of the people that borrow from family and friends are between ages 18 – 29. 37% and 16% of them are between ages 30 – 44 and 45 – 59, respectively (FinScope, 2013).

People in LSM 5 – 6 are more likely to consume formal and informal credit than other LSM groups. 35% of the people that consume credit from bank and other formal providers are from LSM 5 – 6. They are followed by LSM 9 – 10 with 34% and LSM 7 – 8 with 27%. 59% of people that patronize informal credit sources are group in LSM 5 – 6, followed by 20% and 12% grouped in LSM 3 – 4 and LSM 7 – 8 respectively. People in LSM 9 – 10 are not likely to take informal credit. 60% of people taking credit from family and friends are grouped in LSM 5 – 6. 28% and 9% are grouped in LSM 3 – 4 and LSM 7 – 8, respectively (FinScope, 2013).

21% of people that borrow from formal sources earn R3,000 – R7,999. And 18% of them earn R1,000 – R2,999. 36% of people that take credit from informal sources earn R1,000 – R2,999, followed by 29% of people that earn R1 – R999. Borrowing from family and friends is also dominated by people earning R1,000 – R2,999 and R1 – R999 with a representation of 33% and 29%, respectively (FinScope, 2013).

### ***5.2.3 Institutions of the South African Credit Industry***

The contexts of the credit social interaction could be viewed broadly by considering the political economy of the country or society under consideration. Added to this, is the legal framework that shapes credit interaction between the suppliers and the consumers of credit. Also imperative are the institutional structures that either evolves organically, or that are set up to facilitate credit interaction. For our purpose here, we will not repeat the discussion of the broader socio-economic and political contexts of South Africa. Refer to Chapters 2 and 4 for extensive discussion of ‘political economy of South Africa’ and ‘social, economic and political contexts of South Africa’ respectively. The approach to this section is to narrowly and briefly bring attention to the institutions that facilitate credit interaction in South Africa.



The pivot to credit relationship in the South African context, as earlier indicated, remains the National Credit Act No. 34 of 2005 (NCA), and the structures set up by this piece of legislation draws a boundary for the interacting parties. The boundary between the political and the legal is not as distinct in practice as theoretical abstraction will suggest. My take is that, it is the political and social practices peculiar to a particular social context that should inform the legal prescriptions that are promulgated. Legal determination should be the apex of normalization of social practices. A remote relationship between social practices and legal determination could propagate strains in the flow of social processes manifested in different ways. There may be strain on social interaction, the quality of social reproduction, increasing dispute and subtle positive or negative consequences for households among others.

Another piece of legislation that complements the objective of the NCA for our purpose here, is the Consumer Protection Act (CPA) No. 68 of 2008, which looks out for the interests of the consumers in the goods and services market, with regards to; access to information and education, to inform needs and choices, rights and obligations, well-being and safety, avoidance of discrimination, abuse and exploitation, avenue to seek redress and groupings and advocacy for common interests (CPA, 2009). The creation of the National Consumer Commission (NCC) is set out in chapter 5, part B of the Act as the custodian, enforcing and compliance institution. It promotes the code of conduct on consumer protection, advice on legislative review informed by research, and informs the public on consumer protection.

These legislations in essence are imperative to the smooth running of credit relationship in South Africa, when viewed as the provision and the consumption of financial service. However, credit is much more embedded in social relations than to be viewed only as a service. The practice of the informal credit relations is a clear indication of this assertion. This study is much more interested in the implications of micro-credit relationship for social reproduction.

The Department of Trade and Industry (DTI) oversees the policy direction of the consumer credit industry. The present consumer credit industry climate was initiated by the review of credit law in South Africa commissioned by DTI in 2002 and co-ordinated by MFRC. The consummate report published in August 2003 and the subsequent consumer credit policy framework “Making Credit Market Work”, forms the background to the enactment of the

NCA. The DTI is the responsible government department for consumer credit industry and the custodian of consumer credit policy (DTI, 2003).

Four institutions are imperative to the facilitation of the relationship between the suppliers (credit providers) and the consumers (demands) of formal credit in South Africa. All these institutions have one or other forms of relationship with the NCA. These institutions are; the National Credit Regulator (NCR), National Consumer Tribunal (NCT), Debt Counselling Service, and the Credit Bureau system. We can add credit providers to this four, to make up what can be referred to, as the credit system that credit consumer must interact with. The NCR and the NCT are created by direct provisions of the NCA. The other three institutions, the credit providers, the debt counselling services and the credit bureau system, must be registered with the NCR before they can legally operate on the South African credit industry's landscape. NCR must also ensure that they comply with the provisions of the NCA. According to the NCR (2013c) 5, 450 credit providers, 1,994 debt counsellors and 12 credit bureaus are registered as at the end of first quarter in 2013.

#### *National Credit Regulator (NCR)*

The creation of the NCR is enacted in chapter 2, part A of the NCA, as the custodian of the Act. It is saddled with the responsibility of enforcing the provisions of the NCA by registering credit providers, credit bureau and debt counsellors among other functions; facilitate knowledge on consumer credit in the country through research publications and statistics; increase consumer and public awareness of the NCA through education and advice the Minister of Trade and Industry on consumer credit policy (NCR, 2013c).

The broad functions of the NCR set out in the NCA, include making the credit market accessible to everybody, including the previously disadvantaged population; registration of the institutions of the credit industry; enforcement of the provisions of the NCA; commissioning research and generating statistical information on the consumer credit industry; report to the minister on trends in the credit market and advice on policy needs; and work in collaboration with other regulatory institutions when the need arises (NCA, 2006).

NCR is by implication saddled with three broad responsibilities, in which its functions and activities revolve around; the facilitation of access to credit, the prevention of reckless lending, and over-indebtedness. The achievement of these three broad objectives will ensure

that, the consumer credit industry runs smoothly and have positive implications for the economy at large. In view of this, the NCR is positioned to commission research to determine the trends and practices in the consumer credit industry in order to monitor compliance and enforce the prescriptions of the NCA. The experiences of taking and repaying credit by consumers from advertisement through the life cycle to the termination of the credit agreement are imperative (Feasibility, 2011).

The continuous review of the consumer credit industry is designed to reveal trends and practices that are in line with the NCA, those that contravene the NCA for necessary enforcement action, and inform policy advice to the responsible line ministry, DTI. The conditions of registration of credit providers, debt counsellors and credit bureaux are set by the NCR, as well as monitor adherence to the NCA via the treatment of lodgement and resolution of complaints, investigation of allegations and on and off-site reviews (NCR, 2013c).

Credit agreement related complaints, and debt counselling related complaints are prominent. Instances of investigations have revealed reckless lending, possession of bankcard and identity documents by credit providers, excessive fees and interest charges and charging of illegal fees among others. Contravention of the NCA can be referred, by the NCR to the National Consumer Tribunal, consumer court of applicable province or to the National Prosecuting Authority (NCR, 2013c).

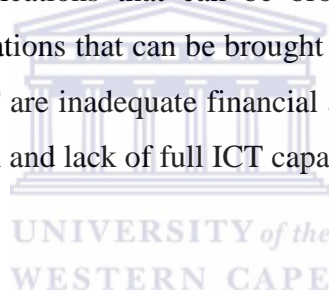
Trends in the consumers' credit industry are captured by two quarterly reports by the NCR. The Consumer Credit Market Report (CCMR) and Credit Bureaux Monitor (CBM). CCMR is compiled from the required submission of returns of credit disbursement by credit providers, while CBM is extracted from credit bureaux returns. While the former captures the value of credit disbursed under the different credit categories, the latter capture the status of credit consumers and credit accounts to determine their good standing or impairment (NCR, 2013c).

#### *National Consumer Tribunal (NCT)*

The National Consumer Tribunal (NCT) is the second institution that was created through the enactment of the NCA. It is an adjudicative independent institution prescribed in chapter 2, part B of the NCA. It is saddled with the function of adjudicating on matters that are referred

(or application) to it in respect of the contravention of the NCA. Its mandate was broadened to include issue emanating from the CPA in 2008. It can issue an order in respect of the applications made to it. It can also make a ruling on, whether an act prohibited by the NCA has occurred and interpret the prescription of the legislation in that regard. It can award cost as set out in section 147 (2) of the NCA to the deserving party, after hearing a referral or an application to it (NCA, 2006).

A decision made by the NCT has equal status to High Court decision in South Africa. All the institutions identified as making up the South African consumer credit system, NCC and service providers, can file an application to the NCT. Individual consumers, credit providers, service providers, NCR, credit bureau and debt counsellors can file application to the Tribunal or matter brought to it through High Court order. The NCT also perform a review function in respect of NCR decisions. With regard to the NCA, the NCT adjudicates on 35 categories of referrals and applications that can be brought to it. It adjudicates on 13 categories of referrals and applications that can be brought to it with regard to the CPA. Self-acclaimed challenges of the NCT are inadequate financial and human resources capacities to carry out its adjudicating function and lack of full ICT capacity (NCT, 2013).



### *Credit Bureau*

Credit Bureaus are institutions of the credit market that are positioned to serve as credit consumer data or information repository, to facilitate the building of credit profiles for consumers. Information on credit consumers are supplied by credit providers on their customers to the bureaus. Service providers, as well as courts also supply information to the credit bureaus. NCR is responsible for the registration of credit bureaus and it performs monitoring function to ensure that good quality of information is maintained (NCR, 2013b). The registration of credit bureau is sanctioned by section 43 of the NCA. Any person not registered by the NCR cannot operate as a credit bureau. The NCR stated that they have registered 12 credit bureaus as at the end of first quarter of 2013 (NCR, 2013c; NCA, 2006).

Credit bureaus capture records of credit active consumers and credit accounts. The credit profile of a consumer or an account can be captured under four categories; current, good standing, impaired record and adverse listing (NCR, 2013b). The information captured by the credit bureau is stated in section 70(1) of the NCA. It includes credit history, education and employment profile, net worth in terms of assets and income and identification details among

others. All information filled with a credit bureau includes the historical trend and the present position (NCA, 2006). The essence of the credit bureau information is to enable a potential credit provider to make informed judgment, on the character and capacity (affordability) of consumers' application without incurring huge processing cost. Negative listing decreases or removes prospective access to credit to serve as a driver to prompt loan repayment (Calvin & Coetzee, 2010).

The four primary credit bureaus in the South African consumer credit industry are Experian, TransUnion, Xpert Decision System and CompuScan. Data from these primary bureaus are accessible to secondary bureaus sequel to an agreement with them. Foundational sources of information in the primary credit bureaus are National Loan Register (NLR) and Credit Providers Association (CPA). Credit providers that belong to the NLR and CPA are mandated to remit credit information to all the primary bureaus (Calvin & Coetzee, 2010).

The CPA is a non-profit association of credit providers formed in 1989, initially as Consumer Credit Association (CCA), to facilitate the sharing of consumer credit information for informed credit decision. It assumed its present name in 2007, when it also expanded its membership beyond consumer credit providing organizations alone. The NLR was launched in 2000 under the control of the MFRC, to prevent reckless lending and over-indebtedness in respect of the Usury Act Exemption Notice of 1999. A reciprocal data access agreement was reached between the CPA and NLR (represented by the MFRC) in 2003 to broaden and improve the quality of information available to credit providers to make credit decision. This agreement enables members of both CPA and NLR to have access to both sets of data (Calvin & Coetzee, 2010; Credit Providers Association).

At the creation of the NCR, it took over the monitoring of the NLR in terms of submission and the quality of data. It constitutes the National Loan Register Management Committee (NLRMC) to oversee the daily management, sustainability and data quality maintenance of the NLR. Micro-credit providers are not obligated by the NCA, as it was with the Usury Act Exemption Notice of 1999 and the MFRC, to remit their data to the NLR. It is now voluntary, which affects the quality of the NLR data for credit assessment. However, the joining of CPA by Micro Finance South Africa (MFSA) means all their members will remit their data to the CPA. Another limitation of the credit bureau system is the fact that NLR and CPA data do not specify credit categories (Calvin & Coetzee, 2010; Credit Providers Association).

The activities of the credit bureaus are monitored and regulated by the NCR from the report they are mandated to submit to it. The Credit Bureau Monitor (CBM) is a quarterly publication of the NCR on the credit profiles of consumers and accounts (NCR, 2013b; 2013c).

### *Debt Counselling*

Debt counselling services form part of the fundamental objective of the NCA to prevent over-indebtedness. The registration of debt counsellors is prescribed in sections 44 and 45 of the NCA. It is one of the prescriptions of the NCA to register debt counsellors in accordance with the requirements set by the NCR and not in contravention of the section 46 of the NCA (NCA, 2006). As indicated earlier the NCR stated that 1,994 debt counsellors are registered with it as at the end of first quarter in 2013. The NCR monitors and provides guidance to facilitate the compliance of debt counsellors to the provisions of the NCA (NCR, 2013c).

The three top provinces in terms of credit consumption are Gauteng, Western Cape and Kwazulu-Natal. In 2012, 45.74% of total credit granted was consumed in Gauteng, followed by Western Cape and Kwazulu-Natal with 13.4% and 12.4% respectively (NCR, 2013c). The distribution of the registered debt counsellors reflects this character of credit consumption in the country. Out of the 1,994 registered debt counsellors with the NCR, 998 (50%), 357 (18%) and 222 (11%) are registered in Gauteng, Western Cape and Kwazulu-Natal provinces, respectively (NCR, 2013c).

Feasibility (2011) reported that the debt counselling system shows little impact on the improvement of credit consumers' knowledge of the current credit legislation, leaving room for how a consumer should deal with credit and consumers' obligations and rights on credit agreements. The advice to prioritize expensive credit could have negative consequences for cheaper credits such as mortgage. The NCR (2013c) also identify about nine major complaints that concern debt counselling. Prime among the complaints includes overcharging and breakdown of communication or synchronisation between credit providers and the debt counselling process, often reflected when decisions taken by credit providers do not take into consideration that a consumer is under debt review. Also important is disagreement on debt review proposal between the debt counsellor and credit providers.



For me the proliferation of the debt counselling services could be a pointer to two possible characteristics of the South African credit market. It either improves consumers' credit education to forestall reckless lending and over-indebtedness or they are mushrooming because of the prevalence of over-indebtedness and impaired accounts as defining characteristics of the credit market. The latter seems to be the case with high prevalence of over-indebtedness and impaired credit consumers and accounts. This thinking is however, limited by the assumption that a healthy credit industry is a singular function of consumer knowledge. The imperative of the need to sustain social reproduction to the consumption of credit speaks to the objective of this study. In a context, where credit consumption is primarily to smoothen private consumption, argument for developmental imperative of credit is difficult to evolve. It seems, understanding the drivers of credit consumption behaviour is more potent than the knowledge of credit.

### *Credit providers*

As indicated above, the providers of micro-credit are of interest to this study. However, the NCA has blurred the divide between all credit advancing institutions as umbrella legislation. The distinction we can conveniently make is the types of credit that credit providing institutions offer. As earlier indicated, salary-based credit providers (often locally designated as 'cash loans'), alternative banks (featuring African Bank and Capitec Bank) and commercial banks (advances micro-credit in the form of personal loans) at a glance could be viewed as providers of micro-credit. Importantly however, this study is aligned to include cash loans (often give micro-credit against income, which includes wages, salary and social grants such as old-age pension and disability grants), retail goods credit (mainly clothing and household goods stores that issue store cards and hire-purchase) and 'mashonisa' (the informal money lenders).

Salary-based microlenders do not capture the fact that these organisations give micro-credit against social grants (such as pension and disability grant), as suggested by Calvin and Coetzee (2010). 'Cash loan', which indicates that they give micro-credit against regular sources of income whether wages, salary or social transfer, capture the defining feature of this kind of credit advance. Note that they do not make out loans in respect of micro-enterprise. The classification of alternative bank is also problematic. While Capitec Bank accepts savings deposit, African Bank does not. Two things that distinguish African Bank from other 'cash loans', are size and disbursement of credit, through cash and credit card. For

the purpose of this study, African Bank is treated as cash loan. The category, retail goods credit is used in this study as a distinct category because it speaks to non-cash credit disbursement, but for clothes and household goods. However, as we will see later, there was a merger between African Bank and a household goods retail group. In essence the divide is also becoming blurred.

The definition of micro-credit does not imply that the institutions that make such credit disbursement are micro-enterprises. It means the credit disbursement is to micro-credit consumers. The notion of ‘consumer micro-credit’ may further distinguish this type of micro-credit advancement. Such is the case of African Bank, which arguably defines the South African ‘consumer micro-credit’ advancement as cash loan and retail goods credit as used in this study. The only aspect of ‘consumer micro-credit’ that African Bank does not speak to is the ‘mashonisa’ (informal money lenders). In view of the centrality of African Bank to the provision of ‘consumer micro-credit’ in South Africa, a brief profile of its structure and activities is important to our discussion here. That is what we looked into in the next section.

### *African Bank*

This discussion relates to the status of African Bank Investment Limited (ABIL) as at the time of the field work of this study. ABIL group structure was composed of African Bank and Ellerine Holdings Limited (EHL). EHL was composed of Ellerines, Furniture City, Weatherly, Beares, Dial-a-Bed and Green & Richards. The banking unit of the group was composed of African Bank and its subsidiary, Standard General Insurance Company Ltd. The non-banking unit was EHL and its subsidiaries (excluding its foreign operations): Ellerine Furnishers Proprietary Ltd, Relyant Insurance Company Ltd, and Relyant Life Assurance Company Ltd (ABIL, 2013). ABIL was a public company and it was quoted on the Johannesburg Stock Exchange (JSE). Its line of business includes unsecured credit and retail household goods. African Bank had 514 branches across South Africa, serviced by 5,230 employees. EHL had 1,040 stores across the country serviced by 7,844 employees (ABIL, 2013).

The book balance of credit advance as at September 30, 2013 was R59 billion, spread over 2.7 million credit consumers. EHL book balance of furniture sales was R4 billion. Due to some once-off restructuring of business strategy and processes the 2013 financial figures does not reflect the true long-term financial status of ABIL. The headline earnings grew from R1.6

billion in 2010 to R1.7 billion in 2011. There was further and significant growth to R3 billion in 2012, but it dropped to R365 million in 2013. Returns on equity follows the same trend, it grew from 14.2% to 15.0% from 2010 to 2011. There was further and significant growth to 24.3% in 2012 before dropping to 2.9% in 2013. The economic profit dropped from R1.2 billion profit in 2012 to R1.5 billion loss in 2013 (ABIL, 2013).

ABIL was focused on the unsecured credit market segment of the South African credit market industry. This segment of the industry is composed of personal loans and credit cards, of which ABIL controlled 70% and 9.3% respectively. They remain a prominent player in the unsecured credit market and one of the pacesetters. As at September 30, 2013, the total assets (or balance sheet size) of ABIL was R67.5 billion, financed by R57.7 billion liabilities and R9.8 billion equity. The total borrowing portion of the liabilities stands at R54.5 billion (R8 billion short term and R46.5 long term). Bonds and other sources of long term financing are the dominant. They issued corporate bond, the Domestic Medium Term Note (DMTN) and European Medium Term Note (EMTN) to raise substantial part of the funding. These bonds represented 33% and 19% of their total funding respectively. They are listed on London and Swiss Stock Exchanges because they issued EMTN on both (ABIL, 2013).

ABIL was 60% South African owned, with Government Employee Pension Funds having the highest shareholding of 11.94%. The pension fund was followed by JP Morgan and Stanlib Asset Management with 7.45% and 7.42% of the total shareholding respectively. 40% of the company's shares were foreign owned with investors from the United Kingdom, United States, and Canada and the rest of the world owning 17%, 14% and 9% respectively. A right issue of R5.5 billion was announced in 2013, in order to improve the capital base of the company (ABIL, 2013). A company that almost doubled its total assets in five years was an industry leader in the cash loan advances against regular income from third party verifiable sources. Substantive 'cash loans' activities are the same with what the African Bank of ABIL does. The EHL segment activities also coincide with what 'retail consumer credit' providers do. Therefore, ABIL bridged the divide between these two categories.

Though ABIL has started savings and investment, vehicle financing, funeral plan and insurance, personal loan, credit cards and furniture credit remained their core business. Personal loan and furniture credit are imperative for the objective of this study because of the coincidence with 'cash loan' and 'retail goods credit'. The provision of cash loan (and/or

personal loan) and the retail goods credit, and their implications for the social reproduction of South African household are of utmost concern to this study. It speaks to the drivers of credit consumption behaviour of this nature in the concerned households.

African Bank represents, in a sense, “the good, the bad and the ugly” of the micro-credit industry in South Africa. They are big but they target the lower end of the credit market dominated by unsecured credit, the most lucrative in terms of the NCA interest rates and other charges cap on lending. They are aggressive in their profit drive. They were referred to the National Consumer Tribunal by the NCR in early 2013, on the charges of reckless lending, with a demand penalty of R300 million. They settled with NCR at a penalty of R20 million (Mail & Guardian, October 4, 2013; NCR, 2013c).

African Bank was placed under curatorship in August 2014 by the South African Reserve Bank (SARB), pending the outcome of its investigation into its activities, to determine whether it has engaged in reckless lending, has been negligent in its business dealings and whether fraud was intended. This is sequel to its estimated operating loss of R6.5 billion and the need to raise additional capital of R8.5 billion in order to keep afloat. This cause SARB to arrange a R10 billion bailout package and bought its bad loan book valued at R17 billion for R7 billion to avoid liquidation (Mail & Guardian, September 5, 2014; Business Day, August 11, 2014). In this case the creditors and depositors are at risk of losing their investment and savings respectively.

What the profile of African Bank suggests is the need to distinguish between seeing micro-credit as development intervention and micro-credit for profit from the supply side. Micro-credit providers that are in business like any other business venture within a capitalist system. Our concern in this study is micro-credit for profit on the supply side and micro-credit for individual (non-productive) consumption on the demand side.

#### *Micro-credit Providers (formal and informal)*

The welfare implication of micro-credit consumption cannot be ascertained, because it is a double edge sword, it could be positive and it could be negative (Daniels, 2004). To take this thinking further, it seems the likely social implications of the consumption of credit will, to a large extent, be informed by the driver and the purpose for which micro-credit is required. A clear distinction should be made between the consumption of micro-credit stimulated by

micro-enterprise development and strictly for production consumption and demand for micro-credit, driven by private consumption need, such as paying monthly bills in order to bridge the gap between monthly income and monthly consumption needs. The focus of this study speaks to the latter. I contend that strains on private consumption (and invariably on the quality of social reproduction) in the absence of a comprehensive social policy regime created a space for micro-credit institutions to thrive, which in turn have consequences for the 'quality of social reproduction'.

Contextual realities and experiences are imperative to the determination of the outcome of the consumption of credit. Where micro-credit is credited with alleviating poverty, it was only in the short-run. The viability of micro-credit to alleviate poverty in the long-run remains questionable. The long term positive effect of micro-credit can only be envisaged, if it is considered with other enabling socio-structural conditions or interventions or combined with other poverty reduction programmes (Khandker, Samad & Khan, 1998; Chowdhury, Ghosh & Wright, 2005). Karim (2008) unapologetically, viewed the claim of poverty alleviation through micro-credit as 'development rhetoric' using the case of Bangladesh.

The peculiarity of the South African context is that micro-credit is predominantly for individual non-productive consumption (Siyongwana, 2004). Therefore, the treatment of the impact of micro-credit institution should be viewed, from its deployment for non-productive consumption purposes. The providers of micro-credit therefore, are in business to make profit and the consumption of micro-credit is to smoothening individual consumption. So we can talk of the impact of micro-credit on giving business enterprises and its implication for consuming households. The case of informal moneylenders are a bit different from this conceptual view of micro-credit, in the sense that the effects of lending money as a means of survival, must be viewed from the perspective of the moneylenders' households. Therefore, the way we view cash loan and retail goods credit provider, must be varied from the way we view informal moneylenders.

The providers are, cash loans, which Calvin and Coetzee (2010) categorised as salary-based micro-lenders, the retail goods credit providers, which are captured as store cards and the informal moneylenders. It is imperative to note that some commercial banks have started foraying into what might be viewed as micro-credit, depending on the level of income of the qualifying consumers, which is also essentially salary-based. The product 'personal loan' is

deployed to target the lower end of the market (consumer with low income). They have taken it further by opening outlets that don't render full banking business, but offers small loans and funeral plans. A good example is First National Bank EasyPlan Outlets. To reiterate, these are micro-credit provider for profit for the owners or initiators, the consequences of the consumption of the products they offer to consumers is not paramount to them. They see a market need or gap and they are taking advantage of it for profit. I contend that the so-called gap is sustained by the dearth of comprehensive social policy or collective consumption.

The foundation to the provision of micro-credit is the informal moneylenders. They continue to exist simultaneously with those that were able to meet the requirement to be formally registered, after formal legislation in the 1990s. The proliferation of formal micro-credit institutions in view of the emerging legal regime does not mean the extinction of the informal micro-credit institutions (Siyongwana, 2004). The uniqueness of the South African micro-credit market is that, micro-credit is mainly for consumption purposes, contrary to the financing of micro-enterprise in other developing countries contexts, means that consumers are more prone to 'debt trap' or 'debt circle'. This situation may be stimulated by high cost of micro-credit, which remains relatively high even with NCA capping of interest and other charges. The Annual Percentage Rate (APR) must be considered, because the pricing or cost of micro-credit includes initiation fees, monthly service fees, interest rates and credit life insurance (where applicable). Low income and lack of productive investment of borrowed money also put strain on the consumers, when repayment is due (Collins, 2008; Daniels, 2004; Hietalahti & Linden, 2006; Bauman, 2004; Siyongwana, 2004).

From the discussion above the informal moneylenders precede the formal cash loan micro-credit institutions facilitated by changes in the legislative context. Cash loans are the most prominent in terms of numbers post-1992 phase of the micro-credit industry. They garnish the face of the cities, predominantly in the city centres and around taxi ranks and metro rail stations (my observation at Bellville in Cape Town). Micro Finance South Africa (MFSA), an organisation that represents formal micro-credit institutions, claimed to have about 1700 members that are registered with the NCR (MFSA, 2014).

Calvin and Coetzee (2010) identified 15 cash loan institutions (salary-based microlenders for them) through MFSA, using the threshold of minimum of 1000 active credit accounts. Their outlets in the form of offices, branches or stores are either owned or operated by the parent



company, through a third party or agents/brokers. Call centres and payroll lending via employer or union are also used. The age of their loans can be grouped into three categories, 30-day loan, 2 to 12 month loan and 12 to 60 month loan (Calvin & Coetzee, 2010).

Increasing competition continues to be one of the dominant challenges to this category of credit providers. I have earlier alluded to the fact that commercial banks are foraying into this sector of the credit market. The alternative banks (such as African Bank and Capitec Bank) are more sophisticated cash loan institutions, by virtue of their activities. The NCA is at times viewed as challenging because of its cap on interest rate charges, compared to lack of interest rate cap they enjoyed under the Usury Act Exemption Notices of 1992 and 1999. Other challenges are the dwindling quality of data on the NLR, the gaps in the activities of debt counsellors and banks reluctance to lend them money directly, because they are seen as competition, when they are not big enough to approach the capital market (Calvin & Coetzee, 2010).

#### *Retail Goods Credit Providers*

This category of micro-credit providers is almost a permanent feature in every household in South Africa. According to NCR Consumer Credit Market Report (CCMR), approximately 38 billion of the book balance of consumer credit was granted by retailers as at the end of the third quarter in 2013 (NCR, 2013a). All major clothing and household goods retail outlets issue store cards to facilitate the consumption of retail goods on credit. It is the most popular type of micro-credit consumption among South African households that cut across all the LSM groups, though at different rate of consumption (Feasibility 2011).

Buying clothes and household goods “on account” (the way credit from retailers is locally referred to) is common in South African households. While most households take clothes, furniture, appliances and electronics on accounts, the reason for such consumption varies among households. For instance, an interviewee, who told me that she buys her children school uniforms on account because she cannot afford it in cash, cannot be compared to a person that bought a smart cell phone on account. It is (most likely clothing account) often the first type of formal credit that consumers are exposed to, before venturing into other forms of formal credit consumption. In fact, the credit history built from this type of credit consumption is imperative to accessing other forms of credit. An estimated 11 million (22.0%

of the population) South Africans use store cards as at June 30, 2010 with an average of 38% in arrears between 2008 and 2010 (Feasibility, 2011).

Store cards are branded, according to the respective store that offers the card such as Edgars, Woolworth and Jet among others. The tenure of the cards is open-ended but subject to regular use and servicing. It is also given on the condition of regular income, and credit life insurance is often taken on the extended facility, which means the APR will increase. The other variant of retail goods credit is furniture loan, which are taken in respect of the purchase of furniture and other home appliances on credit (also called “on account” locally). The book balance of furniture loan as at December 31, 2010 stood at 14.1 billion dispensed through 2.8 million active furniture accounts. 24% of these loan advances are in arrears (Feasibility, 2011). Credit life insurance is compulsory for most furniture loan, except the consumer have an existing verifiable insurance cover that will cover the purchased item.

As indicated under the discussion of the African Bank profile, the acquisition of the Ellerine Holdings Limited means that they are indirectly involved in the granting of loans for furniture and other home appliances. A store card obtained in one retail store is often honoured in several other retail stores, depending on the arrangements the stores have with each other. This is an indication that there is no simplistic categorisation of micro-credit providers. The nuance in the treatment of credit providers and the types of credit they offer or provide must be cautiously engaged. Therefore, it is important that we explain the type of micro-credit provision we speak of, beyond name calling of the providers of credit. For example, Marston and Shevellar (2014) use the term “payday lending” in the Australian context, what Calvin and Coetzee (2010) called salary-based microlenders in the South African context. The same thing I call ‘cash loans’ for the purpose of this study.

## Chapter 6

### Micro-Credit in Social Reproduction - Analysis and Synthesis of Data 1

#### 6.0 Introduction

The empirical data analysis and synthesis is executed with critical realism meta-theoretical assumptions adaptation of grounded theory method, in view of the research questions, problem and the nature of the phenomenon of study. Central to the data analysis are the inferences that can be drawn, from the empirical data. Inference is a thought process fundamental to developing an argument and reaching conclusion. It is about moving from an initial known position, to a new position that is logically connected to the initial position. For research purpose, inference is a reasoning process that speaks to what a researcher can say about what he/she observes with regards to meaning, implications and causes and/or antecedents (Danermark et al, 2002).

Scientific inference from critical realism perspective transcends formal logical (deduction and induction) reasoning to include ‘thought operations’ that suggests multiple reasoning process using abstraction, imagination and creativity. ‘Thought operations’ approach includes deduction, induction, abduction and retrodution as complementary tools for drawing inference in research (Danermark et al, 2002). What one of the ‘thought operations’ lacks is complemented for by others. Therefore formal logic, deduction and induction, is limiting.

Deductive reasoning is limited by its premises on what can be said about reality. It uses logical rules to deduce conclusions from its premises, without acknowledging the nature of reality. It is less potent as an ‘analytic inference’ to uncover underlying abstract structure or mechanism, accountable for what we observe, because its conclusion must be implicit in its premise. More potent in this regard are ‘synthetic inferences’, induction, abduction and retrodution, which conclusions are capable of saying something new about reality that is not inherent in its propositions. Their validity is not only inferred from their premises, but also on the nature of reality (Habermas 1972, cited in Danermark et al, 2002).

The advantage of inductive logic to deductive logic is that it allows for conclusion that transcends the limitation of its premise. It adds new knowledge, but it is not as certain as deductive logic. However, it provides observable empirical generalization, without excavating the underlying structures or mechanisms. In effect, it has been criticized for over

dependence on observable social regularities, because substantial parts of social realities are hidden structures and mechanism. The response of critical realism to this limitation, is seen in the use of abduction and retroduction modes of inferences (thought processes), not as an alternative, as complements (Danermark et al, 2002).

Abduction is viewed as wider mode of reasoning for arguing to redescribe or recontextualise the phenomenon under focus. The conclusion doesn't have to be logically derived, but it must be plausible and in tune with underlying rules. There is always room for alternative interpretations and conclusions. The conclusions are often probable as it involve reinterpreting initial conception of a phenomenon in view of alternative ideas to derive new meanings. This is reminiscent of social science, as “social scientists do not discover new events that nobody knows about before. What is discovered is connections and relations, not directly observable, by which we can understand and explain already known occurrences in a novel way” (Danermark et al, 2002:90-91).

Abduction provides the opportunity for knowledge to explain a phenomenon in connection to underlying structures, mechanisms and rules, which are not amenable to direct observation, a demonstration of the imperative of context. This thought process is compatible with Grounded Theory data analysis and synthesis method of constant comparison (Charmaz, 2006). Danermark et al (2002:95) state that “in a research practice guided by abduction, the interplay (dialectic) between theoretical redescriptions of cases and case-study-based theory development is absolutely central”.

The thought process is completed with retroduction, which speaks to the connection or movement from empirically observable events or social processes, to the conceptually abstract that is transfactual. It speaks to the limitation of depending on only direct observation and the imperative of complementing it with transcendental engagement, to uncover the necessary unobservable conditions for observable events (Danermark et al, 2002; Lawson, 1998; Bhaskar, 1998a).

Retroduction is one of the key benefits of social science research methodology from critical realism. Fundamental to retroduction as a thought process is the connection of observable social events with transcendental or hidden unobservable base mechanism, which is the foundational prerequisite for what we see. Therefore, the peculiarity of the context under

focus is significant to retrodution. The execution of retrodution, in view of the imperative of context, takes the form of metaphorical postulation or analogy articulated by the researcher's experience and point of view. The metaphorical postulation or analogy must be verified with empirical study, because there are usually several explanations for the phenomenon under study. Therefore, the uncovering of underlying generative mechanism of a social event, process or phenomenon is achieved, through the identification of phenomenon, postulating explanation of the phenomenon and empirical verification of the explanation. The scientific cycle continues with the need to explain the discovered generative mechanism (Danermark et al, 2002; Lawson, 1998; Bhaskar, 1998a).

For critical realism all the four thought processes are imperative to uncover the generative mechanisms of observed or experienced social events or processes. The explanation process includes description, retrodution, elimination (of possible alternative explanation) and identification of generative structure. The cycle starts over again from the discovered generative mechanism (Bhaskar, 1998b). Grounded theory uses inductive and abductive thought process extensively to navigate through the coding process (open, axial and selective coding), with constant comparative method to analyze and synthesize emerging theory, by developing conceptual categories and sub-categories and uncovering their characteristics, dimensions and relationships (Dey, 1999; Glaser & Strauss, 1967; Bryant & Charmaz, 2007a).

Grounded theory is useful in the discovery of emerging substantive concepts from empirical data, and detailing the relationships between concepts in building emerging theory. The use of abductive thought process facilitates the connection between empirical data and abstract creative interpretation (Bryant & Charmaz, 2007b). This process is enriched with retrodution to unveil the generative mechanism of the emerging theoretical explanation.

## **6.1 Discussion of Empirical Data**

The discussion of empirical data is intended to provide a background to data analysis and synthesis as indicated above. This research is approached from three points of views, seen as complementary rather than alternatives. The interviews with households on background, experiences of growing up and present characteristics of daily-lived existential experiences form the core of this study. It was thought imperative that the discussion of social reproduction and the consumption of micro-credit could better be understood within these

broad conversations with the households, rather than narrowly framed questions that simply ask about the income and expenditures of the households. In line with the argument of this thesis that the consideration of poverty should transcend the discussions of income and expenditure, to interrogate other institutions that might be imperative in this regard, conversations are framed to unearth the nature of social reproduction of households. The interaction with micro-credit institutions was interrogated in this regard.

The other two tranches of interviews, which were targeted at micro-credit institutions and what I called cultural interviews are framed for two purposes; to serve as corroboration or repudiation of the core household interviews on the one hand, and to capture the workings and or activities of the micro-credit institutions and socio-cultural practices of a relevant section of the South African society on the other. This approach is informed by imperatives of multiple approaches to lay bare the phenomena of interest to this study.

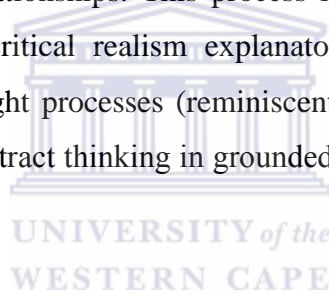
As indicated in Chapter 3, in-depth interviews were conducted to extract information from the research subjects on the study objectives. The interviews were dispensed as a conversation without following rigid interview schedules (semi-structured), the interviewees were allowed to lead the discussion. The experiences of conducting the interviews were incremental with regard to information gathering and probing further for clarity. That is apart from probing further on statements made in the course of an interview conversation with an interviewee. More clarity is achieved by using the obtained information in subsequent interviews. The provided responses are used as a point of query in subsequent interviews.

This incremental method was informed by my adaptation of the grounded theory method to build clear and rich data around emerging categories (themes). Further questions are asked not only from the interviewee that first raised the issue, but from subsequent interviewees in order to understand the characteristics and dimensions of the category (see Chapter 3). The critical realism adaptation of grounded theory means the thought processes of abduction and retroduction were used in the analysis process, to uncover the underlying structures of the emerging categories. For me, the identification of the underlying structures, through the thought processes of abduction and retroduction is what grounded theory refers to as conceptual or theoretical abstraction, taking data analysis and synthesis beyond description.



What grounded theory refers to as building a connection between the core categories and their sub-categories with their different characteristics and dimensions speaks to the building of explanatory model in critical realism, building a connection between observed social processes or events and the possible underlying causal mechanisms. This process in a sense, suggests the connection of the particular to broader structural underpinnings using induction, abduction and retroduction thought processes as the linchpins; in essence, moving from description to abstraction in order to build theoretical explanation. The flip side to this is reducing social science research to what the interviewees said. The raw data is refined or rearranged through the thought processes in order to construct an explanatory model or abstract theoretical explanation.

To reemphasise, using the constant comparative method of grounded theory, categories and sub-categories were identified and developed conceptually to identify their characteristic and dimensions to lay bare their relationships. This process is facilitated by inductive thought process. From this point, the critical realism explanatory model was constructed using abduction and retroduction thought processes (reminiscent of memo writing for connecting empirical data to researcher's abstract thinking in grounded theory) to abstract the underlying structural mechanisms.



The discussion of data will be executed by first describing the data, identifying core categories for conceptual explanation, and building the explanatory model to uncover the underlying structural mechanisms. The description of data will be done in three tranches: the nature and activities of micro-credit institutions, important or relevant social practices, and the experiences of social reproduction. This description will be followed by the connection of the three tranches, before dealing with emerging categories conceptually by identifying their characteristics and dimension, to establish connection, then abstraction for underlying mechanisms.

### ***6.1.1 Nature and Activities of Micro-credit Institutions in South Africa***

The gathering of data on the nature and activities of micro-credit institution was commenced by a conversation interview with a lawyer that handles the recovery of defaulted credit account for credit providing organisations. That is, the accounts that are 'handed over' to attorneys or debt collectors for collection. This kind of account already has an adverse listing in the credit bureau. The lawyer contacts the consumer to facilitate payment or otherwise sue,

to recover the outstanding amount on the account. The conversation reveals that number of default in the repayment of credit is on the rise. Affordability is now central to the granting of credit as a legal requirement, especially for micro-credit providers. However, his view of the different accounts he was handling was that reckless lending is one of the conditions for high default rate in the repayment of credit.

### *Affordability – Reckless Lending*

Reckless lending is when a credit provider grants a loan to a consumer, whose disposable income, after the deduction of other monthly living expenses and commitments, cannot afford to pay the monthly instalments required for the repayment of the loan. By law, each credit provider that gives unsecured loan or lend against regular monthly income must conduct an affordability test to determine, whether the prospective loan applicant can afford the loan. The applicant's income must have an allowance to fund monthly repayment amount after the deduction of all other monthly expenses plus the repayment instalment of any other existing loan that the consumer may have.

In some cases getting judgement against the debtor (consumer) does not guaranty the recovery of the outstanding debt. This is because there are no assets to attach and that most of the assets in the debtors' home are also bought on accounts from other credit providers or retail stores and the payments are still outstanding. Therefore, the debtors' assets cannot be attached, even though the debtors do not have the resources to challenge the creditors' litigation drive. Getting default judgement therefore, does not ensure debt recovery. This is how the interviewee puts it:

In the first place, the reason he went to get loan is because he was in financial crisis or he had a problem. So you can't expect the very same person to now get a Lawyer to defend, when you are suing. And you sue successfully, get a default judgment, you must now execute on this person. And then this person emm... they don't have anything, you know. When I said... when I said... when I said they don't have anything, you go into their house and there is TV... TV... a TV set, and you are thinking okay now there is something, but only to find out that it's also hire-purchase. Some... another furniture shop has... has got a emm... is got a right on that because that... that person is still paying that very same TV set. You go... you go... you look at the fridge, it's... its... it's also... and there are things you cannot take like blankets and then beds, things like that which you can't take and... you know, in the end you get... you get the situations where you say it yourself, what is the point of even... you know. The only thing that

you can do for the micro... for the micro-lenders is to basically report that person to the credit bureau (John: LAW, P2 -17/06/2011).

What can be taken from this interviewee's view is that there is carelessness on the part of the consumer and greed on the part of the credit provider. What was not clear to him was what could have driven a consumer to keep taking credit from different credit providers, until it gets to a point where he or she cannot afford to meet-up with repayment obligations. Credit providers have to balance adhering to the NCA and drive for profit, which only come from extending more credit. It is interesting that one of the most popular credit products, loan consolidation, is thought not to be in the interest of consumers, but of credit providers extending the loan. The consumer will still have to repay the loan plus the charges due (owed) to the new credit providers selling the loan consolidation product. It is only a transfer of debt from one credit provider's book to another for the income of interest and other charges; nothing changes for credit consumers.

### *Credit History*

My take on the loan consolidation product is that debt stressed consumers can only be relieved if their income increases, or their monthly repayment instalment is reduced (which will mean debt rescheduling with negative implication for the consumer's credit history). Credit history is fundamental to the evaluation, access and pricing of credit. I think it is second to affordability in determining, whether a consumer applicant will be granted credit or not. The discussion shifted to why people seek credit and the interviewee's view was as such:

Is because there is pressure on the people, the poor people, a lot of them come knocking on the doors wanting to be emm... emm.... Emm... to be given loan (okay). And the only explanation you can come up with is that the thing... you know the prices... food prices are going up, electricity prices are going up... going up, petrol is going up and the salaries are not going up as high as the inflation (okay). You know, I may be wrong on that one, but my... that is my... that is a feeling I have. Also that emm... I mean there is also a kind of economic liberation, people make financial decision, there is pressure, there is advertisement on TV, advertisement on radio, you walk around town there is advertisement (John: LAW, P3 - 17/06/2011).

His comment was quite instructive: issues of poverty and rising prices (inflation) without commensurate increase in income was suggested as probable causes for the consumption of credit. It was not limited to this; the possible effect of advertisement through different media

was also highlighted. There is a thin line between consumption driven by subsistence needs, and taste developed from compelling advertisement. However, the consumption of credit driven by the former must be taken seriously. It speaks to the concern and objective of this study. There is a possibility that advertisements might create a desire when there is no need. A clear distinction must be made between need driven credit consumption and the one driven by consumer desires, informed by exposure to compelling advertisements.

### *Affordability Test*

The way the affordability test is applied, leaves room for the prospective credit applicant to be dishonest about the information supplied to the credit provider. Apart from the information that is reflected on the consumers' bank statement and his/her income reflected by his/her pay slip, the credit providers have to trust the information supplied by the applicants about other monthly expenses such as rent, electricity, food, transportation and health among others. This is an important flash point for me, which I continue to raise through the course of the empirical work.

A desperate consumer has enough motivation to look for ways to reduce the expenses that are not verifiable in order to ensure that the affordability test returns with positive result. On the other side, credit providers want to grant credit to grow their asset (and profit). The law requires that it is done reasonably, and not recklessly. Consultants that work for credit providers also have targets that they have to meet-up with for their job security. These are intricate issues that the credit granting and taking relationship must balance.

Bank statement is the major source of identifying consumer expenditure behaviour and commitments that credit providers depends on to a large extent. However, the information offered by bank statement is limited by consumers' spending or payment attitude; whether payments are made electronically or by cash. Bank statement offers little to the credit providers, where a consumer makes cash withdrawals to fulfil his or her payment obligations. This is a limitation to expenditure assessment by the credit provider in the process of ascertaining the affordability of the consumer.

The interviewee maintained that there is a deviation of the practices of the credit industry from the intentions of the NCA. Of note in his comment, is that care must be taken not to conflate expanding access to credit, especially by the previously disadvantaged population in

South Africa, with recklessness in the credit extension process. The historically excluded population from access to credit could also mean lack of controllable appetite for credit consumption without detail appreciation of the workings of credit relationship. Moreover, in really desperate need situation a consumer might throw caution to the wind.

The consequence of reckless lending and consumer dishonesty is over-indebtedness. The breakdown of credit agreement means that, a quantum of money goes to lawyers and debt collectors. However, the high cost of employing the services of lawyers to recover small amounts does not make economic sense because legal cost will outstrip outstanding debt. Debt collectors have become a viable option for micro-credit providers, because they can enter an arrangement for debt collectors to get a percentage of the recovered amount apart from their regulated fee, which is passed into the debtors account.

There are gaps in the affordability test in terms of the questions asked. For example, it does not include questions on the health of the consumer's household, which have the capacity to derail the ability to meet-up with monthly repayment obligation. If a child falls sick in the family, the economic implications might prompt default in debt repayment. The questionnaire also does not reflect other social practices such as the imperative of extended family in the African context, which has regular cost implications. The obvious case is in Cape Town, where black African people that are originally from the Eastern Cape have two households; one in Cape Town and the other back in the Eastern Cape. Often times, they have financial commitments to both households.

Another gap in the affordability test is that it does not take into consideration the social practices of different communities that credit consumers come from, and the consumers are not obliged to divulge such practices, because they are desperate to get the credit approved. Risk assessment should not be rigid. It should be responsive to the context or community, in which consumers live. For example, the social practices of rituals at different stages of life and as healing process among the Xhosa people, as it is with most black African cultures in South Africa has financial implications for concerned household, which are not captured by the affordability test. In essence, risk assessment that speaks to the social realities of a particular community is used as blanket measure for other communities with different social practices.

... But you calculate your risk based on a system for a different sector of community. And then you apply that to a sector of a community that I believe doesn't need emm... to be assessed at that level. And I am not saying that sector should not get credit, but maybe you could alter your system to look deeper into this... They are not 'gonna' tell you that in the Eastern Cape where that person was born there is a... there is a... there is a 'Umgidi', you know, there is a ritual there that is been performed emm... for the... for the elder brother. And there is a... there is an expectation that they...they... they contribute with a sheep (okay). He's not 'gonna' tell you that because he thinks it's a once-off thing, so it doesn't fall part of his monthly budget. But when it happens it... it takes out from the little that is left as a result comes the fifteen, if that person get paid end of the month, that person doesn't have money. So there is another need again to go and... and borrow, you know. And then he goes back again, he doesn't mention these other things that fall outside the... the... the creditor's emm... questionnaire (questionnaire) about the monthly spending of the individual. You get what I'm saying (oh... okay), so even though they may defend themselves and say we've got a policy, but it... that policy is fixed, you know, it... it... it's not flexible enough to take into account those things. And maybe it's difficult for anybody to design one policy that would be fit all. (John: LAW, P7 – 17/06/2011).

The credit providers tend to develop credit consumption appetite in the consumer, because of their marketing and credit relationship management activities. When a customer is up to date with their repayment obligation, they are seen as good for creating credit asset by the credit providers. Hence, when his or her current credit agreement is winding up, they will quickly give him or her new offer. This how he puts it:

And again, once you borrow from them they keep contact with you because, yeah, as you said they are in business. Because you managed to pay for the first six months and there was no problem, so what they do in the fifth month, because you now 'gonna' end your relationship with them, they then come back offering you more and more and more (John: LAW, P7 – 17/06/2011).

### *Debt Trap*

It seems therefore, that debt trap could be viewed from two perspectives, from the points of views of the credit provider and the consumer. Credit providers prefer to keep the good paying customer in perpetual debt as they are good credit asset. On the other hand defaulting debtors are pursued to pay what they owe. They are trapped in debt because they cannot afford to regularise their debt obligation. From the point of view of the credit consumers, debt trap informed by over-indebtedness and lack of capacity to settle debt is seen as a problem, a rude awakening of what credit consumption can cause. On the other hand, consumers that can afford to meet their debt repayment obligation are trapped because of their distorted consciousness of credit consumption.



Third party employment is a prime condition for access to credit. Repayment is expected from the consumer's income; hence, over-indebtedness cannot be reduced to poverty. Over-consumption of credit driven by desires and not needs cannot be associated with over-indebtedness. Jacobs and Smit (2010) find no association between materialism (consumerism) and indebtedness in the South African context. Low-income earners have more tendencies to be indebted. Lack of proper financial education can also drive over-indebtedness and so also is economic shock. Judging from our conversation, I think the interviewee is not conversant with the notion of working poor to suggest that a working person cannot be poor. What this suggests is that employment could provide a form of adverse inclusion, which may manifest in credit problem or over-indebtedness and debt trap.

The interviewee seems to suggest the imperative of social policy when he said:

There is the responsibility on government to ensure emm... that those people that are working but not earning enough (okay) emm... To live a decent life emm... there is a way to ensure that there are services, and those services are accessible. Services that will not require them to pay more than they are already paying, transportation for example and the issue of food prices is... is... is entirely emm... controlled by the market in the country, but the Doctors... people must access public hospitals, public schools as well where the payment is not going to be high (John: LAW, P12 – 17/06/2011).

A suggestion that social policy could fill the gap between income and consumption, needs to prevent people from accessing micro-credit out of desperation to meet-up with shortfall in their social reproduction needs. However, we cannot reduce indebtedness to poverty.

### ***6.1.2 Understanding Micro-credit Relationship Process***

The narration of the micro-credit process in South Africa, as reviewed from empirical work, could be viewed from two perspectives: formal and informal micro-credit processes. These processes can be divided into four key stages; application, evaluation and approval, disbursement and repayment. The motivation and conception of the consumption of credit reside with households and it precedes these stages. The consequences and/or the effects of the consumption of micro-credit also reside with households, concurrent and sequel to these stages, it starts from the disbursement stage. By implication, the conception, consumption and the repayment of credit are driven by the concerned households. The micro-credit institutions (at least the ones considered in this study) take advantage of business opportunities to

facilitate these processes for households for a reward of profit. Therefore, this study is concerned with “micro-credit for profit providers”.

While I acknowledge that there are micro-credit institutions that are set up to foster development, they are not the focus of this study. This study focused on micro-credit institutions that emerge organically within a society, in response to historical and prevailing events, processes and structures. Formal micro-credit institutions are, to a large extent, response to profit opportunity, due to gaps in the architecture of social reproduction (informed by the prevailing characteristics of the political economy) or credit appetite developed by taste, which can also be connected to prevailing social structures. Informal micro-credit, moneylenders, however can be viewed from two organic perspectives; they are either driven by profit motive or by survival motive. Therefore, the discussion here will focus on the processes and activities of ‘micro-credit for profit’ and ‘micro-credit for survival’.

The way the interview conversation was structured was to open the discussion by introducing the study. This is followed by questions to probe work experiences and profiles of interviewees as a background to our conversation. Apart from revealing the interviewees’ work experience, it also highlights their location within the particular micro-credit organisation. The question that gives direction to the course of the interview is framed and posed to the interviewee to explain their work process, when a potential customer walks into their office through enquiry to the purchase of credit product, to when the customer finished repaying the credit advanced and the credit agreement terminated.

The application, evaluation, approval and disbursement stages can be collapsed, but there is non-collapsible divide in the nature of relationship between these stages and the repayment stage. The disbursement of the loan effectively seals a credit agreement legally, hence the nature of the relationship changes at that point. Metaphorically we can talk of the giver and the receiver of micro-credit on the one hand, and giver and the receiver of repayment of micro-credit plus its cost on the other hand. This may sound simplistic, but importantly, the social location of the parties to the micro-credit relationship is inverted in the two instances, with implications for how the relationship is carried forward. As there are important issues for consideration before the credit provider disbursed the loan to the consumer, so also are important considerations for the consumer to meet-up with repayment obligation.

The understanding of the nature and characteristics of the relationship between credit providers and consumers transcend the immediate credit relation itself. It includes the parameters for taking a decision to give or not to give credit by the credit providers, which may include the bank statement, confirmation of employment or social grant/pension income and credit history for example on the one hand. On the other hand, there are considerations that also inform the behaviour of the consumers, whether they meet their repayment obligation or not. Sustained income and the nature and changes in household disposable income, which may be affected by plethora of factors, could be important.

#### *Formal Micro-credit Process – Cash Loan*

When a potential or existing credit consumer walks into any micro-credit institution's office, branch or store, the first point of contact are the consultants. Consultants are the interface between a micro-credit institutions and credit consumers. Their responsibility is to interact with consumers about their needs and interests and to communicate the policies of the institution with regard to the consumers' needs and interests. They are to inform the consumers about the products (with terms and conditions) on offer that could be of interest to the consumer so that the consumer can make an informed decision and probably a request. The consultants will inform the consumer about the list of requirements to process a credit application.

To take the process further if a consumer decides to apply for credit, the consultant will ask him/her to complete an affordability questionnaire. This is captured into the credit provider's system to determine, whether the potential applicant can afford the repayment instalments of the amount of credit he/she hopes to apply for. The application process is discontinued if a consumer fails affordability test or he/she may be advised to apply for a lower amount. The application process is carried forward, if the affordability test returned positive. If a consumer provides all the requirements for credit application in addition to passing the affordability test, the application will be captured on the system by a consultant.

After fully capturing the application on the system with all the requirements, the consultant will submit the application. At this point the application is endorsed by the supervisor or branch manager (depending on the size of the branch) and forwarded to the Query Line Manager that is not housed in the branches, but at the head office. Problem customers at the application stage are referred to the supervisor or the branch manager for review, especially

when customers feel they have not been well serviced by the consultants. Consultants have no direct relationship with the Query Line Managers, who work behind the scene. They are only involved again, when they have to communicate approved or declined applications to customers. If the evaluation comes back with approval, consultants will communicate the approval to customers with relevant contract to be executed by customers. After proper execution of the contract by a customer, the loan is disbursed into his/her bank account.

Important required documents for credit application are national identity document, pay-slips and bank statements of applicants. The submission of these documents with the application form and completed affordability report will enable consultants to capture the application on the system. Identity document is required to establish the true identity of the applicant. Three most recent pay slips are required as a confirmation that the applicant is employed and earning income. Bank statements are required to confirm applicants' income and expenses. It is also to determine their spending behaviour.

It is important to note at this point that, there are some very small Cash Loans that operate a single person branch that collapsed together several functions performed by different persons in more established and bigger ones. Application, evaluation and approval processes are handled by this one person. This person also handles repayment, except in cases, where debit order is returned unpaid. A case in point is a Cash Loan owned by a legal firm I came across at Bellville, Cape Town. The lawyers only get involved to effect payment, when a debit order is returned unpaid and the customer is not paying in cash.

Query Line Managers are the ones saddled with the responsibility of evaluating credit applications. They take decision as to whether to approve or decline a credit application. When they receive an application from a branch, they will evaluate it to determine the viability of the risk, and approve or decline as they deem fit. As indicated above, national identity document is imperative to ascertain the identity of the person the institution is entering into a credit agreement with. Pay slips are followed up with telephonic confirmation of employment of applicants from their employer to remove the possibility of forgery. The sector, in which the applicant is employed is also taken into consideration in this regard. Public sector employees are viewed positively because of the stability of their employer and employment. Contract workers like people working for private security or cleaning companies are viewed with caution because of the instability of the nature of their

employment. All these feed into different risk profile of applicants with implication for applicable charges.

Bank statements provide a Query Line Manager with the spending behaviour of the applicant in addition to income and expenditure on monthly basis. More than that, bank statements are important to verify income claim on the pay-slip and completed affordability report. The residential address (living habitat) of an applicant is also important for the evaluation of applications. An easily locatable address is valued over an address that is not easily traceable. For instance, it is quite difficult to locate an address in Townships or an applicant that lives in an informal settlement. To cap the credit application evaluation process is the checking of the credit history, outstanding commitments and account status of an applicant on the credit bureau information system. Credit history and status are the backbone of unsecured credit, which is growing in the micro-credit sector in South Africa. The listing of accounts on the credit bureau (current, impaired or adverse listing) is important to evaluate the risk and final decision of a Query Line Manager on credit applications.

#### *Formal Micro-Credit Process – Retail Goods Credit*

There is a slight difference in the retail goods credit process. The sales personnel are the first point of contact, when a customer walks into the store with an intention to purchase an item on credit (on account). By the nature of their work, they always try to convince the customer to buy either in cash or on account depending on the customers' interest. Although they prioritise buying on account because of the added credit interest and other charges that such transaction will yield (Feasibility, 2011). A sales lady that has previously worked as a training and branch manager of a retail store in Parow, Cape Town, was very succinct about their preference for customers to buy on account:

To buy on credit is better because it's emm... its more profit for the shop on credit. If it is cash it is less profit for the shop... for the company actually. So credit is better... even it's better for the company, it is better for the sales lady on credit (Mary: MC 12, P13 – 22/04/2012).

When the consumer has decided to buy an item on credit, a sales person will refer him/her to an administrative staff that will take the consumer through the retail goods credit application process. As it is with Cash Loans affordability test is the first stage of the credit application process to determine whether the consumer can afford the repayment of the monthly

instalments. After passing the affordability test the proper application processing continues. They also require identity document, pay slip and bank statements like Cash Loans. In addition to these, they might require two referees and proof of address. The verification of address is very important for retail goods finance because the goods are often delivered to the consumers' address. Also because repossession of the goods has to be made in case there is a default in repayment.

Credit life insurance is an important requirement for retail goods credit. It is an insurance taken to cover the consumer credit obligation in case of death, disability and retrenchment. It doesn't cover dismissal. There is also option insurance, which is not compulsory. It is taken to cover the purchased items against theft or damage due to fire and/or flood. Credit life insurance is compulsory, consumers' existing life assurance policy may be acceptable in lieu, if it is verifiable and the surrender value is adequate. Feasibility (2011) noted that credit life insurance is a liquid security, hence the conversion of unsecured to secured credit. This means that credit providers may be taking undue advantage of higher interest rate cap for unsecured credit, whilst they are granting secured loan with credit life insurance as security.

It is important to note that the divide between cash loan and retail goods credit is blurred in the case of ABIL and EHL, where consumers that walk into any of the retail store under the group can be offered a product called 'top up', which is essentially a cash loan as embellishment to retail goods credit. Apart from taking possession of the financed retail goods, the consumer can opt to take out additional cash loan as a 'top up' if their affordability test can accommodate it. In the case of one of the retail stores under the group, where I spoke to an administrative staff in charge of processing furniture finance application, it was made clear that African Bank takes over the repayment process after the customer has paid his/her first instalment. Our discussion revealed that they don't accept the repossession of goods anymore since ABIL acquired EHL. Consumers of retail goods credit are obliged to pay what they owe because returning the goods is no longer acceptable.

Yes, you know what happens, after the customer has paid the first instalment we as Furniture City has got our money, like African Bank pays our account (oh... okay), the account that the customer... and then after that African Bank is liable on the customer owing that is why it would be African Bank that would be taking the customer through administration (oh... okay), it would not be Furniture City (okay), it will be African Bank. Because after that first month of the instalment Furniture City steps back (and



African Bank...), but then still we are partner in that, but then African Bank are the main ones who deals with the customers (Sithle: MC 7, P6 – 31/08/2011).

In fact, they now have personal loan as a product in this retail store. The situation is different in one of the retail stores that belong to the JD Group and another store that belong to one of the large supermarket groups in South Africa, where repossession of goods from defaulting customers is still the practice. It shows that the fault line between the two types of credit products is fast disappearing. One of the options that customers also have is getting an extended warranty on the financed product by paying additional amount. Products come with one-year warranty and customer can buy additional one or two years warranty. It enables the consumers to claim repair or replacement to purchased goods, if there is a damage that is not caused by their negligence.

In the same manner as cash loan, retail goods credit application is captured on the system and sent for query and approval usually at the head office. If the evaluation of the application returned with approval, the applicant customer is contacted to come into the office of the cash loan provider or the retail store to come and execute the necessary agreement papers. At this stage all the terms and conditions of the loan are communicated to the customer to make-up his/her mind on taking the credit offer. After signing the contract, the loan will be disbursed into the account of the customer, in the case of cash loan or the appliance delivered to the house of the customer in the case of retail goods credit.

#### *Formal Micro-Credit Process – Loan Repayment*

After cash disbursement or the delivery of retail goods, the nature of the relationship changes. Like a manager of a Cash Loan in Bellville said that they are in the business of collecting money to emphasise that any loan advanced must be recovered with the added cost.

... we are in a collecting business, not the giving out money business (okay). So it's a collecting business, so, should you default on anything, emm... we would try and contact you for number one, okay (okay) to make an arrangement. Not double the amount, we would try and get our instalment that we agreed on plus a little bit extra (okay), so that your credit name don't get affected by it (okay). So we try and get the minimum out of you should you default, okay (okay) (Henry: MC 3, P2 – 07/06/2011).

This is an indication that the giver of credit turns to the receiver of repayment after the disbursement of the credit amount; a significant shift in the mode of relationship. From all

indications, employment, affordability, credit history and status of potential credit consumers are important criteria for a successful access to micro-credit (or unsecured credit) in the South African context. These are important factors in the application, evaluation and approval and the disbursement of cash loan and retail goods credit. It is imperative to highlight that small scale self-employed persons are not considered for cash loan. It seems to me that the JD Group retail store is flexible on that. The interviewee stated that they also sell to pensioners, disability grant holders and self-employed in what seems to be an aggressive marketing style.

We are going with a car by the people's house... knock on the door, good morning mummy I'm Thembi I'm from XYZ in Parow, Voortrekker road. I'm here, I just want to hear what you want to open an account. We are taking pension people, disability, self employed, weekly, monthly. Are you interested to buy something, here is our catalogue. Yes I want a washing machine. What size are you looking for, a 13kg because I want to wash a blanket. Here is the catalogue, and then the customer look 'mos'. Yeah I want my child by one. Give me your ID mummy and your pension card and the slip. Then I write the details there in the customer's house, then I make a please call to work and they phone me. I give their detail I wrote there... I give to them, and then they'll capture it, and they'll say customer is approved. Ok then, we are 'gonna' come fetch you like Thursday... we've got customers day on Thursdays. So then I'll tell mama, mama you are approved for six thousand rand, you 'wanna' take 'mos' the washing machine 'ne', the customer says yes. I will come and fetch you on Thursday mama, yes. So Thursday morning I'm phoning 8 o'clock 'ne', me I'm 'gonna' come fetch you 10 o'clock, is 10 o'clock alright for you, yes I'm alright. Then we go and we will go and fetch all the customers that we have worked maybe for today, we'll go and fetch then on Thursday, come in, put the deal on... finish, take them home (Mary: MC 12, P9 – 22/04/2012).

While it may seem that some retail stores are flexible with self employed people if their bank statement shows reasonable levels of activities, Cash Loans are strict on third party employment as a condition from granting credit. The people on any form of social grant (especially old age pension and disability grants) are targeted as viable prospect for credit consumption because of the stability of their income (social transfer). Both formal and informal micro-credit providers are involved in this practice.

#### *Formal Micro-Credit Process – Cost of Credit and Repayment*

The cost of micro-credit includes the interest rate, initiation fees, monthly service fees and credit insurance (where applicable). Retail goods credit may include delivery fees, extended warranty, installation fees, connection fees, fuelling, tax and licence. While interest rate is

central, these other charges are allowed by section 102 of the NCA and the credit provider can capitalise it with the principal amount (Feasibility, 2011).

Therefore, the calculation of the cost of credit is more complex than interest rate alone. The capitalisation and compounding of other standard and allowable charges could increase the cost significantly. The present interest rate cap for unsecured credit and short term credit that speak to the objective of this study are (Repurchase Rate X 2.2) + 20% and 5% flat per month respectively with the same initiation fee of R150 in addition to 10% of the amount that is above R1,000. A maximum of R1,000 can be charged. In view of the limitation of interest rate in the conception of the cost of credit, Annual Percentage Rate (APR) is used in the calculation of the cost of credit because it factors in the interest rate and other capitalised charges compounded monthly to determine the real cost of credit (Feasibility, 2011).

None of the interviewees was able to give me specific response about interest rate and the cost of credit. They mentioned the respective charges but were not able to say the specific amount charged. The calculation of the cost of credit is automated and is not determined at the branch level. So they were only able to say interest is calculated by the system depending on the risk profile of the consumer applicant, which is determined behind the scene, when the application is evaluated. What is obvious to the consultants is to communicate the monthly instalment to the customer if the application is returned approved as indicated on the system after the evaluation process. Therefore, the monthly instalment is emphasised above the cost of credit, perhaps due to the complexity or the hidden nature of the APR calculation. It seems to me that monthly instalment is a fundamental principle behind affordability rather than the cost of credit. Affordability therefore, hides the high cost of credit when the APR is considered.

Few questions are asked about the cost of credit by the consumers as the amount of monthly instalment form the core of the communication from credit providers, through the consultants or administrative staff once the application has been approved. Repayment of credit through monthly instalments commences in the following month depending on when the cash loan or the retail store closes his book for the month. At times, payment breaks are offered as incentive to attract customers. Customers may be given one to three months payment break before the commencement of the monthly instalment to repay the loan.

Repayment of credit is often through debit order, executed on the customers' transaction bank account and cash in some instances with retail store credit. When a debit order is returned unpaid the customers can also regularise their account by paying cash. Debit order is executed by the customer as part of the contract agreement with permission for the credit provider to be able to track customers' account, if the debit order is returned unpaid. Cash Loans are always keen to know the customers pay day so that they can strike the account before the customer withdraws the money for other uses or commitments. In order to effect once-off repayment (in the case of short-term credit usually 30 days) or monthly instalment, debit order are processed through intermediary Payment Clearing house System Operator (PSO) and payment and collection organisations.

My fieldwork reveals that BankservAfrica and Mercantile Bank are the intermediating organisations that some cash loan operators use for the processing of debit order for repayment of credit by customers. These organisations offer services for debit order collection, Non-Authenticated Early Debit Order (NAEDO), Authenticated Early Debit Order (AEDO) and Point-of-sale, to facilitate the tracking of customer account and to ensure that the debit order hits the account immediately, when there is money in the account (BankservAfrica, 2014; Mercantile Bank, 2014). The small Cash Loans have point-of-sale (POS) machine in their offices. The customers are made to swipe their debit card and input their pins to activate the debit order so that they are the first to hit the account once money is available.

The life cycle of a credit transaction is complete, only when the credit consumers have fully repaid the advanced loan with the attending interest and other charges. That is why a branch manager of a Cash Loan said, they are in the business of collection of advanced money. Credit asset remains a receivable until customers have paid their account in full. The nature of the credit relationship at the repayment stage is not always smooth. While credit providers put every system in place to ensure repayment, credit consumers at times default in meeting up with their repayment schedule. The nature of the credit relationship is crucial for how we view the micro-credit industry. Over-indebtedness and reckless lending were given as some of the reasons why credit consumers will default in the repayment of their debt.

The questions that are mooted, however, are: What are the driving mechanisms behind over-indebtedness? Why would credit providers lend recklessly? The NCA with its relevant

institutions are set up to prevent these consequences without taking time to address the underlying causal mechanism in the first place. Consultant and sales persons are given monthly sales target, which they have to meet for their job security. One of the interviewee that work as a sales person for one of the retail stores in the JD Group reveals that her monthly income is composed of two elements; basic salary and commission tied to meeting her sales target for the month. In other instance with one of the big player in the industry, staff confirmation of employment is subject to meeting individual set monthly targets.

This may put pressure on workers to be reckless even when their employer is advocating for reasonableness. Credit providers are in business to make profit, and care less about the predicament of the credit consumers. It is normal for them to push for their profit within the boundary of the law, even though that boundary is pushed to the limit. The elevation of ‘affordability of repayment instalment’ as central to accessing credit is problematic. Monthly consumption expenditure is a variable (not a constant) that can change within a short period of time. Being able to afford repayment instalment today is not a guaranty that a credit consumer will be able to meet-up repayment, when the next instalment is due. This position can shift drastically within a short period of time due to array of factors. As indicated in this study, affordability questionnaire leaves out important social practices that have financial implications for households.

I do not think consumers enter into credit agreement with intention not to meet their repayment obligation. Either the affordability test fails to capture the realities of the social reproduction of concerned consumers, or their level of social reproduction changed drastically to deal a blow on their capacity to meet their repayment obligation. This precludes, whether the credit consumption was driven by need or taste in the first instance. Credit relationship at the repayment stage, is therefore defined, by the ability of the credit consumer to meet up with or not to meet up with repayment obligation. A good paying customer is the bride of credit providers and they are offered more credit at will on the one hand. On the other hand steps are taken to ensure that defaulting customers pay-up their outstanding instalment up to date.

When a debit order is returned unpaid, the credit provider will track the credit consumers’ account, while they also contact them telephonically to demand payment. The cost of telephone calls is charged to the customers’ account. If the customer did not pay after several

telephone demand calls, a double amount debit order is processed for the customers' account, when the next instalment is due if account tracking did not yield positive result. Ordinarily, the credit providers expect the credit consumer to inform them, if they have any challenge to meet-up with their repayment obligation and provide the necessary documentations to back-up their claims. For example, if a credit consumer is retrenched, the credit provider will expect to see the retrenchment papers, so that they might suspend the monthly instalment payment until he/she secures another job. There is usually a limited time span to this, after which they will expect the credit consumer to be making payments, even if it is not up to the normal instalment amount.

This implies that the credit providers expect credit consumers to make an 'arrangement' with them, if there is a genuine difficulty to meet-up with monthly instalment. Arrangement might involve reducing the monthly instalment amount and extending the term of the credit. If the credit consumer did not make arrangement and the account is not being paid they are referred to debt counselling. Debt counselling may lead to debt rescheduling, which means the credit consumer is under debt administration and cannot access further credit, until all outstanding debts are paid up. Any credit consumer under debt administration is listed as such on the credit bureau, hence, no credit provider will grant further loan. When possibility of an arrangement between a credit provider and credit consumer fails, the customer is referred to debt counselling, which is a process that precedes the handing over of the account to attorneys or debt collectors for collection.

Section 86 of the NCA also allows a credit consumer to approach a debt counsellor to apply for debt review, in order to be declared as over-indebted, if he/she is struggling with meeting up with his/her debt repayment schedule. This will enable the debt counsellor to review the credit consumer's level of indebtedness, to inform debt re-arrangement. Also, debt review application may seek to establish, whether there has been reckless lending. The understanding and the use of debt counselling in this regard, seems to suggest a channel for debt rescheduling to forestall handing over credit accounts for collection. My take on this is that, an effective institutionalisation of debt counselling should transcend mere debt re-arrangement to include consumer credit education pre and post debt commitment.

Debt counsellors are allowed to charge credit consumers (not credit providers) for their fees as prescribed by the NCA. My sense is that they are in business to profit from the opportunity



provided by the state of credit relationships in South Africa. More debt counsellors are motivated to register, to practice and to take advantage of the need in the credit market. As earlier indicated, NCR reported that 1,994 debt counsellors are registered as at the end of first quarter in 2013. Approximately, 83,000 applications for debt counselling were received between 2012 and 2013 with R2.96 billion distributed to credit providers (NCR, 2013). From all indications, debt-counselling services are set up as institutions of the NCA to facilitate the rehabilitation of over-indebted credit consumers and not to prevent over-indebtedness.

However, people hardly seek financial advice, unless they are in a credit problem. When there is dispute about any aspect of the credit agreement or its implementation, the credit consumer is at liberty to approach the National Consumer Tribunal, for adjudication to review compliance with the NCA. If everything else, to make the credit relationship work at the repayment stage fails, the credit providers are obliged to hand over the account for debt recovery to an attorney or a debt collector. The activities of debt collectors are regulated by the Debt Collectors Act (DCA) No. 114 of 1998 and affected by the Council for Debt Collectors (CDC). The fees that are chargeable to the debtors' account by debt collectors are regulated by the Act through the CDC. The CDC is also responsible for the registration of debt collectors and establishing the code of conduct in line with the provisions of the DCA (DCA, 1998).

Handing over an account to an attorney to enforce repayment is more expensive, because attorney fees are not regulated like debt collectors fees. In fact, the outstanding amount in the case of micro-credit, may not warrant handing the account over to a lawyer for collection because of their high fees. Getting judgement against a credit consumer might lead to getting an emolument attachment order (garnishee order), where the employer (garnishee) of the credit consumer (debtor) is obligated (garnisheed) to deduct part of the salary of the credit consumer (debtor) to pay the credit provider (creditor), until the debt is paid up. The prevalence of garnishee order is an indication of an unhealthy credit market (UP Law Clinic, 2008). The status (current, impaired or adverse listing) of an account is captured in the credit bureau. Adverse listing is when an account has been handed over for collection. Negative listing will prevent further access to credit. It is often used by credit providers to threaten consumers to motivate prompt payment.

However, the different actions of the credit providers to enforce payment are at times met with some form of resistance from the credit consumers. For example, a credit consumer might withdraw his/her money before the debit order strikes his/her account. At extreme cases, a credit consumer might change his bank account to avoid debit order hitting his/her account. At times, credit consumers also change their address to avoid retail goods credit providers from repossessing household goods purchased on account, if they are not meeting up with their repayment schedule. In other instances, credit consumers are not afraid of adverse listing on the credit bureau, because they know that it will be lifted after 5 years or so. They will say they don't mind to wait until their names are cleared to be able to access credit again. This is how Mr. Zulu, who is a general worker at Delft Clinic, described his experience of adverse listing on the Credit Bureau:

I don't care about that. They told me that they've put me on credit bureau long time ago. When was that, almost maybe seven or eight years? But my name was in the credit bureau, at the same time they are writing letters, why? My name is already there and they are still writing letters, you must come and pay. Which one must I pay, I must go to credit bureau and pay there or I must pay them. Why are they after me, why did they take my case further, whereas they are still looking for money from me, you see... You pay credit bureau, or else you don't get anything on credit from shops for five years. I'm over five years now, all what I need now is the clearance, like I can go and clear that. If that's 'gonna' be a problem, then I have to do the arrangement. But then it will be my terms (Zulu: SR 24, P11-12 – 25/07/2011).

He was able to secure loans from Capitec and African Banks subsequently. He believed it was possible because it was over five years since he was adversely listed on the Credit Bureau. So, a form of resistant is to wait-out the years, after which the adverse listing is removed. This was how he responded when I asked him how he managed to secure a loan from Capitec and African Banks in view of his adverse listing on the Credit Bureau:

They gave me, it's because I believe it was after that five years I was in credit bureau so they cleared my name (Zulu: SR 24, P12 – 25/07/2011).

Two interviewees, Henry, a manager at a Cash Loan and Mary, a sales woman at a retail goods credit provider, account for how they might, at times, have to track customers' accounts, in order to get their debit order paid. This is because the customer might withdraw their money before the credit provider effects the debit order payment. In other cases, the customer might change their account details to ensure that debit orders do not go through. This is how they put it:

Debit order is better, but in the meantime the customers can also change their bank details... but not all of them, few... Maybe they've got problems or what? Sometimes they... they don't change their bank details; they will give the date we should deduct the money. For example, on the 30<sup>th</sup>, and then the customer will go and withdraw all the money on the 28<sup>th</sup>. So when we go there is no money every time. If after 3 months and we don't get hold of you, we might just change the debit order to an earlier date, say 25<sup>th</sup>. We might just try it and it works. So I might put the 25<sup>th</sup> and it sometimes work. And then, when the customer goes he or she will see that we have deducted the instalment (Mary: MC 12, P12 – 22/04/2012).

... We normally take every day at about 2 o'clock in the morning. That is our time to strike any account. 2AM is our time to strike an account, okay. So we can strike from 2 o'clock in the morning on pay day that is when we strike your account. We also have a system, we call it NAEDO... it's called the NAEDO tracking system. So we track your account before the time, okay, there we go, you know. So we track the account, as soon as your pay comes in, we will hit your account, okay. So, there is also other system, we normally use that tracking system, especially on default clients, you know. So we track the system, we track your account for at least about 14 days after you defaulted (Henry: MC 3, P8 – 07/06/2011).

The underlying cause of resistant behaviour towards the payment of credit account by credit consumers is beyond the immediate credit relationship. It is rooted in the feasibility of social reproduction. While credit consumer seeks credit at times to cover gaps in the maintenance of social reproduction, the burden of repayment could in turn be an assault on social reproduction, when credit is not invested in productive venture. Therefore, credit obtained to bridge the gap between consumption needs and income, without any form of increase in household income, leave concerned households worse off logically speaking. The household will pay interest and other charges/fees associated with credit consumption more than what was taken, hence, the income is depleted by that magnitude. Credit in this regard, is therefore an advanced gratification, which could have negative implication for subsequent quality of social reproduction of credit consumers' households.

### *Informal Micro-credit Process*

As indicated above, the major difference between informal micro-credit providers' activities and formal micro-credit providers, apart from registering with the NCR as required by the NCA in order to operate, is the driving forces behind them. While formal micro-credit providers are driven by profit motive, informal micro-credit providers could be driven by profit and/or survival motives. Micro-credit provision was previously dominated by the

informal moneylenders, as the informal sector, often housing poor households were deemed too risky by formal credit providers. The promulgation of the Exemption Notice to Usury Act of 1992 changed the micro-credit landscape in South Africa. It heralded micro-credit provision as a formal institution and segment of the credit market. It means previously informal operators avail the opportunity to be formalised through registration (Daniels, 2004).

Despite the tremendous formalisation of the micro-credit industry in the 1990s to 2000s, fostered by the Exemption to Usury Acts of 1992 and 1999, the practices of the informal micro-credit providers subsists simultaneously with the banks and formal micro-credit providers (Siyongwana, 2004). Siyongwana identified the survival imperative of informal micro-credit activities among black Africans in South Africa. Perhaps, the subsistence of the practice hinges on its survival imperative, regardless of the highly regulated micro-credit industry for the past two decades. Therefore, the treatment of informal micro-credit moneylenders should be viewed from these two perspectives (profit and survival). It is a better organic manifestation, I will argue, of the true nature of social reproduction in a context under consideration.

Unregistered (informal) micro-credit providers, *Mashonisas* are often referred to with derogatory terms such as ‘loan sharks’. Nothing seems to suggest or support this definition from the empirical work of this study. Perhaps, the high interest rate charged by *Mashonisas* could have informed such characterisation. It is argue here that such characterisation failed to take a holistic look at the activities of informal moneylenders. Their imperatives for social reproduction among black African communities are overlooked and the employed tactics of ensuring repayment of their advanced credit is elevated as their dominant characterisation.

The story of one of the informal moneylenders that was interviewed in the course of this study was revealing. It shows that in the treatment of informal moneylenders, issues of profit and survival (social reproduction) cannot be separated and treated simplistically. Therefore, they should be viewed holistically as people making a living within the context of their immediate community in particular and the society at large. If this point of view is adopted, the characteristics of the social reproduction of their households, with regard to income generation and the relationship to their immediate community and the broader society become imperative. In other words, what are the implications of the activities of *Mashonisas*

for the quality of social reproduction of their households, their immediate community and the society at large?

A partial analysis of the implications of the activities of informal moneylenders, is to look at the implications of their activities on their immediate community, in terms of collection of advanced credit, and not when the loan was advanced on the one hand, and the failure to view it as self employment income generating activities for the household of the moneylender. The above interview, which was conceived to talk about the interviewee's activities as an informal moneylender, took us through the trajectory of her life from Eastern Cape to Johannesburg, back to Eastern Cape and eventually to Cape Town. Ma Ntombi (pseudonym) was born into a family of 8 children and grew up in the Eastern Cape. Her father worked as a security man and her mother never worked formally, she sold sweets and 'fat cook' (a local snack made from flour and sugar) from home. Her account of life shows how her attempt at getting a good job was limited by her lack of adequate education. How her getting pregnant at school affected the rest of her life in terms of life choices.

My mother and my father they tried to teach us, you know... they took us to school because they want us to have a future, good future, better future for us. But me I was pregnant. And then that was very difficult for me because my mother said I must stay with my... my baby. And then I stayed with my baby, and then I was struggling. And then I went to Johannesburg for a job, and then I did work at the... at a butchery. And then... and there it was very hard because I was emm... I was not educated for a better job 'ne'? And then I was working for the... for the packing for... for packing the meat. And that was very hard because it is cold. And then... I did leave there and went to work for the... as a domestic worker. And then after that I went back home and left my baby there. At least she was five years then. And then I went back to school again to do the matric. I didn't finish the matric again. I go back to work because that was not... that was hard because my... my parents were old now (okay) and they didn't emm... have fund to take me to school. I tried to go to school but it was hard. And then... because I must rent a house, I must buy food for myself, and then that was very hard (Ma Ntombi: MC 10, P1 – 16/04/2012).

The lack of proper education negatively affected her life choices and chances. Teenage pregnancy compounded her problem and prompted the need to earn income because of the incapacity of her family to support her and her baby. Her search for job took her to Johannesburg, where she worked as meat packer at a butchery and as a domestic worker. She claimed to become asthmatic due to her exposure to severe cold during her time at the butchery. She cannot do too strenuous work due to her asthmatic condition up to date. She went back to Eastern Cape hoping to complete her secondary school education, but had to

drop out of school to work for the second time at a clothing shop. The closing down of the clothing shop prompted her decision to relocate to Cape Town in search of job.

She was able to make the Cape Town trip because her Aunt and sister (both domestic workers) were staying in Cape Town at the time. She agreed to come on the promise of a domestic work job. For her, she was fortunate to take over her sister's domestic work job (she introduced her to her employer) because she was relocating to the Eastern Cape to join her husband. She also inherited the Shelter (temporary accommodation) that her sister was staying at Delft, Cape Town. She managed to furnish the shack gradually and continues to live there because she could not afford to rent a flat from what she earns from her domestic work. She got married in 2005, two years after arriving in Cape Town hoping that her husband will be able to assist. It wasn't easy for them because her husband was working as temporary teacher, because he could not get a permanent job in the Eastern Cape.

She invited her husband to join her in Cape Town to also look for job because things were not going well for him in the Eastern Cape. Her husband was not impressed with her shelter accommodation, whilst he looks for a job. But that was what she could afford with her income because her husband was not working at the time.

And then he saw outside around Cape Town other people that don't have money and stayed in the shelter, and other people that stayed in flats because they have the money, they can afford to stay in the flat. And I said if you have the money you can go and stay in a flat, you can take me and we can go. But I want to eat and I want to wear clothes, where do we get the money for renting a flat because flats are too expensive. And then I want to eat, and then I have a kid at home, I want money for the kid at home; I want to... to send money. But where do you get the money for a flat because now it's not too expensive, this one is only two hundred (R200) per month, this one... I was 'yho'... laugh... oh, that was one thousand per month (ah, okay), yeah, that was one thousand (R1000) per month. And then the house was eight hundred (R800), you see... and the shelter was two hundred (R200). At least I can pay two hundred (R200) for the shelter at the end of the month, I can buy the electricity, I can buy the food, I can take the money for the transport again from there, you see. From that one thousand (R1000) I can take the money for transport, take two hundred (R200) for renting the shelter and the money for the electricity. But if it's a house all the one thousand (R1000) is gone, because it's eight hundred (R800) it's gone. I'm not going to eat, I'm not going to work again, you see? And then I decided to say, no, I'm going to stay in the shelter (Ma Ntombi: MC 10, P6 & 7 – 16/04/2012).



Her husband had no choice but to endure staying in the shelter with her because he had no job at the time. During her stay in the shelter, she was advised by fellow shelter dwellers to apply for RDP house because of her low income. She applied and continues to live in the shelter and waiting for RDP house allocation. Having arrived in Cape Town in 2003, she got housing allocation in April 2011. Moving into the RDP house came with its attending challenges because the house was handed over in uninhabitable state, which requires them to spend some money to put it right for habitation. This is added to the challenge of putting furniture in the allocated RDP house. These challenges marked the beginning of the household incurring debts in order to meet these needs.

After they got the RDP house her husband got a teaching job at Strand, Cape Town. They opted to take credit to furnish and put the necessary outstanding fittings to the house as at when it was handed over. The RDP house was handed over with partial plastering, no painting and tiles. They spent R54, 000 to plaster, tile and paint inside the house, put interlocking blocks on the mini premises and a small fence and gate. They borrow to finance this house improvement with the affordability support provided by her husband's new job. Their debt also included retail goods and clothing credit. This is how she puts it:

This place, it's fifty-four thousand (R54,000)... it's fifty-four thousand (R54,000) because it's the... It's the yard, the... the slabs, the gate and the paving, and the tiles in the house... Hmm... hmm... this is not a real ceiling it's just a... but it's... yeah they make it (they put it) they put it (you got it like this) hmm... hmm... we got it like this. But the plastering... the plastering, the painting, the tiles we did ourselves... They don't plaster, they plaster outside, they don't plaster inside. All of this comes to fifty four thousand (R54,000); the plastering, the tiles, the painting, the paving, the gate and the... the... the yard... Because of that now it's a... it's a... it's hard... it's a little bit hard... We got that... African... African bank... yeah, it's African bank I think so, African bank... That was not only the... the loan. And that was everything for the shops... for our shops... clothing shops (okay), hmm. And then the policies, and then the money was too... too little too much. And then we decided to settle the amount... My husband went to Old Mutual (okay) to settle all the amount and they paid all of that. And then that is why now my husband is paying small money every month because... it's because of the... that settlement and then he pays five thousand (R5000) per month.(to Old Mutual) to Old Mutual (oh, okay), hmm (Ma Ntombi: MC 10, P8 – 16/04/2012).

It seems to me that RDP house are handed over to beneficiaries at different stages of completion. Some of the houses are handed over without ceiling, plastering and without bath. The same was the case with some of my interviewees at Mamelodi Township in the east of

Pretoria, where RDP houses were handed over without bath, floor paving, ceiling and electricity wiring. Some of them are handed over without doors and windows. It seems the concern is to put the brick structure on ground with roof covering. Recipients are expected to complete the rest. What cannot be ascertained, however, is whether this is corruption of the building contractors or government officials or that is how government planned and funded the houses to be delivered?

The RDP house does not reflect the level of crime in Townships in South Africa. Recipients will have to bear the cost of putting burglar bars on the windows and doors if they felt the need. This reality was reflected in some of the interviews conducted with the residents of Delft and Crossroads Townships in Cape Town. The woman *Mashonisa*, whose story is being profiled here got her RDP house allocation in Delft. She said they had to put bars, small fence and gate because they have to think of their security. She and her husband consolidated all their outstanding debt with Old Mutual. My conversation with Henry (pseudonym), a senior employee at Old Mutual in Bellville, Cape Town corroborated her account because it was revealed that ‘debt consolidation’ is their flagship credit product. Henry claims that it could lead to reduction in charges and better management of credit relationship by consolidating several credit accounts into a single credit account.

It was reflected from our conversation that the family operates on extremely tight budget, which any unforeseen event can quickly derail and force a need to borrow money in order to meet-up with their monthly social reproduction needs. The height of strain on their finance need, to cover shortfall in their monthly consumption needs, see them also go to another *Mashonisa* to borrow money when there is an urgent need. She puts the situation thus:

It's not enough because it's not enough... it's not enough for the month because sometimes like... like the electricity, like when the kids are sick because we don't have a medical aid. And then we will go to 'mashonisa' and loaned the money if we don't have the money here. We go to a 'mashonisa' and loaned the money because we must take the kids to the hospital... to the doctor. And sometimes we don't have electricity because we can't buy enough electricity for the whole month. We don't have and then we go to 'mashonisa' or there is something that is an emergency, when we don't have the money in the bank, because we are not keeping money in the bank (oh, okay). Because we pay a lot of money for... for... for the loan, you see that money is for the loan. And then the money coming now is for the... is for the grocery, it's for the transport, it's for... then its finish, there is no money in the bank. We are not keeping

money (savings) for safety sake, say okay for this (okay), hmm. We don't have spare money... the pocket money... ah, we don't have... laugh... (Ma Ntombi: MC 10, P9 – 16/04/2012).

This statement suggests the inadequacy of their disposable income to meet their needs after deducting the amount of monthly instalment for debt repayment. Monthly debt repayment commitment also undermines their ability to save. The lack of savings means that in any case of emergency they have to revert to borrowing from *Mashonisas*. These realities of the challenge on their social reproduction make her seek alternative means of earning additional income to support her family. She resolved to practicing money lending, *Mashonisa*. Even as a practicing *Mashonisa*, she still finds herself having to borrow from other *Mashonisas* in emergency situation. It wasn't an easy decision with regard to her Christian faith. Her church is not in support of her practicing money lending. Her husband is also partially not in support, but she persisted. Ma Ntombi raised the capital for her *Mashonisa* business from the R1000 she earns monthly by working three days a week as a domestic worker. The income from her business is to complement her household income.

The church felt it is not good because it seems like the money is cursed. Even though the loaned money might have helped the borrower when it was taken, they tend not to be happy with the repayment with interest. Her husband is concerned that debtors that refused to pay her back might degenerate into fight that he doesn't like to happen to her, but he is not firm in his position because the money supports the family. She puts it as such:

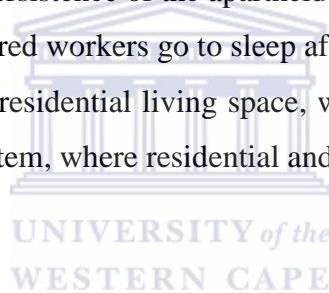
It's not nice for the church because for the church emm... they said the money is very wrong... the money is very wrong... very wrong because when the people bring the money back they're talking too much. Yeah, they can come and borrow the money because their... there is a problem at home or somebody is sick but when they are to bring the money back they talk too much with the money... I'm taking the people's money because I know it is full of curse according to the church... according to the Bible the money from loan is not good if you are child of God... I said okay pastor, if you said so, I'm going to leave it. But I didn't... I didn't because even the Holy Spirit did not shout at me when somebody comes and I have money. You know 'mos' the Holy Spirit is inside you and the Holy Spirit will say no, if you are doing this it is wrong. But the Holy Spirit didn't say to me my child this is wrong. And I'm waiting for the Holy Spirit. When the Holy Spirit tells me this is wrong I can leave... really I will leave (Ma Ntombi: MC 10, P13 – 16/04/2012).

The Holy Bible makes a distinction between lending on usury to brethren (brother), which it forbids and lending to strangers, which it allows (Holy Bible, Deuteronomy 23:19-20).

However, she keeps doing it because of its importance for the social reproduction needs of her family. For her therefore, the driving force behind her decision to start informal money lending is to enhance the quality of social reproduction of her family, by complementing their income with earnings from money lending. She presently works three days a week as a domestic worker, so no matter how small the money that comes in from the *mashonisa* business, it is an additional income.

### *Mashonisa – the Business*

What became very clear in the course of my empirical work for this study, which took me to one Township (Mamelodi) and three Townships (Delft, Crossroads and Khayelitsha) in Pretoria and Cape Town respectively, was that there seems to be limited micro-enterprise opportunities in the Townships. I mean informal business opportunities, to do away with the requirements of registering a business that may be seen as another bottleneck. From my observation and interviews, the persistence of the apartheid residential structure of Townships as where black African and coloured workers go to sleep after a day's work in the city has not changed. They remained strictly residential living space, with little or no attempt to convert them into an integrated living system, where residential and work or business structures are in close proximity.

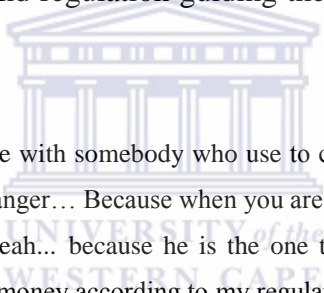


It seems informal business opportunities are limited to taxi, small grocery shop and money lending. Taxi business is capital intensive, so we are left with grocery and informal money lending, which people can do from their residential home. These two informal business activities are linked to the granting of credit for interest income. Informal grocery shops include those that sell alcohol and cooked food. Some of them also have credit book, where they sell to their customers on credit up to certain amount of money. I came across such a case in Mamelodi, where one of the interviewee operates such shop from her shack (home). She has a book for her credit customer, where they pick items up to certain amount and they pay her at the end of the month. Another case in point is one of my contacts at Delft that buys meat from big retail supermarkets in town and mark-up to sell in piece meal at Delft.

Informal money lending therefore, becomes an attractive option to make money in Townships. There are instances, where people earning very low income, such as Ma Ntombi use it to complement their income and people that do it as the only source of income. Some retired residents use their gratuity to start informal money lending business. They are quite

aware that what they are doing is defined as illegal, and are therefore careful in accepting potential credit consumers as customer. They only work with people they know around their neighbourhood and/or on strict referral basis. They do not do business with anyone, unless their existing customers refer the person and agree to stand as guarantor, should the person default with his/her repayment. A customer without good repayment record cannot refer a potential customer. Therefore, the credit record of the referee is imperative for the referred person to be considered for loan.

The referee must sign the *Mashonisas'* paper that he or she will pay the loan plus interest, if the referred borrower defaults. Referral in this case means that both the referee and the referred persons must visit the *Mashonisa* together before the transaction can be consummated. When the referral has been settled and the *Mashonisa* has agreed to grant the loan, the terms and conditions of the loan will be communicated to the intending borrower. We can call it an informal rules and regulation guiding the informal credit relationship. This is how Ma Ntombi puts it:



I will say to them that you must come with somebody who use to come to me to borrow money. I don't want you alone because you are a stranger... Because when you are not paying the money the person that brought you must pay the money, yeah... because he is the one that brought you to me... I gave the people emm... I gave the people my money according to my regulations, you see. I will say you can take my money if you will keep to these regulations, I have written it down (okay). If you want to take this money you can read this (Ma Ntombi: MC 10, P10 – 16/04/2012).

This referral was confirmed by Ma Thembi, another woman *Mashonisa* at Delft when she said:

I only give money to the people who are staying here around the neighbourhood in my area. If it is someone I don't know, that person must come with someone that I know who use to borrow money from me, and then I can give that person. But I do write down the details of the people owing me and the amount they owe. After a while I know those who pay back their debt very well and on time and I know those that are not good with repayment. So I can identify good payers and bad payers. But at the end of the day the bad payers will eventually pay-up their accounts too (Ma Thembi: MC 13, P9 – 12/05/2012).

An important requirement for granting credit is that the credit applicant must be working or he/she is a pensioner or a social grant beneficiary. Though they don't ask for bank statement and pay slips, they are people they know in the neighbourhood. Pensioners on the other hand

have a card to confirm their claim in addition to the fact that they also know them in the neighbourhood. They seem to prefer pensioners because of the stability of their income and because they are matured and more reliable than young people.

They are the people that are working and old people, then pensioners. The people I like are the pensioners because they are honest... they are honest. If they say they will bring the money on the pay day, they do bring it. But the people that... the younger people are not honest because they will give you back one hundred rand if they borrow one hundred and they will not pay that forty rand for a long time (Ma Ntombi: MC 10, P10 – 16/04/2012).

I lend out money to people who are working, men and women. Emm... unless they are getting government grant in the form of emm... Child Support Grant... and old age grant... sometimes they will tell me when they come to borrow the money that they want it to buy something to cook and eat, they want the money to pay for transport to go to work the following week, or to buy electricity (Ma Thembi: MC 13, P12 – 12/05/2012).

After clarifying the referral and the rules and regulation for borrowing from a *Mashonisa* the credit granting process is completed before the money is disbursed. *Mashonisas* keep record and transaction book, where they record the customers and transaction details. The original national identity documents of customers are required in order to record their name and identity number. They will record the residential address of the customers. This is important if there is a need to go to customers' house to demand payment. This book also detail when payment for the loan and interest is due. At times, *Mashonisas* accept household goods such as Television for security when they don't know or trust the borrower very well. Such goods are sold to recover their capital and interest if the borrower fails to repay the loan with accrued interest for a sustained period of time.

Loans from *Mashonisas* are typically granted for a month at a flat interest rate of 40% to 50%. Interest are not calculated in pro-rata even when repayment is made before the one month due date. The practice is such that if you take a loan today and pay it tomorrow, it has to be with the full flat interest amount like a person repaying the loan in 30 days will pay. A *Mashonisa* expects to be paid back with interest at the end of the 30 day period, even if the customer wants a rollover of the credit. They are sensitive to the fact that when the interest accrues for a long time debtors might struggle to repay them. Customers are at times resistant when they default in repayment because they know that it is not a legal business, hence



*Mashonisas* cannot take any legal action against them. At times, they have to threaten such customers to get repayment. Force becomes their only option since they cannot take a legal action against a debtor. This is how Ma Ntombi and Ma Thembi put it:

There are other people that are very, very hard, you must go there and opened your eyes saying... you must change your face; you must have a long face... If the money keeps going up and the person is not paying, you must go there and open your eyes and say that I'm going to take your TV for one hundred and forty... I'm going to sell this TV for one hundred and forty. I'm going to take this TV and I'm going to keep this TV in my house and you can collect the TV back when you pay. And if you are not collecting the TV by paying me I'm going to sell it for one hundred and forty rand, there is no problem (Ma Ntombi: MC 10, P12 – 16/04/2012).

I don't fight with them, but I will tell them that this money that you are making me to struggle for is my children's money. But if you don't want to give it to me, then it's fine, keep it... Emm... it's not like they don't pay me at all because even though I will talk to them and say you know you are making me to struggle because this is my children's money. But they will eventually pay me... maybe they will take like two months or three months to pay me. But it's not many people, maybe two or three people who did not pay me when they are supposed to pay (Ma Thembi: MC 13, P9 – 12/05/2012).

Perhaps this aspect of forcing repayment through seizing of debtors' household goods prompts the negative view of *Mashonisas*. This point of view was not emphasised in this study. These are old women, who are not capable of removing the knee caps of debtors as anecdotal accounts of informal money lending will suggest. When this aspect of forcing repayment because they cannot access the law to enforce repayment is treated in isolation, negative view of informal moneylenders is inevitable. We are talking of people that neighbours can knock on their door to borrow R100 for transport to work the following day, when they are stranded, or to buy prepaid electricity when their units is out suddenly, when they don't have money or when they don't have food to eat.

They (*Mashonisas*) remain important for their own and their community's social reproduction. They, at times, get into the business because of their own low wage, and their customers are often driven by a need to meet some of their needs due to low income. The amount of loan they give range from R100 to R500 maximum. But there are instances, where lower amounts are requested. Most of the customers borrow R100, whether accumulated in piece meal or in lump sum. R1,000 loan are rarely given because very few *Mashonisas* can afford to give a single person that amount of loan. Also, they felt they rather give several

people small amount than risk giving a big amount to a single person that may default. There is a strong feeling that, since they lend for a single month their client base can rarely afford to take out R1000 plus interest of R400 from their monthly income and survive for the next month.

However, credit consumption is a two-edge sword that could dispense positive and negative effects in a mutually embedded fashion. The credits that they give so that people can go to work and not lose their job or to buy prepaid electricity are on the positive on the one side. On the other side, people are perpetually locked in debt and interest repayment, when their income will not increase at the rate of their indebtedness in a long time. Credit agreement entered into, out of desperation to meet urgent needs might dispense more negative than positives, compared to the one entered into out of choice. One of the subtle effects of poverty or low income, is the limitation of choices in all aspects of concerned people's life (Novak, 1996). People are, at times, compelled to take credit out of desperation, because they have no alternative means of meeting their needs.

#### *Informal Money Lending as Savings*

Ma Thembi also went into informal money lending because of the meagre income she earns, when she relocated from Port Elizabeth in the Eastern Cape to Cape Town. She decided to relocate to Cape Town, after separation will not stop her husband from abusing her and the fact that she lost her job at the time. On getting to Cape Town, she worked as a sleep-in domestic worker from 1996 to 2009 earning R250 per month. After losing the domestic work job in 2009, she got a job at a Scrap Yard, where they recycle paper to date. The contract is renewed every six months. Her starting wage was R120 a week, and it was increased to R399 a week as at January 2011. Apart from her responsibility to support her family, informal money lending is seen as a means of saving-up money to go home to Eastern Cape in December.

I also started to lend money out last year because when I looked at this money I thought okay this is small money that I am getting, so I might as well do something to gain more money on this so that when I go home I can be able to make a grocer and to... so that when I go home for holidays I can have money to spend over there when I go home and to make groceries for the people that are there... From that three hundred and ninety-nine rand (R399) a week what I do is I deduct one hundred and fifty rand and it make plus or minus six hundred rand a month. And from that six hundred rand a month I started to lend money out to the people so that when they repay me back it is with interest. So from the little money I have I

still had to support my child, this one who is married. Sometimes when she ask me for money I must give her money, even the one in Eastern Cape I must send money to him. So it is sustaining me in terms of buying food, but when it come to clothing, furniture, it is difficult... it's difficult (Ma Thembi: MC 13, R6 – 12/05/2012).

Her situation is an association of *Mashonisas*, where they instil discipline to the way they lend out money and collect their money with interest without fail. Any member that fails to collect advanced money with interest as at when due, will have to cover it with his/her personal money or pay penalty to the association. Each member has a sort of a purse with the association, which they opened with a minimum of R200 because the balance that must be left in the trading purse, through the course of the year is R100. The members can trade with any amount above R100 that must be left in their purse. It is expected that each member will trade with his/her money by loaning it out for an interest of 40% flat per month. The intention is to grow the purse in anticipation of a payout in November.

Members will continue to contribute monthly into their purse throughout the year to also grow the available amount to trade with, as the purse is grown with interest income on credit advanced. This association therefore, is a mixture of savings and informal money lending business, to grow the savings of the members for a pay-out at the end of the year. The association meets once a week every Sunday afternoon, when due loan repayments are brought in and credit requests are collected by members. Cash balances after setting off loan collection with new credit advance is deposited in the bank account opened by the association. Therefore, for each member's, like Ma Thembi, customers must inform her of their credit request before Sunday so that when she attends the meeting on Sunday she can collect the requested credit. Hence, credit disbursement happens on Sunday evenings, except in situation where she has the cash at home.

It's a way of trying to help people to save and make more from their savings. So it is an informal way of saving and getting interest on their savings. So if a person uses the money, that will be his or her own problem. Many people are earning very low income therefore, they get involved in this. People that are earning a bit more also do it because they've got certain things that they want to achieve at the end of the year. Many people rather struggle through the year... stay without food because they have goals like buying some things in December. Also, because many of the people that are in Cape Town still have to go back to Eastern Cape. Many of them came to Cape Town to work in order to sustain and support the family back home in Eastern Cape. And when they go back home, the people back home are expecting that they must have money, they must have this and that, you know. So they would work here in Cape

Town during the year, do the thrift and money lending thing to save-up money (Ma Thembi: MC 13, P11 – 12/05/2012).

As indicated above, informal money lending is used in conjunction with savings and as a way of growing savings to meet set needs. The association instils discipline to save and grow the savings, through informal money lending, at the same time. This is an indication of the prevalence of need for credit, due to low income and the depth the informal money lending business is taking among black Africans and coloured South Africans living in Townships. Informal money lending activities however, is not limited to Townships, it permeate other social spaces within the South African society. A woman told me of how a *Moshonisa*, was introduced to them by a work colleague in Groenkloof, Pretoria. The *Mashonisa* visit them at their place of work to effect the credit transaction.

Informal money lending therefore is a clear indication of when a particular social practice is enshrined in normal day-to-day social relations in its different guise, though the government might be averse to its practices and its effects on unsuspecting credit consumers. This remains an uninformed approach that thinks, an enshrined social practice will disappear, because recent legislation renders it illegal. It is not the supply of informal micro-credit that drives its demand and consumption; it is the other way around. The focus therefore, should be targeted at the drivers of demand for informal micro-credit, which is rooted in social relations of social reproduction, I will argue. The persistence of survival gap in social reproduction will continue to drive the demand and consumption of formal and informal micro-credit. People will make their choice between formal and informal micro-credit, depending on their social location in terms of what they have access to.

Micro-credit for private consumption will thrive in a society that has no other means of dealing with the survival gap in social reproduction. Individual agency at filling this gap is expressed in the consumption of micro-credit. The alternative response is a collective response in the form of social policy. The absence of collective response, is partly accountable for the prevalence of individual response that we see in the mushrooming of micro-credit institutions in the South African context. As indicated earlier, informal micro-credit providers driven by profit motive will also thrive when the condition is right. The pervasiveness of this practice is supported by the case of William, a library worker in one of the tertiary institutions in Cape Town that also do informal money lending. This case is a

reflection of profit motive to service identified needs and opportunity around him (work colleagues). His motivation for money lending business was put as such:

I started doing this business since 2000. And if I will not lie to you I have about 70,000 invested in it at a point. What I observed was that there was a need because people continue to borrow money from each other and from me. One person may borrow money from several people. I thought I could provide a consolidation by being the only person that people borrow money from and they don't have to borrow money from several persons. What I did was to first lend people money without requesting for an interest. When they are paying back I will tell them that I can borrow you money, but you have to pay me an interest of 20% per month. That was how people started coming to me to borrow money as the words spread around that I am lending money to people at the rate of 20% interest per month. The patronage grew because other people were lending at an interest of 30%, 35% or even 40% at the time. Most people that started lending other people money at the time at higher interest rates folded up after few months, but I am still here lending money after several years. The important thing for this success is that I keep my interest rate constant at 20% after all these years since I have started (William: MC 9, P1 – 07/12/2011).

This interviewee keeps his business within the institution, and the core of his clients is permanently employed staff. He loans out a maximum of R1,000 and his knowledge of when salary is paid and shaming of debtors is used to ensure repayment of advanced credit. He cares less about the negative view of informal money lenders because people have needs, he can provide the need, and therefore, they must pay him interest for his trouble.

It doesn't concern me, people come to me when they need money and I lend them the money. When they are paying back, they must pay back with my interest. You will be surprised; it is not only people that earn little money that borrow money from me. The professional also borrow money from me (which professionals)? The lecturers, academics also borrow money from me. If they need money for something urgently they also come to me to lend them money. Most of the people that borrow always want to borrow again when they are repaying my money with interest. But I always like to collect my money back - hold my money – before giving it out again. I always tell them to come in two or three days time, if they wanted to borrow the money again. And they will come back after the two to three days to borrow the money again... There are times when people borrow money to pay up other debts that they cannot meet-up with the repayment deadline (William: MC 9, P3 – 07/12/2011).

It is clear that the driving force here is profit, but that does not preclude the obvious identified needs. Credit consumption is persistent because his customers are recurring, an indication of people trapped in debt cycle. I did indicate that debt affordability and meeting up with repayment instalment does not preclude concerned credit consumers from the debt trap. The

conditions of their debt trap may however, be considered to be different from those who are trapped, and are unable to meet up with their repayment obligation. The description of the activities of micro-credit institutions only covers half of the story, the other half is to see how the realities of social reproduction of households opens up space for the pervasiveness of this kind of social practices. This is what I consider in the next Chapter.





## Chapter 7

### Micro-Credit in Social Reproduction - Analysis and Synthesis of Data 2

#### 7.0 Introduction

Chapter 6 detailed the credit granting process, from when a potential credit customer walks into the office of a micro-credit provider, until the amount borrowed is fully repaid with associated costs or charges. The empirical consideration of the formal and the informal credit granting process, shows that a clear distinction can be made between credit provision driven by market gap and profit motive and credit provision driven by survival motive, the need to augment low wages (see Chapter 4). The variant of the latter case is a situation, where credit is provided in a disciplined association with a view to drive increase in savings.

The description of the credit granting process shows the impetus for credit provision on the supply side of the scale. Credit providers have little or no concern for the implications of credit consumption for the concerned households. Therefore, they navigate the South African credit industry (context) with a view to satisfying their own vested interests. The intention here is to take the consideration of the empirical data further to the demand side of the scale. The questions that speak to the data gathered in this study are; what prompt the demand and consumption of credit on the one hand, and what are the consequences for concerned households on the other hand?

Answers to these questions were sought by looking at the experiences of social reproduction of households that live in 'precarious prosperity' within 'poverty range'. They work and earn income, which might reproduce them at a low quality of social reproduction with constrained capability. They are therefore, likely to consume micro-credit to bridge the gap between their income and their consumption needs for social reproduction, in the absence of a comprehensive collective consumption in the form of social policy.

To reiterate, the drive to consume credit resides in the households and it precedes the credit granting process. The effects of credit consumption on households starts from when the principal credit amount is disbursed to credit applicants, through when they finish repaying the credit with associated costs. The interaction between micro-credit providing institutions and credit consuming households can be considered at the four stages of the credit granting process of application, evaluation and approval, disbursement and repayment. The effects of

the interaction on the quality of social reproduction of households are more pronounced at the disbursement and repayment stages.

The key themes or categories that emerged from the description of the credit granting process and activities of micro-credit institutions are affordability, reckless lending, over-indebtedness, credit history, debt trap, employment/pension/grant, cost of credit and repayment instalment. What was not mentioned or given credence in the credit granting process, is the purpose for which credits are requested and granted. Hence, affordability is at the core of the credit granting process. It seems discounting the imperative of the purpose for credit consumption, misses out on the opportunity for the credit consumption system to inform social policy. Also, the conflation of cost of credit with repayment instalment means that households are deprived of taking well-informed decision about credit consumption. These gaps and the likes will be engaged in this Chapter.

### **7.1 Social Reproduction of Households and Micro-credit Institution**

The discourse of poverty have been variously conceptualised (see Chapter 2) at different levels of analysis (group, national regional, continental and global). The smallest units of analysis remain the individuals and household and other levels of analysis feeds into these. A society that is viewed as poor does not imply that all the inhabitants of such society are poor; rather we speak of the proportion of the individuals and households that are poor in such a society. This speaks to the conception of the measurement of poverty, to determine the proportion of a society that is poor in absolute and relative terms at least. The problem of definition therefore, remains contested because of attempt to be definite with the definition and measurement of poverty.

I will argue that most of the dominant conception and measurement of poverty (such as poverty line for example) are a bit guilty of conceiving social relation, as an event rather than a process. The problem is that substantial proportion of the population continues to swing below and above the poverty line, no matter where the line is drawn. Perhaps, we should talk of 'poverty range' (using the metaphor of a pendulum) rather than poverty line to reflect continuity in social relations as a process. This range perhaps, can be conceptually captured not by the notion of poverty as we continue to do. The term 'quality of social reproduction' reflects process and range or continuum that poverty does not suggests a static position, that social reproduction has come to a halt. Rather it speaks to the nature or quality of social

reproduction as a continuous process. This resonates with Sen' (1993; 1999) conception of viewing poverty as capability deprivation and 'precarious prosperity' (Hübingers,1996, cited in Budowski *et al*, 2010) (see Chapter 4).

A static position such as line does not reflect the volatility of social process, and it is informed by a particular notion of household and/or family. The empirical data shows that there is clear demarcation between households and/or family. One of my interviewees' took out a loan in order to pay his son's university registration fee from an informal money lender and her younger sister had to pay back the loan because she doesn't have the means to pay back for example. This kind of extended and communal deployment of resources for social reproduction may misrepresent a household as not poor on paper, while it is poor in reality because of the dependence of extended relations.

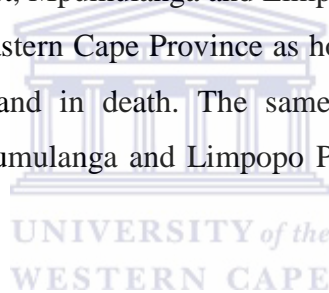
Therefore, the conception of poverty based on individual and household units and over-emphasis on counting the poor, might obscure important characteristics of poverty rooted in the nature of the social context under review. The view of poverty from the perspective of the 'quality of social reproduction' in this study, therefore, leaves room for engagement with social practices that might improve or undermine the quality of social reproduction (social arrangements or institutions that enhance or undermine capabilities). While the level of income and expenditure is an important determinant of the quality of social reproduction, it will be a reductionist approach to limit the analysis of poverty (quality of social reproduction in this case) to these two variables, when there are other contextually important social institutions and practices that may be of relevance. The particular case of the implications of micro-credit institution for quality of social reproduction is the focus of this study. The intervening variables and/or institutions that affect the conversion of income to functionings, is important in this regard, as Sen (1997) pointed out in his conceptual distinction between income inequality and economic inequality (see Chapter 4).

In order to understand the quality of social reproduction in the South African context, the interviews for this study takes an historical conversation approach. The experiences of growing up, such as the social position of a person's parent, and available opportunities could have important effect on the current quality of social reproduction. Also crucial in this regard, are the structures of individual and social consumptions and how the South African society responds to survival gap in social reproduction. These are all important factors that contribute

to “individual advantages” that affects “capability set” and the conversion of income and other resources to “functioning achievements” (Sen, 1999; see Chapter 4). The mode of response could have crucial implications for the prevailing quality of social reproduction. The interviews take a broad approach to social reproduction and not limited to questions around income and expenditure to uncover the experiences of day-to-day living.

### ***7.1.1 The Characteristics of Social Reproduction***

As indicated in Chapter 3, interviewees for this study were drawn primarily from Pretoria and Cape Town, in Gauteng and Western Cape Provinces of South Africa respectively. Gauteng and Western Cape have the highest numbers of credit agreements in the country (Chapter 5), the case of access coinciding with relevance and opportunity to learn about the phenomenon of study (Chapter 3). The geography of the interviews however, transcends the boundaries of these cities. Experiences of social reproduction feature different parts of Eastern Cape extensively, as well as North West, Mpumalanga and Limpopo Provinces. It shows that some households in Cape Town see Eastern Cape Province as home and they still maintain strong ties with the province in life and in death. The same goes for Pretoria, where some households see North West, Mpumalanga and Limpopo Provinces as home and Pretoria as economic outpost.



This might be a reflection of the apartheid history of the country (Chapter 4). Why the political and legislative landscapes have changed since the inception of democracy in 1994, the mould of social living has witnessed little structural transformation, I will argue. The empirical data from this study reveals the generation of parents of my interviewees migrated from different parts of Eastern Cape to Cape Town in particular and other parts of Western Cape in general to pick-up jobs, as domestic servants and farm workers. Their children situation on the other hand has been slightly improved because they are working as domestic workers, factory worker, retail shop attendants, tellers and clerical work generally. There were strong indications that the matric qualification of these people were interrupted by issues such as lack of financial resources and the need to work and contribute to their family maintenance. Other issues are teenage pregnancy that interrupts education and outright lack of interest in education. This is how Ma Thuli (pseudonym) who works at the Delft library shared her experience. Her mother left for Cape Town to work after her divorce. She and her sibling later joined her.

I was born in Transkei, I've got a sister [and] a brother. My mother divorced, I think when I was still young, 2 years old. My father married another woman (okay). Then I started staying with my mother, me, my brother and my sister, the three of us children are now depending on my mother (okay). My father stays in Transkei with another wife (okay)... I started school there in Transkei and started staying with my grandmother. My mother came to Cape Town to work so that we can get something to feed and for dresses. After that, while, staying with my grandmother I started standard 7, then my grandmother passed away. Me and my sister and my brother were then staying alone then before my mother sister took us in... After finishing my matric in Transkei I and my sister came here to Cape Town to come and stay with my mother because we are struggling... my sister fell pregnant and had a child, then both of us and my brother came here to stay with my mother in Crossroad (Ma Thuli: SR 18, P1&2 – 09/07/2011).

Phumi, a single mother of two, also migrated from the Eastern Cape to Cape Town. She was raised by her grandmother because her mother was away to Worcester, Western Cape to work as a domestic worker, while her father worked on a farm. She became pregnant when she was supposed to progress with her education. She said the disruption was not a good experience:

My mother was doing... you know Worcester is just here in Western Cape. She was... my mother was working for the owner of a farm, she was... yeah, working in the house. And my father was working in the... they said is emm... grape vines, yeah, they were yeah, working there... I'm surviving because I'm working and emm... having two children for me it was not, I mean I'm the only parent for my kids. So I... to be able to survive I must make sure that I've got what I want, then get what they want. And with the salary that I'm getting I must make sure. At least now that I see... because we are also having extended family, we must also give something to our family. So currently I'm staying in the area in Delft and with my sister and my son. The other one is still in Jo'burg, working there, the elder one. The younger one is doing grade 11, and emm... I'm not married... Huh you know I will never encourage people to have children at an early stage because that time you don't know what to do... When you are old you'll think ah... maybe if I had these kids while I was married maybe the situation was going to be better. There are so many challenges, and mind you I couldn't go to my parents because I did that while my parent was sending me to school and then I denied myself going to school. So for me it was a big challenge... I had to leave some more important things to just look after, you know, the children. So it's not a nice experience. (Phumi: SR 17, P1, 2 – 09/07/2011).

Work is often the pull factor that draws people from the Eastern Cape to Cape Town. Once one relation is there, it becomes easy for others to follow. The experience of Mr. Ahmed (pseudonym), a 56 year old, who lives in Delft, Cape Town with his wife and four children was worrying. The family of six lives on his disability grant and child support grant for two of his children. The family effectively lives on about R1,700 because his wife and two

children, who dropped out of school to support the family by getting a job are all unemployed.

No, not matric, one was standard 6, the other one was in standard 7, you see. And also because they needed stuffs for the school, books and all that, we can't, you see, like handle it all men. And they decided on their own, we didn't take them out of school. They decided on their own, Mummy, Daddy we can't struggle like this, we are 'gonna' take that burden from you, we rather not go to school, you see. But now we've got that other one... that girl that is lying there, she is also in high school now. Okay, we can handle her now because she is the only one that is in high school now and the other one is still in primary school. So, as I said, the money my wife gets for them, that we still use for them, for their school stuffs and that, but me I must cater for the house and so, you see... Okay it was their decision to leave school, but up till today they are at home, they can't find work, they are throwing CVs, no work. So what can I do, I must emm... battle my battle, you see... The two small ones that goes to school... they must be in school every day, they must have a school uniform, they must have their school equipment, the pencils, books and all that stuffs, you see. We can't manage all that with the little money. You see. Okay, I'm not ungrateful, but what we can do, we do with the money, you see. But for me to be live like this, I don't feel like living like this, men. (Mr. Ahmed: SR 19, P1, 7 - 09/07/2011).

Mr. Ahmed's situation is a case of capability deprivation, which in turn undermines capability enhancement for the future generation. When children drop out of school and cannot find job, their advantage is further limited. Mpho (pseudonym), who also work at Delft Library, also indicated that she migrated to Cape Town from Gwali in Eastern Cape. She recollects how the family struggle with meeting their consumption needs, while she was growing up.

I'm from Eastern Cape from the village called Gwali, that's the name of the place. I'm the youngest at home, we are 5, family of 5. It's me, my 3 elder brothers, and my sister... My father oh! I was just... my mother was still pregnant when my father passed away... one month pregnant. But all that time we were surviving with my mother, trying by all means, you know, we were still very young, even my brothers were teenagers... My mother, 'yoh', my mother used to work as a domestic worker when I was still young. I remember when I was about 3 or 5 years, I can remember she was still working as a domestic worker somewhere for white people. I don't know if it was a farm really, but I don't want to lie. But there was a house and then she use to work there. She comes back at lunch time for us because me and my sister. I was still 4 years and my sister was 8. So that's how we were surviving on that. My brothers were still at school staying there by her sister at the other place, what was that place, Stalara. My other two brothers were staying with her family, the uncles, because she couldn't afford anything... It was a big problem at that time we wanted to go to school. Oh! she wasn't managing I'm telling you, you know... Because I remember there was one lady in that village we were staying, she was a teacher, you



know 'mos' when you are young then teacher can see... she can see her students, hmm, this one is suffering, this one... So she used to say sometimes okay tell your mother I can pay your school fees. That thing started from my sister (Mpho: SR 20, P1,2 – 12/07/2011).

Getting education for Mpho and her siblings was difficult because what her mother was earning as a domestic worker was not enough to support the family. Some of her sibling had to live with extended family members. The capability deprivation of growing up for her was similar to what other households experienced. The bright spot is the value of care and empathy showed by her teacher, by paying for her tuition fees, when her mother could not afford it.

In a similar vein the in-migration to Pretoria in Gauteng from Mpumulanga, North West, and Limpopo see a slight elevation from parents work as domestic and mine workers to their children working as domestic workers, retail store attendants and tellers, bank tellers (often subcontracted), security and general clerical work. There are also cases of disruption in processes of securing matric qualification. Funding and teenage pregnancy are also important in this regard. It seems matric qualification is being elevated as the pinnacle of education attainment, and there is limited drive for tertiary education. Perhaps this could be accountable for the type of jobs that are accessible to them. Like one of my interviewees suggests that petrol attendant (her job) and similar jobs is what a matric qualification could get her. The exception to this trend are people with political connection that are more likely to secure government appointments. This sentiment came through my interview conversations. This is how Tumi, who is a petrol attendant at Groenkloof, Pretoria accounts for how without education above matric level, it is difficult to secure a better job. She dropped out of nursing school because she had a child, while she was in high school and the family could not afford it, plus the guilt she felt that she must also work to support her child.

Oh! My mother was working as a domestic (worker), my step-father is working at the military... Not exactly, he is like cleaning there, they are cleaning there. He's working at the cleaning company that is cleaning there... Oh, I started schooling in 1983, when I started, and then I finished school in 1997 because there was a break-up somewhere. I had a child when I was young and then I finished my school in 1997 'ne'. Then I went to a college here... somewhere in town (Pretoria Central Business District). I was doing nursing, something like basic nursing. I didn't finish because of the money, and then in... 2002 I was hired here, to work here... I tried to look for another job, but since you know that if you don't have qualification where are you going to look for another job... Yeah, but these days you

know that a matric doesn't work. If you've got a matric, then you have to work here... put petrol. I know if you have emm... go to the office or somewhere where they need computer and stuff like that. But with matric you just work here, put petrol in cars (Tumi: SR 6, P3, 12 – 21/03/2011).

The lack of advantage that defines interviewees' accounts of growing-up, is not an attempt to discount the achievement of people that progressed, in view of particularities of the context to acquire tertiary education with positive impact on their quality of social reproduction. Children of my interviewees that were able to get tertiary education were able to get jobs that bring some relief to their households. However, there are instances of what I will call 'Township insulation', where getting education does not necessarily open doors of opportunity for the children of Township residents. It was indicated in this study that the younger generation are unmotivated to pursue education to tertiary level, because those that did in their neighbourhood are unemployed. This lack of improved quality of social reproduction does not encourage others to follow the same path. Township residents with tertiary education struggle with lack of communication with regard to access to internet and appropriate references that could facilitate securing good jobs. An interviewee, who has never worked in her life, got a diploma at UNISA, finds it difficult to motivate her children to take education seriously because of her unemployment status. Two of her children dropped out of high school.

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Lerato (pseudonym), who grew up in Limpopo, but came to join her husband in Pretoria (Mamelodi Township) after marriage, has never worked in her life. After completing her matric in Limpopo, she got a diploma in adult education from the University of South Africa (UNISA), which was paid for by her husband. She is of the view that her lack of job discouraged her children, who dropped out of high school when they were pregnant, from going back to school. Only her husband works, as a driver at Pick n Pay retail store, in the household to support his wife, children and grand-children that get child support grants. In her words:

My children are not going to school, they are staying here at home... but I try to push them to the school. Only one is going to school, the other four are not going to school (why), others didn't pass their matric, others have completed, but they are just only left with few marks to complete matric, so I am going to take their certificate and go to UNISA maybe they can get an exemption, hmm... Two are finished... two of them are finished, the other two are not finished, but they finished grade 11. They don't want to go back and complete it... I want to send them there, FET Colleges, yes... I want to send them there maybe

they can do something so that they can survive... Lack of job cause young generation [do] not to go to school, yes (how), because they see others that are educated but they don't have job. Like that lady, she is educated but she is not working, so how can other people be motivated. No one will like to live like her because she's educated but she is not working. But if she is working and she is driving a car, 'hu', all the people will say 'hu'... I want to go to school and look like that lady because she is driving her own car. Like me, I'm not working; I want to motivate my children to go to school, but because I'm not working they say no, she took money and pay the money because she went to the university and pay a lot of money but she's not working, you see... They don't say that to me, but I see that they are not motivated. But if I am working and come here driving my own car, 'hu'... they will say I'm going to go to school like my mama, and like my mummy buy a car... that is why I said they must create jobs for us, so that young generation must see how other people are living and go to school. They like to have nice things, but they don't see someone who is having a nice thing whether he's educated or not he just go to the train and travel with the train. But if you use your own car, ah... they will like you... (laugh)... yes (Lerato: SR 30, P4, 14 – 06/09/2011).

The income of households interviewed for this study ranges from R1, 500 (a machine operator at a biscuit factory in Silverton, Pretoria) to R12, 300 (a supervisor at Delft Library, Cape Town). There are instances, where a wife doesn't know the amount the husband earns. An example is a woman, whose husband and business partners are involved in Taxi business. There are single and double earner households. Single earner households are often the manifestation of unemployment and single parenthood. The extreme case is households, in which none of the members earns an income, but depends on social transfer (grants). A case in point is a six member household (husband, wife and four children) that survives on one disability grant and two child support grants (CSG) (This is Mr. Ahmed that was mentioned above). The households covered in this study live in townships and rural areas, where they commute to the city centre to work. The residential locale is informed by income level. A look at the income range of these households shows that they cannot afford to live in the city centre and suburbs, where a two bedroom flat rent might range between R5,000 and R8,000 depending on location. Mr. Ahmed's account of absolute dependence on social grants:

I don't work... Is like a social grant... disability, yeah. So it's R1,114 per month... No she is not working you can see, that day... that day you were here she was at home. We are both... we are not working. Okay she also gets money for the two children, you see. But R500... yeah... But as long as they at home we can't just survive on the grant, the same like a pension, the same money like a pensioner, you see. How can we survive with that money, you see. Nobody works, is only your money that must go in. That money that my wife gets for the children that she must use like pay school fees, you see, to buy the basic stuffs that are need at school. They must have something to eat in the mornings also,

they need shoes, they need clothes from that five hundred rand, you see man. So how can we survive?  
(Mr. Ahmed: SR 19, P3, 6 – 09/07/2011).

The case of Mr. Ahmed does not reflect any disincentive to work because of social grant benefit. Every end of the month, when the grants are paid, they use part of the money to buy ingredients for making doughnuts. His wife, who has catering experience, makes donuts and he sells the doughnuts from door-to-door in their neighbourhood. His wife also cleans someone's house every Monday to make little money:

But every Monday she goes, she go and do like house cleaning all day just to get something so that we can carry on, you see. Okay sometimes it helps, like Sundays she makes some doughnuts, and I'll go and sell the doughnuts, also to have something to go on. But that money also, like I go this morning, I go with the doughnuts, right. She must buy this and that and that. That hundred or hundred and fifty that you make from the doughnut it just goes to the shopping again... Like, okay I get paid now on Monday 'mos', the first. When was it, the first was last week, yeah, I get paid. Okay, I bought her flour and stuffs, right, that is for this week. Tomorrow is Sunday, I don't know maybe she will start with the doughnuts... make it... tomorrow morning get up 6 o'clock, finish the doughnuts, then 7 o'clock, 8 o'clock I get up, I'll go and sell it to the people here, houses, door to door... Yeah some of the people know me 'mos', I'll go straight to those people that buy every week. Sometimes every week, sometimes every second week, it's how the money is, you see. Sometimes I haven't got money to buy the flour, butter, you know it's a lot of stuffs, and she can't buy, then I'll say okay leave it mama, you see. But now, okay, she's got the money and she's got the flour and got the stuff, and she makes the doughnuts and I'll go and sell. So those people I go to, I'll go and sell it, they know me already, you see. (Mr. Ahmed: SR 19, P8, 11, 12 – 09/07/2011).

Similar to the case of Mr. Ahmed, Mr. Hendricks (who is disabled due to accident when he was a boy), his wife and three children also live on disability grant since his wife lost her job in a clothing factory about 10 years ago. This was before his two daughters got married. From our conversation, it seems the daughter opted for early marriage due to the challenge in the family. One of them (financed by Mustadafin Foundation) dropped out of university to get married.

I now get a disability grant, but on merit now for almost 22 years... I've got 2 daughters and a son. But emm... before, when the other 2 daughter were in the house it was very hectic, you see. Because why, before my wife didn't get disability grant when she lost her job about 9 years ago she was getting sick in her mind, she was getting sick here in her mind, and then 5 times till now she was getting sick. 3 times she was in Stirkland Hospital for treatment... but the doctors said they can do nothing, there is... she will

die with the sickness. There isn't a cure...I haven't got... I can't give him a thousand rand like that, you see. And he is getting also money there... from the government, two fifty, two sixty rand Child Support Grant, yeah... She gets one thousand one hundred and sixty, I get one thousand one hundred and sixty, he's getting two sixty. Now that money you know, you know for someone, it looks like someone hey, it's almost emm... three and half thousand rand together, you know. But mind you, in the second week, we are in the third week there is no more money (Mr. Hendricks: SR 16, P9 – 07/07/2011).

Mr. Hendricks accounted that things are a bit better now that his two daughters are married and out of the house. It was much more difficult, when the whole household had to depend on his disability grant alone for about 3 years that his first daughter opted to go and work.

Now is not so hard for me anymore, you know. You know my friend when my two daughters were in the house it's... imagine it's just my money for about two three years. Is just a thousand rand for three years, I must pay my debts, I must pay this, I must buy food in the house... That's why my eldest daughter, when she was 16 years old she say no men, she said to herself no men. The first week my money is up, three four days my money is up. Then she saw, she said to us no men, daddy, mummy I'm going to look for a job, she was 16 years old. Then she go to Mitchells Plain, they took her there by emm... there she get a job. Weekends she's working, every weekend, Friday nights she was working till 12 o'clock, Saturdays she was working the whole day. Sometimes there is no food to eat, then she was hungry. Sunday she was working till about 5 o'clock. She saw, but she gave the money to us every week I'm grateful for that money, because she meant good. But you know my friend... things are very expensive, the food. If you buy food you can't buy clothes, if you buy clothes you can't do that, you see... The child grant, 'ne' two fifty a month for the child grant, right, I saw in my own eyes if you buy for that child shoes, can you buy food? You can't buy food, if you buy food you can't buy shoes, you see (Mr. Hendricks: SR 16, P2 – 07/07/2011).

Lebo is a machine operator at a biscuit factory in Silverton, Pretoria. She earns R1,500 per month if she worked for the full month with production suspension due to excessive stock. She could earn less in months that production is suspended in order to reduce warehoused stock. She is a single mother with three children. Two of her children live with her parents because she cannot afford to support them and because of the nature of her work, she at times work night shift. Her first son lives with her in a RDP house in Mamelodi East. She said she could survive on her income because of the support of her parents.

'Eish'... ah, I don't know what I must tell you. You see R1,500 is a small money, it cannot do nothing, but you must try, you see. Because there is no one who can help me, I have to do... I have to help myself (okay). I try, here I have to buy the food, you see, and ticket for train, my child ticket for train, and at

home. But it's better because my parents are there alive, that is why I survive because they help me with many things. But if I'm the only one I can't survive... because sometimes... I don't work, because we are working there for production. Sometimes... production is too much, if it's too much we stay at home, maybe for two weeks. And if I'm staying here for two weeks, no work, no pay, which means I'm going to get a small amount now. Sometimes I can get R900, and I have to live... you see (Lebo: SR 29, P1, 2 – 03/09/2011).

Lebo's work is precarious from all indications, low wage, non-standard employment (see Chapter 4). They work 12 hour shift, are paid on daily rate and their contract is renewed annually.

...the problem is that we don't have a basic salary, and the operator, if we get one thousand five hundred rand, which means the general workers get one thousand four hundred rand, hmm... yes it's a contract job. We sign the contract each and every year. Every January we signed the contract... we don't have a medical aid, but we've got a funeral cover... the supervisors are under Henro. You know what, the supervisors are under Henro 'ne', and we have somebody who works under Capital. He just comes sometimes if there is a problem he comes because here in the factory there are lots of cameras (okay)... 'eish' inside there... there are difficult laws; you don't eat inside the factory, even fruits, you are not permitted to drink water in the plant, if you want to drink water you must go to the pump to drink the water, you see. And we don't have breakfast, we just have only one lunch, for one hour. Sometimes you are hungry... you want to eat something, maybe you come late and you want to eat bread inside there, the camera will get you. So the manager is going to call that guy, come and see your staff. He will come there and he will show him the camera recording on the screen look at that lady, he is eating inside there, he is drinking inside there, so give him a warning form... is the way we work. They treat us like shit (Lebo: SR 29, P6, 7 – 03/09/2011).

The type of residential accommodation includes mortgaged, rented, RDP and shacks located in Townships. Those that live in rural areas have managed to erect their own houses. It seems apartheid residential structure has persisted in post-apartheid South Africa. What differs is, while political actions and laws confined the black population to the homelands and Townships during apartheid, economic power performed the same function in the democratic dispensation (Tomlinson, 1990). This situation is sustained by government continuous construction and delivery of RDP houses in and around existing Townships: the delivery of RDP houses that batters the dignity of recipients. It became clear that apart from the means-tested targeting centred around income level to qualify for RDP houses, beneficiaries must put in years of shift at a squatter camp, living in shacks in order to be successful.



My interviewees' account, at Mamelodi East in Pretoria, of securing an RDP house was telling. Potential applicants/beneficiaries must submit an application with all the required documentations to prove that they belong to the target group (means tested). Sequel to this, they must go and erect a shack in a squatter camp. After some years of living in a squatter camp, the Provincial government might come and allocate a numbered stand (plots) to them. For those that are fortunate to be in the squatter camp, they decided to allocate numbered stands to. These people will rebuild their shacks on the allocated stands and the waiting will continue. After waiting for a couple of more years, the government will come and erect the RDP structure within one to two weeks. Lerato said they lived in a shack before they were allocated a stand, and built an RDP house:

No, they brought us here, and build the house afterwards. I had to make some shacks. I've made the shacks, and they came with their RDP, and that RDP can't manage us because it's too small. It's only two sleeping rooms, and this is the kitchen, the dining room, this is the lounge, and that is the toilet. The toilet is not working; it's broken. There is no shower, we use plastic basin to wash ourselves.... with a shower? No, you must buy your own bath. If you need a bath, you must go and buy your own. They just give you a toilet and a basin... small basin. I'm supposed to fix the toilet. It's not working because they just brought other material which was not good, you see, so we use that outside toilet... I'm afraid, but we can't do anything, we must go outside. If I want to go to the toilet my husband takes me to the toilet because I'm afraid during the night. If a child wants to go to the toilet, the mother will take him or her to the toilet, you see (Lerato: SR 30, P10 – 06/09/2011).

Lucy, who also lives with her husband in an RDP house in Mamelodi that is few streets away from Lebo's house, has similar experience with getting allocation. She was born and grew up in Limpopo. She relocated to Pretoria with her husband in 1995, a year after they got married in Polokwane. She has never worked in her life since she completed her matric in 1993. She is currently attending training to become an auxiliary nurse, which she thought will improve her chances of getting a job. She and her husband also lived in a shack, before they were allocated stand, and built an RDP house.

We were renting there since 1995... we were there in 1995, '96, and in 1997 we decided to come here to the squatter camp. We bought a shack and we lived there from 1997 until 2004, when the government decided to give us RDP house... The government first gave us a stand and after that... after a few months they came and build this house... all houses, hmm. They build the house in one day and it is finished. They started at 8 o'clock, and by 5 o'clock the house is finished. And the following... after two weeks they came to partition the house, they just put up the structure the first day. After another one week they

came to put the roof... If you want you have to do that on your own, that does not come with the house. They just build you a house, yeah, plumbing and electricity you must do on your own. And if you want to plaster it you must also do that yourself, it's just building (Lucy: SR 25, P 4 – 30/08/2011).

It seems the beneficiaries of RDP houses have to demonstrate that they are deserving of RDP house by living in a shack, in a squatter camp for years. It is after few years of residing in a squatter camp that the state will come to allocate them a permanent stand, where they will re-erect their shacks. After few years of living in their shack on the permanent stand, the state will come and build the RDP house. What cannot be verified is the state of incompleteness of the houses, whether that is what is provided for by the state or corruption on the part of the contractors and state officials. But what was clear is that, beneficiaries incur cost in order to put the house in a proper habitable condition.

From the interviewees' accounts and my own observation when I went to conduct the interviews, the delivered structure is two room apartment with a roof plastered on the outside. In most cases recipients have to plaster the inside, do the ceiling and the floor, paint the inside, and fix the bath or shower and the required plumbing works. The electrical fitting is also left to the recipients to take care of. Some recipients end up living in some of these houses in a state of incompleteness. They take their bath in big plastic basins, taps electricity from their neighbours when they cannot afford to get pre-paid electricity meter from the municipality. Some result to taking loan (credit) to complete some necessary fittings, if they are formally employed. This is the experience of Ma Ntombi and her husband that were profiled. The substantial debt they incurred was to put their RDP house in a habitable state.

The story is not much different in Cape Town, where in a case at Delft the house was delivered without plastering the inside and without bath as indicated above. Extreme cases are single open room RDP houses in Delft, Cape Town, where occupants have to take their bath in big plastic basins and toilets are outside. Some of the single room are constructed with asbestos. One of my interviewee's household has been living in asbestos house for the past 16 years, waiting for the promise of the Provincial Government to convert it to brick. This is an indication that the targeting of social provisioning is likely to lead to the delivery of poor services to poor people. Other shortcomings of targeting, are high administrative cost and inefficiency (Adesina, 2009), which was revealed in this study through the experiences of interviewees that are RDP house beneficiaries. There are people that have secured RDP

houses when they were unemployed or earning low income that falls under the qualifying income threshold, but whose economic conditions have subsequently improved after the allocation. This is because they have secured jobs or better paying jobs, which pays above the income threshold, after they had already gotten RDP houses. Mr. Ahmed lives in asbestos RDP house with his wife and four children at Delft, Cape Town.

You see, government promised us the first day we moved in here. That was 15 years back, don't worry, we are 'gonna' rebuild the house. Not my house alone, it's all these houses, asbestos houses, they said they're 'gonna' rebuild it. It is 15 years we've been staying like this. I've got asthma now, you see, when I came to stay here I didn't have that disease, yeah, you see, it is this asbestos. My children... they don't feel this is the house for them because most of the time they are at other peoples' houses, you see. I don't know maybe atmosphere, maybe people around here is also... I don't say I'm innocent, you see, but don't treat people like they are from another planet... We, the people that have been staying 15, 16 years, 17 years in this asbestos houses, were not replaced. We don't want to be replaced, but they can give us maybe the materials and we can build ourselves, you see. That is all we ask, give us a better living men, a better standard of living. This is 'mos' standard of living my friend, this will rather make you sick... years back they only use this asbestos for the roof, but now they use it to make houses. A lot of countries are complaining about these asbestos houses, this asbestos has got some chemical inside, yeah. But here now in South Africa they still use it, 15 years my friend, (Mr. Ahmed: SR 19, P2, 9 – 09/07/2011).

There might be several other households that share the same experiences as Mr. Ahmed's households with regards to the quality of RDP houses that were delivered to them. Tebogho, who now work as an ARV data capturer for the City of Cape Town, was aware of the income threshold for accessing RDP house. She said she was praying to get the allocation of RDP before she gets a job that will exclude her from the target group. Her prayer was answered, I guess. She got RDP house allocation, while she was earning far below the income threshold, now she earns above the income threshold.

I didn't buy this house, this is the RDP house, we didn't buy this house. I was praying like from God that I wish I could get a house before I get a better job. Because if I get a better job I won't get this house that I applied for, because we got it for free, you see what I mean. Then now they will say you don't qualify because you are working for the City or you are working for government or you are earning too much money, you can't have this house (Tebogho: SR 14, P19 – 03/07/2011).

Mpho and her husband are both beneficiaries of RDP houses. She got the house allocation before she started working at the Delft library. She also encouraged her husband to apply for RDP house and he got it. They now live together in the RDP house that belongs to Mpho at

Delft. That is how targeting could be prone to Type II Error, when those outside the target group benefits from social provision (Adesina, 2009; see Chapter 8).

I encouraged him to apply for a house and he did...He's got his own house, and I've got my own house 'ne' (okay), so we decided we must move to a bigger house, spacious one (okay). He left his house, we are staying in that one, which used to be mine, for we are extending that house (okay), I'm responsible for that, but sometimes we share it (Mpho: SR 20, P7, 11 – 12/07/2011).

The RDP houses provision policy has no mechanism of responding to this kind of changes in the socio-economic status of beneficiaries. This study revealed instances, where married couples have both secured RDP houses differently before they were married. Some couples only perform traditional marriage rites without formalising their marriage because they both have secured RDP houses in their different family names. The consequences of all these are that we now see cases of RDP houses being leased out for rental income and being sold to non-beneficiaries. I don't think it is the intention of the RDP policy to give house to people to make individual rental income or outright sales income. A case of unintended consequences of social policy, a policy I will argue is due for review.

The continuity of the apartheid residential structure (Tomlinson, 1990) is antithetical to the democratic South African rhetoric of non-racialism and racial integration. Rhetoric in a sense that, other structural policies, such as the delivery of free RDP housing to the poor, in apartheid demarcated Townships do not complement this discourse. It is impossible not to wonder how the value of non-racialism and racial integration can be promoted, when government through its RDP housing policy kept to the apartheid residential mould in place.

### *Social Context of Households*

The households I speak of here are black African and coloured households. Initial access was challenging as indicated in Chapter 3. It takes time for people to feel comfortable to talk about their private lives. This racial characteristic of the household speaks to the socio-economic realities of South Africa, as indicated by national statistics that the colour of poverty is black (see Chapter 4). I was inclined to ask interviewees about their experience of the social context of the community in which they live. This question speaks to Mamelodi and Alexander in Pretoria, and Delft and Crossroad Iyanga in Cape Town. Without generalising, their experiences includes unemployment, high rate of school drop-outs, high

rate of teenage pregnancy, high rate of crime, gangs and gang violence and drugs abuse. These are several character of the “unfreedom” and capability deprivation that most of the households included in this study live with daily. These are the words of some of my interviewees:

‘Yoh’ emm... now... now you are reminding me of some old things that I don’t want to think about... (laugh)... some of them... life there was a hell, ‘yoh’, I don’t know where to start now. Alexandra... there... there were lots of ‘Tsotsis’ there. Cape Town has got a lot of criminals, but Jo’burg, that Alexandra, they’ll rape someone in front of your eyes, you are going to work, they are raping someone here on the road, they don’t worry, you see. They do strange things in that Alexandra... No, no one will say anything, ‘yei’ those Tsotsis, if you say something they will kill you. If you say something they will kill you. And then they raped my friend... oh, I left there I went to Soweto to my aunt (Tebogho: SR 14, R6 – 03/07/2011).

Emm... rate of unemployment is very high, unemployment, so that thing makes life of them difficult. Most of the people here are not working. And the other thing right now is crime is high. If they can employ youths, you know, have something to do. Crime is high... what else; and they are trying to decrease this emm... ‘Shebean’ story because people... the only business they can say now is to sell alcohol because it’s the quickest way, people are enjoying it ‘mos’, you see. And there is drugs... drugs, a lot of people are drug dealers, they are selling drugs, you see. That is why this whole life here is so difficult because of that... Pregnant, high rate, there is high rate of pregnancy ‘mos’ (Mpho: SR 20, P13 – 12/07/2011).

Emm... hey, gangsters is... is happening from the ages 12 to... 12 to... ages 12 to 18. They are calling themselves whatever, those names they are calling them, and they fight each other, the gangsters, they fight each other. And when they fight there is death, obvious because you... in this area, you can’t go in this area because there is this group that is staying there, and then you can’t go in the other area. And drugs, there are people that are selling drugs to these children, you know, and emm... you know when you are on drug you’ll steal when... because you want to have money to buy, so that’s why there are burglaries and stuffs. So everything comes from something, you sell drugs, and then they go steal emm... some things in my yard to go sell in the scrap yard so that they can get money to go buy drugs, you understand. That is where these things are... are cropping up (Phumi: SR 17, P10 – 09/07/2011).

These comments are interviewees’ reflection on their experience of the social environment in which they live. What this suggests is that idleness is foundational to some of these social decadences that prevail in their locales. Idleness that results from lack of employment, school-going age children are not in school as a result of dropping out of school for various reasons such as teenage pregnancy and parents’ inability to support them in school. There is a

suggestion that high rate of idleness through unemployment, not being in school and lack of recreation facilities could prompt drug abuse, complemented by gangs that sell drugs for income. In turn, drug abuse can lead to other crimes, such as rape, burglary and armed muggings. Burglary and robbery are prompted by need to raise money for drug abuse, while rape incidence can be fostered by being under the influence of drug.

While this connection may appear a tempting explanation for the experience of living in Township, it must be taken with caution. What cannot be denied, however, is the prevalence of these social problems within Townships. Tavern, like I alluded to earlier, according to interviewees' accounts, seems to be the most promising business in these contexts; hence it provides a social space for the consummation of some of the acts. Noise (from loud music) and fighting from tavern were raised by interviewees from eastern part of Mamelodi as their concern in the community apart from crime. Also, the realities of an interviewee, whose sister's children are hooked on drug or those, whose brothers were stabbed to death cannot be denied. These are what Lerato and Lebo said about living close to a Tavern:

Here... the community is very well, it's very nice, but you know here our problem is staying next to a tavern. You can hear now... It gives me a big problem, I don't like the music. Sometimes it is throughout the whole night, you see, you can't sleep, that is my problem, I don't see any other problem (Lebo: SR 29, P9 – 03/09/2011)

Sometimes they... not sometimes, every Friday they switch on their 'grams', they make lots of noise. Sometimes they fight there at the tavern, you see... it's like that... This young generation, they use to go to the tavern and drink beer there, you see. We are not going there, we are not drinking, and we just stay here at home. But there are some generation, the young generation that use to stay here during the... and even during the week some of them stay here. When you ask them, they will say there is no work... Others are selling stuffs on the street, but some of them are doing nothing, they just go and sit there and drink the whole day, you see (Lerato: SR 30, P11 – 06/07/2011).

What can be inferred from these contexts is that, they undermine capability expansion and increase the “unfreedom” of the community and concerned households. Invariably they undermine what Sen (2008) called “well-being achievement” or “functioning achievement”.

## **7.2 Credit in Social Reproduction**

This section speaks to the broader thesis of this study in general and this Chapter in particular: credit in social reproduction. The gap in social reproduction with regard to the



difference between income and consumption needs is filled by credit consumption. I maintain that micro-credit is an individual response to the challenge enabled by inadequate or lack of social response in the form of social policy. What is shown by the empirical data of this study, is how individual household act to fill the gap in their social reproduction. The magnitude of this gap in relation to absolute survival needs and relative survival needs, peculiar to a particular society, defines the ‘quality of social reproduction’ of the individual households or group under focus.

Let me reiterate that, there is a thin line between absolute survival needs driven consumption, and consumption driven by taste and fashion. However, it is difficult in view of the fluid nature of social relations to divorce individuals and households from the social imperatives of their social context. It seems the absolute is defined within the context of the relative or social. The quantification of the absolute is socially defined, particularly by the nature of social relations that is prevalent in the context under review. A good pointer to this is the case, where the poor have to pay higher cost for credit compared to the non-poor just because they are socially defined as a higher risk. In fact the mainstream credit industry, in the form of commercial banks, defines the credit needs of the poor as risk that is not worth investing in. Their risk is picked up by micro-credit institutions. In essence, the absolute and the relative are mutually embedded. The conception of the ‘quality of social reproduction’, without discounting the absolute, suggests the imperative of the relative.

Who should determine the quality level at, which households’ social reproduction should transpire? Is it the households themselves, policy makers or researcher? The latter two, often get carried away with actions that suggest they define the level, at which social reproduction should happen. The notion of poverty line is guilty of this. Care must be taken in the way we determine what is absolutely necessary for survival and what is viewed as relative or socially driven, which is at times, arrogated to taste and fashion. Emphasis should be placed on understanding the way the poor live their lives, rather than what they need, to live their lives (Novak, 1996). Such understanding can inform social policy that can elevate the quality of social reproduction, to a socially determined standard. Noble *et al* (2007) idea of “democratic definition of poverty in South Africa” could be useful in this regard.

The content of the private consumption of the households, include groceries (food and other consumables), rent or municipal rate, electricity, water, transport to work and school, loan

repayment instalments, funeral policy and informal society contributions. Other types of expenses are money given to parents as support, regular or incidental support of extended family and the cost of traditional rituals. These categories of monthly expenditures are general to most households in their day-to-day living and the inability to cover these expenses, place strain on their social reproduction. Interviewees are often silent on the issues of rituals, when questioned about their consumption expenses were posed. Further conversation do, however reveal such expenses, when they mention cost of buying goat or cow to slaughter and other expenses, such as the making of local beer ('Uqhomboti') for ritual for their dead parents or for a brother going to the mountain for circumcision ritual. Some of the interviewee account for their monthly expenses as such:

We pay R350 for rent, three hundred and something is for food, we buy groceries at home, and he buys ticket to travel to work, that ticket I think its R500 per month or 400, something like that. He is working at Pick n Pay at Faerie Glen, but he is using the bus. We've got a car here at home but there is no money for buying petrol... We just survive, the other day we didn't have food to eat and emm... my husband make plans so that we must eat. I'm just sitting here at home... no one is getting grant, all of us we are looking at one man to support us in the family (Lerato: SR 30, P 6 – 06/09/2011).

We are struggling to survive because I am working as a cleaner, and I am earning R1800 from that. I have two children, but I am a divorcee, they live with their father. When you look at my pay, okay... I cannot survive because it is too little. Firstly, I have to pay my rent, which is R300. In a week I spend R200 on taxi per week, I have to eat at work, I buy food. Last month, which was end of February, I got R70.00 because I was in debt. I once took out a loan of R12,000 from African Bank. I was building my parents a house; although it is not finished, but I am trying. They were deducting R658.31 per month from my salary. And then I took another loan from African bank of R4500, I wanted them to use it to paint it, but I didn't finish it. For that one they are deducting R292.62. I have another one that I took last month from a 'mashonisa' again. They took R1300 that was why I was left with R70 from my pay. My salary is too little; I only survive with debt every month... I borrow from them, I do what I needed to do. At the end of the month they'll take their money from my salary. I take the money, they deduct it, I take the money again, they deduct it again, and on and on like that, until like... (Teballo: SR 9, P1 – 24/03/2011).

Like I have mentioned before, I only get paid R2000. I have to pay R850 for furniture, pay rent and do all that needs to be done in the household. I can only afford to pay funeral cover society. I really can't afford to pay any other community money scheme or societies that could probably help me financially or otherwise... Edgars account depends on how much cloths I have taken. So I limit my children to take cloths that will at most allow me to pay R400 for instalments (Peter: SR10, P3 – 24/03/2011).

I spend my money on necessities such as rent. I pay R600 for rent, R200 for electricity. I reserve R500 to cover things such as society contributions and others. I now pay R300 on my clothing account. Other expenses are covered by my son. From my side, I only pay R300 for clothing, R500 for society and other things, R600 for rent and R200 for electricity (Zemed: SRI, P2 – 24/01/2011).

The issue of debt repayment keep emerging in interviewees' voices. Interviews with traditional healers show that black Africans continue to practice their cultural beliefs, with regards Traditional Health Practices (THP), and other ritual practices that are important through the course of different life stages. These practices have financial implication for the households concerned. The same applies to the traditional healing practices, where people consult traditional healing practitioners for different ailments for treatment. The traditional healing system has not been integrated into the national health policy; hence, such expenses are not obvious in most cases. Zuma, a traditional health practitioner, said people still come to him for treatment, when other means are not working for them. But they like to keep it a secret:

For example there is a... there are people that always come to me 'ne', and they said to me man I need to get pregnant, but I can't get pregnant, I don't know why. I've been praying and praying and praying at church so that I can get pregnant, but nothing happens. Now I've come to you now to please help me with your own methods so that I can get pregnant, alright. So I will give her medication... firstly I will tell her why she doesn't get pregnant, secondly I will help her by giving her, you know, medication so that she can... she can get pregnant. She won't get pregnant by means of the medication, what happens is I cleaned her system, right. Maybe her fallopian tubes are blocked, but the gynaecologist maybe could not see that because, you know, they are things that are happening outside... he might not see it while using machine or whatever. But because I use my... my ancestors I can easily see what is happening with her. Then I will give her the medication so whatever prevents her from getting pregnant emm... can be removed so that when she sleeps with her husband, you know, something happens (Zuma: C2, P7 – 31/10/2011).

Conversation with Miranda, who is a traditional health practitioner and works at the Medical Research Council (MRC), was telling, about documentation of South African traditional medicine by the Indigenous Knowledge System (IKS) research group and traditional healing practice. The research unit's objective is to promote the knowledge of indigenous medicine in South Africa. Her experience of practicing traditional healing, suggests that patronage is high, though their clients like to keep it a secret. This is how she puts it:

Emm... talking about seeing or visiting traditional healers, people do visit traditional healers but... laugh... you know people are using traditional medicines I'm telling you. But people are... are still afraid of using them in public because a traditional healer will give someone a mixture and then they take a quarter cup in the morning, emm... during the day, and then after supper. And if for instance my colleague comes here, I've got a mixture in my desk because I need to use it anyway after lunch, he will say en, en, something wrong, she is bewitching us, this one, you see... (laugh)... why is she this and that, forgetting this is my health, you see. So people... even Christians Reverends, they do come to us, but they won't come during the day because they don't want to be seen. And you know what they preach in church that people mustn't use emm... traditional medicines, people mustn't do rituals... traditional rituals, they mustn't do this and that and that, whereas they do those things. If one is from Eastern Cape they go to Eastern Cape and practice their own rituals and come back and preach that people mustn't do, so, they are misleading people, you see. 'Mna' I'm worried about emm... the young ones, those who are still growing up because these people who are doing these things are elders whose got experience of practicing these rituals, and they... they are still doing these rituals but when they come, they come back and preach that they mustn't be done... you get what I mean, it's a problem... that is a problem. Whereas people... I mean people who are educated, I mean ministers, I mean doctors... they do visit traditional healers, and there is nothing wrong about that. But one cannot stand there that yes I do have my own traditional healer that I'm visiting... they will not say that, but we know... we know that they do come to us. They do make appointment with us and we help them (Miranda: C 1, P12 – 31/10/2011).

She suggested that, what she called 'the modern ways of living' is why people prefer to keep their patronage of THP secret. Or because they have subscribed to another assumed contradictory faith. Zuma, who is also a member of the South African National Defence Force (SANDF), recounts similar experience. He said people do inform him to keep their visit and consultation secret even, when that is normal to their ethics of practice:

So what I'm saying now is there are people that come... they don't come during the day... when it's dark, and they will say please don't tell anyone. I mean it is a code of ethics that when somebody comes here and... and seek help, I won't tell anyone that so and so was here, it is against the code of ethics (C 2, P7 – 31/10/2011).

This important social practice might be hidden to an observer, who might claim to understand the ways of life of a society or group. What is important for me in my conversation with three THPs is that the traditional health system can be divided into two parts; the physical and the spiritual. The mixture of plants, stem and roots in a traditional herbal mixture to treat a particular ailment is physical on the one hand. On the other hand, the discovery of the healing effects of plants and the performance of healing rituals are spiritual. My interest here,

sociologically speaking, is not to uncover truth or facts about the efficacy of this approach to health, but to acknowledge its imperatives for social interaction and day-to-day lived experiences of concerned people or society. Failure to acknowledge this reality (at times hidden) about a society might leave a gap in our attempt to explain what we see. This is precisely, what the critical realist approach argues with regard to uncovering the underlying mechanism that could offer explanation to what we see.

The implication of the hidden nature of the traditional healing practices is that, the cost implications for the social reproduction of households might not be taken into consideration by the credit affordability test. The credit affordability system is more prone to fail to appropriately capture the income and expenditure of households, if it does not capture social practices, such as the THP and rituals, which have cost implication. This might lead to the under-capturing of household expenses that might subsequently put strain on credit consuming households, meeting-up with their monthly repayment obligation. Default in credit repayment obligation, is a sign of over-indebtedness and it could easily drive households into debt counselling (rescheduling) and blacklisting on the credit bureau.

Consumer credit or the consumption of micro-credit in order to smoothen private consumption, defines the social reproduction of households: credit in social reproduction. Discussions about credit emerge at different stages of the interview, even when direct questions were not posed in that regard. Interviewees speak about their indebtedness, about their clothing and household goods account, about getting loan from cash loans, about getting loans from *Mashonisa*, about being under credit administration through debt counselling. They also talked about being adversely listed on the credit bureau, about loan consolidation in order to pay one creditor, about debt cycle, when they take credit from one credit provider to pay another's instalment repayment. The interview, in a nutshell, reveals the stories behind the national figure of high rate of indebtedness and over-indebtedness. Apart from credit related issues, they spoke of funeral insurance and informal savings group. Phumi and Refilwe have gone to debt counselling, and they are under administration. They are gradually repaying their debt, through a debt counsellor. As a result, they cannot access credit until they finished paying all their debts. In other words, their capabilities are limited due to their indebtedness. Nicole and Fibi are paying substantial part of their monthly income to service clothing account from several stores. Tebogho has gone through loan consolidation at Capitec Bank:

Debt collectors, I'm paying them four thousand five hundred rand to pay all my debts. I'm not paying it myself, yeah. The reason was I overspend the money so I couldn't even spend money anymore, you understand, yeah. So I decided let me go to the debt counsellors to pay off, so I give them four thousand five hundred out of my money, yeah. So they pay for me, so I'm paying only them, so I'm not paying like if I owe Truworths, Truworths... all the shops, you know. So I just pay that money so they divide to all the places that I owe. That is what they are doing. So the rest of the money I use... I don't want to be indebted, because when you are indebted you can't do anything up until you finish paying the debts. So you can't buy anything, you know, you are blocked that you mustn't buy. So that is why It's good that you save, and then you pay, and you take home (Phumi: SR 17, P5, 6 – 09/07/2011).

It is hard men because of now we are at the, what do you call this, administration. You know administration because of those things... it was hard to maintain them all, so I ended up at credit bureau, those people ended up interfering with my salary because I'm the one who is working. So they ended up interfering with my salary, the lawyers wanted to deduct my money so I ended up going to administration to help me. They call it debt counselling. They helped me a lot because I was paying those people seven hundred and fifty now. Then this seven hundred and fifty is going to pay... it was the account of... lots of accounts. 'Yoh', it was ABSA loan, Foschini, and Truworths. So they ended up making it one credit, and then they are deducting seven hundred and fifty, those administrators, and then paying those debts. So it's better now because I can afford to do things at home (Refilwe: SR 31, P4 – 07/09/2011).

...like my Woolworth account, I pay a lot. I pay emm... a thousand rand a month... because I owe them a lot... You know I pay them, and I know that if I need something I can go and buy again, you see. And Edgars I pay two hundred and something. Woolworth is the highest, and Truworth account my husband is paying it (Nicole: SR 8, P7 – 22/03/2011).

Okay emm... I have one with Foschini, I have one with Truworth, I've got one with Edgars, I've got one with Woolworth. Emm... I've got an account, I bought an automatic machine at OK furniture. What else? I've got a policy with Hollard... when my boyfriend gives me money to spoil myself, I don't spoil myself, you see. I go and pay there; I pay there and there, so, I don't do myself... to spoil myself (Fibi: SR 12, P5 – 24/03/2011).

Ahm... I don't know where to start now, if I must go there. I'm sinking in a 'titanic', whooo... I have a lot of whatever, I don't know, that I must pay, you see. But now I'm done with paying the furniture because I was paying like this furniture there, the divider there, whatever and the fridge, and the mirrors and the machines. But I don't like to pay like for two years or three years, something like that and then... whereby there is 'gonna' be someone who's 'gonna' pressure me, keep on calling me, when are you coming to pay, when are you going to... I prefer to pay a bank instead, because I know the bank is not 'gonna' call me, they are 'gonna' deduct their money, finish and clear, you see. Then I decided like in January this year, I decided to borrow a loan from African bank to settle all of my accounts. I had a loan in African bank they are disturbing me now... loan there at African bank, whoo! Then I have to settle



that one as well in January. It was 22,000 and some odds, you see. And then now I was also having the one for the fridge and the one for the machine and other shops now for the clothes, you see. But apply for a loan at African bank is very easy, but it's so frustrating, you see because you'll pay until I don't know, five years... and their interest is sky-high, you see... I decided to go to Capitec because I was so fed-up of having those phone calls, man, from the shops like RCS and Joshua Doore and stuff. Then I decided to go to Capitec, then Capitec settled that African bank loan, the big one that I have. It was like now R38,000 that they settled for me. And then now I also have some other money to settle, the machine, Joshua Doore, because I already settled that one in January. And then they settle that Joshua Doore, RCS and what, yeah, and then... Capitec said they are not going to settle the credit card that I have at African Bank. So I am left with that credit card at African bank. Otherwise, I've got a loan now at Capitec Bank that will take three years, you see, to pay, not five years now (Tebogho: SR 14, P2, 3 – 03/07/2011).

### *Insurance and Savings in Social Reproduction*

Before discussing credit, it is important to mention that insurance and savings also emerge as social practices by households in this study. Formal savings is almost non-existent as no account of such emerged in interview conversations. It seems formal financial institutions are seen more as credit granting, than savings keeping institutions. Most of them only receive their salary through their bank accounts and make necessary payments. The only other time they think about banks or other financial institutions is when they are taking credit. Transaction bank account, on which debit order can be executed is a requirement to access credit. It seems, banks in the South African context, promote credit products more than savings products. There is no clear reason why this is the case.

I do see large signs of credit products offerings are displayed in banking halls with no such for savings products on occasions, when I am in the bank for transactions. One of the interviewees, who previously worked for a micro-credit institution, now works in a commercial bank. Other financial institutions that are closer to the low income earners are mostly credit selling institution that simply arbitrage by getting money at a cheaper rate and lending it to credit consumers at a mark-up higher rate. For example, retail stores send what they call pre-authorised credit store cards to consumers, and such consumer only need to come into the store and give them few requirements to access the credit. In other words, there is no savings drive within the formal financial environment apart from transaction processing and credit merchandising.

Added to this, and much more important in my view, lack of formal savings drive is the lack of disposable income from households. Savings is a function of disposable income available to households. Disposable income is the excess of income over expenditure. In a situation, where income is less than consumption needs and credit often used to cover the gap, savings becomes a remote possibility. High incidence of consumer credit consumption is an indication of dearth of disposable income, and therefore lack of savings.

There is a positive practice, in the area of informal savings. There are cases of informal rotating savings schemes practices at work and neighbourhoods of interviewees. This type of savings taking, is rotated among members in 12 months cycle, each member taking the total collection in each of the months. Members are at liberty to use their taking for what they deemed important. There was a case, where an interviewee was planning to use her own collection to complement the amount needed to extend her RDP house. There was a case, where the interviewee was doing the saving because she wanted to use the money to perform a ritual for her dead father at the end of the year. On the flip side, some interviewees are reluctant about entering into such informal arrangement because they fear that it usually leads to fight.

The most common informal savings arrangement is where women come together to contribute money from January to December in order to buy groceries for the December holiday. The money they contribute on monthly basis, is either used to buy shopping voucher or saved in a bank until December. The vouchers or money is used to buy groceries in bulk in December for sharing among the members of the group. Contrary to savings that is limited to informal groups, insurance cut across the formal and informal sectors. What emerged is that the practice of funeral insurance policy is overwhelming. All households have at least a funeral policy. Some have more than one depending on the terms and conditions of the policy. Some of the interviewees explain how informal savings, in the form of rotational saving and informal social association, where contribution are made to support members that might need support for social functions such as wedding and funeral. Peter, Nicole, Zemed and Tebogho's account are thus:

Okay these schemes are prominent in the township. It is where a group of people join together and contribute a certain amount of money. For instance they can be 10 and decide to contribute R200 each.

So each month, all 10 people will take out money and give the whole sum to one of them. So each month, one will receive R2000 until they finish a round (Peter: SR 10, P3, 4 – 24/03/2011).

And we've got one like for the blocks. Like if... the area that you also take money out every month and give it to them. But it is my responsibility, because it is a woman thing, is not for men. So they also take money, they also bring money if something happen, yeah, just wives. We buy like kitchen things. We buy like stoves... gas stoves and all that. So we save money and buy gas stoves, pots, all the things you think you are going to need if ever there is a funeral or party. So we buy that thing and then give it to you to use... warmers and all that. So whenever something happen around the block, you take your warmer if something... maybe there is a party or wedding, they'll ask you, bring your warmer, bring your warmer. So they bring all the warmers together and then they said you don't need to hire things, you see (Nicole: SR 8, P9, 10 – 22/03/2011).

I only have society; I am a member of three societies... You know how people are in a community like this, it is just human or normal to contribute to such societies. I don't think they help money-wise, but they help in growing social relationship between neighbours in the community. It also help in term of when you have something to do in the house people can come and help you with some the work, such as cooking. It helps in building social relationship in general, but I think insurance is better (Zemed: SR 1, P6 – 24/01/2011).

I'm saving that thousand rand, that is a fixed savings that I have because in December I'm 'gonna' have a function for my Dad, you see, a ritual there in Eastern Cape. Then I need to have 9,000 or 8, 000 to buy a cow, you see, that is why I'm saving that money. Then I've got stamps, savings stamps from Shoprite that is R300, I pay it every month. Those stamps I'm 'gonna' get them in December when I'm going home, I'm 'gonna' use them in Eastern Cape. Instead of popping out money, I'll use those stamps... savings stamps at Shoprite there in Eastern Cape, you see. And then the rest I'll buy grocery (Tebogho: SR 15, P4 – 03/07/2014).

Formal funeral policy is as common as informal funeral policy. Some interviewees have both formal and informal policies. Attempt to get an interview from AVBOB, one of the big burial services and funeral insurance companies in the country, was not successful. The names of Old Mutual and Metropolitan also emerge with regard to formal funeral insurance plans. Informal funeral insurance also exists in Townships, where members contribute stipulated amount every month with standard benefits, such as some cash amount, tents, chairs and cooking equipments provided, when a member loses a family member. There is also what they call 'neighbourhood societies' that are not strictly for burial purposes, but for any other social functions such as marriages. There are concerns raised that informal burial societies in the cities are not as reliable as the ones in Townships and rural areas.

Life assurance policy is non-existent among the interviewees. No one mentioned having such policy in any manner. There is a clear distinction between funeral policy and life assurance policy. While funeral policy often covers insured amount towards the funeral ceremony of family member included in the policy, life assurance policy is taken for an insured amount to pay a lump sum to the surviving dependants of the deceased, who took out the policy. The proliferation of funeral policy was probed, and interviewees' accounts suggest that the high cost of funeral, which they cannot afford in lump sum is what prompted them to take funeral policies. For example, people living in Cape Town that sees Eastern Cape as home always take their dead to be buried back home in the Eastern Cape. An interviewee reveals that transporting the corpse from Cape Town to Eastern Cape on road alone costs about R6, 000 apart from other necessary expenses. She said people could not afford such amount in lump sum, hence, they take funeral policy or join informal funeral society.

Funeral policy that will... the cover is 15,000. You will pay one hundred and twenty-four rand eighty-five cent. Their cover is 15,000 for that... Yeah, the thing is to buy a coffin, a coffin is R6,000, you see. Like for instance, from here to take a body 'ne', to take someone to Eastern Cape, you must have 6,000 'ne', if someone is here. And then the coffin, maybe is 'gonna' be 6,000 or 5,000. Then that will cost you 12,000 say for instance the person is here, that will cost you 12,000 and then you must have money to buy sheep or cow, whatever you're 'gonna' slaughter there. You must have money to have salad and to cook rice and salad and meat, drinks and what, what. And then now you can't just bury someone without having a policy because it is too expensive man. Maybe she doesn't want that coffin, some of them they go for casket, you know. And then now that will be too expensive now. Then you must have enough money, enough drinks, enough salad, enough biscuits or scorns and what, what (Tebogho: SR 14, P4 – 03/07/2014).

I have a policy at Clientele, I have a policy at SANLAM, and then I have a policy at Nehawu, this union, you know Nehawu. I have another policy at Old Mutual. They are for burial if one of our families is dead. And the reason why I have these four policies is because when my children have grown they said I must pay their... you see if a child is 21 years you must pay for her. So my two policies are Old Mutual and Clientele, this policy for 21 years old child is very expensive. That is why I went to SANLAM, because SANLAM is very less, and this Nehawu is part of our union. I'm a member of Nehawu, here we don't 'toitoi' here because it's a church school (Refilwe: SR 31, P2 – 07/09/2011).

Two things are important for me by this experience of the proliferation of funeral (burial) policy and burial societies as formal and informal insurance respectively. The first is a question. Why is it that there is the proliferation of funeral policy and burial societies and life

assurance policy is non-existent? The practice of burial societies as pooling of risk, speaks to the notion that social policy should not be reduced to welfare benefits alone (Hibbert, 2010). It also speaks to the notion that social policy is not an exclusive domain of the state (Adesina, 2009). What is important here is that, what is defined as informal social practices could be an important learning source for the development of social policy (Vonderlack & Schreiner, 2002). While high cost of burial might be important in the proliferation of funeral policy, the understanding of the dearth of life assurance policy among this category of people will need further research.

In similar vein to how traditional health practices and rituals have cost implication for household, the practice of taking funeral insurance policy has cost implication for the households. While such contribution is part of households' monthly expenses, it is also an insurance to maintain cultural practices, which can be viewed as social participation. However, the credit affordability test must take note of this, especially the informal burial society's contribution, so as not to under-report households' expenses. At times, people are forced to take credit in order to meet the obligation of funeral society contribution, which is a valued social practice.

Social activities and practices are important for the quality of social reproduction. The people that live in 'poverty range' or "precarious prosperity", have limited leverage to deal with shock that is outside their normal monthly expenses profile. Therefore, their capabilities with regard to alternative course of action to inform their functioning achievements are limited (see Chapter 4). Freedom to choose alternative course of actions and their actual functioning achievement defines the quality of their social reproduction. The proliferation of funeral policy and societies could therefore, be viewed as a form of collective response to the risk of death, which may upset their ability to achieve their social responsibility of burying the dead.

The lack of material resources to meet the social expectation of burying the dead as informed by cultural practices, suggests strained material resources to facilitate the type of life they would value to live (functioning achievement). This speaks to Sen's (1999) conception of poverty as capability deprivation. He suggests that, material or income level says little about the type of life that people led, when the intervening variables that influence the ability to convert material resources into the type of life people will value to live and can live. For him,

freedom of alternative choices and actual type of life that one lives (capability and functioning) is more important to well-being than stopping at available material consideration alone. The action of interviewees, with regard to the funeral policy and informal society contribution, can also be viewed as collective approach to maintain the quality of their social reproduction.

### ***7.2.1 Credit in Individual Consumption***

For clarity sake, I am concerned with credit in individual (and not productive) consumption. I earlier indicated the thrust of the argument here, is that the prevalence of consumer credit is a manifestation of individual response to the challenges of social reproduction, due to the lack of proper social response to the same. The prevalence of micro-credit institutions, driven by the motive to profit from this situation, is a testament to this. What appears to be a positive, when credit consumption is used to extend RDP house by household by adding a room or two is counteracted by the fact that the RDP house is not an asset that is acceptable as collateral for secured loan by banks in practice. The practice of house extension is common among the beneficiaries of RDP because the one room house is inadequate to accommodate household members.

What became clear is the intention of legislation to broaden access to credit, especially by previously disadvantaged population, tend to conflate credit consumption for productive assets and enterprise with individual consumption of credit. This is manifested in the growth of unsecured credit market that is accessible to the low-income population, who lack assets that are acceptable as collateral for secured loan. Access to credit by low-income population was achieved through legislation, by trading affordability and good credit history for collateral assets in the consumption of credit. Suddenly, if you can afford the repayment of monthly instalment, you have a good credit history, and if you are employed by a verifiable third party, you can consume credit. Purpose is irrelevant to the credit providers and self-employed entrepreneurs are excluded from this catchment.

As some of the comments of interviewees indicated, clothing and household goods accounts are pervasive among the household. Even in households, where there is no consumption of cash loan, these types of credit are almost always present. It is therefore safe, to say loan repayment instalment is a permanent feature of households' monthly expenses. Stable salary income and social grants are income bases that provide inclusion (perhaps adverse) into this



mode of credit relationships. Therefore, households with these types of monthly income are eligible and are likely to be in one form of credit relationship or another. In fact pensioners are viewed as more reliable because of their stable income and matured age. This study shows that clothing account, which interviewees often do not see as credit, provides subtle incursion into indebtedness for households as Feasibility (2011) also suggests. It provides a good platform to build credit history, in order to access cash loan. Ma Ntombi, a *Mashonisa* indicated that employed people and pensioners are her customers. According to her, pensioners are matured and more honest than young people, hence, she preferred them to younger working people:

The people I like are the pensioners because they are honest. If they say they will bring the money on the pay day, they do bring it. But the younger people are not honest because they will give you back one hundred rand if they borrow one hundred and they will not pay that forty rand for a long time... Because the people are not working like the pensioners, they like to go to the 'mashonisas'. The pensioners really like to go there because their money is not enough for them to survive in the house (Ma Ntombi:MC 10, P10, 15 – 16/04/2012).

### **7.2.2 Dimensions of Credit Consumption**

Credit in social reproduction can be conceived in three ways; credit consumption driven by desperation, need and choice. The three motivations for credit consumption are viewed as different points on the same continuum, because there are no clear boundaries between them. A household may consume different types of credit at these different points on the continuum. In essence, different credit transaction may be evaluated by the motivating force behind households' decision to consume such credit, on the one hand, and different households may be categorised with regard to the prevailing motives for credit consumption on the other hand. Firstly, the prevailing motive for credit consumption determine the location of households on the continuum, secondly the location of credit in its social reproduction. The location of credit in household social reproduction in turn, informs its impact on the 'quality of social reproduction' of households.

The ability of households to scrutinise the implications of entering into a credit agreement is determined, by the driving motive for credit consideration in the first instance. The knowledge of how credit system or relationship works is imperative in the second instance. The former is more important than the latter, because the point at which the former happens, will inform whether the later will be activated or not. A credit consumption, driven by

desperation, relegates knowledge to the background, for example. The reverse might be the case with a credit consumption driven by choice. In fact, when credit is motivated by desperation such as need to eat the next meal or get money for transport to work the next day, every other thing becomes secondary. These different motives for credit consumption are what I call the ‘dimensions of credit consumption’.

In other words, the dimension of credit consumption of households determines the imperative of credit consumption to their social reproduction and the quality of their social reproduction. This brings to the fore the purpose, for which credit is consumed as important element in the analysis of the impacts of credit consumption for the social reproduction of households, working from the perspective of credit consumers. The perspective of credit providers is limited to affordability, credit history and formal employment. All these speak to the dimensions at which credit is consumed by households and the conditions for accessing credit. Purpose of credit consumption, therefore, could be important in determining the dimension of credit consumption.

To reiterate, the purpose for which households consume credit as revealed by interview conversations includes food, transport to work, to purchase prepaid electricity, purchase of clothes, and purchase of household goods. Others are, purchase of school uniforms and stationeries, payment for burial expenses, completion and extension of RDP houses, payment of existing credit instalments, consolidation of existing credits, payment of medical bills and payment of tuition fees. All these purposes can be grouped into the three dimensions of desperation, need and choice. Food, transport to work, payment of medical bills and prepaid electricity, where it is used for cooking can be classified as desperate motive or dimension of credit. When credit consumption is driven by these motives, the applicant credit consumers do not care about the conditions of the credit, such as interest rates and other costs. They will take anything that the credit provider throws at them at that point.

A typical expression of this is borrowing money from *Mashonisas* at 40% to 50% flat rate per month, when the money is needed to buy bus ticket in order to get to work the next day. Or when money is needed to get the next meal or prepaid electricity so that households can cook and prevent what they have in the fridge from going bad. At this dimension of credit consumption, the credit consumer does not have any bargaining power or luxury of time to start negotiating the terms and conditions of credit. It is a condition of powerlessness. While

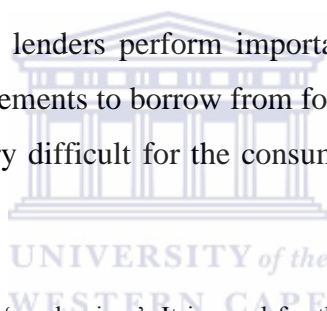
this dimension of credit will keep the household going in terms of social reproduction, they might regret their actions and lick their wound later. Mr. Ahmed, whose family lives on social grant, the situation suggests credit consumption at a desperate dimension. His account of his monthly expenses and the inevitability of borrowing are thus:

Right, from the R1,114 I get, okay I spend maybe R400 for grocery, and I've got R600. During the month I have to borrow some money so that I can buy here in the house because that food and stuff it doesn't keep for a whole month. In between that pay you get from the first to the next month you have to go and borrow some money so that you can buy something for the kids to eat. You have to go and borrow for maybe electricity, you see, you have to go and borrow maybe for whatever we need. Okay now I spend R400 for maybe grocery, I bought this thing, I have to pay this, you see, it is another R300 a month, and then I've got R300 left. That R300 I must go pay whoever I borrow some money from. Then maybe that same day... then my money is finish, you see... Everything is getting expensive, taxi fares, fish oil, all the basic stuffs. Maybe you paid for fish oil R20 for that 2 litre, next month you go you'll pay R25 or R35, you see. Now you budget maybe next month I'm 'gonna' spend the same R400 you spend this month, but with the same R400 I will get less groceries, you see, because in between that months now the stuff rise again, so how can you survive with that little money... The only place I go borrow money is like maybe the money lender, because you can't go and ask people around here. And that money lender will charge you interest, but if you are desperate you have to go. If you are alone you don't worry, but you've got a family, you have to do it so that your family can survive. That is why you can't go like... you see this old lady next door, I can't go to here because it's 'gonna' be wrong of me to go to her and ask her maybe for R20 or whatever. She gets the same money like I get, and the same problem with her also. You get the money today, and that very moment you go to the shops, come home, pay your debts and all that and the money is finished (Mr. Ahmed: SR 19, P6 – 09/07/2011).

While credit consumed at the desperate dimension may provide immediate response to households survival needs, the repayment of the credit may gradually deal a blow to the quality of social reproduction of concerned households. Firstly, it will reduce the amount of money available for such households to spend on monthly basis because of huge interest and other costs of credit. Secondly, it will gradually edge households towards debt trap as they are compelled to go back and borrow to meet up shortfall in expenditure needs for subsequent months. Ma Ntombi, a *Mashonisa*, was very vivid in her description of how debt trap happens, when income is constant and credit is consumed. For her, pensioners receiving old age grants are the most reliable people to loan money to because the grant cannot cover their needs hence they are trapped in debt cycle:

The pensioners really like to go there because their money is not... is not enough for them to survive in the house. The others they... huu... the others... it's very bad because now the card is collected by the 'mashonisa', their bank card. The 'mashonisas' hold their bank card because they will borrow like five hundred rand and they are paid 'mos' one thousand eight hundred rand... the... the old people, one thousand eight hundred. So if they wanted to borrow five hundred rand the people will collect their bank card and the card they used to pay them, and they will follow them to where the payment is made on the payment day. They will give the 'mashonisa' seven hundred as repayment and interest for the five hundred rand they borrowed, and again they will say borrow me five hundred rand. They will say what they have left is not going to finish everything at home (cover their monthly expenses). They will say borrow me again... it's like... I don't know. And the card will stay with the 'mashonisa' again... you see. And when they are going to the... the bank, they go with the 'mashonisa' waiting, they collect their money and the 'mashonisa' will collect seven hundred and give them their change. And they will say no, sisi, can you give me another five hundred? I will write it in my book and I will give five hundred again. I will take the card again because I'm not sure even if I know them (Ma Ntombi: MC 10, P15 – 16/04/2012).

For her, though informal money lenders perform important function of lending money to people that do not have the requirements to borrow from formal credit institutions, repayment with accrued interest is often very difficult for the consumers of such credit. She puts it as such:



I think it's good for the people, the 'mashonisas'. It is good for the people because emm... yeah, it is difficult when the people bring the money back, but it is good because they... the people that are not working cannot go to the bank. They don't have pay-slips; they don't have the papers that the banks ask for... Emm... the bad thing about this business is emm... is that when the people take the money 'ne', and the money is increasing for them, they can't afford to pay back the money with interest. It is very bad to go there again, and again and again (Ma Ntombi: MC 10, P15 – 16/04/2012).

The expression of desperation as the drive for credit consumption is not limited to the informal credit providers; the same is the case for formal credit providers. Cash loans also experience substantial patronage of credit consumers driven by desperation. Most cash loans grant short-term credit that is recognised by the NCA to charge 5% flat interest rate per month plus other transaction charges. A simple indication that credit consumers are trapped in debt with these credit providers is their accounts that they have recurring customers. Emily, who doubles as Branch Manager and Administrative Clerk in a one-person branch Cash Loan in Bellville, gives short-term loan exclusively for 30 days. She said she has customers that keep coming back every month:

... we work on emm... one month basis only. That emm... you know, loans... we only grant it for one month. We don't give on a... terms and stuffs like that; it's only on one month. And we give up to more or less a thousand rand for the client... A thousand rand (R1000) works out just below one thousand three hundred rand (R1300). Your interest is 5%, but there are also other extra costs that are added to that amount... No, they come here every month; they are regular client. These are my regular clients; they come back every month. Sometimes they skip a month or two, but they always come back (Emily: MC 2, P2&8 – 07/06/2011).

In corroboration of Emily's account, Nicole, who works at Baby World as a sales attendant, discovered the high charges of credit providers when they give a short term loan for 30 days. Though she describes it as robbery, yet she indicated that they have no choice but to sign for it when they need the money desperately. She said when people are desperately in need of money, they pay very little attention to details. Hence, credit providers can actually charge more than what they communicated verbally to customers:

You know what, actually they... they rob a lot because of... they say 25% 'ne' that this... nowadays they put a machine there... they'll swipe your card (bank debit card). So last month I... I went to them, and I said to them, give me three hundred rand (R300), and they give me the three hundred rand (R300). But when I checked the... the... slip where I have to sign, I said that this money is too much, that can be so much. She said to me, you know what, is what happen here, you pay extra for the machine that you use. So they charge you for that machine, people are not aware of that. You see, if you are desperately in need of money, you just sign and... because you want the money, you don't check what the... what is the interest. So... last month I said to... no man, something is not right, let me just check. He said no, you pay for the machine as well. So, it comes out like four hundred and seventy five (R475) (on three hundred)... on three hundred, so... (Nicole: SR 8, P4 – 22/03/2011).

The cost of short-term credit comes to about 30% to 50% flat per month, when other transaction charges are included. The credit consumers often care less about the ambiguity of charges at this point. Desperate dimension of credit consumption is not usually a calculated decision, but a last gasp action to salvage a desperate situation. Going back again and again for more credit is very much imminent. Credit consumption for the purpose of clothing, rent, tuition fee, school uniform, burying the dead among others can be categorised as need driven credit consumption. Note that purposes that were mentioned under desperate dimension are also applicable to needs dimension. The difference is more of the degree of urgency to satisfy those needs as at when credit is sought. Desperation ensues, when all other options to satisfy those needs have failed and consumers are compelled to seek credit. There is also a time

element to desperation. There is also no more time to seek further alternatives to satisfying those needs.

Needs are required to be satisfied in order for social reproduction to continue. Need dimension of credit consumption speaks to, when there is a gap to meet needs from households income and they are compelled to satisfy outstanding needs through credit. While potential credit consumers still have a bit of time to ruminate over alternatives, the prospects are bleak. The power of the consumer in this regard is also weak because the need, for which credit is sought, must be met in order for their social reproduction to continue. As it is with the desperate dimension of credit consumption, need dimension might be important for concerned households because they can maintain the quality of their social reproduction over the period the credit commitment is undertaken. However, the repayment of monthly instalment may not be as steep as in the desperate dimension. It will also gradually deplete available income for consumption.

It is easy to gradually accumulate different types of credit at this dimension of credit consumption. As needs arise at different times for the households, they are compelled to enter into credit relationship, in order to keep up with the quality of their social reproduction. For example, it will take an extreme financial cul-de-sac for a household to withdraw its wards from school because they cannot afford school uniform, stationeries or transport fare. They will take credit to meet those needs as long as they have access to it. Needs compelled and gradual credit exposure will subtly push concerned households towards over-indebtedness. Before they realise it, combined credit repayment instalment from different sources will become an unbearable burden on the income of the household with consequences for the quality of their social reproduction.

This dimension of credit consumption can therefore, gradually drive household into credit administration. Households that find themselves in this position might initially think that they understand how the credit system works, but the need motive or dimension prevails over such knowledge, and their ability to negotiate in different credit relationships they enter into. A good example is borrowing for further education of children. It is not a desperate situation, but is a need that must be satisfied. Two interviewees, Nicole and Ma Thembi account of their resolve to ensure that their children progress with their education speak to this:



Emm... okay the last born... the one that is at school now, it's a free school, government provides everything (okay), so we don't pay anything for that, it's a government school. And emm... the one that is going for the course, I make (took) a loan, so emm... I make a loan with Standard Bank (okay), so I pay Standard Bank. So I'm the one that is paying the loan. I said I will be responsible for the loan (Nicole: SR 8, P2 – 22/03/2011).

Emm... after my first born finished matric and he needed to further his education I went to go and borrow money from money lenders so that he can register. It was my sister that was born after me, is the one who paid back the money lender because I don't have money to pay for him (okay). After he was registered and started attending lectures he thereafter started getting student loan (okay). After finishing his studies he has to pay back the money, now they are deducting that money in instalment from his salary (Ma Thembi: MC 13, P5 – 12/05/2012).

At this dimension of credit consumption, physiological and social needs are meshed in informing the behaviour of households with regards to credit commitments. This speaks to the human developmental approach to poverty emphasised by HDI. If poverty is engaged as a development question, the separation of physiological and social needs becomes irrelevant (Chapter 2). The narrowing of poverty discourse to physiological needs alone suggests that human don't exist in society shaping social interactions. Therefore, the social context might mean that certain needs are expected to be satisfied by households. The consideration of poverty as capability deprivation, also speaks to this (see Chapter 4). People are poor, when they are not free to live the kind of life they have cause to value.

The final motive or dimension of credit consumption is credit commitments driven by choice. At this dimension of credit consumption, households have the leverage of alternatives and time before deciding on whether or not to enter into a credit relationship. This gives potential credit consuming households the power to interrogate and to shop around for what will best suit their condition, with regard to their income and its appropriation. Consumption of credit at this level is not to satisfy needs that households cannot do without, or for which they desperately needed to act. Rather, it is driven by needs that will improve the quality of the standard of living of households, if they can achieve it. Therefore, they have the choice whether to satisfy such needs or not on the one hand. If they decide to go ahead with satisfying such need, they have a choice between using savings or credit to do it on the other hand.

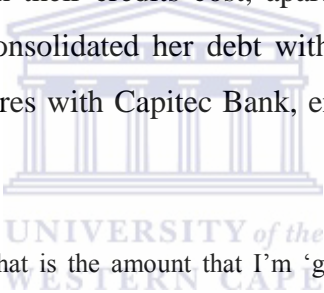
Credit for purposes, such as buying a car and household goods such as dishwasher could be viewed in this regard. However, context could inform what falls into this category of credit consumption. The ability to choose between alternative courses of actions in social life is empowering. The significance of the freedom to choose a course of action was emphasised by Sen's (1999) capability approach to poverty. One of the significant effects of poverty is the narrowing of available choices (Novak, 1996). That means the poor have no choice for alternatives but to take what is thrown at them. This is one of the limitations of treating social policy, expressed in the form of social assistance and transfer as charity rather than right (Chapter 8). Undermining the dignity of the poor, in the process of social assistance, is a case of trading social justice for charity in the course of social policy conception and execution. Such is the case of RDP house delivery in the South African context, where living in shack is a basis for getting allocation.

Choice dimension of credit consumption cannot be used to describe interviewees' household motive for credit consumption. Only two of my interviewees have a car in their households, one in Pretoria and the other in Cape Town. The household in Pretoria, whose head is a driver bought the car from the auction of scrap assets by his employer. The employer also lent him the money to pay for the car, which was gradually deducted from his salary on monthly basis. He cannot afford to fuel the car to work every day, so he takes a bus to work. The car is only used to travel to the family home in Limpopo occasionally. The household in Cape Town owns a Fiat Uno that is not in working condition. We did not get to discuss how the car is used.

It is important to re-emphasise that, the kind of items that falls in each of the credit consumption dimensions are not limited to the characteristics of such items and the consumption needs they fulfil. The elements of alternative means of satisfying the particular need and time are important. A person cannot be desperate to use credit to satisfy a particular need, when there is enough time to consider alternatives means. Therefore, a particular consumption need can cut-across two dimensions of credit consumption. For example, the consumption of credit for clothing can fall under need and choice dimensions. Credit consumption for school uniform can be considered under need dimension, as is other necessary clothing needs. But when clothing consumption becomes excessive, we can talk of choice dimension. But this classification must be treated with caution. We might be tempted to consider a person, who bought clothing on credit to attend a particular function as acting

under choice dimension, but this action can also be considered as need, if it is viewed as social participation.

The households that are involved in this study, therefore, consume credit at the desperate and need dimensions, which mean less power in the credit relationships. They have very little or no power to negotiate the terms and conditions of credit agreements they enter into. They are receiver of terms and conditions of credit agreement from the credit providers. Interview conversation reflects that, these households don't even know or care about the cost of the credit they are consuming as long as they can afford the repayment instalments. The paradox is informal credit providers, *Mashonisas*, communicate their cost of credit more clearly than formal credit providers, such as cash loans and retail goods credit providers. *Mashonisas* charge flat interest rate per month without any other hidden charges, compared to formal credit providers. Interest is just one of the several charges that culminate into APR. None of my interviewees knew how much their credits cost, apart from those taken from informal money lenders. Tebogho, who consolidated her debt with African Bank and several retail clothing and household goods stores with Capitec Bank, emphasise the monthly instalments in the repayment of her debts:



For Capitec I'm paying R2, 660. That is the amount that I'm 'gonna' pay for three months. That is May... I went there end of April 'mos' 28<sup>th</sup> of April. Then they started with May to deduct that R2, 660. May, June and July, it's 'gonna' be R2, 660 'ne' for Capitec... Then for August, September and October, it's not 'gonna' be R2, 660. I said it's 'gonna' be R2, 660 for three months; that is May, June and July. And then August, September and October it's going down to R2, 280 for those three months... And then in May next year I will be paying them R1, 770 for the next two years. I will be paying that R1, 770 until I finish that three years. And then I've got that credit card of African bank that I'm paying R585 for it. I've got this top-tv, I'm paying R99 and Woolworth account, I'm paying R100 (Tebogho: SR 14, P3, 4 – 03/07/2011).

It is more about what the interviewees that consume credit did not say, when they were asked about how much and how they repay their debt. Much emphasis was put on the instalment amount they pay every month. No reference was made to how the instalment amount was calculated, except for the case of Nicole that was stated earlier that asked a Cash Loan, why her repayment was high, when she was told that they only charge 25% flat per month. She was told that there were other fee considerations that they were silent about when they talk to loan applicants. Lerato, Teballo and Lucy account of how they pay their debt highlight the

monthly instalment amounts. Teballo said she is repaying Mr. Price's debt and a fridge she bought. When she is out of money before the month-end, she goes to a *Mashonisa*, and she keeps going back:

Yes we have accounts. Sometimes we don't manage to buy uniform for our young children, so we have account to buy uniforms for school at Ackermans... R200 every month... No, not only uniforms, sometimes it is for winter clothes, sometimes for Christmas, when we go home during Christmas, we go and buy clothes there are Ackermans (Lerato: SR 30, P8 – 06/09/2011).

Still I only survive when I go and borrow money from a 'mashonisa'. I borrow from them I do what I needed to do, at the end of the month they take their money from my salary. I take the money, they deduct it, I take the money again, they deduct it again, and on and on like that, until like... I have Mr Price account on which I pay R150 every month. I bought a fridge, on which I am paying R150 per month as well, and I have to eat and send some of the money home, therefore I can't survive... For my side 'ne', for myself, okay, I have a boyfriend on the side who my husband doesn't know about, you see. He helps me by giving me R400.00 every month. That is how I am surviving (Teballo: SR 9, P2, 3, 4 – 24/03/2011).

I am paying for some furniture at OK furniture... I am paying R300 every month to OK for the furniture... I have only Edgars... I pay only R200 because most of the time I use that card when I want to buy clothes for the children. I buy them clothes at Jet, Jet and Edgars are the same shop, yeah, it's the same we use the same card (Lucy: SR 25, P6, 7 – 30/08/2011).

Monique, who previously worked for a micro-credit institution, and now works for a commercial bank, added her voice that credit consumer care less about interest rate, when they are in desperate need of money. The only thing they want to hear is that you are giving them the money. This what she said when comparing commercial banks to micro-credit Cash Loan:

...the micro market, yes the interest rates are higher because they are willing to take the risk with that particular client although they've got bad listings. And that is why our poorer communities, because of their poor credit record might feel that that is the only institution that is willing to help them because they are getting the credit every time. But that institutions is also failing the client because they are not telling you where you've... listen-here, do something proactively about your credit record so that you can go and get a loan with lower interest. And I don't think clients are really interested at that point; they are just interested in getting the money, doing what they need to, and then paying it off, no matter what the cost of that loan (Monique: MC 4, P1, 2 – 21/06/2011).

When a question about interest rate was posed to some of the interviewees that work for micro-credit providers, all they could say is that interest is calculated according to the applicants' risk profile, which has been programmed on their system. They could not say specifically what interest rate their organisation is charging other than to say that monthly repayment instalment is system generated. This is Monique's account:

The institution that I worked for, it was sensitive to the client affordability, their good credit rating or their credit standing, if they were paying their accounts well, they have never been in arrears with their accounts. They could be earning little income, but as long as you are paying your accounts well you will get a good interest rate for them... for the money that you are borrowing from them... I think it was about 17%, maximum was 35%. So you could have been charged 35% as the maximum interest rate, but it was... it work hand-in-hand with your risk profile... It's not standard, yeah. That was the beauty of it; even the ones with my institution are also not standard (Monique: MC 4, P1, 2, 8 – 21/06/2011).

Vangile, who is a Query Line Manager with one of the big micro-credit provider in South Africa, attest to the fact that customers' risk profile, determine the charges they get. The higher the risk profile, the higher the charges and vice versa. She also stated that there are other charges that are for the customers' account:

Depending, with me, remember I have furniture and I have loans, the score cards are different. A loan, you know, a loan can go up to 27.5 to 30%, 31% depending on your risk. Some people... say you are a doctor, right... like I said different people have different scores as to their... to the class where they are in, right. So, say you are a medical doctor, you don't have that much credit. Your credit is basically what you live on. Your house loan, your car, your school fees, your cell phone, and you pay them well. So, you will be a high scorer for us, you'll be a low risk for me. So, I don't have to charge you too much interest. But for someone who is a high risk client I will charge a lot of interest, just in case. And those interests you need to remember that it accommodates you also and it accommodates me. Say you get retrenched wherever you work, that interest that you've been paying can add-up into your insurance where we close-off your account as per your insurance. We are not 'gonna' force you to start paying us if you're not... if you don't have a certain kind of income, you see. But if obviously you default without a reason that interest must count in my favour, you understand what I'm saying. There are other charges that we charge; service provider's charge, registration fees, administration fees. Remember, a bank like African Bank does not have surplus cash sitting somewhere, they also have to get cash elsewhere, you know. So, charge like admin fee is to get say... we work with Standard Bank. So, say we need money from Standard Bank, we need to pay the administration to Standard Bank. You need to be charged for that, African Bank cannot take the responsibility for what I give you (Vangile: MC 8, P 7 – 10/09/2011).

By implication the cost of credit is shrouded in ambiguity from the perspective of credit consumers, motivated by desperation and need. The practicality of credit consumption at these dimensions, tend to trade affordability of repayment instalments for the cost of credit, as important factor in contemplating credit consumption. This in turn does not allow households to know the extent, to which their real income will be depleted due to the cost of credit consumption. Therefore, their decision to consume credit is not well-informed, hence, gradual continuous depletion of income might drive them to the edge. Over-indebtedness is likely in the long run, if households continue to act in false consciousness that they can afford the credit. The understanding of over-indebtedness, however, is only concerned with the inability of households to meet the affordability criteria, not the effect of consumption of credit on the social reproduction of households.

### **7.3 Effects of Credit on Social Relations and Households**

Much more important for the purpose of this study, is how indebtedness could impact the quality of social reproduction of households. The implication of this for social relations and institution of the family could be telling. Michelle's marriage lasted for 29 days because the groom did not disclose his high level of indebtedness to the bride before they went to the altar. She realised after her marriage that the new family will have to survive on her income alone, because the husband is highly indebted, which means all his monthly income will go to the servicing of his debts. The fact that her husband did not disclose his level of indebtedness to her makes her conclude that they cannot live together with dishonesty. She said:

Emm... then 2009 I got married, and after 29 days of marriage I filed for divorce, so I'm single again... laugh... I like my independence too much. Emm... Why did I file for divorce, money matters, it was finances... It was finances. Emm... my ex-husband wasn't honest enough with his finances and with the result when I found out that he is in the biggest of biggest of debt that anyone can be in. It's not because of the debt, it's not because of the financial struggle that I had for those 29 days, not really but it was because of his dishonesty, because he didn't disclose it to me. I would have asked him plenty of times, let's discuss our financial status so that we can know what to do, because marriages end because of finances. It was something that I was very adamant about, yes, and then I filed for divorce and now I'm single, and emm... yeah, the rest is history (Michelle: SR 15, P2 – 06/07/2011).

This is an indication of how indebtedness can affect social relations within households. High deduction through loan repayment from household income on monthly basis, could affect the household normal functioning achievements (Sen, 2008). What is left from their income for



the month might mean other important needs cannot be satisfied, which will in turn affect the quality of their social reproduction. Over-indebtedness can lead to a credit consumer, finding his/herself under administration. At this level, such consumer could not access any other form of credit, until the administered debts have been fully repaid and the adverse listing on the credit bureau is adjusted. This means such household cannot respond to any emergency need for credit that may be prompted by a desperate situation. Some may resort to *Mashonisas* in order to deal with such emergency since they cannot access formal credit.

The situation doesn't get better easily. If serious conscious action is not taken, concerned household might, just like a snowball rolling down the cliff and getting bigger, continue to sink deep into the debt quagmire. The failure to go into administration might lead to the account being handed over for collection. Collection by debt collectors or attorneys, might involve getting judgement for emolument order (garnishee order) or attachment of the properties of debtors' households. This could have dire consequences for concerned household, as the planning of their resources and income to support the quality of their social reproduction is taken out of their hands. The very first interview conversation in this study, shows that attachment of assets is often futile, if household goods are financed by different retail store, which debtors still owes. Creditors therefore, often get judgement for emolument order to attach the salary of debtors.

Garnishee order has its negative implications for concerned households, which could be aggravated by abuse of the process. Forum at 8 on SA FM radio, January 21, 2014 notes that emolument orders have no expiry date, no database for it and no good judicial oversight. Most importantly, there is no proper financial review of debtors before orders are issued. All these could put debtors and their households into serious financial trouble, where different creditors act in an uncoordinated manner. Credit consumers are at times left with very little income at the end of the month. Impaired financial record and/history could affect the next generation of concerned households with regard to building their capabilities such as education. For example, one of the conditions for accessing National Student Financial Aid Scheme (NSFAS) in South Africa, is the personal guaranty of the applicant student parents. Parents with impaired credit records cannot give such guaranty.

## Chapter 8

### Social Policy – Collective Response to Social Reproduction

#### 8.0 Introduction

As indicated in chapter 5, 6 & 7 the structure of the political economy of a society will inform how it responds to the challenges of social reproduction. A society's political economy structure might inform individual or collective response. The dominant mode of response by any society is reflected in its socio-economic policy. It was argued that contextual realities, rather than ideological underpinning, should inform the nature of socio-economic policies (Reisman, 1977; Abel-Smith & Titmuss, 1974:16). However, what we see cannot be explained by such analysis in view of the global and local interests and power structures. The choice of the content of socio-economic policies of sovereign countries, may transcend national boundaries. It may be influenced by both internal and external interests and power relations.

When such policies are not in touch with contextual and/or local realities, the consequences could be manifested in persistent dent on the prevailing quality of social reproduction, such as high rates of inequality, poverty and underdevelopment. Collective consumption as a response to the challenges of social reproduction cannot be reduced to the provision of social welfare because of failure in the distribution abilities of the independent market system. Hibbert (2010) pointed this out, when he notes that social co-operation should be viewed from the perspective of exchange and social justice. 'Co-operative surplus' for him is the benefit of resources and opportunities that are elusive to the individual acting alone. All members of a social co-operation will therefore, benefit from such co-operation with no one left worse off, than prior to the co-operation. He contends that, social welfare therefore, should be viewed as pooling of risk, without any cause for trade-off between efficiency and equality.

Drawing on the work of Joseph Heath, Hibbert further argues, that social co-operation should be re-thought as enhancing efficiency, to remove the perceived trade-off between efficiency and social justice. Therefore, seeing social co-operation as risk-pooling for collective benefit, through the reduction of life's uncertainties, using insurance logic, is important to show mutual advantages of market and non-market social institutions. When social co-operation is not only justified with egalitarianism, but also with efficiency, the residual thinking that the

gain of the economic system is appropriated by other systems, will be replaced with co-operation for benefits (Hibbert, 2010). This position is exemplified by the practice of informal neighbourhood societies for funeral and other social events in South African Township, emphasised in this study (see Chapters 5, 6 & 7). Social cooperation in this regard, is a pooling of risks, in the form of exchange, for the benefit of group members, so that social cooperation with regard to the cost of social reproduction is not limited to redistribution, but also to the mode of distribution.

However, Hibbert's (2010) position is crafted with a neoliberal orientation, to show that there is a market in social institutions. I will take it that he is not suggesting that this understanding of social welfare in particular, and social policy in general, is an attempt to relegate the role of ethical moral value and the norms of equality, solidarity and altruism in the shape that social policy takes in any society, when it draws on the social realities of the society it speaks to (Adesina, 2009; 2011; Sen, 1999).

What is important in this conception of social response to social reproduction is to show that, social policy is not the exclusive domain of the state, and that market exchange is not the exclusive domain of the private sector. And there is no trade-off between social justice and efficiency, which is an important contestation in the social welfare debate. Taking this further, it will be a limitation to think that the question of social reproduction is limited to the activities of the private sector and the state. There are arrays of social organisations that could be important in this regard. A good example is the case of informal savings and insurance association, aimed at alleviating the challenges of social reproduction or make provisions against defined risks that they may suffer (see Chapter 7). Therefore, social welfare is not the exclusive province of the state and private sector, other familial, community collectives could be important.

The imperative of these alternative social collectives, driven by prevailing social values, social norms and practices, is what is important for Adesina (2009), when he argues that social policy in the African context should be informed and draws strength from African values and social realities. For him, policies that are informed by the experiences of other parts of the world might not be imperative to the African realities. The practice of pushing for the replication of policies, informed by social realities of other contexts, such as Europe in Africa by development agencies was described by what he called 'aggressive policy

merchandising' (Adesina, 2011). Merchandised policy could miss important social realities of the adopting country. This thinking is instructive to this study. Informal social practices could prove important for the crafting of social policy that draws on good values and social practices, without attempting to copy and paste policies from other remote contexts. Before discussing the imperative of social response to the challenges of social reproduction, it is thought useful that it is preceded by inferences from the data presentation in Chapter 5, 6 and 7.

### **8.1 Explanation of Data**

If we look at the stories behind the proliferation of over-indebtedness, credit administration, garnishee order, attachment of properties and bad debt with regard to consumer credit, all point to one thing; the problem of gap in social reproduction of households. These are indications of failure of individuals' approach at dealing with this gap. Individual response is necessitated by lack of collective response. Which type of response (individual or collective) prevails in any social context will, to a large extent, be determined by the prevailing structure of political economy (Chapters 2 & 4). Internal and external forces, underlined by the structure of power relations, determine the prevailing structure of political economy in any geo-polity. The outcome could reflect dominant ideology or contextual realities.

The global discourse has been between neoliberalism and social democracy. These two positions seem to reflect ideological underpinnings and less of contextual realities. There is a tendency for a country to adopt ideologically-driven structure of political economy that have been successful in other countries, without paying attention to the local realities of its own context. While some degree of bounded success may be recorded, radical positive transformation is more likely to remain elusive. Hence, poverty and inequality in the population may remain persistent. The nature of power relations could be important in the prevailing structure of political economy in a society. This is what Terreblanche (2002) referred to as "power constellation" in the South African context (see Chapter 4).

In South Africa, the social democratic tradition of the ruling (ANC) party as reflected in the Africans' Claims in South Africa and the Freedom Charter, and less so in the Constitution, is not reflected in the characteristic neoliberal socio-economic policy delivery. This observation does not remove from the substantial expenditure on social wage (see Chapter 4). It could be argued, the social democratic emphatic statements in the Africans' Claims and the Freedom

Charter, was watered down in the democratic Constitution. For example, the two former documents clearly stipulate the rights to housing, health and education without any limitation clauses. The same could not be said about the Constitution. Sections 26 (2) and 27 (2) of the Constitution limit the rights to housing and health by available resources to the state. Hence, the state is only liable to their progressive realisation as stated in the Constitution. Section 27 (1c) of the Constitution states that social security (social assistance) is limited to those that are not able to maintain themselves and their dependants ([www.anc.org.za/show.php?id=4474](http://www.anc.org.za/show.php?id=4474); [www.anc.org.za/show.php?id=72](http://www.anc.org.za/show.php?id=72); Constitution of the Republic of South Africa No. 108 of 1996).

The values that a society draws on, in order to balance different interests groups' drives is very important. Power should be understood beyond the Weberian conception, to include the Foucauldian conception of its location within the capillaries of social relations. This conception highlights that power and its exercise is beyond status position and official institutional position: it permeates all social relations. Therefore, not occupying political office does not mean the absence of and the lack of exercise of power (McHoul & Grace, 1993; Mills, 2004).

Social justice is an important value system that could propel a society to manage power relations. However, it is not given, as we do not have the luxury of 'original position' to guaranty impartiality as abstractly conceived by Rawls (1971). What we have in the South African context, is how the history of colonialism, capitalism, imperialism, segregation and apartheid define the present socio-economic and political context (see Chapter 4). The socio-economic transformation of the racially defined poverty and inequality remained inadequate twenty years into post-apartheid (democratic) South Africa. It seems the value of racial integration is promoted over social justice. The 'present position' in South Africa, is that of unemployment, low wage, precarious jobs, crime, poverty and inequality (See Chapter 4).

It could be argued, that the structure of the country's socio-economic policies has not stimulated adequate socio-economic transformation that will benefit the majority of the South African population. Perhaps, a better way to think of improving the quality of social reproduction of the majority of the population is to draw on the core values of the society, with regards to collective consumption expressed in social policy. Individual agency to effect smooth quality of social reproduction through the consumption of micro-credit, it is argued,

only brings relief in the short run, while it gradually diminishes households' resources available for consumption expenditure in the long run. This in turn causes strain on the quality of social reproduction and the development of human capabilities for the next generation.

This study, suggests that low wage and poverty could account for the consumption of micro-credit (see Chapter 4). This could be complementary to the changing nature of work, through the replacement of standard employment relationship (SER) with atypical employment and the diminishing power of workers' unions as enabling race to the bottom, with regards to wages (Omomowo, 2010). Micro-credit could provide short run cushion for low wages. It can give employers the latitude to pay low wages because it fills the gap in workers survival needs, in the short run. Workers wages only need to be able to afford 'micro-credit for consumption needs', not the 'substantive consumption needs'. The affordability of credit instalments to meet up with needs for social reproduction is not the same as the affordability of needs for social reproduction. Workers might have the wrong impression that they are doing fine, while the cost of credit gradually depletes their income and subsequently the quality of their social reproduction.

It is argued here that, the lack of collective consumption, expressed by comprehensive social policy regime, created the space for micro-credit institutions to thrive at the margins between productive, individual and collective consumption with negative consequences for the quality of social reproduction of households (see Chapter 1). This study shows that, micro-credit consumption can have negative consequence for households with regard to their claim to wage funds, under productive consumption by making low wages seem adequate in the short run. Micro-credit consumption will also have direct negative consequences on the quality of social reproduction of households in the long run, by gradually depleting available income to satisfy consumption needs. These conditions are enabled and perpetuated by lack of comprehensively structured collective consumption.

The prevalence of individual response to the challenges of the quality of social reproduction, could be viewed from the perspective of government's neoliberal grounding of the understanding of social policy. Though, a substantial amount is committed to social assistance in the form of social grants and social services (see Chapter 4), it is overwhelmingly targeted at the extremely poor. This leaves substantial proportion of the



population in precarious living and poverty (especially those living within the poverty range). The thrust of the economic policy is market led, hence the lack of well co-ordinated integration of social and economic policies that can foster broad socio-economic transformation. The South African social assistance spending is presently structured to treat market failure, instead of being preventative. The different income thresholds to qualify for different social service provisions speak to this (see Chapter 4).

The majority of the population might not be well served in this kind of situation, especially where “individual advantages” (Sen 1999) are different. Perhaps, the narrow conceptions of poverty as questions of income and expenditure might inform this type of approach. This narrow conception also have the tendency to hide institutions (such as micro-credit) that could perpetuate poverty, when they are presented as good (even as alleviating poverty due to the conflation of productive and consumption credits) (see Chapter 5).

Hahnel (2002) indicates that the high level of unemployment is in the interest of employers’ power over workers, with regards to wages and other conditions of work, as there are more people willing to replace workers. Also, inflation redistributes real income from the poor to the rich because assets, products and services will attract more value, while the goods and services that workers’ wage/salary can control diminishes. By implication, what may seem a general problem in society is actually in the interest of those with productive wealth. The activation of the local communitarian values of care and sharing such as ‘ubuntu’ (Andreasson, 2010) and ‘molimi gase moji’ might be useful to improving the well-being of those experiencing capability deprivation.

‘Ubuntu’ speaks to African philosophy expressed in co-operation, empathy and reciprocity, informed by the moral obligation of care and responsibility. It is an expression of African humanity that suggests that our life is only meaningful in relation to other persons around us. It transcends a description of human nature to emphasise social ethics and norms of association (Andreasson, 2010). ‘Molimi gase moji’ is a SeTswana saying that suggests reciprocity and care for others. Whatever we are and have, should be in the service of others not ourselves - skills, money, harvest etc (see below). We will in turn benefit from others. What we must note here is, reciprocity in this sense, does not speak to the exchange of equivalence as in market exchange. It is reciprocity that means giving to others, in a

unilateral transfer and can be compensated in a unilateral non-equivalent receipt from a totally different person or source in the webs of social relations.

Drawing on these values and norms in the South African context, could be important for crafting a collective consumption, expressed in comprehensive social policy regime. These values can inform social policy and, in turn, can be informed by social policy (Titmuss, 1970). When the values of care and co-operation are activated, racial integration will be one of the benefits, as is improving the quality of social reproduction of the entire population. I am not suggesting the end of capitalism, but its more negative aspects can be tamed. Diverse interests can be managed by drawing on the norms and values of empathy, care and co-operation.

### **8.1.1 Re-appropriating Emerged Categories**

The analysis of households' practices of social reproduction and the activities of micro-credit institutions revealed that, the consumption of micro-credit is a significant feature in their social reproduction process. This is reflected as individual household's respond to covering the gap in social reproduction. *Affordability* of monthly repayment instalments (and not the real cost of credit – APR) is at the core of the review and granting of credit to applicants. Credit consuming households, are therefore, not clearly informed about the real cost of credit, and its effects on their disposable income, which might have implication for the quality of their social reproduction.

The limitation of the *affordability* test as central to the credit granting process was revealed because the questionnaire does not capture important social practices, such as rituals at different points in life and death among the black African culture, that have financial implication for households income. Also the questionnaire does not take care of emergencies, such as sickness and accidents, which may disrupt the income flow of households. Finally, *affordability* only tests, whether credit applicants can afford the monthly repayment instalments, rather than excavate how the real cost of credit (APR) will affect household income. As such, the objective of *affordability* test to prevent *reckless lending* by credit providers and *over-indebtedness* by credit consumers remain partially achieved.

Therefore, we can contend that the gap in *affordability* test, allows reckless greedy credit providers and careless and desperate credit consumers to go around this legal prescript of

credit administration in South Africa. One of the consequences of this is *over-indebtedness* of credit consumers and high bad debt in the books of credit providers. High *over-indebtedness* is a sequel to high default rates of loan repayment. Of course, these are fuelled by credit consumers' dishonesty, which could be aggravated by the dimension (desperation, needs and choice) at which they sought credit. Seeking credit at the desperate dimension means that the tendency for a credit consumer to be dishonest is highest. The probability for dishonesty is lowest, when credit is sought at the choice dimension of credit consumption.

Profit is the drive for *reckless lending* by credit providers, and when this combines with desperate credit consumers, the results are *over-indebtedness*, *high default rate* and *bad debts*. These are the characteristics of the South African credit industry. *Credit History* is another key category that emerged as significant to the credit granting process. It is an important complement of *affordability* in the credit granting process. A credit applicant must have a good credit record, as listed by credit bureaus, before he/she can qualify for credit. It means his/her account must be in good standing. An adversely listed account on credit bureaus is declined credit (see Chapters 5 & 6).

*Credit History* assists credit providers to take informed decision on credit evaluation about credit applicants' character and *affordability*. It reveals credit applicants' repayment attitude. It also shows the level of credit commitment and outstanding repayment obligations used in the *affordability* test. *Third Party Employment* is another significant requirement to access credit. With this category is social transfers, such as pension and other grants (old age grant especially) (see Chapter 7). Credit providers do not grant an unemployed person credit, except such person is a pension or a social grant beneficiary. Self-employed small scale entrepreneur are not considered for credit, it must be a third party employment that can be verified. In a way, this practice might discourage the development of small scale enterprises as some account of access to credit will argue - an affirmation that micro-credit in the South African context, is mainly for individual non-productive consumption (see Chapters 5 & 6).

A major lacuna, in the connection of social reproduction to micro-credit consumption, is the treatment of the *purpose* for which credit is consumed as insignificant. Credit providers are only concerned with *affordability*, *credit history* and *employment status* of credit applicants in credit evaluation. Hence, all required documentation such as bank statements, identity documents and pay-slips are targeted, at drawing information on these three key processes.

Personal loan, for example, does not state the purpose for which credit consumer will use the credit. This study reveals that, most credit providers do not care about purpose for which credit is consumed. This, I will think, is a missed opportunity for the credit system to provide information basis for collective consumption or social policy. While I acknowledge that it is not the responsibility of credit providers to provide such data, it could be a rich source of information for collective response to the challenges of social reproduction. Again, it re-emphasise our view that credit consumption is a form of individual response to the challenge of social reproduction. Also, credit providers assume individual responsibility in the appropriation of disbursed loan. However, the level of individual responsibility in decision-making could be affected by the dimension at which credit is consumed.

*Cost of credit* (APR) is shrouded in ambiguity from the credit consumers' perspective, apart from the *Mashonisas*, whose charges are clear. *Cost of credit* from the credit consumers' view has been reduced to affordability of the monthly repayment instalments. The implication of this is that credit consumers' households are not taking well informed decisions, on how the real cost of credit will affect their income and consumption. Hence, I have considered this with the notions of the implication of credit consumption by households in the short and long-run. This is to show that the real cost of credit, apart from the principal amount advanced consumption, will gradually deplete available income for household consumption and social reproduction.

While the gradual depletion of household income may not be felt in the short-run, the tendency to go back to credit to cover the shortfall in consumption might gradually undermine the quality of consumption and social reproduction of concerned households in the long-run. In essence, the elevation of *affordability* of monthly repayment instalments, have shrouded how substantive credit with attending cost will affect concerned households. The implication of this is that, the consumption of micro-credit to smoothen gap in social reproduction might lead to declining quality of social reproduction of concerned households.

*Dimensions of credit consumption* are the interface of micro-credit relationship between credit providers and credit consumers. Households' decision to consume credit can be made at three dimensions of desperation, need and choice. These three dimensions define the levels of power relation and the exercise of due diligence by credit consumers in their decision. If we take the three dimensions as a continuum that run from desperation, through needs to

choice, the power of credit consumers in credit relationship and the exercise of caution in credit consumption decision is lowest at the desperate dimension of credit consumption. Choice dimension of credit consumption is at the opposite end of the continuum. At this dimension of credit consumption, the credit consumers have highest level of power in the credit relationship and the freedom to choose whether or not to consume credit.

The choice dimension of credit consumption, is synonymous with Sen's (1999, 2009) capability approach to poverty (see Chapters 2 & 4) that sees the freedom to choose desired functionings, as improved quality of life. Contrarily, poverty thins out life chances and choices (Novak, 1996). The poor take whatever life throws at them because they lack the freedom to choose. The desperate dimension of credit consumption is at the opposing end of the continuum, where the possibility of choice or alternative course of action is extremely limited. It was revealed that most of the interviewees consume credit at the desperate and need dimensions. The limited freedom to choose means that, they take credit at the terms and conditions determined by credit providers, without exercising due diligence and caution that comes with the freedom of choice.

The lack of freedom to choose when, what and under which conditions to consume credit by households, could spell assault on the quality of their social reproduction. Acts of desperation in the consumption are best demonstrated by taking micro-credit from *Mashonisa*, even when the interest rate is obviously high. The same thing applies to cash loans, where the affordability of monthly instalments is considered over the real cost of credit. Hence, micro-credit consuming households cannot properly project how credit consumption will impact their quality of social reproduction, both in the short run and long run.

The category of *debt trap* is considered as 'the good and the bad'. The proliferation of micro-credit consumption to smoothen individual consumption, aggravation of its effects on households, through carelessness associated with desperation and recklessness informed by profit motive, seems to point to *debt trap*. Over-indebtedness, default in repayment obligation, bad debt and profit are all consequences of *debt trap*. Micro-credit consuming households are either trapped in debt because they are meeting-up with their repayment obligations or because they are defaulting in their repayment obligation.

Those meeting-up with the repayment of their debt obligations are seen as good credit risk (good payer) by credit providers. Hence, they do everything to keep them in perpetual debt, for profit, by offering them different credit products. In fact, credit providers sought after this kind of credit consumers. On the contrary, those defaulting in their repayment obligations are viewed as bad credit risk (bad payer) by credit providers. They do everything to extract repayment from them to avoid bad debt. This could mean depriving them of further access to credit, by blacklisting them on the credit bureau, handing their account over for collection, getting an emolument (garnishee) order against their salary or wage income, among others.

Credit providers are concerned with their vested interests, without any iota of concern for how this plays out in credit consumers' households. They are in business for profit, and it is in their interest to keep good credit risk and expunge bad credit risk. The level of caution that can be exercised by credit consumers depends on the dimension (desperate, need or choice), at which they consume micro-credit as indicated above. The discerning of good and bad credit risks is precisely the purpose that *credit history* on the credit bureaus serves. The mooted consequence of this is that, potential credit consumers are motivated to build good *credit history* by getting into credit relationship, when they do not need to, in anticipation of when they will need credit. Retail goods credit (especially clothing account) provides the pedestal for this subtle incursion into credit consumption (Feasibility, 2011).

The paradox of employment, providing the conduit that connects households to credit consumption, must be highlighted. The requirement of third party employment and the exclusion of self-employment, mean that this type of micro-credit is not for small scale enterprise development, as other conception of micro-credit suggests (see Chapter 5). It is micro-credit for profit from credit providers' perspective, and for smoothening gap in individual consumption (see Chapters 1 & 2) from credit consumers' perspective. This in essence, could be viewed as a case of adverse inclusion (Sen, 2000; Du Toit, 2004; Nevile, 2007; Kantor, 2009), especially where the consumption of micro-credit in the long run, reduce the quality of social reproduction of credit consuming households.

Credit providers, in addition to those with third party employment, target beneficiaries of old age pension and other social grant holders as good credit risk. Granting credit against pension and social grants imply that these social transfers are appropriated for profit by micro-credit providers. This can only mean one thing for the households of pensioners and social grants



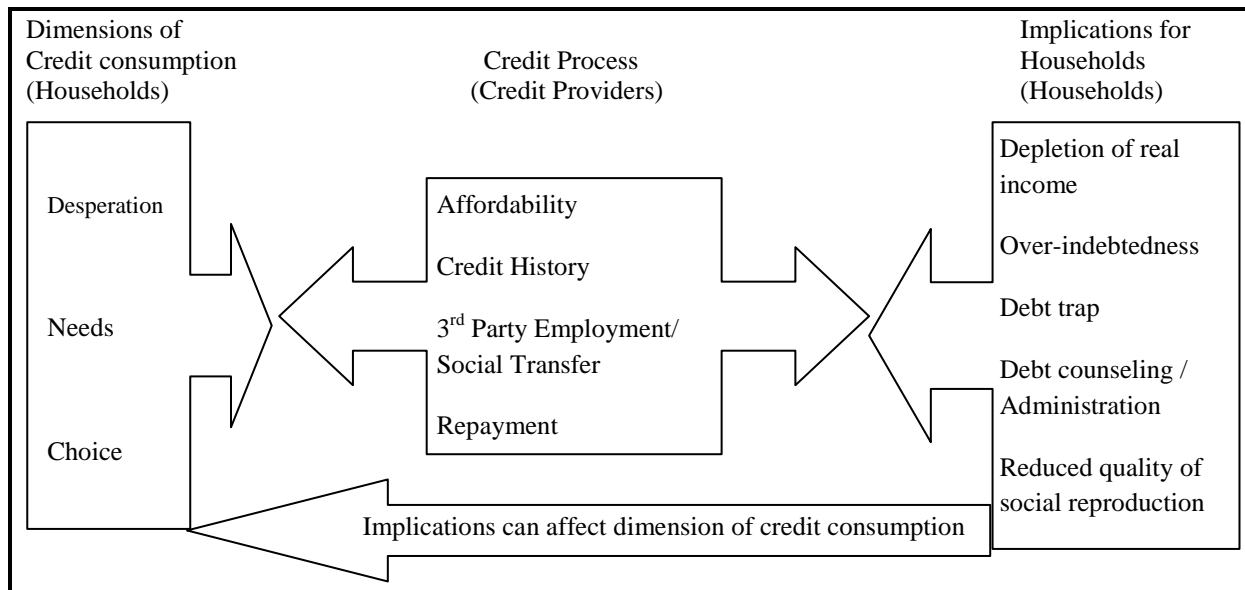
beneficiaries, the depletion of the real value of their pension or grants respectively, when the cost of credit is deducted. This study reveals that pensioners are at times trapped in the debt cycle, because after repaying credit with cost, the amount they are left with cannot take them through the month. They are often compelled to ask for another credit to bridge the gap.

It seems *Debt Counselling* institutions rehabilitate over-indebted credit customers, rather than prevent over-indebtedness. Credit consumers only refer to debt counsellors, when they are struggling to meet-up with credit repayment obligation. Therefore, debt counselling is a voluntary mechanism for credit consumers to readjust debt repayment instalment amounts and term, according to their income affordability, when they are defaulting on their repayment obligation. It is also an indication that *affordability test* is not fool-proof, it is susceptible to variation in household income and expenditure, due to various factors, and put strain on the ability of debtors to meet their repayment obligation. It does not speak to the factors, such as low wage, precarious employment and poverty among others (the gap between income and expenditure) that prompt credit consumption in the first instance; hence, it cannot prevent indebtedness.

The interaction between credit consuming households (dimensions of credit consumption), micro-credit providers (through the credit process) and its implications for the quality of social reproduction of household, is depicted by figure 8.1 below. It shows how gap in social reproduction prompt households to seek micro-credit at different dimensions. This makes them go through the credit granting process. The last pillar of the interaction is the effect of micro-credit consumption on concerned households. The implication can feed back to affect the dimensions of credit consumption.

**Figure 8.1: Dimensions of Credit Consumption and Implications for Households**

**Quality of Social Reproduction**



The political economy of a society provides the framework or basis for this interaction. In the South African context, poverty, inequality, high rate of unemployment and low wage regime characterise the political economy. The challenge of social reproduction (gap in consumption needs for social reproduction) is left to individual devices, as dictated by neoliberal conception of how society should work. The consumption of micro-credit is a form of individual response to the challenge of social reproduction to smoothen individual consumption. This is prevalent due to lack of comprehensive collective consumption in the form of social policy.

The next section is devoted to a brief overview of how collective consumption, informed by positive values of a society, can bridge the gap in social reproduction. This is capable of improving capability and functioning of members of a society. It can reduce the proliferation of the consumption of micro-credit at the desperate dimension, as this study has shown is the case in the South African context.

**8.2 Conceptualising Social Policy – Social Response to Social Reproduction**

The conception of social policy has been coated by the need to navigate the global dominant ideological landscape, which at times undermines contextual social realities. Both social and economic policies are how a society responds to the needs and challenges of production and social reproduction, which may be conceived also as development challenges. However, the

contribution of social and economic policies and practices has been erroneously ordered in hierarchical fashion, to suggest that, one precedes and is more important than the other, in social policy discourse. This thinking is played out in the perceived relationship between economic and social development, whether it is positive or inverse. Drawing on Sen's (1999) argument that "economic development, equity and democracy are mutually constitutive", Mkandawire (2004, 1-3) noted the limitation of a trade-off thinking between equity and efficiency, to argue for the "mutually constitutive nature of social and economic development".

The divide between economic and social policies in the discourse of social policy therefore, is skewed in favour of economic policy as occupying the central and dominant role in the consideration of social reproduction. Social policy is often viewed as serving a residual function of fixing the failings in the economic system. Social policy in this regard, espouses the neoliberal connotation of free market, as the driver of the distribution of resources. Hence, social policy is viewed as the process of redistribution to ameliorate the deficiencies of the market system, which is often referred to as "safety net". This is a limited understanding and conception of social policy that assumes a clear dichotomy between economic and social policies (Elson, 2004). Mkandawire (2004:3-4) contrary to this position, argues that economic and social policies are complementary in fostering sustainable development.

He went further to argue that, the economy is embedded in the society. Therefore, social issues such as human development, social inequality and poverty, should be at the heart of macro-economic policy. Social and economic reproduction of society, informs social policy, rather than the treatment of market failures. Therefore, contextual peculiarities should provide the background to socio-economic policy structure (Mkandawire, 2004; Abel-Smith & Titmuss, 1974:22; Titmuss, 1970; Reisman, 1977). The residual thinking, informed by neoliberal prescription, limits the concern of social policy to redistribution for reproduction, and social protection, to the neglect of the developmental imperative of social policy, such as production, social solidarity and nation building (Adesina, 2009; 2011). These are important functions of social policy that could be dispensed through multiple policy instruments.

By implication, what this suggests is that, the social cannot be separated from the economic because they are mutually embedded and they can reinforce each other. That is, economic

policy can foster social development and vice versa. For example, social investment in education and health can grow the economic base of a country, by increasing the number of skilful persons available to the labour force and the health of the labour force respectively. However, this is a way of rethinking social policy broadly speaking. The conception of social policy as welfare, could be limiting in what is included within its scope. We might be tempted to only think of things that immediately and directly contribute to social reproduction challenges and oblivious of issues that concern the development of social capabilities that indirectly speak to social reproduction.

### *Underlying Bases for Social Policy*

Social policy has been variously defined, often influence by the time, context, norms and values that informs a writers' view. For the purpose of this study, social policy can be conceived as social response to maintain and improve the quality of social reproduction of a society, by transcending the limitations of economic market, orchestrated distribution of resources defined by bilateral exchange, to include unilateral and multilateral distribution and/or transfers driven by communitarian value. Mkandawire (2004:1) defines social policy as "a collective intervention in the economy to influence access to, and the incidence of adequate and secure livelihoods and income". Adesina (2009:S38) defines it as "collective public efforts, aimed at affecting and protecting the social well-being of people within a given territory". Social policy analysis cannot be divorced from the entire understanding of society. Therefore the understanding of social policy must be contemplation in relation to the economic and political institutions (Abel-Smith & Titmuss, 1974).

Social policy is collective action-oriented, hence the moral, political, norms and values of a society are imperative. In essence the prevailing social policy structure, is often a reflection of moral values and norms of a society. The discussion of social policy therefore, originates from the ideas and values of a society, because it cannot be conceived in a social vacuum (Abel-Smith & Titmuss, 1974; Reisman, 1977; 2001). It is political in the sense that, societies are presented with options, out of which choices are made. Choice can be imposed from top-down by the power elite, or reflect social values bottom-up by drawing on dominant norms through democratic process. Even market distribution is legitimised by social choice; hence, the market distribution can be substituted or complemented by other methods of distribution, if it is viewed as not achieving expected result by the majority members of a society (Reisman, 1977).

Importantly for Titmuss (1970) social policy provides the opportunity for members of a society to demonstrate their altruism. It is the demonstration of community bond, driven by the value of social altruism to improve social well-being. Historical understanding of values and political ideas of a society therefore, is important to understand the nature of distribution. While the value of altruism and community bond informs the nature of social policy, the way a society sets up its social institutions can in turn foster or undermine social altruism and integration and alienation respectively. He maintained that, social policy through the demonstration of social altruism can foster social integration, the absence of which might cost the society, when he wrote that “if the bonds of community giving are broken, the result is not a state of value neutralism. The vacuum is likely to be filled by hostility and social conflict” (Titmuss, 1970:199).

In a discussion of Titmuss’ work on welfare and society, Reisman (2001:41) wrote that “social policy is not simply about therapy for the dependent but about how people interact. It ought most of all to focus ‘on processes, transactions and institutions, which promote an individual’s sense of identity, participation and community and allow him more freedom of choice for the expression of altruism and which, simultaneously, discourage a sense of individual alienation’”. The active participation of members of society, in order to improve social well-being is emphasised. Therefore, social policy is beyond individuals acting in their self-interest as suggested by strictly defined market driven exchange. It speaks to the political choice, driven by moral values of altruism and social solidarity as the bases of social policy.

#### *Social Welfare and Social Policy – Narrow and Expanded Views*

The work of Esping-Andersen (1990; 1999) addresses the mainstream views of social policy, with his three classificatory conceptions of social welfare as characteristic practices in different countries of the world. His classificatory characteristics are rooted in the identified similarities and distinctions in the structures of political economies of the different countries that he grouped in these three categories of welfare states. It emphasises three different ways, in which the relationship between the private sector (private property and market exchange) and the state (representing the group or social) are structured. Identified differences in the structure of relationship between these two cut across the normative (and real) conception of liberal (as well as contemporary neoliberalism), conservative and Marxist persuasions.

He identified three welfare regimes to include liberal welfare, social democratic and conservative welfare regimes. What appeared to be limited to the mode of interaction between the state and market in the production and distribution of resources, to facilitate societal welfare in the 1990 publication was revisited, to emphasise the imperative of the household economy in welfare discourse in the 1999 publication. He made a distinction between a welfare state and regime to highlight the arrangement of institutions and interaction between market, households and the state in the dispensing of social welfare. The structure of the triad relationship between the market, family and the state defines the nature of welfare regimes (Esping-Andersen, 1990; 1999).

The liberal welfare regime reflects the residual structure of dealing with social risks, driven by means tested eligibility focused at needs without emphasis on rights. It emphasises free market dominance with a narrow conception of social risk, often reduced to food hunger. At the opposing extreme, is social democratic welfare regime that speaks to a comprehensive definition of social risks and universal coverage for a more egalitarian society. Citizenship and socio-economic and political rights are emphasised over needs. The role of the market in resources distribution is reduced. The conservative welfare regime does not move for an egalitarian agenda, rather, it sustains status hierarchy, defined by pooling of risk through contribution by different income categories. It emphasises familialism around male breadwinner and corporatism around occupation and income status. It is residual to familial failure, crafted as social assistance as against rights (Esping-Andersen, 1990; 1999; Hibbert, 2010).

The conspicuous limitation of the Esping-Andersen's welfare regime typologies is the restriction to the developed countries of the world. It does not speak to social welfare realities and practices in the developing countries' contexts. In fact welfare regimes are crafted by the degree of compromise between ideological and social systems divide, between capitalism and socialism. Esping-Andersen reflected on the social practices of his historical context, when he speaks to the development of the pension structure (Esping-Andersen, 1990). This is an indication that contextual social practices are imperative to the crafting of social policy. The question that we, in the developing world, should ask ourselves therefore is; what are the practices of our own historical context with regard to protection against social risk to facilitate social reproduction? I am not suggesting a replication of historical social practices that are primary to Africa; rather, they could provide a starting point to begin to engage with



the structure of social reproduction. Drawing on the experiences of the practice of social and burial societies, as interviewees account in this study, in the South African context could be a rich source of knowledge for how collective consumption can be structured in the broader society.

What this shows therefore, is that the consideration of welfare or social policy in the developing countries context is beyond resources redistribution, through bilateral or unilateral exchange and transfer respectively. It should be development orientated, focused to drive productive and human development, as well as political stability (Mkandawire, 2004; Adesina, 2007; 2009; 2011). However, what we busy ourselves with are the justifications for modelling our political economies in Africa to reflect one of the three classifications of Esping-Andersen highlighted above. It is no news that neoliberal political economy architecture, often diluted with “social wage” in the form of social grants and services provision as in the South Africa case (see Chapter 4), has become dominant globally. It seems developing societies are caught-up in this dominance.

The transition from RDP to GEAR macro-economic policy in South Africa could be viewed in this light (see Chapter 4). With the high levels of inequality and poverty, macro-economic and social policies that do not drive human capability development and social integration, is not likely to survive in a context with diverse interests without systematic activation of values and norms that can drive social consumption. It seems the value of racial integration is emphasised over and above social justice in the South African context. My thinking is that it is social justice that should drive racial integration and not the other way round. This misses the point that, while dominant values of society is reflected in the structure of social policy, the way the structure of social policy institution is set up, can in turn promote positive value to foster social integration (Titmuss, 1970). It is argued that, the construction of social policy architecture should be informed by contextual realities and the characteristic of society in question. By that, policy can benefit from values and norms of such society, as well as socio-economic and political conditions, all important criteria to foster social policy that can drive positive social change.

Hall & Midgley (2004) subscribe to the rethinking of social policy with the objective of fostering development, when they suggest that focus should be shifted from welfare to livelihoods. Livelihood thinking of social policy, suggests drawing on the contextual realities.

It speaks to a broader notion that sees social policy as concerned with “sources and stability of employment, support institutions, processes and structures that determine people’s well-being as well as broader national and political factors, which encourage and constrain human development” (Hall & Midgley, 2004:6). They contend that social policy should tackle poverty, promote social inclusion, foster social protection, drive human rights and protect natural resources. The appropriation of natural resources is imperative in the developing countries because of their contribution to the livelihoods of substantial part of the population. Particularly in contexts, where natural resources form a significant portion of the public and private sector revenues.

Apart from the livelihood connection to contextual realities, it speaks to this study in its emphasis on social institution and factors that can promote or hinder human development. A suggestion that, social policy should be more encompassing to engage institutions and practices that may foster social welfare and human development. At the same time, it should be cognisance of institutions that may undermine social welfare, increase unfreedoms, and stifle human development, especially those that appear to be making positive contribution, but with unintended negative consequences. Such is the case of micro-credit institutions, their practices and the implications for family/households are investigated in this study. Therefore, social policy should transcend the provision of welfare services or safety net to catch those falling through the cracks of market exchange driven welfare, to everything that has to do with people’s livelihood in a positive and negative sense.

For Hall and Midgley (2004) therefore, regardless of the theoretical approaches (representational, presented in categories models; explanatory, presented analytically; and normative, presented in a value driven manner), an holistic social policy driven by individualism (expressed in free enterprise), collectivism (driven by social co-operation) and populism (driven by people’s values, beliefs, culture and norms) would better respond to a shift from welfare and safety net to livelihood conception of social policy; a suggestion that perceived conceptual and practical divided could be complementary. This is well said, but the marriage of the different perspectives influenced by national and international ideological and power structures could be challenging. Alcock (2001) viewed social policy as ‘welfare mix’ to emphasise the involvement of the public and private sectors in its delivery. However, he highlighted the impact of international forces in shaping local social policy and welfare agendas.

What Alcock (2001) sees as increasing notion of ‘policy transfer’ to show international influence on national policy trajectory, could be a rude interruption of national social processes: “aggressive policy merchandising” channelled through international development agencies (Adesina, 2011). Importantly, he identifies how international and national policy environments are important in the emerging social welfare regime in different national contexts. Factors that influence the structure of social welfare are the structure and characteristics of the economy, the political landscape, demographic structure, ideology and culture. The interaction of all these factors at the national level and how they are influenced by international interests, define national welfare policies (Alcock, 2001). Added to these, are the local and international power constellations that will define the nature of the interaction between these factors. For example, international dominant ideology might subsume local realities, such as demographic structure and cultural characteristics in the final decision on social policy.

No matter how we view it, economic and social policies are about maintaining and improving the well-being of the people of a society through the three modes of consumption; productive, individual and collective consumptions. Productive and individual consumptions might be narrowly viewed, as the province of economic policy and collective consumption as the province of social policy (see Chapters 1 & 2). The expression of these consumptions in practice shows that, there are no clear boundaries between these modes of consumption and respective policy framework. At the end of the day productive consumption and collective consumptions are targeted at maintaining and improving the quality of individual consumption, which is manifested in the quality of social reproduction of family/households.

Individual consumption is conspicuously funded by a wage bill that is embedded within productive consumption on the one hand. On the other hand, collective consumption through the provision of public goods and social policy can facilitate human development imperatives, to productive consumption and the amount of entitlement a person (through levels of education and skills) can claim from the wage bill to finance individual consumption (Sen, 1981; see Chapter 2). In essence, social and economic developments are interrelated and complementary. Welfare and safety net views to social policy and collective consumption might miss out on this perspective of collective consumption and social policy that is laid bare by development and livelihoods views.

Conception of social policy as welfare provision and the blocking of holes in safety net is limited to social assistance and insurance against social risk in the form of wage supplement or replacement. This is viewed as useful to the sustenance and the reproduction of capitalism and working class respectively in view of inequality in labour power market. It is informed by the assumption that, distribution is the problem of the reproduction of the working class. External welfare intervention in the labour market, through social redistribution championed by the state, can fill the shortfall in wages, compared to the required cost of social reproduction (Wayne, 1986:56-81). It reflects individual responsibility (and dwindling communal responsibility) that defines market society. Therefore, the role of family/households defined by market economy should be complemented by the state, by activating political rights to foster interdependence and altruism (Zaretsky, 1986).

Welfare and safety net inform residual and institutional models of social welfare. Residual model in turn informs selective (targeted) service provision. Institutional model emphasise deficiency in market allocation of resources, hence social services provision should be universal and its institution treated as major and not residual. Both models therefore, speak to accurate predictions on efficient and effective welfare provision. The residual model is driven by self-help within market competition, and institutional (universal) model is based on moral values of co-operation and mutual help (Pinker, 1971:98-100). For Pinker, social policy should speak to the balancing of the divide between greed and compassion, because of the prevalence of altruistic behaviour is limited when he wrote:

“The study of social welfare is a study of human nature in a political context... the welfare institutions of a society symbolize an unstable compromise between compassion and indifference, between altruism and self-interest. If men were predominantly altruistic, compulsory forms of social service would not be necessary; and if men were exclusively self-regarding, such compulsion would be impossible” (Pinker, 1971:211).

This is a suggestion that the institution of social welfare is an unstable compromise between the two extremes nature of man (and woman). This kind of sweeping conclusion assumes a generalisation about the nature of man (and woman). I think it emphasises individual psychological personalities over the social construction of behaviour. That the social takes on

a life of its own, is missing in this claim. The conditioning power of the welfare institutions takes on lives of their own beyond the constituent persons or nature of man (and woman).

Safety net is the expression of selective targeting of only those that fall through the market exchange driven allocation of resources for individual consumption. However, it has been criticised for type I and type II errors, where members of target group are left out (under-coverage) and those not targeted included (leakages) respectively. Implementation involves high administrative cost and it undermines the dignity of recipients (Adesina, 2009). Also, there is administrative problem to define standard family to effect targeting (Reisman, 1977; 2001). The South African case speaks to this, where applicants for RDP house must put in years of shift living in shacks to demonstrate desperate need before allocation (see Chapter 6). Whitworth and Noble (2008:247-248) describe gaps in selective means-tested social grants provision in South Africa as “major holes in the social safety net”. Gaps such as lack of coverage for working age adults, except they are permanently disabled to qualify for disability grant (DG). They suggest universal Basic Income Grant (BIG) theoretically informed by right and needs as a means of blocking the holes in the social safety net. This also shows the limitation of the targeting of social provisions.

The BIG suggested by Whitworth and Noble (2008:247-248) could be taken as a view of universal comprehensive approach to social policy. Broadly speaking, a comprehensive social policy speaks to the integration of economic and social policies to address human capabilities and well-being. Therefore, social policy must perform multiple functions using multiple instruments (Mkandawire, 2004; Adesina, 2011). This view recognises that, in order to foster a just social development, economic development must be synchronised with social development to foster human empowerment, broad-based access, equity and poverty alleviation. Hence, social policy should transcend the provision of social services; the socio-economic implications of all policies are important (Norwegian Agency for Development Cooperation, 2008). Elqua (2012) is of the view that a comprehensive social policy must facilitate social protection, investment in the development of people’s capabilities, such as health, education and training and promotion of social development.

For Hall and Midgley (2004) comprehensive social policy should be informed by human right to address social exclusion, provide basic services, reduced poverty and social inequality. In this sense, social policy should be universal social investment in people, to

drive social development and positive social change. This approach to social policy, I will argue, speaks to collective response to the challenges of social reproduction in an equitable and socially just manner to foster social development. Sweden and other social democratic welfare regimes, according to Esping-Andersen's classification, are examples of comprehensive social policy regimes (Blakemore & Griggs, 2007)

The developmental and livelihood conception of collective consumption or social policy, transcend the narrow welfare and safety net, in the sense that, it take seriously everything that impacts human livelihood and development. Collective consumption or social policy in this regard, is over and above the redistribution of resources to finance the social reproduction of those that market exchange cannot accommodate. For instance, collective consumption on health and education could be very important for the development of healthy and knowledgeable population, to drive socio-economic and political development. Titmuss (1938) showed how lack of social provision to facilitate adequate nutritional intake for children at early age, could lead to stunted growth, mental deficiency, unhealthy population and high rate of "social waste" (high maternal and child mortality rate). It means the society has to bear the cost of low mean intelligence quotient and low social competence in the future, with negative implication for the socio-economic development.

It means therefore, that, social policy is beyond distribution to dealing with livelihood realities and development needs. Adesina (2011) in his conception of "transformative social policy" identified five functions that social policy needs to fulfil in order for it to foster social transformation or developmental change. For him, a social policy regime must serve social protection, social reproduction, resource redistribution, production, social cohesion/nation building functions, using multiple policy instruments to effect economic, social and political development. What the development and livelihood thinking of social policy suggest is the imperative of the contextual characteristics in the crafting of social, economic and political policies. There will be significant differences in the nature of the policy that will be efficient and effective in a developed context compared to a developing context.

In a developing context therefore, development should be at the centre of any policy framing. Particularly, important human development should be the pivot of any development initiative. By implication, economic, social and political development should all be in the service of humans. When all these institutions are driven by human development objectives, the



achievement of such will in turn foster their multiplier development. When human capabilities are developed, the quality of their contribution to these developmental institutions will be greatly enhanced. The state of being a developed society is good and attractive goal that developing society should aspire. However, achieving development should not be conflated with replicating what developed societies did to achieve their present status. Different trajectories to development may be required because of different contextual situations in socio-economic, spacio-temporal and relational terms. In other words, development goal can be pursued differently in respect of contextual realities.

In this line of thought Mafeje (2001) argues that poverty should be treated as a development matter. He further emphasises that development drive should appropriate local realities. He cited the example that Africa has to take the informal economy seriously in its development strides if it is to take contextual realities seriously. If informal business activities account for substantial portion of economic activities, then development initiatives must appropriate it as imperative to development (see Chapter 4). This study resonates with this thinking. It was revealed that, while formal micro-credit could have negative consequences for the quality of social reproduction of households in the long run when it is consumed under desperate and need conditions, the beacon of hope is the informal drive for savings that is non-existent in the formal micro-finance sector.

Social policy at the end of the day is a political choice that provides guideline for action on how the well-being of people in a society can be best served. As earlier indicated, the divide between social, economic and political policy is blurred and the three policy perspectives are interrelated. What should inform the political choice on social policy? Issue of welfare and safety net, through social assistance and development and livelihood stand out as important criteria for taking policy decision on social well-being. The underlying principles, ethics and norms that inform which becomes dominant among these, resides in the society itself. What is important is; which approach to improving the well-being of a society best speaks to contextual realities?

### *The Imperative of Social Policy*

The contradiction between efficiency and social justice is more assumed than real. And compassion and efficiency are not contradictory. Titmuss (1970) work on blood donation administrative system, clearly demonstrated that free blood donation is more efficient and

safer than paid blood donation system. Social development can foster economic growth through increase productivity and ethics of equality. Therefore, Titmuss pride universal social service provision over selective targeting. He demonstrated that unilateral market distribution is less efficient, compared to social welfare distribution in terms of quality, quantity, price and choice (Reisman, 1977). This demonstrates that, social policy and/or social welfare transcend the limitation of redistribution to effecting efficient production system.

Abel-Smith and Titmuss (1974) indicated that, social policy is not inherently welfare-oriented. The way it is deployed is important for whether it will serve welfare enhancement. For example, it could be used to redistribute resources (material and non-material) from the poor to the rich or from one social group (such as race, ethnic groups) to another. Progressive redistribution, driven by the norms of social altruism and equality, could foster a beneficial social policy. Also social policy regime that does not concern itself with driving, increased productivity, such as development and livelihood approaches, is likely to be limited by zero-sum situation. Titmuss suggest a positive-sum, world without moral vacuum (Reisman, 2004:772).

While Titmuss sees social welfare as informed by social rights, it must be balanced by the duty to care (social responsibility) to build a community informed by moral value of altruism. Social policy is therefore, driven by “the conscience of obligation” (Titmuss, 1970:159). Available money resources should not define social policy. Rather, things that seem unaffordable might be what is needed and must have, and things that are easily affordable, unnecessary (Reisman, 2004). This thinking renders the neoliberal driven argument of affordability and sustainability limiting, in thinking of how social well-being can be facilitated. I posed this question (see Chapter 4) on whether we should think of development objectives before the consideration of the resources to achieve them or our thinking should be constrained by available resources.

This speaks to the South African context, where user fee is used to stall the provision of social amenities and services. Where identified social services and infrastructures with unquestionable benefits are not considered on the argument of affordability and sustainability. The case that comes to mind is the National Health Insurance (NHI) policy that seeks to drive the country towards the achievement of the MDG goal on health. It is based on the principles of universal access to health, social solidarity, effectiveness, equity,

affordability and efficiency (Department of Health, 2011). Yet, there were dissenting voice that speak against it that it is not sustainable, how it will be paid for and that it will reduce health care standards. For example, Britain nationalised the coal and steel industries and started the National Health Service (NHS) in the 1940s in order to achieve the objective they set for themselves with regard to development at the time. This is in part responding to the recommendation of the Beveridge Report of 1942 (Reisman, 2004:777).

The viability of an ideological position should be tested with contextual realities in practice, rather than dogged adherence, when all indications point to the fact that it is not serving the desired developmental objectives of a society. Be that as it may, contextual realities and ontology are important criteria that may inform how social policy should respond to social reproduction in society. This study shows that the lack of comprehensive social policy regime prompts individual response to the challenges of social reproduction. One of the key methods of individual response is the consumption of credit at the dimensions of desperation and needs. The implication of this is the transfer of resources from the poor to the poor and from the poor to the rich. This has probable implication of swinging families/households around the poverty range deeper into poverty. When there is a strain on individual consumption in order to guaranty the quality of social reproduction, collective consumption ought to pick up the slack. Where this is not the case individual choices are limited to the consumption of credit, which could provide immediate respite, but gradually constrain the quality of social reproduction of concerned household.

### **8.3 The South African Context in Brief**

High rate of poverty and inequality remain defining characteristics of the South African political economy (see Chapter 4). High rate of crime and unemployment remain permanent features of the daily existence. Adesina (2011) suggests that the prevalence of violent crime should be connected to socio-economic inequality propagated by neoliberal policy landscape. He contends that neoliberal policy structure is accountable for sustained and unchallenged inequality and the adoption of residual approach to social security (Ibid). Between the dominant welfare systems (residual, institutional and social development) that emerge over the years as seen in practice or theoretically projected, South Africa opted for residual welfare system.

Adopting a welfare system informed by neoliberal ideological underpinnings is not the problem, I will argue, but whether this ideologically informed choice is tested against the local conditions and realities in practice. Testing policy choice in practice to see its effects on the quality of social reproduction is imperative to make a case to maintain the status quo or opt for alternative. Persistent high rate of poverty and inequality says a lot about how far the society has travelled at 20 years of democracy. Hölscher (2008) noted the contradiction in local realities and neoliberal informed policy choice, when she suggests that despite the claimed commitment to social development, residual notion and practice of social welfare endures in post-apartheid South Africa.

In residual conception of social welfare, the family and market institutions are primary to the satisfaction of people's needs. The welfare system therefore, is a temporary stop gap in cases of emergency to perform 'normalising' function. Institutional approach to social welfare speaks to situation, where the institutions of social welfare are permanent fixtures of a society to maintain acceptable standards of social well-being. At this level, institutions of social welfare are 'normal'. These two are informed by perceived problems in society that needed to be fixed. Beyond these, the social development conception speaks to social transformation, through social development of humans and other societal resources such as economic, education and health among others (Hölscher, 2008).

Social development perspective sees social welfare as a question of development, which can prompt sustained social development initiatives to foster positive transformation in the quality of social reproduction of the society. Poverty and inequality can be comprehensively engaged under this platform, rather than adopting temporary approach as in residual perspective. In the South African context, where poverty and inequality is endemically rooted in centuries of racial discrimination and oppression that have created wide socio-economic disparity among the population (see Chapter 4), should not be seen treating social well-being with kid glove. The adoption of residual social security policy is detached from the socio-economic realities of South Africa. The case where prevalent chronic poverty and inequality is treated with social policy that speaks to transitory poverty will not inform any social change.

As earlier stated South African social security system is limited to means-tested cash transfers in the form of social grants. However, adults of working age that are not disabled

are excluded, regardless of their economic deprivation (Whitworth & Noble, 2008; Hölscher, 2008). This is inexplicable with the prevalence of unemployment in the country (see Chapter 4). The notion of deserving and non-deserving poor, applies with twists like excluding the unemployed and the working poor. The core types of grants are Child Support Grant (for children below 18 years, whose parents or primary guardian pass the means test), Old Age Grant (for persons 60 years and above that pass the means test) and Disability Grant (for persons that are medically certified disable). Other types of grants are Care Dependency Grant, Foster Child Grant, Grant in Aid, War Veteran Grant and Social Relief of Distress (South African Social Security Agency, 2014; South African Government Services, 2014).

Table 8.1 below shows the number of people on the different types of social grants in South Africa as at February 28, 2014. It show that Child Support, Old Age and Disability grants enjoy the highest uptake with approximately 11.1 million, 3 million and 1.1 million people respectively. These grants have been hailed as the biggest poverty alleviation intervention compared to other anti-poverty programmes because of the numbers of uptake with approximately 15.8 million people on all the different types of grants combined.

**Table 8.1: The population on different types of grant as at February 28, 2014**

Province	Type of Grant							
	Old Age	War Veteran	Disability	Grant in Aid	Care Dependency	Foster Child	Child Support	Total
Eastern Cape	515,277	62	179,509	11,850	18,166	113,088	1,763,982	<b>2,601,934</b>
Free State	176,278	6	81,368	1,506	6,149	37,739	627,275	<b>930,321</b>
Gauteng	446,382	110	112,698	2,071	15,292	53,659	1,535,619	<b>2,165,831</b>
Kwazulu-Natal	608,548	58	296,036	30,109	35,270	123,576	2,642,302	<b>3,735,899</b>
Limpopo	419,849	34	91,198	12,621	12,505	56,506	1,617,135	<b>2,209,848</b>
Mpumalanga	215,974	17	76,669	3,394	8,694	32,837	978,930	<b>1,316,515</b>
Northern Cape	76,866	13	48,389	4,600	4,563	13,728	273,919	<b>422,078</b>
North-West	224,008	16	85,981	5,004	8,409	39,897	748,541	<b>1,111,856</b>
Western Cape	272,679	123	149,302	9,852	10,966	27,951	856,791	<b>1,327,664</b>
<b>Total</b>	<b>2,995,861</b>	<b>439</b>	<b>1,121,150</b>	<b>81,007</b>	<b>120,014</b>	<b>498,981</b>	<b>11,044,494</b>	<b>15,821,946</b>

**Source:** South African Social Security Agency (2014).

There are other means-target social welfare provisions, such as the delivery of RDP houses to poor households, the operation of no tuition paying schools in poor areas and school feeding scheme. These social assistances are also means tested. Apart from the assault on the dignity of the poor people to take-up these welfare benefits (such as years of shift, living in a shack to get a RDP house or in cases where *Mashonis* follow recipients to the cash pay point in order to collect what is owed to them immediately the grant is received), the architecture cannot foster social integration. The delivery of RDP houses remains the consolidation of

apartheid segregated residential pattern as they are often built around existing apartheid created Townships. By implication the poor are separated from the rest of the society. Tuition free schools and school feeding schemes are implemented in selected schools in Townships and rural areas. By implication the parents or guardian of any child that will access such schools must live in the catchment Township or rural area. These are apart from the resentment of the middle class, who thinks their tax contribution is not judiciously deployed.

The inadequacy of social grants cash transfers to support the needs of recipients' families/households is reflected in their aggressive consumption of consumer micro-credit. Apart from informal money lenders preying on their consumption gap by lending them money at a cost of up to 50% flat per month, formal cash loans and retail stores also recognise grant income as a stable source of income for getting micro-credit and consuming retail goods credit respectively. This study revealed that social grants recipients are viewed as more reliable borrowers and a source of good micro-credit asset creation. The result is that most of them are trapped in debt circle that continues to gradually deplete their net receipt per month after deduction of what they owe plus interest. In the long run the quality of their social reproduction is negatively affected (see Chapter 7).

There is a need for a review of the existing social policy regime that may speak to the reality of the South African situation, in view of the persistent poverty and inequality. Hölscher (2008) noted a seeming contradiction, where there are calls for the expansion of social security system without paying attention of the underlying causes of low and no income. The drive for job creation to reduce poverty and inequality is undermined by proliferation of low wage jobs (see Chapter 4). The country is faced with expanding atypical forms of employment and contracting standard employment relationship (SER), with the consequence of growing number of the working poor population (Omomowo, 2011). A comprehensive social policy crafted as social development will speak to the South African situation. Social policy viewed in this sense, does not make a distinction between economic and social policies but see them as complementary to foster socio-economic development of all citizens. Human capabilities are developed with enhanced productivity. It is universal and comprehensive to facilitate social integration through buy-ins from different segments of the society. And most importantly, it must draw on the core values of the South African society (Adesina, 2009; 2011; Hall & Midgley, 2004; Andreasson, 2010).



As earlier indicated, social policy in developing countries contexts should be driven by development agenda. Redistribution (limited by zero-sum situation) must be complemented by development of human and material resources to drive increase in production to create a positive-sum situation. The destination of the development I speak may be akin to what developed countries looked like now, but I think the underlying values and trajectory must be different. It must draw on the values, ontologies and epistemologies of concerned societies. This is what Andreasson (2010) speaks to on his idea of rethinking development in the African context for effective social transformation. For him, development initiatives must be holistic and rooted in African indigenous ontologies and epistemologies, when he wrote that development should be focused on:

“emancipation, the restoration of individual dignity in the context of indigenous cultural values and the casting of development as a genuinely holistic process including material as well as ideal/spiritual aspects... only when the developmental nexus becomes securely anchored in a deeper indigenous epistemology, manifested in the communal concept of ‘ubuntu’, can it exercise a legitimate, broadly democratic and therefore sustainable influence beyond that of the narrow ‘utility’ of existing corporatist arrangements” (Andreasson, 2010:6-9).

Sipho, one of the interviewees, who is a poet and a traditional health practitioner, was not far from the position that African epistemology, indigenous knowledge system, should inform Africa’s development. He was of the view that this consists five categories: social issues such as philosophy, language, art and culture; religion that speaks to spirituality; key institutions such as institution of traditional leaders, initiation institution, and traditional healers; primary institution of the extended family and; technology. Much more, he emphasises communitarian values as imperative to social existence and social reproduction, with a sense of obligation to share. He draws on Setswana saying ‘molimi gase moji’ interpreted to mean that, those who labour do not enjoy the rewards of their labour or investment alone; they are shared with less privileged people. In his words:

... I said you know in Setswana they say ‘molimi gase moji’, a person who cultivates land and has a harvest may not enjoy that harvest’s harvest. They mean the only way that this person will enjoy this harvest is if there are no other poor people. If there are other people he must share that harvest with them; that is what they mean. So my skill must always contribute towards minimizing poverty of other people. If I’m a teacher I must minimise, if I’m a doctor same, if I’m a lawyer same. There is no other system like that; capitalism says if you have the money, it’s your money, forget about other people and enjoy it. What I’m talking about says you can have money remember that you are not...you may... you are not the

only one who must enjoy it, because you cannot enjoy this money if other people are poor... (Sipho: C 4, P12 – 09/01/2012).

Local ontology, epistemology and values are very important ingredients in the concoction of social consumption that are formalised in social policy. Social policy informed by social development agenda, can be effective in driving social transformation, especially when it is in tune with contextual knowledge, experiences and social practices.

#### **8.4 Concluding Remarks – Revisiting the Argument**

The thesis highlights the nature of interaction between poverty, social reproduction and social policy. The gap in the discourse of poverty and social policy in the South African context is the connection between poverty and social reproduction. The interaction between poverty and social reproduction as imperative to the gap between poverty and social policy discourse is expressed in the interaction between the three modes of consumption that are imperative to social reproduction of a society as a going concern. The well-being of any society and its perpetuation is sustained by productive, individual and collective consumptions. The structure of these different levels of consumption defines the political economy of a society (see Chapter 1 & 2). It also informs the quality of social reproduction of families/households. In essence the structure and nature of these different consumptions is rooted in the prevailing political economy of a society.

It was argued that the understanding of poverty with regard to income and expenditure of households is limiting in order to comprehend the nature of social reproduction in a society. It is limiting because it tends to analyse poverty only at the individual consumption level, without engaging with the interaction between the three modes of consumption. Productive and collective consumption must also be considered to fully grasp poverty as a particular level of the quality of social reproduction. The interaction between the three modes of consumption (individual, productive and collective) is crucial. The interaction can best be understood by looking at the structure of the political economy of a society. How these different consumptions are structured and the nature of the interaction between them is a function of the prevailing political economy of a society to reiterate.

The best way, it was argued, to measure the effects of structure of political economy is not the quantum of economic growth; rather, it is in the quality of social reproduction of

households. Growth that does not translate into improved quality of social reproduction for majority of households in a society is meaningless. This is what Sen (1997) highlighted, when he made a distinction between income inequality and economic inequality. The same amount of income for two different people with different “advantages” will not translate into the same quality of living. There are other intervening variables or capabilities that will determine achieved functionings of individuals even when the initial incomes are the same (Sen, 1999). Economic growth with high level of inequality suggests that, it is only a segment of the society that is benefiting from such growth. A society that cares does not have to wait for market exchange to distribute the rewards of economic activities. Social and economic policies are treated as mutually embedded and complementary. Social policy crafted to facilitate collective consumption, as equal and complementary to economic policy, has the capacity to facilitate socio-economic development and expand the economic base of a society. The increasing human capabilities mean that, households can lay claim to higher wage fund as a component of productive consumption to fund individual consumption and social reproduction.

More importantly, the author contends that between the interstices of the institutions that provide the structure for these three modes of consumption, are institutions, whose activities could have telling implications for the quality of consumption to facilitate the quality of social reproduction. At the openings between production institutions, the family/household and the state and other collective consumption institutions are institutions, such as the micro-credit institutions, whose activities could inform the quality of social reproduction of household in particular and society in general in significant ways. I maintained that the consumption of micro-credit in particular and credit in general, should be unpacked to make a distinction between consumer credit and production credit as their implications are wide apart. Credit is often projected as developmental and imperative to poverty alleviation as if all poor people are entrepreneurs.

The good news told about credit tends to conflate these two categories of credit consumption; for production function or for the smoothening of individual consumption. Such is the work of Smith and Thurman (2007), *A Billion Bootstraps: Microcredit, Barefoot Banking, and the Business Solution for Ending Poverty*. All poor people have to become an entrepreneur, for the impression given about credit to be real. Also, it speaks to productive credit consumption, where return on investment is hoped to pay for the cost of credit with little excess that will be

channelled to individual consumption to facilitate social reproduction. This type of credit must be clearly distinguished from consumer credit for direct individual consumption of households. The principal and the cost of credit will have to be repaid from the existing household income. I argue that while consumption credit might smoothen consumption in the short run, it is detrimental to households in the long run because it will gradually deplete the household income due to its cost, which could be very high in the case of micro-credit.

When the income of households is gradually depleted, the quality of their social reproduction is affected negatively in the long run. The short run cushion given by consumer credit consumption wanes with time, when the credit has to be repaid with accrued interest and other related charges. The substantive or real income available to satisfy the social reproduction need diminishes to put a strain on the quality of social reproduction of concerned households. Without other sources of income, such households will find their available options reduced, while they are pushed to consume further credit at the dimension of desperation (see Chapter 7). The resulting debt circle can lead to over-indebtedness, loan rescheduling and account being handed over for collection. All these are listed as impaired account on credit bureau (adverse credit history), with negative consequences for concerned households. For example, parents may not be able to guaranty student loan for their children, thereby compromising human capability development of next generation with consequences for households and the society at large. In essence, the use of micro-credit to smoothen consumption needs of households can increase their “unfreedoms” and capabilities (Sen, 1999).

Apart from the concerned families/households being affected with regards to diminishing quality of social reproduction, families will also fail in one of their major contributions or functions to the society at large, with regard to procreation, socialisation and the training of persons that will later be integrated into the economic system and expand the economic base of the society. This is what Cherlin (1996) refers to as the public family. He argues that, the family performs these public functions for the society at large, by producing and developing the capabilities of its members, who are later admitted into the economic system at least as workers and tax payers. This is an indication that economic and social activities are mutually connected, and policy should be treated as such. Investment in education, whether paid for by the family or through collective consumption, will in turn benefit the economy.

Gaps in the structure of collective consumption to pick up slacks or strain in individual consumption create the right condition for this kind of institutions (micro-credit institution in this study) to thrive. The source of income to finance individual consumption is embedded in productive consumption in the form of wage bill paid for labour power. Hence, the family/household must interact with production institutions or venture by selling their labour power to finance their basic and other needs necessary for their survival and function as members of society, to which they belong. This relationship is described as the wage-labour and capital nexus. Employment relationship has been variously conceptualised from classical economics to Marxist conception. For our purpose here however, what is important is that the income that a person gets from work define his/her socio-economic status. This is the primary source of financing social reproduction through individual consumption.

Where collective consumption (as social policy) is appropriately integrated into the relationship between productive and individual consumptions, the cracks are thinned out and allow little space for the lurking of institutions, such as micro-credit, to take undue advantage of wider cracks. The problem with allowing such institutions to taint the quality of individual consumption and social reproduction is because their consequences are ambiguous. They can affect social reproduction in unintended ways. When individual households are left alone to pick up the slacks in social reproduction, in the absence of collective consumption, they might result to patronising micro-credit institutions. The consumption of credit provided by these institutions might aggravate their strained quality of social reproduction in the long run.

When productive, individual and collective consumption are co-ordinated in comprehensive economic and social policies, deficiencies in the economic relationships are cushioned by social relationships and vice versa. A society can secure and improve the quality of social reproduction of its population in this regard. Lack of comprehensive and well-co-ordinated social policy and economic policy see a situation, where individual households are left alone to pick up slacks in individual consumption and social reproduction. This situation leads to unavoidable consumption of consumer credit of different types. The consumption of micro-credit in this regard, is emphasised in this study, especially by low income households (Jacobs & Smit, 2010) that survive around what I called 'the poverty range' (see Chapter 4). The consumption of cash loan, retail goods credit and informal credit has become a permanent feature in these households, an indication of disjointed and uncoordinated social policy regime (see Chapters, 5, 6 & 7).

The results of this are high level of over-indebtedness, dwindling quality of social reproduction and human capability development. The consumption of future income in advance without additional source of income means that the repayment with cost will create further gap in consumption needs. Metaphorically speaking, credit and savings could be depicted with advance gratification and delayed gratification respectively. In a condition of constant flow of income advance gratification can only bring future distress.

Wage or salary income has become the attracting force, which drives what seems like adverse integration into the consumer credit consumption system. Pension and social grants beneficiaries are seen in similar vein as a stable income worthy of credit risk. I maintain that the affordability of 'credit for consumption need' and not 'substantive consumption need' may smoothen consumption in the short run. Low wage may seem adequate in the short run because of the cushion effect of credit. However, the long run effects may be damaging.

The effects of consumer credit on the quality of social reproduction of households are compounded by the high cost of credit for low income category of people. Their credit risk is viewed as 'bad risk' and often avoided by commercial banks. Micro-credit institutions that service their risks do so at very exorbitant cost (Hurwitz & Luiz, 2007; Jacobs & Smit, 2010). Few questions are asked about cost, when credit is consumed at needs and desperation dimensions. The real cost of credit is often hidden and ambiguous in the formal micro-credit situation. Cost of credit is clearer in the informal micro-credit situation but the cost is higher. The risks that are viewed as bad by the formal micro-credit institutions are accommodated by the informal sector. Also informal moneylenders are more responsive to desperate credit needs of people that live in their communities.

In sum, household are left to their own devices to deal with shortfall between income and consumption needs in the absence of comprehensive and well co-ordinated development oriented social policy. The consumption of consumer credit that seems like a 'way out' is a 'way in' into over-indebtedness, loan administration, garnishee orders (emolument order) and handing over of account for debt collection. All these, are the defining characteristics of the South African neoliberal policy that informs the political economy. There is a tendency to discount all these as a result of individual indiscretion, as an interviewee, who works for a credit provider claims that, the outcome of credit relationship is a function of individual



responsibility. To suggest that broader social structures that interact or condition human behaviour are not important, is to misunderstand or misappropriate the conception of human society.



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## Appendix A

### Life History Interview Schedule

#### **The Lords of Poverty? Micro-credit institutions and social reproduction in South Africa.**

I will like to talk to you about your life and family history/biography, particularly on how you meet your daily needs over the years. Anything and everything you can remember about your parents and grandparents in this regard will be useful.

The information you provide will be treated confidentially, you can refuse to answer any question. Names will not be mentioned. Therefore, you are not expected to give your real name for the purpose of this interview, and you reserve the right and consent to participate in the study. You are at liberty (at freedom) to withdraw from the interview at any stage, if you so desired without any prejudice. The interview will be digitally recorded and transcribed (typed out) for analysis.

#### **Section 1 – background information**

##### **Tell me about yourself and your family background.**

1. How old are you?
2. Where were you born?
3. What ethnic group are you?
4. What is your marital status?  
(a) Married (b) divorced (c) never married (d) single (e) separated
5. How many people presently live in your household? Can you name them and their relationship to you?
6. Where do you live?
7. How much is your income per month?
8. How much is the total income of your household if other member are working or getting income through other means such as support of the extended family, government grant and borrowing?
9. Who is responsible for providing the basic needs of your household?
10. Tell me about your family.

## **Section 2 – Life and family history/biography**

### **Tell me a story about your life and family history in general.**

11. Tell me a story about yourself – from when you were born till present, as much as you can remember. The following may be key areas of focus:
  - Growing-up
  - Education
  - Work and income
  - Meeting your daily needs – social reproduction (Self, family and/or community help, government help, borrowing, others)
  - Marriage
  - Having children
12. Tell me everything you know and can remember about your parents. How did they manage your family when you were growing-up? The following areas may be important:
  - Their education
  - Their work and income
  - The number of children they have;
13. How did your parent provide for the needs of the family on daily basis when you were growing-up - Themselves, family and/or community help, government help, borrowing, others?
14. I would like to know everything you know and can remember about your grandparents.

## **Section 3 – Survival and social reproduction**

### **I would like to know in particular how you and your family provide for your needs on daily basis?**

15. How much do you earn as salary/wages per month?
16. Is your salary/wages enough to meet your daily survival needs? (If yes, go to question 21, if No, go to question 17).
17. How do you survive or make-up for the difference between your salary/wages and your survival needs (consumption), since you said it is not enough?
18. Do you have any other sources of income apart from your salary/wages? What are these other sources?

19. Do you receive any form of assistance/help from your family and/or community with regards to meeting your survival needs? If yes, describe the nature of the assistance.
20. Do you receive any form of assistance/help from the government with regards to meeting your survival needs? If yes, describe the nature of the assistance.
21. Do you buy things you later thought you don't really need? And how would you account for this type of behaviour?
22. Are you owing money to anyone or institution(s)? And who and/or which institution(s) are you owing money? Please state all forms of debt.
23. For what purposes did you borrow these monies?
24. Are you meeting your debt repayment obligation(s) (If yes, go to question 25, if No, go to question 26)?
25. Though you said you are meeting your debt repayment obligation, would it have any effect on your livelihood assuming you don't have to repay any debt? Explain how.
26. If you are not meeting your debt repayment, what are the implications of this development for your livelihood?

#### **Section 4 – Collective consumption and social provisioning**

**Tell me about any form of contributory or non-contributory societies that you belong to that enable you meet some of your needs.**

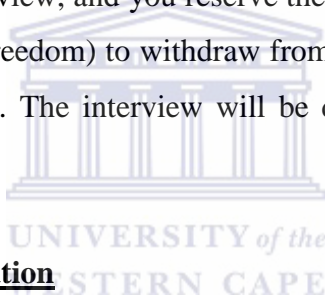
27. Are you a member of any form of insurance scheme (formal and informal)? Name the scheme and what it entails.
28. What are the benefits of belonging to these schemes?
29. Are you benefiting from any governmental social provisioning? Name and describe the social benefit.
30. How would you describe your experience of social provisioning with regard to your survival?
31. Tell me about your borrowing relationship with regard to any form of collective consumption and social provisioning that you are benefiting from.

**Appendix B**  
**Micro-Credit Interview Schedule**

**The Lords of Poverty? Micro-credit institutions and social reproduction in  
South Africa.**

I will like to talk to you about the activities of the micro-credit institution you are working for. I am particularly interested in your criteria for giving out loans, the collateral security, the interest rate(s), how repayment is structured and how you deal with defaulting customers among other issues relating to your processes.

The information you provide will be treated confidentially, you can refuse to answer any question. Names will not be mentioned. Therefore, you are not expected to give your real name for the purpose of this interview, and you reserve the right and consent to participate in the study. You are at liberty (at freedom) to withdraw from the interview at any stage, if you so desired without any prejudice. The interview will be digitally recorded and transcribed (typed out) for analysis.



**Section 1 - Background information**

**Tell me about your job and the organisation you work for.**

1. When did you join this organisation?
2. When was this organisation established?
3. How many people are employed by this organisation?
4. Can you describe the organizational structure and how work is organized?
5. What is your designation and job description?
6. How would you describe your type of business or the services that you provide?

**Section 2 – Service processes**

**Tell me about your work processes from when a customer approaches you for a loan to when the full repayment of the loan is made.**

7. Tell me about your loan application process.
8. What are the conditions and/or criteria for granting a loan request to a potential client?
9. What are the documentations you require to process a loan application?
10. What type of collateral security do you require to guaranty a loan request?



11. What interest rate do you charge on your loan?
12. On what grounds do you reject a loan application?
13. How is your repayment structured?
14. How do you deal with customers defaulting on their loan repayment?

### **Section 3 – Customer profile and loan implications**

#### **Tell me about the people you lend to and how does it affect their social status?**

15. How would you describe the majority of your clients in terms of income, gender, and racial categories?
16. What are the dominant reasons that people give for borrowing money?
17. Do the loans you advanced to people help them to solve the problems that prompt them to borrow from you?
18. Do the loans you advanced to people help them to advance their financial situation?
19. How would you describe your job?



**Appendix C**  
**Culture Interview Schedule**

**The Lords of Poverty? Micro-credit institutions and social reproduction in  
South Africa.**

I will like to talk to you about your knowledge of the Xhosa/Tswana culture with regards to how it shapes people daily life experiences and practices. I am particularly interested in how cultural beliefs and practices play out in the family and/or community lives among the Xhosa/Tswana people. The belief in ancestors and the different ritual practices is important in this regard and their implication through life course from birth through death.

The information you provide will be used for the purpose of this research study and any subsequent academic publication(s) that may be derived from it. You can refuse to answer any question that you are not comfortable with, and you reserve the right and consent to participate in the study. You are at liberty (at freedom) to withdraw from the interview at any stage, if you so desired without any prejudice. The interview will be digitally recorded and transcribed (typed out) for analysis.

  
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**Section 1: Background Information**

**Tell me about yourself with regard to your ethnic and cultural orientation.**

1. When and where were you born?
2. Into which ethnic or cultural group were you born?
3. Tell me about growing up (where did you grow up)
4. Tell me about learning your cultural beliefs and practices.
5. Tell me about your schooling and working experiences.

**Section 2: Cultural beliefs and practices**

**Tell me about everything you know, that you can remember, about the Xhosa/Tswana cultural beliefs and practices.**

6. Can you, from you knowledge of Xhosa/Tswana beliefs and cultures, describe a typical family that belief and practice the culture as a way of life?
7. How would you describe the life of a Xhosa/Tswana person (man and/or woman) from birth through to death?

8. What are the different rituals that are performed, and their purposes, at the different stages in life?
9. What do you understand by the belief in ancestors?
10. What are the significances of ancestors to a Xhosa/Tswana person and family?
11. How does the belief in ancestors and other cultural practices, such as rituals, manifested in the daily life experiences of a Xhosa/Tswana person and family?
12. How would you describe Xhosa/Tswana culture to someone that does not understand the Xhosa/Tswana ways of life?
13. What is your knowledge of traditional healing practice as a cultural practice? How would you describe its implication for a Xhosa/Tswana family?

