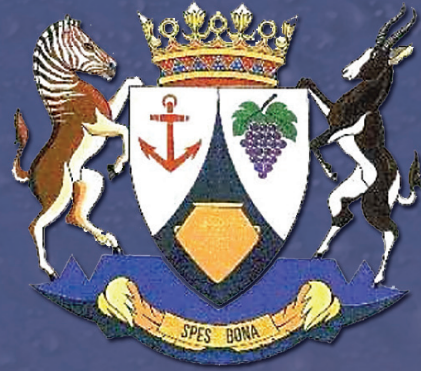




Western Cape

PROVINCIAL ECONOMIC REVIEW & OUTLOOK

2006



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Foreword

Our Provincial Growth and Development Strategy (PGDS) – *iKapa Elihlumayo* – sets out a clear vision that steers us towards shared growth and integrated development in the Western Cape by 2015.

Based on four key pillars: growth, equity, empowerment and environmental integrity, *iKapa Elihlumayo* recognises the need to fundamentally change the social, economic and human landscape of our Province if we are to realise a better life for all.

In line with the PGDS, the 2006 Provincial Economic Review & Outlook (PER&O) stresses the importance of defining the desired form of growth that Government seeks to stimulate. That is, the 2006 PER&O builds a deeper understanding of what shared growth and integrated development means for the Province.

The above draws on a complementary concept of *shared responsibility*, particularly in respect of *enhancing the provincial-local nexus*. Inter-linkages between provincial and local socio-economic trends and dynamics within the Western Cape, and how these contribute towards the Province's vision of shared growth and integrated development are important here.

The 2006 PER&O contains an executive summary of the detailed socio-economic profiles of 30 municipalities in the Western Cape that are set out in a separate publication, *2006 Socio-economic Profiling of Local Government in the Western Cape* (SEP-LG), to be published shortly after the 2006 PER&O.

Many may ask, 'what is new about shared growth and integrated development?'

First, it recognises that economic growth that is accompanied by improved social equity will have a greater impact on reducing poverty than growth that leaves distribution unchanged. This means that a shared growth and integrated development strategy, such as *iKapa Elihlumayo*, must constantly endeavour to balance growth and social equity concerns.

Secondly, it highlights that increased social inequality can offset the benefits of growth to the poor, reducing the poverty impact of future growth.

Thirdly, it emphasises that growth has to be environmentally sustainable, and particularly so in the Western Cape, in order to have medium- to long-term benefits for reduced poverty and improved livelihoods.

The Province's vision for shared growth and integrated development therefore proposes a fundamentally different trajectory that takes cognisance of these linkages between economic growth, social equity and environmental sustainability.

In his 2006 State of the Nation Address, President Thabo Mbeki drew on the words of his predecessor, former President Nelson Mandela in saying “...we must seize the time to define for ourselves what we want to make of our shared destiny”.

As South Africa enters its age of hope, we choose a path of shared growth and integrated development that makes a better place for and brings a brighter future to all of those who live in the Western Cape.

Our choice is ambitious. At times it may be difficult to achieve. But it is our choice. It defines our future. With passion and realism, we will succeed!

The 2006 PER&O is a team effort that draws on the knowledge, expertise and commitment of those in the broader academic community, Provincial Treasury, and our partners in Provincial Government and in Local Government.

I would like to give a special word of thanks to the core project management and research team. Provincial Treasury's Shirley Robinson led the 2006 PER&O, supported by Lucille Gavera of Trade & Industrial Policy Strategies (TIPS) as the project manager. Input chapters were prepared by Pieter Laubscher, Bureau for Economic Research (BER), University of Stellenbosch; Jo Lorentzen of the Human Science Research Council (HSRC); and Mornè Oosthuizen and Carlene van der Westhuizen, Development Policy Research Unit (DPRU).

The 2006 SEP-LG and the executive summary presented in the 2006 PER&O are the work of Provincial Treasury's Economic Analysis team. Led by Bulelwa Boqwana, the team includes Wendy Mapira, Kim Engel, Hassan Essop and Esther Mohube, and was assisted by Alta Fölscher, an independent consultant.

The PER&O team held five focus group workshops that debated the technical form and content of the base analyses. The workshops drew on the technical expertise and experience of the research team and key academics, including Ben Smit, BER, University of Stellenbosch; David Kaplan, Graduate School of Business (GSB), University of Cape Town; Mike Morris and Charles Meth, School of Development Studies, University of KwaZulu-Natal; Haroon Bhorat, DPRU, University of Cape Town; and Ingrid Woolard and Anna McCord, South African Labour and Development Research Unit (SALDRU), University of Cape Town.

Other key partners that participated at the focus groups included Glynn Davies, Frank Mabuza and Nico Meyer, Development Bank of Southern Africa (DBSA); Simon Nicks, CNdV Africa; Claude van der Merwe, Quantec Research; Paul Lundall, independent consultant; Joyce Lestrade Jefferis and Yandiswa Mphetsheni, Statistics South Africa; Nicolette Burger and Karlien Chaplin, INCA; Carin Fouché and Riefqah Jappie, Wesgro; Theo van Rensburg, National Treasury; Gavin Miller, Department of Social Services; Fayruz Dharsey and Desi Angelis, Department of Economic Development and Planning;

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Sue Parnell, Environmental Planning, University of Cape Town; Jacqui Boule, Rae Wolpe and Ken Briggs, independent consultants; and Carol White from the City of Cape Town provided further comments and inputs on the final document.

I wish to thank the entire team for the 2006 PER&O. Its excellence defines the impact that it will surely have on policy debate as we work together towards a better life for all in the Western Cape.



Lynne Brown
Minister of Finance and Tourism
March 2006





Contents

Foreword

Chapter 1: Executive Summary

1.	Shared growth and integrated development	1
2.	2006 Provincial Economic Review and Outlook	5
3.	Western Cape's economic outlook	7
3.1.	Global economic developments	7
3.2.	Trends in the SA economy	8
3.3.	The Western Cape economy	10
3.3.1	Western Cape economic outlook 2006/07 – 2008/09	11
4.	Sectoral growth and employment prospects	15
4.1.	Knowledge, capabilities and catch-up	15
4.2.	The global context of sectoral activity	16
4.3.	A role for Provincial government	17
4.4.	Broad overview of sector development	18
4.5.	Sectoral prospects for the Western Cape	20
5.	Employment dynamics	22
5.1.	Recent employment and unemployment trends	22
5.2.	The future labour market to 2015	26
6.	Socioeconomic profiling of municipalities	28
7.	Western Cape's recent growth experience	36
7.1.	Has growth in the Western Cape been pro-poor?	36
7.2.	The impact of growth and equity on poverty in the Western Cape	38
7.3.	Shifts in access to selected services in the Western Cape	40
7.4.	Shared growth diagnostic for the Western Cape	42
8.	Key messages of the 2006 PER&O	44
8.1.	Economic outlook	44
8.2.	Sectoral growth and employment prospects	44
8.3.	Employment dynamics	45
8.4.	Socioeconomic profiling of municipalities	45
8.5.	Western Cape's recent growth experience	46
9.	Onto PER&O 2007	47

Chapter 2: Economic Outlook 2006/07 – 2008/09

1.	Introduction	53
2.	Trends in the SA economy	55
3.	Global economic developments	58



4.	SA's unprecedented economic upswing	63
4.1.	Durability of domestic spending boom	65
4.2.	The rand and competitiveness	66
5.	Outlook for the SA economy: 2006/07 - 2008/9	69
5.1.	Economic growth and employment	69
5.2.	Inflation and interest rates	71
6.	The Western Cape economy	74
6.1.	Recent developments	74
6.2.	Structure and dynamics of the Western Cape economy	76
6.3.	Impact/implications of global and domestic macroeconomic forces on the Western Cape economy	77
7.	Western Cape economic outlook: 2006/07 – 2008/09	80
7.1.	Economic growth	80
7.2.	Employment	82
7.3.	Fixed investment	85
7.4.	Exports	88
8.	Conclusion	91

Chapter 3: Sectoral Growth and Employment Prospects

1.	Introduction: understanding sectoral dynamics	97
2.	Knowledge, capabilities and catch-up	99
3.	The global context of sectoral activity	101
4.	SA and the Western Cape in the global context	105
5.	A role for provincial government	111
6.	Broad overview of sector development	113
6.1.	Output growth	113
6.2.	Employment growth	116
6.3.	A detailed look at manufacturing	120
6.3.1.	Manufacturing output	120
6.3.2.	Manufacturing employment	121
6.3.3.	Manufacturing investment	122
6.3.4.	Manufacturing trade	123
6.4.	A detailed look at services	127
6.4.1.	Service sector output	127
6.4.2.	Service sector employment	127
6.4.3.	Service sector investment	127
6.4.4.	Service sector exports	127
6.5.	Regional differences in industrial activity	128

7.	Key sector performance: evidence from the MEDS	130
7.1.	Agriculture	130
7.2.	Fishing & aquaculture	132
7.3.	Clothing & textiles	132
7.4.	Metals & engineering	133
7.5.	Oil & gas	134
7.6.	Electronics	135
7.7.	Biotechnology	136
7.8.	Crafts	136
7.9.	Cultural industries	137
7.10.	Film	137
7.11.	Financial services	138
7.12.	Tourism	140
7.13.	Energy	141
7.14.	Transport	142
8.	Sector prioritisation for provincial policy support	144
9.	Conclusion and outlook	145

Chapter 4: Employment Dynamics

1.	Introduction	155
2.	Demographic trends to 2015	157
2.1.	Population size and structure	157
2.2.	Migration	158
2.3.	Population profile	160
2.4.	Western Cape population within Cape Town	161
3.	Employment and unemployment in the Western Cape, 2000 – 2004	164
3.1.	Recent employment and unemployment trends	164
3.2.	Labour force participation and the labour force	168
3.3.	Employment	172
3.4.	Unemployment	179
4.	Employment, unemployment and geography	187
4.1.	Employment and geography	187
4.2.	Unemployment and geography	192
5.	The future labour market to 2015	196
5.1.	Setting up the scenarios	196
5.2.	Possible future labour market scenarios	198
6.	Conclusion	205



Chapter 5: Socio-economic Profiling at the Local Level

1.	Partnering for shared growth and integrated development	213
2.	Socio-economic profiling at the local level	214
3.	Opportunities and outlook	216
3.1.	Thriving regional growth sources	216
3.2.	Competitive regional economies	218
3.3.	Maturing demographic profiles	220
3.4.	Reasonably skilled workers	222
3.5.	Considerable transport infrastructure and settlement investment opportunities	223
3.6.	Financial health and sustainability of municipalities	225
4.	Risks and challenges	227
4.1.	Demographic dynamics	227
4.2.	Rising youth unemployment	228
4.3.	Sectoral growth and employment dynamics	231
4.4.	Skills constraints	233
4.5.	Social infrastructure pressures	235
5.	Regional summaries	239
5.1.	Cape Town	240
5.1.1.	Outlook and opportunities	241
5.1.2.	Risks and challenges	245
5.2.	Cape Winelands District	251
5.2.1.	Outlook and opportunities	251
5.2.2.	Risks and challenges	253
5.3.	Eden District	255
5.3.1.	Outlook and opportunities	256
5.3.2.	Risks and challenges	258
5.4.	West Coast District	259
5.4.1.	Outlook and opportunities	260
5.4.2.	Risks and challenges	261
5.5.	Overberg District	263
5.5.1.	Outlook and opportunities	264
5.5.2.	Risks and challenges	266
5.6.	Central Karoo District	267
5.6.1.	Outlook and opportunities	268
5.6.2.	Risks and challenges	270
6.	Conclusion	271

Chapter 6: Western Cape's Recent Growth Experience

1.	Western Cape growth experience: shared or uneven?	275
2.	Growth and poverty dynamics	277
3.	Has growth in the Western Cape been pro-poor?	278
4.	The impact of growth and equity on poverty in the Western Cape	286
5.	Shifts in access to selected services in the Western Cape	293
6.	Shared growth diagnostic for the Western Cape	297
7.	Conclusion	300

References	307
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Abbreviations

AGOA	African Growth and Opportunity Act
ASGISA	Accelerated and Shared Growth Initiative for South Africa
ASSA	Actuarial Society of South Africa
BEE	Black Economic Empowerment
BER	Bureau for Economic Research
BOP	Balance Of Payments
BPO	Business Process Outsourcing
BRIC	Biotechnology Regional Innovations Centre
CAPS	Cape Area Panel Study
CARE	Centre for Actuarial Research (University of Cape Town)
CDI	City Development Index
CPI	Consumer Price Index
CPIX	Consumer Price Index (excluding mortgage interest rates)
CS	Community Survey (Statistics South Africa)
CSP	Community, Social and Personal (Services)
CSSR	Centre for Social Science Research (University of Cape Town)
DBSA	Development Bank of Southern Africa
DST	Department of Science and Technology (South Africa)
EAP	Economic Active Population
EAR	Employment Absorption Rate
ECB	European Central Bank
ECD	Early Childhood Development
EU	European Union
FDI	Foreign Direct Investment
FET	Further Education and Training
FTA	Free Trade Agreement
GDE	Gross Domestic Expenditure
GDFI	Gross Domestic Fixed Investment
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GGP	Gross Geographic Product
GHS	General Household Survey (Stats SA)
GVA	Gross Value Added
HSRC	Human Sciences Research Council
HDI	Human Development Index (UNDP)
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HS	Harmonised Commodity Description and Coding System
ICT	Information and Communication Technology
IDP	Integrated Development Plan
IES	Income and Expenditure Survey

ILO	International Labour Organisation
IMF	International Monetary Fund
INCA	Infrastructure Finance Corporation Limited
IPSA	Institute of Purchasing and Supply (SA)
ISIC	International Standard Industrial Classification
ISM	Institute of Supply Management (US)
IT	Information Technology
ITC	International Trade Centre
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey (Stats SA)
MEDS	Microeconomic Development Strategy
MIDP	Motor Industry Development Programme (South Africa)
MIG	Municipal Infrastructure Grant
MPRS	Marginal Proportional Rate of Substitution
MRC	Medical Research Council (South Africa)
MVA	Manufacturing Value Added
NEPAD	New Partnership for Africa's Development
NIC	Newly Industrialised Country
NPA	National Ports Authority
NRF	National Research Foundation (South Africa)
NSI	National System of Innovation
OECD	Organisation for Economic Co-operation and Development
OHS	October Household Survey (Stats SA)
OPEC	Organisation of the Petroleum Exporting Countries
PGDS	Provincial Government and Development Strategy
PIMD	Provincial Index of Multiple Deprivation
PMI	Purchasing Managers Index
PPI	Producer Price Index
PPP	Public Private Partnership
PPP	Purchasing Power Parity
PSLSD	Project for Statistics on Living Standards and Development
R&D	Research and Development
ROI	Return on Investment
SA	South Africa
SALDRU	South African Labour Development Research Unit
SAPO	South African Ports Authority
SAPS	South African Police Service
SAR	Special Administrative Region (Hong Kong)
SARB	South African Reserve Bank
SDF	Spatial Development Framework
SEE	Survey of Employment and Earnings (Stats SA)
SIC	Standard Industrial Classification



SIP	Strategic Infrastructure Plan
SITC	Standard International Trade Classification
SMME	Small, Medium and Micro Enterprise
STATS SA	Statistics South Africa
TGR	Target Growth Rate
the dti	The Department of Trade and Industry (South Africa)
TIPS	Trade & Industrial Policy Strategies
TRIPS	Trade-related Intellectual Property Rights
UCT	University of Cape Town
UIF	Unemployment Insurance Fund
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
US	United States
VAT	Value-Added Tax
WATCP	Western African Trade Corridor Programme (Wesgro)
WCED	Western Cape Education Department
WCO	World Customs Organisation
WTO	World Trade Organisation

Tables

Chapter 1: Executive Summary

Table 1: Macroeconomic outlook for SA 2005 – 2008	10
Table 2: Outlook for the Western Cape economy: 2006/07 – 2008/09	14
Table 3: Labour market aggregates, 2000 – 2004	23
Table 4: Measure of pro-poor growth by race, 1995 – 2000	37

Chapter 2: Economic Outlook 2006/07 – 2008/09

Table 1: World economic outlook: real GDP growth (%)	61
Table 2: Macroeconomic outlook for SA: calendar 2006 – 2008	72
Table 3: Western Cape economy: real GDP growth, 1999 – 2004 (%)	80
Table 4: Western Cape real export growth, 1999 – 2004 (%)	88
Table 5: Outlook for the Western Cape economy: 2006/07 – 2008/09 (%)	90

Chapter 3: Sectoral Growth and Employment Prospects

Table 1: Share of manufacturing exports, 1996 – 2003, \$-million and per cent	101
Table 2: 20 most dynamic products in world non-fuel exports, ranked by composite index on predictability, volatility and growth, 1980 – 1998	103
Table 3: Average annual real growth rate of MVA and per-capita MVA in constant (1995) US\$	105
Table 4: Structure of MVA (%)	106
Table 5: Export growth and share in total manufactured exports of the 20 most market-dynamic manufactures (%)	108
Table 6: The largest exports from the Western Cape by value, 2004	126

Chapter 4: Employment Dynamics

Table 1: Population growth in the Western Cape, 1985 – 2015	158
Table 2: Labour market aggregates, 2000 – 2004	166
Table 3: Composition of the Western Cape labour force, 2000 and 2004	171
Table 4: Composition of Western Cape employment, 2000 and 2004	173
Table 5: Sectoral distribution of Western Cape employment, 2000 and 2004	174
Table 6: Formal and informal sector employment in the Western Cape, 2000 and 2004	176
Table 7: Composition of Western Cape broad unemployment, 2000 and 2004	182



Table 8: Geographical distribution of sectoral employment growth, 15-34 year-olds, 1996 – 2001 (%)	190
Table 9: Geographical distribution of sectoral employment growth, 35-65 year-olds, 1996 – 2001 (%)	191
Table 10: Projected labour market aggregates: Scenario A, 2004 – 2015	200
Table 11: Projected labour market aggregates: Scenario B, 2004 – 2015	200
Table 12: Requirements to attain 10% broad unemployment rate by 2015: Scenario A	202
Table 13: Requirements to attain 10% broad unemployment rate by 2015: Scenario B	204

Chapter 5: Socioeconomic Profiling at the Local Level

Table 1: City and district contributions to Western Cape GDR, 2004	217
Table 2: Educational attainment: Western Cape and districts, 2001 (%)	223
Table 3: Percentage of wards in each quartile of wards in the Western Cape by municipality on the overall PIMD, 2001	231
Table 4: Western Cape education enrolment rates, 2005	234
Table 5: Indication of social infrastructure backlog, various years	235
Table 6: Western Cape workload in education, healthcare and policing, various years	238
Table 7: Cape Town: sector contribution to GDP and growth, 1996 – 2004	241
Table 8: Cape Town: contribution to GDP and employment growth per sector, 1996 – 2001	242
Table 9: Cape Town: HDIs	243
Table 10: Cape Town: CDIs	244
Table 11: Cape Town: percentage of people in poverty, 1996 – 2004	246
Table 12: Cape Town: income distribution, 2001 (%)	246
Table 13: Cape Town: labour market, 1995 – 2004	247
Table 14: Cape Town: annual average growth by age group, 2001 – 2005	248
Table 15: Cape Town: changes in crime rates per 100 000 population, 2001/02 and 2004/05	249
Table 16: Cape Town: access to basic services, 1996 and 2001	250
Table 17: Cape Winelands: sector contribution to GDP, 2004; average annual growth, 1995 – 2004 and employment share per sector, 2001	252
Table 18: Cape Winelands: contribution of local municipalities to GDP, 2004; average annual growth, 1995 – 2004 and employment, 2001	254
Table 19: Cape Winelands: selected indicators of quality of life by local municipality	255
Table 20: Eden: sector contribution to GDP and growth, 1995 – 2004 and employment share per sector, 2001	257

Table 21: Eden: contribution to GDP by municipality, 1995 – 2004 and employment share per sector, 2001	258
Table 22: Eden: selected indicators of quality of life by local municipality	259
Table 23: West Coast: sector contribution to GDP, 2004; average annual growth, 1995 – 2004 and employment share per sector, 2001	261
Table 24: West Coast: contribution of local municipalities to GDP, 2004; average annual growth, 1995 – 2004 and employment, 2001	262
Table 25: West Coast: selected indicators of quality of life by local municipality	263
Table 26: Overberg: sector contribution to GDP, 2004; average annual growth, 1995 – 2004 and employment share per sector, 2001	265
Table 27: Overberg: contribution of local municipalities to GDP, 2004; average annual growth, 1995 – 2004 and employment, 2001	265
Table 28: Overberg: selected indicators of quality of life by local municipality	267
Table 29: Central Karoo: sector contribution to GDP, 2004; average annual growth, 1995 – 2004 and employment share per sector, 2001	269
Table 30: Central Karoo: contribution of local municipalities to GDP, 2004; average annual growth, 1995 – 2004 and employment, 2001	269
Table 31: Central Karoo: selected indicators of quality of life by local municipality	270

Chapter 6: Western Cape's Recent Growth Experience

Table 1: Measures of pro-poor growth, 1995 – 2000 (%)	281
Table 2: Measures of pro-poor growth by race, 1995 – 2000 (%)	283
Table 3: Measure of pro-poor growth by location, 1995 – 2000 (%)	284
Table 4: Measure of pro-poor growth by gender, 1995 – 2000 (%)	285
Table 5: Elasticities of poverty measures, 1995 – 2000	289
Table 6: Datt-Ravallion decompositions by the standard poverty line, 1995 – 2000 (%)	290
Table 7: Datt-Ravallion decompositions by the ultra-poverty line, 1995 – 2000 (%)	291



Figures

Chapter 1: Executive summary

Figure 1: Composition of Western Cape exports: 2005	13
Figure 2: Western Cape sector contribution to GDP, 1995 – 2004	18
Figure 3: Western Cape sector employment, 1995 – 2004	20
Figure 4: Broad unemployment rates, 2004	25

Chapter 2: Economic Outlook 2006/07 – 2008/09

Figure 1: World real GDP growth: 2006/07	62
Figure 2: SA business confidence	63
Figure 3: SA consumer confidence	64
Figure 4: The Investec PMI dips below 50 in January 2006	68
Figure 5: Close link between the US\$/R and US\$/euro exchange rates	68
Figure 6: Household debt to GDP ratio	70
Figure 7: Western Cape real GDP growth by broad sector: 2004	81
Figure 8: Western Cape formal sector employment growth: 1999 – 2004	83
Figure 9: Western Cape real GDFI growth: 1999 – 2004	86
Figure 10: Sectoral contribution to cumulative Western Cape real GDFI growth: 1999 – 2004	87
Figure 11: Composition of Western Cape exports: 2005	89

Chapter 3: Sectoral Growth and Employment Prospects

Figure 1: Sector contribution to regional GDP, 1995 – 2004	114
Figure 2: Western Cape sector employment, 1995 – 2004	116
Figure 3: Shares of sectors in MVA, 2004	120
Figure 4: Manufacturing employment, 1995 – 2004	121
Figure 5: Gross provincial fixed investment, 1995 – 2004	122
Figure 6: Exports by sector, 1995 – 2004	124
Figure 7: Trade balances by manufacturing sub-sector, 1995 – 2004	125
Figure 8: Value added in services, 1995 – 2004	128
Figure 9: Impact:investment matrix for sector prioritisation	144

Chapter 4: Employment Dynamics

Figure 1: Net in-migration to the Western Cape, 1985 – 2015	159
Figure 2: Western Cape population pyramid, 2000	160
Figure 3: Western Cape population pyramid, 2015	161
Figure 4: Proportion of Western Cape's population within Cape Town, 1985 – 2015	163
Figure 5: Employment target growth rates and employment absorption rates, 2000 – 2004	168
Figure 6: Western Cape broad labour force participation rates, 2000 and 2004	170
Figure 7: Occupational structure of Western Cape employment, 2004	175
Figure 8: Characteristics of formal and non-formal employment, 2004	178
Figure 9: Broad unemployment rates and confidence intervals, 2004	180
Figure 10: Composition of employment and unemployment by educational attainment and age group, 2000 and 2004	183
Figure 11: Unemployment rates by educational attainment and age group, 2000 and 2004	184
Figure 12: Time since last worked, expanded unemployed who have worked before, 2004	186
Figure 13: Sectoral structure of employment across districts by age group, 2001	189
Figure 14: Broad unemployment rates across districts, 1996 and 2001	193
Figure 15: Geographical composition of unemployment change, 1996 – 2001	195

Chapter 5: Socioeconomic Profiling at the Local Level

Figure 1: Western Cape demographic indicators, 1985 – 2025	221
Figure 2: Cape Town CDI compared to the Western Cape average, 2005	245

Chapter 6: Western Cape's Recent Growth Experience

Figure 1: GIC for SA, 1995 – 2000	279
Figure 2: GIC for the Western Cape, 1995 – 2000	280
Figure 3: Growth in household access to formal dwelling, 1993 – 2004	294
Figure 4: Growth in household access to piped water, 1993 – 2004	295
Figure 5: Growth in household use of electricity for lighting, 1993 – 2004	296
Figure 6: Growth in household access to flush/chemical toilets, 1993 – 2004	296



Executive summary

1. Shared growth and integrated development

Three years ago, as part of its new vision, *iKapa Elihlumayo: A Home for All*, the Provincial Government charted a new course to fundamentally change the social, economic and human landscape of the Western Cape.

iKapa Elihlumayo recognises that South Africa (SA) has achieved considerable success in macroeconomic stabilisation at the national level, and closer to home, the Province has made important strides in the delivery of social and basic services.

However, high levels of unemployment and poverty persist, stretching the development chasm. Given present trends, we face retreating long-term sustainable gains; an outcome that the forthcoming Provincial Growth and Development Strategy (PGDS) aims to change.

Based on four key pillars – growth, equity, empowerment and environmental integrity – the Provincial Growth and Development Strategy: *iKapa Elihlumayo* sets out a vision for shared growth and integrated development in the Western Cape.

What is ‘new’ about the Province’s shared growth and integrated development approach that sets it apart from other development strategies?

Said simply, shared growth is a development strategy that views poverty reduction and economic growth as being inter-dependent goals over the medium to long term. That is, that the fates of the poor and the wealthy are intertwined; that the only option is to find strength and unity in our diversity, and work together towards a shared future.

We know that higher levels of economic growth are critical to reducing unemployment and poverty over the medium to long term – it is only at higher levels of growth (the 6% to 8% band) that SA's economy will be able to generate sufficient investment, particularly in economic infrastructure, and stimulate the levels of economic activity that are conducive to the level of job creation and redistribution that we need.

So growth is not the ultimate aim. It is the means to the end – a better life for all.

Moreover, it is generally accepted that, on its own, growth will not bring benefits to the wider community. The wealthy are able to capture economic benefits from growth, while poorer communities tend to have few resources or capabilities to respond to social and economic changes. Growth for its own sake most always results in higher levels of inequity and tends to exacerbate polarised income distribution trends.

Yet economic growth also has the ability to make a significant contribution to reducing poverty and improving people's livelihoods and future opportunities.

Shared growth and integrated development recognises that growth alone is a necessary but not sufficient condition. That is, more than just high levels of growth are needed to reduce poverty. Social equity matters in growth and development.

High levels of equity enhance the impact of accelerated growth on poverty reduction. In turn, boosting the long-term growth potential of an economy depends on a more equitable distribution of income, capabilities and geographic location of communities and economic activity that enable the benefits of growth to be shared.

Enhanced sharing of economic yields boosts social and economic participation, which in turn feeds back to reinforce the economy's long-term growth potential, generating a virtuous cycle of growth and human development.

A shared growth and integrated development strategy must therefore be simultaneously pro-growth and pro-poor – a relationship that removes a false dichotomy in the debate and points to their inter-dependency.

Seen against empirical evidence drawn from a wide range of developing country experience, on average and over time, growth does result in the reduction of poverty. However, it is the quality of growth that matters for the extent of the impact of growth on poverty.

This means that the way in which wealth is created (the quality of growth) is just as important as the level of growth.

Higher levels of economic growth have a larger impact on poverty in countries where there is a greater social equity, particularly with regard to assets. Conversely, widening inequality

not only diminishes the impact that higher levels of growth have on reducing poverty; it also slows down the pace of economic growth, conflating the trend.

Said simply, higher levels of growth have a greater impact on reducing poverty when the poor are themselves empowered to participate in economic activity, acting as agents of growth through their own production.

When poor people have access to tangible assets, such as land, housing, water, energy, sanitation, transport and credit, or intangible assets, such as education, health and personal security, they hold the means to participate in economic activity and therefore are better placed to benefit from economic growth.

The quality of growth is also affected by environmental sustainability concerns. High levels of growth may have a short-term impact on reducing poverty. But if headed on a path that is environmentally unsustainable, medium- to long-term costs are likely to erode any short-term gains.

Environmental sustainability is critically important for the Western Cape. The Province is a bio-diverse economy that depends on agriculture, agro-processing and eco-tourism, and faces considerable risk from unrestrained urban sprawl and global climatic change, particularly in respect of water and energy use, and biodiversity protection.

The key message from recent climate change research is that global climatic change is likely to result in further warming and drying in the Western Cape. Already a water-scarce region, water availability in the Province is likely to worsen in future.

Climate change will have a significant negative impact on the Western Cape's agricultural productivity due to its dependence on irrigation, and potentially effect a decrease in rain-fed agriculture. Water scarcity may also affect the growth of the eco-tourism industry, and hence of coastal towns.

Furthermore, the ecological integrity of wetlands, rivers and estuaries will be significantly affected, contributing towards a reduction in biodiversity related to water bodies – notably affecting the fishing industry – while on land there is a likely increase in wildfire frequency and intensity. Threats to catchment integrity are reinforced by unsustainable and irresponsible settlement expansion.

Similar concerns are being raised in respect of energy. Higher economic growth and urbanisation pressures have placed considerable stress on current energy supplies to the Western Cape.

Recent power outages emphasise the importance of appropriate long-term planning for energy provision, a more competitive energy market and enhanced feasibility of alternative

energy sources, particularly in respect of renewable energy (solar, wind, wave and biofuels), as well as managing and regulating energy demand.

The Province's vision for shared growth and integrated development therefore proposes a fundamentally different trajectory that takes cognisance of environmental sustainability concerns.

The key policy lessons to be learnt here are, first, that economic growth that is accompanied by improved social equity will have a greater impact on reducing poverty than growth that leaves distribution unchanged.

Secondly, increased social inequality can offset the benefits of growth to the poor, reducing the poverty impact of future growth.

Thirdly, growth has to be environmentally sustainable to have medium- to long-term benefits for reduced poverty and improved livelihoods.

It is precisely these conclusions that have shifted the Western Cape debate towards shared growth and integrated development. It is therefore important that we enhance our understanding of the interaction between growth, social equity and environmental sustainability, and how these impact on poverty over time.

1 All GDP and regional GDP (GDPR) projections are those derived from work done by the BER.

2. 2006 Provincial Economic Review and Outlook (PER&O)

As provinces assert a stronger leadership role in regional economic development, it is critical that they build appropriate economic capacity to undertake research and analyses that inform and guide provincial planning and budgeting decisions.

Provinces need a better understanding of how to describe provincial economies as distinct regional entities within the broader SA economy. They should be able to analyse key provincial economic variables and propose credible trend forecasts.

Decomposing labour market structures and trends adds to an understanding of the provincial skill base and income distribution patterns.

Finally, determining the sources, potential and constraints to enhanced provincial growth and employment is critical to ensure appropriate policy and/or co-ordination interventions that, at a meso level, link overarching national macroeconomic policies and local economic development interventions.

Last year's Western Cape PER&O built on the 2003 Socio-Economic Review, taking it a significant step further.

The scope, depth, and rigour of the 2005 PER&O provides a critical overarching socio-economic environmental scan of the Western Cape, framing the *iKapa Eliblumayo* lead strategies, most of which are now complete.

This entails understanding what shared growth and integrated development means for the Western Cape in greater detail.

This year, in line with the PGDS, the 2006 PER&O stresses the importance of defining the desired form of growth that Government seeks to stimulate in the Western Cape.

The above draws on a complementary concept of shared responsibility, particularly in respect of enhancing the provincial-local nexus. Inter-linkages between provincial and local socio-economic trends and dynamics within the Western Cape, and how these contribute towards the Province's vision of shared growth and integrated development are important here.

The 2006 PER&O consists of six chapters. The introduction details the conceptual framework of shared growth and integrated development, leading into an executive summary of the following six chapters.

Chapter 2: Economic Outlook draws on global and national economic dynamics and the development of an integrated input-output econometric model for the Western Cape to provide a medium-term economic and sectoral outlook for the Province.

Chapter 3: Sectoral Growth and Employment Prospects describes salient features of sectoral activity in the global economy, complementing earlier work completed by the Province's Microeconomic Development Strategy (MEDS). These are then compared to national and Provincial sectoral trends in an effort to outline the complexities facing sectoral activity in the Western Cape.

Chapter 4: Employment Dynamics presents a closer analysis of the Western Cape labour market, providing both an historical review and a forward projection or outlook. This sets a credible analytical platform for debate of appropriate interventions aimed at improved Provincial labour market performance, enhanced job creation and reduced unemployment.

Chapter 5: Socio-Economic Profiling at the Local Level takes socio-economic environmental scanning to the municipal level. The constituent elements of the Provincial economy are metropolitan, district and local economies. Socio-economic profiling at the municipal level deepens our understanding of existing socio-economic patterns and dynamics at the local level, and enhances the provincial-local interface in the Province's shared growth and integrated development strategy.

Chapter 6: Western Cape's Recent Growth Experience explores the extent to which the economic growth experience of the Western Cape, and more broadly SA, has been biased toward or against the poor. Empirical estimates measure the extent to which growth was shared among groups in the Western Cape between 1995 and 2000, highlighting the challenge that the Province faces in steering a fundamentally new course for shared growth and integrated development over the next 10 years.

As the concluding chapter, chapter 6 then draws on growth diagnostic techniques to understand the dynamics of shared growth and integrated development, and the associated implications for public policy design and implementation.

In sum, the 2006 PER&O highlights that fostering shared growth and integrated development within the dynamics of intergovernmental interaction presents a challenge to all in the public sector.

Delivery depends on the whole rather than the sum of the parts. The scorecard is rigorous and demanding, measuring improvements in shared growth and future opportunities of South Africans, and more specifically those in the Western Cape, by 2015.

3. Western Cape's economic outlook

Economic growth in the Western Cape is closely tied to developments in the SA economy. In turn, the national economy is firmly embedded in the global economy. Global and national economic developments and outlooks therefore have important consequences for the Western Cape.

3.1. Global economic developments

Global growth continues as the upswing phase of the global business cycle entered its fifth year in November 2005. Following strong and synchronised growth in 2004 (around 5%), the global economy slowed down during the second half of 2004 and the early part of 2005. Growth also became more uneven. The Euro area and Japan lagged the strong performances of the United States (US) and Chinese economies.

Global economic indicators began turning upwards again from the middle of 2005, signalling a new leg of accelerated growth. However, hurricanes Katrina and Rita have had a material impact on the global economic outlook due to their effect on the US economy and the international crude oil price. Higher crude prices are pushing inflation higher, drawing the attention of central banks globally.

Expectations are that expansion in the global economy will be sustained. Corporate fixed investment spending and hiring, supportive interest rates and strong developing country economic performances – in particular that of China – underpin positive global growth prospects. However, the risks are loaded on the downside.

Led by the US Federal Bank, the normalisation of interest rate levels in the major industrial countries has implications for emerging market economies such as SA.

Emerging markets have been the beneficiaries of the period of low interest rates in the main industrial countries since the end of 2001. This has translated into strong capital inflows into emerging markets and appreciating exchange rates (depending on the host countries' currency regimes) as international investors sought higher yields.

The weak US dollar and the commodity boom compounded these flows to countries such as SA; the accumulated net capital inflow on the SA balance of payments (BoP) amounted to R184-billion during 2002 to 2005.

Wider interest rate spreads and increased international investor risk aversion, possibly compounded by softer commodity prices, could see a reversal, or at best, a sharp slowdown of these capital inflows, with the attendant risk for emerging market economies such as SA that are making use of capital inflows to finance widening current account deficits, the latter a casualty of weak export performance.



3.2. Trends in the SA economy

Turning to the domestic scene, the SA economy has been remarkably buoyant during 2005, in spite of a (temporary) global slowing during the first half of the year and high oil prices. Both business and consumer confidence levels scaled new heights during the second half of the year.

Growth remains remarkably broad-based, and following revision of national GDP statistics, came in close to 5 per cent in real terms for 2005.

On the demand side of the economy, final household consumption expenditure grew by 6,9 per cent in real terms in 2005 and government final consumption expenditure by an estimated 5,6 per cent.

However, growth is not entirely consumption-driven. Real private fixed investment grew by 8 per cent during 2005, including a particularly buoyant private residential construction sector. Public sector fixed investment spending is now taking off, with estimates suggesting strong growth of 10 per cent to 11 per cent during 2005.

On the external front, non-gold export growth has been stronger than expected, coming in at double-digit growth rates during the first half of the year. This growth is concentrated in the non-gold commodity sector, as manufacturing exports have been under pressure from the strong rand exchange rate.

Given sustained demand conditions, the production side of the economy is increasingly responding to keen demand conditions, with both mining and manufacturing showing signs of recovery and adjustment to the strong currency environment. During calendar year 2005, growth accelerated close to 4 per cent in the primary sector, 4,6 per cent in the secondary sector, and 6,2 per cent in the tertiary sector (excluding government).

The domestic market continues to boom. This is reflected in sustained high confidence levels in the retail sector, unprecedented car sales and keen overall credit demand. The strong currency environment (inducing lower inflation and interest rates) benefits the non-tradeable goods sectors, such as wholesale & retail trade, construction, transport & communication and – to a lesser extent – financial & business services.

Key to the sustainability of the spending momentum is income growth and a sustainable BoP position. Over the past five years, solid income growth has been driven by improved formal sector employment creation, enhanced productivity growth, personal tax cuts, a structural adjustment to lower levels of inflation and real interest rates, and higher levels of real economic growth.

The domestic spending momentum therefore has favourable structural characteristics. There is little sign of overspending and/or exorbitant general household indebtedness. Inflation and interest rates are at sustainable lower levels. There is sound fiscal stimulation and a higher fixed investment rate (both in the private and public sectors). Further, the BoP position is a function of external developments, the exchange rate and SA's competitiveness.

The strong spending momentum has been accompanied by the recovery of the rand exchange rate. However, the economic upswing is not dependent on the strong currency. In fact, it may be argued that the rand's overvaluation compromises improved economic growth performance due to the imbalances it is creating. These are best reflected in the widening current account deficit and an under-performing manufacturing sector.

Overall real GDP growth is estimated at 4,9 per cent during 2005 and is projected to slow somewhat to 4,6 per cent in 2006 and 4,1 per cent in 2007.

While inflation is likely to increase moderately over the medium term due to the high energy prices, demand-pull effects and some exchange rate depreciation, it is projected to remain within the 3 per cent to 6 per cent target range over the short term (CPIX inflation is estimated to reach 5,2% in 2007).

Given the solid basis of the domestic growth momentum, the SA economy is well positioned to weather any unexpected hostile external developments and sustain the current growth trajectory.

It is key that policy-makers and other stakeholders in the economy capitalise on this opportunity – termed SA's economic 'sweet-spot' by some – to implement the required microeconomic reforms that will enhance competitiveness and further elevate the economic growth and employment performance.

Table 1: Macroeconomic outlook for SA: calendar 2006 – 2008

	Average '99-'04	2004	2005	2006 (forecast)	2007 (forecast)	2008 (forecast)
Expenditure on GDP (real % change):						
Household consumption	3,7	6,5	6,9	4,7	3,9	4,4
Fixed investment	3,5	8,8	8,0	8,3	9,5	10,5
Gross domestic expenditure (GDE)	3,8	7,5	5,9	5,2	5,0	5,3
Exports	2,4	2,5	6,7	7,0	4,7	5,9
GDP	3,4	4,5	4,9	4,6	4,1	4,7
Inflation, interest and exchange rates:						
CPIX inflation (%)	6,9	4,3	3,9	4,5	5,2	4,9
PPI inflation (%)	6,7	0,7	3,1	5,0	4,9	5,0
Prime overdraft rate (%)	14,71	11,31	10,64	10,50	10,50	10,75
R/US\$ exchange rate	7,70	6,45	6,36	6,35	6,92	7,54
R/euro exchange rate	7,85	8,02	7,93	7,79	8,66	9,28

Source: BER

3.3. The Western Cape economy

The Western Cape continues its strong economic growth performance. In 2004, the Provincial economy expanded by 5,3 per cent in real terms, compared to 4,5 per cent for SA. Strong performance continued in 2005, with estimated regional GDP growth rising to around 5 per cent in real terms.

The Western Cape was hard hit by the drought in agriculture as well as the adverse impact of the strong rand on manufacturing activity. A number of the rapidly growing niche manufacturing and services sectors have been affected by rand strength.

Strong growth performance has been led by sectors such as construction, wholesale & retail trade, financial & business services (including property development & real estate), and transport & communication.

The Western Cape economy is well represented in these nationally fast-growing industries, even exceeding its national counterpart. Excluding general government services, the estimated real value-added growth in the Province's tertiary sector is 6,2 per cent for 2004. This is in line with the 6,2 per cent average real growth rate registered between 1999 and 2004. The real value-added growth in construction is estimated at 9,4 per cent in 2005, and averaged 6,5 per cent over 1999 to 2004.

A number of niche manufacturing and services sectors have also contributed strongly to regional growth. These include agro-processing, automotive components, boat and ship-building, high-end clothing and furniture manufacturing, call centres and the film industry.

Unfortunately, the strong rand has dampened activity in a number of these emerging industries.

Western Cape economic performance has also been characterised by strong export growth over the period 1996 to 2002 (8% to 9% in real terms). This came under pressure in 2003 to 2005 due to the impact of the strong rand. While the Province's core exports to well-established markets (including fruit and alcoholic beverages, iron & steel and processed food) continued to grow in real terms, a number of the non-core export products contracted sharply in 2003 and 2004.

Nonetheless, as the Western Cape business cycle is closely linked to that of the national economy, the favourable outlook for the SA economy augurs well for the Province.

3.3.1. Western Cape economic outlook, 2006/07 – 2008/09

The short-term economic outlook for the Western Cape remains upbeat, despite the external risks. Nationally, SA should be in a favourable position to weather the impact of higher oil prices and/or other shocks. In the case of externally induced financial volatility, the currency is bound to act as a shock absorber, while the domestic spending cycle is built on sound foundations.

The rand is expected to continue trading at strong levels throughout 2006 and the national inflation outlook has improved, with positive implications for interest rates. While some slowdown in real domestic expenditure is likely in the absence of further interest rate stimulus and when the rand depreciates (particularly in durable goods retailing, construction and financial services), such a slowdown is likely to be relatively mild. Furthermore, Western Cape industry should benefit from a more competitive currency.

The robust growth in the Province's wholesale & retail sector (around 7% a year over the period 1999 to 2004), construction (6,5%) and transport & communication (around 6,3%) is expected to continue.

The sustained growth in domestic expenditure and a more stable financial environment should remain conducive to robust growth in excess of 5 per cent a year in the Western Cape's tertiary sectors (excluding government services). The property and financial services sectors are somewhat exposed to the risk of higher interest rates.

The manufacturing and agriculture sectors are expected to recover, the latter if climatic conditions remain favourable. The manufacturing sector did rebound in 2004 following the slump in 2003; however, this recovery petered out again during the second half of 2005 as the rand appreciated.

A more competitive currency is key to sustainable recovery in the manufacturing sector, stimulating growth via import replacement and accelerated exports. Real value-added growth in manufacturing is projected to accelerate close to 4 per cent over the medium term. This is heavily dependent on a decent recovery in the export sector.

Both the private and public sector agencies in the region have responded to the impact of the strong rand, embarking on marketing initiatives, capital investment and technological upgrading programmes, joint ventures with foreign firms, skills upgrading and improved management practices. These initiatives should enable the Province to regain the growth momentum.

Fixed investment trends in the Western Cape averaged 4,4 per cent a year in real terms over 1999 to 2004, slightly faster than the national performance of 3,5 per cent.

Looking ahead, the medium-term outlook for regional fixed investment spending is rosy. Projections estimate that the Western Cape's real fixed investment rate will grow by 9,1 per cent a year over the forecast period, more or less equivalent to the anticipated fixed investment growth nationally.

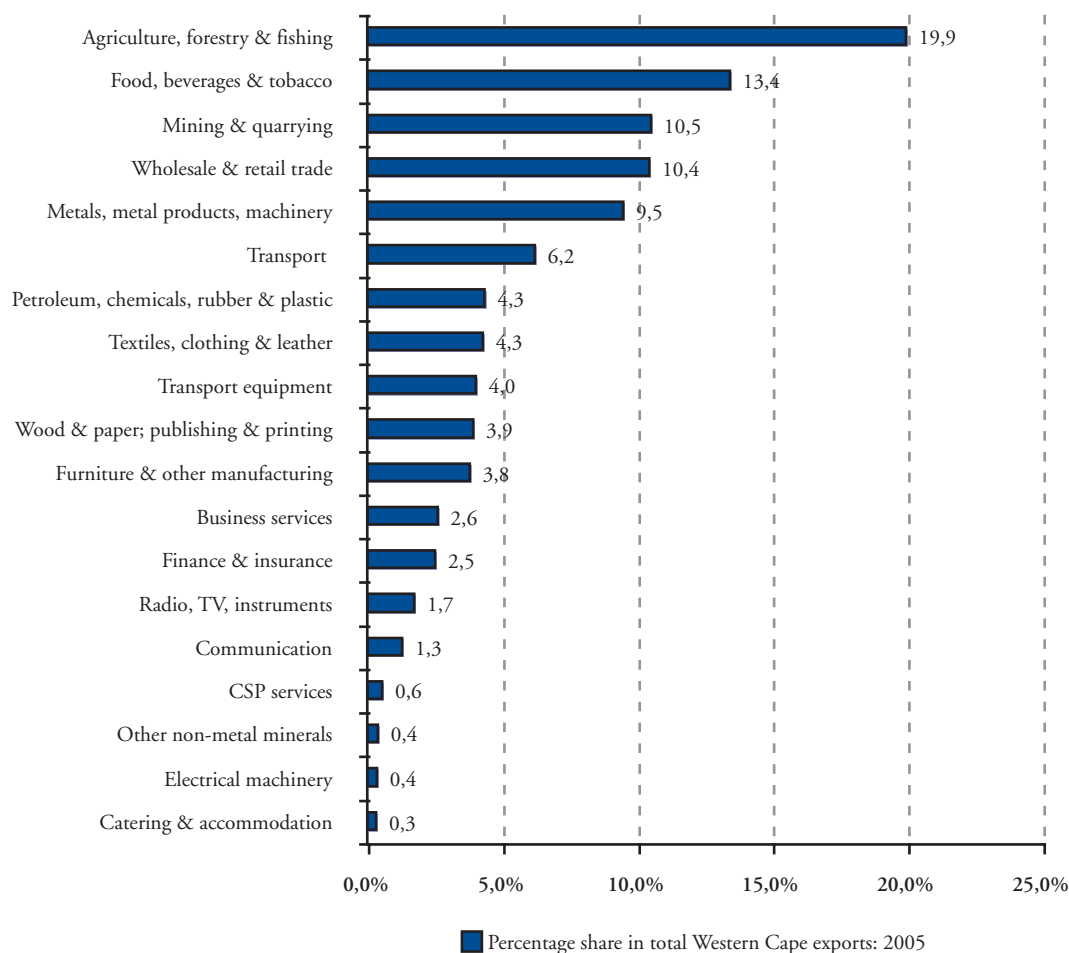
While private fixed investment spending is at risk of slowing over the short term, this is likely to be compensated for by public sector fixed investment spending. Aggregate fixed investment spending is projected to accelerate to 9,5 per cent in 2006 and 2007. This is strong growth and extends the favourable performance over the past three years.

Should this fixed investment growth materialise, the Western Cape's fixed investment rate could pick up further to 20 per cent of GDP. Such a fixed investment environment should be conducive to Provincial employment creation and accelerated economic growth.

Turning to exports, while the general prospects for the Province's main exports remain favourable, third-country competition in the European market has intensified due to the weakness of the US dollar. The Western Cape's agricultural and processed food exports, which dominate the Province's exports (as seen in figure 1) are particularly exposed to this competition. In fact, contraction of food & beverage export volumes in 2003 and 2004 suggests that the price elasticity of Western Cape agro-processing exports to Europe may be on the increase.

Overall, the medium-term outlook for the Western Cape's agro-industrial and base metal exports is favourable. However, a broader recovery in manufacturing exports could be influenced strongly by the direction of the rand exchange rate. Global demand conditions are relatively favourable, and Western Cape manufacturers that have succeeded to maintain a foothold in the export market should be able to benefit from a more competitive currency.

Figure 1: Composition of Western Cape exports, 2005



Source: Quantec Research

The Western Cape economic performance is therefore expected to keep up with that of SA over the short term, and may continue to out-perform the national economy on average.

Table 2 shows that real GDP growth is forecast to average 4,8 per cent a year over the medium term, slightly higher than the projected national average (4,4%). Growth is forecast to peak at 5,3 per cent in 2005/06.

Table 2: Outlook for the Western Cape economy: 2006/07 – 2008/09¹

	Average '99-'04	2004/05	2005/06 (forecast)	2006/07 (forecast)	2007/08 (forecast)	2008/09 (forecast)
GDPR (Rbn; current prices):	–	186,3	205,3	225,1	247,6	271,5
Real GDPR % growth	4,1	5,3	5,3	4,7	4,5	4,8
Real GDFI % growth	4,4	7,8	8,6	9,3	9,5	9,5
GDPR deflator	6,8	4,5	4,1	4,2	5,4	4,6
CPI inflation	5,5	3,4	3,8	3,5	5,2	4,6
GDPR by sector (real % change):						
Agriculture, forestry & fishing	1,7	3,6	7,4	2,3	1,0	0,8
Mining & quarrying	-4,5	1,6	2,5	2,4	0,9	1,1
Manufacturing	2,1	5,1	3,5	4,1	3,4	3,8
Electricity, gas & water	5,1	6,9	6,1	6,0	5,1	5,0
Construction	6,5	5,8	8,8	7,3	8,2	8,6
Wholesale & retail trade	7,2	9,2	7,0	5,0	4,6	5,3
Transport & communication	6,3	5,4	6,2	6,0	5,8	6,2
Financial & business services	6,1	5,2	4,9	4,7	4,9	5,2
CSP services	3,1	1,8	3,3	3,6	3,5	3,6
General government	-0,2	1,7	4,4	4,0	3,9	3,6
Western Cape GDPR	4,3	5,3	5,3	4,7	4,5	4,8

Source: BER

Note: ¹ Fiscal years ending 31 March

4. Sectoral growth and employment prospects

Economic developments in the Western Cape are firmly linked to those in the SA and global economies. National and global economic events and trends therefore offer opportunities for, and pose constraints to, shared growth and integrated development in the Western Cape. Understanding these trends and the challenges they imply for firm-level growth and employment creation is critical.

Also important is understanding the role that government plays in accelerating and broad-basing economic growth and employment creation. This, in turn, requires insights into what has made catch-up of entire developing countries – and regions within them – successful in the past, and which factors are likely to be crucial for the accelerated development of the Western Cape in the years to come.

4.1. Knowledge, capabilities and catch-up

Countries – and regions within them – with above-average track records in economic development tend to have a sizeable skilled and knowledgeable labour force.

Such human capital accumulation is a result of considerable education and training planning and provision, whether public or private, through appropriate incentives.

Since the very definition of development ‘latecomer’ implies a certain distance to the technology frontier, it is important for the realisation of ‘catch-up’ that external, advanced knowledge is accessible and affordable. Local capabilities go only so far if the origins and sources of external knowledge remain barred because of prohibitively expensive patent regimes and the like.

The catch-up potential of a region depends prominently on three factors. The first is the absorptive capacities of individual firms that invest in technological learning and upgrading, and thus reduce the distance between themselves and their global competitors.

The second is the accumulation of these capacities over time – suggesting that one-off investments in research and development (R&D) are insufficient – and across firms, making for an increasingly knowledge-intensive industrial sector.

The third is the systemic character of the interactions with the institutional context without which firms are unlikely to thrive, namely the education system, the research infrastructure, input suppliers, financial institutions and the regulatory environment.

The systemic character of capacity building suggests that having a first-class knowledge infrastructure is by itself not sufficient to generate a fruitful interaction between the worlds of science (in academia) and technology (in industry).

The public sector can play an important complementary role in providing incentives so that national investments in skills and competences, and the adoption of existing and the creation of new knowledge jointly involve training and research institutions and industry. In short, catch-up is unlikely to come about by itself; instead it requires a co-ordination effort.

The co-evolution of skills and technological learning, and the institutional context to combine them, is the key challenge to catching up, including at the regional level.

4.2. The global context of sectoral activity

Developing countries have become much more important in world industrial activity and trade over the last decades. Presently about a quarter of developed country and one half of developing country imports originate in developing countries.

Most of this is due to rapid industrial development and increased integration into the world economy of the East Asian tigers – Hong Kong, Singapore, Korea and Taiwan – and more recently also China.

Over the last two decades, a limited number of products originating in a limited number of countries accounted for a growing share of export dynamism. These products were mostly electrical and electronic goods, including parts and components; textiles and other labour-intensive manufactures, especially clothing; and finished products from R&D-intensive industries with high technological complexity and/or a high degree of economies of scale.

Most of these products originate in developed countries, but in a select few the developing-country share is rather substantial or even – as in knitted undergarments – higher.

For the world as a whole, high-skill and technology-intensive products registered the highest export value growth in the 1980s and 1990s. This is why the notion of the knowledge economy has become a widely used concept.

Perhaps surprisingly, trends in developing countries are very similar – products in the noted category, along with those in medium-skill and medium-technology-intensive activities, grew much above average. In contrast, labour- and resource-intensive sectors, along with low-skill and low-technology-intensive sectors, were close to the average, and primary commodities, except fuel, below average.

These trends hold a mixed message for resource-intensive regions. As the productivity potential and the income elasticity of demand for primary commodities are lower than for manufactures, especially for high-skill-intensive goods, the key challenge for primary

commodity producers is to invest the returns from the commodity boom into activities associated with economic diversification and knowledge intensification.

Empirical comparisons of SA and the Western Cape against the global picture suggest that SA is overspecialised in traditional, declining industries and under-specialised in new, growing industries.

Not surprisingly, this assessment is borne out by the export performance of the country and the Western Cape in dynamic products. Only in perfumes does the share in Western Cape exports exceed the world average.

In all other dynamic products, the country and the Province are hardly present. The Western Cape has actually lost market share in the combined product list. Growth rates in electronic and electrical-related production are particularly sobering; for the latter they are actually negative. If one made a comparison not with the developing country average but that for the most important East and South East Asian exporters, the contrast would be starker still.

SA and the Western Cape are therefore under-represented in those skill- and technology-intensive economic activities that have accounted for much of the medium- to long-term dynamism in world output and trade.

4.3. A role for provincial government

Provincial government could make a difference in regional industrial policy. In the area of knowledge, skills and capabilities in catch-up, although the Province has no jurisdiction over the higher education institutions, it can help them to grow into a more important role for Provincial economic development by providing incentives and support over and above nationally funded mandates that bring the relevant role players together.

The second area concerns salient trends in the world economy, among which increasing knowledge intensity is particularly relevant. The Western Cape is not capitalising on the opportunities that globalisation presents in a similar way to those countries – like Korea – that are a model for SA's technological aspirations. This raises the question of positioning.

Provincial government has a role in respect of initiating dialogue with all concerned stakeholders that ultimately grapples with the Western Cape's commitment to capitalise onto opportunities presented by globalisation. These discussions require detailed understanding of the dynamic make-up of the Provincial economy, and the potential areas in which competitive advantage may be attained.

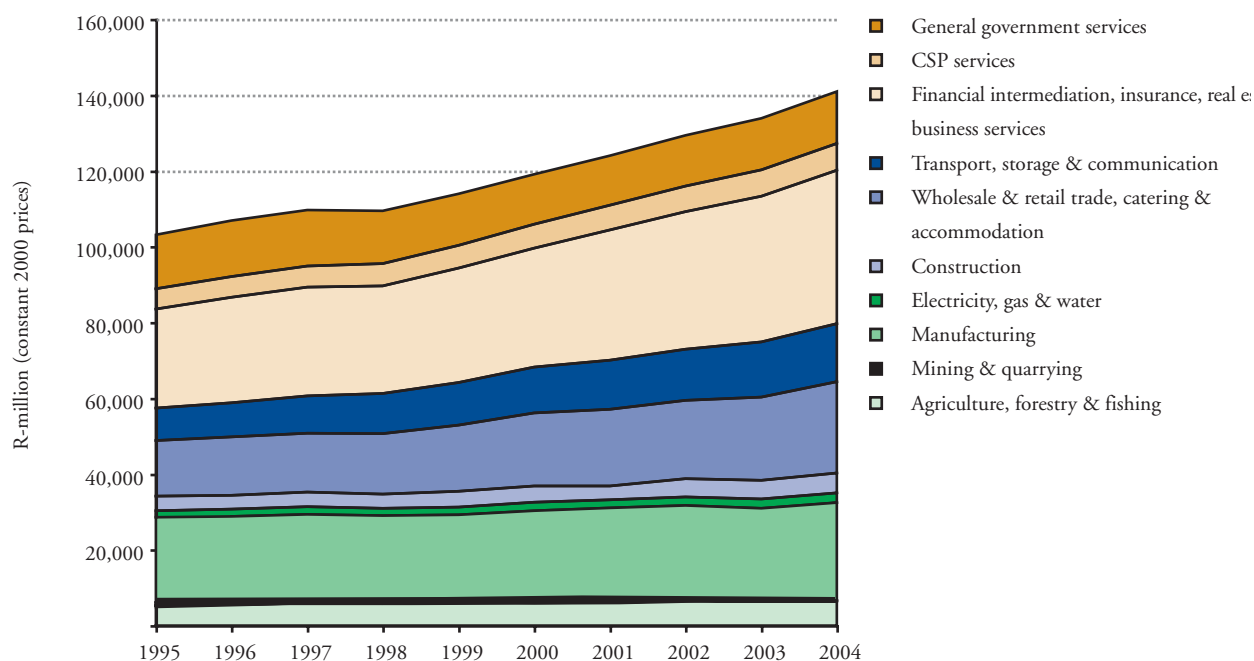
4.4. Broad overview of sector development

The Western Cape economy has traditionally been broad based. It supports sizeable and important activities in all sectors of the economy – primary, secondary and tertiary.

In the primary sector, agriculture, forestry, & fishing accounted for 4,5 per cent of Provincial output in 2004. The share of manufacturing was 18,3 per cent. Service sector activity had the lion's share; financial & business services and wholesale & retail trade alone made up 44,4 per cent of Provincial GDP.

Figure 2 shows that over the 10-year period, 1995 to 2004, average annual growth rates were highest in transport & communication (6%), followed by wholesale & retail trade (5,1%), financial & business services (4,5%) and electricity, gas & water (3,8%). All other sectors grew at a rate below the Provincial average (3,2%). Thus, manufacturing as a whole grew by only 1,4 per cent.

Figure 2: Western Cape sector contribution to GDP, 1995 – 2004



Source: Quantec Research

The recent strong currency environment has had definite impact on the non-tradeable goods sector and on the industrial base more generally. Within manufacturing, the only sectors with significant growth were petroleum products, chemicals, rubber & plastic (4,4%); transport equipment (3,2%); and metals, metal products, machinery and equipment (3%).

Market-dynamic products registered relatively low growth; in textiles, clothing & leather goods, it was slightly negative over the period under consideration. It remained below 1 per cent in radio, television, instruments, watches and clocks, as well as furniture, and reached only just over 2 per cent in electrical machinery and apparatus.

Structural change over the last 10 years has diminished the weight of primary and secondary activities in favour of growth in the tertiary sector. Although this secular trend has not been dramatic, it does suggest that the Western Cape economy is increasingly service-dominated.

At the same time, its broad base is likely to give way to more specialisation. Although this is therefore a positive development, it entails adjustment costs for those (sub-)sectors that contract – in particular, agriculture, forestry & fishing and manufacturing.

All spheres of economic activity can therefore rise to the challenge of sustained competitiveness through growing their knowledge and technological assets.

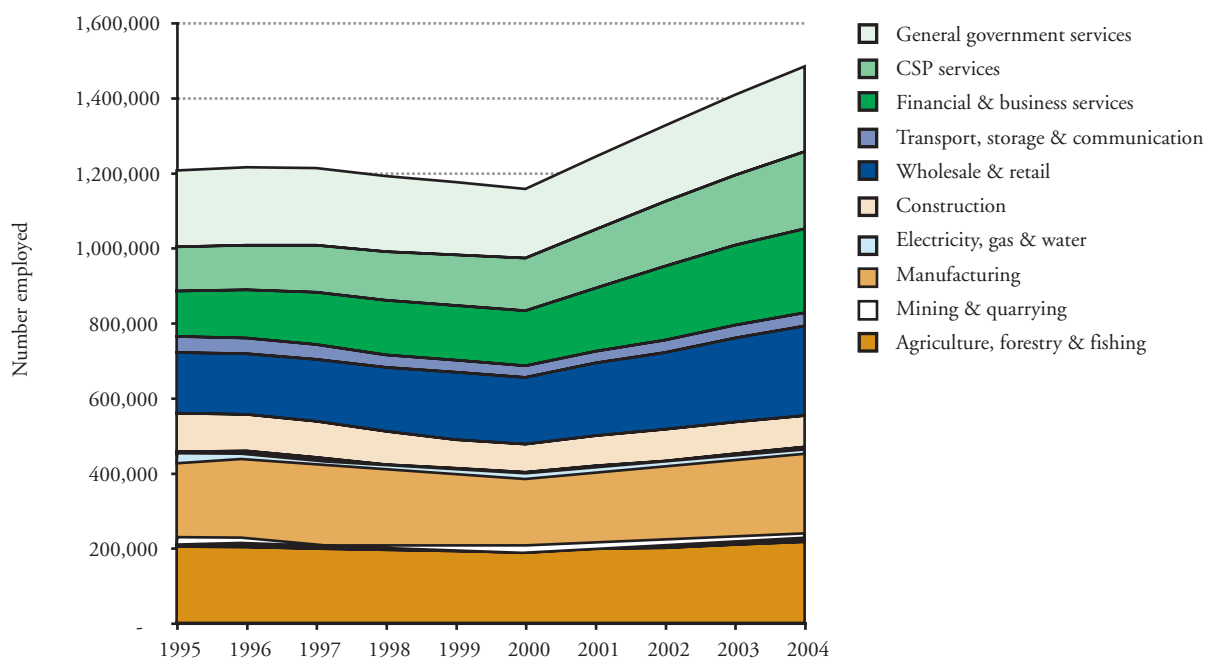
In terms of job creation, figure 3 highlights that over the same 10-year period, average annual growth in employment trailed output growth by roughly one point, at 2,1 per cent. Six sectors – manufacturing (16,3%); wholesale & retail trade (16,1%); government (15,3%); financial & business services (15,1%); agriculture, forestry & fishing (14,6%) and CSP services (13,9%) – account for more than 90 per cent of Provincial employment in the formal sector. Meanwhile, roughly one in 10 persons is employed in the informal economy.

Of these sectors, the only ones with above-average growth rates between 1995 and 2004 were CSP services and financial & business services (5,7 and 6,3%, respectively) and wholesale & retail trade (3,9%). Within manufacturing, only transport equipment (3,9%) and furniture (3,5%) grew at above-average growth rates.

Only in a few sectors did above-average output growth coincide with above-average employment growth. In financial & business services and transport equipment, employment growth outstripped output growth. In wholesale & retail trade, a 5 per cent output growth happened alongside a 4 per cent employment growth. In furniture, above-average employment growth coincided with below-average output growth.

Output growth therefore seems to have a positive impact on employment. Compared to the country as a whole, the Western Cape has been doing rather well. In sectors with generally declining employment, it registered lower negative growth rates, and in sector with generally expanding employment it registered higher growth rates than the rest of the country.

Figure 3: Western Cape sector employment, 1995 – 2004



Source: Quantec Research

4.5. Sectoral prospects for the Western Cape

The Western Cape faces three key challenges at the sector level:

- The comparison with industrial dynamics in the rest of the world has shows that the Province faces the risks of globalisation and is struggling to benefit from the opportunities that globalisation affords. Its industrial structure and export composition are not such that it will be easy for the Province to emulate the success of the catch-up economies in East Asia.
- The Western Cape is a relatively resource-poor region in a relatively resource-intensive country. This means that not only does the Province miss out somewhat on the windfall benefits from the current resource boom; it suffers the consequences of a real exchange rate appreciation.
- The Western Cape is very much exposed to challenges that are either partly or totally beyond its control. Global warming is a direct threat to its biodiversity. Water stress affects the prospects for agriculture, industry and livelihoods more generally.

Given the industrial and export specialisation of the Western Cape, knowledge intensification must aim at reducing the vulnerability of economic activities in the Province to first-world protectionism, price volatility and elasticity, and other factors that negatively affect exporters of primary products or relatively simply processed manufactures. This means that it must be sector specific.

At the same time it must also reflect the existing skill profile of the Western Cape and the need to increase labour absorption rates. Knowledge intensification cannot mean an exclusive focus on very high-end competences in platform technologies such as information technology (IT) or biotechnology. Instead, the process must include people and firms in low- and medium-skill- and low- and medium-technology-intensive activities.

As such, the Western Cape could consider strategic positioning of its industrial competitiveness with ecological sustainability in respect of key interventions in respect of water and energy supply provision and demand management. This requires that knowledge intensity is enhanced in a way that promotes employment across the skill spectrum and takes account of the notable impact that climatic change will have on the Province's agricultural potential and biodiversity over the medium to long term.

5. Employment dynamics

Shared growth and integrated development in the Province depend critically on improved labour market performance and enhanced economic empowerment and participation, particularly among poorer communities.

The Western Cape faces important challenges in its efforts to ensure that there are sufficient employment opportunities for its population.

The first is that the working age population is expected to continue to grow over the next 10 years. More specifically, the number of individuals between the ages of 15 and 65 years is expected to expand by 287 000 between 2005 and 2015, with all the growth occurring within the 35-65 year age group. This means that the population is expected to become older over time.

Migration into the Province is expected to play an important role in terms of aggregate population growth over the period, thereby presenting both opportunities and challenges. Net in-migration between 1991 and 2000 is estimated to have added an average of between 38 000 to 41 000 people a year. This rate has slowed down from 2000. From 2001 to 2015, the Western Cape will gain only about 11 800 additional people a year.

By 2015, the working-age population is expected to account for 67,6 per cent of the population, while adults aged 65 years and older are expected to represent another 6,6 per cent of the population, up from 5,0 per cent of the population in 2000.

In terms of the geographical distribution of the population, the City of Cape Town continues to dominate the Province, accounting for about 65,0 per cent of the population.

5.1. Recent employment and unemployment trends

The labour force has grown rapidly since 2000, mainly as a result of an increase in the number of broadly unemployed individuals. This in turn can be linked to rapid growth in the number of discouraged workseekers living in the Province.

These are individuals who are unemployed but have given up actively looking for work. They are captured in the broad definition of unemployment, but not the narrow definition.

The number of discouraged workseekers in the Western Cape has been relatively small compared to the numbers in other provinces, although this is beginning to change. As a result, it is expected that the relatively narrow numerical gap between the narrow and broad definitions of unemployment will begin to widen.

Table 3 shows that both broad and narrow unemployment appear to have increased over the period 2000 to 2004. However, given the small provincial sample size, only the change in broadly unemployed individuals is statistically significant.

That said, the data suggests that in 2004 broad unemployment in the Western Cape has reached about 26,3 per cent and narrow unemployment 18,6 per cent. This compares favourably to the national situation where broad unemployment topped 41 per cent and narrow unemployment 26,2 per cent the same year. Nonetheless, Western Cape unemployment rates are rising over time, albeit off a lower base than nationally.

Looking more closely at employment data, in 2004 about 1,7 million people were employed in the Western Cape. Approximately one half (50,6%) are coloured, while 27,0 per cent are white and 21,1 per cent are african.

Table 3: Labour market aggregates, 2000 – 2004

	2000 ('000s)	2004 ('000s)	Total change ('000s)	Average annual growth (%)
Western Cape				
Working age population	2 834	3 147	313	11,0
Employed	1 601	1 691	90	5,6
Broad unemployed	426	604	179	42,0 *
Broad labour force	2 027	2 296	269	13,3
Narrow unemployed	319	387	68	21,2
Narrow labour force	1 920	2 078	158	8,2
Discouraged workseekers	107	218	111	104,2
GDP (2000 prices, R-million)	119 099	140 896	21 797	18,3
South Africa				
Working age population	27 869	29 305	1 436	5,2
Employed	12 238	11 643	-596	-4,9
Broad unemployed	6 379	8 083	1 704	26,7
Broad labour force	18 618	19 726	1 108	6,0
Narrow unemployed	4 162	4 135	-26	-0,6
Narrow labour force	16 400	15 778	-622	-3,8
Discouraged workseekers	2 218	3 948	1 731	78,0
GDP (2000 prices, R-million)	922 148	1 056 771	134 623	14,6

Source: Own calculations, September 2000 and September 2004 LFS (Stats SA), SARB (2005), BER

Note: Statistically significant changes at the 95 percent confidence level are indicated with an asterisk (*). GDP and GDP growth rates are not subject to significance testing.

While the coloured share of employment is largely in line with that of the broad labour force, the shares of africans and whites are not. Africans account for a smaller share of employment (21,1%) than of the labour force (27,8%), while the converse is true for whites.

The result of this misalignment of relative labour force and employment shares is that whites have the lowest unemployment rate, followed by coloureds and africans.

Perhaps the most encouraging trend is rapid employment growth amongst matriculants. In 2004, there were 151 000 more matriculants employed in the Western Cape than four years earlier. The same year, employed matriculants numbered more than half a million individuals, equivalent to 30,4 per cent of Provincial employment. This is clearly a good sign for the Western Cape.

The tertiary sector is by far the dominant sector of the Provincial economy in terms of employment. Almost 1,1 million workers representing 64,7 per cent of total employment were employed in the tertiary sector in 2004, compared to 441 000 in the secondary sector and 153 000 in the primary sector.

In 2004, the major employment sectors in the Western Cape were wholesale & retail trade (341 000 workers or 20,2% of employment), CSP services (322 000 workers, 19% of employment) and manufacturing (287 000 workers, 17% of employment).

These three sectors account for over 56 per cent of total Provincial employment. Agriculture, forestry & fishing was still the fifth-largest employer in 2004, despite its rapid decline from 2000 when it was the third-largest employer.

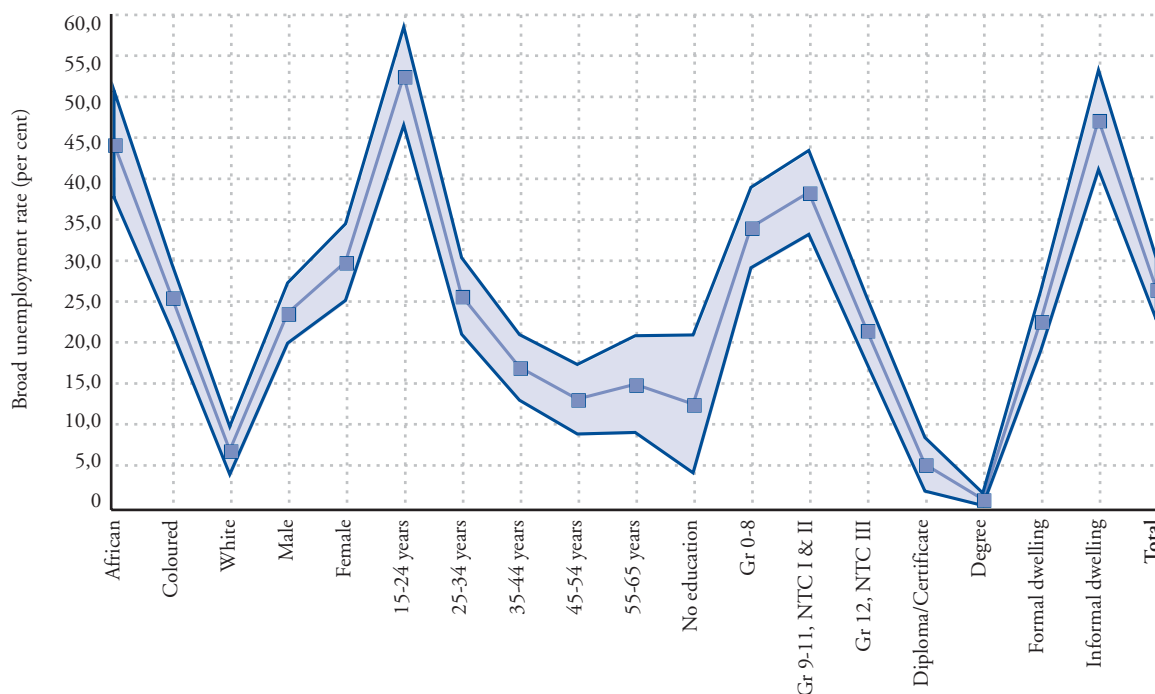
In 2004, the formal sector employed over 1,4 million individuals, equivalent to 84 per cent of total Provincial employment in that year. In contrast, the informal sector accounted for fewer than one in 10 jobs, employing 166 000 individuals.

Formal sector employment appears to have grown relatively rapidly. Between 2000 and 2004, the formal sector created 188 000 net new jobs. This translates into job creation growth of 3,6 per cent a year.

In contrast, informal sector employment continues to be lacklustre at best. It is apparent that this sector is flagging and therefore not making the contribution that it could to employment growth and the alleviation of poverty.

Turning to unemployment, figure 4 highlights that the aggregate estimates hide considerable distributional variation.

Figure 4: Broad unemployment rates, 2004



Source: Own calculations, LFS September 2004 (Stats SA)

- Notes:
1. Dark blue lines indicate upper and lower bounds of 95 per cent confidence intervals.
 2. Formal dwellings comprise dwellings or brick structures on a separate stand or yard on a farm, flat or apartment in a block of flats, town/cluster/semi-detached house (simplex, duplex or triplex), unit in retirement village, dwelling/flat/room in backyard, and room/flatlet. Informal dwellings comprise traditional dwelling/hut/structure of traditional materials, informal dwelling/shack in backyard, informal dwelling/shack not in backyard, e.g. in an informalsquatter settlement or on farm, and caravan/tent.

More specifically, the segmentation of the labour market is clear from the widely differing estimates of the broad unemployment rate for africans, coloureds and whites. In 2004, the broad unemployment rate amongst whites, at 6,6 per cent, is substantially lower than the 25,3 per cent rate for coloureds and the 44,0 per cent rate for africans. Similar to the national pattern, female unemployment at 29,6 per cent exceeds that of male unemployment (23,4%).

The pattern of higher unemployment amongst younger age groups persists. Over 52 per cent of 15-24 year-olds are unemployed. Amongst 25-34 year-olds, the unemployment rate is substantially lower at 25,5 per cent, dropping to around 13 per cent amongst 45-54 year-olds.

These trends highlight the unemployment problem among the youth. Labour force members between the ages of 15 and 34 years are more likely to be unemployed than their

older counterparts, even when controlling for education. Thus, the unemployment rate of matriculants between 15 and 34 years of age is more than 2,5 times higher than that of individuals between 35 and 65 years of age with the same level of education.

Furthermore, evidence is mounting that older people are tending to keep their jobs, while younger people are struggling to find employment. This has important implications for future economic growth, as long-term unemployment begins to erode the skills and knowledge that younger labour force members currently have but are unable to extend or even maintain through employment.

Generally, lower levels of education are associated with higher rates of unemployment. Unemployment amongst those with incomplete primary, complete primary and incomplete secondary education ranges between 32 per cent and 37 per cent, while holders of matriculation certificates experience a rate of 21,3 per cent. Less than three per cent of the Western Cape's tertiary educated labour force is unable to find work.

In many countries, unemployment is generally a temporary phenomenon. However, in SA, for many people unemployment is a long-term situation. Almost one quarter of the unemployed in SA have not worked for one year or more, with 14 per cent reporting that they have been without work for three years or more.

While the Western Cape finds itself in a slightly more favourable position in terms of the duration of unemployment, broad trends are similar. Such medium- and long-term unemployment is of considerable concern due to the deleterious impact on affected individuals and their households, and is therefore a key aspect of policy debate in respect of improving labour market performance, both at the Provincial and national level.

5.2. The future labour market to 2015

Policy debate on employment and unemployment at all levels is becoming more heated. Considerable attention is focused on interventions that may boost job creation and lower unemployment, a key tenet of shared growth and integrated development.

Underlying the debate are questions in respect of the number of new jobs required to reduce unemployment, the impact of population growth on employment and unemployment, and the level and quality of growth that is required to boost employment growth.

These questions are difficult to answer and depend on numerous variables, some less predictable than others.

The 2006 PER&O presents a few scenarios on the Western Cape's future labour market to 2015 as a first step to engage rigorous debate and catalyse appropriate policy solutions.

The scenarios presented are very simple approximations of some of the Province's labour market outcomes that are possible under various conditions and are by no means definitive, since they are unable to account for a wide variety of factors.

The scenarios show that, depending on differing assumptions about informal and domestic worker employment growth, by 2015 the broad unemployment rate is estimated to range between 19 per cent and 22 per cent, all other factors remaining constant.

They also show that in order to reduce broad unemployment in the Western Cape to 10 per cent by 2015, the Provincial economy would need to grow more than 8 per cent a year and/or sharply increase labour intensity in those jobs that are created, all other factors remaining constant.

Again, it is important to emphasise that these are merely technical scenarios and not intended to capture every factor possible. Rather, they highlight the massive challenge of making a significant impact on unemployment levels over short periods of time, requiring rates of economic growth and levels of employment intensity significantly higher than that presently experienced.

It is important to emphasise that the scenario exercise assumes all other factors constant, and therefore does not take account of recent announcements of economic stimuli packages under the national Accelerated and Shared Growth Initiative for SA (Asgisa) initiative and the upcoming Provincial Growth and Development Strategy.

6. Socio-economic profiling at the local level

Placing the Western Cape on a shared growth and integrated development trajectory requires a bold, coherent and co-ordinated public sector response to the Province's socio-economic opportunities and challenges.

At the regional and local level, good governance depends strongly on enhancing provincial and local performance and delivery. Shared growth demands shared responsibility. This means that provinces and local government must work closer together, and through their combined efforts, lever greater impact on regional and local economic development and poverty reduction.

It is critical that both provinces and local government undertake rigorous socio-economic research and analyses that profile the regional and local economies.

The chapter provides an executive summary of the detailed socio-economic profiles of 30 municipalities in the Western Cape: Cape Town as the Province's only metropole; five district municipalities – the Cape Winelands, Overberg, Central Karoo, Eden and the West Coast – and 24 local municipalities that are grouped within each of the five districts.

The detailed profiles are set out in a separate publication, *2006 Socio-Economic Profiling of Local Government in the Western Cape*, to be published shortly after the 2006 PER&O.

6.1. Opportunities and outlook

The local socio-economic profiles present six key areas of opportunity to achieving a shared growth and development outlook in the Province:

- Thriving regional growth sources;
- Competitive regional economies;
- Maturing demographic profiles;
- Reasonably skilled workers;
- Considerable infrastructure and settlement investment opportunities; and
- Relatively sound municipal finances.

6.6.1. Thriving regional growth sources

Chapter 2: Economic Outlook shows that the Western Cape is registering robust growth levels, buoyed by the continued momentum in the domestic spending-led boom on the back of historically low interest rates.

Economically, Cape Town is the Province's growth engine, generating R106,4bn, or 76,6 per cent of the Western Cape's total output of R138,9bn in 2004.

The city's dominance of the Provincial economy is clear. The Winelands district follows at a distant second, yielding 10,45 per cent of Provincial output, Eden 6,14 per cent and the West Coast 4 per cent.

The Province is fortunate to have two further regional growth motors – the Eden node, which includes Mossel Bay, George, Knysna and Plettenberg Bay – and that of Saldanha-Vredenburg.

Between Cape Town and the two regional growth nodes are emerging regional development corridors, based on transport (road and rail) corridors. These regional development corridors are key to enhancing economic linkages within the Western Cape, improving mobility for people and of freight, and boosting the economic potential of settlements along corridor routes.

The Cape Winelands locates in the development corridor between Eden and the city, so that while it is not a regional growth node, its significant contribution to the economy is fundamental to the corridor's development.

6.6.2. Competitive regional economics

The structure of the Provincial economy has changed over time, becoming increasingly service dominated – financial & business services and retail & wholesale trade alone make up about 45,6 per cent of the Province's output, whereas agriculture, forestry, & fishing account for 4,4 per cent and manufacturing for 18,1 per cent.

Cape Town is the key driver behind the shift to services as the dominant sector of the Western Cape economy. Financial & business services comprise 30 per cent of the city's economy, followed by CSP services (21,31%), wholesale & retail trade (17,21%) and manufacturing (15,1%).

The Cape Winelands' economy is fairly well diversified, with the manufacturing industry (comprising largely of wine and agro-processing industries) remaining the largest contributor to GDP at 22,1 per cent, followed by financial & business services (20,3%), wholesale & retail trade (15%) and agriculture, forestry & fishing (14,2%).

Eden, an important economic growth area and eco-tourist hub for the Western Cape, is driven mainly by the expansion of the wholesale & retail trade sector. The latter comprises 18,58 per cent of the district's economy. Other growth sectors are financial & business services and manufacturing, which contribute 22,51 per cent and 16,65 per cent to economic activity, respectively.

The sectoral make-up and dynamics of these three regions indicate clearly the Province's structural shift towards a service-based economy.

6.6.3. Maturing demographic profiles

The Western Cape has both a growing and maturing population over the medium term. The working age population is expected to continue to grow over the next 10 years, driven by natural population growth and migration, although the latter has slowed down significantly since 2000.

The Western Cape therefore finds itself with a greater variety of workseekers that may also begin to help to alleviate labour supply constraints in particular sectors. However, the Province must ensure that workseekers are appropriately trained and skilled, particularly in technical areas such as science and engineering.

Workseekers would then be employable at intermediate to higher skill levels, matching demand from industries that are growing in the Province, and thereby alleviating skill constraints in the sectors over the medium to long term.

Spatially, Cape Town dominates the Province's demographic distribution, accounting for 65 per cent of the Western Cape's population. The working age population is expected to become more concentrated within Cape Town, which is not unexpected due to the concentration of economic activity within the city and the greater employment prospects that this implies.

6.6.4. Reasonably skilled workers

Western Cape has relatively higher education levels than the rest of SA, and is second only to Gauteng.

There has been a rapid increase in the number of Grade 9-11 graduates and matric certificate holders entering the Province's labour force. In 2004, matriculants comprised 28,5 per cent of the total Provincial labour force, compared to 26,2 per cent at the national level.

The Western Cape has also seen more rapid employment growth among matriculants than nationally. By 2004, employed matriculants numbered more than half a million individuals, equivalent to 30,4 per cent of Provincial employment.

These trends are clearly a good sign for the Province at a national comparative level.

6.6.5. Considerable transport infrastructure and settlement investment opportunities

The Western Cape is at a confluence where imminent investment decisions related to transport infrastructure and settlement patterns will shape the Province's development trajectory, potentially towards shared growth and integrated development.

Spatial and land use patterns that are characterised by urban sprawl tend to promote inefficient, costly and segregated settlement patterns.

Shared growth and integrated development demands a completely different spatial investment approach, requiring public transport solutions that increase access to mobility and promote higher density transport modalities. This requires a corresponding and supportive change in the land-use pattern.

In particular, low- and middle-income housing investments and zoning decisions should reflect higher densification and mixed-use development targets.

An average of 100 people per hectare has been identified as the critical threshold where good supportive neighbourhood facilities, public transport services and walking become convenient as people live, work and pursue recreational activities in nearby localities.

With the exception of high-density informal settlements, most settlements in the Western Cape, including the city, reflect low densities averaging just under 50 people per hectare.

Both the Province and local government are key players in making investment decisions related to public transport, housing and settlement patterns. For the most part, Province has regulatory oversight and funding responsibilities, while local government is the service delivery provider.

The role of provincial and local government needs to be considered carefully. It has been found more effective for government to take on a managing role where it ensures that its investments leverage greater multiples of private/community sector investment.

6.6.6. Financial health and sustainability of municipalities

Municipalities are expected to provide water, sanitation, electricity, refuse removal and other basic services. They finance operating expenditure from transfers from national and provincial government and from own revenue.

Capital expenditure is funded from national and provincial transfers, revolving asset financing reserve and medium- to long-term bonds raised on the capital market.

Currently, the DBSA and INCA are the main municipal lenders. However, commercial banks are also recent entrants into the municipal market as well.

Recent data from INCA shows a loan portfolio to 19 municipalities in the Western Cape. INCA's favourable report on its Western Cape municipal borrowers – 19 out of 30 municipalities in the Province – suggests that, generally, local government in the Western Cape is financially well placed to undertake capital financing for large infrastructure investments.

These investments, particularly in terms of water and sanitation infrastructure in local municipalities and public transport and human settlements in the larger urban centres, are critical for accelerating and broad-basing local economic growth in the Western Cape.

6.2 Risks and challenges

The detailed profiles raise five key risks and challenges to achieving shared growth and integrated development in the Western Cape:

- Demographic dynamics;
- Rising youth unemployment;
- Sectoral growth and employment trends;
- Skill constraints; and
- Social infrastructure pressures.

6.2.1. Demographic dynamics

The Province's rapid increase in the working-age population is already feeding through to the Province's labour force.

More potential workseekers translate into higher unemployment levels, particularly if individuals are not appropriately skilled and the economy is not able to generate sufficient numbers of jobs to absorb increasing new entrants at the lower end of the skill spectrum.

In 2004, broad unemployment in the Western Cape reached about 26,3 per cent and narrow unemployment 18,6 per cent. Rapid growth in the labour force due to increasing numbers of working-age people is contributing to increased unemployment in the Western Cape over the short to medium term, albeit off a lower base than national levels.

The city, the Central Karoo and Eden have high unemployment rates (29,2%, 36%, and 26,5%, respectively) while the West Coast, Cape Winelands and Overberg have relatively low unemployment rates (13,8%, 18,4% and 18,6%, respectively).

Cape Town, as the Province's only metropolitan area and dominant economic agglomeration, acts as a powerful magnet for workseekers from all over the Western Cape, as well as from the rest of the country. In contrast, the Central Karoo is a relatively sparsely populated, arid region with relatively little economic activity. Eden borders the Eastern Cape and may also attract workseekers from that province.

The West Coast, Cape Winelands and Overberg all border on Cape Town, which means migration to the city is relatively easy, relatively cheap and less daunting for migrants than is the case for prospective migrants from elsewhere in the Province and the rest of the country.

6.2.2 Rising youth unemployment

The problem of youth unemployment in the Western Cape is structural and more acute than in the rest of the country. In 2004, unemployment rates in excess of 52 per cent amongst 15-24 year-olds translated into one in two labour force members in this age group unable to find work.

Of the five districts, Eden and the Cape Winelands accounted for the largest proportion of the increase in unemployment amongst 15-34 year-olds (5,6% and 4,5%, respectively). However, compared to their shares of the labour force, the Central Karoo and Overberg contributed the most to increased unemployment, these regions' shares of unemployment change being 1,7 and 1,3 times their shares of the labour force respectively.

The increase in unemployment amongst 15-34 year-olds in Cape Town represented almost one half (49,6%) of the increase in unemployment over the period. This was due mainly to the fact that Cape Town africans 15-34 years of age represented 36,2 per cent of overall unemployment growth, followed by coloureds who accounted for 14,5 per cent.

The evidence is mounting that older people are tending to keep their jobs, while younger people are struggling to find employment. This has important implications for future economic growth, as long-term unemployment begins to erode the skills and knowledge that younger labour force members have but are unable to extend or even maintain through employment.

The problem of youth unemployment is becoming increasingly dire, despite the fact that the educational profile of young people is superior to that of their older counterparts. This suggests a disjuncture between education and skill levels and poses serious challenges to the education sector.

6.2.3. Sectoral growth and employment dynamics

Sectoral trends feed strongly into spatial economic development dynamics. How well a region or municipal district copes with economic change largely depends on the ability of its residents either to move from declining to growing sectors inside their region or to leave the district/region in search of better fortunes elsewhere.

While there are similarities in terms of employment structure across the Western Cape's municipal districts, there are also some important differences. Within wholesale & retail trade, the bulk of employment expansion occurred within Cape Town, accounting for 15,9 per cent of total Provincial employment growth over the period. Employment within this sector expanded in all districts, with growth in Eden representing 3 per cent of Provincial employment growth and that in the Cape Winelands representing 2,9 per cent.

In terms of agriculture, forestry & fishing, employment growth has been experienced in all districts but has been concentrated particularly in the West Coast and the Cape Winelands. Agriculture employment growth in these districts accounted for 5,2 per cent and 7,6 per cent respectively of overall employment expansion, with Cape Town accounting for a further 3,4 per cent.

CSP services contributed over one fifth of employment expansion over the period and was highly concentrated within Cape Town. In fact, the Cape Town CSP services sector alone accounted for 13,2 per cent of Provincial employment expansion amongst 35-65 year-olds. Eden's CSP services sector accounted for a further 3,2 per cent of Provincial employment growth. A similar pattern is observable in financial & business services employment growth.

Sectoral economic development policies and interventions must bear in mind that there are important spatial differences within the Western Cape and that this is true even within the district municipalities. Policy formulation must therefore cater for local conditions.

6.2.4. Skill constraints

Global competitive advantage is increasingly driven by skill- and technology-intensive products and services. However, the Western Cape is under-represented in these economic activities that have accounted for much of the medium- to long-term dynamism in world output and trade.

This means that skill upgrading is critical to match appropriately skilled labour supply with demand from industries that are growing in the Province, and thereby alleviating skills constraints in the sectors over the medium to long term.

For the education sector, evidence of a critical mismatch between levels of educational attainment and skills level of school-leavers and young graduates and those demanded by the workplace pose serious challenges. These are evident in education participation and success rates, particularly in respect of numeracy and literacy. The Western Cape data point to a dramatic drop-off in enrolment after Grade 8 and more recently Grade 10. Recent research suggests that only 45 per cent to 52 per cent of learners who enrol in Grade 1 reach Grade 12.

Improving education retention, throughput and attainment rates, particularly in terms of numeracy and literacy, is critical to support the skill requirements of a growing, globally competitive regional economy.

6.2.5. Social infrastructure pressures

As the Western Cape's population has grown rapidly over recent years, more stress has been placed on the utilisation of social infrastructure and services, particularly in terms of education, healthcare and policing.

Social infrastructure backlogs are more pronounced in Cape Town – especially in the high population density areas such as Mitchell's Plain, Khayelitsha, Gugulethu and Langa – than in any other district in the Province.

Eden and the Cape Winelands need to prioritise the provision of healthcare facilities and police stations, while the West Coast needs an additional police station. Overberg needs more healthcare services and the Central Karoo more schools.

In education, although Cape Town accounts for about 63 per cent of the Province's learners, the schools available account for only 50 per cent learners, even though the city's schools are larger, accommodating an average of 842 learners per school.

Almost all the districts have backlogs in the provision of healthcare services, with Cape Town showing the highest need. There is a strong positive correlation between shortage of hospitals and workload in the health sector, especially in the context of high prevalence of tuberculosis and HIV/Aids.

In respect of policing, overall in the Western Cape, reported crime statistics from 2001 to 2005 suggest mixed results. The only clear trend is a dramatic increase in drug-related crimes across all districts. There are more reported criminal cases in highly dense areas, where more policing resources need to be deployed.

6.3. Enhancing the provincial-local government interface

Closer working relationships between the Province and local government are increasing important. Understanding the dynamics of local economic growth and employment is key to policy interventions that aim towards achieving shared growth and integrated development in the Western Cape.

Furthermore, local government has to ensure that it 'gets the basics right' and addresses fundamental service delivery issues that pose key risks and challenges to a shared growth and integrated development future.

7. Western Cape's recent growth experience

Moving the Western Cape towards shared growth and integrated development signals a notable shift away from 'business as usual' towards a more strategic approach to regional economic development.

As shared growth and integrated development balances a pro-growth and pro-poor agenda, an empirical analysis of the Western Cape's recent growth experience places the challenges that the Province faces into stark relief.

7.1. Has growth in the Western Cape been pro-poor?

In a broad sense, pro-poor growth is economic growth that leads to significant reduction in poverty. This means that shared growth and integrated development is aimed at both accelerating sustained growth and ensuring that resultant higher levels of growth contribute to reducing poverty.

Using the 1995 and 2000 Income and Expenditure Survey (IES) to compare the growth of expenditures of the poor to those in the upper expenditure echelon highlights the acute contrast in the average growth experience of the wealthy compared to that for lower expenditure deciles.

At the national level, average per capita expenditure increased at about 6 per cent a year in nominal terms.

In turn, the average of nominal growth rates of all the percentiles of the expenditure distribution – that is, the mean percentile growth rate – was only 3,3 per cent over the same period.

Expenditure growth was concentrated in the upper income echelons, as only individuals from around the 70th percentile upwards experienced growth in their expenditure above 3,3 per cent.

Individuals below this mark saw their expenditures grow relatively slowly over the period, while those at the base of the distribution faced the lowest increase.

All individuals, including those in the lowest expenditure percentiles experienced an increase in their per capita expenditure over the five-year period, highlighting that while the relative comparison depicts national growth biased against the poor, absolute pro-poor growth occurred.

Table 4: Measures of pro-poor growth by race, 1995 – 2000 (%)

Growth rate in:	African		Coloured		White		Asians	
	National	Western Cape	National	Western Cape	National	Western Cape	National	Western Cape
Mean per capita expenditure	5,26	7,45	11,01	13,51	9,82	13,05	3,96	18,44
Median	2,91	5,12	9,16	10,65	7,30	11,42	2,49	20,53
Mean	3,23	6,34	9,13	11,42	7,84	11,76	3,04	17,36
Growth at percentile:								
10	0,85	6,18	4,05	5,46	4,17	11,84	0,00	4,50
15	1,34	7,12	4,76	6,44	4,66	11,20	0,57	7,74
20	1,59	7,72	5,22	6,97	5,03	10,88	0,86	9,22
25	1,79	7,64	5,60	7,39	5,25	10,80	0,98	9,94
30	1,93	7,23	5,89	7,67	5,50	10,72	0,94	10,49
Rate of pro-poor growth	2,48	6,36	6,14	7,49	-3,21	2,3	-0,32	0,11
Rate of ultra-poor growth	2,22	7,37	4,68	4,79	-2,26	0,95	-5,59	–

Source: Stats SA (1995 and 2000) and own calculations

Notes: 1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.
 2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.
 3. Figures are annualised growth rates.

Turning to the Western Cape's growth performance, between 1995 and 2000, average per capita expenditure rose at 11 per cent a year in nominal terms. This is double the national annual increase.

Average of growth rates at all the percentiles of the expenditure distribution reached just under 9 per cent a year. This is almost three times the national average.

Individuals around the 50th percentile upwards – about half of the population – experienced spending growth above 9 per cent.

Looking at the base of the distribution, the poor in the Western Cape experienced higher spending growth than the poor at the national level, with average percentile growth in the Western Cape not dipping below 4 per cent a year.

In fact, even the poorest households in the Western Cape experienced higher spending growth than the national average.

However, while the poor in the Province benefited in absolute terms (rising per capita expenditure), they did not benefit in relative terms. Looking at the poorest 30 per cent, at 6,7 per cent, their average spending growth rate was less than that of 8,98 per cent for all income groups.

Disaggregating by population group, those in the Western Cape experienced higher average per capita spending growth rates than their national counterparts.

At national level, at 5,2 per cent the average growth in african per capita expenditure between 1995 and 2000 was slightly below the national average for all groups (6,14%).

Over the same period, at 11,01 per cent and 9,92 per cent, respectively, both coloured and white nominal expenditure increased at rates of more than double the aggregate national average.

In the Western Cape, at 7,45 per cent, the increase in per capita expenditure for africans was also lower than the aggregate Provincial average (11,01%). In contrast, coloured and white nominal per capita expenditure increased by 13,51 per cent and 13,05 per cent, respectively.

Definite key messages emerge. The period 1995 to 2000 saw pro-poor growth at an absolute level in SA and the Western Cape, as poor individuals experienced absolute growth in expenditure over this period.

However, relative pro-poor growth did not take place, as poor individuals experienced spending growth at rates below the national and provincial average. That means that expenditure growth over this period was biased against the poor.

Of note, however, is that the Western Cape's performance surpassed that of national. That is, the Western Cape experienced higher growth rates in nominal per capita expenditure at the aggregate level, and in terms of population group, gender and urban-rural disaggregation.

7.2. The impact of growth and equity on poverty in the Western Cape

Understanding how growth and equity interact to impact on poverty is important. The process and quality of growth itself may induce equity shifts that erode some or all of the growth-associated poverty reduction gains. Empirical analysis of the growth-poverty-inequality triangle therefore provides key information to policy- and decision-makers, helping to shape policies and interventions that are appropriate to local circumstances.

Using the 1995 and 2000 IESs, changes in poverty in SA and the Western Cape may be decomposed into a growth effect and an equity effect. These are proxied by increases in average income and income distribution, respectively, and have separate effects on poverty. An increase in average income reduces poverty, while an increase in income inequality increases it.

Looking first at the growth-poverty elasticities, there is a positive relationship between an increase in average per capita expenditure (as a proxy for economic growth) and the reduction of poverty both nationally and in the Western Cape.

In 1995, using the R322 per month poverty line, a 1 per cent increase in SA's economic growth (as measured by per capita expenditure) would have resulted in a 1 per cent decrease in the national poverty gap.

All the elasticity measures were higher for the Western Cape. This meant that economic growth had a larger impact on the poor in the Western Cape. In 1995, using the R322 poverty line, a 1 per cent increase in Provincial economic growth would have resulted in an almost 2 per cent decrease in the Province's poverty gap.

However, all elasticity estimates decreased between 1995 and 2000. This indicates that the economic growth path has become less pro-poor over the period. In 2000, a 1 per cent increase in the Western Cape's economic growth would only have led to a 1,83 per cent decline in the Province's poverty gap.

Poverty-inequality elasticity estimates show how sensitive poverty is to changes in inequality (as measured by the Gini coefficient).

Both SA and the Western Cape show a positive relationship between poverty and inequality. Using the R322 poverty line, in 1995 a 1 per cent increase in the Gini coefficient would have resulted in a 3,83 per cent increase in SA's poverty gap.

Again, the elasticities are much larger for the Western Cape. In 1995, using the R322 poverty line, a 1 per cent increase in the Provincial Gini coefficient would have resulted in an increase of more than 8,5 per cent in the Province's poverty gap.

The third measure, the marginal proportional rate of substitution (MPRS), indicates the magnitude of economic growth that is required to negate the effect of increasing inequality in order to reduce poverty.

In 1995, SA's MPRS was 3,74. This means that the economy had to grow by 3,74 per cent in nominal terms (as measured by per capita expenditure) to compensate for an increase of 1 per cent in the Gini coefficient.

The higher MPRS for the Western Cape means that the Provincial economy needed to grow at a higher rate of 4,52 per cent in nominal terms to compensate for a 1 per cent increase in the Provincial Gini coefficient.

Further growth-poverty-inequality measures probe the combined effect of changes in growth and changes in inequality on poverty levels. These estimates decompose the change in measured poverty into a growth component and a redistribution component.

At the R322 per capita per month poverty line, national poverty increased by 5,3 per cent between 1995 and 2000. The growth component reduced poverty levels by 9,4 per cent. But, the redistribution component increased poverty by 14,6 per cent.

The increase in inequality over the period therefore completely eroded the gains realised from the growth in nominal per capita expenditure. The resulting increase in poverty levels was solely due to rising inequality over the period.

The same result appears for all population groups at the national level, except coloureds. Coloured poverty decreased by almost 3 per cent as a result of the 21 per cent growth contribution of the growth component cancelling out the 18 per cent increase in poverty due to the redistribution component.

Between 1995 and 2000 Western Cape poverty decreased by almost 1 per cent due to the growth component at 18 per cent, outweighing the accompanying increase in inequality.

Disaggregating by population group, with the exception of whites and africans, poverty declined for all other groups over the period. White poverty levels remained unchanged with the contributions of the two components cancelling each other out perfectly. The increase in african poverty was due to increased inequality outweighing the contribution of the growth component.

Although illuminating, the above analysis has its limitations, due in a large part to data limitations and credibility, given concerns raised about the 2000 IES in particular.

In addition, the above measures do not capture the changes in the non-income measures of poverty, such as asset and spatial poverty, also important in understanding the impact of shared growth and development.

7.3. Shifts in access to selected services in the Western Cape

Asset equality focuses on accumulation of personal assets that provide people the capabilities and/or opportunities to improve their daily lives and their future social and economic opportunities.

Asset equality is attained in respect of access to good basic services (water, sanitation, energy and refuse removal) and social services (health care, education and skill development, and shelter).

Typically, those at the higher end of the income spectrum have better access to quality services, ensuring that their capabilities and opportunities are broadened and deepened to their fullest potential.

Many government interventions therefore focus on improving poor people's capabilities in respect of enhancing access to quality school and skill development, health care services, clean and safe water, sanitation facilities and housing. These types of public service provision are often term the 'social wage' or 'social wage goods'.

Assessing how government has performed in improving poor people's access to quality services is another way to assess whether the poor have shared in the benefits of economic growth through increased access to services such as formal housing, piped water, electricity and proper sanitation.

Total access to formal housing increased by 2 per cent in the Western Cape between 1993 and 2004. The bottom two household expenditure deciles, however, experienced a decline in the share of households living in formal dwellings. Deciles three to five saw their access to formal housing increase at a much faster rate than the average growth rate.

However, the poorest of the poor (as presented by the bottom two per capita household expenditure deciles) did not benefit from the increased delivery of formal housing in the Province. In fact, the bottom ten per cent of poor households saw a decline of 31 per cent in their access to formal housing.

Total access to piped water decreased by 1 per cent over the period. In addition, the performance by decile is quite uneven, with households in the bottom of the distribution experiencing a 16 per cent increase in access to piped water, while households in the second decile experienced a 12 per cent drop in their access rate.

There is however, a much clearer pro-poor growth path in the use of electricity for lighting and access to flush/chemical toilets. The bottom six deciles all experienced growth in the use of electricity for lighting above the average growth rate of 11 per cent. Absolute and relative pro-poor growth took place, with access rates for the bottom four deciles increasing between 32 per cent and 78 per cent.

All households up to the fifth expenditure decile experienced a growth in access to flush/chemical toilets above the mean growth rate of 4 per cent. Households in the bottom household expenditure decile saw their access to flush/chemical toilets more than double over the period. The second decile, however, only experienced a 5 per cent increase. The third, fourth and fifth deciles experienced an increase in access of around 20 per cent.

Empirical analysis therefore points to mixed evidence of shared growth and integrated development in the Western Cape, as measured by increased access to the above four household services for the period 1993 to 2004. Poor households only genuinely shared in the increased access to electricity for lighting and flush/chemical toilets.

These results highlight the challenge that the Province faces in shifting to a shared growth and integrated development trajectory over the medium- to long term.

7.4. Shared growth diagnostic for the Western Cape

Given mixed evidence of shared growth over the last 10 years, the Western Cape faces a considerable challenge in moving the Province onto a shared growth and integrated development trajectory.

Recent comparative international shared growth experiences show that the rate and quality of growth is determined, at the aggregate level, by a country's ability to integrate into the global economy, its capacity to maintain sustainable government finances, and its ability to put into place an institutional environment in which contracts can be enforced and property rights established.

At a regional and local level, efficient and effective governance is critical in providing an enabling environment for competitive, thriving businesses and strong social communities and networks.

The key message here is that the quality of government institutional capacity matters for accelerated shared growth and development.

In most developing countries, financial, human and administrative institutional capacity at all levels or spheres of government is a limited, scarce resource. As such, it needs to be prioritised and focused on removing those obstacles or economic distortions that are binding constraints on shared growth and will have the biggest direct impact if removed.

At the national level, the Asgisa task team has identified six key obstacles or binding constraints to accelerated and shared growth. Decisive responses in terms of macroeconomic concerns, infrastructure programmes, sector investment or industrial strategies, skills and education initiatives and public administration issues are currently being developed.

The changing intergovernmental landscape compels provinces to undertake similar shared growth diagnostic analyses. Proactive shaping of the regional economic development agenda demands that provinces identify key obstacles or binding constraints to shared growth and integrated development within an intergovernmental context.

The diagnostic entails identifying key obstacles or binding constraints through rigorous, empirical research and matching these to appropriate national, provincial and local policy levers.

Where policy levers are within the provincial domain, they will be subject to provincial political and resource prioritisation within the annual budget process. National and local policy levers demand a different approach, requiring provinces to work closely with national, local and other partners, notably public entities, in order to lever policy,

programmatic and budgetary resources to address key obstacles or constraints to shared growth and integrated development at the regional level.

The Western Cape has initiated work on a growth diagnostic scan as part of the PGDS process. Drawn from the Asgisa approach, the base framework has been modified to be more appropriate to an exercise at the provincial level.

Further research and analysis on the diagnostic will feed into the Western Cape's policy and resource allocation processes, facilitating informed, evidence-based decision-making, and supporting intergovernmental co-ordination processes.

8. Key Messages of the 2006 PER&O

Framing the Province's strategic vision for shared growth and integrated development, key messages and imperatives that flow from the 2006 PER&O include the following:

8.1. Economic outlook

The Western Cape's medium-term economic outlook is favourable. Growth is expected to keep up with that of SA over the short term, and may continue to out-perform the national economy on average.

Peaking at 5,3 per cent in 2005/06, real GDP growth is forecast to average 4,8 per cent a year over the medium term, slightly higher than the projected national average (4,4%).

While the outlook reflects a strong and vibrant Provincial economy, we must accelerate economic growth to the 6 to 8 per cent a year band in order to boost employment performance and improve the long-term growth potential of the Provincial economy.

This requires stepping up fixed investment performance and implementing key micro-economic reforms, key among which is skill deepening and enhancement. These are critical to enhancing economic competitiveness and further elevating economic growth and employment performance.

8.2. Sectoral growth and employment prospects

The Western Cape economy is increasingly service-dominated – financial & business services and retail & wholesale trade alone make up about 44,4 per cent of the Province's output, whereas agriculture, forestry, & fishing account for 4,5 per cent and manufacturing 18,3 per cent, respectively.

However, the Western Cape, and SA more broadly, are under-represented in skill- and technology-intensive economic activities that have accounted for much of the medium- to long-term dynamism in world output and trade.

Given the industrial and export specialisation of the Western Cape, knowledge intensification must aim at reducing the vulnerability of economic activities in the Province to first-world protectionism, price volatility and elasticity, and other factors that negatively affect exporters of primary products or relatively simply processed manufactures. This means that it must be sector specific.

At the same time it must also reflect the existing skill profile of the Western Cape and the need to increase labour absorption rates. Knowledge intensification cannot mean an

exclusive focus on very high-end competences in platform technologies such as information technology or biotechnology. Instead the process must include people and firms in low- and medium-skill- and –technology-intensive activities.

8.3. Employment dynamics

The Western Cape faces important challenges in its efforts to ensure that there are sufficient employment opportunities for its growing labour force.

At 26,3 per cent broad unemployment is lower than the national level (41%) but rising rapidly, due to rapid growth of the Province's working-age population.

Older people are tending to keep their jobs, while younger people are struggling to find employment. This has important implications for future economic growth, as long-term unemployment begins to erode the skills and knowledge that younger labour force members currently have but are unable to extend or even maintain through employment.

We must improve the Western Cape's ability to create more jobs and absorb new entrants into the labour market. Rising unemployment, particularly for young people, is the single biggest risk to the Province's goal of shared growth and integrated development. We also need to alter the racial and gender profile of the workforce in respect of skill and remuneration.

This will require upgrading skills across the spectrum, enhancing economic stimulation and improving economic participation, and thereby employment performance over the medium- to long term.

Reducing unemployment is not a short-term concern. It requires a multi-faceted approach that accelerates Provincial economic growth and boosts labour intensity to raise labour demand as well as enhancing skill profile and improving economic participation of the Province's labour force; these key interventions will realise benefits over the medium- to long term.

8.4. Socio-economic profiling of municipalities

Socio-economic profiling at the local level provides an essential evidence-based platform to inform and guide provincial and local planning, budgeting and service delivery decisions. Closer working relationships between the Province and local government are increasingly important. Understanding the dynamics of local economic growth and employment is key to policy interventions that aim to achieve shared growth and integrated development in the Western Cape.

Shared growth demands shared responsibility. Province and local government must work closer together, and through their combined efforts

Greater alignment in provincial and local planning, budgeting and service delivery will enable government to lever greater impact on regional and local economic development and poverty reduction.

8.5. Western Cape's recent growth experience

Shared growth and integrated development balances pro-growth and pro-poor elements. However, the Western Cape's recent growth experience suggests that the Province's growth path has yielded mixed results for poor people and has become less pro-poor over time

These results highlight the challenge that the Province faces in shifting to a shared growth and integrated development trajectory over the medium to long term.

We must focus our efforts on both accelerating growth in the Western Cape and ensuring that growth is more broad based and shared amongst a wider range of people.

This is why shared growth and integrated development – based on four key pillars: growth, equity, empowerment and environmental integrity – is the key strategic thrust of the Provincial Growth and Development Strategy: *iKapa Elihlumayo*, and the common objective of its lead strategies: the Microeconomic Development Strategy, the Strategic Infrastructure Plan, the Provincial Spatial Development Framework, the Human Capital Development Strategic, and the Social Capital Strategy.

9. ...Onto PER&O 2007

The 2006 PER&O marks another step forward in developing rigorous economic analytical capacity in the Western Cape, and serves to deepen the socio-economic scan that frames the Provincial Growth and Development Strategy: iKapa Elihlumayo and the Province's annual budget decisions.

The next stage of analysis that will present in the 2007 PER&O draws from longer term research projects in each of the key PER&O areas, as well as new projects that will be initiated to close research and analytical gaps identified in both the 2005 and 2006 PER&Os.

More specifically, in respect of the Western Cape's Economic Outlook, forecasts in the 2007 PER&O will be based on the development of two Western Cape economic models, drawing on integrated econometric and input-output techniques.

The first is intended as a pure forecasting model, estimating key provincial economic variables, in particular GDP, investment, exports, imports, and inflation. It will combine a national econometric front end with a regional input-output back end. Initially built on the Bureau for Economic Research's national model, it will be linked to National Treasury's model over the next year, ensuring consistency between national and Western Cape econometric forecasts.

The second model is intended as an impact analysis model. That is, it will enable the Province to estimate the impact of key policy interventions on the Western Cape economy. Also developed as an integrated econometric and input-output model, this model will combine a newly developed Western Cape econometric front end with the regional input-output back end. As it is a more complex model to develop, it is likely to be operational only in 2007.

Turning to Sectoral Growth and Employment Prospects, the 2005 PER&O and 2006 PER&O have covered considerable ground in respect of sectoral growth and employment trends and possibilities for competitive positioning within a dynamic global economy.

The key concern in this area of research is the paucity of good economic data at the provincial level to undertake further more detailed and disaggregated analysis. The lack of data draws not only from the limited number of economic surveys that Statistics SA conducts within its mandate as the official government statistical agency, but also due to the limited sample size at the provincial level. The latter, in particular, reduces analytical accuracy as sectoral and smaller area (municipal-level) disaggregations are undertaken.

Given the critical importance of further economic research as provinces' position their industrial competitiveness in an ever-changing global context, innovative and creative solutions are required. More specifically, the Province may wish to undertake firm-level and other surveys in order to collate and analyse data from primary sources. This is both costly and time-consuming. However, it may be a necessity if the Western Cape is to make further strides in economic analysis.

Other solutions may see the Province partnering Statistics SA in terms of funding and/or capacity to ensure that the latter is able to extend the sample size of its Western Cape surveys.

These data concerns also raise their head in further Employment Dynamic studies. This year, the Western Cape made use of commissioned demographic modelling projections in order to gain a better understanding of demographic profile dynamics that are key to labour market analysis.

As the model was developed outside of the government sector, it is categorised as a non-official data source. That said, the model is a significant boost to the Province's labour market research and forms a key element of initial labour market modelling.

The latter is a critical step in understanding future labour market scenarios for the Western Cape. The simple model will be further developed in 2007 and initial efforts made to integrate with the Province's economic forecasting model, aiding integrated economic and employment projections.

This year's socio-economic profiling at the local level was a major achievement in extending the PER&O's reach to the local level. The analysis will feed into municipal integrated development plans for 2007, laying the basis for evidence-based municipal planning, budgeting and service delivery going forward.

The next stage in this area of work is to partner with municipalities themselves, building local economic analysis capacity and deepening the resultant analysis with local socio-economic surveys that complement the structured, comparative approach taken in the 2006 PER&O.

Finally, research into the Western Cape's recent growth experience highlights the challenge of moving the Province onto a shared growth and integrated development path.

Feeding into the Provincial Growth and Development Strategy is initial work on a Western Cape growth diagnostic that enables the Province to identify key binding constraints to shared growth and integrated development within an intergovernmental context.

Further work in this area aims to identify specific provincial policy levers, and where possible rates of return on investment. Such analysis will feed into Provincial policy and resource prioritisation processes, facilitating informed, evidence-based decision-making. National and local policy levers demand a different approach, testing intergovernmental coordination, coherence and integration to the full.

A tough agenda ahead, but one that poses exciting and challenging promise for extending and deepening the Western Cape's analytical economic base and capacity over the medium-term.

The PER&O work has also raised considerable interest in other provinces, encouraging the Western Cape to share its experiences and engage its provincial colleagues in partnership, building a broader base to provincial economic research and analysis across SA.

...that said, onto PER&O 2007...



Economic Outlook: 2006/07 – 2008/09

Key findings:

- The SA economy has been remarkably buoyant during 2005, in spite of a (temporary) global slowing during the first half of the year and high oil prices.
- Growth for the country as a whole remains remarkably broad based.
- The Western Cape economic performance is expected to keep up with SA's over the short term, and may continue to out-perform the national economy on average.
- The future trajectory of the rand exchange rate could be an important determinant of the balance and sustainability of the national and Provincial economic growth performance.
- It seems likely that the domestic spending momentum will continue, further invigorating national and Provincial growth performance.
- Lower inflation in 2008 should allow a further decline in interest rates, continuing the dynamic of structurally lower inflation and interest rates projected over the medium term.
- SA's official unemployment rate is showing signs of moderating.
- Robust growth in the Province's wholesale & retail trade sector (around 7% a year over 1999 to 2004), construction (6,5%) and transport & communication (around 6,3%) is expected to continue.

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- The manufacturing and agriculture sectors are expected to recover, the latter if climatic conditions remain favourable.
 - The Province's established exports (fruit, processed foods & beverages, fish, iron & steel and electrical machinery) performed well, even in the face of the stronger rand.

1. Introduction

The Western Cape continues its strong economic growth performance. In 2004, the Provincial economy expanded by 5,3 per cent in real terms, compared to 4,5 per cent for SA. Strong Provincial performance continued in 2005, with estimated regional gross domestic product (GDPR) growth rising to around 5 per cent in real terms.

At the national level, real domestic expenditure expanded strongly in 2004 and 2005, and indications are that the domestic spending momentum continued into the early part of 2006. The production side of the economy is increasingly responding to the keen demand conditions, although the sustained strength of the rand presents important challenges to the tradable goods producing sectors, such as manufacturing.

The Western Cape was hard hit by the drought in agriculture as well as the adverse impact of the strong rand on manufacturing activity. A number of the rapidly growing niche manufacturing and services sectors have been affected by the rand strength. However, while the margin of difference has narrowed, prospects remain favourable that the Western Cape economy could still grow faster than the national economy on average.

The future trajectory of the rand exchange rate will be an important determinant of the balance and sustainability of the national and Provincial economic growth performance. Some adjustment in the value of the rand to a more competitive level is likely; however, the timing of such an adjustment is difficult to call.

At this point, rand strength seems likely to persist in 2006, while the inflation outlook is favourable and interest rates are expected to remain stable over the short term. The financial magnitudes, therefore, are highly likely to be supportive of the domestic spending momentum, further invigorating national and Provincial growth performance.

Any unexpected exchange rate and subsequent interest rate volatility are likely to be of manageable proportions and unlikely to derail the current favourable real economic growth performance. A more competitive currency should benefit the Western Cape economy, as its industrial base is sensitive to exchange rate movements.

On the external front, the global economy slowed closer to a trend growth pace in 2005. Global economic indicators have been upbeat since April 2005, indicating a re-acceleration of the global economy, in spite of the high crude oil prices.

Deepening imbalances remain a cause for concern and the upswing phase of the global business cycle (four calendar years old in November 2005) is threatened by a high and volatile crude oil price; risks remain on the downside. The normalisation of interest rate levels in the major industrial countries also has important implications for emerging market economies such as SA.



This chapter provides a short- to medium-term outlook for the Western Cape economy. As the Province's prospects are closely linked to those of the SA economy, the first section considers the outlook for the national economy, with particular reference to the sustainability of the domestic spending boom and the underlying competitiveness of the domestic economy.

The second section then provides a more in-depth focus on the Western Cape's economic outlook, considering regional economic linkages and the prospects for growth, employment, fixed investment and exports as the basis for the Province's higher and shared growth and integrated development agenda.

2. Trends in the SA economy

The SA economy has been remarkably buoyant during 2005, in spite of a (temporary) global slow-down during the first half of the year and high oil prices. Both business and consumer confidence levels scaled new heights during the second half of the year. Growth remains remarkably broad-based, and following the revision of national GDP statistics, came in close to 5 per cent in real terms for 2005.

On the demand side of the economy, final household consumption expenditure grew by 6,9 per cent in real terms in 2005, and government final consumption expenditure by an estimated 5,6 per cent.

However, growth is not entirely consumption-driven. Real private fixed investment grew by 8 per cent during 2005, including a particularly buoyant private residential construction sector. Public sector fixed investment spending is now taking off, with estimates suggesting strong growth of 10 per cent to 11 per cent during 2005.

While inventory investment has been less robust during the first half of 2005 following the strong stock build-up at the end of 2004, the third quarter saw a revival as businesses sensed the sustained buoyancy in domestic spending.

On the external front, non-gold export growth has been stronger than expected, coming in at double-digit growth rates during the first half of the year. This growth is concentrated in the non-gold commodity sector. Manufacturing exports have been under pressure from the strong rand exchange rate.

The strong commodity export growth on the back of favourable commodity prices has been an important counter for the keen import demand associated with vigorous domestic demand conditions and the rising oil import bill. Nonetheless, the current account of the BoP posted a deficit of 4,7 per cent of GDP during the third quarter of 2005.

Given sustained demand conditions, the production side of the economy is showing increasing response – a critical element for continued growth performance. During calendar 2005, growth accelerated to close to 4 per cent in the primary sector, 4,6 per cent in the secondary sector and 6,2 per cent in the tertiary sector (excluding government). While both mining and manufacturing show signs of recovery and adjustment to the strong currency environment, these sectors are under most pressure from the strong rand exchange rate – real value added contracted in both these sectors during the final quarter of 2005.

The growth in the manufacturing sector is still strongly influenced by developments on the exchange rate front. However, manufacturers appear to be more successful in

regaining market share in the buoyant domestic market at the stronger levels of the rand. Nonetheless, there appears to be little reprieve on the export side. Respondents to the BER's quarterly manufacturing survey continue to report steep year-on-year declines in export volumes.

The domestic market, as noted, continues to boom. This is reflected in sustained high confidence levels in the retail sector, unprecedented unit car sales (growing by 25,6% in 2005 on top of the 22% volume growth in 2004) and keen overall credit demand. The strong currency environment (inducing lower inflation and interest rates) benefits the non-tradable goods sectors, such as wholesale & retail trade, construction, transport & communication and – to a lesser extent – financial & business services.

Revision of SA's GDP statistics

Based on more complete statistical sources, Stats SA revised SA's national production accounts at the end of 2005. Real economic growth over the period 2004 to mid-2005 has been significantly stronger than previously measured – real GDP growth came in at 4,5 per cent in 2004 compared to 3,7 per cent measured previously. From the first quarter in 2004 to the second quarter in 2005, the growth rate has been revised upwards by 0,8 percentage points on average, suggesting economic growth came in close to 5 per cent over this period.

Substantial revisions have been made to individual sectoral growth performances. The two most prominent sectors given their contributions to overall GDP (21% and 18%, respectively) are financial & business services (the growth rate revised from 4,3% to 8% per annum over the period 2004Q1 to 2005Q2) and manufacturing (from 2,8% to 4,8% per annum). Combined, the revision of these two sectors' GDP growth rate accounts for the bulk of the aggregate upward revision.

The real growth of the construction sector – much smaller in size (3% of total GDP) – was also revised upwards substantially, from 6,7 per cent to 10,3 per cent a year over the corresponding period.

For some sectors, growth was revised downwards. The two sectors that stand out here are CSP services (revised down from 4% to 1,7% a year) and agriculture (down from 3,9% to 0,6% a year).

Smaller downward revisions were made in the case of mining (-1,2 percentage points a year on average), wholesale & retail trade (-0,5 percentage points), transport & communication (-1,0 percentage point) and general government (0,1 percentage point).

The revisions confirm the strong growth in the non-tradable goods sectors over the period under consideration, particularly in financial & business services (8% a year) and construction (10,3%).

Real GDP growth revision: 2004Q1 – 2005Q2 (%)

Sector	Average growth: 2004Q1 – 2005Q2		
	Old	Revised	Difference
Agriculture, forestry & fishing	3,9	0,6	-3,2
Mining & quarrying	4,4	3,2	-1,2
Manufacturing	2,8	4,8	2,0
Electricity & water	2,0	2,5	0,4
Construction	6,7	10,3	3,7
Wholesale & retail trade	6,2	5,7	-0,5
Transport & communication	5,8	4,8	-1,0
Financial & business services	4,3	8,0	3,7
General government	1,3	1,2	-0,1
CSP services	4,0	1,7	-2,3
Total GDP	4,0	4,8	0,8

Source: Stats SA

Growth in the wholesal & retail trade sector (5,7%) and in transport & communication (4,8%) also remains strong by comparison, even though slightly slower against previous estimates.

The other significant aspect of the revisions is the faster growth of the manufacturing sector over this period (4,8% compared to 2,8% measured previously). This is somewhat surprising, given what we know about export growth and import competition in this sector over the period.

The revision certainly highlights the fact that the SA economy is growing at a faster rate than previously believed and measured. The Bureau for Economic Research's (BER's) estimate of calendar year 2005's real GDP growth rate is 5,1 per cent. At this level, SA's real economic growth rate compares very well to that of its emerging market peers. While sustainability is of course the critical issue, this is the first confirming evidence that SA's economic growth rate is moving to a higher plane. There are furthermore solid reasons to believe that the sustainability of growth has improved – inflation and interest rate levels have moderated on a sustainable basis, the BoP constraint has changed and formal sector employment creation has improved significantly.

3. Global economic developments

Global growth continues as the upswing phase of the global business cycle entered its fifth year in November 2005. Following strong and synchronised growth in 2004 (around 5%), the global economy slowed down during the second half of 2004 and the early part of 2005. Growth also became more uneven. The Euro area and Japan lagged the strong performances of the US and Chinese economies.

Global economic indicators began turning upwards again from the middle of 2005, signalling a new leg of accelerated growth. However, hurricanes Katrina and Rita have had a material impact on the global economic outlook due to their effect on the US economy and the international crude oil price. Higher crude prices are pushing inflation higher, drawing the attention of central banks globally.

Expectations are that expansion in the global economy will be sustained. Corporate fixed investment spending and hiring, supportive interest rates and strong developing country economic performances – in particular that of China – underpin positive global growth prospects. However, the risks are loaded on the downside.

The spike in international crude oil prices

Following the easing of international oil prices at the end of 2005, prices spiked again early in 2006, reaching US\$65 a barrel at the beginning of January. The high crude oil prices have been an important feature of the global economic scene the past two to three years. Fundamentally, oil prices are high due to a supply-demand imbalance in the international oil market. The lack of spare production capacity, for both OPEC¹ and non-OPEC producers, a tapering off of the rapid oil production growth in the Former Soviet Union (FSU) and political instability in key oil-producing countries (Iraq, Nigeria, Venezuela and of late, the Iranian nuclear crisis) are all factors characterising the global oil supply side.

The problem is that demand is growing, with the global economic upswing in its fifth year and oil demand in fast-growing East Asia (for example, China) rising rapidly. The fear is that capacity constraints could lead to yet higher prices for longer before demand could be curbed or the required supply capacity could be developed.

Furthermore, facing low interest rate yields in the major industrial countries, international investors have honed in on this underlying oil supply-demand imbalance, exacerbating price increases (and volatility). Climatic conditions have also had an impact (for example, hurricanes Katrina and Rita in the Gulf of Mexico during the third quarter of 2005).

Regarding oil price prospects there are two scenarios at play:

The first foresees a confluence of (mainly cyclical) factors – the global economic upswing since the end of 2001, the low global interest rates, the Iraq war, disappointing non-OPEC supply growth, etc. – behind the higher crude oil prices. An unwinding of these factors could go a long way in restoring stability and balance in the oil market. This is, more or less, the rationale for the current consensus view anticipating a moderation in crude oil prices over the short term (around \$50/b at the end of 2007).

The second, emanating from the structuralist school, foresees that the lack of investment in production capacity (or more extreme, resource limits) and rapidly growing demand underlie the higher oil prices.

¹ Organisation of the Petroleum Exporting Countries

This scenario highlights that during 2004, \$8-billion were spent on oil production globally but only \$4bn worth of oil reserves were discovered. International oil reserves have gone past their half life – to uncover the second half of the oil reserves will be more difficult and much more expensive. According to this view, a much higher price would be required for longer to restore balance in the market.

The bottom line is that oil prices have spiked and medium- to longer term projections have been raised. Due to under-investment in oil refining and distribution infrastructure, oil supply bottlenecks have emerged which will not be resolved overnight. Furthermore, with global spare oil production (and refining) capacity at low levels, the risk of stronger spikes in prices is real, particularly in the event of supply disruptions. A particular problem with refining capacity is that the growth in global demand is for the lighter/sweeter crudes, while existing refining capacity is mainly geared to the heavier/sour crudes.

Impact of the high oil prices

The most notable aspect of the past almost three years' oil price spike is the fact that it has had such a limited impact on global real economic growth and inflation. The International Monetary Fund (IMF) previously estimated that a \$10/b increase in international crude oil prices for a 12-month period would shave 0,5 percentage points off the global real GDP growth rate.

However, while the high crude oil prices were a factor in the global economic slowdown during the run-up to the Iraq war and during the second half of 2004/early 2005, the global economy re-accelerated each time. Currently there is no sign of recession so typical of the 1970s (and early 1990s) oil price spikes. It is also a fact that oil prices gradually ticked up to their current elevated levels, in contrast to the 1970s when prices shot up overnight, imparting a much bigger shock to the global economy.

This time around the impact on inflation is much more muted, both because the oil price spikes do not lead to secondary inflationary effects and because non-energy inflation rates are so low, inter alia influenced by disinflation from China. Without the inflation consequences, there is no monetary policy reaction and no global economic recession. While global core inflation measures have increased, the current outlook for global inflation remains favourable and should not lead to undue interest rate hikes.

That leaves the direct impacts of more expensive energy. For SA there are three key impact channels:

- The energy import bill (the impact on the BoP);
- The direct cost-push impact on domestic inflation; and
- The direct growth impact.

The high crude oil price has made SA a net energy importer. In 2002, SA was still a net energy exporter (national coal and bunker fuel exports exceeded the oil import bill). However, by the middle of 2005, SA's net annual energy trade balance deficit stood at a hefty R17bn. Consequently, the rising oil price contributed to a widening domestic current account deficit (estimated at 4,3% of GDP in 2005).

Further, the impact on local inflation has been well contained – here SA shares fully in the international experience. Generally we have witnessed an absence of secondary inflationary processes developing; it is only the domestic petrol and diesel prices that spiked. However, the strengthening rand exchange rate has countered/softened this impact. CPIX inflation came in at a lower than expected 3,9 per cent in 2005, despite the 44 per cent increase in crude oil prices (domestic petrol prices only increased by 18% in 2005 due to the rand's appreciation). Suffice to say that the inflation impact and the consequent monetary policy reaction would have been more severe in a weaker currency scenario.

While the indirect impact is limited, there remains a direct impact. Merrill Lynch calculates that SA consumers spent R80bn on petrol and diesel in 2004, but that this expense rose to around R100bn in 2005 due to the oil price increase. They also estimate that the net increase in energy prices subtracted 0,4 percentage points from real GDP growth over the 12-month period up to the middle of 2005. Furthermore, the impact is regressive in nature in that lower income consumers are disproportionately affected, as energy and transport expenses comprise a larger share of their household budgets (15% to 20%). Consumers usually have to cut back on other spending (for example, clothing and footwear) to shoulder the higher transport costs.

The elevated level of crude oil prices is likely to persist, although there is a slight tapering off factored into the projections. At \$67/b, real crude oil prices are 25 per cent above that in the run-up to the Gulf War in the early 1990s, which sparked a global recession. This time, global growth has been remarkably resilient in the face of the high oil prices. Rather than a recession, global growth is expected to remain close to its potential pace over the short term.

From a regional perspective, the US economic performance is exposed to the most risk. The US BoP current account deficit continues to grow. The highly indebted US household sector is vulnerable to a reversal of fortunes in the US housing market and higher energy prices. US economic growth is therefore at risk of being much weaker than currently expected. This could have important implications for the global economy.

On the other hand, Japan is emerging as a growth engine in Asia, along with sustained strong growth in China. The outlook for real GDP growth in Japan is still a rather pedestrian 2,5 per cent; however, it is a healthy outlook. There is a strong recovery in consumer confidence and household expenditure, combined with keen fixed investment spending driven by a vastly improved corporate sector. The end of deflation is in sight and the financial sector is regaining its previous lustre.

The economic under-performance of the Euro area is expected to persist. However, the latest regional economic indicators point to a revival in domestic demand, leading to upgraded forecasts. The household sector in the region is exposed to the high crude prices and business fixed investment spending, and hiring is not as strong as in other parts of the global economy. Nonetheless, regional real GDP growth is projected to accelerate to a 2 per cent to 2,5 per cent pace over the short term, which represents a welcome improvement in the economic outlook for the region.

The US dollar is expected to depreciate further during the second half of 2006, dictated by the widening US current account deficit (measuring 7% of GDP in the fourth quarter of 2005). Non-oil commodity prices continue to escalate and are expected to remain strong in 2006. Increases in the gold and platinum prices have been particularly strong towards the end of 2005 and into early 2006, despite the increase in US interest rates. This lent further support to the rand and could continue to do so over the near term. Crude oil prices are expected to moderate over the short term. However, oil price forecasts continue to be scaled upwards and there is a real risk of continued high crude oil prices.

Global financial markets remained flush with liquidity in the early part of 2006. The US Federal Reserve (the 'Fed') is likely to persist with gradual monetary tightening up to the middle of the year (taking the Fed funds rate to 5%), when it is expected to pause due to a slowing economy.

Policy interest rates in Japan and the Euro area are also expected to increase. The European Central Bank (ECB) hiked interest rates by 25 basis points (a quarter of a per cent) in December 2005. The normalisation of interest rate levels in the major industrial countries has implications for emerging country capital and currency markets.

Emerging economies have been the beneficiaries of the period of low interest rates in the main industrial countries since the end of 2001. This has translated into strong capital inflows into emerging market countries and appreciating exchange rates (depending on the host countries' currency regimes) as international investors went on the rampage in search of yield. The weak US dollar and the commodity boom compounded these flows to countries such as SA. SA's accumulated net capital inflow amounted to R184bn during 2002 to 2005.

Wider interest rate spreads and increased international investor risk aversion, possibly compounded by softer commodity prices, could see a reversal/ sharp slowdown of these capital inflows. There are attendant risks of widening current account deficits for emerging market economies such as SA.

Table 1: World economic outlook – real GDP growth (%)

	2005	2006	2007		2005	2006	2007
Industrial countries				Developing countries			
Major Seven ¹	2,6	2,8	2,9	Emerging Asia ³	4,5	4,6	4,8
US	3,6	3,5	3,4	China	9,3	8,5	8,8
Japan	2,5	2,6	2,8	India	8,0	7,0	7,0
Euroland ²	1,5	2,1	2,4	Latin America	4,2	4,2	3,6
Germany	1,1	1,8	1,9	Emerging Europe ⁴	4,9	5,3	5,2
UK	1,6	2,2	2,6	Sub-Saharan Africa ⁵	4,8	5,9	n/a

Source: JP Morgan / ⁵ IMF World Economic Outlook, October 2005

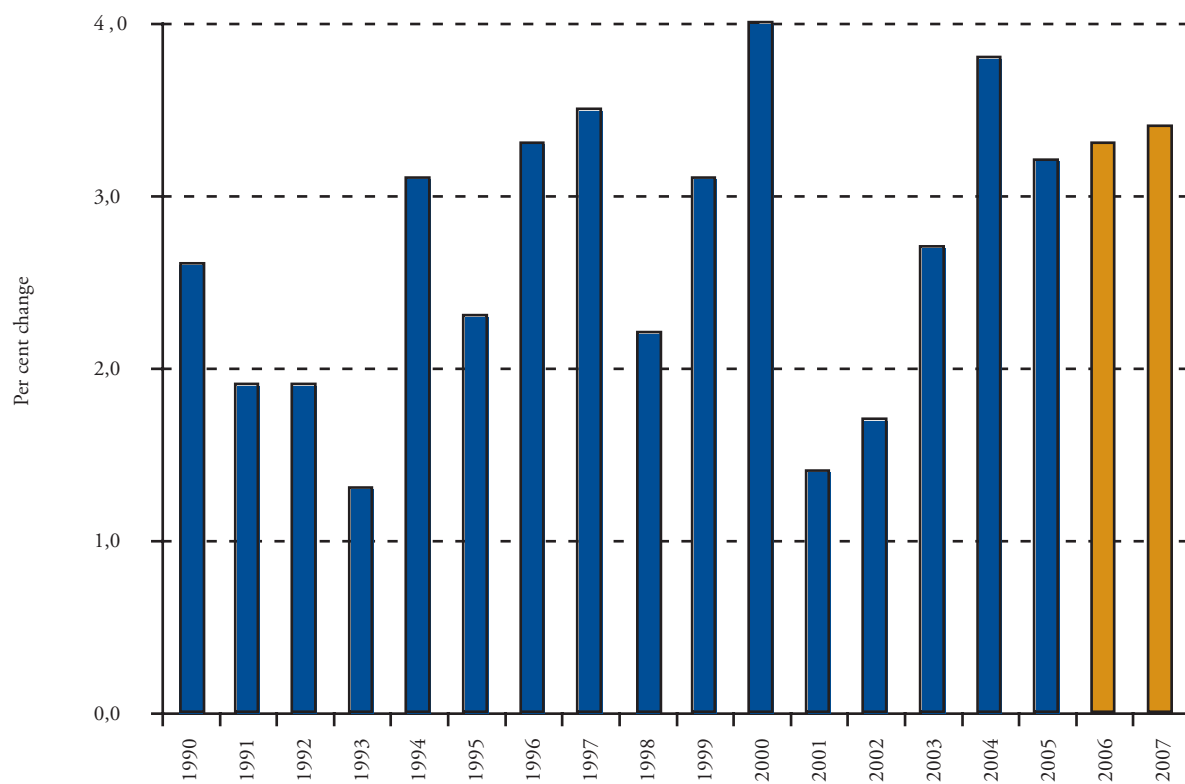
Notes: ¹ UK, US, France, Canada, Italy, Japan and Germany;

² The 11 Euro countries – Belgium, Austria, Finland, France, Luxembourg, Ireland, the Netherlands, Germany, Portugal, Italy and Spain;

³ Taiwan, Hong Kong Special Administrative Region (SAR), Singapore, South Korea, Malaysia, Indonesia, Thailand and Philippines;

⁴ Bulgaria, Czech Republic, Hungary, Poland, Slovak Republic, Russia, Turkey

Figure 1: World real GDP growth: 2006/07



Source: JP Morgan

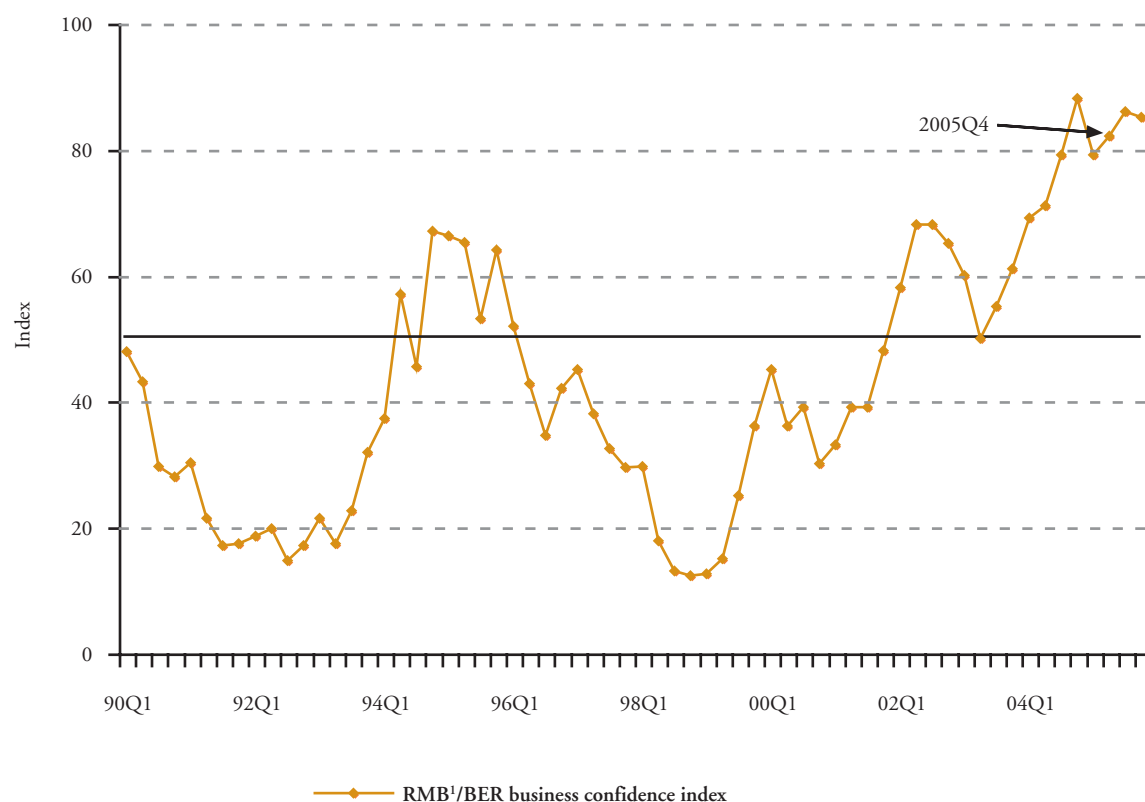
4. SA's unprecedented economic upswing

The SA economy is experiencing a strong spending boom, which has its origins in the late 1990s, with the onset of the current historically long business cycle upswing in September 1999.

In the household sector, key contributing factors are gradually accelerating income growth on the back of a lower rate of retrenchment in the formal sector of the economy, a return to positive employment creation from 2002, higher real economic growth, substantial cumulative personal tax relief, lower inflation and moderating interest rates.

During 2003 and 2004, the spending drive received added impetus from historically low levels of interest rates and inflation in the wake of the rand's remarkable recovery and buoyant capital inflows. External contributing factors included a weak US dollar, notably low interest rates in the major industrial countries and a commodity boom. The rand's appreciation forced inflation and interest rates to historically low levels – key in driving real final demand growth in the economy to between 6 per cent and 7 per cent in 2005.

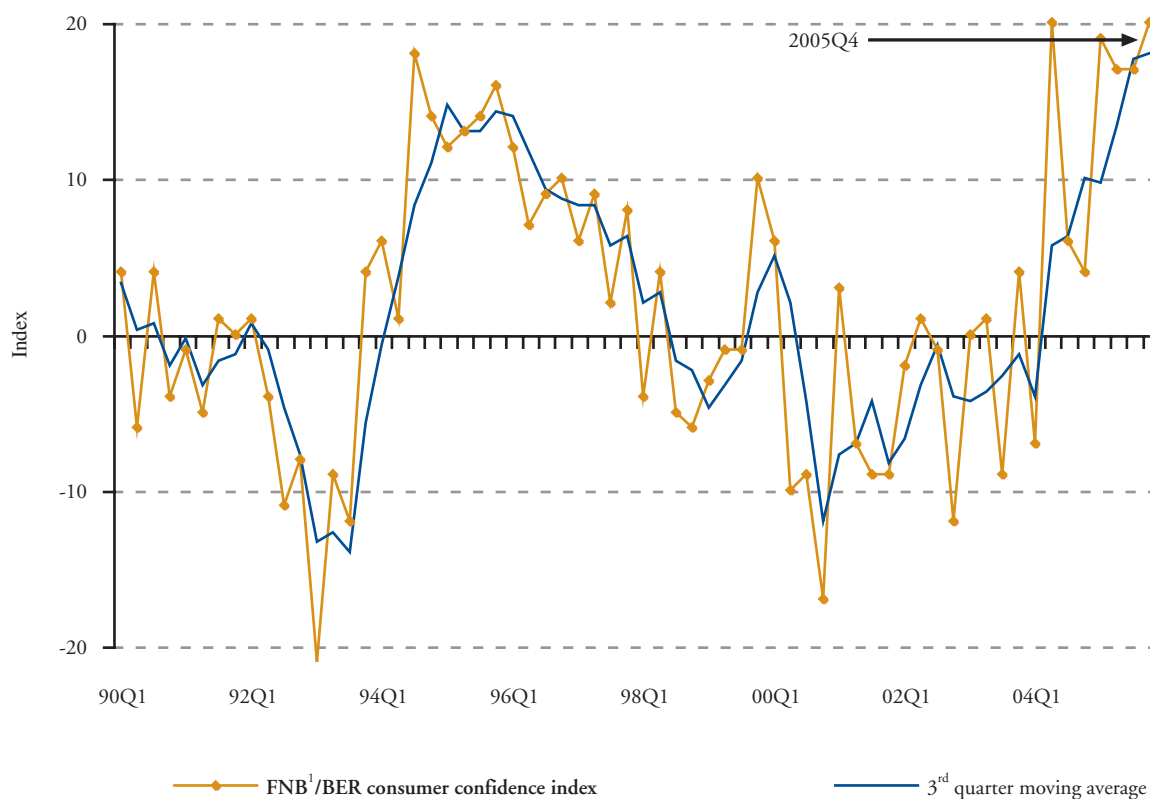
Figure 2: SA business confidence



Source: BER

Note: ¹ Rand Merchant Bank

Figure 3: SA consumer confidence



Source: BER

Note: ¹ First National Bank

Spending momentum is expected to decelerate over the short term, in the absence of further interest rate cuts and as the rand weakens. On the other hand, the 2006 Budget will continue stimulating consumer spending, which should contain the anticipated slowdown. While inflation is expected to increase marginally, it is possible that interest rates will remain unchanged for the foreseeable future. The anticipated slowdown in real domestic expenditure could therefore be mild. Even unexpected exchange rate and interest rate volatility is not expected to derail the otherwise sound economic momentum.

Over the medium term, a more competitive currency should stimulate production in the tradable goods sectors, particularly exports. This should alleviate the cumulating pressures on the trade account of the BoP and enable the domestic economic upswing to continue. However, it is critical that key microeconomic reforms are implemented to improve economic competitiveness and capitalise on the healthy spending momentum.

National real GDP growth is forecast to reach 4,6 per cent in 2006 and remain around 4 per cent in 2007.

4.1 Durability of domestic spending boom

Key to the sustainability of the spending momentum is income growth and a sustainable BoP position. Over the past five years, solid income growth has been driven by improved formal sector employment creation, enhanced productivity growth, personal tax cuts, a structural adjustment to lower levels of inflation and real interest rates, and higher levels of real economic growth. The process is well underway, but far from complete.

Formal sector employment growth is essential, as it boosts the multiplier effects of increased fixed investment spending in the economy and sustains the spending momentum. Whereas the macro-economic stimulus embodied in the lower level of inflation and interest rates acted as an important catalyst in the elevated spending levels, accelerated fixed investment spending and employment creation, driven by the improved levels of economic growth, act as a central force to sustain the economic momentum.

Fixed investment spending must become a stronger component of domestic spending to drive higher sustained growth. Some progress is being made, signalled by a faster fixed investment rate, historically high business confidence levels and robust public sector infrastructure fixed investment plans.

The domestic spending momentum therefore has favourable structural characteristics. There is little sign of overspending and/or exorbitant general household indebtedness. Inflation and interest rates are at sustainable lower levels. There is sound fiscal stimulation and a higher fixed investment rate (both in the private and public sectors). Furthermore, the BoP position is a function of external developments, the exchange rate and SA's competitiveness.

Transnet infrastructure investments in the Western Cape

The total investment plan of Transnet's core business amounts to R37bn over the next five years. Details of the investments per division are as follows:

National Ports Authority (NPA)

- Expansion of the Cape Town container terminal, creating additional capacity to meet container growth.
- Development of an oil and gas hub in the Western Cape. The expected impact will be:
 - Provision of a logistics hub for the oil & gas cluster to consolidate value-added logistics services to industry.
 - A reduction in cost of business through centralisation and specialisation.

SA Port Operations (SAPO)

- The Cape Town terminal equipment renewal and expansion programme will increase throughput capacity to 20 per cent, and allow higher stacking density in the terminal. SAPO will invest in six new container cranes and 26 four high-straddle carriers.
- Iron ore expansion in Saldanha will meet growth requirements and increase tonnage beyond 42 mega-tonnes per annum.

Spoornet

- Spoornet will implement various projects relating to fleet renewal and modernisation.

In summary, the investments per corridor are as follows:

	Gauteng–Cape Town (Rbn)	Sishen–Saldanha (Rbn)
NPA	0,35	1,26
SAPO	0,38	0,79
Spoornet	0,87	0,00
Total	1,60	2,05

Source: Wesgro²

4.2 The rand and competitiveness

The current strong spending momentum in the economy has been accompanied by the remarkable recovery of the rand exchange rate. However, the economic upswing is not dependent on the strong currency. In fact, it may be argued that the rand's overvaluation compromises improved economic growth performance due to the imbalances it is creating. These are best reflected in the widening current account deficit and an under-performing manufacturing sector.

A softer value for the rand above R7/US\$ would curb an overheating of the spending momentum and induce a recovery in the manufacturing (and tradable goods) sectors. It would also allow the resources sector to benefit more from the global commodity boom. In turn, the BoP is likely to improve, rebalancing domestic economic performance as producers respond to the buoyancy in domestic demand conditions and, hopefully, keen world economic conditions.

A more competitive currency environment would strengthen the underlying economic and employment dynamic, supporting the sustainability of spending growth, rather than pushing the level of such growth temporarily higher.

While firms adjust to the stronger currency environment, an overvalued currency exposes the economy to risk through generating an unsustainable BoP position. The eventual depreciation of the rand could be more volatile, causing sharper than expected increases in inflation and interest rates, and consequent adverse impacts on the economic growth momentum. SA's external financial position has improved immensely, minimising the chances for such repeated financial volatility, but the country's economy is not as yet immune to these tendencies.

² Wesgro is the official Trade and Investment Promotion Agency for the Western Cape, and is responsible for attracting investment, growing exports and promoting the business image of the Province..

The Investec PMI

The BER at the University of Stellenbosch publishes an index of current business conditions in the SA manufacturing sector. The index is based on the widely used and highly regarded Purchasing Managers Index (PMI) produced by the Institute of Supply Management (ISM) in the US. In SA, the monthly survey is financially sponsored by Investec Asset Management, hence the index's name. The index is compiled on a monthly basis by the BER, in collaboration with the Institute of Purchasing and Supply SA (IPSA), and focuses on business conditions in the manufacturing sector. In the US, and other developed countries for which PMIs are available, the index serves as an important indicator of business conditions.

The survey is conducted by way of mailed questionnaires to a panel of purchasing managers in the manufacturing sector. The questionnaire consists of nine questions on the monthly changes in business conditions in the manufacturing sector. The respondents have to indicate qualitative changes only – whether a particular activity has increased, decreased or remained unchanged.

The questions are on: business activity (production), new sales orders, employment, backlog of sales orders, purchasing inventories, purchasing commitments, purchasing supplier deliveries, purchasing prices and purchasing conditions. The questionnaires are completed during the second and third week of every month and processed during the final week of the month. The results are made available on the first working day of the following month.

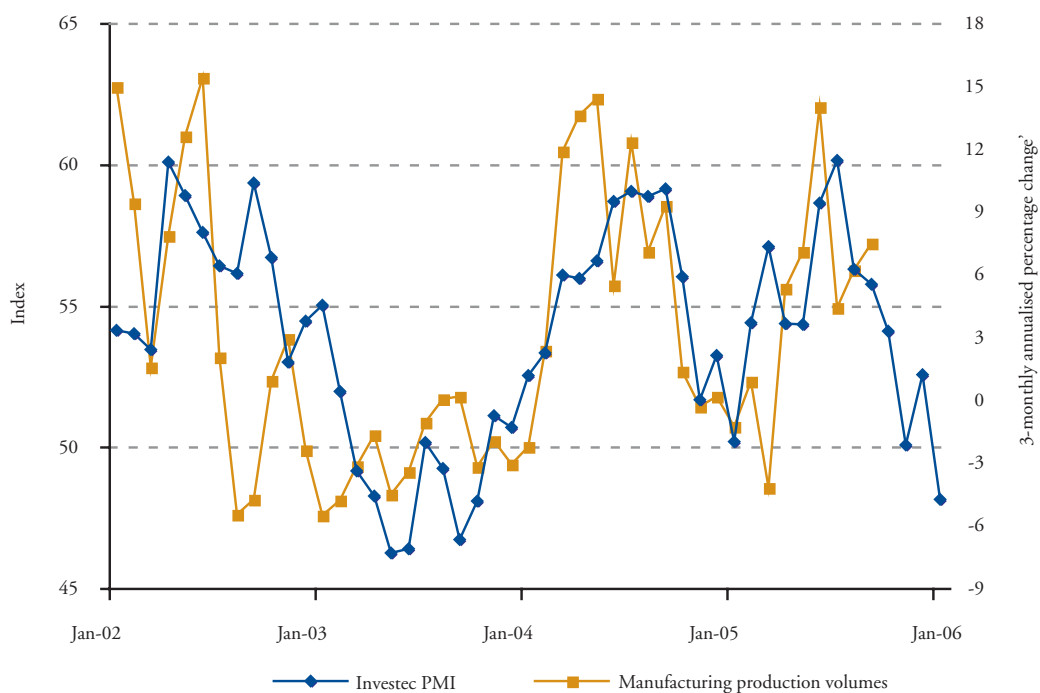
The results of the responses on each question are processed in the form of an index. The index is constructed as the sum of the percentage of respondents that indicated an increase plus one-half of the percentage of respondents that indicated no change. This provides an index that ranges between 0 and 100, with 0 indicating a decline experienced by all the respondents and 100 indicating an increase experienced by all the respondents. An index value of more than 50 indicates increased activity.

The PMI is then calculated as a weighted average of five of the individual indices. The choice of indices included and the weights currently used for the Investec PMI are identical to that of the ISM in the US. Consequently the Investec PMI is calculated as follows:

SA PMI = 0,25 business activity + 0,30 new sales orders + 0,20 employment + 0,15 supplier deliveries + 0,10 inventories

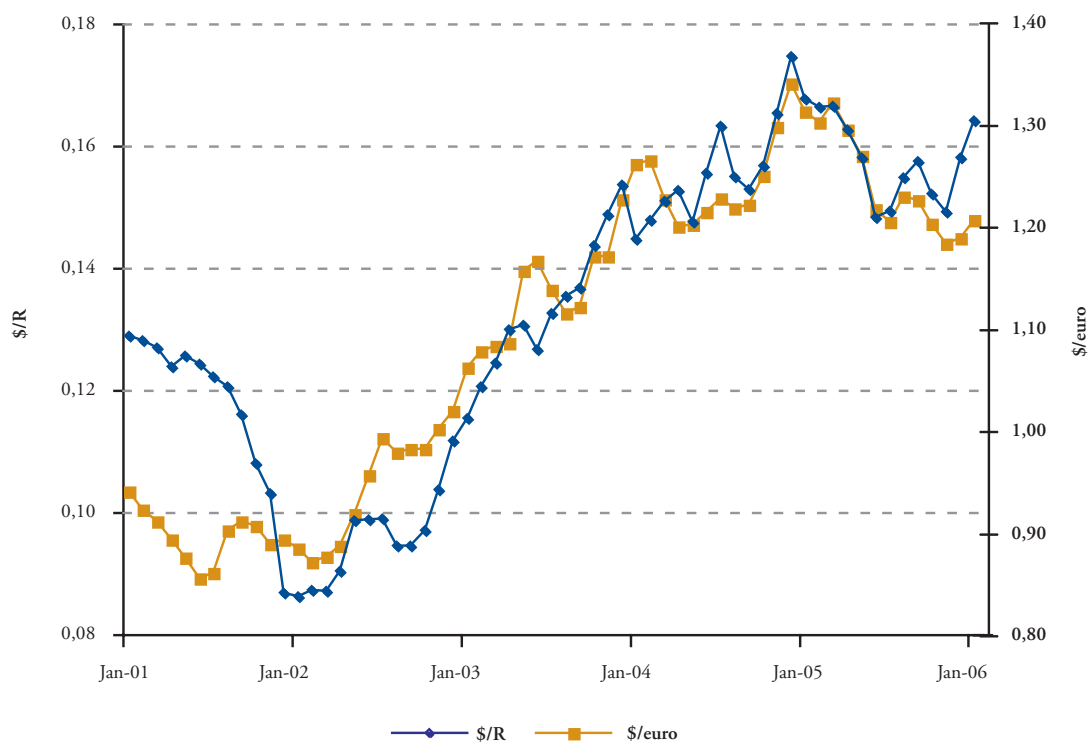
The PMI is adjusted for seasonal variation of the data. The survey has been run on a monthly basis since September 1999 and the statistics on the individual indices and the Investec PMI are released on the BER website (www.ber.sun.ac.za). The Investec PMI has an exceptionally good track record as a reliable indicator of SA manufacturing conditions – figure 4 shows the good correlation between the Investec PMI and the three-monthly annualised percentage change in actual manufacturing production volumes (released by Stats SA).

Figure 4: The Investec PMI dips below 50 in January 2006



Source: BER

Figure 5: Close link between the US\$/R and US\$/euro exchange rates



Source: SA Reserve Bank

5 Outlook for the SA economy: 2006/07 – 2008/09

5.1 Economic growth and employment

Economic indicators from the second half of 2005 reveal a stronger than expected cyclical momentum in the SA economy. Consumer spending remains firm and the country's fixed investment rate is picking up. There are both cyclical and structural elements in the continued growth of consumer spending and gross domestic fixed investment spending in SA.

The sustained buoyancy in consumer spending is reflected in historically high consumer confidence levels. Optimism in SA prevails across income and racial groups. Even though strike activity and localised social upheaval through 2005 tended to cloud the picture, there is clear evidence of solid income gains on the part of households. Consumers are generally upbeat regarding their financial positions. The lower end of the consumer market has lagged this improvement. However, renewed employment creation and the accelerated social grants from government are increasingly benefiting this market segment.

SA's official unemployment rate is showing signs of moderating. According to the Labour Force Survey (LFS) of Stats SA, the narrow definition of unemployment in SA subsided from 27,9 per cent in March 2004 to 26,2 per cent in September 2005. Nationally, a total of 658 000 new jobs were created over the 12-month period up to the third quarter of 2005 – 295 000 in the formal non-agricultural sector and 516 000 informal sector job opportunities (160 000 jobs were lost in agriculture and the domestic worker sector).

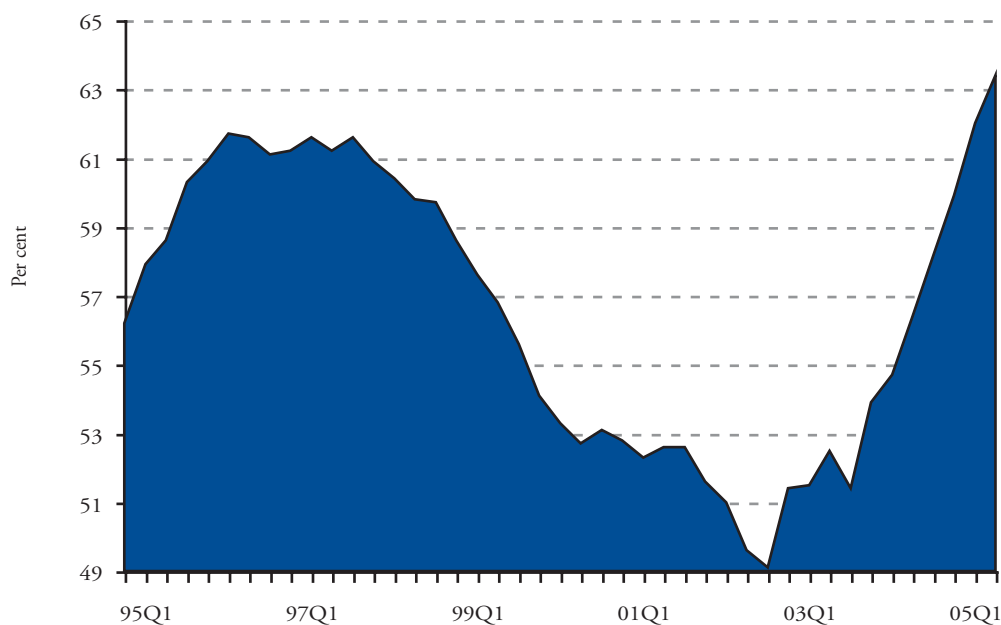
BER's business surveys in the wholesale & retail trade, construction and financial & business services sectors also reveal strong employment growth. Government's expanded public works programme and its public infrastructure fixed investment drive provide a further impetus.

While household credit utilisation is picking up sharply, income growth, tied to strong real wage growth and employment gains, remains on a solid basis. Despite the higher overall level of household indebtedness, household debt service ratios remain close to historical lows (6,5%) due to lower interest rates.

Government's policies on employment equity and black economic empowerment (BEE) have boosted the spending power of the black population group. Given low penetration levels of this market segment, these policies will remain an important structural support to consumer spending in a number of markets.

Personal income tax relief has amounted to more than R70bn over the past seven years, and a healthy cash position afforded the fiscus further opportunity for tax relief in the 2006 national budget. Government's roll-out of social grants is also likely to continue underpinning income growth in the lower end of the consumer market.

Figure 6: Household debt to GDP ratio



Source: SA Reserve Bank

The strong housing market and financial asset markets have introduced potent wealth effects, supporting consumer spending. While these positive wealth effects are exposed to the risk of higher interest rates, the medium-term outlook for consumer spending is positive.

In all, consumer spending is estimated to have grown by 6,9 per cent in 2005 and is expected to moderate slightly to 4,7 per cent in 2006 and further to 3,9 per cent in 2007. The favourable tendency in employment creation is projected to strengthen.

SA's fixed investment rate is accelerating, albeit off a low base. Economic indicators suggest that this revival is more than a purely cyclical phenomenon.

Robust public sector investment plans among general government and public corporations, such as Eskom and Transnet, are contributing strongly to gross domestic fixed investment over the next five years. Plans to upgrade and expand electricity supply and distribution capacity and transport infrastructure are valued at R165bn over the period 2005 to 2009. This will become an important component of the fixed investment revival and economic impetus over the medium term.

Private sector investment plans are also responding to buoyant demand conditions. Following growth of close to 11 per cent in 2004, year-on-year growth came in above 8 per cent during the first three quarters of 2005. The private residential construction sector made a strong contribution to this growth – fixed investment spending in this sector

expanded by no less than an estimated 20 per cent in 2005 and is projected to come in at 9,3 per cent in 2006. Solid growth in real disposable incomes, favourable property prices and improving formal sector employment conditions are driving residential construction. The non-residential sector is also booming of late and has more scope to grow over the short term.

Mining and manufacturing fixed investment has been hampered by the strong rand exchange rate, and private fixed investment (excluding residential building) slowed somewhat during the first half of 2005. However, private fixed investment spending rebounded again during the third quarter of 2005.

The favourable demand conditions, the low interest rate environment and the improved outlook for economic growth are proving strong drivers of accelerated fixed investment spending in the private sector. Business confidence remains close to historically high levels and this is typically associated with strong fixed investment spending going forward.

Overall real GDP growth is estimated at 4,9 per cent during 2005 and is projected to slow somewhat to 4,6 per cent in 2006 and 4,1 per cent in 2007.

Given the solid basis of the domestic growth momentum, the SA economy is well-positioned to weather any unexpected hostile external developments and sustain the current growth trajectory. Policy authorities and other economic stakeholders must implement key microeconomic reforms that will enhance economic competitiveness and further elevate economic growth and employment performance.

5.2 Inflation and interest rates

While rand strength has played an important role in the magnitude of disinflation in the current period, its contribution is partial. Key drivers are the international competitive environment (including 'Chinese deflation'), liberalisation of SA's trade (including expanding trade agreements), deliberate macroeconomic policies of financial restraint (including disciplined fiscal policies and inflation-targeting monetary policy) and changing price and wage setting behaviour on the part of business and labour.

CPIX inflation came in at a lower than expected 3,9 per cent in 2005 – it decelerated unexpectedly to 3,7 per cent in November. CPIX inflation is expected to drift higher in the early part of 2006 (it came in at 4% in December 2005). Credit and money supply growth is accelerating and the full impact of the oil price spike has not been absorbed.

While inflation is likely to increase moderately over the medium term due to the high energy prices, demand-pull effects and some exchange rate depreciation, it is projected to remain within the 3 per cent to 6 per cent target range over the short term (CPIX inflation is estimated to reach 5,2% in 2007).

While the SA Reserve Bank remains vigilant to prevent second-round inflationary impacts from the spike in energy prices, the improved inflation outlook has altered the monetary policy tone. Interest rates are expected to remain stable for the foreseeable future. Should the currency come under more selling pressure in 2007, it is possible that interest rates will increase. However, this is unlikely to derail the current favourable economic outlook.

Lower inflation in 2008 should allow a further decline in interest rates, continuing the dynamic of structurally lower inflation and interest rates projected over the medium term. This should enhance economic growth acceleration on a sustainable basis.

Table 2 details key macroeconomic forecasts for the SA economy for 2006 to 2008.

Table 2: Macroeconomic outlook for SA: calendar 2006 – 2008

	Average '99-'04	2004	2005	2006 (forecast)	2007 (forecast)	2008 (forecast)
Expenditure on GDP (real % change):						
Household consumption	3,7	6,5	6,9	4,7	3,9	4,4
Fixed investment	3,5	8,8	8,0	8,3	9,5	10,5
Gross domestic expenditure (GDE)	3,8	7,5	5,9	5,2	5,0	5,3
Exports	2,4	2,5	6,7	7,0	4,7	5,9
GDP	3,4	4,5	4,9	4,6	4,1	4,7
Inflation, interest and exchange rates:						
CPIX inflation (%)	6,9	4,3	3,9	4,5	5,2	4,9
PPI inflation (%)	6,7	0,7	3,1	5,0	4,9	5,0
Prime overdraft rate (%)	14,71	11,31	10,64	10,50	10,50	10,75
R/US\$ exchange rate	7,70	6,45	6,36	6,35	6,92	7,54
R/euro exchange rate	7,85	8,02	7,93	7,79	8,66	9,28

Source: BER

Comparing the BER and National Treasury's macroeconomic forecasts

The BER macroeconomic forecast was used to generate the Western Cape regional economic forecast. It is necessary to compare this forecast to that of the National Treasury. The differences are small and can be broadly summarised as follows:

- The National Treasury is more optimistic regarding real GDP growth, which the Treasury projects to average 4,9 per cent per annum over the period 2006 to 2008, compared to the BER average of 4,5 per cent. The National Treasury is also slightly more optimistic regarding final household consumption expenditure, government consumption expenditure, fixed investment and real export growth. Both units see a slight slowdown in overall real GDP growth in 2007, but the BER more so than the National Treasury.
- The National Treasury is also more optimistic in its inflation outlook. Whereas the BER forecasts an average CPIX inflation rate of 4,9 per cent over the forecast period, the National Treasury forecasts 4,5 per cent.
- As the National Treasury does not reveal its interest rate and exchange rate assumptions, it is not possible to compare the forecasts quantitatively. However, the National Treasury refers to a "stable exchange rate and stable interest rates". While the BER also anticipates stable interest rates (with only a small increase towards the end of the projection period), its exchange rate assumption possibly allows for more depreciation in 2007/08 compared to the National Treasury, partly explaining the relatively higher BER inflation forecast.
- The BER's current account forecast is also slightly more negative than the National Treasury's. The current account deficit is projected to average 4,6 per cent of GDP between 2006 and 2008, compared to the National Treasury's forecast of 4,3 per cent.

In broad terms the differences between the two sets of forecasts are small and consistent. The BER anticipates more currency depreciation, a slightly higher inflation trend, some increase in interest rates and a slightly weaker real GDP growth trend; in all these respects the National Treasury takes a slightly more optimistic view.

6. The Western Cape economy

6.1 Recent developments

The Western Cape economy has shared in the historic upswing phase of the SA economy over the past five to six years. Moreover, the Province grew at a faster rate than national over the period 1999 to 2004, with the margin of out-performance 0,7 per cent a year.

This lead was sustained in 2004, despite the Province experiencing a serious drought in agriculture. According to revised GDP statistics, in 2004 real GDP growth in the Western Cape topped 5,3 per cent, compared to 4,5 per cent for SA. Estimates suggest that this growth tempo was sustained in 2005.

The Province's growth performance is remarkable in view of a number of headwinds experienced during 2004 and 2005:

- The drought in 2003 and 2004 negatively affected the agriculture sector and the agro-processing industry, both key economic sectors in the Western Cape.
- The strengthening of the rand also had a proportionately more negative impact on the Province's industrial base and agriculture. Rapidly growing niche manufacturing and services industries, such as yacht & boat building, higher-end clothing and furniture-making, the film industry and call centres were all affected by the strengthening rand exchange rate. In line with the national experience, Provincial manufacturing exports plummeted, whilst import competition picked up strongly, mainly due to the influx of cheap Asian imports.
- There are also indications that information technology (IT)-linked technological change is benefiting Gauteng-based national head offices to the detriment of Western Cape-based regional head offices in the field of corporate management and logistics.
- Finally, the erstwhile boom in European tourist arrivals appears to be tapering off, or has at least also been affected by the strong rand.

The fact that the Western Cape economy could still register an estimated 5,3 per cent growth rate during 2004 and 2005 is testimony to the strong economic performances of other sectors in the region such as construction, wholesale & retail trade, financial & business services (including property development & real estate) and transport & communication.

As noted in the *PER&O 2005*, the Western Cape economy is well represented in these nationally fast-growing industries, even out-performing their national counterparts. Excluding general government services, the estimated real value-added growth in the Province's tertiary sector is 6,2 per cent for 2004.

This is in line with the 6,2 per cent average real growth rate registered over the 1999 to 2004 period. The real value-added growth in the construction sector is estimated at 9,4 per cent for 2005 and averaged 6,5 per cent over the 1999 to 2004 period.

The fast growth in these sectors contrasts with the rather pedestrian per annum growth registered in the agriculture (1,7%) and manufacturing sectors (2,1%) over the 1999 to 2004 period. However, the manufacturing sector recovered during 2004, growing by a surprisingly strong 5,7 per cent.

This recovery has proved to be hesitant in 2005 – growth remains constrained by the strong rand. However, there appears to be some adjustment in the manufacturing sector to import competition in the domestic market. The movement of the rand to the R6,50/US\$ level through the middle of 2005 provided some additional impetus.

Manufacturing business confidence recovered during the third quarter of 2005. While general Western Cape business confidence lagged the other major provinces during the second quarter, Provincial business confidence recovered strongly during the third quarter and remained on this level during the fourth quarter of 2005. Unfortunately, the Investec PMI indicator dipped below the critical level of 50 in January, indicating a contraction in the manufacturing sector nationally. It remains evident that the strong rand presents this sector with great difficulties.

Investment performance in the Western Cape

Since January 2004, Wesgro has secured just over R3bn of direct investment into the Western Cape, creating an estimated 10 000 jobs.

For the 2005/06 financial year, Wesgro has secured R1,2bn in investments to date, of which R527-million were investments in the Business Process Outsourcing (BPO) and Call Centre sector, secured by CallingtheCape. The services sector continues to be the driving force of the Western Cape economy, accounting for a 70 per cent share of total committed investments secured by Wesgro. The majority of these investments are targeted towards Call Centres and BPOs, business and financial services, and tourism.

Major investment deals for the period include:

- Cableman Manufacturing and Repairs, a local investment project worth R250m rand situated in the City of Cape Town. Cableman is involved in the design, repair and manufacturing of automotive components.
- Project Sunrise, a R260m UK investment in a 370-seat call centre in the City.
- Amazing Estates International, a R40m investment by a Belgian company in the construction and development of a holiday resort and expansion of a shopping complex in Plettenberg Bay. An estimated 200 jobs have been created as a result of the investment.

Traditional European markets such as the UK and Germany continue to be a source of investment for the Western Cape. SA also presents itself as a key source of investment which not only suggests local confidence in the domestic market, but confirms the fact that the business environment remains favourable to bullish investment growth.

Source: Wesgro

6.2 Structure and dynamics of the Western Cape economy

Turning to the sectoral make-up of the Western Cape economy, revised GDP statistics note that it continues to be well represented in the fast-growing national service industries, such as wholesale & retail trade (stimulated by tourism activity), financial & business services and transport & communication. The construction & property development sectors have also performed strongly in recent years.

A number of niche manufacturing and services industries have contributed strongly to regional growth. These include agro-processing, automotive components, boat & ship building, high-end clothing and furniture manufacturing, call centres and the film industry. Unfortunately, the strong rand has dampened activity in a number of these emerging industries.

The Western Cape's economic performance has also been characterised by strong export growth over the period 1996 to 2002 (8% to 9% a year in real terms). This came under pressure in 2003 to 2005 due to the impact of the strong rand. While the region's core exports to well-established markets (including fruit and alcoholic beverages, iron & steel and processed food) continued to grow in real terms, a number of the 'non-core' export products (such as electrical machinery, transport equipment and furniture) contracted sharply in 2003 and 2004.

Nonetheless, as the Western Cape business cycle is closely linked to that of the national economy, the favourable general outlook for the SA economy augurs well for the Province.

Wesgro Western African Trade Corridor Programme (WATCP)

Wesgro launched its Western African Trade Corridor at the beginning of 2005. The overall aim of this programme is to contribute to the growth and development of the Western African region. The programme has a three-tiered approach to achieving this objective:

- Facilitate Western Cape business penetration of the Western African market;
- Promote inter-regional trade among the two regions; and
- Foster outward investment by SA and Western Cape firms into the region.

Western Cape exporters have demonstrated much interest and enthusiasm in taking advantage of the business opportunities throughout Africa, and this interest is reciprocated by buyers within these African markets who would like to source products and services from the Cape.

Over the period 2000 to 2004, Western Cape exports to African countries have grown significantly at an average rate of 8,8 per cent, accounting for 16 per cent of total Western Cape exports. It is the third-largest regional market after Europe and Asia. Western African countries are increasingly becoming an important export destination for the Western Cape, with oil-rich countries such as Nigeria and Angola being the dominant trading partners, followed by Ghana, Senegal and Cameroon. Other Western African markets showing significant growth over the period include Burkina Faso, Togo, Guinea-Bissau, Niger and Guinea.

The foreign exchange generated by oil exploration activities within these countries has created a demand for goods and services. Due to the Province's proximity to the Western African region, Western Cape exporters can exploit the opportunities existing in these markets and become primary suppliers of goods and services, particularly as an Oil and Gas Service hub. The Western Cape export basket mainly consists of agricultural goods, processed foods, chemicals and machinery. Its imports from Western Africa are dominated by imports of crude oil, which account for 98,2 per cent of total imports from the region. Other import goods include cotton, fish, cocoa and wood, with import growth being observed in the imports of frozen fish, ornaments of wood, jewellery and percussion musical instruments.

Promoting intra-African trade is not only conducive to business, but also strengthens relations between the regions, which are the building blocs of initiatives such as the New Partnership for Africa's Development (Nepad) and the African Union. Wesgro is committed to contributing to the growth and development of Africa and aims to do so by promoting inter-regional trade and outward investment by SA and Western Cape firms, using the WATCP as a vehicle to achieve this objective. Key services offered by this programme include market intelligence, inward and outward buying and selling missions, and opportunities for network building.

Source: Wesgro

6.3 Impact/implications of global and domestic macroeconomic forces on the Western Cape economy

The high degree of openness of the Western Cape economy raises its sensitivity to global economic trends.

As noted above, the outlook for the global economy over the short term is positive, in the absence of unexpected shocks. However, the Western Cape's most important trading partner, the Euro zone, is forecast to continue under-performing. Export growth to this region will therefore depend to a larger extent on new markets being developed.

In this regard, SA's Free Trade Agreement (FTA) with the EU remains an important source of growth, particularly for the agro-processing sector. It is encouraging that the growth outlook for the region has improved in recent months. There are also new export opportunities opening up to the Eastern European states. However, competition from Latin American countries has tightened due to the weak US dollar.

On the other hand, Asia is coming to the fore as a key world economic growth engine, led not only by China, but also by an increasingly upbeat Japan. The Western Cape's iron & steel exports should benefit from this rapidly expanding source of demand. With Asian currencies also on an appreciating trend, price competitiveness vis-à-vis the East should improve. Trade with Asia could therefore present interesting opportunities to local industry over the short to medium term.

The Western Cape economy obviously remains exposed to downside global risks. The high and volatile crude oil price will have both a direct and indirect impact – directly due to

the impact on energy costs and indirectly due to the negative impact on global economic growth and demand of exports.

There is also financial risk involved with the normalisation of interest rate levels in the major industrial countries over the short term. The Province could be affected by the same economic forces that the national economy would suffer in the case of a more hostile external financing environment. The exchange rate and interest rates would be the main channels along which these impacts could be transmitted.

Domestically, the Western Cape economy is well-positioned to continue benefiting from the demand conditions. Retail conditions remain strong and the Province's links with the rest of the country in this respect are robust. While sectors sensitive to interest rate and price changes are exposed to higher rates of interest and inflation and a softer currency over the short term, the underlying growth in consumer spending is expected to remain resilient, in line with the national situation.

On the downside, the high oil prices and the consequent sharp increases in energy prices will impact negatively on household disposable incomes, particularly for lower income earners who are exposed to the escalating transport and energy costs. This will have a disproportionate negative impact on the non-durable goods retail sector.

Fortunately, the non-durable goods retail sector is benefiting from income growth in the lower end of the market on the back of renewed employment growth in the economy, as well as the accelerated social transfer payments from Government. The positive income growth in this market segment could counter the negative impact of higher petrol prices and higher inflation and interest rates over the short term.

The booming construction, property and financial services sectors are also exposed to a likely change in the financial environment going forward. These sectors have performed strongly in recent years and have reached peak levels. It is likely that some slowdown is in store in an environment of higher interest rates. However, interest rate forecasts remain favourable and the financial reactions are not expected to be destabilising over the short term.

Residential construction activity may begin to taper off, given the high basis established over the past two years (real growth of around 20% a year). The year-on-year increases in property prices are also slowing down but it is not expected that the housing market will decline substantially.

A more competitive currency should bring welcome relief to the embattled Western Cape manufacturers. The BER's 2005 second- and third-quarter business survey evidence revealed a rapid improvement in manufacturing production and sales in response to the weaker tendency in the rand at the time.

The second-quarter improvement in manufacturing value-added was confirmed by Stats SA's release of the national GDP numbers, with nationwide manufacturing GDP growing by more than 7 per cent on an annualised basis. The improvement in manufacturing business conditions continued during the third and fourth quarters.

The beneficial impact of a more competitive currency is almost immediate where import competition is concerned, while the benefit to exports tends to filter through with some time lag. The strengthening of the rand at the end of 2005 and early 2006 again had an adverse impact on the manufacturing sector.

The rand is expected to depreciate should commodity prices decline in 2007 in response to weaker global economic conditions, even in the event of the US dollar depreciating further. While rand strength could persist over the near term (end-2006), expected selling pressure in 2007 is likely to lead to moderate depreciation. This should stimulate the Western Cape's industrial sector, particularly those sub-sectors that have been hard hit by the strong currency. However, a relatively strong rand environment is likely to persist and industry will have to adapt to the new economic parameters.

7. Western Cape economic outlook: 2006/07 – 2008/09

7.1 Economic growth

The short-term economic outlook for the Western Cape remains upbeat, despite the external risks. Nationally, SA should be in a favourable position to weather the impact of higher oil prices and/or other shocks. In the case of externally induced financial volatility, the currency is bound to act as a shock absorber, while the domestic spending cycle is built on sound foundations.

The rand is expected to continue trading at strong levels throughout 2006 and the national inflation outlook has improved, with positive implications for interest rates. While some slowdown in real domestic expenditure is likely in the absence of further interest rate stimulus and when the rand depreciates (in 2007, particularly in durable goods retailing, construction and financial services), such a slowdown is likely to be relatively mild. Furthermore, Western Cape industry should benefit from a more competitive currency.

Table 3: Western Cape economy: real GDP growth, 1999 – 2004 (%)

	1999	2000	2001	2002	2003	2004
Agriculture, forestry & fishing	6,7	-2,3	0,8	7,1	-3,6	1,8
Mining & quarrying	-22,8	7,5	-13,4	-1,5	1,7	1,3
Manufacturing	-0,7	5,7	2,9	1,1	-2,2	5,7
Electricity, gas & water	8,3	2,8	-1,9	2,9	11,3	7,1
Construction	10,5	5,0	-15,8	34,1	0,7	4,5
Wholesale & retail trade	9,8	9,9	5,7	1,3	6,8	9,7
Transport & communication	6,3	7,9	5,8	5,6	7,1	5,2
Financial & business services	6,2	4,0	9,9	5,3	5,9	5,3
CSP services	3,9	4,8	2,2	2,4	4,1	1,4
General government	-2,4	-3,2	-0,5	2,2	1,7	0,8
Western Cape GDP	4,2	4,5	4,2	4,2	3,5	5,3

Source: Stats SA

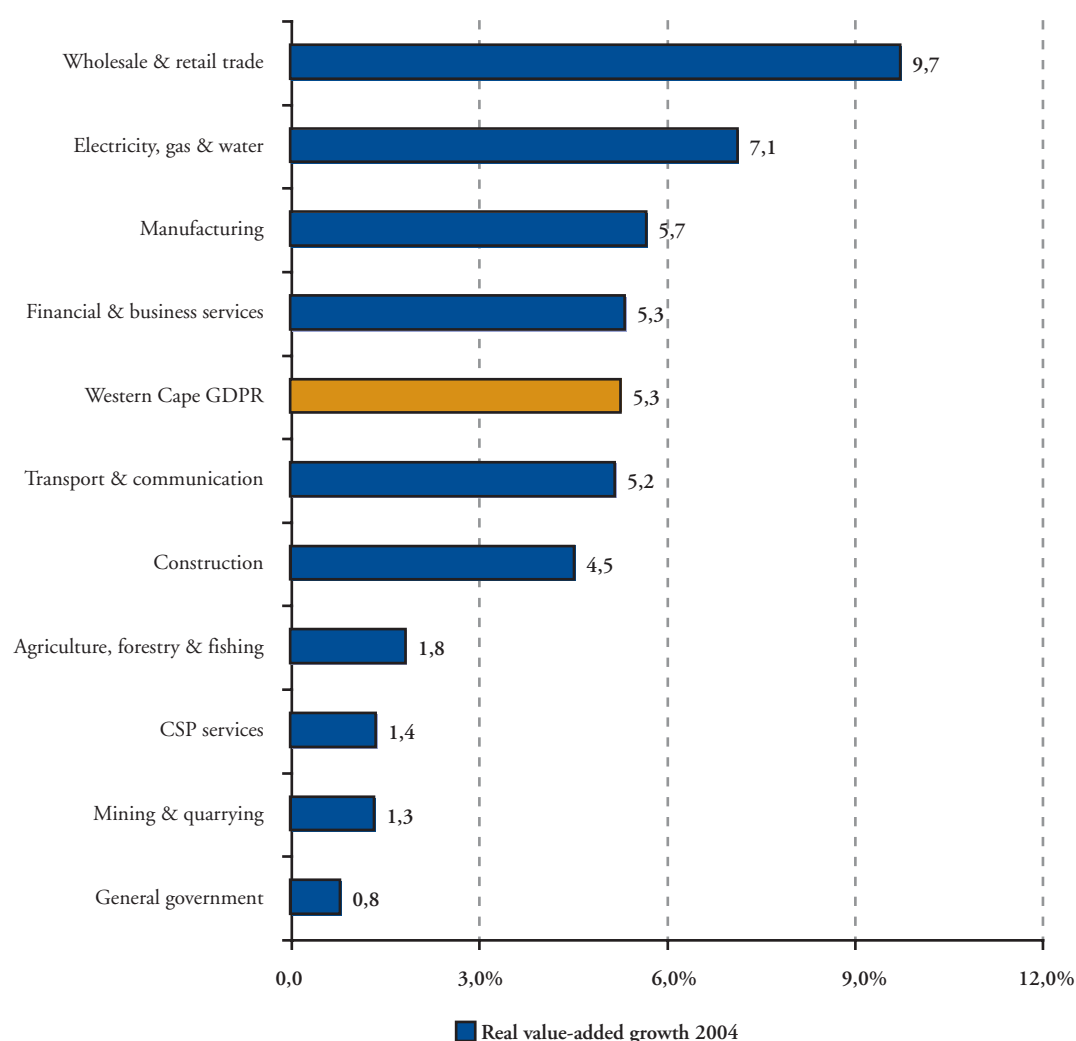
The robust growth in the Province's wholesale & retail trade sector (around 7% a year over the period 1999 to 2004), in construction (6,5%) and the transport & communication sectors (around 6,3%) is expected to continue.

The sustained growth in domestic expenditure and a more stable financial environment should remain conducive to robust growth in excess of 5 per cent a year in the Western Cape's tertiary sectors (excluding government services). The property and financial services sectors are somewhat exposed to the risk of higher interest rates.

The manufacturing and agriculture sectors are expected to recover, the latter if climatic conditions remain favourable. The manufacturing sector did rebound in 2004 following the slump in 2003; however, this recovery petered out again during the second half of 2005 as the rand appreciated. A more competitive currency is key to sustainable recovery in this sector, stimulating growth via import replacement and accelerated exports. Real value-added growth in manufacturing is projected to accelerate to close to 4 per cent over the medium term. However, this estimate is heavily dependent on a good recovery in the export sector.

Both private and public sector agencies in the region have responded to the impact of the strong rand, embarking on marketing initiatives, capital investment and technological upgrading programmes, joint ventures with foreign firms, skills upgrading and improved management practices. These initiatives should enable the Province to regain the growth momentum.

Figure 7: Western Cape real GDP growth by broad sector: 2004



Source: Quantec Research

The Western Cape economic performance is therefore expected to keep up with that of SA over the short term, and may continue to out-perform the national economy on average.

Table 5 shows that real GDP growth is forecast to average 4,8 per cent a year over the period fiscal 2005/06 to 2008/09, slightly higher than the projected national average of 4,4 per cent. Growth is forecast to peak at 5,3 per cent in 2005/06.

Inflation is forecast to average 4,3 per cent over the projection period, in line with the national average. Historically a close correlation exists between the regional and national inflation rates. Similar factors driving national inflation lower over the medium term will impact locally.

7.2 Employment

The Western Cape has the lowest unemployment rate compared to the other provinces. However, unemployment is increasing rapidly due to considerable growth in the labour force compared to the national situation.

The latest available employment data – produced by Quantec Research to fit the LFS employment trend – show that formal sector employment in the Western Cape economy expanded by 3,8 per cent a year on average over the period 1999 to 2004. This is a substantial improvement compared to our previous understanding of formal sector employment growth in the Province³.

Figure 8 highlights the sectoral formal employment trends over 1999 to 2004, according to the revised Quantec dataset. It appears that:

- business services (10,5%);
- CSP services (8%);
- wholesale & retail trade (7,5%);
- transport equipment (6,4%);
- furniture & other manufacturing (6,2%);
- mining & quarrying (6,1%); and
- the metals & machinery sectors (4,4%)

were the largest employment creators, with the employment growth in these sectors being above average.

Other sectors that also contributed significantly to the employment growth include:

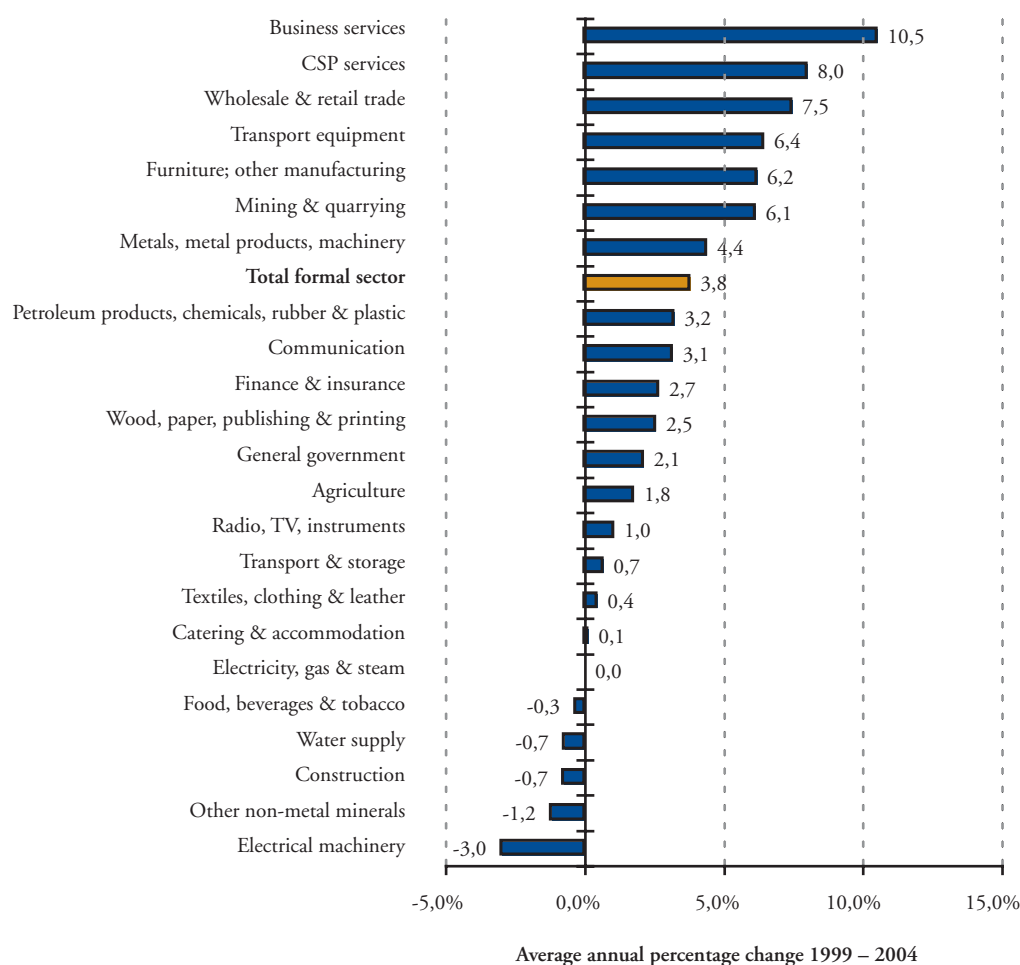
- petroleum products & chemicals (3,2%);
- communication (3,1%);
- finance & insurance (2,7%);
- wood & paper (2,5%);
- general government (2,1%); and
- agriculture (1,8%).

³ These employment growth trends are closer to the LFS data. It was pointed out in the PER&O 2005 that the LFS may overstate the formal sector employment growth in the region. The average formal sector employment elasticity over 1999 to 2004, according to Quantec's revised dataset, is close to 0,9 per cent, which is quite high and suggests relatively labour-intensive growth in the region. This issue may require further investigation.

Sectors that shed jobs over the corresponding period include:

- food, beverages & tobacco (-0,3%);
- water supply (-0,7%);
- construction (0,7%);
- non-metal minerals (-1,2%); and
- electrical machinery (-3%).

Figure 8: Western Cape formal sector employment growth: 1999 – 2004



Source: Quantec Research

The contraction in construction employment is probably a statistical blur; increased sub-contracting and seasonal employment in the sector are probably not reflected in the official statistics. The BER's quarterly building and construction survey in the Western Cape shows strong employment growth in the sector.

The positive tendency in formal sector employment creation is expected to continue, given the upbeat outlook for economic growth in the Western Cape.

However, as noted in the national outlook above, it is critical that Government focuses on implementing key microeconomic reforms, such as lowering the cost of doing business, relieving key infrastructure constraints and skills development to enhance the Western Cape's fixed investment rate and thereby employment creation in the Province.

Employment time series data: circumventing the statistical shortcomings

Any employment estimates in SA are fraught with difficulties and should be used with care. This is even more so at the regional level, and stems largely from the historical lack of consistent and comprehensive surveys based on both the enterprise and household populations.

Quantec Research has constructed an employment database with sectoral and provincial employment time series data (1970 – 2004) using the following sources:

Regional statistics

- LFS, 2000 – 2004: Stats SA
- October Household Survey/General Household Survey (OHS/GHS), 1995 – 2004: Stats SA
- Population Censuses, 1970 – 2001: Stats SA
- Industry Censuses (various): Stats SA
- EasyData Standardised Provincial Demographic Database, 1970 – 2004: Quantec Research

National statistics

- Survey of Employment and Earnings (SEE), 1972 – 2004: Stats SA
- Development Bank of Southern Africa (DBSA) Standardised Employment Series: DBSA (discontinued during the late 1990s)
- Manpower Survey: Stats SA and the Department of Labour (discontinued in 1996)
- SA Labour Statistics: Stats SA (last published in 1996)
- EasyData Standardised Industry Database, 1970 – 2003: Quantec Research

Stats SA's OHS (surveyed annually, from 1995 to 1999), the LFS (replacing the OHS and surveyed bi-annually since 2000) and the GHS (replacing the OHS and surveyed annually, from 2002 to 2004) are household-based surveys. The current LFS sample size is approximately 30 000 households (0,3% of all households), but the actual households included in the samples change over time. The LFS and GHS are therefore not well-suited for industry and/or provincial dissemination of employment data with any high degree of confidence. However, it is good at estimating overall employment and unemployment. The LFS and GHS also split employment between formal and informal employment, although the formal and informal employment and unemployment estimates vary considerably over time. Definitional changes also played a role here.

In contrast to the LFS, the SEE is a quarterly, enterprise-based survey covering a sample of approximately 10 200 employers of both private sector companies and public institutions in the formal non-agricultural sector. Only national employment and earnings statistics are estimated from the survey information. The survey gives a good indication of formal employment by sector. The SEE was also revamped during 2002 to cover the service industries comprehensively. The sample for the SEE is designed and drawn from Stats SA's re-engineered Business Sample Frame (BSF), which excludes non-value-added tax (VAT) paying businesses (firms with a turnover of less than R300 000 per annum and/or unregistered firms).

Two main shortcomings of the SEE are therefore as follows:

- The SEE's coverage is not comprehensive, as the agricultural and informal sectors are not surveyed. In addition, the coverage of the small, medium and micro enterprise (SMME) sector is problematic due to the exclusion of non-VAT paying firms. In September 2003, for instance, the gap between the SEE number for formal non-agricultural employment (6,4-million) and the LFS overall employment

(11,6-million) is explained by 1,2-million workers in agriculture, one million in domestic service, 1,9-million in the informal sector and 1,1-million employed in sectors/firms not covered by the SEE).

- Major discontinuities exist in the SEE as certain sectors were alternately included and excluded from the survey's coverage. For instance, data before and from the first quarter of 1998 and data before and from the third quarter of 2002 are strictly not comparable. It is possible to circumvent this problem by statistically linking the time series to provide continuous (albeit imperfect) employment time series.

Quantec Research attempts to overcome these shortcomings by relying on most of the above sources to estimate regional employment for 26 industries. The various population censuses provide a benchmarking basis for estimating employment, unemployment and the labour force on a regional basis. The regional estimates are benchmarked on the national estimates from the EasyData Standardised Industry Database, which are compatible with the labour remuneration statistics in the national accounts.

Regarding the discontinuities in the SEE, Quantec linked the new and old SEE (before the services industries were comprehensively covered) by phasing in the new SEE from 1985 onwards. Previously, the DBSA Standardised Employment Series was used as the basis to give estimates of the service industries.

Regional estimates of industry employment (formal and informal) as well as unemployment should be used as medium-term indicators. Short-term results from the LFS are problematic because of the high levels of variation caused by the sample size and definitional issues (the Western Cape LFS sample is normally based on approximately 4 000 households or 8 000 workers).

The analysis regarding employment trends in this chapter relied upon the Quantec Research database.

Source: Quantec Research

7.3 Fixed investment

Western Cape real fixed investment growth has averaged 4,4 per cent a year over 1999 to 2004, slightly faster than the national performance of 3,5 per cent.

Evidence points to fixed investment acceleration, albeit off a low base. The real growth in 2004 is at 8,4 per cent, increasing the Province's ratio of fixed investment to GDP from 16,5 per cent in 2001 to close to 18 per cent in 2005. While not particularly high by international standards (for example, East Asian countries' fixed investment rates typically lie between 25% and 40% of GDP), the recent improvement is likely to be the beginning of a longer term improvement in the Western Cape's fixed investment rate.

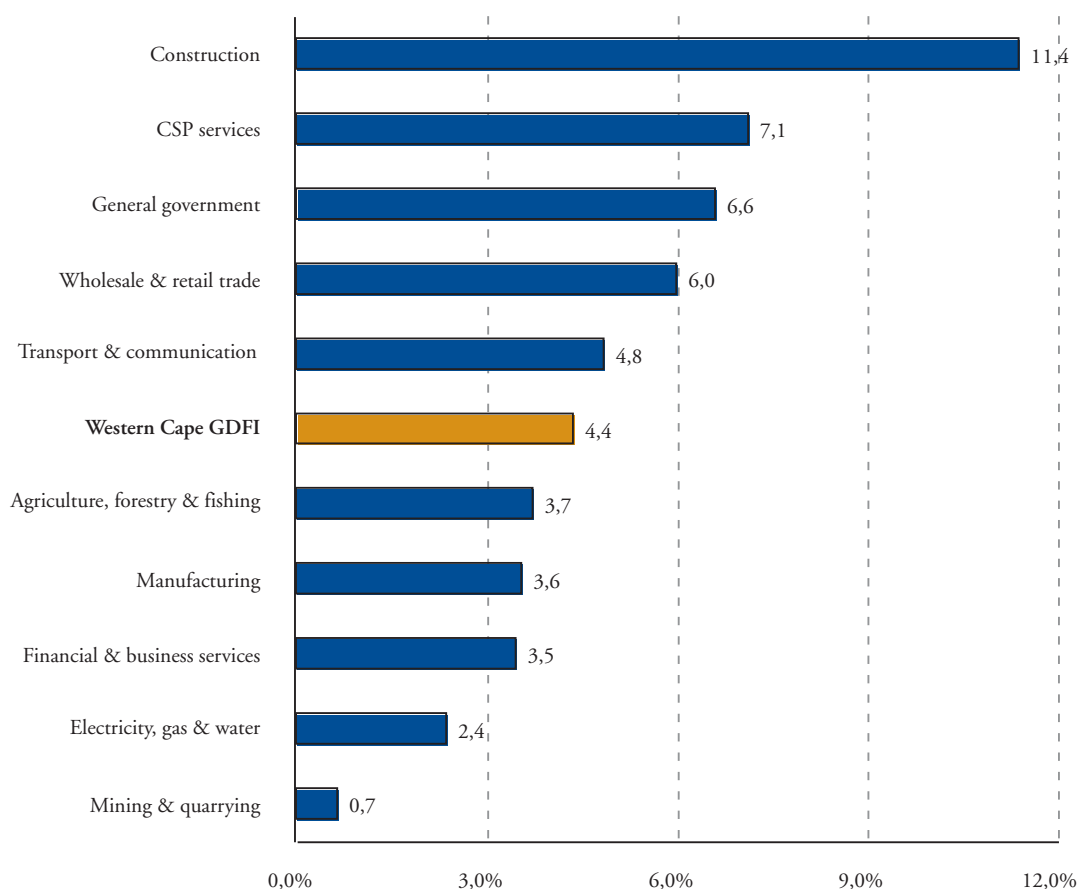
The faster fixed investment tempo is linked to the strong rand (reduced import costs) and the brighter economic outlook. The low interest rate environment is also conducive to accelerated fixed investment spending. Furthermore, business confidence is high, signalling higher fixed investment spending in the Provincial economy.

Figure 9 shows the real growth in fixed investment over the 1999 to 2004 period by broad economic sector. At 11,4 per cent a year, the construction sector showed the highest growth in fixed investment spending. This is followed by the CSP services sector

(7,1%) and general government (6,6%), wholesale & retail trade (6%) and transport & communication (4,8%).

The real growth in fixed investment spending in the manufacturing, agriculture and financial & business services sectors averaged around 3,5 per cent over the corresponding period.

Figure 9: Western Cape average real GDFI⁴ growth: 1999 – 2004



Source: Quantec Research

Figure 10 shows that the sectoral picture changes somewhat when the contribution of each sector to regional fixed investment spending is taken into account. In weighted terms, at 24,4 per cent of the cumulative growth, the financial & business services sector made the strongest contribution to fixed investment growth over the past five years. Manufacturing and government sectors followed, each contributing slightly more than 17 per cent of the cumulative growth. Transport & communication (15,7%), wholesale & retail trade (10,5%) and construction (close to 6%) also made substantial contributions.

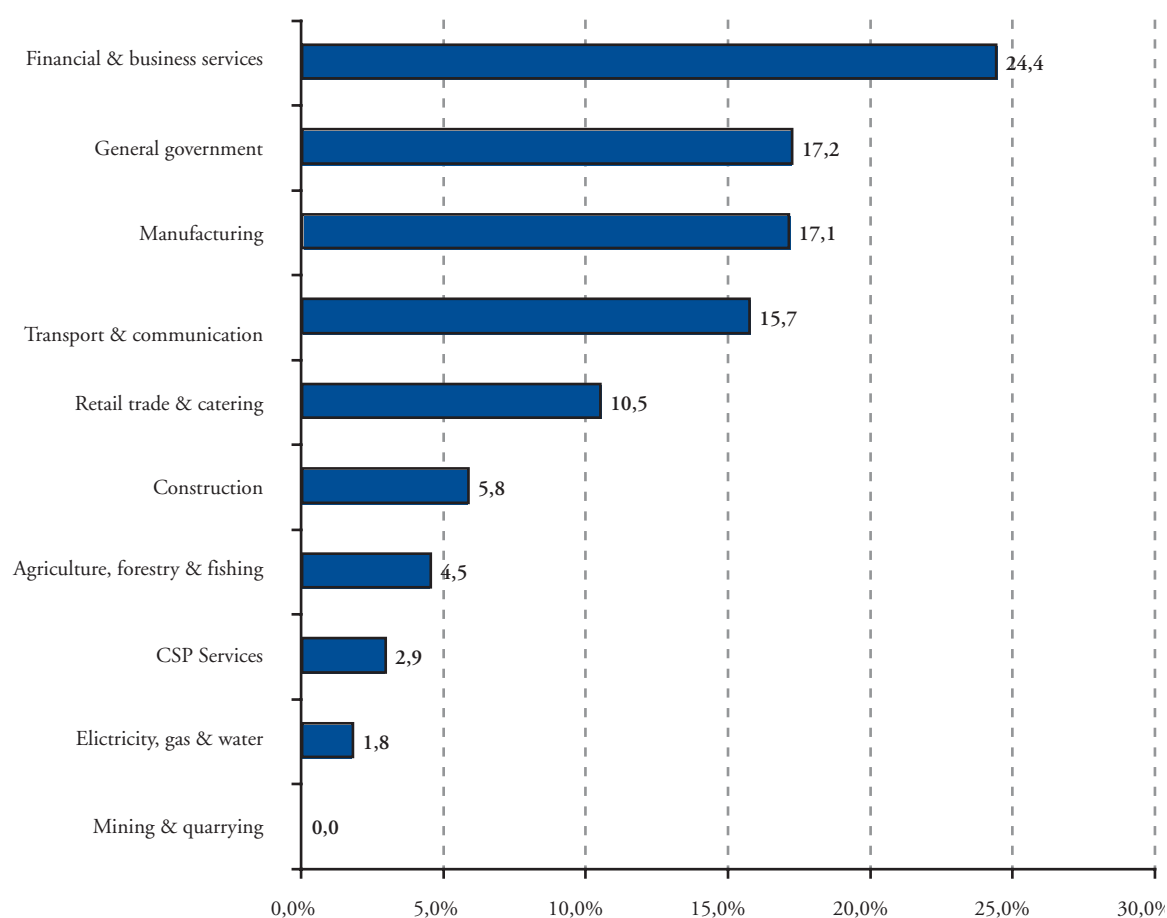
⁴ Gross domestic fixed investment

Looking ahead, the medium-term outlook for regional fixed investment spending is rosy. Projections estimate that the Western Cape's real fixed investment rate will grow by 9,1 per cent a year over the forecast period, more or less equivalent to the anticipated fixed investment growth nationally.

While private fixed investment spending is at risk of slowing over the short term, this is likely to be compensated for by public sector fixed investment spending. Aggregate fixed investment spending is projected to accelerate to 9,5 per cent in 2006 and 2007. This is strong growth and extends the favourable performance over the past three years.

Should this fixed investment growth materialise, the Western Cape's fixed investment rate could pick up further to 20 per cent of GDP. Such a fixed investment environment should be conducive to Provincial employment creation and accelerated economic growth.

Figure 10: Sectoral contribution to cumulative Western Cape real GDFI growth, 1999 – 2004



Source: Quantec Research

7.4 Exports

Table 4 shows that Western Cape exports performed strongly over the four-year period 1999 to 2002, growing by 9,4 per cent a year in real terms. However, export performance slowed sharply during 2003 (growing by a mild 1,5%) and then in 2004 contracted by close to 5 per cent due to the impact of rand strength.

Table 4: Western Cape real export growth, 1999 – 2004 (%)

	1999	2000	2001	2002	2003	2004
Agriculture, forestry & fishing	45,3	-8,0	-3,6	25,3	37,5	3,8
Mining & quarrying	67,8	41,0	47,5	31,6	-37,5	38,1
Manufacturing	-1,4	18,5	0,8	7,7	-4,7	-12,6
Wholesale & retail trade	0,8	6,5	10,0	12,0	13,2	11,8
Transport & communication	4,1	9,7	5,8	9,1	18,4	-14,0
Financial & business services	-0,9	-8,0	18,0	7,3	12,4	-26,8
CSP services	16,8	13,5	4,2	11,6	15,9	-6,7
Western Cape total exports	7,1	11,9	5,9	12,6	1,5	-4,8

Source: Quantec Research

The contraction of export growth during 2003 and 2004 is particularly evident in the manufacturing sector. Real exports of this sector contracted by 4,7 per cent and 12,6 per cent respectively during 2003 and 2004. Transport & communication, financial & business services and CSP service exports also contracted sharply during 2004.

The Province's established exports (ranging from fruit and processed foods & beverages, iron & steel and fish to electrical machinery) have performed well, even in the face of the stronger rand. The Western Cape's top 10 exports grew by close to 5 per cent in real terms over the period 2002 to 2004, that is, at the time of the rand's appreciation. However, the Province's volume of 'non-core' exports declined over the period 2002 to 2004. In 2002, 'non-core' exports contributed close to 30 per cent of total exports. In 2004 this contribution was down to 20 per cent.

It is possible that the weaker rand in the period before 2002 assisted many of these exporters in entering the world markets and that they now find the going tough in a strong rand environment.

Figure 11 shows that more than 50 per cent of the Western Cape's exports are generated in the agricultural, mining, food & beverage, wholesale & retail trade and metals & machinery sectors.⁵

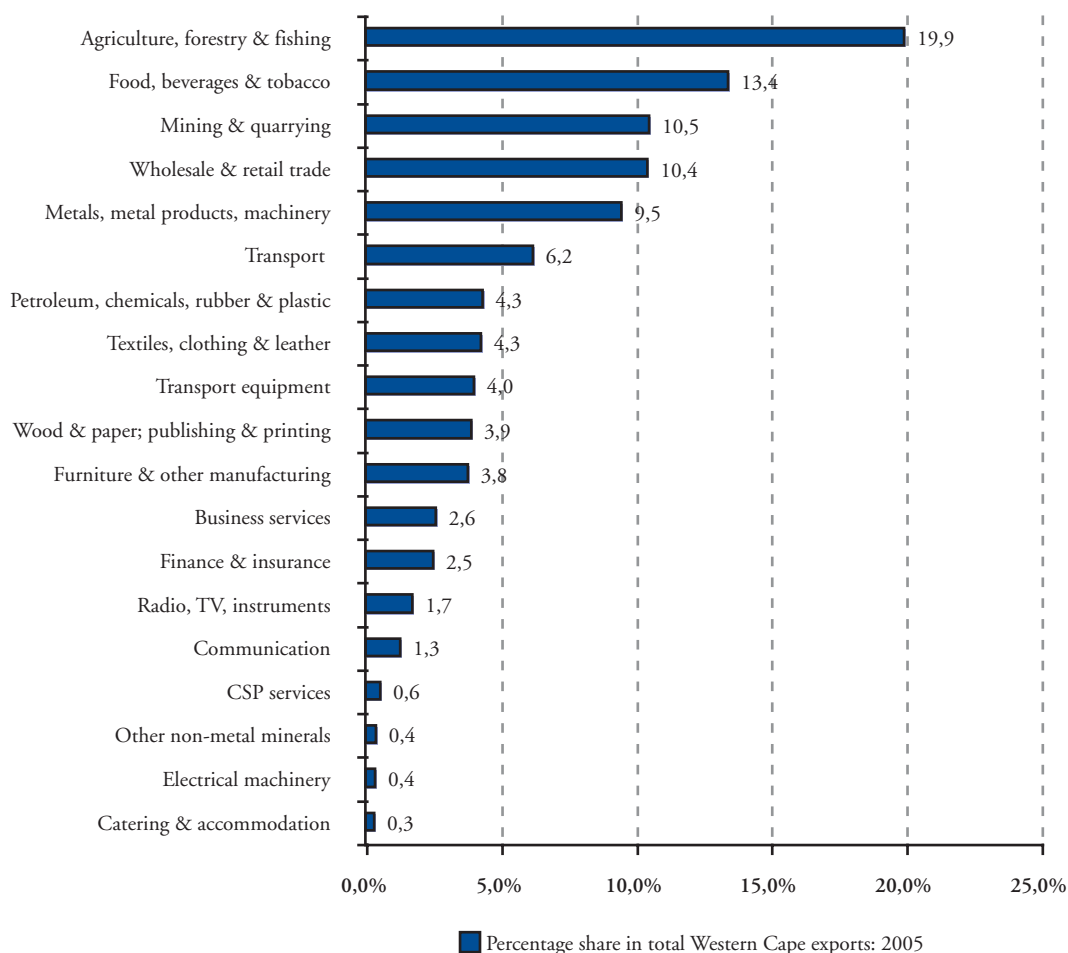
While the general prospects for the Province's main exports remain favourable, third-country competition in the European market has intensified due to US dollar weakness.

⁵ Western Cape exports are classified here according to the Standard Industrial Classification (SIC), which is different from a commodity classification (as used, for example, in chapter 4).

The Western Cape's agricultural and processed food exports are particularly exposed to this competition. In fact, contraction of food & beverage export volumes in 2003 and 2004 suggests the price elasticity of Western Cape agro-processing exports to Europe may be on the increase.

Overall, the medium-term outlook for the Western Cape's agro-industrial and base metal exports is favourable. However, a broader recovery in manufacturing exports could be influenced strongly by the direction of the rand exchange rate. Global demand conditions are relatively favourable and Western Cape manufacturers that have succeeded to maintain a foothold in the export market should be able to benefit from a more competitive currency.

Figure 11: Composition of Western Cape exports: 2005



Source: Quantec Research

Table 5: Outlook for the Western Cape economy: 2006/07 – 2008/09¹ (%)

	Average '99-'04	2004/05	2005/06 (forecast)	2006/07 (forecast)	2007/08 (forecast)	2008/09 (forecast)
GDPR (Rbn; current prices):	–	186,3	205,3	225,1	247,6	271,5
Real GDPR % growth	4,1	5,3	5,3	4,7	4,5	4,8
Real GDFI % growth	4,4	7,8	8,6	9,3	9,5	9,5
GDPR deflator	6,8	4,5	4,1	4,2	5,4	4,6
CPI inflation	5,5	3,4	3,8	3,5	5,2	4,6
GDPR by sector (real % change):						
Agriculture, forestry & fishing	1,7	3,6	7,4	2,3	1,0	0,8
Mining & quarrying	-4,5	1,6	2,5	2,4	0,9	1,1
Manufacturing	2,1	5,1	3,5	4,1	3,4	3,8
Electricity, gas & water	5,1	6,9	6,1	6,0	5,1	5,0
Construction	6,5	5,8	8,8	7,3	8,2	8,6
Wholesale & retail trade	7,2	9,2	7,0	5,0	4,6	5,3
Transport & communication	6,3	5,4	6,2	6,0	5,8	6,2
Financial & business services	6,1	5,2	4,9	4,7	4,9	5,2
CSP services	3,1	1,8	3,3	3,6	3,5	3,6
General government	-0,2	1,7	4,4	4,0	3,9	3,6
Western Cape GDPR	4,3	5,3	5,3	4,7	4,5	4,8

Source: BER

Note: ¹ Fiscal years ending 31 March

8. Conclusion

The SA economy is currently experiencing an unprecedented upswing phase of the business cycle, and the Western Cape economy shares in this revival. While some external risks cloud the horizon, the domestic economic upswing exhibits sound structural characteristics and has the potential to be sustained and to weather any unexpected external shocks.

The growth outlook is favourable, there is some projected exchange rate depreciation over the medium term, and inflation and interest rates are settling in at sustainable lower levels. Private business is adapting to these new economic parameters.

However, it is imperative that the required microeconomic reforms are implemented to capitalise on the golden opportunity presented by the historic economic upswing and elevate the region's economic growth and employment creation performance even higher.

Glossary of terms

- **Balance of Payments (BoP)**

The BoP is a measure of the payments that flow into and out from a particular country from and to other countries. It is determined by a country's exports and imports of goods, services and financial capital, as well as financial transfers. If more money flows into a country than out, that country has a positive BoP; if, on the other hand, more money flows out than in, the BoP is negative.

- **Business cycle**

The business cycle refers to shifts over time between periods of relatively rapid growth in output (recovery and prosperity) and periods of relative stagnation or decline (contraction or recession).

- **Commodities**

Commodities are articles of trade or commerce – especially an agricultural or mining product – that can be processed and resold.

- **Consumer Price Index (CPI) and CPIX**

The CPI, or retail price index, is a statistical measure of a weighted average of prices of a specified set of goods and services purchased by wage earners in urban areas. It is a price index which tracks the prices of a specified set of consumer goods and services, providing a measure of inflation. The CPI is a fixed quantity-price index and a sort of cost-of-living index. The CPIX is the CPI excluding mortgage interest rates.

- **Economic sectors**

In economics, economic activity is often categorised into sectors, in a variety of schemes – private sector versus public sector, service sector versus manufacturing sector, or primary/secondary/tertiary sector.

The primary sector generally involves the conversion of natural resources into primary products. Most products from this sector are considered raw materials for other industries. Major businesses in this sector include agriculture, agribusiness, fishing, forestry and all mining and quarrying industries. Downstream manufacturing industries that aggregate, pack, package, purify or process the raw materials close to the primary producers are normally considered part of this sector, especially if the raw material is unsuitable for sale or difficult to transport long distances.

The secondary, or manufacturing, sector of industry generally takes the output of the primary sector and manufactures finished goods or products to a point where they are suitable for use by other businesses, for export, or sale to domestic consumers. This sector is often divided into light industry and heavy industry. Many of these industries consume large quantities of energy and require factories and machinery to

convert the raw materials into goods and products. They also produce waste materials and waste heat that may pose environmental problems or cause pollution. Divisions of this sector include automobile manufacturing; chemical industry; engineering; energy industries, including the production of petroleum, gas and electric power; steel production; telecommunications; metalworking and the clothing industry.

The tertiary sector involves the provision of services to other businesses as well as final consumers. Services may involve the transport, distribution and sale of goods from a producer to a consumer as in wholesale & retail trade, or the provision of a service, such as in tourism, banking and health care. For the last 20 years there has been a substantial shift from the primary and secondary industry sectors to the tertiary sector in industrialised countries. Public utilities are often considered part of the tertiary sector as they provide services to people, while creating the utility's infrastructure is often considered part of the secondary sector, even though the same business may be involved in both aspects of the operation.

- **Euroland**

‘Euroland’ is the informal shorthand term for the group of 11 members of the European Union (EU) who have decided to adopt a single currency from the beginning of 1999. It differentiates these countries from the other members of the Union, such as the UK, which are not joining.

- **Fixed investment**

Fixed investment refers to an increase in the amounts of real capital goods (real means of production) used in production or to replace depreciated capital goods. Fixed investment therefore increases the number of factories, machines, tools, housing, office buildings and other structures available – or deal with the effects of wear and tear, natural destruction and the like.

- **Foreign direct investment (FDI)**

FDI is the movement of capital across national frontiers in a manner that grants the investor control over the acquired asset. Thus it is distinct from portfolio investment which may cross borders, but does not offer such control. Control is defined as owning 10% or greater of the ordinary shares of an incorporated firm, having 10% or more of the voting power for an unincorporated firm or development of a greenfield branch plant that is a permanent establishment of the originating firm.

- **Gross domestic expenditure (GDE)**

GDE is the total value of spending on goods and services within a country.

- **Gross domestic product (GDP)**

GDP estimates the value of goods and services produced in a specific period and used to measure the performance of the economy as a whole, as well as that of different industries in the economy. $GDP = \text{consumption} + \text{investment} + \text{exports} - \text{imports}$

The regional gross domestic product (GDPR) is the total value of final goods and services produced within a particular region, for example, the Western Cape.

- **Gross geographic product (GGP)**

The GGP of a particular area amounts to the total income or payment received by the production factors (land, labour, capital, and entrepreneurship) for their participation in the production within that area.

- **Purchasing Managers Index**

The PMI is an indicator of the economic health of the manufacturing sector. The index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

- **Producer Price Index (PPI)**

The PPI measures the average change over time in the selling prices received by domestic producers for their output.

- **Real versus nominal value**

Nominal value is the value of anything expressed in money of the day, versus real value, which removes the effect of inflation. Nominal numbers, such as nominal wages, interest rates and GDP, refer to amounts that are paid or earned in money terms. Nominal GDP refers to the amount of money spent to buy the production of a country.

Real numbers – real wages, interest rates, and GDP – are corrected for the effects of inflation. They indicate the value of these numbers in terms of the purchasing power of wages, interest, or total production; that is, they try to estimate how many goods and services a wage, an interest payment, or total domestic income will buy.

- **Trend growth**

Trend growth refers to the smooth path of long-run output growth.

Sectoral Growth and Employment Prospects

Key findings:

- The co-evolution of skills and technological learning and the institutional context to combine them is the key challenge to economic 'catching up', including at the regional level.
- Co-evolution of knowledge infrastructure is not an automatic process – there is a significant role for provincial government here.
- The dynamics of world exports are primarily driven by skill- and technology-intensive products. SA and the Western Cape are under-represented in these activities.
- Over the last decade, output growth was highest in service sectors, whilst manufacturing has grown relatively slowly.
- Average annual employment growth over the last decade has averaged 2,1 per cent, with the highest growth rates in the service sectors.
- Key challenges confront the Province – its lack of presence in dynamic export products, the relative absence of exploitable natural resources and the lack of control that the Province has over factors such as global warming and water stress.
- Success will depend on knowledge intensification of both low- and high-skill activities as a means to drive growth, create jobs and improve the equitable share of economic progress.



1. Introduction: understanding sectoral dynamics

Economic activity in the Western Cape is inextricably connected to economic developments in the rest of SA. In turn, the national economy is firmly embedded in the global economy. National and global economic events and trends therefore offer opportunities for, and pose constraints to, shared growth and integrated development in the Western Cape. Understanding these trends and the challenges they imply for firm-level growth and employment creation is critical.

Also important is understanding the role that government plays in accelerating and broad-basing economic growth and employment creation. This, in turn, requires insights into what has made catch-up of entire developing countries – and regions within them – successful in the past, and which factors are likely to be crucial for the accelerated development of the Western Cape in the years to come.

This is a major endeavour that depends to a large extent on investment in the systematic collection and analysis of information that describes and evaluates the dynamic make-up and nature of economic activities in the Western Cape.

This chapter makes further strides in such direction. First, it summarises key insights into the economic development catch-up process, and more particularly the role of knowledge. Next, it describes salient features of sectoral activity in the global economy, complementing earlier work completed by the Province's Microeconomic Development Strategy (MEDS). These are then compared to national and provincial sectoral trends in an effort to outline the complexities facing sectoral activity in the Western Cape.

The chapter builds on ground first laid by the 2005 PER&O and the MEDS Synthesis Report that presented a preliminary rationale for the role of the Provincial government in regional development. The 2006 PER&O advances the argument, drawing out the types of market failures that are less likely to be overcome in the absence of a dedicated and highly capable provincial government.

Taken together, these sections comprise the contextual framework and give the strategic or 'big picture'.

An overview of the Western Cape economy follows, supported by detailed sector intelligence available through the MEDS process. In addition, the rationale for prioritising select economic activities by the MEDS is reflected upon briefly.

Economic activities take place in well-defined locations – and thus defy statistical aggregates at the provincial level that abstract from the spatial distribution of growth and jobs across communities, villages, towns and metropolitan areas. Therefore some consideration is

given to the differential impact on municipalities in the Province. In sum, this is a close-up look at what is happening on the ground.

The final section links the strategic, ‘big picture’ and the local lens. With the benefit of hindsight, it offers explanations for key developments that have characterised the Western Cape economy. For others, it points to analytical and information gaps that must be closed before further informed judgements can be made. Finally, it suggests a few major challenges to which the Western Cape must pay attention in its efforts to bring about shared growth and integrated development in the Province. This includes making informed, strategic assessments on global, national and provincial economic developments. At times, these may be inaccurate – future scenarios are based on assumptions that may turn out to be erroneous or imprecise as events take place.

More important than accuracy is the reasoning on which economic scenarios and strategic assessments are based. Economic development is a complex process that is hard enough to understand *ex post*, let alone to predict. Yet assessments like these help to fashion discussions amongst various stakeholders about what is likely as opposed to what would be desirable to happen, and how big the gap between the two is. Such a discussion is in itself an important vehicle to find the bridge that links the two, and as such is a key ingredient to local and regional economic development.

2. Knowledge, capabilities and catch-up¹

Countries – and regions within them – with above-average track records in economic development tend to have a sizeable skilled and knowledgeable labour force.

Such human capital accumulation is a result of considerable education and training planning and provision, whether public or private, through appropriate incentives. It involves the stimulation of competences and skills of young children in their first years of schooling (early childhood development, or ECD) and goes all the way to advanced training in science and engineering in high-quality tertiary institutions.

Sizeable proportions of the cohorts coming out of such an education system either opt for productive employment in industry or join public institutions with mission-oriented research remits that are of benefit to the private sector, and to industrial firms in particular.

Since the very definition of development ‘latecomer’ implies a certain distance to the technology frontier, it is important for the realisation of ‘catch-up’ that external, advanced knowledge is accessible and affordable. It is the significance of the latter that has earned the Trade-related Intellectual Property Rights (TRIPS) Agreement of the World Trade Organisation (WTO) – in essence the codification of the large-scale privatisation and policing of intellectual property rights – such antipathy from many developing countries. In other words, local capabilities go only so far if the origins and sources of external knowledge remain barred because of prohibitively expensive patent regimes and the like.

The catch-up potential of a region furthermore depends prominently on three factors. The first is the absorptive capacities of individual firms that invest in technological learning and upgrading and thus reduce the distance between themselves and their global competitors.

The second is the accumulation of these capacities over time – suggesting that one-off investments in research and development (R&D), for example, are insufficient – and across firms, making for an increasingly knowledge-intensive industrial sector.

The third is the systemic character of the interactions with the institutional context without which firms are unlikely to thrive, namely the education system, the research infrastructure, input suppliers, financial institutions, the regulatory environment and the like. This feature of catch-up explains the prominence of innovation systems in policies supporting economic development in SA and indeed throughout the world.

The systemic character of capacity-building suggests that having a first-class knowledge infrastructure is by itself not sufficient to generate a fruitful interaction between the worlds of science (in academia) and technology (in industry). In the extreme case, the two may exist in splendid isolation from each other.

¹ This draws on UNIDO (2005) and Lorentzen (2006).

In addition, fledgling interactions may be hampered by a mismatch between educational or research output on the one hand and industry demand on the other, for example, in the case of school curricula that are incongruent with prevailing technological specialisations.

The public sector can play an important complementary role in providing incentives so that national investments in skills, competences, and the adoption of existing and the creation of new knowledge jointly involve training and research institutions and industry. In short, catch-up is unlikely to come about by itself; instead it requires a co-ordination effort.

This is the case even when science-industry interactions are vibrant and productive. Information or co-ordination failures can stand in the way of innovative development, and thus catch-up. What works in one sector need not be successful in another simply because different levels of technological maturity mean that some sectors are primarily in need of generic innovative skills to facilitate external knowledge absorption, while others require clusters of firms that are highly specialised and that rely on both vertical and horizontal linkages with one another to tackle emerging technological opportunities. Thus not only national economic development proceeds in stages, but so do the trajectories of individual sectors. The domestic knowledge infrastructure needs to accommodate this differentially, providing in parallel basic vocational training to some and much more specialised knowledge inputs, including risk capital, to others.

The co-evolution of skills, technological learning and the institutional context to combine them is the key challenge to catching up, including at the regional level.

3. The global context of sectoral activity

Developing countries have become much more important in world industrial activity and trade over the last decades. Presently about a quarter of developed country and one-half of developing country imports originate in developing countries. Compared to the mid-1960s, the value of manufacturing exports from the South has increased 86-fold, accounting for roughly a third of world exports.

By contrast, exports from developed countries have increased some 39 times over the same period. Put differently, in 1965 developed countries exported almost five times more manufactures than developing countries, while by 2003 this ratio had decreased to just over two times, as seen in table 1.

Most of this is due to rapid industrial development and increased integration into the world economy of the East Asian tigers – Hong Kong, Singapore, Korea and Taiwan – and more recently also China. These economies ship the lion's share of exports to both developed and developing countries². Indeed, Brazil and Mexico are the only non-Asian economies in the developing country heavyweight league of the top 10 traders.

Table 1: Share of manufacturing exports, 1996 – 2003, \$-million and per cent

From/To:	Developed countries						Developing countries					
	1965		1985		2003		1965		1985		2003	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Developed	87	83	851	80	3 555	76	29	82	279	74	1 033	53
Developing	18	17	218	20	1 142	24	6	18	97	26	921	47
<i>of which:</i>												
China and NICs ¹	1,5	1	59,5	6	545	12	1	4	46	12	586	30

Source: UNCTAD (2005b)

Note: ¹ Newly Industrialised Countries

Manufactures are the most important category in trade among developing countries, and their share has risen faster than intra-OECD³ and world trade. By contrast, if it were not for primary commodities, Africa's share in world trade, already marginal, would be much lower still.

The composition of exports from developing countries has shifted since the 1980s. Exports to developed countries registered their most dynamic growth in medium-skill, technology-intensive manufactures such as cars, in electronic goods, in parts and components of electrical and electronic goods, and in high-skill manufactures.

² 'Ship' is a more adequate term than 'produce' because international trade statistics involve some double-counting that reflects intra-regional production sharing and trans-shipment. In turn, this is due to the importance of global sourcing arrangements for the East Asian economies. For more detail on this, see UNCTAD (2005b).

³ Organisation for Economic Co-operation and Development

By comparison, trade amongst developing countries is, not surprisingly, less skill and technology intensive. Labour- and resource-intensive manufactures such as clothing, electric and electronic components, medium-skill manufactures and agricultural products have shown above-average growth rates. Again, the expansion of relatively skill- and technology-intensive manufacturing exports to developed countries is largely concentrated in the East Asian economies.

It is worthwhile examining these trends in more detail at the product level. In world trade, products can be labelled 'dynamic' if they combine a number of features:

- Their export values and shares register high growth rates. Combining the two is important in order not to attribute dynamism to products that grow from a very low base.
- They are not subject to a high degree of volatility. This eliminates primary products.
- They show a high degree of predictability in the sense that past performance is a good guide for future developments. This reduces the risk associated with investments, and so forth.
- They show a relatively more equal distribution of market shares. Thus, market concentration does not stand in the way of developing countries upgrading toward new activities.

Over the last two decades, a limited number of products originating in a limited number of countries accounted for a growing share of export dynamism. As suggested above, these products were mostly electrical and electronic goods, including parts and components; textiles and other labour-intensive manufactures, especially clothing; and finished products from R&D-intensive industries with high technological complexity and/or a high degree of economies of scale, as listed in table 2. Most of these products originate in developed countries, but in a select few the developing country share is rather substantial, or even – as in knitted undergarments – higher.

As the labour force or workers produce goods, it is important for industrial upgrading that the link between export product characteristics (in terms of their different combinations of skills, technology and capital) on the one hand and skill profiles on the other is understood.

For the world as a whole, high-skill and technology-intensive products registered the highest export value growth in the 1980s and 1990s. This is why the notion of the knowledge economy has become a widely used concept. Perhaps surprisingly, trends in developing countries are very similar – products in the aforementioned category, along with those in medium-skill and medium-technology-intensive activities grew much above average; labour- and resource-intensive sectors, along with low-skill and low-technology-intensive products were close to the average, and primary commodities, except fuel, below average.

Table 2: 20 most dynamic products in world non-fuel exports, ranked by composite index on predictability, volatility and growth, 1980 – 1998

Rank	SITC ¹	Product	Rank by index on dynamism based on export values	Rank by index on dynamism based on shares in total exports
1	846	Knitted undergarments	10	11
2	714	Non-electric engines & motors	6	9
3	752	Computers	2	2
4	553	Perfumery & cosmetics	14	18
5	048	Cereal preparations	33	42
6	893	Plastic articles	11	10
7	111	Non-alcoholic beverages	45	65
8	847	Textile clothing accessories	31	52
9	773	Electricity distributing equipment	20	20
10	612	Leather manufactures	29	70
11	728	Specialised machinery & equipment	79	88
12	778	Electrical machinery & apparatus	17	13
13	655	Knitted fabrics	24	23
14	872	Medical instruments & appliances	16	19
15	821	Furniture & parts thereof	19	15
16	759	Parts of computers & office machines	4	4
17	592	Starch, inulin, gluten, albuminoidal substances	44	46
18	062	Non-chocolate sugar preparations	72	86
19	776	Transistors & semiconductors	1	1
20	679	Iron & steel castings	53	54

Source: Mayer, Butkevicius and Kadri (2002, Table 5)

Note: ¹ Standard International Trade Classification

These trends hold a mixed message for resource-intensive regions in Africa and elsewhere. Many enjoy significant windfall benefits from the current commodity boom. Yet it is clearly not wise to succumb to the easy resource gains or windfalls that this generates, although not primarily because the boom may end soon. Barring major crises, the resource boom is only likely to taper off once China graduates from raw-material-intensive industrial production towards a more service-based economic structure, something that is clearly not around the corner.

But the productivity potential and the income elasticity of demand for primary commodities are lower than for manufactures, especially for high-skill-intensive goods. Therefore the key challenge for primary commodity producers is to invest the returns from the China boom into activities associated with economic diversification and knowledge intensification.

In fact, since the mid-1990s, high skill- and technology-intensive manufacturers had the highest share in developing-country non-fuel exports. Similarly, export value growth in the 1980s and 1990s was highest in science-based sectors. Examples from the high- and medium-skill and technology category include computers and office equipment, communication equipment and semiconductors, chemical and pharmaceutical goods, aircraft and scientific instruments. Motor vehicles, chemicals other than pharmaceuticals, electrical and non-electric machinery are among the categories where competitive dynamics are scale intensive and involve specialised suppliers. It is not a contradiction that these activities involve labour-intensive production processes; this merely speaks to the importance of global supply chains.

The increase in the share of low- relative to high-skilled labour embodied in internationally traded products is primarily due to the integration into the world economy of countries like China and India. At the same time, since globalisation militates against poor human capital, the share of unskilled labour fell from about a third in 1975 to a fifth in 2000. By contrast, the share of high-skilled labour increased by 50 per cent in the 1990s alone and reached 10 per cent in 2000. This trend emanates from intra-industry trade between high-income countries and from production sharing between them and select emerging markets.

The implications of these trends for all countries are that they must try to reduce the share of unskilled workers because there are simply not many sectors where their labour is sufficiently productive to enable competitive trade in the global economy.

In addition, middle-income countries such as SA must try to upgrade gradually from low to high skills in order to avoid ruinous competition with more price-competitive countries like China and India. Of course, this is easier said than done. In fact, it is exactly what all other latecomer economies are trying to achieve as well, hence such a strategy effectively shoots at a moving target.

In sum, the dynamics of world exports are primarily driven by skill- and technology-intensive products manufactured in select old and a few newly industrialised countries. This begs the question how and where the rest of the world fits into the picture.

4. SA and the Western Cape in the global context

In general, and not surprisingly, it has been easier for developing countries to enter the world market with relatively simple goods as opposed to doing so with primarily high-valued-added products. Thus, the increase in their share of world exports is higher than their share in world manufacturing value added (MVA).

Table 3 shows how SA compares to the rest of the world in respect of MVA. Since 1998, MVA growth in SA has been higher than the world and developed country average, but it has been much lower than in developing countries. This mainly reflects successful catch-up from much lower levels of development on their part.

In 2002, SA came 53rd in a 90-country ranking of per-capita MVA compiled by UNIDO (2005), down from 48th in 1990, just behind Poland, Brazil, Saudi Arabia and Chile, and before Mexico, Libya and Russia. At the same time, however, it scored much higher in technological advance (measured as the ratio of the share of medium- or high-technology goods in industrial production and manufactured exports, respectively) than in industrial advance (measured as the share of industry in total production and total exports), suggesting that SA's medium- and high-tech production is more competitive than that of industry in general.

In the combined ranking of industrial-cum-technological advance, SA registered as a distant follower of the leading economies, together with Hong Kong, Turkey, India, Indonesia, Argentina and Australia.

Table 3: Average annual real growth rate of MVA and per-capita MVA in constant (1995) US\$

Country group	MVA growth (%)		MVA per capita		
	1993 - 1998	1998 - 2003	1993	1998	2003
World	3,5	2,7			
Developed market economies	3,0	1,7	4 784	5 340	5 710
Transition economies	-2,3	7,1	534	454	659
Developing regions	6,2	5,5			
Sub-Saharan Africa	4,2	3,0	29	30	32
South Africa	2,5	2,9	681	696	749
North Africa	4,1	4,4	153	171	195
Latin America and Caribbean	2,7	0,7	660	689	665
South and East Asia	6,4	7,0	188	227	298
China	9,6	7,9	218	330	463
West Asia and Europe	5,7	3,3	501	571	615

Source: UNIDO online data access

Note: China includes Hong Kong and Taiwan

Over the past two decades, increases in the developing country share of MVA were concentrated in textiles, transport equipment and natural-resource-intensive sectors such as petroleum products, basic metals, tobacco and non-metallic mineral products.

Table 4 shows that the structure of MVA underwent little change in the 1990s, except for large increases in the shares of electrical machinery and transport equipment (industry sector 34), along with a large decline in textiles and wearing apparel.

Table 4: Structure of MVA (%)

ISIC ¹	Branch	Developed market economies		Transition economies		Developing countries		South Africa		World	
		1993	2003	1993	2003	1993	2003	1992	2002	1993	2003
15	Food and beverages	11,0	9,6	17,4	15,4	15,8	13,5	17,3	14,8	12,0	10,5
16	Tobacco products	0,6	0,5	1,1	0,9	2,6	1,7	1,7	1,7	1,0	0,7
17	Textiles	2,4	1,5	2,8	2,3	6,2	4,6	2,6	2,0	3,0	2,1
18	Wearing apparel	2,5	1,1	2,7	2,5	3,6	2,8	3,2	2,5	2,7	1,5
19	Leather, leather products and footwear	0,7	0,4	1,3	0,7	1,8	1,1	1,2	0,8	0,9	0,5
20	Wood products (excl. furniture)	2,4	2,1	2,2	2,4	2,0	1,4	2,1	2,8	2,3	1,9
21	Paper and paper products	3,7	3,2	3,1	3,3	2,4	2,2	4,7	4,5	3,5	3,0
22	Printing and publishing	6,1	5,1	2,1	2,7	2,7	2,0	4,6	3,1	5,4	4,5
23	Coke, refined petroleum products, nuclear fuel	2,8	2,3	5,1	4,0	7,5	6,4	6,6	5,1	3,6	3,1
24	Chemicals	10,0	10,5	9,2	7,8	10,4	10,9	10,0	11,1	10,0	10,5
25	Rubber and plastics products	3,3	3,3	2,5	3,9	3,9	3,7	4,1	3,8	3,4	3,4
26	Non-metallic mineral products	3,9	3,2	6,4	5,8	5,5	4,8	3,3	3,2	4,2	3,6
27	Basic metals	5,6	4,9	12,8	9,9	5,7	5,7	9,4	13,8	5,8	5,2
28	Fabricated metal products	7,1	6,3	4,6	6,2	4,8	4,3	7,1	7,4	6,6	5,9
29	Machinery and equipment n.e.c. ²	8,0	7,4	8,2	7,5	4,9	4,7	6,4	6,3	7,5	6,9
30	Office, accounting and computing machinery	2,6	5,2	0,4	0,4	1,1	2,2	1,6	1,6	2,3	4,5
31	Electrical machinery and apparatus	6,4	7,1	3,4	5,0	2,5	2,8	1,3	1,4	5,7	6,2
32	Radio, television and communication equipment	3,1	9,0	2,1	5,3	5,4	13,6	1,8	1,3	3,5	9,8
33	Medical, precision and optical instruments	2,8	2,8	1,9	1,9	1,1	0,8	0,5	0,4	2,5	2,4
34	Motor vehicles, trailers, semi-trailers	7,6	8,8	4,0	5,4	5,0	5,9	6,5	8,7	7,1	8,1
35	Other transport equipment	2,9	2,4	4,3	3,2	2,1	2,8	1,4	1,4	2,8	2,5
36	Furniture; manufacturing n.e.c.	4,7	3,3	2,5	3,5	3,0	2,3	2,5	2,2	4,3	3,2

Source: UNIDO GlobStat

Notes: ¹ International Standard Industrial Classification

² Not elsewhere classified

Developments in SA are somewhat different. On the one hand, the rise in the importance of transport equipment reflects the successful revitalisation of the motor vehicle industry⁴. At the same time, the loss of MVA share for textiles and apparel mirrors the global trend where extremely price-competitive producers, especially China, massively entered world markets, causing major dislocations. On the other hand, the weight of resource-intensive activities such as wood, basic metals and fabricated metal products increased over the 1990s.

The only country group sharing these characteristics for wood and fabricated metal products is the transition economies. In contrast, the weight of the industries underpinning the information economy, namely electronic machinery and communication equipment (industry sector 32), along with electrical machinery, remained stable or fell while it went up in the rest of the world. At least at this high level of aggregation, this is a troublesome picture. It suggests that, relatively and absolutely, SA is overspecialised in traditional, declining industries and under-specialised in new, growing industries.

Not surprisingly, this assessment is borne out by the export performance of the country and the Western Cape in the dynamic products referred to above, as seen in table 5. Although growth rates in the Western Cape are higher for the majority of the products on the UNCTAD list, this is primarily because they come off a very low base. In fact, only in perfumes does the share in Western Cape exports exceed the world average.

In all other dynamic products, the country and the Province are hardly present. The Western Cape has actually lost market share in the combined product list. Growth rates in electronic and electrical-related production are particularly sobering; for the latter they are actually negative. If one made a comparison not with the developing country average but with that for the most important East and South East Asian exporters, the contrast would be starker still.

⁴ However, although the SA Motor Industry Development Programme (MIDP) has contributed greatly to this revitalisation and SA auto exports are rising, so are imports, while local content is still low and has recently even declined. For further information on the MIDP, see this chapter's glossary of terms.

Table 5: Export growth and share in total manufactured exports of the 20 most market-dynamic manufactures (%)

Product group	Average annual export value growth				Share in total exports						
	World		South Africa	Western Cape	World		Developing countries		South Africa	Western Cape	
	1980-2001	1993-2003	1995-2004	1980	2001	1980	2001	1995	2004	1995	2004
Thermionic, cold and photo-cathode valves, tubes and parts	16,7	8,9	35,6	1,5	5,1	3,9	9,1	0,004	0,0024	0	0
Optical instruments and apparatus	15,9	11,8	31,5	0,1	0,4	0,0	0,4	0,35	0,025	0,0004	0,015
Parts and accessories suitable for electronic machinery	14,6	15,8	0,9	0,9	3,1	0,6	5,4	2,0	0,21	0,021	0,053
Automatic data processing machines and units thereof	14,6	18,9	22,3	1,3	4,1	0,3	6,7	1,1	0,14	0,004	0,07
Electric power machinery and parts thereof	12,8	20,0	15,9	0,4	0,7	0,4	1,1	2,0	0,29	0,008	0,08
Perfumery, cosmetics and toilet preparations	12,8	20,0	40,5	0,3	0,6	0,2	0,3	0,16	0,26	0,06	0,36
Undergarments, knitted or crocheted	12,6	32,9	25,7	0,4	0,7	1,5	1,6	0,003	0,01	0,02	0,05
Telecommunications equipment and parts	12,6	21,9	25,8	2,0	4,5	3,5	5,6	5,4	0,05	1,1	0,47
Articles of materials described in division 58	12,5	-	-	0,9	1,5	1,2	1,4	-	-	-	-
Medicinal and pharmaceutical products	12,1	17,6	26,8	1,5	3,1	0,7	0,8	0,2	0,26	0,16	0,37
Medical instruments and appliances	12,0	10,6	4,6	0,3	0,6	0,1	0,4	0,14	0,10	0,22	0,07
Equipment for distributing electricity	11,8	19,1	5,6	0,6	0,8	0,4	1,2	0,56	0,07	0,004	0,02
Knitted or crocheted fabrics	11,2	7,4	5,6	0,3	0,3	0,3	0,7	0,04	0,20	0,35	0,12
Electrical machinery and apparatus, n.e.s.	11,1	0,8	-17,1	1,5	2,0	1,4	2,1	1,4	0,04	0,05	0,02
Manufactures of leather or composition leather, n.e.s.	11,1	15,8	15,5	0,1	0,2	0,3	0,3	0,1	0,01	0,005	0,005
Electrical apparatus such as switches, relays, fuses and plugs	11,0	4,5	-19,4	1,4	1,9	1,3	2,1	0,34	0,14	2,2	0,05
Furniture and parts thereof	10,7	7,2	9,2	1,1	1,5	0,8	1,5	0,42	0,2	0,59	0,29
Undergarments of textiles fabrics	10,6	10,0	13,0	0,3	0,3	1,5	0,8	0,008	0,006	0,056	0,04
Nitrogen-function compounds	10,5	34,2	-11,5	0,6	0,8	0,3	0,3	0,007	0,04	0,005	,0003
Road motor vehicles, n.e.s.	10,4	11,8	22,3	0,4	0,3	0,2	0,2	0,02	0,02	0,0007	0,001
All 20	12,4	15,4	9,8	15,6	32,7	19,0	41,8	2,6	2,8	5,2	2,7

Source: UNCTAD GlobStat (for world and developing countries); Trade & Industrial Policy Strategies (TIPS) (for SA and Western Cape)

Note: Product groups for world and developing countries based on SITC code; for SA and Western Cape on the Harmonised Commodity Description and Coding System, at HS4-digit level. The use of two different codes is dictated by data availability and obviously not ideal for purposes of comparison. The analysis was conducted using the 1 000 product, 170 country HS national and provincial data as calculated by Quantec. The full HS range, however, includes 7 500 products nationally. Since the full HS range is only available nationally, the researchers had no choice but to use the 1 000 product HS data set since the analysis was regional focused.

Why do we export what we export?

Exports of manufactures from SA have increased over the last decade, in part due to a more favourable trade regime introduced after 1994. Yet the country has not witnessed an export boom. Why not?

On the one hand, manufacturing exports have diversified during the 1990s. Relatively skill-intensive sectors such as coke and refined petroleum products, other chemicals, and especially motor vehicles, parts & accessories and other transport equipment registered high growth.

In contrast, less skill-intensive activities such as textiles, wearing apparel and leather & footwear registered relatively poor growth.

However, the magnitude of these trends pales in comparison to the achievements of the developing world as a whole. This dire assessment applies across all technology categories, and especially so in high-technology products.

In fact, during the 1990s, most of SA's top 20 exports were in stagnating markets. In 2002, only some 13 per cent of exports were in products for which world market demand was rising and that exhibited an above-average growth rate. This was passenger cars, pumps & compressors, furniture and precious metals.

In essence, therefore, SA lags other developing economies – including those with similarly resource-intensive endowments – in the restructuring of its economy towards high-growth export products. This is then the first key response – SA did not witness an export boom because it was not producing the products that are increasingly in demand on the world market. Why not?

Recent research estimated export supply and demand functions to analyse the constraints to SA not shifting export production to high-growth products. Its findings suggest that external factors are not to blame. That is, foreign export demand is not a constraint to export growth. In other words there is an infinite demand for SA's products in the world.

The constraint rather lies on the supply side. This refers to manufacturers (free) riding on the back of a very competitive exchange rate until 2002 instead of pushing diversification in view of a more competitive environment, given the likelihood of exchange rate appreciation in the future. The strong rand environment has arrived and is likely to remain for some time, reducing rand competitiveness. This means that a more aggressive approach to diversification is now required.

Other important reasons are bottlenecks in transport infrastructure and skills. The latter in particular affects the high-technology metal products sector.

The major recommendations are straightforward:

- Improve rail, road and port infrastructure;
- Sustain high-quality education in support of the growth of high-technology sectors; and
- Think hard about how investments in R&D and technological innovation can help to develop new products, technologies and markets.

Source: Edwards and Alves (2005)

In sum, this and the previous section showed that SA and the Western Cape are under-represented in those skill- and technology-intensive economic activities that have accounted for much of the medium- to long-term dynamism in world output and trade.

Due to the concentration of these activities in a handful of countries, it shares this predicament with a large part of the world. This is reason for concern insofar as a relative specialisation in these activities would on average mean an easier opportunity to benefit from globalisation.

However, it is important to remember that this is a high-level, strategic review. It suggests that there are important trend differences between SA and other latecomer economies, especially in Asia. It certainly does not imply that economic activities in the Western Cape's more prominent sectors necessarily fail to contribute to growth and to create jobs. The extent to which they do, and what stands in the way of their perhaps doing more of both, require a closer look at what is happening in individual sectors, and why.

Detailed sector analysis is the subject of much of what follows in this chapter. But first it is worthwhile to draw out the implications of the above – from insights in the dynamics of catch-up and prevalent trends in world industrial activity to how the Western Cape fits in with either – for Provincial policy-making.

5. A role for provincial government

To keep things simple, this section identifies two areas where provincial government could make a difference.

The first concerns knowledge, skills and capabilities in catch-up. The brief summary of historical insights from successful experiences of catch-up suggested that the relationships between technological innovation and scientific enquiry are complex and fraught with difficulties.

Except in science-driven sectors, entrepreneurs are not apt to consult scholarly journals in their search for inspiration that leads them to technological improvements. Even if they were prone to do so, the language in which the articles are written would often be too technical for them, or the research focus would be too removed from the practical applications they are primarily after. Scientists, on the other hand, especially those in academia, rarely consult the technological agendas of firms when designing their research programmes in the first place. They might not even consent to sharing laboratories or other equipment with their industry counterparts.

Furthermore, individual instances of fruitful science-industry interaction might not disseminate within or across sectors if the collective mastery of tacit knowledge is not up to the task. Thus relevant technological knowledge might be under-utilised, simply because there are not enough skilled individuals to realise the value of new information, let alone to internalise and exploit it efficiently.

In addition, knowledge assimilation might require complementary competences so that the absorptive capacities of one firm build on and benefit those of another. By the same token, if these capacities are few and far between, even highly motivated firms might get stuck in technological cul-de-sacs, simply because they are not in a position to draw on specific external resources to master particular aspects of a technological solution, and not because their capabilities are insufficient in the first place.

It is unlikely that policies in support of the *national* system of innovation (NSI) can avoid these problems single-handedly, much less so in a context such as SA's, where efforts to develop and operationalise a suitable NSI are in their infancy.

For example, national programmes in support of science-industry interaction such as the Technology and Human Resources for Industry Programme (THRIP) or the Innovation Fund provide incentives for science and industry to work together⁵. But they do not privilege provincial interactions. This is an area where provincial government can make a difference.

⁵ For more information on the THRIP, see this chapter's glossary of terms.

Although the Province has no jurisdiction over the higher education institutions, it can help them to grow into a more important role for provincial economic development – and let them reap the attendant benefits – by providing incentives and support over and above nationally funded mandates that bring the relevant role-players together.

What form this would take is likely to differ from sector to sector and thus needs further thought. It clearly necessitates a much more profound understanding of the limitations, needs and interests of both the higher education sector and industry than we currently have.

The co-evolution of the local knowledge infrastructure – from schools to universities – with the technological endeavours of firms, and the incentives and rules that regulate the interaction are not going to fall from heaven. That is why a provincial government committed to catch-up could make a big difference.

The second area concerns salient trends in the world economy, among which increasing knowledge intensity is particularly relevant. The discussion above showed that the Western Cape is not capitalising on the opportunities that globalisation presents in a similar way to those countries – like Korea – that are a model for SA's technological aspirations. This raises the question of positioning.

Provincial government has a role here, too. More specifically, it should initiate dialogue with all concerned stakeholders that ultimately grapples with the following questions:

- Do stakeholders need/want to capitalise on opportunities presented by globalisation?
- If yes, how realistic is such an endeavour, and what process should be followed?
- If not, how do stakeholders ensure that the existing specialisation of the Province is sustainable in the long term and does not lead, wholly or in parts, to situations of technological lock-in?

Part of the answers lies in the sectoral profile of economic activities in the Province to which the chapter turns next.

6. Broad overview of sector development

This section builds on and extends the sectoral description in *PER&O 2005*. It covers data for the 10-year period 1995 to 2004.⁶

6.1 Output growth

The Western Cape economy has traditionally been broad based. It supports sizeable and important activities in all sectors of the economy – primary, secondary and tertiary.

In the primary sector, agriculture, forestry & fishing accounted for 4,5 per cent of Provincial output in 2004. The share of manufacturing was 18,3 per cent. Service sector activity had the lion's share – financial & business services and retail & wholesale trade alone made up 44,4 per cent of Provincial GDP.

Average annual growth rates were highest in transport, storage & communication (6%), followed by wholesale & retail trade, catering & accommodation (5,1%), the financial sector (4,5%) and electricity, gas, & water (3,8%). All other sectors grew at a rate below the Provincial average of 3,2 per cent. Thus, manufacturing as a whole grew only by 1,4 per cent.

Chapter 2 referred to the effects of the recent strong currency environment on the non-tradeable goods sector and on the industrial base more generally. Within manufacturing, the only sectors with significant growth were petroleum products, chemicals, rubber & plastic (4,4%), transport equipment (3,2%) and metals, metal products, machinery & equipment (3%).

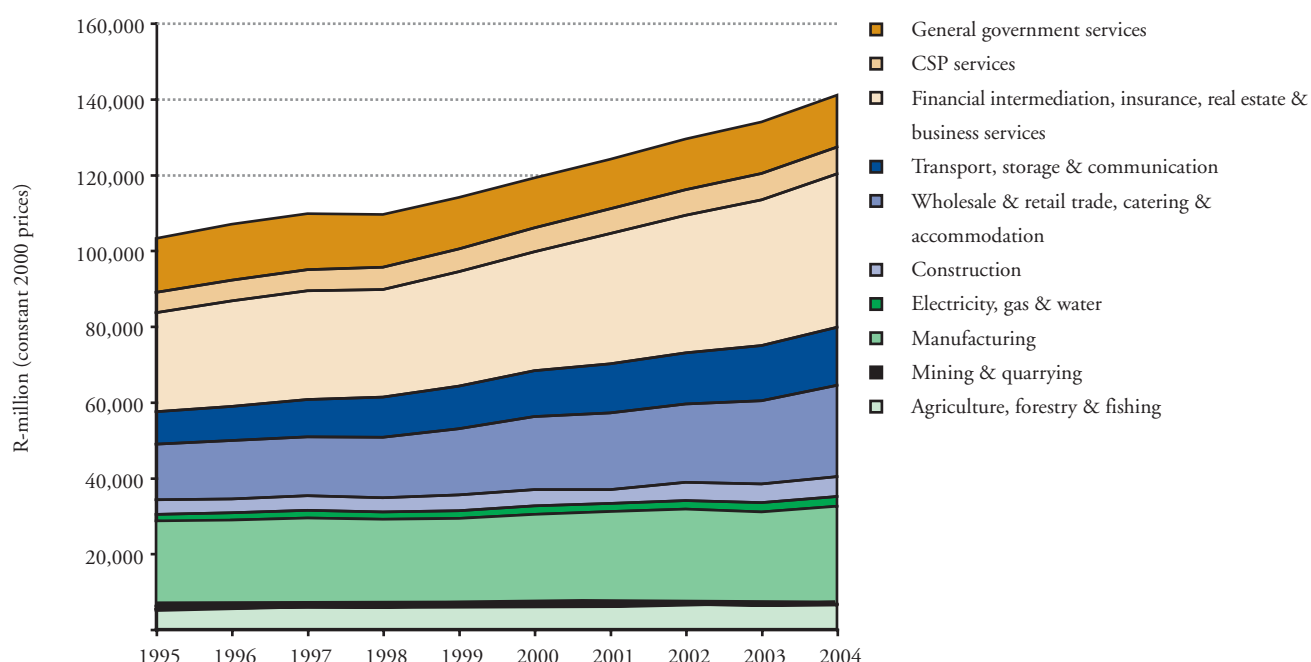
Market-dynamic products referred to earlier in the discussion registered relatively low growth; in textiles, clothing and leather goods it was slightly negative over the period under consideration. It remained below 1 per cent in radio, television, instruments, watches & clocks, as well as in furniture, and reached only just over 2 per cent in electrical machinery & apparatus.

Structural change over the last 10 years has diminished the weight of primary and secondary activities in favour of growth in the tertiary sector. Although this secular trend has not been dramatic, it does suggest that the Western Cape economy is increasingly service-dominated.

⁶ The reader should note that the detailed sectoral analysis in chapter 2: *Economic Outlook 2006/07 – 2007/08* uses the five-year period 1999 to 2004, while this chapter uses the 10-year period 1995 to 2004. Sector contributions to output and export growth, investment and employment should therefore not be compared directly. Both analyses are, however, based on data as calculated by Quantec Research. Also note that the sparseness of the original survey and census data from Stats SA – on which the Quantec data are based – makes provincial sectoral analyses problematic. The unavailability of up-to-date enterprise-based industry censuses and surveys at the regional level also inhibit the quality of the data results.

At the same time, its broad base is likely to give way to more specialisation. This is a typical feature of economic development – diversification from initially relatively simple activities is superseded by more specialisation as an economy generates particular competencies with which it competes in world markets. Although this is therefore a positive development, it entails adjustment costs for those (sub-) sectors that contract – in particular, agriculture and manufacturing. The realities are stark and must be faced squarely by all. Given the trends above, it is clear that some industries will need to downsize or close, and employees in these sectors may be affected.

Figure 1: Sector contribution to regional GDP, 1995 – 2004



Source: Quantec Research and own calculations

It is important not to confuse trends in the sectoral distribution of economic activity with their relative knowledge intensity. Economic activities in the primary sector are on average often less skill- and technology-intensive than those in manufacturing and services. But they need not be. What happens on average is less important for dynamic upgrading than what happens in distinct instances of technological learning and its subsequent dissemination.

Judging the developmental potential of the Western Cape's sectoral profile requires a thorough understanding of the distribution of skill and technology intensity associated with the various activities in each sector. For example, the wine industry combines relatively low-skilled activities with the employment of very advanced technology.

Over the last half-decade or so, select estates have used infrared imagery obtained from satellite or aerial photography to obtain the best possible match between a specific cultivar and distinct soil characteristics. This is the high-tech end of the search for 'terroir'. The same technology allows the examination of grape stress levels across and even within vineyards so as to allow for differential harvesting.

These new processes – which are in a major way responsible for the internationally acknowledged increase in the quality of SA wines – inform the low-skill activities on the ground, such as pruning techniques, canopy management and so on, making them more knowledge-intensive. Hence the sector cannot be characterised as either low- or high-skill-intensive, or as either low- or high-technology-intensive. It is both, and what matters most for the Province's development is whether given factor endowments lend themselves to increasing knowledge intensification.

Similar dynamics are at play in manufacturing and services. For example, boat builders in the Western Cape manufacture world-class leisure crafts that also combine very advanced technology with low-skilled labour. Similarly, in call centres, operators can be limited to very simple procedures or may alternatively offer extremely complex business or customer services.

Across all spheres of economic activity, therefore, entrepreneurs and their workforces can rise to the challenge of sustained competitiveness through growing their knowledge and technological assets. This implies that the sectoral profile is an important part of the Province's identikit, but not more than that.

Compared to SA as a whole, the Western Cape economy is significantly more service-oriented and only marginally involved in the exploitation of natural resources. This means that the Provincial economy does not benefit directly from the commodity boom fuelled by demand in China and elsewhere for minerals and other non-renewables.

It does benefit indirectly through the use of its port infrastructure, of course. Commodity booms generate windfall booms, often at little domestic effort. That is why they are attractive. But it is also the reason why they are a blessing in disguise. It is no coincidence that over the past 50 years or so, the most persuasive examples of economic catch-up took place in countries that did not have mineral riches, primarily in Asia.

In contrast, many resource-rich economies in Africa and Latin America followed boom-and-bust cycles that severely hampered their economic catch-up. It would be simplistic to charge resource intensity *per se* for failed development. Knowledge intensification can be harnessed in and around resource-intensive sectors. But at least in boom cycles, incentives are often not such as to favour investments in human capital and so forth. Therefore, the fact that the Western Cape's factor proportions are significantly different from the rest of the country need not be reason for concern, least of all in a longer term perspective.

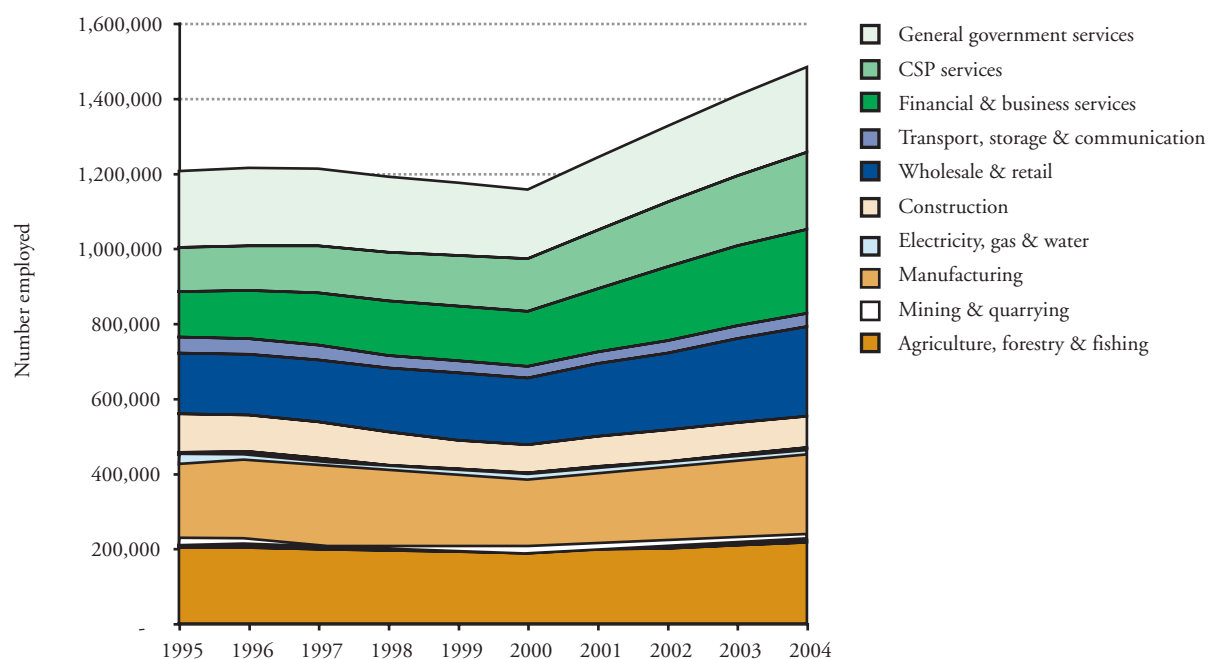
It is certain that the current commodity boom will come to an end at some point. It is also certain that success in the world economy will continue to be linked to technological capabilities in particular and to knowledge intensity more generally. The data presented here must be interpreted in this light.

6.2 Employment growth

Average annual growth in employment trailed output growth by roughly one point, at 2,1 per cent. Six sectors – manufacturing (16,3%), wholesale & retail trade, catering & accommodation (16,1%), government (15,3%), financial & business services (15,1%), agriculture, forestry & fishing (14,6%) and community & other services (13,9%) – account for more than 90 per cent of Provincial employment in the formal sector. Meanwhile, roughly one in 10 persons is employed in the informal economy.

Of these sectors, the only ones with above-average employment growth rates for the period 1995 – 2004 were community and financial services (5,7% and 6,3%, respectively) and trade (3,9%). Within manufacturing, only transport equipment (3,9%) and furniture (3,5%) grew at above-average growth rates.

Figure 2: Western Cape sector employment, 1995 – 2004



Source: Quantec Research and own calculations

In sum, only in a few sectors did above-average output growth coincide with above-average employment growth. In financial services and transport equipment, employment growth outstripped output growth. In wholesale & retail trade, a 5 per cent output growth happened alongside a 4 per cent employment growth. In furniture, above-average employment growth coincided with below-average output growth.

Output growth therefore seems to have a positive impact on employment. This was also in the case in the 1970s and 1980s, although apparently with higher output elasticities, as seen in the textbox below. This underlines the importance of accelerated growth for sizeable job creation, and hence shared growth and integrated development in the Western Cape.

Growth and decline of manufacturing in the Western Cape

Manufacturing matters, and the contraction of the sector in the 1990s is therefore viewed with concern. One reason is that the manufacturing sector is traditionally an important employer in the Western Cape. Manufacturing growth historically relied on increases in both capital and labour.

Detailed research into manufacturing sector performance in the Western Cape from the 1970s to 1996 highlights that over the period, the contribution of labour to growth was at first static and then fell, especially in the 1990s. Consequently, labour shedding occurred in many magisterial districts hosting important manufacturing activities, especially in food processing in the Cape Town metropolitan area.

So why did labour not contribute more to output growth? In theory, this question allows for two possible answers. The first is that SA's manufacturing sector is a mature industry that is about to migrate to less-developed parts of the world in search of more competitive production costs and new markets. If SA were a high-income country and the activities in question were, for example, textiles and steel, this might well be the case. But SA is a middle-income country, and another reason must therefore exist for the declining labour absorption rate.

The second is that there are factors within the labour market itself. Detailed econometric analysis suggests two culprits: real wages and sluggish growth. The real wage was found to have a statistically significant negative impact on employment. On average, a 1 per cent rise in the real wage led to a 0,74 per cent fall in employment. Growth, by contrast, does have a positive effect on job creation. However, while in the past output growth was directly proportional to employment growth, from the 1990s the output elasticity fell to about one half, meaning that a 1 per cent increase in output led only to a 0,48 per cent increase in employment.

Labour shedding did not just affect the Western Cape. The trend mirrors what happened in the country at large. But while manufacturing in SA registered strong positive contributions of technological progress in the 1970s and 1980s, this is not evident for the Province. Why not, and if this unwelcome difference persists, is a question that warrants further research.

Source: Fedderke and Fitschen (2005a, b)

Compared to the country as a whole, the Western Cape has been doing rather well. In sectors with generally declining employment, it registered lower negative growth rates, and in sectors with generally expanding employment it registered higher growth rates than the rest of the country.

Relative to the 2005 PER&O, the overall assessment is thus guardedly more positive. But caution is warranted.

First, the comparison with the rest of the country obviously chooses a very low benchmark that lies below the aspirations of both the country and the Province.

Second, the change in average annual performance is due to an improvement in year-on-year changes from 2003 to 2004. It remains to be seen if this is sustainable.

Third, this assessment is only as good as the data on which it is based. Provincial-level data are not easily available and therefore also much less scrutinised for possible inconsistencies by the research community.

In addition, as chapter 4: Employment Dynamics points out, the expected rapid increase in the working-age population may alleviate labour supply constraints. However, it could also lead to yet more people looking for jobs for which they do not have the right kind of skills.

Chapter 4 also reports that the share of relatively educated individuals accounts for the most rapid rise in the labour force, and that there was rapid employment growth among matriculants. This is undoubtedly positive – yet without a concomitant and comprehensive development of labour demand for the very skills these school leavers possess (or are believed to be able to develop) it may not make much difference to the unemployment statistics.

This means that, concerns with the quality of education aside, if demand for secondary-level graduates and young people in general is depressed, arguments could be made for steering larger cohorts towards the tertiary system, particularly vocational education and training, such as Further Education and Training (FET). This would make the graduates employable at a higher skill level for which industry in the Province may generate more demand, especially in the long run, than for low-skilled activities.

To be sure, at about a quarter of the workforce in high-skill occupations, the Western Cape avails itself of a more elevated occupational structure than the national average. But rather than looking at the Province's relative position, it would be more relevant to ask whether one knowledge worker per four members of the workforce suffices to reach the threshold where advanced but isolated economic activities combine to graduate toward a real knowledge economy.

The general outlook for employment is thus co-determined by the evolution of skill profiles and industrial dynamics. This means some caution is warranted when interpreting these data.

Skills versus education

The development of skills is one of Government's key objectives. Before technological advancement, high school education was regarded as sufficient qualification to secure a job. However, in an economy that has undergone structural changes, the required educational level of a century ago is no longer adequate for preparing the modern workforce. The thinking follows the economy's ability to create jobs constrained by the quality of workforce the education system produces. This then fuels the level of unemployment and feeds through the vicious cycle of poverty. Because SA's labour market is characterised by skills mismatch, the agenda for education at all levels needs to ensure competitiveness among the workforce. Different forms of skills and definitions are provided below:

Basic skills: *Generic, transferable skills that are essential to every individual's personal development in his/her education, work and everyday life.*

- Intellectual (includes critical, analytical and creative thinking, and problem solving);
- Communication;
- Information and communication technology (ICT) and managing information;
- Numeracy (application of numbers);
- Improving own learning and performance;
- Working with others.

Subject-specific/ vocational skills: *Skills that are essential to the understanding and practical application of knowledge within an academic discipline and/or a vocation/profession.*

Vocational skills are quality assured and accredited in line with certain subject specifications, combining benchmarking criteria followed by competence statements. On satisfaction of the particular field's requirements, the qualification is conferred to an individual.

Employability skills: *These skills enhance achievements in learning and facilitate transition and integration into effective performance in the workplace.*

- Self management and people management (for example, effective relationships, time management, change management and effective leadership);
- Negotiation;
- Networking;
- Presentation;
- Career management (for example, self-awareness, business/organisational awareness, action planning, job search and entrepreneurship).

It is evident that educational attainment alone does not equip the workforce with the tools needed to survive in the emerging high-skill economy. Some skills are job-specific; others influenced by cultural background and personality, meaning that no learning institution can provide all skills. As organisational structure and environment are dynamic, lifelong learning becomes central for career development. Individuals must obtain a set of skills that enable them to integrate their knowledge, experience and transferable skills in order to make effective progress in their careers

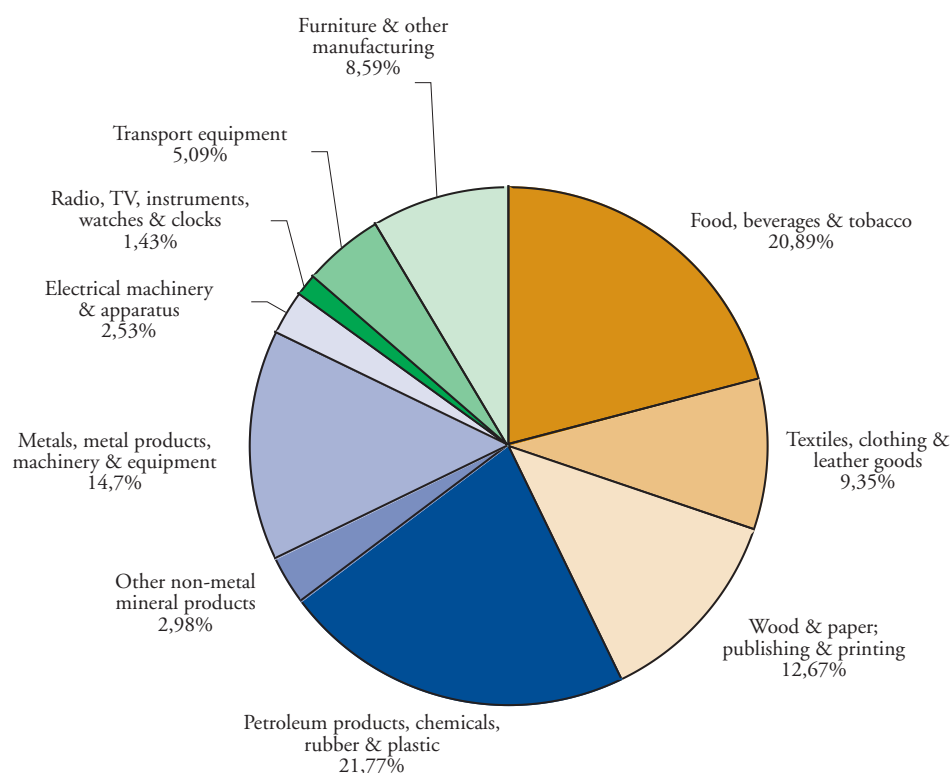
Source: Dimon, 2003

6.3 A detailed look at manufacturing

6.3.1 Manufacturing output

Compared to 2003, the sectoral shares in manufacturing value added did not see much change in 2004. The shares of a few sectors increased by a percentage point or less (textiles, clothing & leather goods; wood & paper, publishing & printing; furniture & other manufacturing; and electrical machinery & apparatus) at the expense of a few others (petroleum products, chemicals, rubber & plastic; metals, metal products, machinery & equipment; and transport equipment).

Figure 3: Shares of sectors in MVA, 2004



Source: Quantec Research and own calculations

More importantly, although it may be too early to say, the secular contraction of the manufacturing sector in the 1990s may have come to an end. It is noteworthy that the increase in MVA to 2004 took place in parallel with a strengthening rand.

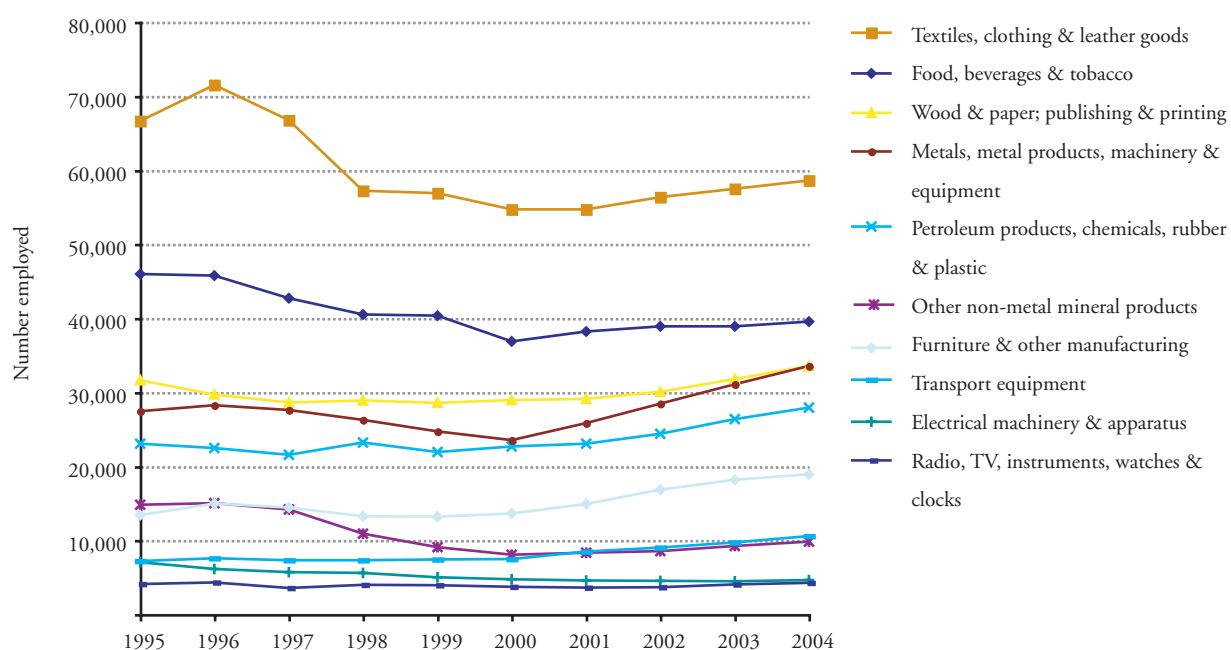
6.3.2 Manufacturing employment

Over the 10-year period 1995 – 2004, average annual declines in manufacturing employment were most marked in electrical machinery & apparatus (-4,1%), other non-metal mineral products (-4,0%), food, beverages & tobacco (-1,5%), and textiles, clothing & leather goods (-1,3%).

The strongest gains were made in transport equipment (3,9%), furniture & other manufacturing (3,5%), metal, metal products, machinery & equipment (2,0%) and petroleum products, chemicals, rubber & plastic (1,9%).

Provided the data accurately reflect reality on the ground, the good news is that manufacturing employment was higher in 2004 than in 2003. This is in contrast to manufacturing employment in the country as a whole, which has been slowly declining. It is also in contrast with the labour shedding that characterised manufacturing from the 1970s to the 1990s.

Figure 4: Manufacturing employment, 1995 – 2004



Source: Quantec Research and own calculations

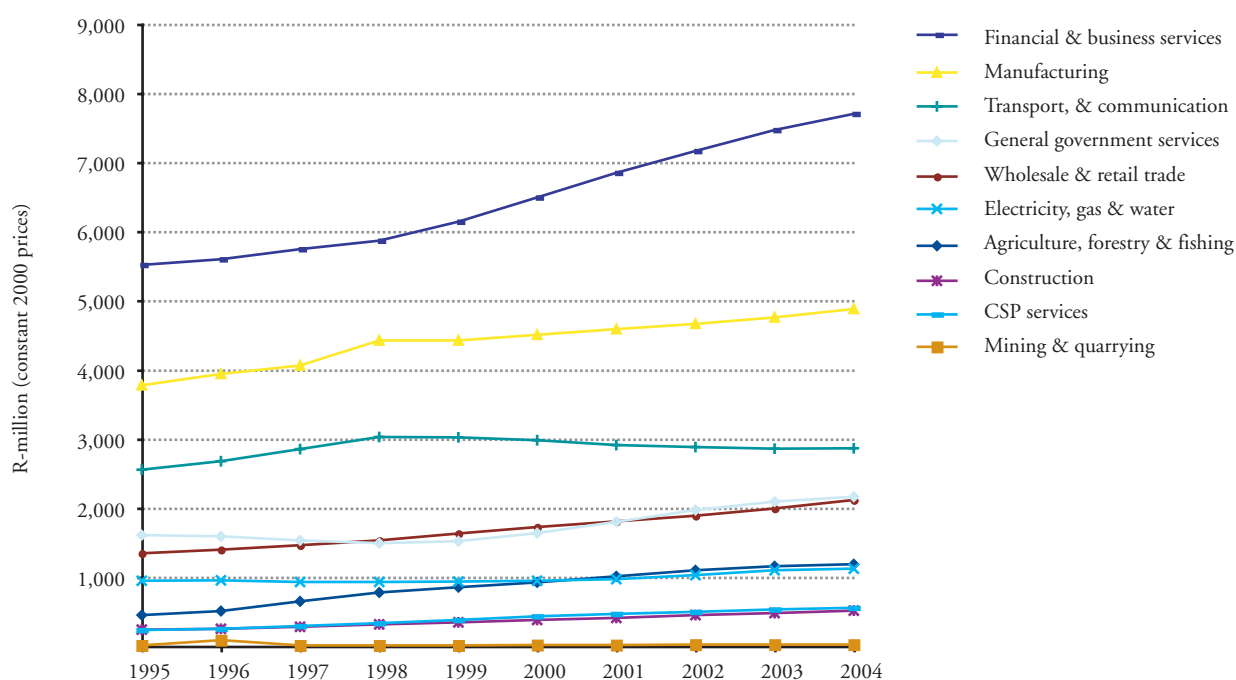
6.3.3 Manufacturing investment

Investment in manufacturing grew 2,6 per cent a year in real terms over the 10 years to 2004. This growth was particularly strong in transport equipment (10,4%), radio, television, instruments, watches & clocks (7,2%), furniture & other manufacturing (5,9%) and petroleum products, chemicals, rubber & plastic (5,5%).

The only sectors with slightly negative growth rates were textiles, clothing & leather goods (-1,0%) and metals, metal products, machinery & equipment (-0,7%).

In 2004, manufacturing accounted for just over a fifth of total investment in the Province, commensurate with its share in value added. Almost four-fifths of this was contributed by the petroleum & chemical sector; the food industry; wood & paper, publishing & printing; and metal-related manufacturing.

Figure 5: Gross provincial fixed investment, 1995 – 2004



Source: Quantec Research and own calculations

In an ideal hypothetical world not subject to change, the sector contributing most value added to the regional economy would also be the largest employer and would invest accordingly in order to sustain this position. But things are obviously never that simple.

In terms of absolute value added, the three most important manufacturing activities in 2004 were petroleum products & chemicals, food-related and metal-related activities. In contrast, the biggest employers were clothing & textiles; followed by the food sector; and wood & paper, print & publishing.

The largest investments originated in petroleum products & chemicals, followed by food-related; wood & paper, print & publishing; and metal-related activities. Of all of these, only petroleum products & chemicals grew at a higher average annual rate than the Provincial economy as a whole.⁷ This is why attention must be given, despite their small absolute size, to sectors whose investment and employment behaviour sets them apart from the rest – such as transport equipment, instruments and furniture.

Between 1994 and 2003, the cumulative share of inward direct investment into the Western Cape was 17 per cent of all foreign direct investment (FDI) flows into the country. According to information supplied by the BusinessMap Foundation, foreigners viewed business opportunities primarily in services and new industries. Between 1997 and 2003, cumulative flows of inward direct investment accrued mostly to IT (33,2%), cyclical services (19,2%) and financials (18,9%), followed by consumer goods (18,9%) resources (4,7%) basic industries (2,9%) and general industry (2,1%). This means that for the time being, manufacturing industries have not received much capital or technology from foreign interests.

6.3.4 Manufacturing trade

Manufacturing exports grew at an average annual rate of 4,4 per cent from 1995 to 2004. Export growth was thus higher than output growth. Increases in world trade have been higher than increases in world output for the last two decades. This is a hallmark of globalisation, which in turn obviously affects developments in the Western Cape.

The highest export growth rates were achieved by instruments⁸ (11,5%), transport equipment (11,3%), furniture (9,1%) and metal-related activities (9,0%). By contrast, exports of electrical machinery & apparatus fell by an average of 14,1 per cent. This is reason for concern and warrants further analysis.

In its *Industrial Development Report 2002/2003*, UNIDO (2002) commented that SA in the 1990s, along with Brazil, China, India and Saudi Arabia, had successfully upgraded its export structure but less so its industrial structure. This was based on the observation that there had been more of an increase in the share of medium- and high-technology products in manufactured exports than in MVA.

⁷ In the 1970s, 1980s and 1990s, the strongest growth in value added was always associated with those sectors that also contributed the largest proportion of MVA to the regional economy. Perhaps this is no longer so evident.

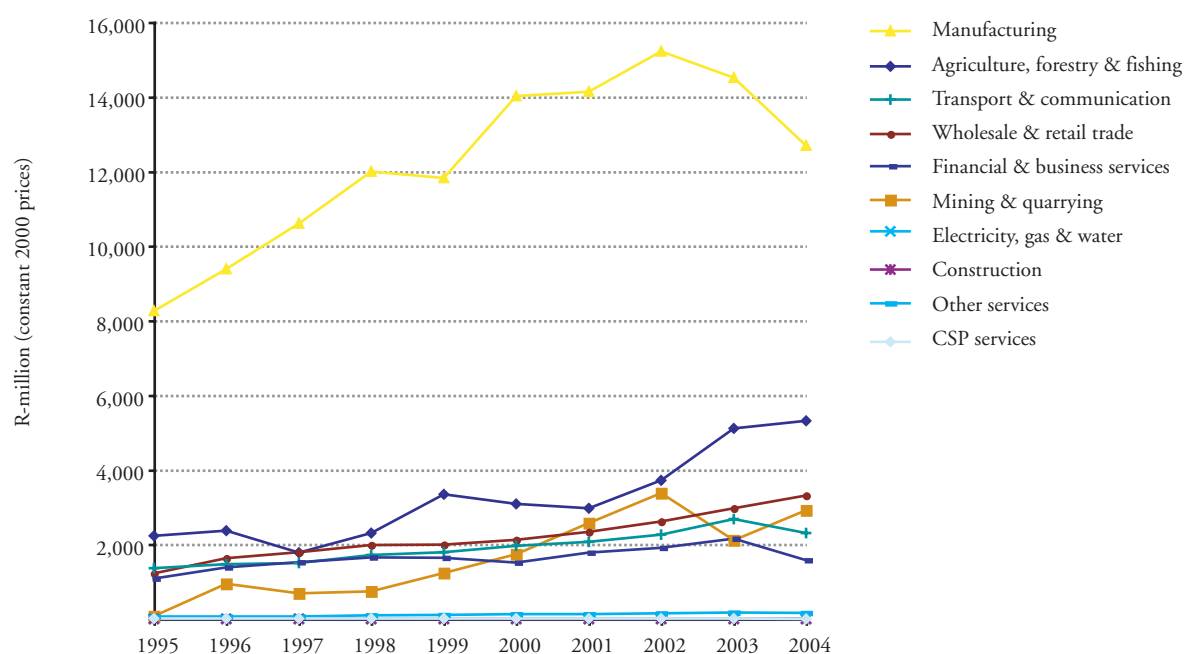
⁸ 'Instruments', a standard category in the SITC, includes anything from measuring devices to scientific apparatuses. At the level of disaggregation used in this analysis, we cannot state the exact commodities this category includes; to do that, one would need data at the HS6-digit level.

This points to a certain disjuncture in technological upgrading between export-oriented firms and those focused on the domestic market. To the extent that more advanced firms rely on local suppliers because of, for example, agglomeration externalities, the relative backwardness of the latter may act as a break on the development of the sector as a whole.

Alternatively, imports, or the integration into global production networks, may compensate for the lack of local capability. This may be the reason for the trend in instrument exports.

However, other explanations are potentially equally valid. Close engagement with the concerned sectors is required to understand properly why this is happening. The MEDS process would appear a suitable vehicle to be tasked with shedding further light on this.

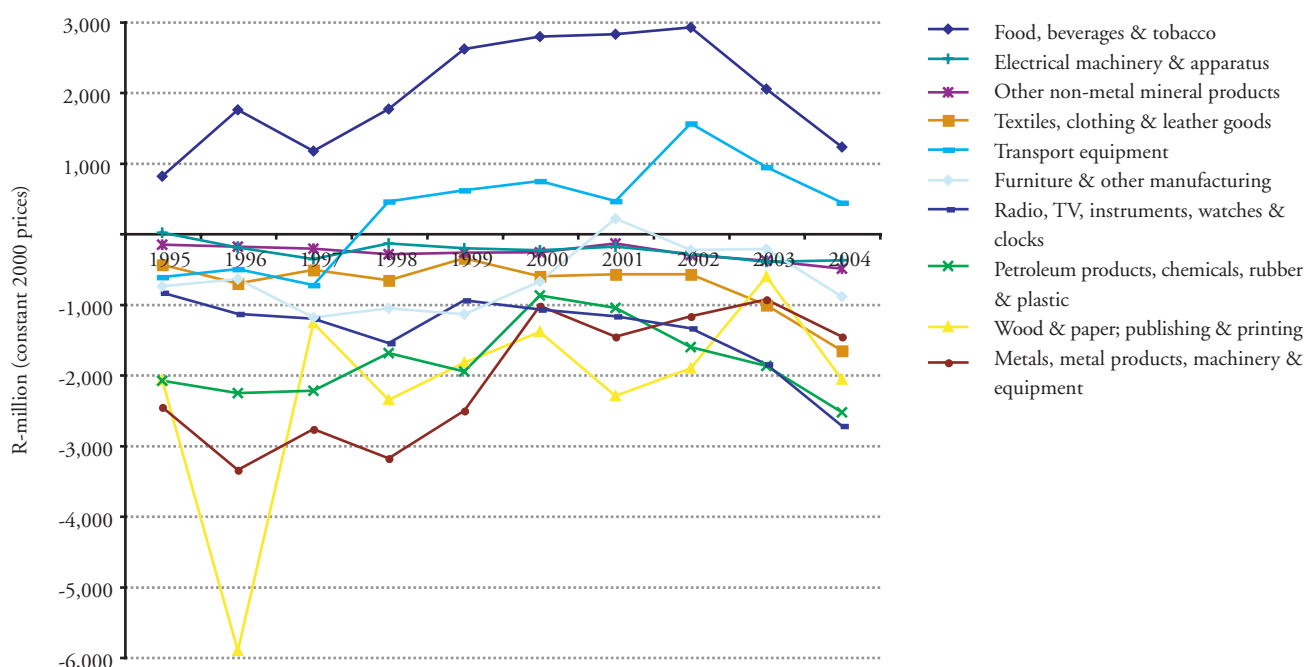
Figure 6: Exports by sector, 1995 – 2004



Source: Quantec Research and own calculations

In 2004, the Western Cape's manufacturing imports were almost double its exports, and as such contributed disproportionately to the Province's trade deficit. The only sectors with a positive trade balance were food products and transport equipment. The food sector (29,4%) and metal-related activities (20,1%) accounted for half of all exports by value. A further 37,1 per cent was met by wood & paper, publishing & printing; petroleum & chemicals; textiles and transport equipment.

Figure 7: Trade balances by manufacturing sub-sector, 1995 – 2004



Source: Quantec Research and own calculations

In 2004, 20 products accounted for roughly two-thirds of Western Cape exports. Table 6 lists these products and shows the relative importance of manufactures among them. The top export is oil⁹, but fish, fruit and related products are the largest group, followed by metal products, and finally much smaller items such as machinery, textiles, electronic components, minerals and transport equipment.

The most interesting question concerning the export composition of the Western Cape is the market dynamism of its leading products. As noted above, this involves not just the share in world exports and its growth, but also the predictability, volatility and market concentration.

Although the UNCTAD study could not be replicated here¹⁰, such an analysis should be done. Given the strong share of primary products in the top 20 list, it is likely that Western Cape exports are much more subject to price volatility than the countries behind the products on the list compiled by UNCTAD, as detailed in table 5.

Due to the protectionist nature of large parts of the world agricultural and food markets, it is furthermore likely that the high share of agricultural products, whether processed or not, affects the predictability of export growth in these product categories.

⁹ Of course, since the import content of oil and petroleum products is very high (in fact, the ratio of exports to imports is 1:3), oil becomes a less important net export than other product categories on the Western Cape's list of top exports.

¹⁰ The UNCTAD study is not replicated here in full due to time constraints and data and software concerns. However, it is foreseen that such an analysis will be conducted in future.

Table 6: The largest exports from the Western Cape by value, 2004

Rank	Product	Value (R-million)	Share in total exports, %
1	Oils, petroleum, bituminous, distillates	4 283,43	13,6
2	Grape wines	3 343,78	10,6
3	Citrus fruits, fresh or dried	2 263,16	7,2
4	Grapes, fresh or dried	1 781,58	5,7
5	Apples, pears, quinces, fresh	1 485,78	4,7
6	Fruit, nuts, edible plants, n.e.s.	987,61	3,1
7	Flat-rolled iron/steel, >600mm, not clad, plated	885,91	2,8
8	Diamonds	810,52	2,6
9	Flat-rolled iron/steel, >600mm, clad, plated, coated	643,61	2,0
10	Fish fillets, fish meat, mince	511,20	1,6
11	Liquid, gas centrifuges, filtering, purifying machines	479,90	1,5
12	Fish, frozen, whole	461,74	1,5
13	Crustaceans	420,70	1,3
14	Fruit and vegetable juices	411,54	1,3
15	Synthetic filament yarn	372,35	1,2
16	Diodes, transistors, semiconductors	368,90	1,2
17	Molluscs	348,21	1,1
18	Titanium ores and concentrates	332,18	1,0
19	Fish, fresh or chilled, whole	331,57	1,0
20	Parts and accessories for motor vehicles	313,94	1,0
Sum 20 top exports		20 837,61	66,2
Total exports		31 473,03	100,0

Source: Customs and Excise, Wesgro

6.4 A detailed look at services

6.4.1 Service sector output

Services make up more than three-quarters of value added in the Western Cape. The most important activities are wholesale & retail trade, business services, financial services and government. These four sub-sectors account for 70 per cent of all service activity. At 72 per cent, this was remarkably similar in 1996.

Average annual growth was highest in communication (10,3%), followed by finance and insurance (6,2%), trade (5,3%) and electricity (4,1%).

6.4.2 Service sector employment

The service sector employs close to 70 per cent of people in the formal sector, led by government, community & social services, trade and business services.

The highest average annual employment growth rates were attained by business services (8,5%), community & social services (5,7%) and trade (5,4%). The strong value-added growth in communications went hand in hand with negative employment growth.

6.4.3 Service sector investment

In 2004, investment in the sector was lead by business services (27,9%), followed by finance & insurance (19,5%), government services (13,3%) and wholesale & retail trade (11,7%), accounting for close to three-quarters of total investment. Average annual growth from 1995 to 2004 was highest in water (14,2%), communication (9,2%), CSP services (9,1%), construction (8,0%) and trade (4,7%).

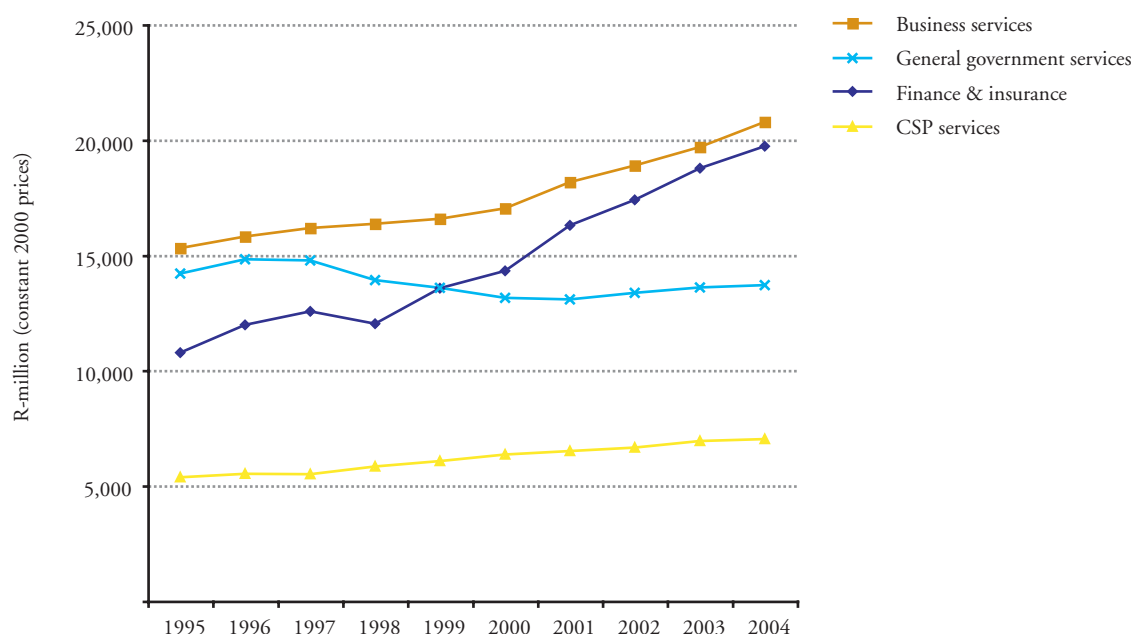
6.4.4 Service sector exports

The service sector accounted for just over a quarter of exports. Seventy per cent of this originated in trade and transport (43,7 and 25,9%, respectively), while business services (10,9%), finance & insurance (10,5%) and communication (5,4%) basically made up the remainder. Average annual growth was highest in trade (13,5%), communication (10,1%), business services (10,0%), community & other services (9,5%), and transport (4,7%) Due to a large decline from 2003 to 2004, average annual growth was negative in catering & accommodation (-11,1%) and stagnant in financial & business services (0.0%).

The juggernaut of the service sector in the Western Cape that combines a large weight in value added, employment, investment and exports with above-average growth rates is therefore wholesale & retail trade. The most dynamic newcomer is communications.

Because of its current and future importance for employment and exports, business services is also a sector to watch. CSP services is important for employment, and its relatively high investment ratio will hopefully sustain that. In contrast, the financial sector may become more important both in the region and abroad, albeit without creating many jobs¹¹.

Figure 8: Value added in services, 1995 – 2004



Source: Quantec Research and own calculations

6.5 Regional differences in industrial activity

So far the discussion has abstracted from the fact that the Western Cape as an economic unit is made up of spatially differentiated economic activities. This means that growth in output or employment in any one sector affects some municipal districts in the Province more and others less, creating spatial dynamics.

This is not just a statistical aside. How well a region or municipal district copes with economic change largely depends on the ability of its residents either to move from declining to growing sectors inside their region – primarily a question of their skill sets – or to leave the district/region in search of better fortunes elsewhere – primarily a question of the resources required for mobility.

¹¹ Jobs created in this sector are mainly skilled, rather than semi- or unskilled. As noted in this Review, as in the PER&O 2005, the unemployment problem in the Western Cape, as in the rest of the country, is – with some exceptions – largely confined to those who do not have skills. Employment amongst skilled individuals is generally high.

Everything else being equal, districts/regions with a relatively flexibly skilled workforce and/or with a more diversified industrial structure can employ coping mechanisms more easily than those that rely on a range of relatively narrow activities and/or people with skills that cannot easily be transferred to other applications.

For example, on the West Coast most people in employment earn their living by producing goods or items, younger even more so than older people. By contrast, in Cape Town most people earn their living by retailing products. These products may very well be the same; fish caught off the West Coast and served by a Cape Town restaurant. But they might also be totally disconnected.

Chapter 4: Employment Dynamics shows that agriculture, forestry, & fishing is both the largest employer in the West Coast and has the highest employment growth rate. So livelihoods on the West Coast rely largely on activities that for the Province as a whole are in long-term decline. Given the structure of economic activity along the West Coast, a retrenched fisherwoman or a metal worker has fewer opportunities to find alternative employment than their counterparts who work as waiters or in IT services in Cape Town. This reality needs to inform sectoral support policies.

Chapter 5: Socio-Economic Profiling at the Local Level provides an excellent spatial overview of the socioeconomic characteristics and sectoral make-up of municipalities and districts. This information provides a critical baseline analysis for sectoral support policies emanating from the MEDS research and recommendations, to which the chapter now turns.

7. Key sector performance: evidence from the MEDS¹²

So far, the chapter has provided a high-level, cross-sectoral analysis of the various economic activities in the Western Cape. More specifically, it points to which sectors are growing in terms of output, and which are in decline. It also highlights how sector output growth relates to jobs created and to those lost. But it has not as yet discussed the reasons behind these trends.

The MEDS process is an attempt to gain a better understanding of the determinants of provincial economic growth. It does so through engaging with sub-sectoral activities and through direct interaction with important stakeholders. It thus sheds light on how firms perceive growth prospects and why they do or do not undertake capital investment, expand or reduce the workforce, and so on. Hence research commissioned by the MEDS complements the sectoral and employment review.

7.1 Agriculture

Agriculture continues to be a mainstay of the Western Cape economy. Its relatively low share of value added belies its role as an important supplier of inputs, especially fruit, to the food processing industry. Also, agriculture plays a very important role in the Province's rural hinterland.

Agricultural activity in the Province is highly diversified and entails everything from conventional wheat farming to organic honeybush cultivation. Agriculture is also linked to another important sector – tourism – both directly and indirectly. Internally, the sector is grappling with land reform, transformation more generally and the effects of the stronger rand.

The biggest challenge to the sector is perhaps the high and rising water stress that affects the Western Cape. Although the current drought cycle will likely come to an end, long-term climate change means that the competition for water – including with industrial and residential users – will become more pressing, with obvious upward pressures on prices. This makes agriculture very vulnerable in the medium to long term.

Externally, the sector is up against an international trade regime that, despite assurances by the world's major trading powers in the context of the current Doha Round world trade negotiations, continues to discriminate against efficient producers from developing countries. At this point it is not clear if, and with what effects, the Doha Round will eventually lead to a reduction in export subsidies and more market access in developed countries. This uncertainty is inimical to making far-reaching investment decisions.

¹² *The Western Cape Microeconomic Strategy, or MEDS, favours support for dynamic growing sectors that have the potential to make a major contribution to output and employment gain, over support for declining sectors. The Strategy's aim is particularly to encourage new ventures where overall gain is likely to be more significant than in existing areas, where resources would probably be used mainly to 'preserve' activities. For the full report, please visit: www.capegateway.gov.za/eng/pubs/public_info/M/115232/1#03.*

Climate change and agriculture

The Millennium Ecosystem Assessment (www.millenniumassessment.org), an international effort to assess the capacity of ecosystems to support human wellbeing and life on earth, funded by the World Bank, the Global Environmental Facility, donor countries and private foundations, undertook what it called a sub-global study of Southern Africa. Ecosystem services are the benefits people obtain from ecosystems, ranging from physical products such as wood to less tangible services such as soil fertility or climate regulation.

The research started in 2001 and findings were made available in 2004. The assessment covered three core ecosystem services – food, water and services linked to biodiversity. Geographically, it involved the Gariep (Orange) River Basin and thus included parts of SA.

With respect to freshwater, the assessment engaged with wide-spread water scarcity afflicting the area going south from Namibia, Botswana and Zimbabwe. Due to the absence of large surface water supplies, this area is highly dependent on groundwater. Most groundwater supplies date back to thousands of years ago. Only 1 per cent or so of the mean annual rainfall returns to these aquifers, while the rate of extraction for human use is much higher.

The biggest user of water is irrigated agriculture. In 2000, it accounted for 73 per cent of all water use, followed by domestic users (17%) and industry (10%). In the same year, SA had exploited a whopping 85 per cent of its irrigation potential, suggesting that something had to be done soon about prevailing consumption patterns. In fact, water demand (including supplies from Lesotho) is expected to outstrip available supply by 2030.

Increases in population, growing per-capita consumption and the anticipated effects of climate change lead to water shortages which in turn constrain development and increase vulnerability. An additional problem is deteriorating water quality due to pollution. This includes everything from mine and industrial effluents to sewage return flows, soil runoff, and nutrients and pesticides from farming activities. More water extraction, in turn, means that the volume in the rivers is insufficient to flush away the resulting salts, sediments, nutrients, pathogens and pollutants.

When annual per-capita water supplies drop below 1 700 m³, disruptive water shortages can frequently occur. When it drops to below 1 000 m³, it poses challenges to human health, food production and economic development. In 2001, the figure for SA was 1 156 m³, clearly a reason for concern.

At the same time, compared to its neighbours, SA can avail itself of a wider range of adaptation strategies, both because it is relatively more affluent and because it is technologically more advanced. Apart from changes in the regime of water pricing and regulatory incentives in support of conservation, it could make an effort to use 'virtual water' by importing rather than producing goods that are water-intensive. In addition, it could switch from low- to high-value crops.

Source: Scholes and Biggs (2004)

7.2 Fishing & aquaculture

Fish is among the Western Cape's most important export items. The Province accounts for some three-quarters of national fish exports.

The biggest external challenge of the industry is the sustainable harvesting of the oceans' resources, many of which are being rapidly depleted, with attendant consequences for the intensity of global competition.

Its biggest internal challenge is how to balance considerations of equity and efficiency in the allocation of quotas. This requires particular attention to the consequences of changes in industry structure and fishing rights to traditional fishermen – and emerging fisherwomen – and the sustainability of the villages in which they live.

As the example of agriculture shows, fishing could benefit from closer linkages with the tourism industry. In addition, there is scope for growth in mari- and aquaculture.

7.3 Clothing & textiles

Although the clothing & textiles sector has contracted over the last decades, it has proved more resilient in the Western Cape than in the rest of the country. Nonetheless, absent radical changes in the way the sector operates, it is likely to continue to lose out to competition from cheaper production locations in Asia and elsewhere.

In the interest of preserving jobs, this puts a premium on intra- and inter-firm efficiencies. Unless this involves smaller firms next to the larger players, further labour shedding is likely to occur. In addition, marketing and organisational innovations should help to reposition the sector toward a more viable technological trajectory. In short, a concerted drive toward knowledge intensification is of utmost importance.

Repositioning the clothing and textiles industry using knowledge intensity

It is well known that the domestic textile industry finds it difficult to compete with China and other low-cost producing textile exporters. However, China does not compete just on price. For some clothing items, China is not the lowest-cost producer; however, other factors, such as its industry's quick response, reliability, business-like attitude and keen understanding of customer demand are key advantages. It is therefore prudent for SA as a middle-income country producer with relatively high levels of knowledge-intensive management capacity to focus on upgrading operational performance in the textile sector as a means to enhance competitiveness.

Already, European and US producers are focusing on measures to upgrade their clothing and textiles manufacturers, including but not limited to:

- Improving supply-chain management and tightening links between suppliers and customers;
- Focusing on fashion-sensitive clothing, where fast product turnaround and short delivery times are important; and
- Switching as much production as possible away from low-value bulk goods such as socks and T-shirts into high-end products such as high-tech industrial and medical textiles, luxury products and high-quality garments with high design content.

Based on the above, it is clear that the textiles industry cannot compete on price alone in low-value-added, price-based clothing segments. It has been suggested that the industry "...consider whether it is possible to focus on raising the knowledge-intensive aspects of the clothing and textiles sectors' operations, whether these be in respect of production operations, high technology inputs and outputs, supply chain relationships, logistics, design, customer focus, buyer relationships, etc".

Subsequently, it is important that skills are continuously upgraded. Provincial and metro government could facilitate here, by "...creating specialised centres of research and technical excellence, building managerial degree programmes, etc."

However, if firms are not willing to internalise the principles of world-class manufacturing and recognise the importance of upgrading, it is unlikely that any intervention will succeed.

Source: MEDS Synthesis Report, 2005

7.4 Metals & engineering

Metals and engineering comprise a wide range of activities. They centre around basic metals and structural steel in Saldanha Bay, a dozen or so foundries, and boat-building and ship repair. In some sense, the downstream processing of steel and engineering is an activity that 'has not yet happened', which is to say that it has substantial potential, given the Western Cape's coastal location, existence of an ore-export harbour and significant local human capital.

Growing this potential would entail a reduction of the domestic price of steel, an area currently investigated by national government. It would then be possible to conceive of a Saldanha steel beneficiation cluster, with forward linkages to the foundries and re-emerging tooling competences. This would tie in well with national programmes in support of advanced supply sectors such as the National Tooling and Advanced Metals Initiatives.

Import parity pricing investigated

In April 2005, the (SA) Department of Trade and Industry (the dti) announced that it would investigate IPP, as it has been identified as a major constraint to growth and expansion of the downstream sectors such as metals and chemicals. According to Trade and Industry Minister Mandisi Mphahlele, research by the dti has indicated that domestic prices to downstream producers are in some cases 30 per cent to 50 per cent above international prices. The aim of the investigation was to "...seek to unlock the potential of our more labour-intensive downstream sectors and improve the levels of beneficiation in our economy." (South Africa Info, 2005).

the dti also commissioned the Competition Commission to investigate IPP to conclude whether it contravened sections of the Competition Act relating to:

- Colluding to fix a price;
- The charging of an excessive price; and
- Engaging in prohibited price discrimination.

However, the Commission found that "...although IPP might be the basis for setting prices that are found to be anti-competitive... there is no predictable connection between IPP and any of the contraventions mentioned above..."

The Commission found the variable exchange rate to be one of the reasons why there is no predictable relation between IPP and anti-competitive pricing practices. IPP is calculated by converting the global price for a product into rand – multiplying the foreign price by the relevant exchange rate (expressed as rand per foreign currency unit). In addition, the Commission noted that prices should be evaluated for their anti-competitive effects according to established, predictable criteria. However, since IPP is as volatile as the underlying exchange rate movements, it is not sensible to formulate a rigid rule about the practice of setting prices according to import parity.

Despite this finding, national government still believes that IPP needs to be addressed. However, changing pricing policy may lead to a negative impact on investments, as companies' profits are reduced, thus reducing the incentive for further investment.

Source: South Africa Info, 2005; Competition Commission, 2006

7.5 Oil & gas

Upstream oil and gas is another initiative where the provincial government, jointly with private sector stakeholders, is investigating the feasibility to grow local capabilities and a critical mass to supply services, including the repair and maintenance of offshore installations and vessels and the fabrication of pre-assembled units, to the offshore oil industry in West Africa.

Like any new initiative, this endeavour faces an uphill battle in overcoming constraints in IPP, transport logistics and skilled labour. Of course, understanding the true nature of these constraints is the first step toward dealing with them. Research into the potential role of the Western Cape as a service provider to the international oil and gas industry is therefore being undertaken in the third round of the MEDS.

7.6 Electronics

Some 70 firms make up the electronic sector in the Western Cape. Most are small or medium-sized enterprises and manufacture components. The few larger firms are active in systems design and engineering. The portfolio of activities stretches from defence via telecommunications to security management. About a quarter of all electronics production in SA takes place in the Western Cape.

The industry in the Western Cape is not competitive in mass-produced parts or components. Building on deep engineering know-how, the sector focuses on niche applications. Many projects attest to the technical savvy of the involved firms and institutions. For example, researchers at the University of Stellenbosch developed and manufactured SA's first satellite. At the same time, however, many firms appear to fail when it comes to bringing their new ideas to market.

Electronics is among the few sectors without a functioning sector association. The absence of such an information and co-ordination mechanism is curious. Experience from other sectors illustrates that this can have beneficial effects in terms of inter-firm cooperation, strategic planning and entering challenging markets abroad.

New solar power technology developed

SA scientists have developed a revolutionary new, highly efficient and more affordable solar power technology that will enable homes to obtain all their electricity from the sun, potentially eliminating high electricity bills and frequent power failures. It is foreseen that the unique SA-developed solar panels will make it possible for houses to become completely self-sufficient for energy supplies, providing enough energy for stoves, geysers, lights, TVs, fridges, computers and other appliances.

It took 10 years of research for the SA scientists (led by University of Johannesburg Professor Vivian Alberts) to develop this new technology, with international experts already admitting that nothing comes close to the effectiveness of the SA invention. Some believe that the new technology will be available in SA within a year. Through a special converter, energy can be fed directly into the wiring of existing houses. In addition, new, powerful and super-efficient storage units (developed by other companies) will allow energy to be stored to meet demands in winter.

Solar companies, both foreign and domestic, are scrambling to get involved, with domestic firms looking to build local factories to produce the solar panels. One of the world leaders in solar energy, German company IFE Solar Systems, has already invested more than R500m in the SA invention. The firm is planning to manufacture 500 000 of the panels before the end of 2006 at a new plant in Germany.

Eskom noted that any new power supply that lessened the load on Eskom was welcome. The SA electricity supply company also indicated that it was carrying out its own research on solar energy and "...are currently investigating building what will probably be the largest solar power plant in the Northern Cape - a 100-megawatt facility."

Source: Saturday Argus, SA Solar Research Eclipses Rest of the World, 11 February, 2006

7.7 Biotechnology

Biotechnology is among the key platform technologies promoted by the SA government. The Western Cape hosts one of three biotechnology regional innovations centres (BRICS), plus the Bioinformatics Network at the University of the Western Cape.

Despite a very sizeable number of research groups in the Province, less than two dozen firms have core activities in biotechnology. It would appear, therefore, that incubation of start-ups and the commercialisation of technologies are not a strong feature of the sector. In addition, firms are active in a broad range of activities; given their small number this may make for a low degree of knowledge transfer.

Although the tertiary education sector turns out qualified graduates, they often end up working in other areas due to the relatively poor remuneration. Students strongly lack commercial skills. This must be addressed to help to accelerate bringing products out of the development pipeline to market. Perhaps the biggest problem for biotechnology activities in the Province is the relatively low degree of interaction between science and industry, a key prerequisite for such a knowledge-intensive activity.

7.8 Crafts

The crafts sector is closely related to the Provincial ambition of shared growth and integrated development: it is labour-intensive, mostly undertaken by SMMEs and an important contributor to revenue generation. Some 2 000 establishments employing more than 7 000 people account for about a quarter of the industry in the country. The sector has close links with the tourism industry and benefits from its expansion. Tourists appreciate craft in that the sector facilitates a unique cultural and retail experience.

Activities in the sector span a very broad portfolio of materials, techniques, products, quality, scale and market positioning. They encompass relatively simple gifts and souvenirs as well as fashion-led items, collectables and art. Through intermediaries, many products are linked into local or international value chains.

Socially, one of the most important functions of craft production is the entry it offers relatively low-skilled people, especially women, into the economy. Over time, it may act as a stepping-stone to other, more remunerative activities. Expansion of the sector is thus directly linked to securing sustainable livelihoods. Institutional support to the sector is available through the Cape Craft and Design Institute hosted by the Cape Peninsula University of Technology.

7.9 Cultural industries

Cultural industries largely elude accurate statistical measurement because they include activities as diverse as architecture, dance and language schools that are either subsumed under other activities or not separately classified at all. Descriptions of the sector must therefore operate with estimates.

Cultural industries probably employ a minimum of 50 000 people who earn their primary income in the sector. Much like in crafts, there is a preponderance of SMMEs engaging in labour-intensive activities. Jobs are split about evenly between full- and part-time, and many people work relatively *ad hoc* on short-term contracts.

Unlike in crafts, culture workers tend on average to be relatively highly skilled. The sector offers good opportunities for women. It has close linkages to tourism, retail and services more generally, and includes high-profile events such as the Cape Town International Jazz Festival, along with lower key activities in rural communities, such as the Klein Karoo National Arts Festival held annually in Oudtshoorn.

Lower-income activities such as community arts, craft, dance, music, musicals and opera, theatre and visual arts generate average monthly incomes of below R4 500, while design, fashion, festivals, heritage, language schools and publishing yield incomes between R4 500 and R10 000.

If tourism continues to grow, cultural industries are set to benefit. The Province's educational institutions offer high-quality training for almost all activities in the sector, thus poising it for sustainable growth. What is missing to enhance local capabilities in this area are managerial and other business skills.

7.10 Film

The film industry in the Western Cape can avail itself of world-class locations and very good production skills. Comprehensive data on employment in the sector are not available. Turnover is estimated at R1bn, with another R2,5bn in supporting activities. This accounts for almost half of national production. Altogether, the film industry contributes some 4 per cent to Provincial GDP.

It has become a significant player in the world market, although the Cape is definitely no longer a cheap location and is thus experiencing more competition from emerging countries in Latin America, Asia and Eastern Europe. The film industry has important linkages to the supply and hospitality industries.

Cape Town's film industry is booming

'Tsotsi' has won critical claim abroad, but the domestic film industry is not a one-hit wonder. According to reports, Cape Town's film industry is currently having a favourable season, despite fears that providers had priced themselves out the market.

Higher prices are mainly due to the strong rand; however, some of the costs faced by the film industry have been reduced with the City Council bringing down location fees around the city. Additionally, the city also gives film set discounts on stand-by emergency services. One insider noted that, even though costs have increased steeply, the fact that the city still attracts significant production reflects well on the quality and value delivery.

At present, five major movies are being filmed in and around Cape Town, all making use of the local industry. Each of these movies has budgets of more than \$100m, and two movies have budgets of double this amount. Since September 2005, there have been more than 2 000 shoots in the city. Additionally, there are about 1 260 companies, many small, in the film industry in Cape Town.

There are five sectors in the film industry – feature films, television, still photography, commercials and digital animation – and all are blooming. In addition, international productions now tend to remain in the city for post-production work, whereas they previously only used the city to shoot scenes. In addition, a significant value of production budgets are often spent on hotels and car rentals, reflecting indirect benefits to Cape Town's economy.

Source: Cape Times, Cape Town's 'Fantastic' Film Season, 8 March 2006

Relatively high costs are perhaps the single most important competitive disadvantage of the sector at the moment. This is due to the rand appreciation and a rise in support industry prices. Internationally, the Western Cape's competitors often benefit from very generous support facilities, as well as more favourable access to distribution and facilitation schemes, with resulting inexpensive film and television products.

The sustainability of the sector hinges on viable training of industry entrants at early stages of their career, especially for people from disadvantaged backgrounds. The challenge for both the education sector and the industry itself is to ensure the possibility of upward transition of newcomers to the industry toward the typically more medium- and high-skill professions that dominate the sector. The future of the sector also depends on a relaxation of administrative and regulatory burdens in the area of tax, employment and overtime conditions, as well as the rules governing immigration and work permits.

7.11 Financial services

This sector, especially asset management and insurance, is among the single most important contributors to regional output. In addition, finance, insurance & real estate provide up to a third of Provincial investment.

Unfortunately, the output elasticity of the sector is relatively low in that the above-average growth rate of the sector has not translated into equally high increases in employment. Why exactly this is the case merits further analysis.

Recent important FDI deals included Resources Corporation Berhad from Malaysia (R1,3bn), Zurich Financial Services from Switzerland (R376m) and the US government (R180m).

The financial sector can contribute to job creation in indirect ways. For example, business process outsourcing could grow on the back of organisational innovations in insurance and asset management. Extending financial services to the under- or unbanked majority of the population would provide further opportunities for job growth.

Call centres and business process outsourcing (BPO)

This sector comprises roughly 100 firms employing some 11 000 people. Growth in 2004 was 25 per cent. Because the sector is labour intensive, sustaining high growth rates will contribute to job creation in a major way.

It is important to realise that SA and the Western Cape do not have low labour costs relative to locations competing for a slice of the BPO pie around the world. Hence, the sector must position itself so that it aims for building capabilities in offering more comprehensive and complex services. An opportunity for complex voice-based services exists particularly in connection with the Cape's financial services industry.

Rising to this challenge of technological upgrading requires that people working in the industry who are for the most part relatively low-skilled are given the opportunity and the incentive to graduate to successively higher levels of service competence. If this is successful, 20 000 direct new jobs might be created in the short term, with more potential for the medium and longer term, plus indirect employment effects for the various supplier industries that service the sector.

More than other sectors, call centres and BPO thus harbour the opportunity to advance the low- to high-skill upgrading, in the context of a medium- to high-technology environment, upon which the sustainable development of the Western Cape and the country at large depends.

Information and communication technologies (ICTs)

ICTs benefit from strong growth prospects, both globally and locally. The opportunities for growth of the ICT sector in SA have been considerably improved by the recent liberalisation of the sector, including the establishment of a second national operator, the granting of rights to municipalities to create their own communication networks that they can lease to private operators for cheap voice-over-internet protocol (VoIP) and broadband internet access. Since ICTs are a platform technology, growth in the sector is expected to yield benefits across the economy.

The ICT sector in the Western Cape has attracted some of the Province's largest foreign direct investments, including by US-based VeriSign (R3,5bn) and Zeconi Optic Fibre (R250m).

The sector enjoys the support of active sector associations that appear to succeed in lowering entry barriers to new firms, including from disadvantaged backgrounds.

Knysna municipality provides wireless services to all

In an attempt to avoid high telecommunication costs, Knysna municipality and UniNet, a private wireless services and infrastructure provider, launched a commercial voice service in Knysna in 2006, making it one of the cheapest places to make a telephone call in SA. UniNet won a contract with the Knysna municipality and now supplies the region with a full wireless network, which makes low-cost calls and Internet provisioning possible. Residents receive 100 free local minutes using portable Wi-Fi phones. In addition, there are plans to launch a fixed wireless Internet service, which will drastically cut the Internet access costs of businesses and residents in the vicinity.

It is expected that Knysna's charges will undercut Telkom's by around 50 per cent. However, the *Mail & Guardian* reports that Knysna's plans will be challenged by Telkom, which claims the proposed Knysna wireless service is illegal. This is despite claims that Knysna's plans were sanctioned by the Telecommunications minister. Telkom is also threatening to sue for loss of earnings.

Although some much larger municipalities – Durban, Tshwane, Cape Town and Johannesburg – are looking at the Knysna option, it can be expected that Telkom's reaction will stifle the expansion of this idea.

Source: Moneyweb, Municipalities Doing It, March 2005; Mail & Guardian, Knysna Leads the Way, 25 November 2005

7.12 Tourism

Tourism is one of the biggest industries in the world. SA leads the continent in international tourism, and the Western Cape has a major share in national tourism turnover. The sector contributes approximately 10 per cent of the Provincial economy and some 7 per cent of employment. It is highly diversified and offers a very comprehensive product range, spanning traditional sight-seeing as well as more specialised services such as eco or health and medical tourism.

Despite the impressive growth of the sector, it does face a number of serious challenges. Foremost among these include:

- Creating a better information base, especially relating to trends in the various sub-sectors.
- Expanding transformation so as to operationalise existing legislation and offer one of the most lucrative provincial economic activities to disadvantaged people.
- Improving the transport infrastructure at both the high and the low end, with innovative solutions for shifting towards safe public transport.
- Strengthening the reach of education and training.

- Support for local authorities for whom tourism holds the promise of job creation only if they manage to match local competences with what is a very demanding and quality-conscious industry.
- Marketing the Western Cape in conjunction with Cape Town as a multifaceted, world-class tourist destination, expanding tourism into townships and rural areas and with the aim to support BEE and specific communities, such as fledgling fishing villages on the West Coast.

In addition, the long-term environmental challenges facing the Western Cape, especially water stress, have potentially very serious implications for the sustainability of tourism. This asks for collaboration between the sector and other stakeholders to elaborate appropriate solutions.

7.13 Energy

The Western Cape's share in national energy demand is around 7 per cent. The biggest users of energy are, in descending order of importance, transport (59%), industry (17%), residential (10%), agriculture (8%), commerce (4%) and mining & quarrying (2%).

The power outages that have been affecting the Western Cape from late 2005 and the costs they impose on the private sector underline the importance of reliable energy supply for economic growth and job creation.

Eskom's plans for the Western Cape

Recent power failures have had a big impact on the Western Cape. Eskom estimates that the Province requires between 3 500 megawatt (MW) and 3 900 MW of power in summer and up to 4 200 MW in winter. The Koeberg nuclear power station can generate 1 800 MW (representing 46 per cent to 51 per cent of the Province's electricity requirements), with the balance of the Province's electricity requirements being transmitted from Mpumalanga via transmission lines.

With increased demand due to higher than expected growth rates, maintenance requirements and other problems at Koeberg, as well as a lack of maintenance on transmission lines from Mpumalanga, Eskom has recently been unable to satisfy the Western Cape's electricity needs.

However, Eskom has several contingency plans in place to address the electricity shortage in the medium term. First, in 2007 Eskom will commission two open-cycle gas turbine power stations (in Atlantis and Mossel Bay) with a total capacity of 1 000 MW, valued at R1,86bn, to meet peaking demand. An added bonus of these power stations is that a significant number of jobs will be created in the building phase, as well as to operate and maintain these stations.

The 40 MW Athlone gas power station's turbines are currently in the UK for refurbishment and should be back in commercial operation by end-June 2006. The Athlone thermal power station, although not decommissioned since its last commercial operation in 2002, is not commercially available and will not be refurbished by the Cape Town Municipality in the short term. It does, however, present an opportunity for privatisation or refurbishment with a partner, but this has not been developed to any great extent.

Given the controversy surrounding the pebble bed nuclear power plant plans, it is unlikely that such a plant will be established in the near future.

Eskom predicts that independent power producers will generate an additional 1 000 MW nationally by 2009. Thus, most of the Western Cape's electricity needs should be met from within the Province by 2009.

Eskom has also indicated that it is addressing the strain on transmission capacity, with the Western Cape being at a distance from generation plants. Strengthening of transmission corridors is expected to be completed by 2010.

Work on Koeberg is estimated to be completed by mid-May 2006. Whether these developments will be sufficient to address the Western Cape's short-term electricity requirements remains unclear, and it is expected that the Western Cape will have to diversify its portfolio of electricity sources.

*Source: Eskom, 2005 and 2006;
Mail & Guardian, 'Loose bolt' at Koeberg Means Months of Repairs, 19 January 2006*

Energy supply problems are largely a national issue. But the Western Cape does have the potential to experiment with alternative energy supplies, especially in the area of renewables drawn from sun, wind and perhaps even waves.

What militates against the development of environmentally friendly energy sources is the relatively low price of conventional energy. Hence, incentives for the exploration of alternatives on a large scale do not really exist unless the regulatory framework changes and support schemes are designed to overcome market failures.

A more rational discussion of the advantages and disadvantages of various possible scenarios is hindered by poor data on energy supply and demand at provincial level. This makes it difficult to estimate needs over time.

7.14 Transport

Much like insufficient energy supply, SA's inadequate transport infrastructure is a constraint on economic growth. Bottlenecks exist in the form of an inefficient rail service, increasing congestion on roads and supply-constrained port facilities. Not only will the spectre of logistical nightmares depress FDI, it obviously also depresses the ability of local firms to increase their internal efficiencies and reduce lead times. In addition, it directly impacts on the Province's ability to honour delivery schedules in fast-moving goods categories where time is of the essence. This is why transport issues must be considered a priority issue in support of both accelerating growth and creating job opportunities.

Improving efficiency and safety of public transport is therefore a key objective for the Province, occupying priority in the Strategic Infrastructure Plan (SIP) currently under development.

Current public transport infrastructure initiatives

Provincial government has already identified that the current level of transport infrastructure impedes social and economic development in the Western Cape. Subsequently, several priority projects have been identified, including:

- Public transport: Establishing an integrated public transport system.
 - This would include extending and improving the rail network, the use of dedicated bus lines and providing interchange facilities to enable linkages between different modes of travel (for example, car to rail).
- Roads:
 - N1 corridor redevelopment and upgrading
 - Regional road rehabilitation and addressing district bottlenecks
 - Addressing rural gravel roads
- Rail: Extending rail services and infrastructure.
 - Several possibilities are being mooted at this stage, with the extension of the Khayelitsha rail line and an Atlantis line reconfiguration highly likely.
- Ports
 - Port access reconfiguration and upgrade.
 - Ports cargo handling and storage facilities reconfiguration and upgrade.
- Airports
 - Airport upgrades, including runway and domestic terminal upgrade at Cape Town International.
 - Airport access and transport linkages, potentially creating a link between the City and the airport.

Although much still needs to be done, processes are in place to address public infrastructure needs in the Western Cape that will help to alleviate transport backlogs in the Province. This, in turn, will provide further impetus to the regional economy.

Source: Forthcoming Strategic Infrastructure Plan (SIP)

8. Sector prioritisation for provincial policy support

The description of the various sectors is a mixed bag. What emerged in the course of the second phase of the MEDS was qualified support for a few activities that best seemed to reconcile the triple demands of accelerated growth, job creation and equity.

In order to arrive at this prioritisation, the MEDS Oversight Committee designed a decision rule that categorised priority sectors in terms of the largest likely effect of policy support on employment, revenue and empowerment in the context of given resources, namely a budget envelope of an estimated R100m a year.

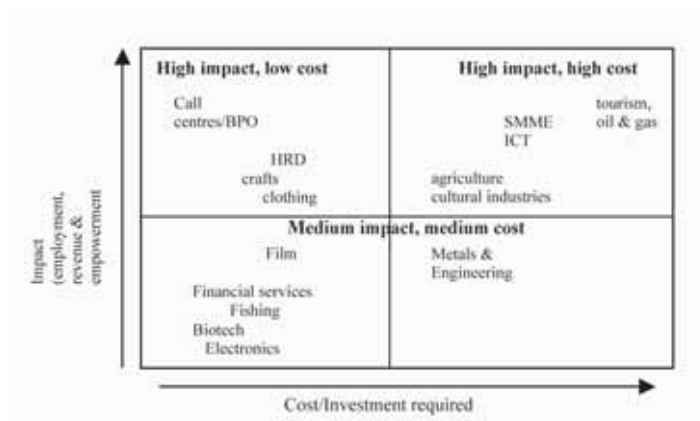
It concluded that this would be realistic only for sectors with a sophisticated and credible sector association to act as a counterpart to government. Further it demanded that Government make sufficient, dedicated human resources available to see support policies through, and that it set up a monitoring and evaluation facility so as to learn about what works and what does not, and to be in a position to make informed decisions in favour of phasing out or strengthening support measures.

Thus, the MEDS recommended support for one low-cost, high-impact sector – call centres and BPO activities – along with four high-cost, high-impact sectors – tourism, oil & gas, ICT and SMMEs.

Certain other sectors – crafts, clothing, human resource development, agriculture, cultural industries, film and metals & engineering – were identified as falling in the mid-range of output and equity impact, therefore warranting government attention.

Finally, the high- and mid-impact sectors were assessed in terms of the resource and investment requirements, generating the impact:investment matrix shown in figure 9 for further prioritisation.

Figure 9: Impact:investment matrix for sector prioritisation



Source: MEDS, 2005

9. Conclusion and outlook

This chapter has shown that industrial development in the Western Cape faces many challenges. The list of problems discussed here is not exhaustive. The 2007 PER&O may focus on a different set of concerns. But this year's issues are likely to continue beyond 2006, given their key to unlocking improved sectoral competitiveness and hence their contribution to shared growth and integrated development in the Province.

In short, three key challenges confront the Province in its endeavour to achieve higher growth, create more job opportunities, improve the equitable share of economic progress, and guarantee the sustainability of its development trajectory.

The comparison with industrial dynamics in the rest of the world has shown that the Western Cape faces the heat of globalisation but is struggling to find its place in the sun. Its industrial structure and export composition are not such that it will be easy for the Province to emulate the success of the catch-up economies in East Asia.

The Western Cape is a relatively resource-poor region in a relatively resource-intensive country. This means that it somewhat misses out on the windfall benefits from the current resource boom but suffers the consequences of a real exchange rate appreciation.

The Western Cape is very much exposed to challenges that are either partly or totally beyond its control. Global warming is a direct threat to its biodiversity. Water stress affects the prospects for agriculture, industry and livelihoods more generally.

The beginning of the chapter posed two questions: whether the Western Cape could emulate the export success experienced by those countries that have managed to specialise in market-dynamic goods, and – if the answer is no – what else could be done to promote sustainable growth.

Based on the sectoral overview, it would appear that the answer to the first question is, in fact, negative. The industrial structure and the export composition of the Province are simply too different to attempt to buy into UNCTAD's top 20 shopping list of market-dynamic products. This is especially true for the electronics and electrical industries. That leaves the hard task of finding an answer to the second question.

The answer lies in knowledge intensification of both low- and high-skill activities. Of course, the application of the 'knowledge economy' concept in developing-country contexts is highly problematic.

The importance of knowledge as a driver of growth may seem no more than the latest trend in countries that have yet to solve basic concerns of nutrition, sanitation, health care,

education and infrastructure. In fact, the concept only becomes relevant if adapted to the needs of developing countries and the constraints under which they operate.

Given the industrial and export specialisation of the Western Cape, knowledge intensification must aim at reducing the vulnerability of economic activities in the Province to first-world protectionism, price volatility and elasticity, as well as other factors that negatively affect exporters of primary products or relatively simply processed manufactures. This means that it must be sector specific.

At the same time it must also reflect the existing skill profile of the Western Cape and the need to increase labour absorption rates. Knowledge intensification cannot mean an exclusive focus on very high-end competences in platform technologies such as IT or biotechnology. Instead, the process must include people and firms in low- and medium-skill- and low- and medium-technology-intensive activities.

Skill-intensive patterns of economic development militate against mass employment in countries that, like SA, have large numbers of unemployed people. It is also likely to lead to lower growth.

A recent IMF working paper suggests that the major culprit of India's much lower growth rate compared to China is due to its bias in favour of skill intensity. On the one hand, it created outstanding successes such as the IT cluster in Bangalore that, however, only employs about a million people. On the other hand, there is thus a discrepancy between the high output share and the low employment share of these sectors. This translates into foregone profitable opportunities.

The difference between knowledge intensification and skill upgrading is that the latter process often requires structural change from an activity that is low skill to *another* that is high skill. This is never easy. By contrast, knowledge intensification can be undertaken in low-skill activities. If farm workers in the Overberg apply new mulching techniques that reduce the water intensity of wine growing and save on artificial fertilisers, a low-skill activity becomes more knowledge intensive. If the Cape Boatbuilding Initiative sets up a course for artisans where trained welders are taught how to apply their skills to boatbuilding, knowledge intensification of a low-skill activity will relax a key human resource constraint on one of the Province's most impressive niche sectors.

With respect to the second challenge, the national government is aware of the fickle character of resource booms. The Minister of Finance emphasised as much in his 2006 budget speech. The Department of Science and Technology has a programme through which it studies practical ways to reduce the economy's dependency of resource-based industries while exploiting technological competences built around mining and other activities for applications in various fields.

Because of competencies in certain areas of R&D, firms and tertiary education institutions in the Western Cape are in a good position to help the rest of the country wean itself off the possible short-term windfall benefits of a resource boom that in time may bring about detrimental effects, termed ‘resource-curse’, as the economy deindustrialises following prolonged exchange rate appreciation and other factors. In practical terms, the Province should be happy to host events like the Mining Indaba as it did in 2005, but it must also be engaged in exploring a future beyond mining.

Lastly, the Province might look for a visionary, iconic industrial policy platform on which to position enhanced sectoral competitiveness. For instance, in the beginning of 2006, the Swedish government announced that it would try to do away with fossil fuels within 15 years, and the United Arab Emirates declared its intention to build up a local aircraft industry – leasing, engine manufacture and aircraft assembly – in the next decade. Both ideas are bold. They are also risky and may not realise the hoped-for benefits. But they will mobilise resources that help these two countries to progress along what they perceive as desirable development paths.

What is the Western Cape’s ‘Big Idea’?

Given the need to enhance knowledge intensity in a way that promotes employment across the skill spectrum, and the notable impact that climatic change will have on the Province’s agricultural potential and biodiversity, the Western Cape could decide to become Africa’s most water-wise region on the African continent within the next two decades or so.

Much like the rest of Sub-Saharan Africa south of the Zambezi and Cunene Rivers, the Western Cape is a highly water-stressed area. But it is also a relatively wealthy and technologically advanced region, thus availing itself of a wider range of potential adaptation strategies.

In the beginning, this might include importing instead of growing food items that require large amounts of water for their production. Over time it would involve, for instance, a comparison of water stress on wine quality, or choosing between different fruit cultivars depending on water efficiency. The Western Cape could set itself the goal of becoming SA’s first province with a 100 per cent reticulation cover to minimise untreated residential effluents.

This is just one of many possible iconic ideas. The attractiveness lies in the strategic positioning of industrial competitiveness with ecological sustainability, a key pillar underlying the Province’s Spatial Development Framework and its upcoming Provincial Growth and Development Strategy.



As noted, given the Western Cape's vulnerability to climate change, shared growth and integrated development has to be economically, socially and environmentally sustainable. A development agenda that positions itself by matching industrial policy competitiveness to ecological integrity holds considerable merit.

Strictly speaking, sectors are less important in developing an iconic idea. But the vision behind such would help constructive thinking about how best the Western Cape could position itself in the global economy while addressing growth and job creation at home. This is a discussion that is yet to happen.

Glossary of terms

- **Aquaculture**

Aquaculture is the cultivation of the natural produce of water (such as fish or shellfish, algae and other aquatic plants). Mariculture, a subset of aquaculture, is specifically marine aquaculture. Examples of aquaculture include raising catfish and tilapia in freshwater ponds, growing cultured pearls, and farming salmon in net-pens set out in a bay. Fish farming is a common type.

- **Catch-up effect**

The catch-up effect, also called the theory of convergence, states that poorer economies tend to grow faster than richer economies. Therefore, all economies will eventually converge in terms of per capita income. This means that a poorer country's income will eventually catch up to a richer country's. In theory, new technologies may allow the economies of emerging countries to even surpass industrialised nations, but the possibility of this happening has become increasingly debatable as developed nations become increasingly modernised at fast paces.

One of the reasons for this phenomenon is that poor countries often have little in the way of technology and maybe have very low efficiency rates. Since they have no access to capital to invest, they cannot improve their processes and are trapped in this low-efficiency pattern. If, however, they manage to attain some capital for investment, the returns on this investment might be huge. This could be explained by the law of diminishing returns. A developed nation is so technologically advanced that the return on investment (ROI) of every unit of currency spent is dramatically lower than the ROI in an undeveloped nation because the poor nation is further behind in this diminishing returns path. This extra return allows poor countries to rapidly increase investment capital and raise efficiency until the law of diminishing returns kicks in and they are growing at the same pace as more advanced nations.

An example of this effect is the rapid growth in the Asian markets of Singapore, Hong Kong, Taiwan, and Korea in the 1960s and 1970s that led to them being called the 'Four Tigers'. These countries started off very poor with little economic power, a lack of capital, no huge skyscrapers or rich banks, and quickly transformed their economies into major world players.

Some economists criticise the theory, stating that endogenous factors, such as government policy, are much more influential in economic growth than exogenous factors.

- **East Asian Tigers**

Singapore, Hong Kong, Taiwan, Korea and also recently China.

- **Harmonised Commodity Description and Coding System (HS)**

The HS of tariff nomenclature is an internationally standardised system of names and numbers for classifying traded products, developed and maintained by the independent intergovernmental World Customs Organisation (WCO). The HS is a six-digit nomenclature. Almost 200 countries, representing about 98 per cent of world trade, use the HS as a basis for, *inter alia*, customs tariffs, the collection of international trade statistics and trade negotiations.

- **Import Parity Pricing**

IPP is a process whereby a domestic producer of a good places the same value on the good as the import price of a foreign competitor.

- **International Standard Industrial Classification (SIC)**

This classification schema is used primarily by the United Nations to classify manufactured goods/processes.

- **Intra-industry trade**

Intra-industry trade refers to the exchange of products belonging to the same industry. The term is usually applied to international trade, where the same kinds of products and services are both imported and exported.

- **Knowledge economy**

For the last 200 years, neo-classical economics has recognised only two factors of production: labour and capital. This is now changing. Information and knowledge are replacing capital and energy as the primary wealth-creating assets, just as the latter two replaced land and labour 200 years ago. In addition, technological developments in the 20th century have transformed the majority of wealth-creating work from physically based to 'knowledge based'. Technology and knowledge are now the key factors of production. With increased mobility of information and the global work force, knowledge and expertise can be transported instantaneously around the world, and any advantage gained by one company can be eliminated by competitive improvements overnight. The only comparative advantage a company will enjoy will be its process of innovation – combining market and technology know-how with the creative talents of knowledge workers to solve a constant stream of competitive problems – and its ability to derive value from information. We are now an information society in a knowledge economy.

- **Latecomer economy**

In relation to many countries that were the initial industrialisers, or 'early developers', latecomer economies represent countries that have copied them much later on to experience growth and development.

- **Manufacturing value added**

The value added is a measure of net output (that is, of gross output less purchased inputs, such as cost of materials and supplies and of fuel and electricity) which has been embodied in the value of the product. In contrast to the measure of total shipments, value added provides some insight into the degree of transformation which occurs within industries. In short, MVA consists of the value of manufacturing shipments plus net change in the inventory of goods in process and finished goods, less the costs of materials and supplies and of the fuel and electricity used.

- **(Western Cape) Microeconomic Development Strategy (MEDS)**

As one of the six iKapa Elihlumayo lead strategies, the overall goal of the MEDS is to guide the Western Cape's actions to enhance, guide and support private sector activity in the Province. It is hoped that the MEDS will accelerate growth, alleviate poverty and promote sustainable development in the Province.

- **Motor Industry Development Programme (MIDP)**

Started in 1995, the MIDP's objectives are to improve the global competitiveness of the motor vehicle and component-manufacturing industry through an import/export complementation arrangement, whereby the local-content value of components or built-up vehicles exported earn credits that can be used to rebate import duties on components and vehicles.

The MIDP was reviewed in 2000 and 2002, when the MIDP's tenure was extended to 2007 to enable the stakeholders within the automotive sector to participate in the review process. The Programme is up for review again in 2006, which will mainly assess whether the MIDP has met its objectives.

These objectives include the development of an internationally more competitive and growing automotive industry that is able to provide high-quality and affordable vehicles and components to the domestic and international markets, provide stable and sustainable employment through increased production and make a greater contribution to the economic growth of the country by increasing production and achieving an improved sectoral trade balance.

The review has caused some tension in the industry, with fears that it could lead to the diminishing of the benefits local manufacturers currently enjoy. However, the MIDP was never designed to be a permanent feature of the automotive industry, but a transitional mechanism to allow a previously protected industry to be reintegrated into the global networks. To this extent, the programme is due to come to an end in 2012, although government has not yet finalised its plans regarding the future of the automotive industry post-MIDP.

- **Secular trend**

In numerical descriptions, such as of a time series of numbers, a secular trend is the long-term upward or downward trend in the numbers, as opposed to a smaller cyclical variation with a periodic and short-term duration.

- **Standard Industrial Classification (SIC)**

The SIC classification system defines economic activity according to 10 divisions. These are further broken down into numeric codes that define major groups, industrial groups, and industries. Descriptive text is used to define the industrial subdivisions.

- **Standard International Trade Classification (SITC)**

The SITC is a statistical classification of the commodities entering external trade designed to provide the commodity aggregates needed for purposes of economic analysis and to facilitate the international comparison of trade-by-commodity data.

- **Technology and Human Resources for Industry Programme (THRIP)**

THRIP, a programme of **the dti**, has three objectives. First, it facilitates and funds the increased participation of higher education and science council researchers and students in industrial innovation, technological adaptation and commercialisation. Secondly, THRIP encourages the formation of stronger linkages between companies in undertaking joint R&D work. Lastly, THRIP promotes technological development in the small, medium and micro enterprise (SMME) sector. THRIP operates by matching funds that are invested in innovation research by private companies. The Innovation Fund is the responsibility of the Department of Science and Technology (DST) and is administered by the National Research Foundation (NRF). It provides incentives for longer-term, large innovation research projects with cross-sectoral collaborative consortia composed of researchers from the higher education sector, government science councils, private sector, or civil society. Its aim is to reallocate research funds to achieve key national policy goals of competitiveness, quality of life, environmental sustainability and harnessing information technology.

4

Employment Dynamics

Key findings:

- The working age population is expected to continue to grow.
- The labour force has grown rapidly since 2000, but employment growth has not been able to keep up, and so the number of broadly unemployed individuals has increased.
- There has been a substantial reduction in primary sector employment between 2000 and 2004.
- Within total employment, the number of employed matriculants increased rapidly, pointing to increasing average educational attainment amongst the Province's employed population.
- However, broad unemployment has increased substantially.
- There are important spatial differences within the Western Cape.
- The challenge of making a significant impact on unemployment levels over short periods of time are shown to be immense, requiring rates of economic growth and levels of employment intensity significantly higher than currently experienced.



1. Introduction

Shared growth and integrated development in the Western Cape depend critically on improved labour market performance and enhanced economic empowerment and participation, particularly among poorer communities.

There is much evidence pointing to the persistence of high unemployment levels, despite recent economic growth successes. This has contributed to entrenched and deepening poverty, and has stretched the development gap – the antithesis of shared growth and integrated development.

Job creation and improved labour market performance are fundamental to building a shared, inclusive and vibrant economy that responds to the dilemma of systemic poverty and inequality.

However, creating jobs and ensuring that all groups within society are able to access these jobs are no simple tasks.

This chapter presents a closer analysis of the Western Cape labour market, providing both an historical review and a forward projection or outlook. This sets a credible analytical platform to debate the appropriate interventions for improved Provincial labour market performance, enhanced job creation and reduced unemployment.

Section two of the chapter investigates demographic trends in the Province – changes in the historical population size and structure, as well as future expected changes to 2015 – using the ASSA¹-based demographic model commissioned by the Western Cape Department of Social Services and Poverty Alleviation.

Such demographic trend analysis is important for future labour market projections, as the size and structure of the labour force are closely linked to that of the working age population (15-65 year-olds)².

Section three moves on to analyse developments in the labour market between 2000 and 2004. Important questions revolve around whether the Western Cape has experienced positive job creation over the period, and whether unemployment has continued its rising trend.

The section presents a clear picture of the structure of the labour force, employment and unemployment. The analysis pays particular attention to youth (15-34 year-olds), in line with the trends identified in PER&O 2005, as well as national and Provincial government policy emphasis.

¹ Actuarial Society of South Africa

² All labour market analyses in this chapter use age groups from 15-65 years – the years that are defined as working age. However, the demographic projections use age groups that start on a multiple of 5 and end on a 4 or a 9, for example, 0-4; 5-9; 10-14; 60-64; and therefore 15-64.

Geography is becoming increasingly important within the policy context, and the spatial analysis of employment and unemployment in *PER&O 2005* is updated and extended in this chapter.

Section four begins to look at labour market winners and losers within a spatial context. As different regions have diverse economic structures, it is reasonable to expect varying experiences of recent economic developments, both at the aggregate and sectoral levels.

The final section of the chapter takes the Western Cape labour market analysis an important step further, presenting simple scenarios of labour market performance up to 2015.

Like all scenario projections, these are subject to various constraints, not least of which is the inability to control for all possible events that may affect the labour market. However, it is hoped that this exercise will help to stimulate the debate around future Provincial labour market performance.

As part of this, the scenarios investigate the feasibility of halving broad unemployment in the Western Cape by 2015.

Readers should note that since this chapter examines the Western Cape labour market from a number of different angles – demographically, spatially and structurally – trends witnessed in a particular area are likely to be congruent to those observed in the complementary analyses, and thus do not represent a duplication of information.

2. Demographic trends to 2015

2.1 Population size and structure

Labour market performance relates largely to the quantity and quality of labour supply and the quantity and quality of labour demand.

A key determinant of labour supply is the population size and structure. Trends in the Province's demographic profile are essential in understanding labour market performance in the Western Cape.

The demographic analysis in this chapter draws on the demographic model commissioned by the Western Cape Department of Social Services. Taking both HIV/Aids and migration into account, the model adapts the ASSA 2003 model to the Western Cape, projecting the Province's population from 2001 to 2025. The analysis below only considers the projections to 2015.

As seen in table 1, the model estimates that about 4,9-million people lived in the Western Cape in 2005. This tally represents an increase of 935 000 over the 1995 headcount and over 1,9-million more than in 1985.

The Province has therefore seen relatively rapid population growth over the past two decades, with an average growth rate of 3,0 per cent a year between 1985 and 1995 and 2,1 per cent a year between 1995 and 2005.

Projections suggest a marked slowing down of Provincial population expansion over the next 10 years. It is estimated that by 2015, just under 5,4-million people will live in the Western Cape. The expected headcount represents an increase of 428 000 individuals over the decade, equivalent to an average annual growth rate of 0,8 per cent.

Africans constitute the most rapidly growing segment of the provincial population, and are expected to grow at an average annual rate of 3,9 per cent between 1985 and 2015. However, this rapid rate of growth is concentrated in the first two decades of the period, averaging more than five per cent a year between 1985 and 2005. Over the next 10 years, the average annual growth in the african population falls to an average of 1,3 per cent a year.

Population growth amongst coloureds and whites is notably slower at an average of 1,3 per cent and 1,6 per cent a year, respectively, and trends downwards over the three decades. While the coloured population growth rate falls from 1,6 per cent a year from 1985 to 1995 to an estimated 1,0 per cent a year from 2005 to 2015, that of whites actually turns negative over the latter period. In fact, the white population is expected to have peaked in 2005 at 905 000.

Africans are expected to increase as a share of the Province's population from 28,2 per cent in 2005 to 29,3 per cent in 2010 and slightly higher at 29,4 per cent in 2015. The Province's coloured population is expected to remain constant at 52,5 per cent between 2005 and 2010, rising to 53,2 per cent in 2015. In contrast, the white population share will drop from 18,4 per cent in 2005 to 17,3 per cent in 2010 and 16,4 per cent in 2015, its lowest level in more than 30 years.

Using a gender lens, between 1985 and 2015, female population growth at 2,1 per cent a year is slightly higher than that of males at 1,9 per cent a year. From 2004 onwards, females will outnumber males in the Province by more than 100 000, rising to a projected 117 000 in 2015.

In terms of age profile, over the same period the Western Cape population grows notably older as the group over 65 years of age grows at 4,0 per cent a year, and the group aged 35-64 years grows at 3,5 per cent a year.

Table 1: Population growth in the Western Cape, 1985 – 2015

	Total population ('000s)				Total change ('000s)				Average annual growth rate (%)			
	1985	1995	2005	2015	1985-1995	1995-2005	2005-2015	1985-2015	1985-1995	1995-2005	2005-2015	1985-2015
African	498	830	1 388	1 577	332	558	189	1 079	5,2	5,3	1,3	3,9
Coloured	1 932	2 272	2 589	2 848	340	318	259	916	1,6	1,3	1,0	1,3
Asian	15	39	48	52	24	10	4	37	9,9	2,3	0,8	4,2
White	540	855	905	881	315	50	-24	341	4,7	0,6	-0,3	1,6
Male	1 502	1 965	2 413	2 621	463	449	208	1 119	2,7	2,1	0,8	1,9
Female	1 484	2 031	2 517	2 738	547	487	220	1 254	3,2	2,2	0,8	2,1
0-14 yrs	1 058	1 246	1 332	1 383	187	86	51	324	1,6	0,7	0,4	0,9
15-34 yrs	1 134	1 473	1 779	1 732	339	306	-47	597	2,6	1,9	-0,3	1,4
35-64 yrs	683	1 087	1 556	1 890	404	468	335	1 207	4,8	3,6	2,0	3,5
65+ yrs	110	190	265	354	79	75	90	244	5,6	3,4	3,0	4,0
Total	2 986	3 996	4 931	5 359	1 010	935	428	2 373	3,0	2,1	0,8	2,0

Source: Own calculations, Centre for Actuarial Research (CARE) (2005), University of Cape Town (UCT) (2005)

2.2 Migration

Aside from natural population increase, migration is an important contributor to demographic change in the Western Cape.

Between 1985 and 2015, the Western Cape expects to gain about 541 000 individuals through net in-migration. Figure 1 shows that the pattern of migration varies over the period.

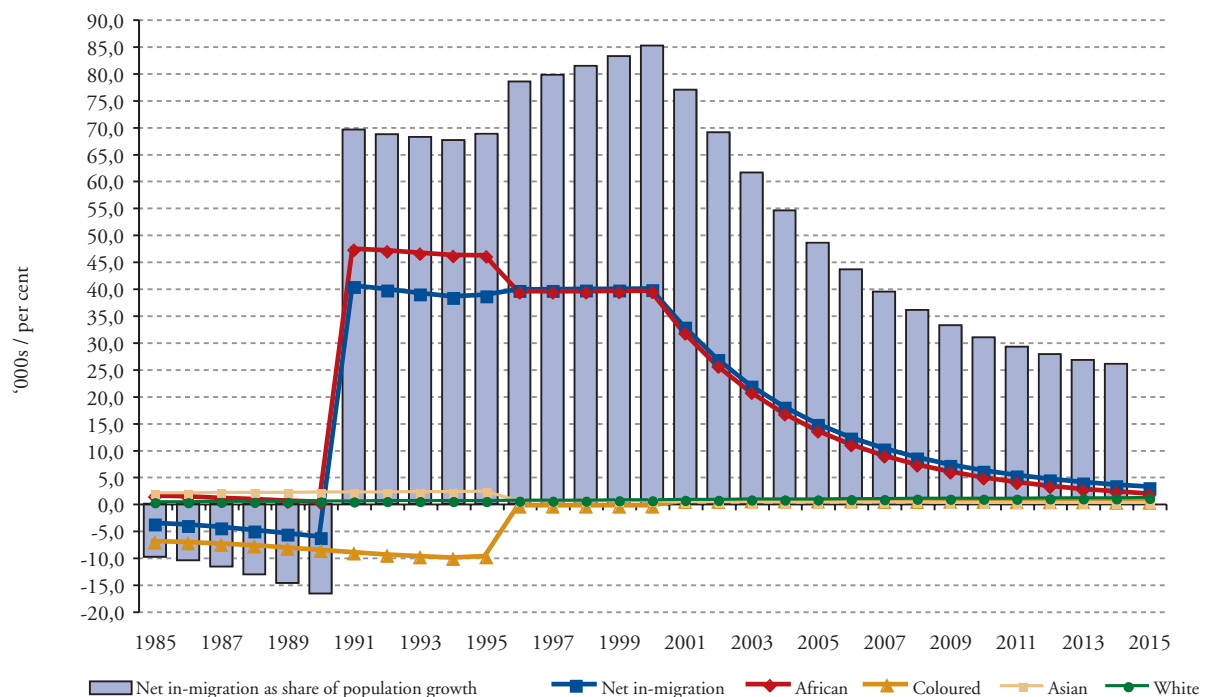
The Province experienced net emigration between 1985 and 1990, totalling around 30 000 individuals. From 1991 to 2000, the removal of influx control legislation contributed to rapid in-migration of about 38 000 to 41 000 people a year.

However, from 2000 onwards the rate of migration has slowed and is projected to continue to slow. Thus, while net in-migration between 1991 and 2000 is estimated to have added 394 000 individuals to the population, from 2001 to 2015 the Western Cape will gain only 177 000 people, or an average of 11 800 a year.

Internationally, migration is often seen as a threat by both sending and receiving regions. Receiving regions tend to feel that in-migrants represent a burden to their economies and government budgets, while sending regions often perceive a loss of scarce skills and expertise in the short term.

Not surprisingly given their economic dominance, Gauteng and the Western Cape are major receiving regions for internal migration. In-migration both enhances and places demands on the receiving regions. These demands are often starkly experienced in the short term in the areas of service delivery and job creation where backlogs do exist, for instance housing, schooling and health services.

Figure 1: Net in-migration to the Western Cape, 1985 – 2015



Source: Own calculations, CARE (2005)

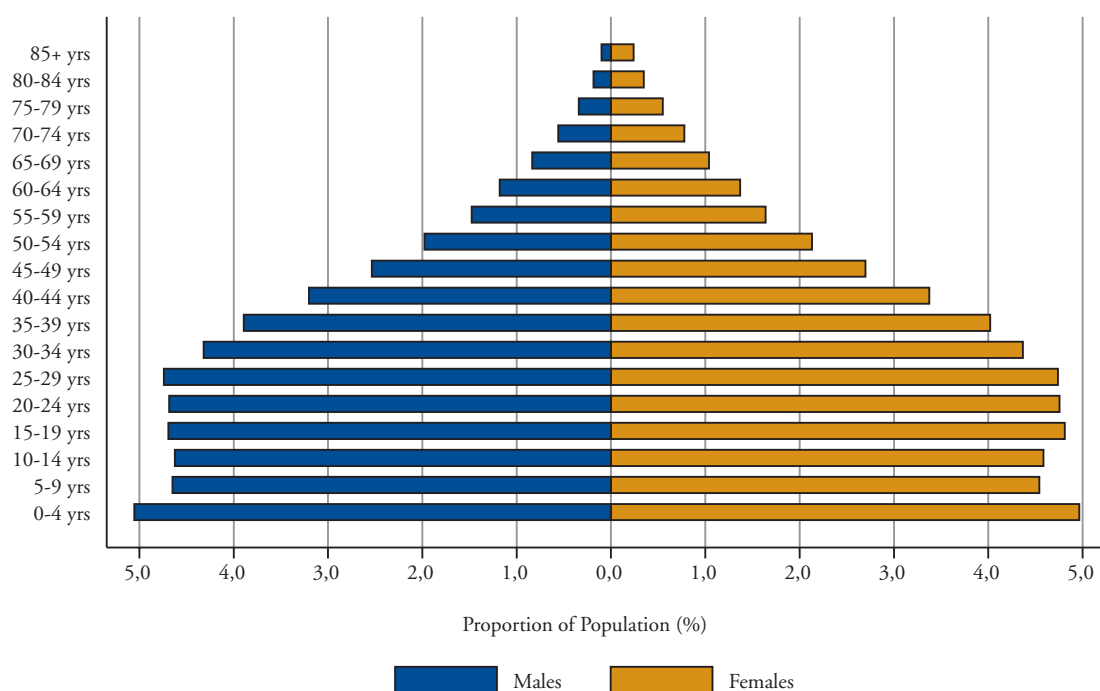
Note: Net in-migration as a share of population growth is calculated as the net number of immigrants in a given year, divided by the change in the total population from the given year to the following year.

On the other hand, benefits associated with in-migration tend to realise over the medium term, particularly in terms of enhancing the working-age group and delaying ageing of the demographic profile. Between 1985 and 1995, 49,6 per cent of net in-migrants were under the age of 30 years. Between 1995 and 2005, the proportion had risen to 67,2 per cent, but is expected to fall to 51,2 per cent over the next 10 years.

2.3 Population profile

Figure 2 presents the Province's population pyramid for 2000 and figure 3 that for 2015. The 2000 pyramid is relatively bottom heavy; the lower age-groups constitute the largest groups within the overall population. In that year, 66,6 per cent of the population was 15-64 years of age – the so-called working-age population – while 28,4 per cent of the population was under 15 years of age.

Figure 2: Western Cape population pyramid, 2000



Source: Own calculations, CARE (2005)

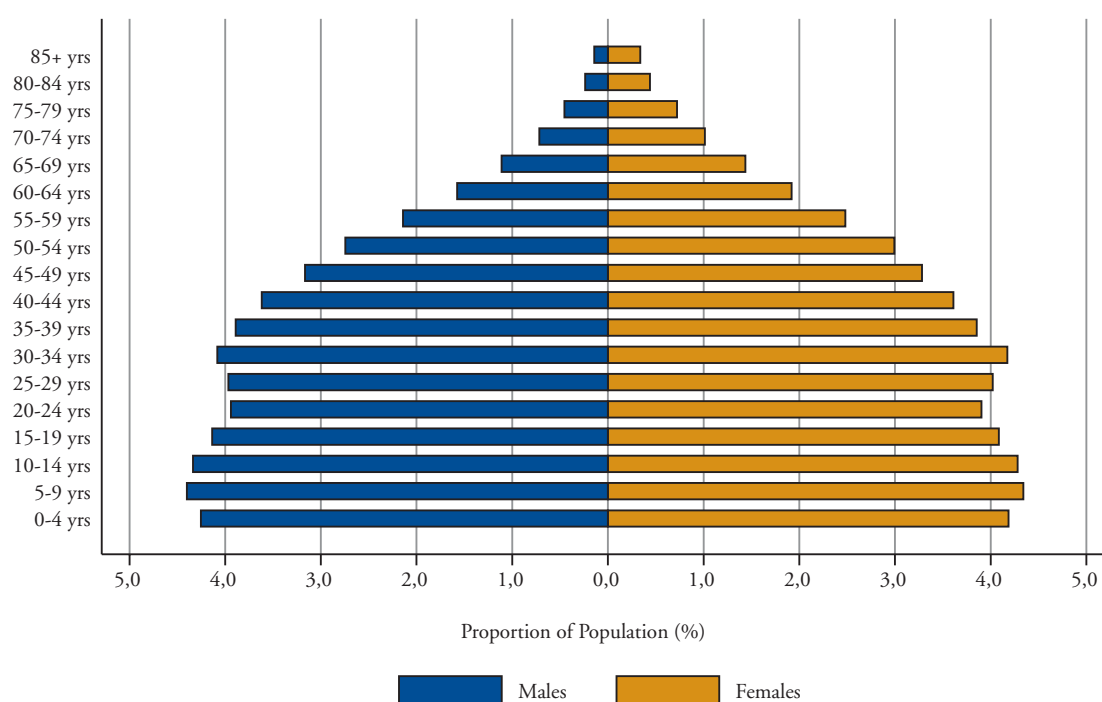
By 2015, the situation changes somewhat. The base of the pyramid narrows, and the middle portion thickens. The age structure of the population changes to the extent that some older age-groups are numerically (and proportionally) larger than the 0-4 year age group, indicating the beginning of a long process towards a falling population.

In 2015, therefore, the working-age population is expected to account for 67,6 per cent of the population, up one percentage point from 2000, while adults aged 65 years and older are expected to represent 6,6 per cent of the population, up from 5,0 per cent of the population in 2000.

The overall effect, therefore, is a reduction in the proportion of children within the population from 28,4 per cent in 2000 to 25,8 per cent in 2015.

Despite this decline in the proportion of children within the total population, it is important to remember that this does not mean that the absolute number of children will decline. Instead, the number of children under the age of 15 years is expected to rise from 1,28-million in 2000 to 1,33-million in 2005 and 1,38-million in 2015.

Figure 3: Western Cape population pyramid, 2015



Source: Own calculations, CARE (2005)

2.4 Western Cape population within Cape Town

In terms of the geographical distribution of the population, Cape Town has historically dominated the Province, and is set to continue the trend. In 1985, the city accounted for just under two-thirds of the Provincial population. This fell to 65,0 per cent in 1990 and is expected to remain around that level up to 2015.

Figure 4 shows that for all race groups, the city's dominance declines. In 2005, almost four in five africans residing in the Western Cape continue to live in Cape Town. This is a decline from 86,9 per cent in 1985, but is not expected to change much over the next decade. A similar, though less pronounced trend is visible for whites, with a decline in the importance of Cape Town between 1985 and 2005 and an expected stabilisation over the following decade.

Amongst children under 15 years of age, Cape Town is expected to account for a slightly greater proportion in 2015 than is the case currently, but this is still below the proportion prior to 2000.

The working age population is expected to become more concentrated within Cape Town, which is not unexpected due to the concentration of economic activity within the city and the greater employment prospects that this implies.

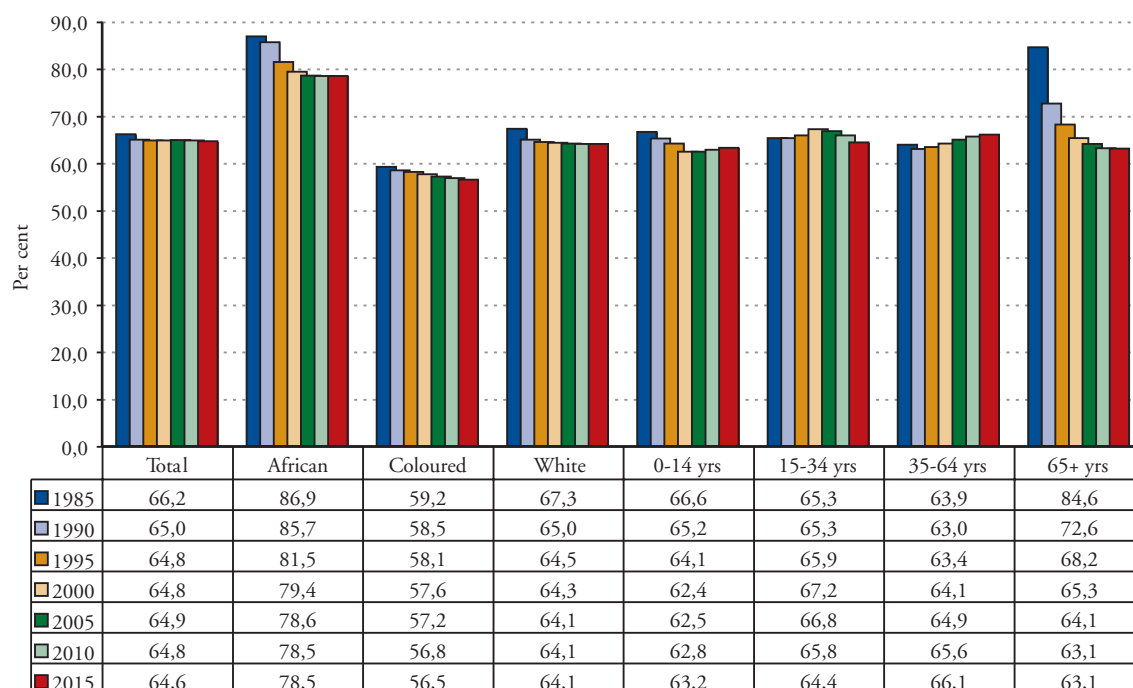
In contrast, relatively fewer older individuals are likely to call the city home in the future. In 1985, almost 85 per cent of people aged 65 years and over resided in Cape Town. By 2000, this had fallen to 65,3 per cent and is expected to stabilise at just over 63 per cent between 2005 and 2015.

The Province's changing demographic composition presents both opportunities and challenges. The slowdown in the growth of the number of young individuals overall may lower the requirement in terms of growth in primary and secondary education spending. However, it is important to remember that although the overall school-going population may not be growing rapidly, there will continue to be changes in the geographical distribution of learners that may require shifts in spending.

The working-age population is expected to experience rapid increase, particularly the group between 35 and 64 years of age. This increase in the number of potential workseekers also represents both opportunities and a challenges. The Western Cape may find itself with a greater variety of workseekers that may begin to help to alleviate labour supply constraints in particular sectors. However, more potential workseekers may instead translate into higher unemployment levels, particularly if individuals are not appropriately skilled. This, in turn, poses an important challenge to educational institutions, from schools through to universities, actively to encourage individuals to further their education and to provide guidance on skills that are in demand, both at present and in the future.

Finally, the most rapid population growth is expected amongst individuals aged 65 years and above. This means that greater demand may be expected in those sectors that cater to the needs of older individuals, particularly the health sector. It also means that both public and private sector institutions may need to begin paying greater attention to serving the needs of older individuals better.

Figure 4: Proportion of Western Cape's population within Cape Town, 1985 – 2015



Source: Own calculations, CARE (2005)

3. Employment and unemployment in the Western Cape, 2000 – 2004

3.1 Recent employment and unemployment trends

The most comprehensive source of labour market data in SA is the biannual LFS, conducted by Stats SA. This is a nationally representative survey of approximately 100 000 individuals from which a variety of labour market and other data can be gleaned. The analysis below draws on the September 2000 and the September 2004 LFSs^{3,4}.

The working age population (individuals 15-65 years of age) constitutes the group from which the labour force can potentially be drawn. Individuals in this group can choose to be part of the labour force or not. As a result, the size of the working age population will impact on the size of the labour force.

Table 2 shows that between 2000 and 2004, the working age population in the Western Cape appears to have grown relatively rapidly, at 2,7 per cent a year. This amounts to an increase of around 313 000 individuals.

Over the same period, the broad labour force has expanded by 269 000 individuals at an average rate of 3,2 per cent a year. It is not possible to discern whether employment has increased over the period, since the change is not significant at the 95 per cent level of confidence.

Use of confidence intervals in statistical analysis

Confidence intervals are calculated because the datasets used are from sample surveys and the possibility therefore exists that the estimates generated will not be truly representative of the entire population. The confidence intervals indicate the likely range within which the estimate should fall, if one was to resample the same population and calculate these estimates with the new data*. This range is therefore a valuable marker and should be given as much attention as the point estimate.

The confidence intervals become particularly useful when making comparisons across data points. If the intervals overlap, one cannot say with any precision that there has been a change. If they do not overlap, one can say with a certain degree of *confidence* that a *statistically significant* change has occurred. Although the confidence intervals are useful in that they provide us with the likely range, they are affected by data quality concerns, and are only as 'precise' as the data upon which they are based.

** The confidence interval is generally calculated according to a specified probability of the interval containing the true population value. The most common level is at 95 per cent, which means that, statistically, the true value has a 0,95 probability of falling within this range.*

Source: PER&O 2005

³ The LFS of September 2000 used in this chapter has population weights derived from the 2001 Census calculated by Stats SA. This dataset was originally released with weights based on the 1996 Census. The September 2004 LFS is weighted according to the 2001 Census.

⁴ Note that the detailed datasets of the September 2005 LFS were not available at the time of analysis.

Both broad and narrow unemployment appear to have increased over the period, as has the narrow labour force, although it is only the change in the number of broadly unemployed individuals that is statistically significant. Broad unemployment grew by 179 000 individuals over the four-year period, equivalent to an average annual growth rate of 9,2 per cent.

The Western Cape has also seen a statistically significant increase in the number of so-called discouraged workseekers – individuals who are unemployed but have given up actively looking for work. They are captured in the broad definition of unemployment, but not the narrow definition.

The number of discouraged workseekers increased by an average of 19,5 per cent a year, off a relatively low base of 107 000 individuals in 2000 to 218 000 in 2004. Despite this rapid rate of growth, the Western Cape remains home to relatively few discouraged workseekers. In the Western Cape, discouraged workseekers constituted 9,5 per cent of the broad labour force, compared to 20,0 per cent for the country as a whole.

Definitions of unemployment

Translating the layperson's concept of being unemployed ('not having a job') into a technical and measurable form is a relatively difficult task.

Following that used by the International Labour Organisation (ILO), SA's official (**narrow**) definition of unemployment definition classifies individuals as being unemployed if they "(a) did not work during the seven days prior to the interview, (b) want to work and are available to start work within a week of the interview, and (c) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview" (Stats SA *Statistical Release P0210 2002*: xv).

This places the 'burden of proof' on the shoulders of non-employed individuals: they need to demonstrate that they have made some attempt at finding or creating a job for themselves.

The expanded (broad) definition of unemployment, on the other hand, does not include criterion (c).

Although the narrow definition is the official definition in SA, the evidence suggests that the broad definition is better able to accurately identify the unemployed in countries like SA, where unemployment rates are very high and many individuals give up looking for work, becoming what is termed 'discouraged workers' (see Kingdon and Knight 2001: 84–87, for a complete discussion).

Thus, although details of narrow unemployment are provided, most of the analysis in this chapter uses the expanded definition of unemployment. That is, simply stated, if you have not worked in the last week but want to work and would, if offered a job, be able to start working within a week, you are classified as unemployed according to the expanded definition.

Source: PER&O 2005

Within the national context, the Western Cape's working age population is growing more rapidly than that of the country as a whole. Nationally, the working age population grew by just over 1,4 million individuals at an average annual rate of 1,3 per cent. In contrast, employment levels in 2004 were barely changed from four years earlier. On the positive side, narrow unemployment and the narrow labour force were both largely unchanged from 2000.

However, both broad unemployment and the broad labour force experienced statistically significant increases between 2000 and 2004. Broad unemployment rose to 8,1 million individuals at an average rate of 6,1 per cent per annum, while the broad labour force increased to 19,7 million at 1,5 per cent a year.

This meant that in 2004, the national broad unemployment rate was 41,0 per cent, while that of narrow unemployment was 26,2 per cent, the former representing a statistically significant increase from 34,3 per cent in 2000.

Table 2: Labour market aggregates, 2000 – 2004

	2000 ('000s)	2004 ('000s)	Total change ('000s) (%)		Average annual growth (%)
Western Cape					
Working age population	2 834	3 147	313	11,0	2,7
Employed	1 601	1 691	90	5,6	1,4
Broad unemployed	426	604	179	42,0	9,2 *
Broad labour force	2 027	2 296	269	13,3	3,2 *
Narrow unemployed	319	387	68	21,2	4,9
Narrow labour force	1 920	2 078	158	8,2	2,0
Discouraged workseekers	107	218	111	104,2	19,5 *
GDP (2000 prices, R-million)	119 099	140 896	21 797	18,3	4,3
South Africa					
Working age population	27 869	29 305	1 436	5,2	1,3
Employed	12 238	11 643	-596	-4,9	-1,2
Broad unemployed	6 379	8 083	1 704	26,7	6,1 *
Broad labour force	18 618	19 726	1 108	6,0	1,5 *
Narrow unemployed	4 162	4 135	-26	-0,6	-0,2
Narrow labour force	16 400	15 778	-622	-3,8	-1,0
Discouraged workseekers	2 218	3 948	1 731	78,0	15,5 *
GDP (2000 prices, R-million)	922 148	1 056 771	134 623	14,6	3,5

Source: Own calculations, September 2000 and September 2004 LFS (Stats SA), SARB (2005), BER

Note: Statistically significant changes at the 95 percent confidence level are indicated with an asterisk (*). GDP and GDP growth rates are not subject to significance testing.

Natural population growth, coupled with in-migration, means that the working age population in the Western Cape has grown relatively rapidly compared to the national situation. This places the Province under above-average pressure to create employment opportunities to absorb new labour market entrants.

Despite positive economic growth between 2000 and 2004, both nationally and in the Western Cape, national employment appears to have stagnated, as has employment at the Provincial level. Overall, therefore, employment has not been able to grow sufficiently and the number of unemployed individuals in the Western Cape has grown relatively rapidly, with broad unemployment growing approximately 1,5 times faster in the Province than nationally.

Calculating target employment growth rates (TGRs) and employment absorption rates (EARs) are useful measures to assess and explain labour market performance and trends in the context of an expanding labour force.

Target employment growth rate and employment absorption rate

The TGR measures how fast employment should have expanded over the period to provide work for all net entrants to the labour market.

The TGR is defined as $TGR_k = \frac{EAP_{k,t+1} - EAP_{k,t}}{L_{k,t}}$ where EAP_k refers to the economically active

population of group k , defined by any given covariate, and L_k is the number of employed group k individuals.

The TGR is independent of the rate or level of unemployment in the base year, because it captures the growth rate required to provide employment to only new entrants. If actual employment growth reached the target rate, the overall rate of unemployment would decline. This is because, considering new labour market entrants as a group on their own, if employment grew at the target growth rate, thereby absorbing all new entrants into employment, their unemployment rate would be zero. The fact that, in reality, not all new jobs go to new entrants does not impact on this reduction in the overall unemployment rate.

The EAR answers the question 'by how much did employment growth miss the target growth rate?' by comparing actual employment growth and the target rate.

Using the same symbols as above, the EAR is expressed as a percentage and is defined as follows:

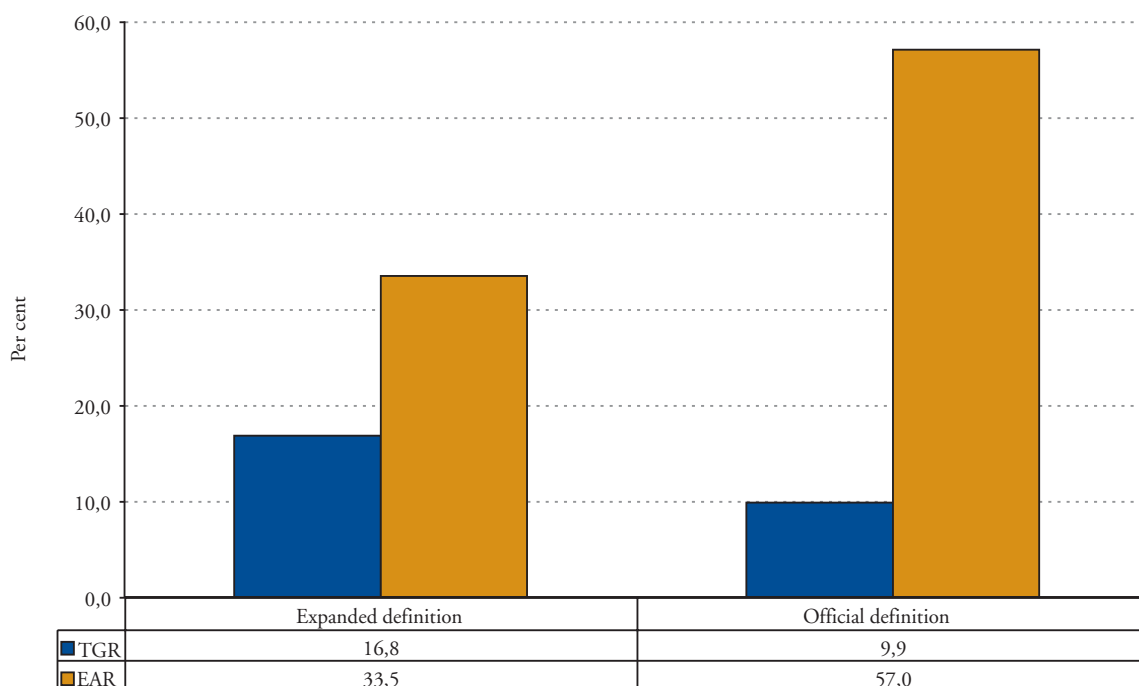
$$EAR_k = \frac{\frac{L_{k,t+1} - L_{k,t}}{L_{k,t}}}{\frac{EAP_{k,t+1} - EAP_{k,t}}{L_{k,t}}} = \frac{L_{k,t+1} - L_{k,t}}{EAP_{k,t+1} - EAP_{k,t}}$$

The higher the EAR, the better the actual relative to the desired employment performance. If all net labour force entrants are absorbed into employment, the EAR will be 100. Where only some net labour force entrants find jobs, the EAR is less than 100, while a reduction in the absolute level of unemployment is associated with an EAR above 100.

Figure 5 presents estimates of the TGR and EAR for the Western Cape for the period 2000 to 2004. The TGR of employment measures 16,8 per cent according to the expanded definition and 9,9 per cent according to the official definition of unemployment. In comparison, however, the actual rate of employment growth was only 5,6 per cent. This means that the EAR for the period was only 33,5 per cent using the expanded definition and 57 per cent using the narrow definition of unemployment.

Clearly, employment growth has been insufficient to absorb large numbers of labour market entrants into employment in the Province, hence the rapid increase in broad unemployment.

Figure 5: Employment target growth rates and employment absorption rates, 2000 – 2004



Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

3.2 Labour force participation and the labour force

As mentioned earlier, the size of the working age population (ages 15-65) directly affects the size of the labour force. The latter is also affected by individuals' propensity or choice to enter the labour market. The labour force participation rate (LFPR) is therefore defined as the share of the working age population that is part of the labour force. When individuals enter the labour force, they are either taken up into employment or they remain unemployed. Since there are two definitions of unemployment, there are two 'labour forces' and, correspondingly, two LFPRs can be calculated.

Figure 6 presents estimates of broad LFPRs for the Western Cape in 2000 and 2004. Although none of the changes presented are statistically significant, the figure provides a view of the extent of labour force participation across variously defined groups.

The rate of labour force participation is slightly higher in the Western Cape than in the country as a whole. In 2004, 72,9 per cent of working age individuals in the Western Cape were labour force members, compared to 67,3 per cent nationally.

African labour force participation is slightly higher at 77,5 per cent than that of coloured and white individuals.⁵ Further, males are more likely to enter the labour force than their female counterparts, a pattern that is also evident within the individual race groups. Nearly eight in 10 males in the Province are labour force members (whether employed or unemployed) compared to less than seven in 10 females.

Unsurprisingly, the likelihood that an individual is part of the labour force varies by age. Around 55 per cent of individuals 15-24 years of age are engaged in the labour force, substantially lower than the overall LFPR for the Province. Interestingly, this rate is substantially higher than the national LFPR amongst this age-group of 42,9 per cent. This is of some concern if it means that young individuals in the Western Cape are foregoing education and future returns in better paying employment for possible employment in the present, irrespective of whether this constitutes a voluntary choice or preference, or whether it is forced, due perhaps to poverty or the high costs of education.

Amongst 25-34 year-olds, labour force participation is at its peak, with 90,5 per cent of individuals in this age-group being either employed or unemployed. Thereafter, LFPRs decline, falling to 79 per cent of 45-54 year-olds and to only 45,8 per cent of 55-65 year-olds. This is clearly related to the fact that the youngest individuals in the working age population are more likely than others to be engaged in education, while the oldest are more likely than others to have retired.

Table 3 shows that by 2004, just less than 2,3-million individuals in the Western Cape were engaged in the broadly-defined labour force, up by 269 000 from four years earlier. This increase is largely related to the increase in the Province's working age population.

Coloured individuals dominate the labour force, accounting for 49,9 per cent of the total in 2004, while africans account for just under 28 per cent and whites for just over 21 per cent.

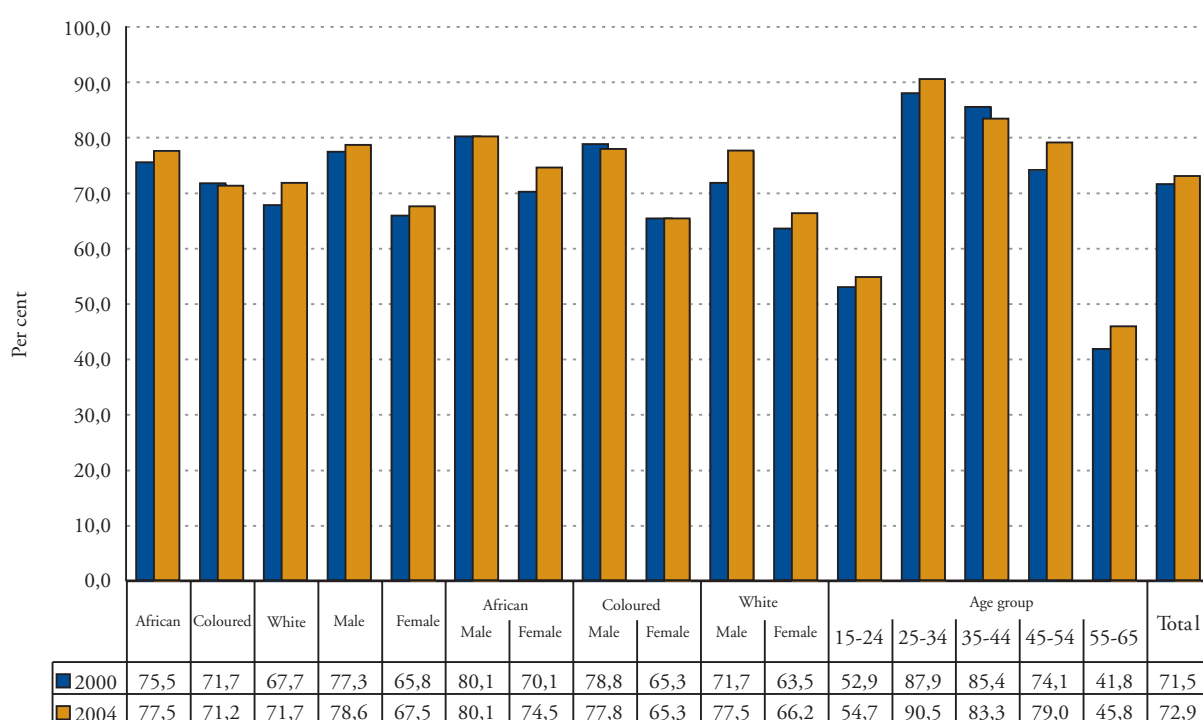
The growth in the labour force has been slightly more concentrated amongst females than their share of either the population or the 2000 labour force would justify, stemming from increased labour force participation amongst women. This trend corresponds to national trends of increased female labour force participation after 1994. At an average annual rate of 3,6 per cent, female labour force growth totals 143 000 individuals over the period.

⁵ Due to the small sample size, details for asians are not presented in this analysis.

The bulk of the labour force (56%) is concentrated in the prime working ages of 25-44 years, with a further 20,8 per cent aged 15-24 years.

Although no age group in the broad labour force experienced a statistically significant increase in size at the 95 per cent level of confidence, broad labour force members 45-54 years of age did see an increase at the 90 per cent level. This group expanded relatively rapidly at an average annual rate of 5,5 per cent off a relatively small base, and totalled 390 000 individuals in 2004.

Figure 6: Western Cape broad labour force participation rates, 2000 and 2004



Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

From table 3 it is also clear that most labour force members live in formal dwellings (82,7% in 2004, equivalent to just under 1,9-million individuals).

In terms of education, the only statistically significant changes are amongst individuals with a Grade 9-11 level of education and holders of matric certificates (Grade 12). In 2000, around 486 000 and 443 000 labour force members had, respectively, a Grade 9-11 education and no more than a matriculation certificate.

The number of labour force members with between Grade 9 and Grade 11 qualifications grew by 152 000, equivalent to 7,1 per cent per annum over the period. In 2004, this group accounted for 27,8 per cent of the labour force.

The number of matric certificate holders grew more rapidly by an average 10,2 per cent per annum so that this group numbered about 653 000 individuals by 2004, representing 28,5 per cent of the overall labour force.

Between them, these two groups accounted for over 130 per cent of net broad labour force growth between 2000 and 2004. This rapid increase in relatively educated labour force members is interesting and raises questions as to whether these individuals are finding employment or whether they are merely entering the labour force and remaining unemployed.

Table 3: Composition of the Western Cape labour force, 2000 and 2004

	2000 '000s	Share	2004 '000s	Share	'000s	Change Share	Average annual growth (%)
African	458	22,6	638	27,8	180	66,9	8,6
Coloured	1 105	54,5	1 145	49,9	40	14,9	0,9
White	436	21,5	489	21,3	53	19,7	2,9
Male	1 087	53,6	1 214	52,9	127	47,1	2,8
Female	939	46,3	1 082	47,1	143	53,0	3,6 *
15-24 year-olds	399	19,7	477	20,8	79	29,2	4,6
25-34 year-olds	716	35,3	775	33,8	59	22,0	2,0
35-44 year-olds	481	23,7	510	22,2	29	10,7	1,5
45-54 year-olds	314	15,5	390	17,0	76	28,2	5,5
55-65 year-olds	116	5,7	143	6,2	27	9,9	5,3
No education	58	2,9	48	2,1	-10	-3,7	-4,6
Grades 0-8	668	32,9	606	26,4	-62	-22,9	-2,4
Grades 9-11, NTC I & II **	486	24,0	638	27,8	152	56,6	7,1 *
Grade 12, NTC III	443	21,9	653	28,5	210	78,1	10,2 *
Diploma/Certificate	186	9,2	182	7,9	-4	-1,4	-0,5
Degree	169	8,3	135	5,9	-34	-12,5	-5,4
Formal dwelling	1 672	82,5	1 898	82,7	226	84,0	3,2
Informal dwelling	348	17,2	351	15,3	4	1,4	0,3
Total	2 027	100,0	2 296	100,0	269	100,0	3,2 *

Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

Notes: 1. Statistically significant changes at the 95 per cent confidence level are indicated with an asterisk (*).
2. Formal dwellings comprise dwellings or brick structures on a separate stand or yard on a farm, flat or apartment in a block of flats, town/cluster/semi-detached house (simplex, duplex or triplex), unit in retirement village, dwelling/flat/room in backyard, and room/flatlet. Informal dwellings comprise traditional dwelling/hut/structure of traditional materials, informal dwelling/shack in backyard, informal dwelling/shack not in backyard, e.g. in an informal/squatter settlement or on farm, and caravan/tent.

** NTC: National Technical Certificate

Further, the Western Cape is relatively fortunate compared to the rest of the country in this regard. The number of labour force members with matric certificates increased at a rate of 7,9 per cent nationally and only accounted for 26,2 per cent of the national labour force, while the number of labour force members with a Grade 9-11 education increased by 4,8 per cent a year.

The rapid increase in the numbers of Grade 9-11 graduates and matric certificate holders entering the labour force means that the Western Cape is slightly better off than other provinces in terms of the supply of relatively skilled labour. This also presents opportunities and challenges for the education sector in enabling and encouraging these individuals to acquire higher level skills, which would improve their future employment prospects.

3.3 Employment

Table 4 illustrates that in 2004, about 1,7-million people were employed in the Western Cape. While it is tempting to claim that Provincial employment increased over the period (from 1,6 million in 2000), the difference between the two estimates is not statistically significant at the 95 per cent level. This is related in part to the small sample size within the LFS.

Approximately one half (50,6%) of employed Western Cape residents in 2004 are coloured, while 27,0 per cent are white and 21,1 per cent african.

While the coloured share of employment is largely in line with that of the broad labour force, the shares of africans and whites are not. Africans account for a smaller share of employment (21,1%) than of the labour force (27,8%), while the converse is true for whites. The result of this misalignment of relative labour force and employment shares is that whites have the lowest unemployment rate, followed by coloureds and africans.

The rapid growth in the labour force between the ages of 45 and 54 years appears to have been accompanied by employment, rather than unemployment, growth, although the increase in employment is not statistically significant.

Unfortunately, there is also no statistically significant change in employment amongst younger individuals, a sector of the labour market that was identified in the *PER&O 2005* as being more problematic in the Province relative to the national situation and therefore deserving specific attention.

The vast majority of the employed reside in formal dwellings (87,1%), although this is only slightly higher than the share of the labour force that resides in formal dwellings. Informal dwelling residents account for 11 per cent of employment, compared to 15,3 per cent of the labour force. This means that informal dwelling residents have a higher rate of unemployment than those living in formal dwellings.

Perhaps the most encouraging trend is rapid employment growth amongst matriculants. In 2004, there were 151 000 more matriculants employed than was the case in 2000. This represents an average annual growth rate of 9,1 per cent and, by 2004, employed matriculants numbered more than half a million individuals, equivalent to 30,4 per cent of Provincial employment.

Placed in the national context, growth of employment amongst matriculants was recorded at a slightly slower 7,0 per cent per annum, while this group only accounted for 27,0 per cent of total SA employment. This trend is clearly a good sign for the Province.

Table 4: Composition of Western Cape employment, 2000 and 2004

	2000		2004		Change Share	Average annual growth (%)
	'000s	Share	'000s	Share		
African	275	17,2	357	21,1	82	6,7
Coloured	885	55,3	855	50,6	-30	-0,8
White	417	26,0	456	27,0	40	2,3
Male	899	56,2	930	55,0	31	0,8
Female	702	43,8	761	45,0	60	2,1
15-24 year-olds	225	14,0	228	13,5	3	0,3
25-34 year-olds	582	36,4	578	34,2	-4	-0,2
35-44 year-olds	414	25,9	424	25,1	10	0,6
45-54 year-olds	275	17,1	340	20,1	65	5,5
55-65 year-olds	106	6,6	122	7,2	16	3,6
No education	48	3,0	42	2,5	-6	-3,2
Grades 0-8	478	29,9	401	23,7	-78	-4,3
Grades 9-11, NTC I & II	358	22,4	395	23,3	37	2,5
Grade 12, NTC III	363	22,7	514	30,4	151	9,1*
Diploma/Certificate	172	10,7	173	10,2	1	0,1
Degree	166	10,3	135	8,0	-31	-5,1
Formal dwelling	1 386	86,6	1 472	87,1	86	1,5
Informal dwelling	209	13,1	186	11,0	-23	-2,9
Total	1 601	100,0	1 691	100,0	90	1,4

Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

- Notes:**
1. Statistically significant changes at the 95 per cent confidence level are indicated with an asterisk (*).
 2. Formal dwellings comprise dwellings or brick structures on a separate stand or yard on a farm, flat or apartment in a block of flats, town/cluster/semi-detached house (simplex, duplex or triplex), unit in retirement village, dwelling/flat/room in backyard, and room/flatlet. Informal dwellings comprise traditional dwelling/hut/structure of traditional materials, informal dwelling/shack in backyard, informal dwelling/shack not in backyard, e.g. in an informal/squatter settlement or on farm, and caravan/tent.

Table 5 shows that the tertiary sector is by far the dominant sector of the Provincial economy in terms of employment. Almost 1,1 million workers representing 64,7 per cent of total employment were employed in the tertiary sector in 2004, compared to 441 000 in the secondary sector and 153 000 in the primary sector.

The primary sector appears to have experienced substantial decline over the period. In 2000, employment is estimated to have totalled 235 000 individuals. This, however, declined to 152 000 by 2004, a decline of 83 000 individuals, equivalent to an annual reduction of over 10 per cent in employment. In fact, the number of jobs lost in agriculture, forestry & fishing was almost as large as the net increase in employment over the period. On the other hand, the secondary and tertiary sectors appear to be growing in employment terms, although the changes over the period are not statistically significant. The small sample size of the Western Cape in the LFSs means that it is not possible to identify any other statistically significant changes in sectoral employment over the period.

In 2004, the major employment sectors in the Western Cape were wholesale & retail trade (341 000 workers or 20,2% of employment), CSP services (322 000 workers or 19% of employment) and manufacturing (287 000 workers or 17% of employment). These three sectors account for over 56 per cent of total Provincial employment. Agriculture, forestry & fishing was still the fifth-largest employer in 2004, despite its rapid decline from 2000 when it was the third-largest employer, employing slightly more workers than the construction sector in 2004.

Table 5: Sectoral distribution of Western Cape employment, 2000 and 2004

	2000		2004		Change		Average annual growth (%)
	'000s	Share	'000s	Share	'000s	Share	
Agriculture, forestry & fishing	235	14,7	152	9,0	-83	-92,1	-10,3 *
Manufacturing	262	16,4	287	17,0	25	27,7	2,3
Construction	117	7,3	144	8,5	27	30,4	5,4
Wholesale & retail trade	304	19,0	341	20,2	37	41,5	2,9
Transport & communication	73	4,6	70	4,1	-4	-4,0	-1,2
Financial & business services	171	10,6	230	13,6	60	66,6	7,8
CSP services	294	18,4	322	19,0	28	31,2	2,3
Private households**	113	7,1	130	7,7	16	18,1	3,4
<i>Primary sector</i>	<i>240</i>	<i>15,0</i>	<i>153</i>	<i>9,0</i>	<i>-87</i>	<i>-96,4</i>	<i>-10,6 *</i>
<i>Secondary sector</i>	<i>388</i>	<i>24,2</i>	<i>441</i>	<i>26,1</i>	<i>53</i>	<i>59,2</i>	<i>3,3</i>
<i>Tertiary sector</i>	<i>955</i>	<i>59,7</i>	<i>1 093</i>	<i>64,7</i>	<i>138</i>	<i>153,5</i>	<i>3,4</i>
Total	1 601	100,0	1 691	100,0	90	100,0	1,4

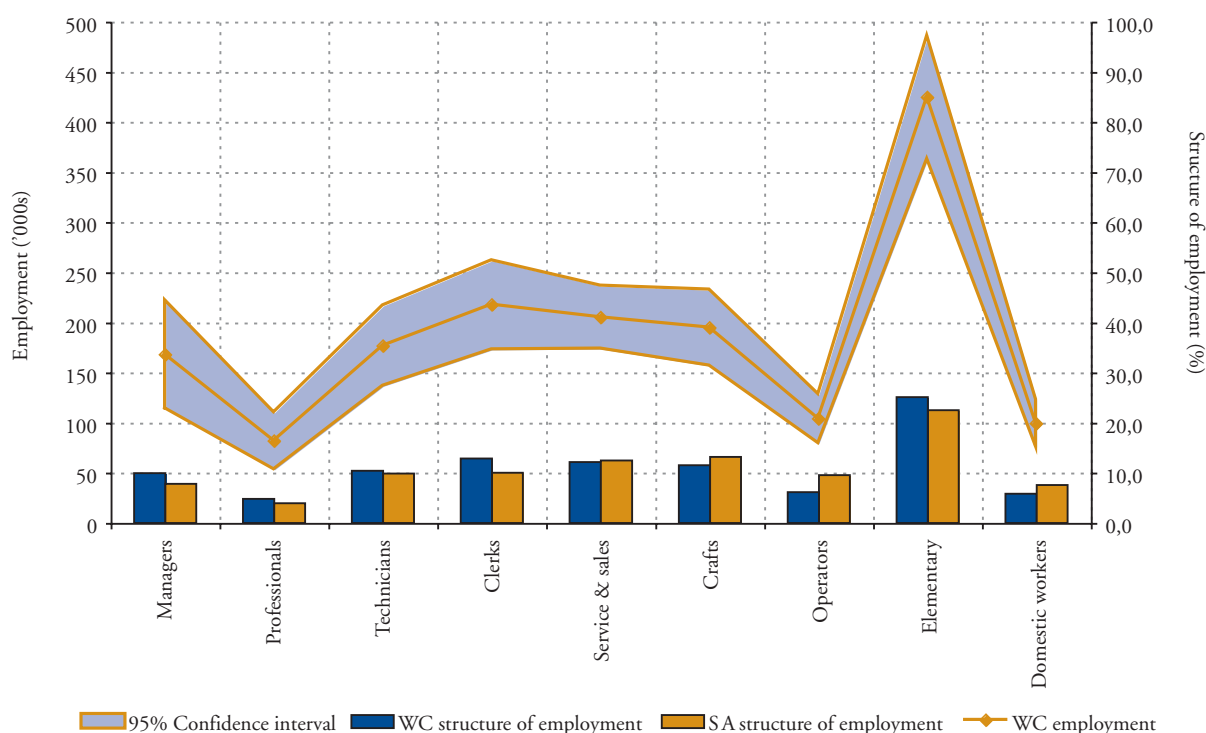
Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

Notes: 1. Statistically significant changes at the 95 per cent confidence level are indicated with an asterisk (*).
2. Only sectors with more than 20 000 workers in the province are listed individually above. However, all relevant sectors are used to calculate the primary, secondary and tertiary sector aggregates.

** Domestic workers

In terms of occupations, the structure of employment in 2004 is not statistically different from 2000. In figure 7, therefore, only the occupational breakdown for 2004 is presented. The figure presents employment estimates, the bounds of the 95 per cent confidence intervals and the share of Provincial employment.

Figure 7: Occupational structure of Western Cape employment, 2004



Source: Own calculations, LFS September 2004 (Stats SA)

Overall, the Western Cape workforce is slightly more skilled than the national workforce. Just over one quarter of the Provincial workforce is employed in high-skilled occupations (managers, professionals and technicians), compared to 21,6 per cent of the national workforce. However, the Province has relatively fewer workers engaged in skilled occupations (clerks, service & sales workers, craft workers and operators).

Apart from the elementary occupations, the largest occupational grouping both Provincially and nationally – clerks and service & sales workers – dominate the Provincial occupational structure, accounting for one quarter of employment in the Province. Craft workers and technicians follow, with 11,5 per cent and 10,4 per cent of employment, respectively.

The importance of the informal sector in providing unemployed individuals and their often destitute households with access to incomes should not be underestimated. However, although individuals engaged in informal sector activities have found a way to interact with the broader economy, the nature and security of such interactions should not be viewed equivalent to those of individuals employed in the formal sector.

Informal sector employment is not equivalent to formal sector employment, being less secure, less safe and less remunerative, and therefore employment growth in these sectors should not be seen as perfectly substitutable. There is an argument to be made in terms of promoting informal sector growth, as the sector would then be able to absorb individuals into employment who may not have found employment in the formal sector. These individuals would then at least have some form of income and this would therefore help to reduce abject poverty.

Table 6 presents the distribution of Western Cape employment across the formal, informal and domestic work sectors over the period. It is clear that the formal sector dominates total employment.

In 2004, the formal sector employed over 1,4 million individuals, equivalent to 84 per cent of total Provincial employment in that year. In contrast, the informal sector accounted for fewer than one in 10 jobs, employing 166 000 individuals.

Table 6: Formal and informal sector employment in the Western Cape, 2000 and 2004

	2000		2004		Change '000s	Share	Average annual growth (%)
	'000s	Share	'000s	Share			
Formal	1 230	76,8	1 419	83,9	188	209,2	3,6
Informal	225	14,1	166	9,8	-59	-65,7	-7,3
Domestic work	85	5,3	99	5,9	14	15,7	3,9
Total	1 601	100,0	1 691	100,0	90	100,0	1,4

Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

Notes: Statistically significant changes at the 95 per cent confidence level are indicated with an asterisk (*).

In *PER&O 2005* it was not possible to identify real changes in the distribution of employment across the formal, informal and domestic work sectors of the Provincial economy. This is still true this year at a 95 per cent level of confidence. However, at a 90 per cent confidence level, there have been statistically significant changes in employment over the four-year period. The September 2004 LFS reveals that formal sector employment has grown relatively rapidly over the period. In the four years between 2000 and 2004, the formal sector created 188 000 net new jobs. This reflects a relatively rapid rate of job creation at 3,6 per cent a year, compared to 1,4 per cent a year total employment growth rate (which is not statistically significant).

In contrast, informal sector employment continues to be lacklustre at best. It is apparent that this sector is flagging and therefore not making the contribution it could to employment growth and the alleviation of poverty.

Obviously, formal sector employment growth is the first prize, but since this sector is still not growing sufficiently to reduce unemployment, the informal sector should not be neglected. The poor performance of the informal sector points to the need for policy interventions that will stimulate informal sector economic activity in a way that it does not impact negatively on formal sector performance.

Figure 8 illustrates the differences between the 'quality' of formal and non-formal employment in the Western Cape. Formal sector workers are better off than their non-formal sector counterparts in terms of the permanence of their employment. Four-fifths of the formal sector employed has permanent jobs, compared to only half of non-formal sector workers. Conversely, only 13,2 per cent of those employed in the formal sector have temporary, casual or seasonal employment, compared to 45,5 per cent of the non-formal sector employed.

The incidence of written contracts is far higher amongst those employed in the formal sector (79,9%), as is that of paid leave (78,3%) and Unemployment Insurance Fund (UIF) deductions (80,9%), compared to the informal sector where incidence rates reach 21,5 per cent, 32,2 per cent and 32,1 per cent, respectively.

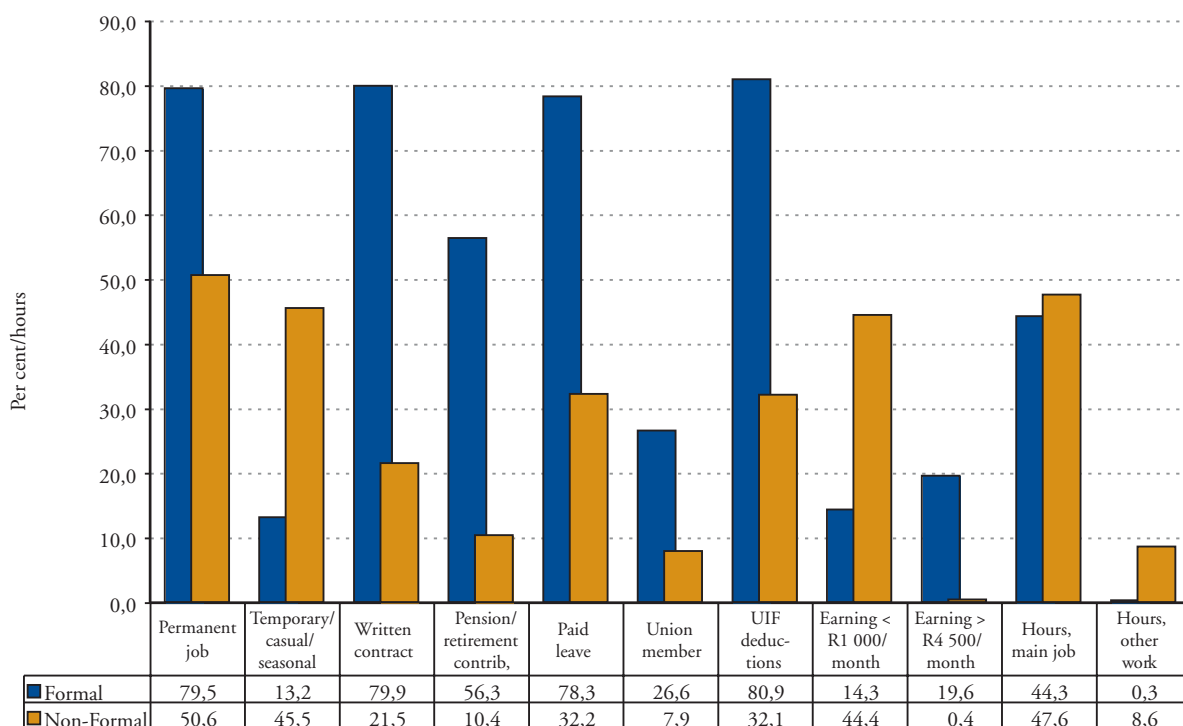
More than half of the formal sector employed benefit from employer contributions to pension or retirement funds, while this is true of only one in 10 in the non-formal sector. The rate of union membership in the formal sector is also higher than that in the non-formal sector. Non-formal sector employment is less remunerative than formal sector employment.

In 2004, only 14 per cent of formal sector workers earned no more than R1 000 per month, while this was the case for more than 44 per cent of non-formal sector workers. Conversely, almost one-fifth of the formal sector employed earned more than R4 500 per month, compared to almost none (0,4%) in the non-formal sector.

Finally, formal sector workers reported tend to work fewer hours on average compared to non-formal sector workers. Formal sector workers reported usually working 44,3 hours per week, compared to the 47,6 hours per week reported by non-formal sector workers.

The evidence therefore suggests that formal sector employment is far superior to other forms of employment in terms of the level of benefits, protection, bargaining power and remuneration. Formal sector employment is more secure and, in the event of formal sector workers losing their jobs, there is greater scope for recourse to Unemployment Insurance. This means that a formal sector worker is in a better position than his or her counterpart in the non-formal sector when they are employed and, in the event of job losses, the former is likely to be better provided for by the state social security net than the latter.

Figure 8: Characteristics of formal and non-formal employment, 2004



Source: Own calculations, LFS September 2004 (Stats SA)

Notes: Non-formal employment is defined as total employment less formal sector employment.

3.4 Unemployment

As noted, in 2004 broad unemployment in SA stood at 41 per cent, far in excess of the Western Cape's rate of 26,3 per cent. However, like employment, unemployment is not evenly distributed across the various groups that constitute the labour force and so the Provincial rate obscures variances, which are presented in figure 9.

The segmentation of the labour market is clear from the widely differing estimates of the broad unemployment rate for africans, coloureds and whites. In 2004, the broad unemployment rate amongst whites, at 6,6 per cent, is substantially lower than the 25,3 per cent rate for coloureds and the 44,0 per cent rate for africans. Similar to the national pattern, female unemployment at 29,6 per cent exceeds that of male unemployment (23,4%).

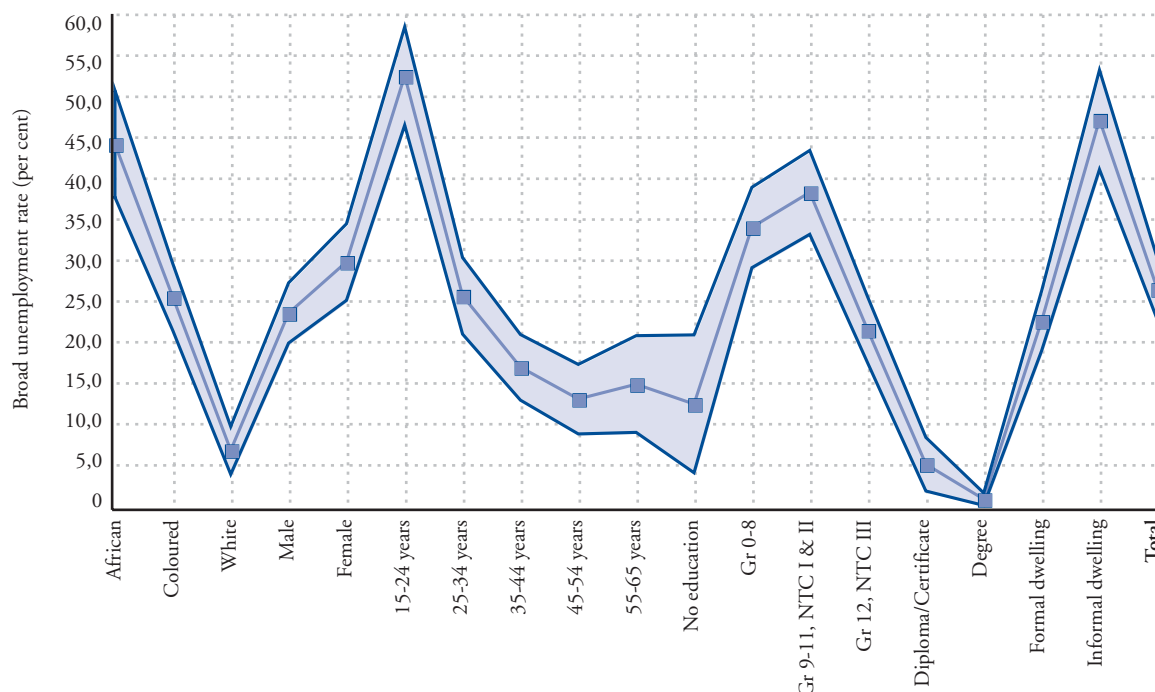
The pattern of higher unemployment amongst younger age groups identified in the *PERO 2005* is again observable in the 2004 data. The rate of unemployment amongst 15-24 year-olds is in excess of 52 per cent, which means that one in two labour force members in this age group were unable to find work in 2004. Amongst 25-34 year-olds, the unemployment rate is substantially lower at 25,5 per cent, dropping to around 13 per cent amongst 45-54 year-olds.

Generally, lower levels of education are associated with higher rates of unemployment. Unemployment amongst those with incomplete primary, complete primary and incomplete secondary education ranges between 32 per cent and 37 per cent, while holders of matriculation certificates experience a rate of 21,3 per cent. Less than three per cent of the Western Cape's tertiary educated labour force is unable to find work.

Interestingly, individuals with no education at all are less often unemployed than those with less than complete secondary education at 12,3 per cent. This is due to the fact that the sample is very small (in 2004, fewer than 50 000 labour force members had no education) and the fact that individuals without any education are generally older than average and tend to be employed in agriculture.

Residents of informal housing have a substantially higher rate of unemployment than their counterparts in formal housing. Around 47 per cent of individuals residing in informal housing are unemployed, compared to only 22,4 per cent of those in formal housing.

Figure 9: Broad unemployment rates and confidence intervals, 2004



Source: Own calculations, LFS September 2004 (Stats SA)

Notes:

1. Dark blue lines indicate upper and lower bounds of 95 per cent confidence intervals.
2. Formal dwellings comprise dwellings or brick structures on a separate stand or yard on a farm, flat or apartment in a block of flats, town/cluster/semi-detached house (simplex, duplex or triplex), unit in retirement village, dwelling/flat/room in backyard, and room/flatlet. Informal dwellings comprise traditional dwelling/hut/structure of traditional materials, informal dwelling/shack in backyard, informal dwelling/shack not in backyard, e.g. in an informal/squatter settlement or on farm, and caravan/tent.

Unemployment rates provide an indication of the severity of the unemployment problem afflicting specific groups. In contrast, table 7 presents the composition of the unemployed (denoted by percentage shares) in the Western Cape for 2000 and 2004, identifying where the main groups of unemployed individuals are concentrated.

In 2004, the Western Cape's unemployed residents were almost exclusively african or coloured, with less than 6 per cent being white or asian. Further, africans and coloureds accounted for very similar proportions of the unemployed. The fact that the Province's coloured population is so much larger than the african population results in the former having the substantially lower unemployment rates presented in figure 9.

Females continue to dominate amongst the unemployed. In 2004, 53,0 per cent of the unemployed were female. However, male unemployment has grown rapidly over the period. The number of unemployed males grew by approximately 96 000 individuals to 284 000 in 2004, equivalent to an average annual growth rate of 10,9 per cent.

The unemployed are predominantly younger than 34 years of age. In 2004, 41,3 per cent of the unemployed were 15-24 years old, while a further 32,7 per cent were 25-34 years old. In contrast, less than 12 per cent of the unemployed were over the age of 45 years, which was substantially lower than this group's share of the labour force of more than 23 per cent.

Although the data seems to suggest that the bulk of unemployment growth over the period has occurred amongst the two youngest age groups, none of these changes are statistically significant.

Seven in 10 unemployed individuals in 2004 resided in formal dwellings, while almost three in 10 were informal dwelling residents. However, the increase in the number of unemployed individuals residing in formal dwellings rose by a statistically significant 139 000, equivalent to an average annual growth rate of 10,4 per cent. This increase is likely to be, at least partly, related to the extension of formal housing to those that previously lacked it.

More than half of the unemployed have incomplete secondary education, while the remainder are almost evenly split between those with some level of primary education and those with complete secondary education.

The number of unemployed individuals with between Grade 9 and Grade 11 education grew by 116 000 over the period, at an average annual rate of 17,5 per cent. The number of unemployed matriculants grew at a similarly high rate (14,9%), adding an extra 59 000 individuals to the pool of the unemployed.

As noted earlier, employment amongst labour force members that are matriculants grew by 151 000 at an average annual rate of 9,1 per cent, while this category of the labour force itself grew by 210 000 over the period. This means that around seven out of 10 matriculants that entered the labour force were absorbed into employment, indicating that although their employment performance appears favourable, it is still not sufficient to reduce or even halt the increase in their unemployment rate.

Table 7: Composition of Western Cape broad unemployment, 2000 and 2004

	2000		2004		Change		Average annual growth (%)
	'000s	Share (%)	'000s	Share (%)	'000s	Share (%)	
African	182	42,9	281	46,4	98	54,9	11,4
Coloured	220	51,8	290	48,0	70	38,9	7,1
White	19	4,5	32	5,4	13	7,4	14,0
Male	188	44,2	284	47,0	96	53,7	10,9 *
Female	238	55,8	321	53,0	83	46,3	7,8
15-24 year-olds	174	40,9	250	41,3	76	42,4	9,5
25-34 year-olds	134	31,5	198	32,7	64	35,5	10,2
35-44 year-olds	67	15,8	86	14,1	18	10,3	6,3
45-54 year-olds	40	9,3	50	8,3	11	5,9	6,0
55-65 year-olds	10	2,4	21	3,5	11	5,9	19,2
No education	10	2,3	6	1,0	-4	-2,2	-12,0
Grades 0-8	189	44,4	205	33,9	16	8,9	2,1
Grades 9-11, NTC I & II	128	30,0	243	40,2	116	64,6	17,5 *
Grade 12, NTC III	80	18,8	139	23,1	59	33,2	14,9 *
Diploma/Certificate	14	3,2	9	1,5	-5	-2,5	-9,8
Degree	4	0,8	1	0,1	-3	-1,5	-29,3
Formal dwellings	286	67,3	426	70,4	139	77,9	10,4 *
Informal dwellings	138	32,5	165	27,3	27	15,0	4,5
Total	426	100,0	604	100,0	179	100,0	9,2 *

Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

- Notes:**
1. Statistically significant changes at the 95 per cent confidence level are indicated with an asterisk (*).
 2. Formal dwellings comprise dwellings or brick structures on a separate stand or yard on a farm, flat or apartment in a block of flats, town/cluster/semi-detached house (simplex, duplex or triplex), unit in retirement village, dwelling/flat/room in backyard, and room/flatlet. Informal dwellings comprise traditional dwelling/hut/structure of traditional materials, informal dwelling/shack in backyard, informal dwelling/shack not in backyard, e.g. in an informal/squatter settlement or on farm, and caravan/tent.

Figure 10 presents breakdowns of the employed and the unemployed by two main age groups (15-34 years and 35-65 years) in 2000 and 2004. Although a large proportion of individuals, particularly at the lower end of the 15-34 year age group are still in the education process, it is important to remember that only those that have chosen to enter the labour force are analysed here.

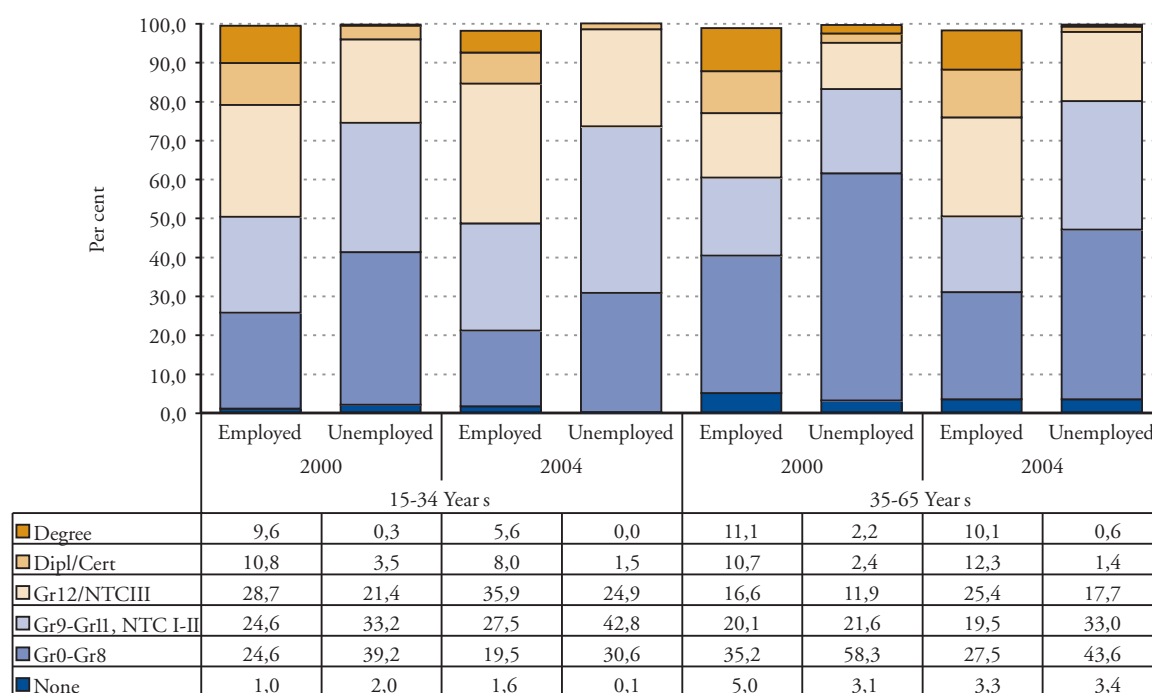
From the figure it is evident that individuals with lower levels of education account for lower proportions of the employed relative to the unemployed. Amongst 15-34 year-olds, those with no education up to Grade 11 education account for almost three-quarters of the broadly unemployed (73,5%), compared to less than one half (48,6%) of the employed.

Similarly, amongst 35-65 year-olds in 2004, individuals with Grade 11 education or less represent 80,0 per cent of the unemployed, compared to 50,3 per cent of employment.

The differences between employment and unemployment shares are particularly stark at the upper end of the educational attainment distribution. Degreed individuals account for 5,6 per cent of total employment in 2004 amongst 15-34 year-olds, compared to 0 per cent of the broadly unemployed⁶.

At the same time, 10,1 per cent of employment of 35-65 year-olds is accounted for by individuals with degrees, compared to only 0,6 per cent of unemployment. Similar patterns are evident for diplomas and certificates in both age groups in 2004.

Figure 10: Composition of employment and unemployment by educational attainment and age group, 2000 and 2004



Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

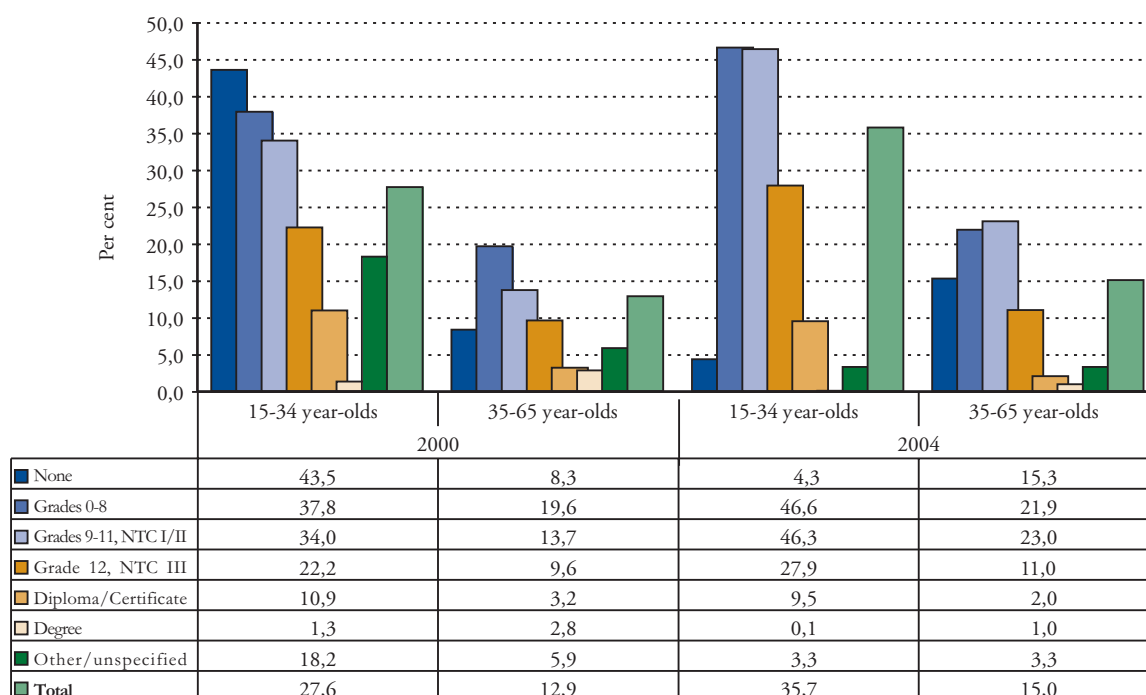
Figure 11 presents broad unemployment rates by age group and educational attainment. In general, in the Western Cape in 2004, it appears that unemployment rates for 15-34 year-olds are higher than their 35-65 year-old counterparts across all categories, except degrees, although here the sample is very small and the differences are minor. For 15-34 year-olds, the highest unemployment rates are found amongst those with Grade 1 to Grade 8 education (46,6%) and Grade 9 to Grade 11 (46,3%). Over one quarter (27,9%) of matriculants in this age group are unemployed.

⁶ The LFS was able to pick up only one degreed unemployed individual in this age group. However, this does not mean that there is only one in reality, but rather that the current sample size is too small to measure this accurately.

In comparison, unemployment amongst 35-65 year-olds stood at 21,9 per cent for those with Grade 1 to Grade 8 education, 23,0 per cent for those with Grade 9 to Grade 11, and only 11,0 per cent for matriculants.

In many countries, unemployment is generally a temporary phenomenon. However, in SA, evidence from the LFSs consistently indicates that unemployment is a long-term situation for many people. It is medium- and long-term unemployment that is of most concern from a policy perspective, due to the negative consequences it has for the affected individuals and their households. Short-term unemployment is often frictional, caused as individuals leave the education system, re-enter the labour force after a temporary absence, or move between jobs.

Figure 11: Unemployment rates by educational attainment and age group, 2000 and 2004



Source: Own calculations, September 2000 and September 2004 LFS (Stats SA)

Education and work experiences of young people in the Cape

The Cape Area Panel Study (CAPS) is a joint project between the Centre for Social Science Research (CSSR) at the University of Cape Town and the Institute for Social Research at the University of Michigan (in the US). CAPS is a project designed to study the transitions that young people in the Cape Metropole make as they move through school, begin to work and start their own families. The study follows the lives of about 4 800 young adults who were aged 14-22 years in 2002.

The study was designed as a household survey, and the households are representative of all regions, racial groups and economic levels in Cape Town. CAPS also takes the form of a panel survey, that is, a survey in which the same group, or panel of participants, is re-interviewed over a period of time. The major advantage of this study and its design compared to other sources, such as the official census data, is that it focuses on the youth and makes it possible to study the complicated transitions that young people make and how their choices influence their lives thereafter. Problems affecting young people can therefore be addressed more effectively.

The first wave of the study was carried out between August 2002 and January 2003. About 4 752 young adults were interviewed. A sub-sample of 1 360 young adults (wave 2A) was re-interviewed between August and December 2003. The remainder of the sample (wave 2B) was re-interviewed between May and December 2004. Wave 3 of the survey was carried out between April and October 2005, and all young adults were interviewed. Waves 4A, 4B and 5 will occur between 2006 and 2008. By the end-date the young adults will be aged between 20 and 28 years.

The information in CAPS will help policy-makers to understand questions such as:

- What factors determine whether young people finish school, pass matric and go on to further study?
- How do young people find work after leaving school?
- How important are connections with family and friends?
- How optimistic are young people about their futures and their future job prospects?
- How are young people affected by the HIV/Aids pandemic?
- How are young people affected when their household experiences income loss, unemployment, or the death of a household member?
- How do childhood experiences of young people affect their adult lives?

Some findings (2002 and 2004):

- Results from the 2004 wave indicate that 32 per cent of CAPS participants who had jobs found such jobs through family or other household members, and 34 per cent through friends.
- At the age of 18, young adults begin to live away from parents.
- CAPS participants had high rates of school enrolment while they were growing up, with over 99 per cent enrolled at age 10 and 12, and almost 90 per cent at age 14.
- The results show that by the age of 14, only 48 per cent of those in school had reached Grade 9 and 27 per cent were in Grade 7 or below.
- The CAPS data shows that girls tend to go through school faster than boys. By age 16, 39 per cent of girls have finished at least grade 10 compared to only 31 per cent of boys.

Source: www.cssr.uct.ac.za/ssu_surveycaps.html

Figure 12 illustrates that in SA, about 63,3 per cent of the broadly unemployed have never worked before. Even the fact that more than one-third of the broadly unemployed were between 15-24 years of age cannot explain this very high proportion of workers who report they have never worked before.

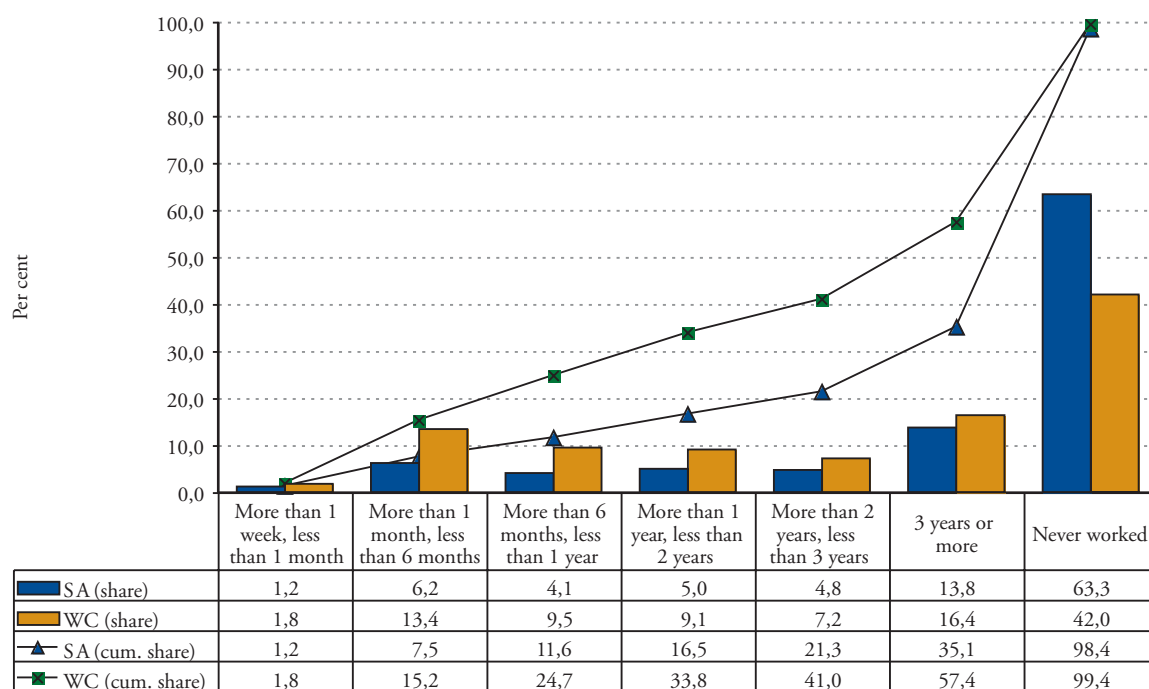
Almost one quarter of the unemployed in SA have not worked for one year or more, with 14 per cent reporting that they have been without work for three years or more.

In the Western Cape, the pattern is broadly similar, although there are some important differences. The proportion of the unemployed reporting never having had a job is ‘only’ 42 per cent. The major difference between the Province and the country as a whole arises from the fact that in the Western Cape a far smaller proportion of unemployed individuals older than 25 years report never having had a job (15,7% compared to 34,4% nationally).

While the proportion of unemployed individuals experiencing very short-term frictional unemployment in the Western Cape is comparable to the national figure (under 2% of individuals have been unemployed for less than one month), a far greater proportion of the Western Cape unemployed have been unemployed for between one and 12 months (22,9% compared to 10,3% nationally).

The Western Cape therefore finds itself in a more favourable position than is the case nationally in terms of the duration of unemployment. This is particularly true in terms of the proportion of individuals over the age of 25 years who have never worked before.

Figure 12: Time since last worked, expanded unemployed who have worked before, 2004



Source: Own calculations, LFS September 2004 (Stats SA)

4. Employment, unemployment and geography

Every economy has uneven distribution of economic activity that depends on regional or local natural resources, climatic conditions, geographic location, biodiversity, and human knowledge and skill. Although these distributions may change over time – as is currently occurring on an international scale with the rapid growth of many developing economies – concentrations of economic activity will persist.

The uneven distribution of a country's economic activity combines with the geographic distribution of its population, specifically its labour force, leading to varying degrees of mismatch between labour demand and supply, and hence unemployment or labour shortages.

Geography, therefore, is an important facet to consider in economic policy-making, particularly where economic inequality differs geographically.

Employment data used in geographical analysis

The Censuses of 1996 and 2001 are used as the source dataset, despite their labour market deficiencies. While both censuses ask labour market information of respondents, space limitations mean that the detailed and in-depth questions required to identify an individual's labour market status accurately, as asked in the LFSs, for example, cannot all be included. As a result, the Census tends to underestimate employment and over-estimate unemployment when compared to dedicated sample surveys, such as the LFSs conducted by Stats SA.

However, the Censuses are very well equipped to enable comparisons on a detailed geographical level, which the LFSs are unable to do. Since Census estimates of labour market variables are not totally accurate, too much emphasis should not be placed on the actual derived figures. Instead, these estimates should be used to place regions in the appropriate context relative to each other and the province as a whole.

4.1 Employment and geography⁷

The dominant employment sectors in the Western Cape as a whole are CSP services (17,4%), wholesale & retail trade (16,3%), manufacturing (13,9%), agriculture, forestry & fishing (13,8%) and financial & business services (10%).

Figure 13 shows that while there are similarities in terms of employment structure across the Western Cape's municipal districts, there are also some important differences.

Amongst 15-34 year-olds in 2001, agriculture, forestry & fishing is the largest employer in four districts: the West Coast, Overberg, Cape Winelands and Central Karoo.

⁷ As noted briefly in the text box above, data from the LFSs are able to create a sectoral employment picture at the provincial level - as described in section 3.3 of this chapter - but not at the more disaggregated municipal level, as section 4.1 attempts to do. In this section, data from the 1996 and 2001 Census are used. Since the Census is not primarily an employment survey, analyses from the two datasets should therefore not be compared 'side by side', as they do not correlate directly.

The exact nature of employment in this sector will, however, vary by district. For example, in the West Coast, employment in agriculture, forestry & fishing is more likely to be employment in the fishing industry. In the Cape Winelands, employment in this sector is more likely to be in agriculture, while in Eden, a greater proportion may actually be in forestry.

Overall, though, the wholesale & retail trade sector employs more individuals in the 15-34 age group than any other. Approximately 18,8 per cent of this age group is employed in wholesale & retail trade, followed by CSP services (14,9%), agriculture, forestry & fishing (14,8%) and manufacturing (13,6%).

The West Coast and Cape Winelands are similar in that agriculture, forestry & fishing, wholesale & retail trade, manufacturing and CSP services are the top four employers of young people.

The Overberg and Eden districts differ slightly in that manufacturing is not in the top four sectors in terms of employment, while construction accounts for the fourth-highest level of employment amongst 15-34 year-olds (7,7% and 10,5%, respectively).

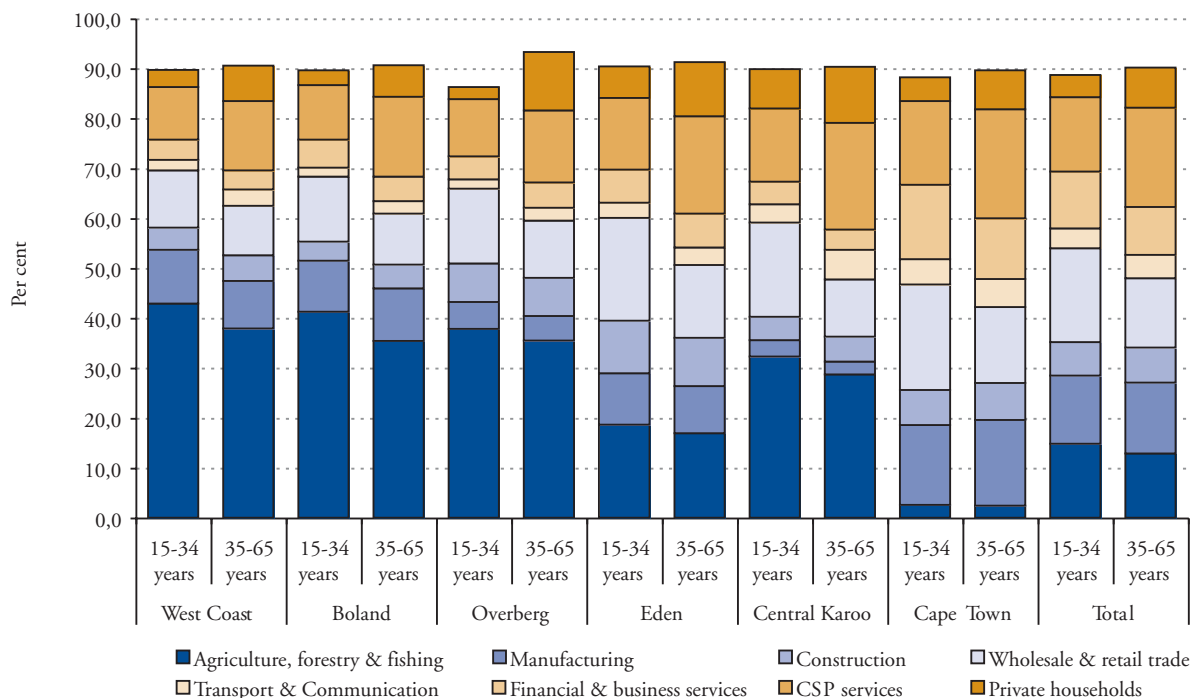
In the Central Karoo, it is private households that replaces manufacturing in the top four sectors, while in Cape Town, the top four sectors are wholesale & retail trade (21,1%), CSP services (16,7%), manufacturing (16%) and financial & business services (15%).

Within this age group therefore, at 53,5 per cent, employment is concentrated in the tertiary sector, with a further fifth (20,7%) occurring in the secondary sector. The tertiary sector is the dominant sector in terms of employment in Cape Town (62,6%), Eden (51%) and the Central Karoo (49,6%), while the primary sector dominates employment amongst 15-34 year-olds in the West Coast (44,3%), Cape Winelands (41,5%) and Overberg (37,9%).

Employment amongst older individuals aged 35-65 years is, interestingly, less concentrated in agriculture, forestry & fishing than is the case amongst 15-34 year-olds, with this sector accounting for 12,9 per cent and 14,8 per cent of employment, respectively.

Overall, employment amongst 35-65 year-olds is more concentrated in the tertiary sector, which accounts for 56 per cent of employment, and the secondary sector, which accounts for 21,8 per cent. This is particularly the case outside of Cape Town. In Cape Town, the broad structure of employment (primary, secondary and tertiary) is almost identical for both age groups.

Figure 13: Sectoral structure of employment across districts by age group, 2001



Source: Own calculations, Census 2001

Table 8 presents the geographical distribution of employment growth between 1996 and 2001 as revealed by the two censuses.

In pure spatial terms, most of the increase in 15-34 year-old employment occurred in the West Coast (74,1%), Eden (54,9%) and the Overberg (34,6%). Together, these districts added almost 15 000 jobs for 15-34 year-olds over the period. In contrast, Cape Town lost jobs equivalent to two-thirds of the net increase (almost 6 000 jobs).

Some of the most notable increases in employment were found, generally, in wholesale & retail trade (278,2%), financial & business services (151,1%) and agriculture, forestry & fishing (138,9%), with manufacturing being the big loser, losing more than three times as many jobs as the net employment increase over the period.

Manufacturing jobs were lost throughout the Western Cape, although they were concentrated in Cape Town in particular. The vast majority of wholesale & retail trade jobs accrued in Cape Town, followed by Eden and the Cape Winelands, although no region appeared to have lost jobs in this sector. Similarly, the increase in finance employment for this age group was concentrated in Cape Town.

In the agriculture, forestry & fishing sector, though, the bulk of employment expansion occurred in the West Coast (equivalent to two-thirds of net provincial employment growth amongst this age group), followed by Cape Town and the Cape Winelands.

Within districts, the magnitudes of job gains and losses differ and the contribution of each sector to total employment has changed over the period.

In the West Coast – the district with the largest increase in employment – the bulk of employment growth occurred in agriculture, forestry & fishing (almost nine-tenths, or 66,1% out of 74,1%), followed by ‘other’ and ‘unspecified’ sectors. The sectors that shed the most jobs were manufacturing and construction.

In Eden, the bulk of employment expansion occurred within wholesale & retail trade (almost three-fifths), followed by financial & business services, while manufacturing and private households shed the most jobs.

In the Overberg, wholesale & retail trade accounted for half of total employment expansion in the district.

In line with the Provincial picture, due to its dominance within the Provincial economy, Cape Town saw net job growth in wholesale & retail trade, financial & business services and agriculture, forestry & fishing, and job losses in manufacturing, private households and CSP services.

Table 8: Geographical distribution of sectoral employment growth, 15-34 year-olds, 1996 – 2001 (%)

	West Coast	Cape Winelands	Overberg	Eden	Central Karoo	Cape Town	Total
Agriculture, forestry & fishing	66,1	31,9	-4,1	7,6	0,5	36,9	138,9
Mining & quarrying	3,8	0,3	-0,2	-2,3	0,0	0,2	1,8
Manufacturing	-15,5	-62,9	-1,0	-7,4	-1,7	-234,0	-322,5
Electricity, gas & water	-1,6	-1,5	-0,4	-1,6	-0,8	-16,1	-21,9
Construction	-9,6	-16,1	-6,7	4,3	-1,3	-21,3	-50,7
Wholesale & retail trade	8,7	27,6	17,0	31,3	0,6	192,9	278,2
Transport & communication	-3,9	-7,8	-0,8	2,3	-0,3	-26,7	-37,2
Financial & business services	7,0	11,7	7,3	13,3	0,6	111,3	151,1
CSP services	6,7	-18,6	6,6	7,4	-2,7	-49,0	-49,5
Private households	-6,4	-5,2	-11,3	-3,5	-2,2	-63,9	-92,5
Other/unspecified	18,8	49,9	28,1	3,5	0,6	3,4	104,3
Total	74,1	9,4	34,6	54,9	-6,6	-66,3	100,0
Share of total employment, 2001	7,6	15,1	4,8	9,0	0,8	62,7	100,0

Source: Own calculations, 1996 and 2001 Census

Table 9 presents the geographical distribution of sectoral employment growth for 35-65 year-olds between 1996 and 2001.

In broad spatial terms, Cape Town accounted for the largest share of employment growth over the period (50,4%), followed by the Cape Winelands (15,8%), Eden (14,2%) and the West Coast (10,4%).

However, in comparison to the regions' shares of total employment in 2001, it is clear that the West Coast, the Overberg and Eden Districts fared best, since they accounted for substantially larger shares of employment growth than of total employment. In fact, these three regions enjoyed shares of employment growth that were between 50 per cent and 100 per cent higher than their shares of 2001 employment.

The only two regions where employment growth shares were below total employment shares were the Central Karoo and Cape Town. These proportions indicate a shift of employment out of Cape Town and the Central Karoo towards the West Coast, Overberg and Eden districts, while the Cape Winelands would have edged its share of employment up only slightly.

Table 9: Geographical distribution of sectoral employment growth, 35-65 year-olds, 1996 – 2001 (%)

	West Coast	Cape Winelands	Overberg	Eden	Central Karoo	Cape Town	Total
Agriculture, forestry & fishing	5,2	7,6	2,7	2,3	0,3	3,4	21,5
Mining & quarrying	0,3	0,1	0,0	-0,2	0,0	0,4	0,6
Manufacturing	0,2	-1,7	0,2	0,8	-0,1	1,5	0,9
Electricity, gas & water	-0,1	-0,1	0,0	0,0	0,0	-1,3	-1,6
Construction	0,1	-0,3	0,3	1,5	-0,1	3,3	4,8
Wholesale & retail trade	1,2	2,9	1,5	3,0	0,1	15,9	24,6
Transport & communication	-0,4	-0,5	0,0	0,3	-0,1	0,4	-0,3
Financial & business services	0,5	1,1	0,7	1,4	0,1	11,1	15,0
CSP services	1,6	1,4	1,3	3,2	0,1	13,2	20,8
Private households	0,5	1,1	1,6	1,2	-0,1	0,8	5,2
Other/unspecified	1,3	4,1	0,4	0,8	0,1	1,7	8,4
Total	10,4	15,8	8,7	14,2	0,4	50,4	100,0
Share of total employment, 2001	6,8	14,6	4,8	9,4	1,0	63,4	100,0

Source: Own calculations, 1996 and 2001 Census

Overall, the largest changes in sectoral employment were in wholesale & retail trade (24,6% of the total increase), agriculture, forestry & fishing (21,5%), CSP services (20,8%), and financial & business services (15%).

Within wholesale & retail trade, the bulk of employment expansion occurred within Cape Town, accounting for 15,9 per cent of total Provincial employment growth over the period. Employment within this sector expanded in all districts, with growth in Eden representing 3 per cent of Provincial employment growth amongst this age-group and that in the Cape Winelands representing 2,9 per cent.

In terms of agriculture, forestry & fishing, employment growth has been experienced in all districts but has been concentrated particularly in the West Coast and the Cape Winelands. Employment growth in these districts in this sector accounted for 5,2 per cent and 7,6 per cent respectively of overall employment expansion, with Cape Town accounting for a further 3,4 per cent.

CSP services contributed over one fifth of employment expansion over the period and was highly concentrated within Cape Town. In fact, the Cape Town CSP services sector alone accounted for 13,2 per cent of Provincial employment expansion amongst 35-65 year-olds. Eden's CSP Services sector accounted for a further 3,2 per cent of Provincial employment growth. A similar pattern is observable in finance employment growth.

4.2 Unemployment and geography

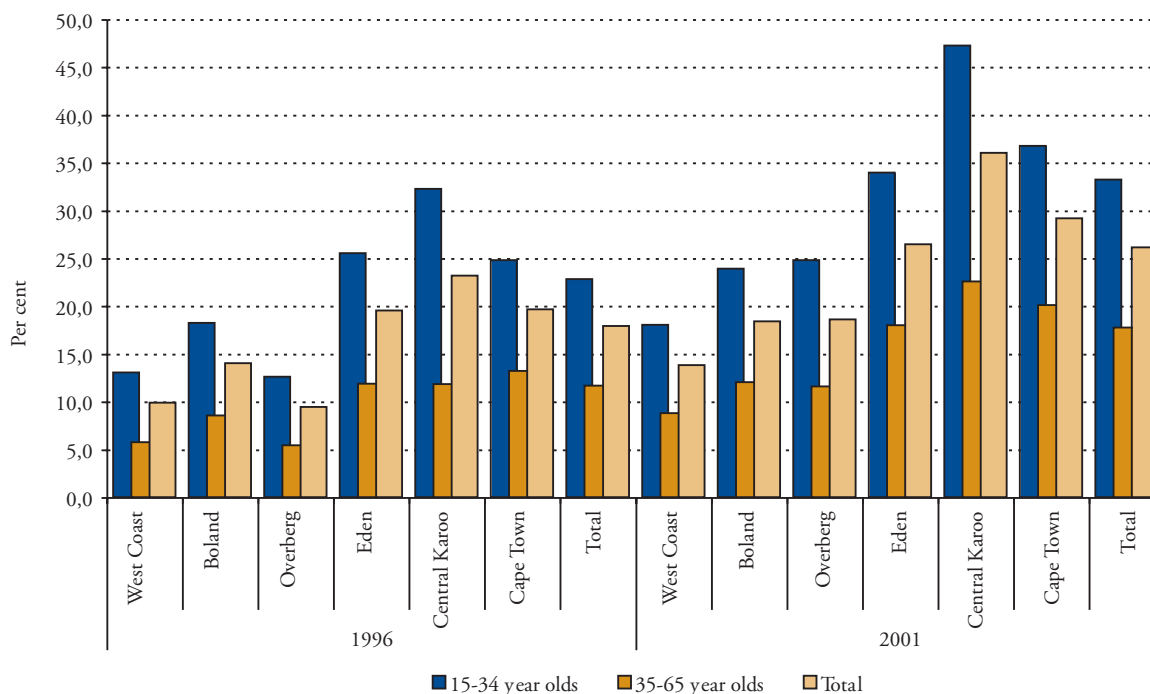
Unemployment rates are likely to vary on a spatial basis, depending on the regional socioeconomic characteristics of a specific region. These factors are complex and interrelated. For example, the level of economic activity within a region may, on the one hand, be linked to lower rates of unemployment because there are relatively more employment opportunities, while, on the other hand, it may be argued that such areas are more likely to attract workseekers, thereby increasing the supply of labour and resulting in higher rates of unemployment.

Figure 14 presents broad unemployment rates for the Western Cape's five districts and the city for 1996 and 2001.

Cape Town, the Central Karoo and Eden have high unemployment rates while the West Coast, Cape Winelands and Overberg have relatively low unemployment rates, both overall and for the 15-34 year-old and 35-65 year-old age groups separately.

In 2001, the Central Karoo was characterised by a 36 per cent unemployment rate, followed by Cape Town at 29,2 per cent and Eden at 26,5 per cent. In contrast, unemployment in the West Coast stood at 13,8 per cent, at 18,4 per cent in the Cape Winelands and at 18,6 per cent in the Overberg.

Figure 14: Broad unemployment rates across districts, 1996 and 2001



Source: Own calculations, 1996 and 2001 Census

There are likely numerous reasons underlying this difference in unemployment rates between these two groups. Cape Town, as the Province's only metropolitan area and dominant economic agglomeration, acts as a powerful magnet for workseekers from all over the Western Cape, as well as from the rest of the country. In contrast, the Central Karoo is a relatively sparsely populated, arid region with relatively little economic activity. Eden borders the Eastern Cape and may also attract workseekers from that province.

Thus, in the case of Cape Town and Eden, perceptions of improved employment prospects may attract in-migrants and thereby raise the supply of labour, resulting in higher unemployment. In the case of the Central Karoo, unemployment may be more closely linked to insufficient demand for labour.

The West Coast, Cape Winelands and Overberg comprise the group of districts with relatively low rates of unemployment. This, again, may be due to various reasons. These three regions all border on Cape Town, meaning that migration to the city is relatively easy, relatively cheap and less daunting for migrants than is the case for prospective migrants from elsewhere in the Province and the rest of the country.

These are also the three districts where the primary sector, and agriculture, forestry & fishing in particular, are the most dominant within employment. In these three districts, nearly two in every five (38,6%) employed individuals works in agriculture, forestry &

fishing. This relatively dominant position of the primary sector means that these districts may have greater scope for absorbing relatively less educated and less skilled individuals than those districts dominated by tertiary sector employment. Further, the relative proximity of these regions to the city means that firms in these districts are in a relatively good position to cater to this large market, thereby also raising employment.

Figure 15 presents the spatial composition of unemployment change between 1996 and 2001, while also providing the 2001 shares of the Provincial labour force for comparison. The shares of the five district municipalities are presented, while that of Cape Town is subdivided into shares for africans, coloureds and 'other' race groups.

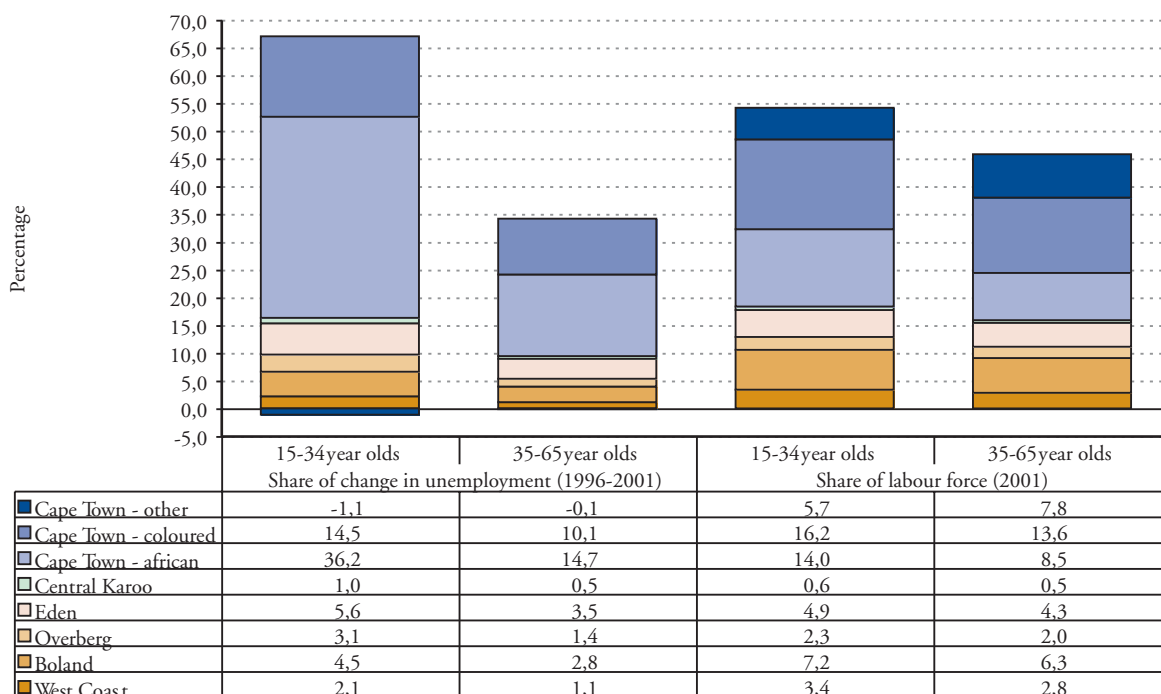
Of the increase in unemployment recorded over the period, the bulk derived from 15-34 year-olds. This group represents 65,9 per cent of the net increase in unemployment, compared to 34,1 per cent for 35-65 year-olds.

Of the five districts, Eden and the Cape Winelands accounted for the largest proportion of the increase in unemployment amongst 15-34 year-olds – 5,6 per cent and 4,5 per cent, respectively. However, compared to their shares of the labour force, the Central Karoo and Overberg contributed the most to increased unemployment, the regions' shares of unemployment change being 1,7 and 1,3 times their shares of the labour force respectively.

The increase in unemployment amongst 15-34 year-olds in Cape Town represented almost one-half (49,6%) of the increase in unemployment over the period. This was mainly due to the fact that in Cape Town, africans between the ages of 15 and 34 years represented 36,2 per cent of overall unemployment growth, followed by coloureds, who accounted for 14,5 per cent.

A similar pattern is observable for individuals between the ages of 35 and 65 years. Africans in Cape Town in this age group accounted for 14,7 per cent of the Western Cape's unemployment growth, while their coloured counterparts accounted for 10,1 per cent. Eden and the Cape Winelands were, again, the two districts that accounted for the largest proportions of total unemployment growth. However, amongst this age group, it was only Cape Town africans who accounted for a larger proportion of unemployment growth than they did of the 2001 labour force, the ratio between these two shares being 1,7.

Figure 15: Geographical composition of unemployment change, 1996 – 2001



Source: Own calculations, 1996 and 2001 Census

Community Survey 2006/07

"The community survey will complement data from the regular household surveys as well as new two-yearly surveys on the second economy."

Since 1994, Stats SA has undertaken two population Censuses (1996 and 2001) as per the Statistics Act (No. 6 of 1999). There will be no Census in 2006, as previously scheduled. Instead, the Community Survey (CS) will replace the population census, while Cabinet approved a 10-year interval between censuses. The CS was introduced to bridge data gaps experienced with the current census process. The lowest reporting level for the present household-based surveys is at the provincial level.

Stats SA will therefore use the CS to:

- Build human, management and logistical capacity for Census 2011;
- Test management information systems and payment systems; and
- Implement recruitment strategies for feeding into the planning for Census 2011.

The results are anticipated in November 2007. The survey will provide information on living conditions at municipal level. The move is important for local government planning, monitoring and evaluation, as the current lack of comprehensive data, in the context of oversight of local government under the Municipal Finance Management Act (MFMA), limits analysis to mainly trend developments at municipal level.

Source: Stats SA

5. The future labour market to 2015

5.1 Setting up the scenarios

Considerable attention is focused nationally and Provincially on interventions that may boost job creation and lower unemployment, a fundamental tenet of the shared growth and integrated development agenda.

Underlying the policy debate are questions such as 'how many jobs need to be created in order to reduce unemployment?' and 'how will population growth affect efforts to reduce unemployment?'.

These questions are difficult to answer and depend on numerous variables, some less predictable than others.

The analysis that follows presents scenarios that are intended to initiate and frame debate. It is important to remember that the scenarios represent just a few of many possible outcomes, given the underlying assumptions. Furthermore, they do not attempt to model or take account of any of the recently announced economic stimuli within the national Accelerated and Shared Growth Initiative for SA (Asgisa) or the Province's PGDS processes.

The scenarios presented are very simple approximations of some of the labour market outcomes that are possible under various conditions in the Western Cape and are by no means definitive, since they are, due to their simple nature, unable to account for a wide variety of factors.

The scenarios presented are derived from various demographic and economic data. The demographic model commissioned by the Western Cape Department of Social Services provides detailed projections of the Western Cape population and is based on the ASSA2003 model. The model was used to generate, under its standard assumptions, population projections up to 2015, by race and age group. The working age population for each race group is calculated as the number of individuals aged between 15 and 64 years⁸.

The LFPR refers to the fraction of working age individuals who decide to enter the labour force. In 2004, the LFPR for the Western Cape was 72,9 per cent, compared to 67,3 per cent for the country as a whole. The Provincial figure for 2004 is not statistically different from Provincial estimates of labour force participation based on any of the other September LFSs, with all estimates ranging between 69 per cent and 73 per cent.

⁸ This definition is slightly different to the definition used in the rest of this chapter in that it excludes individuals aged 65 years. This is due to the fact that the model projects the population in five-year age-groups, for example, 0-4 years, 5-9 years, 10-14 years, and so on. The final age group within the working age population, therefore, is 60-64 years. This, however, should not have major implications for the estimates, as the September 2004 LFS reveals that only 0,21 per cent of the employed and 0,19 per cent of the broadly unemployed are 65 years old.

As shown above, LFPRs are related to various demographic characteristics. In order to account for some of this variation, while also trying to balance the requirement of detailed data with the limitations of the small provincial samples in the LFSs, LFPRs have been calculated according to race and age group. The small asian sample means that reliable estimates of asian labour force participation are not possible. In order to overcome this problem, it was assumed that asians in the Western Cape are similar to asians in the rest of the country in terms of their LFPRs.

In terms of projecting LFPRs into the future, three options are taken into account: the assumption of constant LFPRs between 2004 and 2015, the assumption of linear convergence of LFPRs towards white LFPRs over a specified period of time (the achievement of full convergence can be set between 2015 and 2050), or the assumption of specific LFPRs for each race and age group for 2015, with change towards these targets being linear.

To cross over between the LFS and the demographic model, the LFPRs are used to calculate the labour force based on the working age population projected by the demographic model. As a result, the calculated total LFPR for the Western Cape in 2004 of 73,7 per cent is 0,8 percentage points above the 72,9 per cent estimate of the September 2004 LFS⁹.

The economic growth rates and formal employment elasticities used derive from the BER's Western Cape econometric model that was commissioned by the Western Cape Provincial Treasury. Since the model only contains formal sector employment data, and to keep the scenarios consistent with the labour market analysis presented above, employment data for 2000 to 2004 has been taken from the September issues of the LFS for these years.

In the LFSs, employment can be classified as formal sector employment, informal sector employment, or domestic worker employment. There are also categories that indicate that the sector cannot be determined (labelled as 'don't know' or 'unspecified' in the datasets). Workers for whom it is not possible to allocate a sector constitute a small proportion of the employed, ranging between 0 per cent and 0,8 per cent.

For the purpose of the scenarios, it was assumed that these workers were all informal sector workers, or, stated differently, that employment of this group of workers would vary in line with informal sector employment.

Since only output elasticities for formal sector employment are included in the BER's model, the scenarios need to make assumptions on the paths of employment in the informal and domestic worker sector. It was individually assumed that informal sector and domestic worker employment either remain constant or track the change in formal sector employment over the period.

⁹ This difference is also partly related to the fact that the LFSs 'other' and 'unspecified' racial categories, which the demographic model does not have, were omitted from the scenarios.

Therefore, the LFPRs based on LFS data combine with the working age population projections from the demographic model to estimate the broad labour force.

The output-formal sector employment elasticity relates projected output growth over the period to formal sector employment growth, with a pair of assumptions (not necessarily the same for both) that relate formal sector employment growth to informal sector and domestic worker employment growth.

These estimated growth rates are applied to the 2004 employment levels for all three sectors that, combined, give total employment. Total employment estimates are subtracted from the broad labour force estimates to obtain estimates of the number of broadly unemployed individuals in the Province, as well as the Province's broad unemployment rate.

5.2 Possible future labour market scenarios

Scenarios are mapped by changing some of the variables in the model. Considering that the demographic projections and the BER's economic growth and formal sector employment-output elasticities are given, there are only three variables that can be changed to estimate possible labour market outcomes in 2015. These depend on the three assumptions made regarding the path of LFPRs over the period, and the relationships between formal sector employment growth and informal sector employment growth on the one hand and between formal sector employment growth and domestic worker employment growth on the other.

There are clearly numerous scenario possibilities in terms of these assumptions, but for brevity only two are presented here.

Scenario A assumes that LFPRs for the various race and age-group combinations *remain constant*, that *informal sector employment remains constant* and that *domestic worker employment remains constant* between 2004 and 2015.

In contrast, scenario B, while assuming *constant LFPRs*, assumes that *informal sector employment and domestic worker employment track formal sector employment growth* (that is, that these two sectors grow employment at the same rate as the formal sector). This is a relatively optimistic set of assumptions given that informal sector employment growth has been lacklustre between 2000 and 2004, according to the LFSs.

Then, based on these two scenarios, we look at the feasibility of targeting a broad unemployment rate of 10 per cent in the Western Cape by 2015. Extra jobs would be required and, in order to allow for the economy to 'create' these jobs in the scenarios, flexibility can be allowed in the projected GDP growth rates (higher output growth leads

to higher employment growth) or, alternatively, in the total employment-output elasticity (higher employment-output elasticities lead to higher employment growth for a given output growth rate). The results of scenarios A and B are presented in tables 10 and 11.

Scenario A in table 10 shows an increase in employment from 1,69-million in 2004 to 2,07-million in 2015, an increase of around 374 000 jobs and averaging almost 2 per cent per annum from 2010 onwards.

Non-formal sector employment (that is, informal sector and domestic worker employment) remains constant at around 272 000 jobs, by assumption. At the same time, the labour force increases from 2,42-million to 2,65-million.

Broad unemployment increases slightly to 2008, whereafter slowing labour force growth is surpassed by employment growth, and the absolute number of broadly unemployed individuals begins to decline.

By 2015, there are 584 000 broadly unemployed individuals in the Province, implying a broad unemployment rate of 22 per cent.

Scenario B in table 11 projects a higher level of employment by 2015, which is unsurprising given the change in assumptions. In 2015, 2,14-million people are employed, representing an increase of 446 000 from 2004, and 72 000 jobs more than projected under scenario A. Non-formal sector employment rises from 272 000 in 2004 to 345 000 in 2015.

Total employment growth is therefore higher under this scenario by a margin of around 0,2 percentage points to 0,4 percentage points from 2007 onwards. Consequently, unemployment is lower in 2015 under these assumptions, totalling around 512 000, the peak having come slightly earlier, and is equivalent to an unemployment rate of about 19,3 per cent.

Interestingly, the assumptions on whether informal sector and domestic worker employment grows as fast as formal sector employment or whether it does not grow at all have a relatively small impact on total employment and the unemployment rate at the end of the period. Employment in 2015 is higher by 72 000 jobs, or about 6 500 per year under the assumption of non-formal sector employment growth keeping pace with formal sector employment growth, while the unemployment rate is 2,7 percentage points lower. This is largely due to two factors: the relatively small size of non-formal sector employment within total employment in the Western Cape and the relatively short time period.

Table 10: Projected labour market aggregates: Scenario A, 2004 – 2015

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Labour force ('000s)	2 420	2 458	2 493	2 523	2 550	2 574	2 593	2 609	2 624	2 636	2 645	2 652
Employment ('000s)	1 691	1 757	1 773	1 793	1 816	1 846	1 880	1 913	1 949	1 987	2 026	2 068
Formal sector ('000s)	1 419	1 485	1 500	1 521	1 544	1 574	1 607	1 641	1 677	1 714	1 754	1 795
Non-formal sectors ('000s)	272	272	272	272	272	272	272	272	272	272	272	272
Unemployment ('000s)	729	701	720	730	734	728	714	696	675	649	619	584
Unemployment rate (per cent)	30,1	28,5	28,9	28,9	28,8	28,3	27,5	26,7	25,7	24,6	23,4	22
Annual growth rates												
Labour force change		1,6	1,4	1,2	1,1	0,9	0,8	0,6	0,6	0,5	0,3	0,3
Employment (2004 anchor)		3,9	0,9	1,2	1,3	1,6	1,8	1,8	1,9	1,9	2,0	2,0
Formal sector		4,7	1,0	1,4	1,5	1,9	2,1	2,1	2,2	2,2	2,3	2,4
Non-formal sectors		0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Unemployment		-3,9	2,7	1,4	0,5	-0,9	-1,9	-2,5	-3,0	-3,8	-4,7	-5,6

Source: Own calculations, CARE (2005), BER (2006), Stats SA (2000 – 2004)

Table 11: Projected labour market aggregates: Scenario B, 2004 – 2015

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Labour force ('000s)	2 420	2 458	2 493	2 523	2 550	2 574	2 593	2 609	2 624	2 636	2 645	2 652
Employment ('000s)	1 691	1 770	1 788	1 813	1 841	1 876	1 916	1 956	1 999	2 044	2 091	2 140
Formal sector ('000s)	1 419	1 485	1 500	1 521	1 544	1 574	1 607	1 641	1 677	1 714	1 754	1 795
Non-formal sectors ('000s)	272	285	288	292	297	302	309	315	322	329	337	345
Unemployment ('000s)	729	688	704	710	710,0	698	677	653	625	592	554	512
Unemployment rate (per cent)	30,1	28,0	28,3	28,2	27,8	27,1	26,1	25,0	23,8	22,5	21,0	19,3
Annual growth rates												
Labour force change		1,6	1,4	1,2	1,1	0,9	0,8	0,6	0,6	0,5	0,3	0,3
Employment (2004 anchor)		4,7	1,0	1,4	1,5	1,9	2,1	2,1	2,2	2,2	2,3	2,4
Formal sector		4,7	1,0	1,4	1,5	1,9	2,1	2,1	2,2	2,2	2,3	2,4
Non-formal sectors		4,7	1,0	1,4	1,5	1,9	2,1	2,1	2,2	2,2	2,3	2,4
Unemployment		-5,6	2,3	0,9	-0,1	-1,7	-2,9	-3,5	-4,3	-5,3	-6,4	-7,6

Source: Own calculations, CARE (2005), BER (2006), Stats SA (2000 – 2004)

Given these two scenarios, how viable is a strategy to attain a broad unemployment rate of, say, 10 per cent in 2015? Table 12 presents the requirements to attain this goal under the assumptions of scenario A (constant labour force participation rates and constant non-formal employment), the more pessimistic of the two scenarios.

In order to attain 10 per cent broad unemployment in 2015, total unemployment is required to fall to 265 000 compared to 729 000 in 2004, a reduction of 464 000.

Given a constant labour force, this requires that employment growth be accelerated so that, by 2015, total employment equals 2,39-million, which is 319 000 more jobs than was initially projected under scenario A's assumptions. Given the structure of the scenarios, there are two variables that can be adjusted to account for these extra jobs: economic growth and the total employment-output elasticity.

Assuming that the changed labour market performance is to be derived from changed economic growth, in 2015, GDPGR would have to be approximately R114bn (measured in 2000 rands) higher than the BER's provincial econometric model projects.

In other words, the BER model projects an increase in real GDPGR of around 84 per cent between 2004 and 2015, while attaining a 10 per cent broad unemployment rate under scenario A's assumptions would require an increase of around 218 per cent, or average annual growth rates above 8 per cent a year over the period.

If the required extra jobs are to be generated instead via a change in the total employment-output elasticity, required economic growth would not change from the BER's projections, but the elasticity would have to increase by around 0,29. Given that the elasticities in the model range between 0,2 and 0,7 but tend to be around 0,5, this is a very substantial increase. This would mean that for every 1 per cent increase in GDPGR, the Province would have to generate an extra 0,29 per cent growth in employment over and above the increase in employment that the BER's model predicts will occur.

Table 13 presents the required changes in the two economic variables required to attain 10 per cent broad unemployment by 2015, subject to the assumptions of scenario B.

To attain a 10 per cent unemployment rate, an extra 247 000 jobs need to be created over the period, leading to a total employment increase over the period of 696 000 jobs. Since it is assumed that non-formal employment is growing at the same pace as formal employment, total employment growth is more rapid over the period, as mentioned earlier.

This means that, assuming that raised economic growth is to account for the extra jobs, GDPGR should total over R303bn (2000 rands) by 2015, compared to the original projection of R234bn. Consequently, annual economic growth rates over the period are

Table 12: Requirements to attain 10% broad unemployment rate by 2015: Scenario A

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Labour force ('000s)	2 420	2 458	2 493	2 523	2 550	2 574	2 593	2 609	2 624	2 636	2 645	2 652
Total employment ('000s)	1 691	1 780	1 820	1 865	1 914	1 971	2 033	2 096	2 164	2 234	2 309	2 387
Original employment ('000s)	1 691	1 757	1 773	1 793	1 816	1 846	1 880	1 913	1 949	1 987	2 026	2 068
Extra jobs required ('000s)	0	23	47	72	97	124	153	183	215	248	282	319
Unemployment ('000s)	729	678	673	658	637	603	560	513	460	401	336	265
Unemployment rate (per cent)	30,1	27,6	27,0	26,1	25,0	23,4	21,6	19,7	17,5	15,2	12,7	10
Original economic performance												
GDPR (2000 R-billion)	140,9	148,3	155,1	161,7	169,0	177,0	185,4	194,2	203,5	213,2	223,5	234,2
Economic growth rate (per cent)	5,3	5,3	4,6	4,3	4,5	4,7	4,8	4,7	4,8	4,8	4,8	4,8
Output-total employment elasticity		0,7	0,2	0,3	0,3	0,3	0,4	0,4	0,4	0,4	0,4	0,4
Total employment growth rate (per cent)		3,9	0,9	1,2	1,3	1,6	1,8	1,8	1,9	1,9	2,0	2,0
Change via economic growth												
Required economic performance												
GDPR (2000 R-billion)	140,9	150,9	168,2	183,6	200,3	217,6	235,6	255,2	276,0	298,4	322,3	348,0
Economic growth rate (per cent)	5,3	7,1	11,4	9,2	9,1	8,6	8,3	8,3	8,2	8,1	8,0	8,0
Output-total employment elasticity		0,74	0,19	0,27	0,29	0,34	0,38	0,37	0,39	0,40	0,41	0,42
Total employment growth rate (per cent)		5,3	2,2	2,5	2,6	3,0	3,2	3,1	3,2	3,3	3,3	3,4
Changes required												
Increase in GDP growth rate (per cent)	0,0	1,8	6,9	4,9	4,6	3,9	3,5	3,6	3,4	3,3	3,2	3,2
Extra GDP each year (2000 R-billion)	0,0	2,6	13,1	21,9	31,3	40,6	50,1	60,9	72,5	85,1	98,9	113,8
Running total extra GDP (2000 R-billion)	0,0	2,6	15,7	37,5	68,9	109,5	159,6	220,5	293,0	378,1	477,0	590,8
Change via employment elasticity												
Required economic performance												
GDPR (2000 R-billion)	140,9	148,3	155,1	161,7	169,0	177,0	185,4	194,2	203,5	213,2	223,5	234,2
Economic growth rate (per cent)	5,3	5,3	4,6	4,3	4,5	4,7	4,8	4,7	4,8	4,8	4,8	4,8
Output-total employment elasticity		1,00	0,48	0,58	0,58	0,63	0,66	0,66	0,67	0,68	0,69	0,70
Total employment growth rate (per cent)		5,3	2,2	2,5	2,6	3,0	3,2	3,1	3,2	3,3	3,3	3,4
Changes required												
Output-total employment elasticity	0,00	0,26	0,29	0,31	0,30	0,28	0,28	0,28	0,28	0,28	0,28	0,28

Source: Own calculations, CARE (2005), BER (2006), Stats SA (2000 – 2004)

required to remain above 7 per cent for most of the period. Thus, over the period, the Western Cape economy would be required to generate a cumulative total of R364bn in GDPR, over and above the projected cumulative increase of R515bn.

Assuming the extra jobs are to result from a higher total employment-output elasticity, the required elasticities in each year would have to increase by between 0,2 and 0,24, which is only slightly less than the increases required under scenario A's assumptions.

The scenarios presented here represent only two sets of assumptions regarding LFPRs and non-formal sector employment growth. As cautioned earlier, the figures presented in this section are merely hypothetical, having been generated by simple means, and are characterised by numerous assumptions. Clearly, different assumptions and the inclusion of more variables may alter the results. Therefore it is evident that the figures presented should only be used as very broad guides.

The scenarios presented both assume constant LFPRs (at a race-age-group level, not at the aggregate level), but differ in their assumptions as to the expected growth rates of employment in the informal sector and amongst domestic workers. Nevertheless, the scenarios do give rise to similar conclusions.

Given the demographic trends projected by the demographic model commissioned by the Provincial Government and given the economic trends projected by the BER's provincial economic model, it appears that unemployment is likely to stabilise and then decline, in both absolute and relative terms.

Assuming no employment growth outside the formal sector, the broad unemployment rate in 2015 is likely to amount to about 22,1 per cent and, assuming uniform employment growth in all three employment sectors, the broad unemployment rate is projected to be 19,4 per cent in 2015.

Further, the scenarios begin to tease out the massive challenge required to lower unemployment. Both scenarios show that arguably unattainably high rates of economic growth or high employment-output elasticities would be required to generate a sufficient number of new jobs in order to reduce unemployment to this level. This suggests that relatively high levels of unemployment are likely to persist beyond this admittedly relatively short time horizon, while also beginning to cast some light on the extent of the changes required to reduce unemployment levels significantly.

Table 13: Requirements to attain 10% broad unemployment rate by 2015: Scenario B

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Labour force ('000s)	2 420	2 458	2 493	2 523	2 550	2 574	2 593	2 609	2 624	2 636	2 645	2 652
Total employment ('000s)	1 691	1 788	1 824	1 868	1 915	1 971	2 034	2 097	2 164	2 235	2 309	2 387
Original employment ('000s)	1 691	1 770	1 788	1 813	1 841	1 876	1 916	1 956	1 999	2 044	2 091	2 140
Extra jobs required ('000s)	0	18	36	55	75	95	118	141	165	191	218	247
Unemployment ('000s)	729	671	668	656	635	602	560	513	460	401	336	265
Unemployment rate (per cent)	30,1	27,3	26,8	26,0	24,9	23,4	21,6	19,6	17,5	15,2	12,7	10
Original economic performance												
GDP (2000 R-billion)	140,9	148,3	155,1	161,7	169,0	177,0	185,4	194,2	203,5	213,2	223,5	234,2
Economic growth rate (per cent)	5,3	5,3	4,6	4,3	4,5	4,7	4,8	4,7	4,8	4,8	4,8	4,8
Output-total employment elasticity		0,9	0,2	0,3	0,3	0,4	0,4	0,4	0,5	0,5	0,5	0,5
Total employment growth rate (per cent)		4,7	1,0	1,4	1,5	1,9	2,1	2,1	2,2	2,2	2,3	2,4
Change via economic growth												
Required economic performance												
GDP (2000 R-billion)	140,9	150,0	163,5	175,6	188,7	202,4	216,7	232,0	248,2	265,5	283,8	303,4
Economic growth rate (per cent)	5,3	6,4	9,0	7,4	7,5	7,3	7,0	7,1	7,0	7,0	6,9	6,9
Output-total employment elasticity		0,89	0,23	0,32	0,34	0,41	0,45	0,44	0,46	0,47	0,48	0,49
Total employment growth rate (per cent)		5,7	2,1	2,4	2,5	2,9	3,2	3,1	3,2	3,3	3,3	3,4
Changes required												
Increase in GDP growth rate (per cent)	0,0	1,2	4,4	3,2	3,0	2,5	2,3	2,3	2,2	2,2	2,1	2,1
Extra GDP each year (2000 R-billion)	0,0	1,7	8,4	13,9	19,7	25,4	31,2	37,7	44,7	52,2	60,4	69,2
Running total extra GDP (2000 R-billion)	0,0	1,7	10,0	23,9	43,6	69,0	100,2	138,0	182,6	234,9	295,2	364,4
Change via employment elasticity												
Required economic performance												
GDP (2000 R-billion)	140,9	148,3	155,1	161,7	169,0	177,0	185,4	194,2	203,5	213,2	223,5	234,2
Economic growth rate (per cent)	5,3	5,3	4,6	4,3	4,5	4,7	4,8	4,7	4,8	4,8	4,8	4,8
Output-total employment elasticity		1,08	0,45	0,56	0,56	0,62	0,66	0,65	0,67	0,68	0,69	0,70
Total employment growth rate (per cent)		5,7	2,1	2,4	2,5	2,9	3,2	3,1	3,2	3,3	3,3	3,4
Changes required												
Output-total employment elasticity	0,00	0,20	0,22	0,24	0,23	0,21	0,21	0,21	0,21	0,21	0,21	0,21

Source: Own calculations, CARE (2005), BER (2006), Stats SA (2000 – 2004)

6. Conclusion

The Western Cape faces important challenges in its efforts to ensure that there are sufficient employment opportunities for its population. The first challenge is the fact that the working age population is expected to continue to grow. The number of individuals between the ages of 15 and 65 years is expected to expand by 287 000 between 2005 and 2015, with all the growth occurring within the 35-65 year age group. Thus, the population is expected to become older over time. Migration into the Province is expected to play an important role in terms of aggregate population growth over the period, thereby presenting both opportunities and challenges.

The labour force has grown rapidly since 2000, mainly as a result of an increase in the number of broadly unemployed individuals. This, in turn, can be linked to rapid growth in the number of discouraged workseekers living in the Province. The number of discouraged workseekers in the Western Cape has been relatively small compared to the numbers in other provinces, although this is beginning to change. As a result, it is expected that the relatively narrow numerical gap between the official and expanded definitions of unemployment will begin to widen.

Although it appears from the LFS estimates that total employment has increased, this cannot be confirmed due to the small Provincial sample size. Within total employment, however, one important positive development is the rapid increase in the number of employed matriculants, pointing to increasing average educational attainment amongst the Province's employed population.

Sectorally, the LFSs point to a substantial reduction in primary sector employment, almost completely accounted for by the decline in employment in agriculture, forestry & fishing, between 2000 and 2004. Employment in this sector was down 83 000 jobs to 152 000, equivalent to an average annual decline in employment of 10,3 per cent. This has important policy implications, as this sector was the fifth-largest employer in the Province in 2004, down from fourth in 2000. The dominance of this sector within Provincial employment means that a large proportion of the population is dependent on this sector and has been impacted negatively by employment contraction. This, in turn, has implications for rural-urban migration and, consequently, for service and housing delivery within urban areas in particular.

Broad unemployment has increased substantially. The number of unemployed males has increased by 96 000, while unemployment amongst those with Grade 9 to 11 education and amongst matriculants has increased by 116 000 and 59 000, respectively. However, younger members of the labour force experience the highest unemployment rates. Labour force members between the ages of 15 and 34 years are more likely to be unemployed than their older counterparts, even when controlling for education.

Thus, the unemployment rate of matriculants between 15 and 34 years of age is more than 2,5 times higher than that of individuals between 35 and 65 years of age with the same level of education.

The evidence is mounting that older people are tending to keep their jobs, while younger people are struggling to find employment. This has important implications for future economic growth, as long-term unemployment begins to erode the skills and knowledge that younger labour force members currently have but are unable to extend or even maintain through employment.

Growing employment is clearly a key priority going forward. There are perhaps three critical issues that emerge and that should be kept in mind during policy formulation. First, there are important spatial differences within the Western Cape and this is true even within the district municipalities. It is therefore essential that policy is not formulated in such a way that it is unable to cater for local conditions. These spatial differences also mean that the decline of specific sectors, such as agriculture, forestry & fishing, will impact differently on, and have differing consequences for, the residents of the various municipalities.

Second, the problem of youth unemployment is becoming increasingly dire, despite the fact that the educational profile of young people is superior to that of their older counterparts. This suggests a disjuncture between levels of education and skills levels, and poses serious challenges to the education sector.

Finally, the challenge of making a significant impact on unemployment levels over short periods of time has been shown to be immense, requiring rates of economic growth and levels of employment intensity significantly higher than those currently experienced. However, it is important to emphasise that the scenario exercise does not take account of recent announcements of economic stimuli packages under the national Asgisa initiative and the upcoming Provincial Growth and Development Strategy.

Glossary of terms

- **ASSA demographic model**

The ASSA 2003 Aids and Demographic Model was released on 28 November 2004. ASSA 2003 is the first Aids and Demographic model to take the government's Comprehensive Plan for HIV and Aids into account at a provincial level. The model has been designed by SA demographers and actuaries based on detailed SA data. Using these data, the model projects the numbers of South Africans living with HIV, new infections, Aids deaths, Aids sickness and many more statistics into the future. The ASSA model was developed under the auspices of the Aids committee of the Actuarial Society of SA with financial support to researchers in CARE at the University of Cape Town and the MRC Burden of Disease Research Unit by the Secure the Future Project of Bristol-Myers Squibb and UNICEF.

See www.assa.org.za

- **Cohort**

In statistics and demography, a cohort is a group of subjects – most often individuals from a given population - defined by a condition on their date of birth. For example, SA women born in the year 1985 would form a cohort when studied from a point of view such as their health, mortality or education. A cohort study often tracks a cohort over extended periods of time and returns to the same sample groups decades later.

- **Demography**

Demography is the study of human population dynamics. It encompasses the study of the size, structure and distribution of populations, and how populations change over time due to births, deaths, migration and ageing. Demographic analysis can relate to whole societies or to groups defined by criteria such as education, nationality, religion and ethnicity.

- **Discouraged workseekers**

Discouraged workseekers are those individuals who are unemployed but have given up actively looking for work.

- **Elasticity**

Elasticity is the concept in economics that measures the responsiveness of one variable to another. The best measure of such responsiveness is the proportional or per cent change in the variables, which gives the most usable results for any type or range of data. Thus elasticity is the proportional change in one variable relative to the proportional change in another.

- **Employment absorption rate**

The EAR is the ratio between the actual employment growth and the desired (or 'target') rate, and is expressed as a percentage. The closer the EAR is to 100, the better the actual relative to the desired employment performance.

- **Labour force**

In economics, the labour force is the group of people who have a potential for being employed. Normally, the labour force consists of everyone of working age (typically above a certain age, around 14-16) and below retirement (around 65) who are participating workers, that is people actively employed or seeking employment. People not counted include students, retired people, stay-at-home parents, people in prisons or similar institutions, as well as discouraged workers who simply do not want work.

- **Labour force participation rate**

The LFPR is defined as the share of the working age population that is part of the labour force. When individuals enter the labour force, they are either taken up into employment or they remain unemployed. Since there are two definitions of unemployment, there are two 'labour forces' and, correspondingly, two LFPRs can be calculated.

- **Narrow and broad unemployment**

Two standard definitions of unemployment are used: narrow unemployment and broad unemployment.

The narrow definition of unemployment, used as the official definition in SA by government and Stats SA, identifies Individuals as narrowly unemployed if they:

- (a) did not work during the seven days prior to the interview;
- (b) want to work and are available to start work within a week of the interview; and
- (c) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview. (Stats SA Statistical Release P0210 2002: xv).

The expanded/broad definition of unemployment does not include criterion (c).

Although the narrow definition of unemployment is the official definition, there is a strong argument that in developing countries such as SA it is more appropriate to use the expanded definition of unemployment.

- **Net in-migration**

Net in-migration as a share of population growth is calculated as the net number of immigrants in a given year, divided by the change in the total population from the given year to the following year.

- **Non-formal employment**

Non-formal employment is defined as total employment less formal sector employment.

- **Target employment growth rate**

The TGR measures how fast employment should have expanded over the period to provide work for all net entrants to the labour market. The TGR is independent of the rate or level of unemployment in the base year, because it captures the growth rate required to provide employment to only new entrants. If actual employment growth reached the target rate, the overall rate of unemployment would decline. This is because, considering new labour market entrants as a group on their own, if employment grew at the target growth rate, thereby absorbing all new entrants into employment, their unemployment rate would be zero. The fact that, in reality, not all new jobs go to new entrants does not impact on this reduction in the overall unemployment rate.

- **Unemployment rate**

The fraction of the labour force that cannot find work determines the unemployment rate.

- **Working age population**

The working age population is made up of individuals between 15 and 64 years of age. Individuals in this group can choose to be part of the labour force or not. As a result, the size of the working age population will impact on the size of the labour force.



Socio-economic Profiling at the Local Level

Key findings:

- The 2006 PER&O provides an executive summary of socio-economic profiles of all 30 municipalities in the Western Cape, the detail of which will be published separately after the PER&O.
- The profiles highlight six key areas of opportunity to achieving a shared growth and development outlook in the Province:
 - **Thriving regional growth sources:**
 - Cape Town is the Province's growth engine, generating 76,6 per cent of the Western Cape's total GDP.
 - The Province has two further growth motors – the Eden node, which includes Mossel Bay, George, Knysna and Plettenberg Bay, and that of Saldanha-Vredenburg.
 - **Competitive regional economies:**
 - The Western Cape economy has become increasingly service dominated, driven by Cape Town, Cape Winelands and Eden economic dynamics.
 - **Maturing demographic profiles:**
 - The Province has a growing and maturing population, leading to an increase in labour supply over time, helping to alleviate constraints in growing sectors should workers be appropriately trained and skilled.
 - **Reasonably skilled workers:**
 - Western Cape has relatively higher education levels than the rest of SA, and is second only to Gauteng.
 - **Considerable transport infrastructure and settlement investment opportunities:**
 - Imminent investment decisions, related to public transport, low- to middle-income housing, and higher income residential and business zoning in the main urban centres, are key to shaping the Province's development trajectory.

- Financial health and sustainability of municipalities:
 - Favourable INCA reports suggest that generally, local government in the Western Cape is financially well placed to undertake capital financing for large infrastructure investments.
- The detailed profiles suggest five key risks and challenges:
 - Demographic dynamics:
 - The Western Cape's changing demographics present short-term risks and challenges as the working age population increases faster than the number of jobs created, hence raising unemployment rates in the Province.
 - Rising youth unemployment:
 - Acute unemployment amongst the youth, despite their educational profile, is becoming increasingly dire.
 - Evidence is mounting that older people are tending to keep their jobs while younger people are struggling to find employment.
 - Sectoral growth and employment dynamics:
 - Changes in sectoral output and employment feed strongly into spatial economic development dynamics at the local level.
 - Skill constraints:
 - The Western Cape is under-represented in the skill- and technology-intensive economic activities that account for global economic dynamism.
 - Evidence of critical mismatch between levels of educational attainment and skill levels of school-leavers and young graduates and those demanded by the workplace pose serious challenges to the Province.
 - Social infrastructure pressures:
 - The Western Cape's population growth has placed pressure on access to and utilisation of social infrastructure and services, particularly in terms of education, healthcare and policing.
 - Local government must focus on 'getting the basics right' and address fundamental service delivery issues to ensure sustainable communities in the Province.

1. Partnering for shared growth and integrated development

Placing the Western Cape on a shared growth and integrated development trajectory requires a bold, coherent and co-ordinated public sector response to the Province's socio-economic opportunities and challenges.

Recent comparative international shared growth experiences show that the quality of government institutional capacity is a key success factor in accelerating economic growth and ensuring that the resultant growth is broad based, shared and environmentally sustainable.

At the aggregate level, good governance is measured by a government's ability to integrate into the global economy, its capacity to maintain sustainable government finances, and its ability to put into place an institutional environment in which contracts can be enforced and property rights established.

At a regional and local level, efficient and effective governance is critical in providing an enabling environment for competitive, thriving businesses and strong social communities and networks. These levels of government also play a key role in managing or regulating environmental resource use and promoting new local economic development directions.

SA has achieved considerable success in macroeconomic stabilisation at the national level, laying a solid foundation for future development. Prudent fiscal, monetary and trade policies followed over the past 10 years are reaping benefits that contribute to higher growth.¹

Attention is now moving towards enhanced provincial and local performance and delivery. Shared growth demands shared responsibility. This means that provinces and local government must work closer together, and through their combined efforts lever greater impact on regional and local economic development and poverty reduction, as well as promote new and more efficient ways of resource consumption.²

Greater alignment in provincial and local planning, budgeting and service delivery will enable government as a whole to channel its macroeconomic successes to regions and communities in ways that are more tangible and that make an impact on daily lives and future opportunities.

¹ Certain groups highlight that there are notable caveats as to the environmental sustainability of such a path.

² This could include new and innovative ways of leveraging community resources to move government away from the current provider paradigm through which many of its services are rendered, or meant to be rendered, and towards a support paradigm. Under this paradigm, there should be a much greater emphasis on management as opposed to operation, for example through public-private partnerships (PPPs), joint ventures and quality assurance. Of course, this implies much greater labour flexibility.

2. Socio-economic profiling at the local level

As the role of provincial and local government becomes increasingly important in the shared growth and integrated development agenda, it is critical that both undertake rigorous socio-economic research and analyses that profile the regional and local economies.³

Socio-economic scanning provides an essential evidence-based platform to inform and guide provincial and local planning, budgeting and service delivery decisions.

As at the provincial level, local governments need a better understanding of how to describe local economies within the broader regional and national economy. They should be able to analyse key local economic variables and in time, propose credible trend forecasts.

Given the history of significant intra-provincial migration, local demographic profiles are highly dynamic. Understanding the characteristics of local populations and how demographic profiles change over time is critical to planning, budgeting and service delivery at the local level.

Furthermore, better analysis of demographic dynamics enables local government to decompose labour market structures and trends to understand the local skills base and income distribution patterns.

Shared growth and integrated development is built on improved equity in access to assets that empower people to engage in economic activity and therefore participate in growth. This means that the analysis of access to basic and social services is critical to appreciating poverty dynamics at the local level.

Finally, local economies differ in terms of their natural resources, climatic conditions, geographic location, biodiversity, and human knowledge and skill. Determining the sources, potential and constraints to enhanced local growth and employment is imperative to the design of local economic development interventions that best hone competitive advantage and shape a strategic economic development agenda at the local level. Such interventions should also emphasise resource sustainability, not only for its ability to increase the life of supply sources, but also to reduce costs.

This means that socio-economic profiling should form a key element of local government integrated development planning, annual budgeting and service delivery reporting processes.

³ This should be extended to include environmental resource consumption indicators. For example, the former Paarl municipality instituted a partial water demand management programme that saw its consumption levels drop to 1990 levels. This introduced a saving on both water consumption tariffs and maintenance costs, as a pressure-reducing strategy that radically decreased the frequency of burst pipes. The amount of water in the sewerage system was also reduced, decreasing the load on waste water treatment works and improving the municipality's ability to meet the Department of Water Affairs and Forestry's effluent standards.

These analyses also provide critical information to national and provincial departments and other entities that deliver services in local areas, for instance, housing and subterranean infrastructure for water and sanitation, health services, education and training, social welfare services, and policing and community safety.

Local economies and communities are the base or constituent elements for all public service delivery, whether at national, provincial or local level. Understanding local socio-economic dynamics is critical to developing interventions that are appropriate to the local level.

Furthermore, local economies and communities often experience the effect of fragmented public service intervention. Local socio-economic analysis is therefore key to ensuring alignment and co-ordination in intergovernmental planning, budgeting and service delivery. Government has to work as a seamless unit to realise our common vision of a shared growth and integrated development future in the Western Cape.

This chapter provides an executive summary of the detailed socio-economic profiles of 30 municipalities in the Western Cape: Cape Town as the Province's only metropole or Category A municipality; five district or Category C municipalities – the Cape Winelands, Overberg, Central Karoo, Eden and the West Coast; and 24 local or Category B municipalities that are grouped within each of the five districts.

The detailed profiles are set out in a separate publication, the *2006 Socio-Economic Profiling of Local Government in the Western Cape*, to be published shortly after the 2006 PER&O.

Data for the profiles are drawn from a range of official and non-official partners and sources, including Stats SA, the CARE-commissioned demographic model for the Western Cape, Quantec Research, the Development Bank of Southern Africa (DBSA), and provincial and local departments themselves.

It is important to note that the resultant profiles are presented as socio-economic scans; that is, they do not present rigorous data analyses for comparative time series. Rather, they draw on data from different sources often collated in different years. This means that they form a credible socio-economic 'snapshot' of each municipality, providing a baseline for future socio-economic surveys and more detailed analyses undertaken at the local level.

That said, given the complete vacuum of local socio-economic information and analyses at present, the profiles take the Western Cape's socio-economic analysis a quantum leap further.

Rather than present a stylised summary of the profiles, this chapter takes a more strategic thrust, highlighting key opportunities and outlook and raising important risks and challenges that the spatial analyses present to achieving shared growth and integrated development in the Western Cape.

3. Opportunities and outlook

The local socio-economic profiles present six key areas of opportunity to achieving a shared growth and development outlook in the Province:

- Thriving regional growth sources;
- Competitive regional economies;
- Maturing demographic profiles;
- Reasonably skilled workers;
- Considerable infrastructure and settlement investment opportunities; and
- Relatively sound municipal finances.

GDPR data used: issues and concerns

The data used in this chapter were obtained from Quantec Research's Standardised Regional database, which makes use of Stats SA data as well as several assumptions to disaggregate national and provincial data to a district and local municipal level.

Given smaller sample sizes at the sub-provincial level, GDPR data at this level are mainly used for trend and relative sector share analysis, which cautions against citing GDPR figures as de facto values.

Further, the sub-provincial data used in this chapter have not been updated as per Stats SA's recent revisions, as the revised Standardised Regional database was not yet available at the time of writing. It should be noted, though, that revised provincial-level data are used in chapters 2 and 4 of the 2006 PER&O. The detailed socio-economic profiles of all 30 municipalities in the Western Cape, to be published separately after the 2006 PER&O, will also reflect the revised data.

Two main changes are expected at the sub-provincial level. First, the level (actual total) of GDPR is expected to increase, with the resultant impact on growth rates, which are expected to be higher than reported here. Secondly, the sectoral contribution to GDP and thus the sectoral growth rates will be affected.

3.1 Thriving regional growth sources

Chapter 2: Economic Outlook shows that the Western Cape is registering robust growth levels, buoyed by the continued momentum in the domestic spending-led boom on the back of historically low interest rates.

Table 1 shows the 2004 economic contributions of the city and five districts to Western Cape output. The City's dominance of the Provincial economy is clear. The Winelands district follows at a distant second, yielding 10,45 per cent of Provincial output, Eden 6,14 per cent and the West Coast 4 per cent.

Table 1: City and district contributions to Western Cape GDP, 2004

	GDP 2004 (R-million)	Share of SA (%)	Share of Western Cape (%)
South Africa	954 019	-	-
Western Cape	138 941	14,56	-
Cape Town	106 385	11,15	76,57
Cape Winelands	14 524	1,52	10,45
Eden	8 537	0,89	6,14
West Coast	5 530	0,58	3,98
Overberg	3 268	0,34	2,35
Central Karoo	697	0,07	0,50

Source: Quantec Research and own calculations

Economically, Cape Town is the Province's growth engine, generating R106,4bn, or 76,6 per cent of the Western Cape's total output of R138,9bn in 2004.

The extent and dynamism of the city's economy spreads its economic influence further than the metropolitan boundaries. Cape Town's functional region probably extends 150 kilometres from the city centre, encompassing Saldanha to the north, Worcester to the north-east and Hermanus to the east.

Furthermore, the city's economic influence extends through to Garden Route in Eden and even to the Eastern Cape through migrant and building material remittances.⁴

The broader hinterland outside of the city is connected by commuter flows, economic linkages and shared facilities. This means that the city's economic fortunes act as the key determinant of those in the interlinked regions.

The Province is fortunate to have two further regional growth motors – the Eden node, which includes Mossel Bay, George, Knysna and Plettenberg Bay – and that of Saldanha-Vredenburg.

While the Cape Winelands is a key pillar of the Western Cape's economy, it is not identified as a regional growth motor as it is not as prominent an urbanisation node as Cape Town, Eden and Saldanha.⁵

However, it does form a key element of the Breede River development corridor that links Cape Town to the Southern Cape through the Breede River. The corridor is well endowed with water resources and has a well-developed settlement system through the towns of Wolseley, Worcester, Robertson, Ashton and Swellendam.

⁴ Many migration studies have shown that while some migrants may make permanent moves to their destinations, many remain in a cyclical and generational migration pattern, with one foot in the urban and the other in the rural.

⁵ The regional growth motors are defined by a focused collection of settlements rather than a district council boundary. The Cape Winelands comprises two settlement systems – the Boland towns of Wellington, Paarl, Stellenbosch and Franschhoek, and the Breede River Valley settlements of Tulbagh through to Swellendam (the latter is not in the Cape Winelands).

The Southern Cape growth node Eden has a relatively well-diversified economy, with some significant industrial activity in George and strong tourism and construction sectors. The latter's growth is driven by the construction of golf estates and other large projects related to tourism.

Eden is also one of the fastest growing districts within the Province, both in terms of economic activity and population growth. This requires concerted efforts to mobilise resources across the Province to promote intra-regional support and competition, to ease unnecessary blockages in required infrastructure investment, and to promote the conservation of environmental resources – water, biodiversity, eco-system services and visual amenities.

The Saldanha-Vredenburg growth node is situated around Saldanha harbour, one of the world's largest natural harbours. The port is primarily geared for iron-ore exporting, but vertical integration is growing with steel processing plants that have been established.

Potential to broaden the industrial base to smaller downstream industries is strengthened by recent offshore oil and gas finds along the West Coast. Saldanha is also experiencing rapid urbanisation largely due to its economic development potential, and is well positioned to ease the transport bottlenecks and compete with Cape Town in the transport and communications, logistics and – given its infrastructure – warehouse business into Africa.

A key caveat to the extent and depth of development in the region is the availability of water for industrial and urban use. Feasibility studies are being undertaken regarding desalination possibilities in order to enhance water supplies to the region. There should be a strong focus on demand management⁶ as well as supply augmentation.

Between Cape Town and the two regional growth nodes are emerging regional development corridors, based on transport (road and rail) corridors. These regional development corridors are key to enhancing economic linkages within the Western Cape, improving mobility for people and of freight, and boosting the economic potential of settlements along corridor routes.

3.2 Competitive regional economies

The Western Cape economy has traditionally been broad based. It supports sizeable and important activities in all sectors of the economy – primary, secondary and tertiary. This diverse economic base is a key strength.

The structure of the Provincial economy has changed over time, becoming increasingly service dominated – financial & business services and retail & wholesale trade alone make

⁶ Off-grid technologies such as rain water harvesting and grey water recycling can make a significant contribution to resource management. They also have much stronger economic growth and employment creation multipliers than capital-intensive grid-based systems. Their advantage from a public sector point of view is that they can be implemented through inexpensive policy directives rather than hugely expensive capital projects.

up about 45,6 per cent of the Province's output, whereas agriculture, forestry, & fishing account for 4,4 per cent and manufacturing for 18,1 per cent.

At the aggregate level, average annual growth between 1995 to 2004 was highest in transport & communication (6,8%), followed by wholesale & retail trade (5,3%), financial & business services (4,8%) and CSP services (3,5%). These are all nationally fast-growing industries, placing the Western Cape at a competitive advantage in these sectors.

Cape Town is the key driver behind the shift to services as the dominant sector of the Western Cape economy. Financial & business services comprise 30 per cent of the city's economy, followed by CSP services (21,31%), wholesale & retail trade (17,21%) and manufacturing (15,1%).

The Cape Winelands' economy is fairly well diversified, with the manufacturing industry (comprising largely of wine and agro-processing industries) remaining the largest contributor to GDP at 22,1 per cent, followed by financial & business services (20,3%), wholesale & retail trade (15%) and agriculture, forestry & fishing (14,2%).

However, low growth rates for manufacturing – due to export sensitivity in the region caused by the currency appreciation – implies a declining share in GDP. This in turn points to the increased importance of services sectors that are growing faster than manufacturing.

Eden, an important economic growth area and eco-tourist hub for the Western Cape, is driven mainly by the expansion of the wholesale & retail trade sector. The latter comprises 18,6 per cent of the district's economy. Other growth sectors are financial & business services and manufacturing, which contribute 22,5 per cent and 16,7 per cent to economic activity, respectively.

The sectoral make-up and dynamics of these three regions indicate clearly the Province's structural shift towards a service-based economy. In certain sectors, this means a shift to knowledge intensification in high-end technologies, such as IT and financial services that hone a competitive edge but are not job creating, particularly in terms of low- and medium-skill jobs.

Other sectors, such as CSP services are important for employment but less so for competitiveness in the global arena. Growth in wholesale & retail trade, however, balances growth in output, employment, investment and exports. Business services also show considerable potential in this regard.

All spheres of economic activity should rise to the challenge of sustained competitiveness by growing their knowledge and technological assets. Knowledge intensification activities must be supported by skills development initiatives to enhance the existing skill profile of the Province. Labour absorption rates must also be increased, particularly in the growing services sectors.

3.3 Maturing demographic profiles

The Western Cape has both a growing and maturing population, presenting opportunities and challenges to the Province.

More specifically, the working age population is expected to continue to grow over the next 10 years. More specifically, the number of individuals 15-65 years of age is expected to expand by 287 000 between 2005 and 2015, with all the growth occurring within the 35-65 year age group. This means that the population is expected to become older over time.

Migration into the Province is expected to play an important role in terms of aggregate population growth over the period. Net in-migration between 1991 and 2000 is estimated to have added an average of between 38 000 to 41 000 people a year. This rate slowed from 2000. From 2001 to 2015, the Western Cape will likely gain only about 11 800 additional people a year.

Detailed studies in the Paarl, Stellenbosch and Wellington areas confirm this trend, although popular perception is taking time to assimilate the factual and research evidence.

An increase in the working-age population represents a strength and opportunity over the medium term, as the Western Cape finds itself with a greater variety of workseekers that may also begin to help to alleviate labour supply constraints in particular sectors.

However, the Province must ensure that workseekers are appropriately trained and skilled through increased vocational education and training, such as FET, apprenticeship training and partnerships with organised business, and higher education and training, particularly in technical areas such as science and engineering.

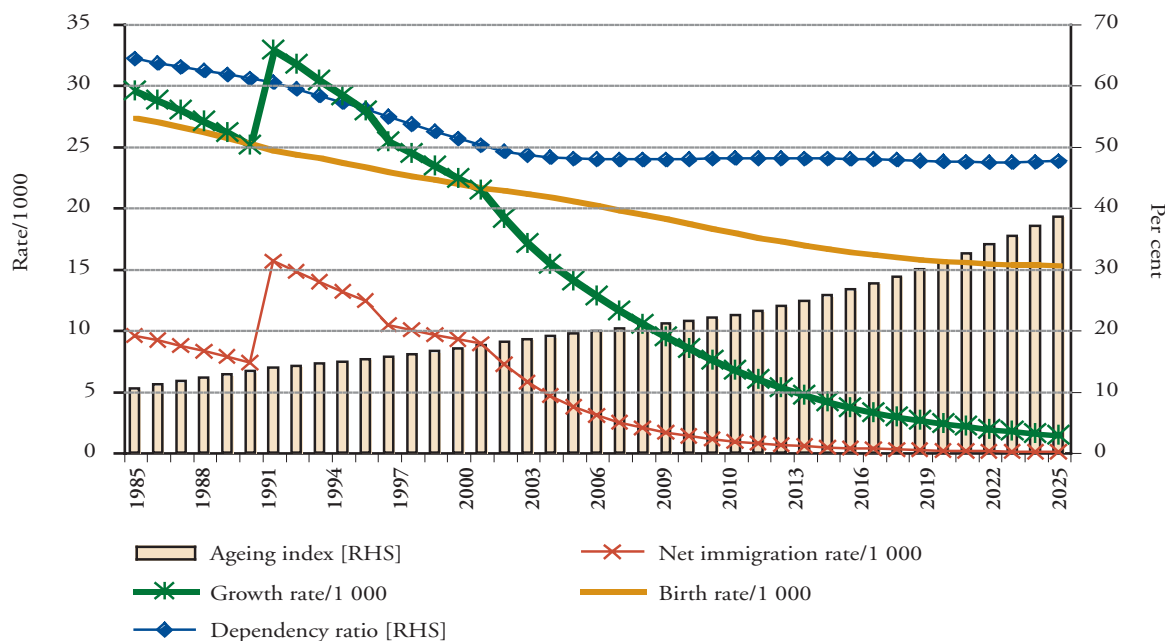
Workseekers would then be employable at intermediate to higher skill levels, matching the demand from industries that are growing in the Province, and thereby alleviating skills constraints in the sectors over the medium to long term.

A further benefit from a maturing population is lower dependency rates over the medium term, as seen in figure 1. The proportion of children within the Province's population declines from 28,4 per cent in 2000 to 25,8 per cent in 2015. This does not mean a decline in the absolute number of children, though. Instead, the number of children under the age of 15 years is expected to rise from 1,28 million in 2000 to 1,33 million in 2005 and 1,38 million in 2015.

The growth slowdown in the number of young individuals overall may lower growth requirements in terms of primary and secondary education spending. However, it is important to remember that although the overall school-going population may not

be growing rapidly, changes in the geographical distribution of learners will continue, potentially requiring shifts in spending.

Figure 1: Western Cape demographic indicators, 1985 – 2025



Source: ASSA Western Cape demographic model, 2005

Spatially, Cape Town dominates the Province's demographic distribution, accounting for 65 per cent of the Western Cape's population.

The working age population is expected to become more concentrated within Cape Town, which is not unexpected due to the concentration of economic activity within the city and the greater employment prospects that this implies.

Amongst children under 15 years of age, Cape Town is expected to account for a slightly greater proportion in 2015 than is the case currently, but this is still below the proportion prior to 2000.

In contrast, relatively fewer older individuals are likely to call the city home in the future. In 1985, almost 85 per cent of people aged 65 years and over resided in Cape Town. By 2000, this had fallen to 65,3 per cent and it is expected to stabilise at just over 63 per cent between 2005 and 2015.

In 2005, the Cape Winelands was the second-largest demographic region within the Western Cape, with 13,1 per cent of the Province's population. Currently, less than 60 per cent of the population is under the age of 29. This result is partly skewed due to students

attending schools and the University of Stellenbosch. The proportion of people under 29 is expected to become less than 55 per cent by 2010 as the population ages.

Eden contained 10,1 per cent of the Western Cape's population the same year, making it the third-largest demographic region in the Province. The district has seen rapid average population growth of 3,62 per cent a year between 1996 and 2001. This slows down to 0,62 per cent a year in 2005.

3.4 Reasonably skilled workers

Concerns with the quality of education aside, the Western Cape has relatively higher education levels than the rest of SA, and is second only to Gauteng.

At the district level, Cape Town takes the lead in educational attainment, with 25,4 per cent of its population having completed secondary schooling and 12,6 per cent higher education in 2001. This compares to average attainment of 23,4 per cent and 11,2 per cent, respectively, in the Western Cape.

The 2004 LFS shows that there has been a rapid increase in the number of Grade 9 – 11 graduates and matric certificate holders entering the Province's labour force.

The Western Cape compares favourably to the rest of the country in this regard. Between 2000 and 2004, the Province saw average annual growth of 10,2 per cent in the number of matriculants, compared to 7,9 per cent at the national level. And in 2004, matriculants comprised 28,5 per cent of the total Provincial labour force, compared to 26,2 per cent nationally.

The Western Cape has also seen more rapid employment growth among matriculants than nationally. By 2004, employed matriculants numbered more than half a million individuals, equivalent to 30,4 per cent of Provincial employment.

These trends are clearly a good sign for the Province at a national comparative level. This does not mean, however, that the Western Cape is free from skills constraints. Earlier chapters raise concerns that further skill enhancement, particularly in technical areas that draw heavily on mathematics and science capabilities, are key to boosting the Province's economic growth rate to the 6 per cent to 8 per cent level and improving the economy's labour absorptive capacity. Skills constraints are discussed in further detail below.

Table 2: Educational attainment: Western Cape and districts, 2001 (%)

	Cape Town	Cape Winelands	Eden	West Coast	Overberg	Central Karoo	Western Cape
No schooling	4,21	8,36	7,81	9,21	16,82	4,21	5,73
Some primary	11,79	21,83	20,12	21,72	23,32	11,79	15,19
Complete primary	7,10	9,18	8,61	10,53	8,95	7,10	7,90
Some secondary	38,88	32,19	31,68	33,33	30,49	38,88	36,54
Std 10/Grade 12	25,43	19,14	22,10	18,46	14,49	25,43	23,41
Higher	12,59	9,29	9,68	6,75	5,92	12,59	11,23

Source: Stats SA

3.5 Considerable transport infrastructure and settlement investment opportunities

A key success factor of any regional economy relates to the movement of goods, people and services. The Western Cape is at a confluence where imminent investment decisions related to transport infrastructure and settlement patterns will shape the Province's development trajectory, potentially towards shared growth and integrated development.

The Province's investment opportunities relate in particular to public transport, low- to middle-income housing, and higher income residential and business development zoning.

Spatial and land use patterns that are characterised by urban sprawl – far-flung residential developments, industrial parks and shopping mall developments – and extensive road infrastructure without investment in public transport modalities (road and rail) tend to promote inefficient, costly and segregated settlement patterns.

Furthermore, spatial fragmentation promotes extensive reliance on private motor vehicle usage, and therefore traffic congestion. This exacerbates mobility and logistics inefficiencies and contributes to higher greenhouse gas emissions, eroding environmental sustainability.

Shared growth and integrated development demands a completely different spatial investment approach. Transport investment decisions are prioritised towards credible public transport solutions that increase mobility and promote higher density transport modalities. This requires a corresponding and supportive change in the land-use pattern.

Urban planning and settlement patterns impact on the viability of public transport solutions. This means that urban planning and settlement investment and zoning decisions need to be integrated with those related to public transport.

In particular, low- and middle income housing investments and zoning decisions related to higher income residential developments, industrial parks, business centres, shopping mall developments and community services should reflect higher densification and mixed-use development targets.

At low densities of only 50 people per hectare, large tracts of land are consumed and other urban services are not viable. As densities increase, more activities can be found within walking distance, and business and public transport services become more viable.

An average of 100 people per hectare has been identified as the critical threshold where good supportive neighbourhood facilities, public transport services and walking become convenient as people live, work and take part in recreational activities in nearby localities.

With the exception of high-density informal settlements, most settlements in the Western Cape, including Cape Town, reflect low densities averaging just fewer than 50 people per hectare.

Both provincial and local government are key players in investment decisions related to public transport, housing and settlement patterns. For the most part, provinces have regulatory oversight and funding responsibilities, while local government is the policy, planner and service delivery provider.

The Western Cape's forthcoming Strategic Infrastructure Plan identifies key public transport investment priorities, which include extending and improving the rail network; constructing dedicated bus lane infrastructure; upgrading interchange facilities to enable linkages between modes (rail, taxi, car, cycle and pedestrian); and providing key infrastructure – dedicated routes, loading/drop-off facilities – to support the mini-bus taxi industry.

Similarly, the upcoming Provincial Human Settlement Strategy promotes medium-density and mixed-use human settlement patterns. A key aspect of the strategy involves the release of state land near urban centres for the development of low- to middle income housing.

This reform is critical to reverse apartheid settlement patterns where poor people were located in areas distant to social facilities and economic centres, reducing access to services and increasing commuting time and costs.

Recently released, the Western Cape's Provincial Spatial Development Framework complements the above strategies in recommending the delineation of an urban edge and zoning regulations that shape urban growth towards higher densification and away from urban sprawl.

In all the above areas, local government is the key service provider and implementing agent. This requires that local public transport, human settlement and spatial development frameworks are developed, adequately funded and effectively implemented.

Many municipalities have inadequate capacity to support appropriate policy development and implementation. This concern has been noted and is addressed in national and provincial capacity building and support to local government in the IDP process.

Similarly, municipal capacity to finance large infrastructure investments relates strongly to their general financial health, discussed in the section below.

Going forward, provincial and local government roles and responsibilities in infrastructure investment must be carefully considered. It has been found more effective for government to take on a managing role where it ensures that its investments leverage greater multiples of private and/or community sector investment. Furthermore, private and/or community sectors should operate services according to service standards and fees that are laid down and managed by the public sector. In most cases, the provider role of government should be minimised, given its limited comparative advantage in such areas.

3.6. Financial health and sustainability of municipalities

Municipalities are expected to provide water, sanitation, electricity, refuse removal and other basic services. These functions are key to creating an enabling environment for competitive, thriving businesses and strong social communities and networks.

Metropolitan or Category A municipalities and district or Category C municipalities are also responsible for investing in the built environment, ensuring the availability of appropriate infrastructure for sustainable community development.

Capital spending is mostly financed from national and provincial transfers, in particular the Municipal Infrastructure Grant (MIG), and medium- to long-term bonds that are raised on the capital market.

Presently, the DBSA and Infrastructure Finance Corporation Limited (INCA) are the main municipal lenders. However, commercial banks are recent entrants into the municipal market as well.

Recent data from INCA shows a loan portfolio to 19 municipalities in the Western Cape: Cape Town; Drakenstein, Stellenbosch and Swellendam in the Cape Winelands district; Cape Agulhas, Hessequa, Overstrand and Theewaterskloof in the Overberg district; Mossel Bay, George, Knysna, Plettenberg Bay and Oudtshoorn in the Eden district; Berg River, Breede Valley, Saldanha Bay, Matzikama and the Swartland in the West Coast district; and Beaufort West in the Central Karoo district.

INCA financial risk profiling data reveal that these 19 municipalities recognise the importance of maintaining healthy financial positions to improve their credit worthiness. The ratios of indebtedness fell in line with the national government's improving debt position.

As part of its credit evaluation process, before approving any form of borrowing, INCA focuses on financial viability, management capacity, economic sustainability, socio-political conditions and environmental awareness as major guiding factors to assign a shadow rating to borrowers.

INCA stresses the importance of the ability to generate reliable free cash flows. Debt absorption capacity and revenue trends are useful indicators to assess the extent to which municipalities are able to accelerate service delivery from different sources of funding within certain risk limits.

On the other hand, debtors-to-total income provides useful clues in understanding the wealth profile of municipalities' households. INCA has set the following benchmarks for municipalities' risk profile:

- Long-term debt to total income should be less than 50 per cent;
- Interest paid to total expenditure should be less than 7,5 per cent;
- Overdraft to total income should be greater than zero;
- External interest coverage should be greater than 1⁷; and
- Staff cost to total expenditure should be less than 35 per cent.

Rigorous financial risk profiling is an important element for any municipality considering medium- to long-term borrowing for capital investment purposes.

The favourable INCA report on its Western Cape municipal borrowers suggests that, generally, local government in the Western Cape is financially well placed to undertake capital financing for large infrastructure investments.

These investments, particularly in respect of water and sanitation infrastructure in local municipalities, and public transport and human settlements in the larger urban centres, are critical to accelerating and broad-basing local economic growth in the Western Cape.

⁷ The ratio is calculated from the cash flow statement. The formula is as follows: (cash generated + interest earned +/- change in working capital divided by interest paid).

4. Risks and challenges

The detailed profiles raise five key risks and challenges to achieving shared growth and integrated development in the Western Cape:

- Demographic dynamics;
- Rising youth unemployment;
- Sectoral growth and employment trends;
- Skill constraints; and
- Social infrastructure pressures.

4.1. Demographic dynamics

As noted in the above section, the Western Cape has both a growing and maturing population, presenting opportunities and challenges to the Province.

In effect, the Province's demographic dynamics present opportunities over the medium to long term, but raise short-term risks and challenges.

More specifically, the working-age population is expected to experience a rapid increase, particularly the 35-64 age group.

This demographic trend is already factoring through to the labour force. In 2004, just fewer than 2,3 million individuals in the Western Cape were engaged in the broadly defined labour force, up by 269 000 from four years earlier.

Furthermore, the bulk of the labour force (56%) is concentrated in the prime working ages of 25-44 years, with a further 20,8 per cent 15-24 years of age.

More potential workseekers translate into higher unemployment levels, particularly if individuals are not appropriately skilled and the economy is not able to generate sufficient numbers of jobs to absorb the increase in new entrants at the lower end of the skill spectrum.

This trend is evident in the rapid growth in the number of discouraged workseekers⁸ living in the Province – individuals who are unemployed but have given up actively looking for work.

The number of discouraged workseekers in the Western Cape has been relatively small compared to other provinces, although this is beginning to change. As a result, it is expected that the relatively narrow numerical gap between the narrow and broad definitions of unemployment will begin to widen.

⁸ As explained in chapter 4, discouraged workseekers are captured in the broad, but not the narrow, definition of unemployment.

That said, in 2004 broad unemployment in the Western Cape reached about 26,3 per cent and narrow unemployment 18,6 per cent. This compares favourably to the national situation where broad unemployment topped 41 per cent and narrow unemployment was 26,2 per cent the same year.

Nonetheless, it is clear that rapid growth in the labour force due to increasing numbers of working-age people is contributing to increased unemployment in the Western Cape over the short to medium term, albeit off a lower base than national levels.

Section 4.1: Employment and geography in chapter 4: Employment Dynamics presents a detailed analysis of the spatial pattern of unemployment at the district level.

The main thrust emerging from the analysis is that Cape Town, the Central Karoo and Eden have high unemployment rates, while the West Coast, Cape Winelands and Overberg have relatively low unemployment rates, both overall and for the 15-34 and 35-65 year age groups.

In 2001, the Central Karoo was characterised by a 36 per cent unemployment rate, followed by Cape Town at 29,2 per cent and Eden at 26,5 per cent. In contrast, unemployment in the West Coast stood at 13,8 per cent, at 18,4 per cent in the Cape Winelands and 18,6 per cent in the Overberg.

As noted, it is likely that Cape Town, as the Province's only metropolitan area and dominant economic agglomeration, acts as a powerful magnet for workseekers from all over the Western Cape, as well as from the rest of the country. In contrast, the Central Karoo is a relatively sparsely populated, arid region with relatively little economic activity. Eden borders the Eastern Cape and may also attract workseekers from that province.

Thus, in the case of Cape Town and Eden, perceptions of improved employment prospects may attract in-migrants and thereby raise the supply of labour, resulting in higher unemployment. In the case of the Central Karoo, unemployment may be more closely linked to insufficient demand for labour.

The West Coast, Cape Winelands and Overberg districts' relatively low rates of unemployment may be for various reasons. These three regions all border on Cape Town, so migration to the city is relatively easy, cheap and less daunting than is the case for prospective migrants from elsewhere in the Province and the rest of the country.

4.2. Rising youth unemployment

The problem of youth unemployment in the Western Cape and nationally is structural and acute. In 2004, Provincial unemployment rates in excess of 52 per cent amongst

15-24 year-olds translated into one in two labour force members in this age group being unable to find work. This compares to 68,3 per cent at the national level.

Amongst 25-34 year-olds, the Provincial unemployment rate is substantially lower at 25,5 per cent, dropping to around 13 per cent amongst 45-54 year-olds.

Looking at the composition of the unemployed (denoted by percentage shares), the unemployed are predominantly younger than 34 years of age. In 2004, 41,3 per cent of the unemployed belonged to the 15-24 year age group, while a further 32,7 per cent were between the ages of 25 and 34 years. In contrast, less than 12 per cent of the unemployed were over the age of 45 years, which was substantially lower than this group's share of the labour force of more than 23 per cent.

Turning to a spatial representation of changes in unemployment using Census 1996 and 2001 data, of the increase in unemployment recorded over the period, the bulk derived from 15-34 year-olds. This group represents 65,9 per cent of the net increase in unemployment, compared to 34,1 per cent for 35-65 year-olds.

Of the five districts, Eden and the Cape Winelands accounted for the largest proportion of the increase in unemployment amongst 15-34 year-olds, at 5,6 per cent and 4,5 per cent, respectively. However, compared to their shares of the labour force, the Central Karoo and Overberg contributed the most to increased unemployment, with these regions' shares of unemployment change being 1,7 and 1,3 times their shares of the labour force, respectively.

The increase in unemployment amongst 15-34 year-olds in Cape Town represented almost one half (49,6%) of the increase in unemployment over the period. This was due mainly to the fact that Cape Town africans 15-34 years of age represented 36,2 per cent of overall unemployment growth, followed by coloureds who accounted for 14,5 per cent.

A similar pattern is observable for individuals 35-65 years of age. Africans in Cape Town in this age group accounted for 14,7 per cent of the Western Cape's unemployment growth, while their coloured counterparts accounted for 10,1 per cent. Eden and the Cape Winelands were, again, the two districts that accounted for the largest proportions of total unemployment growth. However, amongst this age group, only Cape Town africans accounted for a larger proportion of unemployment growth than they did of the 2001 labour force, the ratio between these two shares being 1,7.

The evidence is mounting that older people tend to keep their jobs, while younger people are struggling to find employment. This has important implications for future economic growth, as long-term unemployment begins to erode the skills and knowledge that younger labour force members have but are unable to extend or even maintain through employment.

The problem of youth unemployment is becoming increasingly dire, despite the fact that the educational profile of young people is superior to that of their older counterparts. This suggests a disjuncture between education and skill levels, and poses serious challenges to the education sector.

Institutional arrangements and interventions (government and non-government) that promote a culture change and entrepreneurship amongst the youth have the potential to change poverty and unemployment's unintended consequences on youth, which include domestic violence, crime and substance abuse, and social instability.

To this end, the Province's Social Capital Strategy proposes targeted interventions to build positive social capital and networks amongst youth in the Western Cape.

Provincial Index of Multiple Deprivation (PIMD)

In March 2006, the HSRC published *The Provincial Indices of Multiple Deprivation for South Africa 2001*, presenting an Index of Multiple Deprivation for each province.

Each PIMD only provides information about relative levels of deprivation within the province in question and are not comparable across provinces. It is, however, intended that in due course a SA Index of Multiple Deprivation (SAIMD) will be produced for the whole of the country.

The PIMD is compiled from a combination of five main types of domains measuring deprivation:

- Income and material deprivation, which captures the proportion of the population experiencing income and/or material deprivation in an area.
- Employment deprivation, which measures employment deprivation conceptualised as involuntary exclusion of the working age population from the world of work.
- Health deprivation, which identifies areas with relatively high rates of people who die prematurely.
- Education deprivation, which captures the extent of deprivation in education qualifications in a local area. The primary focus for this measure is adults 18-65 years of age.
- Living environment deprivation, which identifies deprivation relating to the poor quality of the living environment.

Table 3 shows the percentage of wards in the Western Cape by municipality on the overall PIMD score.

Source: HSRC

Table 3: Percentage of wards in each quartile of wards in the Western Cape by municipality on the overall PIMD 2001

Municipality	Percentage of wards in least deprived 25%	Percentage of wards in least deprived 25%-30%	Percentage of wards in most deprived 25%-30%	Percentage of wards in most deprived 25%
Beaufort West	0,00	0,30	0,60	1,20
Berg River	0,00	0,60	1,51	0,00
Breede River/Winelands	0,00	0,90	0,30	1,81
Breede Valley	0,90	1,51	1,20	2,11
Cape Agulhas	0,30	0,60	0,60	0,00
Cederberg	0,00	0,60	0,90	0,30
Cape Town	13,25	6,63	3,31	6,93
Drakenstein	2,11	1,81	3,31	1,51
George	1,20	0,90	1,51	1,81
Kannaland	0,00	0,30	0,00	1,20
Knysna	0,60	0,60	0,30	0,90
Laingsburg	0,00	0,00	0,00	0,30
Hessequa	0,00	1,81	0,30	0,30
Matzikama	0,00	0,00	1,20	0,90
Mossel Bay	1,20	0,30	0,90	0,90
Oudtshoorn	0,30	1,20	0,00	2,11
Overstrand	0,60	1,20	0,60	0,30
Plettenberg Bay	0,00	0,30	0,90	0,30
Prince Albert	0,00	0,00	0,00	0,30
Saldanha Bay	1,20	1,20	0,60	0,00
Stellenbosch	2,41	1,51	0,90	0,60
Swartland	0,90	0,90	1,20	0,00
Swellendam	0,00	0,30	0,90	0,30
Theewaterskloof	0,00	0,90	1,81	0,30
Witzenberg	0,00	0,60	2,11	0,60

Source: HSRC

4.3. Sectoral growth and employment dynamics

As noted above, regions and local economies differ in terms of their natural resources, climatic conditions, geographic location, biodiversity, and human knowledge and skill. Although these distributions may change over time, as is currently occurring on an international scale with the rapid growth of many developing economies, concentrations of economic activity will persist.

Nonetheless, at the sectoral level, changes in output or employment affects some municipal districts in the Province more and others less, creating spatial dynamics.

Sectoral trends therefore feed strongly into spatial economic development dynamics. How well a region or municipal district copes with economic change largely depends on the ability of its residents either to move from declining to growing sectors inside their region – primarily a question of their skill sets – or to leave the district/region in search of better fortunes elsewhere – primarily a question of the resources required for mobility.

Everything else being equal, districts/regions with a relatively flexibly skilled workforce and/or with a more diversified industrial structure can employ coping mechanisms more easily than those that rely on a range of relatively narrow activities and/or people with skills that cannot be transferred easily to other applications.

Detailed analysis on spatial employment trends is set out in *section 4.1: Employment and geography of chapter 4: Employment Dynamics*.

The analysis highlights that while there are similarities in terms of employment structure across the Western Cape's municipal districts, there are also some important differences.

Cape Town accounted for the largest share of employment growth between 1996 and 2001, with 50,4 per cent, followed by the Cape Winelands (15,8%), Eden (14,2%) and the West Coast (10,4%).

However, compared to the regions' shares of total employment in 2001, it is clear that the West Coast, Overberg and Eden Districts fared best, since they accounted for substantially larger shares of employment growth than of total employment.

Overall, the largest changes in sectoral employment occurred in wholesale & retail trade (24,6% of the total increase), agriculture, forestry & fishing (21,5%), CSP services (20,8%), and financial & business services (15%).

Within wholesale & retail trade, the bulk of employment expansion occurred within Cape Town, accounting for 15,9 per cent of total Provincial employment growth over the period. Employment within this sector expanded in all districts, with growth in Eden representing 3 per cent of Provincial employment growth and growth in the Cape Winelands 2,9 per cent.

In terms of agriculture, forestry & fishing, all districts experienced employment growth, although such growth was concentrated in the West Coast and Cape Winelands. Agriculture employment growth in these districts accounted for 5,2 per cent and 7,6 per cent, respectively, of overall employment expansion, with Cape Town accounting for a further 3,4 per cent.

CSP services contributed over one fifth of employment expansion over the period and were highly concentrated within Cape Town. In fact, the Cape Town CSP services sector alone accounted for 13,2 per cent of Provincial employment expansion amongst 35-65 year-olds. Eden's CSP services sector accounted for a further 3,2 per cent of Provincial employment growth. A similar pattern is observable in employment growth in the financial & business services sector.

Within districts, the magnitudes of job gains and losses differ and the contribution of each sector to total employment has changed over the period.

In the West Coast – the district with the largest increase in employment – the bulk of employment growth occurred in agriculture, forestry & fishing (almost nine-tenths, or 66,1% out of 74,1%), followed by other and unspecified sectors. The manufacturing and construction sectors shed the most jobs.

In Eden, the bulk of employment expansion occurred within wholesale & retail trade (almost three-fifths), followed by financial & business services, while manufacturing and private households shed the most jobs.

In the Overberg, wholesale & retail trade accounted for half of total employment expansion in the district.

In line with the Provincial picture, due to its dominance within the Provincial economy, Cape Town saw net job growth in wholesale & retail trade, financial & business services and agriculture, forestry & fishing, and job losses in manufacturing, amongst others.

It is clear that sectoral economic development policies and interventions must bear in mind the important spatial differences within the Western Cape and the fact that these differences are also found within the district municipalities. It is therefore essential that policy is formulated in such a way that it is able to cater for local conditions. These spatial differences also mean that the decline of specific sectors, such as agriculture, forestry & fishing and clothing & textiles will impact differently on – and have differing consequences for – the residents of the various municipalities, which must be taken into account in the policy formulation stage.⁹

4.4. Skill constraints

Global competitive advantage is increasingly driven by skill- and technology-intensive products and services. However, as seen in *chapter 3: Sectoral Growth and Employment Prospects*, the Western Cape – and SA more broadly – are under-represented in these

⁹ Refer here to the six development potential categories of the national Spatial Development Perspective – innovation and experimentation in R&D and applying technology to production processes; high-value production and the focus on local/global niche markets; labour-intensive and mass-production-intensive industries situated close to raw material resources; public services and administration; retail and services as a major post-industrial economic area needing to be located close to markets; and tourism.

economic activities that have accounted for much of the medium- to long-term dynamism in world output and trade.

This means that skill upgrading, through increased vocational education and training, such as FET, and higher education and training, particularly in technical areas such as science and engineering, is critical to match appropriately skilled labour supply with demand from industries that are growing in the Province, thereby alleviating skills constraints in the sectors over the medium to long term.

For the education sector, evidence of a critical mismatch between levels of educational attainment and the skill levels of school leavers and young graduates and those demanded by the workplace poses serious challenges.

These are evident in education participation and success rates, particularly in respect of numeracy and literacy. There is a dramatic drop-off in enrolment after Grade 8 and more recently Grade 10. Recent research suggests that only 45 per cent to 52 per cent of learners who enrol in Grade 1 reach Grade 12.

Of note is that the Central Karoo, Overberg and Cape Town have the lowest enrolment rates compared to other regions within the Province.

The drop-out and success rates at the Grade 12 level can be traced back to the first few years of schooling. Improving education retention, throughput and attainment rates, particularly in terms of numeracy and literacy, is critical to support the skill requirements of a growing, globally competitive regional economy. These concerns and responding interventions are clearly set out in the Province's recently released Human Capital Development Strategy.

Table 4: Western Cape education enrolment rates, 2005

	Number of schools	Number of enrolled learners	Number of teachers	Pupil-teacher ratio	School-going children	Enrolment rate (%)
Cape Town	700	601 123	15 206	40	628 454	95,7
Cape Winelands	261	139 715	3 722	38	141 372	98,8
Central Karoo	26	12 190	339	36	14 053	86,7
Eden	187	96 409	2 419	40	98 339	98,0
Overberg	82	36 770	984	37	39 258	93,7
West Coast	133	56 006	1 515	37	57 593	97,2
Total	1 389	942 213	24 185	39	979 069	96,2

Source: Western Cape Department of Education

4.5. Social infrastructure pressures

As the Western Cape's population has grown rapidly over recent decades, more stress has been placed on access to and utilisation of social infrastructure and services, particularly in terms of education, healthcare and policing.

Overcrowding and slow provision of key services in certain areas have resulted in heightened intra-regional disparities. These are reflected in table 5, which details the extent of shortages, over-supply or optimal provision¹⁰ of schools, healthcare facilities, police stations and housing, taking into consideration the latest population estimates.

In absolute terms, social infrastructure backlogs are more pronounced in Cape Town – especially in the high population density areas such as Mitchell's Plain, Khayelitsha, Gugulethu and Langa – than in any other district in the Province.

Table 5: Indication of social infrastructure backlog, various years

District	Required schools	Required healthcare facilities	Required police stations	Housing backlogs
Cape Town	-156	-100	-34	-265 000*
Cape Winelands	56	-6	-3	-30 968
Eden	9	-3	-2	-13 829
West Coast	71	0	-1	-2 001
Overberg	23	-1	0	-23 368
Central Karoo	-4	0	0	-7 334
Western Cape	30	-10	-40	

Source: Western Cape Departments of Education, Health and Housing, SAPS and own calculations

Note: - = shortage; + = over; 0 = optimal

* Cape Town Integrated Development Plan, 2006/07

From table 5 it is clear that Eden and the Cape Winelands need to prioritise the provision of healthcare facilities and police stations, while the West Coast needs an additional police station. Overberg needs more healthcare services and the Central Karoo more schools.

These data should be proposed as the basis for a key performance indicator programme that can be used to assess the efficacy of policy implementation on an annual or other meaningful periodic basis. The data should also be disaggregated to municipal level.

Table 6 shows the extent of workload in education, healthcare and policing, signalling infrastructure use and the extent of under- or over-utilisation of certain services.

¹⁰ The calculations do not specify categories and sizes of schools, healthcare facilities and police stations, but rather indicate the need for such services. In addition, the methodology does not consider any geographical and in-migration assumptions.

Focusing on education, Cape Town has a low level of school provision. Although the city accounts for about 63 per cent of the Province's learners, the schools available account for only 50 per cent of learners, even though the city's schools are larger and accommodate an average of 842 learners per school.

The proportion of available schools to school-going children within Cape Town is estimated at 11 per cent, and the city has the highest absolute need for schools (156), whilst the pupil-teacher ratio is 39 (63% of all learners are in Cape Town).

The average pupil-teacher ratio in the Province is 39. Pupil-teacher ratios in the districts are relatively close to the Provincial average, with the Central Karoo having the lowest ratio (36) and Eden the highest (40).

The Cape Winelands has a learner-educator ratio of 38 and accommodates 15 per cent of all learners in the Province (second to Cape Town), yet has a 'surplus' of schools. The trend is similar in other districts but the education workload in the Central Karoo and Eden can be justified on the grounds of proximity to the Eastern and Northern Cape provinces.

Education is an important area of provincial support for local economic development. Formal school and pre-school education is a provincial competency and therefore an area where the provincial government can make a direct and meaningful contribution to future economic growth.

Turning to healthcare, almost all the districts have backlogs in the provision of healthcare services, with Cape Town showing the highest need. There is a strong positive correlation between shortage of hospitals and workload in the health sector, especially in the context of high tuberculosis and HIV/Aids prevalence.

Cape Town needs about 100 additional healthcare facilities to impact meaningfully on the stressed healthcare services, which the patient-nurse ratio at 54:1 also reflects (patients per nurse at city-managed hospitals is the highest in the Province). Although the Cape Winelands needs more healthcare facilities (6) than Eden (3), the workload is higher in Eden where the patient nurse ratio is 42:1 compared to 32:1 in the Cape Winelands.

The discrepancy reflects the under-utilisation of healthcare facilities in the Cape Winelands, probably due to a combination of inaccessibility as a result of proximity to the majority of households and a reluctance on the part of the broader community to use facilities that are located in higher income areas.

In terms of policing, because workload data are difficult to locate, analysing the differential crime trend patterns gives a better idea of utilisation than the number of police stations.

Overall in the Western Cape, reported crime statistics from 2001 to 2004 suggest mixed results. However, two clear trends can be discerned: a dramatic increase in drug-related crimes across all districts and a decline in crime per 1 000 people in each region.

Between 2001 and 2004, the Central Karoo recorded the highest average annual growth in drug-related crimes (54%), followed by Eden (40%), the West Coast (35%), Overberg (31%), Cape Winelands (30%) and Cape Town (28%).

Although drug-related crimes increased at a faster rate in the Central Karoo, the district reported the least number of cases, but this is likely to be a function of the smaller population.

The Cape Winelands and West Coast districts reported declining rates of crime, while the rate in Cape Town came in below that of Eden.

Crime in Cape Town takes place in highly dense areas, while the central business district is relatively crime free compared to other inner cities in SA. Since there are more reported criminal cases in highly dense areas, more policing resources should be deployed in these areas. However, despite the need for additional police stations in the city, statistics reinforce the success of crime-fighting strategies, with 94 cases per 1 000 people reported compared to the Central Karoo and Cape Winelands that had 103 and 96 cases per 1 000 people, respectively, in 2004/05.

Table 6: Western Cape workload in education, healthcare and policing, various years

Categories	Cape Town	West Coast	Cape Winelands	Overberg	Eden	Central Karoo
Total number of all crimes, 2001 – 2002	286 790	24 068	67 326	17 334	42 307	6 255
<i>Drug-related crime, 2001 – 2002</i>	7 215	1 427	2 339	884	1 408	166
Total crimes per 1 000 people (2001 ASSA 2003 population data)	96	84	108	84	93	110
<i>Drug-related crimes per 1 000 people, 2001/2002</i>	2	5	4	4	3	3
Total number of all crimes, 2004 – 2005	300 223	21 642	61 551	15 294	45 186	6 341
<i>Drug-related crime, 2004 – 2005</i>	15 206	3 480	5 080	1 976	3 872	609
Total crimes per 1 000 people (2005 ASSA 2003 population data)	94	69	96	67	92	103
<i>Drug-related crimes per 1 000 people, 2004/2005</i>	5	11	8	9	8	10
Average annual growth rate in total crime, 2001/02 – 2004/205 (%)	1,54	-3,48	-2,95	-4,09	2,22	0,46
<i>Average annual growth rate in drug-related crime, 2001/02 – 2004/05 (%)</i>	28,21	34,60	29,50	30,75	40,10	54,23
Professional and enrolled nurses' workload (patients per nurse)	47	40	32	29	42	31
Percentage of people in region over 14 illiterate (less than grade 7), 2004 – 2005	15	29	28	27	26	37
Learner/educator ratio	39	37	38	37	40	36
Total number of households, 2001	777 393	77 674	159 440	58 566	120 747	15 165
Total number of households in region with no income, 2001	102 061	5 121	18 859	5 686	12 894	1 147
<i>Percentage of households in region with no income, 2001</i>	13,13	6,59	11,83	9,71	10,68	7,56

Source: SAPS 2005; ASSA 2003 Demographics and Aids Model; Department of Health, 2005; Department of Education, 2005; Census 2001 and own calculations

5. Regional summaries

Quantec Standardised SA Regional Market Indicator Database

The Quantec SA Regional Market Indicator Database attempts to provide a disaggregated view of SA's socio-economic structure and market potential on a regional basis down to district council and municipal level. The data is compiled by combining a regional demographic and industry framework with a set of census, survey and time-series indicator data. The result is a set of estimated standardised economic indicators for the SA regions.

Some of the main features are:

- Household behaviour consisting of consumer demographics, income and expenditure, housing and infrastructure indicators;
- Economic data consisting of national accounting entities, employment and international trade by 26 industries;
- All data aggregated to provincial, metropolitan area and district council level; and
- The database covers the period 1995 to 2004 and is updated and expanded as new and primary data becomes available.

The database combines actual census and survey data as published by Stats SA in a standardised format to conform to the national accounts, a long-term demographic model of SA and other national and regional benchmark socio-economic and industry-level time-series data. As such, it can be called a standardised version of the actual survey and census data, and will facilitate comparisons over time with known macro or other national indicators. The standardised database covers a set of variables that should be useful for decision-making and policy analysis.

Although the data covers the period 1995 to 2004, year-on-year analysis at the sub-national and definitely at the sub-provincial level is not recommended because of the sparseness of the original survey and census data. Trend analyses over longer time intervals is, however, possible. The regional data estimates are based on official statistics and therefore replicates any inherent shortcomings of such data at both the design, surveying and enumeration stages of compilation. The unavailability of up-to-date enterprise-based industry censuses and surveys at the regional level also inhibit the quality of the estimated results, as these depend inordinately on household level censuses and surveys.

Data sources include:

- SAARF AMPS Household Surveys since 1992;
- Department of Labour (manpower surveys);
- National Treasury (government expenditures/revenue);
- Quantec Research Capital by Industry Database (calculated depreciation, capital stock and inventory investment);
- Quantec Research Standardised Industry Database (including estimated input-output tables and social accounting matrices);
- South African Reserve Bank (national accounts, BoP and public sector data);
- South African Revenue Service (international trade data);
- Stats SA (industry value added, input-output tables, detailed industry remuneration and gross operating surplus, output, gross domestic fixed investment, employment, production prices and consumer prices);
- Stats SA Household Surveys including IESs since 1990;
- Stats SA Industry Censuses & Surveys;
- Stats SA LFSs since 2000; and
- Stats SA Population Censuses since 1970.

5.1. Cape Town

Cape Town, situated in the south-west corner of the Province and bordering the West Coast, Cape Winelands and Overberg districts, contains the economic growth centre of the Western Cape.

In 2004, it contributed 76 per cent of GDP in the Province, having grown at a rate of 3,7 per cent a year between 1995 and 2004. Between 1996 and 2004, the growth in the city's GDP comprised 80 per cent of additional real GDP for the whole Province.

The city is also the Province's population centre. According to Stats SA's mid-year population estimates, the city comprised about 3,3 million people in 2005, 64 per cent of the total Western Cape population.

Cape Town has a sophisticated and well-diversified economy. The headquarters of several national industry leaders in the financial & business services sector are located in the city, attracting further business in the sector, together with a highly skilled workforce.

The city is also an international business and leisure tourist destination. The introduction of the Cape Town International Convention Centre has proved successful, contributing to an increase in business tourism.

The tourism sector is continually expanding. The average growth rate for international and regional tourist arrivals at Cape Town International Airport for the period 2003 to 2005 is 7,8 per cent a year.

The Cape Town Partnership has boosted development in the city by helping to facilitate investments of R11bn, amongst others for the redevelopment of the inner city.

The central city is experiencing an investment boom. Overall, the construction and property sectors have grown steadily in recent years, with property prices benefiting from the countrywide boom in property values. However, the residential construction boom has caused pressure on existing public and other transport infrastructure, with the resulting impact on economic growth.

On the south-east side of the city, the last few years has seen the redevelopment of Khayelitsha and Mitchell's Plain, home to about a third of the residents of the city, as part of the Urban Renewal Programme. The focus has been on the development of the central business districts, and capital projects have included an informal trading market in Mitchell's Plain. The success of retail investments in Khayelitsha has created optimism for further economic growth and job creation in these areas.

5.1.1. Outlook and opportunities

As seen in table 7, Cape Town economic performance was driven by fast growth in financial & business services (contributing R10,2bn of the additional R25,95bn generated in GDP in 2004 over 1996), wholesale & retail trade (R6,15bn of the additional R25,95bn) and transport & communication (R5,37bn of the additional R25,95bn).

Other growing sectors were manufacturing (R2,25bn of the additional R25,95bn), CSP services (R1,35bn of the additional R25,95bn) and the construction sector (R1,24bn of the additional R25,95bn). The transport & communication sector grew the fastest, at 7,17 per cent, but it was from a relatively small base of 9,34 per cent share of the economy in 1996.

The wholesale & retail trade sector also performed well, growing second fastest at 5,36 per cent, from a base of 14,74 per cent in 1996. The construction sector expanded the third fastest, at 5,23 per cent, to take up 3,49 per cent of the local economy in 2004.

The performance of the financial & business services sector is all the more remarkable given that it grew at the fourth fastest rate (4,63 per cent), from already comprising the largest share of the economy in 1996 (21,19 per cent).

Table 7: Cape Town: sector contribution to GDP and growth, 1996 – 2004

	Contribution to GDP, 2004 (%)	Contribution to additional GDP, 2004 over 1996 R-million	Growth rate, 1996 – 2004 (%)
Agriculture, forestry & fishing	1,56	87,65	0,68
Mining & quarrying	0,17	-220,92	-9,53
Manufacturing	17,77	2 254,58	1,60
Electricity & water	1,72	293,98	2,21
Construction	3,49	1 241,70	5,23
Wholesale & retail trade	16,93	6 152,39	5,36
Transport & communication	11,88	5 374,98	7,17
Financial & business services	31,69	10 242,86	4,63
CSP services	5,29	1 354,42	3,50
General government services	9,50	-828,92	-0,98
Total Cape Town GDP (R-million)	106 384,93	25 952,73	3,56

Source: Quantec Research and own calculations

The performance of the manufacturing sector is of concern, however. From a base of 20,07 per cent in 1996, it grew at only 1,6 per cent, to take up 17,77 per cent of the economy in 2004. This can be attributed to the strong rand, but also to the composition

of the sector. A decade ago the textile industry was a major contributor to activity in the sector. However, shifts in the international and local trade environment underscored the local industry's lack of competitiveness internationally, leading to contract and job losses, and closures in the industry. The strong rand exacerbated these trends in recent years.

Moreover, while the economy generated an additional 38 977 jobs, over the same period, the manufacturing sector contributed negatively to growth in job opportunities. In 2001 it offered 20 406 less jobs than in 1996, bringing the net job growth in the city to only 38 977, driven largely by job growth in the wholesale & retail trade and financial & business services sectors.

Although it should be seen as a strength that the city's faster growing sectors are also major contributors to additional jobs, the skill profiles in these sectors are likely to be different from those in sectors such as construction (which grew, but slowly, both in terms of GDP and jobs) and manufacturing, requiring higher levels of educational attainment, particularly in the financial & business services sector.

The growth in the CSP services sector should be seen as positive in this regard. Between 1996 and 2001, it contributed 5,2 per cent of the additional GDP. However, it added a total of 8 226 jobs (or 21,1 per cent of the additional jobs generated) from an already high base of 173 800 jobs in 1996, becoming the largest employer in the city in 2001.

The sector draws on skills across the spectrum, and its growth is therefore able to provide employment opportunities to medium- to lower skilled workers.

Table 8: Cape Town: contribution to GDP and employment growth per sector, 1996 – 2001

	Additional GDP (R'000 s)	Share of additional GDP (%)	Additional jobs	Share of additional jobs (%)
Agriculture, forestry & fishing	103 576	0,7	6 808	17,5
Mining	-247 356	-1,8	353	0,9
Manufacturing	1 821 669	13,0	-20 406	-52,4
Electricity & water	102 948	0,7	-2 864	-7,3
Construction	112 562	0,8	1 208	3,1
Wholesale & retail trade	3 814 226	27,3	33 232	85,3
Transport & communication	3 171 145	22,7	-2 143	-5,5
Financial & business services	5 617 076	40,2	20 646	53,0
CSP services	729 739	5,2	8 226	21,1
General government services	-1 251 597	-9,0	-	-
Private households	-	-	-5 621	-14,4
Undetermined	-	-	-681	-1,7
Total	13 973 989	100,0	38 977	100,0

Source: Stats SA Census 1996 and 2001, Quantec Research and own calculations

Between 1996 and 2001, Cape Town's workforce increased at about the same rate as the population as a whole (3,3% compared to 3,4%). The city experienced net in-migration of 29 397 individuals in 2001 – 14 791 people left the city and 44 188 came to the city.

Most people migrate into Cape Town in search of better opportunities such as jobs and health and education services. As much as this brings opportunity to the city, adding to the existing skills and economic opportunity base, it also results in pressure on the delivery of services such as housing, sanitation, health and education. The age, skill and poverty profiles of the in-migrants will determine the extent of the impact on economic performance and service delivery.

However, Cape Town, as well as many of its suburban areas, is in a relatively favourable position compared to the Province overall in terms of both the City Development Index (CDI) and Human Development Index (HDI). Tables 9 and 10 show the index scores for each of the city's main areas, compared to the Provincial score. It is interesting to note the relatively high education score on both indices for Khayelitsha, despite its low position overall (on account of the health and income indices).

Table 9: Cape Town: HDIs¹

Sub-place	Health	Education	Income	HDI
Khayelitsha	0,47	0,9	0,69	0,69
Nyanga	0,47	0,91	0,69	0,69
Elsies River	0,47	0,82	0,79	0,7
Langa	0,47	0,92	0,7	0,7
Gugulethu	0,47	0,93	0,74	0,71
Mitchell's Plain	0,47	0,87	0,78	0,71
Kraaifontein	0,47	0,88	0,85	0,73
Atlantis	0,61	0,88	0,88	0,79
Cape Town	0,67	0,88	0,91	0,82
Hout Bay	0,61	0,89	1	0,83
Somerset West	0,68	0,89	0,93	0,83
Goodwood	0,61	0,95	0,94	0,84
Parow	0,69	0,94	0,92	0,85
Bellville	0,69	0,93	0,95	0,86
Durbanville	0,69	0,95	1	0,88
Melkbosstrand	0,69	0,95	1,01	0,89
Province	0,63	0,84	0,68	0,72

Source: *Measuring the State of Development in the Western Cape, May 2005*

Note: ¹ Selected sub-urban areas sorted by HDI index

Table 10: Cape Town: CDIs¹

Sub-place	Infrastructure	Waste	Health	Education	Income	CDI
Khayelitsha	0,6	0,95	0,6	0,94	0,69	0,75
Langa	0,55	0,96	0,6	0,96	0,7	0,75
Nyanga	0,6	0,97	0,6	0,95	0,69	0,76
Gugulethu	0,61	0,95	0,6	0,97	0,74	0,77
Mitchell's Plain	0,75	0,89	0,6	0,89	0,78	0,78
Elsies River	0,85	0,95	0,6	0,84	0,79	0,8
Kraaifontein	0,83	0,97	0,6	0,89	0,85	0,83
Atlantis	0,88	0,96	0,67	0,9	0,88	0,86
Somerset West	0,9	0,94	0,7	0,89	0,93	0,87
Cape Town	0,93	0,99	0,69	0,88	0,91	0,88
Hout Bay	0,92	0,99	0,67	0,88	1	0,89
Parow	0,95	1	0,71	0,95	0,92	0,9
Bellville	0,96	0,99	0,71	0,92	0,95	0,91
Goodwood	0,98	1	0,67	0,95	0,94	0,91
Durbanville	0,97	0,99	0,71	0,94	1	0,92
Melkbosstrand	0,96	0,97	0,71	0,94	1,01	0,92
Province	0,79	0,89	0,68	0,86	0,82	0,81

Source: *Measuring the State of Development in the Western Cape, May 2005*

Note: ¹ Selected places sorted in ascending CDI order

The CDI is an average of the following indices: infrastructure¹¹, health¹², education¹³ and income¹⁴. As seen in figure 2, overall, Cape Town has a higher CDI (0,88) compared to the rest of the Western Cape's 0,81. In terms of individual indices, the city exceeded the rest of the Province in terms of infrastructure, income and waste disposal.

There are no significant differences between the city and the Province in terms of health and education indices. However, a major concern is lower indices for both the city and the Province in the state of health – both indices are below 0,70.

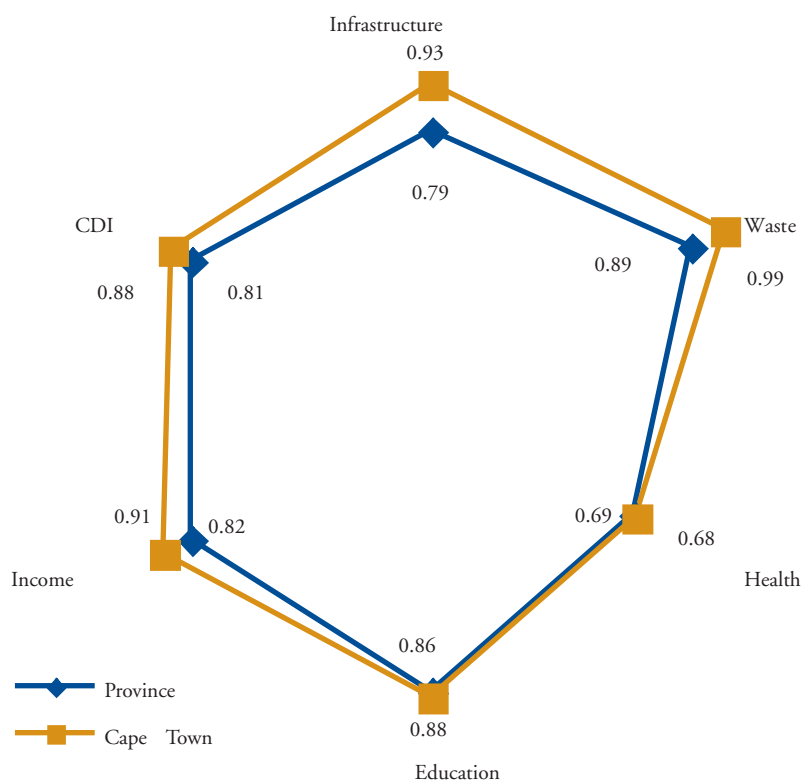
¹¹ Water, sewerage, telephone and electricity.

¹² Life expectancy, divided by infant mortality.

¹³ Adult literacy and gross enrolment ratio.

¹⁴ Mean household income.

Figure 2: Cape Town CDI compared to the Western Cape average, 2005



Source: *Measuring the State of Development in the Western Cape, May 2005*

5.1.2. Risks and challenges

The main challenges faced by Cape Town are poverty, unemployment, pressure on basic and social services networks, infrastructure and rising drug-related crimes.

As depicted in table 11, there has been an overall increase in the percentage of people in poverty in specific areas of Cape Town. In Mitchell's Plain, the percentage of people living in poverty increased by 16,5 per cent between 1996 and 2004. Other areas such as Strand, Kuils River and Simonstown also experienced significant growth in poverty during this period.

In 2001, about 13 per cent of total households in Cape Town had no income at all, and 9,01 per cent of these households were african. At the other end of the spectrum, 0,24 per cent earned more than R2,45m a year, of which 75 per cent were white. However, the bulk of the city's population (56,8%) earned between R4 800 and R76 800 per year, a similar proportion to the rest of the Province.

Low household incomes in the city are driven by the quantity and quality of employment. Despite the workforce expanding at a similar rate to the population overall between 1996 and 2001, the city's employment and unemployment profile deteriorated.

Table 11: Cape Town: percentage of people in poverty, 1996 – 2004

Cape Town	1996 (%)	2004 (%)
Bellville	6,3	9,3
City	6,4	9,3
Somerset West	6,6	10,9
Simonstown	7,9	12,0
Wynberg	9,7	13,0
Kuils River	11,0	17,0
Strand	11,4	17,8
Goodwood	13,5	18,1
Paarl	15,3	20,1
Mitchell's Plain	30,9	47,4

Source: *Development Bank of Southern Africa, 2005*

Table 12: Cape Town: income distribution, 2001 (%)

Income categories	African	Coloured	Indian/Asian	White	Total
None	9,01	2,89	0,09	1,14	13,13
R1 – R4 800	1,99	0,75	0,01	0,17	2,93
R4 801 – R9 600	4,62	3,17	0,05	0,67	8,51
R9 601 – R19 200	7,45	5,70	0,08	1,08	14,32
R19 201 – R38 400	5,14	8,99	0,18	2,54	16,86
R38 401 – R76 800	2,47	9,50	0,27	4,94	17,18
R76 801 – R153 600	1,02	6,08	0,31	6,68	14,09
R153 601 – R307 200	0,40	2,23	0,21	5,83	8,68
R307 201 – R614 400	0,12	0,40	0,06	2,40	2,99
R614 401 – R1 228 800	0,03	0,09	0,02	0,56	0,70
R1 228 801 – R2 457 600	0,05	0,09	0,01	0,24	0,39
R2 457 601 and more	0,02	0,04	0,00	0,18	0,24
Total	32,32	39,93	1,29	26,45	100,00

Source: *Development Bank of Southern Africa, 2005*

In 2001 the employment rate, although significantly higher than for the country as a whole, was 70,8 per cent, down from the 1996 rate of 80,5 per cent. At the same time the unemployment rate increased from 19,5 per cent to 29,2 per cent. Table 13 indicates that in 2004, Cape Town registered unemployment of 23,4 per cent, indicating that the situation had stabilised.

It is estimated that a growth rate of between 6 per cent and 7 per cent (or the creation of about 40 000 jobs annually) is needed to reduce unemployment significantly.

Consequently, the economic performance of Cape Town over the past decade has been inadequate to address the challenges of poverty or unemployment. The distribution of this growth has also been highly skewed toward those with skills and resources.

With population growth slowing down and the potential for faster economic growth, there is opportunity to reduce the unemployment rate in future years. However, this also depends on the profile and location of the unemployed.

In 2001, 35 per cent of the city's unemployed were youths 15-24 years of age. In fact, the unemployment rate for this group was 49 per cent, significantly higher than the 19,5 per cent for the workforce as a whole. At the same time, almost 60 per cent of the city's workforce (and 80% of the unemployed) had less than a completed secondary education.

Given Cape Town's sectoral growth profile, these statistics highlight the city's key challenge of creating entry points into the workforce, particularly for youth with low and medium educational attainment before they face a lifetime of no or under-employment.

Table 13: Cape Town: labour market, 1995 – 2004

	1995	2004	% change, 1995 – 2004
Population 15 – 64	1 644 864	1 983 916	20,6
Economically active	1 014 102	1 178 436	16,2
Not economically active	630 762	805 480	27,7
Formal employment	727 538	715 505	-1,7
Informal employment	111 412	187 201	68,0
Total employment	838 951	902 706	7,6
Unemployed	175 152	275 730	57,4
Unemployment (%)	17,27	23,40	6,1

Source: Quantec Research using Stats SA SEE and LFS for 2004; own calculations

The rapid growth in the earlier half of the last decade has put severe pressure on service networks in Cape Town. One of the great pressures has been housing: about 73,2 per cent (157 711 units) of the housing backlogs¹⁵ in the Western Cape in 2001 were in Cape Town. As noted in the city's 2006/07 IDP report, this backlog has increased to 265 000 units.

Compared to the Province as a whole, Cape Town has also not performed well in reducing the proportion of households without access to basic levels of service delivery. While the city performed better than the Province in terms of the delivery of refuse removal¹⁶ services (reducing the proportion of households with access to below basic refuse removal by 3,37%), it did not perform as well in terms of water, energy, sanitation and telephone

¹⁵ Census 2001; inadequate housing excluding overcrowding.

¹⁶ Refuse removal – own refuse dump, and no refuse removal.

services. The poorest performance was in the delivery of sanitation services, where the proportion of households with access to below basic sanitation services increased by 3,26 per cent (35 740 households) compared to 1,78 per cent for the Province.

The changes in distribution across age groups of Cape Town's population also signal forthcoming pressure on social infrastructure, particularly in health and education. As seen in table 14, between 2001 and 2005, the working age population grew at a slower rate than the other age groups, signalling changing dependency ratios. Cape Town is the only area in the Province where these population groups (children and the elderly) increased at a faster rate than the working age population.

Table 14: Cape Town: annual average growth by age group, 2001 – 2005

Age group	Annual average growth 2001 – 2005 (%)
0 – 14	2,08
15 – 59	-0,40
60 – 80+	4,48

Source: Stats SA mid-year population estimates

Crime statistics present a mixed picture for Cape Town. The data in table 15 show that there has been a decline in reported cases of some violent crimes, such as attempted murder (29%), neglect and ill-treatment of children (19%) and murder (6%) between 2003/04 and 2004/05. Also on the decline are burglaries in residential areas (12%) and burglary at business premises (22%). Commercial crime has been relatively stable in the city.

The reduction in the number of reported crimes over this period indicates improvements in the fight against crime; however, the effect of under-reporting of crime should be taken into account to qualify these improvements.

Certain crimes are escalating. Between 2003/04 and 2004/05, drug-related crime increased by 55 per cent, illegal possession of firearms and ammunition by 19 per cent and reported rape cases by 7 per cent. The data do not provide insight into the extent of child rape and the general involvement of the youth in criminal activities.

Overall, Cape Town is an important growth point for the Western Cape's economic development agenda. It boasts infrastructure that is key to unlocking economic potential, including a well-developed central business district, strong and emerging business districts in other nodes, a relatively efficient transport network and industrial zones.

However, the city faces considerable socio-economic challenges that include joblessness, skewed income distribution, and inadequate and declining access to basic services in some service areas .

Table 15: Cape Town: changes in crime rates per 100 000 population, 2001/02 and 2004/05

	Number of reported crimes per 100 000 individuals, 2001/02	Number of reported crimes per 100 000 individuals, 2004/05
Murder	79,4	59,1
Rape	139,6	132,7
Attempted murder	107,5	69,6
Assault with intent to inflict grievous bodily harm	617,5	580,3
Robbery with aggravating circumstances	383,7	406,1
Neglect and ill-treatment of children	12,9	31,1
Malicious damage to property	611,9	662,6
Burglary at residential premises	1 180,2	1 016,4
Burglary at business premises	312,7	170,0
Illegal possession of firearms and ammunition	61,6	60,4
Drug-related crime	249,4	511,8
Commercial crime	231,8	214,7
Total number of stations (2002/03)	56	

Source: SAPS, Stats SA Census 2001 and mid-year population estimates for 2005

Furthermore, its infrastructure network, including energy and transport networks, has come under pressure recently on account of rapid economic and population growth.

Whilst comparatively developed, Cape Town's infrastructure may be assessed to be in crisis when compared to the city's international competitors. There is a strong need for targeted investment in strategic infrastructure that will have high economic impact for growth sectors (in particular road, rail, aviation capacity, the port, information and communications, and business infrastructure).

Failure to make the commitments necessary to maintain and develop the city's essential infrastructure will severely impede Cape Town's current economy, as well as future development in both the city and the Province. However, this must take place in the context of protecting the city's natural resource base and its environmental assets to avoid jeopardising the city's local, regional and global comparative economic advantage.

Other challenges, including a growing housing backlog, have the potential to undermine social stability and slow down economic expansion, deterring further investment. With the stark inequalities reflected in the city, addressing backlogs is important to aid in eradicating poverty and uplifting communities. Job creation through the expanded public works programme and a city-driven focus on skilling programmes for the youth are further important factors in unlocking the potential for growth and development.

Cape Town's challenges therefore reflect the need for economic development to be based on shared growth and recognition that the failure to address poverty will undermine the growth prospects of the city. The aim must be to grow the economy and reduce inequality and poverty.

Table 16: Cape Town: access to basic services, 1996 and 2001

	1996	2001
Refuse removal		
% of households without weekly refuse removal	10,2	5,8
Number of households without weekly refuse removal	65 882	45 031
Water supply		
% of households without piped water on site	10,2	15,6
Number of households without piped water on site	66 133	121 258
Toilet facilities		
% of households without flush toilets	10,4	12,5
Number of households without flush toilets	67 785	96 799
Electricity supply		
% of households without electricity supply	12,8	11,2
Number of households without electricity supply	82 928	87 024

Source: Stats SA Census 1996 and 2001, extracted by the Strategic Information Branch of the Information and Knowledge Management Department

5.2. Cape Winelands District

The Cape Winelands district is centrally located in the Western Cape, bordering three municipalities from the Northern Cape Province, Cape Town, the Overberg and the West Coast. It also shares a small border with Eden.

Cape Winelands includes the local municipalities of Breede Valley, Breede River/Winelands, Drakenstein, Stellenbosch, Witzenberg and the district management area of Breede River.

In 2001, the district had an estimated population of 629 920, growing to the current level of 650 229, and is estimated to reach 656 902 by 2010.¹⁷

The district has the second largest economy in the Province, after Cape Town. In 2004 it contributed R14 524m, or 10,45 per cent of the GDPR. Between 1995 and 2004, the district grew at a slower rate (2,67%) than that of the Western Cape (3,37%).

On account of its proximity to a large market and to two major export harbours, as well as its natural beauty, well-developed tourism, wine and agri-processing and other manufacturing industries, growing financial services and quality secondary and tertiary education institutions, the Cape Winelands district is well placed to participate in the country-wide economic boom. The University of Stellenbosch also offers a centre for incubation of technological advances that can be utilized to accelerate growth in the local economy.

5.2.1. Opportunities and outlook

For the period between 1995 and 2004, growth in the Cape Winelands was driven by growth in wholesale & retail trade and financial & business services. In line with a highly diversified economy, the growth was also spread across a number of sectors.

Manufacturing is the largest sector, comprising 22,1 per cent of the local economy, but it grew at a very low rate of 0,76 per cent, reflecting high sensitivity to the strong rand exchange rate.

The second-largest sector is the financial & business services sector, representing 20,3 per cent of district GDP, which grew at a higher rate of 5,1 per cent between 1995 and 2004.

The national boom in domestic consumption expenditure, coupled with a higher household income profile in the Cape Winelands district, contributed to the growth in the wholesale & retail trade sector, at 5,58 per cent between 1995 and 2004, earning it a share of nearly 15 per cent in the local economy by 2004.

¹⁷ The population figures here are based on the ASSA Demographic and Aids Model 2003. Note that the figures represented here exclude the Drakenstein 85 years and older cohort due to an error in the model. It is therefore likely that the total population figures may be an under-representation of the actual population numbers in the Cape Winelands district municipality.

The transport & communication sector is another high-growth sector, albeit from a low base. In 2004 the sector reached a 8,26 per cent share in the local economy, having grown by on average 6,93 per cent a year for the preceding 10 years.

The agriculture, forestry & fishing sector has been a long-term, high-profile mainstay of the local economy, driven by viniculture in a number of the local municipalities, as well as deciduous fruit and citrus farming in the Witzenberg and surrounding local municipalities. However, the sector grew at only 1,6 per cent on average over the last 10 years, leaving it contributing only 14,24 per cent to the local economy in 2004.

Despite its low growth, the sector remains labour intensive with opportunities to utilize the low-skill / high skill mix of the local labour market. In 2001, the sector employed over 84 763 of the total employment for the district of 221 090, and between 1996 and 2001 it contributed over 9 900 of the 15 560 additional jobs in the district.

Table 17: Cape Winelands: sector contribution to GDP, 2004; average annual growth, 1995 – 2004 and employment share per sector, 2001

Category	Contribution per sector, 2004 (%)	Average annual growth, 1995 – 2004 (%)	Employment, 2001	Share of employment, 2001 (%)
Agriculture, forestry and fishing	14,24	1,61	84 763	38,3
Mining	0,24	-11,16	517	0,2
Manufacturing	22,05	0,76	22 897	10,4
Electricity & water	0,55	0,77	666	0,3
Construction	3,29	0,77	9 498	4,3
Wholesale & retail trade; catering and accom	14,99	5,58	25 697	11,6
Transport & communication	8,26	6,93	4 687	2,1
Finance and business services	20,33	5,11	11 742	5,3
Community, social and other personal services	4,72	4,80	29 725	13,4
General government services	11,34	-0,52	n/a	n/a
Other/ Undetermined	n/a	n/a	20 646	9,3
Private households	n/a	n/a	10 249	4,6
Total	100,00	2,67	221 090	100,0

Source: Quantec Research, Stats SA Census 2001 and own calculations

Other major employers were CSP services, wholesale & retail trade and the manufacturing sector.

However, the shares of both agricultural, fishing & forestry and manufacturing in total GDP are declining, reflecting the need for other sectors to create employment opportunities, especially since manufacturing shed over 7 600 jobs between 1996 and 2001.

Strong growth sectors, such as transport & communication and financial & business services are not major employers, respectively representing 2,1 per cent and 5,3 per cent of total employment in 2001.

Wholesale & retail trade and CSP services, however, represented 25 per cent of total employment in the region in 2001, and provided 34,8 per cent of additional jobs created in the Cape Winelands between 1996 and 2001.

The local municipalities of Drakenstein, Stellenbosch and the Breede River Valley are the main drivers of economic activity, jointly contributing just below 80 per cent of the growth in district GDP in 2004.

Stellenbosch and the Breede River/Winelands were the fastest growing municipalities in the district for the period 1995 to 2004, growing at 3,37 per cent and 3,11 per cent, respectively.

The Drakenstein, Breede Valley and Stellenbosch municipalities have the greatest share of employment in the region. Although not directly comparable due to a difference in period, it does appear that the Witzenberg region has a greater share in employment in the region than its share in district GDP suggests. This may be due to the fact that agriculture, forestry & fishing represents nearly one third of the Witzenberg GDP.

Similar comparisons can be made for the Breede Valley as well as the Breede River DMA. In contrast, the larger municipalities of the Drakenstein, and more so of Stellenbosch, have a smaller employment share than their share in the district GDP suggests. This result tends to imply that the current composition of the economies in some municipalities is more labour intensive than others, but this result may require more investigation.

5.2.2. Risks and challenges

The Cape Winelands district faces, amongst others, two clear challenges – unemployment (more specifically youth unemployment) and a dramatic rise in drug-related crimes.

In 2001, unemployment stood at 18,4 per cent, up from 13,9 per cent in 1996. Unemployment was highest in the Drakenstein at 22,8 per cent. This local municipality also has the highest share of the unemployed in the district, at 39 per cent, followed by the Breede Valley at 25 per cent.

Youth unemployment¹⁸ as proportion of total unemployment amounted to 37 per cent; in other words, 37 per cent of all unemployed in the district are under the age of 24 years.

¹⁸ For our purposes, youth unemployment has been defined as individuals 15-24 years of age.

Table 18: Cape Winelands: contribution of local municipalities to GDP and employment, 1995 – 2004

Local Municipality/District	Contribution per sector, 2004 (%)	Average annual growth, 1995-2004 (%)	Employment, 2001	Share of employment, 2001 (%)
Witzenberg	8,70	1,15	32,857	14,86
Drakenstein	34,43	2,49	65,306	29,54
Stellenbosch	26,57	3,38	43,516	19,68
Breede Valley	18,13	2,56	49,661	22,46
Breede River/Winelands	11,62	3,11	26,158	11,83
Breede River DMA	0,55	2,13	3,606	1,63
Cape Winelands District	100,00	2,67	221,104	100,00

Source: Own calculations based on Quantec 2005 data, Census

The high unemployment rates are reflected in the number of households without any income. Just over 11,8 per cent of all households in the district have no income, with Stellenbosch having a higher share of households with no income than other municipalities. This may be due to students attending the University of Stellenbosch who live in the area.

For the 2001/02 to 2004/05 period, reported drug-related crime has more than doubled for the district. Witzenberg had the highest increase in reported drug-related crimes, but all municipalities showed dramatic increases in drug-related crime in the afore-mentioned period. Breede River/Winelands and Witzenberg have, however, less crime per capita than the other municipalities in the district.

The larger economies in the district also have access to more educated workforces. Both Stellenbosch and Drakenstein's workforce have in the region of 65 per cent of members with less than completed secondary school education. Elsewhere in the region, particularly in the Witzenberg and the Breede River DMA, levels spanning 80 per cent and even 89 per cent, reflect a work force that is relatively uneducated.

Cape Winelands does relatively well compared to the Province in terms of the HDI and CDI scores¹⁹. With the exception of the Breede River Winelands, the local municipalities scored close to the Provincial score of 0,72 on the HDI and 0,81 on the CDI. On the CDI infrastructure component (0,79 for the Western Cape), a similar picture emerges.

In summary, the Cape Winelands district is ideally placed to utilise the current positive economic environment in the Western Cape and the country. Its close proximity to Cape Town offers an opportunity for the district to create further spill-over growth from the city's growing economy.

¹⁹ These indices are indicators of social well-being. Higher values ranging between 0 and 1 indicate a better quality of life than lower values.

Table 19: Cape Winelands: selected indicators of quality of life

Municipality	HDI	CDI	CDI infrastructure component	% of households with no income	% of workforce with less than completed secondary education	Crimes per 1 000 people (2004/05)	Proportion increase in drug-related crime 2002/03 – 2004/05 (%)
Breede River/Winelands	0,65	0,71	0,74	10,59	77,00	58	111
Stellenbosch	0,74	0,8	0,82	19,95	64,40	107	124
Drakenstein	0,7	0,78	0,79	10,47	66,90	105	54
Witzenberg	0,72	0,69	0,69	8,21	80,10	80	153
Breede Valley	0,68	0,74	0,75	8,96	70,90	109	96
Breede River DMA	-	-	-	1,24	89,10	-	-
Cape Winelands DM	-	-	-	11,83	-	96	97

Source: Office of the Premier 2005, Stats SA Census 2001, own calculations based on SAPS 2005

5.3. Eden District

Eden is the third-largest district within the Western Cape and shares borders with four other district municipalities: Cacadu district in the Eastern Cape, Overberg and Cape Winelands in the west and the Central Karoo in the north.

Local municipalities under Eden are Kannaland, Hessequa, Mossel Bay, George, Oudtshoorn, Plettenberg Bay, Knysna and the South Cape district management area. Eden is located along the south-eastern coast of the Western Cape. The region offers unique natural beauty, including a dramatic coast line, the Outeniqua mountain range and the scenic Karoo environment of the Oudtshoorn and Kannaland municipalities.

High rainfall and dense indigenous forest areas characterise the coastal area, while the Klein Karoo offers the typical succulent vegetation of dry Karoo landscapes. Geographically, the Outeniqua mountain range creates a physical divide between the Klein Karoo and South Cape. This not only results in different climates, but also in very different economic activities, tourism opportunities, demographic trends and service delivery challenges in the municipalities. On both sides of the mountain range, however, the environment is rich in unique eco-systems, placing an imperative on conservation and sustainable development.

5.3.1. Opportunities and outlook

Eden is an important economic growth area for the Western Cape. It has an expanding population on account of in-migration from other parts of the country, bringing a dynamic skill mix to the district.

Between 1995 and 2004, the district made the third-largest contribution to growth in the Province, after Cape Town and the Cape Winelands. It grew at an annual average rate of 3,13 per cent, contributing 6,14 per cent of the Western Cape GDPR in 2004.

As depicted in table 20, in 2004 financial & business services, wholesale & retail trade, manufacturing and general government services were the largest economic drivers, accounting for 22 per cent, 19 per cent, 17 per cent and 11 per cent of the total Eden GDPR rate, respectively.

In descending order, the fastest growing sectors measured by average annual growth rates between 1995 and 2004 were transport & communication (6,8%), financial & business services (5,1%), wholesale & retail trade (4,9%) and electricity & water (4,9%).

Mining (-12%) and general government services (-0,02%) recorded negative average annual growth rates in the period under investigation.

Although manufacturing is the third-largest sector as a percentage of GDP, its growth is low compared to other large sectors.

The two in-land municipalities of Kannaland and Oudtshoorn grew at the slowest average annual rate (0,87% and 1,57%, respectively) over the period. On the other hand, the four coastal local municipalities of George (3%), Knysna (2,67%), Mossel Bay (3,83%) and Plettenberg Bay (2,02%) grew at faster rates and made higher contributions to district economic expansion. The coastal municipality of Hessequa experienced 3,11 per cent growth.

In 2001, the biggest sectoral employers in Eden were general government services (17,48%), CSP services (17,05%) and financial & business services (10,05%).

The most jobs were created in George, which also contributed 35 per cent of the growth in the district in 2004. The economies of Mossel Bay, Oudshoorn and Knysna also acted as important job creators, contributing 16 per cent, 15 per cent and 12 per cent of the share of total jobs in the district in 2001, respectively.

The in-land and coastal areas of the district both offer further opportunities for economic expansion, focusing on tourism, including eco-tourism, while the eastern coastal regions in particular benefit from the skill base and economic power of new residents.

Transport & communication shows potential for growth – in the municipalities that straddle main transport routes between Cape Town and the Eastern Cape, it contributes significantly to growth, particularly in Hessequa where activity in this sector is not as overshadowed by wholesale & retail trade and the financial & business services sectors.

Table 20: Eden: sector contribution to GDP and growth 1995 – 2004 and employment share per sector, 2001

Eden District Municipality	Contribution per sector, 2004 (%)	Average annual growth, 1995 – 2004 (%)	Employment, 2001	Share of employment, 2001 (%)
Agriculture, forestry & fishing	6,86	2,64	24 281	0,50
Mining & quarrying	0,57	-12,66	353	0,26
Manufacturing	16,65	1,26	13 475	9,86
Electricity & water	3,16	4,67	715	0,52
Construction	6,22	2,95	13 777	10,08
Wholesale & retail trade	18,58	4,91	23 993	17,55
Transport & communication	8,63	6,77	4 436	3,25
Financial & business services	22,51	5,07	9 112	6,67
CSP services	5,40	3,47	23 295	17,04
General government services	11,43	-0,02	-	-
Private households	-	-	11 907	8,71
Undetermined	-	-	11 338	8,29

Source: Quantec Research, Stats SA Census 1996 and 2001, own calculations

With growing populations and many new residents being lower skilled in-migrants in search of jobs, the district is facing an increasing unemployment problem. This, together with relatively high percentages of households with no income in areas with higher population density (apart from Oudtshoorn), creates several social challenges.

Table 21: Eden: contribution of local municipalities to GDP, 1995 – 2004 and employment, 2001

Eden District Municipality	Change in GDP 1995 and 2004 (R'000s)	Contribution per municipality, 2004 (%)	Average annual growth, 1995 – 2004 (%)	Share of employment, 2001 (%)
Kannaland	20 611	2,92	0,87	4,64
Hessequa	265 767	11,81	3,11	10,35
Mossel Bay	555 802	20,79	3,83	16,18
George	770 803	35,25	3,00	30,75
Oudtshoorn	142 171	11,78	1,52	15,05
Plettenberg Bay	81 677	5,29	2,02	7,59
Knysna	211 252	10,67	2,67	11,78
South Cape	20 367	1,50	1,75	3,66
Eden District Municipality	2 068 450	100,00	2,81	100,00

Source: Quantec Research, Stats SA Census 1996 and 2001, and own calculations

5.3.2. Risks and challenges

The coastal police stations face some of the highest workloads in the Western Cape, with Knysna having a rate of crimes per police station of 6 435 in 2004/05. The rate of increase in drug-related crimes is high across the district, with the highest number of such crimes being reported in George, Plettenberg Bay and Oudtshoorn. These are also the more populous local municipalities. Together with Knysna, they further have the highest incidence of youth unemployment (46,8%, 56,8% and 47,5%, respectively).

At 14,23 per cent, Knysna has the highest number of households without income, followed by Plettenberg Bay (13,96%), George (13,71%) and Mossel Bay (9,65%).

The structural change in the Eden economy, away from agriculture and CSP services to higher-end sectors such as financial & business services, transport & communication and wholesale & retail trade, brings a sharp re-skilling challenge for the local economy.

While some of these sectors offer opportunities for lower-skilled job opportunities combined with higher-end technologies, further growth would depend on sufficient skills at the higher end being available to innovate, create and manage firms. The district is, however, fortunate in that it has lower percentages of the population with less than completed secondary education than, for example, the Overberg or West Coast districts.

The district performs below the provincial average in the CDI, reflecting the locality's investment path, and the HDI. All of the local municipalities score below the Provincial HDI of 0,72 and the CDI infrastructure component for the Province of 0,81.

Particular problems on basic services infrastructure are experienced in the municipalities that have seen rapid population growth between 1996 and 2001, and further rapid growth in the working age population between 2001 and 2005. While the slow-down in growth overall may create some space to reduce backlogs, growth in the number of new households per year may not follow. Strain in improving the provision of basic services is therefore likely to remain a challenge in the district for some time.

Eden has been a recipient district of high in-migration in the period 1996 to 2001, resulting in fast growth in the working age population. While migration overall has slowed down between 2001 and 2005, the working age population has continued to expand at a faster rate.

In review, Eden is a region with a strong and highly diversified economy, and is endowed with rich natural resources and a growing pool of good human resources. Its development challenge, however, remains unemployment, pockets of deep poverty and pressure on the delivery of basic and social services.

Table 22: Eden: selected indicators of quality of life by local municipality

Eden District Municipality	HDI	CDI	CDI infrastructure component	% of households with no income	% workforce with less than completed secondary education	Increase in drug-related crime 2002/03 – 2004/05 (%)
George	0,69	0,79	0,76	13,71	64	218
Kannaland	0,66	0,67	0,64	6,67	78	93
Knysna	0,69	0,77	0,65	14,23	62	70
Hessequa	0,71	0,74	0,75	6,37	72	171
Mossel Bay	0,7	0,8	0,81	9,65	61	97
Oudtshoorn	0,69	0,76	0,74	6,32	69	237
Plettenberg Bay	0,71	0,77	0,71	13,96	66	232
Southern Cape	-	-	-	5,28	-	185
Eden District	0,69	0,76	0,72	10,68	82	158

Source: Office of the Premier, Stats SA Census 2001, SAPS, CARE 2005

5.4. West Coast District

The West Coast district is situated on the west coast of the Western Cape, bordering the Northern Cape in the north and north-east, and Cape Town and Cape Winelands in the south and south-east.

The district includes five local municipalities: Matzikama, Cedarberg, Berg River, Saldanha Bay and Swartland, as well as the West Coast district management area.

The district is a semi-arid region with high use of the in-land areas for commercial agriculture, including wheat and citrus farming. It includes the naval, commercial and fishing port of Saldanha, which is the centre of the SA fishing industry and a major portal for the export of commodities.

5.4.1. Opportunities and outlook

The district grew at an average annual rate of 2,18 per cent between 1995 and 2004 and totalled 3,98 per cent of the Western Cape's GDP in 2004. It has a fairly well diversified economy, with the top three sectors in 2004 contributing about 55 per cent to the district economy, compared to the Central Karoo, for example, where the top three sectors comprised 66 per cent.

The district's largest economic sectors are manufacturing, agriculture, forestry & fishing and wholesale & retail trade. These have recorded low growth in the past years, except for the latter that recorded the highest growth of all sectors in the district. While job opportunities are still being created in the agriculture, forestry & fishing industries, the sector is under long-term threat, as competition for scarce water resources in the district increase and diminishing fish stocks result in smaller quotas.

Wholesale & retail trade (4,73%), CSP services (4,63%), transport & communication (3,52%) and financial & business services (3,23%) are growing strongly.

Saldanha Bay is the focal point of much of this growth and has the potential to continue in this role, with the development of the harbour for the oil and gas industry and the opportunity to attract further investment in supportive manufacturing and service industries. The development of a transport corridor to Cape Town through the local municipality provides further potential for growth, including the creation of new job opportunities.

Population growth in the West Coast is slowing. It is projected to grow at an average annual rate of 1,95 per cent between 2006 and 2010, down from 2,38 per cent between 2001 and 2006. This is likely to result in a decline in the number of persons in economically active age groups. However, this is only likely to happen over the medium to longer term, as an ageing population is likely to increase the size of the economically active population over the coming years.

5.4.2. Risks and challenges

The district faces a growing labour force constraint on growth unless it can succeed in building a skilled – and re-skilled – workforce. Developing a different and improved skill profile in the district is important not only to sustain employment levels over the long term, but also to mine opportunities for growth in the emerging sectors. Altogether 71,62 per cent of the workforce has less than a completed secondary education.

The manufacturing sector is the largest in the district, with a contribution of 20,5 per cent to district GDP. Agriculture, forestry & fishing, wholesale & retail trade and financial & business services also contributed over 10 per cent each, a combined total of 48,12 per cent contribution to district GDP.

Sector contribution to employment in the district is highly concentrated in agriculture, forestry & fishing. CSP services also contributes strongly to employment, at just over double its share of GDP.

Table 23: West Coast: sector contribution to GDP, 2004; average annual growth, 1995 – 2004 and employment share per sector, 2001

West Coast District Municipality	GDP per sector, 2004 (R'000s)	Contribution per sector, 2004 (%)	Average annual growth 1995 – 2004 (%)	Share of employment, 2001 (%)
Agriculture, forestry & fishing	1 042 757	18,86	2,34	40,49
Mining	57 753	1,04	-10,99	1,36
Manufacturing	1 133 758	20,50	1,84	10,16
Electricity & water	96 377	1,74	1,73	0,36
Construction	227 445	4,11	0,88	4,79
Wholesale & retail trade	877 956	15,88	4,73	10,71
Transport & communication	521 773	9,44	3,52	2,67
Financial and business services	739 937	13,38	3,23	3,95
CSP services	331 557	6,00	4,63	12,15
General government services	500 155	9,05	-1,03	-
Private households	-	-	-	5,20
Undetermined	-	-	-	8,16
Total	5 529 468	100,00	2,18	100,00

Source: Stats SA Census 2001, Quantec Research and own calculations

Table 24: West Coast: contribution of local municipalities to GDP, 2004; average annual growth, 1995 – 2004 and employment, 2001

West Coast District Municipality	GDP 2004 (R'000s)	Contribution per municipality, 2004 (%)	Average annual growth, 1995 – 2004 (%)	Share of employment, 2001 (%)
Saldanha Bay	1 857 201	33,59	2,39	23,30
Swartland	1 601 472	28,96	3,42	25,53
Matzikama	811 401	14,67	1,08	17,44
Cederberg	545 681	9,87	2,60	14,46
Bergriver	655 314	11,85	0,15	18,46
West Coast DMA	58 398	1,06	1,33	0,81
Total	5 529 468	100,00	2,18	100,00

Source: Stats SA Census 2001, Quantec Research and own calculations

Saldanha Bay and Swartland made the largest contributions to GDP in the district in 2004, as well as to employment in 2001. Swartland was the fastest growing municipality between 1995 and 2004, with an average annual rate of 3,42 per cent. Berg River had a particularly poor growth rate, the slowest in the district, growing at an average annual rate of 0,15 per cent.

The higher employment rates of West Coast – and its historically good access to social security programmes – are reflected in its having the lowest percentage of households with no income in the Province (6,59%). However, this masks disparities within the district. In Saldanha Bay, 10,91 per cent of households had no income, while in Berg River the proportion was 3,69 per cent, as seen in table 25.

Saldanha Bay also had the highest number of crimes per 1 000 people and one of the faster growing incidences of drug-related crime, coupled with relatively high youth unemployment (34% compared to the 25% for the district overall for the age group 15-24 years). Its HDI score, however, is still one of the better ones in the district, as is its infrastructure score on the CDI.

The high increase in drug-related crime in Bergriver is notable, particularly since it has one of the lower unemployment rates, particularly for the youth (aged 15-24 years), of 15 per cent. Bergriver also has the fastest growing housing backlog in the district and its HDI and CDI scores are second and third worst for the district, respectively.

The proportion of households without access to basic services remains high in the district, particularly in respect of refuse removal (25,2%), energy (18%) and sanitation (12,6%); for telephone (6,4%) and water (3,6%) services, these proportions are slightly less.

The West Coast offers strong potential to be a strong growth node for the Western Cape, provided that the district can successfully overcome its key development challenges and address social risks.

Table 25: West Coast: selected indicators of quality of life by local municipality

	HDI	CDI	CDI infrastructure component	% of households with no income	% of workforce with less than completed secondary education	Crimes per 1 000 individuals (2005 population)	Increase in drug-related crime 2002/03 – 2004/05
Saldanha Bay	0,73	0,82	0,84	10,91	63,69	84	115
Swartland	0,74	0,75	0,76	4,74	71,25	78	62
Matzikama	0,71	0,71	0,70	5,63	72,77	60	60
Cederberg	0,67	0,68	0,68	7,01	78,70	63	165
Bergriver	0,66	0,70	0,70	3,69	75,70	51	219
West Coast DMA	-	-	-	9,23	74,03	24	-32
West Coast DM	-	-	-	6,59	71,62	69	11

Source: Office of the Premier, Stats SA Census 2001, SAPS, CARE 2005

5.5. Overberg District

The Overberg district is situated in the south of the Western Cape and borders the Indian and Atlantic Oceans to the south, and Cape Town, Cape Winelands and Eden in the west, north and east.

The district includes the following municipalities – Theewaterskloof, Cape Agulhas, Overstrand, Swellendam and the Overberg district management area.

The landscape of the Overberg is dramatic, from the beautiful beaches, rocky cliffs and fynbos mountains of the coastline, through the undulating landscapes and mountain ranges of Swellendam and the semi-arid environment of the Klein Karoo. It offers a very similar mix of coastal and in-land regions as the Eden district, although the coastal areas are more arid.

The Overberg's natural environment is unique, including large areas of pristine fynbos vegetation, and the district offers viable economic opportunities. However, the district includes several sensitive natural ecosystems, requiring particular attention to environmental protection in its development path.

5.5.1. Opportunities and outlook

The Overberg contributed 2,35 per cent to the Province's GDP in 2004 and grew at an average annual rate of 2,36 per cent a year between 1995 and 2004, lower than the Province's average rate of 3,37 per cent. However, growth has picked up in the past three years, with the Overberg growing at an average annual rate of 2,65 per cent between 2001 and 2004.

In 2004 the largest sector was agriculture, forestry & fishing, contributing 20,57 per cent to district GDP, followed by wholesale & retail trade at 18,39 per cent, financial & business services at 15,13 per cent and manufacturing at 15,08 per cent.

The sectoral distribution reflects an economy that, although fairly well diversified, remains dependent on agrarian activities. There is potential for expansion of services sectors as the district becomes more popular with domestic and international holiday-makers and as more high-skilled in-migrants settle in the municipality. The municipality also has a manufacturing base that could absorb labour if higher growth rates could be achieved.

In addition, diversification within the agriculture and fishing sectors, with farmers diversifying to olive, wine, *fynbos* and essential oils production, as well as the introduction of trout farming and aquaculture projects, may well lead to substantial improvements in the agriculture sector and employment in the region.

The local municipality of Theewaterskloof contributed 41 per cent to district GDP. Theewaterskloof's economy is well diversified, with wholesale & retail trade, manufacturing, construction and financial & business services making significant contributions to the local economy.

The second largest local municipality, at approximately 31 per cent, is the Overstrand. Cape Agulhas follows next and then Swellendam, which both contribute approximately 14 per cent to district GDP. With plans to improve the access routes from the north to the coastal areas of the Cape Agulhas area, the growth potential of this region is likely to increase.

There are similarities in the Overberg district between economic activity and employment, both in terms of its distribution across districts and across economic sectors, as seen in tables 26 and 27.

In other words, it seems that the larger sectors and regions in terms of contribution to district GDP are also the sectors and regions with the larger share of employment. This result does not always hold true for other regions in the Western Cape.

Of concern, however, is the high number of jobs in agriculture, forestry & fishing compared to low growth rates in this sector for the past decade. In the long-term, this trend may put a number of livelihoods in the district under pressure. However, other labour-intensive sectors such as wholesale & retail trade grew at over 6,6 per cent a year over the same period.

Table 26: Overberg: contribution to GDP growth per sector, 1995 – 2004

	GDP, 2004 (R-billion)	Contribution per sector 2004 (%)	Average annual growth 1995 – 2004 (%)	Share of employment, 2001 (%)
Agriculture, forestry & fishing	0,67	20,57	1,51	36,6
Mining & quarrying	0,00	0,06	-16,49	0,1
Manufacturing	0,49	15,08	0,00	5,2
Electricity & water	0,06	1,80	1,27	0,5
Construction	0,18	5,56	2,26	7,7
Wholesale & retail trade	0,60	18,39	6,63	13,2
Transport & communication	0,25	7,72	6,78	2,2
Financial & business services	0,50	15,13	4,15	4,8
CSP services	0,20	6,12	2,06	13,0
General government services	0,31	9,56	-1,89	-
Other and not adequately defined	-	-	-	0,0
Private households	-	-	-	7,2
Undetermined	-	-	-	9,6
Not applicable	-	-	-	0,0
Total	3,27	100,00	2,36	100,0

Source: Stats SA Census 2001, Quantec Research and own calculations

Table 27: Overberg: contribution of local municipalities to GDP, 2004; average annual growth rates, 1995 – 2004 and employment, 2001

Local Municipality	GDP, 2004 (R-billion)	Growth in GDP 1995 – 2004 (%)	Contribution to GDP, 2004 (%)	Share of employment, 2001 (%)
Theewaterskloof	1,337	1, 39	41	49
Overstrand	1,023	2, 91	31	26
Cape Agulhas	0,463	2, 19	14	12
Swellendam	0,445	2, 61	14	13

Source: Stats SA Census 2001, Quantec Research and own calculations

5.5.2. Challenges and risks

While a unique natural asset, the environment also poses several challenges and risks to development in the Overberg. Water scarcity and sensitive natural ecosystems place great demand for careful spatial planning and land use.

Population increases in the high-growth local municipalities, as well as an unemployment rate of 18,6 per cent, pose a risk of their own. To some extent, this is reflected in increases in drug-related crimes, whilst also placing social infrastructure under pressure in some local municipalities.

In 2001, the district's population totalled 205 945, increasing to 228 752 in 2005. It is forecast that the population will climb over 251 000 by 2010.²⁰ With the increase in the population across the district, additional pressures can be expected on the economy and society as a whole.

Although unemployment is problematic for all age cohorts, it is more severe amongst the youth, with nearly 40 per cent of all unemployed being under the age of 24. The local municipalities in the Overberg district have a relatively lower percentage of the workforce with less than a completed secondary education compared to other districts, with the Overstrand and Cape Agulhas leading the group.

This places the district in a better position to improve and re-orient the skills of the workforce towards the economic growth sectors. Given the relatively high proportions of households without income in some municipalities (ranging between 5% and 12%), it is imperative that unemployment is reduced.

Drug-related crime has increased dramatically for all municipalities in the region between 2002/03 and 2004/05, indicating that not enough attention has been focused on removing the drug scourge from society. Overall, crime per 1 000 people varied between municipalities, but appears to be less than elsewhere in the province.

Overall, the local municipalities scored relatively well on both the HDI and CDI indices, with Overstrand attaining the highest score for both the HDI and CDI measures. Of concern is the variable spread of infrastructure as measured by the CDI infrastructure component. Infrastructure development is uneven in the district, with some municipalities having better infrastructure than others. The Theewaterskloof municipality achieved the lowest score for the CDI infrastructure component.

²⁰ Population figures were derived from the ASSA 2003 Demographic and Aids model.

Table 28: Overberg: selected indicators of quality of life

	HDI	CDI	CDI infrastructure component	% of households with no income	% workforce with less than completed secondary education	Crimes per 1 000 individuals (2005 population)	Increase in drug-related crime 2002/03 – 2004/05 (%)
Cape Agulhas	0, 69	0, 78	0, 80	6, 1	68, 3	25	74, 7
Overstrand	0, 73	0, 79	0, 76	11, 6	66, 5	80	160, 8
Swellendam	0, 72	0, 74	0, 75	5, 3	73, 2	87	104, 7
Theewaterskloof	0, 71	0, 73	0, 67	10, 8	79, 0	65	144, 1
Overberg DMA	-	-	-	-	19, 6	-	-

Source: Office of the Premier, Stats SA Census 2001 and own calculations based on SAPS, 2005

Overall, the Overberg district economy is fairly well diversified, but retains a strong agricultural sector. This may be the reason for the district's slower than average growth, since the agriculture sector reported lower growth figures than several other sectors. Addressing unemployment and uneven infrastructure development will be important issues for the future. Further, if the access routes from the north to the coastal areas of Cape Agulhas are improved as planned, the growth potential of this region is likely to increase.

5.6. Central Karoo District

The Central Karoo district is situated in the northeast of the Western Cape, bordering Eastern Cape and Northern Cape municipalities.

The Central Karoo includes Beaufort West, Laingsburg and Prince Albert local municipalities, as well as the district management area of Murraysburg. Between 2001 and 2006, the population grew slowly, at an annual average of 1,85 per cent.

The district has a low population density with large distances between towns and settlements. It is also distant from large markets. Its climate is arid, and while commercial farming, particularly of livestock, has been a mainstay of local economies for some time, there is only limited potential to expand the sector.

There is some potential to make the sector more inclusive by providing more opportunities for poor households through land reform. The district also finds itself strategically placed on the main transport corridor between the in-land provinces and the coastal regions of the Western and Eastern Cape.

5.6.1. Opportunities and outlook

Between 1995 and 2004, at 4,10 per cent, the Central Karoo registered the fastest economic growth rate of all the districts in the Western Cape. This represents growth off a low base of only a 0,47 per cent share of the Provincial economy in 1995. In 2004, the district increased its share marginally to 0,5 per cent.

Two sectors are the focus of local efforts to grow the economy further – tourism and agro-processing. The natural assets of the region and its historical interest provide opportunities to leverage the growth in tourism to Cape Town and the Garden Route.

The towns of Beaufort West and Laingsburg are also ideally placed on the transport corridor between the Gauteng and Cape Town markets, offering opportunities for development of strong support and service industries, for growth in the transport & communication sector and for the development of a craft industry.

The district's integrated development plan identifies community-based development as an important driver of shared growth, through, for example, linking community-based tourism to the Karoo National Park.

Contrary to the trends in some other district municipalities, the faster growing sectors included those that already have larger shares of the local economy. The fastest growing sector was financial & business services, which grew at an average rate of 9,82 per cent a year between 1995 to 2004 and contributed 18,35 per cent to the district's economy in 2004.

This was followed by manufacturing (which grew at 6,28% and contributed 8,99% to the district GDP), transport & communication (6,05% growth; 21,36% share) and wholesale & retail (5,68% growth; 16,90% share). Construction was the only strong growing sector (4,73%) with a relatively small contribution to the district economy (5,36%).

District employment is concentrated in largely three sectors, with agriculture, forestry & fishing accounting for 30,31 per cent, followed by CSP services at 18,34 per cent and wholesale & retail trade at 14,74 per cent.

Slow growth in agriculture, fishing & forestry over the period 1995 to 2004 is particularly worrying, given its large share of employment.

The same is true for CSP services which grew at only 1,61 per cent, contributed 5,6 per cent to GDP but 18,34 per cent to employment in the district.

Table 29: Central Karoo: sector contribution to GDP, 2004; average annual growth, 1995 – 2004 and employment share per sector, 2001

	GDP per sector, 2004 (R'000s)	Contribution per sector, 2004 (%)	Average annual growth 1995 – 2004 (%)	Share of employment, 2001 (%)
Agriculture, forestry & fishing	70 641	10,13	0,81	30,31
Mining & quarrying	438	0,06	-9,11	0,09
Manufacturing	62 680	8,99	6,28	2,90
Electricity & water	9 782	1,40	0,58	0,42
Construction	37 387	5,36	4,73	4,88
Wholesale & retail trade	117 785	16,90	5,68	14,74
Transport & communication	148 921	21,36	6,05	4,93
Financial & business services	127 888	18,35	9,82	4,29
CSP services	39 027	5,60	1,61	18,34
General government services	82 537	11,84	-2,17	-
Private households	70 641	-	-	9,71
Undetermined	438	-	-	9,39
Total	62,680	100,00	4,10%	100,0

Source: Quantec Research, Stats SA Census 2001 and own calculations

Table 30 shows that Prince Albert is a significant growth driver in the district. The local municipality grew at an average rate of 7,6 per cent a year between 1995 and 2004,²¹ Laingsburg recorded the second-highest growth at a steady 4,59 per cent over this period. Beaufort West, which contributed the largest share to the district's GDP, grew below the district average at 2,87 per cent compared to the district's 4,10 per cent.

As the local municipality with the highest share of GDP in the district, Beaufort West also has a similar share of the district's employment. Prince Albert is the second-largest contributor to district GDP, although its share of employment is significantly lower.

Table 30: Central Karoo: contribution of local municipalities to GDP, 2004; average annual growth, 1995 – 2004 and employment, 2001

	GDP 2004 (R'000s)	Contribution per municipality, 2004 (%)	Average annual growth, 1995	Share of employment, 2001 (%)
Laingsburg	65 580	9,41	4,59	14,57
Prince Albert	195 923	28,11	7,60	18,45
Beaufort West	399 197	57,27	2,87	57,40
Central Karoo DMA	36 387	5,22	1,77	9,58
Central Karoo DM	697 087	100,00	4,10	100,00

Source: Quantec Research, Stats SA Census 2001 and own calculations

²¹ Prince Albert is an interesting example of a town that has experienced significant inward migration of wealthy middle-income individuals from large cities. This has mobilised funds for infrastructure upgrading in the low-income part of town, but has also served to cement spatial divisions originally put in place by the Group Areas Act because of high property prices.

5.6.2. Risks and challenges

The district's growth sectors – transport & communication, wholesale & retail trade and financial & business services – require different skill sets. This makes re-skilling a particular challenge for the district, which is made even more difficult by the relatively high percentage of the workforce with low education levels.

Table 31 shows the local municipalities' HDI score, which indicates social pressures and pressure on public service delivery.

In 2001 for the district overall, youth (15-24 years of age) unemployment stood at 60,91 per cent, but was highest in Beaufort West, at over 65,02 per cent. Laingsburg, which experienced a high increase in drug-related crime, had a high youth unemployment rate of 45,75 per cent.

In the district management area around Murraysburg, where 55,46 per cent of youth are unemployed, drug-related crimes increased the fastest, by 1 200 per cent, but it was off a very low base of only two crimes in 2002/03.

Beaufort West reported the highest number of drug-related crimes. The general crime level in the district is high, with reported crimes for 2004/2005 totalling 119 per 1 000 people. The district management area and Prince Albert have relatively lower crime levels.

High unemployment, poverty and crime levels challenge the Central Karoo district. While the district's economy has been growing strongly, it has not yet been able to translate this into employment opportunities.

Table 31: Central Karoo: selected indicators of quality of life by local municipality

	HDI	CDI	CDI infrastructure component	% of households with no income	% workforce with less than completed secondary education	Crimes per 1 000 individuals (2005 population)	Increase in drug-related crime, 2002/03 – 2004/05 (%)
Laingsburg	0,68	0,68	0,66	5,71	76,21	92	820
Prince Albert	0,71	0,70	0,66	6,88	78,07	72	49
Beaufort West	0,64	0,77	0,78	7,06	64,74	119	201
Central Karoo DMA	-	-	-	10,55	79,97	70	1 200
Central Karoo DM	-	-	-	7,56	70,71	103	2 623

Source: Office of the Premier, Stats SA Census 2001 and own calculations based on SAPS, 2005

6. Conclusion

Closer working relationships between the Province and local government are becoming increasingly important in creating a shared growth and integrated development future for the Western Cape.

Policy decisions and directed resource flows could make a difference in education and health, thereby improving the quality of life and the Province's poverty profile.

Regional economic distribution can also have great impact, and, together with other factors such as geography and resource wealth, could serve as a magnet to attract the Western Cape's population into a smaller number of 'winner' regions.

For the Province to enjoy sustainable growth that is pro-poor, faster growth levels should be accompanied by employment creation especially in sectors with a high potential for labour absorption, given the skills mismatch.

In an environment dominated by low skills, the current low interest environment encourages capital-intensive production techniques by industries, therefore developing a strategy of “making” and “picking” winners is inevitable to turn the vicious cycle of poverty into a virtuous one.

Failure to ‘get the basics right’ and address fundamental service delivery issues would undermine Government's social and economic objectives at the local level.

Skills are key to facilitating a fruitful interaction between economic agents. Skills are not only necessary for the workforce, but encourage economic participation among the wider segment of the population or consumers.

For the Province to harvest its economic fortunes, development must take advantage of the growth outlook and actively seek means to address risk areas, otherwise shared growth and integrated development prospects will be undermined. It is therefore important that growth-enhancing strategy should harness the benefits of globalisation while encouraging broad based employment growth to alleviate poverty.

Glossary of terms

- **Hinterland**

The hinterland is the land or district behind that bordering a coast or a river. The term is specifically applied to the inland region lying behind a port, claimed by the state that owns the coast. The area from which products are delivered to a port for shipping elsewhere is that port's hinterland.

- **Human Development Index (HDI)**

The HDI, a UNDP yardstick of human welfare, is a composite measure that provides information on the human development performance of a region. It is an average of infrastructure, health, education and income indicators.

The City Development Index (CDI) provides information on the human development performance of a city.

- **Patient/nurse ratio**

This ratio indicates a set number of nurses required for providing care to patients.

- **Pupil/teacher ratio**

This ratio indicates the number of students in a school or district compared to the number of teaching professionals.

Western Cape's Recent Growth Experience

Key findings:

- Per capita spending growth in the Western Cape was about 9 per cent a year between 1995 and 2000 – almost three times the national average.
- Poor people living in the Western Cape experienced higher spending growth than the national average, but lower growth than the Provincial average. Thus growth was pro-poor in an absolute but not in a relative sense.
- All population groups in the Western Cape experienced faster spending growth than their national counterparts. African poor in the Province experienced higher spending growth than the average Provincial african rate.
- A 1 per cent increase in per capita spending has a larger positive impact on the poor in the Western Cape than at national level.
- In terms of poverty-inequality elasticities, a 1 per cent increase in the Gini coefficient would have resulted in a much larger increase in the poverty gap in the Western Cape than at national level.
- The Western Cape economy has to grow at a higher rate than the national economy to compensate for a 1 per cent increase in inequality.
- At the aggregate level, and across a range of disaggregations (population group, gender, urban-rural), the Province experienced a decrease in poverty as a result of economic growth outstripping the inequality increase over the period.

- Changes in asset poverty pointed to mixed evidence of shared growth. Only growth in access to electricity for lighting and growth in access to flush/chemical toilets were absolutely as well as relatively pro-poor. The poorer households' share in the increased delivery of formal housing and piped water over the period was limited. Some of the poorer household expenditure deciles even experienced a decline in their access to these services.

1. Western Cape growth experience: shared or uneven?

Setting aside the rubric of shared growth and integrated development, the empirical evidence of the SA and Western Cape growth experiences throws our challenges into stark relief.

Using the 1995 and 2000 IESs to compare the growth of expenditures of the poor to those in the upper income echelon highlights the acute contrast in the average growth experience of the wealthy compared to that of the lower income deciles.

Disaggregating by race intensifies the tenor further. Gains in expenditures for coloured and white poor outstripped those of the african poor, suggesting a racial bias that conflates the already weak pro-poor growth performance.

Complementary analysis on growth-poverty elasticity and the influence of inequality points to the interplay of economic growth and changing inequality levels on changes in poverty over time.

Using growth in average income as a proxy for economic growth, results at the national level show that in 1995, using a poverty line of R322 per month, a 1 per cent increase in average income would reduce the poverty gap by 1 per cent. By 2000, this had receded to 0,87 per cent.

In the Western Cape, in 1995, a 1 per cent increase in Provincial economic growth would have resulted in an almost 2 per cent decrease in the Province's poverty gap, using the same poverty line. By 2000, this had declined to 1,83 per cent – evidence that both SA and Western Cape growth performances had become less pro-poor over the period.

This chapter explores the extent to which the economic growth experience of SA, and more specifically, the Western Cape, has been biased toward or against the poor, and has therefore been shared or uneven.

Sections 2 and 3 examine the relationship between economic growth and poverty reduction in SA and the Western Cape. The method used analyses whether growth in per capita expenditure has been positive for the poor.

The next section focuses on the impact of growth and inequality on poverty reduction, to understand how changes in income distribution impact on poverty.

It should be noted that spending in this analysis indicates consumption spending, which reflects average income growth per capita, and not public spending per person.



Section five attempts to capture changes in asset poverty rather than income poverty, examining whether the poor have shared in the benefits of economic growth through increased access to services, in particular formal housing, piped water, electricity and sanitation.

As such, the chapter provides a set of estimates that measures the extent of pro-poor and shared growth that occurred in the Western Cape between 1995 and 2000, as compared to the national performance over the same period.

Finally, the chapter introduces initial work on a Western Cape growth diagnostic that enables the Province to identify key binding constraints to shared growth and integrated development within an intergovernmental context.

Placing the Western Cape on a shared growth and integrated development trajectory requires rigorous analytical research that contributes to evidence-based decision-making.

2. Growth and poverty dynamics

Understanding the link between economic growth and poverty reduction explains why there is a renewed focus on growth, or more specifically, shared growth and integrated development in many developing countries.

Significant international evidence emphasises that accelerating and sustaining higher levels of growth reduces poverty. But not every growth experience has proved good for the poor.

In a broad sense, pro-poor growth is economic growth that leads to significant reduction in poverty.

Under the absolute definition, growth is pro-poor if, and only if, poor people benefit in absolute terms according to a pre-defined measure of poverty or 'poverty line'.

Using the relative definition, growth is pro-poor if the incomes of poorer people grow faster than those of the population as a whole, leading to lower levels of income inequality.

Shared growth, on the other hand, combines both pro-growth and pro-poor elements, understanding that while accelerating and sustaining growth is key to reducing poverty, the quality of growth is equally important.

As such, the link between economic growth and poverty reduction in a shared-growth approach is both direct and indirect.

Faster economic growth contributes to rising incomes, leading to a direct impact on poverty reduction for those who are lifted above the poverty line.

Indirectly, increased fiscal revenues that result from growth allow a government to increase spending and investment directed towards the poor. If efficient and effective, higher levels of spending extend and improve the delivery of basic services and assets, such as formal housing, piped water, electricity and flush/chemical toilets, towards the poor, empowering them and increasing equity in the economy.

3. Has growth in the Western Cape been pro-poor?

Has recent growth in SA, and more specifically, the Western Cape, been pro-poor and therefore shared amongst a broader national and Provincial base?

Using the 1995 and 2000 IESs, growth incidence curves (GICs) present the rate of growth in income or expenditure per capita over a certain time period at each percentile of the income or expenditure distribution.

Plotting growth in income/expenditure across each percentile of the distribution, the GIC approach analyses whether growth in income/expenditure over a period has been pro-poor in nature.

Figure 1 presents the GIC for SA for 1995 to 2000, using Stats SA's IES data.

SA's GIC shows that, over the period, mean (average) per capita expenditure increased at about 6 per cent a year in nominal terms.

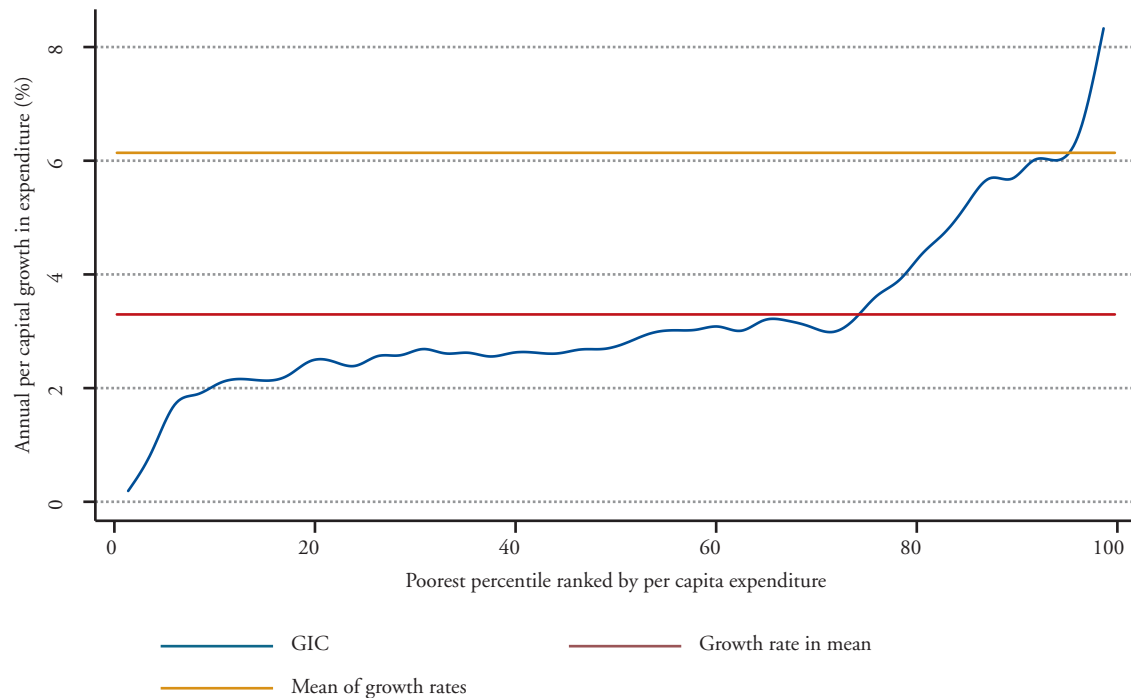
In turn, the mean (average) nominal growth rates of all the percentiles of the expenditure distribution – that is, the mean percentile growth rate – was only 3,3 per cent over the same period.

Expenditure growth concentrated in the upper income echelons, as only individuals from around the 70th percentile upwards experienced growth in their expenditure above 3,3 per cent.

Individuals below this mark saw their expenditures grow relatively slowly over the period, while those at the base of the distribution faced the lowest increase.

While the relative comparison depicts national growth biased against the poor over the five-year period, SA's GIC curve does show that absolute pro-poor growth occurred over the same period. From 1995 to 2000, all individuals, including those in the lowest expenditure percentiles, experienced an increase in their per capita expenditure.

Figure 1: GIC for SA, 1995 – 2000



Source: Stats SA (1995 and 2000) and own calculations

Turning to the Western Cape's growth performance, figure 2 shows the Province's GIC for the same period.

Compared to the national picture, the Provincial graph depicts noticeable differences. Between 1995 and 2000, average per capita expenditure rose at 11 per cent a year in nominal terms – double the national annual increase.

Average of growth rates at all the percentiles of the expenditure distribution (the mean percentile growth rate) reached just under 9 per cent a year – almost three times the national average.

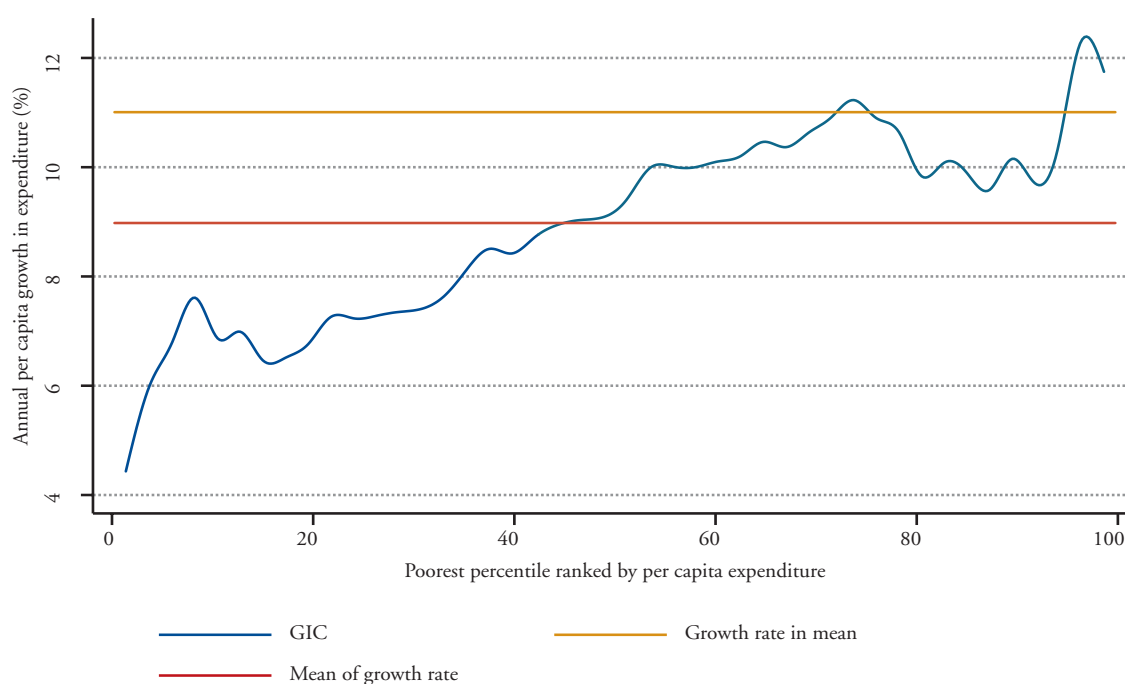
The GIC shows that individuals around the 50th percentile upwards – about half of the population – experienced spending growth above 9 per cent.

Looking at the base of the distribution, the poor in the Western Cape experienced higher spending growth than the poor at national level, with average percentile growth in the Western Cape not dipping below 4 per cent a year.

In fact, even the poorest households in the Western Cape experienced higher spending growth than the national average.

However, similar to the national account, the Western Cape's GIC reveals that, while the poor in the Province benefited in absolute terms (rising per capita expenditure), they did not benefit in relative terms. Looking at the poorest 30 per cent of households, at 6,7 per cent their average growth rate was less than the 8,98 per cent average growth rate for all income groups.

Figure 2: GIC for the Western Cape, 1995 – 2000



Source: Stats SA (1995 and 2000) and own calculations

Table 1 presents key comparative data underlying the SA and Western Cape GICs depicted in figures 1 and 2. Estimates of the growth in nominal per capita expenditure at the lowest percentiles, as well as the growth at two poverty lines, are tabulated.

At both the national and Provincial level, the poorest 30 per cent of individuals saw positive growth in per capita expenditure. This confirms that between 1995 and 2000, growth in SA and the Western Cape was pro-poor in the absolute sense. However, in both instances, increases for the poor were below the average percentile rates, highlighting that growth was biased against the poor in a relative sense.

At a more detailed level, when using a per capita poverty line of R322 a month (in 2000 prices), poor individuals saw their expenditures grow at a rate of 2,29 per cent a year for SA and 6,62 per cent for the Western Cape.

Lowering the poverty line to R174 a month (equivalent to the international comparison of US\$2 a day¹), the ultra-poor experienced growth of only 2,05 per cent a year at the national level, and 5,77 per cent in the Western Cape.

Table 2 shows measures of pro-poor growth for the four population groups at national level and for the Western Cape.

Table 1: Measures of pro-poor growth, 1995 – 2000 (%)

Growth rate in:	National	Western Cape
Mean per capita expenditure	6,14	11,01
Median	2,79	9,02
Mean	3,30	8,98
Growth at percentile:		
10	0,96	6,10
15	1,35	6,38
20	1,59	6,43
25	1,76	6,59
30	1,90	6,71
Rate of pro-poor growth	2,29	6,62
Rate of ultra-poor growth	2,05	5,77

Source: Stats SA (1995 and 2000) and own calculations

Notes:

1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.
2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.
3. Figures are annualised growth rates.

All population groups in the Western Cape experienced higher average per capita growth rates than their national counterparts.

At national level, the average growth in african per capita expenditure between 1995 and 2000 was slightly below the national average for all groups.

Over the same period, at 11,01 per cent and 9,92 per cent, respectively, both coloured and white nominal expenditure increased at rates of more than double the aggregate national average (6,14%).

In the Western Cape, at 7,45 per cent, the increase in per capita expenditure for africans was lower than the aggregate Provincial average (11,01%). In contrast, coloured and white nominal per capita expenditure increased by 13,51 per cent and 13,05 per cent, respectively.

¹ The ultra-poverty line of R174 per capita per month (in 2000 prices) is equivalent to US\$2 a day in terms of the PPP exchange rate equivalent. The poverty line of R322 per month is the lower-bound poverty line for SA, as calculated by Hoogeveen and Ozler using a 'cost-of-basic needs' approach.

Looking at the percentile growth rates, all population groups saw their spending grow much faster in the Western Cape than at the national level.

The differences are especially pronounced for the african and white population groups. Poor africans in the Western Cape experienced much more growth in their nominal expenditure than their national counterparts. In fact, the per capita growth of african expenditure in the Western Cape at the 20th and 25th percentiles reached 7,72 per cent and 7,64 per cent, respectively. This exceeded the average growth of 7,45 per cent for all africans in the Province.

At the per capita poverty line of R322 a month, africans in the Western Cape experienced pro-poor growth of 6,36 per cent a year. This is almost the same as the average growth of 6,34 per cent for all africans in the Province.

At the lower per capita poverty line of R174 a month, africans in the Western Cape saw their spending increase at 7,37 per cent a year, again higher than the average increase for africans in the Province.

Furthermore, the Western Cape's pro-poor and ultra-poor growth rates were also considerably higher than those at the national level.

Coloured per capita expenditure grew rapidly at both national and Provincial level, with increases at the lower end of the income distribution higher in the Western Cape than at national level.

In contrast to the national trend, spending growth for poorer individuals was similar for africans and coloureds in the Western Cape. At 7,73 per cent, growth for african ultra-poor in the Province was higher than the 4,79 per cent growth for coloureds in the same group.

Given labour market dynamics, the average spending growth for whites was higher than that of africans and coloureds at both the national and Provincial level.

The low pro-poor and ultra-poor growth rates for whites reflects that few white individuals in the Western Cape live below the two poverty lines. Similar results at the national level are again due to the small sample size.

All population groups in the Western Cape therefore experienced higher spending growth between 1995 and 2000 than their national counterparts. In addition, poor africans in the Western Cape saw their spending increase at higher rates than the average for africans in the Province.

Table 2: Measures of pro-poor growth by race, 1995-2000 (%)

Growth rate in:	African		Coloured		White		Asians	
	National	Western Cape	National	Western Cape	National	Western Cape	National	Western Cape
Mean per capita expenditure	5,26	7,45	11,01	13,51	9,82	13,05	3,96	18,44
Median	2,91	5,12	9,16	10,65	7,30	11,42	2,49	20,53
Mean	3,23	6,34	9,13	11,42	7,84	11,76	3,04	17,36
Growth at percentile:								
10	0,85	6,18	4,05	5,46	4,17	11,84	0,00	4,50
15	1,34	7,12	4,76	6,44	4,66	11,20	0,57	7,74
20	1,59	7,72	5,22	6,97	5,03	10,88	0,86	9,22
25	1,79	7,64	5,60	7,39	5,25	10,80	0,98	9,94
30	1,93	7,23	5,89	7,67	5,50	10,72	0,94	10,49
Rate of pro-poor growth	2,48	6,36	6,14	7,49	-3,21	2,3	-0,32	0,11
Rate of ultra-poor growth	2,22	7,37	4,68	4,79	-2,26	0,95	-5,59	–

Source: Stats SA (1995 and 2000) and own calculations

Notes:

1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.
2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.
3. Figures are annualised growth rates.

Taking an urban-rural lens, table 3 shows that at national and Provincial level, individuals living in urban areas experienced higher per capita expenditure growth than their rural counterparts. The variance is more marked in the Western Cape, where individuals living in urban areas saw increases of 9,27 per cent a year against only 5,8 per cent for their rural counterparts.

Pro-poor and ultra-poor spending growth for urban individuals in the Western Cape lagged behind the Provincial urban average but exceeded national urban rates.

On the rural front, pro-poor growth for individuals in rural areas in the Western Cape was slightly higher than the Provincial rural average. It was also almost 1 per cent higher than the Provincial urban pro-poor rate. Again, this may be a reflection of an increase in the number of grant beneficiaries in certain rural areas.

Turning to a gender lens, table 4 shows that the Western Cape outperformed its national equivalent on all poverty-sensitive growth measures by gender.

While women in the Western Cape saw their spending increase at a lower rate than men, spending growth for poor and ultra-poor women rose more rapidly. But poor women and men faced spending growth below the Provincial average.

Definite key messages emerge from this analysis. The period 1995 to 2000 saw pro-poor growth at an absolute level in SA and the Western Cape, as poor individuals experienced absolute growth in expenditure over this period. However, relative pro-poor growth did not take place, as poor individuals experienced spending growth at rates below the national and Provincial averages. This means expenditure growth over this period was biased against the poor.

Of note, however, is that the Western Cape's performance surpassed that of its national counterpart. The Province experienced higher growth rates in nominal per capita expenditure at the aggregate level, and in terms of population group, gender and urban-rural disaggregation.

Especially striking, and surprising, is the fact that the spending growth for poor as well as ultra-poor africans in the Western Cape was above the Provincial average for this population group.

Table 3: Measure of pro-poor growth by location, 1995 – 2000 (%)

Growth rate in:	Urban		Rural	
	National	Western Cape	National	Western Cape
Mean per capita expenditure	5,72	11,64	3,26	0,46
Median	1,63	9,92	1,98	7,54
Mean	2,62	9,27	1,98	5,80
Growth at percentile:				
10	0,34	6,42	0,19	4,51
15	0,71	6,42	0,64	5,17
20	0,82	6,37	0,95	6,01
25	0,85	6,45	1,11	6,48
30	0,86	6,55	1,19	6,76
Rate of pro-poor growth	0,94	6,47	1,74	7,21
Rate of ultra-poor growth	0,82	6,21	1,54	4,66

Source: Stats SA (1995 and 2000) and own calculations

Notes:

1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.
2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.
3. Figures are annualised growth rates.

Table 4: Measure of pro-poor growth by gender, 1995 – 2000 (%)

Growth rate in:	Male		Female	
	National	Western Cape	National	Western Cape
Mean per capita expenditure	6,75	12,03	5,50	9,95
Median	3,02	9,98	2,54	8,90
Mean	3,72	9,46	2,91	8,53
Growth at percentile:				
10	0,72	5,67	1,16	6,53
15	1,16	5,94	1,51	6,80
20	1,45	6,11	1,71	6,77
25	1,66	6,34	1,85	6,84
30	1,83	6,49	1,95	6,93
Rate of pro-poor growth	2,30	6,41	2,27	6,87
Rate of ultra-poor growth	1,98	5,52	2,09	6,22

Source: Stats SA (1995 and 2000) and own calculations

- Notes:**
1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.
 2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.
 3. Figures are annualised growth rates.

4. The impact of growth and equity on poverty in the Western Cape

Shared growth and integrated development focuses on enhancing faster, broader-based economic growth that improves people's livelihoods and life opportunities, particularly of those that live in poverty.

As noted above, growth is necessary but not sufficient on its own. More than just high levels of growth are needed to reduce poverty. Equity matters in shared growth and integrated development.

High levels of equity enhance the impact of accelerated growth on poverty. In turn, boosting the long-term growth potential of an economy depends on a more equitable distribution of income, capabilities and geographic location of communities and economic activity that enable the benefits of growth to be 'shared'.

This 'sharing' of economic yields enhances social and economic participation, which feeds back to reinforce the economy's long-term growth potential, generating a virtuous cycle of growth and human development.

Widening inequality not only diminishes the impact of higher levels of growth on reducing poverty; it also slows down the pace of economic growth, conflating the trend.

Understanding how growth and equity interact to impact on poverty is important. Some argue that the process and quality of growth itself may induce equity shifts that erode some or all of the growth-associated poverty reduction gains.

Empirical analysis of the growth-poverty-inequality triangle therefore provides key information to policy- and decision-makers, helping to shape shared growth and integrated development policies and interventions that are appropriate to local circumstances.

Using the 1995 and 2000 IESs, changes in poverty in SA and the Western Cape may be decomposed into a growth effect (proxied by increases in average income) and an equity effect (proxied by income distribution).

These factors have separate effects on poverty. An increase in average income reduces poverty, while an increase in income inequality increases it.

The analysis calculates growth-poverty and inequality-poverty elasticities first, before moving on to decomposing changes in poverty into growth and inequality components.

Three measures are helpful in reflecting on the link between growth, inequality and poverty. The first is a distribution-neutral measure of the poverty-growth elasticity² that estimates the ‘pure growth’ effect on poverty reduction, independent of the distribution of income. In other words, it measures the effect of a 1 per cent increase in average income on poverty, while holding the distribution of income constant.

Income distribution changes can and often do occur in a period of economic growth. It is possible that, following a period of growth, subsequent changes in the distribution of income may wipe out any significant reduction in poverty. This requires estimating the relationship between poverty and inequality (as measured by the Gini coefficient)³.

Given the simultaneous impact of mean income growth and inequality on poverty, it is also important to ask what extent of average income increase (growth) is required to reverse negative distributional outcomes that erode gains to reducing poverty. This may be measured by estimating the marginal proportional rate of substitution (MPRS) between average income and income inequality⁴.

Table 5 shows 1995 and 2000 estimates for the above three relationships for SA and the Western Cape. Estimates are calculated using both the standard poverty line (R322 per capita a month in 2000 prices) and the ultra-poverty line (R174 per capita a month in 2000 prices).

Looking first at the growth-poverty elasticities, there is a positive relationship between an increase in average per capita expenditure (as a proxy for economic growth) and the reduction of poverty, both nationally and in the Western Cape.

In 1995, using the R322 per month poverty line, a 1 per cent increase in SA’s economic growth (as measured by per capita expenditure) would have resulted in a 1 per cent decrease in the national poverty gap.

All the elasticity measures are higher for the Western Cape. This means that economic growth has a larger impact on the poor in the Western Cape. In 1995, using the R322 poverty line, a 1 per cent increase in Provincial economic growth would have resulted in an almost 2 per cent decrease in the Province’s poverty gap.

² The measure is estimated using the following equation when using the P class of poverty measures:

$$\eta_{P_\alpha} = -\alpha \left[\frac{P_{\alpha-1} - P_\alpha}{P_\alpha} \right] \text{ for } \alpha \neq 0 \quad (1)$$

³ The relationship between poverty and inequality, as measured by the Gini coefficient, is measured by the P class of poverty measures by using the following equation:

$$\varepsilon_{P_\alpha} = \eta_{P_\alpha} + \frac{\alpha \mu_{\alpha-1} P}{z P_\alpha} \text{ for } \alpha \neq 0 \quad (2)$$

⁴ Drawing from the Foster, Greer and Thorbecke class of poverty measures, the MPRS is part-estimated as follows:

$$MPRS = - \frac{\varepsilon_{P_\alpha}}{\eta_{P_\alpha}}$$

Using the ultra-poverty line, poverty-growth elasticity measures are higher both at national and Provincial level. This confirms that economic growth has a magnified effect on the ultra-poor. For example, in 1995, using the ultra-poverty line, a 1 per cent increase in economic growth in the Western Cape would have resulted in an almost 3 per cent decrease in the (ultra-) poverty gap.

Finally, all elasticity estimates decreased between 1995 and 2000. This indicates that the economic growth path has become less pro-poor over the period. In 2000, a 1 per cent increase in the Western Cape's economic growth would only have led to a 1,83 per cent decline in the Province's poverty gap.

The poverty-growth elasticity measures assume that inequality remains constant, and therefore do not take into account the distributional effects of economic growth. Distributional changes resulting from economic growth may lead to rising inequality and contribute to increasing poverty, despite growth.

Table 5 also presents 1995 and 2000 poverty-inequality elasticity estimates for SA and the Western Cape, illustrating how sensitive poverty is to changes in inequality (as measured by the Gini coefficient⁵).

Both SA and the Western Cape show a positive relationship between poverty and inequality. Using the R322 poverty line, in 1995 a 1 per cent increase in the Gini coefficient would have resulted in a 3,83 per cent increase in SA's poverty gap.

Again, the elasticities are much larger for the Western Cape. In 1995, using the R322 poverty line, a 1 per cent increase in the Provincial Gini coefficient would have resulted in an increase of more than 8,5 per cent in the Province's poverty gap.

The poverty-inequality elasticities are much larger for the ultra-poor line. The elasticities also increased between 1995 and 2000 for both poverty lines.

The third measure, the MPRS, indicates the magnitude of economic growth required to negate the effects of increasing inequality in order to reduce poverty.

Table 5 shows that, in 1995, SA's MPRS was 3,74. This means that the economy had to grow by 3,74 per cent in nominal terms (as measured by per capita expenditure) to compensate for an increase of 1 per cent in the Gini coefficient.

The higher MPRS for the Western Cape (4,52) means that the Provincial economy needed to grow at a higher rate of 4,52 per cent in nominal terms to compensate for a 1 per cent increase in the Provincial Gini coefficient.

⁵ Gini coefficients for SA were estimated at 0,639 and 0,682 in 1995 and 2000, respectively, and for the Western Cape at 0,584 and 0,616 in 1995 and 2000, respectively, according to the PER&O 2005.

The measure is higher for SA and the Western Cape when using the lower poverty line, suggesting that a greater growth response is required when trying to compensate for the distributional outcomes experienced by the ultra-poor.

Table 5: Elasticities of poverty measures, 1995 – 2000

Category	Poor			
	1995		2000	
	SA	Western Cape	SA	Western Cape
P1-Growth elasticity	-1,02	-1,89	-0,85	-1,83
P2-Growth elasticity	-1,29	-2,24	-1,09	-2,11
P1-Gini elasticity	3,83	8,55	3,45	10,55
P2-Gini elasticity	6,59	13,06	6,09	15,90
MPRS: P1	3,74	4,52	4,06	5,78
MPRS: P2	5,13	5,84	5,60	7,52

Category	Ultra-poor			
	1995		2000	
	SA	Western Cape	SA	Western Cape
P1-Mean income elasticity	-1,63	-2,98	-1,35	-2,36
P2-Mean income elasticity	-1,94	-3,56	-1,60	-2,79
P1-Gini elasticity	10,05	23,60	8,77	24,89
P2-Gini elasticity	15,55	33,62	13,90	36,00
MPRS: P1	6,16	7,93	6,47	10,53
MPRS: P2	8,01	9,43	8,66	12,92

Source: Stats SA (1995 and 2000), own calculations

Notes:

1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census
2. The 'poor' category refers to poverty line of R322 per capita per month in 2000 prices, while the 'ultra-poor' category is based on a poverty line of R174 per capita per month in 2000 prices.

Further growth-poverty-inequality measures – known as Datt-Ravallion estimates – probe the combined effect of changes in growth and changes in inequality on poverty levels. These estimates decompose the change in measured poverty into a growth component and a redistribution component.

Tables 6 and 7 present the results for 1995 and 2000 Datt-Ravallion decompositions for SA and the Western Cape, using the R322 poverty line and the R174 poverty line, respectively.

Table 6 shows that at the higher poverty line, national poverty increased by 5,3 per cent between 1995 and 2000. The growth component reduced poverty levels by 9,4 per cent. But the redistribution component increased poverty by 14,6 per cent.

Table 6: Datt-Ravallion decompositions by the standard poverty line, 1995 – 2000 (%)

Poverty line: R322 per capita per month (in 2000 Rands)			
Category	Growth component	Redistribution component	Total change in poverty
South Africa			
Total	-9,4	14,6	5,3
African	-8,8	14,2	5,4
Coloured	-21,3	18,4	-2,9
Asian	-4,3	8,7	4,4
White	-0,9	1,7	0,7
Urban	-8,8	17,7	8,9
Rural	-4,8	9,8	5,1
Male	-10,0	15,1	5,0
Female	-8,5	14,0	5,5
Western Cape			
Total	-18,1	17,1	-0,9
African	-17,0	22,1	5,1
Coloured	-26,7	20,9	-5,8
White	-1,5	1,5	0,0
Urban	-17,4	17,3	-0,1
Rural	-2,3	-1,9	-4,2
Male	-19,5	18,9	-0,6
Female	-16,8	15,6	-1,3

Source: Stats SA (1995 and 2000) and own calculations

Notes: 1. Poverty shifts based on Headcount measures noted above and the poverty line in 2000 prices.
2. Frequency weights are assumed with the populations of both datasets weighted according to the 1996 Census and residual values were zero in all cases.

The increase in inequality over the period therefore completely eroded the gains realised from the growth in nominal per capita expenditure. The resulting increase in poverty levels was solely due to rising inequality over the period.

The same result appears for all population groups at the national level, except coloureds. Coloured poverty decreased by almost 3 per cent as a result of the 21 per cent contribution of the growth component cancelling out the 18 per cent increase in poverty due to the redistribution component.

Between 1995 and 2000, Western Cape poverty decreased by almost 1 per cent due to the growth component at 18 per cent, outweighing the accompanying increase in inequality.

Disaggregating by population group, with the exception of whites and africans, poverty declined for all other groups over the period. White poverty levels remained unchanged, with the contributions of the two components cancelling each other out perfectly. The increase in african poverty was due to increased inequality outweighing the contribution of the growth component.

Table 7 shows the results of the decompositions by the ultra-poverty line. The results at national level follow the same trend as the decompositions by the standard poverty line. All population groups experienced a rise in poverty, as any gains attributed to economic growth were completely eroded by rising inequality.

In the Western Cape, with the exception of whites and individuals in rural areas, all groups experienced a decline in poverty as a result of the growth effect outweighing the increase in inequality over the period.

Overall, the growth-poverty and inequality-poverty elasticities provide evidence of a positive relationship between growth and poverty on the one hand, and inequality and poverty on the other hand, at both the national and Provincial level.

Elasticity estimates were generally higher for the Western Cape, indicating that a 1 per cent increase in growth will result in a larger decrease in poverty in the Province than

Table 7: Datt-Ravallion decompositions by the ultra-poverty line, 1995 – 2000 (%)

Poverty line: R174 per capita per month (in 2000 Rands)			
Category	Growth component	Redistribution component	Total change in poverty
South Africa			
Total	-10,1	17,1	7,0
African	-10,3	18,1	7,8
Coloured	-14,2	14,6	0,3
Asian	-0,9	1,9	1,0
White	-0,3	0,7	0,3
Urban	-6,7	13,3	6,5
Rural	-7,3	18,1	10,7
Male	-10,6	17,2	6,5
Female	-9,4	16,8	7,4
Western Cape			
Total	-11,6	10,7	-1,0
African	-15,7	11,7	-4,0
Coloured	-14,4	13,2	-1,1
White	-0,2	0,6	0,4
Urban	-11,3	10,2	-1,2
Rural	-1,2	2,0	0,8
Male	-11,9	11,5	-0,4
Female	-11,1	9,7	-1,5

Source: Stats SA (1995 and 2000) and own calculations

Notes: 1. Poverty shifts based on Headcount measures noted above and the poverty line in 2000 prices.
2. Frequency weights are assumed with the populations of both datasets weighted according to the 1996 Census and residual values were zero in all cases.

at national level. On the other hand, a 1 per cent increase in the Province's Gini coefficient will have a larger impact on poverty levels than at national level.

The Datt-Ravallion decompositions showed that when using the R322 poverty line, at the national level all groups except coloureds saw their poverty levels increase due to the contribution of the inequality component outweighing the contribution of the growth component.

The Western Cape picture looks slightly different, with aggregate poverty at both poverty lines decreasing as a result of the contribution of the growth component outstripping the contribution of the inequality component. Only africans saw an increase in their poverty levels at the R322 poverty line, while ultra-poor Whites saw their poverty levels rise.

Although illuminating, the above overview has its limitations, due largely to data limitations and credibility, given concerns raised about the 2000 IES in particular.

In addition, these measures do not capture the changes in the non-income measures of poverty, such as asset and spatial poverty, also important in understanding the impact of shared growth and development. These were discussed in detail in the 2005 PER&O, and are complemented by further analysis here.

5. Shifts in access to selected services in the Western Cape

Asset equality focuses on the accumulation of personal assets that provide people the capabilities and/or opportunities to improve their daily lives and their future social and economic opportunities.

Usually assets refer to financial or physical assets, such as land or property (housing). But assets may also include those that are intangible, such as education, health and entrepreneurial ability.

These non-income dimensions of welfare are often positively related to income and consumption levels, drawing a link between income inequality and asset inequality concerns.

More specifically, asset equality is attained through access to good basic services (water, sanitation, energy and refuse removal) and social services (health care, shelter and education and skills development).

Typically, those at the higher end of the income spectrum have better access to quality services, ensuring that their capabilities and opportunities are broadened and deepened to their fullest potential.

Many government interventions therefore focus on improving poor people's capabilities in respect of enhancing access to quality schools and skills development, health care services, clean and safe water, sanitation facilities and housing. These types of public service provision are often termed the 'social wage' or 'social wage goods'.

When poor people have improved access to quality assets, both tangible and intangible, they hold the means to participate in economic activity themselves and therefore are better placed to benefit from economic growth.

Assessing how Government has performed in improving poor people's access to quality services provides a further way of gauging whether the poor have shared in the benefits of economic growth through increased access to services such as formal housing, piped water, electricity and proper sanitation.

This section briefly presents some results of the changes in access to certain services in the Western Cape between 1993 and 2004, shedding some light on the extent to which the poor have benefited from increased Government spending on service delivery over the 10-year period.

GICs for access to certain household services show the increase in household access according to per capita household expenditure deciles.

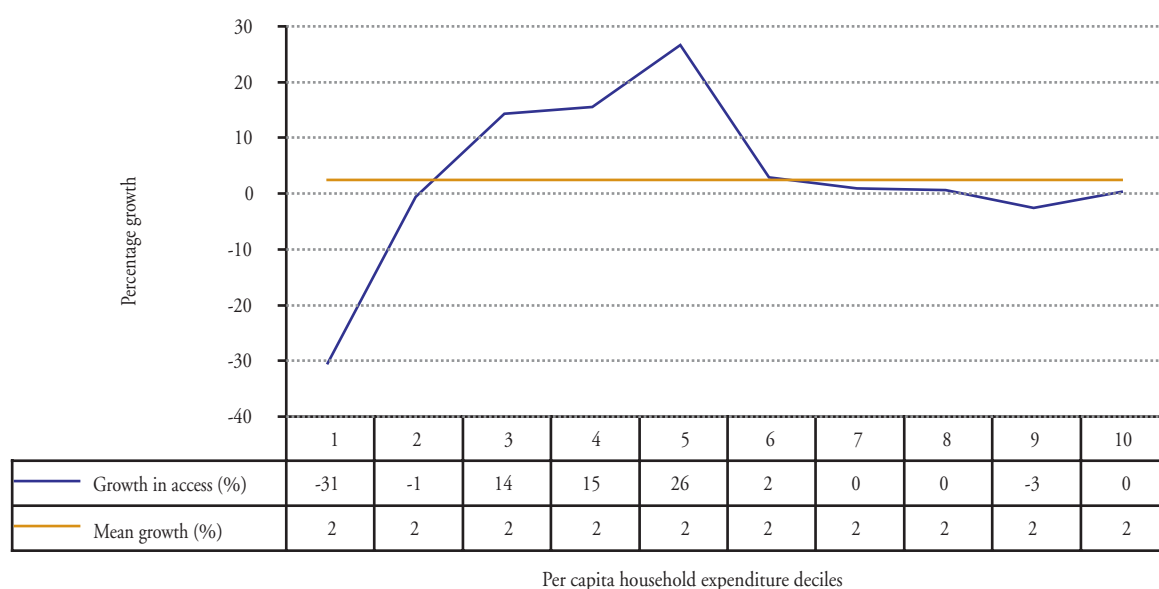
The 1993 data were sourced from the Project for Statistics on Living Standards and Development (PSLSD) dataset, the result of SA's first representative, multi-purpose household survey conducted by the South African Labour Development Research Unit (SALDRU) at the University of Cape Town's School of Economics in 1993. The source of the 2004 access rates is Stats SA's 2004 General Household Survey (GHS).

While the estimates in the previous sections were given for individuals, the next figures present GICs for households in the Western Cape. The figures provide evidence that growth in the delivery of only two services (electricity for lighting and access to flush/chemical toilets) may be considered relatively and absolutely pro-poor.

Figure 3 shows that total access to formal housing increased by 2 per cent in the Western Cape between 1993 and 2004. The bottom two household expenditure deciles, however, experienced a decline in the share of households living in formal dwellings. Deciles three to five saw their access to formal housing increase at a much faster rate than the average growth rate.

However, this GIC shows that the poorest of the poor (represented by the bottom two per capita household expenditure deciles) did not benefit from the increased delivery of formal housing in the Province. In fact, the bottom 10 per cent of poor households saw a decline of 31 per cent in their access to formal housing. Access to formal housing in the top five deciles remained relatively unchanged.

Figure 3: Growth in household access to formal dwelling, 1993 – 2004

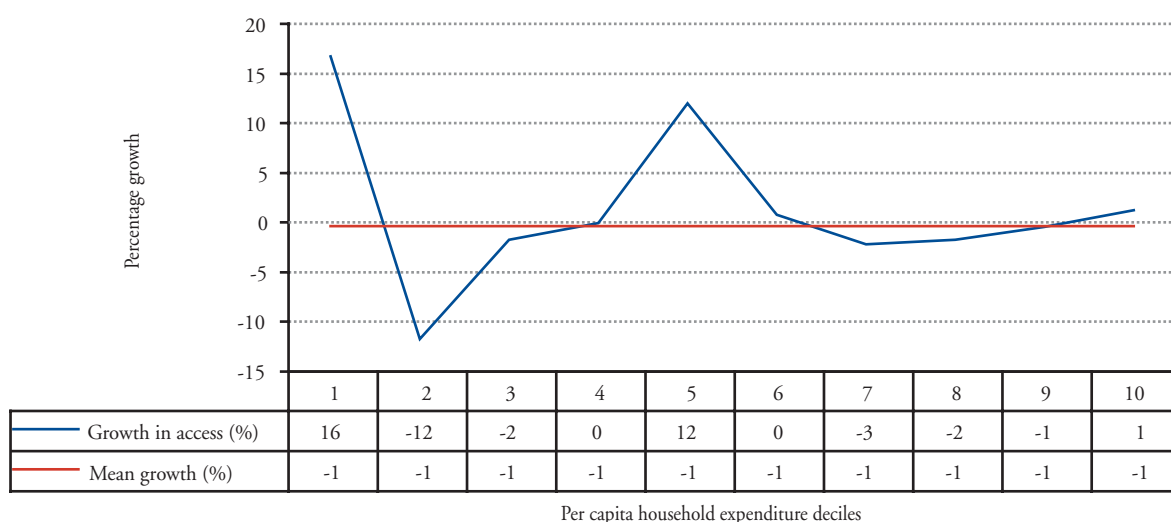


Source: Saldru (1993) and Stats SA (2004), own calculations

Figure 4 shows the growth rates in access to piped water. The total access to piped water decreased by 1 per cent over the period. In addition, the performance by decile is quite uneven, with households at the bottom of the distribution experiencing a 16 per cent increase in access to piped water, while households in the second decile experienced a 12 per cent drop in their access rate.

Households in the third expenditure decile also saw a decline in their access to piped water (by 2%). Access to piped water remained unchanged for households in the fourth decile. Access rates for the top six household expenditure deciles remained relatively unchanged, with small up- or downward movements.

Figure 4: Growth in household access to piped water, 1993 – 2004



Source: Saldru (1993) and Stats SA (2004), own calculations

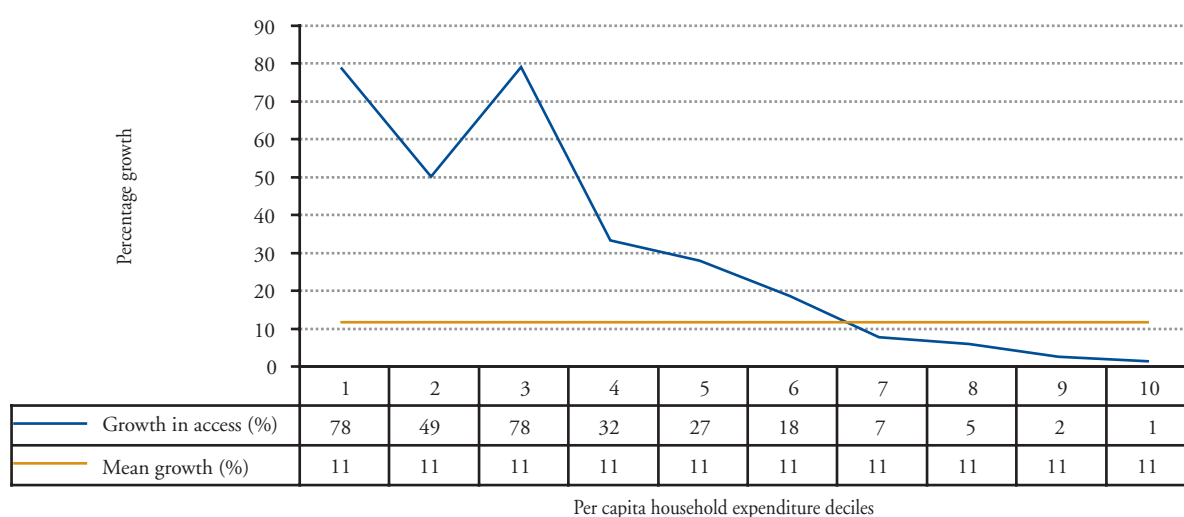
Figures 5 and 6 show a much clearer pro-poor growth path in the use of electricity for lighting and access to flush/chemical toilets. The bottom six deciles all experienced growth in the use of electricity for lighting above the average growth rate of 11 per cent. Absolute and relative pro-poor growth took place, with access rates for the bottom four deciles increasing between 32 per cent and 78 per cent. Households in the top four deciles experienced some growth in access to electricity for lighting.

All households up to the fifth expenditure decile experienced a growth in access to flush/chemical toilets above the mean growth rate of 4 per cent. Households in the bottom household expenditure decile saw their access to flush/chemical toilets more than double over the period. The second decile, however, only experienced a 5 per cent increase. The third, fourth and fifth deciles experienced an increase in access of around 20 per cent. Again, access rates for the top deciles remained relatively unchanged.

These figures show that poor households particularly benefited from growth in the access to electricity for lighting and increased access to flush/chemical toilets. Household access to piped water only increased for the bottom decile and the fifth decile, while the poorest two deciles did not experience any growth in access to formal dwellings.

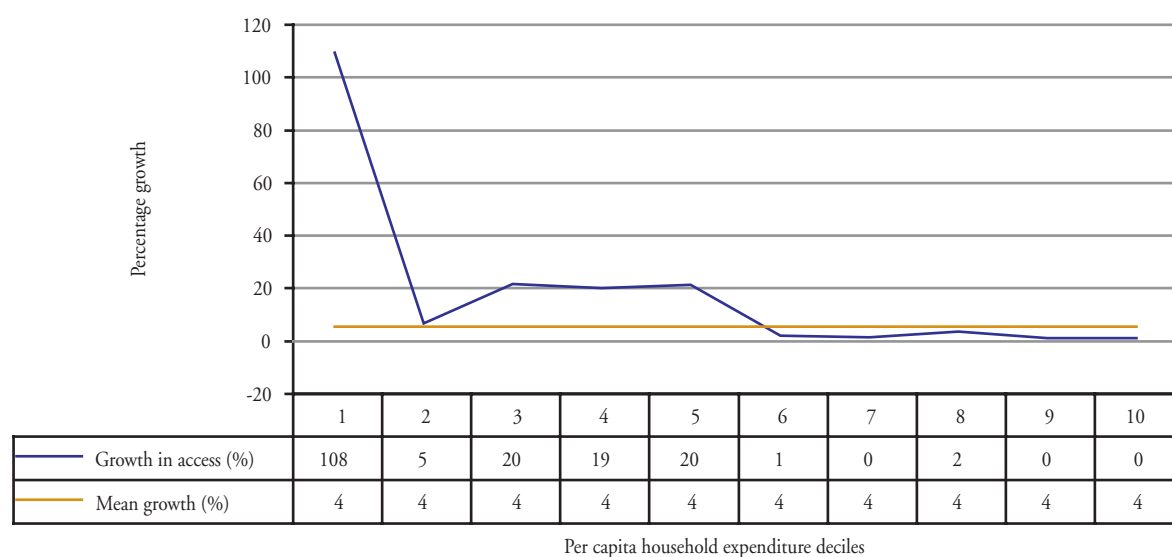
Evidence of shared growth, as measured by increased access to these four household services has therefore been mixed for the period 1993 to 2004. Poor households only genuinely shared in the increased access to electricity for lighting and flush/chemical toilets. This points to only limited shared growth over the period.

Figure 5: Growth in household use of electricity for lighting, 1993 – 2004



Source: Saldru (1993) and Stats SA (2004), own calculations

Figure 6: Growth in household access to flush/chemical toilets, 1993 – 2004



Source: Saldru (1993) and Stats SA (2004), own calculations

6. Shared growth diagnostic for the Western Cape

Given mixed evidence of shared growth over the last 10 years, the Western Cape faces a considerable challenge in moving the Province onto a shared growth and integrated development trajectory.

Setting a clear vision and focused strategic goals under *iKapa Elihlumayo*, the Province is signalling a notable shift away from 'business as usual' towards a more strategic approach to regional economic development.

Recent comparative international shared growth experiences show that the rate and quality of growth is determined, at the aggregate level, by a country's ability to integrate into the global economy, by its capacity to maintain sustainable government finances, and by its ability to put into place an institutional environment in which contracts can be enforced and property rights established.

At a regional and local level, efficient and effective governance is critical in providing an enabling environment for competitive, thriving businesses and strong social communities and networks.

The key message here is that the quality of government institutional capacity matters for accelerated shared growth and development.

In most developing countries, financial, human and administrative institutional capacity at all levels or spheres of government is a limited, scarce resource. As such, it needs to be prioritised, with the focus on removing those obstacles or economic distortions that are binding constraints on shared growth and will have the biggest direct impact if removed.

The Asgisa task team has identified six key obstacles or binding constraints to accelerated and shared growth at the national level. These are:

- The volatility and level of the currency;
- The cost, efficiency and capacity of the national logistics system;
- The shortage of suitably skilled labour, amplified by the cost effects on labour of apartheid spatial patterns;
- Barriers to entry, limits to competition and limited new investment opportunities;
- The regulatory environment and burden on small and medium businesses; and
- Deficiencies in state organisation, capacity and leadership.

Countering these constraints requires decisive responses. National government is working on initiatives in respect of macroeconomic concerns, infrastructure programmes, sector investment or industrial strategies, skills and education initiatives, and public administration issues.

The changing intergovernmental landscape compels provinces to undertake similar growth diagnostic analyses. Proactive shaping of the regional economic development agenda demands that provinces identify key obstacles or binding constraints to shared growth and integrated development within an intergovernmental context.

The diagnostic entails identifying such obstacles through rigorous, empirical research and matching these to appropriate national, provincial and local policy levers.

Where policy levers are within the provincial domain, they will be subject to provincial political and resource prioritisation within the annual budget process.

National and local policy levers demand a different approach, requiring provinces to work closely with national, local and other partners, notably public entities, in order to lever policy, programmatic and budgetary resources to address key obstacles or constraints to shared growth and integrated development at the regional level.

The Western Cape has initiated work on a growth diagnostic scan as part of the PGDS process. Drawn from the Asgisa approach, the base framework has been modified in two ways.

First, the diagnostic framework has been made more appropriate for use at the 'meso' level, taking into account the broader co-operative intergovernmental system within which provinces operate.

Secondly, the framework has been amended to take account of environmental sustainability concerns. The latter are critically important for the Western Cape as the Province is a bio-diverse economy that depends on agriculture, agro-processing and eco-tourism, and faces considerable risk from unrestrained urban sprawl and global climatic change, particularly in respect of water and energy use, and biodiversity protection.

Further shaping is required to suit the Western Cape's particular socio-economic development context and challenges.

The next step is to map the policy interventions that have already been identified, and to some extent resourced, in the five key *iKapa Elihlumayo* lead strategies – the Strategic Infrastructure Plan, the Microeconomic Development Strategy, the Provincial Spatial Development Framework, the Human Capital Development Strategy and the Social Capital Strategy – onto the diagnostic.

Gap analysis will determine the areas where research and attendant policy interventions are required.

An empirical approach will then be used to test the most optimum investments. This will help to identify which obstacles and attendant policy levers are the most binding to achieving shared growth and integrated development in the Province.

The growth diagnostic analysis will feed into the Western Cape's policy and resource allocation processes, facilitating informed, evidence-based decision-making, and supporting intergovernmental co-ordination processes.

7. Conclusion

The first part of this chapter evaluates the Western Cape's economic growth path between 1995 and 2000 in terms of its impact on the poor. It also disaggregates the impact of changes in the distribution of income on poverty over the same period.

On average, per capita spending growth in the Western Cape was almost 9 per cent a year between 1995 and 2000 – almost three times the national average.

Poor people living in the Western Cape experienced higher spending growth than the national average, but lower growth than the Provincial average. This means that growth was pro-poor in an absolute but not in a relative sense.

All population groups in the Western Cape experienced faster spending growth than their national counterparts. Of note is that african poor in the Province experienced higher spending growth than the average Provincial african rate.

Further estimates point to a positive relationship between growth and poverty at national and Provincial level. Estimates for the Western Cape were higher than those for SA – a 1 per cent increase in per capita spending (as proxy for economic growth) would have had a larger (positive) impact on the poor in the Western Cape than at the national level.

In terms of the poverty-inequality elasticities, a 1 per cent increase in the Gini coefficient would have resulted in a much larger increase in the poverty gap in the Western Cape than at national level.

A third estimate, the MPRS, showed that the Western Cape economy has to grow at a higher rate than the national economy to compensate for a 1 per cent increase in inequality.

Datt-Ravallion decompositions evaluate the relative contributions of economic growth and rising inequality to changes in poverty. At the aggregate level, and across a range of disaggregations (population group, gender, urban-rural), the Western Cape experienced a decrease in poverty as a result of the economic growth outstripping the increase in inequality over the period.

Changes in asset poverty, as defined in this case by access to household services, pointed to mixed evidence of shared growth. Only growth in access to electricity for lighting and in access to flush/chemical toilets were absolutely as well as relatively pro-poor.

The poorer households' share in the increased delivery of formal housing and piped water over the period was limited, and some of the poorer household expenditure deciles even experienced a decline in their access to these services.

The second part of the chapter introduces initial work on a Western Cape growth diagnostic that enables the Province to identify key binding constraints to shared growth and integrated development within an intergovernmental context.

Placing the Western Cape on a shared growth and integrated development trajectory requires a coherent and co-ordinated public sector response at the national, provincial and local level to the Province's socio-economic opportunities and challenges.

A rigorous approach requires that it is based on sound research and analysis that contribute to evidence-based decision-making at both the technical and political level.

Glossary of terms

- **Decile**

A decile is any one of the numbers or values in a series dividing the distribution of individuals in the series into 10 groups of equal frequency.

- **Gini coefficient**

The Gini coefficient is a measure of inequality used to measure income inequality, but can be used to measure any form of uneven distribution. The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income and everyone else has zero income). The Gini coefficient is calculated as a ratio of the areas on the Lorenz curve diagram (see included figure). If the area between the line of perfect equality and Lorenz curve is A, and the area underneath the Lorenz curve is B, then the Gini coefficient is $A/(A+B)$. This ratio is expressed as a percentage or as the numerical equivalent of that percentage, which is always a number between 0 and 1.



- **Growth incidence curve**

A growth incidence curve presents the rate of growth in income or expenditure per capita over a certain time period at each percentile of the income or expenditure distribution.

- **Growth-poverty elasticity**

The total growth elasticity of poverty ε_H may be defined as the relative change in the poverty headcount between two periods for a 1 per cent growth in mean income, assuming that the poverty line remains constant in real terms.

$$\varepsilon_H = \frac{\partial H}{\partial \mu} \frac{\mu}{H} \quad \text{where } H \text{ is the headcount index and } \mu \text{ is the mean income.}$$

In contrast, the partial growth elasticity of poverty, as defined in Bourguignon (2003), is the relative change in the poverty headcount for a 1 per cent growth in mean income holding inequality constant.

- **Growth-poverty-inequality measures**

Marginal Proportional Rate of Substitution – The MPRS measures how much growth is needed to offset the negative impact of inequality on poverty indicators.

Datt-Ravallion estimates – This methodology decomposes the change in measured poverty into a growth component and a redistribution component. The growth

component refers to the change in poverty that occurs if inequality does not change. The redistribution component refers to the change in poverty if average income levels do not change. A residual variable captures the interaction between the growth and redistribution effects on poverty. Taking the equation $P(z/u, P)$, where z is the poverty line, u the mean income level and P the Lorenz curve, then the decomposition proceeds as follows:

$$P_{t+1} - P_t = G_{(t,t+1;r)} + D_{(t,t+1;r)} + R_{(t,t+1;r)}$$

Where t and $t+1$ are the two time periods under discussion, P the poverty measure in the two time periods, $G(.)$ represents the growth component, $D(.)$ the redistribution and $R(.)$ the residual components of the decomposition. The growth and redistribution components can be defined by the following:

$$G_{(t,t+1;r)} \equiv P(z/u_{t+1}, P_r) - P(z/u_t, \pi_r)$$

$$D_{(t,t+1;r)} \equiv P(z/u_r, \pi_{t+1}) - P(z/u_r, \pi_t)$$

where r makes explicit the reference date with respect to the decomposition of the poverty shift.

- **Inequality**

Economic inequality refers to disparities in the distribution of economic assets and income. The term typically refers to inequality among individuals and groups within a society.

- **Mean growth in per capita expenditure**

The average growth (increase) in the expenditure of each member of the population. The expenditure of each person is calculated by dividing the total expenditure of the household that person belongs to by the number of people residing in that household.

- **Mean percentile growth rate**

The average of the growth rates at all the percentiles of the expenditure distribution.

- **Median**

Median is the value at the mid-point of a dataset. In this chapter's analysis (see table 1), median refers to the value of the expenditure at the mid-point of the distribution.

- **Percentile**

A 'percentile' is defined as a certain percentage amount of data items in a large dataset, sorted from lowest to highest values. For instance, the 20th percentile in an income distribution refers to the poorest 20 per cent of households.

- **Poverty**

Absolute poverty – The Copenhagen Declaration describes 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.”

Asset poverty – Asset poverty is defined as a measure of economic hardship, distinct from and complementary to the more commonly used concept of income poverty. Asset poverty includes not having access to the necessities for daily living, for example, food, clothing, shelter, education and health care. Poverty in this sense may be understood as the deprivation of essential household goods and services

Extreme poverty – The World Bank defines extreme poverty as living on less than US\$1 a day, and poverty as living on less than \$3 a day.

- **Poverty line**

A poverty line is the level of income below which one cannot afford to purchase all the resources required to live. People who have an income below the poverty line have no discretionary disposable income. Determining the poverty line is usually done by finding the total cost of all the essential resources that an average human adult consumes in one year. In practice, different countries often use different poverty lines. Globally, however, it is more common to use only one poverty line in order to compare economic welfare levels. When comparing poverty across countries, the purchasing power parity (PPP) exchange rates are used, as poverty levels otherwise would change with the normal exchange rates. Thus, 'living for under \$1 a day' should be understood as having a daily total consumption of goods and services comparable to the amount of goods and services that can be bought in the US for \$1. Self-produced goods and public services are included in this measure.

- **Pro-poor growth**

- The broad definition: pro-poor growth is economic growth that leads to significant reduction in poverty.
- The absolute definition: growth is pro-poor if, and only if, poor people benefit in absolute terms according to a pre-defined measure of poverty or 'poverty line'.
- The relative definition: growth is pro-poor if the incomes of poorer people grow faster than those of the population as a whole, leading to lower levels of income inequality.

- **Shared growth**

Shared growth is growth that creates benefits throughout society, including the poor, those living in more remote rural areas, women and youth. This is not an automatic process, or a matter of 'trickle down'. One also cannot assume that everyone will

eventually gain if the economy continues to grow. Shared growth means devising and implementing socio-economic policies that target accelerated economic growth and pro-poor growth *simultaneously* to both raise the growth rate of the economy and ensure that the poor benefit more than, or at least equally to, upper-income groups.

How do we achieve shared growth? The following issues should be addressed:

- What policy and interventions mix has the best prospect of delivering shared growth?
 - What is the balance between macroeconomic policies and policies for micro-sectoral transformation in agriculture, education, health and gender relations?
 - What institutional transformations are necessary?
 - What is the role of local level, community-based organisations and initiatives?
 - What is the role of the global system of trade and finance?
- **Social wage (goods)**
'Social wage goods' refer to types of public service provision that focus on improving poor people's capabilities in respect of enhancing access to quality schools and skills development, health care services, clean and safe water, sanitation facilities and housing.



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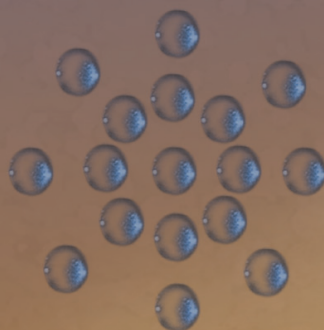
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