[Chapter Three]

THE POLICY ENVIRONMENT FOR SECTOR SUPPORT: THE MEDS AND NATIONAL AND PROVINCIAL STRATEGIES

Chapter [3] The Policy Environment for Sector Support: The Meds and National and Provincial Strategies

Over the last 12 months, there have been significant developments in national policies that impact directly on the MEDS. Of most signifi cance has been the advent of the Accelerated and Shared Growth Initiative for South Africa (ASGISA) – a national policy framework that is still evolving. Of particular concern to the MEDS are the industrial and trade policies currently being developed and implemented by the Department of Trade and Industry (DTI) but not yet in a finalised form. The first section of this paper outlines, in broad brushstrokes, this evolving national policy framework, and then assesses the implications for the MEDS. The objective is not to critique these national frameworks but rather to view them through the lens of a provincial policy perspective.

At provincial level the MEDS is one of a suite of five provincial strategies, which individually and collectively are designed to improve the social and economic welfare of the inhabitants of the province in accordance with iKapa eliHlumayo, A Home for All. These strategies have evolved and developed over the last year. The second section of this Chapter examines the linkages between these strategies and the MEDS. Particular attention is paid to the issue of how the impacts of each of these strategies on economic development in the Province might be assessed.

3.1 The National Policy Context

ASGISA is "a national shared growth initiative, rather than government's programme" (The Deputy President of the Republic of South Africa, Phumzile Mlambo-Ngcuka, 2006:1). It is barely a new programme and much more designed to secure effective implementation of existing policies. An international group together with local researchers and policymakers is analysing South Africa's growth and policy, including industrial and trade policy, and this process will not be completed until late 2007.

> ASGISA is designed to secure higher growth "in the first phase, between 2005 and 2009 we seek an annual growth rate that averages 4.5% or higher. In the second phase, between 2010 and 2014, we seek an average growth rate of at least 6% of GDP." (The Deputy President of the Republic of South Africa, Phumzile Mlambo-Ngcuka, 2006:1)

ASGISA responds to binding constraints, which are:

- The volatility and level of the currency
- Cost, efficiency and capacity of national logistics systems
- Barriers to entry, limits to competition and limited new investment opportunities
- Regulatory environment and burden on small business
- Deficiencies in state organisation, capacity and leadership

The response to these binding constraints is a set of selected interventions, as follows:

1. Infrastructure
2. Sector strategies
3. Education and skills
4. Interventions in the Second Economy
5. Public Administration
6. Macro-economic,

The MEDS is firmly centred on the sector strategy interventions. In addition, at a sectoral level, the MEDS research projects have assessed the issue of skills constraints that restrict development, likely future shortages and the capacity of the current training initiatives to meet future needs. The MEDS also indicates where sectoral development will require particular infrastructural investments. However, the province has other key strategies to address education and skills. The linkages between the MEDS and other provincial strategies are outlined below.

The MEDS also addresses the contribution that sectoral developments might have for the growth of the second economy. This is principally affected through the study of and policy recommendation emerging from the report on SMME and especially on the Informal Sector. The Informal Sector report and its implications accordingly receive considerable attention in the 2006 Synthesis Report.

ASGISA requires that "all priority sectors will have to provide a bridge to the 2nd Economy. Tourism, BPO, Creative Arts, Agriculture and Clothing are sectors which are easily responsive to the 2nd economy." (p. 8) This bridge was not specifically sought in the earlier studies of the MEDS. These studies focused on formal sector firms. However, this process of conceptualising the informal economy within sectoral value chains has been initiated by the current MEDS studies, and there is considerable scope for studying

these sectors and others within the informal economy. It is proposed that a number of sector-based studies within the informal sector should be an important focus of future work of the MEDS.

ASGISA expressly is not an industrial policy. "ASGISA is not a new policy nor does it replace GEAR and it is not an Industrial policy." (p.1). Instead it is envisaged that the National Industrial Policy framework will be developed by the DTI. However, ASGISA does provide a brief outline of industrial policy. In particular, it has identified a number of sectors that are "low hanging fruit", ripe for development. With reference to the selection of sectors, there is a strong, but incomplete, overlap between the MEDS and ASGISA.

ASGISA identifies three sector categories. The first is immediate priority sectors where policies can be readily and immediately implemented. The second is top priority sectors that are close to implementation, but still require coordinated government actions to be determined to address the constraints that retard their growth. Finally, the third category is medium-term priority sectors have significant potential, but where much work still has to be done to develop and implement appropriate policies.

ASGISA identifies Business Process Outsourcing (BPO) and Tourism as the two "immediate priority sectors". These are two sectors that are also on the list of high-ranking MEDS priorities. The MEDS also identified as priorities two sectors that are not on the ASGISA list – namely Oil and Gas Services and IT.

ASGISA then identifies two further top priority sectors. These are biofuels and a wide category including chemicals, man-made fibres and coke and refined petroleum products. Neither of these sectors is of great significance in the Western Cape economy and none has been selected as a priority.

ASGISA's third category of medium-term priorities include a very wide range of sectors - biofuels, chemicals, metals and metallurgy, agriculture, agro-processing, creative industries, wood pulp and paper, clothing and textiles, and durable consumer goods. While it is not clear as to which of these will be selected, only clothing and textiles, creative industries, and agro-processing appear on the MEDS list of second order priorities. Principally because the MEDS favoured expanding over declining sectors, clothing and textiles was categorised as an important, but not a first-order, priority sector. Creative industries were similarly classified. Biofuels, chemicals, metals and metallurgy, wood pulp and paper and durable consumer goods have a limited presence in the Province.

There is nothing unexpected or untoward in the selection of different sectoral priorities as between national and provincial government. Evidently, the specificities of the region will result in a particular configuration of economic activity and opportunity that will differ from the national. From a provincial industrial policy perspective the problem arises not from the choice of sectors but rather from that of institutional design – an important component of the MEDS perspective of 'best practice' industrial policy. Specifically the MEDS is concerned that the lack of a "fit" between the national and provincial selected sectors can lead to fragmented, non-coordinated and dissipated efforts. The MEDS Oversight Committee is concerned that the institutional mechanisms to secure coherency between national and provincial strategies need to be strengthened (see below).

In addition to the differences in the selection of sectors, there are differences in respect of a number of other aspects of industrial policy. Once again, viewing the issue through the prism of provincial industrial interventions these differences add to a lack of cohesion between the national and provincial levels as regards industrial policy and the need for better functioning mechanisms to address this. These differences are manifest in the approach adopted by industrial policy in the DTI's National Industrial Strategy (NIS).

At the time of writing, the NIS is only a draft document that is still open to potential change. Nevertheless, in addition to the differences in the selection and classification of sectoral priorities noted above, it is evident that there are three clear differences as to the approach adopted by the DTI and the approach adopted by the MEDS. These differences relate to:

- The number of priority sectors selected
- The criteria for selection of priority sectors
- The institutional design of the policy process.

Throughout the MEDS process, a major concern has been to develop polices that take cognisance of the very real constraints under which the provincial government operates. These constraints are manifest in limited personnel, limited resources, limited experience of government and limited mechanisms to ensure learning in government. We have accordingly made a number of recommendations designed to address these constraints. However, these will take time to take effect. In the short term, our view is that the provincial government should ensure that its policies are not overly

ambitious. Central to this is that it should focus its attention on a few priority sectors and a few policies for each of those sectors.

The NIS has, by contrast, selected a very large number of priority sectors for policy attention. Our concern is not only that the selection of a large number of priority sectors may impact negatively at national level, but primarily that this may impact negatively on the institutional allocation and marshalling of scarce provincial resources. While the role of the provinces in implementing national policies is unclear (see below), there is a clear danger that provincial capacities will accordingly be dissipated.

The NIS outlines its criteria for the selection of priority sectors in the following terms: "the sectors which should receive priority attention over the current MTEF period should be based on a variety of factors. These include their relative importance in manufacturing GDP and employment, positive influences such as the public CAPEX programme and their ability to withstand negative factors such as the strength of the currency." (NIS, 2006:43)

These are very different from the criteria employed by the MEDS in selecting priority sectors. Our concern is that in the absence of an emphasis on developing an appropriate institutional design to mesh the national and provincial industrial policy initiatives, the different criteria reflecting different objectives and assessments of the possibilities for sectors further add to a lack of coherency between national and provincial efforts.

The MEDS has placed considerable emphasis on managing the processes of and the institutional design for industrial policy. Central to this is ensuring close relations between government and the private sector (see Section 6.2).

The NIS has a number of proposals in regard to organisation in a section of the report entitled Capacity and Institution Building (NIS, 2006:45-47). However, this mostly concerns organisation within the dti. There is no development of the principles for constructing an institutional framework whereby government and business can engage in a strategic collaboration regarding industrial policy. In regard to each of the priority sectors, there is no discussion of the appropriate form that business and government interaction should take. By contrast with the MEDS, the NIS gives no consideration to the possible role that the private sector could play in proposing policy or implementing policy.

Instead the issues of institutional design for industrial policy have been left to a separate process undertaken by a different department in the dti – the Customised Sector Programmes (CSP). Each sector here is supposed to put forward an agreed institutional framework for ensuring governance and implementation between the various key stakeholders in the industry. However, the danger is that this is likely to lead to further institutional incoherence. In the absence of a clearly laid out framework of principles for constructing an appropriate institutional design for industrial policy this process is likely to have two disturbing impacts. At the national sectoral level the disjuncture within the dti between those responsible for the national industrial policy framework and those responsible for the CSP process is likely to lead to incoherence in institutional design between different selected sectoral policy programmes. Although this is not necessarily the concern of the MEDS, it may well become so if it produces a second order impact of incoherence between the national and provincial industrial policy processes.

Simultaneously, the dti is currently engaged in drafting a Regional Industrial Development Strategy. This clearly impacts directly on provincial industrial strategies. Yet the evidence is scant that the department responsible for formulation and implementation of this regional development strategy has paid much attention to directly intersecting with current provincial industrial development processes such as the MEDS. Given the importance that the MEDS (following best practice industrial policy) has attributed to institutional design and 'joined up government', the lack of institutional coherence between national and provincial government initiatives is a matter of some concern.

Conclusion

The dti's national industrial strategy has been under discussion for some time. As a consequence, provincial governments that have sought to develop policy have had to do so within an undefined national policy context. This has had two negative consequences. The first is that the lack of a clear national policy framework has made it more difficult to devise and implement provincial policies. Clarification of the national policy context is critical to developing effective provincial policies.

The second consequence is that, as we have illustrated, there has been a lack of cohesion between national and provincial policy. This has been exacerbated by the limited engagement of the provinces in the development of the NIS and the Regional Industrial Development Strategy.

The 2005 MEDS Synthesis Report made a clear call for a mechanism to ensure cohesion between the different levels of government in respect of industrial policy. "In order to avoid duplication and to ensure common purpose, there is a definite need to develop some sort of forum or discussion in government – national, provincial and local – around industrial policy." (MEDS, 2005: 61).

We would reiterate that call.

We noted in MEDS 2005 Synthesis Report that "International experience suggests that strong and well-capacitated regions make for effective policies and better development performance" (MEDS, 2005:61). Indeed this has been further explored in Chapter 2 of the 2006 Synthesis Report. This position is reiterated by the NIS: "There is a need for greater intergovernmental coherence, particularly with respect to national, provincial and local government growth and sectoral strategies…" (NIS, 2006:46).

This is to be welcomed. However, how precisely this incoherence is to be overcomed is not made clear.

The DTI has a division that is designed to interface with the provinces precisely on issues of joint concern, central to which is industrial policy. While this is welcomed, our observation and experience suggest that this is not effective at this point in time. To reiterate, there is a need for a regular high-level forum for discussion of industrial policy.

Finally, a lack of cohesion is not solely a problem between the provincial and national governments. In MEDS 2005 we also noted "the limited interaction between the Province and local government." (MEDS, 2005:61). This too is an issue that requires urgent attention and an institutional mechanism to be established so as to ensure a much greater level of cohesion.

3.2 The Provincial Policy Context

The Western Cape government has developed a suite of strategies designed to address our socio-economic challenges. These strategies are:

- The Agricultural Strategy
- The Social Capital Formation Strategy
- The Human Capital Development Strategy
- The Strategic Infrastructure Plan
- The Spatial Development Framework.

When the MEDS Synthesis Report for 2005 was completed a year ago, all of these strategies were very much in a stage of development. Over the past 12 months, these strategies have been considerably advanced and are now embodied in detailed reports. In addition, the research undertaken in this phase of the MEDS suggests further linkages between the MEDS and other provincial strategies. This section repeats much of what was said in the Synthesis Report of 2005, but takes account of the developments in each of the five strategies and the additional MEDS research.

Economic development is a very broad process. In its most fundamental sense, economic policy aims at ensuring that the economic potentials of the citizenry are realised to the greatest extent possible. Since the citizenry are located in a broader social and spatial environment, policies concerned with this environment will impact on economic development. All of these strategies address issues of critical importance to economic development and hence to the success of the MEDS. Similarly, successful economic development will exert a strong positive impact on the social and spatial environment in which the citizenry are located. The MEDS therefore, in turn, links to and will have determinate effects upon the success of these strategies.

The linkages between the MEDS and the other provincial strategies are many and multiple. This section attempts to delineate only the key linkages; to show, in broad terms, the contribution that each of these strategies could potentially make to the MEDS and that the MEDS could, in turn, make to each of the strategies.

Building on this discussion, we then explore how the contributions of each of the strategies to the MEDS and to economic development might be evaluated. To this end, a few possible Key Performance Indicators (KPIs) relevant to assessing the contributions made to economic development are derived for each of the strategies in turn.

3.2.1 Linkages between the MEDS and other Provincial Strategies

The Agriculture Strategy

The MEDS report on agriculture provides a baseline study of trends and data for the sector as a whole, as well as a number of key sub-sectors and products.

In addition, it provides a succinct summation of the problems that confront the industry, bottlenecks, competition on global markets, transformation issues, and future prospects. The MEDS report also provides a long list of potential policies to address the identified obstacles and challenges. These policies will require further examination and consideration by the Department of Agriculture. This is outlined in the research report and in the report of the Oversight Committee.

The MEDS report on food processing identifies a number of niche products that have significant growth prospects. A number of these products have significant backward linkages to agriculture.

The MEDS Reports on agriculture and food processing thus complement the discussion paper developed by the Western Cape Department of Agriculture (Western Cape Department of Agriculture, 2004). This discussion paper has recently been added to by a report prepared by the Provincial Development Council (PDC, 2005). In terms of the broad design of the overall strategy for agriculture and its linkage with the MEDS, it may be useful to stress a few key elements.

Agriculture in the Western Cape is characterised by a very considerable diversity of crops and livestock production. At the same time, many rural areas of the Province are dependent on and suited to only a single or a very narrow range of agricultural activities. Thus, even if the returns to many agricultural activities decline, these activities are likely to persist and continue being the economic mainstay of the particular rural area. The corollary of this is that support for agriculture should continue to be broad based, i.e. encompassing support for all of the principal activities.

However, different agricultural activities are characterised by vastly different opportunities. This differential in opportunities has been considerably exacerbated by the increasing internationalisation of agricultural trade. While, in the main, agricultural trade is growing much less rapidly than trade in manufactures and services, there are a number of agricultural commodities where growth in global trade has been very significant. Export opportunities will clearly be enhanced if further rounds of multilateral trade agreements liberalise agricultural trade. As the MEDS researchers identified, ". . . the Western Cape has an exceptional set of niche and potentially high value products that are well suited to the consumption preferences of the wealthy across the world." These products include rooibos tea, buchu and other fynbos products. In order to fully exploit this potential, policy and resources will need to be deployed. In broad terms, the returns to the investment of both private and public resources are likely to be far higher with regard to these activities. In brief, these activities will merit special and enhanced support.
Thus, policy to support agriculture in the Province will necessarily be simultaneously broad based, providing support to all activities and giving special attention and concentrating resources in those activities that have been identified as having particular potential, more especially in global markets.

An important feature of the global market for agricultural products and more especially for niche products is the high returns on customer focus and quality. Over a wide range of products, such as tea, coffee and fruit, commodity prices have been on a broad downward trend and have been more volatile whereas 'higher-end' quality products have enjoyed both higher and less volatile prices. Ensuring quality and, just as significantly, consistency of quality require that, in addition to the investments in agricultural production, there be complementary investments in a range of activities designed to ensure that a consistently high-quality product is delivered to the consumer. Thus, in order to be effective, agricultural policies will need a range of complementary policies in other domains – particularly in transport and logistics.

The output and employment gains from expanding agricultural output are very significantly extended if this can be accompanied by enhanced backward and especially forward linkages. A number of agricultural products provide significant possibilities for further processing and the production of downstream products – medicinal products from fynbos for example. However, mere access to the raw material is unlikely to be sufficient to ensure further processing and the production of downstream products, more particularly where there are global restrictions and tariffs on trading these products in global markets.

Providing the right framework and incentives and securing market access, so as to encourage further processing and downstream activities, is clearly an area for trade and industrial policies that serves to complement agricultural policies. The departments of agriculture and economic development will need to coordinate their activities, particularly in regard to the further development of agricultural commodities that have considerable potential in global markets.

The food processing report particularly identifies six sub-sectors with substantial prospects for development and warranting government support. A number of these have significant backward linkages to local agriculture – cheeses and yoghurts and vegetable

and speciality oils in particular. Success will be dependent in no small part on effective backward linkages – high quality and reliable input supply. Of particular importance will be support to establish necessary certification and certification also has implications for suppliers. Effective policies will require coordinated effort between the departments of economic development and agriculture.

Finally, successful agricultural development in any particular area will spur other activities through providing enhanced market demand and incomes. At the same time, successful agricultural development itself depends, in important part, on the co-existence of other economic activities. The volatility of farming and the large gap between expenditure and return make sources of off-farm income integral to the success of the farming activity itself. Globally, there is a pronounced trend to agriculturalists being increasingly reliant on sources of off-farm income. This is true even of larger well-established farmers – but is particularly the case for the smaller less capitalised farmers. Thus, agricultural policy will need to be complementary to and complemented by policies to secure broader development in the area – more particularly in the context where the PGWC seeks to encourage new emergent farmers. In brief, agricultural policies to support agricultural activities should be conceived of as an integral part of broader policies for the designated region or area. Of particular importance in the Western Cape will be policies designed to enhance the development of tourism in the area.

The Report of the Provincial Development Council (PDC, 2005) took a functional rather than a sectoral approach to agriculture. While the diversified spread of different agricultural products is outlined, the approach taken was to "address the intertwined generic challenges" (PDC, 2005:21) that face the agricultural sector as a whole. Thus eight thematic areas were identified: Competitiveness of agriculture, marketing, market development and market access, land reform and Agri-BEE human resource development and social development research and development extension services and farmer support environment, food safety and security institutional development and physical infrastructure. (PDC, 2005:21)

"Inclusive, broad-based, equitable, strategic interventions" were developed for each thematic area. Each thematic area is explored through a particular "grid." Key issues are identified; a SWOT analysis undertaken and key indicators and means of verification derived.

The strategy is designed to support existing activities, but also to explore and support new activities. Thus, under the broad rubric of the thematic area Research and Development, particular consideration is given to Innovation, New Opportunities and Industries. The key performance indicator here is "At least 5 new crops investigated for potential and setting up of research groups to focus on exploitation." (PDC, 2005:53). As in the MEDS, the agriculture strategy therefore, seeks to both support existing agricultural commodities and to identify new commodities for particular attention.

The Social Capital Formation Strategy (SCFS)

There is increasing recognition in the literature of the importance of social capital in aiding the processes of economic advance. Apart from generally limiting conflict and social instability, there are a number of ways in which the development of social capital can enhance economic performance – enabling collective action; promoting trust so as to reduce the costs of economic transaction and the degree of risk; and facilitating networks that share knowledge and information (PG, 2005:24).

Many measures for social capital have been proposed – they range from participation in the political processes to the extent of voluntary groups and organisations. In the economic sphere the most widely utilised indices relate to criminal activity. Crime impacts adversely on both current operations and business investment and can be considered as an inverse proxy for social capital.

The adverse effects of crime on business operations and investment arise as a consequence of three factors – the direct loss through criminal activity; expenditures undertaken in order to prevent crime; and extra-legal expenditures undertaken to secure a service or to secure protection (corruption). These are all measurable magnitudes. Moreover, crime is frequently cited by businesses, particularly in developing countries, as a major factor adversely affecting operations and investment. Thus, crime is a very useful inverse proxy for social capital because, unlike many other proxies for the impact of social capital in the economic sphere, it is measurable. Moreover, from the perspective of business and the economy, it is itself the major mechanism through which social capital (or the lack of it) has an impact.

In South Africa, a recent survey showed that 30% of firms cite crime as a major or severe obstacle to doing business – lower than in Latin America, but higher than

in most other middle-income comparator countries. (Data is drawn here from a yet unpublished survey of the investment climate conducted by the World Bank for the Department of Trade and Industry).[3]

Crime and security considerations are one of the four major constraints on business. At the median, for South African firms, the costs associated with crime and security is 1.1% of sales (3% of value added; 5% of labour costs) and at the 75% percentile, 3% of sales. While lower than Latin American countries, it is higher than in other developing countries. In Cape Town, 29% of firms cite crime and security as a major or severe obstacle to doing business. Losses associated with crime and security tend to be higher than for the other major metropoles, with particularly heavy losses amongst the 75% quartile amongst SMEs (5% of sales) and large firms (4% of sales). Indications are that crime impacts on more businesses in the Western Cape than in any of the other metropoles. Thus "Controlling for size, ownership and losses and costs associated with crime, firms in Cape Town are more likely to suffer any losses from crime…" (Clarke et al, 2005:95-96).

More broadly considered, crime rates in the Western Cape are extremely high. The murder rate is the worst of all of the provinces; residential burglaries are almost twice the national average and reported child abuse is more than twice the national average[4] - 58.6 per 100,000, more than 25% higher than the national average of 46.8% (Financial Mail, 2006:39)

The most critical input that the Social Capital Formation Strategy in the Western Cape can make to economic development would be to reduce the costs that crime and security impose on business. This is measurable and a clear baseline that allows for comparison between Cape Town and other metropolitan areas, and comparisons outside of South Africa. From an economic perspective, changes in the costs of crime and security would be an important indication of the contribution of the Social Capital Formation Strategy to economic development.

In terms of the contribution of the economy to social capital formation, a well-functioning and growing economy is clearly a significant positive spur providing growing opport unities and enhancing 'the stake' that people feel in the system. The more wide spread and inclusive the economic opportunities, the greater the positive impacts on social capital.

[3]The sample was 800 firms – 600 in manufacturing and 100 in each of trade and construction – drawn from the metropoles of Cape Town, Durban, Johannesburg and Cape Town.

[4]Data cited in Provincial Treasury, 2005:256

Policies designed to enhance economic activity can have a further direct impact on social capital formation. The industrial policy literature draws attention to the significance of sector-wide organisations as an important factor in securing policy cohesion and success. Such sector-wide bodies play a significant role – in securing policy buy-in from business and in the design and implementation of policies. This is reflected in a number of the MEDS reports. Where such regionally representative organisations exist and have competency and legitimacy, government policy will often look to such associations to take initiatives that it would then facilitate and (generally partially) fund. Where such organisation is incomplete or lacking in representivity, government may seek to facilitate and enhance its development. Thus, economic policy and the MEDS, in particular, have a further direct role to play in facilitating the development of social capital in the business sphere.

The Human Capital Development Strategy

Human resources make a major and increasing contribution to economic development. Studies at firm, regional and country levels locate the existence of a competitive position in the skills and aptitudes of the workforce. Growth theory has identified innovation as the key long-term driver of growth with human resource development, notably high-level order skills, as a key underlying factor in innovation.

As the MEDS report on human resource development stresses, there is accumulating evidence that higher education institutions play a critical role in the development of regional systems of innovation (for more on this, see Chapter 2). Amongst the policies that the report advances are a number of proposals to strengthen the institutional arrangements and networks between tertiary education and business in the area of innovation.

In South Africa technological change rather than additions to labour or capital has become the main driver of economic growth. In respect of the South African manufacturing industry, the evidence suggests that what is critical to productivity growth is not the magnitude of human capital i.e. total education output per se, but rather the quality of human capital. Proxies for quality are mathematics and science output.[5]

Employment is increasingly skills intensive – and this is true across the different sectors. "While the data sources tend to be contradictory, it appears that employment growth in the Western Cape occurred in the fast-growing and more skills-intensive service industries

[5]". . . only very specific types of investment in human capital contribute positively to productivity growth. The proportion of grade 12 students taking mathematics, and the proportion of degrees in the natural, engineering and mathematical sciences (NES) are the only two human capital variables that provide positive and significant contribution to productivity growth in South African manufacturing industry over the 1970-1997 period." (Fedderke, 2005:32)

and niche manufacturing sectors. The Western Cape shares the national trend of skills-biased employment creation. Even in the unskilled areas, the share of unskilled workers has tended to decline." (Western Cape Provincial Treasury, 2005:80). In a recent World Bank survey, the shortage of skills was identified by firms as the single most significant constraint on business operations and investment. Finally, as the Human Capital Development Strategy notes, unemployment rates in the Western Cape are far lower for those with tertiary education in comparison with other education levels - 6% in 2002, whereas the unemployment rate ranges from 19-30% for all other education levels. Moreover, in contrast with all the other education levels, unemployment amongst those with tertiary education has declined since 1995 (Education Department, Western Cape 2004:Table 4).[6] Between 2000 and 2003, two-thirds of the jobs created accrued to those with a grade 12 certificate or higher (Treasury Department, Western Cape 2005:160). For all of these reasons, skills provision is central to further economic development.

Of particular importance are mathematical and scientific skills. The Human Capital Development Strategy recognises this: "… [the strategy] must of necessity focus much of its delivery strategy on widening the base of learners who take maths, science and technology (MST) throughout their school careers, and simultaneously to improve dramatically the performance and achievements of learners in these subject areas."

In addition to high level and particular subject skills, the quality of education for the overall populace is critical. There is considerable debate as to the extent of the skills shortages for high-level skills and concomitantly as to whether the provision of high-level skills should be prioritised. The view of the HSRC responsible for the MEDS report on Human Resource Development is that that the Western Cape, and South Africa en toto, should adopt a multi-faceted approach directed at the full spectrum of skills levels.[7] The Human Capital Development Strategy accords with this approach laying stress on general education. "The primary emphasis of the vision is on high quality general education and training as the foundation of human resource development."

The MEDS report on Human Resource Development accords with the thrust of the Human Capital Development Strategy in identifying the urgent need to improve the completion and retention rates in the public schools, particularly on the part of the historically disadvantaged groups; enhancing the general levels of education and particularly ensuring better performance in mathematics and related subjects (and language).

Education also has a critical role to play in fostering entrepreneurship. In South Africa, lack of appropriate education is a major factor retarding the development of entrepreneurship (UCT, Graduate School of Business, 2004). The MEDS research report on SMMEs was explicit in the need for further enhancing efforts in respect of entrepreneurship and SMME-focused education and training.[8] The Human Capital Development Strategy recognises "…the need to encourage individuals to establish small businesses and raise the rate of participation in the SMME sector. The Province's HRD strategy is critical in this regard, aiming to foster entrepreneurial talents and equip individuals to identify opportunities" (Department of Education, Western Cape, 2004).

Close monitoring of developments in the different sectors and assessment of likely future employment trajectories are important sources for indicating future person power needs allowing for provision to be made for education and training. The MEDS researcher projects have identified a number of areas where there is a need for skills and where education and training is likely to fall significantly short of future demand. This will need to be a continuing and ongoing process. This linkage is explicitly recognised in the Human Capital Development Strategy. [9]

In a number of important areas, given current high levels of economic activity, skills shortages constitute the major constraint on output and employment growth – construction in particular. With high rates of economic growth forecast, it is clear that skills shortages are likely to grow. In a very large number of areas, researchers reported that the gap between the demand for skills and supply was rising and reported business concerns regarding the functioning of the training system. Training is not an issue that falls within the scope of the HCDS and we address the issue of training later.

The Strategic Infrastructure Plan (SIP)

The broad goal of the SIP is to ". . . provide the planning framework within which the physical infrastructure that supports growth, labour market participation and general well-being in the Western Cape, is … provided in the Province." To this end five objectives are identified:

[6]Other data suggest that while unemployment levels are considerably lower amongst those with tertiary education, in the period 2000-2003, the unemployment rate for those with tertiary education increased – from 4.3% to 7.3%(The Treasury Department, Western Cape (2005):163).

[7]While favouring a broad approach, the HSRC report for the MEDS lays particular stress on the development of intermediate skills – skills that require post-matric training but that are not as extensive as tertiary-level qualifications

[8]"Facilities offering SMME-related and entrepreneurship-focused training have expanded in the Western Cape, but there is still a vast need for more programmes: Programmes for more focused trainee groups and better designed and internship-linked programmes, both at school, in the field of FET and at higher education levels. Besides, there is the urgent need to develop sector-focused or "tailored" entrepreneurship training programmes." (MEDS Report, Oversight Committee Synopsis of the SMME Report).

[9]"The Department (of Economic Development and Tourism) can assist the HCDS greatly through providing accurate and up to date data on emerging trends and opportunities for economic growth, especially with the Micro-economic Development Strategy. . . " (Department of Education, 2004).

- To improve the coordination and targeting of public sector infrastructure investment.
- To ensure that areas of economic and social potential, which are being hampered by the lack of effective and efficient infrastructure, are noted and realistically located within a specific plan with timeframes and budgets to realise their true potential.
- To reach consensus on the policy framework, principles and priorities which underpin government and other public spending in the Province.
- To develop a Total Asset Management Strategy in order to better manage the property portfolio of the PGWC.
- To leverage private sector investment.

Of particular concern to economic development and for the MEDS is the economic infrastructure. This comprises the following:

- Energy and electricity.
- Information and communication technology.
- Transport, which includes public transport, non-motorised transport, freight transport and logistics, airports, ports and roads.
- Land and property.

The design of a rational planning framework needs to incorporate and link with several features of the economy and the business landscape. What follows is a brief outline.

Efficient firms and well-designed and implemented industrial policies can both be undone if the requisite infrastructure is not in place. Indeed, we have evidence to the effect that while many South African producers are ex-factory and highly competitive, they face higher transaction and particularly logistic and transport costs. Vehicles and auto components are examples. The effective planning and provision of infrastructure is a key factor in securing the competitiveness of local businesses and of the mode of insertion of the region as a whole into the global market space.

While there is no specific data available for the Western Cape, there are clear indications that nationally, inefficiencies with regard to infrastructure serve as a major constraint on growth. While some areas are efficient and effective – notably electricity – other areas are evidently very weak. This particularly applies to transport and logistics. South Africa spends 14.7% of GDP currently on logistics and transport. “We spend more on transport than generally expected and much more than we should” (CSIR, 2004: iii). The Minister of Transport, Jeff Radebe, has stated that “. . . it was necessary to restructure the transport system generally to make sure that logistics, or the lack of it, did not act as a restraint on economic growth, employment and sustainable development” (The Star, Business Report 13/07/2004:5).

The SIP is very clear as to its chief priority. “There is a consensus on all sides that a rational, safe and effective public transport system in the greater Cape Town area is the single most urgent priority in any infrastructure plan for the province.” (Department of Public Works and Transport, 2006:15).

It is worthwhile considering this priority in the light of the MEDS research. Two particular features of the Western Cape principally retard employment and economic activity. The first is that employment growth is most difficult in respect of the semi-skilled and unskilled. The major reason for this does not lie in low levels of productivity. To the contrary, labour productivity is high – generally higher than that of our competitors, both national and global (World Ban, 2005).

The problem lies in the relatively high cost of labour. Underlying the high cost of labour are a number of structural features, but amongst the most important, is the high costs of transport and the time taken to get to work. Cost of getting to work frequently accounts for 15-20% of a worker’s wages, takes several hours and its unreliability is a major cause of absenteeism and late arrival at work. Altering residential patterns so as to locate people closer to their places of work is one important policy to address this issue (see the discussion on the Spatial Development Framework), but this is likely to be effective only in the much longer term. Improving public transport will have a much more immediate impact.

The second feature that retards economic activity is low levels of economic participation – people seeking work and engaging in informal sector activities. We do not have full information on the factors that account for this, but there is considerable prima facie evidence to suggest that transport costs and difficulties are an important underlying factor.

It is of considerable importance in this context to note some distinctive features of the Western Cape economy. Unlike any of the other provinces with a large metropole, in the Western Cape poverty is overwhelmingly concentrated in the greater Cape Town area. Indeed, much of this is concentrated – located along the N2 corridor. Simultaneously, Cape Town accounts for

near 80% of the economic activity of the Province – and its share is constantly growing. Thus, better public transport in Cape Town will benefit many of the poorest in the Province and at the same time potentially make a major contribution to growth through encouraging economic participation and employment.

The SIP acknowledges the difficulties in implementation as a consequence of the fragmentation of different decision-making bodies. "…there is consensus that implementation of earlier plans have been badly hampered, if not actually prevented, by tensions between spheres of government, including the parastatals. For this reason, it is imperative that immediate steps be taken to set up a single transport authority with the necessary power to consult and implement a public transport system for the greater Cape Town area and eventually for the province as a whole." (DPWT, 2006:15). The MEDS study of transport, which focused on the economic and business needs, reached the same conclusion. It too prioritised the urgent need to improve passenger commuter services, especially within the metropole and to ensure "the establishment of an effective Transport Authority throughout the province" (see Appendix W, Transport).

After a lengthy period where capital expenditures were very low, National Government has recently announced a major programme of infrastructural spending. This new capital expenditure will allow an opportunity for South Africa to address systemic inefficiencies. One necessary factor will be to ensure that the investment is planned and is able to identify what is optimal.

However, it is important to recognise that the effective provision and operation of infrastructure is not solely a matter for government. Businesses too have to learn to make effective use of infrastructure and to make this a critical part of their planning and operations. In particular, firms need to manage their supply chains, including the logistics and transport connections. Integrated supply chain management is becoming critical to ensuring competitiveness. While research is not extensive, the overall picture that emerges at national level is that the supply chain management of most South African companies is not very advanced (CSIR, 2005:31). There is considerable scope for improvement with the possibility of reducing logistics costs, even within the present configuration, by 15-20%. There are local examples of the re-engineering of supply chain achieving reductions in delivery costs of 26% and a reduction of average delivery times by 60% (CSIR, 2005:32). More effective supply chain management will both enhance firm and sector level efficiencies and ensure more effective usage of infrastructure on the part of businesses, thus, complementing public infrastructure provision.

Finally, the careful examination of the likely future trajectories of various sectors has an important role to play in identifying likely future infrastructural needs. Micro-economic sector studies are thus an important element in the planning of strategic infrastructure. A number of the MEDS studies have identified particular infrastructural needs and these have been 'picked up' in the strategic infrastructure plan. They include infrastructure in the following areas:

- Tourism
- The Port of Cape Town
- Ship Building
- Metals and Engineering
- Oil and Gas
- Fishing and Aquaculture
- ICT

The Provincial Spatial Development Framework (PSDF)

The PSDF is a major document with a wide range of policy recommendations. One of the most important recommendations of the PSDF is that scarce public resources should be invested where they incur the highest socio-economic returns. Thus the areas that are experiencing economic and demographic growth will be the major recipients of public resources.

Spatial development can contribute positively to economic development in a wide variety of ways. One of the major factors that limit employment growth in the Western Cape is the high cost of labour. In turn, one of the major factors underlying the high cost of labour is the costs of sustaining livelihoods. Of particular importance is the high costs and time taken by people to get to work. The costs of getting to work for many workers in Cape Town are a significant share of their wage. While definitive comparable data is lacking, it is evident that both the direct costs and the indirect costs entailed in the very lengthy travelling times are far higher in absolute terms and as a share of the wage in Cape Town than for comparable urban locations. There are two sources of these higher costs – inadequacies in public transport provision and inefficiencies in transport operations and, more significantly, the distances between residence and place of work.

A cornerstone of apartheid policy was to deliberately separate work and residence for black persons. One of the major contributions that the Spatial Development Framework can make to furthering economic development is to ensure that this legacy is overcome and that future spatial planning is, inter alia, designed to ensure that residential development and work opportunities are spatially contin gent. This is an explicit objective of the PSDF. Thus, for example, one key proposal is that 50% of the five major urban activities; public transport, residence, recreation, shopping and employment should be accessible within walking distance (1000 m) of residential dwellings.

Not only did apartheid locate the residences of black persons far from their places of work, it also located the residences of black persons far from the urban centres and other areas of commerce and trade. This separation of people from the market has further deleterious economic impacts. People located in areas where spending power and immediately accessible demand is very limited and who have to incur considerable expense and difficulty of getting to flourishing markets, are far less likely to engage in entrepreneurial informal activities. One of the major features of South Africa is the low levels of entrepreneurship in comparison with other countries. While entrepreneurship levels in the Western Cape tend to be higher than the national average, they are still low in comparison with many other developing regions.[10] A number of the PSDF proposals are designed to link large concentrations of poor people with areas of opportunity.

Perhaps the most important direct contribution that the PSDF can make to economic development is to assist in reducing the costs and time taken to get to work on the part of those in employment, and of facilitating the degree of entrepreneurial activity of those who are engaged or (potentially) could be engaged in start-up informal and formal entrepreneurial activity. [11]

Critical to any process of planned spatial development is to categorise land according to different permissible usages. From a business perspective, it is critical that sufficient suitable land is made available for business development and that the process of allocating land for business development be cost-effective and, even more importantly, speedy. Similarly, building and development restrictions and requirements should also be transparent, clearly identified with the achievement of particular objectives. The costs of such restrictions and requirements, both up-front and of implementation, should be affordable and carefully monitored. The PSDF has made a number of recommendations, e.g. for codes and standards of energy efficiency for the usage of renewable resources in all new buildings including commercial and industrial buildings. These are legitimately designed to meet objectives of resource sustainability and climate change, but their costs and affordability will need to be carefully monitored.

The PSDF makes a variety of proposals to further enhance the development of the main transport corridors as well as secondary feeder corridors. It further proposes concentrating attention on the development of areas that have high economic potential.

The PSDF aims to align future settlement patterns in the Province with the location of environmental, resources and economic opportunities. The MEDS research projects have identified a number of locations, which have a high level of development potential. They include:

- Oil and gas provision and downstream metals processing – Saldanha Bay.
- Petro-chemicals – Mossel Bay.
- Agriculture and food processing – Overberg and Eden.
- Agro-processing – George / Mossel Bay / Knysna.
- Boat-building – Cape Town.
- ICT, Call Centres and Business Process Outsourcing – Cape Town.
- Tourism – Province-wide with the PSDF identifying development of a number of scenic routes.

There is a tendency in many regions of the world for the coastal metropoles to grow far more rapidly than their hinterland. With their superior access to global markets by sea and by air, the economic dominance of the coastal metropoles is intensified as export and import trade grow more rapidly than local production. Agglomeration of economic activities, in turn, results in the metropoles being further favoured by businesses as the site for their activities.

The growth of the metropoles provides many advantages to the hinterland – especially larger markets and improved infrastructure and education. This is indeed what is occurring in the Western Cape.

The approach adopted by the MEDS therefore is that the provincial government should not attempt to dictate or prescribe where firms seek to site their operations. Such an approach

[10] Entrepreneurial activity is defined as the percentage of the economically active population that takes part in entrepreneurial activity. The Western Cape was at 9%, Gauteng was the most entrepreneurial Province with 10%, and the national average was a little over 6%. (UCT Graduate School of Business, 2003).

[11] Other proposals of the PSDF will also have a positive impact, e.g. the proposal that the complete range of socio-economic groupings within an urban settlement should be located within a 1 km radius according to a Socio-Economic Gradient will also advance potential market access and should therefore further encourage entrepreneurial activities.

would undermine competitiveness and is, in any case, very unlikely to be effective. Moreover, agglomeration of activities in particular locations, in this case likely to be in the Cape Town metropole, also has "spread effects" and advantages for other regions.

3.2.2 Measuring and Evaluating the Linkages between the MEDS and Other Provincial Strategies

Having identified the contributions that each of the strategies could potentially make to economic development and the MEDS, this section proposes how such contributions might actually be measured and assessed. What are the measures that we might use in order to assess the contributions of each of the strategies to economic development and the MEDS?

It is important to stress that each of the strategies is designed to achieve a wide range of objectives in the social, political and environmental spheres. Thus, each strategy will have a number of indices of performance. What is outlined here has bearing only on the contributions in the broad economic sphere. To this end a few possible Key Performance Indicators (KPIs) in relation to economic development are derived for each of the strategies. The KPIs appropriate to the MEDS and the monitoring and evaluation in regard to the MEDS itself, is the subject of Chapter 7.

Before commencing it is important to stress that our approach to KPIs is that they should be:

- Parsimonious – A large number of PIs results in confusion and too broad a focus.
- Measurable – Generally requires measurements that can be quantified and are inherently more likely to be objective.
- Comparative – The key is to be able to compare over time (is the situation improving?) and between countries / regions (is the situation in the Western Cape improving relative to other provinces in South Africa / other regions?).
- Comprehensible – Indicators are a guide to action and as such they need to be easy to understand and to relate directly to the activities involved.

The Agriculture Strategy

Agriculture is an economic activity. As with the MEDS, the Agriculture Strategy will necessarily employ a number of economic performance measures reflecting the output and equity goals of the Province.

From an industrial perspective, the forward linkages of agricultural production are particularly critical. Downstream processing creates significant employment and earning possibilities. This is particularly critical in respect of export products.[12] One way of assessing this would be to measure local or domestic activity as a share of the final consumer price. An increase in the domestic share of the price paid by the final consumer would indicate a higher proportion of the returns being received by locally based activities.

It was argued earlier that support for agricultural activities should be conceived of as an integral part of the broader policies for the designated region or area. Agricultural activities should spur other business activities in the area. Measures are needed that highlight the contribution of enhanced agricultural activities on broader business development in the designated area. One way of assessing this is to derive an agricultural multiplier for each designated area. The multiplier would be a ratio of any increase or decrease in agricultural output and employment and any increase or decrease in output and employment for the area. All things being equal, a higher ratio would indicate a greater impact of agriculture on the economic development of the area.

The Social Capital Formation Strategy

It was earlier argued that crime is a major factor cited by business as a critical constraint. The number and percentage of firms identifying crime as a key constraint can be assessed. In addition, the overall impact of crime on business and its different component parts (business losses through crime; business expenditures on crime prevention and extra-legal business payments to secure protection or services) are all measurable magnitudes. Finally, comparative data for other countries and regions exists.[13]

The Social Capital Formation Strategy does not define any firm indicators that can be utilised for evaluative purposes. The report states: "More research is required on indicator development." (PG, 2005:59). In terms of the contribution to economic

[12] Fruit, wine, fish and iron and steel – all raw materials – make up 54% of the exports of the Western Cape. All have considerable downstream activity potential.

[13] This is possible through the Investment Climate Surveys (ICS) that the World Bank conducts in a wide range of countries. An ICS for South Africa has recently been completed.

development of social development, two measures would be useful: the number of firms citing crime as a key constraint to investment and doing business, and the costs associated with crime and security as a share of firm turnover.

The World Bank Investment Climate Survey which collects this data is due to be repeated in 2007. It will therefore be easy and costless to obtain the data and draw comparisons with the situation prevailing at the time of the last survey viz. 2004.

The Human Capital Development Strategy

As outlined above, human capital formation impacts upon economic development through a number of different channels. It is possible to identify KPIs that relate to each of these channels.

A good proxy for the general impact on businesses could be the education of the labour force – an increase in the number of years of schooling and training would be expected to impact positively on productivity.[14] Of particular importance would be education and training of the labour force in particular subjects – notably maths and sciences.

The supply of skills is readily available – a particular focus would be on mathematical and science graduates at all levels of the system. Skills shortages can be measured across the spectrum of skills. Vacancy rates and the amount of time taken by firms to fill vacancies are good proxies.

The absolute and relative amount of innovation activity conducted in the Province will provide a good indication of the contribution made to economic development and the linkages between business and the tertiary educational institutions. The number of persons engaged in R&D as a share of the working population is a further index.[15] Further indices of our capacity to engage effectively in the knowledge economy are developed in Chapter 7.

With regard to entrepreneurship, the education and training of those engaged in entrepreneurship, especially start-up firms, could be gauged.

[14]The number of years of education of the labour force can be compared across different countries. The recent World Bank Investment Climate Survey shows that the South African labour force performs well as against other comparable countries.

[15]This data is readily and regularly available through the Department of Science and Technology. R&D and Innovation Surveys protocols ensure that the data derived is internationally comparable.

The Strategic Infrastructure Plan (SIP)

The SIP is a planning framework rather than a broad strategy.[16] As such, the relevant KPIs for the SIP relate to the effectiveness of the planning framework in correctly assessing infrastructure needs and implementation rather than the contribution of infrastructure to economic development. The MEDS process has identified a number of key infrastructural needs. From the MEDS perspective, the effective provision of this infrastructure needs to be monitored and evaluated.

The Provincial Spatial Development Framework (PSDF)

The PSDF sees the critical need to assess economic impact. Indeed, it sees insufficient understanding of economic growth and employment needs and dynamics as one of the key areas of risk in implementation. It accordingly calls for the PSDF to rigorously address the evaluation of economic growth and employment creation in the evaluation of projects and to commission more research particularly in relation to "out-of-town" development projects (CNDV Africa, 2005:3-2). However, no specific KPIs are derived.

As outlined earlier, the PSDF has a significant role in reducing the time and expense incurred by workers getting to work. The first KPI could be a measure of this magnitude – namely the time and costs of workers in commuting to work.

The PSDF also has an important role in securing access,, particularly of poor people to areas of market. In so far as the PSDF is successful in this regard, this should be reflected in higher levels of entrepreneurship and engagement in the economy. A second KPI could measure this magnitude – namely levels of entrepreneurship and economic engagement, particularly on the part of poorer communities. Over time, increasing economic participation rates in a particular area would be a strong indicator of a successful PSDF.

Both measures could be done for particular areas or for the Province as a whole. A further KPI would be a measurement of the time and expense in acquiring planning permission to establish a business. Monitoring and evaluation would assess this and see how it varies within the Province and between the Province and elsewhere in the country, and by comparison with other countries. Reductions would be one indicator that the PSDF is having the desired economic impact.

[16]The goal of the SIP is to ". . . provide the planning framework within which the physical infrastructure that supports growth, labour market participation and general well-being in the Western Cape, is to be provided in the Province."