

# [Chapter Four]

EVALUATION OF THE MEDS RESEARCH



**This Chapter begins by outlining the research process. One important role of each member of the OC was to engage with the researchers and their government counterparts and to make their own assessments of their researchers' work, particularly as regards to the policy proposals advanced. The OC summary assessments of all of the research reports are provided here.**

### 4.1 The Research Process

The MEDS process engaged a number of researchers who possessed skills and knowledge of their particular sectors. Within a very limited timeframe, the researchers were asked to review the state of their sector or crosscutting theme, examine current policies and make proposals for future policy. With regard to the latter, researchers were encouraged to think broadly and to outline policies that could be implemented by the PGWC, and how the PGWC might engage with national policy. The researchers were particularly asked to 'think outside the box', and to propose new policy directions where appropriate. Researchers were asked to address the question of whether there is evidence to suggest that there is substantial growth and employment potential in the sector and, if so, how the Western Cape could exploit this potential.

Researchers were also asked to prioritise different proposals made and, where possible, to provide more specifics, including broad costing. They were, however, not expected to detail design or implementation of policies. As a result, while there is considerable variation in the detail provided, the proposals made by the researchers are usually cast in fairly general terms. Detailed policy design, including costing and implementation plans, will require considerable additional work to be undertaken by and in close interaction with the relevant departments.

During the research phase, the teams were encouraged to interact with industry stakeholders, relevant provincial government officials, and members of the scientific community. Notwithstanding these interactions, the proposals cannot be viewed as 'consensus statements', but rather as suggestions needing further refinement.

In its evaluation of the sector and theme reports, the Oversight Committee (termed the Scientific Committee during the first phase of the MEDS) respectively

interrogated the analytical quality of the conclusions and recommendations of the different sector reports. More specifically, the following questions were addressed:

- Are the conclusions and recommendations of each report borne out by the analysis?
- Taking this into account, do the reports justify that the sectors they cover be prioritised?

On this basis, the Oversight Committee formed an assessment of the quality of the submitted research and then reconciled it to translate the research findings into select sector policy support in the larger context of the MEDS. For both of these reasons, the Oversight Committee occasionally differed with the findings by the research teams. Chapter 5 introduces our prioritisation.



### 4.2 Agriculture

Western Cape agriculture has been well researched over the past decades, with Elsenburg College (closely linked to the University of Stellenbosch) as the central player. The sector report, prepared by the research team, covers the full spectrum of the industry, its macro-data and trends, as well as its many sub-sectors and product niches. This also includes problems confronting the industry, bottlenecks, global competition challenges, transformation issues and future prospects.

Probably because of their intimate research involvement in all the dimensions of the industry, the team did not put forward a limited number of (prioritised) proposals for additional intervention by the PGWC. It did, however, present (in its second and third reports) a list of possible actions to address a wide range of development obstacles and challenges. Existing close interaction between professionals in the Provincial Department of Agriculture and the research team members should make such a sifting quite feasible.

Western Cape agriculture is a generally successful sector. It is also a pillar of the provincial economy. Well diversified across a wide range of product categories, some of them highly niched, agriculture has up until 2002 benefited from the weakening of the rand and a variety of institutional and other factors, which have been profitably exploited by domestic and foreign investors. Growth in exports has been an especially prominent element in the success story, as has the association with tourism.

At the same time, the sector faces huge challenges of land reform and transformation more generally, as well as rising competition for access to water, for which the long-term solutions will be costly. Internationally, the challenge is about competitiveness in markets where there is increased and increasing pressure from alternative suppliers, most of them from the southern hemisphere. This competition has been aggravated by the dramatic strengthening of the rand, which has eroded many of the pre-2003 windfalls of the weak rand. There is at the same time the possibility of liberalisation in the international trading regime for processed agricultural products, in which case the Western Cape stands to gain from its highly competitive capability in such products as canned fruit.

#### 4.2.1 Proposed Policy Interventions

The researchers have given little guidance as to more detailed policy interventions that, going beyond what is already being done by the PGWC and other players both public and private, could fruitfully be incorporated in the MEDS. However, there are a number of broad areas where the PGWC could advance the Province's economic interests in this sector, and drawing liberally on the work of the researchers, the following specific types of initiatives are forwarded by the Scientific Committee:

- With respect to the international trading regime, the prospect of liberalisation extending to various categories of agricultural products, including some in which the Western Cape has a dominant position, is potentially of far-reaching significance. There is a role for the PGWC in supporting National Government in the ensuing trade negotiations, both bi- and especially multi-lateral, and the PGWC is urged to position itself to be able to participate effectively.
- The PGWC could in two ways contribute to the accelerated implementation of the national land-reform programmes. Firstly, (while the numbers are small) there are successful projects that have been executed in the Province. The PGWC could have these case studies written up and disseminated in order to encourage others to follow suit. Secondly, it has become clear that transfer of land is but a small part of the challenge for achievement of meaningful redistribution and the creation of fresh productive capacity. Substantial support and advisory services, as well as access to working capital, are essential if this challenge is to be successfully overcome. There could well be a role for the PGWC in meeting these needs.

- The importance of the agricultural sector to the balanced, spatial development of the Western Cape economy is noted. The state of the sector crucially impacts on the viability of small towns and rural settlements, as do other developments in the agro- and eco-tourism fields. Here again the PGWC may have to play a more proactive role in enhancing the viability of the small towns and in promoting linkages with local agriculture, given the wide-spread lack of capacity at local government level.
- In rooibos tea, buchu and other fynbos products 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 throughout the world. The challenge is how to grow production while controlling quality and also managing the supply chain so as to give attractive returns to the producers. Given that some of the producers are from poor communities in remote and disadvantaged locations, and that knowledge about the science and technology of the crops is still limited, this is indeed a huge challenge. However, the benefits in terms of community development, employment, output and exports are potentially sizeable, and for all the complexity the challenge is *prima facie* worthwhile. The PGWC should proactively support such a move, leaving the implementation to an evolving Public-Private Partnership (PPP) constellation.
- On a different level, there may be grounds for deepening and broadening the growth and developmental capacity of already well-established sub-sectors. A number of candidates come to mind, such as the wine industry and associated educational, research and tourist activities. The opportunity for development is to build in the Western Cape a cluster of world-class and internationally recognised activities, which underpin continuing innovation (in terms of product, process and policy) in the chosen sub-sector. Once again, the PGWC should support and, where possible, facilitate such an initiative, with the actual involvement of different stakeholders channelled through a Public-Private Partnership (PPP).

#### 4.2.2 Institutional Development and Support

Over the last century the institutional capacity to service the agriculture sector (in research, training, extension and the like) grew impressively, both nationally and in the Western Cape. With the need for wide-spread transformation, these institutions must themselves transform in order to ensure that they are credible and effective in serving the needs of new categories of clients. The PGWC also has a role in facilitating these processes.

### 4.3 Fishing and Aquaculture

South Africa's fishing industry is controlled by National Government's Department of Environmental Affairs and Tourism (DEAT), with the Chief-Directorate for Marine and Coastal Management (MCM) headquartered in Cape Town. As approximately 90% of the South African fishing industry's value added originates in the Western Cape, the PGWC's concerns are almost identical with those of the industry.

The basic facts and trends of the industry are comprehensively covered in the sector report prepared by the research team, with supplementary reports covering key policy issues and a listing of areas needing attention by the relevant stakeholders.

South Africa has a well-established fishing industry, which compares well with the best in the world. The Western Cape accounts for 73% of South African fish exports, and in 2003 fish was the third-highest Western Cape export category, after fruit and wine, accounting for some 10% of products exported from the Province. The major challenge facing the industry is to ensure the sustainable use of marine resources in the face of increased demand at both regional level and internationally. Generally, both provincial and national governments are doing well in this regard, given the industry's established base of scientific research and monitoring capacities.

Despite these achievements at macro-level, the PGWC needs to address prevailing inequalities in livelihoods manifesting fishing SMMs and in the fishing villages. Although significant progress has been made during the past decade in the transformation of the fishing industry (primarily the result of a change in number and size of fishing rights allocated), there is room for improvement in, inter alia, employment, earnings, skills distribution and livelihoods – especially among the previously disadvantaged communities.

The researchers advanced a number of strategies and policy levers for the constraints raised with respect to fishing and aquaculture. Out of these, four major interventions deserve particular attention by the PGWC. These are discussed at greater length below.

#### 4.3.1 Planning and implementing a business-development support programme for small commercial fishing enterprises

Although elements of such a programme are currently in operation, it needs more refinement and needs to target fishing villages. The programme would aim to empower small operators in the fishing industry through extending business-development-

support services that will enhance their commercial viability and business orientation and, thus, contribute to economic growth, poverty alleviation and job creation. The programme should also specifically address the needs of 'women in fishing', a dimension hitherto largely neglected. Ideally, the programme should be widely marketed and developed into a fishing-extension service offered in collaboration with large fishing companies.

Such a multi-dimensional business-support programme should also address the scope for greater value-adding processing at the level of small fishing villages. Other dimensions, for example, village tourism, should also be added, in order to counter seasonality factors in the fishing industry. In fact, the PGWC should assist local authorities where the latter lack the capacity and funds for proactive support.

#### 4.3.2 Strengthening mari- and aquaculture projects

Many of the opportunities in these spheres do not get off the ground due to substantial capital requirements and the lack of sufficient local capacities to implement projects. Support from the PGWC to identify most suitable sites and help with the mobilisation of skills, capital and management could help to activate villages and fishing communities in otherwise remote areas.

These efforts might be further strengthened through an expansion of aquaculture research capacities in the Western Cape. Ideally, PGWC co-financing could facilitate this process.

#### 4.3.3 Upgrading small fishing harbours

A number of smaller fishing harbours along the Western Cape coast, which fulfil an important role for local fishing communities, are urgently in need of upgrading. Efforts by the MCM during 2003/04 and earlier have so far not progressed much. Since these projects require close cooperation between the MCM, local authorities and the private sector facilitative support by the PGWC could be invaluable.

#### 4.3.4 Improving the (urban) infrastructure of fishing villages

The fishing villages all belong to some larger, integrated municipality for whom the small villages and their particular infrastructure needs is often a burden with little political muscle to mobilise the necessary capital. Support from the PGWC through some special funding packages, possibly negotiated with the DBSA, DEAT or other capital funders could break the logjam.



#### 4.3.5 Institutional development and support

It can be argued that sustained efforts to address the issues mentioned above need some institutional strengthening at regional level. In the past, the Fisheries Development Corporation served as a base for many efforts along these lines, but the corporation has been dissolved without a replacement.

It is suggested that the PGWC takes the lead in exploring institutional (PPP) options for an effective vehicle to address these development needs of local fishing communities. Naturally, these efforts should include aspects like the promotion of local ship-repair facilities, SETA-funded learnerships, and other efforts to broaden the economic base of these villages.

#### 4.4 Clothing and Textiles

The Western Cape clothing and textiles sector has been intensively researched during the past decade, with the research results widely discussed among leading producers, sector associations and government officials at national, provincial and local levels. During these years, the international scene has changed fundamentally, as have South Africa's industry responses.

Compared to the other provinces, the Western Cape's clothing and textiles sector has a solid foundation, with declines in employment significantly lower than the country as a whole (including other key provinces like Gauteng and KwaZulu-Natal).

The research team has presented a comprehensive report about past development trends of the Western Cape industry, viewed in a national and an international context. This includes a SWOT analysis and detailed proposals for a range of potential interventions by the PGWC.

Against this background, the following sub-section outlines comments and makes proposals to address the challenges that lie ahead.

##### 4.4.1 Sector cluster support

In the context of a significant increase in trade liberalisation, a major thrust of policy must be to encourage and facilitate existing producers to become more efficient. This is the best way of preserving as many of the existing jobs as possible. Such a strategy has to enhance interfirm and intrafirm efficiencies, extending into more efficient management of the entire

pipeline. The researchers have recommended the "...building of learning networks and clusters that can assist enterprises upgrade so as to meet the requirements set by demanding global and domestic value chains". Institutional mechanisms are already in place for the development of a viable cluster programme; in fact, such a programme is about to commence. However, absolutely critical will be the incorporation of smaller firms, and particularly CMT operators, into this programme.

The first recommendation is that the PGWC should support a sector-cluster programme that seeks to enhance interfirm and intrafirm efficiencies and provides incentives for smaller firms, including CMTs, to engage. This support should be given for a limited period (perhaps three years), with the programme assessed and evaluated against efficiency and productivity measures for the industry as a whole and for the participating firms.

##### 4.4.2 Repositioning the industry

A second thrust should rest on the recognition that the Western Cape's clothing industry needs to go beyond productivity improvements if it is to survive in the longer term. The purpose of the proposed policy is to facilitate the emergence of something new and innovative, i.e. to reposition the industry. A variety of ideas have been put forward as to what this repositioning should comprise, including shifts in design and marketing, and (as another possibility) acting as a broker for production undertaken in low-cost SADC countries. These thoughts are neither entirely new nor are they without parallels internationally. The crux will be a systematic concerted initiative on a PPP basis.

A weakness for steps in that direction is the paucity of high-level, internationally orientated courses available locally to the industry on design, marketing, technology and management. While the larger firms can access such courses wherever they are offered, this does not apply to the large number of SMEs in the sector. It is certain that long-term survival and prosperity of the sector will depend on the calibre of its leadership. There is a critical need, at the level of each enterprise, to deepen and broaden the understanding of world markets and trends, and to sharpen appreciation of what makes for a successful firm in these competitive and fast-changing circumstances.

Against this background, the PGWC should facilitate and partially fund the provision, via a competitive process, of postgraduate courses and research programmes by one or a consortium of local higher-education institutions. This should be done in partnership with industry and, possibly, partners at leading institutions offshore. A successful

project might lead to the establishment of a fully-fledged academic centre on clothing and textiles, thereby replacing past efforts that had a limited impact.

The second recommendation is that the PGWC supports a centre for the clothing industry, undertaking training and research, and focusing on marketing, merchandising and design. This centre should be located at a local tertiary education institution, with financial support limited (initially) to about three years.

#### 4.4.3 National Government action

The following initiatives, which should originate at National Government level, have the potential to significantly impact on the industry and to have a particular resonance for the industry in the Western Cape:

- Better access to material: Clothing exporters are still constrained by limited access to requisite textile fabrics. One step to counter this would be a reduction in duties on fabrics, particularly where local production is limited. The second is to gain one-stage conversion entry into the US market through trade negotiations. This would be particularly beneficial to the Western Cape with its heavy preponderance of clothing manufacturing.
- Modification of the Duty Credit Certificate Scheme (DCCS): These 'credits' are earned by exporters and can be offset against importation. Currently, much of the DCCSs are sold to importers at a discount. This encourages imports and works against local producers. Given the strong orientation of the industry in the Western Cape, particularly clothing to the local market, measures to ensure that less is sold to importers would be particularly advantageous to the local industry.
- Stricter enforcement of trade tariffs and duties: This should limit import penetration, and, by implication, stimulate local production.

#### 4.4.4 Other proposed interventions

The researchers suggested an 'information hub' as a way to focus market trend data and other useful information. Although it is doubtful that such a hub would be seen as valuable by market specialists, some of its roles could perhaps be pursued by the training and research centre suggested earlier.

Reference has also been made to a regional clearing house for DCCSs in order

to discourage imports that can hurt local producers. This will need further exploration to determine its viability.

Other suggestions refer to more focused assistance in the spheres of export marketing and (foreign) investment promotion, both areas where WESGRO has responsibility for action and policy innovation.

The global context for clothing and textiles will see significant changes in the very near future. Of critical importance is the ending of international quotas in 2005. This will sharpen competition in export markets for South African producers, bearing in mind that a high share of South African clothing is exported into areas that have hitherto been quota constrained. It will also, and this is of particular concern to the Western Cape's clothing producers who tend to rely more heavily on the local market, sharpen competition in the domestic market. In this regard, apart from the growth of 'legitimate' trade, we can expect increased importation of over-runs, seconds and the like, more particularly from the big and growing exporters such as China and India.

The precise impact and the speed of this impact will be difficult to determine. However, it will be profound and it is likely to render, at present wage and productivity levels, many local producers noncompetitive.

#### 4.5 Metals and Engineering

The research team presented a very comprehensive report covering national trends in the metals and engineering sectors, and detailed discussions of the particular segments where the Western Cape has a significant presence. The latter includes the basic metals and structural steel industry, centring around Saldanha Steel; the (potential) downstream processing of steel and engineering; the foundries; and as a distinctly separate sub-sector, ship repair, yacht building and, to a lesser extent, ship-building.

While the metals and engineering sectors have not been part of the Western Cape's historical manufacturing base (these industries have in the past been linked to mining and the northern steel industry), the Western Cape's proximity to the coast; a relatively good skills base; and the importance of Saldanha as ore-export harbour, have created a new competitive niche for these industries in the Western Cape. Yet, its success will to a large degree depend on the effectiveness of coordinated support in a whole range of areas, including technology transfer, skills development, investment incentives, etc.

Detailed proposals for the different sub-sectors are contained in the main report and will not be presented here. This section only refers to the more important proposals, centring round the steel industry, boat and yacht building, the tooling industry and ship repairs.

The central issue in the downstream metal-processing sector linked to Saldanha Steel is the domestic pricing of steel. For some time the price level has been prohibitive for virtually any local (Western Cape) processing, with pressure mounting on government to adjust the present system. While there are signs that this pressure has been fruitful, there is still need and scope for the PGWC to closely monitor these negotiations.

Once a more realistic local steel price has been achieved, the goal of a Saldanha Steel Beneficiation Cluster can start to become a reality. In this process there is, once again, scope and need for proactive involvement by the relevant provincial government departments. Much of this will have to be the reinforcement or strengthening of efforts by other bodies, like local authorities in Saldanha / Vredendal and other places in the Western Cape, education and training bodies, BEE-support agencies and small-business support programmes. Similarly, there will be a need to liaise closely with national bodies relevant for support in this field.

In the tooling industry and in foundries the Western Cape has a long history of successful small to medium-sized enterprises, well-adapted to demand niches and top-quality output. The PGWC could encourage the development of local clusters (tool-delivery networks), with shared services, local research, hand development facilities and appropriate training at tertiary institutions. This type of initiative could be an important driver for economic growth in the Province. What is more, the proposed partnership between the Western Cape region and the Piemonte region in Italy could provide an ideal opportunity for the development of a tool-delivery network in the Province. It is recommended that a Western Cape tooling initiative (in cooperation and in alignment with the National Tooling Initiative) is launched, to further strengthen the repositioning of the South African tooling industry.

The yacht-building industry of the Western Cape is generally viewed as a great success, linked to effective cooperation between the cluster firms and fortuitous circumstances (the weakening rand in particular). After the strengthening of the rand the prospects are a lot less rosy. However, some of the market share could be kept, with concerted steps, to improve productivity, use the latest technology, further strengthen the design side and conduct international marketing. Here, again, the role of the PGWC should be modest, though well planned and focused on critical cost factors (for example, international exhibitions).

The research team proposes that a dedicated research and development centre for this industry should be established in the Western Cape, with financial backing from the PGWC. Issues to be tackled relate to, inter alia, the competitive pressure of light-weight materials such as magnesium, aluminium and plastics and, additionally, the creation of more employment opportunities for lower-skilled labour in this industry. Such an initiative should link up closely with the Cape Initiative on Materials and Manufacturing. Similarly, the Western Cape-based industry has to become more closely linked to national initiatives in this sector, like the Metals Sector Summit, the National Tooling Initiative of the CSIR and the Advanced Metals Initiative.

#### 4.6 Oil and Gas

The upstream oil and gas (UOG) value chain has three distinct facets, namely production, sourcing and marketing. The Cape Oil and Gas Supply Initiative (COGSI), which was launched to promote a coordinated and competitive supply hub / cluster located in the Western Cape, is currently the only identifiable institution in the Province constituted formally to promote an UOG cluster. The basic intention was to create a forum that would pull together both public and private sector stakeholders in order to facilitate the alignment of the production, sourcing and marketing activities. COGSI specifically sees its role as promoting: the supply of services; the repairs and maintenance of offshore installations and vessels; and the fabrication of pre-assembled units.

The purpose behind the MEDS oil and gas sector report was to provide an independent assessment of these goals, drawing on what is broadly known about trends in the sector in the region (broadly defined to include foreign West Coast operations), as well as global trends in the UOG value chain. In proceeding, the researcher was tasked with answering two basic questions: a) are there substantial opportunities in terms of growth and job creation in this sector? And, b) is the PGWC well positioned to exploit any opportunities that might be revealed?

In answering the first question, the researcher argued that UOG opportunities are substantial, but that long term success is contingent on the achievement of an 8% new build fabrication market share over the next five years.

According to the commissioned research, the key challenges facing COGSI that are necessary for unlocking the potential of the sector to generate growth and employment are:

- The need for an optimally located fabrication hub supported by a dedicated South African Oil and Gas Alliance.
- The need to foster competitiveness within the hub, in terms of the production (specifically, the steel and engineering sectors) and the sourcing (i.e. transporting fabricated components from the inland to the coast and then on to the West African market).
- The need for better alignment of the regional value chain with trends in the West African UOG market in order to realise any competitive advantage.

In answering the second question, the report suggests that South Africa and more specifically the Western Cape, does not immediately offer any advantages. Import parity pricing, uncompetitive domestic logistical networks, and severe labour shortages all undermine the competitiveness of both the steel and engineering sectors. This implies that the Western Cape might have no immediate advantage from a production or sourcing perspective with regard to the West African UOG services sector.

However, through COGSI, the Western Cape has a tactical first mover advantage in spearheading the alignment of the UOG service supply value chain in relation to the West African market. How well it is positioned, the researcher argues, is debatable, since COGSI is currently a Western Cape-based cluster initiative while much of the production capacity is located elsewhere in South Africa, and the market it is trying to penetrate is located in West Africa.

The researcher therefore concludes that it is only in respect of the alignment needs that COGSI can play a meaningful role and that COGSI has little scope to organise production or sourcing. Thus, the main recommendations coming out of the commissioned report all have to do with this alignment goal. Specifically:

- 1 COGSI needs to develop a powerful, nationally identifiable brand.
- 2 COGSI should perform a benchmarking investigation, particularly of South Africa's steel and engineering sectors.
- 3 COGSI should organise a regional conference, including stakeholders from the West African market.

Our assessment of this research is that many of the observations concerning alignment are more or less useful, but that there is little basis in downplaying the potential in the production and sourcing stages of the UOG. Our suspicion is that there might be substantial potential in this sector, but the report does not give us much to go on in terms of assessing these suspicions. It would have been useful to know more about the constraints identified – import parity pricing, uncompetitive domestic logistical networks, and severe labour shortages. Knowing the true extent of these problems is the first step in addressing whether they are likely to be binding in terms of capturing a larger segment of global and regional market share of the UOG sector.

#### 4.7 Electronics

Electronics firms in the Western Cape contribute about a quarter of total sector output in the country. More than 70 firms are active in the sector of which the large majority are small and medium-sized enterprises that manufacture components. A few larger players engage in systems design and engineering. The production portfolio is rather broad and ranges from defence via telecommunications to security management.

Due to a combination of excellent engineering skills and rather high labour costs, the industry focuses on niche applications. South Africa's first satellite, produced at the University of Stellenbosch, is a high-profile example. By implication, the industry is not competitive in mass-produced parts or components. The researchers report that the evident talent for design does not always go hand in hand with the ability to bring products to market.

Further weaknesses include the distance to major markets, a lack of effective coordination within the sector, and little or no support in terms of marketing or promotion, especially abroad.

The researchers argue that while the electronics sector is unlikely to create many jobs, it has a huge potential for growth. Yet the analysis of their report does not support this contention. A number of successful niche players does in and of itself not translate into huge growth potential. Indeed, in view of the limited domestic market, it is clear that growth would have to be export driven. This, in turn, would appear a realistic option only insofar as electronics manufacturers in the Western Cape get integrated into global electronics value chains. To date, there is no evidence that this is in the offing on the scale required to have huge effects.



The researchers recommend, inter alia, that foreign multinationals be attracted to the Western Cape by means of an IDZ. They also suggest maintaining the skills base and R&D capacity. They further propose that intellectual property be more effectively protected in order to ensure that innovative companies can reap the rewards of their investments.

The case for maintaining the skills base and R&D capacity are convincing. But while there is nothing wrong with promoting inward direct investment, the proposal to set up an IDZ is not. At the very least, it would require a lot more analysis in order to justify such an ambitious initiative for a sector that is performing relatively well but whose growth prospects are not evidently above average, and that is unlikely to make a sizeable contribution to job creation.

Finally, the proper implementation of intellectual property rights protection is a national responsibility.

What the PGWC should focus on in this sector is the lack of coordination and representation within the sector. Both the sector itself and the provincial economy at large can only benefit from strengthening interfirm cooperation among electronics firms.

#### 4.8 Biotechnology

Biotechnology is one of the key technologies promoted by the South African government. The Western Cape hosts one of three regional innovation centres (BRIC) plus the Bioinformatics Network at UWC. The researchers report that there are a sizeable number of research groups in the Province. However, there are less than 20 firms with core activities in biotechnology. This suggests that incubation of start-ups and commercialisation of technologies are not strong features of biotechnology in the region. In addition, the activities of firms range from research into plant properties to life sciences, which is why the activities of the sector in the Western Cape are highly diverse. This, in turn, may make for a low degree of potential or actual spillovers.

The researchers report that although the tertiary education sector turns out qualified graduates, they often opt for employment elsewhere in view of the relatively poor remuneration in the sector. What graduates and current personnel appear to lack are commercial skills. This hinders bringing ideas out of the lab and to the market.

Despite (or perhaps because of) the small size of biotechnology activities, the researchers suggest a range of ambitious support measures the PGWC should undertake. They involve:

- the identification of economic sectors or social priorities in the Western Cape that would benefit from a vibrant biotechnology;
- the raising of funds to support a focus on provincial needs;
- the steering of research outputs toward these needs; and
- the development of measures of strategic performance of biotechnology.

Failing that, the researchers fear that biotechnology in the Province “could become to[o] nationally focused”.

Although the recommendations are relatively coherent, they largely abstract from the considerable investment National Government has been making in biotechnology, and from which the Western Cape benefits substantially, the very small current and uncertain future contribution of biotechnological activities based in the Cape to provincial growth and development objectives, the opportunity costs associated with investing in this as opposed to other sectors, and the limited capacity of the PGWC to steer, supervise, and control research agendas and outputs.

On the basis of the analytical report it would appear that biotechnology is in the aggregate not going to make much of an impact. Too few firms, too thinly spread, undercapitalised, and with trouble recruiting top-notch people hardly amounts to a comparative advantage, regardless of whether one looks at it statically or dynamically. Hence, it is questionable that there is any justification for a sectoral industrial policy given that we live in a world with limited resources where bang-for-the-buck must be a yardstick against which to evaluate support programmes.

The biotechnology sector has a problem that is crucial to resolve for any knowledge-intensive sector, namely the low level of business-science interaction. But this is clearly not a problem specific to this sector. As confirmed by the MEDS study on HRD, what is needed in the Province is a comprehensive promotion of contacts and working relationships between the higher-education sector on the one hand and firms on the other.

#### 4.9 Crafts

The craft sector in the Western Cape is not a huge sector, but it is a labour-intensive sector, is very SMME based, has a high concentration of national enterprises in the Western Cape and contributes significantly to the region's revenue generation. The total number of enterprises is estimated at 2 010 (with 1 662 producers and 348 retail outlets) employing 7 165 people. Seen from a national perspective 27% of all producers in the country are estimated to be located in the region, whilst an overwhelming proportion of retailers (60%) are found in the Western Cape. Furthermore, it has very significant linkages to the tourism sector and acts as an important draw card for tourists.

It exhibits greater diversity than most other sectors. Materials, specific techniques, scale of production and product types and quality may vary significantly. Market positioning also varies from functional items to fashion-led items, and gifts and souvenirs to collectibles or craft art. Most producers operate on a micro or small scale. Production is oriented towards mid-to-high end pricing, with a very diverse product range. Enterprises are linked into established local and global value chains, and hence intermediaries play an important role in the sector.

The craft sector is thus making a meaningful contribution to the provincial economy, in particular in terms of enterprise development. It appears that the sector may be particularly important to women and new entrants to the formal economy as a stepping stone to other activities. It also has an impact on enhancing the attractiveness of the Province as a destination by creating unique retail and cultural experiences. The further expansion of the sector could create sustainable livelihoods out of a relatively low skills base with minimal capital input. Opportunities exist for increased consumer demand for handcrafted unique, African-inspired products (particularly in so far as it remains well linked to the tourist sector), as well as corporate and government procurement demand for specialist products.

One of the major problems with existing current or planned interventions has been inadequate coordination and diverse objectives. This places the importance of coordination initiatives high on the agenda for if all intervention in the sector was removed or failed, it is likely that the majority of welfare-type projects would not be sustainable, while many commercial operations would suffer limited growth and transformation.

The principal recommendation is that the department of economic development's role in addressing these gaps should be commercially oriented, and therefore

focused on providing support for commercially sustainable enterprises through product development, support for supply chain integration within the sector and with related sectors, and facilitation of formalisation and transformation of the sector.

A key sectoral institution in the Province is the Cape Craft and Design Institute (CCDI), originally set up by local and provincial government in collaboration with the Peninsula Technikon. The CCDI plays a critical role in coordinating various activities, initiating projects, and representing interests. The researchers assessment is that the CCDI is an effective organisation that has legitimacy and wide support in the craft sector. They have identified six priority interventions for this sector. The "priority recommendation" is for the Province to increase funding to CCDI so that in addition to current programmes, they can expand their capacity and range of activities, including facilitating value chain and intermediary linkages, assisting in product quality improvement and design capability, helping to grow output, exports and employment. The researchers expect the primary resource implications to be expanding the number of staff members in CCDI (with limited ICT expansion) and hence salary and operating costs. The exact number of actual staff members this would require would have to be negotiated as a number of newly designated roles are assumed to be overlapping.

An additional intervention proposed is an advanced business skills development programme for small operators who have technical but not management skills. This proposal for generic management training dovetails with other sectors. The gains from targeted intervention in this sector are potentially important, principally in terms of the linkage effect with tourism, as well as from a small enterprise development perspective. The expenditure required is not significant. The existence of an effective organisation (CCDI) operating in the sector already supported by the Province and working with it, accords well with our model of how the Province should proceed. Although we have not accorded this sector priority status, principally because it is relatively small, it does merit provincial attention falling within our category of important second tier sectors. Thus, this sector merits considerable Provincial attention and support.

#### 4.10 Cultural Industries

The researcher makes a convincing case for the growing global importance of cultural industries in knowledge-intensive focused countries. For example, in the UK between 1997 and 2001, the creative industries grew by an average of 9% per annum, employment by 3% compared with 1% nationally. Creative industry exports accounted for 4.2% of all exported goods and services.

Regional aggregate data on these industries is poor, and we have relied on sampled data instead. Snapshots of thirteen sub-sectors (architecture, community arts, dance, design, fashion, festivals and events, heritage, language schools, music, musical theatre and opera, publishing, theatre and the visual arts) conservatively estimated to employ 50 000 people earning their primary income in the Western Cape, reveal the following important characteristics:

- small and micro-enterprises dominate generating varying levels of income;
- labour intensive employment, split nearly equally between full-time and part-time, with a high percentage of ad hoc staff;
- attract relatively well-educated employees, with significant employment and management opportunities for women; and
- a high impact on tourism, service and retail sectors.

With respect to linkages, the publishing industry, fashion, language schools, architecture, visual arts and heritage are all areas that directly, or indirectly, contribute significantly to the tourism sector. This is most marked in the medium-income (design, fashion, festivals, heritage, language schools and publishing) to relatively lower-income sub-sectors (community arts, craft, dance, music, musicals and opera, theatre and visual arts), which add significant value to the tourism industry. The medium average income sub-sectors range between R4,500 and R10,000 while the low income sub-sectors have an average income of less than R4,500 per month. The researcher cites two examples of the local economic impact of events – the recent Klein Karoo Nasionale Kunstefees (KKNK) is estimated to have injected R60 million into Oudsthoorn's economy, while the Cape Town International Jazz Festival is estimated to contribute in excess of R58 million to the local economy.

The Western Cape is a national leader in the areas of events and festivals, film, heritage, language schools, publishing and theatres. This is reflected in the high quality tertiary institutions providing world-class training across all sub-sectors. However, there is an urgent need for managerial and business skills training.

Given the PGWC's aim to drastically upscale tourism by 2010, and that international tourists have shown that they include cultural, arts and historic activities in their travels, the researcher makes a strong case that it is in the interest of the Province to provide more cultural products

and services aimed at the tourism market. Moreover, that there is real potential to absorb key targets for employment – i.e. black African women, youth and males – within this sector.

The key challenges are:

- absence of a representative structure to represent, coordinate the differing sub-sectoral interests, and solidify linkages to tourism;
- need for data and research to inform the sector;
- absence of skilled middle and senior managers who also understand the sector;
- lack of access to start-up capital for new companies; and
- the absence of black African people, particularly at middle and senior management levels.

The primary strategy proposed is for the PGWC to create an enabling environment to assist the creative industry sector to address these challenges. The primary mechanism to do so is for the PGWC to establish a Creative Industries Chamber (CIC), to which all enterprises operating in the sector will be encouraged to affiliate, to undertake a variety of programmes (the researcher provides a comprehensive list of activities) and act as the forum and private sector partner with government. The primary incentivising lever to achieve this through the PGWC making available to the CIC an amount of R1.5 million in the first year (2006/7), R1 million in the second (2007/8) and R500,000 in the third year (2008/9) to cover the operational costs of the Chamber. Within three years, the Chamber should be self-sustaining. The cost of setting up the CIC is estimated at around R500,000, most of which includes an international founding conference. It is our opinion that the latter could be absorbed into the first year's budget and form one of the first major activities of the CIC.

An additional complementary strategy is for the PGWC, in conjunction with the CIC, to actively pursue partnerships with international governmental and other agencies, e.g. the British Council.

Finally, it is recommended that a streamlining process occurs within the PGWC itself to ensure 'joined-up governance'. The department of economic development is requested to drive the establishment of an interdepartmental subcommittee with

representatives of the departments of cultural affairs and sport, education and economic development serving on it. This could then act and liaise in a coordinated manner with the CIC.

#### 4.11 Film

The film industry in the Western Cape plays an important economic and social role, fostering national pride, upholding cultural identity, generating employment and facilitating skill acquisition. Furthermore, it has an important stimulatory effect on the interlinked supply and hospitality industries. The local film sector has a world-class skills base in the area of production, an unsurpassed variety of locations and until recently, competitive rates. Consequently, it has the required competency to become a significant player in the international market.

However, a number of global trends and internal structural problems threaten its growth prospects. These include: the increase in competition from other countries (especially in relation to foreign public support schemes); inexpensive foreign film and television products (against which local products cannot compete); the strengthening rand, which makes the exchange rate unfavourable relative to other competitor locations; and the escalation in support industry prices. Local filmmakers also face limited access to funding, distribution and facilitation facilities. Furthermore, few viable ongoing training opportunities exist for people entering the Industry, especially those from previously disadvantaged communities. All of these concerns are compounded by lack of industry research and the recent preclusive legislative changes on the part of the South African Revenue Service, the Department of Labour and the Department of Home Affairs.

The Western Cape film sector currently produces a collective annual turnover of R1 billion, which in turn generates approximately R2.5 billion of economic activity. Including both broadcasting and the significant multiplier effect, it is estimated that film contributes about 4% of Gross Regional Product. The City of Cape Town itself earns more than R4 million a year from location permits. In terms of its comparative importance, the Western Cape film industry turnover comprises nearly half that of the national, and double that of the next ranking Province, Gauteng.

There is no reliable provincial data on employment numbers. A large percentage of employment in the film industry falls into the high and medium skilled category.

Developing the local film industry therefore translates into developing the local skill

base and raising living standards. Through its effect on the support industries, however, the industry also contributes to employment growth in lower level skills.

Seven key problem areas for immediate, medium and long-term intervention have been identified. These are:

- audience development (which includes township cinema initiatives);
- training (identified as a core issue for the industry);
- funding and distribution (a key role for the Province and the CFC);
- tax and labour legislation (requiring intervention on the part of Provincial Government);
- location and support industry issues (involving a new licensing system);
- empowerment (formulating a BEE charter); and
- research (to counter the paucity of information and data available).

The researcher emphasises that the key to success lies with stakeholder cooperation and alignment-sharing common objectives and working collectively to achieve these. Many of these depend on maintaining and supporting the Cape Film Commission - a section 21 company set up by Provincial Government which, apart from its various projects, acts as the representative body for the industry, channelling information, and providing a forum for government private sector interaction. In the researcher's assessment, with which we concur, the CFC is well grounded and institutionally embedded in the industry, and the Province can be relatively secure that funding advanced will be effectively used for the further development of the industry.

The film industry faces a unique situation with respect to current restrictive tax, employment and over-time conditions, and immigration / work permit issues which threaten to cripple it. The PGWC is therefore encouraged to provide political backing and behind the scenes lobbying to support attempts made by industry parties to recognise its exceptional status and achieve the necessary legislative reform.

Most of the measures identified do not require significant government funding, but rather involve simple incentive measures, better coordination of current initiatives, improved information provision and the removal of restrictive bureaucracy. The estimated cost of the total package of initiatives is just under R4 million, although it should be noted that the greatest item – a R3 million request from CFC currently under consideration – is already in the pipeline.

The knowledge-intensive nature of this industry, its linkages to other sectors such as hospitality and tourism, the overwhelming dominance of the Western Cape nationally, and the opportunities for empowerment, make this an industry worthy of interventions to achieve stabilisation and counter the immediate threats to its long-term well-being.

#### 4.12 Financial Services

This research has provided a firm baseline study of the financial services sector. Rapid growth of over 6% per annum over the period 1995-2003 has resulted in the financial service sector's share of provincial GDP to 13.8%. What is of particular significance is the very high levels of investment – Finance, Insurance and Real Estate (FIRE) is responsible for almost one-third of provincial investment. What is of concern, however, is that employment in this sector has grown at a much slower rate than either output or investment – at a little over 1% per annum.

There are two key sub-sectors in which the Western Cape has a particularly strong presence – notably asset management and, more importantly, insurance.

The researcher stresses the strong limitations on policy options in this sector – principally as a result of head offices playing a key role in resource allocation and regulation being a domain of national policy.

The major policy proposals advanced are:

- 1 To encourage Business Process Outsourcing in insurance and asset management.
- 2 To work with banks to encourage low-cost access to financial services.
- 3 To further encourage BEE procurement that has received an impetus from the Financial Services Charter.

- 4 To enhance training in financial services working with SETAs, as well as firms in the industry in developing programmes and possibly establishing a Financial Services Academy.

- 5 To encourage regional organisation which currently is lacking, and to improve data collection. The research has itself thrown up a series of data issues relating to this sector that need attention.

The first proposal links financial services to BPO. The key is to ensure that the Western Cape is able to leverage its position as a centre for sophisticated financial services, notably in asset management and insurance, in attracting BPO investment. This receives attention in the report on BPO.

The second proposal relating to low-cost access to financial services is not an industrial or sectoral policy per se. Moreover, this will need to be coordinated at a national level.

Training is the key issue. Training should be the major area of attention of the PGWC for this sector. The sector reports chronic shortages of skilled and competently trained personnel and this shortage may be one factor that serves to exacerbate the poor level of labour absorption despite the high rate of output and investment growth in this sector. As the report makes clear, there are considerable racial and gender inequalities and particular attention should be paid to providing preferential entry into training and education programmes for those previously disadvantaged. The PGWC might seek to facilitate a broad round table discussion between the key stakeholders – the industry; tertiary education institutions and the SETAs – so as to explore the possibilities of enhanced cooperation and possibly the establishment of a formal Financial Services Academy.

#### 4.13 Call Centres and Business Process Outsourcing (BPO)

Call Centres and BPO is already a significant industry in the Western Cape – 100 companies employing 11 000 people. Moreover, it is growing rapidly – 25% in the last year.

This is a labour intensive industry and labour costs, in comparison with our competitors, are high. However, the Western Cape has other advantages. Accordingly, the researcher's assessment is that the best opportunity for growth rests in ". . . the industry positioning itself as offering an attractive price / performance capability for complex voice-based services, especially in the financial services industry."



There is a distinct possibility of creating up to 20 000 new call centre 'seats'. Together with associated employment opportunities in management and support, and utilising an employment multiplier of 3.5, job creation could be in order of 92 400. It should also be emphasised that the direct employment opportunities are largely for the semi-skilled – particularly appropriate would be those exiting school with matric. Government is particularly concerned with targeting youth unemployment.

The researchers emphasise that the key to success lies with stakeholder alignment – industry, government, suppliers – sharing common objectives and working collectively to achieve these. The researchers' assessment is that Calling the Cape (CtC) is an effective organisation that has legitimacy and wide support. The 'priority recommendation' is for the Province to expand funding to CtC to enable them to deliver on all of its programmes. The sum entailed is estimated at R7.5 million per annum over a three-year period.

Additional recommendations include:

- 1 Ensuring political support at the highest level and senior management engagement in CtC.
- 2 Adopting a consistent policy toward the industry and ensuring that there are dedicated and permanent personnel in government assigned to manage relations with the industry. The assessment is that policy and personnel in relation to this industry have been "erratic and inconsistent in the past..."
- 3 Lobbying National Government to ensure a beneficial environment for the industry. This is particularly important in terms of the pricing and availability of telecommunications services and infrastructure and access to the SAT 3 cable.

Two more minor proposals are:

- 1 A survey of property that could potentially be useful to the industry.
- 2 Establish a BPO park for new firms.

Two other recommendations mesh with policy in other areas:

- 1 Ensure safe and effective public transport to convey operators.

- 2 Establish a municipal area network that will lower costs and promote eases of interconnectedness, particularly where an operation has more than one local site. (This proposal is dealt with in the ICT report).

There are currently only a few areas of economic activity that offer significant direct employment opportunities – especially to the semi-skilled. The very large potential gain, combined with the low cost entailed, (the researchers estimate that the public expenditure per job created would be only +/- R760), this makes this industry a prime candidate for provincial support.

#### 4.14 Information and Communication Technologies

The ICT industry is clearly an area with very considerable growth potential. The longer-run potential has been much enhanced with the recent announcement of further measures of liberalisation in this sector, as well as recent rulings by the regulator, Icasa (see below). All the indications are that this industry may see very rapid rates of growth in the short-to-medium term. The ICT sector is also an area where there are strong institutional underpinnings of active players and organisations. It is a sector whose growth and development promises many positive externalities and benefits to other sectors. Finally, the sector can provide business opportunities for many small players and there are growing signs of black advancement.

Therefore there is every reason for the PGWC to give considerable attention to this industry and to give it high priority as part of its development efforts. Moreover, and very critically, there are many international examples of regional and urban authorities being at the forefront of developing effective initiatives in ICT.

A large number of proposals were advanced by the researchers in the second and third parts of the study. Below we outline a few of these proposals that are directly relevant for provincial support and have the potential to make a very significant impact on the development of the sector.

##### 4.14.1 A metropolitan broadband network

This entails the City of Cape Town having a metropolitan-wide network, potentially connecting all its buildings, facilities and communities. Such an initiative has the greatest potential to significantly transform the ICT landscape in the Western Cape.

It is clear that cities are sites of competition and that cities around the world are at present considering or implementing similar schemes. There are tremendous benefits to be gained if such a broadband network can be installed. At the other extreme, a significant decline in the City's capacity to attract high-end services and smart manufacturing is expected if nothing is done. There has already been considerable success with the Smart City and Smart Cape Access projects, which have demonstrated some of the advantages that could be gained. Icasa has recently recognised the right of municipalities to have rights of way over roads, pathways, sidewalks and other servitudes as potential pathways for the provision of telecommunications services.

It is recommended that this proposal be further investigated as a matter of high priority. The investigation should start soon, with a view to determine how to implement and roll out such a network.

#### **4.14.2 Incubators for BEE firms**

This entails a focused incubator programme, enhancing the CITI 'Launchpad' programme. This is particularly important to encourage small, black-owned and black-managed enterprises. It has the further advantage of enhancing something that is already operative and, by all accounts, already effective. Naturally, plans for such an extension should be negotiated with the PGWC and CITI.

#### **4.14.3 A Western Cape satellite for communication and monitoring**

This entails the launching of a data satellite that would have spin-offs in agriculture, fishing, urban planning and other areas. It is understood that this is currently under consideration by the department of agriculture and that the launch is planned to take place in the 4th quarter of 2006. Although the satellite is currently dedicated to agricultural monitoring, its potential reaches into several other aspects of the PGWC as well, including infrastructural planning, township-development modelling, safety and security and maritime monitoring.

Further discussions are needed around this major project, particularly with the Department of Agriculture. An inter-departmental team should ensure that the benefits are widely spread through the different spheres of government.

There is significant institutional capacity in this sector, much of which is owed to government support. In fact, the PGWC can effect working with existent organisations – particularly

CITI. In a number of areas, as the researchers have suggested, policy design and implementation should be done in cooperation between the PGWC and CITI. In general, strengthening institutions and encouraging institutional innovation in the ICT area should be an important objective of provincial-government policy.

#### **4.15 Tourism**

The tourism industry, spanning both domestic and international travel and tourism, is world-wide in a long-term expansion phase. This also applies to the African continent, where South Africa has become the leader in international tourist arrivals and in the diversity, as well as sophistication of the tourism sector.

The Western Cape is often viewed as South Africa's most developed tourism region, with the contribution of travel and tourism to the provincial economy close to 10% in value added (Gross Regional Product) and in employment (compared to about 7,4% for South Africa as a whole).

The sector has grown and broadened steadily over the past decade and it now includes an amazing range of well-developed tourism and leisure market segments, including:

- Sight-seeing tourism
- Cultural and heritage tourism
- Sports tourism
- Adventure tourism
- Eco-tourism
- Events and conference tourism
- Youth tourism
- Coastal / marine tourism

- Agri-or farm tourism
- Health and medical tourism
- Special interests tourism

The Province also boasts no less than six of the country's top 10 international tourist attractions or icons.

A further strength of the Western Cape's tourism sector is its relatively wide geographic spread, reaching virtually all the corners of the Province, from Plettenberg Bay at the eastern edge of the Garden Route to Lambert's Bay and Vredendal in the north-west and Beaufort West along the N1 route north. The mix of tourist places range from the Cape Town metropolis with its many attractions to medium-sized tourism jewels like Knysna and Ceres, and small coastal resorts like Stilbaai and Arniston. This diversity, with many of the tourism niches still in the process of being "discovered" and developed to their real potential, adds to the national and international attraction and growth potential of the tourism industry in the Western Cape.

The Western Cape's no. 1 growth sector has done well in the recent past, but it faces many serious challenges which can only be met through concerted, coordinated action of the full range of stakeholders, with the PGWC compelled to play its proactive role in an equally planned and cooperative way.

Given the rapid growth and diversification of the industry over the past decade, and given the range of challenges facing this industry, it is only logical that the industry 'players' have tried to shape, influence and 'facilitate' (aspects of) tourism development in the Western Cape. Municipalities have often concentrated on local tourism bureaux or certain particular facilities, with the IDP an important relevant planning tool.

The following proposed interventions that would seem appropriate for the PGWC evolved out of the institutional transformation of recent years and the evolution of a new set of PPP agencies, with Cape Town Routes Unlimited currently finding its feet and local governments still expanding their involvement in the sector. The proposals mentioned here have all been suggested in the sector study. Each of them deserves more detailed attention as to the 'how' and 'at what cost' of implementation. This has to happen as part of the interactive consultation and cooperation process, with the outcome affected by budgetary and other capacity considerations. In fact, some of the intervention areas suggest

expanded or more focused actions rather than totally new programmes. We discuss these in more detail below.

#### 4.15.1 Institutional cooperation

The goal here is to interact between and cooperate with tourism support efforts, programmes and initiatives at the different public-sector levels and agencies, and between them and private-sector stakeholder bodies in the Western Cape. With most of the fundamental 'strategy documents' on tourism development in the country and the Province (recently completed, the emphasis can now fall on the implementation of proposed strategies, on their evolution and on the smooth and effective cooperation between the different players.

Proposals have been put forward for yet another public-private 'forum' to achieve this important goal. Yet, the most effective tool may not necessarily be a new body, but rather the streamlining of existing consultation processes and / or a strengthening of the PGWC's senior staff to effectively pursue such consultations. Regular meetings of key stakeholders, annual progress-review sessions and an 'Annual Provincial Tourism Review' (with a 'road-show' to discuss its contents on a decentralised basis) could be steps in that direction, with the net cost hardly exceeding a million rand.

In facilitating the development of professional research and monitoring capacity in tourism, a strong need has been identified to:

- produce more statistical and other trend information (and regularly updated profiles) related to the Western Cape's different tourism sub-sectors and transformation processes; and
- develop analytical tools to determine the relative impact or 'pay-off' of alternative interventions in the tourism industry, thereby helping to decide on the priority of ranking of projects and expenditures.

Both of these, and similar needs, might be met through the commissioning of single tasks by the PGWC. A longer-run option with even greater value would be the development, on a partnership and co-financing basis, of a capacity for such applied research at one of the Western Cape's higher-education institutions, possibly in close contact with a centre offering training and academic research opportunities in the tourism field. Such an institution might also be tasked to work on a dynamic 'vision' for the industry

and its annual updating as the environment changes. Existing strategy documents would all be seen as valuable inputs into such a process.

A relatively modest financial allocation from the PGWC should enable the start of such a facility, with diverse co-funding opportunities determining the unfolding of such a centre.

Other challenging issues, for example, cooperation between the Western Cape and other African countries in tourism-related business and infrastructure developments could also be explored by such a body. Viewing Cape Town as 'the Geneva of Africa' would, in fact, justify PGWC support for such efforts.

#### **4.15.2 Expanding transformation in the tourism industry**

Although the Western Cape has a relatively poor performance record of black participation in the more established tourism industry, a wide range of policies, programmes and initiatives in this field have been started during the past few years. The development of a 'tourism charter' (at national and provincial levels) is likely to give further momentum, just as the recent BEE summit of the DED and the introduction of new incentive schemes (like the ITESP) have fuelled the momentum.

Further progress does not require new programmes, but rather the periodic assessment of existing or evolving programmes, the allocation of more funds to existing projects and a willingness to adjust systems.

#### **4.15.3 Improving the transport infrastructure**

The issues are well known and well researched, including, inter alia, capacity constraints in long-distance air travel to Cape Town; the inner-city transport bottlenecks in the Cape Town metropolitan area; and further improvements in transport safety and security, in trains, tour busses and taxi services.

Tourism authorities (including those in the PGWC) have only a limited leverage on action in these areas. Yet, their role in keeping critical priorities on the table and negotiating long-run plans with other departments and bodies should not be under-rated and should be reflected in the allocation of responsibilities as well as staff competence.

#### **4.15.4 Expanding education and training**

Most strategic assessments of Western Cape (and national) tourism development have lately emphasised the need for more and better training programmes for semi-skilled, skilled and professional people employed in the industry. Western Cape educational institutions are meeting much of the current demand, yet there is scope for more courses, courses better aligned to practical needs, more affordable courses (or more bursaries) and closer cooperation between educational institutions and the industry.

The PGWC can only play a facilitative role in this sphere, with details about the scope and need for more substantial financial involvement still to be explored. This could, for example, be done by the type of centre mentioned earlier.

#### **4.15.5 Support for local authorities**

The capacity limitations of local authorities with respect to more comprehensive sector support in their area of responsibilities are well known and are unlikely to change rapidly, given tight municipal budgets. It has been proposed that the PGWC should assist (selected) municipalities in these efforts, especially where the local tourism potential is still largely underutilised. Different approaches could be considered, including the (temporary) subsidisation of a professional appointment or the development of a distinct support capacity at the provincial offices. A further alternative could be the provision of co-financing for professional support provided by the centre to a number of municipalities. Such co-funding might, for example, be limited to BEE-related support or capacity building or the development of baseline data about the local tourism industry.

These efforts could be particularly fruitful in rural areas where small towns have an extremely limited capacity in this sphere, yet where an activated tourism sector might significantly increase local income generation.

#### **4.15.6 Strengthening awareness and commitment on specific issues**

Interviews with stakeholders in the industry have revealed a strong feeling that the PGWC should play a more active role in the pursuit of certain critical goals or the improvement in the performance of the public sector in very specific areas. A few of these can be mentioned here to indicate the range:

- protecting the environment (including water resources) in the light of increasing tourism densities (for example, golf courses);

- promoting the concept of 'pro-poor' or responsible tourism;
- stimulating the sale of local products to (foreign) tourists;
- speeding up the processing of transport and other permits handled by provincial and / or national authorities;
- systematically enforcing established standards; and
- increasing the day-to-day efficiency of public services to the industry, including the reduction of 'unnecessary red tape'.

None of these areas of (potential) involvement need new programmes or substantially higher spending. Yet, in their totality it is these 'improvements' which could significantly improve the competitiveness of segments in the industry or the long-run sustainability of the industry.

#### 4.15.7 Marketing Western Cape Tourism

The co-funding of marketing efforts with respect to Cape Town and the Western Cape as world-class tourist attractions is undoubtedly the most important way in which the PGWC supports the industry. The fact that this happens through the new consolidated Cape Town Routes Unlimited does not deny the fact that it is the largest item on the provincial tourism support budget, nor should it conceal the significance provincial representatives on the board of Cape Town Routes Unlimited have to influence the nature and prioritisation of marketing efforts. This could include the scope given for BEE, informal or township tourism, rural areas and community tourism, as well as other target groups.

To conclude, this section does not propose any high-profile new programmes or projects to be initiated or funded by the department of economic development. At a stage when so much transformation and institutional repositioning is still tapping the energy of senior officials and private-sector operators, there is, indeed, a need for 'more of the same' and for streamlining and critical assessment. Given the dynamic state of the industry, there will undoubtedly soon arise new demands from grassroots level for funding that the department of economic development will have to assess within the context of this evolving structure.

#### 4.16 Energy

The Western Cape's share in national energy demand is around 7%. In order of importance, demand for energy is highest in the transport sector, followed by industry, residential use, agriculture, commerce, and mining and quarrying. The Western Cape does not have its own coal mines. Instead, it has potential in developing alternative supplies of energy, especially through renewables. A high degree of solar radiation and strong winds explicate the potential for alternative sources of fuel. This study was concerned primarily with renewables. More conventional options include natural gas and nuclear energy.

Two factors stand in the way of a wider and more rapid diffusion of environmentally friendly energy sources. The first is the low price of conventional energy in the country. The second is related to this, namely the lack of demand for alternative energy provision. Scale economies in, for example, solar water heaters are difficult to attain. In addition, the generation of renewable power such as through wind farms incurs high capital costs. On the other hand, National Government has begun to address some of these issues, for example through measures to support independent power producers.

A major challenge for policymaking in this area is the lack of adequate data of both supply and demand at provincial level. In addition, the crosscutting nature of energy asks for interdepartmental coordination to reach and execute a sensible strategy under the leadership of the department of environmental affairs and development planning.

The researchers therefore suggest undertaking a provincial energy inventory to improve the availability of data. They are right in pointing out that in the absence of this information, proper planning is impossible.

They furthermore suggest the institution of an Energy Task Group within the Province, involving all relevant departments. Finally, they suggest that the Province should subsidise the costs associated with introducing solar water heaters in the Province. However, in our view, the viability of such an initiative must be tested in further investigation.

#### 4.17 Transport

This research provided a good overview of the transport sector, outlining the numerous transport challenges faced at both the national and provincial level, as South Africa's



existing transport infrastructure is inadequate to meet rising transportation needs. In part, this stems from the fact that during the past decade, there has been a significant shift from rail freight to road freight, due to a decline in rail service efficiency, along with high growth in exports, particularly of manufactured goods, due to globalisation and the opening up of new markets. Moreover, there is increasing pressure on roads, rail and bus systems given government's goal of facilitating economic opportunity for all citizens, coupled with its policy to provide basic personal mobility for all, driving the demand for personal mobility, particularly public transport requirements. In recognition of these growing challenges, the Western Cape Provincial budget for 2005/6 has specifically allocated R276 million to address the backlogs in the provincial road network. In addition, a fuel levy has been accepted at the provincial level and now awaits the approval of National Treasury, intended for the sustainable increase in spending on roads and associated infrastructure.

The researcher highlighted the following key challenges faced by the transport sector:

- The urgent need to improve passenger commuter services both within the metro and in rural areas, to ensure greater efficiency of movement and reduce constraints on mobility. In particular:
  - The need to improve rail (Metrorail) services relating to standards, safety, peak demand and scheduling, and to explore the expansion of the network (Atlantis line commuter upgrade to Parklands).
  - The need for an expansion and improvement of the bus system (e.g. routes, scheduling and reliability) and the implementation of a new competitive contracting system for the provision of bus services.
  - Addressing the challenges associated with the mini-bus taxi industry, such as permits, routing, compliance, recapitalisation and subsidisation.
  - The need for efficient and effective port facilities and services, particularly in terms of improving logistic efficiencies, productivity and investing in the required infrastructure, namely container handling and storage facilities and infrastructure for the emerging Oil and Gas industry.
  - Improving roads infrastructure to meet the demands of the growing Western Cape economy.
- Applying dedicated attention to the determination of logistics costs in order to identify measures required for reducing the transport cost component of conducting business in

South Africa across the board and in all sectors of the economy.

- Ensuring that there are adequate mechanisms available to resolve problems in transport, e.g. the establishment of effective Transport Authority throughout the Province, and the systematic coordination of transport responsibilities between different stakeholders at national, provincial and local government levels.

Against this backdrop, the researcher proposes a number of policy options, but there are two main thrusts that should form the core of any transport intervention strategy.

The first is the improvement of the public transport system (passenger commuter services). It is not only vital that steps be taken to improve the quality of public transport services, but that policies be implemented to encourage greater utilisation of public transport over private transport options, thereby alleviating congestion concerns. This includes investigating the possibility of expansion in the rail and bus services, and given the growing taxi industry in the Province, the implementation of policies pertaining to mini-bus taxi licensing and routing in accordance with National policy and the recapitalisation programme. The researcher proposes that pricing policies could be put to good use in promoting public transport over private transport options, for example, higher parking fees and levies, city entry levies (tolls), and employer-provided transport subsidies for public transport service use. The researcher also supports flexible public transport pricing to maximise revenue from higher income users to provide affordable services for captive and / or low income users. This should be done in conjunction with prioritisation of infrastructure and space for public transport, for example, priority lanes, routes and interchanges, as well as ensuring that parking provision supports public transport and limits speculative parking provision without clear benefit (gain). Finally, to improve public transport logistic performance, it is important that service delivery and performance contracts be awarded on a competitive contracting basis and that sanctions for nonperformance become standard.

The second area of focus relates to intergovernmental and agency coordination and communication. The researcher makes it clear that to date, there has been little effective communication and integration of efforts between various transport service providers, resulting in bottlenecks, delays and poor quality service. There is an urgent need for clarification of and / or implementation of policy to drive the formation of a Transport Authority and / or Authorities in accordance with National policy directives. The formation of such an authority is vital in ensuring the effective integration and coordination of policies between government bodies and transport agencies,

particularly between the Province and City (Metro), the Province / City and SARCC, and the Province / City and NPA.

#### 4.18 Small, Medium and Micro Enterprises

In some contrast to the other sectors or industries covered in this report, the support for small businesses covers a crosscutting sector, where the particular needs of support differ widely between the sectors concerned. Thus, small and micro enterprises in agriculture need a different approach towards support than those in personal or business services and those in small-scale manufacturing.

The early 1980s, when the Small Business Development Corporation (SBDC) was established in South Africa (absorbing the old “Coloured Development Corporation” in the Cape Province), marked a fundamental shift in South African small business. Although the apartheid system was still in full swing, it became clear that all racial groups had to find an economic future in South Africa’s rural, urban and metropolitan areas, with small enterprises (including those started, owned or managed by black South Africans) playing an increasingly important role. During the 1980s the SBDC expanded its network of offices, information centres, hives and financial support programmes, with the Western Cape branch of the SBDC expanding rapidly and tackling a diverse range of issues and bottlenecks.

After 1990, when the shift towards political legitimacy of public-sector initiatives gained momentum, efforts by the SBDC and central government were supplemented by an increasing range of NGOs, as well as private-sector and higher-education initiatives in the SMME-support sphere.

These efforts clearly showed that the needs differed widely between:

- survivalist self-employers in the informal sector;
- micro enterprises operating either side of the formal-informal sector divide;
- small, emerging or established enterprises in different sectors; and
- medium-sized enterprises operating in predominantly local or international markets.

Soon after the advent of democracy in 1994, the National Government initiated a process, which led to the White Paper on Small Enterprise Promotion and the Presidential Conference on SMMEs in Durban in March 1995. The acceptance of this strategy document paved the way for far-reaching institutional changes in the SMME-support scene and an expansion in government support for South African small business. Given the high expectations that were linked to the new strategy it is not surprising that during the second half of the 1990s disillusionment about the pace of the “SMME-support revolution” gained momentum, especially since the liberalisation of South Africa’s trade and labour policies resulted in large-scale job losses, with larger enterprises and the public sector unable to absorb many of the new job-seekers.

Disappointment about the impact of government support programmes for SMMEs was paralleled by evidence from international comparative studies showing that the level of active entrepreneurship involvement was much lower in South Africa than in many other developing countries.

This raised the question whether our SMME support was sufficiently broad based to reach the roots of entrepreneurial behaviour. Similarly, it became increasingly clear that South Africa’s relatively sharp divide between informal and formal activities is further dampening the ascent of (particularly black) entrepreneurs.

These critical impulses and general dissatisfaction with the nature and effectiveness of SMME support led in the early 2000s to a lengthy process of reassessment and re-strategising about SMME support in the national Department of Trade and Industry and in other circles. The outcome, a new “Integrated Strategy for National SMME Support”, is currently being finalised, with the establishment of the Small Enterprise Development Agency (Seda – an integration of Ntsika, Namac and other national initiatives) the most visible step.

The evolution of South Africa’s wide spectrum of SMME-support programmes, policies and projects went hand in hand with an increasing diversification of support agencies operating both in the public and the private sectors. During the mid / late 1990s NGOs, CBOs and other ad hoc initiatives were dominating the scene outside the national support agencies (and often acted as implementation tools for national programmes). During more recent years the private sector has, in line with international trends and best practice, increased its presence in the supply of “business-development-support services”, given disillusionment about both NGOs / CBOs and state departments as efficient implementers of targeted and sector-focused SMME support.

Parallel to this shift towards private, market-driven SMME support, South Africa's challenges of poverty, unemployment, inequality and sociopolitical legacies have most recently driven the PGWC towards a 'big push of basic services' across the country and in all major sectors. This is planned on the understanding that the private sector will not be able to fund such a comprehensive basic service – just as libraries, fire brigades and refuse removal services have initially been offered as publicly-funded infrastructure services.

The proposals which were put forward in the detailed research papers are briefly discussed below.

#### **4.18.1 Sector support via provincial programmes**

During the past few years sector-focused support programmes have been considered and, in some cases, developed for SMMEs in several sectors, including tourism, the film sector, clothing, the ICT sector, taxi transport, agriculture, fishing, exports (in several industries) and even construction. In some cases, the PGWC is the main supplier of the support, in others it is only providing some of the funding.

With the evolution of the MEDS (going through phases 1 and 2) the need and scope for such sector-adapted support will increase rapidly, possibly making this the central element of future provincial SMME support. While each sector will have to be researched on its own and practical modalities of support programmes will have to be negotiated with sector stakeholders (and other sector-support suppliers) it seems crucial that the PGWC allocates increasing resources to such programmes. It stands to reason that such support programmes will give particular priority to black-owned / black-controlled enterprises and to other minority target groups (for example, women, the disabled and the unemployed youth). It should also be clear that such sector support should consider both financial support as well as non-financial services. Furthermore, wherever possible the PGWC should interact with private-service suppliers and / or other support agencies (potentially) active in the field. Naturally, there should also be close interaction with National Government departments in order to prevent duplication of sector-support schemes.

#### **4.18.2 PGWC as programme innovator**

The proposals put forward in the SMME sector report can mostly be linked to this function of the PGWC.

#### **4.18.3 Information and advice**

Seen in a broader, national perspective, the Western Cape's recently developed "RED Door" (Real Enterprise Development Initiative) approach is a forerunner and early refinement of Seda's envisaged national grid of integrated information and advice centres. As in so many other cases over the past 20 years of "SMME-support experimentation" programmes, policies or projects have been started (and "tried out" first) in the Western Cape, and have at a later stage been taken over, in adapted form, by other provinces or by National Government – In the private sector "Big News for Small Business" would be a good example, and "Library Business Corners" in the NGO sphere.

Strong commitment by the PGWC to the "RED Door" model has given the initiative the necessary impetus to get off the ground on a significant scale. The actual unfolding of the strategy will in future depend a lot on the availability of funds to "roll out" the programme and to staff and equip each centre to the desired standard. At a later stage, National Government co-funding may be most welcome, just like the "RED Door" in the different locations may, in their own interest, want to develop close partnerships with local ("bottom-up") information, advice and support initiatives. The challenge then lies in the achievement of the right mix of national, provincial and local involvement, funding and control.

As the "RED Door" strategy evolves, attention will inevitably have to fall on the availability of didactically appropriate information and (self)study material, which is exactly what the sector report proposes as a further PGWC co-funded project (plain-language guides). Ideally such an initiative would be a joint venture with some publisher(s), some tertiary education institutions (for example, UWC's EDU), one of the radio stations and some co-sponsoring corporates. What is more, it should come as no surprise if such a provincial initiative is eventually taken on by other provinces or nationally.

#### **4.18.4 Entrepreneurship and other SMME-focused education and training**

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 urgent need to develop sector-focused or "tailored" entrepreneurship training programmes. The sector report focuses on the school level, but others should also be considered, with ideally one of the tertiary-level institutions engaged to further research needs and programme alternatives (for example, the EDU at UWC).

#### 4.18.5 BEE in the SMME sector

The PGWC is already involved in this sphere, but a further broadening (on a sector-differentiated basis) seems necessary and feasible, as long as resources are made available. The link to the evolving “sector BEE charters” may be crucial, in as far as these action programmes stipulate the need for new support programmes by the PGWC.

#### 4.18.6 Poverty, job creation and the informal sector in small business

Most of the more established national-, provincial- and local-authority programmes in support of small business focus on formal, small-to-medium-sized enterprises operating in the “first economy”. Although lip service is often given to the potential as well as support needs of the “second economy”, few concrete projects are implemented. Once again, feasible projects should be sector-adapted and / or location or sub-region adapted rather than generic in nature. These requirements place such innovative programmes squarely in the sphere of responsibility of provincial and local authorities, though not limited to them. The same can be said about innovative programmes in the poverty relief and youth self-employment spheres.

#### 4.18.7 Private-sector involvement

Worldwide shift towards focused (market-driven) business-development services and its relevance for South Africa has already been stressed. It should be one of the challenges and tasks of the PGWC to experiment with, and assist where possible, PPPs in the sphere of sector or target group-focused support programmes. Often such programmes do not fully succeed with the social or developmental goals in the first round, but can rapidly improve if adjusted (and handled in a flexible way). Once again, the sector report puts forward some suggestions, which could stimulate action in this direction.

To conclude, the SMME-sector report made some very specific suggestions for further provincial involvement. The most important next step is for the PGWC to decide where its particular role lies in the unfolding of the national SMME strategy, the increase in private-support services, the mobilisation of municipal support for SMMEs and the need for creative policy innovations.

### 4.19 Human Resources Development

Human resources development (HRD) is a complex field. It is relevant to every sphere of economic activity, it operates at many different levels, it cuts across the interests of several government departments at both national and provincial levels, it involves

numerous other institutions and interest groups and it is the subject of robust debate in terms of policy and sometimes ideology.

At the same time, HRD is central to any sustainable process of socio-economic development. Its critical importance is all the more evident in South Africa, because the education and training systems have far from recovered from the damage inflicted by apartheid. Indeed, the country has probably the most expensive yet poorest performing education system among its peers in the developing world. Over the past decade the National Government has embarked on ambitious programmes of educational reform at primary, secondary, pre-degree post-secondary and post-tertiary levels. They are all essentially still “works in progress” and, while there have been modest achievements, massive challenges remain. There have also been major interventions in the labour market, aimed at deepening and broadening skill levels; again, much remains to be done by way of both getting the interventions to function effectively and of seeing tangible results.

Against this background, it is of little comfort that in educational terms the Western Cape generally does rather better than the other provinces. There is a very long way to go – in terms of pass rates, attainment levels and so on – before the Province has a sector that is competitive in world terms. Furthermore, at the bottom end of performance, standards are frighteningly low and there is some evidence that the gap between poor and good performers is widening; these problems are all the more serious because they are so concentrated in communities, mostly black African, where chronic unemployment and poverty are rife. So long as such disparities in educational outcome prevail, it is hard to imagine the vision and the goals of iKapa eLiHlumayo being attained.

Despite the continuing imperative to upgrade skills and more generally to invest in human capital, there is only limited scope for a province to intervene in the HRD arena in order to directly support economic development. In the case of the Western Cape, the PGWC is keenly aware of the deficiencies in the general education system and is well focused on addressing them. Indeed, the Western Cape is probably ahead of other provinces in exploring new approaches to teaching and learning at primary and secondary levels.

The Province has also been innovative in thinking about how to engage with the further-education-and-training (FET) sector, both in the vocational component of the schooling system and at post-secondary level. It is here that we see, over and above what is already being done, scope for improvement as well as opportunities for practical initiatives. We also

believe the Province could help nurture development of capacity in the higher education sector to help underpin particular components of the MEDS.

A number of proposals have been forwarded, all of which are related to the findings of the sector reports. These are discussed in the next subsection.

#### **4.19.1 Proposed Policies**

Firstly, there would be real benefit in a closer dialogue between the Province's education department and the department of economic development (and, indeed, the other departments). Each has a reasonably clear mandate and each is well regarded, in some respects nationally. But, quite properly, their perspectives and priorities tend to differ, and the consequence is that there is not a shared vision as to how the education-and-training system should serve the people of the Western Cape. There is a particular need to achieve this clarity with respect to the provision of further education and training (FET), where both departments have direct interests. In deepening and extending the MEDS process, such dialogue must take place in order to enhance mutual understanding; to develop a coherent framework in which HRD and other relevant policies can be located; and to ensure that the departments play genuinely complementary and value-adding roles in formulating and implementing the MEDS.

A possible, and certainly a desirable, by-product of such conversations might be to help integrate and give coherence locally to an increasingly fragmented debate that is taking place nationally about HRD policies and how they interact with other policy areas.

It is observed that there seems to be complex relationships between DED and some of the other departments, and so getting the suggested conversations under way will have to be approached with sensitivity.

Secondly, HRD is seen as integral to several of the sectoral development strategies being formulated as part of the MEDS. Whether the prime thrust is on enhancing productivity, building stronger technological capacity or on strengthening management and leadership capabilities (or in other areas), there will be a direct need for investment in skills and in human capital more generally. A generic recommendation is that, in implementing each sectoral strategy, the PGWC positively identifies and acts upon the implications for HRD. This should happen at the following two levels:

In the FET sector there is a systemic need to build much stronger relationships between the provider institutions, the business community and other stakeholders, in order to ensure that the choice and the contents of courses, as well as their mode of delivery, are appropriate to both the immediate and the longer-term needs of the industry concerned. The role of the PGWC is to facilitate the establishment and maintenance of such links (which could include promoting a greater uptake of learnerships, drawing on the resources of the appropriate SETA). We stress that what is needed is an ongoing process, in which the various players' needs and constraints are jointly explored and mutually satisfactory solutions are found, given that there are seldom quick and ready solutions.

In the higher-education (HE) sector, the challenge is to encourage the introduction of postgraduate courses and to conduct research, in order to build the intellectual capacity underpinning future development of the respective sectors (While our evidence is anecdotal, our impression is that few of the sectors in which the Western Cape is strong are well served by the Province's HE institutions.). While HE is in constitutional terms a central and not a provincial competence, there is no reason why a province should not facilitate, and even contribute to, such initiatives. International experience points strongly to the long-term benefits of such an approach. There are resources available at national level for such projects, through Technology Human Resources Industry Programme (THRIP) and the Innovation Fund.

In order to play the above roles, the PGWC will have to create new capacities, which we see as being located in both the DED as well as other departments at provincial and metropolitan levels. In fact, the more important need seems to be the creation of sector-focused research and advanced training capacities outside the public sector – along the lines of sector-focused “centres of excellence” found in other semi-developed countries, let alone in the leading economies.

#### **4.19.2 Learning indicators**

In the second phase of the MEDS, the work on HRD was extended in two directions. The first was to develop learning indicators. The second was to review employment and unemployment trends and assess the challenges and implications for the development of a human resources strategy. Paul Lundall, one of the trainee researchers, wrote the latter. A brief summation of each of the research directions follows.



A learning province is premised on the notion of lifelong learning. The purpose of the learning indicator research was to provide an indicative policy instrument for measuring and monitoring the extent of achievement of a learning province.

The research was intended to develop indicators for three forms of learning, namely: initial learning which includes non-formal learning and schooling; adult learning, which includes ABET and higher and continuing education throughout adult life, and diffuse learning environments such as libraries, the media, organisational learning and learning in families. The indicators on the other hand, were intended to measure these forms of learning in the context of extending our understanding of the characteristics of a learning province, particularly relevant to economic development. In addition, the research was to provide measures for certain problem areas where interventions are critical, namely mathematics and language development, technology, entrepreneurship, and employability. Finally, the anticipated use of the indicators was perhaps less for international comparative purposes, but more for driving and intervening towards developing a culture of lifelong learning.

The first phase of the project is completed and, while the hoped for policy instrument is not quite achieved, some important aspects have been highlighted.

Firstly, a confirmation that the general education phase is indeed the bedrock of all learning and a set of meso-level indicators such as those being proposed can be an important support to micro-level measures important to education supply at this level.

Secondly, targeted baskets of indicators are perhaps the most viable way to measure learning in different contexts with community learning and workplace learning as critically important.

Thirdly, that the most important yet most difficult measures are those where learning is embedded within other activities, in other words, measuring mutuality with the economy.

Fourthly, that there are serious data limitations and the collection of fresh data is extremely costly hence not a viable option at this stage.

Fifthly, that the indicators can perhaps most effectively be utilised to measure proportionality of learning outcomes (skills, competencies and the like), and critically, changes of these in a population over time.

The characteristics of a learning province are:

- Excellent education and training systems at all levels with high participation rates.
- High levels of collaboration, networking and clustering within and across economic and knowledge sectors especially around areas of innovation and poverty.
- Good quality systems for access, collection, analysis, management and dissemination of information.
- A challenging of traditional categories to suit rapidly changing social and economic realities.
- Providing frequently updated, easily accessible information and counselling services to enable citizens to maximise learning opportunities.
- High value placed on formal, non-formal and informal learning throughout life, which is expressed in tangible improvement in the learner's employment and community situations.
- Learning supports high levels of social cohesion (across social class, race, gender, ability and geography).

#### **4.19.3 Employment and Unemployment – Implications for an Integrated Human Resources Strategy**

The two fundamental challenges which condition the spectrum of possible initiatives to develop an integrated human resource strategy in the Western Cape is firstly to reverse the pattern in the growth of unemployment and secondly to develop initiatives where education, training and learning within the aggregate labour force is accelerated. While the pattern in the growth of unemployment in the Western Cape economy is gradually beginning to mirror the trend, which started to plague the aggregate national economy from the mid-1990s, it has not reached the catastrophic proportions which characterise the situation in other specific provinces in South Africa. Unlike many other provinces, employment growth since 1995 to 2003 in the Western Cape economy has exceeded unemployment growth by a factor of 4:3. For the period 1995 to 2003, employment has risen by 402 422 new jobs whereas unemployment has grown from

313 725 in 1995 to 618 701. Contrary to the overall national situation the formal part of the Western Cape economy has also exhibited a more robust retention of its structure compared to the informal economy.

Therefore, while the formal sector accounted for 90% of the provincial economy in 1995, it still accounted for 84% of the overall provincial economy in 2003. These indicators have generally been realised on the basis of an economy in which the mix of small and medium enterprises have been quite significant and in fact more significant than in purely mineral extraction enterprise types where the size of the enterprises is much larger.

This structure, both in terms of employment growth and in terms of maintaining the share of the formal sector in employment distribution suggests that the Western Cape economy is embedded with a range of structural and incidental strengths which can be used to good advantage - in terms of its human resource development and industrial strategy initiatives.

It is contended that the advantage in which many of the strengths of the economy can be further extended for future prosperity is due to a conducive configuration of existing human resource development characteristics. Although these include both the skills of the managers and workers in the Province, the statistical evidence has reduced these to workforce skills and qualifications. Seen from the perspective of unemployed individuals, it is worth noting that 60% of unemployed individuals in the Western Cape have previously held a job – the comparative statistics for the country as a whole is 37%. In the other provinces, less than 50% of unemployed individuals have previously held a job. This fact alone suggests that the problems of incorporating unemployed individuals into the world of work will be less onerous in the Western Cape and ought to serve as a positive attribute through which its human resource initiatives can be enhanced. Left unattended, however, these will merely go to waste.

While the services sector of the Western Cape economy, particularly utilities, financial and business services and community and social services exhibits an above average concentration of qualifications in the workforce that can be grouped into areas of high skills and which are borne by individuals who occupy the technical, professional and managerial occupational categories, there is, however, an immense challenge to cultivate and establish a similar set of labour force skills in the commodity producing sectors of the economy. This challenge applies to both firms and enterprises that are engaged in

primary production as well as those that undertake the manufacture of finished articles and products. While there is an enormous opportunity to advance the skilled composition of the labour force that is to be found in primary and secondary commodity producing firms and enterprises, there has been a disturbing recent trend that has seen a slackening off and a decline in the number of working individuals who have obtained qualifications in manufacturing, engineering and technology and physical planning and construction. This is untenable for an industrial strategy which is premised on strong manufacturing growth as well as growth in services that are linked to science and technology provision. And similar to a national situation in which the evidence suggests that the level of enterprise training in South Africa is actually declining, a similar trend appears to be emerging within firms in the Western Cape. These are aberrations, which can be reversed and will be reversed if an integrated human resource development strategy is put into place.

#### **4.20 Boat-building**

Some 60 % of the South African boatbuilding industry, or just over 40 firms, are located in the Western Cape, mainly in and around Cape Town. By value, production in the province accounts for some 85 %. Nationally, the sector employed 1 800, directly, and 1 400, indirectly, people in 2003. Approximately two-thirds of value added is sourced locally, and some 70 % of this originates in PDI-owned establishments.

The sector study focuses on catamarans and monohulls which internationally belong to the most visible products of the industry. Key challenges by the sector relate to production efficiency and quality on the one hand and to the absence of intrasectoral cooperation in the interests of joint technological learning and upgrading, reduction of logistics costs and so on.

Boat-building is a relatively young industry in the Western Cape. Its evolution coincided with the development of catamarans, which is why the industry has established an enviable international reputation in this regard. Yards are predominantly SMEs, run by yachtsmen who build boats because boats are their passion, and often owner-managed. South African boat-builders compete especially with French yards that are the biggest producers of catamarans worldwide. Strong international demand and South Africa's highly visible yet small presence in the market suggest that there is considerable potential for growth. The report in fact reckons that the sector could grow up to four times its current size.

The major challenges the industry faces relate to quality, management, production technologies, cash flow, BEE, skills of the labour force, and occupational health and safety. Most of these are not caused by market failures. A highly individualistic nature of the industry has so far prevented cooperative solutions to these problems, while problems at individual yards have had negative repercussions on the reputation of the sector as a whole. The sector study suggests that the sector is too small to confront all of these issues effectively which is why sector growth is an important objective. To this end it suggests four distinct measures of sector support:

1. Establishment of a technological advisory service
2. Establishment of a suitable launch and commissioning area in the Elliot Basin of CT harbour
3. Establishment of an industry code of conduct
4. Establishment of an industry hub in Atlantis

In short, these measures aim at instituting sector-wide improvements in production techniques and efficiency and quality. No. 2 addresses the current launch facilities in the harbour which are unsuitable. The recommendation is for the provincial and municipal government to negotiate with Portnet on behalf of the boat-building industry to secure a site in the harbour that the industry itself, preferably through the Cape Boat-building and Technology Initiative, would run.

The sector study is well executed and argued. It makes a convincing case that the lack of cooperation among firms and small size of most yards are constraints on industry growth, while also showing that neither of these challenges are strictly related to market failure. It also shows that sector growth would not translate into proportionate employment growth. This is because boat-building is currently a very labour-intensive activity. Technological upgrading – necessary for quality improvements – would change the capital-labour ratio in favour of the former, thus reducing average labour absorption of the sector.

Since black investors have shown relatively little interest in the on average unimpressive returns in the industry, the growth of the sector would mean that a largely white-owned industry would directly and indirectly employ more people (and the indirect effects would benefit a largely black-owned supplier industry) without doing much about equity.

#### 4.21 Food Processing

Food processing is internationally a large, complex industry with high degrees of vertical integration. This poses challenges for smaller producers in developing countries. At the same time, growth in demand for healthy products and renewed interest in niche foods, including lifestyle foods, offer opportunities to small-scale producers, especially if they can exploit location-specific advantages and differentiate themselves through Made in the Cape.

The food processing sector contributes in important ways to the Western Cape economy. It accounts for a fifth of manufacturing value added, is the second largest employer in manufacturing, and the biggest exporter. It is linked to a strong local agricultural sector and to catering and accommodation activities. Intrasectoral links are important as well. On the whole, however, it has not been a strong growth performer over the last decade. This is the result of relatively stagnant but large, established activities and smaller but high-growth activities such as indigenous teas, speciality meats, and spices and condiments. Provincial demand for food is higher than in the rest of the country.

Problems faced by smaller firms who are often associated with the high-growth activities include expensive inputs (such as packaging), barriers to entry to domestic retail, and entry into international markets. In addition, the whole industry faces more import competition.

Due to the complexity of the sector, the researchers focused their analysis on six sub-sectors, namely:

1. Chocolates and confectionary
2. Snacks
3. Food ingredients
4. Sauces, condiments, and ready meals
5. Cheeses and yoghurts
6. Vegetable and specialty oils.

They based the selection on the following methodology:

- Size and growth rates of global demand and local exports, respectively. Exports ideally target large and fast growing markets.
- Firm concentration levels. Lower concentration levels facilitate entry for smaller firms.
- Prior research and existing or planned interventions. The focus was on activities about which the provincial government has no or little information and consequently has no support programmes in place.

The study identifies opportunities for export growth in all these activities. In addition, the domestic market also harbours potential for more demand. Obstacles to realising this potential that affect a majority of the sub-sectors prominently include certification, access to mainstream retail chains for the small players, and skills. Technology and intellectual property rights, specific regulations, the absence of firm support, and costs associated with packaging and exports are also important but each only affect a few sub-sectors.

The study then identifies 12 areas of intervention that would address the above constraints. Based on criteria related to broad impact, especially on smaller firms and in the short term, limited available resources, and a policy gap resulting from the absence of other interventions targeted at the same list of problems, the researchers prioritise four. These include:

- extended certification support
- integration of lifestyle foods into existing and emerging tourism and wine-related marketing and routes
- an industry-wide forum to incentivise intrasectoral coordination and cooperation with a view to promoting up- and downstream linkages
- a food export support cluster for SMEs to facilitate joint action, reduce input and logistics cost, and so on.

In addition, the study recommends the immediate establishment of a Food Sector Reference

Group so as to create an industry counterpart for the provincial government.

The study is well executed. It makes a convincing case for the growth potential of smaller players especially in niche markets in what is a highly concentrated industry. It suggests that building up intrasectoral linkages and professionalisation of the industry especially regarding standards, along with an attempt to increase sector-wide efficiencies through a reduction of input and logistics costs, will open up opportunities for existing SMEs as well as for new firms. Because of the backward (into agriculture) and forward (into tourism) linkages of the sector, provincial support may reap a rich reward.

The study suggests reasonable targets for job creation, entrepreneurship (especially involving women) and BEE. It also costs individual support activities and provides operational details on implementation.

#### 4.22 Chemicals

The South African Chemical Industry, with a few notable exceptions, has remained relatively static over the last 10 years and has lost critical manufacturing capacity and skills. The Industry remains predominantly an upstream, commodity-based industry that has not managed to break through its endemic growth barriers of a small local market, high cost of capital, distance from low-cost raw materials and inadequate human resources.

The Western Cape chemicals sector appears to be the largest contributor to manufacturing value add. However, this is illusory, and excluding petroleum, the sector is small, producing a small range of relatively low- to medium-tech products, and importing most of the Province's needs. Trade in the sector is dominated by oil and refined petroleum products, making up over 90% of the value of exports from the Province. The chemicals trade balance is highly negative, with exports of R 7,75 billion in 2005, versus imports of R 41,5 billion. Excluding refined petroleum, the Province exported chemicals to the value of only R 1,39 billion. The main reason for this is the lack of suitable raw material in the Province, compared to other regions.

The research indicates that there are only a limited number of initiatives that the Western Cape government could actively support. However, the research indicates that only one is of major significance – the development of chemicals extracted from natural products. In this respect the Province enjoys a range of natural products that are unique. There are opportunities to develop a range of products,

including pharmaceuticals, body care products, cosmetics, biofuels and others.

Therefore the MEDS recommends that the WC government should investigate the establishment of a Natural Products Cluster to pull together all the participants in this industry. As there is overlap with agriculture, the cluster should include this sector. The Cluster would be divided into product group chambers to ensure common interests and focus.

An additional subsidiary finding concerns the possibility of developing the petrochemicals sub-sector. Although not internationally competitive in petrochemicals, the petrochemicals sub-sector is an important contributor to the Provincial economy. Furthermore the Mossel Bay low-temperature GTL process is a world leader, is relatively new, and is a sunk cost. However, new supplies of oil, condensate or gas need to be sourced to continue its operations, as well as for generation of electricity in the region. Unless long-term supplies of oil or gas can be exploited, there is little potential for this sub-sector in the Province. Hence the Provincial government should attempt to determine (through a study or consultations) the future of oil / gas exploration and the implications of future decisions regarding new sources.

#### 4.23 Construction

The construction sector contributed approximately 3.4 % to annual regional gross domestic product in the Western Cape during 1999-2003, though its year-on-year contribution fluctuates pro-cyclically. In employment terms, the sector has witnessed a secular decline from approximately 90,000 in 1995 to approximately 70,000 in 2003. This has taken place at the same time as output has remained fairly constant (though increasing in 2002 and 2003), implying that employment per unit output has decreased. It is not clear whether this decline is simply a shift in employment contracts from permanent to temporary, or full-time to part-time, since it is known that labour brokering in the construction sector is widespread. However, output in the sector is expected to grow robustly in the short term, with projections of approximately 7 percent year-on-year growth to 2008. This is due to the expectation of higher Government fiscal expenditure in this sector under the auspices of ASGISA's infrastructure development objectives. However, the overall effect on employment of this extra investment is ambiguous due to the declining output employment elasticity.

For large enterprises, skills shortages were cited in the skilled worker category (namely artisans and operators), and these shortages ranked highest amongst contractors, consultants (e.g. quantity surveyors, architects and engineers), and manufacturing

sub-sectors. Form small, medium and micro enterprises (SMMEs), the greatest reported shortages were found to be in management. Unskilled works were not deemed to be in significant shortage by any of the firms surveyed.

Lack of training was reported as a constraint to business practice by contractors, consultants and SMMEs, despite the operation of the Construction SETA (called CETA). Lack of financial incentives to train construction workers and the lack of multi-skilling ranked as the next most impacting influences on skills shortage according to contractors and SMMEs. Furthermore, the lack of financial incentives to train, cyclical nature of the construction industry, and the lack of continuity of work were seen as the most influential factors preventing manufacturers from addressing skills shortages.

There was general agreement across all sub-sectors that if incentives were in place then more training and retraining of workers would occur. There was some consensus that retraining currently employed workers would overcome skills shortages, that training produced broad skills and lack of training led to skills shortages. Evidently, the Construction Education and Training Authority was either failing in delivering on its mandate to facilitate appropriate training, or it has not positively influenced construction skills training.

Key interventions suggested included the formation of a forum for construction industry management; improved performance and monitoring of the Preferential Procurement Policy Framework, which was displaying limitations as far as fronting black businesses is concerned; increased funding and types of training in the province, and brokered closer relationships with national government on the upcoming infrastructure programme.

#### 4.24 Informal Economy

This is an excellent analytical study and the researcher has uncovered new information through an innovative usage of the Labour Force Survey data. Although the informal economy in the Western Cape is smaller than in other provinces one in every 10 people working in the Province work in the informal economy. Although average individual incomes are often low, cumulatively these activities make a significant contribution to the Western Cape's gross geographic product (GGP). Furthermore, when compared to other provinces more people working in the informal economy in the Western Cape fall into the upper income categories than elsewhere in the country. The racial distribution of people



working in the informal economy encompasses Africans, Coloured and Whites. However, substantially more Coloured and White people fall into the higher income categories than black Africans who tend to fall into the poorer income categories, which is a concern.

In terms of a sectoral distribution, there is a greater proportion of people working in informal activities in construction, manufacturing, services and trade who fall into the higher income categories than the rest of South Africa. This creates greater opportunities for targeted initiatives to assist and support many of these individuals to increase their income. The informal economy in the Western Cape also contains a greater proportion of people with higher education levels than in the rest of South Africa. This is an advantage and should enable any training initiatives to be more easily absorbed.

The researcher notes that supporting those working in the informal economy thus has important growth and poverty alleviation implications. She argues that if the Province is to maximise the poverty alleviation, labour absorption and economic growth potential of this segment of the labour force, it will have to proactively prioritise the specific needs of this group. This fits in well with the MEDS emphasis on growth, job creation, and equity. Consequently the MEDS 2006 Synthesis Report elevated the informal economy to a special priority area and it is discussed in greater depth in Chapter 6 on New Directions.

A major focus of the research is on the barriers to entry, blockages to improving incomes in the informal economy, and obstacles to taking advantage of opportunities. These are detailed in the research report – many related to access to infrastructure and basic services, financial services, training, business related infrastructure, as well as the application of local government regulations. The researcher also details a number of sector specific constraints which could be innovatively addressed. Based on these issues the researcher has identified a number of policy interventions, many of which are included and supplemented in Chapter 6 on New Directions of this MEDS 2006 Synthesis Report. Hence they will not be repeated here.

#### 4.25 Printing and Publishing

Wood and paper; publishing and printing account for one-eighth of manufacturing output and one-seventh of manufacturing employment, some 30,500 jobs. The research shows that the printing and publishing sub-sector has tended to see declines in output. Overall, the sector share of output is showing a tendency to decline.

Two factors account principally for the industry's poor performance. The first factor is growing internationalisation and especially the development of producers in the Far East. Comparative advantage based on lower wages combined with high levels of efficiency and significant economies of scale are reinforced in a number of countries such as the Philippines where governments are providing lavish support to the printing industry. The second factor is the shortage of skills. With regard to the latter, industry informants in all three sub-sectors, but particularly in printing, were unanimous as to the lack of skills being a very significant constraint. Skills constraints result in higher wages and job-hopping rendering the firms less competitive. They are also a major factor in encouraging the firms to introduce more capital rather than labour using technologies. This has a clear negative impact on the number of employment opportunities – not just for skilled, but also for associated semi-skilled workers.

Employer informants were particularly concerned as to the perceived inadequacies of the current education and training system to produce the necessary skills. In particular, while some regarded the SETA system as improving and likely to continue to do so, concern about the SETA was widespread and relations seem to have been strained. The SETA provided some late response to the report and this issue requires further investigation.

The researcher's sole significant recommendation concerns the issue of training. The main recommendation is that the province provides "logistic and financial" support for the establishment of a training centre in the Western Cape. At the presentation of the report, numerous industry representatives appeared to regard provincial support to this as sufficient – there were no calls for additional support – financial or other.

While there is a training facility in Gauteng, the distance especially given that much of the training is undertaken after hours for working people, suggests that lack of such a facility is indeed constraining the development of the industry in the Province and that it is needed as a matter of urgency.

What will be key is a well-structured funding model. In principle, firms pay for training and governmental support is limited to the extent of the market failure, ie. the social benefit of the training that firms will not be able to realise as a result of labour mobility.

This industry has an active and informed industry association. The recommendation is the department of economic development and tourism requests the Western Cape division of the Printing Industries Federation of South Africa (PIFSA) to draw

up a motivation and business case for such a venture. The department could then get external support to evaluate this proposal.

#### **4.26 Wholesale, Retail & Franchising**

The wholesale and retail sector contributed approximately 15,7 % to annual regional gross domestic product in the Western Cape during 1999-2003, with its year-on-year contribution remaining fairly stable between 15 and 16 %. The sector has become the Province's greatest employer since the secular decline in manufacturing employment experienced since 1995. Numerically, the employment trend has remained remarkably constant between 1995-2003, averaging approximately 275,000 workers. However, over the same period output has grown considerably, implying that the output employment elasticity in the sector has fallen over time. This could be due to productivity enhancing investments in the sector, or shifts to more flexible employment contracts, or both. Projected output is expected to decline somewhat in the period to 2008, though with the next Soccer World Cup heading South Africa's way, this projection is likely to reverse.

Current developments with regard to emergent enterprise entry in the sector are fairly advanced. Large retailers have played a very active role in this respect, with identified opportunities situated as downstream or upstream activities relative to the firm. In each instance the retailer had initiated the emergent enterprise opportunity as part of their corporate responsibility, often developing their own BEE scorecard in terms of the BEE guidelines. This process then informed the firm's decision to locate the activity, e.g. in the supply of a product or the supply of a service (as an upstream or downstream activity). The big retailers with a franchise division were also influenced in terms of their company's BEE scorecard decisions on encouraging emergent enterprise entry. The type of company involved in these processes was large and usually publicly listed.

In the franchise sector, entry opportunities for the emergent entrepreneur already in place included a large retailer's Retail and Franchise Academy, where a scoring system is used to evaluate an entrant with no retail exposure. The entrant is also given hands-on experience in their store along with attendance at the academy. A two-year timeframe is usual for this type of entrant to become an owner operator. Twinning (having new stores with one black owner and one white owner) was also being utilised in franchise stores in upmarket areas to fast-track black entry. This large retailer uses a BEE committee to source supplies from manufacturers with black equity.

It is important to note that limited exposure to retail operations by unemployed people is also being tackled by the W&RSETA. Businesses belonging to the W&RSETA who had participated in the learnership programme had given learners working exposure in their businesses. This programme is in the process of being evaluated.

The informal traders who have formalised themselves by creating companies with the traders as shareholders or as part of a Trust are limited by not having the time and resources to attend skills development training. Having access to financial credit, loans, tenureship, infrastructure and bulk buying power were deemed to be major limiting factors in becoming more economically viable and moving from a state of informal to formal. The issue around tenureship and the practicalities of not having adequate access to reasonable infrastructure (such as cover from the elements, lock up facilities, and toilets, and competitive wholesale pricing) were definitive constraints experienced on a daily basis by the informal traders.

Informal traders have begun using enterprising initiatives to try and increase their stake in this sector. For example, traders have formed companies and become shareholders in them, largely to try and increase their bargaining power and their collective voice. However, a major constraint to more informal sector companies growing is the lack of recognition they feel they are getting from local and provincial government.

The major recommendation by the author is for the establishment of a WRF sector advisory council or forum that could discuss issues such as a more general BEE scorecard for the sector; a database of emerging black and women enterprises; a fast-tracking system for BEE initiatives; a formal system of acknowledgement and encouragement of existing successful BEE initiatives; formal acknowledgement of informal sector trade and cooperative initiatives; working with the W&RSETA for the provision of entrepreneurial skills to historically disadvantaged entrepreneurs; and a system of monitoring progress in the sector in this regard.

#### **4.27 Design**

This study, undertaken in the second half of 2005, was not commissioned under the auspices of the Oversight Committee but forms part of the MEDS and is thus summarised here.

The design study underlines the importance of design for innovation and international competitiveness. It argues that design is thus an integral feature of the national system of innovation. The study shows that the supply of designers currently exceeds demand. It interprets this to mean that there is an underutilisation of design in the Province, which in turn is due to the lack of appreciation of the role of design in economic performance.

The quality of designers produced in both public and private institutions of higher education is good. Gaps in their training exist, however, and are especially noticeable in competences related to business management, marketing, technology, and production processes. Design is a largely untransformed sector with very few black participants.

The study recommends that design training be refocused to encompass schooling in design proper next to production and process management. This should yield benefits in that emerging designers would better understand the contexts within which users exploit their products. This applies in particular to design for development where societal needs and the culture, values, and traditions of the communities must inform the design of the products that are targeted at them.

The study underlines the importance of design in the knowledge economy. For example, design is essential for product differentiation. Since “doing design” and “managing design” are distinct activities, there is scope for a Design and Innovation Management Programme in the Province.