

[Chapter Five]

PRIORITISATION AND SELECTION: IDENTIFYING KEY SECTORS AND ACTIVITIES



Chapter [5] Prioritisation and Selection: Identifying Key Sectors and Activities

We begin by making the case for prioritising sectors. We then outline what is envisaged in regard to policy support for selected sectors. A series of possible tools for identifying policy priorities – what we have termed a decision making matrix – are detailed. Finally, utilising the tools outlined, we identify what we regard as the key priority areas and categorise the sectors that have been researched in this phase of the MEDS. We emphasise the contestability of our selection, more particularly in the light of data limitations and the number of areas still to be researched.

The MEDS has examined a large number of sectors and themes. However, a number of sectors and themes have not been addressed and will need to be the subject of future phases. In the Conclusion, we outline what we see to be the priority areas for further research.

This “wide canvas” of the MEDS research is a reflection of a provincial economy that is diversified. This is not an economy in which only a few sectors stand out and account for the overwhelming proportion of economic activity. There are a very wide range of sectors and sub-sectors that have significance. Similarly, there are currently a very wide range of sectors and sub-sectors that are growing and that have prospects of future growth. Looking at the economy in dynamic terms, growth is likely to occur across a very broad front and not be confined to a few sectors.

Given the wide field, and one in which so many have real prospects, how are we to make choices so as to prioritise certain sectors and activities? Given that resources are not infinite and this involves trade-offs, what is the basis for prioritisation? How do we decide between sectors that have possible growth potential and others that do not but need rescuing from a process of decline? To compound the problem, how are we to do this given that much research is still to be done?

Before addressing these questions, there is a set of prior questions that are more fundamental: why should we prioritise? How do we ensure that we do not squander

resources? And, what precisely is entailed in prioritisation? We address each of these questions in turn.

5.1 Why Prioritise?

There are three main inter-related reasons why we believe that the PGWC should prioritise in deciding which sectors and activities to support.

The first is that in a situation where resources are scarce – financial, and just as critically, personnel – the absence of clear priorities very easily leads to an ad hoc opportunistic allocation of resources. Governmental programmes of sectoral support must have credibility amongst its “consumers”, the productive enterprises who are its recipients. Enterprises must be secure in the knowledge of government’s commitment over the applicable time period. Otherwise the desired impact on firm level behaviour, to raise investment or to improve productivity for example, will not result.

The second is that where the governmental personnel are stretched too thinly, choices will inevitably be made on the basis of very limited knowledge and engagement and will tend to follow no clear path or logic. This will significantly increase the likelihood of poor and inconsistent resource allocation.

The third is that in a situation where some individuals and enterprises clearly benefit from the allocation of resources, setting out clear priorities, the basis for making them, and the mechanism to prioritise, is very important to maintaining control over the potential corruption in decision-making.

The resources available to PGWC are very limited. In terms of financial resources, we have understood the figure to be in the realm of R100 million per annum over the next three years. In terms of personnel, while there is some flexibility as to the precise staff complement, this too will be very limited.

5.2 Government Failure and the Misallocation of Resources

The issue of whether or not government should actively select and support a number of key sectors and / or themes continues to be the subject of heated debate. We do not enter this debate here. We take as our initial starting point the position that



the PGWC has decided on the pursuit of an active sectoral or industrial policy and that the task of the MEDS is to give this optimal form.

However, we note three things in passing. The first is that there is increasing support for such policies at a national level (see Chapter 3) and that such policies are rendered more effective where there is provincial engagement in both design and implementation (see Chapter 2). The second is that the major ground for opposition to an active sectoral or industrial policy rests in the view that governments are unable to read the market and as such government policy action is likely to fail, where failure is understood as a misallocation and squandering of public resources. This criticism indeed has considerable weight and informs the design of our strategy. Thirdly, we note the criticism that government often lacks the capacity to deliver on overly ambitious sectoral interventions. Government is often plagued by capacity skill deficits and we are mindful of the need to create partnerships as a way of overcoming this problem.

It is essential that the PGWC works very closely with the private sector. In our view, the identification of new opportunities and the design and implementation of policies must be a joint endeavour of the Province working together with the private sector. Indeed, it should often be the private sector rather than government that plays the leading role in this process – this is more so at an early stage of policy development as is characteristic of the current situation in the Western Cape. We accordingly place considerable emphasis on the need for the PGWC to facilitate the development of industry and sector level associations, or independent bodies that are institutionally embedded within sectors and can play the role of representation, where no or only limited organisation exist. Furthermore, we have also emphasised the importance of creating ‘forums’ – bodies of dialogue between government and the private sector in the various sectors – to ensure that a healthy working relationship is sustained and decisions are neither ad hoc nor arbitrary. On grounds of both efficiency and equity, it will be very important for the PGWC to facilitate and incentivise organisations that clearly have the buy-in, commitment and participation of the core of the industry, but which are also broadly representative and have clear programmes for the development of smaller businesses (including black-owned and women-owned and managed).

Working with, and indeed taking a lead from the private sector, will result in a considerably reduced risk of government squandering scarce public resources. This risk can be further mitigated if government engages only in part funding of new opportunities and programmes. Where other funders, who have access to information and who are able to exercise considerable expertise and information, also commit resources,

government can have fair confidence that its resources will be used effectively.

Finally, we propose that firm and frequent monitoring and evaluation of all government programmes and funding arrangements be implemented (see Chapter 7).

Working in tandem with the private sector, committing only limited resources in partnership with others and ensuring regular monitoring and evaluation will not eliminate, but it will considerably reduce, the risk of squandering public resources.

Accordingly, what may be termed “an ideal scenario” is the following: Government support is offered in a sector or sub-sector where there is a broadly representative and legitimate organisational body that is committed to the development of the sector as a whole and especially small and black-owned, and women-owned and managed enterprises. This representative organisation, in consultation with government, identifies programmes and actions that will serve to raise output and employment through the sector. Government possesses the critical facility and autonomy to evaluate such programmes and actions. It responds by offering part-funding. The organisation raises the additional resources required from amongst its membership and / or other (private) funders. The programmes and actions are subjected to regular external processes of monitoring and evaluation.

5.3 What is Entailed in Prioritisation?

The MEDS research has identified a number of sectors where prospects for further development are particularly promising and where government policy support has the clear potential to considerably enhance performance in accordance with the stated goals in terms of growth and equity. These sectors would be clear candidates for priority attention. We provide more detail on the specification of priority sectors below. With respect to priority sectors, the precise characteristics of government attention and support would clearly vary so as to accord with the requirements of that sector, but the following broad outlines would pertain:

- Clear and consistent multi-annual policies and programmes entailing allocation of financial resources committed in advance and applicable over a period of time, typically 3-5 years.
- Allocation of dedicated personnel government whose sole function rests with that sector.

- Publicly declared high-level political support for “flagship” sectors.

This combination will send a clear message to the private sector as to government’s seriousness of intent and give credibility to policy support. Even the best-designed policies will fail if they lack credibility and consistency.

As outlined above, government’s capacity to provide this level of support is limited. It is therefore critical that government select only a few priority sectors. This is more particularly so at the early stages of policy development as is currently the case in the Western Cape. With time, government will learn from successes and failures and will generally get better at designing and implementing policy support. It may then take on a larger load and extend its support to across more sectors and activities. But what of the other sectors?

Here we have divided the remaining sectors into two categories. Firstly, “important sectors” which are currently of social and economic significance to the Western Cape for a variety of reasons – e.g. employment, output, linkages to priority sectors, etc. – but which do not display the same growth prospects as our priority sectors.

Secondly, sectors that have very uncertain future prospects or are declining sectors or lack a significant presence in the regional economy. In a well-diversified economy where a number of sectors have the capacity for growth, government cannot ignore developments and opportunities presented. With respect to the ‘important sectors’, the PGWC would identify limited but critical interventions, allocate defined but relatively minimal resources to specific projects, and allocate personnel (with expertise) to cover a number of them at one time.

This is different from the approach to the non-priority sectors where the role of Province might best be described as “keeping a watching brief.” This would entail assessing major developments and supporting favourable developments as and when they arise. But, support would be ad hoc and very limited. There would be no dedicated personnel or “desks” relating to single non-priority sectors. Rather personnel would be responsible for a number of non-priority sectors.

One of the most difficult tasks is to achieve “the right balance” between significant support for the identified priority sectors, limited support for the important sectors and the remainder. The principle should be to first ensure that the priority sectors receive sufficient

support and that the others are thereafter accommodated within the budget constraint. We turn now to the selection of priorities.

5.4 How Do We Prioritise?

Our approach to this critical issue is that the Province develops an explicit tool in order to identify priorities. We call this tool a decision-making matrix. This tool must fulfil the following requirements:¹⁷

- Workable – possible given the availability of information.
- Defensible – open to scrutiny from both a technical and a political perspective.
- Realistic – results in prioritisation that makes sense to all the parties involved.

Various options are possible. These are sketched below with their associated advantages (pros) and disadvantages (cons).

5.4.1 Relatively unstructured “expert opinion” based on available evidence

The least structured and “matrix-like” approach would involve assessment on the basis of expert opinion, based on one or two criteria, using the available data as “evidence” to motivate for decisions. Examples of criteria are:

- Initiatives most likely to succeed based on expert understanding of sector dynamics and sustainable competitiveness.
- Likelihood of stakeholder buy-in to implement and champion initiatives.
- Initiatives with synergies across sectors that could provide the best “economies of scale” for government investment.
- Initiatives that are well aligned to national policy and therefore likely to generate greater shared return on investment through intergovernmental coordination.

Pros

- This is a very workable approach, as it allows decisions to be made based on a

simple set of criteria and whatever information is available.

Cons

- The approach can be open to contestation, as it can be perceived as subjective.
- The degree to which it can be defended is dependent on the manner of communication of findings and the perceived credibility of the experts involved.

5.4.2 Relative assessment against two main criteria

A slightly more structured approach would involve relative ranking based on the potential scale of significance or impact consequent upon policy support and the cost or investment required. Priorities would depend therefore on a relative weighting of potential impact and cost – the greater the potential impact and the lower the cost, the higher the priority.

Pros

- The approach is workable in that it is not overly complex.
- It is easy to demonstrate visually and therefore creates scope for debate of the relative positioning of initiatives.
- It is relatively easy to re-assess inclusion or exclusion by adjusting the “inclusion / exclusion” line.

Cons

- Assessment can be considered arbitrary if not based on accurate data.

5.4.3 Hierarchical filtering applying levels of screening

In this approach, a series of filters would be applied, narrowing down options after each filter. Examples of potential filtering criteria are:

- Importance of sectors to the provincial economy first, then impact assessment of initiatives.
- Relevance to the department of economic development’s mandate, then impact assessment of initiatives.

- Cut-off in terms of cost or available capacity for initiatives, then balance across sectors.

Pros

- Allows for a workable assessment of a large number of options.
- Can provide a realistic assessment that makes sense to role players (if appropriate filtering criteria are selected).

Cons

- Rationale for hierarchy of filtering is subject to scrutiny and challenge.
- Can be seen as arbitrary if not based on accurate data.

5.4.4 Qualitative matrix

In this approach, qualitative assessments of a series of factors are set out in a matrix, often using a “High / Medium / Low” or similar qualitative categorisation. Options can then be ranked based on the number of “Highs” against these factors.

A variation on this approach would be to give numerical scores and calculate a total at the end. The department of economic development has in fact drawn up such a matrix whereby the sectors were scored on the following criteria: potential clustering; job or growth potential; export potential; investment potential; skills potential; competitiveness and technology potential; and empowerment potential. Priority sectors were those with the highest scores. It would seem though that this matrix was not actually operationalised.

Pros

- Can be used even where quantitative data is not available in all cases.
- Is relatively transparent, and can therefore be debated.
- Relatively accessible to role-players, in particular if supported by a motivation using available evidence.

Cons

- Not a very nuanced form of assessment.

- Difficult to assess a large number of items with this system, as it becomes hard to make relative assessment and provide visual representation.
- Does not easily accommodate weighting of the importance of some factors more than others.
- Makes no resource costs.
- Can be seen as arbitrary if not based on accurate data.

5.4.5 Matrix Utilising a Weighted ranking based on quantitative assessment

This approach would involve allocating quantitative figures to a range of factors, applying a weighting to each of these factors and then calculating a summary score for each sector or initiative, which could then be ranked by score.

Pros

- Can allow for nuanced assessment.
- Can readily accommodate multiple factors.
- Enables weighting of importance of criteria.

Cons

- Requires extensive, reliable quantitative data.
- Can result in a false sense of accuracy if based on quantitative rankings of qualitative assessments (e.g. giving scores from 1 to 10 for factors).
- Relative weighting of factors is open to contestation.
- Approach can be inaccessible to non-technical role-players and officials involved in implementation.

5.4.6 Additional Observations

Three important observations should be noted. Firstly, whichever decision-making tool

is selected, the result is indicative and not final. It is not to be seen as akin to a formulaic modelling exercise. The results are only one, albeit an important, input into the decision-making process. Thus, this should not be applied in a mechanistic fashion.

Secondly, the criteria for selection will always be multi-faceted. This will include critically an assessment of potential impact of policy – where impact could be measured along many dimensions such as output, investment, employment, impact on other sectors, etc. The first task is to agree on the criteria for selection. The second task is to agree on the relative weighting of these criteria. The criteria and their respective weightings will depend heavily on the economic and social goals to be pursued.

Thirdly, quantitative assessments in relation to the criteria specified are important in reducing the level of subjectivity in assessments. However, many magnitudes cannot be readily quantified, e.g. the quality of sector organisation. In addition, at this stage, very few clear and definitive quantitative assessments could be made. Of particular importance here are the measurements of the employment magnitudes (especially indirect employment) and backward and forward linkages that might result from the further development of particular sectors. This underlines the importance of developing the modalities whereby such quantitative assessments can be made – most critically here would be a provincial economic model. We accordingly recommend that serious attention be given to this exercise. At this stage though, assessment and selection of priorities will rely heavily on qualitative criteria.

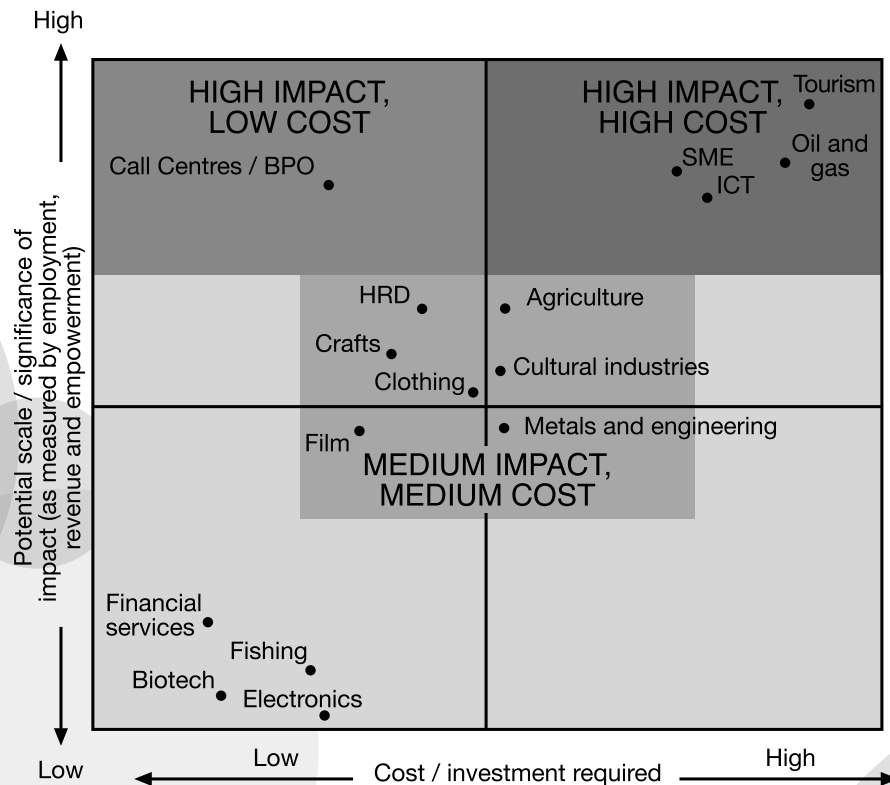
5.5 What should be Prioritised?

Over the course of the MEDS process, the Oversight Committee spent much time deliberating the choice of priorities. Our view is that if, as we propose, the PGWC selects only a few priority sectors, these should be sectors in which policy could have a significant impact. In our schema therefore, “significant impact” understood in terms of both output and equity objectives became a necessary criteria for selection. This had to be weighed against the necessary resource commitments understood both in terms of finance and human resources. Where a sector had significant potential and the resource costs were likely to be limited, it would qualify as a priority sector. Our categorisation is illustrated in the diagram below.

The precise positioning of all of the different sectors can be debated and disputed. The MEDS Synthesis Report for 2005 identified five areas that stood out from the

pack in terms of the potential impact of policy – Call Centres / BPO; Oil and Gas Services; Tourism; ICT and SMMEs. In 2006, following further research, we add the Informal Sector. We saw little to challenge this assessment.

Fig 5.1 – Potential Impact Areas



In addition, given the considerable stress that we place on the importance of organisation, the existence of an effective and representative sector body was also given considerable weight. It is significant that, with the exception of SMMEs and the Informal Sector, all the priority sectors also have significant and legitimate organisation. SMMEs and

the Informal Sector are both multi-sectoral and no single organisation will result.

While our researchers were able to provide fairly precise estimates on the magnitude of the resource costs in respect of the policies and programmes that they advanced in respect of ICT, Call Centres / BPO and SMMEs, the resources required in the other areas are less clear. However, it is likely that all could be accommodated working within a budget envelope of R100 million per annum (see above) and still allow fair allocation of resources to the other sectors. However, this assessment will require further analysis and we would recommend that before the listing of priority sectors is adopted, an exercise be undertaken to ensure that the financial resources are indeed adequate. In terms of personnel, again this would appear to be manageable, but some further investigation by the department will be in order. It may be that support for the sectors will need to be phased in over some time period.

As the diagram indicates, we have also identified a number of sectors that fall in the middle range and hence are regarded as having an important status. Although not high priority, they warrant government attention, particularly since the resource implications are limited. The evidence marshalled from the sectoral research does not indicate that they are likely to achieve substantial growth in terms of output or employment. However, other factors bring them to the fore as warranting some medium level prioritisation. In addition they have the capacity to contribute to equity.

They also have representative organisations. In some cases the social implications (e.g. loss of employment in clothing) of not assisting them are substantial. In other cases they clearly provide important linkages to the five prioritised sectors, and bolstering them would have a significant spin-off for these sectors – e.g. craft, cultural industries and film have direct linkages to the tourism sector.

5.6 Prioritisation of new sectors

To illustrate the process of prioritisation and placement of sectors, we apply this, very briefly and cursorily, to the sectors that were researched in this phase of the MEDS:

The Informal Sector – has potentially a large impact in terms of both output and particularly equity. The resource costs are limited – particularly legislative changes – and the relatively high levels of formal schooling suggest that well-targeted training programmes have a good prospect of success. This is accordingly placed in the priority category.

The following sectors are identified as important and warranting attention:

Food Processing – agro-processing is the largest industry in the Western Cape. However, it consists of a series of different sub-sectors. A number of sub-sectors have been identified as having good prospects, but these are all small and their expansion will have only a limited impact on output and / or employment.

Boat-building – as with agro-processing, this is a sector with good growth prospects, but its potential impact will be limited

Construction – this is a very important sector, particularly in terms of employment (unskilled and semi-skilled) and also in terms of SMME development. The policy impact that can be exercised by the province is however limited and is largely confined to training.

Typically, by contrast with the priority sectors where identify a more comprehensive set of policy support, our policy recommendations for these sectors is confined to one or possibly two areas

Chemicals – this sector is dominated by petroleum, and when this is excluded it produces only a small range of relatively low- to medium-tech products, and importing most of the Province's needs. There is an opportunity to facilitate a small cluster developing chemicals extracted from natural products, and hence, although this sector is not accorded priority status, this intervention is supported.

Printing and Publishing – this is an important sector, but output and employment growth is likely to be limited and market failure is confined to insufficient training. We accordingly make policy proposals only in regard to training.

Retail, Wholesale and Franchising – This is an important sector in the Western Cape in terms of both output and employment. However, due to the fact that it is largely affected by the level of aggregate demand in the Province, there is little by government in the sector. Equity considerations and increasing the role of small and micro enterprises, particularly in the informal sector, can be done in conjunction with other initiatives in the MEDS, such as those on the informal sector and SMMEs.

5.7 Determining Policy Choices

The MEDS has overseen a programme of research that is fairly comprehensive. While there are some sectors and activities that still require research and some areas that will require further research (we make some proposals in this regard in the concluding chapter), the province now has a substantial body of research to draw on. Moreover, we have proposed a prioritisation of sectors and activities and we have required of our researchers that they similarly rank their policy proposals with respect to each of their sectors.

In determining its suite of policy supports the Province is now in a position to draw from a fairly comprehensive research programme where the sectors and the proposed policy supports are ranked.

The full suite of policies proposed in the MEDS research may be beyond the capacity and the resources available to the provincial government. In determining its policy selection, we propose the following guidelines:

- Ensure the proposed policy support to the priority sectors
- Ensure support to skills development
- Concentrate resources on fewer policies that are well resourced rather than dissipating resources widely.

5.8 Summary

As in every prioritisation exercise, our view is open to challenge – both as to the criteria selected and on the assessment of the different sectors and activities in terms of those criteria. This is more particularly so, given the paucity of hard data. However, whatever decision tool we employed, the same priorities emerged. We accordingly recommend the adoption of these priorities. This would entail commitment by PGWC as we outlined above.

However, these priorities should be periodically reviewed, especially as research into other sectors is completed and as new data becomes available. As Rodrik (2004) reminds us, development is a voyage of discovery. At its core lies a more or less intelligent attempt to make informed choices about resource allocation in the context of relative uncertainty about where economies go, especially in advanced, knowledge-intensive activities. The point of departure for the voyage in this instance is the MEDS, which sets a vision of growth and equity, identifies key priority sectors, commits to industrial

policy and strategy levers, promises to facilitate institutional mechanisms to link the private and the public actors, and sets realisable targets.

A voyage of discovery implies setting sail from the security of the harbour with inadequate, incomplete and imperfect navigational equipment. The captain and crew may well have been blessed by a vision of the promised land, but have only rough maps and coarse guides to show the way. They know this is no reason to stay fast to their moorings and have to set off with imperfect charts plotting the way forward. They understand that they have no choice but to augment their knowledge with insights from others.

The analogy holds for the task of setting up and implementing industrial policy, which

is why the MEDS stresses the importance of representative stakeholder forums and partnerships between the private and the public sectors as a way of acquiring and improving information. In setting out an industrial policy this is all the more so in conditions of rapid and profound economic change. Moreover, as one proceeds there is an imperative to update information, revise it, and consider different conclusions from those originally advanced. Only the most foolhardy will regard this as a mark of inconsistency. The more realistic will appreciate that in a voyage of discovery mistakes will always be made, and if they do not learn, they risk floundering on the rocks ahead.

A knowledge-intensive province knows that learning from mistakes can be just as instructive as celebrating successes. This is precisely the task of monitoring and evaluation to which we now turn.