

**WESTERN CAPE
SOCIO-ECONOMIC REVIEW**

2003

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FOREWORD

The 2003 Socio-Economic Review (SER) is the result of a team effort involving a broad range of academics based in the Western Cape as well as a number of civil servants from inside and outside the Provincial Treasury.

The SER is largely based on background documents prepared by the following people and institutions: Jeremy Seekings, Keith Cattell, Barry Standish, Bruce Boaden, Haroon Bhorat, Azola Majeke, Reza Daniels (all UCT), Marlese von Broemsen (UWC), Albert van Zyl and Gugu Shabalala (both Provincial Treasury), Norma Tregurtha, Nic Vinck, Servaas van der Berg and Simon Bekker (University of Stellenbosch), Penny Vijnevold (Department of Education, PGWC), CSIR – Transportek, Graduate School of Business (UCT).

Two workshops were also held in preparation of the SER. The following people participated: Philip Black, Simon Bekker, Ben Smit and Servaas van der Berg (all University of Stellenbosch), Jacques du Toit (ABSA) Zunaid Moolla (Bayete Development Consulting), and JC Stegmann, Albert van Zyl, Gugu Shabalala, Nelia Orlandi and Shahieda Sechel (all Provincial Treasury). The following people also commented on earlier drafts of the SER: Barry Standish (UCT), Dirk Troskie (Dept. of Agriculture, PGWC), André Bastiaanse, Harry Malila, Helen Venter, Gugu Shabalala, Cedric Ismay and JC Stegmann (all Provincial Treasury). Albert van Zyl (Provincial Treasury), assisted by Carlene van der Westhuizen (Idasa), coordinated the research team and compiled and edited the final document.

I wish to thank all who contributed to this SER for the hard work that went into producing the publication, especially as this was done during a process of restructuring in the Provincial Treasury.



Johann Stegmann
HEAD OFFICIAL: PROVINCIAL TREASURY

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EXECUTIVE SUMMARY

Introduction

A decade of redistributive service delivery has not reduced levels of inequality and unemployment nor has it stimulated sufficient levels of growth. In order to have maximal impact on the economy and labour market, government service delivery should therefore not only consider its output goals, but also its impact on the economic environment within which these services are delivered. This SER sketches the economic and labour market challenges that government needs to address in order to reduce unemployment and inequality in the Western Cape.

Trends in economic growth

The Western Cape economy grew by an average of 3.3% between 1995 and 2001. The provincial economy grew faster than the national economy until 1999, but has been slowing since then. The provincial economy has also undergone major restructuring since 1995 with tertiary industries growing much faster than primary and secondary industries that virtually stagnated over this period. The Transport & Communication and Finance, Real estate & Business services industries contributed almost 75% of all growth in the Province over this period. Together the Agriculture, forestry & fishing and Manufacturing industries, two traditionally important sectors in the provincial economy, could only contribute 8.6% of all growth in the provincial economy between 1995 and 2001. While a similar drift to the tertiary industries is visible at national level, this trend is significantly more pronounced in the Western Cape.

While no economic growth figures are available at provincial level for the period since 2001, national trends in all key Western Cape industries have shown a significant slowdown. In fact the most significant national slowdowns were recorded in three mainstays of the Western Cape economy, namely Agriculture (5% to 0,2%), Transport & Communication (from 8.4% to 4.6%) and Financial services (from 6.3% to 2.3%). Slowing retail and wholesale trade figures and the recent strengthening of the Rand, confirms the continued slowdown in the provincial economy.

Provincial labour market trends

Because salaries and wages make up the majority of income in the Western Cape, the proper functioning of the labour market should be a key component of any policy of redistribution and poverty alleviation. The Western Cape labour market performed much better than the national labour market between 1995 and 2002, with the Western Cape economy providing jobs for 55 jobs out of every 100 new entrants into the labour market, compared to 34 for every 100 nationally. Between 1996 and 2001 the Western Cape did however lose 1.6% of its share of total jobs in South Africa. The Census indicates that the largest sectoral share losses over this period were felt in Manufacturing (-3.8%), Financial (-1.4%) and Community sectors (-1.2%). The Transport (0.5%), Mining (0.5%), Construction (1.3%) and Agriculture (0.4%) sectors have managed to increase their share of sectoral employment.

Nationally 30 out of every 100 Africans found employment between 1995 and 2002, but in the Western Cape, only 3 out of every 100 Africans found employment over this period. The labour market experience of African individuals in the Western Cape remains

decidedly worse when compared with Coloured, Asian and White workers resident in the Province. It is this poor performance of the labour market for Africans that engenders higher poverty and poverty gap levels for this cohort within the Western Cape province. The labour market performed much better along gender lines with 66 out of every 100 females finding work, compared to 39 out of every 100 males.

As is the case nationally, the provincial economy continues to provide decreasing opportunities for unskilled workers. In the Western Cape, the share of unskilled workers in employment declined from 34% in 1995 to 29% in 2002, while the share of skilled workers increased by 5 percentage points.

One of the avenues open to people that do not participate in the labour market as salaried workers is entrepreneurship. The Western Cape has comparatively high levels of total entrepreneurial activity. There are relatively high differentials between population groups, but when controlling for matriculation, it was found that there are no significant differences between population groups in the Western Cape.

Sectoral growth and employment trends

This *ICT* sector has been an important driver in provincial growth and employment over the last few years. The growth potential of all its constituent industries is however capped by low levels of socio-economic development. In the long term, further growth will have to be carried by either higher levels of overall economic growth or increased access to foreign markets. The high level of local skills and the favourable exchange rate, coupled with having the same time zone as most of Europe, contributes to the ease with which companies move into some foreign markets. It has however been argued that the monopoly of Telkom in the telecommunications industry is restricting the growth opportunities of ICT companies. The 'brain drain' is another serious problem facing the Western Cape ICT industry as a result of relatively low salaries being paid in comparison to the rest of the country.

The *Finance, insurance, real estate and business services* sector consists of the property, banking and insurance industries and contributed 26.6 % to the Western Cape's GDP in 2001, up from just over 21% in 1995. The growth in this sector has been the largest contributor to growth in the Western Cape economy since 1995. The slowdown in growth over the last 18 months is mainly due to a slowdown in the life insurance and pension fund industries, as well slower growth in the real value added by security traders on the JSE Securities Exchange. The Western Cape property sector has however continued to show solid growth, despite a generally adverse economic environment.

While this sector as a whole is less labour intensive than most others, it is still a significant employer in the Western Cape (10.5% of employment in 2001). Bank take-overs and rationalisation activities have however caused the national banking sector to shed nearly 9 000 jobs over the past year. This trend has hit the Western Cape particularly hard and is expected to continue over the next 12 months.

The contribution of *Manufacturing* to the provincial economy declined from 21.3% in 1995 to 18.3% in 2001. Despite this decreasing share, the manufacturing sector remains the second largest contributor to employment (after Community Services) and Gross Domestic Product in the Western Cape. The stronger Rand and a number of other factors continue to put pressure on this sector.

While no comprehensive statistics are available in this regard, the growth in the Transport and Restaurant and Hotel industries indicate a significant contribution by *Tourism* to the provincial GDP. The tourism industry is also highly labour intensive and much of the labour may be unskilled or needing only short, in-house training. The fluctuations in employment numbers do however suggest a fairly volatile business environment. In the medium term, tourism is likely to remain an important sector for the Western Cape, with considerable untapped potential in specifically the two- and three-star hotel niche of the market.

In 2001, the Western Cape *Construction* industry contributed R5 billion or 3,8 % to the provincial GDP. The Western Cape industry remained surprisingly resilient during the dips in the provincial economy between 1998 and 1999, reflecting the local demand driven by big projects including Century City and major RDP housing projects. Currently, both nationally and provincially, the value of buildings completed remains on an upward trend. The construction industry is generally very labour intensive and construction wages in the Western Cape are also higher than the national average. The trend towards subcontracting in the industry has however led to a severe decline in apprenticeship levels, and therefore artisan training, in the building industry over the last three decades. This has resulted in the current serious shortage of properly skilled labour.

Agriculture contributed 5.2% to the Western Cape Gross Domestic Product in 2001, with this contribution declining from 6.2% in 1995. Nonetheless total agricultural output in the Western Cape has increased from R10,4 billion in 1999 to R11,8 billion in 2001, with fruit production being the most important (R2,4 billion in 2001). The Agriculture sector is labour intensive, contributing nearly 14 % to formal sector jobs in the Province. It is, however, low paying, contributing a much smaller percentage to total provincial salary and wage payments. The Extension of Security of Tenure Act (ESTA), rising labour costs and minimum wages have been cited by farmers as reasons for shifting away from the employment of permanent workers towards the employment of temporary workers.

Distribution of wealth

The population of the Western Cape province has grown from just short of 4 million in 1996 to over 4,5 million in 2001. This represents a total increase of 14.3% compared to 10.4% growth in the total national population. Even more striking is that the economically active population in the Western Cape grew almost twice as fast as in South Africa as a whole (21% versus 11%). This translates into significant additional pressure on the Western Cape's labour market. The impact of the growth in the population can clearly be seen on the per capita GDP growth that remained stagnant between 1996 and 2001.

While government services have been largely redistributive, the rest of the economy has followed a different path. The Gini coefficient for the Western Cape therefore remains significantly higher than the national figure. While these figures should be treated with some caution, preliminary indications are that the level of inequality in the Western Cape has increased between 1995 and 2000. This analysis is supported by trends in the labour market discussed above.

Challenges to greater growth and employment

In both South African and the Western Cape, unemployment has a very strong *youth* dimension with the youth cohort making up 82% of all unemployment. Youth

unemployment also has different dimensions for each main population group, with very few African teenagers having found work.

The data suggest that those jobless individuals over the age of 40 with primary schooling or less best reflect the core of individuals in the labour market who, given the economy's labour demand trajectory, are *unlikely to be employed in their lifetime*. A significant group of these workers have also not worked for over 3 years while they also display lower levels of literacy.

In the Western Cape, contrary to the national trend, *tertiary unemployment* has dropped while at the lower education levels, unemployment has increased. This serves to re-emphasise the nature of the labour that the Western Cape demands, namely highly educated and skilled individuals. Not all degreed workers find employment though with the African cohort largely driving tertiary unemployment in the Western Cape and nationally.

The growing earnings function literature in South Africa – and internationally – also shows a tight relationship between education and labour market status and earnings. To date the education system has however proven incapable of substantially reducing inequality in the Western Cape labour market because of its inability to reduce inequalities in educational output. The Western Cape's educational performance is far from ideal, producing low levels of literacy and numeracy in young learners, only 45 - 52% of learners who enroll in Grade 1 reaching Grade 12, and variable enrolment, matriculation and mathematics passes by population group.

Public investment in *transport infrastructure* usually accounts for 2.0 to 2.5 percent of GDP, and it may rise as high as 3.5 percent in countries modernizing outdated infrastructure or developing new. In comparison, preliminary estimates indicate that public investment in transport infrastructure (road and rail, excluding airports and harbours) accounts for only about 1.1 percent of the Western Cape GDP. As a result the Western Cape transport network shows signs of stress on a number of fronts such as harbour congestion, high levels of motor-vehicle accidents and unsatisfactory public transport. Many proponents favour radical or interventionist strategies (such as fundamental land use restructuring) to address these issues. Others drive an agenda aimed at improving economic competitiveness in the context of ongoing structural economic changes towards globalised production systems. The challenge is to define a strategically balanced agenda (and an associated transport investment portfolio) that yields both higher levels of growth and economic participation.

Conclusion

The conclusion provides initial indications of the nature of the challenges that the provision of infrastructure, skills training and a social safety net need to respond to. It also lists some of the questions that a micro-economic strategy for the Province would need to address.

INTRODUCTION

A decade of redistributive service delivery has not reduced levels of inequality and unemployment nor has it stimulated sufficient levels of growth. In order to have maximal impact on the economy and labour market, government service delivery should therefore not only consider its output goals, but also its impact on the economic environment within which these services are delivered. This Socio-economic Review (SER) sketches the economic and labour market challenges that government needs to address in order to reduce unemployment and inequality in the Western Cape.

The 2003 SER focuses primarily on a description of economic growth and labour market trends in the Western Cape. It does not therefore attempt a description of the broader developmental condition of the province, but focuses on the workings of the private sector economic and labour market contributions. It also restricts its focus to high level descriptions of the most important economic growth, inequality and labour market trends in the Province. In this way we attempt to provide an analytical platform for future detailed analyses of particular blockages in the economy and labour market. Such more detailed analyses would include a consideration of the variable impact of imports, exports and investment on the provincial economy; the determination of the precise reasons for the stagnation of the primary and secondary sectors of the economy; the spatial dimensions of growth and development in the province and the roots of persistent racial inequality in the Province.

The SER serves primarily as input into the provincial Medium Term Budget Policy Statement (MTBPS). The goal of the MTBPS is, in turn, to set out Government's medium-term macroeconomic, fiscal position and spending priorities for the next 3-year period based on its broad policy positions.

The broad policy and spending priorities of the Western Cape government are contained in its *iKapa elihlumayo* vision. The vision has four general outcome goals of increasing economic growth; increasing employment and economic participation; reducing geographical and socio-economic inequality and providing a sustainable social safety net. The province's most important tool in pursuing these goals is the provincial budget and the services that are funded by it.

The *iKapa elihlumayo* vision translates into a strategy to use the provincial budget as a whole as well as a series of strategic partnerships to stimulate the economy and to open it up to wider participation. The crowding in of private and foreign investment as well as synergy with other delivery partners such as local and national government, provincial public entities and state-owned enterprises will therefore be of critical importance to the success of this endeavor.

On the side of provincial government itself, the *iKapa* strategy will consist of a number of related initiatives. The first entails the use of investment of government funds in strategic

development interventions in order to attain employment generation and per capita income growth through specific projects. Early examples are the introduction of a Rapid Bus Transport System in Klipfontein road, the construction of a Film Studio, as well as the alignment of Further Education and Training Programme with the job market through the development of a Human Resource Development Strategy. These projects will be used to attract investment by the private sector as well as other spheres of government.

The second set of initiatives consists of the integration of service delivery across departments, as well as embedding it more fully in the economic and socio-economic realities of the Province. The aim is for departmental service delivery to follow a unified, rather than a sectional, rationality. This means that all provincial departments will be required to show that they address real societal needs in a concerted and consistent manner. These efforts will result in more efficient service delivery as well as government expenditure that is better targeted to support economic growth and increased employment.

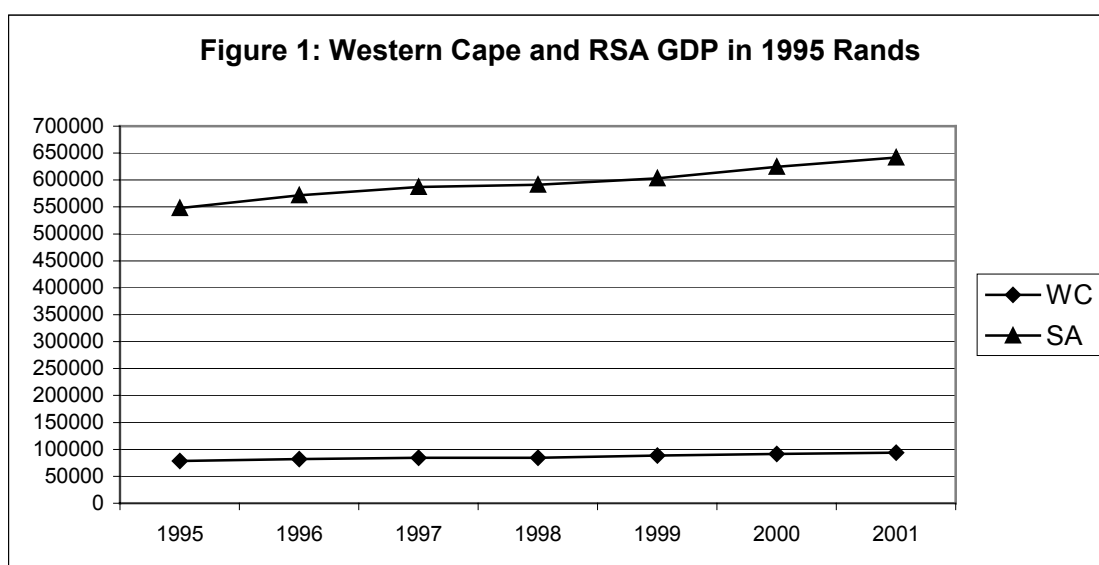
Section 2 of the SER will describe the main trends in the growth and composition of the provincial economy. This section provides a context to the economic growth targets of *iKapa elihlumayo*. *Section 3* will describe the main labour market trends and performance by economic sector, age, population group, gender, and skills and education levels. We also formulate a profile of entrepreneurial activity in the Province as alternative to salaried employment. This section provides a context to the employment creation targets and interventions of *iKapa elihlumayo*. *Section 4* provides more detailed industry specific analyses of growth and employment trends in 5 key industries in the Western Cape namely the Agriculture, ICT, Tourism, Financial Services and Property, Manufacturing and Construction industries. This section provides a context to the formulation of provincial government interventions in the provincial economy.

Section 5 describes the distribution of wealth that these economic activities and labour market trends result in. This section provides a context to some of the equity targets of *iKapa elihlumayo*. *Section 6* initiates a discussion on some of the key blockages to growth and employment. This section focuses on skills and infrastructure as key areas of provincial service delivery. Extensive descriptions are provided of the unemployed youth, the phenomenon of 'degreed unemployment' as well as some of the trends in the supply of skilled labour. A framework is also suggested for considering the role of the provincial transport network in the provincial economy and labour market. In *Section 7* the analysis is synthesized and preliminary suggestions are made for possible strategies for addressing the challenges that were identified in the rest of the report.

TRENDS IN ECONOMIC GROWTH

Growth in the Western Cape from 1995-2001

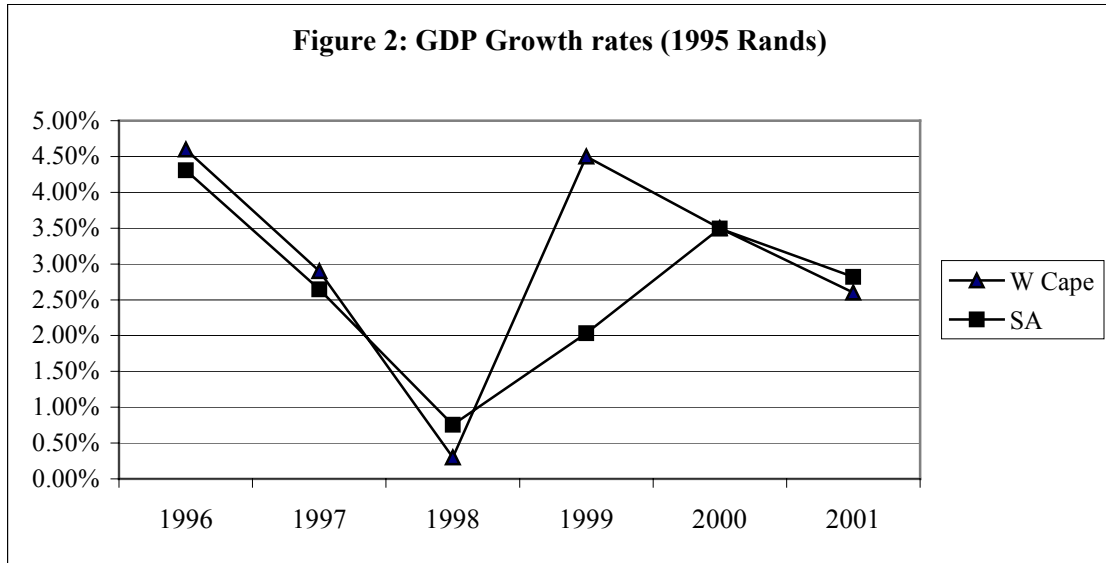
Figure 1 below shows steady quantitative growth in the Western Cape economy from 1995 to 2001 while table 1 shows that the Western Cape economy grew by an average of 3.3% between 1995 and 2001. Major variations in 1997 and 1998 reflect the emerging market crisis that had a major impact on GDP growth in the whole of South Africa. In fact in 1998, the provincial economy showed almost no growth at all, but growth rates recovered dramatically to 4.5% in 1999.



Source: Statistics South Africa

Behind these steady growth rates lurks a peak at the turn of the century and a distinct slow-down since then. Figure 2 below shows that the Western Cape followed national growth rates very closely except in 1999 when the Western Cape accelerated much more sharply than nationally. In 1999 all three sectors in the Western Cape economy grew faster than was the case nationally. The reason for the sharper increase in the growth rate of the Western Cape economy as a whole is a sharper increase in the Transport & Communication and Wholesale & retail trade, hotels & restaurants industries. Because these two classifications are largely reflective of the tourism industry, it seems likely that the higher growth in the Western Cape in 1999 was largely driven by higher turnover in this industry. This increase was, in turn, largely driven by the favourable exchange rate at the time. Growth in the wine and construction industries during this period also made a telling contribution.

Interestingly figure 2 shows that the slowdown in the Western Cape economy already started in 1999 and continues until 2001, whereas the national growth rate continues to grow until 2000 before starting its slowdown.



Source: Statistics South Africa

In fact table 1 below shows that almost half of total Western Cape growth between 1995 and 2001 occurred in 1996 and 1999 alone. From 1999 to 2001 the provincial growth rate decreased steadily from 4.5% to 2.6% so that by 2001, the national growth rate outstrips that of the Western Cape for the first time since 1998. The most important reason for the national growth rate catching up with the provincial growth rate appears to be stronger national growth in the Agriculture, forestry & fishing; Wholesale & Retail trade, hotels & restaurants and Transport & communication industries. Further industry-level analysis would be required to determine the reasons for this relative slow-down.

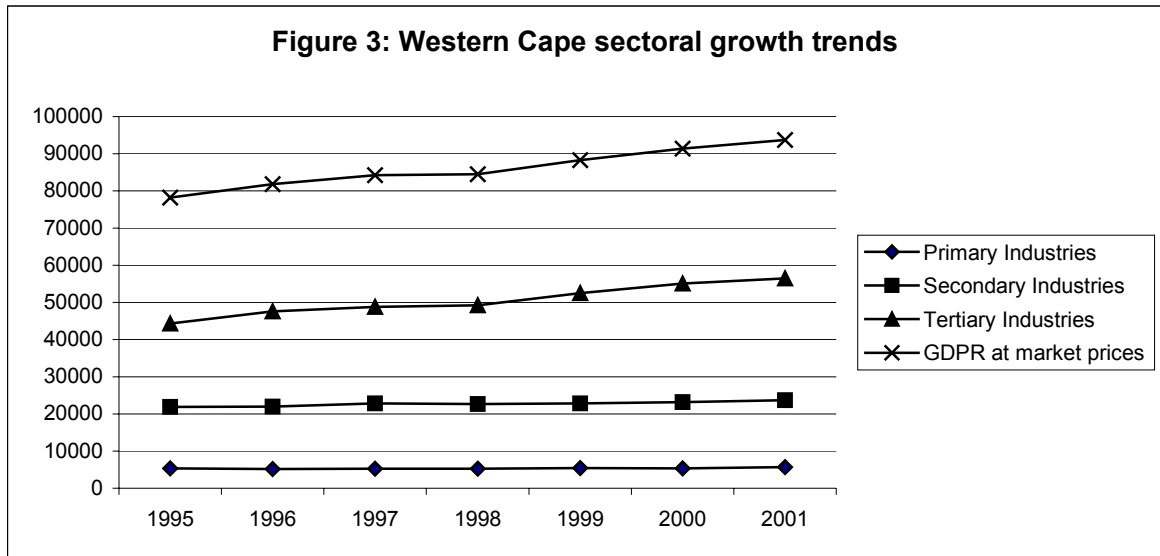
Table 1: Western Cape GDP by Constant 1995 prices

	1995	1996	1997	1998	1999	2000	2001	% Change	Average Annual
Primary Industries	5316	5185	5297	5244	5407	5336	5681	6.9%	1.1%
Secondary Industries	21857	21958	22804	22673	22843	23225	23707	8.5%	1.4%
Tertiary Industries	44279	47574	48782	49250	52533	55075	56487	27.6%	4.6%
All Industries at basic prices	71452	74717	76883	77167	80783	83636	85875	20.2%	3.4%
Taxes less subsidies on products	6769	7133	7352	7339	7521	7729	7852	16.0%	2.7%
GDPR 1995 Prices	78221	81849	84235	84504	88304	91365	93727	19.8%	3.3%
Annual growth rates		4.6%	2.9%	0.3%	4.5%	3.5%	2.6%		
Growth over previous year		3628	2386	269	3800	3061	2362		
Share of total growth 1995-2001		23.4%	15.4%	1.7%	24.5%	19.7%	15.2%		

Source: Statistics South Africa

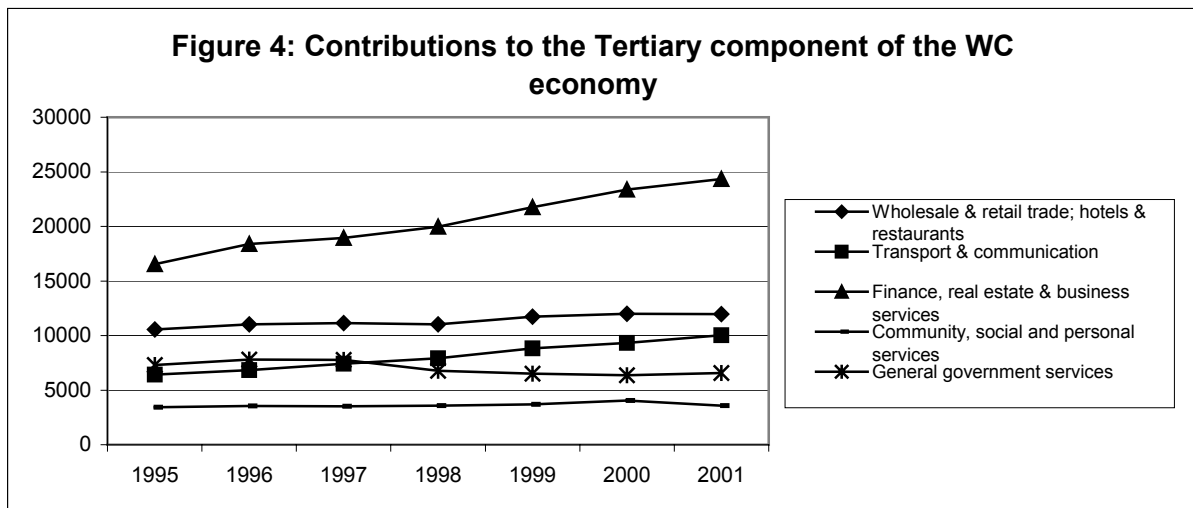
Beneath the surface of consistent economic growth and the recent aggregate slowdown, one also finds a significant restructuring of the provincial economy. Table 1 and Figure 3 show very different growth rates for the primary, secondary and tertiary components of

the provincial economy. Both primary and secondary industries grew by an annual average of just over 1% whereas tertiary industries averaged a generous 4.6%. The result is that by 2001, about 60% of the provincial GDP was generated by the tertiary component (R56.5 billion out of R93.7 billion). This largest component is therefore what drives growth levels in the Province. To start understanding the variations in provincial growth rates, we should therefore look at the growth rates of industries comprising the tertiary sector.



Source: Statistics South Africa

Figure 4 below disaggregates growth in the tertiary sector of the provincial economy and shows that the strongest growth in this component of the economy comes from the Transport & Communication and Finance, Real estate & Business services industries. The only other steady performer is Wholesale & Retail trade, hotels and restaurants that captures most of the Tourism trade.



Source: Statistics South Africa

Table 2 represents industry contributions to total economic growth in the Province from 1995-2001. It shows that Transport and Communication and Finance, Real estate &

Business services contributed almost 75% of all growth in the Province over this period. The only other industry contributing more than 5% is Wholesale & Retail trade, hotels & restaurants at 9%. These trends are also reflected nationally, albeit not as sharply as at provincial level, with the Transport & Communication and Finance, Real estate & Business service industries contributing 57% of growth and Wholesale & retail trade; hotels & restaurants again contributing about 9%.

What is disconcerting is the minor contributions from large employers in the Province such as Agriculture, forestry and fishing and Manufacturing. Together these two traditionally important sectors in the provincial economy could only contribute 8.6% of all growth in the provincial economy between 1995 and 2001. Nationally these two industries buoyed up much better, contributing almost 17% of national growth over this period.

On the positive side it should be noted that only two industries show negative growth rates over this period, namely General government services and Mining and quarrying.

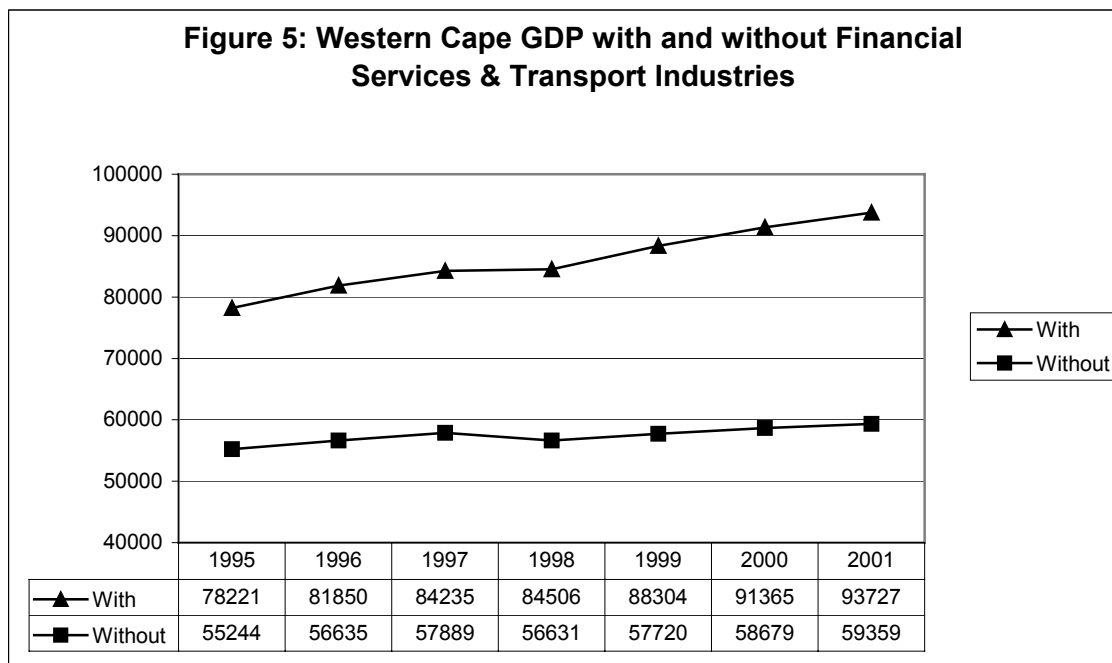
Table 2: Percentage Contributions to total provincial growth 1995-2001

Industry	Western Cape		South Africa	
	Contribution to GDP growth	% Contribution	Contribution to GDP growth	% Contribution
Primary Industries	365	2.4%	4060	4.32%
Agriculture, forestry & fishing	652	4.2%	5714	6.09%
Mining & quarrying	-287	-1.9%	-1654	-1.76%
Secondary Industries	1850	11.9%	17541	18.68%
Manufacturing	685	4.4%	11520	12.27%
Electricity and water	625	4.0%	3741	3.98%
Construction	540	3.5%	2280	2.43%
Tertiary Industries	12208	78.7%	66106	70.40%
Wholesale & retail trade; hotels & restaurants	1419	9.2%	8294	8.83%
Transport & communication	3606	23.3%	21955	23.38%
Finance, real estate & business services	7785	50.2%	31989	34.07%
Community, social and personal services	140	0.9%	2021	2.15%
General government services	-742	-4.8%	253	0.27%
Other Producers			1594	1.70%
All Industries at basic prices	14423	93.0%	87707	93.41%
Taxes less subsidies on products	1083	7.0%	6191	6.59%
GDPR at market prices	15506	100.0%	93898	100.00%

Source: Statistics South Africa

Figure 5 takes this analysis further and compares Western Cape growth for 1995 to 2001 with what growth in the Province would have looked like without the Transport & Communication and Finance, Real estate & Business service industries. This figure makes it clear that without these two sectors there would have been almost no growth at

all in the provincial economy. As we indicated above, what little growth does still occur can probably be accounted for by the Wholesale & retail trade; hotels & restaurants industries.



Source: Statistics South Africa

Table 3 below shows that the South African economy as a whole displays similar trends to the Western Cape from 1995 to 2001. Average annual growth was about 3%, with the bulk of growth being driven by the tertiary sector. As was the case for the Western Cape, growth was largely driven by the Transport & Communication and Finance, Real estate & Business services industries that contributed 57.5% of national growth between 1995-2001. This trend is however much less pronounced in South Africa as a whole than in the Western Cape.

While in the Western Cape primary and secondary industries only contributed 2.4% and 11.9% respectively of total growth, the comparative figures for South Africa as a whole are 4.3% for primary and 18.7% for secondary. The result is that the contribution of tertiary industries for South Africa as a whole is just over 70% whereas in the Western Cape it is almost 79%. As was indicated above, the fate of growth in the Western Cape is closely tied to growth in the tertiary sector. The table below shows that this link is even closer for the Western Cape than for South Africa as a whole.

At industry level we see that the Western Cape and South African share contributions of Transport and Communication to GDP is very similar at just over 23%. The big difference lies in Finance, Real estate & business services where the national share contribution is 34.1% while the Western Cape contribution is over 50%.

Table 3: RSA GDP by Constant 1995 prices

	1995	1998	1999	2000	2001	% Change	Ave Annual Change	Total contribution	% Contribution
Primary Industries	54147	57358	58131	59143	58207	8.97	1.3%	4060	4.3
Agriculture, forestry & fishing	19317	22518	23659	25453	25031	34.71	5.0%	5714	6.1
Mining & quarrying	34830	34840	34472	33690	33176	-5.31	-0.8%	-1654	-1.8
Secondary Industries	139362	145859	145483	151584	156903	16.43	2.3%	17541	18.7
Manufacturing	106180	108419	108085	113596	117700	15.23	2.2%	11520	12.3
Electricity and water	17408	20357	20728	20873	21149	23.36	3.3%	3741	4.0
Construction	15774	17083	16670	17115	18054	16.83	2.4%	2280	2.4
Tertiary Industries	306844	336376	348010	360707	372950	25.33	3.6%	66106	70.4
Wholesale & retail trade; hotels & restaurants	71768	73904	74161	77492	80062	14.36	2.1%	8294	8.8
Transport & communication	44538	54273	58141	62211	66493	58.49	8.4%	21955	23.4
Finance, real estate & business services	82162	96737	104190	109220	114151	44.14	6.3%	31989	34.1
Community, social and personal services	13690	14108	14439	15121	15711	17.39	2.5%	2021	2.2
General government services	80831	82728	82160	81458	81084	1.12	0.2%	253	0.3
Other producers	13855	14626	14919	15205	15449	13.19	1.9%	1594	1.7
All Industries at basic prices	500353	539593	551624	571434	588060	21.08	3.0%	87707	93.4
Taxes less subsidies on products	47746	51671	51666	52945	53937	15.85	2.3%	6191	6.6
GDPR 1995 prices	548099	591264	603290	624379	641997	20.63	2.9%	93898	100.0

Source: Statistics South Africa

Western Cape Growth rates since 2001

No provincial GDP growth figures are currently available beyond 2001. We do know however that some of the key sectors in the Western Cape such as financial services and ICT have been through turbulent times over the last 18 months. It is therefore important to form an idea of the impact of these developments on the expansion of the provincial economy.

In the absence of provincial growth data since 2001, we compare national growth rates since 2001 to those before 2001 in the sectors driving growth in the Western Cape economy. This analysis gives a good preliminary indication of overall growth trends in the Western Cape, provided the Western Cape shares of key national industries remained stable over the last 18 months.

Table 4 below shows that by 2001, the Western Cape contributed 13.8% of the national GDP. Five industries contributed a greater percentage to their industry nationally. This can be interpreted to mean that any change in the growth of these sectors nationally would have a disproportional impact on growth in the Western Cape GDPR.

Table 4: Western Cape share contributions to national GDP

	1995	1996	1997	1998	1999	2000	2001 Share
Agriculture, forestry & fishing	25.1	21.8	22.7	24.7	23.5	22.6	22.6
Mining & quarrying	1.3	1.2	0.7	0.6	0.5	0.5	0.4
Manufacturing	15.7	15.7	15.6	15.7	15.8	15.3	15
Electricity and water	12.6	12.1	12.2	12.8	12.6	12.6	12.8
Construction	18.9	17.4	18.1	18.5	20.3	20.7	19.5
Wholesale & retail trade; hotels & restaurants	14.7	14.9	14.9	14.9	15.8	15.4	14.9
Transport & communication	14.4	14.4	14.6	14.6	15.2	14.8	14.6
Finance, real estate & business services	20.1	20.1	20.2	19.4	19.9	20.5	20.4
Community, social and personal services	12.5	12.5	12.5	12.5	12.5	13.3	11.5
General government services	9	9.3	9	7.7	7.5	7.3	7.5
Total	14.3	14.1	14.2	13.9	14.3	14.2	13.8

Source: Statistics South Africa

National GDP growth slowed from an average of 2.9% from 1995 to 2001 to about 2% over the last 18 months. Growth prospects of major industrialized countries had a significant impact on South Africa's economic performance during this period. Weakness in the world economy caused a reduction in the demand for South African exports, which in turn contributed to a slowdown in real gross domestic product growth. The recovery in the exchange value of the Rand also reduced the international competitiveness of South African producers (SARB 2003:2).

Tables 5 and 6 below show that almost all national industries have slowed in comparison to their annual average growth rate between 1995-2001, including the 5 national industries where the Western Cape has a disproportional share. In fact the largest reductions are measured in three mainstays of the Western Cape economy, namely Agriculture, Transport & Communication and Financial services.

National growth in the two sectors driving Western Cape growth from 1995-2001 decreased dramatically. In the Transport and Communication industry the annual average growth rate has decreased from 8.4% to 4.6%. The continued expansion and enhanced competition in the country's cellular communication industry due to the introduction of Cell-C as a third network in 2001, is still providing an impetus for growth in the real value added by the transport, storage and communication sector. Notwithstanding that, growth in this sector slowed down, mainly due to subdued activity in the real value added by the transport sub-sector. Lower volumes of goods transported as a result of reduced export and import activity as well as somewhat weaker domestic demand adversely affected Land transport. The brief spurt of higher growth experienced in the air transport sub-sector around the ICC Cricket World Cup subsequently petered out and was in any event insufficient to lift growth substantially. (SARB 2003:11).

Growth in the Finance, real estate & business services industry slowed from 6.6% to 2.3% due to lower growth in the real value added by security traders. However, this slowdown was partly countered by the real value added by the real-estate sub-sector, which increased robustly from the second half of 2002 to the first half of 2003. This was the result of ongoing activity in the residential market as the demand for existing houses and new units in security complexes remained high. (SARB 2003:12). The increased number of building plans passed in the Western Cape over the last 18 months suggest that the Western Cape was a major beneficiary of this trend.

Not even the Manufacturing industry has sped up, despite the support provided by provisions of the African Growth and Opportunity Act¹. In fact the only industries that have not decreased or remained unchanged are Mining & Quarrying and General government services, neither of which are main players in the Western Cape economy.

Table 5: RSA Quarterly GDP by constant 1995 prices – seasonally adjusted

	2002				2003		% Change	Annual Ave. Change
	1 Quarter	2 Quarter	3 Quarter	4 Quarter	1 Quarter	2 Quarter		
Primary Industries	58294	58969	59370	59384	59120	58693	0.68	0.5%
Agriculture, forestry & fishing	25454	25997	26308	26330	26122	25536	0.32	0.2%
Mining & quarrying	32840	32972	33062	33054	32998	33157	0.97	0.6%
Secondary Industries	159969	161913	163127	164007	164159	164077	2.57	1.7%
Manufacturing	120403	122108	123199	123698	123600	123341	2.44	1.6%
Electricity and water	21317	21453	21463	21663	21744	21837	2.44	1.6%
Construction	18249	18352	18465	18646	18815	18899	3.56	2.4%
Tertiary Industries	380155	383325	386058	388766	391028	393169	3.42	2.3%
Wholesale & retail trade; hotels & restaurants	81339	81869	82225	82851	83125	83454	2.60	1.7%
Transport & communication	69122	70046	71034	72158	73118	73865	6.86	4.6%
Finance, real estate & business services	116985	118088	119010	119617	120257	120956	3.39	2.3%
Community, social and personal services	15922	16005	16107	16250	16380	16528	3.81	2.5%
General government services	81197	81673	81975	82099	82281	82440	1.53	1.0%
Other producers	15590	15644	15707	15791	15867	15926	2.16	1.4%
All Industries at basic prices	598418	604207	608555	612157	614307	615939	2.93	2.0%
Taxes less subsidies on products	54800	55171	55491	55790	56116	56391	2.90	1.9%
GDPR at market prices	653218	659378	664046	667947	670423	672330	2.93	2.0%

Source: Statistics South Africa

These trends provide preliminary evidence that the Western Cape economy has followed the national economy through a period of appreciable slowdown. It also indicates that this slowdown has been driven by slowdowns in the Transport & communication and

¹ The African Growth and Opportunity Act (AGOA) is an Act promulgated in the United States that significantly liberalises trade between the U.S. and 38 designated Sub-Saharan African (SSA) countries. The Act covers the 8-year period from October 2000 to September 2008. <http://www.agoa.info/>

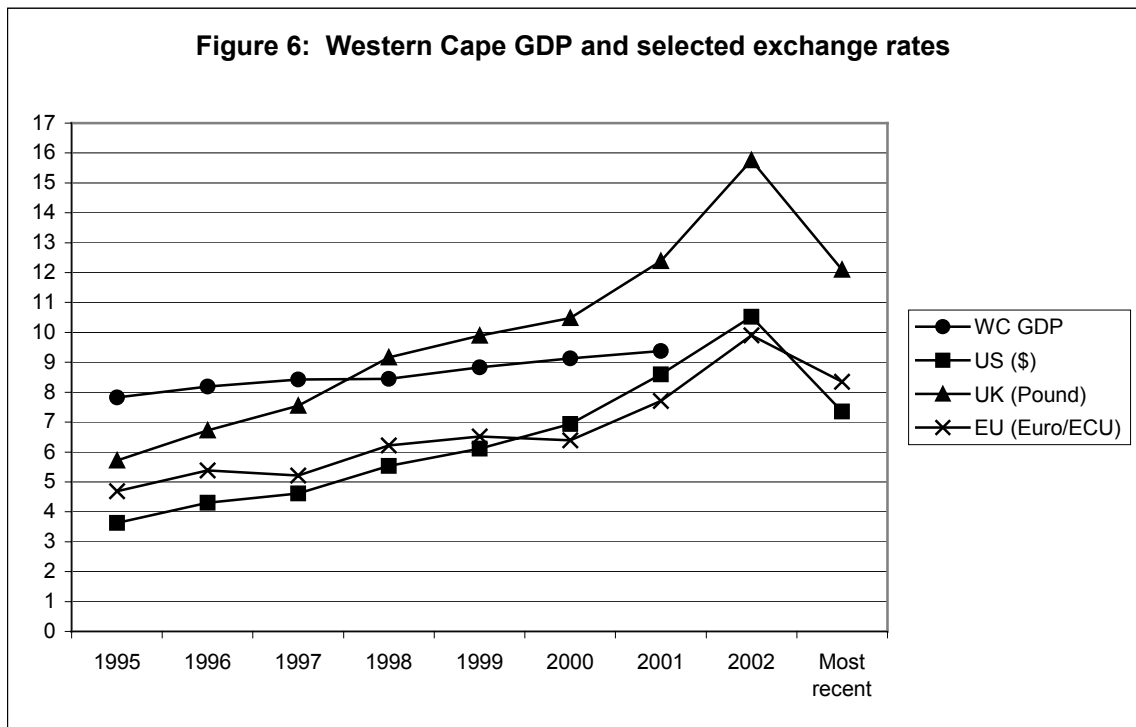
Finance, Real estate & Business services industries, even though most other industries may also have slowed down.

Table 6: Change in RSA growth rates 1995-2001 and 2002-3

	1995-2001		2002-2003		Change in Average Growth rate	
	% Change	Ave Annual Change	% Change	Ave Annual Change		
Primary Industries	8.97	1.30%	0.68	0.50%	-0.80%	Down
Agriculture, forestry & fishing	34.71	5.00%	0.32	0.20%	-4.80%	Down
Mining & quarrying	-5.31	-0.80%	0.97	0.60%	1.40%	Up
Secondary Industries	16.43	2.30%	2.57	1.70%	-0.60%	Down
Manufacturing	15.23	2.20%	2.44	1.60%	-0.60%	Down
Electricity and water	23.36	3.30%	2.44	1.60%	-1.70%	Down
Construction	16.83	2.40%	3.56	2.40%	0.00%	Flat
Tertiary Industries	25.33	3.60%	3.42	2.30%	-1.30%	Down
Wholesale & retail trade; hotels & restaurants	14.36	2.10%	2.60	1.70%	-0.40%	Down
Transport & communication	58.49	8.40%	6.86	4.60%	-3.80%	Down
Finance, real estate & business services	44.14	6.30%	3.39	2.30%	-4.00%	Down
Community, social and personal services	17.39	2.50%	3.81	2.50%	0.00%	Flat
General government services	1.12	0.20%	1.53	1.00%	0.80%	Up
Other producers	13.19	1.90%	2.16	1.40%	-0.50%	Down
All Industries at basic prices	21.08	3.00%	2.93	2.00%	-1.00%	Down
Taxes less subsidies on products	15.85	2.30%	2.90	1.90%	-0.40%	Down
GDPR at market prices	20.63	2.90%	2.93	2.00%	-0.90%	Down

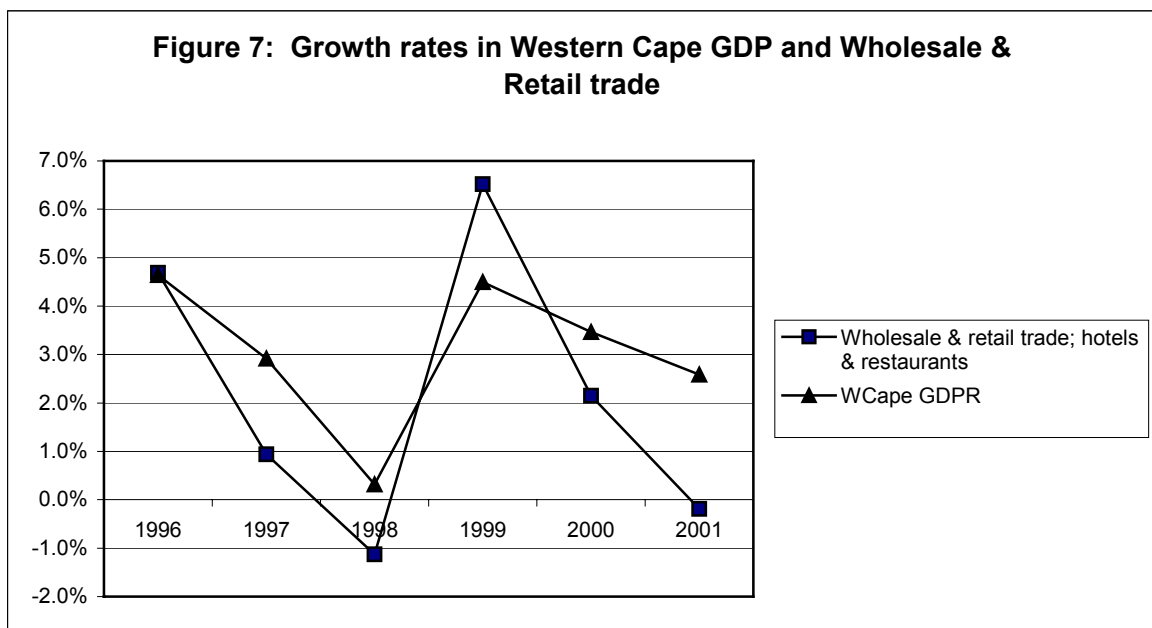
Source: Statistics South Africa

The reasons for the decline in industries with a strong presence in the Western Cape listed above, illustrate the openness of the provincial economy and its resultant vulnerability to global demand. One of the key indicators of the impact of such global conditions is the exchange rate of the Rand to major currencies. Figure 6 below plots the exchange rates of three major currencies against GDP growth. Predictably we see a reasonable correlation. However, if this correlation holds, then the recent strengthening of the Rand holds further threat for the provincial economy, as this appears to be dampening global demand for key provincial goods. Despite stronger than unexpected Rand levels, most commercial banks do however predict a weakening of the Rand over the next 12 months.



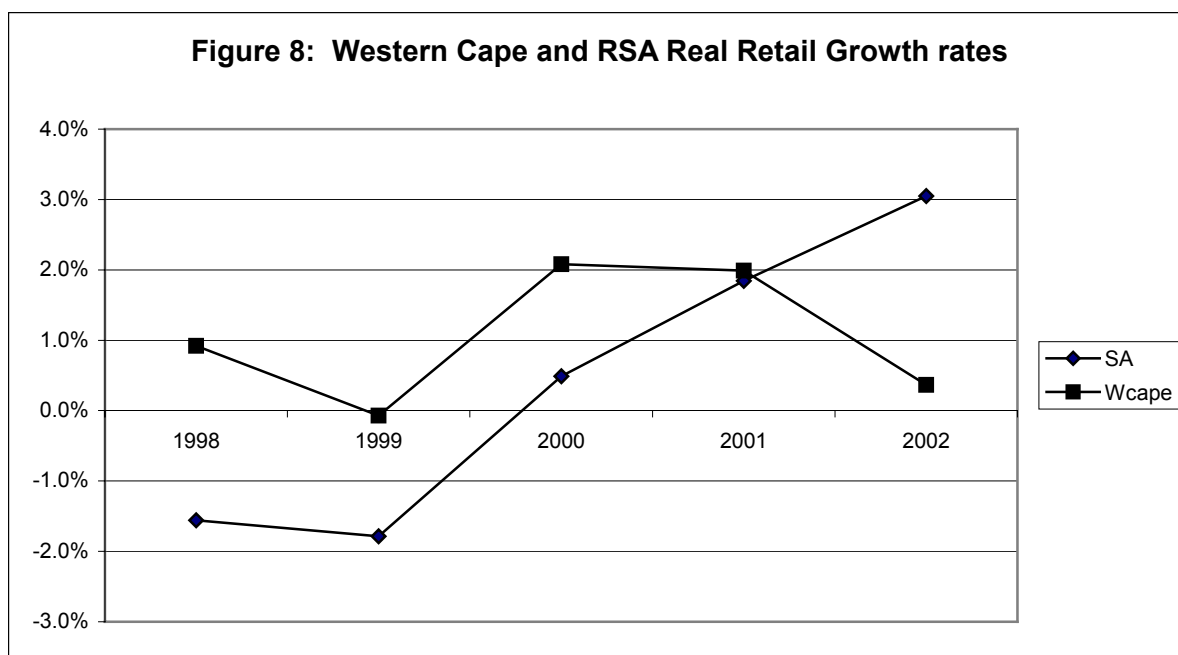
Source: Statistics South Africa and Own Calculations

To take this analysis further we examine some of the only provincial growth data that has been released by Statistics South Africa for the period after 2001, namely the value of provincial retail trade. After looking at international demand, retail trade can give some indication of domestic demand. Figure 7 below confirms a fairly close correlation between Western Cape GDP growth rates and growth rates in the Wholesale and Retail trade, hotels and restaurants industry between 1995 and 2001. If we assume that this correlation applies to Retail alone and that it continued in 2002, then trends in the latter could provide some indication of growth in the Western Cape GDP after 2001.



Source: Statistics South Africa

Using retail and wholesale trade as a proxy for economic growth, Figure 8 then also suggests that the slowdown in the Western Cape economy has been more pronounced than the national trend. When looking at real growth rates in retail sales we see that Western Cape retail sales grew faster than national retail sales from 1998 to 2001, but this trend is reversed in 2002. In fact the drop in the growth rate of retail sales in the Western Cape already starts in 2000. This latter trend matches the comparison of GDP growth rates presented in Figure 2 above that also showed the slowdown in the Western Cape starting before 2001.



Source: Statistics South Africa

The role of SMMEs in the provincial economy

At a policy level Small, Medium and Micro Enterprises (SMMEs) and SMME support has been prioritized because of its assumed ability to facilitate economic participation and job-creation. As we will see below, SMMEs also play a key role in the composition of the provincial economy. In sketching a profile of the provincial economy, it is therefore important to describe the broad coordinates of SMME activity in the Province. In what follows we provide a brief profile of SMMEs in the Western Cape. The lack of reliable data, particularly on provincial level, makes an analysis of the role of SMMEs in the Western Cape economy and labour market challenging. In most cases below statistics for the City of Cape Town are used to give an indication of the situation in the Province.

Largely based on the number of people employed, SMMEs can be classified into five categories: survivalist enterprises, micro enterprises, very small enterprises, small enterprises and medium enterprises (Classification adapted from “The State of Small Business in South Africa, Ntsika, DTI 1997):

- *Survivalist* enterprises are engaged in ‘economic activities directed at providing minimal means to keep the unemployed and their families alive’. These are usually undertaken by people who are unable to find a paid job. The income generated from

these activities is usually below the poverty line and the enterprises have no paid employees.

- *Micro enterprises* have an annual turnover of less than R300 000 and are usually not registered for VAT. They usually employ between one and five employees.
- *Very small enterprises* are formal enterprises with 5-10 paid employees.
- *Small enterprises* are formal enterprises with 10- 50 employees
- *Medium enterprises* are formal enterprises with 50 - 100 employees.

According to Ntsika (2001) there are an estimated 414 166 SMMEs in the Western Cape, comprising 54 % of the total number of enterprises in the Province. If the 'informal sector' were defined as survivalist enterprises and one-person micro enterprises, they would comprise 5,7 % of the total.

The City of Cape Town contributes about 75 % to the Western Cape's GDP. Even though it should be kept in mind that these statistics exclude rural areas, secondary towns and small towns, data on SMMEs in the City of Cape Town can still be used to give an indication of the status of SMMEs in the Province as a whole. Table 7 below shows that SMMEs dominate in the City of Cape Town, with only 3 % of firms considered large. The majority of firms are micro and very small, with more than 70 % of firms falling in these two categories (City of Cape Town, 2001: 93).

Table 7: Distribution of number of firms in the City of Cape Town, 2000

	Micro	Very Small	Small	Medium	Large
Number of Firms	50 %	21 %	22 %	4 %	3 %

Source: City of Cape Town

In terms of turnover, SMMEs accounted for more than 50 % of turnover in all sectors, with SMMEs especially dominant in the agriculture, construction, trade and transport industries. In terms of employment, SMMEs in the City of Cape Town employed more than 50 % of workers in the agriculture, construction, trade and transport industries (see table 8 below).

Table 8: Distribution of employment and turnover by size of firm and main sectors in the City of Cape Town (2000)

	% of	Large	Medium	Micro	Small	Very Small	Total
Agriculture	employment	41.1	14.9	3.7	33.5	6.6	100
	turnover	14.2	6.3	3.3	71.0	5.1	100
Mining	employment	-	77.4	0.9	11.8	9.9	100
	turnover	-	45.4	17.4	10.8	26.4	100
Manufacturing	employment	53.1	25.1	1.6	12.6	7.7	100
	turnover	44.3	27.1	3.8	14.7	10.1	100
Construction	employment	29.4	28.8	5.3	18.2	18.3	100
	turnover	23.7	26.5	10.9	17.4	21.5	100
Trade	employment	40.1	11.4	7.6	31.4	9.5	100
	turnover	29.2	15.5	9.7	35.3	10.3	100
Transport	employment	44.6	12.7	5.0	30.8	6.9	100
	turnover	28.9	28.0	6.8	28.0	8.3	100
Finance	employment	59.3	9.8	5.6	19.7	5.6	100
	turnover	31.1	12.8	16.5	29.8	9.7	100
Services	employment	63.2	6.7	7.0	17.4	5.8	100
	turnover	41.3	2.6	14.0	15.1	27.0	100
Unclassified	employment	17.9	16.2	12.6	38.8	14.4	100
	turnover	14.6	2.5	13.0	56.3	13.6	100

Source: City of Cape Town April 2001. Background Report

Table 9 summarises the contribution of small, very small and micro firms to employment and turnover in the City of Cape Town. These firms accounted for more than 90 % of the number of firms in the City, contributed 34 % (or 290 000 jobs) to total formal employment and just under 50 % to total turnover (City of Cape Town, 2001: 93). In terms of turnover, small, very small and micro firms contributed 50 % or more to the construction, trade, finance and services sectors. In terms of employment, these firms contributed most to the trade sector. At a global level, it is significant to note that SMMEs contribute more to turnover (48%) than to employment (34%), suggesting that SMMEs in Cape Town may be less labour intensive enterprises than the balance of businesses in Cape Town. The Global Entrepreneurship Monitor² (GEM) also found that more firms in the Western Cape (36 %) than in the other regions consist of only an owner-manager. More firms in the other regions currently employ one to four other people. More than 30 % of the firms in all regions expect to employ five or more people in five years time. This challenges the assumption that SMMEs are generic job-creation vehicles. This trend is especially pronounced in the Finance and Services industries.

Table 9: Contribution of small, very small and micro firms to employment and turnover in the City of Cape Town (2000)

	Employment	Turnover
Manufacturing	22 %	29 %
Construction	42 %	50 %
Trade	49 %	55 %
Transport	43 %	43 %
Finance	31 %	56 %
Services	30 %	56 %
Total contribution of SMMEs	34 %	48 %

Source: City of Cape Town

It is therefore important to unpack the diversity of businesses classified as SMMEs. Under the broad heading of SMMEs are found enterprises that do not employ anyone at all or on the opposite extreme larger enterprises with turnovers of several million Rand per annum. It is therefore not an article of faith that SMMEs are generic tools for the creation of jobs and economic opportunity. Any strategy of SMME support should therefore be designed to target the appropriate kind of SMMEs, and not SMMEs generically.

Barriers to starting and expanding an SMME

In the *formal sector*, the start-up or expansion of an SMME is usually hampered by one or more of the following: lack of finance; lack of managerial, technical and marketing skills; infrastructure problems, including lack of transport, poor location and lack of premises; and lack of access to technology.

² The Global Entrepreneurship Monitor (GEM) research program is an annual assessment of the national level of entrepreneurial activity. Initiated in 1999 with 10 countries, expanded to 21 in the year 2000, with 29 countries in 2001 and 37 countries in 2002. <http://www.gemconsortium.org/>

In the *informal sector*, the key constraint is the lack of access to markets and finance. Most survivalist enterprises must compete within small, location-specific, low-income niche markets. Lack of skills and education and exposure to other businesses are also a problem. Other constraints are similar as for the formal sector and include the lack of adequate business premises, transport and access to technology. These enterprises also lack an awareness of the support available to them.

The interface between Government and SMMEs

According to the White Paper on SMMEs, government's role should be that of a facilitator. The implementation of the National Small Business Support Strategy relies on a partnership between government, NGOs, parastatals, community-based organisations, business associations, the private sector and foreign donor agencies. To this end two national institutions were created: Khula Enterprise was to facilitate access to finance, while Ntsika would facilitate access to non-financial support. SMMEs were to participate through a Small Business Council, which is now defunct.

Provincial government support was to be channelled through SMME desks, created in each province. The role of the provincial SMME desks was largely undefined and each provincial desk has tended to operate differently. A number of problems with the SMME desks have been identified: there is a perception that they lack a clear role, that the staff are not sufficiently experienced; that too much emphasis is placed on financial support; that the desks do not attempt to facilitate support from other provincial government departments; and that there is not enough support from local authorities.

PROVINCIAL LABOUR MARKET TRENDS

In what was presented above we discussed the main trends in the provincial economy. Next we will move to a discussion of how people participate in the provincial economy. Wages remain the most important distributive tool in the South African economy. While government grants have become more important over time, wages still make up the vast majority of all household income. As Leibrandt et al. (2001) found in a recent study, “the labour market dominates South African income and income inequality”.³ In order to understand and address poverty and income inequality in the Western Cape and South Africa, we therefore need to generate an understanding of trends in the labour market as the most important instrument for facilitating participation in the economy.

Many criticisms have been leveled at the reliability of the Labour Force Survey (LFS). One of the key issues raised is that its provincial samples are too small to provide a reliable picture of provincial employment patterns. The other important source of employment data, that is the Census, contained serious provisos of its own accuracy vis-à-vis employment data, especially the aggregate employment figures. An additional limitation of the Census is that the full database of the 2001 Census was not yet available at the time of writing. In what follows we use the 1996 and 2001 Census in conjunction with a comparison of the 1995 October Household Survey (OHS) and 2002 LFS to glean a provisional picture of labour market trends in the Province.

Overall employment trends

Table 10 below presents a snapshot of the key labour market trends for the period 1995-2002. Concentrating on the labour force data according to the expanded definition of unemployment (the ‘unofficial’ definition), it is evident that over this period, the national economy created about 1.7 million jobs. Nationally the number of new entrants increased by about 5 million individuals and this has meant therefore that about 3.4 million individuals – some of whom were first-time entrants into the labour market - have been rendered or have remained jobless since 1995. As a result of this employment performance, unemployment levels increased to over 7 million individuals in 2002, close to a 90% growth in unemployment over the period. For the Western Cape, the growth in unemployment is almost half of this as with the entrance of just over 300 000 individuals, at least 177 000 found employment.

What is striking about the Western Cape figures is that the growth in unemployment over the period is significantly less than the national statistics. In this regard, the Western

³ Leibrandt, Murray; Woolard, Ingrid and Borat, Haroon. "Understanding Contemporary Household Inequality in South Africa," Ch. 1 in H. Borat, M. Leibrandt, M. Maziya and S. Van der Berg, *Fighting Poverty: Labour Markets and Inequality in South Africa*. Cape Town: University of Cape Town Press, 2001:32. See also Leibrandt, Murray; Borat, Haroon and Woolard, Ingrid. "Understanding Contemporary Household Inequality in South Africa." *Studies in Economics & Econometrics*, 2000, 24(3), pp. 31-52.

Cape has been outperforming the national aggregate. In the Western Cape the gap between the expanded and official definitions of unemployment, is also not as large as nationally. The inference that can be drawn from this is that there are fewer discouraged job seekers in this province, meaning that people are more optimistic about their employment prospects in the Western Cape.

Table 10: A Snapshot of Key Labour Market Trends: 1995 – 2002

Category	1995	2002	Change	%Change	Target Growth Rate (%)	Employment Absorption Rate (%)
<i>South Africa</i>						
Employment	9397042	11157818	1760776	18.74		
Unemployment (expanded)	3883819	7288833	3405014	87.67		
Labour force	13280861	18446651	5165790	38.90	54.9	34
<i>Official Definition Estimates</i>						
Employment	9397042	11157818	1760776	18.74		
Unemployment (official)	1909468	4271302	2361834	123.69		
Labour Force	11306510	15429120	4122610	36.46	43.8	42.7
<i>Western Cape</i>						
Employment	1344988	1522449	177461	13.19		
Unemployment (expanded)	313725	458866	145141	46.26		
Labour force	1658713	1981315	322602	19.45	23.99	55.01
<i>Official Definition Estimates</i>						
Employment	1344988	1522449	177461	13.19		
Unemployment (official)	206650	302593	95943	46.43		
Labour Force	1551638	1825042	273404	17.62	20.33	64.91

Source: Statistics South Africa October Household Survey, 1995 & Labour Force Survey, February 2002

According to the 2001 Census the Western Cape lost 1.6% of its share of total RSA employment since 1996 (Table 11). While indicating a smaller margin, a comparison of the 1995 OHS and the 2002 LFS confirms this loss. The Census indicates that the largest losses came in Manufacturing (-3.8%), Financial (-1.4%) and Community sectors (-1.2%). The Transport (0.5%), Mining (0.5%), Construction (1.3%) and Agriculture (0.4%) sectors have managed to increase their share of sectoral employment.

Table 11: Western Cape shares of total RSA employment

	1996	2001	Share lost/ gained
Agriculture	21.0%	21.5%	0.4%
Mining	0.7%	1.2%	0.5%
Manufacturing	21.0%	17.2%	-3.8%
Electricity	10.1%	10.3%	0.2%
Construction	18.4%	19.7%	1.3%
Wholesale and retail	17.4%	16.7%	-0.7%
Transport	14.1%	14.6%	0.5%
Financial etc	18.6%	17.2%	-1.4%
Community, social	15.3%	14.1%	-1.2%
Private Households	9.2%	9.9%	0.8%
Unspecified	11.7%	17.0%	5.2%
Total	17.1%	15.5%	-1.6%

Source: Statistics South Africa Census 1996 & 2001

How well has the labour market performed?

In order to provide a basic assessment of these labour market trends, we have used two very simple performance indicators, shown in Table 10. These are the 'target growth rate' and the 'employment absorption gap'. The 'target growth rate'⁴ summarises the desired employment growth rate for the economy as a whole, measured by simply allowing employment to grow from 1995 onwards by the full change in the labour force over the 1995-2002 period. The employment absorption rate is the ratio between the actual employment growth and the desired (or 'target') rate, and is expressed as a percentage. The closer the employment absorption rate is to 100, the better the actual relative to the desired employment performance. These figures are critical as they are predictors of relative employment performance – something that the standard growth rates do not yield.

Focusing on the expanded definition of unemployment, nationally, we see that employment should have grown by 55% in order for the 1995 unemployment rates to prevail in 2002. The employment absorption rate shows that the economy has provided only 34 jobs for every 100 economically active individuals. In other words the economy has failed to provide two thirds of the new entrants of the labour force with employment. Similarly for the Western Cape, the labour market should have grown by 24% but we see that it has only grown by 13%. The employment absorption rate shows that the Western Cape economy provided 55 jobs for every 100 new entrants into this provincial labour

⁴ The target growth rate is measured by:

$$\frac{EAP_{kt} - EAP_{kt-1}}{L_{kt-1}}$$

where EAP refers to the economically active population for group k and L is the number of employed individuals, by any given covariate. Note that because this target growth rate captures the growth required to provide employment to only the new entrants since 1995, it is essentially the rate of growth required to absorb all net new entrants, independent of the unemployment numbers existent in the base year, namely 1995.

market. Hence even when focusing on relative employment shifts, as provided by the target growth and employment absorption rates, the Western Cape labour market performance has been above the national mean. The figures are however suggestive of a province that is only able to provide jobs for about half of those seeking work. The next section will provide a more detailed breakdown of the employment trends in order to examine the different dynamics at play.

Employment Trends by Population group and gender

Table 12 shows that nationally 30 out of every 100 Africans found employment but in the Western Cape, only 3 out of every 100 Africans found employment over the period. In terms of the Coloured cohort, nationally, 40 out of every 100 Coloureds gained employment over the period. Within the Western Cape, this figure is higher at about 54 out of every 100. It is thus far clear that in terms of employment absorption, the Coloured cohort has outperformed the African cohort in the Western Cape. The national and provincial statistics show that the Asian and White cohorts have been moving in unison. Nationally, about 60 out of every 100 Asians and Whites gained employment over the period, while the Western Cape figures are higher at 81 and 92 respectively.

Table 12: Employment and EAP⁵ Shifts, by Population group and Gender

Category	Employment Change	EAP Change	Target Growth Rate (%)	% Change In Employment	Employment Absorption Rate (%)
South Africa					
African	1277093	4244670	70.35	21.17	30.09
Coloured	140441	350643	31.45	12.60	40.05
Asian	138225	243327	69.27	39.35	56.81
White	170194	283646	14.95	8.97	60.01
Other	34823	40756			85.45
Gender					
Male	505741	1999490	35.30	8.93	25.2
Female	1254445	3165113	84.80	33.61	39.63
Total	1760186	5164603	54.96	18.73	34.08
<i>Western Cape</i>					
African	2167	63335	24.76	0.85	3.45
Coloured	79298	147072	20.18	10.88	53.92
Asian	33922	41847	278.79	225.99	81.06
White	41877	45580	13.19	12.12	91.88
Other	20197	24768			81.54
Gender					
Male	49261	127909	16.11	6.21	38.52
Female	128085	194578	35.31	23.25	65.83
Total	177346	322487	23.98	13.19	55.00

Source: Statistics South Africa October Household Survey, 1995 & Labour Force Survey, February 2002

⁵ Economically Active Population

The figures by gender show that nationally, 40 out of every 100 females have gained entry into the labour market. The Western Cape figures are higher than the national estimate as 66 out of every 100 females have found employment. Throughout the national and provincial figures, males have done significantly worse than females. Nationally only 25 out of every 100 males have gained employment, while in the Western Cape, 39 out of every 100 males have gained employment.

Table 13 below shows that when considering the broad definition of unemployment, the national unemployment rate has grown by 10 percentage points over this seven-year period. This figure is lower for the Western Cape as unemployment has increased by about 4-percentage points. What is clear is that certain groups have borne the brunt of this: national African unemployment stands at 46% in 2002, meaning that almost half of the African labour force in this country are unemployed, while less than 10% of White workers are unemployed. Although White workers are better off, White and Asian unemployment has almost doubled over the period. These trends are simply of course a natural extension of the employment absorption rates reported above. Specifically with any employment absorption rate that is less than 100, one would see this result in the form of rising unemployment rates.

Table 13: Unemployment⁶ Rates by Population group and Gender, 1995 and 2002

Year	South Africa		Western Cape	
	1995	2002	1995	2002
<i>Population group</i>				
African	36.16	46.62	32.30	41.52
Coloured	22.15	29.59	18.47	22.37
Asian	13.41	24.57	10.11	16.42
White	4.79	9.17	6.74	6.89
<i>Gender</i>				
Male	22.68	33.84	14.11	19.87
Female	37.3	45.32	24.96	26.89
Total	29.24	39.51	18.91	23.16

Source: Statistics South Africa October Household Survey, 1995 & Labour Force Survey, February 2002

For the Western Cape, the African statistics mirror the national values. Growth in unemployment for Africans stands at almost 10 percentage points while White unemployment has remained virtually unchanged at less than 7%. The labour market experience of African individuals in the Western Cape remains decidedly worse when compared with Coloured, Asian and White workers resident in the Province. Ultimately, at the household level, it is this poor performance of the labour market for Africans that engenders higher poverty and poverty gap levels for this cohort within the Western Cape province.

⁶ Expanded Definition and 'other' category excluded

In terms of the gender, nationally, male unemployment has increased by about 10 percentage points while female unemployment has increased by about 8 percentage points. For the Western Cape, there is an increase in male unemployment to the tune of 6 percentage points but female unemployment has grown by significantly less. This growth has been around 2 percentage points. So, for both cases, even though in gross terms there is more female unemployment, male unemployment has been increasing at a faster rate.

Performance by population group and gender

Having established the actual employment absorption, it is important that we compare these values to the desired or target growth rate. For the national and provincial statistics, the target growth rate for Africans has far exceeded the employment absorption rate, which means that this cohort has not performed well relative to 1995 terms whereas White labour absorption has far exceeded target rates throughout. For males and females nationally, the target has not been achieved while in the Western Cape, the actual employment absorption has far exceeded the targets.

The Western Cape results suggest that the labour market for Africans is not operating optimally, with very few of these workers finding employment in the post-apartheid period. This is all the more worrying given that the employment absorption rate for Africans is well below that of the other population group groups in the Province and indeed below the provincial aggregate absorption rate of 55%. Furthermore, the performance of African labour market participants in the Western Cape remains well below the national estimate. Clearly then, the Western Cape labour market, in the case of African participants, is a highly ineffective creator of jobs. This abysmal performance for African workers has to be viewed though in the context of a province that is for all non-Africans, creating jobs at a rate in significant excess of the national average.

Having established that in the Western Cape, Africans have fared much worse than Asians and Whites; it is important to attempt to understand why. One explanation may be that Africans seek employment or are employed in sectors that are just not growing or are in decline, while their counterparts attach themselves to those sectors that are growing and progressing. We return to this discussion below. An intricately linked issue is of course the different skills characteristics of these cohorts that may explain the contrasting employment outcomes.

Employment by skills levels

The aggregate figures for South Africa as a whole as well as the Western Cape confirms longer-run analyses results namely: that the domestic economy continues to yield a declining preference for unskilled workers. Hence we see that the share of unskilled workers declined between 1995 and 2002 (Table 14). In the Western Cape then, the share of unskilled workers in employment declined from 34% in 1995 to 29% in 2002. In addition for the Western Cape and South Africa as a whole the demand for skilled workers expanded – with the share of skilled workers increasing by 2 percentage points

at the national level and 5 percentage points in the Western Cape. Clearly then, the notion of skills-biased employment shifts at the national level is equally applicable to the Western Cape labour market.

Table 14: Share of Employment by Three Skills Categories and Main Sector

Main Sector	Year	South Africa			Western Cape		
		Skilled	Semi-Skilled	Unskilled	Skilled	Semi-Skilled	Unskilled
Agriculture	1995	0.01	0.23	0.77	0.01	0.22	0.77
	2002	0.01	0.56	0.43	0.03	0.22	0.75
Mining & Quarrying	1995	0.04	0.78	0.19	0.11	0.81	0.09
	2002	0.04	0.89	0.07	0.34	0.57	0.09
Manufacturing	1995	0.06	0.74	0.19	0.05	0.66	0.29
	2002	0.10	0.75	0.15	0.10	0.68	0.22
Utilities	1995	0.06	0.80	0.14	0.07	0.78	0.15
	2002	0.09	0.82	0.09	0.25	0.57	0.18
Construction	1995	0.06	0.75	0.19	0.03	0.69	0.28
	2002	0.06	0.74	0.20	0.03	0.72	0.25
Retail and Wholesale	1995	0.14	0.66	0.20	0.16	0.67	0.29
	2002	0.10	0.60	0.30	0.15	0.64	0.21
Transport & Communication	1995	0.15	0.74	0.11	0.10	0.73	0.17
	2002	0.22	0.67	0.11	0.21	0.67	0.12
Finance	1995	0.17	0.77	0.06	0.22	0.73	0.05
	2002	0.25	0.67	0.08	0.34	0.60	0.06
Community Services	1995	0.13	0.72	0.15	0.18	0.65	0.17
	2002	0.19	0.70	0.11	0.21	0.65	0.16
Private Households	1995	0.00	0.03	0.97	0.00	0.03	0.97
	2002	0.00	0.16	0.84	0.00	0.12	0.88
Unspecified (other cat 90)	1995	0.12	0.55	0.29	0.16	0.66	0.18
	2002	0.00	1.00	0.00	0.49	0.35	0.16
Total	1995	0.09	0.60	0.31	0.10	0.56	0.34
	2002	0.11	0.62	0.27	0.15	0.56	0.29
Total (excluding agriculture)	1995	0.10	0.65	0.25	0.12	0.63	0.25
	2002	0.13	0.63	0.24	0.17	0.61	0.22

Source: Statistics South Africa October Household Survey, 1995 & Labour Force Survey, February 2002

The Finance, Transport and Retail and Wholesale sectors have experienced significant employment growth over this period and therefore it is key that we focus on these sectors to establish which skills cohort has been benefiting from this growth. In terms of the Finance sector, nationally the share of skilled workers has risen from 17% to 25% while in the Western Cape this has grown from 22 to 34% over the period. Nationally and in the Western Cape, this has been at the cost of the semi-skilled cohort.

Another trend that is evident nationally and within the Western Cape is that for the Transport sector, there has been a significant growth in the share of skilled labour. What differs is that nationally, this has been at the expense of semi-skilled labour while in the Western Cape there has been a decrease in the share of both the semi-skilled and unskilled worker. In terms of the Retail and Wholesale sector, there has been a decline in the proportion of skilled workers over the period but in the Western Cape, this was a one-percentage point decline. This is also true for the semi-skilled cohort but what is interesting is that for unskilled workers, there has been a growth in their representation

nationally, while in the Western Cape the share of the unskilled workers within the Retail and Wholesale sector has declined.

Clearly in the Western Cape, those engaging in skilled employment have benefited from this labour market bias while the losers have been those employed as unskilled labourers. Omitting the agricultural sector further accentuates the skills-biased employment shift evident for South Africa and the Western Cape. There is therefore an expansion in the relative demand for skilled workers, matched by declines in both the semi- and unskilled cohorts, although the decline in the share of the unskilled cohort is notably less significant with Agriculture included.

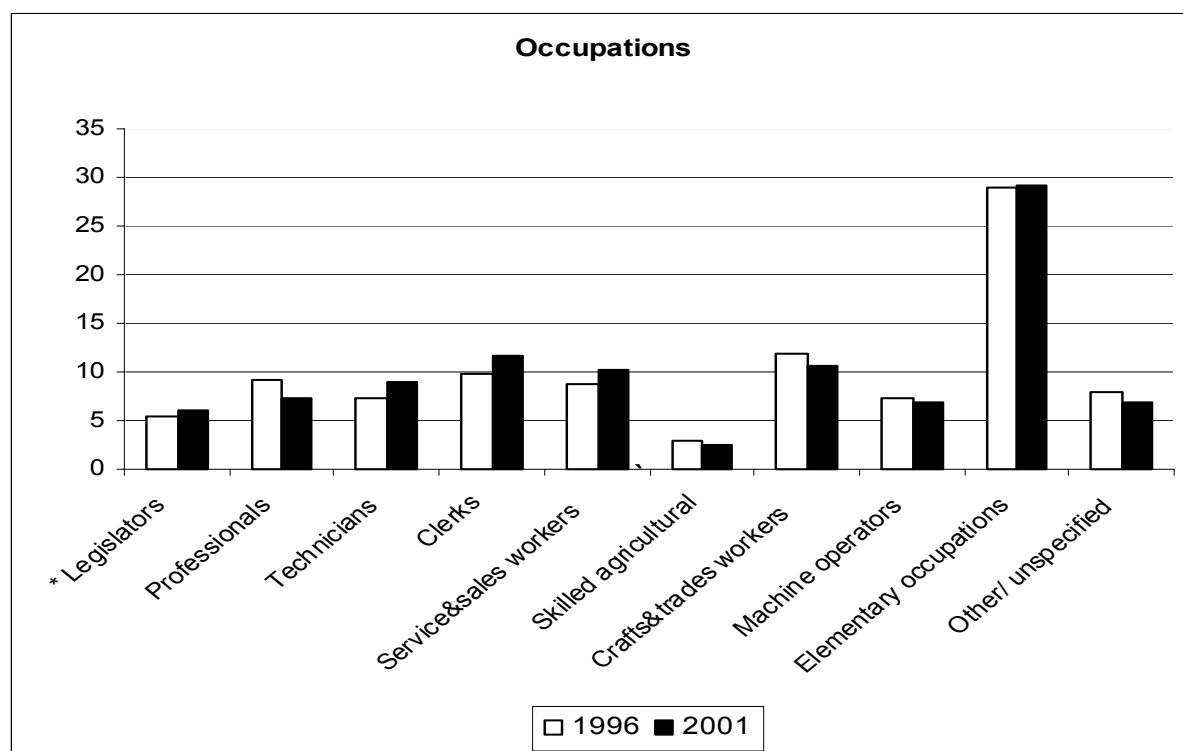
Census 2001 (Table 15) shows that the trend towards skills intensity appears to have been halted if not reversed. The table below, for example, shows increased demand for Technicians and Service workers, but decreased demand for Professionals and Crafts and Trades workers.

Table 15: Occupations in the Western Cape as share of total

Occupations	1996	2001
* Legislators	5.5	6
Professionals	9.2	7.2
Technicians	7.2	9
Clerks	9.7	11.6
Service & sales workers	8.8	10.2
Skilled agricultural	2.9	2.5
Crafts & trades workers	11.9	10.6
Machine operators & assemblers	7.2	6.9
Elementary occupations	29	29.2
Other/unspecified	8	6.9
Total	100	100

Source: Statistics South Africa Census 1996 & 2001

Figure 9: Occupations in the Western Cape



Source: Statistics South Africa Census 1996 & 2001

* 'Legislators' include senior manager officials and managers

Entrepreneurship⁷

One of the avenues open to people that do not participate in the labour market as salaried workers is entrepreneurship. In what follows we sketch a profile of entrepreneurial activity in the Western Cape.

In South Africa the Total Entrepreneurial Activity (TEA⁸) is highest in Gauteng at 8,4%, followed by the Western Cape at 8%, other provinces with metro areas at 5,7% and other provinces without metro areas at 3,2%. Within this global picture, the rate of entrepreneurs driven by necessity is highest in the Western Cape (2,2%), followed by Gauteng and other provinces with metros (2,1%) and other provinces without metro (0,6%). The rate of entrepreneurs driven by perceived opportunity is highest in Gauteng (5,6%), followed by the Western Cape (5,3%), other provinces with metro (3,4%) and other provinces without metro (2,0%).

⁷ This profile is based on the Global Entrepreneurship Monitor's adult population survey data from 2001 and 2002. Driver, A; Herrington, M; Segal, N; and Wood, E. Global Entrepreneurship Monitor: 2001 South African Executive Report; Foxcroft, M; Herrington, M; Segal, N and Wood, E. Global Entrepreneurship Monitor: 2002 South African Executive Report. The Global Entrepreneurship Monitor provides an annual examination of entrepreneurship in South Africa

⁸ The TEA or total entrepreneurial activity index is the proportion of the working age population who are manager-owners of a start-up or a new firm (Driver et al, 2001 & Foxcroft et al, 2002).

Start up rates⁹ are 6,4 % in Gauteng, followed by 5,9% in the Western Cape, 4,1% in other provinces with metro and 1,8% in other provinces without metro. New firm¹⁰ prevalence rates are highest Gauteng at 2,4%, followed by the Western Cape (2,2%), other provinces with metro (1,8%) and other provinces without metro (1,4%). While there are not significant differences between the Western Cape and Gauteng across any of the measures, they have significantly higher rates of total entrepreneurial, opportunity and start-up activity than the other provinces.

When controlling for location, some of the variation between regions is however eliminated with no significant variation remaining between the Western Cape and Gauteng on the one hand, and between the Western Cape and other provinces with a metropolitan centre on the other. For people living outside metropolitan areas however, considerable variation remains between regions, even after controlling for location. Then the Western Cape has a significantly higher TEA, opportunity and new firm activity rates than other provinces with metropolitan centres and without metropolitan centres.

The impact of education on entrepreneurial activity

It was found that while people with matric are significantly more likely to be involved in total, opportunity, start-up and new firm activity, differences between regions are not significant regardless of location. For people without matric, there are significant differences between regions, also after controlling for location. It was found that for people without matric and living outside metropolitan areas, the TEA rates were significantly higher in the Western Cape than in Gauteng, provinces with metropolitan areas, as well as provinces without metropolitan areas. For people without matric and living in metropolitan areas, TEA rates are higher in Gauteng and in other provinces with metro areas than in the Western Cape.

The impact of population group on entrepreneurial activity

It was found that in the Western Cape Africans are less likely to be involved in opportunity entrepreneurship than Coloureds or Whites and they are significantly more likely to be involved in necessity entrepreneurship than Whites. But when controlling for matric, it was found that there are no significant differences between the different ethnic groups in the Western Cape. The TEA rate amongst Africans without matric, however, is significantly lower. This is a reflection of the lower opportunity entrepreneurial activity amongst Africans without matric than amongst Coloureds without matric.

Impact of self-perception on entrepreneurial activity

International research has found that an entrepreneur's own perception of their capabilities and opportunities are important factors in the decision to become involved in entrepreneurial activity. Entrepreneurial prevalence rates are significantly higher among

⁹ A start up business is a business that has not paid any wages or salaries; or has not paid wages and salaries for more than three months (Driver et al, 2001 & Foxcroft et al, 2002)

¹⁰ A new firm is a firm which has paid wages and salaries for more than three months but less than 42 months (Driver et al, 2001 & Foxcroft et al, 2002)

people who believe that they have the skills to start a business, see opportunities for starting a business and who do not fear failure.

It was found that a significantly higher proportion of people in the Western Cape believes that they have the skills to start a new business than in the other regions. However, in the Western Cape the proportion of Whites that fear failure is significantly lower than Africans or Coloureds.

The impact of age on entrepreneurial activity

With the exception of provinces without metro areas, entrepreneurial activity is highest amongst 25-44 year olds, and lowest amongst 18-24 year olds, with 45-64 year olds falling in-between. The differences between age groups within regions are only statistically significant for the Western Cape and other provinces with metro areas. The TEA for 25-44 year olds in the Western Cape is 11,5 and the highest for all regions.

The 'entrepreneurship picture' of the Western Cape therefore largely mirrors its employment trends. There are thus high levels of entrepreneurial activity motivated by opportunity and survival. Levels of basic education do however play a role in the likely success of such endeavors.

SECTORAL GROWTH AND EMPLOYMENT TRENDS

In the next few paragraphs we zoom in further on some of the growth and employment trends described above by examining five of the key industries in the provincial economy in greater detail.

As was indicated above, the Western Cape economy shows a rapidly changing structure over the last 7 or 8 years. Since 1995, the shares that the Primary and Secondary sectors make up have decreased from almost 35% to less than 30% (Table 17). While all three sectors show real growth, the Tertiary sector has grown much faster than the other two (See table 16). Within the tertiary sector the most consistent growth has taken place in the Transport & communication and Finance, Real estate & Business services industries.

Table 16: Western Cape GDP by Constant 1995 prices

Industry	1995	1996	1997	1998	1999	2000	2001	% Change	Average Annual
Primary Industries	5316	5185	5297	5244	5407	5336	5681	6.9	1.1%
Agriculture, forestry & fishing	4853	4801	5064	5033	5241	5130	5505	13.4	2.2%
Mining & quarrying	463	384	233	211	166	206	176	-62.0	-10.3%
Secondary Industries	21857	21958	22804	22673	22843	23225	23707	8.5	1.4%
Manufacturing	16671	16758	17200	16834	16687	16855	17356	4.1	0.7%
Electricity and water	2200	2407	2585	2683	2769	2830	2825	28.4	4.7%
Construction	2986	2793	3019	3156	3387	3540	3526	18.1	3.0%
Tertiary Industries	44279	47574	48782	49250	52533	55075	56487	27.6	4.6%
Wholesale & retail trade; hotels & restaurants	10544	11038	11142	11016	11734	11986	11963	13.5	2.2%
Transport & communication	6432	6824	7414	7913	8826	9322	10038	56.1	9.3%
Finance, real estate & business services	16545	18391	18932	19962	21758	23364	24330	47.1	7.8%
Community, social and personal services	3445	3535	3530	3586	3692	4043	3585	4.1	0.7%
General government services	7313	7786	7764	6773	6523	6360	6571	-10.1	-1.7%
All Industries at basic prices	71452	74717	76883	77167	80783	83636	85875	20.2	3.4%
Taxes less subsidies on products	6769	7133	7352	7339	7521	7729	7852	16.0	2.7%
GDP at market prices	78221	81849	84235	84504	88304	91365	93727	19.8	3.3%

Source: Statistics South Africa

Table 17: Western Cape GDP by current prices – percentage contributions

	1995	1996	1997	1998	1999	2000	2001
Primary Industries	6.8	6.3	6.3	6.2	5.3	4.9	5.4
Agriculture, forestry & fishing	6.2	5.9	6.0	6.0	5.1	4.7	5.2
Mining & quarrying	0.6	0.5	0.3	0.2	0.2	0.2	0.2
Secondary Industries	27.9	26.8	27.1	26.8	25.2	24.4	24.1
Manufacturing	21.3	20.5	20.4	19.9	18.8	18.3	18.3
Electricity and water	2.8	2.9	3.1	3.2	2.4	2.3	2.1
Construction	3.8	3.4	3.6	3.7	4	3.9	3.7
Tertiary Industries	56.6	58.1	57.9	58.3	60.6	61.7	61.6
Wholesale & retail trade; hotels & restaurants	13.5	13.5	13.2	13.0	13.3	13.2	13
Transport & communication	8.2	8.3	8.8	9.4	9.4	9.5	9.5
Finance, real estate & business services	21.2	22.5	22.5	23.6	24.9	26.2	26.6
Community, social and personal services	4.4	4.3	4.2	4.2	4.8	5.2	4.6
General government services	9.3	9.5	9.2	8.0	8.1	7.7	7.9
All Industries at basic prices	91.3	91.3	91.3	91.3	91.1	91	91.1
Taxes less subsidies on products	8.7	8.7	8.7	8.7	8.9	9	8.9
GDP at market prices	100	100.0	100.0	100.0	100	100	100

Source: Statistics South Africa

Table 18 shows significant employment shifts over the period 1996-2001 focusing on the main sector level. The trend of primary and secondary sector jobs being shed and tertiary increasing has shown some deviation, with Agriculture regaining almost 1.5% of the provincial labour market. Wholesale and retail (13.8% to 16.28%) and Financial Services (9.2% to 10.47%) also increased their share of the labour market. Manufacturing losing more than 3 percentage points of its share of the labour market offset these gains.

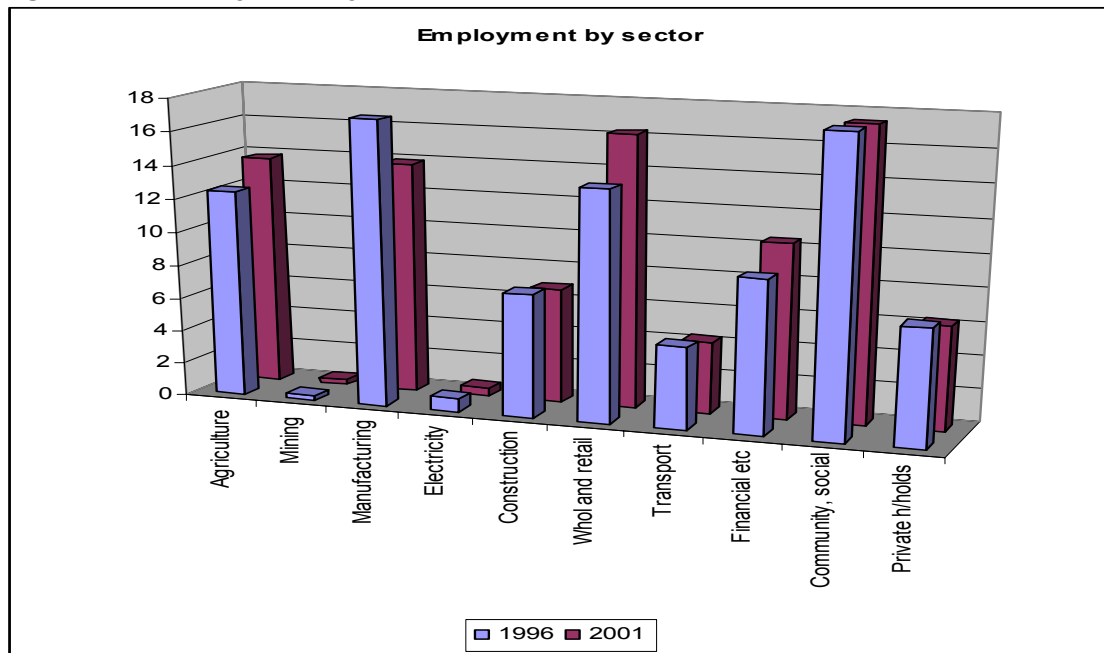
The data above thus suggests that the employment expansion in the Western Cape labour market has been driven by the growth in the services sector as this is reflected in the expansion of employment in Finance and Retail and Wholesale sectors. Noticeably though Construction employment has declined, despite its sustained economic growth rates.

Table 18: Western Cape Sectoral Employment Shares

Employment by sector	1996	2001
Agriculture	12.45	13.83
Mining	0.28	0.3
Manufacturing	17.1	13.9
Electricity	0.8	0.49
Construction	7.4	6.89
Wholesale and retail	13.8	16.28
Transport	4.96	4.33
Financial etc	9.2	10.47
Community, social	17.61	17.43
Private h/holds	7.03	6.26
Undetermined	9.22	9.74

Source: Statistics South Africa Census 1996 & 2001

Figure 10: Employment by sector in the Western Cape



Source: Statistics South Africa Census 1996 & 2001

ICT

It has been estimated that the Western Cape ICT (Information, Communication and Technology) sector generates an annual turnover of R6 billion, contributing 15 % to the national ICT sector (Wesgro, 2003). In 2001 the Cape Town IT Initiative (CITI) estimated that there were a total of 860 ICT companies in the Western Cape (CITI 2002). The '2003 ICT Census' estimated the total number of ICT companies in the Province at 1200. In conducting the census the ICT sector was defined as "the industries that provide goods and services that support the electronic display, processing, storage and transmissions of information".

The province's ICT sector is dominated by SMMEs, with 38% of the companies generating an annual turnover of less than R2 million, and only 12% having a turnover of more than R20 million. In terms of employment, only about 6% of companies employ more than 100 people, with 36% employing between one and four people (CITI 2003).

The IT industry serves a wide range of industries and companies, with its ties to the financial services sector and the retail sector being particularly important. The companies that took part in the CITI survey identified financial services (35%), retail (34%) and government (30%) as their main customer groups. Growth trends in the Western Cape ICT sector can therefore be explained by examining its linkages to other economic sectors, as well as its expansion into international markets.

In 1995, it was estimated that the financial sector accounted for 50% of the installed IT base in the country (Hodge & Miller 1997:7). Since then, the IT industry has continued to grow and diversify its role in that sector. This is especially important in the Western

Cape, which is home to the large offices of several major financial institutions like ABSA, Standard Bank, Old Mutual and Sanlam. Internet banking is one example of linkages between the Finance and ICT sectors. ABSA is currently the largest Internet banking provider with a market share of 38 % (ICT World 2003). Changes in the regulatory environment of financial services, with regulation and legislation requiring the collection and management of large amounts of data from 2006, will continue to provide opportunities for the ICT sector.

The retail sector is also increasing its use of ICT services. Retailers are increasingly making use of the Internet and cellular phones to advertise, using SMS as the mechanism. Other retailers offer the option of “virtual shopping”, while other collaborate with banks to offer their customers special services (ICT World 2003).

Western Cape ICT companies have also started to expand their operations into other geographical markets. The limited size of the local market encouraged companies to move into other South African provinces (mainly Gauteng), but also into Southern Africa and abroad. The high level of local skills and the favourable exchange rate, coupled with having the same time zone as most of Europe, contributes to the ease with which companies moved into some foreign markets. The main export destinations are other African countries, Europe and North America.

The Telecommunications industry has seen dramatic structural changes and has turned into a growth sector since the introduction of cellular phones. The telecommunications market has start to show signs of maturation, but in the medium term the gradual liberalisation of the sector (encouraged by the part-privatisation of Telkom earlier in 2003) should give a boost to the sector (EIU, 2003: 48). Socio-economic factors will continue to shape the development and demand of South Africa’s telecommunications industry, with stagnant population growth, high unemployment and modest economic recovery the key problems facing the industry (EIU, 2003: 49).

To date consumer demand for cell phones has however exceeded all expectations. The continued expansion of the industry, including the introduction of the third network in 2001, has been a driving force behind growth in the communications sector (ABSA, 2002: 10; SARB 2003: 11). Currently the three mobile phone operators have about 10 million subscribers, with the market expected to grow to about 15 million subscribers in 2007. At the moment most of the new subscribers are from the low end of the market, where the average revenue per user is low and the average margins narrow. This may limit companies’ willingness to pursue subscriber growth. It is expected that market saturation will be reached within the next 15 years at between 16 million and 20 million subscribers (EIU, 2003: 49, 50). The fixed-line market has also been showing signs of maturation, with a large proportion of low-income subscribers switching to prepaid mobile phones (EIU, 2003: 49).

The number of Internet users is expected to rise from 2,6 million in 2002 to an estimated 3,9 million in 2007. The government and private sector are actively encouraging e-commerce through initiatives and incentives to extend Internet access in schools, rural communities, post offices and hospitals, but progress is however expected to be slow.

The low ownership of personal computers will also remain a major constraint to the expansion of Internet access (EIU, 2003: 50). Telecommunications investment is also expected to decrease over the next few years, as Telkom and the cell phone operators have already invested heavily in infrastructure in preparation for competition (EIU, 2003: 49).

It is estimated that employment in the Western Cape ICT sector increased from 15 000 in 2001 to 27 600 in 2003 (CITI 2003:31). ICT professionals make up 50 % of the total. Other important categories of employment include ICT practitioners, electronics and hardware technicians and electronics engineers, as well as sales and administration personnel. ICT workers are highly skilled, with 48% having a tertiary qualification. The relatively low level of salaries can however present a problem in retaining the necessary skills in the Province.

It has been argued that the monopoly of Telkom in the telecommunications industry is restricting the growth opportunities of ICT companies. The high bandwidth price charged by Telkom increases costs and reduces the competitiveness of local firms in international markets. This is also a constraint on the expansion of Internet access to a larger share of the population. The 'brain drain' is another serious problem facing the Western Cape ICT industry. The sector requires highly skilled professionals, and the Western Cape ICT professionals' salaries are relatively low in comparison to the rest of the country. Indications are that the Province loses skilled labour not only to Gauteng, but also to other countries. Exchange rate volatility also presents challenges as most ICT companies import parts and licenses from other countries.

To summarise, this sector has been an important driver in provincial growth and employment over the last few years. The growth potential of all its constituent industries is however capped by low levels of socio-economic development and a declining population growth. In the long term growth will have to be driven by either increased economic growth or increased access to foreign markets. The sector also has a high entry level and skills requirement and along with its capital-intensive nature has limited potential for employment and the facilitation of participation in the provincial economy.

Government should be encouraged to adopt a comprehensive strategy to address the challenges in the industry. According to OECD recommendations, governments' strategy should aim to strengthen competition in the industry, create a business environment for effective use of ICT, spread the benefits of ICT across the economy by assisting small firms and disadvantages groups to become part of the industry, and promote security and trust to enhance the use of ICT by business and consumers.

Finance, insurance, real estate and business services

This sector consists of the property, banking and insurance industries and contributed 26.6 % to the Western Cape's GDP in 2001, up from just over 21% in 1995. As was indicated above, the growth in this sector has been the main contributor to growth in the Western Cape economy since 1995. At an aggregate level it grew by an average of almost 8% per year between 1995 and 2001.

Nationally growth in the value added by the Finance, insurance, real estate and business services sector increased steadily from the beginning of 1997, as bank intermediary and financial market activity remained buoyant (SARB, 1998: 13). It has been speculated that the rise of previously disadvantaged groups into the middle- and upper-income groups has contributed to the demand for financial services (ABSA, 2002: 11). It reached a high point of 6 % in 2000, then decreased gradually to about 2 % in the first half of 2003. The slowdown in growth was mainly due to a slowdown in the life insurance and pension fund industries, as well slower growth in the real value added by security traders on the JSE Securities Exchange. The robust growth in the real value added by the real estate sub-sector countered some of the slowdown in the other subsectors (SARB, 1999: 7, SARB, 2002: 10, SARB, 2003: 11). In the next few paragraphs we discuss each of the constituent industries in turn.

The Banking Sector

Since 1994 the South Africa banking sector has been characterized by an increase in competition as new (including foreign) banks and micro-lenders entered the sector. Non-bank financial institutions also expanded their services to include those previously provided exclusively by banks.

Historically the four major banks – Absa, First Rand, Standard Bank and Nedcor, dominated the South African banking sector. In recent years, due to increased competition, these banks have been trying to increase their market share by absorbing smaller banks. In 2002, Nedcor acquired BoE when the latter ran into trouble. In the Western Cape, Nedcor also took over the Cape of Good Hope Bank and Old Mutual bank. South African banks are also diversifying their business by expanding into other African countries. Banks have been struggling to increase revenue as interest income has decreased due to increased competition. They have also been experiencing increased costs due to training demands and the upgrading of technology. Despite the difficulties, many investment banks have exceeded their profit expectations over the last two years.

The banking sector employs highly skilled and skilled labour, with the demand for unskilled labour being very low. Between 1996 and 2001 the Financial Services and Property sector broadly increased its share of jobs in the Western Cape from 9.2% to 10.5%. More specifically, according to Bankseta the Western Cape accounts for 14 % of the national banking labour force (Bankseta 2003). Total national employment in the banking sector has however been decreasing, with the trend expected to continue, also in the Western Cape. Bank take-overs and rationalisation activities have caused the national banking sector to shed nearly 9 000 jobs over the past year. A recent PriceWaterhouseCoopers survey has found that major banks anticipate further cuts of up to 10 % in their personnel complements by 2006, implying that employment in the South African banking sector is likely to fall from the current level of around 112 000 jobs to just more than 100 000 in the next three years (SARB 2003: 22).

The Property Sector

Over recent years the demand for residential property in the Western Cape has been on the increase and property prices have been rising faster than in the rest of the country. Demand for residential property is not restricted to Cape Town, with rural areas like the Boland and Overberg also experiencing an increase in sales. Foreign demand for local property has also remained buoyant, mostly as a result of favourable exchange rates.

The demand for retail and commercial property depends on activity in the retail and other commercial sectors. As a result of steady retail growth, the Western Cape property sector saw an increase in the demand for retail property since 2000. Since 2002 the demand for office space in Cape Town has also picked up and in contrast to the rest of the country, rental prices have increased and vacancy rates have decreased in some decentralised nodes. Despite sluggish performance of the manufacturing sector, the demand for industrial property in the Western Cape has increased since 2000 and it has been reported that the Province experienced a decline in industrial vacancy rates while other provinces have been struggling (Moneyweb 2003/06/08).

In the property sector demand is mainly for highly skilled and skilled labour, with usually a minimum of Grade 12 required. By 2001, 8 452 people were employed in the Western Cape property sector.

The Insurance Sector

When the reduction of exchange controls started in the 1990's, South African insurance companies started to move into offshore markets to diversify their risks and increase returns. This, however, also exposed them to volatile international markets. Banks have also entered the sector as they seek to diversify their business and increase profits.

The life assurance industry, with two of the major players, Old Mutual and Sanlam based in the Western Cape, suffered from slow growth in the late 1990's and early 2000, mainly due to Rand volatility. The industry has, however, performed better in the last few years. The short terms insurance industry, with the major players like Santam, Mutual and Federal, SA Eagle and Hollard all represented in the Western Cape, have been suffering in the 1990's due to the high crime rate and increased competition in the industry. The situation has since improved, with an increase in underwriting profits.

This industry has also been characterised by job losses due to restructuring. It has been reported that the combined banking and insurance sector nationally lost 36 000 jobs in 2003 (Stats SA).

The finance, insurance, real estate and business services sector has been a key contributor to economic growth in the Western Cape in recent years (26.6% of GDP). While it has a low level of labour absorption, it is still a significant employer (over 10%). With the exception of the property industry, this sector has however slowed down significantly over the last 2 years. As a result the Financial Services and Insurance

industries have shed large numbers of workers and are expected to continue doing so over the medium term.

Manufacturing

The manufacturing industry comprises a whole range of sub-sectors, including among others, food and beverages, clothing and textiles, chemical products, rubber and plastic products, wood and paper products, metal products, mineral and metal products, machinery and equipment, and motor vehicles and accessories.

In 1980, the Western Cape manufacturing sector contributed 12,4% to South Africa's Manufacturing Gross Domestic Product. This contribution increased to 13,8% in 1991 and 21.3% by 1995. However since then the role that the sector plays in the provincial economy has declined quite dramatically to 18.3% by 2001. Despite this decreasing share, the manufacturing sector remains the second largest contributor to the Western Cape's Gross Domestic Product. While in Rand terms, its contribution increased, its share of GDP declined. As was indicated in table 16 above, Manufacturing only grew by a real annual average of 0.7% between 1995 and 2001. Despite this sluggish performance, the size of the industry still makes it an important contributor to the provincial economy. So despite its slow expansion, it still contributed over 12% of total Western Cape growth between 1995 and 2001.

Despite increased international competition, Western Cape exports have been growing steadily since 1996, with a range of locally manufactured products, including processed food and beverages, wood articles, clothing and textiles, and footwear and headgear increasing their share of South African exports of those products (Table 19). Manufactured exports benefited significantly from the SA-EU and AGOA (African Growth and Opportunities Act) trade agreements.

Table 19: Sectors with Increased Export Shares: Western Cape/RSA

Sector	Average Share (%)	Average Share (%)	Share (%)
	1996-1998	1999-2001	2002
1. Animals & fish	51.8	64.7	65.7
2. Vegetable & fruit	37.7	45.2	48.1
3. Anim./Veg.fats & oils	17.8	19.3	23.0
4. Prep. Food & beverages	34.0	38.0	49.2
5. Wood articles	5.5	8.1	10.9
6. Clothing & textiles	18.5	25.2	28.8
7. Footwear & headgear	16.7	27.3	24.1

Source: Wesgro Trends in Western Cape Exports: 1996-2002

Statistics on trends in the Western Cape manufacturing industry are limited and we will therefore review the performance of the manufacturing sector on the national level since 1996, to give us some clues on the performance of the manufacturing sector in the

Western Cape. Nationally, real output by the manufacturing sector increased by only half a percent in 1996 but growth picked up strongly during 1997, boosted by a strong demand for manufactured exports as a result of increased price competitiveness of local manufacturers following the depreciation of the Rand during 1996 (SARB, 1997:14). Output levels declined again in 1998 due to a number of reasons, including a slowdown in domestic demand, delayed effects of the appreciation of the Rand in 1997, the decrease in export demand from Japan and the struggling East Asian economies, as well as a decrease in exports due to the termination of the General Export Incentive Scheme in the middle of 1997 (SARB 1998:13). Real manufacturing production slowly picked up again in 1999 in response to an increase in the demand for certain South African manufactured exports as well as the anticipation of a recovery in domestic aggregate demand (SARB, 1999: 6; SARB 2000)

Low levels of the exchange rate of the Rand boosted the demand for South Africa exports in 2000, with manufacturing output expanding. A worldwide slowdown in economic activity and weak growth in domestic demand led to a slowdown in manufacturing production in 2001 (SARB, 2001: 9; SARB 2002: 8). In 2002, robust domestic demand boosted manufacturing output and the depreciation of the Rand at the end of 2001 again benefited the output of manufactured exports throughout 2002 (SARB, 2002: 8). The manufacturing sector's performance has again been weak in the first half of 2003, mainly as a result of:

- the appreciation of the Rand, which started in 2002 and have resulted in a decrease in the price competitiveness of our exporters;
- low levels of demand in our major export destinations;
- a slower increase in domestic demand; and
- low levels of business confidence in the first half of this year; (SARB, 2003:9).

Nationally, the manufacturing sector employment decreased between 1996 and 1999 (SARB, 1997: 25; SARB, 2000: 21). As seen above, manufacturing output on national level followed a cyclical trend. During the upward phases after 1999, however, manufacturing output growth was not accompanied by employment growth. This suggests that the increased output was the result of an increase in labour productivity and not in the actual number of people employed (SARB, 2002: 23,24).

Currently the manufacturing industry has access to a wide range of incentives offered by various organs of state at the national level, including the Department of Trade and Industry (DTI) and its agencies. The aim of the incentive programme is to boost fixed investment and to encourage export-enhancing industrialisation. The main features of the incentive package are tax incentives, industrial financing incentives, the Small Medium Enterprise Development Programme (SMEDP) and its complementary programmes, Research and Development Grants, the Critical Infrastructure Facility (CIF), Industrial Development Zones (IDZ) and Spatial Development Initiatives (SDIs), as well as a range of export incentives. Provincial government could assist by ensuring that all local manufacturers are aware of these programmes. Infrastructural (information and physical) investments that decrease the transaction costs and times associated with conducting business should also be encouraged.

In summary this sector is a key player in Provincial economic growth and job-creation. Its role is however diminishing and shows little immediate signs of recovery.

Tourism

Tourism became a fast growing industry after the 1994 elections in both South Africa, and the Western Cape. In 2000, 770 000 foreign tourists, representing 51% of all overseas tourists to South Africa, visited the Western Cape. The majority of these visitors came from Europe and North America. However, in the same year, the Western Cape only accounted for 13% of South Africa's domestic tourist market, with 55% of its domestic tourists being resident in the Province (Feinstein 2003). The Western Cape is home to a wide range of tourist attractions. Of the top ten international tourist attractions in South Africa, the top eight are located in the Western Cape, with the Victoria & Alfred Waterfront being the number one attraction (South Africa Yearbook 2002/03:528).

The tourism sector is a loosely defined economic sector and includes activities that are found in many industries. The only tourism sector for which information on output, employment and productivity indicators is available is the **trade, catering and accommodation services** sector which accounted for 13% of the provincial economy by 2001. On national level, growth in the **catering and accommodation** subsector slowed down during the course of 2003, as the recovery of the Rand, global instability and fears of Severe Acute Respiratory Syndrome (SARS) adversely affected the tourism industry (SARB, 2003: 10). A survey conducted by Deloitte and Touche has, however, found that Cape Town has maintained its 2002 hotel occupancy rates during the first six months of 2003 (CBN, 2003).

The tourism industry is highly labour intensive and much of the labour may be unskilled or needing only short, in-house training. The sector also has linkages to a variety of other industries and therefore potentially both a high multiplier effect on income and a diversifying effect on the economy. Total tourism employment from 1996 to 2000 fluctuated quite considerably. Fluctuations in employment numbers suggest a fairly volatile business environment.

With recent Tourism employment figures for the Western Cape not available, we look at the national trends to give an indication of possible developments in the Province. Tourism activity increased significantly in South Africa during 2001. On national level it was reported that room and bed occupancy rates increased by 12,9% and 13,7% respectively in the year to March 2002 (SARB, 2002: 23). Employment in the trade, catering and accommodation services sector was also reported to have benefited from the depreciation of the Rand in 2001.

Generally, barriers to entry in the tourism sector are low due to there being relatively low start-up costs in the travel and accommodation sub-sectors. Some sectors require large capital investments, such as boutique hotels, five-star hotels and some specialised segments. It is, however, easy for the small business person to enter the industry if he/she owns a property of sufficient size or a vehicle able to accommodate a sufficient number of individuals to operate a tour-guide business. Naturally the latter is a significant

barrier to many historically disadvantaged entrepreneurs. Another major barrier to such entrepreneurs is the lack of access to information on market opportunities.

In the medium term, tourism is likely to remain an important sector for South Africa and the Western Cape, with considerable untapped potential in specifically the two-and three-star hotel niche of the market (EIU, 2003: 51). It is also a significant, if erratic, employer.

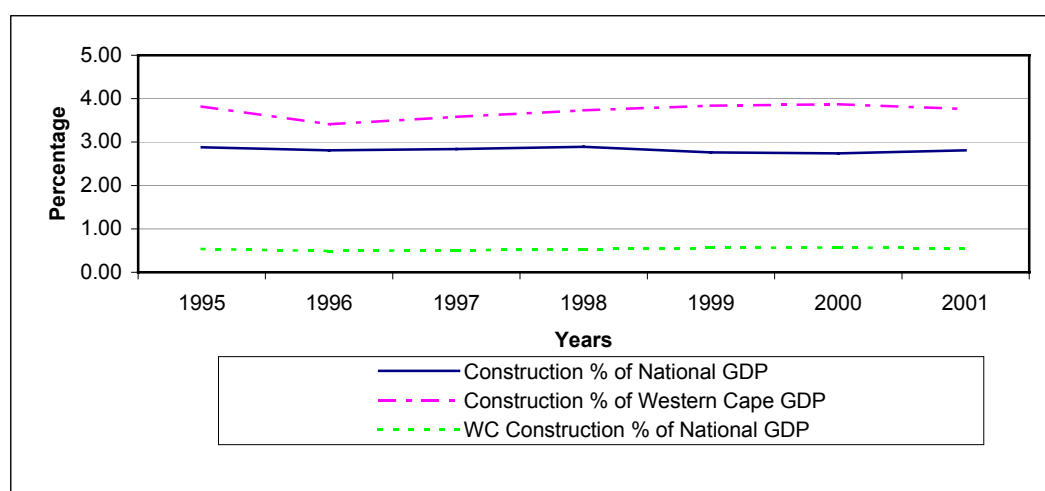
Construction

The construction industry is composed of the building industry, the civil engineering industry and the rental industry (in this context the 'rental industry' refers to the renting of construction or demolition equipment). Building activities take place in both the formal and informal sectors, with informal activities penetrating the formal sector. This normally involves labour-only sub-contractors working on sites operated by formal sector large-scale firms.

The construction industry is a relatively small industry in the Western Cape, but it is a relatively larger contributor to the regional economy than the national construction sector is to the national economy. At national level, the construction sector only contributes 2,8% to the national GDP, down from 4,3% in 1980.

In 2001, the Western Cape industry contributed R5 billion or 3,8% to the provincial GDP. After a sharp decline between 1995 and 1996, the construction industry's contribution to the provincial economy increased from 1996 to 2000. There has, however, been a decline in recent years, in contrast to the national trend (see figure 11 below). The sector contracted significantly at national level after 1998 due to the 1997/1998 Asian economic crisis and the resulting increases in South Africa's prime lending rate. The Western Cape industry, however, remained surprisingly resilient between 1998 and 1999, reflecting the local demand driven by big projects including Century City, major RDP housing projects and about R2 billion from major casino developments and the Cape Town International Convention Centre.

Figure 11: Construction industry contribution to GDP



Source: Statistics SA (2002a)

At national level there has been a steady decline in the value of building plans passed from R24 billion in 1996 to R18,7 billion in 2001. In contrast, the value of building plans passed in the Western Cape remained quite steady over the same period, even increasing slightly from R5 billion to R5,4 billion. A downward dip in 1999 can again be explained by the high interest rates following the Asian financial crisis in 1997/98. The marked rise after 1999 is mainly the result of the passing of the building plans of Canal Walk and Grand West Casino. The Western Cape's contribution to the national total value of building plans passed has shown an upward trend from 1996 to 2001.

Currently, both nationally and provincially, the value of buildings completed is on an upward trend. The value of buildings completed in the Western Cape has been on a growth path since 1996, with only a slight dip in 2000, as a response to the events of 1997/98. In terms of the value of buildings completed, the Province's contribution to the national sector has also grown substantially, but appears to have leveled out between 2000 and 2001.

Nationally, the construction sector accounts for about 5 % of employment, with a slight decline over the past few years. The contribution of Western Cape construction industry to provincial employment is slightly higher at almost 7 %, but appears to have been declining since 2000.

In terms of composition, the formal sector accounts for about 71 % of employment in the provincial construction industry, higher than the national share of 57 %. Employment in both the formal and informal construction sectors has been declining between September 2000 and September 2002.

The construction industry is generally very labour intensive, and any money spent in construction is likely to create more jobs than in many other industries. Construction wages in the Western Cape are also higher than the national average. At national level, the average construction worker's earnings are considerably lower than the average for all sectors, as well as for the manufacturing industry. No comparative data is available for the Western Cape, but based on the fact that construction wages in the Province are higher than the national average, it is likely that average earnings of a construction worker are higher in the Western Cape than nationally.

There has been a severe decline nationally in apprenticeship levels, and therefore artisan training, in the building industry over the last three decades. The decline was a direct consequence of the trend towards subcontracting and has resulted in the current serious shortage of properly skilled labour (Krafchik, 1990; Merrifield, 1994). The structure of work organisation in housing delivery (and construction in general) also contributes to the prevalence of unskilled workers in the industry. The client normally employs a main project contractor, who provides management and in turn employs one or more large-scale main contractors to execute the contract. These main contractors, often only provides management and some supervision and coordination of site activities. The main contractors employ specialist and labour-only subcontractors do to the actual building work. The subcontractors work under fixed budgets and are unable to

afford the properly skilled and experienced personnel at statutory minimum wage levels. The subcontractors employ employees at well below the statutory minimum wage levels, and these employees are usually unskilled or under-skilled and employed on a casual basis.

It is relatively easy to enter the construction industry, either as a worker or small-scale (labour-only) subcontractor. No technical qualifications are required and work can be undertaken with extremely low levels of initial investment. The work at the lower end of the market is also not very technically demanding. It is therefore relatively easy for entrepreneurs from different backgrounds to establish small-scale construction enterprises. Most of these enterprises originate from the building industry and entrepreneurs establish small firms via either the 'trade route' or 'management route'. Entrepreneurs entering the industry via the 'trade route' usually have the practical experience but lack financial and administrative skills and are unable to accurately estimate quotes (ILO, 1987; ABC, 1989a, ABC, 1989b; ABC, 1990; Motlanthe, 1990).

The construction industry is characterized by both a strong formal and informal sector, which often overlaps. This creates favourable conditions for firms and individuals to drift in and out of both sectors. The existence of a relatively large informal sector, widely accepted as a potentially rich seedbed for the growth of entrepreneurs, makes the building and construction industries relatively easy to enter. With the Western Cape's smaller than national average share of informal employment, these opportunities will however be somewhat less available to the unemployed in this province than elsewhere.

The Construction industry has been small, but consistent contributor to the provincial GDP. Its contribution over the last 5 years has however been inflated by a number of large projects, in many cases government funded or initiated. While relatively labour intensive its increasing move to sub-contracting has contributed to an erosion of the skills base in the province.

Agriculture

The Western Cape agriculture sector contributed about 23 % of the total value added in the agricultural sector in South Africa, which amounted to R25 billion in 2001. Agriculture contributed 5.2% to the Western Cape Gross Domestic Product in 2001, with this contribution declining from 6.2% in 1995. Between 1995 and 2001 Agriculture's average annual growth was at 2.2% which was about 1% lower than the provincial average.

Just over 12 % of agricultural land in South Africa is located in the Western Cape. The average farm size is smaller than in the rest of the country, production processes are relatively more labour intensive and worker remuneration is considerably higher (workers earn 23,9% of total farm wages in the country) (Agricultural Survey, 1996).

The Western Cape's physical resources, including the winter rainfall of the Boland and the year-round rainfall of the Southern Cape, does however provide conditions conducive to a unique crop mix. Agricultural production in the Province is characterised

by stability, based on stable and relatively adequate winter rainfall and supported by well-developed infrastructure for both input supply and output processing. The diversity of agricultural production in the Province also contributes to the general stability of the sector. The main agricultural products are fruit, poultry/eggs, winter grains, viticulture and vegetables and together they comprise 75 % of total output.

Despite its shrinking share of the economy, total agricultural output in the Western Cape has increased from R10,4 billion in 1999 to R11,8 billion in 2001, with fruit production the most important (R2,4 billion in 2001). The next four most important production sectors are winter grain, white meat, and vegetables.

Fruit farming is the most important agricultural activity in the Western Cape, with conditions being ideal for both deciduous and soft citrus fruit. The Western Cape is South Africa's largest producer of deciduous fruit, accounting for 85 % of total exports. In 2001, gross deciduous fruit export earnings were approximately R5, 1 billion. The Western Cape produces 15-20% of South Africa's total citrus crop of R1, 8 billion. The Western Cape is South Africa's second largest and most stable wheat producer, with 43 % of the country's wheat fields. The province is South Africa's only hops producer and it also produces 95 % of the country's barley (90 000 ton in 1999).

The Western Cape accounts for 3,7 % of the national cattle herd, 12 % of sheep, 14,8 % of the total pigs and 3,8 % of the total goats in South Africa. The broiler industry accounts for over 17 % of national production. The ostrich industry, historically dominated by the Western Cape, has however struggled since the mid-1990's but is showing signs of recovery. While the demand for red meat has declined, the demand for pork and poultry has risen strongly, with positive results for the Province. The Western Cape also produces about 20 % of the country's annual total of 4,6 billion eggs.

South Africa is the world's sixth largest wine producer, with the Western Cape wine industry accounting for 90,5 % of that production. Viticulture contributes about 30 % to the Province's horticultural income and 3% to its Gross Domestic Product. The gross output value of wine-industry related firms is R14,6 billion. In the late 1990's considerable foreign investment in Western Cape vineyards, large-scale replanting and quality improvements resulted in a boom in wine exports. Total South African wine exports grew from 50,7 million litres in 1994 to 210 million litres in 2002, with the bulk of the exports coming from the Western Cape. Wine tourism also has big potential, with 43% of tourists to South Africa visiting the Winelands in the Western Cape.

In 2002, the two top categories of Western Cape export products in terms of Rand value, were agricultural products. The top export category was "fruit, fresh, canned and juices", with a total value of R6, 3 billion and contributing 22% to the total Rand value of Western Cape exports. It was followed by "wine, beer and spirits", contributing R3,2 billion or 11% to total export value.

The Agriculture sector is labour intensive, contributing nearly 14% to formal sector jobs in the Province. It is, however, low paying, contributing a much smaller percentage to total provincial salary and wage payments. Horticultural enterprises dominate the

sector's contributions to provincial value added, employment and employee remuneration, with contributions from the livestock subsector also relatively high.

Marked changes have occurred in the employment patterns in the Western Cape agricultural sector. Du Toit and Ally (2002), as well as Sunde and Kleinbooi (1999), have found a shift away from the employment of permanent workers towards the employment of temporary workers. Reasons cited by farmers for this shift include the Extension of Security of Tenure Act (ESTA) legislation, rising labour costs and minimum wages. Farmers are also increasingly making use of agricultural labour brokers/contractors. The farmer concludes an arrangement with the broker and there is no direct relationship between farmer and worker. While the farmers are able to control risks and costs, this situation holds serious implications for farm workers in terms of livelihoods and income (Du Toit & Ally, 2002). It has also been found that female farm workers are increasingly being employed. This offers farmers the opportunity to maximise the utilisation of existing on-farm labour and controlling housing costs (Sunde & Kleinbooi, 1999).

South Africa's land reform programme consists of three components, namely restitution, tenure reform and redistribution. Restitution deals with historical land rights and the return thereof, while tenure reform examines forms of land holding. Land redistribution is focussed on the transformation of existing, racial biased land ownership patterns (Vink & Tregurtha, 2003: 14).

In the Western Cape only 0,8 % (80 000ha) of farm land has been transferred in the five years since 1997 and an estimated 6 170 households have benefited from the land redistribution programme. A large percentage of these households, however, took up land for settlement and not farming purposes. It has been found that beneficiaries of land are not adequately supported to be able to farm successfully. Another constraint is the limited supply of land in the Province. The success of the programme depends on private owners' willingness to sell, with the lengthy and bureaucratic process involved in a land reform transaction often acting as a deterrent (Vink & Tregurtha, 2003: 15).

The Western Cape agricultural sector has grown steadily over the past decades, but the continuation of this trend depends on a number of factors:

- *The level of market demand:* South Africa (and Western Cape farmers) is a relatively small player in most of the current export markets. Continued expansion of exports depends on farmers' ability to maintain their competitive position, the level of the exchange rate and the growth in world markets.
- *Farmers' competitive position:* This will depend on the extent to which supply chains can be kept competitive (especially with regard to the logistical costs of getting perishable products to the market) and farmers' ability to find and adapt new technologies.
- *Resource availability:* Soil is a scarce resource as specific agricultural products require specific types of soil. Farmers will have to be willing to invest in fixed improvements to soil. The availability of water is also a key concern.
- *The regulatory environment:* Most farms are SMMEs and are being adversely affected by the provisions of tax, environmental and labour laws that were designed to suit the needs of big business.

In summary the Agriculture sector remains an important contributor to the provincial economy, despite its shrinking contribution over the last few years. The sector also plays a key role as labour intensive employer of unskilled and semi-skilled labour. Increased casualisation is however increasingly threatening the security of these workers.

Summary

The analysis above shows that after steady growth during the late 1990s the Western Cape economy slowed appreciably since then. During its growth phase the key driver of the provincial economy was the Tertiary sector, with Financial Services being the largest contributor to economic growth. While the shift to the Tertiary sector is a national and even international trend, the Western Cape is much more dependent on this sector than was the case nationally. In fact the last 6 or 7 years shows very little real growth and certainly no per capita growth in the rest of the provincial economy. When the economy slowed at the turn of the century, this was consequently also as a result of appreciable slow-down in the Tertiary sector, but in the Financial Services industry in particular.

Employment trends have largely mirrored economic growth trends, outperforming national trends, but not at levels sufficient and correct composition to address unemployment and poverty. We therefore see a dual trend in economic and labour market trends. High skilled workers and sectors have been rewarded, while the rest of the economy and labour market has largely failed to benefit from the opening up of the provincial economy since 1994. Even more disturbingly labour market trends show a distinct racial characteristic with black African workers not participating in growth sectors to any significant degree.

DISTRIBUTION OF WEALTH

In the first two sections we discussed growth and employment trends in the Western Cape provincial economy. In this section we discuss the distribution of wealth that these trends are resulting in.

Population Growth Trends

The first point of reference in discussing the distribution of wealth is simply the number of people in the Province. At a very basic level; the more people there are, the larger the economy has to become in order to satisfy their needs. Table 20 shows that the population of the Western Cape province has grown from just short of 4 million in 1996 to over 4,5 million in 2001. This represents a total increase of about 500 000 people or 14.3%. This gives an average annual increase of 2.9% over this 5-year period. Over the same period the South African population only increased by 10.4% or an annual average of 2.1%.

Table 20: Western Cape and RSA population growth 1996-2001

	1996	2001	% Change	Annual Average
Western Cape Population	3956875	4524335	14.3%	2.9%
RSA Population	40583573	44819778	10.4%	2.1%

Source: Statistics South Africa Census 1996 & 2001

Bekker (2002) found that the reason for the rapid increase in the population of the Western Cape is that the Province is currently a net receiver of population flows, with an estimated 48 000 people entering the Province each year. This inflow¹¹ represents an increase of more than one percent of the population. The main reasons why people move to the Western Cape are the perceived better job opportunities, more accessible and effective infrastructure and government services and the superior quality of life available in the Western Cape.

Bekker also found that much of the population flows originate from the Eastern Cape and the Northern Cape. These province's economies are much smaller and their infrastructure relatively inferior, leading to continuing in-flow of poor families and individuals. The inflow from the under-populated Northern Cape is small, while from the Eastern Cape it is powerful and fast. It is believed that the population flows from the Eastern to the Western Cape currently represents the largest and most rapid

¹¹ Flows from a sending area to a receiving area.

demographic flow in South Africa. The Western Cape's job opportunities, infrastructure and perceived quality of life also attract better-off individuals and families from a larger national and international region.

Bekker found that poverty is a major driver of population flows. The search for work has driven poor households to enter, and move within, the Province. This is particularly true for African households, who often move in search for work without their children, who join them later. Over the last three years, the search for work has increasingly been driving the population flows of poor Coloured households too.

Age Profile

The Western Cape population has not only increased, but its age-profile has also changed significantly. This change is significant since not all age groups can participate in the creation of wealth. On the other hand, the relative shrinkage and increasing skills bias of the labour market also means that not all people of working age will have the opportunity to participate in the labour market.

Table 21 below shows that there has been a significant decrease in the share that 0-14 year old and those aged 65 and over make up of the total population. On the other hand those aged 15-64 or the economically active population has grown from 64.9% of the population in 1996 to 67.5% of the population in 2001. These figures support Bekker's assessment that inflows into the Province are largely driven by poverty and the search for employment. Table 21 also reconfirms the rapid growth in the Western Cape's economically active population.

Table 21: Western Cape and RSA Age Profile 1996-2001

Age Cohorts	RSA 1996	RSA 2001	WC 1996	WC 2001
0-14	33.9%	32.1%	28.9%	27.3%
15-39	42.7%	43.8%	44.7%	45.5%
40-64	17.4%	19.2%	20.2%	22.0%
65 & over	6.0%	4.9%	6.2%	5.2%

Source: Statistics South Africa Census 1996 & 2001

Table 22 below shows that, as a result of the above trends, the economically active population (21%) of the Western Cape grew much faster than its total population (14%). Even more striking is that the economically active population in the Western Cape grew almost twice as fast as in South Africa as a whole (21% versus 11%). The result is that the pressure on the Western Cape's labour market has increased much more rapidly than the case was nationally between 1996 and 2001.

Table 22: Western Cape and RSA growth in population and economically active population (EAP)

Population	1996	2001	% Change
Western Cape Population	3,956,875	4,524,335	14
RSA Population	40,583,573	44,819,778	10
Western Cape Labour force	1,673,288	2,016,717	21
RSA Labour Force	13,785,493	15,359,000	11

Source: Statistics South Africa Census 1996 & 2001

For now, the impact of the growth in the population can clearly be seen on the per capita GDP growth calculated in table 23 below. While the Western Cape's economy grew significantly faster than the national economy between 1996 and 2001, its population also grew faster. So while its economy grew faster than the national economy, the increase in its per capita share of the economy was almost stagnant at 0.04%.

Table 23: Per Capita GDP in RSA and Western Cape

	1996	2001	% Change	Annual Average
WC GDP at 1995 prices (R)	81849000000	93728000000	14.51	2.90%
Western Cape Population	3956875	4524335	14.34	2.87%
Western Cape Per capita (R)	20685	20716	0.20	0.04%
RSA GDP at 1995 prices (R)	571706000000	642039000000	12.30	2.46%
RSA Population	40583573	44819778	10.44	2.09%
RSA Per capita (R)	14087	14325	1.70	0.34%

Source: Statistics South Africa

Inequality

Wealth is not divided up equally amongst the whole population. So while there has been little change in per capita wealth creation in the Province, there were significant changes in how this wealth is distributed in the Province. While government services have been largely redistributive, the rest of the economy has followed a different path. Table 24 shows that for South Africa as a whole the Gini-coefficient was quite stable, even though still unacceptably high. While there were variations between the coefficients of each of the population group groups, none of the shifts were too significant.

Table 24: Gini Coefficients for South Africa¹²

Type of Household		1995	2000
All households		0,56	0,57
By population group ¹³	African	0,50	0,49
	Coloured	0,46	0,48
	Indian	0,43	0,41
	White	0,44	0,45

Table 25 shows that the Gini coefficient for the Western Cape remains significantly higher than the national figure. The distribution of wealth in the Western Cape therefore remains significantly less equal than is the case nationally. While these figures should be treated with some caution, preliminary indications are that the level of inequality in the Western Cape has increased between 1995 and 2000. This trend is supported by trends in the labour market that will be discussed below. The table shows that, except for Whites, the inequality within all population group groups has also increased.

Table 25: Gini Coefficients for the Western Cape 1995 and 2000

		1995 ¹⁴	2000 ¹⁵
Western Cape		0,602	0,625
By population group	African	0,515	0,534
	Coloured	0,447	0,512
	Asian	0,339	0,463
	White	0,443	0,429
By region	Cape Metropolitan Area	0,561	NA
	Non-CMA	0,623	NA
	- Breede River DC	0,603	NA
	- Klein Karoo DC	0,654	NA
	- Overberg DC	0,649	NA
	- Central Karoo DC	0,613	NA
	- South Cape DC	0,624	NA
	- West Coast DC	0,568	NA
- Winelands DC	0,605	NA	

¹² Source of the South African Gini coefficients: Statistics South Africa. 2002. Earning and spending in South Africa: Selected findings and comparisons from the income and expenditure surveys of October 1995 and October 2000, p48

¹³ We use the population groups as categorized and defined by Statistics South Africa.

¹⁴ Source of 1995 Gini coefficients: Oosthuizen, Morne J, & Nieuwoudt, Liezl, 2002. A Poverty Profile of the Western Cape Province of South Africa. Mimeo. Stellenbosch Department of Economics, University of Stellenbosch, Table 8, p 175 – as reproduced in Western Cape Provincial Treasury 2002 Western Cape Fiscal Policy 2003 – 2006.

¹⁵ Prepared by Van der Berg, S (Economics Department, University of Stellenbosch)

CHALLENGES TO GREATER GROWTH & EMPLOYMENT

In section 2-4 above we started off by listing some of the broad parameters for growth and employment. These included a global shift to tertiary industries, the concomitant favouring of highly skilled labour and the below-par performance of the labour market in general.

In this section we start off by examining some of the specific challenges in the labour market. Subsequently we describe some trends in the provision of basic education that may be at the source of some of these blockages. Lastly we propose a framework for analysing the interface between the provincial and economy and transport network.

There are many more barriers to increased provincial economic growth and employment than are discussed in the paragraphs below. While other issues such as high crime levels and perceived inefficient regulation of the business environment also deserve attention, the issues focussed on here emerge as key issues in establishing a more participative and equitable labour market and division of wealth in the Province.

Unemployed youth

'Youth unemployment' (according to the expanded definition of unemployment) can be defined as those members of the labour force aged 15 to 24 who report that they are willing to work, or desire a job, but currently remain jobless. In terms of the national statistics, in 1995, 30% of the unemployed fell into this age group while in 2002; this figure has grown to 34.3%. For the Western Cape, in 1995, the figure stood at 40% while in 2002, this has risen slightly to 41%. Although the growth in this has been slight, the figure is nonetheless very high. The strong youth dimension to unemployment within the Western Cape (and indeed nationally) is made amply clear by figure 12 below.¹⁶

¹⁶ In this instance, the data has not been weighted.



Source: Statistics South Africa Labour Force Survey 2002 February

Ultimately then, these age-unemployment statistics confirms what is very well known about the South African labour market: namely that a poor labour absorptive capacity has ensured that unemployment in the economy, has a very strong youth dimension. In addition, it is evident that in terms of this trend, the Western Cape is no exception.

If one dissects the unemployed by age and level of education, the unemployed youth are a distinct category from the older unemployed. Table 26 below splices the unemployed into two categories: 'non-youth' and 'youth', where the former are the unemployed aged 40 and above and the latter under the age of 40.

Table 26: Distribution of Unemployed by Age Cohort and Education Level: 2002

Education level	Non-Youth	Youth	Total	Non-Youth	Youth	Total
	South Africa			Western Cape		
No schooling	187058	163620	350678	4393	5689	10082
	14.37	2.73	4.81	5.38	1.51	2.20
Primary	518693	1276156	1794849	29485	84197	113682
	39.85	21.31	24.62	36.08	22.32	24.77
< Matric	445270	2582593	3027863	33063	171600	204663
	34.21	43.13	41.54	40.46	45.50	44.60
Matric	90741	1651610	1742351	10673	94580	105253
	6.97	27.58	23.90	13.06	25.08	22.94
Tertiary	46627	292771	339398	3434	17718	21152
	3.58	4.89	4.66	4.20	4.70	4.61
Unspecified	13092	20602	33694	668	3366	4034
	1.01	0.34	0.46	0.82	0.89	0.88
Total	1301481	5987352	7288833	81716	377150	458866
	100	100	100	100	100	100

Source: Statistics South Africa Labour Force Survey, February 2002

It is clear from the national data that of the 7.3 million unemployed recorded for February 2002, about 1.3 million of these are 40 or older. This reinforces the point that the economy's unemployment problem has a very strong youth dimension. Probably the key attribute differentiating these 2 cohorts of workers though, is their level of education. Table 26 above makes it plain that the non-youth unemployed have a distinctly lower level of human capital accumulation than the youth. Hence we find that 54% of the non-youth, about 705 000 individuals, have accumulated between 0 and 7 years of education (primary schooling or less), while the figure for the youth is less than half this, at 24%. Put differently, while about 33% of the youth unemployed have a matric or tertiary qualification, only about 11% of the older unemployed possess these qualifications.

The Western Cape data exhibits some similar trends to the national figures, specifically that the youth unemployed dominate overall unemployment. In fact, in Western Cape, the under 40 cohort makes up about 82% of the total unemployed. Secondly, within the Western Cape, 41% of the non-youth have accumulated less than 7 years of education while the corresponding figure for the youth unemployed is 24%. At the top end of the education spectrum, the 17% of the non-youth unemployed have attained a matric or tertiary qualification while 30% of the youth unemployed have done so as well. What is clear then is that the non-youth unemployed in this province are better educated than is the case nationally, whereas the human capital accumulation of the youth mirrors the national estimates. What is also clear is that the non-youth are not as well educated as the youth and this is also in line with the national trend. While the non-youth may have more labour market experience, this experience is fast losing relevance in the restructured economy, as can be seen that fewer of them have worked in the last 3 years (see below).

Seekings also found a significant racial dimension in youth employment patterns. It was found that a significant minority of White teenagers and some Coloured teenagers had worked, but very few African teenagers. White teenagers started working at an earlier age. The majority of Coloured 19 year-olds had worked and the majority of White 17 year-olds had worked. However, less than 30 % of African 22 year-olds had ever worked. The younger respondents worked part-time, around 6 or 7 hours per week on one or two days. Typical jobs were that of a waitress, baby sitter, shop assistant or shelf packer, newspaper delivery and odd jobs such as cutting grass.

The “unemployable”

It is advantageous that the proportion of the youth to the non-youth unemployed is skewed towards the youth variable, that is of those that are unemployed, the majority is made up of those aged below 40 years. This is beneficial as the youth cohort is much better educated than the non-youth cohort and thus the youth can be enrolled in skills development programmes to upgrade their labour market status and can benefit from this for the rest of their lifetime. Discounting the quality of education issues that will be discussed below, it can be argued that since the fundamental education is in place, it will be less difficult to equip the youth with skills in order to engage in the economy as technicians, apprentices and clerks.

On the other hand, the fact that the non-youth has attained lower levels of education and is older vastly lowers their probability of employment than the youth unemployed (Table 26). This is particularly so since the longer-run analyses reinforce the notion of employment growth at the top-end of the occupational ladder. Skilled (better-educated) workers have a significantly higher probability of employment than less skilled (or less educated) workers. More specifically, we can perhaps nuance the definition of who the 'unemployable' are more than likely to be: the data suggests that those jobless individuals over the age of 40 with primary schooling or less best reflect the core of individuals in the labour market who, given the economy's labour demand trajectory, are likely not to get a job in their lifetime. In the rest of this section we attempt, a brief assessment of the other attributes of the cohort of unemployed aged 40 and over with primary schooling or less, identified as the 'unemployable'.

The unemployable cohort has also spent a longer period of time searching for employment than the youth cohort (Table 27). The fact that nationally, about half of the unemployable have spent 3 years or more searching for employment is indicative of the structure of the labour market bias prevalent in South Africa. This also goes to explain the large differential between the narrow and broad definitions of unemployment; considering the length of time that is spent searching, the concept of the discouraged worker makes a great deal of sense. In the Western Cape, 40% of the unemployable have spent more than 3 years searching for employment while the corresponding estimate for the youth is 21%.

Table 27: Distribution of Unemployed by Period of Search and Age Cohort

Period of search	South Africa			Western Cape		
	Unemployable	Youth	Total	Unemployable	Youth	Total
Less than 1 month	9%	8%	8%	7%	5%	6%
1 to less than 2 months	4%	6%	6%	0%	8%	8%
2 to less than 3 months	3%	5%	5%	4%	14%	13%
3 to less than 4 months	3%	3%	3%	3%	5%	5%
4 to less than 6 months	2%	3%	3%	8%	6%	7%
6 months to less than 1 year	5%	9%	9%	7%	11%	11%
1 to 3 years	21%	28%	27%	32%	28%	28%
3 years or more	51%	36%	38%	40%	21%	22%
Don't know	0.47%	0.39%	0.40%	0%	1%	1%
Unspecified	0.45%	0.27%	0.28%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Source: *Statistics South Africa Labour Force Survey, February 2002*

In trying to understand previous economic activity we took the above sample of unemployed and of those who reported having worked previously, asked when last it was that they worked. Table 28 below presents the results from these two questions.

There is here a distinct difference in the past economic activity of the unemployable when compared with the youth unemployed.

Table 28: Unemployed who have worked before: When last was this?

Time period	South Africa			Western Cape		
	Unemployable	Youth	Total	Unemployable	Youth	Total
1 week to less than 1 month	1%	3%	2%	1%	5%	4%
1 to less than 2 months	2%	4%	3%	1%	4%	3%
2 to less than 3 months	3%	4%	4%	2%	7%	7%
3 to less than 4 months	2%	3%	3%	1%	8%	7%
4 to less than 5 months	2%	3%	2%	3%	2%	2%
5 to less than 6 months	1%	3%	2%	2%	3%	3%
6 months to less than 1 year	4%	10%	9%	12%	13%	13%
1 to less than 2 years	9%	15%	14%	8%	16%	15%
2 to less than 3 years	11%	12%	12%	18%	11%	12%
3 years or more	55%	32%	37%	47%	23%	26%
Don't know	1%	1%	1%	0%	1%	0%
No response (unspecified)	9%	10%	10%	4%	8%	8%
Total	100%	100%	100%	100%	100%	100%

Source: *Statistics South Africa Labour Force Survey, February 2002*

In terms of the national data, at least half of the unemployable last worked at least 3 years ago. The national results are fairly reflected within the Western Cape as almost 50% of the unemployable last worked at least three years ago, while the corresponding figure for the youth is much lower at 23%. These results tangentially suggest that a large number of the unemployable had in fact been employed as labourers and would have lost their jobs as structural changes and technological shifts in the domestic economy impacted on low-skilled employment.

Table 29 below shows that when comparing the literacy levels of the two cohorts, it becomes clear that there is a much higher proportion of the youth unemployed that can read and write as compared with the unemployable. Nationally, almost 30% of the unemployable cannot read or write whereas almost 100% of the youth can do both. This means that even within this cohort of unemployable workers, there are some who are more vulnerable and their chances of employment are even slimmer. The provincial results are somewhat better than the national statistics. In the Western Cape, 12-13% of the unemployable cannot read or write. Given that the national statistic is 30% means that the remaining eight provinces in the country have a larger number of functionally illiterate unemployed. But this means that there is more scope in the Western Cape to uplift both of these cohorts.

Table 29: Literacy levels of the Unemployed

Category	Unemployable	Youth	Total
South Africa			
<i>Read in (at least) one language</i>			
Yes	512077	5800676	6312753
	72.56%	96.90%	94.33%
No	193674	185819	379493
	27.44%	3.10%	5.67%
Total	705751	5986495	6692246
	100%	100%	100%
<i>Write in (at least) one language</i>			
Yes	506986	5790814	6297800
	72.14%	96.73%	94.15%
No	195778	195778	391556
	27.86	3.27%	5.85%
Total	702764	5986592	6689356
	100%	100%	100%
<i>Western Cape</i>			
<i>Read in (at least) one language</i>			
Yes	29974	367451	397425
	88.48%	97.43%	96.69%
No	3904	9699	13603
	11.52%	2.57%	3.31%
Total	33878	377150	411028
	100%	100%	100%
<i>Write in (at least) one language</i>			
Yes	29619	367169	396788
	87.43%	97.35%	96.54%
No	4259	9981	14240
	12.57%	2.65%	3.46%
Total	33878	377150	411028
	100%	100%	100%

Source: **Statistics South Africa** Labour Force Survey, February 2002

Another interesting issue is to establish how the unemployed survive considering that they receive no income from the labour market. Examining the types of households they come from will give a good indication of this. Table 30 below highlights a very crucial point, namely that almost half of the unemployed (more so for the unemployable) in this country have no access to a wage earner within their households. This means that the

entire household is accessing some form of migrant remittance or government transfer¹⁷. Nationally, 49% of the unemployed do not have access to a wage earner within a household meaning that 51% of the unemployed have access to at least one wage earner in a household, with the majority located in a one wage earner household.

Table 30: Distribution of the Unemployed Across Wage- Earning Households

Earners	No of unemployed	Share of unemployed	Number	Share
	South Africa		Western Cape	
0	3570244	48.98	130600	28.46
1	2864673	39.3	222563	48.50
2	683409	9.38	71583	15.60
3+	170507	2.33	34120	7.44
Total	7288833	100	458866	100
<i>Youth</i>				
0	2384491	47.34	100506	26.65
1	2389743	39.91	182305	48.34
2	614050	10.26	65688	17.42
3+	149068	2.49	28651	7.60
Total	5987352	100	377150	100
<i>Unemployable</i>				
0	441360	62.09	13730	40.5
1	218003	31.41	16556	48.87
2	36146	5.08	1508	4.45
3+	10242	1.42	2084	6.15
Total	705751	100	33878	100

Source: *Statistics South Africa Labour Force Survey, February 2002*

Of the unemployable 62% do not have access to a wage earner within the household – conversely 38% of the unemployable have access to at least one wage earner within a household. In the Western Cape we find that while 73% of the youth unemployed live in households with at least one earner, the figure for the unemployable is 59%. In terms of the Western Cape though, it is evident that the level of household support offered to both the youth unemployed and unemployable, is higher than the national estimates. This data then simultaneously suggests that on the one hand, large sections of the unemployed (and significant sections of the ‘unemployable’) are supported by wage earners within the same household, while on the other hand equally significant shares of the unemployed (and a disproportionate segment of the unemployable) are not supported by wage income.

For the ‘unemployable’, the figures suggest that a disproportionate number of these individuals are forced to rely on income entering the household from sources generated through activities outside the labour market.

¹⁷ It is probable that unrecorded survivalist activity is also engendering income for some of these households, although this is not formally recorded in the data

Degreed unemployment

The two paragraphs above argue that education and skills levels are key variables in determining likely participation in the labour market. In what follows we show that while necessary, these are not always sufficient conditions.

In terms of unemployment by education levels, it is established that in the Western Cape, contrary to the national trend, tertiary unemployment has dropped while at the lower education levels, unemployment has increased. This serves to re-emphasise the nature of the labour that the Western Cape demands, namely highly educated and skilled individuals. Not all degreed workers find employment though.

Table 31 below presents tertiary unemployment disaggregated by population group. The table clearly illustrates that the African cohort has largely been driving tertiary unemployment in the Western Cape and nationally. In terms of White unemployment, we see that nationally, there has been a slight increase in the figures but these figures tend to hide the fact that tertiary unemployment for this cohort has more than doubled over the period.

When we consider the Western Cape, White tertiary unemployment has halved. Another feature that is unique to this province is that nationally, on aggregate, tertiary unemployment has been on the rise. In the Western Cape, tertiary unemployment has dropped and the main driver of this is the growth in Asian and White tertiary employment. The African (and to a lesser extent) and the Coloured cohorts have borne the brunt of most of the tertiary unemployment. Hence, these intra-racial provincial rates are critical as the provincial average for the Western Cape's unemployment rates, in showing a decline, does in fact mask the increases in the unemployment rates for African and Coloured participants with a tertiary qualification.

Table 31: Tertiary Unemployment Rates, By Population group, 1995 and 2002

Population group/Year	South Africa		Western Cape	
	1995	2002	1995	2002
African	10.01	25.95	17.54	22.36
Coloured	8.49	9.86	9.86	10.92
Asian	5.56	8.21	9.04	0.00
White	2.26	4.63	5.23	2.75
Total	6.44	15.42	7.69	6.67

Source: Statistics South Africa OHS 1995 & LFS, February 2002

Another issue that must be examined further is the extent of degreed unemployment as the variable 'tertiary' includes a number of heterogeneous qualifications like diplomas and technikon qualifications. This will further highlight the characteristics of those that are well educated but find themselves unemployed. Table 32 below illustrates that the weighted unemployment numbers for degreed individuals has been increasing dramatically over time. What we see in this instance is that degreed unemployment far

exceeds *tertiary* unemployment as for Africans the change in unemployment stands at over 400% while for Whites this is 141%. While these rates are off a much lower base of numbers of employed they do suggest that while tertiary unemployment is a growing phenomenon, within this, the extent of unemployment amongst workers with a degree is also expanding at a worryingly fast pace.

Table 32: Unemployment for Degreed Workers: African & White, 1995 & 2002

Population group/Year	South Africa		Western Cape	
	African	White	African	White
Unemployment Numbers				
1995	8834	5645	960	2588
2002	45959	13597	1554	457
% Change	420,25	140,87	61,88	-82,34
Unemployment Rates				
1995	5.87	2.12	14.18	4.25
2002	16.41	3.15	16.54	0.5

Source: *Statistics South Africa October Household Survey, 1995 & Labour Force Survey, February 2002*

For the Western Cape, there is a slightly different dynamic, as graduate unemployment for Africans has increased by 62% but this has reversed dramatically for White individuals (-83%)¹⁸. This either shows that African graduates are hugely discriminated against in the work place, resulting in them not getting jobs that they may be qualified for or that these individuals may be accumulating human capital of an inferior quality or in fields of study not demanded by employers. Provisional analyses show that behind high attainment levels may lie racial patterns in the quality of qualifications obtained.

Trends in the provision of Basic Education

To date the school system has proven incapable of substantially reducing inequality in the South African labour market because of its inability to reduce inequalities in educational output in any major and systematic way in a relatively short time frame. This is indeed worrying, considering the huge socio-economic inequalities existing in South Africa and the dire need to reduce them.

Education, Employment and Income

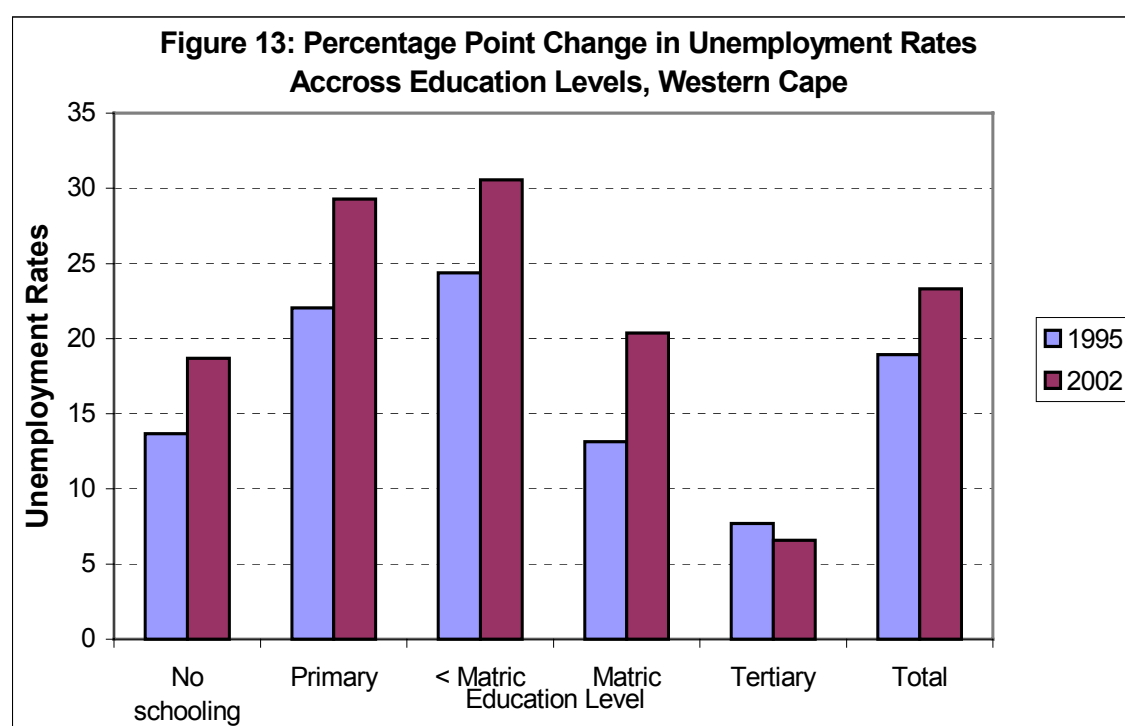
Considering that education plays a key role in one's employment prospects, it is important that we examine this relationship. Intuitively one expects that those with lower levels of education will fare much worse than those with higher levels, as this is in line with the labour demand preferences that the economy has exhibited. Table 34 and Figure 13 below confirm that unemployment rates have been increasing across almost all the education levels. Nationally, the proportion for those that have no schooling has remained virtually unchanged but in the Western Cape, this has increased by

approximately 5-percentage points. Matric unemployment in the Western Cape grew by about 7% points over this period.

Table 34: Unemployment Rates by Education Level, 1995 and 2002

Education Level	South Africa		Western Cape	
	1995	2002	1995	2002
No schooling	33.12	32.30	13.67	18.70
Primary	35.49	41.38	22.04	29.28
< Matric	33.85	48.39	24.38	30.56
Matric	25.28	39.51	13.15	20.36
Tertiary	6.44	15.37	7.69	6.58
Total	29.22	39.65	18.93	23.32

Source: *Statistics South Africa October Household Survey, 1995 & Labour Force Survey, February 2002*



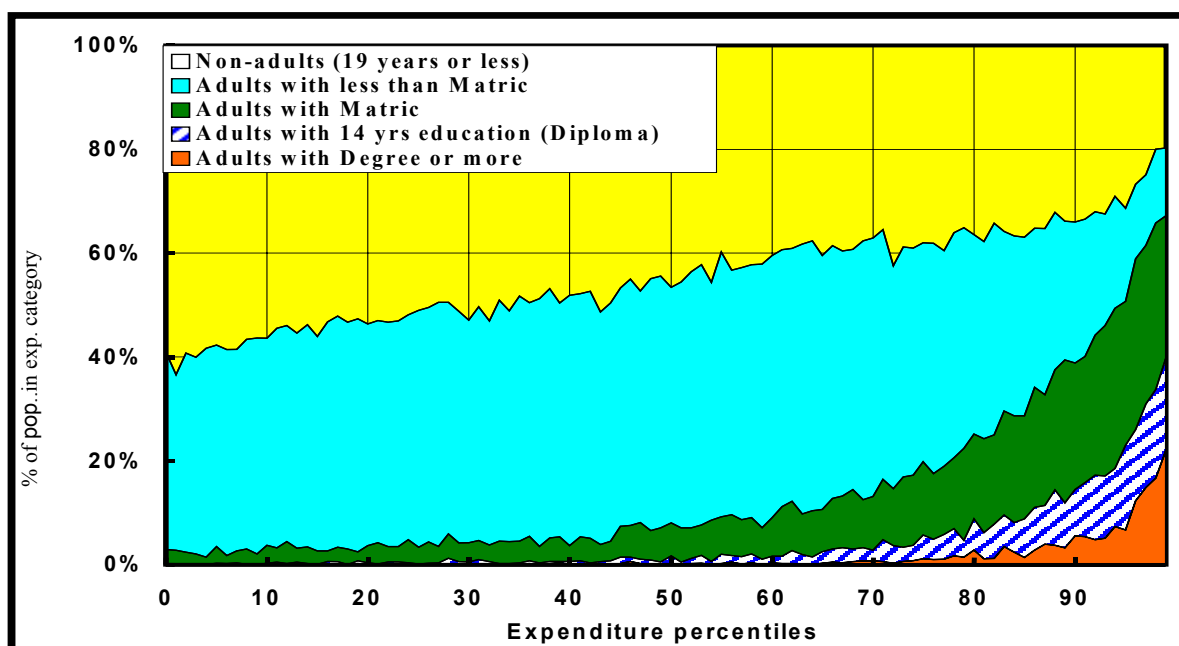
Source: *Van der Berg and Burger 2002*

The growing earnings function literature in South Africa¹⁹ – and internationally – also shows a tight relationship between education and labour market status and earnings. This is also illustrated by Figure 14, which shows that the small number of relatively well educated adults (e.g. those with a degree) are concentrated at the upper end of the

¹⁹ See e.g. Mwabu & Schultz (1996); Winter (1998); Fallon & Lucas (1998); Hofmeyr (1998 & 2000); Hofmeyr & Lucas (1998); Moll (2000); Schultz & Mwabu (2000); Bhorat & Leibbrandt (2001); Kingdon & Knight (2001); and Chamberlain (2001)

expenditure distribution. At least for 1995, a degree acted as an important guarantee of being near the top of the expenditure ladder.

Figure 14: Distribution of total population by education over national expenditure percentiles, 1995



Source: Van der Berg and Burger 2002

Another way of considering this data is presented in Table 35, which shows that adults with degrees constitute only 1.6% of the total South African population, yet they are 10% of the population in the top 10%. By contrast, adults with less than Matric are scarce in the higher rungs of the expenditure distribution.

Table 35: Share of non-adults and adults in various educational categories in the population and in the various expenditure categories, 1995

Share in	Non-adults	Adults with less than Matric	Adults with Matric	Adults with Diploma	Adults with Degree or more	Total population
Total population	44.0%	40.8%	10.0%	3.2%	1.6%	100.0%
Poorest 20% (Quintile 1)	56.3%	40.4%	2.6%	0.2%	0.0%	100.0%
Poorest 40% (Quintiles 1 & 2)	53.4%	42.5%	3.2%	0.3%	0.0%	100.0%
Quintile 2	50.5%	44.6%	3.8%	0.4%	0.1%	100.0%
Quintile 3 of RSA population	45.1%	47.3%	5.9%	0.9%	0.2%	100.0%
Quintile 4 of RSA population	38.3%	46.5%	11.1%	2.9%	0.6%	100.0%
Richest 20% (Quintile 5, Deciles 9 & 10)	31.6%	26.2%	24.8%	10.5%	6.4%	100.0%
Richest 10% (Decile 10)	28.2%	19.2%	28.5%	13.5%	10.0%	100.0%

Source: Van der Berg and Burger 2002

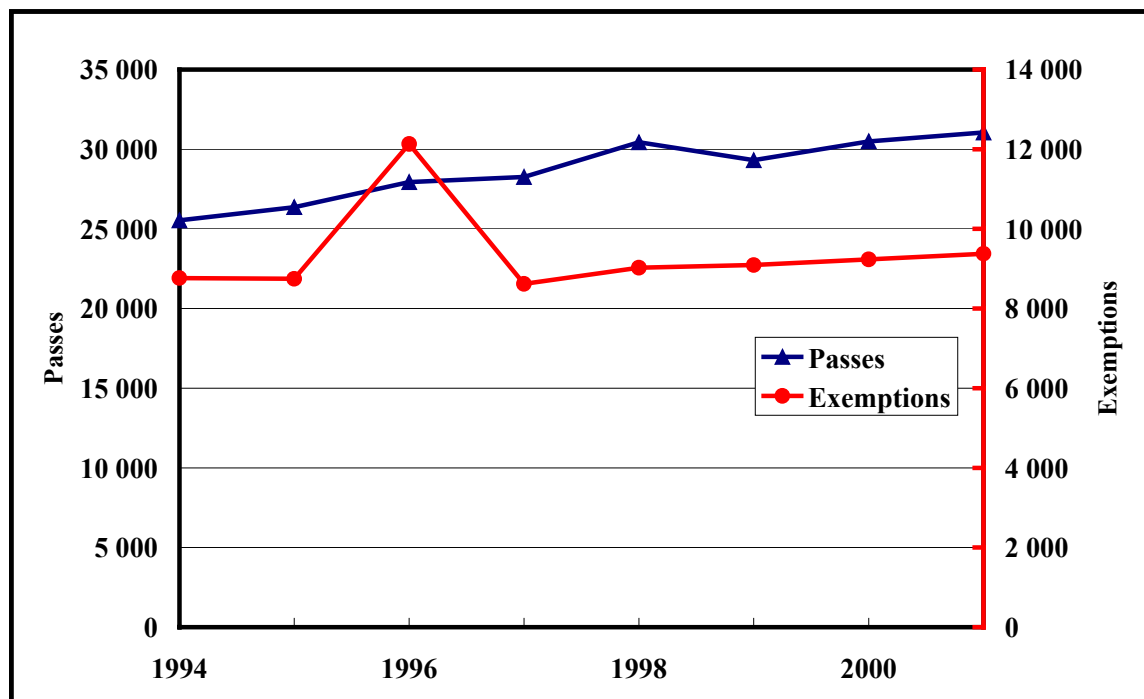
Note: Non-adults are here defined as people below 20 years of age

School performance

Since the transition to democracy, resources devoted to school education have increased considerably and large resource shifts have taken place to poorer schools (Van der Berg 2001b), yet outputs of successful matriculants or of those matriculating with university exemption are stagnating or declining. There seems to be a poor conversion of inputs into educational outputs, i.e. in numeric terms educational outputs are only weakly related to educational resources – though a time lag between resource shifts and changes in outcome may partly account for this.

Much of the national problems also emerge at the provincial level in the Western Cape, even though the Province performs by far the best in terms of matriculation results. The Western Cape pass rate (82.7%) and exemption rate (25.0%) in 2001 were well above the national average (15.1% and 61.7% respectively). From 1994 to 2001 the Western Cape increased its share of national matriculation passes from 8.9 to 11.2%, and of exemptions from 9.9 to 13.9%, even though the Province's performance in this regard was not spectacular (see Figure 15). Even more than at the national level, access to schools is no longer a major problem, as census and survey data show that virtually all children of school-going age are at school, at least to about age 15 or 16.

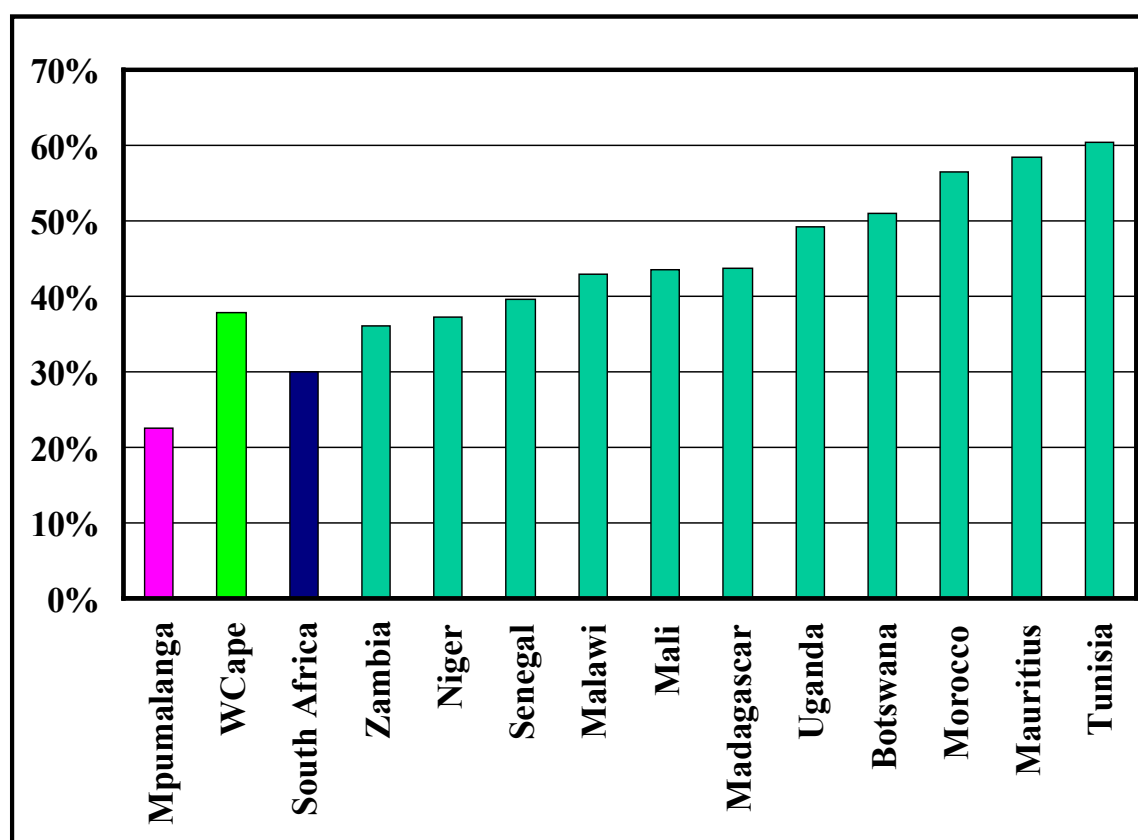
Figure 15: Matriculation passes and exemptions, Western Cape 1994-2001



Source: Van der Berg and Burger 2002

Even the Western Cape's educational performance is far from ideal. This is well illustrated by the MLA Numeracy Test carried out in 1995 at the Grade 4 level in all provinces and in various African countries (Figure 16). Though the Western Cape performed best of all South Africa provinces and far better than the worst (Mpumalanga – also shown in the graph), its performance was only marginally better than two of the participating African countries, and worse than the other nine.

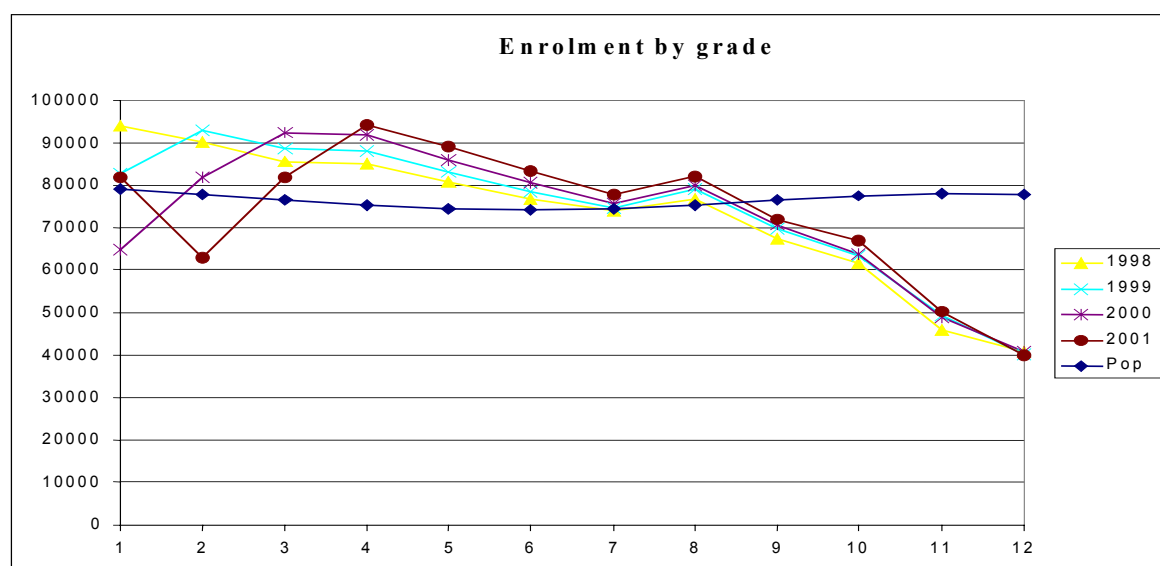
Figure 16: Western Cape performance on Grade 4 MLA numeracy test, 1995



Source: Van der Berg and Burger 2002

Behind these educational outcomes lie equally disturbing flow-through trends. Figure 17 shows a dramatic drop off in enrolment in the Western Cape after Grade 8. Quantitative analysis of the Western Cape school enrolment figures by various researchers indicates that only 45 - 52% of learners who enroll in Grade 1 reach Grade 12. (Crouch, 2002; van Wyk, 2003) Perhaps of even greater concern is the fact that these analyses and Figure 17 show little change in the throughput or efficiency rate in the last five to six years.

Figure 17: Enrolment in Western Cape schools by grade, 1998 – 2001



Source: Van der Berg and Burger 2002

The increased levels of education in the provincial population reflected in table 36 below is encouraging. The table below shows significant reductions in the 'completed primary' and 'some secondary' categories and large increases in Grade 12 and higher qualifications. This seems to indicate that relatively fewer learners are exiting the system before matriculating. Even given these improvements, the stark fact remains that only 1 in 3 people over 20 had a qualifications of matric or higher in 2001.

Table 36: Level of Education Amongst those aged 20+ in the Western Cape

	1996	2001	Difference
No Schooling	6.3%	5.7%	-0.6%
Some Primary	15.0%	15.2%	0.2%
Completed Primary	8.4%	7.9%	-0.5%
Some Secondary	37.2%	36.5%	-0.7%
Grade 12	18.0%	23.4%	5.4%
Higher	10.1%	11.2%	1.2%
Unspecified/Other	5.0%		-5.0%
Total	100.0%	100.0%	0.0%

Source: Statistics South Africa Census 1996 & 2001

Flow-through by population group

Seekings found that while up to the age of seventeen, enrolment in school was almost 100 % among White adolescents, enrolment was lower among African adolescents, and even lower among Coloured adolescents. Seekings also found that African adolescents remained in primary school long past the age when White and Coloured adolescents had moved into secondary school. Young African adults also remained in secondary school long past the age when Coloured and White young adults had left it.

A significant minority of both Coloured and White young adults left school with matric, but the largest number of Coloured 18 to 22 year-olds left school without matric. Enrolment in tertiary education was very high among White young adults from 18 to 22 years, but low under Coloured and African young adults.

The mean grade attained by 14 year-old White and Coloured children was between 7 and 8, while for 14 year-old African children it was between 6 and 7. 20 year-old White children attained a mean grade of nearly 12, compared to a mean grade of just over 10 among young Coloured people and just under 10 among the African youth. White and Coloured children had an advantage of approximately one grade over African children at the age of 14, but thereafter, White children on average pulled ahead of Coloured children, who in turn were caught up by African adolescents.

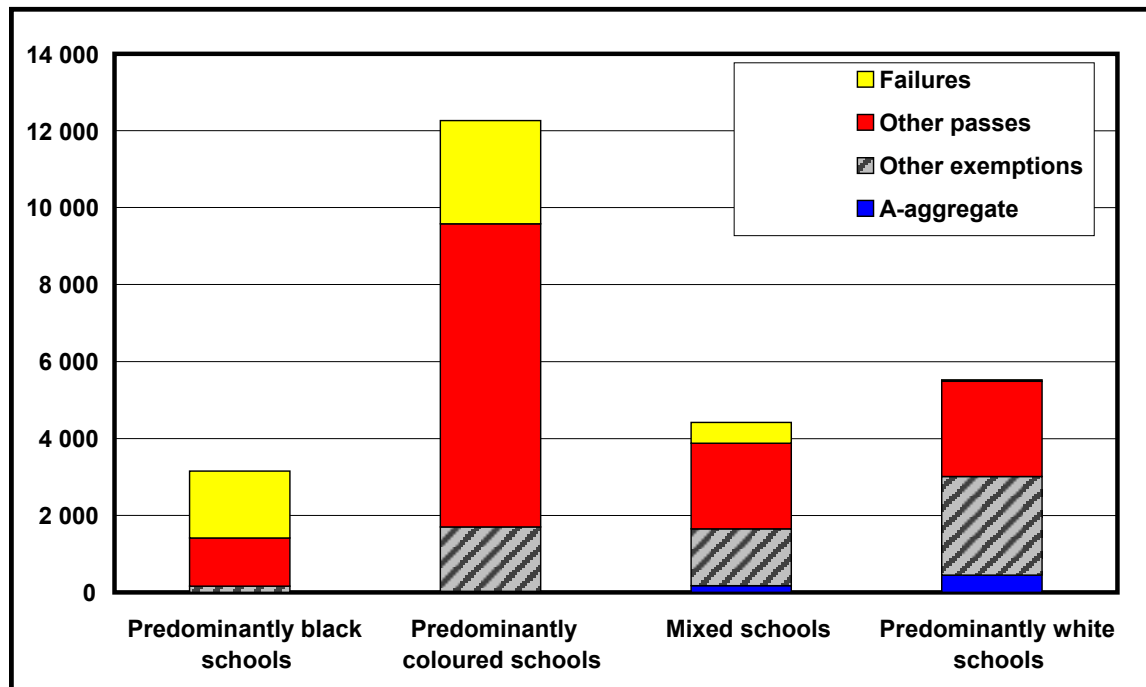
African children fell behind from an early age. Most White and Coloured children were enrolled in Grade 1 at the age of 6, while significant proportions of African children only entered Grade 1 at the age of 7 or 8 years. African children not only started school later, but were also more likely to fail or repeat grades. By the age of 18 years, African and Coloured children were 5 times as likely to have failed a grade than their White counterparts.

Significant proportions of African and Coloured adolescents and youths also left school without completing matric. African adolescents tended to drop out at older ages (older than 17) having completed Grades 9, 10 or 11, but without completing matric. Coloured adolescents dropped out at younger ages (especially 15 and 16 years), having completed only Grade 7, 8 or 9. Almost half of drop-outs occurred during the school year. The most commonly cited reasons given for dropping out included the family's inability to afford to keep the child in school or because the child found a job or wanted to look for a job.

Educational Attainment

Van der Berg & Burger show that in the Western Cape large output differentials also follow racial patterns. Poor schools with predominantly African and to a lesser extent Coloured pupils do much worse than others do. Figure 18 shows that predominantly White schools still outperform others and that very few A-aggregates (a measure of quality) were obtained in other schools. Even university exemptions, another less restrictive measure of quality, were highly concentrated in predominantly White schools. Of the almost 6 000 university exemptions in 1997, more than 60% were from predominantly White schools, versus only 2.5% from predominantly African schools. Thus entrance into universities perpetuates past patterns of privilege, and even more so if subject choice and performance at school are also considered as discussed later. Failure rates are highest in predominantly African schools (53%).

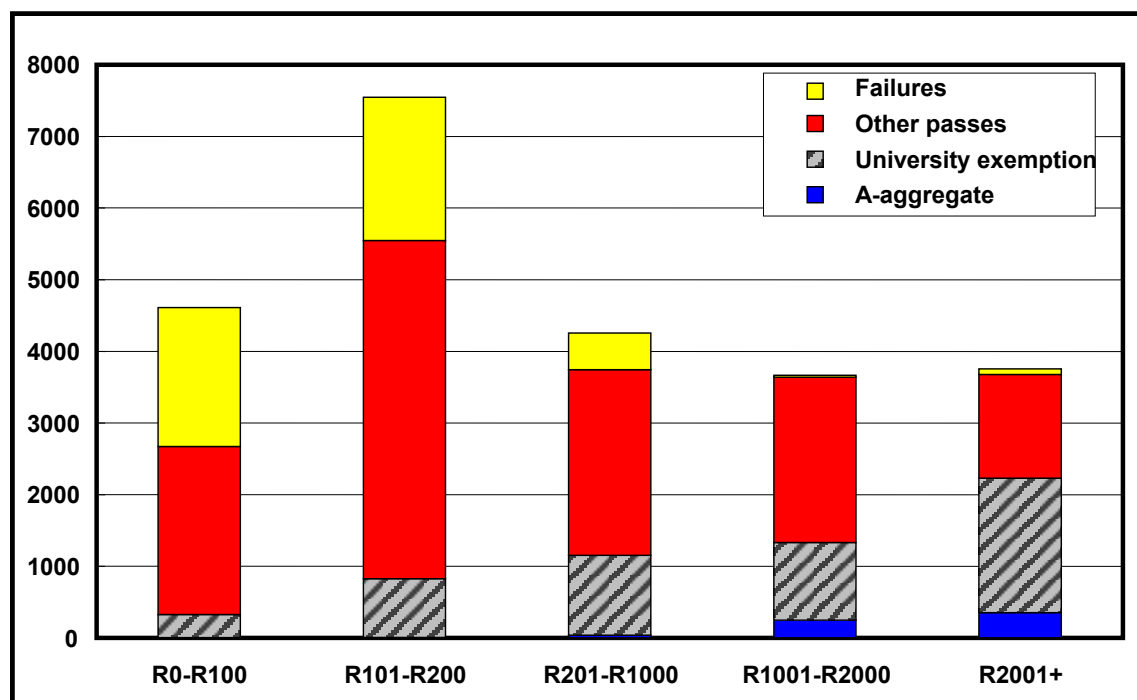
Figure 18: School “population group-type” by matriculation results, Western Cape 1997



Source: Van der Berg and Burger 2002

If socio-economic background as reflected in school fees is considered, a similar picture emerges. A-aggregate performances and university exemptions are very scarce in schools at the bottom of the socio-economic rung, and A-aggregates especially are concentrated in schools with fees above R1 000 per year, to which few poor children have access.

Figure 19: Matriculation results by school fee category, Western Cape 1997



Source: Van der Berg and Burger 2002

Seekings also found that about 68 % of African 22 year-olds surveyed did not complete matric, with the corresponding figure 54 % for Coloured and only 7 % for White young adults. Of the learners who did write matric, 74 % of the African students, 91 % of the Coloured students and 98 % of the White students had passed.

Racial differences also explain the racial differentiation in enrolment in post-matric tertiary education. Only 9 % of African 22 year-olds had completed any post-matric tertiary education, compared to 13 % of Coloured and 40 % of White 22 year-olds.

Seekings also collected detailed data on respondents' results in each matric subject. A total of 'matric points' can be calculated, through awarding eight points for a higher grade 'A' symbol, seven for a higher grade 'B' and so on, as well as six points for a standard grade 'A' symbol, five points for a standard grade 'B' symbol and so on. The distribution of matric points is a normal distribution (see Figure 37). But this distribution entails big racial differences. African students earned an average of 21 points, compared to averages of 26 points among Coloured and over 32 points among White students. The standard deviations were large, especially among White students.

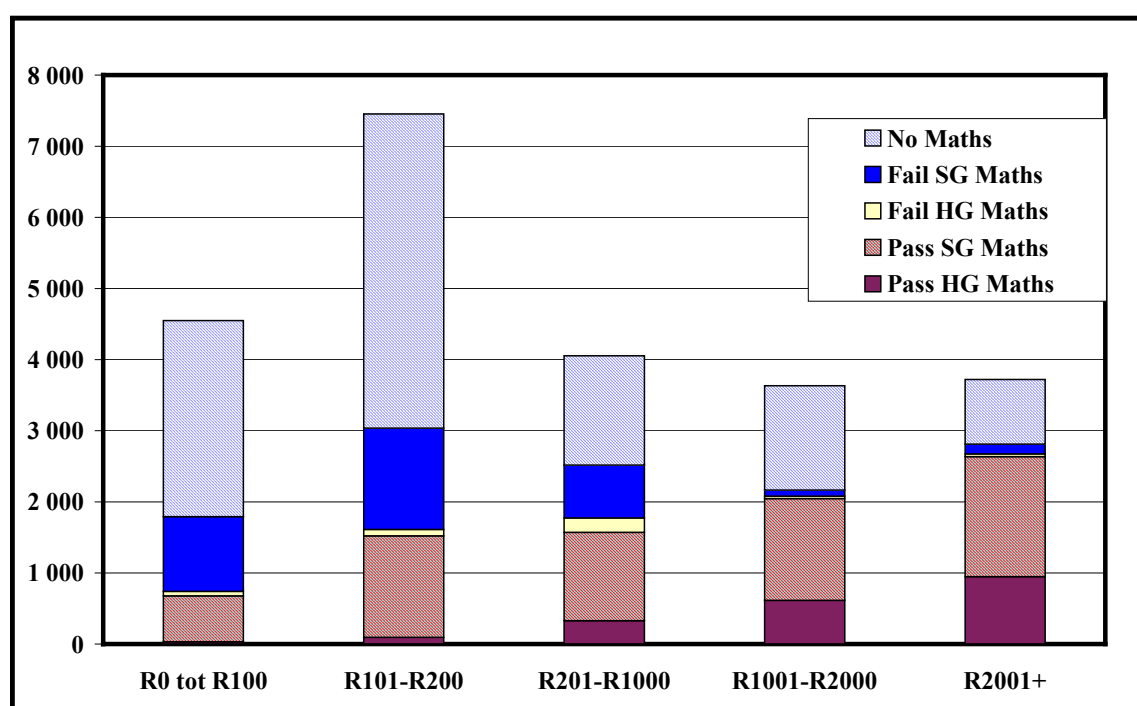
Table 37: Matriculation Examination Results in the Western Cape

	Passed with university exemption %	Passed without university exemption %	Passed (total) %	Wrote matric examination more than once %	Passed (total) at first attempt %
African	16	58	74	29	57
Coloured	25	66	91	11	81
White	68	30	98	1	97

Source: Van der Berg and Burger 2002

Van der Berg shows that patterns are quite similar with respect to performance in mathematics, a critical subject for further education (Figure 20). As can be seen, a surprisingly large proportion of pupils even amongst more affluent schools elect not to do mathematics or to take it at the Standard Grade, thus closing the door on possible further studies in the natural sciences, engineering, medicine, commerce and some other fields. Of the just over 2 000 pupils who passed mathematics at the Higher Grade in 1997, 80% were from schools with school fees above R1 000, and a slightly higher proportion, 83%, from predominantly White schools. In contrast, only 20 pupils (1% of the total) from predominantly African schools passed mathematics at the Higher Grade.

Figure 20: Mathematics results by school fee category, 1997



Source: Van der Berg and Burger 2002

Seekings also found that differences in matric results are especially pronounced with respect to mathematics. Only 2% of the African students who took the matric exams had passed mathematics at the higher grade with scores of A, B or C. The corresponding proportions of Coloured and White students were 3% and 31% respectively. If we add in

students who had scored a D in higher grade mathematics or an A or B in standard grade mathematics, the proportions rise to 6% (African), 14% (Coloured) and 53% (White).

The analyses in this section show that many of the variable performance by population groups in the labour market can be explained by corresponding patterns in the provision of primary and secondary education in the Western Cape. While many interventions targeted in these problem areas have been introduced in recent years, such interventions have significant built-in time-lags. The recent data provided by Seekings and the 2001 Census do however suggest that additional work may be required in these critical areas.

In conclusion this section has argued that the education system is not succeeding in improving the relative quantity or quality of especially primary and secondary education provided. While overall quality and quantity is lagging, there are also worrying racial differentials in terms of both quantity and quality. While new education interventions take time to come to fruition, the primary and secondary education system has not to date shown many signs of being the driver of better and more equitable educational attainment. In the absence of the latter, current inadequacies in the supply of labour are unlikely to be addressed.

Transport networks

Transport networks are key variables in a number of development challenges in any country. Rural transport improvements can increase market access and thereby lower agricultural production costs and also facilitate the development of the nonagricultural rural economy. Urban transport improvements can increase labour market efficiency and access to amenities. Inter-urban transport improvements can facilitate domestic and international trade by speeding up the movement of freight and people. Conversely, in many developing countries, the inadequacy of transport infrastructure and the inefficiency of transport services are recognized as being amongst the main bottlenecks to socio-economic development and social integration²⁰.

Public investment in transport infrastructure usually accounts for 2.0 to 2.5 percent of GDP, and it may rise as high as 3.5 percent in countries modernizing outdated infrastructure or developing new. Demand for freight and passenger transport in most developing countries are growing 1.5 to 2.0 times faster than national GDP. Value added by the transport sector typically accounts for 3 to 5 percent of national GDP. (World Bank PRSP Guideline Reports: Transport: Infrastructure and Services. May, 2001)

In comparison, preliminary estimates indicates that public investment in transport infrastructure (road and rail, excluding airports and harbours) accounts for only about 1.1 percent of the Western Cape GDP (see table 38).

²⁰ United nations. 2002 *Sustainable Transport Pricing And Charges: Principles and Issues*. Economic and Social Commission for Asia and the Pacific and the Asian Institute of Transport Development:

Table 38: Western Cape spending on transport infrastructure (2002)

Govt spending (infrastructure)	696
Metropolitan capital projects	354
Metropolitan maintenance & recapitalisation	300
SANRAL/other (broad estimate)	250
Total	1,600
GDP (2001 amount increased by 4.3 %)	141,886
Transport infrastructure spending as a proportion of GDP	1.13%

Source: CSIR Background Paper

The Western Cape's transport network can be discussed through three general economic perspectives, namely the global or export business perspective, the metropolitan transport perspective that would include the bulk of public transport and the non-metropolitan or agricultural perspective. Naturally all these perspectives are linked in a multitude of ways, but they allow a systematic discussion of a complex issue.

Global/Export Business Perspective

The opening up of domestic markets to foreign competition has increased the strategic value of transport facilitating export and import business. The greater degree of communication with the global economy has also supported other growth sectors such as tourism and the film industry. However, in 2000 the Western Cape Province attracted only 7% of FDI received by South Africa as a whole, due to its comparatively low level of industrial, mining and manufacturing industries (i.e. compared to some other provinces). The dominance of tertiary industries highlighted in Section 2 above, underlines this trend.

The Province has two major international gateways, namely the Cape Town International Airport and the Port of Cape Town. Most visitors to the Western Cape arrive through the Cape Town International Airport while the majority of freight is handled at the port. Other significant gateways are the Port of Saldanha, to a lesser extent Mossel Bay harbour and George airport. The George airport serves mainly visitors to the Southern Cape area.

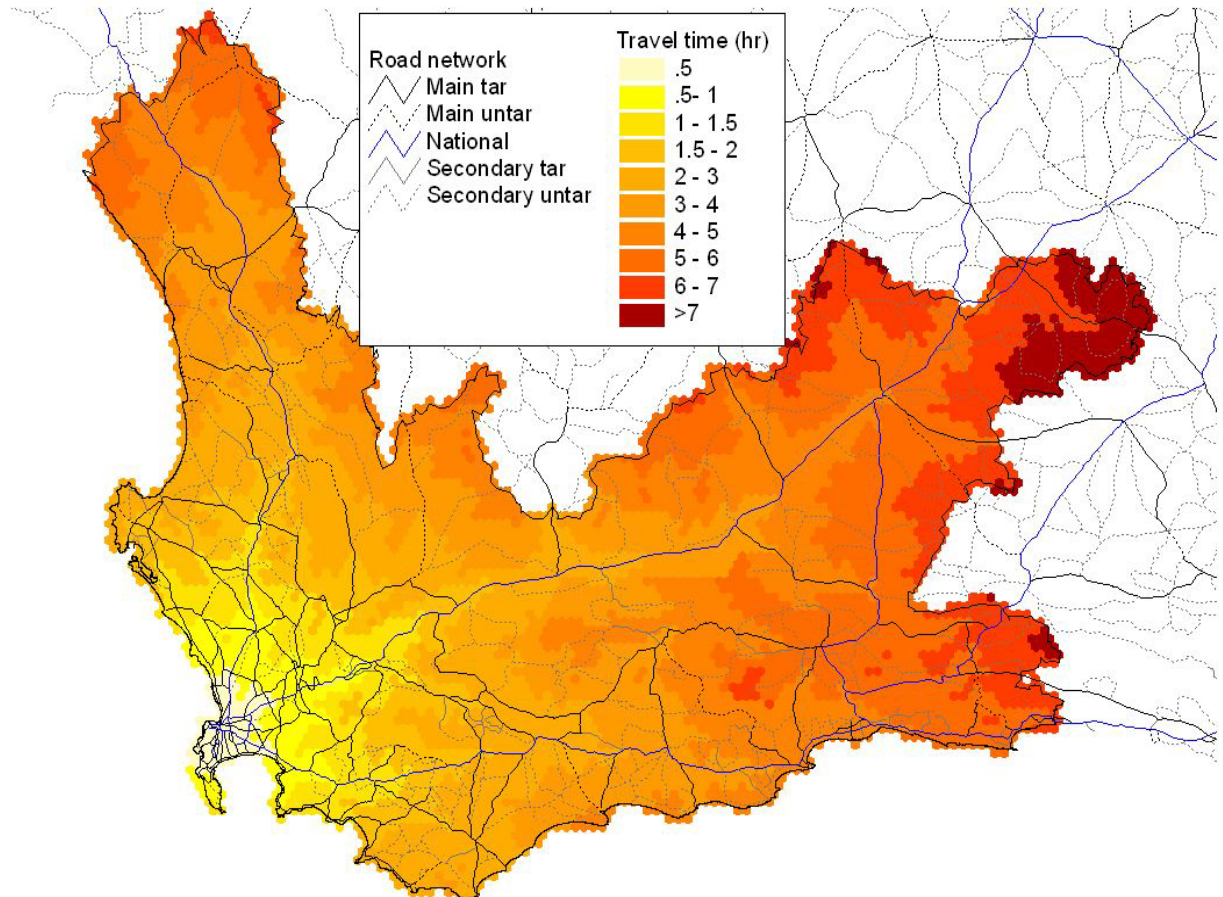
In addition to the long-distance passenger rail equipment and facilities, Cape Town also has a rail container/ freight terminal, from where freight services to and from the rest of the country is managed. The majority of the freight to and from the City, the port or the airport is however carried by road on the major national routes (N1, N2 and N7).

Periodically, serious bottlenecks occur at the container terminal, (especially at the end of summer and over April with its many public holidays, during which period there is a rush to export fruit). Some problems have been blamed on operational efficiency rather than infrastructure capacity. The Port Plan indicates that the container terminal will be too small within the next 5 years.

Cape Town's future economic growth prospects depend significantly on its *logistics efficiency*, and may be negatively affected by efficiency-reducing factors such as:

- Freight congestion, delays and unpredictability;
- Business and 'non-business' time lost to congestion;
- Inaccessible labour, and
- Traffic accidents.

Figure 21: Average Travel times to Cape Town



Source: CSIR Background Paper

Metropolitan Transport Perspective

The Metropolitan transport network links closely to and serves the international networks discussed above.

There is a significance difference between the urban structure and travel patterns of Cape Town and that of most other South African cities. Despite the legacies of apartheid, and the effects of ongoing urban sprawl and commercial decentralisation, Cape Town still has:

- A fairly good spatial match between its main public transport corridors and the main concentrations of jobs and people (especially public transport users);

- A fairly high proportion of jobs within its Inner City;
- A CBD/harbour area which is regaining its attractiveness to tourists, shoppers and investors (bucking the general trend of urban decay, increasing crime and disinvestment being experienced in most other South African cities), and
- A fairly frequent and extensive network of rail passenger services.

There is accordingly, less justification for a fundamental, macro-scale restructuring of urban forms and transport systems than in other South African Cities (or cities such as Bangkok, which does not have any form of mass transport system). The main restructuring and strategic management requirements lie in:

- Firstly at a local scale, where there is a vast need for improved and safer pedestrian circulation, cycling and other means of non-motorised transport, as well for general aesthetic and other qualitative improvements (i.e. creating *dignified urban spaces*). Secondly, developing a cost-effective, integrated, yet pragmatic bundle of land use and transport investment and management strategies to contain and redress the increasing level of automobile dependence that is caused by crime, overcrowding on public transport, dispersal of job opportunities and the dominance of “car culture”.

Other critical issues include:

- Congestion that leads to the increased length of peak times, and is starting to affect time & cost of business and urban goods transportation.
- The deteriorating transport infrastructure and rolling stock and the effects of continual under-spending on rail maintenance and rolling stock has reached crisis proportions. A high proportion of roads pavement has also exceeded their design life, and is not being rehabilitated or reconstructed. The configuration of the metropolitan transport network still reflects the impact of apartheid planning. In turn it continues to perpetuate past spatial disadvantages, although these patterns are slowly being reversed. As an example, Seekings finds that of his sample, two-thirds of African and Coloured students had walked to school, but less than a third of White students had to do the same. The majority of White students traveled to school by car. On average, White students had the quickest journey (15 minutes), followed by Coloured (17 minutes) and African students (24 minutes). This is admittedly more than just a transport network issue as far more White families own cars than African families.

Rural/Agricultural Perspective

The non-metropolitan part of the Province is made up of five District Councils namely; West Coast, Boland, Overberg, Eden (Garden Route/Klein Karoo) and Central Karoo, and the Metro.

The rural-urban divide in the Western Cape, although clearly present, is not as pronounced as in many other parts of the country. In addition, the Southern Cape benefits from tourism, a diversified agricultural sector and the Mossgas project as important growth forces, and the West Coast Investment Initiative, which incorporates the Saldanha Steel project, is bringing new jobs and investment opportunities to the relatively underdeveloped North West area of the Province. The Boland/Winelands area is taking advantage of the new and expanded opportunities for tourism and agri-

processing. Other remote sub regions are taking advantage of increased opportunities for tourism, and a number of small towns have benefited from the expansion of services (from garages and "ultra-cities" to guest houses) to meet the demands of the increasing road traffic on the N1, N2 and N7, as well as on new tourist routes such as the R62 through the Little Karoo and the Mission and Bird routes.

The deterioration of provincial roads does however have an impact on agriculture, tourism (West Coast and Southern Cape) and other non-metropolitan economic activities. The most serious issues include:

- More than 92% of the pavement structures of the surfaced network are 16 years and older;
- The deteriorating condition of the network is outstripping the rate at which maintenance and rehabilitation can be done;
- The asset value of the road network is declining, and
- Traffic density continues to increase.

In conclusion to this section; here is a plurality of perceptions about the 'economically justifiable' level and allocation of transport delivery funds in the Western Cape. At the risk of over-generalisation, there are two major competing viewpoints – both of which are, in turn, broadly aligned with the two dominant international 'action agendas' in this field.

The first is the *sustainable transport agenda*. Many of the proponents tend to favour comparatively radical or interventionist strategies (such as fundamental land use restructuring) to address issues such as increased automobile dependence, social exclusion and environmental damage. Some of them also tend to point to the low 'marginal' GDP impacts of transport investments (once the basic network is in place) and argue for the 'decoupling' of economic development and traffic growth. The second is a combination of two sub-agendas, namely:

- The *smart system management agenda*, dealing mainly with passenger transportation issues.
- The *logistics efficiency agenda* – dealing mainly with freight transportation and logistics issues.

In the sustainable transport agenda the point of departure is essentially to provide sustainable basic access and highly interventionist policies are sometimes prescribed. The point of departure of the '*smart*²¹ *system management agenda* on the other hand is rather to 'serve the customer', and to do this, as well as address congestion and other environmental problems, in a 'smart', market-oriented rather than interventionist manner. Similarly, *logistics efficiency* defines a specific action agenda aimed at maintaining or improving economic competitiveness in the context of ongoing structural economic changes towards globalised, just-in-time production systems.

²¹ Seen within this context, the term 'smart' can be defined to include the effective harnessing of information and communication technologies (ICT) – including state-of-the-art transportation planning software and asset management systems – as well as the "smart" targeting of problem areas, and the "smart" (techno-economically efficient) allocation of service delivery resources.

Since each of these broad agendas has a consistent internal logic, the challenge is to define a strategically balanced, or “dual-logic action” agenda, (and an associated transport investment portfolio). Such an approach also supports the analyses outlined above from, which emerged a significant split in the provincial economy and labour market, between sections of the economy and labour market that have been gainfully integrated into the global economy, and the rest of the economy and labour market which has stagnated.

Conclusion

From 1996 to 2001 the Western Cape population and labour force grew much faster than the national population and labour force. The result is that there is greater pressure on the provincial labour market than is the case nationally. After a long period of sustained growth, the Western Cape economy also started slowing in 1999. While the causes of the slow-down are diverse, preliminary evidence suggests that the slowdown has not yet bottomed out. The mounting population pressure and slowing economic growth resulted in stagnant real per capita growth rates from 1995 to 2001.

In the analyses above we saw that the Western Cape economy restructured dramatically over the last ten years with a big shift to the skill and capital-intensive tertiary sector. Significantly the growing dependence on the tertiary sector was even more pronounced in the Western Cape than in the rest of South Africa. From 1996 to 2001 the provincial economy also lost a significant portion of its share of jobs nationally.

The result of these trends is that wealth creation has not kept up with population growth in the province. So while the delivery of basic services to the poor has improved, their chances of participating in and benefiting from the growing Western Cape economy has deteriorated. These developments in turn resulted in large and increasing levels of income inequality. We argued above that while the above developments are not unique to the Western Cape, they hit the Province even harder than other provinces. As a result a decade of redistributive service delivery has therefore not reduced levels of inequality and unemployment nor has it stimulated adequate levels of growth. Government service delivery should therefore not only consider its output goals, but also give greater consideration to its potential impact on the economic environment within which these services are delivered.

In the preparation for the Provincial Growth and Development Summit (PGDS), five priority areas have been defined in stimulating growth and employment in the province namely Infrastructure, Human Resource Development, Micro-Economic, Labour market and the Social Safety net interventions and Institutions of Social Dialogue. In what follows below we organize our comments into discussions of the first 4 themes.

Human resource development

This review has confirmed that human resource development remains a key development challenge in the province. In fact in most cases skills and education levels were identified as one of the primary causes of exclusion from the restructuring economy and entrepreneurship. Especially the persistent racial patterns in this field demand urgent attention. Even more disconcertingly, initial analyses suggest that the education system may not be making any inroads in this regard.

Infrastructure

In terms of support for economic development we have argued that for growth to take place in an open economy, world class logistics and transport networks seem critical. The bulk of the provincial economy depends for its livelihood on people and goods moving into and out of the Province. Where this cannot be done optimally, the prospects for greater levels of growth seem limited. Such interventions should be balanced with the imperative of improving access and increased economic participation of underdeveloped areas and people of the province. We therefore argued for a strategically balanced, or 'dual-logic action' agenda and an associated transport investment portfolio that takes account of the efficiency, equity and sustainability imperatives of the province.

Additional expenditure on the provincial transport network should be based on a 'Strategic Infrastructure Plan' that targets public funding to priority areas and leverages maximal private sector contributions.

Micro-economic strategy

Many of the shifts in the sectoral composition of the provincial economy were initiated by shifts in the global economy that the provincial, or the national government, do not have control over. Some economic sectors and some sectors of the population were however not able to adapt to this environment and thus were not able to benefit from it. The key challenge in the formulation of a micro-economic strategy is to support priority sectors in the province in order to achieve a better fit between what the provincial economy has to offer and what global and domestic markets demand.

Broadly it seems that such support should be targeted at industries that are currently benefiting or are likely to benefit in the future from the global restructuring of economic activity that the Province has experienced over the last decade. To this end more detailed analyses would be needed to determine why primary and secondary sector industries have done so badly. This information should explain why primary and secondary industries in the Western Cape generally performed worse than their counterparts in other provinces, while tertiary sectors outperformed their peers. Conclusions from these analyses will point to useful interventions of facilitation by government. It would appear that most such industries are to be found in the tertiary, rather than the primary and secondary, sectors. A key challenge however is to ensure that any further development of the tertiary sector do not further entrench the patterns of inequality and exclusion described above.

Some of the key issues that would need to be considered would include:

- The nature of support to industries that are driven by and vulnerable to external circumstances (Tourism, Financial Services, Property).
- How and whether to support industries that have not been able to derive much benefit at all from a more open economy (Manufacturing). This could be achieved through enhancing competitiveness on the basis of quality, niche or price, depending on the sector.

- How to support industries that have derived some, but not sufficient benefit from the restructured economy (Agriculture).
- How to support industries of which potential growth is substantially affected by limited local demand (ICT).
- Influencing industries that are dependent on government business (Construction, IT).

Two final considerations in the design of a micro-economic strategy should be that the Western Cape has a preponderance of non-labour intensive SMMEs and that the poor and unskilled are not often successful entrepreneurs in the province. Any micro-economic strategy that hinges on increased SMME and entrepreneurial activity in the province would need to take account of these two facts.

Labour market and the Social Safety net

The above labour market analyses yield some vital information for the structuring of the provincial social safety net. Because the design of social security provision is largely beyond the control of provincial government, these recommendations refer to other aspects of the social safety net such as public works programmes, poverty alleviation programs, social assistance and social development initiatives.

We argued above that there are largely two groups of people within the 'unemployed' category, namely the youth that has every chance to be employed again and a group of 'unemployable' workers who have been the victim of the changing structure of the economy. It seems that the only way in which income can be provided for these workers is a state-sponsored social safety net. It can therefore be argued that the parts of the safety net that provincial government has discretion over should be targeted at these workers and their households.

While the unemployed youth and their households should also be supported, such support should have the ultimate goal of re-integrating these workers into the labour market. Such re-integration should obviously start with education and skills development that is appropriate to this re-integration.

The programmes that we refer to here are provided across a wide range of provincial departments. In order for this kind of targeting to be done effectively these programs would need to be much better integrated and coordinated. Such coordination could be achieved through the cluster system. In addition they would need use a single targeting framework that could be based on a provincial spatial development framework.

The above constitute some of the development imperatives of the Western Cape province. In addition to these a sound working relationship with the other two spheres of government as well as the three social partners would be essential to the successful implementation of *iKapa elihlumayo*.

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