

Western Cape

PROVINCIAL ECONOMIC REVIEW & OUTLOOK 2005



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Foreword

Towards shared growth and development for the Western Cape is the key message that emanates from the 2005 Provincial Economic Review & Outlook (PER&O).

Building on 2003 Socio-Economic Review, 2005 PER&O deepens the economic analytical platform that informs and guides our annual budget decisions.

Wide-ranging in its scope, and probing in its rigour, the PER&O give all much to digest. It considers the economic outlook for the Western Cape over the next three years, examines the Province's sectoral growth and employment trends and prospects, reviews Provincial labour market and remuneration performance, and highlights the Province's challenges in respect of equity and development prospects.

From the above, it is clear that the Province has to take bold intervention to shift the present socio-economic trajectory towards a shared growth and development path that *does* build a 'Home for All' in the Western Cape.

In this respect, *iKapa Elihlumayo* is our strategic pathfinder. Its distinctive appeal builds partnerships and dialogues across society – uniting business, investors, government, workers and communities through a social contract that commits all to work together, creating a shared future.

Its vision and stance promotes *shared growth and development* in the Western Cape. In so doing, it endorses a strategy and policy-mix that views equity, development and economic growth as being *interdependent goals* over the medium to long term.

As such, *iKapa Elihlumayo* is a practical strategy for change. It describes how we will achieve shared growth and development through strategic interventions in the medium to long term.

The 2005 PER&O attempts to provide an overarching frame of reference as the lead strategies of *iKapa Elihlumayo* emerge in shape and form. Common reference points and parameters are useful in synthesising both debate and interaction towards a common goal – that of shared growth and development in our Province.

In the words of our Premier:

"We cannot afford to fail. We cannot afford to despair. Neither can we ever lose our way on the path to iKapa Elihlumayo. Nor can we ever lose sight of our vision of a better and shared life for all in the Western Cape." – Ebrahim Rasool

The 2005 PER&O is a team effort that drew on expertise in the broader academic community, Provincial Treasury and our *iKapa Elihlumayo* partners in Provincial Government.

In particular, Lucille Gavera of Trade & Industrial Policy Strategies (TIPS) project managed the 2005 PER&O, while background documents were prepared by Pieter Laubscher, Bureau for Economic Research (BER), University of Stellenbosch; Laura Poswell and Morné Oosthuizen, Development Policy Research Unit (DPRU), University of Cape Town (UCT); and Simon Roberts, School of Economic and Business Sciences, Corporate Strategy & Industrial Development Research Project (CSID), University of the Witwatersrand. The latter drew from research commissioned in respect of the Province's Microeconomic Development Strategy.

The PER&O team held three workshops that debated the technical form and content of the base analyses. These drew on the technical expertise and experience of Murray Leibbrandt and Ingrid Woolard, Social and Labour Development Research Unit (SALDRU), University of Cape Town, Haroon Bhorat of the DPRU, and Servaas van der Berg, School of Economics, University of Stellenbosch.

Other participants included JC Stegmann, Shirley Robinson, Albert van Zyl, Gugu Shabalala and Shahieda Sechel of Provincial Treasury; Carin Fouché and Riefqah Jappie of Wesgro, Penelope Vinjevold of the Department of Education; Simon Nicks and Anton Lotz of CNdV africa planning & design (commissioned in respect of the Provincial Spatial Development Framework); and Jackie Gooch of Arcus Gibb (commissioned in respect of the Strategic Infrastructure Plan).

Fareed Abdullah, Department of Health; Gavin Miller, Department of Social Services and Poverty Alleviation; and David Kaplan, Graduate School of Business, UCT (commissioned in respect of the Microeconomic Development Strategy) provided further comments and inputs to the final document.

I wish to thank all who contributed to the 2005 PER&O for the hard work, effort and time that went into producing a quality publication.



Lynne Brown
Minister of Finance, Economic Development and Tourism

March 2005

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Abbreviations

AER	Annual Economic Report
AGOA	African Growth and Opportunity Act
AMI	Advanced Metals Initiative
AMTS	Advanced Manufacturing Technology Strategy
ATC	Agreement on Textiles and Clothing
BEE	Black Economic Empowerment
BER	Bureau for Economic Research
BPO	Business Process Outsourcing
BSF	Business Sample Frame
CBTi	Cape Town Boat-building and Technology initiative
CDF	Cumulative Distribution Function
CPI	Consumer Price Index
CPIX	Consumer Price Index (excluding mortgage interest rates)
CSIR	Council for Science and Industrial Research
CSP	Community, Social and Personal (Services)
DBSA	Development Bank of Southern Africa
DCCS	Duty Credit Certificate Scheme
DEAT	Department of Environmental Affairs and Tourism
DEDAT	Department of Economic Development and Tourism
EAP	Economic Active Population
EAR	Employment Absorption Rate
EU	European Union
GATT	General Agreement on Tariffs and Trade
GEAR	Growth, Employment and Redistribution
SA-EU FTA	South Africa-European Union Free Trade Agreement
FDI	Foreign Direct Investment
FET	Further Education and Training
GDFI	Gross Domestic Fixed Investment
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GGP	Gross Geographic Product
GHS	General Household Survey
GSP	Generalised System of Preferences
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HRDS	Human Resource Development Strategy
ICT	Information and Communication Technology



IDC	Industrial Development Corporation
IES	Income and Expenditure Survey
ILO	International Labour Organisation
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IMS	Integrated Manufacturing Strategy
LFS	Labour Force Survey
LFPR	Labour Force Participation Rate
LICUS	Low-Income Countries Under Stress
LMF	Labour Market Frontiers
MEDS	Microeconomic Development Strategy
MFA	Multi-Fibre Agreement
MTEF	Medium Term Expenditure Framework
NACI	National Council on Innovation
NEPAD	New Partnership for Africa's Development
NSDP	National Spatial Development Programme
OHS	October Household Survey
PMI	Purchasing Managers Index
PSDF	Provincial Spatial Development Framework
R&D	Research and Development
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
RSC	Regional Services Council
SA	South Africa
SAA	South African Airways
SACU	Southern Africa Customs Union
SAPC	South African Poverty Index for Cities
SARB	South African Reserve Bank
SARS	Severe Acute Respiratory Syndrome
SARS	South African Revenue Services
SEE	Survey of Employment and Earnings
SER	Socio Economic Review
SIC	Standard Industrial Classification
SMME	Small, Medium and Micro Enterprise
SSA	Sub-Saharan Africa
StatsSA	Statistics South Africa
TB	Tuberculosis
TDA	Trade and Development Accord
TFP	Total Factor Productivity
TGR	Target (Employment) Growth Rate
TIPS	Trade & Industrial Policy Strategies
the dti	The Department of Trade and Industry (South Africa)

UK	United Kingdom
UNDP	United Nations Development Programme
US	United States
VAT	Value-Added Tax
WC	Western Cape
WDR	World Development Report





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Introduction

1. The Road towards Shared Growth and Development

iKapa Elihlumayo is based on a strategy for shared or broad-based economic growth and development in the Province.

Having moved beyond the discourse of pro-growth and pro-poor orientations, *iKapa Elihlumayo's* approach and stance promotes *sharing growth and development* in the Western Cape. In so doing, it endorses a strategy and policy-mix that views poverty reduction and economic growth as being *interdependent goals* over the medium to long term.

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

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

In this sense, *'shared growth and development'* may be viewed as growth through broad-based spectacles or growth that is shared in respect of its strategic focus, policy stance and presentation, and most importantly, its rewards.

Today, understanding the links between equity, growth and development is integral to getting to grips with the process of shared development and the impact of different strategies and policy mixes in respect of long-term sustainable development goals.

Globally there is renewed interest in shared growth and development among policy-makers and development practitioners alike. The concept is attractive and holds the best prospects for enhancing development prospects in a sustainable manner.

More specifically, the shared growth and development approach recognises that the fates of rich and poor are intertwined, and that the only credible option is to find *unity in our diversity* and work together towards a shared growth and development path over the medium to long term.

Less well understood, however, are the possible strategy and policy mixes that Government should use in the targeting of a shared growth and development path.

This is the policy conundrum that the Western Cape faces, as does other national and sub-national governments – understanding that ‘one size’ does not fit all and that, while drawing from best practice, governments must take it on themselves to design and implement policy packages that are best suited to addressing local circumstances. This is what it means to create indigenous solutions to local challenges.

The Western Cape has done so. In *iKapa Elihlumayo*, it articulates the Province’s plan of action for shared growth and development over the medium term.

2. South Africa’s Development Challenges

iKapa Elihlumayo’s beauty and its value lie in its simultaneous connectivity and uniqueness. Positioned within the broader co-operative intergovernmental system, *iKapa Elihlumayo* builds on and shapes both vertical and horizontal relationships in a dynamic and fluid interaction, all whilst holding onto its distinctive appeal.

As such, *iKapa Elihlumayo* is embedded within National Government’s stated socio-economic policy priorities set out in the Medium Term Strategic Framework (MTSF) and the National Spatial Development Perspective (NSDP). It will ultimately draw together the integrated development plans (IDPs) of municipalities within the Western Cape, thereby enhancing economic development at the local level. And it builds on the President’s bold approach for raising South Africa’s development prospects into the third democratic term, outlined in his State of the Nation Address earlier this year.

More specifically, the President set out a programme of action to raise investment, growth and job creation in the ‘First Economy’, seen as the ‘engine’ driving South Africa’s development prospects. The stated policy interventions reflect a strong appreciation to achieve broad-based and inclusive shared growth and development in a manner that expands and deepens economic opportunities for all South Africans.

An equally expansive programme that responds to the challenges of the ‘Second Economy’ infuses a sense of realism and practicality, ensuring a social security net that provides

immediate poverty alleviation. Matched to the latter are interventions that improve people's capabilities and livelihoods, drawing them to participate in basic economic activities that reduce their dependency on welfare and raise their self empowerment in their own development agenda.

As said, the approach is bold and demanding. It sets an energetic pace for delivery in all spheres of government over the next 10 years. In doing so, it challenges interaction, cohesion and performance within our co-operative intergovernmental system – delivery depends on the whole rather than the sum of the parts. The scorecard is rigorous and demanding. Driven by acute reality, it measures improvements in the livelihoods and opportunities of South Africans by 2014. A tough development agenda, one may say. The stakes are high and our choices stark. Realism informs our options. Vision and passion guide our future.

“As Africans, we can neither be pessimistic nor skeptical about our future. Necessarily, we have to be firmly confident about the certainty of a better future for all our peoples. For us to be pessimistic or skeptical is to give up the fight and resign ourselves to lives of misery.” – Thabo Mbeki

3. The Changing Intergovernmental Landscape

As South Africans, our development agenda is clearly defined in many ways. In others, it is ambiguous. One that is most striking is the lack of clarity on the role and functions of the different spheres of government in effecting social and economic delivery programmes as the intergovernmental system evolves and matures over the next 10 years.

In this respect, the intergovernmental landscape is slowly changing. Like a kaleidoscope, the transition through fractal vision is often surprising yet pleasing; the end result still a distant uncertainty.

For provinces, broaching a greater recognition of the provincial development role demands that provinces build robust economic capacity that provides the analytical platform that may inform and guide annual provincial budget decisions.

Provinces need a better understanding as to how to describe provincial economies as distinct regional entities within the broader South African economy. They should be able to analyse key provincial economic variables and propose credible trend forecasts. Decomposing labour market structures and trends adds to an understanding of the provincial skill base and income distribution patterns. Finally, determining the sources, potential and constraints for enhanced provincial growth and employment is critical to ensure appropriate policy and/or co-ordination interventions that, at a meso level, link overarching macroeconomic policies and local economic development interventions.



Two years ago, in anticipation of the changing role of provinces, the Western Cape started embedding its actions in a clearer appreciation of its socio-economic environment. This led to the tabling of the 2003 Medium Term Budget Policy Statement and 2003 Socio-Economic Review.

Building on and deepening this analytical foundation, the 2005 Provincial Economic Review and Outlook (PER&O) is published alongside the 2005 Main Budget.

4. Western Cape's Economic Outlook

4.1 The South African economy

The Western Cape's economic fortunes are closely linked to those of the national economy. Following a decade of economic restructuring and prudent macro-economic policies, the outlook for the South African economy is the best in years.

In this respect, the South African economy has matured appreciably over the past decade and the economy is poised for higher growth. Fiscal policy has become more supportive of growth, prospects for lower and more stable inflation and interest rates are real, tariff reductions have for the most part run its course, the political climate is the most stable it has been in years and business and consumer confidence are on historically high levels reflecting an optimistic business mood intent on expanding production capacity. Exchange rate volatility remains a threat and currently places substantial pressure on the (higher value-added) export sectors, as well as import competing sectors.

The global economy is expected to remain supportive of domestic economic growth over the short term. The single biggest risk to the favourable global economic outlook is the high oil prices.

The South African economy is currently in its longest post-war economic upswing phase. Economic growth averaged a relatively pedestrian 2,8 per cent over the past decade; however, this is a big improvement and there are increasing signs of structurally higher growth prospects. Last year, economic growth was adversely affected by the strength of the currency; however, the affected production sectors are recovering as business adjusts to the macroeconomic forces.

Real gross domestic product (GDP)¹ growth is forecast to accelerate to 4,1 per cent during calendar year 2005 and to slow marginally to 3,6 per cent in 2006 and 3,0 per cent in 2007 under the weight of higher interest rates.

Job creation is expected to accompany robust fixed investment spending as firms contemplate expansion plans. There is already evidence of this. A more satisfactory rate of employment creation remains the single most important national economic challenge.

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

The financial environment should remain supportive to economic growth over the short term, with inflation and inflation expectations adjusting to lower levels in a structural sense, creating the possibility of lower real interest rates and sustainable higher real economic growth.

While exchange rate volatility remains a threat, the improved balance of payments reserves and investor confidence could prevent a repeat of the 1998 and 2001 “rand events”. However, somewhat disconcerting is the composition of the capital inflows on the South African balance of payments over the past 18 months, revealing a lack of net foreign direct investment.

4.2 The Western Cape economy

The Western Cape regional economy displays a number of unique structural trends, giving rise to a dynamic process that has its own strengths and challenges for policy-makers.

Compared to the relatively small population share (10,2%), the Western Cape economy has a broad base with a multitude of sub-sectors or niches, many of which are growing well or have the potential to expand. With the exception of the mining sector, the Western Cape economy is well represented in each sector, with tourism as well as agriculture making up much of the mining deficit.

The Western Cape economy is well represented in the nationally fast-growing services industries such as financial & business services (on average, between 1999 and 2003 contributing 27,1% to the regional GDP), internal trade & catering (16%) and transport & communication (10%), as seen in Table 1 below. The tourism industry is an important source of growth in these and other sectors. The size of the Province’s manufacturing sector is similar to that in the national economy, around 20 per cent of regional GDP (GDPR).

A salient feature of the Western Cape economy is the rapidly growing niche manufacturing and services industries, not always portrayed in the conventional national accounts statistics. Agriculture, construction and the government sectors are also important contributors to GDPR. The largest employers in the region are the government, internal trade & catering, manufacturing, agriculture and ‘other producers’ (mainly domestic servants). Combined, these sectors account for more than 75 per cent of the total regional employment opportunities in the Western Cape.

Table 1 Western Cape GDP: sectoral composition, 1999 – 2003

Sector	1999	2000	2001	2002	2003	Average
	%	%	%	%	%	1999 – 2003 %
Primary sector	5,9	5,3	5,7	6,7	5,7	5,9
Agriculture	5,7	5,1	5,5	6,4	5,4	5,6
Mining	0,3	0,3	0,3	0,3	0,3	0,3
Secondary sector	25,7	25,6	24,4	25,6	24,8	25,2
Manufacturing	19,9	20,2	20,0	20,6	19,9	20,1
Electricity & water	1,9	1,8	1,7	1,6	1,7	1,7
Construction	4,0	3,6	2,8	3,4	3,2	3,4
Tertiary sector	68,3	69,1	69,8	67,8	69,5	68,9
Internal trade & catering	15,1	16,1	16,1	15,6	15,8	15,7
Transport & communication	10,0	10,2	10,2	10,1	10,3	10,1
Financial & business services	26,4	26,3	27,7	27,0	28,0	27,1
CSP services ¹	5,1	5,3	5,3	5,2	5,3	5,3
Government	11,8	11,0	10,6	10,0	10,1	10,7
Total GDP (basic prices)	100	100	100	100	100	100

¹ Including 'Other producers' (mainly domestic servants).

[Source: Statistics South Africa: Statistical Release P0441, 28 November 2004]

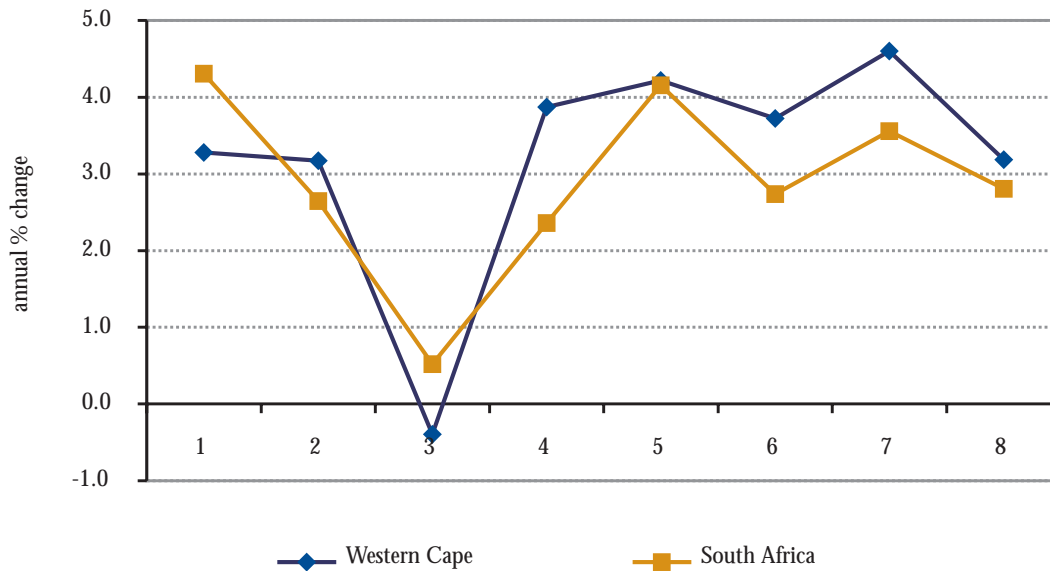
4.2.1 Economic growth trends

The Western Cape economy has out-performed the national economy over the period 1999 to 2003. Real GDP growth for the Western Cape economy averaged 3,9 per cent over the period, compared to the national average of 3,1 per cent, as seen in Figure 1 below.

The appreciation of the Rand exchange rate, adverse climatic conditions and rationalisation activities in the financial services sector have had a disproportionately negative impact on the Western Cape economy in 2003. The region's real GDP growth rate decelerated to 1,6 per cent (compared to 1,9 % nationally) from 3,6 per cent in 2002.

On average, however, the superior growth of the Western Cape economy over the past five years is largely due to the strong growth of the region's services industries, such as transport & communication, financial & business services and internal trade & catering. While these are nationally fast-growing industries, the Western Cape out-performed national in these sectors, particularly in internal trade & catering (which grew by 6,6% per annum between 1999 and 2003 compared to 5,3% nationally) and financial & business services (6,3% versus 5,4%).

Figure 1 Real GDP growth Western Cape versus South Africa



[Source: Quantec Research]

The internal trade & catering sector benefited from tourism, which has been a fast-growing sector in the Western Cape. The proportionately larger financial & business services sector in the Western Cape benefited from the property boom and the recovery in asset markets following the 2000 global meltdown in the ICT sector.

In contrast, the growth of the Western Cape overall manufacturing industry has been disappointing. Real Western Cape manufacturing value-added grew at half the pace of the national average, or at 1,4 per cent per annum between 1999 and 2003 compared to 2,8 per cent nationally. The share of manufacturing in the regional GDP declined from 23 per cent in 1995 to 19,9 per cent in 2003. The decline in the sector's formal employment contribution was worse, dropping from 21 per cent in 1995 to 16 per cent in 2003.

Western Cape business confidence is currently measured on a lower level compared to the rest of South Africa. While the financial services and manufacturing sectors are recovering, the hostile climatic conditions and the strength of the rand persist, suggesting regional growth results for 2004 could be weaker compared to the rest of the country in 2004.

Provided the sustained buoyancy in domestic demand and a more robust recovery anticipated in exports, the lagging business confidence levels in the Western Cape should catch up over the short term. Generally, firms appear to be adopting a long-term view and are embarking on expansion plans.



The Western Cape economy's strong linkages with the national economy are reflected in a closely corresponding business cycle. The economy is also relatively open, that is external trade contributes a large share of the GDP, which renders the economy sensitive to changes in the exchange rate of the Rand and global demand.

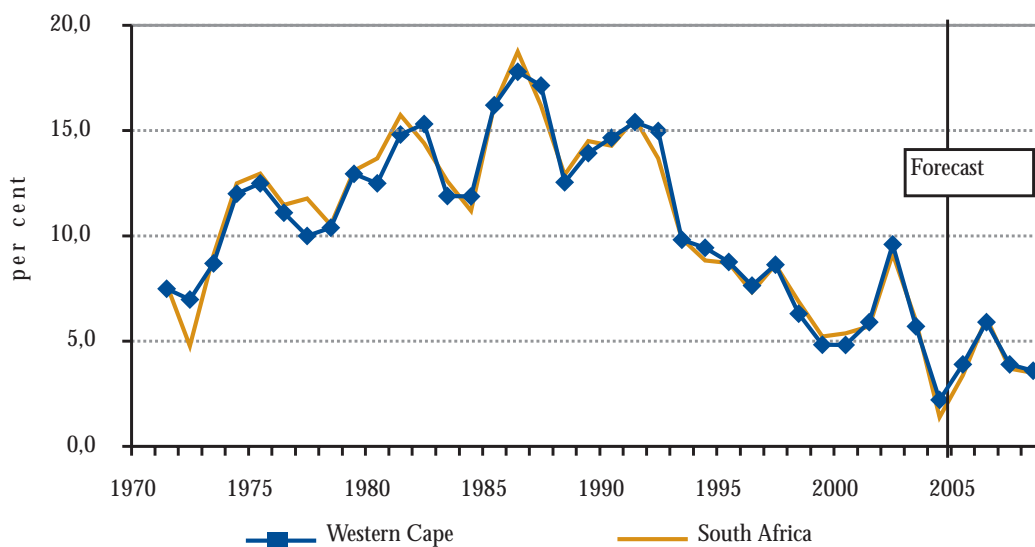
The regional economy is therefore expected to catch up with South Africa's economic recovery over the short term. Prospects vary, *inter alia*, depending on the direction of the rand exchange rate and/or business' adjustment to the new macro-economic parameters, as well as the regional policy support.

The growth in the Province's services industries is projected to equal or exceed the national performance and a more competitive exchange rate should allow for a firmer recovery in the Province's embattled manufacturing sector, as well as the agricultural sector on the assumption of normal climatic conditions.

4.2.2 Inflation

Regional inflation is highly correlated with that of the rest of the country. The inflation outlook is benign, apart from the crude oil price risk. Inflation is expected to accelerate to levels of five to six per cent during 2005/06 due to cyclical pressures and some depreciation in the exchange rate. Given the maturing anti-inflation process in South Africa, wage and price setting is expected to take account of competitive forces in the local and global arena.

Figure 2 CPI inflation Western Cape versus South Africa, 1970 – 2008



[Source: Statistics South Africa]

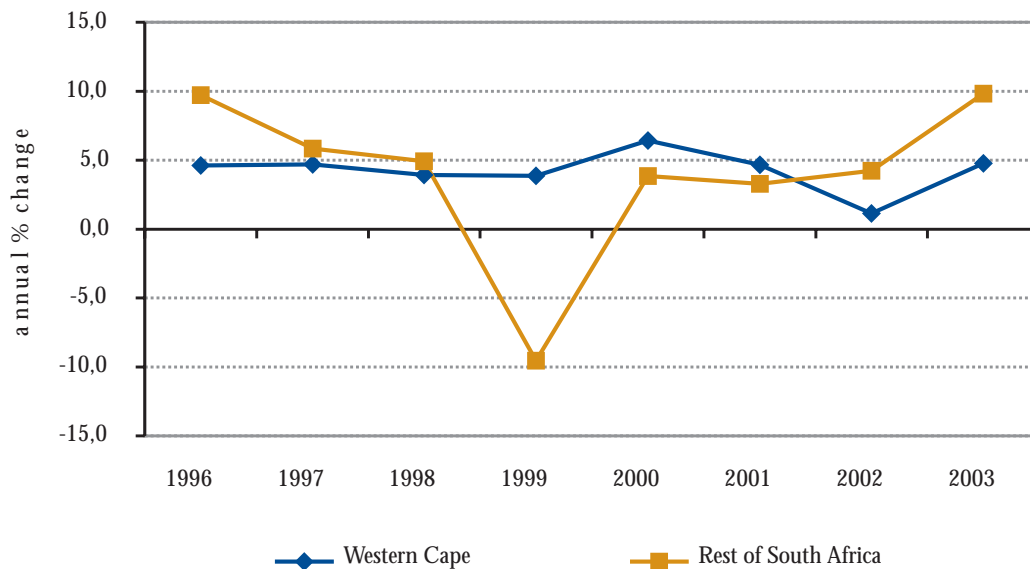
4.2.3 Fixed investment

The growth in Western Cape fixed investment spending has been very stable around a rate of four per cent per annum over the period 1999 to 2003. Due to the strong contribution by the less cyclical services industries, in particular, financial & business services (accounting for more than 45% of the cumulative growth in regional fixed investment, 1999 to 2003), transport and communication (18%) and internal trade and catering (13%), as well as autonomous mega investment projects, the Western Cape avoided the 1999 slump in general fixed investment. Manufacturing fixed investment has been lagging behind that of the tertiary sectors, however, the situation should improve over the short term.

The fixed investment outlook is positive. Following a period of strenuous macroeconomic policies and restructuring in the domestic economy, South Africa is entering a new era of more supportive fiscal policy, gradually lower real interest rates and firms generally having

adjusted to the lower level of import tariffs. Under these conditions, fixed investment spending can increasingly become of the capital-widening kind – being accompanied by expanding employment-rather than of the capital-deepening kind of the 1990s when formal employment contracted. There is already evidence that this is actually starting to happen.

Figure 3 Fixed investment Western Cape versus the rest of South Africa, 1996 – 2003



[Source: Quantec Research]

4.2.4 Exports

The Western Cape's exports have performed well over the past six to seven years, growing by eight per cent to nine per cent per annum in real terms. The region's established exports (ranging from fruit and processed foods & beverages, iron & steel and fish to clothing & textile products and electrical machinery) have performed well, even in the face of the stronger rand.

However, in a number of the smaller and fast growing ('non-core') export categories over the past five years, volumes have declined sharply in 2003 and probably in 2004. It is possible that the weakening trend in the rand exchange rate over the period 1996 to 2002 assisted many of these exporters entering the world markets, and the latter are currently finding the going tough.

While the outlook for the Province's agro-industrial and base metal exports is favourable, a broader recovery in manufacturing exports could be strongly influenced by the direction in the rand exchange rate, apart from the business response.

4.3 Outlook 2005/06 – 2007/08

In all, the Western Cape economy is expected to recover from the headwinds experienced in 2003 and 2004, and business is adjusting to the strong rand.

From a domestic demand perspective, the short-term outlook for the Western Cape economy is decidedly favourable, similar to the national situation. *Inflation* and *interest rates* are likely to remain *supportive* to final consumer spending. *Consumer confidence* is *high* and rising and consumers' ability to spend is likely to continue to improve due to above-inflation wage settlements and improving employment conditions.

The improvement in *employment* in the Western Cape could *lag* that of the rest of the country due to the problems in the labour-intensive clothing industry, as well as the other major employers in the manufacturing sector, in particular food processing, wood products, printing & publishing. The positive employment trend in the retail, tourism and business services sectors is likely to persist and this needs to be supported.

Export demand is also expected to be favourable over the projection period. While manufacturing exports are currently under pressure from the strong rand exchange rate, a more robust recovery should unfold once the rand depreciates, as is expected over the short term.

Provided that the buoyancy in domestic demand is sustained and the more robust recovery anticipated in exports materialises, the lagging business confidence levels in the Western Cape should continue to catch up over the short term.

The outlook for *fixed investment* is promising. Generally, firms appear to be adopting a long-term view and are increasingly embarking on expansion plans.

Given these demand conditions, *real GDP growth* is expected to continue *accelerating* in 2005 and over the short term. In all, real GDP is projected to accelerate from growth of 3,3 per cent in fiscal year 2003/04 to *4,1 per cent* and *4,3 per cent* during fiscal years 2004/05 and 2005/06 respectively, exceeding the projected national growth rate by a small margin.

In the outer years of the MTEF, real GDP growth is expected to decline slightly to 4,0 per cent and 3,9 per cent in fiscal years 2006/07 and 2007/08. These projections, however, remain above the national real GDP growth forecast of 3,9 per cent in 2005/06, 3,5 per cent in 2006/07 and 3,2 per cent in 2007/08.

Table 2 below therefore presents the Western Cape's macroeconomic outlook for the 2005 MTEF period.

Table 2 Western Cape macroeconomic outlook, 2004/05 – 2007/08¹

	2002/03	2003/04	2004/05F	2005/06F	2006/07F	2007/08F
GDPR (R-billion, current market prices)	168,8	185,4	203,0	222,5	244,4	263,4
Real GDPR growth (%)	4,3	3,3	4,1	4,3	4,0	3,9
GDPR inflation (%)	8,4	6,3	5,3	5,1	5,7	3,8
Western Cape CPI inflation (%)	9,0	4,6	2,3	4,5	5,5	3,7

¹ Fiscal years ending 31 March.

[Source: Bureau for Economic Research (BER)]

5. Sectoral growth and employment prospects

At a more detailed sectoral level, headlines point to the Western Cape economy outperforming the South African economy in GDP or value-added terms, largely due to strong growth and contribution of tertiary services sectors. But these sectors have not been creating jobs, and overall employment performance is much poorer than national. The latter result is a key risk factor, significantly jeopardising the Western Cape's chances of sharing economic benefits to a broader range of people and communities across the Province.

The aggregate picture, however, hides promising detail. The Western Cape's key attribute is its broad base and diversity of industry as well as up-and-coming or promising sub-sectors, industries or 'niches'. The Province's four core sectors – agriculture, manufacturing, trade and financial & business services – are each well diversified, reducing the risk of over-dependence on any single industry.

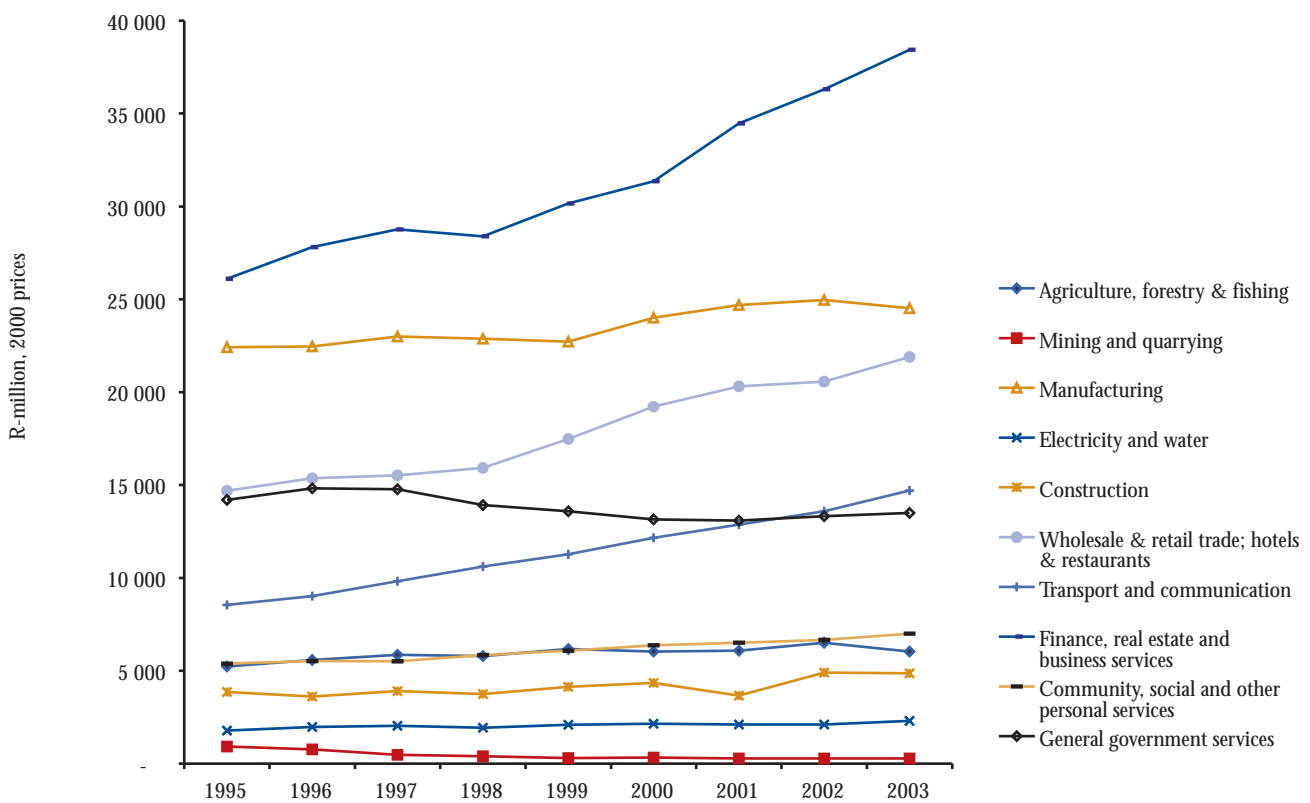
In addition, the region has a well-developed tourism sector, and reasonably strong and dynamic construction, fishing, professional services, higher education and transport sectors. A small mining base is mitigated by Saldanha's emergence as a major export harbour for minerals as well as a key base for the iron and steel industry.

The lack of any significant mining activity, capital-intensive mineral processing as well as attendant heavy industry accentuates the dominance of small and medium-sized enterprises in the Western Cape economy, and is likely also to contribute towards the shift towards a service economy.

5.1 Sectoral development

This means that Western Cape sector patterns are quite different from those at national level, although overall output and employment trends over time have been similar. As seen in Figure 4 below, the *eight-year period* between 1995 and 2003, the strongest average annual output growth rates in the Province have been recorded in transport & communications (7,0%), wholesale & retail trade and hotels (5,2%), and financial & business services (5,0%).

Figure 4 Western Cape sector contribution to GDP, 1995 – 2003



[Source: Quantec Research]

Tertiary services together account for more than two-thirds (69,8%) of Provincial GDP, higher than the national average. Finance & insurance and business services, in particular, stand out with a share of 13,8 per cent and 15,0 per cent of GDP respectively in 2003, compared to 9,7 per cent and 10,6 per cent of national GDP.

There has been strong growth across tertiary services, led by transport (8,6%), financial & insurance (6,2%) and wholesale & retail trade (5,2%), which all recorded average annual growth rates from 1995 to 2003 in excess of five per cent per annum.

The Province has recorded higher growth than the national average in catering & accommodation (4,9%), transport & storage (8,6%), business services (4,0%) and other producers (5,9%). This reflects the Western Cape's strengths in tourism, call centres and as a major port Province.

In the *secondary sector*, the performance of manufacturing has been very disappointing, with an average growth just half that of the national performance of 2,2 per cent per annum since 1995. In particular, the sector's performance reveals that in comparison with the national economy, industry in the Province is oriented towards food & beverages (a 21% share), clothing & textiles (8%), and wood, paper & publishing (12%) which together account for 41 per cent of output (measured as value-added). By comparison, metals & machinery and transport equipment are much less important in the Province (16%) than they are nationally (21%).

For firms to be able to compete internationally, and to expand and grow employment, it is important for them to increase their productive capacity and to upgrade equipment. Recent performance suggests that this is especially the case for employment growth in more labour-intensive sectors. But in very capital-intensive sectors, such as basic chemicals and basic iron & steel, increased investment has coincided with large reductions in employment

Similarly, in the *primary sector* the performance of agriculture, forestry and fishing in the Western Cape, with an average annual growth rate of 1,9 per cent since 1995, is also much poorer than the national growth rate of 3,5 per cent. However, more detailed sub-sector analysis reveals that the data do not necessarily reflect recent developments in the Province and that performance may have been better than the averages suggest. More specifically, there has been increased activity across a diverse range of agricultural activity, as well as increased output and employment in fishing and mariculture.

5.2 Employment patterns

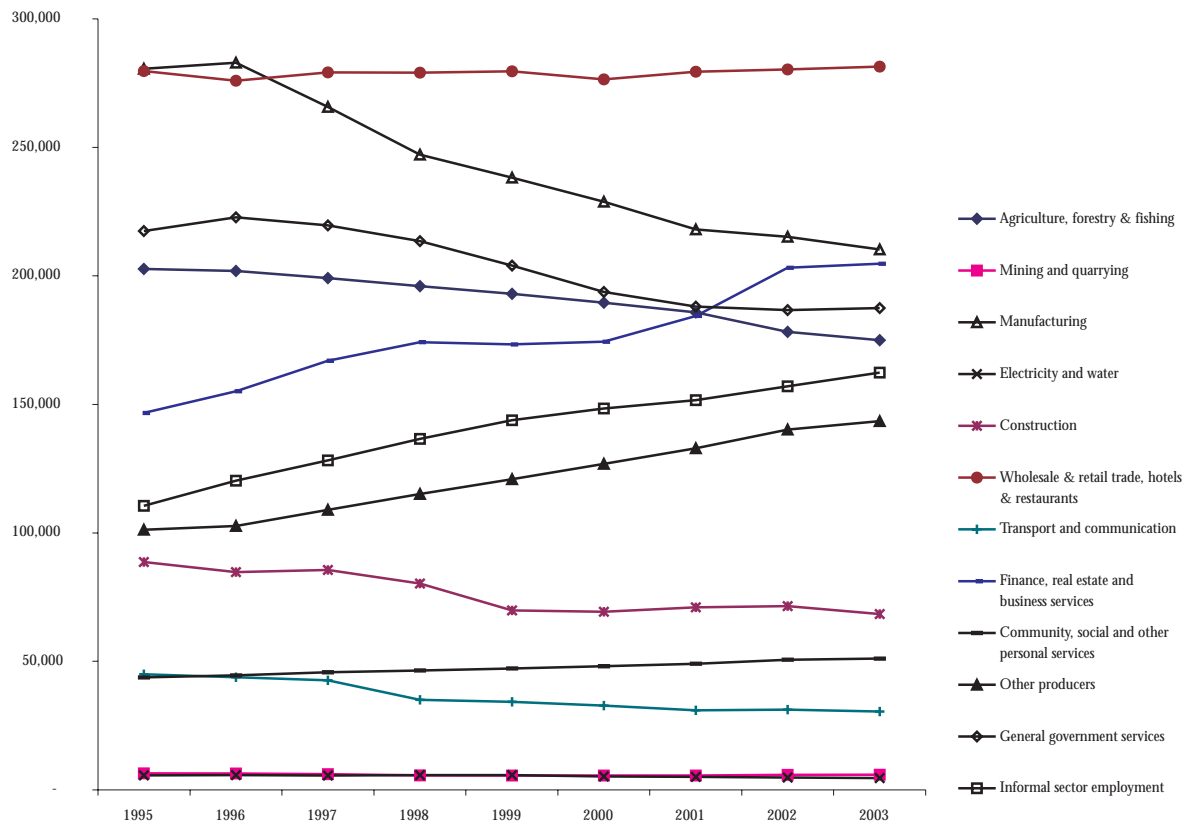
As seen in Figure 5 below, the most dramatic development has been a decline in manufacturing employment from 1995, and an increase in informal employment (the latter trend is discerned here using the Quantec database, and differs from the trends in chapter 4).

From being the largest employer, manufacturing has been overtaken by general government services and community & social services – in particular the major generators of formal sector employment – with employment almost doubling in a decade.

It is surprising, however, that there has not been net employment creation in finance & business services and transport & communication, nor in wholesale & retail trade and

hotels & restaurants, given the output growth of these sectors. Of perhaps greater concern is that there is little indication of increased employment resulting from tourism and other services such as telecommunications.

Figure 5 Western Cape sector employment, 1995 – 2003



[Source: Quantec Research]

It is evident from Figure 5 that all manufacturing sectors in the Province had lower employment in 2003 than in 1995, except for transport equipment (3,2% average annual growth), which has grown from a very small base, and furniture & other manufacturing (1,1%). The biggest proportionate declines were in electrical machinery (-11,9% per annum) and other non-metallic minerals (which includes cement and brick-making) (-10,3%), and the biggest absolute job losses were in the largest sector of clothing, textiles & leather (23 737 net jobs), closely followed by food, beverages & tobacco (18 321 net jobs).

In the last three years, the metals & machinery sector has shown signs of growth (3,2% growth per annum from 2000). This sector is linked to important areas of potential. Similarly, positive growth in employment in transport equipment in the Province reflects capabilities in auto components and in yacht- and ship-building.

Of more concern is that the Province's performance is generally much poorer than that of the country as a whole. In addition, while nationally the wood, paper & publishing and the petroleum & chemicals sectors have recorded employment growth from 2001 to 2003 of 0,7 per cent and 1,5 per cent per annum respectively, in the Province employment overall has continued to stagnate.

The growth at the national level in these broad groupings relates to the narrower sub-groupings of wood products (due mainly to increased processing of forestry products) and plastic products. Plastic product manufacture is both labour-intensive and at the national level is experiencing higher than average employment growth (of 2,1% per annum), as plastic products increasingly replace other materials. The Western Cape needs to ensure that it benefits from these developments.

A major concern is that the strong growth in services in respect of value-added or contribution to GDP is not reflected in employment patterns. Indeed, there have been contractions in employment in many service sectors. The largest contractions have been in communications (-4,8% per annum), transport (-4,3%) and catering & accommodation services (-4,2%).

The services sector's employment patterns have not seen the benefit from strong growth in services value-added. Indeed, there have been contractions in employment in many service sectors. The largest contractions have been in communications (-4,8% per annum), transport (-4,3%) and catering & accommodation services (-4,2%).

Given the substantial growth in tourism, it is surprising not to see this reflected in employment in catering & accommodation and transport. The communications sector shed almost 5 000 jobs between 1997 and 1998, probably reflecting major retrenchments by Telkom following its commercialisation and move to privatisation. Almost 4 000 jobs were also shed in transport between 1996 and 1998, reflecting retrenchments by Transnet across their operations as part of broad restructuring of the corporation.

By comparison, there have been high rates of employment growth in business services (average annual growth of 6,2%), wholesale & retail trade (3,2% growth) and other producers (4,5% growth). Business services reflect employment creation in call centres, while other producers may capture some of the effects of tourism. However, it is a little surprising that the Western Cape has not recorded as rapid increases in employment in business services as in the country as a whole.

5.3 Main drivers of provincial economic performance

To a large extent the drivers of provincial economic performance are national. The restructuring of industry in the past decade has been reflected in poor performance and

employment losses in the Province. Similarly, the improved national growth in the past year and the move to a more expansionary macroeconomic stance means the Province should plan for growth – in addressing training, infrastructure and investment by firms. The stimulus for growth is, however, primarily domestic demand.

Looking forward, a shared sustainable growth and employment path needs to rest on a broad foundation of agriculture, industrial regeneration, tourism and services such as business process outsourcing that grows in output and employment. The pattern of higher growth in financial & business services and tourism, with agriculture remaining very important, does not negate the need to further develop the manufacturing base.

A crucial dimension in the Western Cape is its coastal location and the opportunities that arise from it. These opportunities are not only in exports, but also in deepening international links around investment, technology and production networks. The challenge is to translate the opportunities into output growth and employment in relatively labour-intensive areas of manufacturing and other sectors.

Lessons from industrialising countries and regions indicate that government plays a crucial role in strategic repositioning by anticipating future developments together with local economic stakeholders, and co-ordinating the actions of local institutions to meet the dynamic needs of the global customer.

The 2005 PER&O suggests that the Province plays an important role in this respect. At the meso-economic level, Provincial actions focus on connectivity and integration, linking macro frameworks, institutions and interventions to local economic development, and, where necessary, designing appropriate Provincial interventions that stimulate broad-based economic activity and raise levels of economic participation.

Province's role is then to identify and address global and nation economy-wide as well as sector- and industry-specific opportunities and challenges. In particular, a key role rests in facilitating SMMEs and sector organisations to take full advantage of opportunities presented.

Initially, these opportunities are likely to be found in the tertiary rather than the primary and secondary sectors. A key challenge is to ensure that any further development of the tertiary sector does not entrench existing skill, capability and spatial patterns of inequality that exist in the Western Cape.

Repositioning to build and focus on the Province's dynamic competitive advantage therefore then calls for:

- Ongoing upgrading of the agriculture sector, with emphasis on a broader base of higher value-added products, that take account of climatic patterns and water usage



- in particular, and support for the research and standards necessary for exporting, complemented by support for smaller and historically disadvantaged farmers.
- Addressing cost competitiveness issues in industry (including steel prices), which impede the performance of labour-intensive, relatively basic products.
 - Ensuring that appropriate skills and training are implemented.
 - Monitoring the various technology initiatives and identifying where Provincial and local government facilitation can ensure the potential gains are realised. The Province needs to identify areas to develop local technological competency in tertiary education and other research institutions.
 - Facilitating ongoing growth in industries already performing well, such as yacht-building and film-making, with particular emphasis on quality and quantity of employment.
 - Selecting a small number of target areas where government action can facilitate significant expansion, including ship-building in medium and small vessels, herbal and natural products such as essential oils, furniture and BPO.
 - Implementing mechanisms to build inter-firm communication and co-operation, such as benchmarking (specifically proposed for foundries and clothing).

The above are critical in respect of enhancing the Province's growth and employment prospects over the medium term.

6. Employment and Remuneration Prospects

Turning to employment and remuneration prospects, many South Africans contend that economic restructuring has left many without work, and many more are convinced that our economic revival is about jobs, jobs and more jobs. A 'meso-cosm' of the national debate, the Western Cape picture is no different and the debate on the Provincial labour market performance no less contentious.

That said, it is important to get a better understanding of the Western Cape labour market, as it is the key mechanism through which individuals engage in the Provincial economy.

6.1 Demographic profile and migration trends

As other markets, the labour market functions through the interaction of supply and demand. A key determinant of labour supply is the size and structure of the population. As the Western Cape is a recipient of in-migration, the size and age profile of the present Provincial population, as well as the numbers and characteristics of individuals migrating into the province, are important factors that determine the present and future provincial labour supply.

The Provincial population is relatively young in that less than 15 per cent is older than 50 years. Conversely, approximately two-thirds (66%) of the population is between the ages of 16 and 65 and is therefore of working age.

The working age population in the Province is therefore likely to grow as these relatively large age-groups grow older and enter the working age population, while fewer older individuals exit the working age population. This change will filter through to the labour force, and the Provincial economy will therefore remain under significant pressure to create jobs for the foreseeable future.

Looking further ahead, unless migration affects the age distribution of the population significantly, the Western Cape is likely to face the prospect of an ageing population sooner than other provinces.

Substantial in-migration to the Province is a key factor influencing the Western Cape's changing demographic and labour market profile. It is estimated that the Province gains 48 000 individuals (net of out-migration) every year, with many of these motivated by perceived brighter employment prospects and higher incomes.

Although this may seem a relatively large number, particularly when summed up over time, annual in-migration represents only slightly more than one per cent of the Province's 2001 population (according to Census 2001).

In terms of the impact on the working age population, net in-migration constitutes an injection of young individuals into the Province's working age population (72,6% of in-migrants are under 36 years of age compared to 65,6 per cent of those Western Cape residents who did not move in the inter-census period).

In-migrants from the Eastern Cape differ significantly from other in-migrants in this regard, with 83,3 per cent being in this age-group. This difference is even more marked when one compares the proportions for individuals between 16 and 35 years of age: 48,9 per cent of other in-migrants fall into this age-group compared to 68,0 per cent of those from the Eastern Cape. Being younger, Coloured and African migration streams

represent an injection of young motivated workers, while the older White stream contributes few workers but brings in capital and skills.

In-migration may pose certain short-term challenges, particularly in the areas of service delivery and job creation where there are existing backlogs. It is essential that these challenges are identified, incorporated into current policy formulation and addressed proactively to ensure that potential future problems are avoided. Over the longer term, in-migration is a source of opportunity for increased labour. This depends significantly on strategies to upgrade and improve human resources and the Provincial skills base.

6.2 Employment and job creation

Assessing labour market performance often evokes contentious debate. At the technical level, debate is fraught in respect of the analytical measures and data used to assess labour market performance; their robustness and how analytical results should be interpreted, given many data and measurement uncertainties.

Labour market analysts need to tread carefully amidst assessments that either point to the expansion of employment opportunities since 1995, based on national household survey data; or raise that South African growth over the last decade has been 'jobless' due to economic restructuring.

At the national level, South Africa has witnessed notable growth in employment prior to 2000. But since then the aggregate national employment seems sticky at about 11,6 million jobs.

While the economy may be creating jobs, it may not be creating enough jobs given the rising numbers of new entrants into the labour market each year. If the annual job creation rate does not exceed or at least equal that of the labour force, then we will continue to see rising unemployment rates in South Africa.

This is the story that represents a more factual and realistic account of South African labour market performance over the last decade. By 2003, 8,3-million South Africans were unable to find work, up by more than four million individuals, with nearly 1,8-million of these becoming unemployed since 2000.

At the provincial level, the Western Cape's labour market performance holds brighter prospects when compared against its national counterpart. Since 2000, nearly 200 000 jobs were created in the Western Cape at a rate of 4 per cent per year. This has seen the Province raise its share of national employment from 13 per cent to 15 per cent.

Table 3 provides a comparative picture between the Province and South Africa as a whole.

Table 3 Labour force change in South Africa and the Western Cape, 2000 –2003

	2000 (‘000s)	2003 (‘000s)	‘000s	Change %	% p.a.	Target Growth Rate (%)	Emp. Absorp. Rate (%)
Western Cape							
Employment	1 537	1 730	194	12,6	4,0		
Expanded Unemployment	449	612	163	36,3	10,9	23,2	54,3
Expanded Labour Force	1 986	2 342	356	17,9	5,7		
Official Unemployment	317	448	131	41,5	12,3	21,1	59,6
Official Labour Force	1 853	2 178	325	17,5	5,5		
South Africa							
Employment	11 675	11 612	-63	-0,5	-0,2		
Expanded Unemployment	6 538	8 302	1 763	27,0	8,3	14,6	-3,7
Expanded Labour Force	18 214	19 914	1 700	9,3	3,0		
Official Unemployment	4 074	4 562	487	12,0	3,8	3,6	-14,9
Official Labour Force	15 750	16 174	424	2,7	0,9		

[Source: Statistics South Africa LFS, September 2000 and September 2003]

Unfortunately, although employment growth has been above the national average, unemployment in the Province, irrespective of definition, has also expanded at a more rapid rate. This trend sees the official (narrow) unemployment rate rising from 17,1 per cent in 2000 to 20,6 per cent in 2003, and that measured broadly rising from 22,6 per cent to 26,1 per cent respectively.

These aggregate unemployment measures hide important trends common to particular population and age groups. Reflecting the demographic profile of the Province, most jobs in 2003 were filled by Coloured individuals (58%), with Africans and Whites each constituting around one-fifth of employment. At the same time, more than one-half or 320 000 of the 612 000 Western Cape unemployed are Coloured. In contrast, at 41 per cent, Africans’ share of unemployment is twice their employment share, indicating a substantial disadvantage for Africans in the provincial labour market. Conversely, Whites’ unemployment share is around 6 per cent – less than one-third of their employment share.

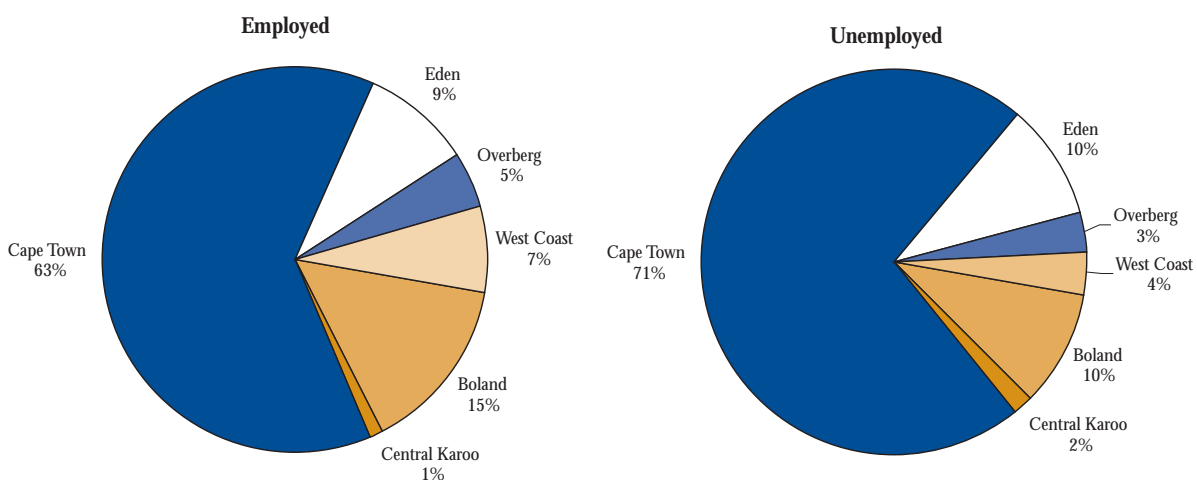
Perhaps most alarming, though, is the highly unequal age composition of employment and unemployment. In particular, the age group 16 and 25 years accounts for a mere 17 per cent of employment but 46 per cent of unemployment.

Based on these figures, the problem of youth unemployment in the Province appears, structurally, to be relatively more acute than it is in the rest of South Africa, where this group’s share of unemployment was just under 40 per cent in 2003. Consequently, the Western Cape accounts for a relatively high share of the national number of unemployed

16 to 25 year olds, raising the importance of the youth focus of the *iKapa Elihlumayo* Social Capital and Human Resource Development strategies.

If we add a spatial perspective, we see that unemployment is concentrated in the City of Cape Town (unsurprisingly, given its dominance in economic and population terms) and the Boland and Eden regions, although the Central Karoo suffers from the highest unemployment rate.

Figure 6 Spatial Distribution of Employment and Unemployment, 2001



[Source: Statistics South Africa Census 2001]

Key Provincial challenges are therefore youth unemployment and the spatial dispersement of economic activity and hence employment patterns in the Province. A central political question is whether effort and hence resources should be concentrated on interventions that focus on the greater numbers of unemployed or on areas with higher rates (but lower aggregated numbers) of unemployed. Policy decisions in this respect have clear spatial consequences and pertain to the sustainability of development patterns in the Province.

6.3 Remuneration trends and the skills bias

Apartheid's legacy – decades of discrimination and unequal access to educational and unemployment opportunities – has left an indelible mark on the Western Cape's remuneration structure of formal employment across race groups.

Irrespective of what income level is used as reference, White formal sector workers are significantly better off than their Coloured counterparts, who in turn are better off than their African counterparts. At the top end of the income distribution, only 3,4 per cent of African formal sector workers earned more than

R6 000 per month in 2003, compared to 9,5 per cent of Coloureds and almost half of White formal sector workers. In 2003, therefore, the inequalities in the Western Cape in terms of formal sector remuneration were considerable, with White individuals accounting for 57 per cent of all workers earning over R6 000 per month and 64 per cent of those earning over R8 000.

An individual's income is closely related to his or her occupation or skill level, it is important to analyse skill distribution in a study of remuneration and inequality. Skills are highly unevenly distributed both nationally and within the Western Cape. Amongst those employed in the formal sector, Whites account for close to 54 per cent of the highly skilled, compared to their 22 per cent share of total formal sector employment. In contrast, while Africans constitute slightly more than 17 per cent of the employed in the Province, more than 28 per cent of low skilled persons employed are African. Coloureds are over-represented in the skilled and low-skilled occupations. Table 4 provides a breakdown of the skills category per major race group.

Table 4 Racial shares of formal sector employment by skill level, 2003

	African %	Coloured %	White %
High-Skilled	6,4	38,3	53,7
Skilled	15,2	64,4	19,7
Low-Skilled	28,4	69,4	2,2
Total	17,3	59,9	22,1

[Source: Statistics South Africa LFS, September 2003]

The skills bias of employment growth is central to the issue of income inequality within the Province, both across and within race groups. The current racial composition of formal employment by skills category indicates substantial educational inequalities and racial stratification of occupations. While a key focus of the Human Resource Development Strategy, this trend is not an easy one to address and one that takes time.

For the foreseeable future, then, the supply of skills is likely to reflect these racial imbalances, though less harshly as time elapses. As skill compositions begin to reflect a more desirable demographic representation, we are likely to see a transition in demographic representations in occupational classes. This will have a definite impact on income inequality in the Western Cape, although employment growth is required across the skills spectrum and particularly amongst less skilled occupations if inequality levels are to be reduced via the labour market.

6.4 Informal sector

The informal sector has been credited with creating a substantial proportion of all new jobs in the South African economy since the early 1990s.

Based on September 2003 Labour Force Survey data, it appears that around nine per cent of all Western Cape jobs were found in the informal sector, a proportion that was substantially lower than one-quarter of all jobs for the country as a whole. Although the proportion declined from around 14 per cent in 2000, the actual figures are not statistically different from each other and it is therefore not possible to say for certain that the informal sector has declined over the period.

However, this result is contrary to informal sector trends using Quantec data as highlighted in chapter 3. The only possible conclusion then is that the informal sector is a difficult sector to quantify, and demands urgent investigation at the Provincial level.

In terms of composition, informal sector activities are varied and range from manufacturing to roadside retail to subsistence agriculture. By 2003, the informal sector employed 2,2 million workers or roughly 20 per cent of total employment in South Africa. In the Western Cape, the informal sector is small relative to the rest of the country, accounting for only 9,3 per cent of Provincial employment or 161 000 workers.

Africans and Coloureds dominate the Provincial informal sector. Each group accounts for almost two-fifths of employment. Approximately 31 000 Whites are engaged in informal sector activities and in 2003 represented around 19 per cent of informal sector employment.

The nature of the activities engaged in seems differentiated by race if the skills distribution is considered. The bulk of African informal sector employment is low-skilled (57%) with one-third in skilled occupations. For Coloureds, skilled workers dominate the skills distribution (50%) with nearly two-fifths being low-skilled. In contrast, while the relatively few Whites are engaged in the informal sector, those who are tend to be engaged in high-skilled occupations: two-thirds of White informal sector workers are high-skilled. African and Coloured informal sector workers are, therefore, likely to be engaged in relatively low productivity, low paying activities.

Comparisons of the informal sector remuneration structure and that of the formal sector reveal, as expected, that informal sector employment is significantly lower paying than formal sector employment. For example, around 20 per cent of formal sector workers who reported their incomes in 2000 earned up to R12 000 per annum, compared to around 60 per cent of informal sector workers.

6.5 The small business sector

Looking at trends in the SMME sector, it is believed that there are between 1,8-million and 2,6-million actively trading small businesses in South Africa. Of the formal sector SMMEs, approximately 46 percent are located in Gauteng and 18 percent in the Western Cape.

It is estimated that there are around 336 000 owner-managers in the Western Cape in 2003, who are starting or running 189 000 businesses. Established businesses are in the minority (23 000), representing 12 per cent of businesses in the province, while 100 000 (53%) are start-ups and 67 000 (35%) are new businesses.

The contribution of SMMEs to overall employment is considerable and, excluding owner-managers, SMMEs account for 21 per cent of provincial employment. This proportion nearly doubles to 40 per cent if owner-managers are included. Apart from the owner-managers, new businesses employ 2,3 people on average nationally and 2,4 people on average in the Western Cape.

Key areas of policy concern in the SMME sector relate to the need to encourage individuals to establish small businesses and raise the rate of participation in this sector. The Province's Human Resource Development Strategy is critical in this regard, helping to foster entrepreneurial talents and help equip individuals to identify opportunities.

Secondly, the big difference between established businesses on the one hand and new and start-up businesses on the other in terms of employment illustrate the importance of ensuring that younger businesses reach the established phase of development.

Thirdly, not only is participation in the SMME sector uneven across gender and race groups, but females and Africans are more likely than others to engage in necessity-motivated business activities. Lower participation in the sector by females and Africans must be seen in the light of higher unemployment rates for these groups in the Province and their participation in small business activities ought to be promoted.

7. Equity and development scenarios

From the above, it is clear that, unless the Province takes bold intervention, the present economic trajectory, demographic and labour force performance, and sectoral growth and employment prospects do not hold a favourable outlook for improved equity and shared development scenarios in the Western Cape.

Similar trends in respect of demographic profile, labour force performance, mismatch in skills profile and the skills requirements of growing economic sectors may be seen at the

broader national level, and in fact, to many countries across the developing world. Such trends epitomise the development challenge that many governments face. In the Western Cape, understanding these trends is critical to formulating the most appropriate policy responses to meeting *iKapa Elihlumayo's* goal of shared growth and development in the Province.

Equity and development are powerful concepts. Understanding how equity is measured, the factors that drive changing distributions, and those public interventions that enhance such, is critical for understanding the dynamics of a shared growth and development path.

The challenge is particularly true for South Africa where inequality is particularly stark; the richest tenth of the South African population enjoy consumption per person almost 70 times that of the poorest tenth. The picture is alarmingly similar at provincial and local level.

The message – recent economic gains have not been equitably spread and have not made significant inroads into poverty for communities.

Striving for equity is not only laudable from a social justice view, it also makes good economic sense. Understanding how inequality is measured, the factors that drive inequality and those that reduce such are critical for policy and decision makers as they formulate the most appropriate policy interventions and set attainable targets with a medium term budgeting approach.

Moreover, lower levels of inequality have a marked impact on the level and spread of economic growth, and therefore the benefits of shared growth in terms of reduced poverty. That is, improved equity and enhanced growth tend to reinforce each other and translate into greater inroads into poverty reduction over time.

7.1 Equity and inequality

7.1.1 Measuring inequality

The *Gini coefficient* is the most commonly reported measure of inequality, and is often used to compare income inequality across regions, countries and over time. Measured between the value of zero (depicting a perfectly equal society) and one (complete inequality), Gini coefficients in the range of 0,40 to 0,45 are generally seen to represent intermediate levels of inequality and those exceeding 0,45 regarded as high.

Table 5 Comparison of selected middle-income countries

	Thailand	South Africa	Brazil	Malaysia	Venezuela	Poland
Gross National Income per capita US\$ (2002)	1 980	2 600	2 850	3 540	4 090	4 570
Gini Coefficient	0,414	+0,60*	0,607	0,492	0,495	0,316
Share of income of poorest 20%	6,1	2,8*	2,2	4,4	3,0	7,8

[Source: 2003 World Development Report and *from Borat et al., 2001: 22]

Gini coefficients move extremely slowly over time. Even fairly rapid change in the income ranking of certain individuals or households can coincide with surprisingly little change in the overall income distribution if these changes occur at both ends of the income distribution and hence cancel each other out. For instance, income distribution patterns will widen if those at the higher end of the income spectrum improve their prospects more than those at the lower end of the income scale.

7.1.2 Inequality in South Africa and the Western Cape

Inequality in South Africa is exceptionally high, and if anything, has worsened from 1995 to 2000¹. Use of Gini coefficient analysis in this respect, however should be interpreted with care.

Gini coefficients may be calculated according to different definitions using income or expenditure, at the household level or the individual level. It is essential comparisons of inequality are undertaken in respect of the identical definition, particularly if comparisons are to be made over time.

Table 6 shows the range of Gini coefficients calculated using the income and expenditure surveys of 1995 and 2000. The disparities between the different measures highlight the need for consistency in methodology. They also serve to emphasize that it is the general level and direction of change that should be interpreted, rather than the absolute values.

¹ The data used for the poverty and inequality analysis in this review comes from the Income and Expenditure Surveys of 1995 and 2000 (IES 1995 and IES 2000), carried out by Statistics South Africa.

Table 6 Gini coefficients calculated according to different parameters using the IES 1995 and 2000

Study	Gini Coefficients based on Total Household Income or Expenditure			
	1995		2000	
Household level	Income	Expenditure	Income	Expenditure
Fedderke, Manga & Pirouz (2003)	0,58	0,59	0,62	0,59
Statistics South Africa (2002)	0,56	-	0,57	-
Household level	Gini Coefficients based on Per Capita Household Income and Expenditure			
Lam & Leibbrandt (2003)*	0,64	-	0,67	-
Individual Level	Gini Coefficients based on Per Capita Income and Expenditure			
Fedderke, Manga & Pirouz (2003)	0,66	0,66	0,69	0,67
Poswell (2004)		0,639		0,682
Confidence Interval	-	[0,636; 0,642]	-	[0,675; 0,688]
Hoogeveen & Özler (2004) – “Core Consumption”	-	0,565	-	0,577

Note: * Household income per capita with one observation included per household

As can be seen, an array of Gini coefficients can be calculated with the same source data depending

The 2005 PER&O analysis considers individuals and uses disposable household per capita as the unit of analysis in computing Gini coefficients. In such analysis income inequality shows a large increase from 0,64 in 1995 to 0,68 in 2000. Irrespective of data concerns in such analysis, the trend (rather than the absolute value of the measure) is consistent with the majority of studies examining inequality in South Africa over the same time period.

Calculating Gini coefficients by province for 1995 and 2000 shows that inequality has increased across the board. In relation to other provinces, the Western Cape, in 1995, was the third least unequal province with a Gini coefficient of 0,584, following Mpumalanga (0,582) and Gauteng (0,545), and in 2000 the least unequal with a Gini coefficient of 0,616.

Table 7 Gini coefficients by province, 1995 and 2000

Province	Gini 1995	Gini 2000
Western Cape	0,584 [0,576; 0,591]	0,616 [0,597; 0,635]
Eastern Cape	0,648 [0,640; 0,657]	0,663 [0,653; 0,674]
Northern Cape	0,647 [0,630; 0,664]	0,658 [0,641; 0,675]
Free State	0,659 [0,649; 0,670]	0,696 [0,685; 0,707]
KwaZulu-Natal	0,625 [0,618; 0,633]	0,684 [0,673; 0,694]
North West	0,629 [0,621; 0,638]	0,658 [0,634; 0,683]
Gauteng*	0,545 [0,537; 0,552]	0,629 [0,617; 0,641]
Mpumalanga	0,582 [0,572; 0,592]	0,626 [0,615; 0,637]
Limpopo	0,625 [0,615 ; 0,636]	0,624 [0,607; 0,641]
National	0,639 [0,636; 0,642]	0,682 [0,675; 0,688]

[Source: IES 1995 and 2000. Author's calculations]

Note: Gini coefficients are not additive and therefore provincial Gini coefficients will not add up or average to the national Gini coefficient. Provincial Gini coefficients should not be compared to the national Gini coefficient but rather to Gini coefficients for the other provinces.

** The change in the Gini coefficient for Gauteng is implausibly high. There are extreme weighting issues with Gauteng data in the IES 2000 that are not apparent for the other provinces, and this data quality concern may be driving this result.*

When considering within race inequality, the same pattern holds for the Province as for the nation as a whole, once again being one of rising inequality from 1995 to 2000. Inequality appears to have increased for all races, with Africans (a Gini coefficient of 0,515 in 1995 and 0,541 in 2000) and then Coloureds (0,439 in 1995 and 0,494 in 2000) experiencing the highest levels within race.

Complementary inequality measurement tools show an increase in the 'within race' contribution over the period for the Western Cape (the latter reading 52,9 % in 1995, compared to 58,8 % in 2000). These results infer that it is 'within race group' rather than 'between race group' inequality that is boosting inequality measurements both at the provincial level.

A deepening of poverty at the lower end and/or upward earnings mobility of those at the top end would serve to widen the distribution and is the likely reason for this result. Indeed, with labour market earnings being the key driver of inequality in South Africa, rising unemployment coupled with improvement in average real earnings in the Western Cape would be expected to lead to a widening of the income distribution.

This means that Gini coefficient and/or complementary inequality analysis should be carefully interpreted, as there are many causal factors to rising inequality that may or may not have to do with increased poverty levels.

7.1.3 Asset inequality in South Africa & the Western Cape

Turning to assets, we see that asset equality is attained in respect of access to good basic services & dwellings (water, sanitation, energy, refuse removal, and housing) and social services (health care, education, skill development and shelter).

These non-income dimensions of welfare are often notably correlated with income and consumption levels, drawing a link between income inequality and asset inequality concerns.

Most public services are therefore targeted at improving poor people's capabilities in respect of enhancing access to quality schooling and skill development, health care services, clean and safe water, sanitation facilities and housing. These are often called 'social wage goods'.

Looking at basic service access indicators, we see that the urban nature of the Western Cape facilitates extensive access to basic services with 95 per cent of households having access to piped water, 86 per cent to a flush toilet, 87 per cent to refuse removal and 87 per cent to electricity for lighting purposes. Our key failing is in respect of housing, where 80 per cent of dwellings are formal and 16 per cent are informal.

In respect of access to social services, we see that the Western Cape performs better than most provinces in terms of attendance rates and average educational attainment. Nationwide, attendance of seven- to 15-year olds is good, with 6,5 per cent of children in this age group not attending school in 2001. The Western Cape fares slightly better, with only 5,5 per cent of this age group not going to school, according to Census 2001 data.

The key area of concern, however, is the high rate of learner drop-out after Grade 8, reducing secondary school completion rates significantly. This trend is evident in respect of enrolment data by grade, indicating that only 45 per cent to 52 per cent of learners who enrol in Grade 1 reach Grade 12.

Table 8 Access to basic services for South African and Western Cape households, 1996 and 2001

	National		Western Cape	
	1996	2001	1996	2001
Urbanisation Rates	%	%	%	%
% of households in urban areas	59,9	62,4	88,8	90,3
Dwelling Types				
Formal	65,2	67,6	82,2	80,4
Informal	16,2	16,3	16,7	16,1
Traditional	18,3	14,6	0,9	2,1
*Water Access				
Piped	80,0	82,2	97,0	94,9
Borehole/tank/vendor	6,1	3,7	1,2	0,3
Spring/river/dam/pool	12,4	9,2	0,6	0,4
Energy Source Lighting				
Electricity	57,7	69,5	85,4	87,5
Paraffin	12,7	6,7	8,2	7,0
Candles	28,5	22,6	5,8	4,4
Energy Source Cooking				
Electricity	47,2	50,7	76,8	77,6
Paraffin	21,5	21,3	13,3	13,9
Wood	22,9	20,3	4,5	2,9
Sanitation				
Flush/ chemical toilet	50,3	53,4	85,8	85,8
Pit latrine	32,3	28,3	4,8	2,1
Bucket latrine	4,6	4,1	3,8	3,7
None	12,4	13,6	5,4	7,7
Refuse Removal				
Removed by local authority	53,5	55,7	84,9	87,2
Own refuse dump	32,2	32,0	7,7	7,2
Communal	3,2	1,7	3,7	2,1
No rubbish disposal	9,5	8,4	2,0	1,4
Telephone Access				
In this dwelling/ cellular phone	28,6	42,4	55,1	63,1
At a public telephone nearby	35,9	38,4	27,2	25,2
At another location	16,7	13,2	14,3	10,1
No access to telephone	18,3	6,0	3,0	1,7

[Source: Census 1996 and Census 2001, 10% Samples]

Nevertheless, better educational attainment does not mean that the education system is operating efficiently or that the population is acquiring the 'right set of skills' that will facilitate easy entry into the job market. Therefore, one of the greatest concerns with provincial and national education goes beyond issues of access to issues of quality of service delivery.

Access to other social services such as adequate healthcare and police services will also have important implications for quality of life and safety and security. Quality healthcare services within walking distance of communities facilitate preventative care, minimising ill health, particularly for children who are more vulnerable in this respect. Again, as for so many other access indicators, the Western Cape outperforms the national averages. This is true for doctors, professional nurses, nursing assistants, medical specialists and pharmacists.

However, the data shows a disturbing trend in terms of health personnel access, both for the Province and nationally. There have been declines in the number of personnel per person for all listed types of medical practitioners. This is a worrying trend, especially in light of the increased need for medical care with the spread of the HIV/Aids pandemic. Diminishing access to this very important resource is exacerbated by emigration of medical personnel, which is often encouraged by relatively good pay offers from other countries, and needs to be addressed.

Looking at census data and combining income and access to basic and social services data shows that, in most cases, it is the poorest who have experienced the greatest gains in terms of service delivery improvements in the Province. This provides an initial look at capturing some of the 'social wage' effects of service provision.

7.2 Poverty

Moving on, we see that there is an inextricable relationship between equity and inequalities in respect of income, assets and spatial or geographic location and poverty – the causal direction of which is intertwined.

This means that poverty has many faces and dimensions, which interface with income, asset and spatial inequality. As such, poverty describes a state of deprivation that prevents an individual from attaining some minimum "socially acceptable" standard of living. This 'state of deprivation' can therefore be measured in a number of ways and according to various approaches.

7.2.1 Measuring income poverty

That said, one of the most intractable ways to measure income poverty for a country is the use of a *national poverty line* – constructed to indicate the minimum amount of money

required to meet the cost of an individual's basic needs or that of a household. The monetary amount includes a food and non-food component. If an individual (or household) earns or spends less than the poverty line amount, s(he) (or the household) is deemed to be poor.

The extent of absolute poverty, or the *poverty rate*, is then measured as the proportion of the population that falls below the national poverty line. The measure is also referred to as the *poverty headcount*.

The depth of poverty may also be measured by summing the distance from the poverty line of all those who are poor, known as the *poverty gap*.

South Africa does not yet have an official national poverty line, although recent events suggest that Statistics South Africa is moving towards developing such in the near future. Despite the lack of an official national poverty line, recent academic efforts calculate a lower bound poverty line of R322 per capita per month and an upper bound of R593 per capita in 2000 prices. A further addition is the value of R174 per capita per month as equivalent to the internationally used 'Two (US) Dollar a day' poverty line.

7.2.2 Poverty in South African & the Western Cape

Measured in any way, income poverty in South Africa has not improved between 1995 and 2000²; it has in fact deteriorated. Taking a low poverty line of R174 per capita per month, 31 per cent of South Africans were poor in 1995. By 2000 this had risen to 38 per cent.

Table 9 National and Western Cape poverty levels, 1995 and 2000

	1995		2000	
	Headcount (Poverty Rate)	Poverty Gap	Headcount (Poverty Rate)	Poverty Gap
National				
R174 per month	0,31 [0,303; 0,309]	0,12 [0,115; 0,118]	0,38 [0,365; 0,393]	0,16 [0,153; 0,168]
R322 per month	0,52 [0,520; 0,5267]	0,26 [0,257; 0,260]	0,58 [0,565; 0,594]	0,31 [0,303; 0,323]
Western Cape				
R174 per month	0,09 [0,088; 0,099]	0,02 [0,022; 0,025]	0,08 [0,065; 0,103]	0,03 [0,018; 0,032]
R322 per month	0,29 [0,279; 0,296]	0,10 [0,096; 0,103]	0,28 [0,241; 0,318]	0,10 [0,083; 0,115]

[Source: IES 1995 and 2000. Author's calculations]

Note: The poverty line of R322 per capita per month in 2000 prices is the lower bound national poverty line calculated by Hoogeveen & Özler (2004). The R174 per month in 2000 prices is the value they compute as equivalent to the Two Dollar a day poverty line generally used for international comparisons.

² The data used is drawn from Statistics SA Income and Expenditure Survey (IES), the most recent of which is 2000.

Poverty gap measurement shows a similar picture. In 1995 the spending of the poor fell on average 12 per cent below the poverty line of R174 per capita per month. In 2000, this situation had further exacerbated, with spending of the poor falling on average 16 per cent below the poverty line. This message is a clear indictment for South Africa. Not only have the numbers of poor people risen, but the poor are faring worse in 2000 than they were in 1995!

The Western Cape's performance is pleasingly different, although the aggregate view masks worrying trends in poverty pockets. For example, if we take an extremely low poverty line of R100 per capita per month, poverty in the Province increased marginally from 1995 to 2000. Taking a poverty line of R174 per capita per month, we see that an improvement in the poverty rate from nine to eight per cent, although the poverty gap deteriorated from two to three per cent. At the upper bound of R322 per capita per month, there also seems to be a slight decline in the Western Cape's poverty rate from 29 to 28 per cent.

Notwithstanding the Western Cape's positive performance relative to the national picture, at 28 per cent of the population, poverty is still a pervasive problem for the Province, and given larger population numbers, this also means increased numbers of poor people despite the marginal rate improvement.

In terms of racial groupings, at the national level, Africans and Asians at the lower end of the income distribution are doing worse than in 1995, while the performance of Whites are stable. There has been little change in the welfare of the poorest Coloureds, who fare similarly in both periods at the low expenditure levels, but perform noticeable better above the R300 per capita per month level.

The racial pattern of dominance holds in the Western Cape, with Whites faring far better than Asians, who do better than Coloureds, who in turn outperform Africans. Looking at each group in turn, we see that Whites appear to be doing better in 2000 at nearly all levels of income, with their performance in the Western Cape surpassing the national trend. Interestingly, Africans in the Western Cape fare similarly in both periods – they are not experiencing increased poverty at the lower end, but are also not enjoying greater gains at the top end.

Groups of concern are Coloureds and Africans. Even at the extremely low poverty line of R174 per capita per month, 17 per cent of Africans in the Western Cape were poor in 2000. At the same level, 8 per cent of the Coloured population was said to be poor. At the R322 per capita per month mark, an alarmingly high 48 per cent of Africans were poor in 1995, rising to 53 per cent in 2000. At this level, one in three Coloured people in the Province was classified as poor in 1995. This ratio drops impressively over the five-year period to 2000, although at one in four, still remains of concern.

7.2.3 Access poverty

Taking a closer look at asset poverty, we draw attention to Provincial performance in respect of socio-economic or human development indicators.

As noted previously, although children have good schooling attendance up to age 15, more than half of children do not make it to grade 12 to write their final school leaving examinations. Furthermore, of those that do write their final exams, 12,5 per cent in the Province fail, and only 26 per cent pass with an endorsement as seen in table 8 below. Mathematics and science pass rates are even more dismal.

Table 10 Matric aggregate performance, Western Cape and South Africa, 2003

As% of age cohort	Western Cape		South Africa	
	Number	As % of age cohort	As % of age cohort	Number
Endorsement	10 158	12,2	82 384	8,4
Pass without endorsement	23 403	28,1	241 124	24,5
Fail	4 904	5,9	116 824	11,9
Total Matriculants	38 465	46,1	440 332	44,7
Drop-outs	44 935	5,9	544 668	55,3
No. of 18 year olds	83 400		985 000	

Looking at health indicators, we see that poor health performance is evident when looking at life expectancy at birth. At 59,3 years for men and 66,1 for women, the Western Cape performs above national but far below comparable middle-income developing countries. These trends are closely related to the impact of the HIV/Aids epidemic both nationally and Provincially.

The two cases in which the Western Cape performs worse than national averages are prevalence of smoking amongst the youth and incidence of tuberculosis.

Crime statistics in the Western Cape are even more shocking. The murder rate of 59,9 per 100 000 people is exceptionally high and the worst of all the provinces. Burglaries at residential premises are almost double the national average, and reported child abuse is even more than twice the national average.

8. An appropriate backdrop to the 2005 Budget

An overview of the economic environment in the Province gives us much to digest. The next five chapters consider the economic outlook for the Western Cape over the next three years, examine the Province' sectoral growth and employment trends and prospects, review provincial labour market and remuneration performance, and highlight the Province's challenges in respect of equity and development prospects.

Given the analytical scope and depth covered in the 2005 PER&O, much of the succeeding analyses are drawn from analytical inputs that the Province commissioned earlier in the year, supported by research work being completed in respect of the iKapa Elihlumayo lead strategies.

Given limited resources, the 2005 Budget does not try to match resource allocations to all the challenges posed in the above analyses. Rather, it offers an allocation mix that aligns to the social and economic goals of iKapa Elihlumayo, thereby planting the seeds for shared growth and development in the Western Cape over time.