



# 6

## Conclusion

The preceding five chapters in the 2005 PER&O cover a wealth of information and analyses. The resultant overview of the economic environment in the Province gives us much to digest.

The expanse and volume can be overwhelming, and requires that we step back from the detail so that we are able to draw out key messages and thematic thrusts. This allows us to gain perspective on the value and contribution of the 2005 PER&O to the further development of the *iKapa Elihlumayo* lead strategies and the 2005 Budget itself.

Perspective often enhances insight. Given such, we make various suggestions on how the 2005 PER&O should be used and taken further, strengthening the Province's economic analytical base and capacity over the medium term.

The 2005 PER&O endeavours to do justice to the economic discipline from which it emanates. As such, it aims to raise the hue and level of analytical sophistication, posing further questions, probing the rigour of present analyses and extending both the reach and depth of the latter as we move forward into planning PER&O 2006.

## 1. Key Messages of the 2005 PER&O

The 2005 PER&O chapters 2 and 3 provide a detailed overview of the Western Cape's economic trends and outlook, focusing on broad macro- and sector-level performance.

### 1.1 Chapter 2 – Economic Outlook

At the macro-level, the key 'sound-bite' is that the Western Cape economy has consistently out-performed the national economy over the last five to 10 years, and is recovering from the headwinds experienced in 2003 and 2004.

Looking ahead, short-term economic prospects are as favourable as for the rest of the country. While business tends to adjust to the strong rand, the direction of the exchange rate could be an important determinant of the regional economic performance and therefore a key risk to the Province's optimistic macroeconomic outlook. A strong currency benefits the non-tradeable goods sectors and disadvantages the tradeable goods sectors.

Nevertheless, robust real economic growth is currently underway in the region as industry responds to buoyancy in domestic spending, as well as a supportive world economy. In this respect, the Western Cape business confidence jumped sharply at the end of 2004, catching up with the rest of the country.

The outlook for fixed investment and employment creation is positive, following years of capital-deepening investment and formal sector retrenchment of workers. The challenge is to develop downstream and niche manufacturing and services industries, which have more potential to create jobs.

The positive employment trend in the retail, tourism and business services sectors is likely to persist and this needs to be supported. With improved formal sector job (and therefore wage earner) growth, the chances for enhancing poverty reduction in the Province in the medium term, beyond Government's social welfare and infrastructure development spending, are looking better.

In all, the *macroeconomic outlook* for the Western Cape predicts that real GDPR<sup>1</sup> will accelerate from 4,1 per cent in 2004/05 to *4,3 per cent in 2005/06*, exceeding the national GDP growth rate of 3,9 per cent. This reflects sustained growth in real domestic expenditure and a 'fairer' value of the rand.

In the outer years of the MTEF, real GDPR growth is expected to decline slightly to *4,0 per cent* and *3,9 per cent* in 2006/07 and 2007/08, respectively, responding to the weight of higher interest rates. The latter arises as the SARB becomes focused on inflation possibly accelerating to the upper band of the inflation target in 2006 on the back of excess demand in the economy and a weaker currency.

<sup>1</sup> All GDP and GDPR projections are those derived from work done by the BER.

While the outlook reflects a strong and vibrant Provincial economy, we must *attain higher levels of economic growth in the Western Cape, in the region of five to six percent per annum. The latter is essential if we are to raise the Province's employment performance and improving the long-term growth potential of the Provincial economy.*

## 1.2 Chapter 3 – Sectoral growth & employment prospects

At a sectoral level, headlines point to the Western Cape economy out-performing 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 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 base sectors 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 or sub-sector.

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.

Apart from Saldanha and Namakwa Sands, limited mining activity, capital-intensive mineral processing and attendant heavy industry accentuates the dominance of small and medium-sized enterprises in the Western Cape economy, and is also likely to contribute towards the shift towards a service economy.

At a more detailed level, then, the tertiary sector (comprising various service industry) produces the largest share of GDP at slightly more than two-thirds (69,8%) on average over the past five years. The secondary sector (manufacturing, electricity & water and construction) comes a distant second (25,2%), and the much smaller primary sector (6%) trails due to the absence of a meaningful mining industry in the Province.

Between 1999 and 2003, on average, the financial & business services sector contributed 27,1 per cent of GDP. This sector includes banking & insurance, real estate and business services (ICT, engineering, accounting services). Also notable are the Province's manufacturing sector (20,1%), transport & communication (10,1%), and internal trade sector (including retail, wholesale, catering & accommodation) (15,7%). In contrast, agriculture comprises 5,6 per cent and construction 3,4 per cent.

Of note, however, is the decline of the manufacturing industry in the Western Cape. Once, a manufacturing 'heartland', the Province has now shifted the emphasis towards tertiary services. This has had a particularly severe impact on manufacturing employment in the Province, particularly in the clothing & textile industry.

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 that grows in output and employment. The pattern of higher growth in financial and business services and tourism, with agriculture remaining very important, does not negate the need to develop the manufacturing base further.

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 development 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 provincial government plays an important role in this respect. At the meso-economic level, provincial actions should 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 respond to global and national 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.

*We must improve both the growth (value-added) AND labour performance of tertiary, secondary and primary sectors in the Provincial economy.*

*In doing so we must understand that while much of the growth impetus will come from the tertiary sector, the secondary and primary sectors should not be left behind, as they are*

*employment intensive and absorb skills at the lower to middle of the skill spectrum where much of the Province's labour supply currently rests.*

### **1.3 Chapter 4 – Employment and remuneration trends**

Turning to employment and remuneration prospects, like the national debate, the Provincial debate contends that economic restructuring has left many without work and that our economic revival is about more jobs.

Nowhere is this contention clearer than in the clothing & textile industry, which in the 18 months between January 2003 and June 2004 lost 27 000 jobs nationally, most of which were lost in the Western Cape.

Chapter 4 draws attention to the stark labour market challenges that the Western Cape faces over the next few years.

Most importantly, while the Provincial economy is generating jobs, it is not generating enough jobs to absorb new entrants into the labour market.

In particular, the labour force is growing as the number of young individuals joining the working age population exceeds the number of older people leaving this group. Migration acts as a further source of expansion, impacting on the Province's demographic composition as well as the skills distribution of the labour force.

The result is that unemployment, while less severe than in the rest of the country, is likely to grow rapidly over the next few years. And this trend is likely to continue for as long as people living outside of the Western Cape perceive that they have a greater chance of being employed in the Province, given our better than average economic performance.

It is imperative that we develop a better understanding of the Western Cape labour market, as it is the key mechanism through which individuals engage with the Provincial economy, and its performance is therefore a key determinant of Provincial income distribution and equity profiles.

More specifically, between 2000 and 2003, about 194 000 jobs were created in the Western Cape at a rate of 4,0 per cent per annum. This has seen the Province raise its share of national employment from 13 per cent to 15 per cent.

Unfortunately, although employment growth has been above the national average, unemployment has also expanded at an even more rapid rate. The Province is now home to 7,4 per cent of the country's broadly unemployed. Within the Western Cape, broad unemployment has risen from 22,6 per cent in 2000 to 26,1 per cent in 2003.

Of key concern is the lower level of employment and higher share of unemployment among Africans, women and most acutely, the youth.

More specifically, Africans do not enjoy the same level of access to employment opportunities enjoyed by Coloureds and especially Whites in the Province, and around 43 per cent of African labour force members are unemployed. This is mainly due to historical reasons that relate both to the relatively lower education levels of Africans in the Province and the Coloured domination of agricultural employment.

Women also appear to find it more difficult than men to secure employment, as men fill more than half of all jobs (54,4%) in the Province, but constitute only 46,8 per cent of the unemployed.

Most alarming, though, is the dominance of young people aged between 16 and 25 years among the unemployed. Their employment share stands at a mere 17 per cent, whilst accounting for 46 per cent of the unemployed. These trends contribute to higher unemployment rates of around 49 per cent among the youth – a more acute picture than national trends, pointing to the structural nature of youth unemployment in the Province.

The marginalisation of the youth is of further concern as they are not able to use the skills they have, leading to an erosion of such skills and preventing a transfer of knowledge and experience from older workers through employment.

A further concern relates to high unemployment amongst those that have not completed their secondary education.

In this respect, the long-term trend in the South African and Provincial economy has been one of a bias towards high-skilled employment and against low-skilled employment. About 22 per cent of Western Cape employment is in high-skilled occupations, 46 per cent in skilled occupations and 32 per cent in low-skilled occupations.

Between 2000 and 2003, most of the growth in Provincial employment – two-thirds of 194 000 jobs – accrued to those with matriculation certificates, whilst unemployment rates are lowest amongst those with the highest educational levels.

Since an individual's level of education is a key determinant of the individual's occupation and therefore skills classification and attendant remuneration level, these trends highlight the importance of improving throughput in the schooling system, particularly from grade 10 to 12, and upgrading skills across the spectrum, specifically for lower skilled labour. Strategies to address unemployment concerns, however, should keep in mind the spatial aspects of economic and population concentrations. Its two-thirds share of Provincial employment illustrates the City of Cape Town's urban and economic dominance. Yet the City is also home to 71 per cent of the Province's unemployed.



This means that graphically, unemployment is concentrated in the City of Cape Town, the Boland and Eden regions, although the Central Karoo suffers from the *highest unemployment rate* (although *lower numbers of unemployed* people), raising the importance of spatial planning tools, such as the National Spatial Development Perspective (NSDP) and the Provincial Spatial Development Framework (PSDF) in addressing conflicting unemployment concerns.

Turning to remuneration patterns, there appears to have been little change in the distribution of formal sector workers across remuneration categories since 2000, with traditional patterns of racial dominance – White formal workers are significantly better off than their Coloured counterparts, who in turn are better off than their African counterparts.

There is however, positive remuneration change amongst Africans employed in the formal sector, possible due to the extension of minimum wage legislation and improvements in remuneration for Whites mainly related to increases in respect of high-skilled occupations.

Entrenched patterns point to the indelible mark decades of discrimination and unequal access to educational and employment opportunities have left on the remuneration structure of formal sector employment, and, in fact, on formal employment performance itself, across race groups.

*We must improve the Western Cape's ability to create more jobs and absorb new entrants into the labour market. Rising unemployment, particularly amongst the youth, is the single biggest risk to the Province's goal of shared growth and development. We also need to alter the racial profile of the labour force in respect of skill and remuneration distribution.*

*The answer lies predominantly in upgrading skills across the spectrum and enhancing economic stimulation, improving economic participation and therefore labour market performance over the medium to long term.*

*Expressed more technically, over the medium term we need to reach, and improve on, our target Provincial employment growth rate – that is, the rate at which employment growth would absorb all new job seekers onto the market.*



## 1.4 Chapter 5 – Equity and Development Scenarios

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 one tenth of the South African population enjoy consumption per person of almost 70 times that of the poorest one tenth. The picture is alarmingly similar at provincial and local level.

It is clear that recent economic gains have not been equitably spread and have not made significant inroads into poverty for communities.

It is now commonly agreed that economic growth is necessary to reduce poverty. But equity concerns are also a critical factor. That is, improving distribution and enhancing growth should reinforce each other, having a greater impact on poverty reduction.

Equity can be decomposed in respect of income, assets and spatial or geographical location. Looking at income inequality, we see that both South Africa and the Western Cape have high and rising levels of inequality, measured by a rise in the respective Gini coefficients from 0,64 to 0,68 and 0,584 to 0,616. Data accuracy and credibility mean that the absolute number should not hold focus; rather the *high level* and *rising trend* are important here.

These trends highlight the importance of understanding labour market performance, as a greater number of poor at the lower end and/or the upward earnings mobility of those at the top end would serve to widen the distribution, and is the likely reason for rising inequality trends.

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

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 well in terms of school attendance rates and average educational attainment. The key concern, however, is the high drop-out rate of learners after Grade 8, reducing secondary school completion rates. Only 45 per cent to 52 per cent of learners who enrol in Grade 1 reach Grade 12. The employment data presented above highlights the importance of matriculation in gaining access to the labour market.

Looking at Census data and combining income and access to basic and social services data shows that it is the poorest who have experienced the greatest gains in terms of service delivery improvements in the Province.

Spatial inequality is the third dimension. It is a key aspect of inequality profiling and throws into stark relief the confluence of other elements of income and asset inequality.

Most commonly understood in respect of demographic and human settlement patterns and linked to income and asset distributions, we see that the Western Cape is highly urbanised at 90 per cent. However, percentages of people in rural areas vary over the various districts: 35 per cent in the Overberg district, 33 per cent in Eden, 35 per cent in the West Coast, 19,9 per cent in the Boland and 33 per cent in the Central Karoo district.

In respect of the built environment, the majority of South African towns and cities are essentially a system of settlements, consisting of a 'White' core, which contains the economic centre and most social services, surrounded by a number of disparate, racially discrete, dormitory areas or locations of considerable size.

These settlement patterns are the extraordinary spatial legacy of *apartheid*, and extremely difficult to change, requiring considerable public spatial planning and intervention in the line of the NSDP and the PSDF.

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.

Measured in any way, income poverty in South Africa has not improved between 1995 and 2000; 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. 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 notably different, although the aggregate view masks worrying trends in poverty. If we take a low poverty line of R174 per capita per month, we see a slight improvement in the poverty rate from nine per cent to eight per cent. At the upper bound of R322 per capita per month, there is a slight decline from 29 per cent to 28 per cent.

Groups of concern are Coloureds and Africans. Even at the extremely low level of R174 per capita per month, 17 per cent of Africans in the Western Cape were poor in 2000. At the same level, eight per cent of Coloureds were said to be poor. At the R322 per capita per month level, 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 Coloureds were poor in 1995; this drops to one in four in 2000, although at such levels this trend remains a concern.

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. Mathematics and science pass rates are even more dismal.

Poor health performance is evident when we look at health indicators such as life expectancy at birth. At 59,3 years for men and 66,1 for women, the Western Cape performs above the 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 more than twice the national average.

Lastly, spatial poverty may be measured using a single-dimension or a composite poverty index to identify the most deprived communities within the national or regional boundaries. This is a useful tool for providing greater insight into the areas of greatest need. Decomposing the index then allows for streamlining and increasing efficiency of targeted interventions.

Three composite poverty indices currently exist for the Western Cape. The most recent is the Office of the Premier's development of a provincial Human Development Index, or HDI, for the Western Cape, disaggregated to municipal level.

The results are stark in absolute value and in terms of trend movements. Between 1990 and 2003, the Western Cape's HDI fell from 0,7869 to 0,7708.

Similar results may be obtained from the South African Cities Network poverty index and the Provincial poverty index recently developed by the Western Cape Social Services and Poverty Alleviation Department.

*The end result – there is a clear symbiotic relationship between equity and development goals.*

*The ideal would be to model and target Provincial equity distributions. But modelling (income) distributions at the provincial level is almost impossible and has many pitfalls. So too does pursuing a Gini coefficient target.*

*The focus should fall on mapping and targeting poverty and inequality in respect of a positive dimension that focuses on adequacy considerations, such as the number (not proportion) of people with an income above a certain level. This may be done for asset poverty and inequality, and spatial poverty and inequality, providing more concrete goals for policy interventions over the medium to long term.*

## **2. Value & Contribution of the 2005 PER&O**

As we stand back then and evaluate the main messages emanating from the 2005 PER&O, we see that the latter is a socio-economic compendium reflecting an analytical journey that has been exhausting yet empowering. We now have emerging answers in one form or another to many of the questions raised in respect of the Western Cape's socio-economic environment and development challenges. Equally, the PER&O analyses have elicited yet further questions and debate. The latter, however, sparks a positive and creative energy that the Province welcomes and encourages.

Debate that is dynamic in character builds on an analytical foundation to ask further questions and seek innovative solutions. It continues probing the rigour of alternatives proposed and refines and tempers the skill of the players.

What is notable is that all players involved are committed to achieving the best in terms of the end goal; that is, shared growth and development for all in the Western Cape.

## **3. iKapa Elihlumyao – towards Shared Growth and Development**

As said before, our response is embodied within *iKapa Elihlumayo* – the Province's shared growth and development strategy. Its beauty and value lie in its simultaneous connectivity and uniqueness as a shared development approach. 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 for a ‘Home for All’.

Having moved beyond the discourse of pro-growth and pro-poor orientations, *iKapa Elihlumayo’s* approach and stance promote 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.

Higher levels of economic growth are the most powerful of tools to reduce poverty over the medium to long term. But greater impact on poverty depends on high levels of equity. Equally, improving the long-term growth potential of an economy in turn depends on a more equitable distribution of income, capabilities and geographic location of communities and economic activity that ‘shares’ the benefits of growth. This ‘sharing’ of economic yields enhances social and economic participation, which in turn feeds back into raising the economy’s long-term growth potential.

*Shared growth and development* therefore describes a strategy and policy mix that has a ‘win-win’ orientation over the medium to long term.

Many query whether the definition matters. The 2005 PER&O suggests an affirmative answer in this respect. Pro-poor growth is growth that is good for the poor. Under the relative definition, growth is pro-poor if the incomes of poorer people grow faster than those of the population as a whole, leading to lower levels of income inequality. Under the absolute definition, growth is considered pro-poor if, and only if, poor people benefit in absolute terms according to a pre-defined measure of poverty.

Pro-poor growth policies have contributed to national and sub-national (regional) public expenditure strategies that emphasise poverty reduction and social expenditures in a sharpened focus on poverty and human development. The latter is best defined in the Millennium Development Goals, which provided an international benchmark for compared development performance.

However, pro-poor growth strategies risk ignoring the overall economic performance and fortunes of those that are not poor. Yet, without enhanced levels of economic growth, poverty cannot be reduced. Improving growth levels is therefore a *necessary*, but not yet *sufficient*, condition for advancing development gains.

*Pro-growth* strategies are those that tend to ignore the needs of the poor, creaming off economic rents for the better-off in society and ignoring the development needs and challenges of low-income and poor communities. This creates a development chasm that strips away gains, contributing to a long-term slide in development opportunities for the poor and wealthy alike.

The fates of the poor and the wealthy are therefore intertwined over the long term. This means 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.

But as always, simplicity has its origins in complexity. In this sense, the detail of the eight *iKapa Elihumayo* lead strategies is now emerging. Almost all of the strategies have completed their initial analytical phase and will be ready to table proposals in June 2005.

The 2005 PER&O tries to provide an overarching frame of reference that may be used to assess the interfacing of the lead strategies. In particular, it is important to examine whether the lead strategies' design and sequencing are compatible, that is, whether they 'talk' to each other, deriving synergies in an interdependent way, and, whether they are targeting common goals for shared growth and development under the rubric of *iKapa Elihumayo*.

As the strategies begin to engage, the 2005 PER&O may be used to facilitate common reference points and parameters for all, synthesising both debate and interaction towards a common goal – that of shared growth and development in the Western Cape.

This goal is shared at the conceptual level by the eight lead strategies. Practically, however, each has to date focused on its own detail and does not as yet effectively interface with the other strategies.

We therefore need a linking and/or organising tool that will help to merge conceptual and practical understanding of shared growth and development in the Province.

Development indicator frameworks have proven very successful in this regard, creating structure and schematic organisation that provides direction and purpose in a logical manner.

Taking the 2005 PER&O a step further could therefore see the development of an *iKapa Elihumyo* indicator framework. The latter would identify, formulate, target and monitor progress towards an agreed set of indicators that describes a state of shared growth and development in the Province.

For instance, initial brainstorming suggests that an indicator framework might target the following objectives through initial proposed measures as follows:

- Improving human development status and potential measured in terms of an HDI, targeting an X% improved to Y by year Z. This may be extended to target specific income, asset and spatial inequality and poverty indicators that focus on adequacy considerations, assessing whether trends over time reflect better access to the economy.

- Enhancing Provincial economic growth by increasing growth in real GDP per annum towards a target rate of X % by year Y.
- Advancing broad-based Provincial economic participation measured in respect of targets for BEE employment, procurement contracts, SMME owners & turnover.
- Increasing Provincial employment by X jobs a year, or reducing Provincial unemployment by X% to Y% by year Z.
- Reducing transaction & input costs of doing business in the Province, especially for SMMEs measured in terms of reducing regulation & compliance costs by X% by year Y.
- Improving the growth & employment performance of tertiary, secondary and primary economic sectors, as well as their intergration and restructuring towards the global economy, measured in terms of increased annual take-up of national, provincial or local sector incentives to X% by Y year.
- Strengthening social inclusion & cohesion (social capital) measured in terms of increasing voter participation in local and/ or Provincial elections to X% by Y year.
- Enhancing environmental & resource sustainability measured in respect of reducing Provincial fuel consumption, or carbon emissions by X% to Y level by year Z.

Equally, an attendant risk framework might target the following risks or gambles:

- Limited urban restructuring, which serves to entrench existing apartheid spatial legacies;
- Reduced biodiversity, particularly in relation to water and energy.
- Increased competition in respect of land use strategies and management.
- Narrow skills development, decreasing the Provincial skill base in the face of expanding labour supply.
- Separation and impoverishment of the second economy due to diminished links with the first economy

These are just suggestions for a framework and do not as yet constitute a comprehensive indicator framework. The latter would need to be developed over the next year over the next three to five months and to be incorporated into our nascent monitoring and evaluation framework. They do, however, get us thinking and planning as to the thematic focus and structure of the 2006 PER&O.



## 4. .... On to PER&O 2006

As always, the first step starts a journey. The 2005 PER&O builds on the 2003 Socio-Economic Review and takes it a significant step further. The scope, depth and rigor of analyses poses further analytical challenges and questions that demand investigation as we move to strengthen the Province's economic capacity and analytical base.

Developing an indicator framework with which to frame *iKapa Elihlumayo* is just one thought. Others emerge from a range of unanswered questions that arise from the 2005 PER&O detailed analyses.

More specifically, the Western Cape's development of a provincial economic outlook – a first among the provinces – uses macroeconomic parameters and techniques and applies these to the provincial economy. This allows us to describe the Western Cape economic as a distinct entity within the broader South African economy through analyzing key provincial economic variables and proposing credible trend forecasts for the coming MTEF period.

However, as Statistics South Africa has only released official data on regional GDP or GDPR since 2002, there are insufficient historical data to ensure robust provincial econometric forecasts in respect of GDPR. The macroeconomic outlook of chapter 2 is therefore based on 'soft' initial macroeconomic forecasts. These forecasts will be strengthened over the next couple of years as the Province develops its own provincial macroeconomic model and builds capacity to undertake credible, robust econometric trend and forecasting analysis.

Taking a closer look at the sectoral level, further work on the Microeconomic Development Strategy will expand the present scope to include, amongst others, call centers & business process outsourcing, the film industry, oil and gas exploration, biotechnology, furniture; cultural industries; crafts & jewelry as well as cross-cutting sectors like transport, energy, and R&D.

Sectoral reviews should be matched by overarching analysis that examines generic and sector-specific enablers and constraints to growth and employment, in particular picking up on provincial-level levers and bottlenecks. It would also be interesting to see whether, data permitting, sectoral analysis could also extend to growth and employment sensitivity analysis that facilitates testing of different policy and environment scenarios.

At a more academic level, supporting analysis will take a closer look at Provincial sectoral growth and employment performance in respect of endogenous growth sources. Disaggregated to magisterial district level, this analysis will aid in providing a critical link between local and provincial economic performance. The latter will become increasingly important as the Province assumes oversight responsibilities in respect of municipal level

economic analysis contained in local integrated development plans (IDPs) under the ambit of the Municipal Finance Management Act (MFMA), 2003.

Contradictory informal sector employment trends using different data source point to the urgency of more detailed analysis, even survey work, on the Western Cape's informal sector. This is a priority given worrying employment trends and prospects in the face of increasing labour surplus in the Province's economy.

Turning to equity concerns, provincial demographic and income distribution modeling analysis hold considerable, if daunting appeal. The former is already underway, but the latter poses considerable challenge given migration movements across porous provincial borders.

Despite such, the exercise does have merit, if not for Gini coefficient targeting (the risks of which are highlighted in chapter 5), then for forecasting derived demand for Provincial services, in particular, health, education and housing. The latter would be extremely beneficial for medium- to long-term planning and budgeting for Provincial service delivery.

Modeling and targeting Provincial equity distributions requires a different tack. As noted, above, recent proposals suggest that we should focus on mapping and targeting poverty and inequality in respect of a positive dimension that focuses on adequacy considerations, such as the number (not proportion) of people with an income above a certain level. This may be done for asset poverty & inequality and spatial poverty & inequality, providing more concrete goals for policy interventions over the medium to long term.

Each of these analytical areas poses exciting and challenging promise for extending and deepening the Western Cape's analytical economic base and capacity over the next few years.

Onto the 2006 PER&O....

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