



Western Cape

PROVINCIAL ECONOMIC REVIEW & OUTLOOK 2005 SUMMARY

Towards Shared Growth & Development



Provincial Treasury

Summary of the 2005 Provincial Economic Review and Outlook

Towards Shared Growth & Development in the Western Cape

For many, a snapshot of the Western Cape economy depicts a province of extraordinary contrasts and varied fortunes. For those economically active, the Province's economic outlook is optimistic, with growth rising above 4% this year. Yet the aggregate picture hides persistent trends in respect of rising unemployment (upwards of 26%), escalating crime rates, high and rising levels of inequality, and intensifying social and economic exclusion.

Equally, the extent of these challenges masks underlying opportunities that, if identified and levered, hold considerable promise for shaping a shared growth and development path in the Western Cape, delivering on its vision of 'A Home for All'.

iKapa Elihlumayo is the provincial strategy that drives the vision of shared or broad-based economic growth and development in the Province. It endorses a strategy and policy-mix that views poverty reduction and economic growth as being interdependent goals over the medium to long term.

At the macro-level, it would appear that the Western Cape economy has consistently grown, outperforming the national economy over the past ten years. What appears to be a strong and vibrant Provincial economy, is delivering growth still below the higher band of 5% to 6% needed to create sufficient jobs and move on to a shared growth path over time. At present, not sufficient jobs have been created. This jeopardises the Western Cape's chances of sharing economic benefits to a broader range of people and communities.

Thus, growth on its own will not bring benefits to the wider community. The wealthy becomes wealthier, 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 has the ability to make a significant contribution to reducing poverty and improving people's livelihoods and future opportunities. Hence, 'shared growth and development' may be viewed as growth that is shared in respect of its strategic focus, policy stance and presentation, and most importantly, its rewards.

There is a need to understand the links between equity, growth and development if one is to manage the process of shared development and the impact of different strategies and policy mixes in respect of long term sustainable development goals that enhances development prospects in sustainable manner. More specifically, the shared growth and development approach recognises that the fates of rich and poor are intertwined, and 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.

The challenges facing the Government of the Western Cape, as well as other spheres of government, is the correct possible strategy and policy mixes that are best suited to addressing local circumstances; creating indigenous solutions to local challenges in the targeting of a shared growth and development path.

iKapa Elihlumayo, articulates the Province's plan of action for shared growth and development over the medium term.

South Africa's Development Challenges

In essence, 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.

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

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 ensures 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.

This approach is bold and demanding delivery in all spheres of government over the next 10 years so it challenges interaction, cohesion, and performance within our cooperative intergovernmental system. Delivery depends on the whole, rather than the sum of the parts. The scorecard is rigorous and demanding, measuring improvements in the livelihoods and opportunities of South Africans by 2014. Realism informs the options we have while the Vision and passion guides 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."

President Thabo Mbeki

The Changing Intergovernmental Landscape

The South African development agenda is, in many ways, clearly defined but in others, it is ambiguous. Most evident 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. It has become clear that 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 coordination 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. Such 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.

Western Cape's Economic Outlook

The South African economy

The Western Cape's economic fortunes are closely linked to those of the national economy. The South African economy is currently in its longest post-war economic upswing phase and is poised for higher growth. The global economy is expected to remain supportive of domestic economic growth over the short term but the single biggest risk to the favourable global economic outlook is the high oil prices.

Real GDP growth is forecast to accelerate to 4,1% during calendar year 2005 and to slow marginally to 3,6% in 2006 and 3,0% in 2007 under the weight of higher interest rates. Job creation is expected to accompany robust fixed investment spending. Yet a more satisfactory rate of employment creation remains the single most important national economic challenge.

The Western Cape economy

The Western Cape regional economy has a number of unique structural trends that has its own strengths and challenges for policy-makers. This economy has a broad base with a number of sub-sectors or niches, many of which are growing well or have the potential to expand. The Western Cape economy is well represented in each sector. The fast-growing services industries include the financial & business services, contributing 27,1% to the regional GDP, internal trade & catering (16%) and transport & communication (10%). The tourism industry is an important source of growth. Manufacturing sector contributes around 20 % of regional GDP (GDPR), on par with national. A salient feature of the economy is the rapidly growing niche manufacturing and services industries. 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% of the total regional employment opportunities in the Western Cape.

Economic growth trends

The Western Cape economy has outperformed the national economy over the period 1999 to 2003. Real GDPR growth for the Western Cape economy averaged 3,9% over the period, compared to the national average of 3,1% whereas the region's real GDP growth rate decelerated to 1,6 % (1,9% nationally) from 3,6 % in 2002.

This has been largely due to the strong growth of the region's services industries, such as transport & communication, financial & business services and internal trade & catering that outperformed national in these sectors, particularly in internal trade & catering (which grew by 6,6% per annum vs 5,3% nationally) and financial & business services (6,3% versus 5,4%). This sector has benefited from tourism, which has been a fast-growing sector in the Western Cape. Financial & business services sector 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 growing only at 1,4% annum between 1999 and 2003 against a national average of 2,8%. The share of manufacturing in the regional GDP declined from 23 % in 1995 to 19,9 % in 2003. Formal employment in the sector's worsened, dropping from 21% in 1995 to 16% in 2003.

Business confidence is currently lower compared to the rest of South Africa. The economy is sensitive to changes in the exchange rate of the Rand and global demand. Growth in the Province's services industries is projected to equal or exceed the national performance, 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.

With 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. But prospects vary, 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.

Inflation

Regional inflation is closely linked to that of the rest of the country. Inflation is expected to accelerate to levels of 5 to 6% during 2005/06 due to cyclical pressures and some depreciation in the exchange rate.

Fixed investment

The growth in fixed investment spending in the Western Cape has been around a rate of 4% per annum over the period 1999 to 2003. Due to the strong contribution by the less cyclical services industries, in particular, financial & business services (45%), 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, increasingly accompanied by expanding employment rather than of the capital-deepening kind in recent years when formal employment contracted. There is already evidence that this is actually starting to happen.

Exports

The Western Cape's exports have performed well over the past six to seven years, growing by 8% to 9% per annum in real terms. The region's established exports (ranging from fruit and processed foods and beverages, iron and steel and fish to clothing and 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. 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.

Outlook 2005/06 2007/08

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 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.

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 % in fiscal year 2003/04 to 4,1 % and 4,3 % during fiscal years 2004/05 and 2005/06 respectively, exceeding the projected national growth rate by a small margin.

Sectoral growth and employment prospects

Western Cape economy is outperforming the South African economy in GDP or value-added terms, but not creating sufficient jobs. This is a key risk factor, significantly jeopardizing chances of sharing economic benefits to a broader range of people and communities across the Province.

But this is not the entire picture. 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.

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.

Sectoral development

The strongest average annual output growth rates in the Province, between 1995 and 2003, have been recorded in transport & communications (7,0%), wholesale & retail trade and hotels (5,2%), and financial, insurance & business services (5,0%).

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 % and 15,0 % of GDP respectively in 2003, compared to 9,7 % and 10,6 % of national GDP.

In the secondary sector, manufacturing has been very disappointing. By 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%) vs nationally (21%).

Similarly, in the primary sector the performance of agriculture, forestry & fishing grew an average of 1,9% annual since 1995 vs. national growth rate of 3,5 %. However, the available 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.

Employment patterns

The most dramatic development has been a decline in manufacturing employment from 1995, and an increase in informal employment. The biggest absolute job losses were in the clothing, textiles & leather (23 737 net jobs), and leather, closely followed by food, beverages & tobacco (18 321 net jobs). In addition declines were experienced in electrical machinery (-11,9% per annum) and other non-metallic minerals (which includes cement and brick-making) (-10,3%). Employment in the wood, paper & publishing and the petroleum & chemicals sectors, in the Province continues to stagnate vs. minimal growth nationally.

From being the largest employer, manufacturing has been overtaken by general government services and community & social services, with employment almost doubling in these in a decade. There has not been net employment creation in key sectors or little indication of increased employment resulting from tourism and other services such as telecommunications.

In the last three years, the metals and machinery sector has shown signs of growth (3,2% growth per annum from 2000), and this sector is linked with 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.

At a national level there has been growth in narrower sub-groupings of wood products (due mainly to increased processing of forestry products) and plastic products which is both labour-intensive and experiencing employment growth of 2,1% per annum nationally. 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 communications sector shed almost 5 000 jobs between 1997 and 1998, contracting -4,8% per annum. The transport sector shed almost 4 000 jobs between 1996 and 1998, contracting by -4,3% per annum and catering & accommodation services contracting by -4,2% per annum.

By comparison there have been employment growth in business services (> 6,2% pa), but not as high as elsewhere in the country, the wholesale & retail trade (>3,2%) and other producers (>4,5%). Business services reflect employment creation in call centers, while other producers may capture some of the effects of tourism.

Main drivers of provincial economic performance

Looking forward, a shared sustainable growth and employment path needs to rest on a broad foundation of agriculture, industrial regeneration, tourism, and financial & business services such as business process outsourcing that grows in output and employment. This 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 industrializing 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 to identify and respond to 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. This requires 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.

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 more jobs. The Western Cape picture is no different and the debate on the Provincial labour market performance no less contentious. 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.

Demographic profile and migration trends

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

The Provincial population is relatively young approximately two-thirds (66%) of the population is between the ages of 16 and 65 and is therefore of working age. Less than 15 per cent is older than 50 years. The working age population is therefore likely to grow as people grow older and enter the working age population, while fewer older individuals exit the working age population. 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 changing demographic and labour market profile. It is estimated that the Province gains 48 000 individuals (net of out-migration), an increase of 1% of population, every year, with many of these motivated by perceived brighter employment prospects and higher incomes. This is an injection of young individuals into the Province's working age population (72,6% of in-migrants are under 36 years of age). The vast majority in this age-group, 83,3% of in-migrants are from the Eastern Cape.

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.

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.

Employment and job creation

At the national level, employment grew nationally prior to 2000 but since then seems stuck at about 11,6 million jobs. 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.

Not enough jobs are being created 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 the unemployment rates will continue to rise in South Africa.

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 year and its share of national employment has risen from 13% to 15%. Yet

unemployment in the Province, irrespective of definition, has expanded at a more rapid rate, rising from 17,1% in 2000 to 20,6% in 2003, and that measured broadly rising from 22,6% to 26,1% respectively.

Most jobs in 2003 were filled by Coloured individuals (58%), with Africans and Whites each constituting around one-fifth of employment. Yet, at the same time, more than one-half of the 612 000 unemployed in the Western Cape are Coloured. In contrast, 41% of Africans' are unemployment, which is twice their employment share, indicating a substantial disadvantage for Africans in the provincial labour market. Conversely, Whites' unemployment share is around 6 % less than one-third of their employment share.

Disproportionately, 46% in the age group 16 and 25 years are unemployment while accounts for a mere 17% of employment market. The problem of youth unemployment in the Province appears, structurally, to be relatively more acute than it is in the rest of South Africa, raising the importance of the youth focus of the iKapa Elihlumayo Social Capital and Human Resource Development strategies.

From a spatial perspective, unemployment is concentrated in the City of Cape Town and then the Boland and Eden regions, although the Central Karoo suffers from the highest unemployment rate.

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.

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.

Inequalities in the Western Cape in terms of formal sector remuneration were considerable. White formal sector workers are significantly better off than their Coloured counterparts, who in turn are better off than their African counterparts across all income level. Only 3,4% of African formal sector workers earned more than R6 000 per month in 2003, compared to 9,5% of Coloureds and almost 57% of Whites, of which 64% of those earned over R8 000.

Income is closely related to occupation or skill level. Skills are highly unevenly distributed both nationally and within the Western Cape. Whites account for close to 54% of the highly skilled, compared to their 22% share of total formal sector employment. In contrast, while Africans constitute just over 17% of the employed in the Province, more than 28% are low skilled persons. Coloureds are over-represented at 64,4% and 69,4% in the skilled and low-skilled occupations.

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.

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 9% or 161 000 workers of all jobs in the Western Cape were found in the informal sector, substantially lower than the 25% or 2,2 million of all jobs for the country. This is a decline from the 14% estimated in 2000. This demands an urgent investigation of the informal sector at the Provincial level.

Informal sector activities vary from manufacturing to roadside retail to subsistence agriculture. Africans and Coloureds dominate the Provincial informal sector, accounting for almost two-fifths of employment. Approximately 31 000 Whites are engaged in informal sector activities. (around 19% 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 40% being low-skilled. In contrast, Whites 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.

By comparison, the informal sector employment is significantly lower paying than formal sector employment, with around 20 % of formal sector workers reporting incomes of up to R12 000 per annum in 2000, compared to around 60 % of informal sector workers.

The small business sector

There are between 1,8-million and 2,6-million actively trading small businesses in South Africa. Of the formal sector SMMEs, approximately 46% are located in Gauteng and 18% in the Western Cape. There were 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% 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, account for 21% of Provincial employment. This proportion nearly doubles to 40% cent if owner-managers are included. Apart from the owner-managers, new businesses employ 2,4 people on average in the Western Cape (2,3 people national).

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 and new and start-up businesses 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.

Equity and development scenarios

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, too

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

Striving for equity is laudable and makes good economic sense. 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.

Measuring Inequality

The *Gini coefficient* is the most commonly reported measure of inequality. It is often used to compare income inequality across regions, countries and move very slowly over time.

Table Comparison of Selected Middle Income Countries

	Tahailand	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 Bhorat et al (2001):22]

Inequality in South Africa & the Western Cape

Inequality in South Africa is exceptionally high, and has worsened from 1995 to 2000. 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. 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.

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

This means that we should not emphasise the absolute value of the Ginis above, rather, it is the general level and direction of change that is more important. That is, that the calculations show that inequality, irrespective of the absolute value, is high and rising at both the national and Provincial level.

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, 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.

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, 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.

Asset inequality in South Africa & the Western Cape

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'. The urban nature of the Western Cape facilitates extensive access to basic services with 95% of households having access to piped water, 86% to a flush toilet, 87% to refuse removal and 87% to electricity for lighting purposes. Our key failing is in respect of housing, where 80% of dwellings are formal and 16% are informal.

In respect of access to social services, Western Cape performs better than most provinces in terms of attendance rates and average educational attainment. Attendance of seven- to 15-year olds not going to school is only 5,5% in the Western Cape vs. 6,5% nationally, 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. Only 45% to 52% of learners who enrol in Grade 1 reach Grade 12. 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.

Poverty

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 places poverty in its many faces and dimensions at the intermingling of 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.

Measuring income poverty

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, he/she (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 but will be developing one in the near future. There are academic efforts to 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.

Poverty in South African & the Western Cape

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% of South Africans were poor in 1995 rising to 38% by 2000.

Poverty gap measurement shows a similar picture. In 1995 the spending of the poor fell on average 12% 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% below the poverty line. This message is a clear indictment for South Africa as a whole. Not only have the numbers of poor people risen in the country, but the poor are faring worse in 2000 than they were in 1995!

Table National and Western Cape Poverty Levels, 1995 & 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: Income and Expenditure Surveys 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.

The Western Cape's performance appears to differ, although the aggregate view masks worrying trends in poverty pockets. 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 9% to 8%, although the poverty gap deteriorated from 2% to 3%. 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%.

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. 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, with 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.

In the Western Cape, Whites faring far better than Asians, who do better than Coloureds, who in turn outperform Africans. 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 % of Africans and 8% of the Coloured population in the Western Cape were poor in 2000. At the R322 per capita per month mark, an alarmingly high 48% rising to 53 per cent in 2000 of Africans were poor in 1995. At this level, one in three Coloured people in the Province were 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.

Access poverty

Asset poverty draws attention to Provincial performance in respect of socio-economic or human development indicators. 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% in the Province fail, and only 26% pass with an endorsement. Mathematics and science pass rates are even more dismal.

Table Matriculation aggregate performance, Western Cape & South Africa, 2003

	Western Cape		South Africa	
	Number	As % of cohort	Number	As % of cohort
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	44,7
No. of 18 year olds	83 400		985 000	55,3

[Source: 2003 examination dataset in Van der Berg (2004)]

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. However, the Western Cape performs worse than national averages with regard to 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.

An appropriate backdrop to the 2005 Budget

An overview of the economic environment in the Province gives us much to digest. The full text and supporting data is available and provides the economic outlook for the Western Cape over the next three years. It examines 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.

For more information or a copy of the full report visit
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