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## Western Cape's Recent Growth Experience

### Key findings:

- Per capita spending growth in the Western Cape was about 9 per cent a year between 1995 and 2000 – almost three times the national average.
- Poor people living in the Western Cape experienced higher spending growth than the national average, but lower growth than the Provincial average. Thus growth was pro-poor in an absolute but not in a relative sense.
- All population groups in the Western Cape experienced faster spending growth than their national counterparts. African poor in the Province experienced higher spending growth than the average Provincial african rate.
- A 1 per cent increase in per capita spending has a larger positive impact on the poor in the Western Cape than at national level.
- In terms of poverty-inequality elasticities, a 1 per cent increase in the Gini coefficient would have resulted in a much larger increase in the poverty gap in the Western Cape than at national level.
- The Western Cape economy has to grow at a higher rate than the national economy to compensate for a 1 per cent increase in inequality.
- At the aggregate level, and across a range of disaggregations (population group, gender, urban-rural), the Province experienced a decrease in poverty as a result of economic growth outstripping the inequality increase over the period.

- Changes in asset poverty pointed to mixed evidence of shared growth. Only growth in access to electricity for lighting and growth in access to flush/chemical toilets were absolutely as well as relatively pro-poor. The poorer households' share in the increased delivery of formal housing and piped water over the period was limited. Some of the poorer household expenditure deciles even experienced a decline in their access to these services.

## 1. Western Cape growth experience: shared or uneven?

Setting aside the rubric of shared growth and integrated development, the empirical evidence of the SA and Western Cape growth experiences throws our challenges into stark relief.

Using the 1995 and 2000 IESs to compare the growth of expenditures of the poor to those in the upper income echelon highlights the acute contrast in the average growth experience of the wealthy compared to that of the lower income deciles.

Disaggregating by race intensifies the tenor further. Gains in expenditures for coloured and white poor outstripped those of the african poor, suggesting a racial bias that conflates the already weak pro-poor growth performance.

Complementary analysis on growth-poverty elasticity and the influence of inequality points to the interplay of economic growth and changing inequality levels on changes in poverty over time.

Using growth in average income as a proxy for economic growth, results at the national level show that in 1995, using a poverty line of R322 per month, a 1 per cent increase in average income would reduce the poverty gap by 1 per cent. By 2000, this had receded to 0,87 per cent.


In the Western Cape, in 1995, a 1 per cent increase in Provincial economic growth would have resulted in an almost 2 per cent decrease in the Province's poverty gap, using the same poverty line. By 2000, this had declined to 1,83 per cent – evidence that both SA and Western Cape growth performances had become less pro-poor over the period.

This chapter explores the extent to which the economic growth experience of SA, and more specifically, the Western Cape, has been biased toward or against the poor, and has therefore been shared or uneven.

Sections 2 and 3 examine the relationship between economic growth and poverty reduction in SA and the Western Cape. The method used analyses whether growth in per capita expenditure has been positive for the poor.

The next section focuses on the impact of growth and inequality on poverty reduction, to understand how changes in income distribution impact on poverty.

It should be noted that spending in this analysis indicates consumption spending, which reflects average income growth per capita, and not public spending per person.



Section five attempts to capture changes in asset poverty rather than income poverty, examining whether the poor have shared in the benefits of economic growth through increased access to services, in particular formal housing, piped water, electricity and sanitation.

As such, the chapter provides a set of estimates that measures the extent of pro-poor and shared growth that occurred in the Western Cape between 1995 and 2000, as compared to the national performance over the same period.

Finally, the chapter introduces initial work on a Western Cape growth diagnostic that enables the Province to identify key binding constraints to shared growth and integrated development within an intergovernmental context.

Placing the Western Cape on a shared growth and integrated development trajectory requires rigorous analytical research that contributes to evidence-based decision-making.

## 2. Growth and poverty dynamics

Understanding the link between economic growth and poverty reduction explains why there is a renewed focus on growth, or more specifically, shared growth and integrated development in many developing countries.

Significant international evidence emphasises that accelerating and sustaining higher levels of growth reduces poverty. But not every growth experience has proved good for the poor.

In a broad sense, pro-poor growth is economic growth that leads to significant reduction in poverty.

Under the absolute definition, growth is pro-poor if, and only if, poor people benefit in absolute terms according to a pre-defined measure of poverty or 'poverty line'.

Using 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.

Shared growth, on the other hand, combines both pro-growth and pro-poor elements, understanding that while accelerating and sustaining growth is key to reducing poverty, the quality of growth is equally important.

As such, the link between economic growth and poverty reduction in a shared-growth approach is both direct and indirect.

Faster economic growth contributes to rising incomes, leading to a direct impact on poverty reduction for those who are lifted above the poverty line.

Indirectly, increased fiscal revenues that result from growth allow a government to increase spending and investment directed towards the poor. If efficient and effective, higher levels of spending extend and improve the delivery of basic services and assets, such as formal housing, piped water, electricity and flush/chemical toilets, towards the poor, empowering them and increasing equity in the economy.

### 3. Has growth in the Western Cape been pro-poor?

Has recent growth in SA, and more specifically, the Western Cape, been pro-poor and therefore shared amongst a broader national and Provincial base?

Using the 1995 and 2000 IESs, growth incidence curves (GICs) present the rate of growth in income or expenditure per capita over a certain time period at each percentile of the income or expenditure distribution.

Plotting growth in income/expenditure across each percentile of the distribution, the GIC approach analyses whether growth in income/expenditure over a period has been pro-poor in nature.

Figure 1 presents the GIC for SA for 1995 to 2000, using Stats SA's IES data.

SA's GIC shows that, over the period, mean (average) per capita expenditure increased at about 6 per cent a year in nominal terms.

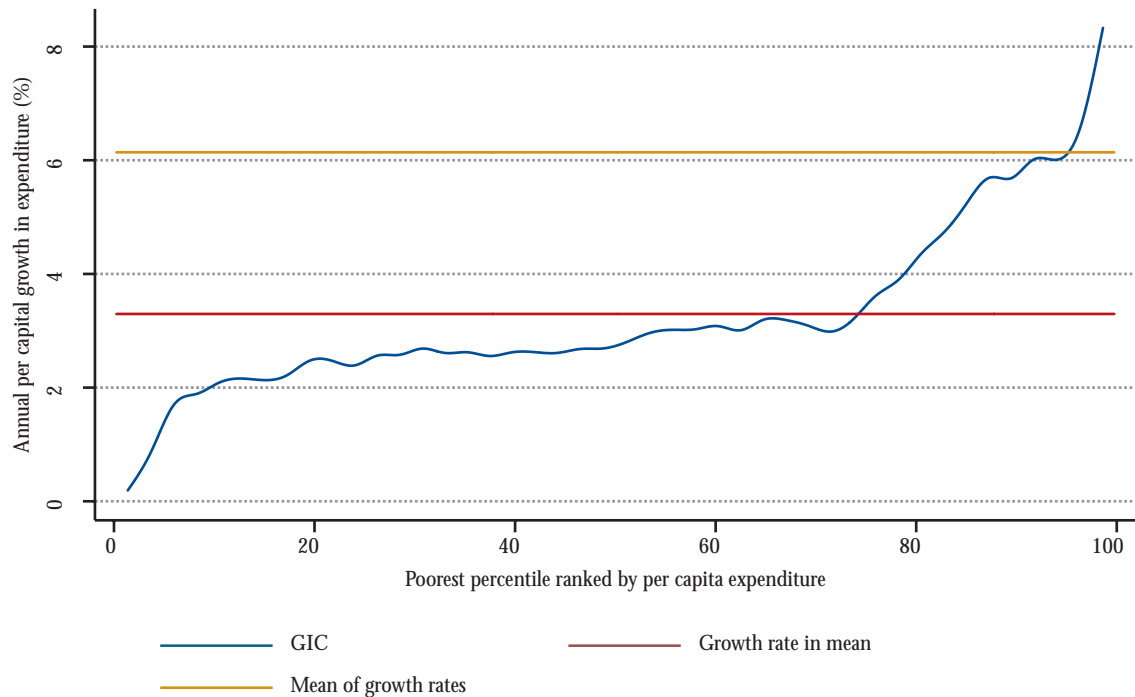
In turn, the mean (average) nominal growth rates of all the percentiles of the expenditure distribution – that is, the mean percentile growth rate – was only 3,3 per cent over the same period.

Expenditure growth concentrated in the upper income echelons, as only individuals from around the 70th percentile upwards experienced growth in their expenditure above 3,3 per cent.

Individuals below this mark saw their expenditures grow relatively slowly over the period, while those at the base of the distribution faced the lowest increase.

While the relative comparison depicts national growth biased against the poor over the five-year period, SA's GIC curve does show that absolute pro-poor growth occurred over the same period. From 1995 to 2000, all individuals, including those in the lowest expenditure percentiles, experienced an increase in their per capita expenditure.

**Figure 1: GIC for SA, 1995 – 2000**



Source: Stats SA (1995 and 2000) and own calculations

Turning to the Western Cape’s growth performance, figure 2 shows the Province’s GIC for the same period.

Compared to the national picture, the Provincial graph depicts noticeable differences. Between 1995 and 2000, average per capita expenditure rose at 11 per cent a year in nominal terms – double the national annual increase.

Average of growth rates at all the percentiles of the expenditure distribution (the mean percentile growth rate) reached just under 9 per cent a year – almost three times the national average.

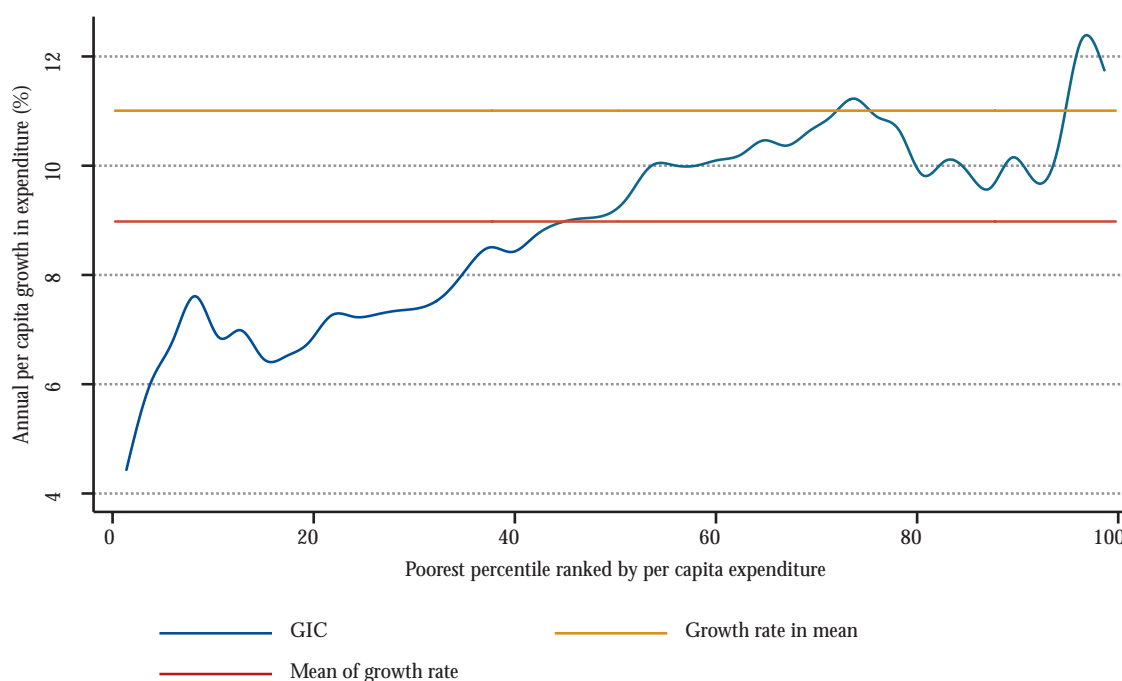
The GIC shows that individuals around the 50th percentile upwards – about half of the population – experienced spending growth above 9 per cent.

Looking at the base of the distribution, the poor in the Western Cape experienced higher spending growth than the poor at national level, with average percentile growth in the Western Cape not dipping below 4 per cent a year.

In fact, even the poorest households in the Western Cape experienced higher spending growth than the national average.

However, similar to the national account, the Western Cape's GIC reveals that, while the poor in the Province benefited in absolute terms (rising per capita expenditure), they did not benefit in relative terms. Looking at the poorest 30 per cent of households, at 6,7 per cent their average growth rate was less than the 8,98 per cent average growth rate for all income groups.

**Figure 2: GIC for the Western Cape, 1995 – 2000**



Source: Stats SA (1995 and 2000) and own calculations

Table 1 presents key comparative data underlying the SA and Western Cape GICs depicted in figures 1 and 2. Estimates of the growth in nominal per capita expenditure at the lowest percentiles, as well as the growth at two poverty lines, are tabulated.

At both the national and Provincial level, the poorest 30 per cent of individuals saw positive growth in per capita expenditure. This confirms that between 1995 and 2000, growth in SA and the Western Cape was pro-poor in the absolute sense. However, in both instances, increases for the poor were below the average percentile rates, highlighting that growth was biased against the poor in a relative sense.

At a more detailed level, when using a per capita poverty line of R322 a month (in 2000 prices), poor individuals saw their expenditures grow at a rate of 2,29 per cent a year for SA and 6,62 per cent for the Western Cape.



Lowering the poverty line to R174 a month (equivalent to the international comparison of US\$2 a day<sup>1</sup>), the ultra-poor experienced growth of only 2,05 per cent a year at the national level, and 5,77 per cent in the Western Cape.

Table 2 shows measures of pro-poor growth for the four population groups at national level and for the Western Cape.

**Table 1: Measures of pro-poor growth, 1995 – 2000 (%)**

<b>Growth rate in:</b>	<b>National</b>	<b>Western Cape</b>
Mean per capita expenditure	6,14	11,01
Median	2,79	9,02
Mean	3,30	8,98
<b>Growth at percentile:</b>		
10	0,96	6,10
15	1,35	6,38
20	1,59	6,43
25	1,76	6,59
30	1,90	6,71
<b>Rate of pro-poor growth</b>	<b>2,29</b>	<b>6,62</b>
<b>Rate of ultra-poor growth</b>	<b>2,05</b>	<b>5,77</b>

Source: Stats SA (1995 and 2000) and own calculations

- Notes:**
1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.
  2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.
  3. Figures are annualised growth rates.

All population groups in the Western Cape experienced higher average per capita growth rates than their national counterparts.

At national level, the average growth in african per capita expenditure between 1995 and 2000 was slightly below the national average for all groups.

Over the same period, at 11,01 per cent and 9,92 per cent, respectively, both coloured and white nominal expenditure increased at rates of more than double the aggregate national average (6,14%).

In the Western Cape, at 7,45 per cent, the increase in per capita expenditure for africans was lower than the aggregate Provincial average (11,01%). In contrast, coloured and white nominal per capita expenditure increased by 13,51 per cent and 13,05 per cent, respectively.

<sup>1</sup> The ultra-poverty line of R174 per capita per month (in 2000 prices) is equivalent to US\$2 a day in terms of the PPP exchange rate equivalent. The poverty line of R322 per month is the lower-bound poverty line for SA, as calculated by Hoogeveen and Ozler using a 'cost-of-basic needs' approach.

Looking at the percentile growth rates, all population groups saw their spending grow much faster in the Western Cape than at the national level.

The differences are especially pronounced for the african and white population groups. Poor africans in the Western Cape experienced much more growth in their nominal expenditure than their national counterparts. In fact, the per capita growth of african expenditure in the Western Cape at the 20th and 25th percentiles reached 7,72 per cent and 7,64 per cent, respectively. This exceeded the average growth of 7,45 per cent for all africans in the Province.

At the per capita poverty line of R322 a month, africans in the Western Cape experienced pro-poor growth of 6,36 per cent a year. This is almost the same as the average growth of 6,34 per cent for all africans in the Province.

At the lower per capita poverty line of R174 a month, africans in the Western Cape saw their spending increase at 7,37 per cent a year, again higher than the average increase for africans in the Province.

Furthermore, the Western Cape's pro-poor and ultra-poor growth rates were also considerably higher than those at the national level.

Coloured per capita expenditure grew rapidly at both national and Provincial level, with increases at the lower end of the income distribution higher in the Western Cape than at national level.

In contrast to the national trend, spending growth for poorer individuals was similar for africans and coloureds in the Western Cape. At 7,73 per cent, growth for african ultra-poor in the Province was higher than the 4,79 per cent growth for coloureds in the same group.

Given labour market dynamics, the average spending growth for whites was higher than that of africans and coloureds at both the national and Provincial level.

The low pro-poor and ultra-poor growth rates for whites reflects that few white individuals in the Western Cape live below the two poverty lines. Similar results at the national level are again due to the small sample size.

All population groups in the Western Cape therefore experienced higher spending growth between 1995 and 2000 than their national counterparts. In addition, poor africans in the Western Cape saw their spending increase at higher rates than the average for africans in the Province.

**Table 2: Measures of pro-poor growth by race, 1995-2000 (%)**

Growth rate in:	African		Coloured		White		Asians	
	National	Western Cape	National	Western Cape	National	Western Cape	National	Western Cape
Mean per capita expenditure	5,26	7,45	11,01	13,51	9,82	13,05	3,96	18,44
Median	2,91	5,12	9,16	10,65	7,30	11,42	2,49	20,53
Mean	3,23	6,34	9,13	11,42	7,84	11,76	3,04	17,36
<b>Growth at percentile:</b>								
10	0,85	6,18	4,05	5,46	4,17	11,84	0,00	4,50
15	1,34	7,12	4,76	6,44	4,66	11,20	0,57	7,74
20	1,59	7,72	5,22	6,97	5,03	10,88	0,86	9,22
25	1,79	7,64	5,60	7,39	5,25	10,80	0,98	9,94
30	1,93	7,23	5,89	7,67	5,50	10,72	0,94	10,49
<b>Rate of pro-poor growth</b>	<b>2,48</b>	<b>6,36</b>	<b>6,14</b>	<b>7,49</b>	<b>-3,21</b>	<b>2,3</b>	<b>-0,32</b>	<b>0,11</b>
<b>Rate of ultra-poor growth</b>	<b>2,22</b>	<b>7,37</b>	<b>4,68</b>	<b>4,79</b>	<b>-2,26</b>	<b>0,95</b>	<b>-5,59</b>	<b>-</b>

Source: Stats SA (1995 and 2000) and own calculations

**Notes:** 1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.  
2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.  
3. Figures are annualised growth rates.

Taking an urban-rural lens, table 3 shows that at national and Provincial level, individuals living in urban areas experienced higher per capita expenditure growth than their rural counterparts. The variance is more marked in the Western Cape, where individuals living in urban areas saw increases of 9,27 per cent a year against only 5,8 per cent for their rural counterparts.

Pro-poor and ultra-poor spending growth for urban individuals in the Western Cape lagged behind the Provincial urban average but exceeded national urban rates.

On the rural front, pro-poor growth for individuals in rural areas in the Western Cape was slightly higher than the Provincial rural average. It was also almost 1 per cent higher than the Provincial urban pro-poor rate. Again, this may be a reflection of an increase in the number of grant beneficiaries in certain rural areas.

Turning to a gender lens, table 4 shows that the Western Cape outperformed its national equivalent on all poverty-sensitive growth measures by gender.

While women in the Western Cape saw their spending increase at a lower rate than men, spending growth for poor and ultra-poor women rose more rapidly. But poor women and men faced spending growth below the Provincial average.

Definite key messages emerge from this analysis. The period 1995 to 2000 saw pro-poor growth at an absolute level in SA and the Western Cape, as poor individuals experienced absolute growth in expenditure over this period. However, relative pro-poor growth did not take place, as poor individuals experienced spending growth at rates below the national and Provincial averages. This means expenditure growth over this period was biased against the poor.

Of note, however, is that the Western Cape's performance surpassed that of its national counterpart. The Province experienced higher growth rates in nominal per capita expenditure at the aggregate level, and in terms of population group, gender and urban-rural disaggregation.

Especially striking, and surprising, is the fact that the spending growth for poor as well as ultra-poor africans in the Western Cape was above the Provincial average for this population group.

**Table 3: Measure of pro-poor growth by location, 1995 – 2000 (%)**

Growth rate in:	Urban		Rural	
	National	Western Cape	National	Western Cape
Mean per capita expenditure	5,72	11,64	3,26	0,46
Median	1,63	9,92	1,98	7,54
Mean	2,62	9,27	1,98	5,80
<b>Growth at percentile:</b>				
10	0,34	6,42	0,19	4,51
15	0,71	6,42	0,64	5,17
20	0,82	6,37	0,95	6,01
25	0,85	6,45	1,11	6,48
30	0,86	6,55	1,19	6,76
<b>Rate of pro-poor growth</b>	<b>0,94</b>	<b>6,47</b>	<b>1,74</b>	<b>7,21</b>
<b>Rate of ultra-poor growth</b>	<b>0,82</b>	<b>6,21</b>	<b>1,54</b>	<b>4,66</b>

Source: Stats SA (1995 and 2000) and own calculations

- Notes:
1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.
  2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.
  3. Figures are annualised growth rates.

**Table 4: Measure of pro-poor growth by gender, 1995 – 2000 (%)**

Growth rate in:	Male		Female	
	National	Western Cape	National	Western Cape
Mean per capita expenditure	6,75	12,03	5,50	9,95
Median	3,02	9,98	2,54	8,90
Mean	3,72	9,46	2,91	8,53
<b>Growth at percentile:</b>				
10	0,72	5,67	1,16	6,53
15	1,16	5,94	1,51	6,80
20	1,45	6,11	1,71	6,77
25	1,66	6,34	1,85	6,84
30	1,83	6,49	1,95	6,93
<b>Rate of pro-poor growth</b>	<b>2,30</b>	<b>6,41</b>	<b>2,27</b>	<b>6,87</b>
<b>Rate of ultra-poor growth</b>	<b>1,98</b>	<b>5,52</b>	<b>2,09</b>	<b>6,22</b>

Source: Stats SA (1995 and 2000) and own calculations

Notes: 1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census.  
2. The pro-poor growth rate is based on a poverty line of R322 per capita per month in 2000 prices, while the ultra-poor rate of growth is based on a poverty line of R174 per capita per month, also in 2000 prices.  
3. Figures are annualised growth rates.

## 4. The impact of growth and equity on poverty in the Western Cape

Shared growth and integrated development focuses on enhancing faster, broader-based economic growth that improves people's livelihoods and life opportunities, particularly of those that live in poverty.

As noted above, growth is necessary but not sufficient on its own. More than just high levels of growth are needed to reduce poverty. Equity matters in shared growth and integrated development.

High levels of equity enhance the impact of accelerated growth on poverty. In turn, boosting the long-term growth potential of an economy depends on a more equitable distribution of income, capabilities and geographic location of communities and economic activity that enable the benefits of growth to be 'shared'.

This 'sharing' of economic yields enhances social and economic participation, which feeds back to reinforce the economy's long-term growth potential, generating a virtuous cycle of growth and human development.

Widening inequality not only diminishes the impact of higher levels of growth on reducing poverty; it also slows down the pace of economic growth, conflating the trend.

Understanding how growth and equity interact to impact on poverty is important. Some argue that the process and quality of growth itself may induce equity shifts that erode some or all of the growth-associated poverty reduction gains.

Empirical analysis of the growth-poverty-inequality triangle therefore provides key information to policy- and decision-makers, helping to shape shared growth and integrated development policies and interventions that are appropriate to local circumstances.

Using the 1995 and 2000 IESs, changes in poverty in SA and the Western Cape may be decomposed into a growth effect (proxied by increases in average income) and an equity effect (proxied by income distribution).

These factors have separate effects on poverty. An increase in average income reduces poverty, while an increase in income inequality increases it.

The analysis calculates growth-poverty and inequality-poverty elasticities first, before moving on to decomposing changes in poverty into growth and inequality components.

Three measures are helpful in reflecting on the link between growth, inequality and poverty. The first is a distribution-neutral measure of the poverty-growth elasticity<sup>2</sup> that estimates the 'pure growth' effect on poverty reduction, independent of the distribution of income. In other words, it measures the effect of a 1 per cent increase in average income on poverty, while holding the distribution of income constant.

Income distribution changes can and often do occur in a period of economic growth. It is possible that, following a period of growth, subsequent changes in the distribution of income may wipe out any significant reduction in poverty. This requires estimating the relationship between poverty and inequality (as measured by the Gini coefficient)<sup>3</sup>.

Given the simultaneous impact of mean income growth and inequality on poverty, it is also important to ask what extent of average income increase (growth) is required to reverse negative distributional outcomes that erode gains to reducing poverty. This may be measured by estimating the marginal proportional rate of substitution (MPRS) between average income and income inequality<sup>4</sup>.

Table 5 shows 1995 and 2000 estimates for the above three relationships for SA and the Western Cape. Estimates are calculated using both the standard poverty line (R322 per capita a month in 2000 prices) and the ultra-poverty line (R174 per capita a month in 2000 prices).

Looking first at the growth-poverty elasticities, there is a positive relationship between an increase in average per capita expenditure (as a proxy for economic growth) and the reduction of poverty, both nationally and in the Western Cape.

In 1995, using the R322 per month poverty line, a 1 per cent increase in SA's economic growth (as measured by per capita expenditure) would have resulted in a 1 per cent decrease in the national poverty gap.

All the elasticity measures are higher for the Western Cape. This means that economic growth has a larger impact on the poor in the Western Cape. In 1995, using the R322 poverty line, a 1 per cent increase in Provincial economic growth would have resulted in an almost 2 per cent decrease in the Province's poverty gap.

<sup>2</sup> The measure is estimated using the following equation when using the P class of poverty measures:

$$\eta_{P_\alpha} = -\alpha \left[ \frac{P_{\alpha-1} - P_\alpha}{P_\alpha} \right] \text{ for } \alpha \neq 0 \quad (1)$$

<sup>3</sup> The relationship between poverty and inequality, as measured by the Gini coefficient, is measured by the P class of poverty measures by using the following equation:

$$\varepsilon_{P_\alpha} = \eta_{P_\alpha} + \frac{\alpha \mu P_{\alpha-1}}{z P_\alpha} \text{ for } \alpha \neq 0 \quad (2)$$

<sup>4</sup> Drawing from the Foster, Greer and Thorbecke class of poverty measures, the MPRS is part-estimated as follows:

$$MPRS = - \frac{\varepsilon_{P_\alpha}}{\eta_{P_\alpha}}$$

Using the ultra-poverty line, poverty-growth elasticity measures are higher both at national and Provincial level. This confirms that economic growth has a magnified effect on the ultra-poor. For example, in 1995, using the ultra-poverty line, a 1 per cent increase in economic growth in the Western Cape would have resulted in an almost 3 per cent decrease in the (ultra-) poverty gap.

Finally, all elasticity estimates decreased between 1995 and 2000. This indicates that the economic growth path has become less pro-poor over the period. In 2000, a 1 per cent increase in the Western Cape's economic growth would only have led to a 1,83 per cent decline in the Province's poverty gap.

The poverty-growth elasticity measures assume that inequality remains constant, and therefore do not take into account the distributional effects of economic growth. Distributional changes resulting from economic growth may lead to rising inequality and contribute to increasing poverty, despite growth.

Table 5 also presents 1995 and 2000 poverty-inequality elasticity estimates for SA and the Western Cape, illustrating how sensitive poverty is to changes in inequality (as measured by the Gini coefficient<sup>5</sup>).

Both SA and the Western Cape show a positive relationship between poverty and inequality. Using the R322 poverty line, in 1995 a 1 per cent increase in the Gini coefficient would have resulted in a 3,83 per cent increase in SA's poverty gap.

Again, the elasticities are much larger for the Western Cape. In 1995, using the R322 poverty line, a 1 per cent increase in the Provincial Gini coefficient would have resulted in an increase of more than 8,5 per cent in the Province's poverty gap.

The poverty-inequality elasticities are much larger for the ultra-poor line. The elasticities also increased between 1995 and 2000 for both poverty lines.

The third measure, the MPRS, indicates the magnitude of economic growth required to negate the effects of increasing inequality in order to reduce poverty.

Table 5 shows that, in 1995, SA's MPRS was 3,74. This means that the economy had to grow by 3,74 per cent in nominal terms (as measured by per capita expenditure) to compensate for an increase of 1 per cent in the Gini coefficient.

The higher MPRS for the Western Cape (4,52) means that the Provincial economy needed to grow at a higher rate of 4,52 per cent in nominal terms to compensate for a 1 per cent increase in the Provincial Gini coefficient.

<sup>5</sup> Gini coefficients for SA were estimated at 0,639 and 0,682 in 1995 and 2000, respectively, and for the Western Cape at 0,584 and 0,616 in 1995 and 2000, respectively, according to the PER&O 2005.



The measure is higher for SA and the Western Cape when using the lower poverty line, suggesting that a greater growth response is required when trying to compensate for the distributional outcomes experienced by the ultra-poor.

**Table 5: Elasticities of poverty measures, 1995 – 2000**

Category	Poor			
	1995		2000	
	SA	Western Cape	SA	Western Cape
P1-Growth elasticity	-1,02	-1,89	-0,85	-1,83
P2-Growth elasticity	-1,29	-2,24	-1,09	-2,11
P1-Gini elasticity	3,83	8,55	3,45	10,55
P2-Gini elasticity	6,59	13,06	6,09	15,90
MPRS: P1	3,74	4,52	4,06	5,78
MPRS: P2	5,13	5,84	5,60	7,52

Category	Ultra-poor			
	1995		2000	
	SA	Western Cape	SA	Western Cape
P1-Mean income elasticity	-1,63	-2,98	-1,35	-2,36
P2-Mean income elasticity	-1,94	-3,56	-1,60	-2,79
P1-Gini elasticity	10,05	23,60	8,77	24,89
P2-Gini elasticity	15,55	33,62	13,90	36,00
MPRS: P1	6,16	7,93	6,47	10,53
MPRS: P2	8,01	9,43	8,66	12,92

Source: Stats SA (1995 and 2000), own calculations

**Notes:** 1. Frequency weights are assumed with the populations in both datasets weighted according to the 1996 Census  
 2. The 'poor' category refers to poverty line of R322 per capita per month in 2000 prices, while the 'ultra-poor' category is based on a poverty line of R174 per capita per month in 2000 prices.

Further growth-poverty-inequality measures – known as Datt-Ravallion estimates – probe the combined effect of changes in growth and changes in inequality on poverty levels. These estimates decompose the change in measured poverty into a growth component and a redistribution component.

Tables 6 and 7 present the results for 1995 and 2000 Datt-Ravallion decompositions for SA and the Western Cape, using the R322 poverty line and the R174 poverty line, respectively.

Table 6 shows that at the higher poverty line, national poverty increased by 5,3 per cent between 1995 and 2000. The growth component reduced poverty levels by 9,4 per cent. But the redistribution component increased poverty by 14,6 per cent.

**Table 6: Datt-Ravallion decompositions by the standard poverty line, 1995 – 2000 (%)**

Category	Poverty line: R322 per capita per month (in 2000 Rands)		
	Growth component	Redistribution component	Total change in poverty
<b>South Africa</b>			
<b>Total</b>	<b>-9,4</b>	<b>14,6</b>	<b>5,3</b>
African	-8,8	14,2	5,4
Coloured	-21,3	18,4	-2,9
Asian	-4,3	8,7	4,4
White	-0,9	1,7	0,7
Urban	-8,8	17,7	8,9
Rural	-4,8	9,8	5,1
Male	-10,0	15,1	5,0
Female	-8,5	14,0	5,5
<b>Western Cape</b>			
<b>Total</b>	<b>-18,1</b>	<b>17,1</b>	<b>-0,9</b>
African	-17,0	22,1	5,1
Coloured	-26,7	20,9	-5,8
White	-1,5	1,5	0,0
Urban	-17,4	17,3	-0,1
Rural	-2,3	-1,9	-4,2
Male	-19,5	18,9	-0,6
Female	-16,8	15,6	-1,3

Source: Stats SA (1995 and 2000) and own calculations

Notes: 1. Poverty shifts based on Headcount measures noted above and the poverty line in 2000 prices.  
2. Frequency weights are assumed with the populations of both datasets weighted according to the 1996 Census and residual values were zero in all cases.

The increase in inequality over the period therefore completely eroded the gains realised from the growth in nominal per capita expenditure. The resulting increase in poverty levels was solely due to rising inequality over the period.

The same result appears for all population groups at the national level, except coloureds. Coloured poverty decreased by almost 3 per cent as a result of the 21 per cent contribution of the growth component cancelling out the 18 per cent increase in poverty due to the redistribution component.

Between 1995 and 2000, Western Cape poverty decreased by almost 1 per cent due to the growth component at 18 per cent, outweighing the accompanying increase in inequality.

Disaggregating by population group, with the exception of whites and africans, poverty declined for all other groups over the period. White poverty levels remained unchanged, with the contributions of the two components cancelling each other out perfectly. The increase in african poverty was due to increased inequality outweighing the contribution of the growth component.

Table 7 shows the results of the decompositions by the ultra-poverty line. The results at national level follow the same trend as the decompositions by the standard poverty line. All population groups experienced a rise in poverty, as any gains attributed to economic growth were completely eroded by rising inequality.

In the Western Cape, with the exception of whites and individuals in rural areas, all groups experienced a decline in poverty as a result of the growth effect outweighing the increase in inequality over the period.

Overall, the growth-poverty and inequality-poverty elasticities provide evidence of a positive relationship between growth and poverty on the one hand, and inequality and poverty on the other hand, at both the national and Provincial level.

Elasticity estimates were generally higher for the Western Cape, indicating that a 1 per cent increase in growth will result in a larger decrease in poverty in the Province than

**Table 7: Datt-Ravallion decompositions by the ultra-poverty line, 1995 – 2000 (%)**

Poverty line: R174 per capita per month (in 2000 Rands)			
Category	Growth component	Redistribution component	Total change in poverty
<b>South Africa</b>			
<b>Total</b>	<b>-10,1</b>	<b>17,1</b>	<b>7,0</b>
African	-10,3	18,1	7,8
Coloured	-14,2	14,6	0,3
Asian	-0,9	1,9	1,0
White	-0,3	0,7	0,3
Urban	-6,7	13,3	6,5
Rural	-7,3	18,1	10,7
Male	-10,6	17,2	6,5
Female	-9,4	16,8	7,4
<b>Western Cape</b>			
<b>Total</b>	<b>-11,6</b>	<b>10,7</b>	<b>-1,0</b>
African	-15,7	11,7	-4,0
Coloured	-14,4	13,2	-1,1
White	-0,2	0,6	0,4
Urban	-11,3	10,2	-1,2
Rural	-1,2	2,0	0,8
Male	-11,9	11,5	-0,4
Female	-11,1	9,7	-1,5

Source: Stats SA (1995 and 2000) and own calculations

Notes: 1. Poverty shifts based on Headcount measures noted above and the poverty line in 2000 prices.  
2. Frequency weights are assumed with the populations of both datasets weighted according to the 1996 Census and residual values were zero in all cases.

at national level. On the other hand, a 1 per cent increase in the Province's Gini coefficient will have a larger impact on poverty levels than at national level.

The Datt-Ravallion decompositions showed that when using the R322 poverty line, at the national level all groups except coloureds saw their poverty levels increase due to the contribution of the inequality component outweighing the contribution of the growth component.

The Western Cape picture looks slightly different, with aggregate poverty at both poverty lines decreasing as a result of the contribution of the growth component outstripping the contribution of the inequality component. Only africans saw an increase in their poverty levels at the R322 poverty line, while ultra-poor Whites saw their poverty levels rise.

Although illuminating, the above overview has its limitations, due largely to data limitations and credibility, given concerns raised about the 2000 IES in particular.

In addition, these measures do not capture the changes in the non-income measures of poverty, such as asset and spatial poverty, also important in understanding the impact of shared growth and development. These were discussed in detail in the 2005 PER&O, and are complemented by further analysis here.

## 5. Shifts in access to selected services in the Western Cape

Asset equality focuses on the accumulation of personal assets that provide people the capabilities and/or opportunities to improve their daily lives and their future social and economic opportunities.

Usually assets refer to financial or physical assets, such as land or property (housing). But assets may also include those that are intangible, such as education, health and entrepreneurial ability.

These non-income dimensions of welfare are often positively related to income and consumption levels, drawing a link between income inequality and asset inequality concerns.

More specifically, asset equality is attained through access to good basic services (water, sanitation, energy and refuse removal) and social services (health care, shelter and education and skills development).

Typically, those at the higher end of the income spectrum have better access to quality services, ensuring that their capabilities and opportunities are broadened and deepened to their fullest potential.

Many government interventions therefore focus on improving poor people's capabilities in respect of enhancing access to quality schools and skills development, health care services, clean and safe water, sanitation facilities and housing. These types of public service provision are often termed the 'social wage' or 'social wage goods'.

When poor people have improved access to quality assets, both tangible and intangible, they hold the means to participate in economic activity themselves and therefore are better placed to benefit from economic growth.

Assessing how Government has performed in improving poor people's access to quality services provides a further way of gauging whether the poor have shared in the benefits of economic growth through increased access to services such as formal housing, piped water, electricity and proper sanitation.

This section briefly presents some results of the changes in access to certain services in the Western Cape between 1993 and 2004, shedding some light on the extent to which the poor have benefited from increased Government spending on service delivery over the 10-year period.

GICs for access to certain household services show the increase in household access according to per capita household expenditure deciles.

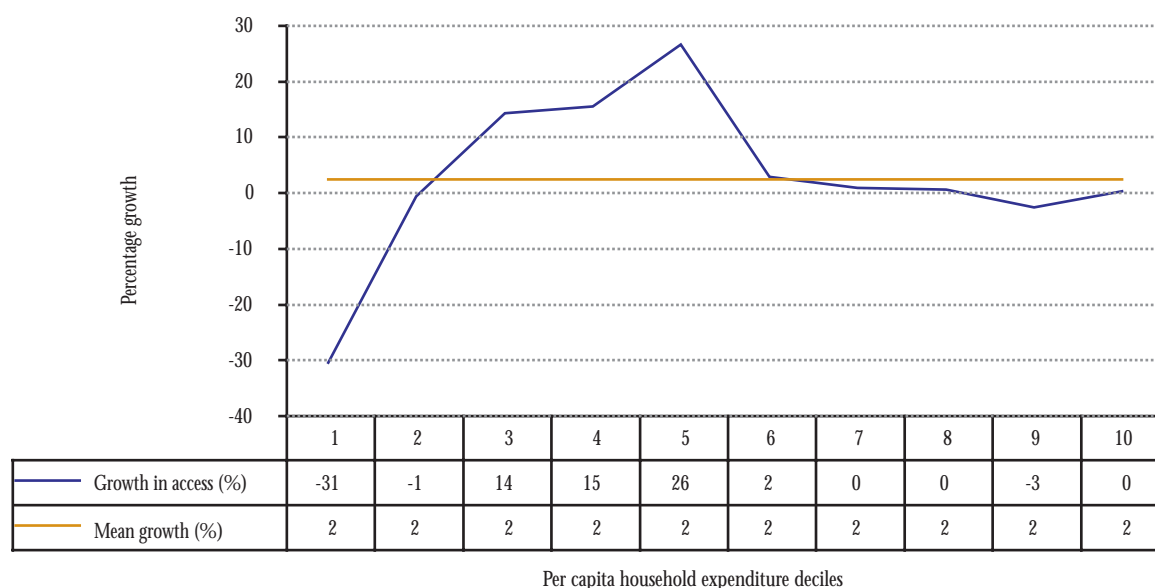
The 1993 data were sourced from the Project for Statistics on Living Standards and Development (PSLSD) dataset, the result of SA's first representative, multi-purpose household survey conducted by the South African Labour Development Research Unit (SALDRU) at the University of Cape Town's School of Economics in 1993. The source of the 2004 access rates is Stats SA's 2004 General Household Survey (GHS).

While the estimates in the previous sections were given for individuals, the next figures present GICs for households in the Western Cape. The figures provide evidence that growth in the delivery of only two services (electricity for lighting and access to flush/chemical toilets) may be considered relatively and absolutely pro-poor.

Figure 3 shows that total access to formal housing increased by 2 per cent in the Western Cape between 1993 and 2004. The bottom two household expenditure deciles, however, experienced a decline in the share of households living in formal dwellings. Deciles three to five saw their access to formal housing increase at a much faster rate than the average growth rate.

However, this GIC shows that the poorest of the poor (represented by the bottom two per capita household expenditure deciles) did not benefit from the increased delivery of formal housing in the Province. In fact, the bottom 10 per cent of poor households saw a decline of 31 per cent in their access to formal housing. Access to formal housing in the top five deciles remained relatively unchanged.

**Figure 3: Growth in household access to formal dwelling, 1993 – 2004**

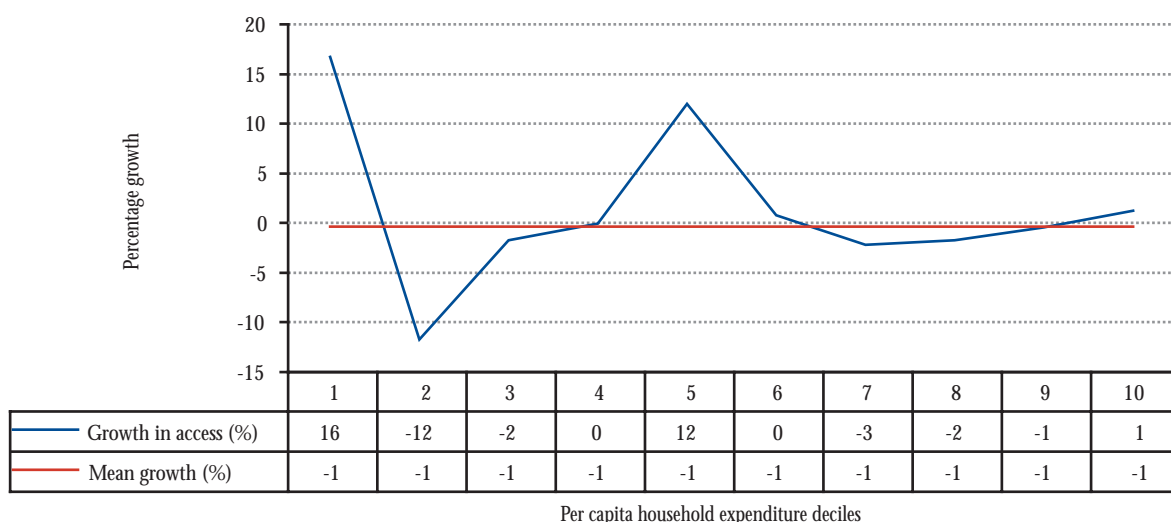


Source: *Saldru (1993) and Stats SA (2004), own calculations*

Figure 4 shows the growth rates in access to piped water. The total access to piped water decreased by 1 per cent over the period. In addition, the performance by decile is quite uneven, with households at the bottom of the distribution experiencing a 16 per cent increase in access to piped water, while households in the second decile experienced a 12 per cent drop in their access rate.

Households in the third expenditure decile also saw a decline in their access to piped water (by 2%). Access to piped water remained unchanged for households in the fourth decile. Access rates for the top six household expenditure deciles remained relatively unchanged, with small up- or downward movements.

**Figure 4: Growth in household access to piped water, 1993 – 2004**



Source: Saldru (1993) and Stats SA (2004), own calculations

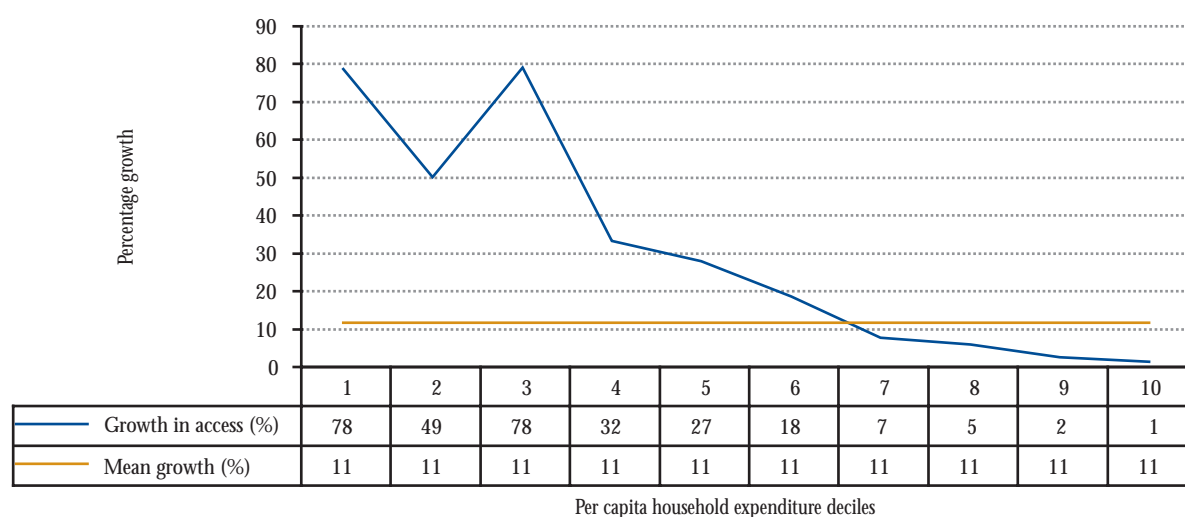
Figures 5 and 6 show a much clearer pro-poor growth path in the use of electricity for lighting and access to flush/chemical toilets. The bottom six deciles all experienced growth in the use of electricity for lighting above the average growth rate of 11 per cent. Absolute and relative pro-poor growth took place, with access rates for the bottom four deciles increasing between 32 per cent and 78 per cent. Household in the top four deciles experienced some growth in access to electricity for lighting.

All households up to the fifth expenditure decile experienced a growth in access to flush/chemical toilets above the mean growth rate of 4 per cent. Households in the bottom household expenditure decile saw their access to flush/chemical toilets more than double over the period. The second decile, however, only experienced a 5 per cent increase. The third, fourth and fifth deciles experienced an increase in access of around 20 per cent. Again, access rates for the top deciles remained relatively unchanged.

These figures show that poor households particularly benefited from growth in the access to electricity for lighting and increased access to flush/chemical toilets. Household access to piped water only increased for the bottom decile and the fifth decile, while the poorest two deciles did not experience any growth in access to formal dwellings.

Evidence of shared growth, as measured by increased access to these four household services has therefore been mixed for the period 1993 to 2004. Poor households only genuinely shared in the increased access to electricity for lighting and flush/chemical toilets. This points to only limited shared growth over the period.

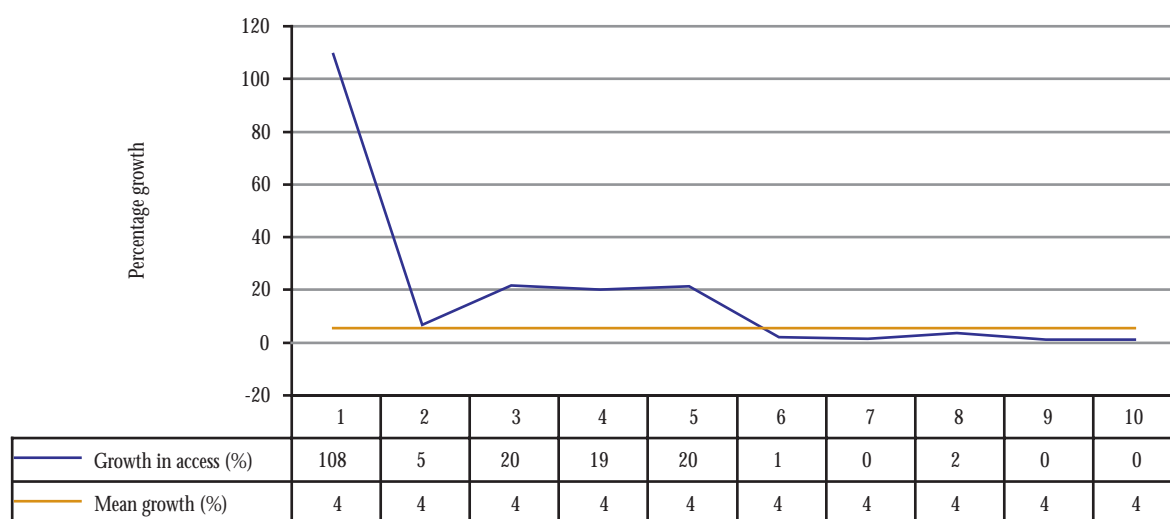
**Figure 5: Growth in household use of electricity for lighting, 1993 – 2004**



Per capita household expenditure deciles

Source: Saldru (1993) and Stats SA (2004), own calculations

**Figure 6: Growth in household access to flush/chemical toilets, 1993 – 2004**



Per capita household expenditure deciles

Source: Saldru (1993) and Stats SA (2004), own calculations



## 6. Shared growth diagnostic for the Western Cape

Given mixed evidence of shared growth over the last 10 years, the Western Cape faces a considerable challenge in moving the Province onto a shared growth and integrated development trajectory.

Setting a clear vision and focused strategic goals under *iKapa Elihlumayo*, the Province is signalling a notable shift away from 'business as usual' towards a more strategic approach to regional economic development.

Recent comparative international shared growth experiences show that the rate and quality of growth is determined, at the aggregate level, by a country's ability to integrate into the global economy, by its capacity to maintain sustainable government finances, and by its ability to put into place an institutional environment in which contracts can be enforced and property rights established.

At a regional and local level, efficient and effective governance is critical in providing an enabling environment for competitive, thriving businesses and strong social communities and networks.

The key message here is that the quality of government institutional capacity matters for accelerated shared growth and development.

In most developing countries, financial, human and administrative institutional capacity at all levels or spheres of government is a limited, scarce resource. As such, it needs to be prioritised, with the focus on removing those obstacles or economic distortions that are binding constraints on shared growth and will have the biggest direct impact if removed.

The Asgisa task team has identified six key obstacles or binding constraints to accelerated and shared growth at the national level. These are:

- The volatility and level of the currency;
- The cost, efficiency and capacity of the national logistics system;
- The shortage of suitably skilled labour, amplified by the cost effects on labour of apartheid spatial patterns;
- Barriers to entry, limits to competition and limited new investment opportunities;
- The regulatory environment and burden on small and medium businesses; and
- Deficiencies in state organisation, capacity and leadership.

Countering these constraints requires decisive responses. National government is working on initiatives in respect of macroeconomic concerns, infrastructure programmes, sector investment or industrial strategies, skills and education initiatives, and public administration issues.

The changing intergovernmental landscape compels provinces to undertake similar growth diagnostic analyses. Proactive shaping of the regional economic development agenda demands that provinces identify key obstacles or binding constraints to shared growth and integrated development within an intergovernmental context.

The diagnostic entails identifying such obstacles through rigorous, empirical research and matching these to appropriate national, provincial and local policy levers.

Where policy levers are within the provincial domain, they will be subject to provincial political and resource prioritisation within the annual budget process.

National and local policy levers demand a different approach, requiring provinces to work closely with national, local and other partners, notably public entities, in order to lever policy, programmatic and budgetary resources to address key obstacles or constraints to shared growth and integrated development at the regional level.

The Western Cape has initiated work on a growth diagnostic scan as part of the PGDS process. Drawn from the Asgisa approach, the base framework has been modified in two ways.

First, the diagnostic framework has been made more appropriate for use at the 'meso' level, taking into account the broader co-operative intergovernmental system within which provinces operate.

Secondly, the framework has been amended to take account of environmental sustainability concerns. The latter are critically important for the Western Cape as the Province is a bio-diverse economy that depends on agriculture, agro-processing and eco-tourism, and faces considerable risk from unrestrained urban sprawl and global climatic change, particularly in respect of water and energy use, and biodiversity protection.

Further shaping is required to suit the Western Cape's particular socio-economic development context and challenges.

The next step is to map the policy interventions that have already been identified, and to some extent resourced, in the five key *iKapa Elihlumayo* lead strategies – the Strategic Infrastructure Plan, the Microeconomic Development Strategy, the Provincial Spatial Development Framework, the Human Capital Development Strategy and the Social Capital Strategy – onto the diagnostic.

Gap analysis will determine the areas where research and attendant policy interventions are required.

An empirical approach will then be used to test the most optimum investments. This will help to identify which obstacles and attendant policy levers are the most binding to achieving shared growth and integrated development in the Province.

The growth diagnostic analysis will feed into the Western Cape's policy and resource allocation processes, facilitating informed, evidence-based decision-making, and supporting intergovernmental co-ordination processes.

## 7. Conclusion

The first part of this chapter evaluates the Western Cape's economic growth path between 1995 and 2000 in terms of its impact on the poor. It also disaggregates the impact of changes in the distribution of income on poverty over the same period.

On average, per capita spending growth in the Western Cape was almost 9 per cent a year between 1995 and 2000 – almost three times the national average.

Poor people living in the Western Cape experienced higher spending growth than the national average, but lower growth than the Provincial average. This means that growth was pro-poor in an absolute but not in a relative sense.

All population groups in the Western Cape experienced faster spending growth than their national counterparts. Of note is that african poor in the Province experienced higher spending growth than the average Provincial african rate.

Further estimates point to a positive relationship between growth and poverty at national and Provincial level. Estimates for the Western Cape were higher than those for SA – a 1 per cent increase in per capita spending (as proxy for economic growth) would have had a larger (positive) impact on the poor in the Western Cape than at the national level.

In terms of the poverty-inequality elasticities, a 1 per cent increase in the Gini coefficient would have resulted in a much larger increase in the poverty gap in the Western Cape than at national level.

A third estimate, the MPRS, showed that the Western Cape economy has to grow at a higher rate than the national economy to compensate for a 1 per cent increase in inequality.

Datt-Ravallion decompositions evaluate the relative contributions of economic growth and rising inequality to changes in poverty. At the aggregate level, and across a range of disaggregations (population group, gender, urban-rural), the Western Cape experienced a decrease in poverty as a result of the economic growth outstripping the increase in inequality over the period.

Changes in asset poverty, as defined in this case by access to household services, pointed to mixed evidence of shared growth. Only growth in access to electricity for lighting and in access to flush/chemical toilets were absolutely as well as relatively pro-poor.

The poorer households' share in the increased delivery of formal housing and piped water over the period was limited, and some of the poorer household expenditure deciles even experienced a decline in their access to these services.

The second part of the chapter introduces initial work on a Western Cape growth diagnostic that enables the Province to identify key binding constraints to shared growth and integrated development within an intergovernmental context.

Placing the Western Cape on a shared growth and integrated development trajectory requires a coherent and co-ordinated public sector response at the national, provincial and local level to the Province's socio-economic opportunities and challenges.

A rigorous approach requires that it is based on sound research and analysis that contribute to evidence-based decision-making at both the technical and political level.

## Glossary of terms

- **Decile**

A decile is any one of the numbers or values in a series dividing the distribution of individuals in the series into 10 groups of equal frequency.

- **Gini coefficient**

The Gini coefficient is a measure of inequality used to measure income inequality, but can be used to measure any form of uneven distribution. The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income and everyone else has zero income). The Gini coefficient is calculated as a ratio of the areas on the Lorenz curve diagram (*see included figure*). If the area between the line of perfect equality and Lorenz curve is A, and the area underneath the Lorenz curve is B, then the Gini coefficient is  $A/(A+B)$ . This ratio is expressed as a percentage or as the numerical equivalent of that percentage, which is always a number between 0 and 1.



- **Growth incidence curve**

A growth incidence curve presents the rate of growth in income or expenditure per capita over a certain time period at each percentile of the income or expenditure distribution.

- **Growth-poverty elasticity**

The total growth elasticity of poverty  $\varepsilon_H$  may be defined as the relative change in the poverty headcount between two periods for a 1 per cent growth in mean income, assuming that the poverty line remains constant in real terms.

$$\varepsilon_H = \frac{\partial H}{\partial \mu} \frac{\mu}{H} \quad \text{where } H \text{ is the headcount index and } \mu \text{ is the mean income.}$$

In contrast, the partial growth elasticity of poverty, as defined in Bourguignon (2003), is the relative change in the poverty headcount for a 1 per cent growth in mean income holding inequality constant.

- **Growth-poverty-inequality measures**

*Marginal Proportional Rate of Substitution* – The MPRS measures how much growth is needed to offset the negative impact of inequality on poverty indicators.

*Datt-Ravallion estimates* – This methodology decomposes the change in measured poverty into a growth component and a redistribution component. The growth

component refers to the change in poverty that occurs if inequality does not change. The redistribution component refers to the change in poverty if average income levels do not change. A residual variable captures the interaction between the growth and redistribution effects on poverty. Taking the equation  $P(z/u,P)$ , where  $z$  is the poverty line,  $u$  the mean income level and  $P$  the Lorenz curve, then the decomposition proceeds as follows:

$$P_{t+1} - P_t = G_{(t,t+1;r)} + D_{(t,t+1;r)} + R_{(t,t+1;r)}$$

Where  $t$  and  $t+1$  are the two time periods under discussion,  $P$  the poverty measure in the two time periods,  $G(.)$  represents the growth component,  $D(.)$  the redistribution and  $R(.)$  the residual components of the decomposition. The growth and redistribution components can be defined by the following:

$$G(t,t+1;r) \equiv P(z/u_{t+1}, P_r) - P(z/u_t, \pi_r)$$

$$D(t,t+1;r) \equiv P(z/u_r, \pi_{t+1}) - P(z/u_r, \pi_t)$$

where  $r$  makes explicit the reference date with respect to the decomposition of the poverty shift.

- **Inequality**

Economic inequality refers to disparities in the distribution of economic assets and income. The term typically refers to inequality among individuals and groups within a society.

- **Mean growth in per capita expenditure**

The average growth (increase) in the expenditure of each member of the population. The expenditure of each person is calculated by dividing the total expenditure of the household that person belongs to by the number of people residing in that household.

- **Mean percentile growth rate**

The average of the growth rates at all the percentiles of the expenditure distribution.

- **Median**

Median is the value at the mid-point of a dataset. In this chapter's analysis (see table 1), median refers to the value of the expenditure at the mid-point of the distribution.

- **Percentile**

A 'percentile' is defined as a certain percentage amount of data items in a large dataset, sorted from lowest to highest values. For instance, the 20th percentile in an income distribution refers to the poorest 20 per cent of households.

- **Poverty**

*Absolute poverty* – The Copenhagen Declaration describes absolute poverty as “a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information.”

*Asset poverty* – Asset poverty is defined as a measure of economic hardship, distinct from and complementary to the more commonly used concept of income poverty. Asset poverty includes not having access to the necessities for daily living, for example, food, clothing, shelter, education and health care. Poverty in this sense may be understood as the deprivation of essential household goods and services

*Extreme poverty* – The World Bank defines extreme poverty as living on less than US\$1 a day, and poverty as living on less than \$3 a day.

- **Poverty line**

A poverty line is the level of income below which one cannot afford to purchase all the resources required to live. People who have an income below the poverty line have no discretionary disposable income. Determining the poverty line is usually done by finding the total cost of all the essential resources that an average human adult consumes in one year. In practice, different countries often use different poverty lines. Globally, however, it is more common to use only one poverty line in order to compare economic welfare levels. When comparing poverty across countries, the purchasing power parity (PPP) exchange rates are used, as poverty levels otherwise would change with the normal exchange rates. Thus, 'living for under \$1 a day' should be understood as having a daily total consumption of goods and services comparable to the amount of goods and services that can be bought in the US for \$1. Self-produced goods and public services are included in this measure.

- **Pro-poor growth**

- The broad definition: pro-poor growth is economic growth that leads to significant reduction in poverty.
- The absolute definition: growth is pro-poor if, and only if, poor people benefit in absolute terms according to a pre-defined measure of poverty or 'poverty line'.
- 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.

- **Shared growth**

Shared growth is growth that creates benefits throughout society, including the poor, those living in more remote rural areas, women and youth. This is not an automatic process, or a matter of 'trickle down'. One also cannot assume that everyone will



eventually gain if the economy continues to grow. Shared growth means devising and implementing socio-economic policies that target accelerated economic growth and pro-poor growth *simultaneously* to both raise the growth rate of the economy and ensure that the poor benefit more than, or at least equally to, upper-income groups.

How do we achieve shared growth? The following issues should be addressed:

- What policy and interventions mix has the best prospect of delivering shared growth?
- What is the balance between macroeconomic policies and policies for micro-sectoral transformation in agriculture, education, health and gender relations?
- What institutional transformations are necessary?
- What is the role of local level, community-based organisations and initiatives?
- What is the role of the global system of trade and finance?

- **Social wage (goods)**

'Social wage goods' refer to types of public service provision that focus on improving poor people's capabilities in respect of enhancing access to quality schools and skills development, health care services, clean and safe water, sanitation facilities and housing.