

**Provincial Government Western Cape  
Provincial Treasury**

**PROVINCIAL ECONOMIC  
REVIEW & OUTLOOK  
2008**



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# Foreword

The 2008 Provincial Economic Review and Outlook (PER&O) is in its fifth year of annual publication and is presented at a time of extraordinary global economic uncertainty. As a result of the volatility in local and global economies, the Economic Analysis Unit will endeavor to provide regular updates of economic projections as they become available.

The full impact of the current financial market crisis on global economic conditions is yet unknown. Besides that our fortunes are tied to global events, we are also confronted by a number of other challenges, which include: inflation pressures, variable or doubtful domestic energy supply and global warming risks. However, despite these challenges Government is still committed to share the benefits of growth and achieve the developmental objectives set to improve the lives of all, particularly the poor and vulnerable. PER&O 2008 therefore underpins the iKapa Growth and Development Strategy (iKapa GDS), whose key focus is on the social and economic inclusion of all citizens in the Western Cape.

This publication aims to enhance the monitoring and evaluation of government programmes directed at stimulating growth and reducing poverty by providing trends in key socio-economic indicators. It further lays the basis for a path we need to walk to create a more prosperous and equal society through informed and evidence-based decision-making and budget policy formulation.

The core message emanating from this publication is that the Western Cape has made progress in creating employment opportunities and reducing poverty. However disparities remain among populations groups and between geographic locations. The challenge ahead is to deepen efforts to ensure the successful implementation of the policies that the Province has embarked on to combat poverty, unemployment and inequality.

The task of compiling a detailed socio-economic analysis at the provincial level is not an easy one and is dependent on the availability of credible data sources and expertise to analyse the data into meaningful information. This edition of the PER&O represents a successful effort and commitment to build research capacity within the public sector and signals our commitment to the extent possible, to drive most of the research and analysis using internal capacity.

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Special gratitude is extended to all stakeholders that provided input during the consultation process i.e. the Western Cape Departments of Education, Agriculture, Health, Economic Development and Tourism, Social Development and other organisations such as Wesgro and Cape Town Partnership to name a few.

I would like to thank the core project team, led by the Provincial Treasury's Economic Analysis Unit (EA) for the commitment and expertise they invested into the PER&O 2008 project. Provincial Treasury's Wendy Mapira devoted her time managing the entire project.

*Chapter 1: Economic Outlook 2008/09-2012/13* was authored by Wendy Mapira of the Provincial Treasury's EA team with input from Pieter Laubscher of the Bureau for Economic Research (BER).

Sipho Bhanisi of the Provincial Treasury's Economic Analysis Unit authored *Chapter 2: Labour Market Dynamics in the Western Cape* and *Chapter 3: Employment in the Informal sector and Small, Medium and Micro Enterprises in the Western Cape*. Thanks to Cecilia Punt of the Department of Agriculture for providing valuable inputs in Chapter 3.

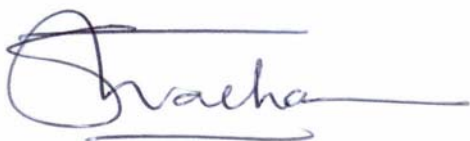
*Chapter 4: Measuring Income Poverty and Inequality in the Western Cape* was authored by Esther Mohube of the Provincial Treasury's Economic Analysis Unit.

*Chapter 5: Education, Health and Social Development at a glance:* was a joint effort between Claire Horton, Marcia Sheraton and Nelia Orlandi of the Provincial Treasury's Budget Office and Dr Tracey Naledi of the Western Cape Department of Health.

Sidney Tucker, Jean-Paul Kloppers and Yamile William provided commendable research assistance to the chapter authors.

Final thanks go to management at Provincial Treasury, Dr JC Stegmann, Anthony Phillips, Harry Malila and Paul Pienaar.

This year's PER&O is a consolidation of the previous Provincial Economic Reviews and it aims at encouraging broader policy debates amongst all stakeholders on economic growth and participation, poverty and inequality reduction, labour market performance as well as social services policy issues in the Province.



**Garth Strachan**

**Minister of Finance, Economic Development and Tourism**

25 November 2008

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# Abbreviations

ACSA	Airports Company of South Africa
AsgiSA	Accelerated and Shared Growth Initiative of South Africa
BBBEE	Broad-based Black Economic Empowerment
BCI	Business Confidence Index
BEE	Black Economic Empowerment
BER	Bureau for Economic Research
BFAP	Bureau for Food and Agricultural Policy
BOD	Burden of Disease
BRT	Bus Rapid Transport
CAD	Current Account Deficit
CCI	Consumer Confidence Index
CPI	Consumer Price Index
CPIX	Consumer Price Index (excluding interest rates on mortgage bonds)
DALYs	Disability Adjusted Life Years
EA	Economic Analysis Unit
EPWP	Expanded Public Works Programme
FDI	Foreign Direct Investment
FET	Further Education and Training
FIFA	Federation Internationale de Football Association
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IES	Income and expenditure Survey (Stats SA)
iKapa GDS	iKapa Growth and Development Strategy
ILO	International Labour Organisation
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey (Stats SA)
MDGs	Millennium Development Goals
MDR	Multi Drug Resistant
MEDS	Microeconomic Development Strategy
MMR	Maternal Mortality Ratio
MPC	Monetary Policy Committee

NCA	National Credit Act
NERSA	National Energy Regulator of South Africa
OHS	October Household Survey (Stats SA)
PGWC	Provincial Government of the Western Cape
PMTCT	Prevention of Mother-to-Child Transmission
PROVIDE	Provincial Decision-making Enabling
QES	Quarterly Employment Statistics (Stats SA)
R&D	Research and Development
SAFEX	South African Futures Exchange
SANRAL	South African Roads Agency
SARB	South African Reserve Bank
SARCC	South African Rail Commuter Corporation
SETA	Sector education Training Authority
SIC	Standard Industrial Classification
SIP	Strategic Infrastructure Plan
SMMEs	Small, Medium and Micro Enterprises
SOEs	State-owned Enterprises
Stats SA	Statistics South Africa
TB	Tuberculosis
<b>the dti</b>	The Department of Trade and Industry (South Africa)
UIF	Unemployment Insurance Fund
US	United States
WCDoh	Western Cape Department of Health
Wesgro	Trade and Investment Promotion Agency for the Western Cape Province
XDR	Extreme Drug Resistant
YLD	Years Lost due to Disability
YLL	Years of Life Lost



# Executive Summary

## Chapter 1: Economic Outlook: 2008/09 to 2012/13

This chapter highlights economic developments in the local and global economies since June 2007 when the last PER&O was published. The most recent developments in international financial markets have led to a deteriorating global economic outlook, resulting in a more widespread housing market downturn, tighter credit conditions and heightened inflation risks.

South Africa, in line with other emerging market and developing economies is now exposed to financial market risk through potential reversal of financial flows as risk aversion rises, thereby testing the resilience of emerging market economies to the global credit turmoil. The most recent economic projections indicate that many emerging market and developing economies are less likely to experience recession.

On the positive side, the construction sector remains the mainstay of the South African economy and it maintained its good performance in the second quarter of 2008. The manufacturing and transport and communication sectors also posted positive growth rates in the same quarter.

The most difficult challenges for emerging market economies including South Africa are protecting the poor from high food and energy prices and stimulating economic growth to avoid a recession without depleting foreign currency reserves and widening budget deficits.

The Western Cape economic outlook is largely dependent on the fortunes of the global and national economies as the projections near-term are less favourable. However, the Province can take advantage of the local opportunities and strengths to improve the growth prospects through the deepening of the implementation of economic growth strategies and interventions that are already in place.

As economic developments across the world remain volatile, the Economic Analysis Unit will provide regular updates on key economic forecasts.

## Chapter 2: Labour market dynamics in the Western Cape

The labour force experienced strong growth both in the Western Cape and at national level in the period 2002 to 2007. In the Western Cape, this growth was mainly a result of increased participation in the labour market of working-aged Africans, females and the older segments of the labour force.

Job creation was faster at national level compared to the Western Cape between 2002 and 2007. In the Western Cape, employment performed well in terms of absorbing new entrants in the labour force into employment. In particular, Africans, females and the older segments of the labour force experienced significant growth in employment in the period 2002 to 2007.

The growing employment was concentrated on the labour force in highly-skilled and skilled occupations. This is due to the nature of the economic growth in the Province, which resulted in a faster growth of the tertiary (or services) and secondary sectors of the economy, boosted in particular by strong growth of the wholesale and retail trade and the construction industries. Increasing skilled-labour intensity in unskilled and semi-skilled-labour intensive industries, such as agriculture and manufacturing has also led to a higher demand for skilled labour.

Despite a substantial reduction in unemployment during this period, unemployment remains high amongst Africans and the youth in the Province. The Province also has a growing number of discouraged employment-seekers among Coloureds, females and the youth.

## Chapter 3: Employment in the Informal Sector and Small, Medium and Micro Enterprises in the Western Cape

Employment in the informal sector in South Africa is relatively small in size compared to employment in the formal sector and is even smaller in the Western Cape Province. In the Western Cape, total employment in the informal sector contracted between 2002 and 2007 and only African and Coloureds females experienced growth in employment in this period.

Employment in the informal sector in the Province is dominated by trade activities and most businesses in this sector are motivated by self-employment and are based in the owner's home.

The workforce in the informal sector has relatively poor skills when compared to their counterparts in the formal sector. At least from a racial perspective, skills levels in the informal sector are not homogenous as Whites have superior skills compared to Africans and Coloureds.

Informal sector employment cannot be a substitute for employment in the formal sector, as employment in the informal sector is of inferior quality compared to employment in the formal sector. On average, the workforce in the informal sector has relatively lower incomes and poor job security.

The small business sector (comprising of micro, small and very small enterprises and excluding medium to large enterprises) contributes to the majority of employment in the Western Cape and at national level. At the demographic level, Africans have the highest share of their workforce in small businesses, followed by Coloureds and Whites in the Province.

Entrepreneurship activity, which is crucial for the development of the small business sector, is low in South Africa by international standards. Ownership of small businesses in the Province is lower by national standard and is particularly low amongst Africans, Coloureds and the youth.

## **Chapter 4: Measuring Income Poverty and Inequality in the Western Cape**

The South African government has placed poverty alleviation and the reduction of the persistently high levels of inequality on top of its agenda, along with reducing the rate of unemployment.

The IES 2000 and 2005/06 shows that higher levels of economic growth rate over the period under consideration resulted in significantly increased real incomes in the Western Cape and in South Africa. However, it appears that the benefits of economic growth have not been shared equally in the Western Cape judging by great disparities that exist between population groups and geographical locations.

Households in the Western Cape like their national counterparts spend their incomes mainly on food, housing, and transport, but Africans and Coloured people in the Western Cape tend to spend a larger proportion of their incomes on food than the White people. Household spending on transport and housing were the fastest growing expenditure categories following the buoyant economic growth over the period 2002 to 2005/06.

The IES results further show that inequality in the distribution of income remains high by international standards but the Western Cape still fairs better than the rest of South Africa. However, the degree of inequality in the Western Cape intensified faster than the national average over the period under consideration. All three aggregate measures of inequality used in the analysis point to persistently high levels of inequality in the distribution of income in the Western Cape and in South Africa.

South Africa performed relatively better than the Western Cape in reducing poverty between 2000 and 2005/06, when considering both poverty lines. However, the incidence, depth and severity of poverty are relatively less in the Province than in South Africa as a whole. Poverty remains more concentrated amongst the African and Coloured people than Whites, irrespective of the poverty line or measure used for analysis. More White individuals slipped into poverty in 2005/06 but their numbers are insignificant in the Province.

The proportion of the poorest Coloured and White individuals in the Province increased slightly over the five-year period, compared to their African counterparts. However, even at the extremely low poverty line, Africans in the Province remain poor. The poor people have somewhat shared the benefits of growth albeit the highly unequal distribution of income in the same period.

## Chapter 5: Education, Health and Social Development at a glance

The economic challenges highlighted in Chapter 1 and socio economic imperatives highlighted throughout this year's Economic Review and Outlook show the importance of investing in Government programmes that make advances in achieving the objectives of the Development Agenda as highlighted in amongst others, the Millennium Development Goals (MDGs).

Determinants of **health status** include both downstream i.e. biological and behavioural risk factors, as well as upstream societal and structural risk factors such as poverty, alcohol misuse, sanitation etc. and therefore interventions to reduce the burden of disease require an inter-sectoral approach. Another key challenge facing the health sector which impact on the delivery of quality health services is the critical shortage of health professionals, especially nurses.

A review of **social trends** in the Western Cape indicates that substance abuse, the care of older persons, HIV/AIDS, poverty and crime affect families, children, the youth and the elderly in the Western Cape. The responsibility of Government is to identify the challenges and respond to the challenges by creating opportunities and an enabling environment for a better future of the people in the Western Cape.

Key trends in **education** provision and performance outcomes show significant progress in funding parity across provinces. The Western Cape Department of Education has made progress in increasing the number of learners writing the Senior Certificate Examination, however the high dropout rate in key grades remains a challenge. Other critical problems relate to the low number of Grade 12s that pass with endorsement and the low pass rates in Mathematics and Science at the higher grade level.

# 1

## Economic Outlook: 2008/09 – 2012/13

### Key findings:

- Global economic prospects have been deteriorating since mid-2007 due to the protracted and deepening financial market crisis. Economic projections the global for 2008 and 2009 have been marked down sharply for both advanced and emerging and developing economies.
- The rising inflation pressures in both developed and developing economies especially for 2008 on the back of a sharp increase in commodity prices has proven to be a major drag on the global economy.
- Interventions such as financial bailout packages for troubled banks and synchronised interest rate cuts by industrialised economies seem to be making limited impact as developments in international financial markets across the world remain unpredictable.
- South African banks have been spared from the onslaught of the international financial market crisis for now, although the stocks traded on the JSE have remained highly volatile.
- Economic growth prospects for South Africa remain clouded by other domestic challenges (electricity supply constraints and high interest rates) in addition to the threat of a global recession; however, the economy is still expected to escape a recession and projections for the medium-term are less upbeat with prospects for job losses in the economy.
- On the upside, the construction sector in South Africa and the broader investment in fixed infrastructure remains a key support for economic growth.
- The deteriorating economic environment in South Africa will also be reflected in the Western Cape's fortunes over the short-term, with economic growth decelerating noticeably. However, direct investment into the Province continues to grow.

## 1. Introduction

The prospects of the global economy are under severe strain as a result of the deepening global financial crisis. The economic outlook is gloomy for advanced economies where most economies are projected to slip into recession in 2009 and less so for the developing countries where economic growth is beginning to decelerate.

Most governments in the most hit economies i.e. the United States (US), Europe and Asia have embarked on various financial market rescue strategies in response to the protracted credit crunch. It remains to be seen whether these interventions will make a stronger impact in averting recession in advanced economies. In addition to the unfolding credit crisis, the world economy is at risk due to rising inflation and the threat posed by global warming.

On the domestic scene, economic performance has been variable as the year began with an energy supply crisis, which crippled output from the mining and manufacturing sectors. The most recent (i.e. second quarter of 2008) indicators reveal a modest recovery in economic growth as output in these sectors was restored. However, the short-term outlook is less favourable due to the current tight monetary policy environment and the global economic downturn that is underway. On the upside, the construction sector maintained its sterling performance and is likely to continue this trend in the near-term.

Although still performing at a higher level than the national economy, the Western Cape Province needs to step-up its efforts in implementing interventions aimed at boosting economic growth in order to meet the economic growth and social goals set in the iKapa Growth and Development Strategy (iKapa GDS). The medium-term outlook for the provincial economy does not bode well for meeting these goals since economic growth is projected at lower rates than the forecast in 2007.

## 2. Developments in the global economy

Since mid-2007, the global economy has been embroiled in a protracted financial market turmoil, which originated from the sub-prime mortgage market<sup>1</sup> in the US and graduated into a credit crisis. The financial crisis has since spread across the globe and also affected real economic activity in the US, the epicenter of the crisis and in other industrialised countries. In emerging market and developing economies, economic strain has been felt more by countries with large current account deficits and external financing requirements.

<sup>1</sup> Sub-prime mortgages are loans made to borrowers who are perceived to have high credit risk, often because they lack a strong credit history or have other characteristics that are associated with high probabilities of default.

The past month has been a tumultuous period for international financial markets and it has been difficult to analyse the implications of the unfolding events on the global economic outlook. In recent weeks, a number of large investment banks in the US have either been liquidated or sold-off cheaply<sup>2</sup>.

Various governments in industrialised countries have intervened by means of massive financial bailout packages and coordinated interest rates cuts in a bid to curb losses on stock markets across the world and restore liquidity in financial markets, as the threat of global recession looms. The resolutions<sup>3</sup> at the most recent G20 summit will bolster efforts to end the financial market turmoil.

This section discusses in detail the major economic developments in the global economy since June 2007, economic growth projections for major economic regions and provides an assessment of global risks, opportunities and strategic policy interventions.

## **2.1 Economic performance and projections for the global economy**

According to the latest projections by the International Monetary Fund (IMF), the global economy is projected to decelerate substantially from a growth rate of 5.0 per cent achieved in 2007 to moderate growth rates of 3.7 per cent in 2008 and 2.2 per cent in 2009<sup>4</sup> (see Table 1.1 below). The latest forecast takes into account the effect of current policies to alleviate the financial crisis.

These projections represent downward revisions from the global economic outlook as at October 2008, where the global economy was projected to grow at 3.9 per cent and 3.0 per cent in 2008 and 2009 respectively. The downgraded projections were prompted continued deleveraging in global financial markets in the face of declining consumer and producer confidence.

In summary, economic downturn is expected to be more pronounced in developed/advanced countries such as the US and a number of countries within the Euro area such as the UK and Spain. Economic growth in emerging market and developing economies led by China and India is projected to remain relatively high in 2008 but is expected to decelerate sharply in 2009.

<sup>2</sup> Such as Lehman Brothers, American International Group (AIG) and the takeover by the Federal Reserve of the US mortgage giants Fannie Mae and Freddie Mac amongst other troubled banks.

<sup>3</sup> The G20 countries pledged new efforts to bolster supervision of banks and credit-rating agencies, scrutinise executive pay and tighten controls on complex derivatives.

<sup>4</sup> Source: World Economic Outlook, International Monetary Fund (IMF) April, July, October, and November 2008.

**Table 1.1 World economic outlook 2008 - 2009 (percentage change unless otherwise noted)**

	Estimates		Projections		Difference from October 2008 projections	
	2006	2007	2008	2009	2008	2009
<b>World output</b>	<b>5.1</b>	<b>5.0</b>	<b>3.7</b>	<b>2.2</b>	<b>-0.2</b>	<b>-0.8</b>
<b>Advanced economies</b>	<b>3.0</b>	<b>2.6</b>	<b>1.4</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.8</b>
United States	2.8	2.0	1.4	-0.7	-0.1	-0.8
Euro area	2.8	2.6	1.2	-0.5	-0.1	-0.7
Germany	3.0	2.5	1.7	-0.8	-0.2	-0.8
France	2.2	2.2	0.8	-0.5	-0.1	-0.6
Italy	1.8	1.5	-0.2	-0.6	-0.1	-0.4
Spain	3.9	3.7	1.4	-0.7	0.0	-0.5
Japan	2.4	2.1	0.5	-0.2	-0.2	-0.7
United Kingdom	2.8	3.0	0.8	-1.3	-0.2	-1.2
Canada	3.1	2.7	0.6	0.3	-0.1	-0.9
Other advanced economies	4.5	4.7	2.9	1.5	-0.2	-1.0
<b>Emerging and developing economies</b>	<b>7.9</b>	<b>8.0</b>	<b>6.6</b>	<b>5.1</b>	<b>-0.3</b>	<b>-1.0</b>
Africa	6.1	6.1	5.2	4.7	-0.7	-1.3
Sub-Sahara	6.6	6.8	5.5	5.1	-0.6	-1.2
Central and Eastern Europe	6.7	5.7	4.2	2.5	-0.3	-0.9
Developing Asia	9.8	10.0	8.3	7.1	-0.1	-0.6
China	11.6	11.9	9.7	8.5	-0.1	-0.8
India	9.8	9.3	7.8	6.3	-0.1	-0.6
<b>Consumer prices</b>						
Advanced economies	<b>2.4</b>	<b>2.2</b>	<b>3.6</b>	<b>1.4</b>	<b>0.0</b>	<b>-0.6</b>
Emerging and developing economies	5.4	6.4	9.2	7.1	-0.2	-0.7

Source: Adapted from the International Monetary Fund (IMF), *World Economic Outlook*, November 2008.

## 2.2 Regional economic outlook

Overall, advanced economies are projected to experience economic slowdown due to the correction in housing markets, which continues to put more stress on financial markets. The major downturn is anticipated to be on the US economy, which is expected to slip into a recession<sup>5</sup> in by the end of 2008 and early 2009.

<sup>5</sup> Refers to two or three consecutive quarters of negative economic growth.



Developments in the US housing markets are now playing a major role in determining business cycles and the role of monetary policy in many developed countries. The US economy is expected to decelerate to an average growth rate of 1.4 per cent in 2008 and contract by 0.7 per cent in 2009 due to weakening industrial production (including the troubled motor manufacturing sector) and tighter credit conditions. The housing market and financial sectors remain weak although the non-financial corporate sector remains strong (although liquidity constraints are worsening).

Economic growth in the Euro-area decelerated to 2.6 per cent in 2007, and the region is expected to register a lower average growth rate of 1.2 per cent in 2008 and to contract by 0.5 per cent in 2009. Germany (-0.8 per cent), and Spain (-0.7 per cent) are expected to register negative economic growth rates in 2009 and the UK will face the largest decline at minus 1.3 per cent in 2009. The latest data indicates that business and consumer sentiment in these economies are retreating sharply.

In contrast, the emerging market and developing economies have managed to sustain high growth in economic activity although these economies are beginning to feel the impact of the financial market crisis (through reversal of capital flows) after emerging unscathed in the previous episode of the financial crisis.

Overall, emerging market and developing economies are expected to continue to expand, led by China (9.7 per cent) and India (7.8 per cent) in 2008 even though economic activity is beginning to lose steam in some countries as these growth rates are significantly lower than the averages for 2007 (see Table 1.1). The overall growth rate for emerging market and developing countries for 2009 has been downgraded by 1 per cent from the October 2008 projections.

Economic growth is expected to remain relatively buoyant in these countries for a number of reasons. Firstly, growth in emerging market and developing economies has become less and less dependent on advanced economies due to diversified exports, growth in domestic consumer demand and stronger macroeconomic frameworks.

Secondly, the boom in commodity markets (despite global slowdown) which have emerged as an alternative asset class given the ongoing financial crisis have boosted export earnings for most of these economies. While export earnings will be under pressure in the short-term due to the unfolding sharp correction in commodity prices, the medium to longer-term outlook for commodity prices remains favourable.

Lastly, manufacturing sector exports from emerging market and developing economies have risen, as the growth in exports is not limited to current boom but represents a longer-term trend. Manufacturing sectors in these economies have also received sizable amounts of foreign direct investment (FDI). However, the recent bout of financial crisis has affected emerging Asia as risk aversion (through outflows of capital from emerging market economies) has increased.

In the case of Africa, economic growth is projected to average 5.2 per cent in 2008 and 4.7 per cent in 2009, while Sub-Saharan African countries are expected to register an average growth rate 5.1 per cent in 2009. The indirect effects of the global financial crisis through reduced investment and financial aid flows to Africa might adversely affect the economic outlook.

## 2.3 World inflation

The year 2008 has experienced high inflation pressures emanating from the boom in the prices of commodities such as food, gold and oil. The rising trend in consumer prices has been a feature in both developed and developing countries.

Consumer prices in advanced economies are projected to increase to 3.6 per cent in 2008 from an average of 2.2 per cent in 2007 before slowing down to 1.4 per cent in 2009. The rise in consumer prices in advanced economies occurred despite low economic growth outcomes during the first half of 2008. Inflation pressures in advanced economies are likely to be countered by slowing consumer demand and moderating oil prices in 2009, hence the projected decline.

In contrast, inflation has been more pervasive in emerging and developing economies where a bigger jump in consumer prices is expected, up to 9.2 per cent in 2008 from an average of 6.4 per cent in 2007. The rise in consumer prices is fueled by high food and energy prices, which constitute a higher proportion of the consumption basket in these countries.

In addition, strong domestic demand, above-trend economic growth and accommodative macro-economic policies have added to the upward pressure in consumer prices. In 2009, the slowdown in economic growth and moderating commodity prices are expected to reduce inflation to levels averaging of 7.1 per cent.

### Developments in food and oil prices

The growth in bio-fuel production in advanced countries as a response to high oil prices has contributed to high demand for food crops. Bio-fuel related demand has boosted prices of major food crops that are used in corn-based ethanol production. Moreover, export restrictions by food exporting countries such as rice exporters (to improve domestic food supply and lower food prices) exacerbates the rise in international food prices.

In addition, food prices have also been boosted by poor weather conditions in counties such as Australia, which reduced the world supply of food. The continued growth in demand for food especially in emerging and developing economies has compounded the situation.

In the case of international oil prices, they have risen substantially to above record-highs of US\$147 per barrel driven mainly by supply concerns (as a result of geopolitical concerns). At the time of writing, the price of the Brent Crude oil had receded to US\$48.78 per barrel, however the oil price remains highly volatile. Throughout 2008, oil prices have been very sensitive to any news signalling high risk of short-term supply disruptions including those related to geopolitical risks (tensions between Georgia and Russia, US and Iran etc.) and bad weather due to hurricanes hitting oil infrastructure in the US and Mexico.

The first-round effects of commodity prices especially oil prices in many economies were dependent on the exchange rate regime and the type and extent of government interventions (taxes and subsidies), which determine the extent of the link between domestic consumer prices and international prices of e.g. the price of oil. The pass-through or second-round effects related to high commodity prices will depend on the commodity intensity of individual economies and the share of commodities in final expenditure, especially oil. The more the commodities used by a country, the higher the likelihood of damaging second-round effects.

## **2.4 Risks and vulnerabilities of the global economy**

In the short-term, the world economic outlook is vulnerable to sharper downturns in housing markets in other advanced economies such as Canada and countries in the Euro-area, in addition to a sharp fall in commodity prices which are contributing strongly to economic performance in emerging market economies.

Most recent events in the international financial markets (US and Europe) pose a threat to global economic growth, as financial market risks remain elevated. The viscous cycle of financial market losses could add to strains on capital and exacerbate the squeeze on credit availability.

In as much as the emerging market and developing economies are not beset by recession fears, their major challenge is inflation pressures. The threat posed by the boom in commodity prices in recent years could unwind the progress made in the last two decades against inflation, however, declining commodity prices e.g. oil prices in particular since mid-July has eased inflationary pressures for now.

Second-round effects of commodity prices are beginning to show in emerging market economies due to their resource intensity or concentration in production processes. These pressures may revert once commodity markets recover from the current correction.

In the longer-term, the global economy faces a bigger challenge of global warming which has been dubbed the world's potentially catastrophic global externality and one of the world's greatest collective problems. Efficient energy pricing and sustainable global warming mitigating policies as well broad country participation and cooperation is required now more than ever. Poorer countries that rely on agricultural activities would be the hardest hit by the negative consequences of global warming.

On the upside, the world economy has growth potential in terms of prevailing projections in domestic consumer demand growth in emerging market and developing economies. Consumer demand may be more resilient to recent financial shocks and commodity prices than projected before. In addition, the high energy prices and the depreciating US dollar have boosted economic prospects in major oil exporting countries.

## **2.5 Policy options for the global economy**

The policy priorities for most governments across the world range from heading-off rising inflationary pressures and keeping sight on risks to economic growth and employment creation. In advanced economies a balance of focus has shifted from inflation concerns to recession worries and the argument for tighter monetary policies is less compelling due to lower inflation outcomes in these economies.

In the most recent weeks, the world's major economies opted for coordinated interest rate cuts and a variety of financial bailout packages for troubled financial institutions as a response to the threat posed by the credit crisis on the global economy. However, evidence on the stock markets shows that these measures have not abated fears of a global economic collapse as stock markets continue to register losses and remain highly volatile.

Counter-cyclical strategies are also necessary at this point, as the global economy seems to be headed for a sharper downturn. Many policy-makers in advanced economies are revisiting the role of fiscal policy as a counter-cyclical tool as the continued turbulence of in financial markets raises questions regarding the relevance and strength of monetary policy.

Although fiscal multipliers<sup>6</sup> are generally low, and sometimes result in unintended negative outcomes (especially in economies with high debt) it is widely argued that a well-targeted fiscal policy can lead to maximum short-run impact when needed without undermining the long-run fiscal rectitude.

In developing and emerging economies such as South Africa, feeding the hungry without feeding inflation and depleting foreign reserves is the major challenge as the surge in food prices is unlikely to abate in the near future. Tighter monetary policy and greater fiscal restraint are therefore, still required combined with more flexible exchange rates. However, the rising inflation will constrain the policy response to economic growth, as interest rate hikes become inevitable in most developing countries in the context of a global slowdown.

In conclusion, the outlook for the global economy is hindered by downside risks, as the financial market crisis weighs down the global economy, although commodity prices are showing signs of abating. Longer-term challenges related to global warming still remain and the prospects of the world economy now depend on the coherent, decisive, and collective policy responses to mitigate the risks to the economic outlook as noted above.

### **3. Developments in the South African economy**

The South African economy, through excellent government economic policies, has managed to restore fiscal and monetary and stability over the past decade and half, which placed the country amongst the high-ranking emerging economies sort after by investors. However, income poverty, inequality and unemployment challenges remain persistent in South Africa following the market-oriented economic strategies implemented in the country.

<sup>6</sup> Defined as the impacts of discretionary fiscal stimulus on output.

In 2005, the South African Government launched the Accelerated and Shared Growth Initiative of South Africa (AsgiSA) aimed at placing the country on a sustainable economic growth path averaging of 6 per cent per annum and halving poverty by 2014. The programme also realises the need to share the fruits of economic growth by implementing strategies that ensure economic participation of the marginalised segments of the South African population.

This section reviews the performance of the various components of South African economy i.e. it provides a detailed analysis of sectoral performance, investment trends, business and consumer sentiments, and economic growth projections over the medium-term in light of global and local economic developments. It also provides a brief assessment of whether South Africa will meet its growth and development targets by 2014 in the context of the performance outcomes and challenges.

### **3.1 South African economic performance**

South African economic performance has been variable since mid-2007. After showing resilience against the financial market turmoil that unfolded during the third quarter of 2007, the economy registered annualised real growth rates in Gross Domestic Product (GDP) of 4.8 per cent and 5.3 per cent in the third and fourth quarters of 2007 respectively. Overall, the Bureau for Economic Research (BER) estimates indicate that the South African economy grew at an average rate of 5.1 per cent in 2007.

However, since the beginning of 2008, economic growth slumped to 2.1 per cent in the first quarter of 2008. The major reason for this dip in economic activity was the power-supply constraints, which hit output in the mining and manufacturing sectors. In addition, the economy has been operating under a tight monetary policy regime, which saw the repurchase (repo)<sup>7</sup> rate hiked by a cumulative 500 basis points since June 2006. This adversely effected growth in consumer demand, the cost of capital (investment) and ultimately economic growth.

Annualised GDP rose steeply to a respectable 4.9 per cent in the second quarter of 2008, however, the economy is not out of the woods yet. With Eskom partially restoring its electricity supply, a bounce back in GDP was expected as mining output recovered from a growth rate of minus 25.1 per cent in the first quarter of 2008 to a 15.6 per cent in the second quarter of 2008. The economy also experienced a noteworthy windfall in the agricultural sector during the same quarter.

The construction sector remains the mainstay of the South African economy as the sector maintained its sterling performance by registering an annualised growth rate of 10.1 per cent in the second quarter of 2008. The manufacturing sector (14.5 per cent) and transport and communication (4.1 per cent) also posted positive growth rates in the second quarter of 2008.

<sup>7</sup> The rate at which the South African Reserve Bank (SARB) lends money to private financial institutions.

There have been prominent underperformances in the second quarter of 2008 by the retail, wholesale sector, which declined to minus 2.2 per cent and the finance and business services sector which posted a subdued growth rate of 2.3 per cent, which can be attributed to the high inflation and interest rate environment.

The crucial question however, is whether the second quarter performance can be repeated in the second half of 2008 given the energy supply constraints, which are still lingering of which the financing thereof is also contributing to inflation pressures. In the short-term, economic growth has not fully recovered yet for the following reasons:

- Excluding the agriculture and mining sectors (which leaves 75 per cent of the economy) a growth rate of 1.8 per cent was registered in the second quarter of 2008 compared to 4.4 per cent achieved in the first quarter of 2008, which is very disconcerting as the outcome indicates below-potential growth in the second quarter of 2008.
- The factors restraining economic growth in South Africa have not moderated yet. The good news for the economy is that the South African Reserve Bank (SARB) paused the interest rate hikes in the most recent two consecutive Monetary Policy Committee (MPC) meetings. Interest rates are on hold for now but it does not necessarily imply the beginning of a cutting sequence. Should the inflation outlook deteriorate further, interest rates might go up, further constraining economic growth. In addition, inflation is yet to peak, as CPIX came in higher for August 2008 at 13.6 per cent.
- Moreover, asset and house prices are still unsettled with nominal house prices expected to decline through 2009. In addition, the stocks traded on the Johannesburg Stock Exchange (JSE) are still highly volatile as a result of the ongoing financial market crisis and traders on the JSE have lost an estimated R3.2 trillion since the beginning of the crisis.

### **The impact of electricity supply shortages on economic growth in SA**

The South African economy grew vigorously during the past four years and this brought about increased demand for electricity. Eskom's reserve capacity was reduced to 8.8 per cent in the beginning of 2008, which was insufficient for reliable energy supply. The situation was worsened by coal supply problems that stretched the supply to its limit.

As early as the 1990s, energy demand projections showed that new power stations would be needed by 2007 to meet the expected growth in demand. However, there was limited investment in new power generating stations until 2008. The Energy White Paper of 1998 encouraged Independent Power Producers (IPPs) to enter the electricity generation market but the private sector investment did not materialise and in 2004 government revised its policy and Eskom was given a green light to build the new generation capacity.

Eskom has since embarked on a building programme. Additional power stations (ranging from nuclear, coal-fired etc) and major power lines are being built on a massive scale across the country to meet the rising electricity demand in South Africa. Eskom's capacity expansion budget amounts to R343 billion up to 2013 and is expected to rise to more than a trillion rand by 2026. Ultimately Eskom will double its capacity to 80 000 MW by 2026. The return-to-service of previously mothballed power stations will bring about additional 2000 MW.

In the beginning of January 2008, unplanned shutdowns caused by disruptions in coal supplies and breakdowns resulting from running the power station at above-normal level led to blackouts in many regions in the country and forced the mining industry to shutdown for five days. This development also threatened jobs losses in various sectors.

Economic growth figures for the first quarter of 2008 came in at a dismal annualised rate of 2.1 per cent. The electricity supply shortages directly affected mining production and export earnings. The impact on the manufacturing sector was varied depending on the energy intensity of manufacturing activities, the extent of the shortages and whether the shortages were scheduled or not. The wholesale and retail trade, hotels and restaurants sector suffered moderately because many of the large retailers have power generators and it was generally the small retailers without such generators that were hardest hit. The Western Cape Province suffered agricultural sector losses when farmers lost perishable products.

Potential investment flows to South Africa was also lost as the risk for investment rose (not quantified in this report) as investors fear unguaranteed energy supply. Approval of major projects that would require massive electricity is being delayed due to insufficient electricity reserves. In addition, man-hours were lost at work due to traffic congestion and non-operational traffic lights.

The National Energy Regulator of South Africa (NERSA) granted Eskom permission to increase tariffs to help fund the company's expansion programmes. The decision amounts to a 13.3 per cent average increase that is additional to the 14.2 per cent already approved on December 2007, resulting in 27.5 per cent average increase in electricity prices year-on-year. Furthermore, electricity tariffs are likely to be increased by at least a similar margin in 2009 with a real possibility that the rise could be even higher. The tariff hike has brought with it an added burden on businesses; especially the Small, Medium and Micro Enterprises (SMMEs) in terms of their cost of production. The high electricity costs, which are passed on to the consumers and poorer households who already bear the brunt of the higher cost of food and transport, makes their situation more vulnerable.

All is not lost, as the South African government has prioritised electricity generation to prevent further economic decline through direct funding of electricity generation.

*Sources: Barnard Jacobs Mellet Securities, Budget Review 2008, Deutsche Securities, Engineering News, and Eskom.*

### **3.2 Financial market developments**

The turmoil caused by the subprime mortgage market in the US evolved into a credit crisis and resulted in increased risk aversion globally. Reports on exposures by South African banks to the prevailing risks indicate that South African banks are not impacted directly, but indirect effects were observable<sup>8</sup>. The assessment reveals that South African banks have no direct exposure to the sub-prime market and their international franchises had limited exposure.

<sup>8</sup> Source: The 2007 Annual Report of the Bank Supervision Department, release date 29 July 2008.

The banking system in South Africa remained healthy in 2007, with the capital adequacy ratios of banks in South Africa increasing from 12.3 per cent in 2006 to 12.8 per cent in December 2007, well above the 10 per cent minimum requirement. During 2007, credit risk ratios deteriorated due to rising interest rates and adverse economic conditions in South Africa with non-performing loans increasing from R18.8 billion at the end of December 2006 to R29.4 billion at the end of December 2007, representing an annual growth rate of 56.4 per cent.

The limited exposure of the South African banks to the ongoing credit crisis can be attributed to stringent regulation of financial institutions in South Africa as well as the introduction of the National Credit Act (NCA), which discourages irresponsible lending by financial institutions.

### **3.3 Medium-term economic outlook for South Africa**

Economic growth prospects for the South African economy have deteriorated considerably, however, there is no recession forecast for South Africa in the medium-term. The unfolding global financial crisis, the energy supply constraints and higher interest and inflation rates contribute to the dampened growth prospects for South Africa.

The economic growth rate for South Africa is expected to decelerate to an average of 3.3 per cent in 2008 and 2.0 per cent in 2009. Thereafter, economic growth is projected to accelerate to 3.6 per cent in 2010 and average around 3.7 per cent between 2011 and 2013. The high inflation and interest rate environment contributes to the unfavourable decline in the projections for the key components of GDP, namely and Gross Fixed Capital Formation (GFCF) and final household consumption expenditure discussed in detail below (also see Table 1.2 for projections).

#### **3.3.1 Final household consumption expenditure**

Final household consumption expenditure continues to decline in response to higher inflation and interest rates as well as slower growth in household incomes. An annualised growth rate of 3.3 per cent was registered for household consumption expenditure in the first quarter of 2008, down from 3.8 per cent in the third quarter of 2007. The contraction of 8.1 per cent in the consumption of durable goods is the main contributor to the deceleration.

For 2008, growth in household consumption expenditure is estimated to average 2.6 per cent and to decelerate to 1.5 per cent in 2009. This can be attributed to factors such as declining credit extension by financial institutions, rising household indebtedness (as the debt to disposable ratio income registered 78.2 per cent in the second quarter) and deteriorating consumer confidence in South Africa.



**Table 1.2 Economic outlook for South Africa, growth in GDP (%), 2008 2013**

	2007	2008e	2009f	2010f	2011f	2012f	2013f	2002-2007	2008-2013f
<b>Real GDP growth (real y-o-y %)</b>									
Final household consumption expenditure	7.0	2.6	1.5	3.9	4.3	4.4	4.5	4.6	3.5
Government consumption expenditure	5.0	4.7	4.3	4.2	4.0	4.2	4.3	2.8	4.3
Gross fixed capital formation	14.8	10.3	1.8	5.7	7.4	7.4	6.8	6.9	6.5
<b>Real GDE</b>	<b>6.0</b>	<b>3.7</b>	<b>2.0</b>	<b>4.9</b>	<b>5.2</b>	<b>5.0</b>	<b>5.0</b>	<b>4.2</b>	<b>4.3</b>
Total exports	8.3	1.2	-0.3	4.5	5.7	6.5	6.7	5.0	4.1
Total imports	10.4	2.7	0.3	8.1	7.2	7.7	7.6	7.5	5.6
<b>Real GDP</b>	<b>5.1</b>	<b>3.3</b>	<b>2.0</b>	<b>3.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.5</b>	<b>3.5</b>	<b>3.7</b>
<b>Exchange rates (annual averages)</b>								<b>Compound % change</b>	
R/US\$	7.05	8.40	10.26	9.64	10.08	10.53	10.95	6.1	7.6
R/Euro	9.67	12.21	12.71	12.50	12.84	13.11	13.36	4.9	5.5
R/Pound sterling	14.12	15.56	15.79	15.33	15.94	16.63	17.34	6.8	3.5

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*e-estimate, f-forecast*

Consumer confidence in South Africa as measured by the FNB/BER Consumer Confidence Index (CCI), has been deteriorating since the beginning of 2008. The CCI has retracted sharply this year to record lows. After declining from +22 to +12 during first quarter of 2008, the index dropped by a further 18 index points to minus 6 points during the second quarter of 2008. An analysis of the constituent parts of the FNB/BER CCI indicates that more consumers have significantly become negative about the economy, their own finances and the timing to buy durable goods.

The sharp decline in consumer confidence foreshadows more subdued household consumer and investment spending during the upcoming quarters. The drop in consumer confidence can be attributed to, amongst other things; an accelerated increase in food prices and transport costs, the rising prime overdraft rate, deteriorating employment prospects and falling house prices. The FNB/BER CCI recovered somewhat in the third quarter of 2008 by 5 index points and analysts believe that the rebound can be short-lived given that the contributing factors have not subsided.

### 3.3.2 Gross fixed capital formation

The South African government has undertaken a substantial infrastructure investment programme since 2003, which is aimed at reducing infrastructure bottlenecks and stimulating private (local and foreign) investment growth. The country has experienced sustained high growth in gross fixed capital formation, which is driven by both government and private sector corporations.

Growth in gross fixed capital formation averaged 14.8 per cent in 2007 and results of the first quarter of 2008 showed acceleration in GFCF of 14.7 per cent up from 14.1 per cent in the fourth quarter of 2007. The main drivers of the growth in GFCF are the private sector (with a brisk growth rate of 13 per cent) and public corporations at 15.3 per cent (although this rate is lower than 30 per cent achieved in 2007).

The investment spending outlays by government on AsgiSA-related infrastructure (transport, communication and energy projects) and 2010 FIFA World Cup (stadiums) are major contributors to the high investment outcomes. In addition, Eskom's investment in de-mothballing and upgrading of existing electricity supply infrastructure as well as expansion of its energy generating capacity will also contribute hugely to investment leading up to 2012.

However, the BER forecast a deceleration in GFCF to average 10.3 per cent in 2008 as business confidence subsides. The slump in business confidence has indirect effects on investment growth as businesses are beginning count their losses and reassessing their income prospects, thereby holding back economic growth.

### **3.3.3 Trends in business confidence**

Business people in South Africa are less satisfied with the current business climate as shown by the decline in the RMB/BER Business Confidence Index (BCI). The trend does not bode well for future of investment in South Africa.

After dropping by 19 index points in the first quarter, the index declined by a further 3 index points in the second quarter – from 48 to 45. A reading of 45 indicates that slightly more than half of the respondents rated prevailing business conditions as unsatisfactory due to various reasons ranging from insecure power supply and high interest rates. The wholesale, retail and motor trade sectors were the worst hit by the drop in business confidence.

In the third quarter of 2008, the RMB/BER BCI plummeted further, with only a third of respondents to the survey indicating they were satisfied with the current business conditions. The decline in the BCI occurred across all major sectors including the business contractors, manufacturing and wholesale sectors.

## **3.4 The inflation outlook for South Africa**

South Africa has been under pervasive inflation pressures in line with other emerging market economies. The main drivers of inflation remain the high food and energy prices. Inflation, measured by the Consumer Price Index excluding interest rates on mortgage bonds (CPIX) averaged 6.5 per cent in 2007 and since March 2008 CPIX has exceeded 10.0 per cent. The rise in inflation continues and the latest available figures indicate a CPIX rate of 13.6 per cent for August 2008<sup>9</sup> and 13.0 per cent for September 2008.

<sup>9</sup> The latest July and August 2008 CPIX numbers incorporate the electricity tariff hikes awarded to Eskom by NERSA in June 2008.

The impending of the rebasing and reweighting<sup>10</sup> of the consumer basket by Statistics South Africa (Stats SA) in January 2009 complicates the prediction of the mid-term inflation trend. According to the South African Reserve Bank (SARB), the inflation outlook is expected to moderately improve (compared to the most recent forecast) in the near-term as CPIX is expected to peak at an average of 13.3 per cent in the third quarter of 2008. Thereafter, inflation is expected to decline significantly in the first quarter of 2009 (averaging 6.9 per cent for the year) partially as a result of the rebasing and reweighting effects. The CPIX is projected to drop gradually and fall within the target range by the second quarter of 2010<sup>11</sup>.

The major reasons for the less favourable inflation outlook include higher than expected inflation outcomes and projections of a more depreciated rand. The risk to the inflation outlook posed by international oil prices has moderated as the international oil price has dropped considerably from a peak of US\$147 per barrel in July 2008 to US\$48.78 per barrel at the time of writing. International oil prices however, remain volatile for various supply-related reasons.

### **3.5 Balance of payments and the exchange rate outlook**

Despite the slowdown in domestic economic activity, the deficit on the current account of the South African balance of payments (BOP) widened from R157.7 billion in the fourth quarter of 2007 to R194.6 billion in the first quarter of 2008. As a percentage of GDP, the current account deficit (CAD) averaged 7.3 per cent in 2007 and weakened from 7.5 per cent in the fourth quarter of 2007 to 9 per cent in the second quarter of 2008.

This was driven by continued growth in the demand for imports in the face of weaker growth in exports merchandise, which shrank by 7.2 per cent in the first quarter of 2008. Despite the global slowdown, demand for South African mineral exports remained high although export volumes remained low due to reduced mining and manufacturing production.

The BER projects the exchange rate to deteriorate to R8.40 per US dollar on average in 2008 and R10.26 per US dollar in 2009. The rand is also projected to weaken against the Euro to averages of about R12.71 and R12.50 per Euro in 2009 and 2010 respectively. In recent weeks the rand depreciated sharply to rate of R11.80 per US dollar, however the currency has managed to recover slightly to levels just below R10.00 per US dollar.

<sup>10</sup> The new weights are based on the Income and Expenditure Survey (IES) of 2005/06. Periodic reweighting of CPI weights is necessary due to changes in economic conditions and spending patterns. CPI will be rebased from the current base year of 2000 to 2008 to avoid distortions that build up over time.

<sup>11</sup> The medium-term inflation forecast takes into account the additional electricity price increases granted to Eskom in June 2008.

### **3.6 Is South Africa on track to meet the AsgiSA targets for employment and growth?**

On average, the South African economy has been growing above its potential growth rate (estimated to range between 3.0 and 4.5 per cent). However, the current economic situation is marred by a number of challenges. Firstly, there are signs of the economy overheating as the energy supply infrastructure and transport logistics are currently stretched to the limit. Secondly, the supply of skilled labour in South Africa is still limited and the balance of payments deficit is widening (because current growth has been driven by domestic demand which is financed by a rising current account deficit).

On the social front, income poverty and inequality remains high (see the chapter on measuring poverty) and the current economic growth is not creating sufficient jobs (see the chapter on labour market dynamics) as the youth and Africans still face unemployment challenges.

The development goals committed to by South Africa such as shared growth cannot be achieved by market forces alone due to market failure, which was exacerbated by the legacy of the apartheid system. AsgiSA as a national government response to the growth and inequality challenges in South Africa has explicit targets to be achieved by 2014. The programme also priorities interventions that target economic growth and poverty reduction through employment creation under the expanded public works (EPWP) and Black economic empowerment (BEE) programmes.

Given the current economic environment and outlook described throughout this chapter, can South Africa manage to halve poverty and accelerate economic growth to an average of 6 per cent by 2014?

The answer could be yes, as long as government steps-up efforts to remove the constraints to economic growth identified in the AsgiSA programme. In addition, improved efforts in employment creation and productivity are required to enhance the economic growth rate. This would require interventions that tap into the unemployed labour force resource (that is in abundant supply) and ensure sharing of the fruits of economic growth with those population groups that are currently excluded from economic participation.

To sustain growth in output and employment, there is also need for South Africa to rapidly grow exports since domestic demand has slowed down considerably as shown by growth trends in the non-tradable sectors<sup>12</sup>. In the short-term, there is need to mitigate the impact of high inflation and interest rates on the plight of the poor, through temporary and targeted social interventions.

<sup>12</sup> These include wholesale and retail trade, finance and business services etc.

## 4. Western Cape economic review and outlook

Following the signal from national government, the Western Cape also recognises the need to accelerate and share the fruits of economic growth. The Provincial government's response to the challenge was through the development of the *iKapa* Growth and Development Strategy (iKapa GDS) White Paper. This strategy focuses on interventions that foster economic growth in the Province and ensure that economic growth is shared in an effort to reduce poverty amongst the marginalised communities. The White Paper also promotes alignment between provincial and national growth strategies and forms the basis for resource allocation for all provincial departments.

The subsequent sections highlight the performance of the Western Cape economy by analysing various aspects such as the sectoral composition, performance of major sectors, projected growth in Regional Gross Domestic Product (GDPR)<sup>13</sup>, export performance, infrastructure development and trends in direct investment into the Province.

### 4.1 Performance of the Western Cape economy

The Western Cape economy has been performing at growth rates that substantially exceed the averages for South Africa. The provincial economy continued to post above-average growth rates in GDPR of 5.9 per cent and 6.1 per cent for 2006 and 2007 respectively. In rand value terms, the Western Cape GDPR expected to amount to R174.9 billion in 2008 and R179.3 billion in 2009 (measured in 2000 constant prices).

The 2008 and 2009 economic forecast by the Bureau for Economic Research (BER) for the Western Cape has been significantly marked down from 4.6 per cent and 5.3 per cent projected in June 2007. The most recent forecast indicate that the provincial economy will grow by 3.6 per cent and 2.5 per cent in 2008 and 2009 respectively. Moderate improvements in the trend are projected from 2010 onwards (see Table 1.3).

This follows the downgrading of global and national economic growth projections for the same period. The major constraints to growth for the current year have been the slowdown in economic activity as a result of energy supply constraints experienced across the country and the tighter monetary policy, which inhibited consumer demand and growth in interest rate sensitive sectors such as finance and business services.

<sup>13</sup> GDPR is defined as the value of the final goods and services produced within particular region in a period of a year.

**Table 1.3 Economic outlook for the Western Cape (%) growth in GDPR, 2008 - 2013**

Description	2007	2008e	2009f	2010f	2011f	2012f	2013f
	%	%	%	%	%	%	%
Agriculture, forestry and fishing	1.3	2.9	1.7	1.8	2.0	2.0	2.0
Mining	-0.5	-4.8	-1.0	-1.0	-1.0	-1.0	-1.0
Manufacturing sector of which:	3.2	2.3	1.6	2.4	3.1	3.2	3.2
<i>Food, beverages and tobacco</i>	1.8	2.1	1.1	1.5	1.8	1.5	1.5
<i>Textiles, clothing and leather goods</i>	0.9	0.5	0.3	0.9	1.2	1.2	1.2
<i>Wood and paper; publishing and printing</i>	1.0	1.0	0.6	1.5	1.9	2.1	2.1
<i>Petroleum products, chemicals, rubber and plastic</i>	5.0	5.5	3.0	4.0	5.5	5.6	5.7
<i>Other non-metal mineral products</i>	6.2	2.0	0.6	1.4	1.4	1.4	1.4
<i>Metals, metal products, machinery and equipment</i>	4.3	1.4	2.7	3.7	4.0	4.2	4.0
<i>Electrical machinery and apparatus</i>	3.0	3.6	1.0	3.6	4.2	4.0	4.0
<i>Radio, TV, instruments, watches and clocks</i>	4.0	-0.1	0.5	1.0	1.8	2.0	2.0
<i>Transport equipment</i>	3.7	3.0	2.2	3.4	4.9	4.9	4.8
<i>Furniture and other manufacturing</i>	4.0	0.0	0.7	0.7	1.0	1.0	1.0
Electricity	4.0	3.7	3.0	3.6	4.2	4.2	4.2
Water	2.0	0.3	-0.3	-1.3	-1.4	-1.5	-1.6
Construction	17.5	9.5	6.5	8.5	9.7	9.9	9.2
Wholesale & retail trade	5.7	2.4	1.4	3.8	5.0	5.1	5.0
Catering and accommodation	5.0	2.8	2.2	6.0	6.2	6.6	6.4
Transport	4.8	4.0	2.6	5.5	4.8	4.9	4.7
Communication	7.6	5.7	4.0	6.6	7.4	7.2	6.7
Finance and insurance	9.0	4.4	3.4	5.1	6.0	6.8	6.7
Business services	7.3	3.8	2.0	3.0	5.7	5.6	5.5
Community, social and other personal services	4.0	2.3	2.2	2.3	2.4	2.4	2.4
General government services	3.7	3.0	3.0	3.2	3.2	3.0	3.0
<b>Total GDPR</b>	<b>6.1</b>	<b>3.6</b>	<b>2.5</b>	<b>4.0</b>	<b>4.9</b>	<b>5.1</b>	<b>5.0</b>

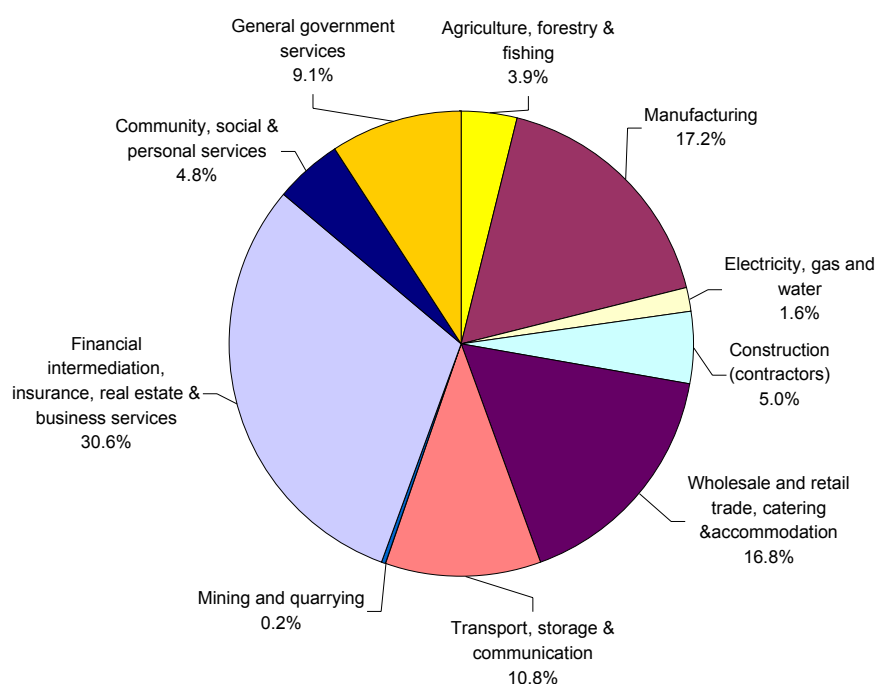
Source: BER Western Cape economic forecast October 2008  
e-estimate, f-forecast

## 4.2 Composition of the Western Cape economy

In terms of sectoral contribution, the Western Cape economic activity is concentrated in the financial intermediation, insurance, real estate & business services which accounted for 30.6 per cent of GDPR in 2007 (see Figure 1.1 below). The second largest broad sector is the manufacturing sector (17.2 per cent), followed by wholesale, retail trade catering and accommodation (16.8 per cent), which fell from 18.1 per cent registered in 2005 (PER&O 2007).

The agriculture, forestry and fishing (3.9 per cent) and construction (5.3 per cent) sectors remained smaller contributors to GDPR, although the contribution of the construction sector has increased by 1.2 per cent between 2005 and 2007.

**Figure 1.1** Sectoral contribution to Western Cape GDP (2007)



Source: Provincial Treasury calculations based on the BER estimates, 2007

There is a major concern regarding the dominance of non-tradable goods sectors such as wholesale, retail trade catering and accommodation, financial intermediation, insurance, real estate and business services and general government services which constituted more than half of the Western Cape's GDP in 2007. For the Western Cape economy to improve its growth prospects, there is need to boost growth in the tradable goods sectors such as manufacturing output and take advantage of opportunities that exist in international markets.

### 4.3 Performance of the Western Cape sectors

This sub-section highlights the performance of the major sectors in the Western Cape economy as well as the medium-term outlook of these sectors. The analysis broadly covers the manufacturing sector, agriculture, forestry and fishing, construction and tertiary industries such as finance and business services.

#### 4.3.1 Manufacturing sector

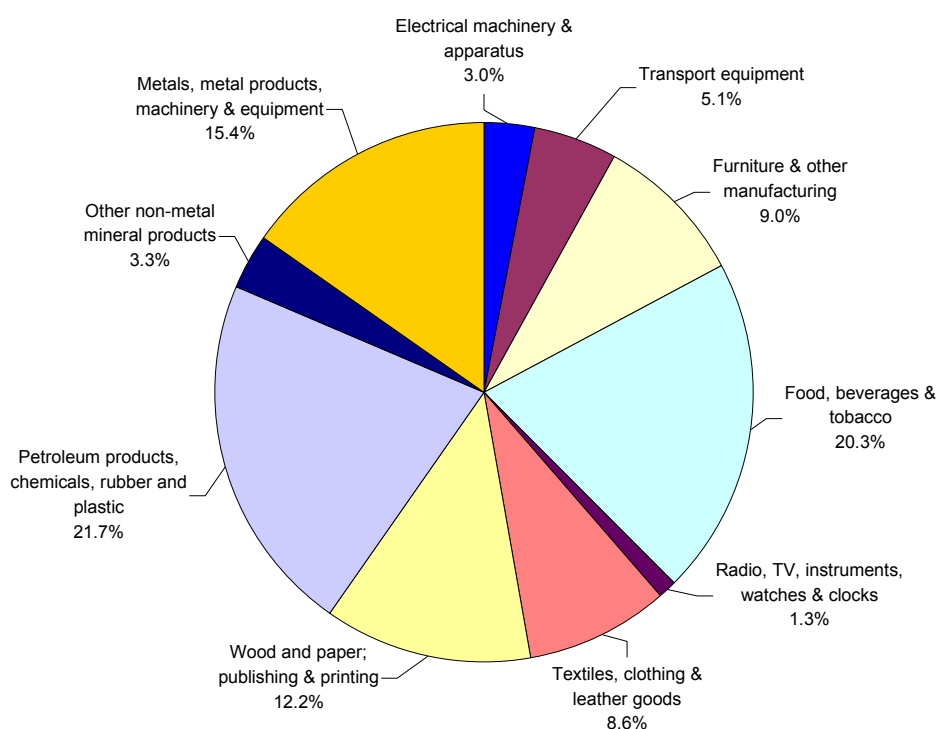
As noted earlier, the manufacturing sector constituted 17.2 per cent of the economic activity of the Western Cape in 2007. Overall, growth of the manufacturing sector is projected to decelerate to 2.3 per cent in 2008, down from 3.2 per cent achieved in 2007.

The reasons for the relatively unsatisfactory performance of the manufacturing sector include amongst others, the slow growth in manufacturing sector exports (due to the volatile exchange rate also adversely affected export earnings) and the disruption in manufacturing activity experienced earlier this year due to the electricity supply constraints.

In terms of composition, the Western Cape manufacturing sector in 2007 was dominated by the production of petroleum products, chemicals, rubber and plastic (21.7 per cent) and agro-processing activities in the form of the manufacturing of food, beverages and tobacco (20.3 per cent).

Other prominent manufacturing sub-sectors include the production of metals, metal products, machinery and equipment (15.4 per cent), wood and paper, publishing and printing (12.2 per cent), furniture and other manufacturing (9.0 per cent) and textiles, clothing and leather goods (8.6 per cent).

**Figure 1.2 Composition of the Western Cape manufacturing sector, 2007**



Source: Provincial Treasury calculations based on the BER estimates, 2007

Over the medium-term, strong growth performance is expected from the petroleum products, chemicals, rubber and plastic (4.0 per cent) and transport equipment (3.4 per cent) sub-sectors in 2010 while growth in the manufacturing of food, beverages and tobacco (1.5 per cent) and textiles, clothing and leather goods (0.9 per cent) sub-sector are projected to remain subdued.



The manufacturing sector is of major importance in the Western Cape, which has an excess supply of unskilled and semi-skilled labour force that could be easily absorbed in the manufacturing sector. Efforts to create jobs in targeted manufacturing sub-sectors are already underway in the Province. These priority sectors such as boat building and servicing of the oil and gas sector were identified through the Western Cape Micro-Economic Development Strategy (MEDS) process.

The strategy was based on the analysis of the strengths and weaknesses of the Western Cape economy and recommends a number of public sector interventions to stimulate specific high-potential sectors in a bid to improve employment, skills and economic development. Although the role of the public sector in growing the economy is relatively limited, such strategic interventions send the right signals to the private sector and often unlock potential and stimulate growth and job creation in many manufacturing sub-sectors.

#### **4.3.2 Agriculture, forestry and fishing**

Growth in the agriculture, forestry and fishing sector in the Western Cape has been declining for some time, for example the sector declined to minus 4.9 per cent in 2006. A slight recovery was recorded in 2007 at an average of 1.3 per cent but the performance is still below potential growth. In addition, projections for the short-term are still below average, at 2.9 per cent and 1.7 per cent for 2008 and 2009 respectively.

This performance is worrying just as in the manufacturing sector. The implications range from the prospects of job losses in the medium-term and diminished opportunities to join the mainstream economy for the unskilled labour force.

On the upside, there has been a surge in the international prices of agricultural field crops (such as maize, wheat, and soybeans) due to the rise in food prices for various reasons noted in previous sections, ranging from increasing demand for food and biofuels as well as poor weather in major grain producing countries.

The Western Cape farmers can benefit from the high international food prices but the extent to which the benefits accrue to farmers in the Province will depend on the levels of production, volatility of the exchange rate and the economic growth prospects of economies that serve as destinations for exports, such as countries in the Euro area. Further research needs to be conducted to inform the farming decisions that might position South Africa and Western Cape farmers to maximise the potential of the agricultural sector in light of the positive developments emerging from the demand for biofuels.

## Agriculture baseline projections

This textbox highlights baseline projections for selected field crops and provides a general insight; hence the information is not intended to be a complete discussion of the prospects of the agricultural sector.

The total area under the maize crop is expected to decline by 11 per cent from 2.8 million hectares in 2008 to 2.5 million hectares in 2009 as it is expected that production will shift to other field crops such as wheat, sunflower and soybeans, hence, maize production for 2009 is projected to decrease by 15.7 per cent from 11.1 million tons in 2008.

Average South African Futures Exchange (SAFEX) prices show an increasing maize price reflecting reduced planting and parity price increases; the average futures price for white maize in 2014 is projected at R2 459/ton compared to the 2008 futures price of R1 810/ton, while for yellow maize, the average futures price is R1 764/ton compared to the average price of R2 474/ton in 2014.

The total area of wheat harvested is forecast to increase from 0.7 million hectares in 2008 to 867 thousand hectares in 2014, while production is set to increase from 1.9 million tons to 2.4 million tons over the same period. The average wheat futures price in 2008 is estimated at R3 788/ton. Average futures prices for 2009 and 2010 are expected to decline as a result of lower world prices. Thereafter, as a result of increasing global wheat prices and a weakening exchange rate, prices are expected to rise with an average futures price in 2014 of R4 385/ton. Production will remain short of domestic consumption, making South Africa a net importer of wheat.

World production of ethanol is growing due high petroleum prices and supportive policies for use of cleaner fuels. In South Africa, the new policy does away with an E2 blending requirement and any blending is now voluntary. Total ethanol production in 2009 is expected to be 67 million litres of which 66 per cent is produced from sugar cane, and the remainder from maize. By 2014, total production is forecast to be 329 million litres, with the proportion coming from sugar cane increasing to 80 per cent. The projected retail price of ethanol in 2009 is R7.98/litre, compared to a retail petrol price of R10.39/litre. By 2014, the retail ethanol price is expected to be R12.26/litre while the petrol priced at R13.17/litre. Ethanol trades at lower price than petrol because of the 100 per cent fuel level exemption.

Biodiesel and vegetable oils for human consumption both have oilseeds as a feedstock. Given the current high price of vegetable oil and the fact that there is no government policy, the production of biodiesel is deemed not viable. Since European Union prices of biodiesel are high, a potential market does exist provided that South Africa is accepted as a formal exporter.

*Source: The South African Agricultural Baseline, June 2008*

### 4.3.3 Construction

The construction sector has been the mainstay of South African economic growth since 2003, driven mainly by both public and private sector investment in infrastructure as discussed earlier in sections. The construction sector constituted about 5.0 per cent of the Western Cape GDP in 2007, and has achieved tremendous growth rates of 15.2 per cent in 2006 and 17.5 per cent in 2007.

The less accommodative monetary policy and low business confidence environment accounts for the projected slowdown of 9.5 per cent for 2008 and a further decline to 6.5 per cent anticipated in 2009. The South African economy experienced declining property prices in general and repossession of residential property increased sharply since the monetary policy tightening cycle began in June 2006. Furthermore, public sector investment, one of the main drivers of construction activity in the country is beginning to decline as shown the most recent trend in GFCF.

#### **4.3.4 Wholesale and retail trade, catering and accommodation**

These sectors have started shrinking in South Africa at large as most recent results show a negative growth rate of 2.2 per cent in the wholesale and retail trade, catering and accommodation industry for the second quarter of 2008. Although still growing at positive rates in the Western Cape, the wholesale and retail trade and catering and accommodation sectors are projected to decelerate to 2.4 per cent and 2.8 per cent in 2008 respectively. The reasons are much similar to those affecting national trends ranging from less accommodative monetary policy to slumps in consumer confidence.

Projections for 2009 are also less favourable, however, there is anticipated acceleration in the growth of these sectors from 2010 onwards due to the expected boost in consumption expenditure related to the 2010 FIFA Soccer World Cup tournament. Moreover, the inflation outlook is also projected to improve over the medium-term which will contribute to the revival of the sectors.

#### **4.3.5 Finance and insurance, business services**

These two sectors dominate the Western Cape economy (constituting close to one third of the Province' economic output in 2007) and their fortunes will heavily determine the outlook of the Provincial economy. Growth of these two sectors is projected to decelerate in 2008 and 2009, primarily as a result of the tight monetary policy as they are highly sensitive to interest rates developments.

Projections for 2009 are less promising, as the finance and insurance sector is anticipated to decelerate sharply to 3.4 per cent while the business services sector is projected to come in at 2.0 per cent, way below the growth rates achieved in 2007. Recovery in growth is projected from 2010 onwards mainly due to the improving interest rate and inflation outlook. However, continued deterioration in international financial market prospects can severely damage the prospects of these sectors.

#### **4.3.6 Investment in infrastructure: a key to economic growth**

Investment in fixed infrastructure is a vehicle for unlocking economic growth potential and attracts further private sector investment (the crowding-in effect). The need for laying a solid fixed investment foundation arises from the observation that infrastructure bottlenecks in any economy can constrict the country or region from reaching its potential growth and the fight against poverty. In addition, these bottlenecks deter both foreign and private investors, which further constrain the process of growth.

There are many examples in literature where economic booms were preceded and reinforced by huge investment in physical and social infrastructure such as the Republic of Korea, Japan and Hong Kong to name a few.

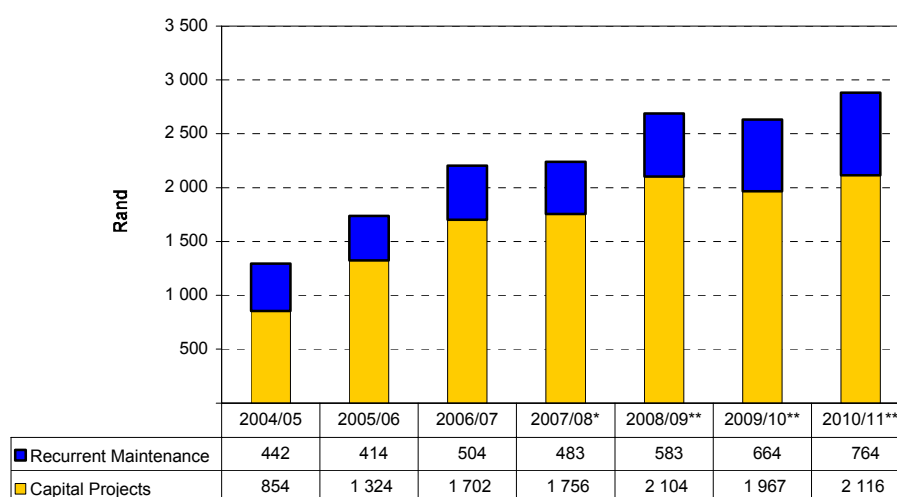
The following are some of the benefits of adequate infrastructure. Infrastructure development promotes connectivity of producers and markets, lowers transaction costs, and provides people with access to workplaces and important services such as education, health. Extending roads, schools infrastructure and utilities such as water and electricity to poor communities will also bolster the fight against poverty.

The Provincial Government of the Western Cape (PGWC) developed iKapa GDS which provides the PGWC with a clear strategic framework for accelerated and shared economic growth through a range of thorough developmental interventions in the Province for all residents, particularly the poor.

One of the outlined purposes of the White Paper is to inform strategic plans and infrastructure investment priorities of provincial departments, national departments and State-Owned Enterprises (SOEs) operating in the Western Cape. This is reinforced by the Strategic Infrastructure Plan (SIP), which is dedicated to assessing infrastructure needs for the Province, where and how infrastructure will be built depending on the availability of funds.

This sub-section highlights infrastructure spending in the Western Cape, which estimated using payments by provincial departments on capital projects. The proportion of infrastructure spending by departments in the Western Cape allocated to capital projects, as opposed to maintenance, is roughly 76 per cent for each of the years between 2005/06 and 2010/11, while projected spending increases at an average annual rate of 16 per cent from 2005/06 to 2010/11.

**Figure 1.3 Provincial infrastructure payments (R'million), 2004/05 - 2010/11**



Source: Western Cape Provincial Government Budget Review, 2008

\*estimate, \* forecast

### Highlights of infrastructure projects in the Province funded by SOEs

- The Airports Company South Africa (ACSA) is continuing infrastructural development of its airports to the value of R5.2 billion. Projects for Cape Town International Airport include a new terminal building at R900 million and a new retail mall valued at R60 million.
- Transnet Port Terminals' R4.2 billion port terminal expansion in Cape Town is forecast to increase capacity from 740 000 TEU<sup>14</sup> to 1.4 million TEU at completion in 2012.
- South African National Roads Agency Ltd. (SANRAL) is proposing to upgrade the N1 Du Toit's Kloof tunnel. The project would form part of N1/N2 Winelands Toll Highway project. The proposed upgrade to be completed by 2010, will cost R1.2 billion.
- South African Rail Commuter Corporation (SARCC) has budgeted an amount of R1.6 billion between 2008/09 and 2010/11 for the construction of the rail link between Cape Town International Airport and Cape Town city centre. SARCC subsidiary Intersite has secured R100 million for the upgrade of Cape Town Central Station.
- The City of Cape Town plans to spend R1.4 billion on its bus rapid transport system (BRT). The first phase of the BRT is expected to be completed by 2010.
- The Green Point multi-purpose stadium was originally projected to cost R2.86 billion, however, by April 2008 the cost was expected to amount to R3.95 billion due to rising inflation and import prices. The stadium is due for completion in December 2009 in addition to upgrading of Athlone stadium.
- The construction of open cycle gas turbine peaking power plants Ankerlig in Atlantis and Gourikwa in Mossel Bay at the cost of R3.5 billion.

#### 4.4 Trend in Western Cape exports

In this sub-section, we examine the composition, historic trends in the growth of manufacturing sector exports as well as the destinations for these exports. Overall, the Western Cape Province accounts for about 10.1 per cent of the total South African exports to the rest of the world (ROW) after the Gauteng Province, which generates more than half of South Africa's exports at 59.7 per cent in 2007.

<sup>14</sup> Twenty foot equivalent unit.

**Table 1.4 Trends in Western Cape exports to the rest of the world (R'million at 2000 constant prices)**

Year	2002	2003	2004	2005	2006	2007	% of total exports, 2007	Annual average growth (%) 2002 - 2007
<b>All commodities Western Cape</b>	<b>35 950</b>	<b>33 505</b>	<b>31 419</b>	<b>35 969</b>	<b>38 123</b>	<b>47 988</b>	<b>100</b>	<b>5.9</b>
Live animals, animal products	3 110	2 697	2 398	2 343	2 360	3 072	6.4	0.2
Vegetable products	5 101	5 676	6 402	6 375	6 459	9 120	19.0	12.3
Animal or vegetable fats & oils	98	76	33	30	24	36	0.1	-18.2
Prepared foodstuffs; beverages, spirits & vinegar; tobacco & manufactured tobacco substitutes	5 697	5 622	5 566	6 267	6 696	8 082	16.8	7.2
Mineral products	9 311	8 242	5 541	8 256	9 386	10 068	21.0	1.6
Products of the chemical or allied industries	1 152	914	1 103	1 245	1 317	1 931	4.0	10.9
Plastics & articles thereof; rubber & articles	667	630	526	675	663	913	1.9	6.5
Raw hides & skins, leather	533	402	447	439	491	494	1.0	-1.5
Wood & articles of wood	410	415	427	416	329	281	0.6	-7.3
Pulp of wood or other fibrous cellulosic material	301	286	203	268	262	382	0.8	4.9
Textiles & textile articles	2 033	1 919	1 236	1 171	1 090	1 142	2.4	-10.9
Footwear, headgear, umbrellas	77	72	39	40	30	52	0.1	-7.5
Articles of stone, plaster, cement, asbestos, mica ceramic products; glass & glassware	126	115	103	114	124	158	0.3	4.6
Natural or cultured pearls, precious or semi-precious stones, precious metals	1 307	966	1 221	1 470	1 016	1 182	2.5	-2.0
Base metals & articles of base metal	1 815	2 261	2 574	2 558	3 008	4 268	8.9	18.7
Machinery & mechanical appliances; electrical equipment.	1 776	1 548	2 143	2 816	3 169	4 488	9.4	20.4
Vehicles, aircraft, vessels & associated transport equipment	1 715	1 112	943	929	1 142	1 511	3.1	-2.5
Optical, photographic, cinematographic, instruments.	181	131	160	228	202	335	0.7	13.2
Arms & ammunition; parts & accessories	-	-	-	-	-	-	0.0	-
Miscellaneous manufactured articles	515	394	326	291	309	408	0.9	-4.5
Works of art, collectors' pieces & antiques	25	27	25	20	29	39	0.1	9.5
Other unclassified goods	-	-	3	17	18	26	0.1	-

Source: Provincial Treasury calculations based on Quantec Research data, 2007

In terms of contribution (see Table 1.4 above), the major export products from the Western Cape to the rest of the world in 2007 were mineral products (21 per cent), vegetable products (19 per cent) and prepared foodstuffs; beverages, spirits and vinegar; tobacco & manufactured tobacco constituted (16.8 per cent).

Other significant export products are machinery & mechanical appliances; electrical equipment (9.4 per cent), base metals and articles of base metal (8.4 per cent) and live animals and animal products (6.4 per cent).

The chemical or allied industries (4 per cent), textiles and textile articles (2.4 per cent) as well as the footwear (0.1 per cent) industry exports played a limited role in 2007. The chemical and biotechnology industries have been targeted as priority sub-sectors for intervention in the Province to enhance employment creation.

Overall, exports from the Western Cape grew by 5.9 per cent per annum between 2002 and 2007 and the sub-sectors with the fastest growth in exports are the machinery and mechanical appliances; electrical equipment (20.4 per cent) and base metals and articles of base metal (18.7 per cent) for the same period.

There has been significant shrinking in the export of textiles and textile articles (-10.9 per cent) and footwear, headgear, umbrellas (-7.5 per cent) between 2002 and 2007. Other sub-sectors with higher growth rates such as special classification of original equipment components (19.4 per cent) make a small contribution to total exports in rand value terms and therefore, one cannot read much into these changes.

Major challenges affecting growth in Western Cape exports include the projected global economic slowdown, which adversely affects demand for exports. In addition, the volatile exchange rate affects export earnings (most recently the rand depreciated significantly against the Euro and other major currencies). The ever-rising competition on the world markets is another downside risk as there is evidence of limited export of hi-tech goods from the Western Cape. There is also evidence of limited diversification of exports from the Province as agro-based (42.3 per cent) and mineral products (21 per cent) dominated exports from the Western Cape in 2007.

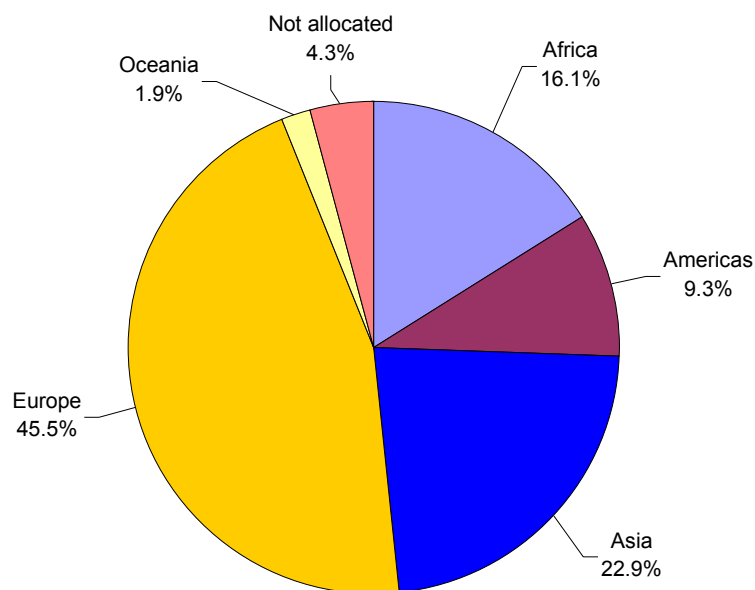
#### **4.4.1 Western Cape exports by destination**

Figure 1.4 below illustrates the major destinations of export products from the Western Cape Province. About 46 per cent of exports are destined for Europe with Asia accounting for the second largest proportion of exports (22.9 per cent). African countries absorb an estimated 16.1 per cent of exports from the Province. The Oceania<sup>15</sup> (1.9 per cent) and Americas<sup>16</sup> (9.3 per cent) regions account for invariably less exports from the Western Cape.

<sup>15</sup> Includes Australia, New Zealand, Melanesia, Micronesia and Polynesia.

<sup>16</sup> Includes the countries in the Caribbean, Central America, Northern America, South America and NAFTA.

**Figure 1.4 Major destinations for Western Cape exports (%), 2007**



Source: Provincial Treasury calculations based on Quantec Research data, 2007

Of concern is the fact that economic growth projections for the major export destinations (especially countries in the Euro area) are less robust for the medium-term as discussed earlier. In addition, Asian economies are projected to moderately slowdown, which does not bode well for export earnings, as demand for export products in these countries would decrease.

#### **4.5 Direct investment in the Western Cape**

This section discusses trends in the value direct investment<sup>17</sup> facilitated by Wesgro<sup>18</sup> in the Western Cape. The value of investment excludes those projects that are not facilitated by Wesgro; hence Wesgro investment data is a proxy of investment trends in the Province.

In 2007/08 Wesgro facilitated investments to the value of R732.2 million, creating 5 708 jobs. Part of the repositioning of the Agency has been a renewed emphasis on high-value projects rather than myriads of small-value projects. Figure 1.5 below shows how this has resulted, particularly in the most recent year, in much higher average investment values and average employment numbers per project.

<sup>17</sup> Investment in fixed assets that are used over a number of years to produce goods and /or services.

<sup>18</sup> Wesgro is the official investment and trade promotion agency for the Western Cape Province.



**Figure 1.5** Average value of investments facilitated by Wesgro, 2004/05 - 2007/08

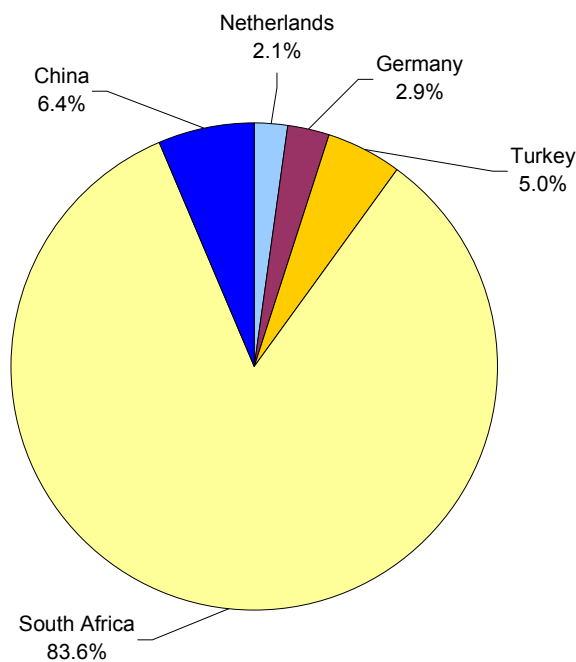


Source: Wesgro IQ, 2008

#### 4.5.1 Sources of investment

In recent years, the primary source of FDI into the Western Cape has been from the UK, Germany and the US. However, in 2007/08, about 84 per cent of all investment into the Province came from the rest of South Africa. To some extent this high proportion is attributable to a single high-value investment in the film sector, which originated from South Africa. After South Africa, the major investors in the Western Cape in 2007/08 were China, Turkey and Germany and the Netherlands.

**Figure 1.6** Source countries for Wesgro investment (%), 2007/08



Source: Wesgro IQ, 2008

The major reason for this outcome is probably that South African investors have a better understanding of the business climate and working conditions in the Province and also have a lower level of perceived risk in entering the Province. This also reflects domestic confidence in the Western Cape as a market and as a place to do business.

#### 4.5.2 Sectors for investment

In line with the shift of the Western Cape economy to being more services-orientated, the majority of investment facilitated by Wesgro has also been within the services sector. In 2007/08, over two-thirds of investment facilitated by Wesgro was in the services sector and specifically within the film and multimedia industry. This is also consistent with global FDI trends favouring investment in services. The second most important investment sector for 2007/08 was the leisure yacht & boat-building industry. This is another promising niche sector for the Province.

**Table 1.5 Share of investment value by sub-sector (R'million), 2007/08**

Sub-sector	Investment value	Share (%)
Film & multimedia	450	61.5
Leisure yacht & boatbuilding	92	12.6
Other manufacturing	73	10.0
Clothing & textiles	36	4.9
Metals & engineering	28	3.9
Wholesale & retail trade	19	2.6
Other tourism	29	4.0
Other Services	5	0.7
<b>Total</b>	<b>732</b>	<b>100</b>

*Source: Wesgro IQ, 2008*

Although Wesgro investment data is currently the best proxy for investment into the Western Cape, investments not facilitated by Wesgro require highlighting. Many of the projects have been directed to the financial and business services sector with prominent international branded companies in research and communications setting up regional headquarters in the Western Cape. Additional investments into the tourism sector again emphasises the importance and growth potential of this key industry.

#### 4.5.3 Geographical location of investment

Investment in the Western Cape has historically been concentrated in the City of Cape Town, with the City of Cape Town accounting for 97.2 per cent of investment in the Province in the financial year 2007/08. This trend reflects both the economic and demographic dominance of the City of Cape Town in the Province. Other districts attract minimal investment, which calls for special efforts in promoting these districts as destinations for investment.

**Table 1.6 Share of investment by district (%): 2004/06 - 2007/08**

	2004-05	2005-06	2006-07	2007-08
Cape Winelands	17.5	0.9	4.0	2.5
City of Cape Town	78.1	64.8	92.7	97.2
Eden	1.9	2.9	2.2	0.3
Overberg	1.2	0.5	0.7	0.0
West Coast	1.3	31.1	0.5	0.0
Other	0.0	0.0	0.0	0.0

Source: Wesgro IQ, 2008

#### 4.5.4 Medium-term investment forecast

The economic outlook for the next few years suggests that prospects for investment are not as good as they have been over the past few years. Higher interest rates dampen the incentives for private investment and the inflationary environment together with the depreciating currency and the widening current account deficit increases the perception of risk. Between lower returns on investment, expectations and perceptions of higher risk, it seems likely that, for the medium-term, private investment will not remain as robust.

#### 4.6 Policy recommendations for the Western Cape

It is recommended that the provincial government deepen the implementation of interventions advocated for and outlined in the major policy documents adopted by the Province such as the MEDS and the iKapa GDS.

The expansion of the tradable goods sectors is also imperative especially in sub-sectors where less-skilled labour can be employed/absorbed. In other words, strategies based on the utilisation of the skills set that Western Cape possesses is paramount. The success however, depends the level and volatility of the real exchange rate<sup>19</sup>. Volatility in the exchange rate brings risks to investment in these sectors and the level of the exchange rate determines profitability.

The Province is also encouraged to support Research and Development (R&D) and innovation to make exports from the Province to the rest of South Africa and the rest of the world more competitive. There is need to develop new, high productivity tradable goods in the Province which can go a long way in reducing unemployment and improving wages.

Lastly, there is need for further research into the viability of expanding the production of field crops that generate biofuels as a way of improving the prospects of the agricultural sector in the Province.

<sup>19</sup> Defined as the relative price of tradable to non-tradable goods.

## 5. Concluding remarks

The most recent developments in the international financial markets have led to a deteriorating global economic outlook, with a more widespread housing market downturn, tighter credit conditions and heightened inflation risks, it therefore implies that the policy options available for many economies have been reduced due to the widespread nature of the risks.

The preeminent policy challenge for the global economy is to mitigate the intensification of the negative feedback loop between the financial system and real economy in the near-term while ensuring recovery of financial markets and the real sectors. The current financial market rescue efforts by advanced economies seem to be insufficient as stock markets across the world continue to crumble despite these bold efforts.

South Africa, in line with other emerging market and developing economies is now exposed to financial market risk through potential reversal of financial flows as risk aversion rises, thereby testing the resilience of emerging market economies to the global credit turmoil. At the moment, a recession is less likely for many emerging market and developing economies.

The most difficult challenges for emerging market economies including South Africa are therefore protecting the poor from high food and energy prices as well as stimulating economic growth to avoid a recession without depleting foreign currency reserves and widening budget deficits.

The Western Cape economic outlook is largely dependent on the fortunes of the global and national economies as the projections near-term are less favourable. However, the Province can take advantage of the local opportunities and strengths to improve the growth prospects through the deepening of implementation of economic growth strategies and interventions that are already in place.

# 2

## Labour Market Dynamics in the Western Cape

### Key Findings:

- The labour force experienced strong growth both in the Western Cape and at national level in the period 2002 to 2007. This growth was mainly a result of growing participation of the working age Africans, females and the older segments of the labour force.
- The labour force in the Western Cape is also showing signs of improvement in its skills profile as shown by the growing share of individuals who obtained matric and higher qualifications.
- Overall, employment performance improved as shown by the higher absorption of new entrants in the labour market. In particular, Africans, females and the older segments of the labour force experienced significant growth in employment in the period under consideration.
- Growth in employment was also stronger for the labour force in highly skilled and skilled occupations. This can be attributed to a strong growth in employment in the tertiary and secondary sectors of the economy and increasing skilled-labour intensity in many industries in the Western Cape.
- Despite a moderate reduction in unemployment during this period, unemployment remains high amongst Africans and the youth in the Province.
- The Province has a high and growing number of discouraged employment-seekers particularly among Coloureds, females and the youth.

## 1. Introduction

The labour market represents an important link between households' welfare and the economy. The performance of the labour market is, therefore, key to the achievement of the strategic socio-economic goals of the post-apartheid government such as halving unemployment and poverty by 2014. The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) identifies in detail the limitations and the limitations of the current structural constraints in the South African labour market on the achievement of shared and sustainable economic growth.

In the Western Cape, the labour market is also central to the achievement of the strategic outcomes of shared growth, integrated, and sustainable development outlined in the iKapa Growth and Development Strategy (iKapa GDS). This chapter will measure changes in the key labour market indicators in the Western Cape for the period 2002 to 2007.

Section 2 of this chapter focuses on developments in the labour force, with emphasis on its composition, growth and skills profile. Section 3 explores the trends in employment and the ability of the labour market to absorb the growing labour force. Section 4 focuses on unemployment in terms of the profile of the unemployed labour force, the levels of unemployment and the influence of skills on unemployment patterns.

## 2. Labour force

### 2.1 Overview of the labour force

Overall, the labour market experienced a combination of rapid growth in employment, a decline in unemployment and a growth in the size of the labour force both in the Western Cape and at national level between 2002 and 2007. Employment creation was faster at national level, as employment increased by 17.1 per cent compared to 14.6 per cent in the Western Cape (see Table 2.1 below). The faster growth in employment at national level led to a faster reduction in the number of unemployed individuals in the labour force by 20.1 per cent. On the other hand, the reduction in unemployment by 4.1 per cent in the Western Cape was relatively moderate.

The size of the labour force in the Western Cape (which represents the supply-side of the labour market) grew by a rate that is almost twice the national average in the period 2002 to 2007. The narrow labour force<sup>1</sup> increased by 10.9 per cent in the Western Cape and by 5.8 per cent at national level for the same period. It is shown in the later sections of this chapter that increased participation in the labour market by

<sup>1</sup> Excludes discouraged employment-seekers from the labour force

working age Africans, females and the older sections of the labour force was responsible for the growth in the size of the labour force in the Province.

**Table 2.1 Labour force aggregates in South Africa and the Western Cape, 2002 and 2007**

Western Cape	2002	2007	Total change (2007 - 2002)		Average annual growth rate (%)
			Number	Percentage change	
Employed	1 570 985	1 800 300	229 315	14.6	2.8
Narrow Unemployed	383 200	367 571	-15 629	-4.1	-0.8
Narrow Labour Force	1 954 185	2 167 871	213 686	10.9	2.1
Discouraged Unemployed	142 202	179 520	37 318	26.2	4.8
Broad Labour Force	2 096 387	2 347 391	251 004	12.0	2.3
<b>Broad Unemployed</b>	<b>525 402</b>	<b>547 091</b>	<b>21 689</b>	<b>4.1</b>	<b>0.8</b>
<b>Working age population</b>	<b>2 981 160</b>	<b>3 209 572</b>	<b>228 412</b>	<b>7.7</b>	<b>1.5</b>
<b>South Africa</b>					
Employed	11 296 454	13 233 515	1 937 061	17.1	3.2
Narrow Unemployed	4 936 025	3 944 621	-991 404	-20.1	-4.4
Narrow Labour Force	16 232 479	17 178 136	945 657	5.8	1.1*
Discouraged Unemployed	3 193 550	3 425 291	231 741	7.3	1.4
Broad Labour Force	19 426 029	20 603 427	1 177 398	6.1	1.2*
<b>Broad Unemployed</b>	<b>8 129 575</b>	<b>7 369 912</b>	<b>-759 663</b>	<b>-9.3</b>	<b>-1.9</b>
<b>Working age population</b>	<b>28 527 167</b>	<b>30 413 283</b>	<b>1 886 116</b>	<b>6.6</b>	<b>1.3*</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Note: Changes that are statistically significant at the 90 per cent confidence level are indicated with an asterisk (\*) and those that are statistically significant at the 95 per cent level are indicated with double asterisk (\*\*).

A negative trend is observed in terms of the increase in discouraged employment-seekers both in the Western Cape and at national level. More unemployed people are becoming discouraged from looking for jobs despite the high economic growth and faster employment creation over the period under consideration. This could be reflective of a growing mismatch between the skills required by the growing economy and the inferior skills possessed by some segments in the labour market, resulting in increasing discouragement.

The number of discouraged employment-seekers increased by 26.2 per cent in the Western Cape, resulting in an overall increase in broad unemployment<sup>2</sup> by 4.1 per cent. The increase in the number of discouraged employment-seekers at national level was relatively lower at 7.3 per cent. Despite the increase in the number of discouraged employment-seekers, broad unemployment at national level dropped by 9.1 per cent between 2002 and 2007.

<sup>2</sup> Includes discouraged employment seekers in the labour force.

## 2.2 Demographic composition of the labour force

This sub-section discusses the demographic dynamics of the labour force in the Western Cape for the period 2002 to 2007. The narrow definition of the labour force, which excludes the discouraged unemployed from the labour force, is used for the analysis. As shown in Table 2.2 below, Coloureds, males and the youth constitute the majority of the labour force in the Western Cape.

Overall, Africans registered the highest growth in the size of their labour force compared to other population groups as the number of Africans in the labour force grew by 37.4 per cent between 2002 and 2007. This resulted in an increased in the share of Africans in the Western Cape labour force from 25.9 per cent in 2002 to 32.1 per cent in 2007.

The number of Coloureds in the labour force dropped by 2.9 per cent in the same period and this reduced the share of Coloureds in the total labour force from a majority of 53.6 per cent in 2002 to 46.0 per cent in 2007. The reduction in the number of Coloureds in the labour force is partly due to an increase in the number of discouraged employment-seekers among Coloureds in the same period. It should be noted once again that discouraged employment-seekers are excluded from the labour force in the narrow definition of the labour force.

A positive development in the labour force of the Western Cape is an increase in participation by females. The number of females in the labour force increased by 21.1 per cent, resulting in an increase in the share of females in the total labour force from 40.4 per cent in 2002 to 46.5 per cent in 2007.

**Table 2.2 Population group, gender and age composition of the labour force in the Western Cape, 2002 and 2007**

Population group and gender	2002		2007		Total Change	
	Labour force	Share (%)	Labour force	Share (%)	Number	Percentage
Africans/Blacks	506 045	25.9	695 106	32.1	189 060	37.4
Coloureds	1 026 388	52.5	996 516	46.0	-29 872	-2.9
Whites	404 133	20.7	464 080	21.4	59 946	14.8
<b>Total</b>	<b>1 954 184</b>	<b>100.0</b>	<b>2 167 871</b>	<b>100.0</b>	<b>213 687</b>	<b>10.9</b>
Males	1 120 960	57.4	1 158 093	53.4	37 133	3.3
Females	832 928	42.6	1 008 909	46.5	175 981	21.1*
<b>Total</b>	<b>1 954 184</b>	<b>100.0</b>	<b>2 167 870</b>	<b>100.0</b>	<b>213 686</b>	<b>10.9</b>
15-24 years	364 958	18.7	460 973	21.3	96 016	26.3
25-34 years	698 080	35.7	691 147	31.9	-6 933	-1
35-44 years	481 365	24.6	519 338	24.0	37 973	7.9
45-54 years	298 273	15.3	349 138	16.1	50 865	17.1
55-65 years	111 509	5.7	147 275	6.8	35 766	32.1
<b>Total</b>	<b>1 954 184</b>	<b>100.0</b>	<b>2 167 871</b>	<b>100.0</b>	<b>213 686</b>	<b>10.9</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Note: Changes that are statistically significant at the 90 per cent confidence level are indicated with an asterisk (\*) and those that are statistically significant at the 95 per cent level are indicated with double asterisk (\*\*).



The youth<sup>3</sup> constituted the majority (53.2 per cent) of the labour force in the Western Cape in 2007. The number of young people in the labour force in the Province grew by only 8.3 per cent in the period 2002 to 2007 and this growth rate was moderate compared to the average increase of 10.9 per cent in the overall size of the labour force for the same period. The older sections of the labour force, those aged 45 to 54 years and 55 to 65 years, showed above average growth rates of 17.1 per cent and 32.1 per cent respectively, which indicates an element of aging in the Western Cape labour force.

### **2.3 Participation rates of the working age population in the labour market**

Growth in the participation by the working age population in the labour market (besides net changes in migration) is one of the main factors behind the growth in the size of the labour force. By definition, a participation rate indicates the share of the working age population that is part of the labour market at a certain point in time, whether they are employed or unemployed. It is shown in Figure 2.1 below that the participation rate of the working age population in the Western Cape labour market increased from 65.6 per cent in 2002 to 67.5 per cent in 2007.

The challenge posed by growing participation in the labour market by the working age population is that these new entrants into the labour market need to be absorbed into employment i.e. there is need for the economy to create new jobs. A failure to absorb a growing labour force into employment can lead to growing unemployment. This was characteristic of the South African labour market in the first decade of democracy, which led to an inaccurate observation of “job less growth”<sup>4</sup> by many interest groups.

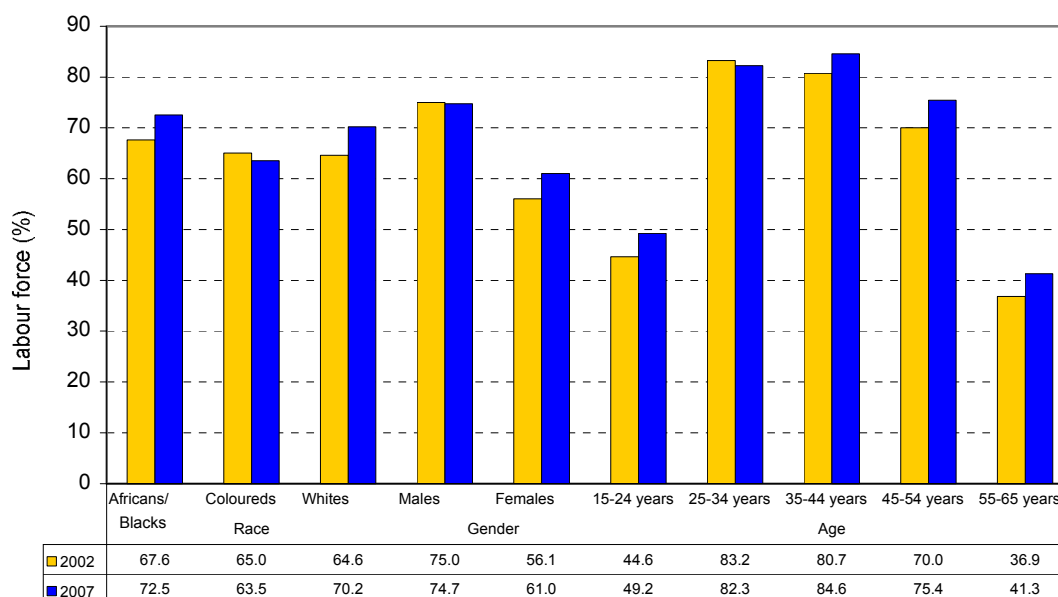
As shown in Figure 2.1, the increase in the participation rate in the Western Cape labour market were driven by significant increases in the participation rates of working age Africans, Whites, females and the older sections of the working age population (those older than 35 years) in the period 2002 to 2007.

The participation rate of working age Coloureds dropped from 65.0 per cent to 63.5 per cent and that of working age 25 to 34 year olds dropped from 83.2 per cent to 82.3 per cent in the 2002 to 2007 period. The increase in the number of discouraged employment-seekers (which are excluded from the labour force under the narrow definition of the labour force) among Coloureds is responsible for the reduction in the participation rate of working age Coloureds in the labour market (see Section 4.3).

<sup>3</sup> For the purpose of this chapter, the youth is made up of those individuals in the 15 to 34 year age group.

<sup>4</sup> See Borat, H and Oosthuizen, M, 2007

**Figure 2.1 Population group, gender and age participation rates in the Western Cape labour market, 2002 and 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Despite the increase in the overall participation rate in the Western Cape labour market, the participation rates of working age females, the youth and 55-65 year olds remained relatively low.

The 55 to 65 year olds, which represent the most experienced section of the labour force, registered growth in their participation rate from 36.9 per cent in 2002 to 41.3 per cent in the 2007. The Joint Initiative on Priority Skills Acquisition (JIPSA) initiative, as part of AsgiSA, aims to recruit the retired workforce (that is experienced in certain critical skills) in order to address the skills shortage in the short-run. This is likely to lead to a significant increase in the participation rates of the older sections of the labour force in the labour market.

## 2.4 Skills composition of the labour force

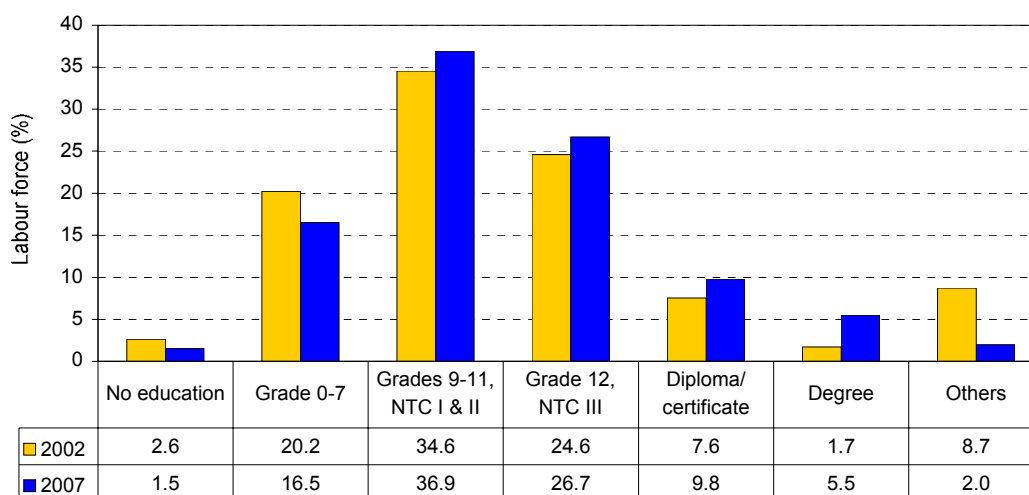
The issue of skills shortage has become a major policy challenge given the context of the structural nature of unemployment in South Africa. The failure of the growing economy to absorb the unemployed (mainly unskilled) sections of the labour force has been described as indicative of a mismatch in skills possessed by the unemployed labour force and the skills required by the economy<sup>5</sup>. In addition to the initiatives aimed at stimulating the growth of unskilled labour intensity sectors<sup>6</sup>, much of government policy interventions have been focused on improving the skills profile of the labour force.

<sup>5</sup> Deputy President Phumzile Mlambo-Ngcuka AsgiSA Media Briefing, 2005

<sup>6</sup> See The National Industrial Policy Framework, DTI

In terms of formal education, the labour force in the Western Cape has experienced an improvement in its skills profile in the period 2002 to 2007 (see Figure 2.2 below). The share of the labour force with no formal education dropped from 2.6 per cent to 1.5 per cent and the share of those individuals with grades 0 to 8 also dropped from 20.2 per cent to 16.5 per cent in the same period. The total share of those with matric and higher qualifications in the labour force increased from 33.9 per cent in 2002 to 42 per cent in 2007.

**Figure 2.2 Composition of the labour force in the Western Cape by the highest formal education obtained, 2002 and 2007**



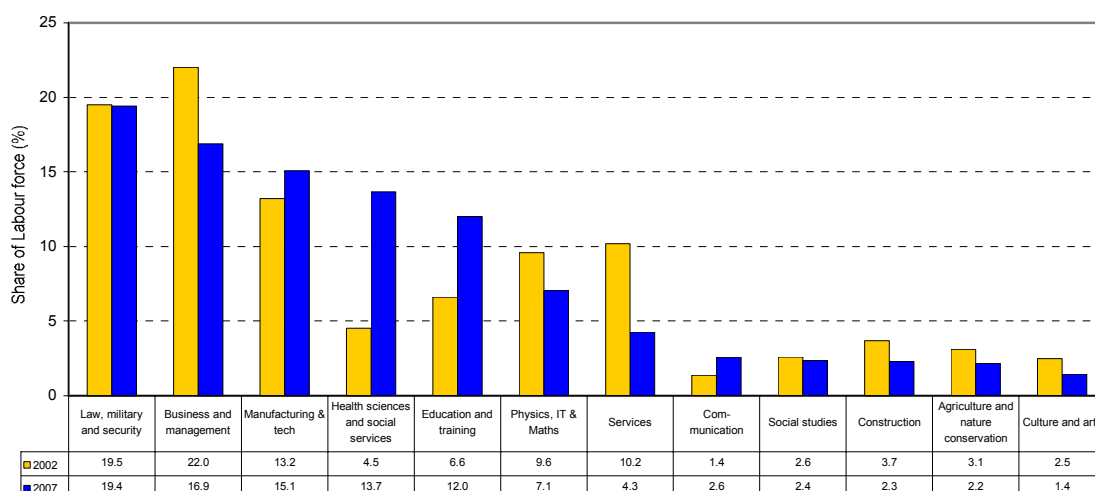
Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Besides interventions in the education system, skills training of the labour force (whether employed or unemployed) has received much attention in recent government policy programmes and strategies<sup>7</sup>. The training proposed ranges from sector-related skills development programmes (e.g. through SETA programmes), work-based programmes to learnerships.

Respondents that were interviewed for the LFS were asked whether they had received any type of training that can be used in the workplace. In the Western Cape labour force, only 14.9 per cent of the respondents in 2007 and 18.0 per cent in 2002 reported to have received work-related training. The fields in which the training was received in 2002 and 2007 are indicated in Figure 2.3 below.

<sup>7</sup> See AsgiSA, the National Skills Development Strategy (NSDS) 2005 to 2010 by the Department of Labour.

**Figure 2.3 Field of training received by the labour force in the Western Cape, 2002 and 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

About 19.4 per cent of the labour force that reported to have received training in 2007 were trained in the field of law and security. The high percentage of respondents that received training in this field could be dominated by training received by security guards and therefore, would be largely unskilled in nature.

Training in the skilled fields of business and management was reported by 16.9 per cent of the labour force and training in physics, mathematics and computer studies was reported by a mere 7.1 per cent of the respondents in 2007. The fastest growth in terms of the labour force that received training was in the fields of health/social sciences, services and education, training and development.

## 3. Employment

### 3.1 Demographics and employment

#### 3.1.1 Growth in employment

The economic conditions in the Western Cape and at national level were conducive for employment creation in the period 2002 to 2007, as the Gross Domestic Product (GDP) growth rates averaged 5.5 per cent and 4.7 per cent for the Province and at national level respectively. In Table 2.3 below, it is shown that the number of employed people in the Western Cape grew by 14.6 per cent, creating a total of 229 315 new jobs in the period 2002 to 2007. The growth in employment was particularly high for Africans, females and the older segments of the labour force.

The employment of Africans increased by more than half (56.4 per cent) during the period under consideration. A positive development in labour market in the Province is the increase in the number of employed females by 31.1 per cent, which represents a total of 196 916 new jobs created for females in this period, which bodes well for the reduction of gender disparities in the labour market.

The rapid growth in the employment of Africans and females could be a result of a combination of market and policy factors. The most direct employment policy intervention at the demographic level in South Africa is the Broad Based Black Economic Empowerment (BBBEE) policy. One of the interventions of this policy, which aims to redress the economic imbalances in the South African society, is the promotion of employment of black people<sup>8</sup>, females and disabled people through employment equity.

**Table 2.3 Population group, gender and age composition of employment in the Western Cape, 2002 and 2007**

	2002	2007	Total change		Average annual growth rate (%)
	Employed	Employed	Number	Percentage	
Africans/Blacks	325 416	509 026	183 610	56.4	9.4
Coloureds	842 551	833 934	-8 617	-1.0	-0.2
Whites	387 316	446 222	58 906	15.2	2.9
<b>Total</b>	<b>1 570 985</b>	<b>1 800 300</b>	<b>229 315</b>	<b>14.6</b>	<b>2.8</b>
Males	936 565	968 848	32 283	3.4	0.7
Females	634 123	831 040	196 916	31.1	5.6
<b>Total</b>	<b>1 570 985</b>	<b>1 800 300</b>	<b>229 315</b>	<b>14.6</b>	<b>2.8</b>
15-24 years	228 619	289 455	60 836	26.6	4.8
25-34 years	559 704	569 169	9 465	1.7	0.3
35-44 years	412 090	476 015	63 925	15.5	2.9
45-54 years	264 210	322 486	58 277	22.1	4.1
55-65 years	106 362	143 174	36 813	34.6	6.1
<b>Total</b>	<b>1 570 985</b>	<b>1 800 300</b>	<b>229 315</b>	<b>14.6</b>	<b>2.8</b>

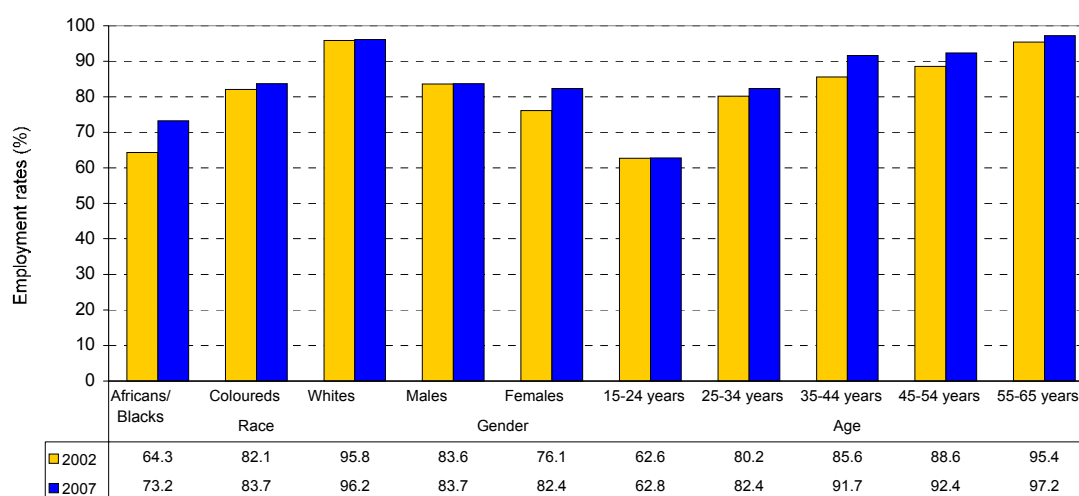
Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Growth in youth employment (8.9 per cent) is relatively low compared to the average growth rate in overall employment (of 14.6 per cent) in the Province in the period 2002 to 2007. Employment of the labour force that is aged between 24 and 34 years old, which forms 70 per cent of the youth, grew by a mere 1.7 per cent in the same period. Employment of the older segment of the labour force (i.e. the 55 to 65 year olds) increased by 34.6 per cent. The strong growth in the employment of people in this age group indicates a possibility of increasing delay in retirement and absorption of retired workforce back into employment due to the current environment of skills shortage in the South African labour market.

<sup>8</sup> Africans, Coloureds and Indians population groups constitute Black people.

Figure 2.4 below indicates the extent to which job creation in the period 2002 to 2007 has led to employment growth across the racial, gender and age segments in the Western Cape labour force. The share of Africans in the labour force with jobs increased from 64.3 per cent in 2002 to 73.2 per cent in 2007. The share of females with jobs also increased from 76.1 per cent to 82.4 per cent in the same period. Employment among the youth is relatively lower and has not increased substantially between 2002 and 2007. A faster growth in the employment of the youth is important, as the youth constitute the majority of the labour force and of unemployment.

**Figure 2.4 Population group, gender and age employment rates of the labour force in the Western Cape, 2002 and 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

### 3.1.2 Labour absorption rates

Employment creation over a certain period needs to be assessed on the basis of its ability to provide jobs to individuals who have been previously unemployed and also those that are entering the labour market for the first time. An absorption rate (AR) indicates a share of the growth in the labour force that is absorbed into employment over a certain period. When the AR is greater than 100 per cent, it means that all the new entrants in the labour market were absorbed into employment, including some people who were already in the labour force and unemployed.

It was noted in Section 2 that the Western Cape labour force grew by 213 686 people mainly due to growth in the participation of the working age population in the labour market. The overall absorption rate of 107.3 per cent in the Western Cape is reflective of the good performance of the labour market in terms of absorbing the growing labour force into employment. This AR rate means that all those who entered the labour market in the period 2002 to 2007 were absorbed into employment and a further 7.3 per cent of those that also found employment were already in the labour market before 2002 and unemployed.

In the 2002 to 2007 period, about 97.1 per cent and 98.3 per cent of the net increase in the labour force for Africans and for Whites respectively in the Province were absorbed into employment.

**Table 2.4 Labour absorption rates by population group, gender and age in the Western Cape, 2002 and 2007**

	Change in labour force (2002 - 2007)	Change in employment (2002 - 2007)	Change in unemployment (2002 - 2007)	Labour absorption rate (%)
Africans/Blacks	189 060	183 610	5 450	97.1
Coloureds	-29 872	-8 617	-21 255	28.8
Whites	59 946	58 906	1 040	98.3
<b>Total</b>	<b>213 687</b>	<b>229 315</b>	<b>-15 628</b>	<b>107.3</b>
Males	37 133	32 283	4 850	86.9
Females	175 981	196 916	-20 935	111.9
<b>Total</b>	<b>213 686</b>	<b>229 315</b>	<b>-15 629</b>	<b>107.3</b>
15-24 years	96 016	60 836	35 180	63.4
25-34 years	-6 933	9 465	-16 398	-136.5
35-44 years	37 973	63 925	-25 952	168.3
45-54 years	50 865	58 277	-7 412	114.6
55-65 years	35 766	36 813	-1 046	102.9
<b>Total</b>	<b>213 686</b>	<b>229 315</b>	<b>-15 629</b>	<b>107.3</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Females were relatively more successful than males in finding employment in the period under consideration. It is shown that 111.9 per cent of the net increase in the labour force for females was absorbed into employment. This indicates that all females that entered the labour force and some females who were previously unemployed in 2002 were absorbed into employment between 2002 and 2007.

### 3.2 Economic structural changes and labour demand

This section shows that the demand-side of the labour market, as indicated by employment dynamics is becoming more skills-intensive. The employed labour force is a major factor of production in the economy; hence the observation of employment as derived demand. The nature of the economic growth, therefore, determines the type of labour demanded and employed by industries in the economy. The recent history of economic progress in South Africa has been largely characterised by a surge in domestic demand for goods and services, which has been driven by a combination of low inflation, reduction in interest rates and an expansionary fiscal policy. This has led to a faster growth of the tertiary or services sectors of the economy, which require relatively skilled labour.

Table 2.5 below shows that the employment of individuals in highly skilled and skilled occupations increased by 37.4 per cent and 12.7 per cent respectively, while the employment of individuals in low skilled occupations increased by a relatively lower rate of 8.7 per cent between 2002 and 2007. The higher demand of highly skilled and skilled labour has resulted in skills shortage given the current high supply of relatively unskilled labour force in South Africa. AsgiSA has identified skills shortage as one of the main constraints to higher levels of economic growth in

the country. JIPSA is one of the initiatives undertaken to increase the supply of skilled labour in the short to medium term by targeting specific critical skills areas (e.g. engineers and IT practitioners).

**Table 2.5 Employment in the Western Cape by occupation, 2002 and 2007**

Occupations	2002		2007		Total change		Average annual growth rate (%)
	Employment	Share (%)	Employment	Share (%)	Employment	Percent	
Managers	110 064	7.0	148 775	8.3	38 711	35.2	6.2
Professionals	98 019	6.2	130 710	7.3	32 691	33.4	5.9
Technicians	156 961	10.0	222 138	12.3	65 177	41.5	7.2
<i>High skilled</i>	<i>365 044</i>	<i>23.2</i>	<i>501 623</i>	<i>27.9</i>	<i>136 579</i>	<i>37.4</i>	<i>6.6</i>
Clerks	164 081	10.4	176 559	9.8	12 478	7.6	1.5
Services & sales	159 795	10.2	224 440	12.5	64 645	40.5	7.0*
Crafts	204 854	13.0	209 233	11.6	4 379	2.1	0.4
Operators	121 969	7.8	122 925	6.8	956	0.8	0.2
<i>Skilled</i>	<i>650 699</i>	<i>41.4</i>	<i>733 157</i>	<i>40.7</i>	<i>82 458</i>	<i>12.7</i>	<i>2.4</i>
Elementary	413 223	26.3	428 071	23.8	14 848	3.6	0.7
Domestic workers	88 283	5.6	117 042	6.5	28 759	32.6	5.8
<i>Low skilled</i>	<i>501 506</i>	<i>31.9</i>	<i>545 113</i>	<i>30.3</i>	<i>43 607</i>	<i>8.7</i>	<i>1.7</i>
<b>Total</b>	<b>1 570 983</b>	<b>100.0</b>	<b>1 800 300</b>	<b>100.0</b>	<b>229 317</b>	<b>14.6</b>	<b>2.8</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Note: Changes that are statistically significant at the 90 per cent confidence level are indicated with an asterisk (\*) and those that are statistically significant at the 95 per cent level are indicated with double asterisk (\*\*).

The employment of individuals in elementary occupations (who are mainly absorbed in the primary sector of the economy) grew by a low rate of 3.6 per cent, while employment in the services and sales occupations (mainly absorbed in the tertiary sectors) of the economy grew by 40.5 per cent in the period 2002 to 2007. The employment of managers, professionals and technicians that are mainly absorbed in the tertiary sector, increased by 35.2 per cent, 33.4 per cent and 41.5 per cent respectively in the same period.

As mentioned above, it is the nature of the economic growth, which led to a combination of faster growth of the service or tertiary sector and low growth of the secondary and primary sectors which explains the imbalance in the demand of skilled and unskilled labour. As shown in Table 2.6 below, employment in the tertiary sector grew at a faster rate compared to the secondary sector, while the primary sector reduced its total employment in the period 2002 to 2007.

Overall, the tertiary sector was responsible for much of the growth in employment in the Western Cape over the period 2002 to 2007. The sector, with the dominance of the wholesale and retail industry, was responsible for 85.1 per cent (195 190 jobs) of the new jobs created in the Western Cape. The wholesale and retail industry, which is the biggest industry in the Western Cape in terms of employment, increased its employment by 43.3 per cent by creating 110 237 jobs.



**Table 2.6 Employment in the Western Cape by industry, 2002 and 2007**

Industry	2002		2007		Total Change		Average annual growth rate (%)
	Employment	Share (%)	Employment	Share (%)	Employment	Percentage	
Agriculture	223 194	14.2	145 860	8.1	-77 334	-34.6	-8.2*
<i>Primary sector</i>	<i>225 023</i>	<i>14.3</i>	<i>149 653</i>	<i>8.3</i>	<i>-75 370</i>	<i>-33.5</i>	<i>-7.8</i>
Manufacturing	282 612	18.0	277 521	15.4	-5 091	-1.8	-0.4
Construction	102 581	6.5	179 834	10.0	77 253	75.3	11.9*
<i>Secondary sector</i>	<i>395 394</i>	<i>25.2</i>	<i>498 785</i>	<i>27.7</i>	<i>72 162</i>	<i>18.7</i>	<i>4.8</i>
Wholesale and retail trade	254 816	16.2	365 053	20.3	110 237	43.3	7.5**
Transport, storage and comm	76 452	4.9	67 423	3.7	-9 029	-11.8	-2.5
Financial intermediation	212 789	13.5	226 260	12.6	13 471	6.3	1.2
Community, social	287 952	18.3	333 077	18.5	45 125	15.7	3.0
Private households	114 821	7.3	150 207	8.3	35 386	30.8	5.5
<i>Tertiary sector</i>	<i>946 830</i>	<i>60.3</i>	<i>1 142 020</i>	<i>63.4</i>	<i>195 190</i>	<i>20.6</i>	<i>3.8</i>
<b>Total Employment</b>	<b>1 570 984</b>	<b>100.0</b>	<b>1 800 300</b>	<b>100.0</b>	<b>229 316</b>	<b>14.6</b>	<b>2.8</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Note: Changes that are statistically significant at the 90 per cent confidence level are indicated with an asterisk (\*) and those that are statistically significant at the 95 per cent level are indicated with double asterisk (\*\*).

The primary sector, which is comprised of the agriculture and mining industries, shed 75 370 jobs between 2002 and 2007. Employment in the agriculture industry was reduced by a third (34.6 per cent) in the same period.

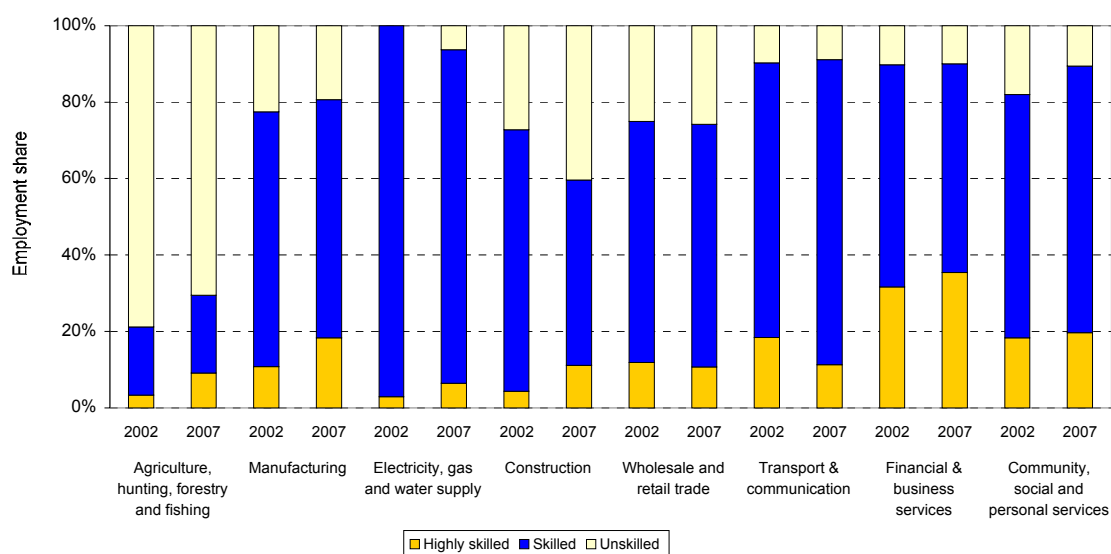
The secondary sector which is comprised of the manufacturing, construction and electricity, gas and water industries, was responsible for a net increase of 72 162 jobs between 2002 and 2007. The manufacturing industry reduced its employment by 1.8 per cent while the construction industry increased its employment by 75.3 per cent (creating 77 253 jobs) between 2002 and 2007. The construction industry in the Western Cape experienced robust growth in output, in the period 2002 to 2007 as a result of the low interest rate environment, which prevailed in the past few years, and the 2010 FIFA World Cup related construction activities.

The imbalance in the demand of skilled and unskilled labour is worsened by the fact that the industries that traditionally attracted unskilled-labour, such as agriculture, are also becoming more skilled-labour intensive. The change towards skill-intensive forms of production in tradable goods industries such as agriculture and manufacturing has been a response to increased foreign competition for locally produced goods as trade becomes more liberalised. Technological progress and rigid labour legislation (which increases the non-wage cost of unskilled labour) have been identified as factors that have also led to the skill intensity in many industries<sup>9</sup>.

<sup>9</sup> Edwards, L (2001)

In the Western Cape, the agriculture and manufacturing industries have shown a similar trend (i.e. have become more skilled-labour intensive). As shown in Figure 2.5 below, the share of unskilled labour in total employment in the agriculture industry dropped from 78.7 per cent in 2002 to 70.5 per cent in 2007, and dropped from 22.5 per cent to 19.3 per cent in the manufacturing industry during the same period. Only the construction industry has increased unskilled labour intensity, as the share of unskilled labour in total employment in this industry increased from 27.2 per cent in 2002 to 40.4 per cent in 2007.

**Figure 2.5 Distribution of employment in the Western Cape industries by skills level, 2002 and 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

The wholesale and retail industry, which experienced the fastest growth in employment creation from 2002 to 2007, has managed to retain a significant share of unskilled labour. This is likely due to the significant contribution of informal sector in this industry, as it contributed 16.2 per cent of total employment in the industry in 2007.

## 4. Unemployment trends

### 4.1 Demographic characteristics of unemployment

This section discusses unemployment dynamics in the Western Cape using the narrow definition of unemployment<sup>10</sup>. In addition to social ills related to unemployment, unemployment is a major constraint to sustainable economic growth<sup>11</sup>. This is because the unemployed people represent a forgone contribution to current output. The lack of participation in the economy by the unemployed means that these people do not acquire appropriate skills, their existing skills deteriorate and are unlikely to contribute to future output. This, therefore, limits potential economic growth in the country.

As shown in Table 2.7 below, the number of unemployed people in the Western Cape dropped by 4.1 per cent (or 15 629 people) between 2002 and 2007. Majority of the people that were unemployed in the Province in 2007 are Africans, males and the youth. Africans constituted approximately half (50.6 per cent) of those unemployed in 2007. The number of unemployed Coloureds dropped by 21 255, resulting in a reduction in the share of Coloureds in the total labour force without jobs from 48.0 per cent in 2002 to 44.2 per cent in 2007.

**Table 2.7 Population group, gender and age composition of unemployment in the Western Cape, 2002 and 2007**

Demographics	2002		2007		Total change		Average annual growth rate (%)
	Unemployment	Share (%)	Unemployment	Share (%)	Unemployment	Percentage (%)	
Africans/Blacks	180 629	47.1	186 079	50.6	5 450	3.0	0.6
Coloureds	183 838	48.0	162 583	44.2	-21 255	-11.6	-2.4
Whites	16 817	4.4	17 858	4.9	1 040	6.2	1.2
<b>Total</b>	<b>383 200</b>	<b>100.0</b>	<b>367 571</b>	<b>100.0</b>	<b>-15 629</b>	<b>-4.1</b>	<b>-0.8</b>
Males	184 395	48.1	189 245	51.5	4 850	2.6	0.5
Females	198 804	51.9	177 869	48.4	-20 935	-10.5	-2.2
<b>Total</b>	<b>383 200</b>	<b>100.0</b>	<b>367 115</b>	<b>99.9</b>	<b>-16 085</b>	<b>-4.2</b>	<b>-0.8</b>
15-24 years	136 339	35.6	171 519	46.7	35 180	25.8	4.7
25-34 years	138 375	36.1	121 977	33.2	-16 398	-11.9	-2.5
35-44 years	69 275	18.1	43 323	11.8	-25 952	-37.5	-9.0*
45-54 years	34 063	8.9	26 651	7.3	-7 412	-21.8	-4.8
55-65 years	5 147	1.3	4 101	1.1	-1 046	-20.3	-4.4
<b>Total</b>	<b>383 200</b>	<b>100.0</b>	<b>367 571</b>	<b>100.0</b>	<b>-15 629</b>	<b>-4.1</b>	<b>-0.8</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

<sup>10</sup> The narrow definition of unemployment excludes the discouraged employment-seekers from total unemployment and classifies them as economically inactive.

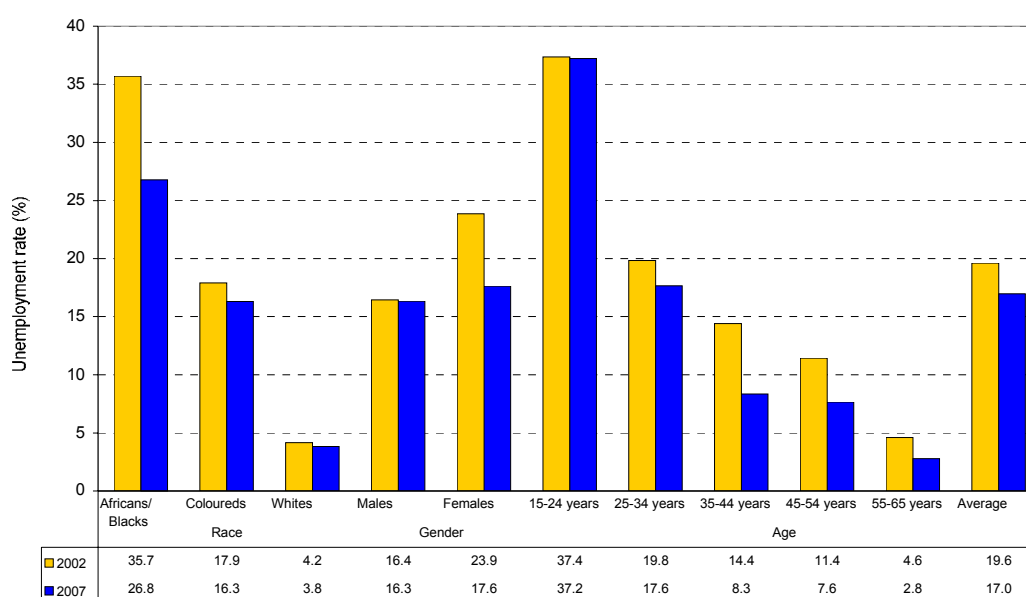
<sup>11</sup> See AsgiSA, 2006

The number of unemployed females dropped significantly by 20 935 people, resulting in a reduction in the share of females who were unemployed in the Western Cape from 51.9 per cent in 2002 to 48.4 per cent in 2007. The youth constituted 79.9 per cent of the unemployed people in the Western Cape in 2007. The growth in youth unemployment has been concentrated within the 15 to 25 year olds, as the number of unemployed people in this segment of the youth increased by 35 180 people in the same period.

Figure 2.6 below presents the unemployment rates or the prevalence of unemployment among the race, gender and age groups in the Western Cape labour force in the period 2002 and 2007. It is shown that the unemployment rate or the share of the unemployed people in the labour force in the Province dropped from 19.6 per cent in 2002 to 17 per cent in 2007.

The unemployment rate for Africans in the labour market is higher when compared to other population groups, but was substantially reduced from 35.7 per cent in 2002 to 26.8 per cent in 2007. The unemployment rate for females is relatively high compared to that of males, but fell significantly from 23.9 per cent in 2002 to 17.6 per cent in 2007. Unemployment is relatively high for the youth as indicated earlier. In 2007, 37.2 per cent of the 15-24 year olds and 17.6 per cent of the 25-34 year olds in the labour force in the Province were unemployed.

**Figure 2.6 Narrow unemployment rates of the labour force in the Western Cape by population group, gender and age, 2002 and 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

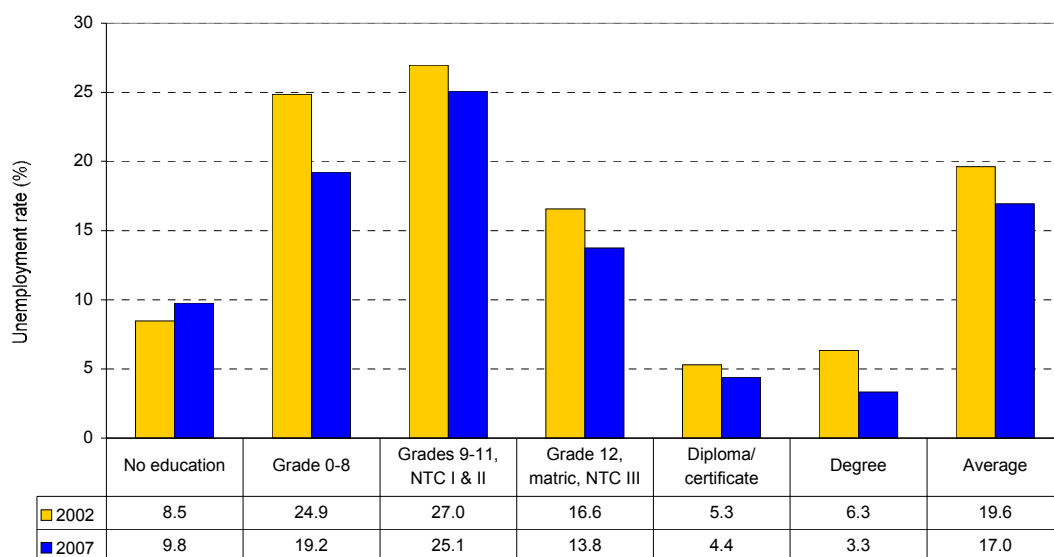
As shown in Table 2.7 above, almost 4 in 5 people who are unemployed in the Western Cape are young people. This highlights the importance of skills initiatives aimed at improving the skills level of the youth. JIPSA encourages the use of internships and mentorships to improve the skills and employability of the youth. In addition to provision of bursaries and start up finance for businesses owned by the youth, Umsobomfu Youth Fund (UYF) is also developing a database of young unemployed graduates in an attempt to reduce unemployment amongst graduates.

## 4.2 Skills level and unemployment

Unemployment in South Africa has been described as mainly structural in nature, where a majority of the unemployed have inferior skills compared to the skills required by the economy. Figure 2.8 below highlights that unemployment is high among the labour force with low levels of education and is low among the labour force that is highly skilled.

In 2007, unemployment rates were lower than 5 per cent among the labour force with post matric education, and higher (above 15 per cent) among the labour force with no matric education. Unemployment is also low among the labour force with no formal education. The labour force with no formal education is mainly the older and more experienced section of the labour force and is, therefore, generally employable.

**Figure 2.7 Unemployment fates of the labour force by the highest formal education obtained in the Western Cape, 2002 and 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Figure 2.7 above also indicates the complimentary nature of the unskilled and skilled labour in South Africa. This means that in general, unskilled labour cannot be used as a substitute for the shortage of skilled labour. However, skilled labour is critical for the growth of the economy, which eventually leads to increased demand for unskilled labour.

The importance of further education and training in the South African labour market is highlighted by the large difference in the unemployment rates of the people with only a matric qualification and the labour force with post matric qualifications.

### 4.3 Discouraged employment-seekers

This sub-section profiles discouraged employment-seekers in the Western Cape. In the LFS, discouraged employment seekers are classified as those individuals in the labour force that are without jobs and have not taken active steps to look for employment seven days before the date of the interview. Using the official definition of narrow unemployment, Stats SA classifies discouraged employment-seekers as economically inactive and not unemployed people. Critics have argued that this classification understates the level of unemployment in South Africa.

Table 2.8 below shows that the number of discouraged employment-seekers grew by 26.2 per cent from 142 202 people in 2002 to 179 520 people in 2007. The majority of discouraged employment-seekers in 2007 were Coloureds (65.2 per cent), females (61.7 per cent) and the youth (76.3 per cent). In terms of growth, the number of discouraged employment-seekers grew by 38.5 per cent among Coloureds, 45.9 per cent among males (from a lower base) and by 62.8 per cent among the 25 to 34 year-olds.

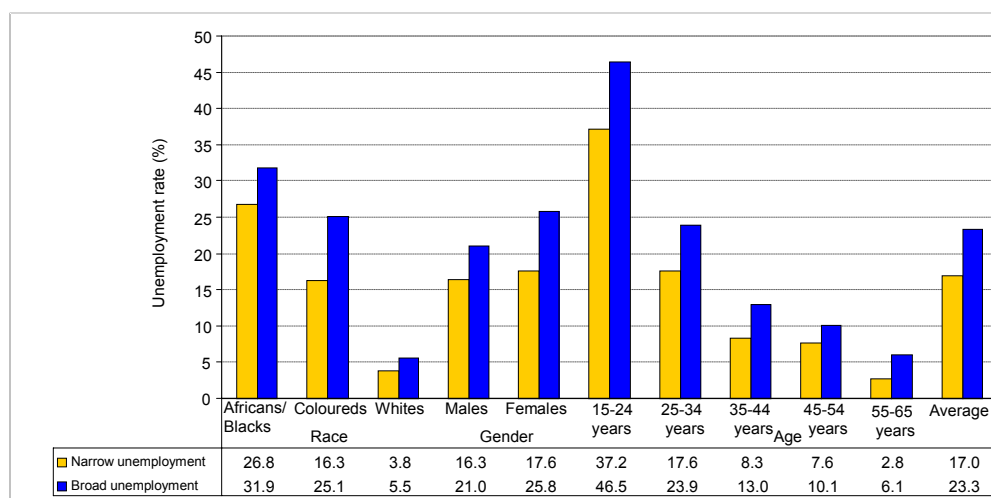
**Table 2.8 Population, gender and age composition of discouraged employment-seekers in the Western Cape, 2002 and 2007**

Demographics	2002		2007		Total change		Average annual growth rate (%)
	Unemployed	Share (%)	Unemployed	Share (%)	Thousands	Percent	
Africans/Blacks	48 826	34.3	52 139	29.0	3 314	6.8	1.3
Coloureds	84 533	59.4	117 042	65.2	32 509	38.5	6.7
Whites	7 551	5.3	8 351	4.7	800	10.6	2.0
<b>Total</b>	<b>142 202</b>	<b>100.0</b>	<b>179 520</b>	<b>100.0</b>	<b>37 318</b>	<b>26.2</b>	<b>4.8</b>
Males	47 167	33.2	68 832	38.3	21 665	45.9	7.9
Females	95 035	66.8	110 688	61.7	15 653	16.5	3.1
<b>Total</b>	<b>142 202</b>	<b>100.0</b>	<b>179 520</b>	<b>100.0</b>	<b>37 318</b>	<b>26.2</b>	<b>4.8</b>
15-24 years	62 284	43.8	80 215	44.7	17 931	28.8	5.2
25-34 years	34 808	24.5	56 659	31.6	21 852	62.8	10.2
35-44 years	26 366	18.5	27 895	15.5	1 529	5.8	1.1
45-54 years	13 771	9.7	9 587	5.3	-4 184	-30.4	-7.0
55-65 years	4 973	3.5	5 164	2.9	191	3.8	0.8
<b>Total</b>	<b>142 202</b>	<b>100.0</b>	<b>179 520</b>	<b>100.0</b>	<b>37 318</b>	<b>26.2</b>	<b>4.8</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

The effect of discouraged employment-seekers on unemployment is highlighted in Figure 2.8 below. When discouraged employment-seekers are included in total unemployment (broad unemployment), the unemployment rate in the Western Cape for 2007 rises from 17.0 per cent to 23.3 per cent. The difference between the official (narrow) and broad unemployment rates for Coloured (16.3 to 25.1 per cent), females (17.6 to 25.8 per cent) and the young (37.2 to 46.5 per cent for the 15-24 year-olds) reflects the large number of discouraged employment-seekers for these groups.

**Figure 2.8 Narrow and broad unemployment rates of the labour force in the Western Cape by population group, gender and age, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

In the Western Cape and at national level, the level of discouragement among the unemployed is strongly associated with a lack of any work experience and long periods without employment. In 2007, 50.9 per cent of the discouraged employment-seekers in the Western Cape and 75.8 per cent at national level indicated to have never worked before or have been unemployed for at least three years. The challenge posed by this situation is that people who are unemployed for long periods are likely to experience a digression of skills acquired from previous employment or from past education and this reduces their employability in the long-run.

Discouraged employment-seekers are more likely to be found in rural and underdeveloped areas with limited job opportunities. In 2007, 53.0 per cent of the discouraged employment-seekers in the Western Cape and 54.6 per cent at national level reported that there were no jobs available in the areas they live in. The skills mismatch does not seem to be a major factor, as only 7.9 per cent of the discouraged employment-seekers in the Western Cape and 3.5 per cent at national level reported that they are not looking for jobs because they were unable to find employment requiring the skills that they possess.

## 5. Conclusion

The labour market in the Western Cape experienced rapid growth in the size of its labour force, a growth in employment and a decline in unemployment in the period 2002 to 2007. These trends were stronger for some segments of the labour force. Africans, females and the older segments experienced relatively faster growth in the size of the labour force and employment and a relatively greater reduction in unemployment.

The growth in the overall size of the labour force was mainly due to increasing participation in the labour market by females and the older segment of the labour force in the Province. Growth in employment performed considerably well and absorbed the growing labour force into the labour market, which led to a general reduction in unemployment.

The growing employment was shown to be concentrated on the labour force in highly skilled and skilled occupations. This is due to the nature of the economic growth in the Province and at national level, which resulted in faster growth of tertiary or service sectors of the economy, which also require skilled labour. The higher demand for skilled labour is also due to growing skilled labour intensity in many industries, including those industries such as agriculture that were traditionally unskilled labour intensive.

The growing demand for skilled labour seems to be matched by an improvement in the skills level on the supply-side of the labour market as shown by a growing share of people that obtained matric or higher qualification in the labour force.

Despite the growth in employment, unemployment remains high particularly among Africans and the youth in the Province. A notable trend is the high and growing number of discouraged employment-seekers among Coloureds, females and the youth in the Western Cape.



# 3

## Employment in the Informal Sector and Small, Medium and Micro Enterprises in the Western Cape

### Key Findings:

- The informal sector in South Africa is relatively small in size compared to the formal sector and is even smaller in the Western Cape Province.
- Employment creation in the informal sector has been minimal in the Province. In the five-year period between 2002 and 2007, only African and Coloured females experienced growth in employment in the informal sector.
- Employment in the informal sector in the Province is dominated by trade activities and most businesses in this sector are motivated by self-employment and are based in the owner's home.
- The workforce in the informal sector has relatively poor skills when compared to their counterparts in the formal sector. Within the informal sector, Africans and Coloureds have inferior skills compared to Whites.
- The quality of employment in the formal sector is superior to that of the informal sector. On average, the workforce in the informal sector has relatively lower incomes and poor job security.
- Employment in the small business sector (comprising of micro, small and very small enterprises) contributes majority of employment in the Western Cape and at national level.

- At the demographic level, Africans in the Western Cape have the highest share of their workforce in small businesses, followed by Coloureds and Whites.
- Entrepreneurship activity is lower in South Africa by international standards. In the Western Cape and ownership of small businesses is particularly low amongst Africans, Coloureds and the youth.

## 1. Introduction

Despite the significant economic progress in post-apartheid South Africa, high unemployment rates remain a major policy challenge<sup>1</sup>. Unemployment is of concern given its effect on poverty, inequality and social instability. Given the structural nature of unemployment in South Africa, the informal and small business sector (micro, small and very small firms) sectors have become of strategic importance to government because of their ability to create employment and absorb the unskilled and semi-skilled sections of the labour force<sup>2</sup>.

The informal sector in South Africa is smaller in size compared to informal sectors in other developing countries, and is highly concentrated in retail and service activities and is limited in manufacturing activities. The workforce in the informal sector tends to be less skilled, earns relatively lower wage incomes and has poor job security compared to the workforce in the formal sector.

The challenge for policy-makers is to reduce barriers to entry into informal sector employment faced by the unemployed, and to improve the quality of employment in the informal sector. Policy makers also need to ensure that those employed in the informal sector eventually graduate to employment in the formal sector of the economy.

The low level of entrepreneurship activity in South Africa by international standards has been identified as one of the main challenges to the development of the small businesses sector<sup>3</sup>. The regulatory environment and taxation regime in South Africa have also been identified as major hindrances to the development of small businesses<sup>4</sup>.

This chapter focuses on the employment side of the informal sector and SMMEs in the Western Cape. Both sectors have been selected among the sectors for policy assistance by the Provincial Government of the Western Cape (PGWC). Section 2 discusses the issues related to the data that is used in the rest of the chapter, and Section 3 focuses on the Western Cape informal sector, assessing its contribution to employment, the skills composition and the quality of the employment in the informal sector. Section 4 discusses the contribution of SMMEs to employment in the Western Cape and also discusses small business ownership and entrepreneurship in the Province. Section 5 concludes this chapter.

<sup>1</sup> Bhorat, H and Oosthuizen, M, 2007

<sup>2</sup> Department of Trade and Industry, 2005

<sup>3</sup> Global Entrepreneurship Monitor, 2007

<sup>4</sup> Department of Trade and Industry, 2005

## 2. Data and definitions

### 2.1 Employment in the informal sector

The most comprehensive source of labour market information in South Africa is the Labour Force Survey (LFS), which is biannual household survey of approximately 30 000 households conducted by Statistics South Africa (Stats SA). The LFS replaced the annual October Household Survey (OHS) in 2000. In addition to the LFS, Stats SA conducts a Quarterly Employment Statistics (QES) survey, which also measures employment and earnings. This is done by surveying firms from a taxation database, and therefore excludes firms in the informal sector, and also does not cover employment in the agriculture sector. This chapter uses the LFS in the analysis of employment in the informal sector.

There has been much debate in the literature on the proper definition and measurement of employment in the informal sector or informal employment<sup>5</sup>. In the Labour Force Survey, Stats SA classifies informal workers as individuals working for firms that are not registered. Workers employed as domestic workers are excluded from the informal sector employment statistics. This chapter uses the Stats SA definition. Employment in subsistence agriculture (informal sector in the agricultural industry) is also excluded from our analysis in line with the International Labour Organisation's (ILO) best practice.

According to the definition of informal sector employment proposed by the ILO, informal employment should be larger, as it should also include employment in the formal sector that is informal in nature, based on some employment characteristics such as lack of protection by labour laws, job insecurity and limited employment benefits<sup>6</sup>.

### 2.2 The small business sector

Section 4 will make use of the LFS data to analyse small businesses (i.e. micro, small and very small businesses) in the Western Cape in terms of employment, entrepreneurship and business ownership. This, therefore, is not a comprehensive analysis of firms but rather an analysis of employees and business owners who report to be working for firms that are small in size operating in the formal and informal sectors.

These businesses are classified into size categories based on size of their workforce (employees including the employer). In this chapter, a group of micro, very small and small businesses will be termed "small businesses" when the medium to large enterprises are excluded from the calculations.

The Global Entrepreneurship Monitor (GEM) data is used to analyse the level of entrepreneurship in South Africa. GEM data is composed of standardised national

<sup>5</sup> Devey, R, Skinner, C and Valodia, I, 2003

<sup>6</sup> International Labour Organisation, 2003

firm surveys conducted by participating countries with the objective of assessing and ranking the state of entrepreneurship of the participating countries.

### 3. Informal sector employment in the Western Cape

#### 3.1 Employment trends

This sub-section measures job creation in the non-agriculture informal sector in the context of other segments of employment i.e. non-agricultural formal sector, commercial agriculture, subsistence agriculture and employment of domestic workers. This subsection will also measure the trends using Labour Force Surveys September 2000 to September 2007 (except for the analysis of job creation in the informal sector for all the provinces in Table 3.1).

Employment in the informal sector is much smaller in South Africa compared to employment in the formal sector. As shown in Figure 3.1 below, approximately 2 out of 10 people working in South Africa are employed in the non-agricultural informal sector.

It has been argued that the small size of the informal sector employment in South Africa, given the high level of unemployment indicates the presence of significant barriers to entry into employment in the informal sector<sup>7</sup>. A poor entrepreneurial culture in South Africa compared to other developing countries<sup>8</sup> has also been cited as one of the main factors contributing to the low informal sector activity.

In the 2002 to 2007 period, non-agricultural informal sector employment has remained low and stable, and created only 89 892 new jobs at national level, i.e. employment in the non-agricultural informal sector increased from 2 031 958 in 2000 to 2 121 850 in 2007.

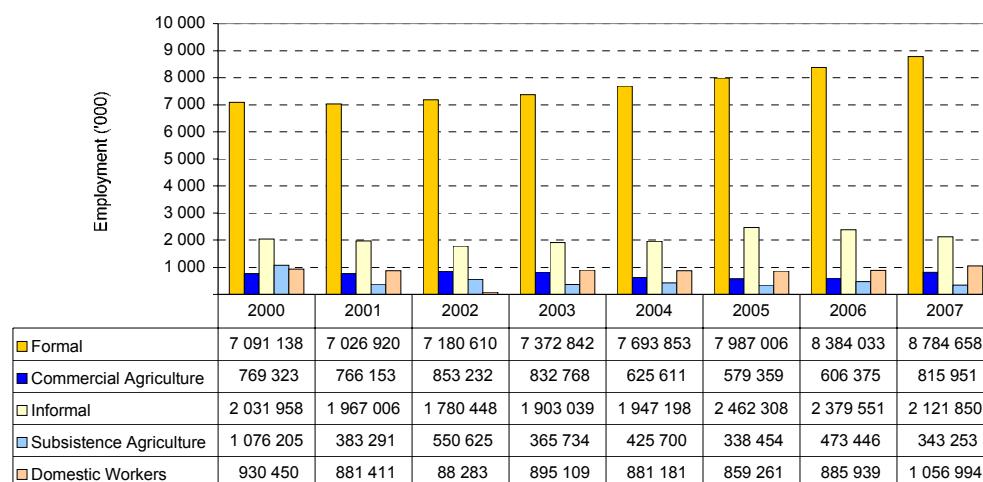
Employment in the non-agricultural formal sector, which is significantly higher than employment in the informal sector, has shown consistent growth from 7 091 138 jobs in 2000 to 8 784 658 jobs in 2007, creating 1 693 520 new jobs at national level.

Commercial agriculture created 46 600 jobs in the same period in the Province. On the other hand, employment of domestic workers in the Western Cape increased by 126 500 jobs in the same period.

<sup>7</sup> Kingdom, G and Knight, J, 2001

<sup>8</sup> Global Entrepreneurship Monitor, 2007

**Figure 3.1 Employment (formal and informal) in South Africa, 2000 - 2007**



Source: Provincial Treasury calculations derived from Stats SA, LFS September 2000 to 2007.

The informal sector in the Western Cape is even much smaller compared to other provinces. Only 1 out of 10 workers working in the Western Cape was employed in the non-agricultural informal sector in 2007. This is lower when compared to the approximately 2 workers out of 10 employed in the non-agricultural informal sector at national level.

It is shown in Table 3.1 that the non-agricultural informal sector employment in the Western Cape constituted only 9.9 per cent of the total non-agricultural employment in the Province in 2007. This is despite the relatively greater economic activity and history of immigration of unskilled labour into the Western Cape.

Employment creation was higher in the non-agricultural informal sector in Gauteng, the Eastern Cape, the Free State and Northern Cape in the same period although the growth was from a low employment base in the latter two provinces. The only changes are statistically significantly at the 95 per cent confidence level are in informal sector employment in Gauteng and the Free State.

**Table 3.1 The size of informal sector employment by Province, 2002 and 2007**

Province	2002		2007		Change	
	Informal Sector	Share of provincial employment (%)	Informal Sector	Share of provincial employment (%)	Employment	Percentage
Limpopo	241 820	34.9	220 041	28.6	-21 780	-9.0
Eastern Cape	261 881	26.9	321 301	26.3	59 420	22.7
Mpumalanga	154 637	24.7	181 579	21.2	26 941	17.4
North West	126 242	16.6	149 081	18.9	22 839	18.1
KwaZulu-Natal	337 469	19.0	375 645	18.5	38 176	11.3
Free State	94 871	14.0	127 354	17.2	32 483	34.2*
Gauteng	374 021	13.1	554 034	14.7	180 012	48.1*
Northern Cape	21 335	11.9	29 404	11.9	8 069	37.8
<i>Western Cape</i>	<i>168 172</i>	<i>12.5</i>	<i>163 412</i>	<i>9.9</i>	<i>-4 760</i>	<i>-2.8</i>

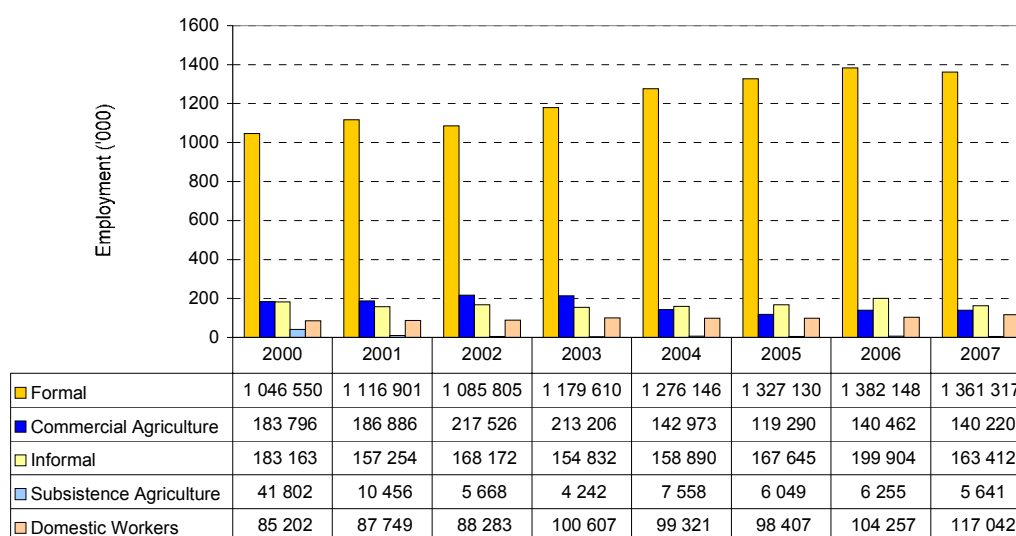
Source: Provincial Treasury calculations derived from Stats SA LFS September 2002 and 2007

Employment changes that are statistically significant at the 95 per cent confidence level are indicated with an asterisk (\*).

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

The overall trend shown in Figure 3.2 below, is that the non-agricultural formal sector continued to be the main creator of jobs in the Western Cape between 2000 and 2007, as it created 314 700 new jobs compared to 19 700 jobs shed by the non-agricultural informal sector in the same period. In the agriculture industry, commercial and subsistence agriculture shed 43 500 jobs and 36 100 thousand jobs respectively in the same period in the Province. On the other hand, the employment of domestic workers in the Western Cape increased by 31 800 thousand jobs in the same period.

**Figure 3.2 The employment (formal and informal) in the Western Cape, 2000 - 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2000 to 2007.

### 3.2 Demographic composition of employment in the informal sector

At the demographic level, Africans are overrepresented in the Western Cape non-agricultural informal sector (see Table 3.2 below), as they constitute 32.1 per cent of the Western Cape labour force but comprise the majority (51 per cent) of the non-agricultural informal sector employment in the Province. In contrast, Whites are underrepresented, as they constitute only 13.3 per cent of the employment in the non-agricultural informal sector whilst they make up a significant 21.4 per cent of the Western Cape labour force. Africans and Coloureds constitute a combined share of 86.3 per cent of the Western Cape non-agricultural informal sector.

Africans are the only population group to increase their employment in the non-agricultural informal sector over the five-year period from 2002 to 2007 in the Province. Africans increased their share of employment in the informal sector by 28.5 per cent, while the employment of Whites dropped by almost half (47.5 per cent) in the same period.

**Table 3.2 Labour force and employment in informal sector in the Western Cape by population group, 2002 and 2007**

Population group	2002		2007		Change		Average annual rate (%)
	Informal Sector	Share (%)	Informal Sector	Share (%)	Number	%	
Africans/Blacks	64 878	38.6	83 352	51.0	18 474	28.5	5.1
Coloureds	59 004	35.1	57 629	35.3	-1 374	-2.3	-0.5
Whites	41 557	24.7	21 801	13.3	-19 756	-47.5	-12.1
Others/Unspecified	2 732.84	1.6	629.87	0.4	-2 103	-77.0	-25.4
<b>Total</b>	<b>168 172</b>	<b>100.0</b>	<b>163 412</b>	<b>100.0</b>	<b>-4 760</b>	<b>-2.8</b>	<b>-0.6</b>

Source: Provincial Treasury calculations derived from Stats SA LFS September 2002 and 2007.

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

As shown in Table 3.3 below, the informal sector in the Western Cape is more important for Africans as a source of employment compared to other population groups. About, 19.8 per cent of the non-agricultural employment of Africans in the Province in 2007 is in the informal sector. The share of non-agricultural employment for Coloureds and Whites is relatively low at 8.5 per cent and 5.1 per cent respectively.

**Table 3.3 Share of formal and informal sector employment in the Western Cape by population group, 2007.**

Population group	Formal	Informal	Other	Total
Africans/Blacks	79.5	19.8	0.7	100.0
Coloureds	90.5	8.5	1.0	100.0
Whites	94.2	5.1	0.7	100.0

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007.

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

The gender composition of employment in the informal sector in the Western Cape is presented in Table 3.4. Females across all population groups increased their share of total employment in the non-agricultural informal sector in the 2002 to 2007 period. African females experienced the fastest growth in employment, as 23 800 new jobs were created for African females. This grew the share of African females in the informal sector from 30.5 per cent in 2002 to 52.3 per cent in 2007. Coloured females increased their employment in the non-agriculture informal sector by 7 100 jobs and increased their share of employment among Coloureds in this sector from 20.8 per cent in 2002 to 33.6 per cent in 2007.

White females also increased their share of employment among Whites in the non-agriculture informal sector, but their total employment declined as employment of Whites in the informal sector was reduced significantly by 47.5 per cent in the period 2002 to 2007.

**Table 3.4 Employment in the Western Cape informal sector by population group and gender, 2002 and 2007**

Gender	2002			2007		
	Africans	Coloureds	Whites	Africans	Coloureds	Whites
Males	69.5	79.2	72.3	47.7	66.4	59.6
Females	30.5	20.8	27.7	52.3	33.6	40.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Provincial Treasury calculations derived from Stats SA LFS September 2002 and 2007.

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

### 3.3 Industry and firm characteristics

When looking at the distribution of informal sector employment across the sectors, it is shown that informal sector employment in the Western Cape is also dominated by the wholesale and retail industry (36.3 per cent) and employment in private households (20.1 per cent). When looking at the distribution of informal sector employment within sectors it is shown that 16.2 per cent and 98.9 per cent of total employment in the wholesale & retail trade and private households industries respectively is in the informal sector.

The retail industry in the informal sector in South Africa has been particularly linked to the formal sector of the economy for the sourcing of inputs and goods for resale. It has also been argued that the dominance of retail activities and the insignificant contribution of manufacturing to the informal sector indicates a limited amount of value adding in the informal sector in South Africa resulting in low incomes.

**Table 3.5 Employment in the Western Cape formal and informal sectors by industry, 2007**

Sectors	Share of employment across sectors		Share of employment within sectors		
	Formal	Informal	Formal	Informal	Total
	Wholesale and retail trade	22.4	36.4	83.56	16.2
Private households	0.0	20.1	1.01	98.9	100.0
Community, social and personal serv	22.4	15.2	91.39	7.5	100.0
Construction	11.7	11.2	88.16	10.2	100.0
Manufacturing	19.4	6.9	95.33	4.1	100.0
Transport, storage and communication	4.2	6.1	85.15	14.8	100.0
Financial intermediation, insurance, re	16.0	3.9	96.32	2.8	100.0
Electricity, gas and water supply	3.0	0.2	99.17	0.8	100.0
Mining and quarrying	0.3	0.0	100	0.0	100.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	-	-	-

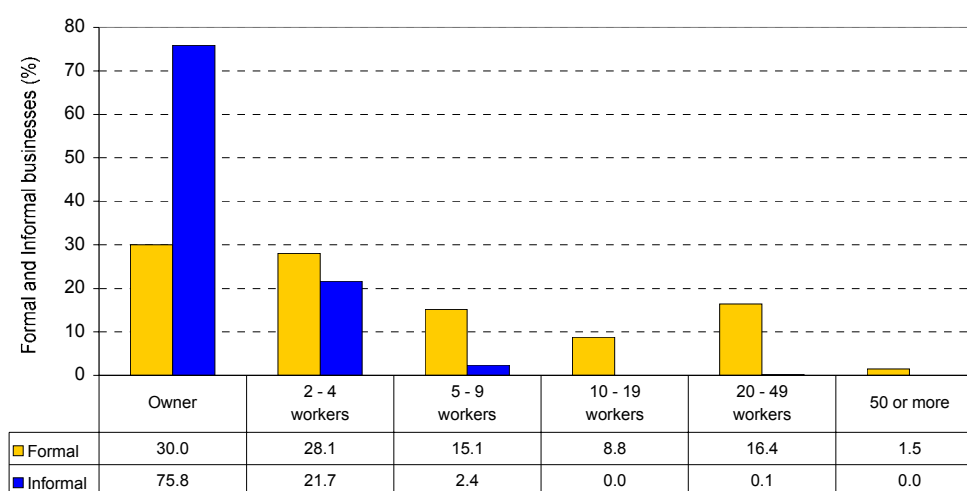
Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007



The relative sizes of small businesses that constitute the informal sector in the Western Cape and at national level are illustrated in Figure 3.3 below. It is shown that employment in the informal sector is dominated by self-employment, as 71.4 per cent and 75.8 per cent of businesses in South Africa and in the Western Cape respectively only have the owner as the employee in the business.

Businesses that are in the informal sector with no active employees are classified as survivalist (micro) businesses. The dominance of survivalist businesses seems to indicate that informal businesses in South Africa do not create significant employment and that the establishment of most businesses in the informal sector is motivated by survival and not by the available business opportunities.

**Figure 3.3 The size of informal and formal businesses in the Western Cape, 2007**



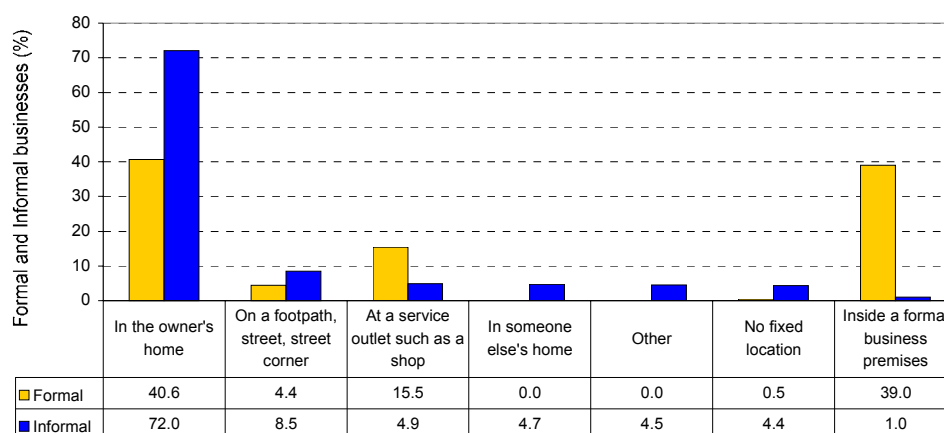
Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

The number of workers includes the employer and the employees in the informal business.

In terms of location, it is shown in Figure 3.4 below that majority of informal businesses in the Western Cape (58.0 per cent) and in South Africa (43.5 per cent) are based in the owner's home. The dependence of the informal businesses on the owner's household is also indicative of their survivalist nature. The location of the rest of the informal businesses is motivated by proximity to customers.

**Figure 3.4 Location of informal and formal businesses in the Western Cape, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

One of the challenges to policy makers is that the informal sector is made-up of businesses in various industries of the economy. How these informal businesses link to the businesses in the formal sector within and across sectors is important for policy interventions, as it has been shown that the informal and formal sectors are not mutually exclusive. Informal businesses depend mainly on the formal sector for inputs and for goods for retail.

### 3.4 Skills level of informal sector workforce

This sub-section profiles the skills of the workforce in the non-agricultural informal sector in the Western Cape relative to the skills in the formal sector using occupations, training received and formal education of the workforce. The skills profile of workforce in the informal sector is important as it indicates the ability of the workforce to graduate to the formal sector of the economy. The skills level of workforce in the informal sector, contrasted with those of workers in the formal sector also reveals the extent to which the informal sector has been an alternative for workers that fail to be absorbed into the formal sector due to inadequate skills.

The occupations of informal and formal sector workers in the Western Cape are shown in Table 3.6 below. The dominance of the elementary occupations in the informal sector (46.6 per cent) compared to the formal sector (18.2 per cent) shows the contrast in the skills level. It is also shown that the skills levels are not homogeneous among the workforce in the informal sector. The majority of Africans in the informal sector are unskilled (58.0 per cent), whilst the majority of Coloureds (56.6 per cent) and Whites (85.6 per cent) are either skilled or highly skilled.

**Table 3.6 Employment in the Western Cape formal and informal sector by occupation, 2007**

Occupations	Formal	Average: Informal	Informal		
			Africans	Coloureds	Whites
Managers	9.1	7.8	7.9	5.5	13.3
Professionals	9.2	2.8	0.3	2.3	13.4
Technical professionals	15.2	7.2	4.4	6.1	21.1
<i>Highly Skilled</i>	<i>33.5</i>	<i>17.8</i>	<i>12.6</i>	<i>13.9</i>	<i>47.8</i>
Clerks	12.7	0.2	0.0	0.0	0.0
Service, shop, market workers	14.7	13.5	16.0	13.4	2.2
Plant and machine operators	7.4	6.9	4.6	13.0	0.0
Skilled agricultural/fishery worker	0.2	0.1	0.0	0.4	0.0
Craft and related trades workers	13.2	14.9	8.8	16.1	35.6
<i>Skilled</i>	<i>48.2</i>	<i>35.6</i>	<i>29.4</i>	<i>42.9</i>	<i>37.8</i>
Elementary Occupation	18.2	46.6	58.0	42.6	14.5
<i>Unskilled</i>	<i>18.2</i>	<i>46.6</i>	<i>58.0</i>	<i>42.6</i>	<i>14.5</i>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

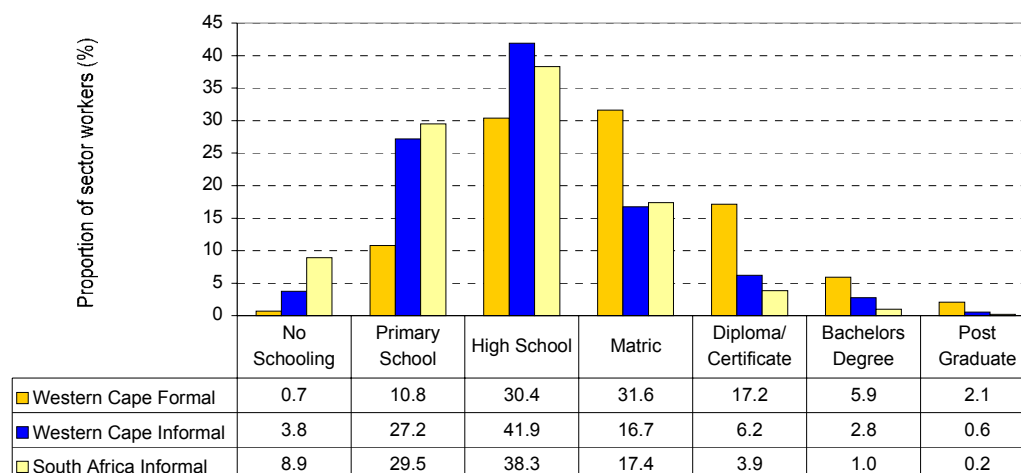
Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

Skills training is one of the main policy interventions proposed by various government strategies (e.g. AsgiSA and National Skills Development Strategy at national level and Human Capital Development Strategy in the Western Cape) that aim to alleviate the current skills shortages in the short to medium-run. The forms of training proposed by these strategies range from training provided through the Sector Education and Training Authorities (SETAs) programs to learnerships and mentorships.

It is shown in the results of the LFS that a significantly higher share of the workforce in the formal sector receives training compared to the workforce in the informal sector both in the Western Cape and at national level. In 2007, only 9.6 per cent of employees in the Western Cape informal sector reported to have received training compared to 19.4 per cent of employees in the formal sector.

It is also shown in Figure 3.5 below that overall, the workforce in the informal sector has less formal education compared to the workforce in the formal sector. The workforce in the Western Cape informal sector is more educated than the workforce in the informal sector at national level. Only 26.2 per cent of the workforce in the informal sector in the Western Cape obtained matric or higher qualifications, which is lower when compared to 56.7 per cent of their counterparts in the formal sector.

**Figure 3.5 Formal schooling education levels of informal sector workforce in the Western Cape and South Africa, 2007**

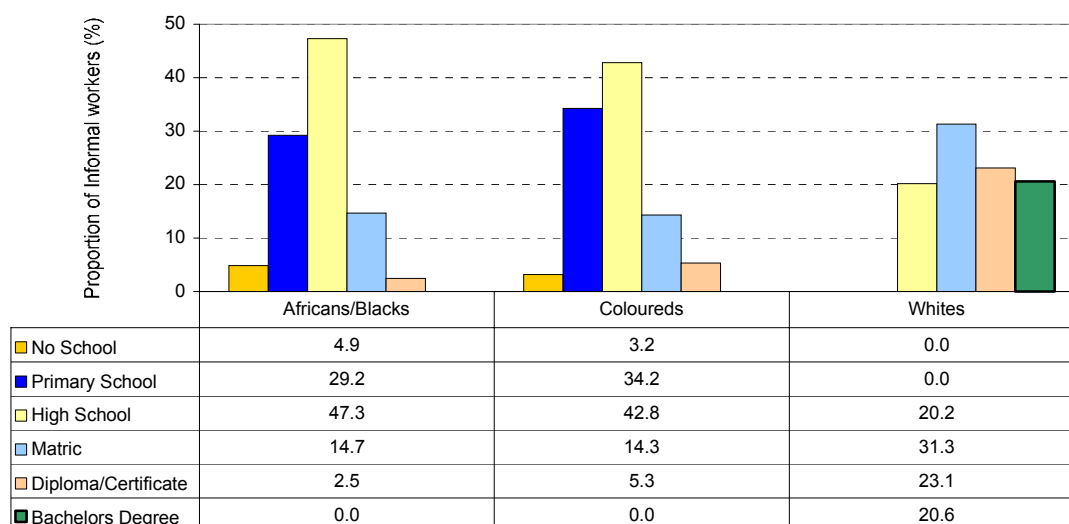


Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

The lack of homogeneity in skills (in terms of formal education) within the workforce in the informal sector is shown in Figure 3.6. White workers in the informal sector are better educated than African and Coloured workers. The racially based education system of the past is, therefore, also reflected in the labour force in the informal sector.

**Figure 3.6 Formal schooling education levels of formal and informal sector workforce in the Western Cape by population group, 2007**



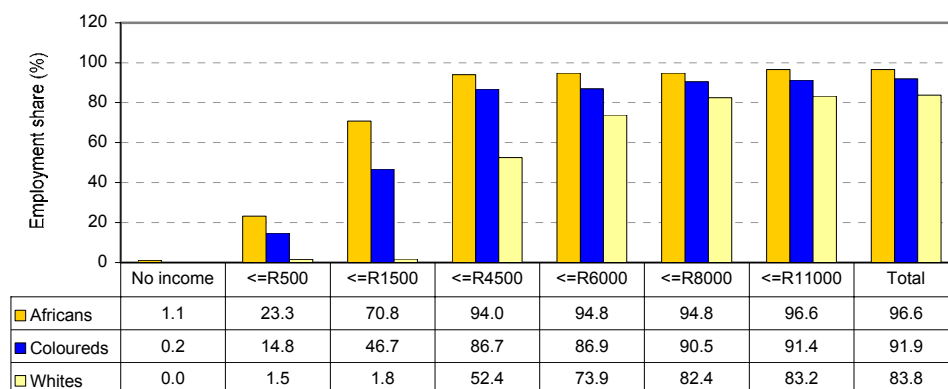
Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

The differences in skills levels between the population groups in the Western Cape informal sector is reflected in disparities in wage incomes (see Figure 3.7). It is shown that Whites earn relatively higher wage incomes relative to African and Coloured in the Western Cape informal sector. About 70.8 per cent of Africans, 46.6 per cent of

Coloureds and only 1.7 per cent of Whites in the Western Cape informal sector earn monthly wage incomes of less than R1 501.

**Figure 3.7 Monthly wage income of informal sector workforce in the Western Cape by population group, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

It has been revealed in this section that workers in the Western Cape informal sector are less skilled than workers in the formal sector. Informal sector workers have mainly elementary skills, less formal education and receive less work-related training. However, the workforce in the Western Cape informal sector has higher formal education compared to the workforce in the informal sector at national level. One of the important observations is that the skills levels are not homogenous among the workforce in the informal sector, at least from a population group perspective. This fact seems to be reflected in the differences in wage incomes between the population groups in the informal sector.

### 3.5 The quality of employment in the informal sector

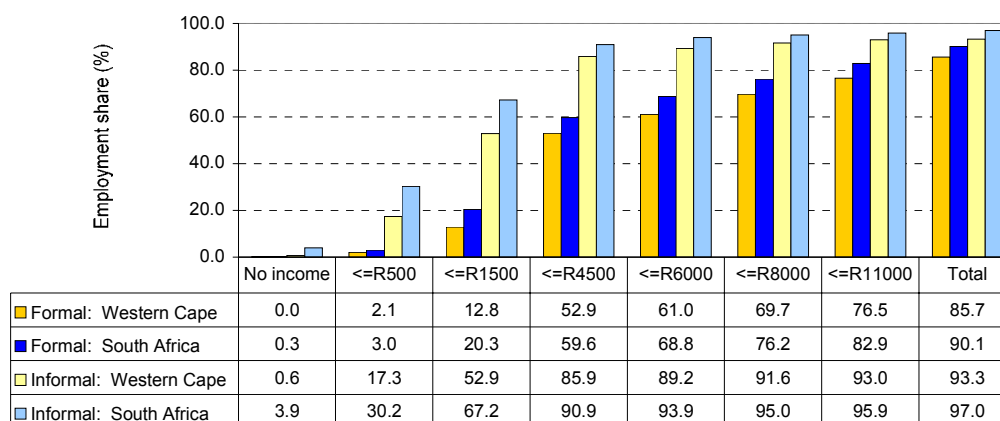
The major criticism of employment in the informal sector in South Africa is that it is not a viable alternative to formal employment due to its relatively lower quality. It is argued that most jobs in the informal sector are temporary, casual and are low paying. Despite its poor quality of employment, the informal sector remains an important source of employment and income in the context of the currently high unemployment levels in the South African labour market.

On average, incomes in the informal sector in the Province are higher than incomes in the informal sector at national level. Notwithstanding other factors, the income differential is consistent with skills differentials, as the workforce in the Western Cape informal sector was shown to be more skilled than the workforce in the informal sector at national level (see Figure 3.5).

Figure 3.8 below shows the distribution of monthly wage incomes of the workforce in both formal and informal sectors in the Western Cape. Monthly wage incomes in the formal sector are relatively higher than those in the informal sector in the Province and at national level. About 67.2 per cent of the workforce in the informal sector at national level, and 52.9 per cent of the workforce in the informal sector in the

Province earns a monthly wage income of less than R1 501. In contrast, only 12.8 per cent of workers in the Western Cape formal sector and 20.3 per cent of workers in the formal sector at national level earn a monthly wage income of less than R1 501.

**Figure 3.8 Monthly wage income of informal and formal sector workforce in South Africa and the Western Cape, 2007**

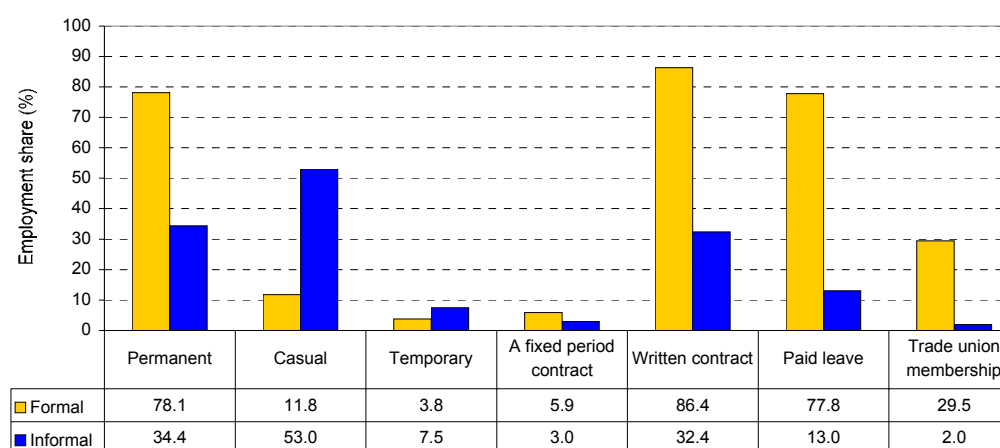


Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

In Figure 3.9, the workforce in the formal sector is also shown to have superior job security relative to the workforce in the informal sector in the Western Cape in 2007. About 78.1 per cent of the workforce in the formal sector and only 34.4 per cent of the workforce in the informal sector had permanent employment in the Western Cape. Only 32.4 per cent of the informal workforce had written employment contracts compared to 86.3 per cent of the workforce in the formal sector.

**Figure 3.9 The work status of informal and formal sector workforce in the Western Cape, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007.

Note: Informal employment in Agriculture industry and that of domestic workers is excluded from the analysis.

It has been shown in this sub-section that in general, employment in the informal sector is of inferior quality compared to employment in the formal sector. This implies that despite the fact that the informal sector is an important source of employment and income in South Africa given the high incidence of unemployment, the formal sector should remain the main policy focus for employment creation in the long run.

Figures 3.8 and 3.9 also revealed that there is a significant number of workers in the formal sector with employment that has characteristics similar to those of workers in the informal sector, with the opposite also being true. There is a significant share of the workforce in the formal sector with low wage incomes, without permanent employment and without written employment contracts. This shows that the definition of informal sector employment proposed by the ILO (which also includes employees in the formal sector firms that have employment characteristics that are consistent with informal employment) is more appropriate for South Africa compared to the firm-based approach currently being used by Stats SA.

#### **4. The small, micro and medium enterprises in the Western Cape**

The small business sector (SMMEs) has become one of the main policy focus of government because of the important role that small businesses play in the development of the economy. Small businesses play an important role in economic growth, and are crucial for the development of new markets, innovation and exports<sup>9</sup>. More importantly, small businesses are the main source of employment and self-employment for the labour force. For similar reasons, the small business sector has been selected as one of the sectors to receive policy assistance by the Provincial Government of the Western Cape (PGWC)<sup>10</sup>.

There are two types of Micro businesses; survivalist and non-survivalist Micro enterprises. Survivalist Micro businesses such as hawkers are businesses that operate in the informal sector and operated by the owner with no employees. Non-survivalist micro enterprises have fewer than four employees, and usually do not pay tax, are unregistered and also operate in the informal sector.

Very small businesses have a workforce of less than twenty people, are registered and form part of the formal sector. A small business has a workforce of less than 50 people and operates in the formal sector. Small businesses are more heterogeneous in nature and are spread across industries with most of them managed by the owners. Medium to large businesses have a workforce of 50 or more people and are more capital intensive compared to other business. Because of their huge capital needs and the specialised skills requirements in their operations, medium/large businesses usually have a separate ownership and management relationship.

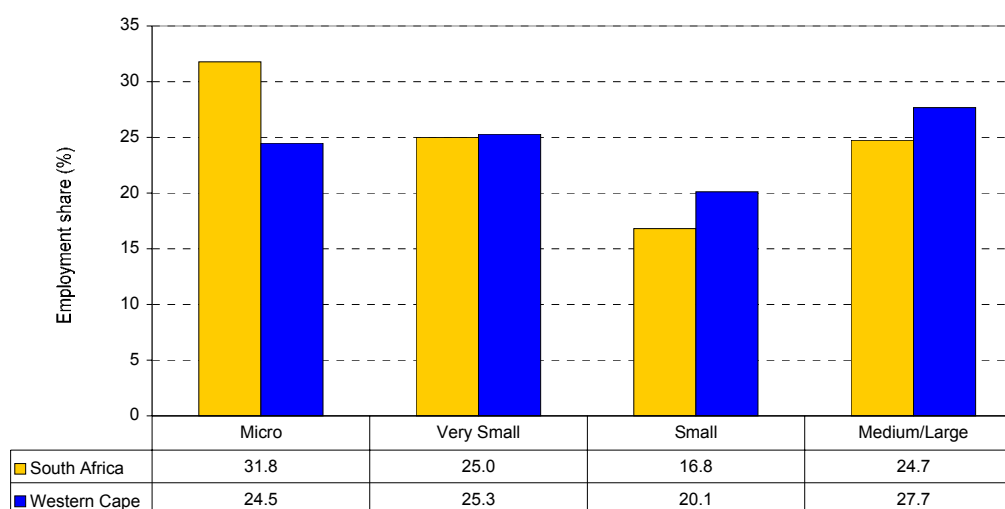
<sup>9</sup> Department of Trade and Industry, 2005

<sup>10</sup> Micro-economic Development Strategy (MEDS), 2007

## 4.1 Employment in small businesses

In this chapter, a group of micro, very small and small businesses will be referred to as “small businesses” or as a “the small business sector” when the medium/large enterprises are excluded. The small business sector is the main employer in the Western Cape and at national level. As shown in Figure 3.10 below, about 66.1 per cent and 66.0 per cent of the workforce in the Western Cape and at national level is employed in small businesses.

**Figure 3.10 Employment in South Africa and Western Cape by business size, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

Table 3.7 shows that small businesses have created more employment than medium/large businesses in the Western Cape in the five-year period 2002 to 2007. Small businesses constituted 68.2 per cent of the workforce in 2002 but were responsible for 81.6 per cent of the total jobs created in this period. Small businesses created a total of 187 100 jobs which is relatively high when compared to the 61 600 jobs created by medium/large enterprises during the same period. None of the changes in employment per business size are statistically significant at the 95 per cent confidence level.

The large contribution of small businesses to employment justifies the importance of the national and provincial government strategic interventions that support small businesses for employment creation.



**Table 3.7 Employment in the Western Cape by business size, 2002 and 2007**

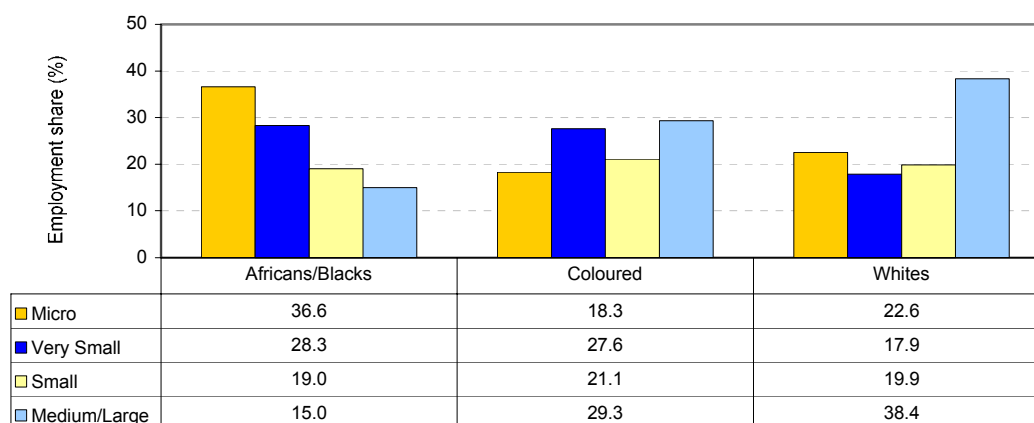
SMME	2002		2007		Change	
	Employment	Share (%)	Employment	Share (%)	Employment	Percentage
Micro	363 258	23.1	440 890	24.5	77 633	21.4
Very Small	414 794	26.4	455 278	25.3	40 485	9.8
Small	293 386	18.7	362 416	20.1	69 029	23.5
<i>Total Small</i>	<i>1 071 438</i>	<i>68.2</i>	<i>1 258 585</i>	<i>69.9</i>	<i>187 147</i>	<i>17.5</i>
Medium to Large	436 499	27.8	498 183	27.7	61 684	14.1
<b>Total</b>	<b>1 570 985</b>	<b>100.0</b>	<b>1 800 300</b>	<b>100.0</b>	<b>229 315</b>	<b>14.6</b>

Source: Provincial Treasury calculations derived from Stats SA LFS, September 2002 and 2007

Note: These employment changes are not statistically significant at the 95 per cent confidence level.

The majority of the workforce in all population groups is employed in small businesses, as shown in Figure 3.11. However, Africans have a relatively higher share of employment in small businesses (71.2 per cent) compared to Coloureds (58.3 per cent) and Whites (58.6 per cent). This is reflective of the relatively higher share of African workforce employed in survivalist micro businesses in the informal sector. Whites tend to have a relatively higher share of workforce in medium to large businesses at 38.4 per cent in 2007.

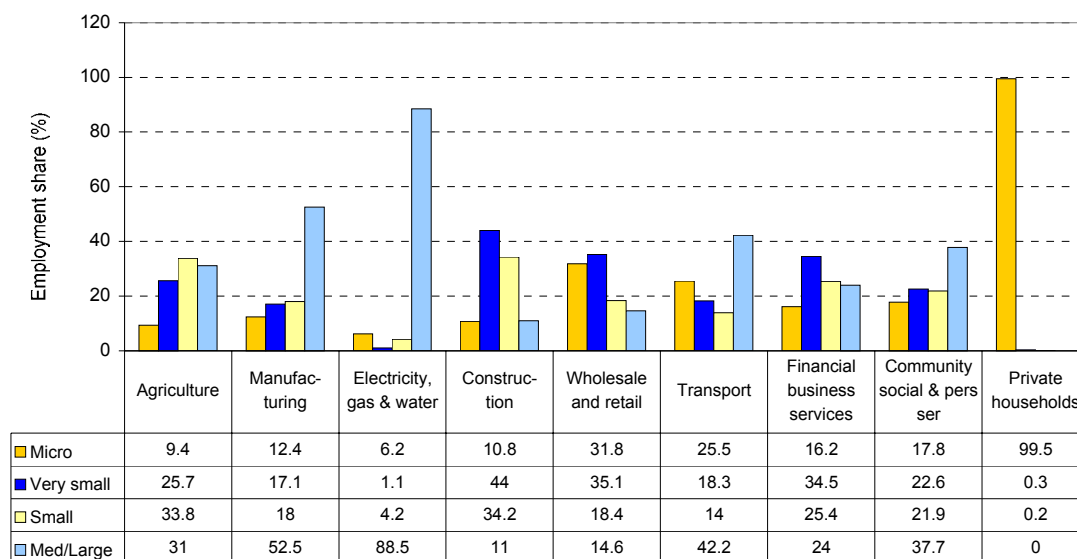
**Figure 3.11 Employment in the Western Cape by business size and population group, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

The wholesale and retail sector, which is the biggest industry in terms of employment in the Western Cape, is dominated by employment in very small businesses (see Figure 3.12). Micro businesses and very small businesses constitute for 31.8 and 35.1 per cent of total employment in this industry. Employment in more capital-intensive industries such as manufacturing and electricity gas and water is concentrated in large to medium businesses. The high share of employment in micro businesses (99.5 per cent) in private households represent the dominance of family-owned businesses that are part of informal businesses.

**Figure 3.12 Employment in small businesses in South Africa and Western Cape by industry, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

The distribution of the employment in small businesses in various industries indicates the heterogeneous nature of the small business sector. This complicates policy interventions aimed at small business development as small businesses in different industries face different challenges, which require different policy assistance.

## 4.2 Small business development in the Western Cape

The development of the small business sector depends mainly on the level of entrepreneurship. Entrepreneurship is defined as a practice of starting one or more new businesses. This sub-section focuses on entrepreneurship and ownership of small business in the Western Cape. Entrepreneurship and small businesses have been observed to develop when certain conditions are met. Some of these conditions are an enabling regulation environment, easy access to financial support and the availability of a skilled labour force. More recently, socially related issues such as the social and cultural attitudes towards business ownership have been identified as critical for the development of a small business sector<sup>11</sup>.

To compliment the LFS data, this section uses data from the Global Entrepreneurship Monitor (GEM), which is a leading global entrepreneurship research institution. The GEM uses the Total Early-Stage Entrepreneurial Activity (TEA) index, which is calculated as the percentage of individuals between the ages of 18 and 64 in a country that are involved in starting a new business<sup>12</sup>. Overall, GEM results show that entrepreneurial activity in South Africa is relatively poor by international standards.

<sup>11</sup> Global Entrepreneurship Monitor, 2007

<sup>12</sup> New business includes nascent firms (0-3 months old), start-up firms (3 months – 3,5 years old), and the entrepreneurial activity of existing firms (firms older than 3,5 years old) is not taken into account.

The South African TEA index for 2004 was 4,9 which means that only 4.9 per cent of working age South Africans were involved in starting a new business in 2004. This is low by international standards, as the average TEA for the 34 participating countries relatively was much higher at 8,8 while the average for upper-middle income countries was also higher at 6,1.

It is useful to draw a distinction between entrepreneurial activity, which is motivated by necessity, and entrepreneurial activity that is motivated by opportunity. Necessity entrepreneurial activity is usually driven by lack of employment or other better opportunities whereas opportunity entrepreneurship takes advantage of an economic business opportunity. It is the latter which more accurately reflects an entrepreneurial culture.

South Africa's opportunity TEA index registered 2,5 in 2004, and was lower than the average index for all participating countries of 6,3 and the average for upper-middle income countries index of 3,8. The necessity TEA for South Africa in 2004 was 2,2, which was the mean for all participating countries and was also the mean for participating upper-middle income countries.

**Table 3.8 The level of entrepreneurship in South Africa, 2004**

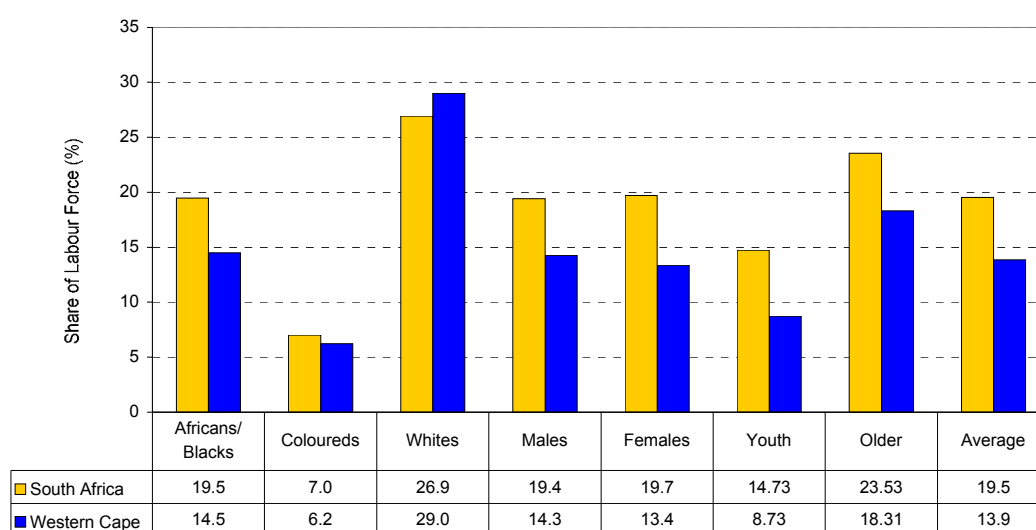
Region	TEA	Opportunity TEA	Necessity TEA
Upper-middle income countries	6.1	3.8	2.2
All participating countries	8.8	6.3	2.2
<i>South Africa</i>	4.9	2.5	2.2

*Source: Provincial Treasury calculations derived from the Global Entrepreneurship Monitor (2004)*

Different segments of the population in South Africa exhibit different levels of entrepreneurial activity. When considering the workforce in small businesses based on the LFS, it is shown in Figure 3.13 below that business ownership is low among Coloureds and Africans and relatively higher among Whites. Only 14.5 per cent of Africans and 6.2 per cent of Coloureds in the workforce that is involved in small business activity in the Western Cape are business owners, which is low when compared to 29.0 per cent for Whites. A higher share of survivalist micro businesses owned by Africans possibly biases business ownership among Africans. Africans constituted 51.0 per cent of the workforce in the informal sector in the Western Cape in 2007.

Business ownership is particularly low among the youth. As shown in Figure 3.13 below, only 8.7 per cent of the youth workforce that are involved in small businesses own a business. This percentage is low compared to 18.3 per cent of the workforce that is 35 or older involved in small business activity that own businesses.

**Figure 3.13 Ownership of small businesses in South Africa and the Western Cape by population group, 2007**



Source: Provincial Treasury calculations derived from Stats SA LFS, September 2007

The Integrated Strategy on the Promotion of Enterprises and Small enterprises (ISPES), approved by Cabinet in 2005, proposes greater focus in terms of target groups (DTI, 2005). The target groups are the previously disadvantaged population groups and the youth.

The ISPES strategy focuses on an integrated approach for SMME support that is housed under one organisation; the Small Enterprise Development Agency (SEDA) situated in the Department of Trade and Industry (DTI). SMME support in the past has been criticised for paying too much attention to finance for small businesses and ignoring other factors that are crucial for small business development. For other support programmes, the new strategy aims at creating demand for SMME products, strengthening small business support services and improving the regulatory environment for small businesses.

The Provincial Government of Western Cape (PGWC) developed the SMME Development Plan (SDP) for the promotion of the small business sector in the Province. Although it was introduced prior to the ISPES strategy, the SMME Development Plan has an integrated approach to SMME support services that is similar to that of the ISPES. The main feature of the SDP is the RED (Real Economic Development) Door concept. "RED Doors" are meant to be a familiar brand where SMMEs all over the Province can access support services ranging from funding, training and business support services. These services could be provided by the Red Doors but in most cases the Red Doors are expected to refer clients to other reliable sources that are financed by the Red Doors.

## 5. Conclusion

Employment in the informal sector was shown to be small in South Africa when compared to employment in the formal sector. The share of informal sector employment in the Western Cape is even smaller and is the lowest amongst all provinces in 2007. Besides its small size, informal sector employment has shown limited growth in the period 2002 to 2007 in most provinces and has shed jobs in the Western Cape.

In the Western Cape, the informal sector constitutes a significant share of employment for Africans and a limited share of employment for Coloureds and Whites. African and Coloured females are the only demographic groups that have experienced growth in employment in the informal sector in the Province.

Self-employment is a major motivator in the informal sector, as most of the workforce in the informal sector in the Province owns a business that is operated from home. In terms of employment, informal sector activities are concentrated in trade activities.

In terms of skills, it was shown that on average the workforce in the informal sector has relatively poor skills compared to their counterparts in the formal sector. The workforce in the informal sector is also shown to be heterogeneous in terms of skills as Africans and Coloureds in the informal sector in the Province have inferior skills compared to their White counterparts.

Employment in the informal sector in the Province is characterised by low incomes and poor job security. In line with differences in skills, incomes are lower for Africans and Coloureds when compared to Whites in the informal sector.

The small business sector constitutes majority of employment in the Western Cape and at national level. Small businesses were responsible for much of employment created in the Western Cape Province during the period 2002 to 2007.

Entrepreneurship activity is shown to be poor in South Africa by international standards. Business ownership is particularly low for Africans, Coloureds and for the youth in the Province and in South Africa at large.



# 4

## Measuring Income Poverty and Inequality in the Western Cape

### Key findings:

- Income received from rendering labour services remains a dominant source of household income.
- Income per capita and average household income increased faster in the Province than in South Africa at large.
- Social grants play an important role in reducing poverty and inequality amongst the poor people.
- In 2005/06, White and Coloured population groups collectively owned 92 per cent of the total household income in the Province.
- Western Cape households like their national counterparts, spent their income mainly on food and non-alcoholic beverages; housing, water, electricity and gas and transport.
- Coloured and African households in the Province spend about a third of their income on food compared to their white counterparts, that spend income mainly on housing and transport than on food.
- Household spending on transport and housing were the fastest growing expenditure categories following the buoyant economic growth over the period 2002 to 2005/06.
- Inequality in the distribution of income remains high by international standards but the Western Cape still fairs better than the rest of South Africa.

- All three aggregate measures of inequality used, point to persistently high levels of inequality in the distribution of income in the Province and in South Africa.
- On aggregate, the Western Cape and national economies reduced the poverty headcount ratio, poverty depth and severity of poverty between 2000 and 2005/06.
- Poverty remains more concentrated amongst the African and Coloured people than Whites, irrespective of the poverty line or measure used for analysis.
- Considering the “upper” poverty line of R393 per capita per month in 2005 prices, about 1.2 million people in the Province were still living in poverty in 2005/06, down from 1.3 million people in 2000.
- In total 114 372 individuals in the Province emerged out of poverty between 2000 and 2005/06 when considering the “upper” poverty line of R393 per capita per month in 2005 prices.

## 1. Introduction

The South African government has placed poverty alleviation and the reduction of the persistently high levels of inequality on top of its agenda, along with reducing the rate of unemployment. It has therefore, become necessary to understand, analyse and measure the extent and depth of poverty and inequality in the Province and assess whether the policies adopted by government have been successful in addressing these challenges.

The analysis is relevant to inform economic policy decisions in the Province, budget managers and programmes aimed at alleviating poverty and inequality.

The chapter also gives an overview of the distribution of household incomes in the Province and the corresponding expenditure patterns. The chapter further aims to measure and analyse income poverty levels and inequality in the Province. However, more emphasis has been placed on the measurement than on the analysis of poverty and inequality.

The chapter disaggregates the topics covered by population group and geographical location and contrasts the provincial and national scenarios in some instances, where appropriate. In order to monitor progress over time (if any), the chapter compares the poverty and inequality situation between 2000 and 2005/06 using the Income and Expenditure Surveys (IES) as the basis for the analysis.



## 2. Data concerns

### Income and consumption patterns

The data used for measuring and analysing income inequality and poverty in this chapter comes from the Income and Expenditure Surveys (IESs) of 2000 and 2005/06, released after a five-year period by Stats SA.

According to Stats SA, these surveys were designed mainly to update the basket of goods and services required for the compilation of Consumer Price Index (CPI). The surveys are not principally meant for poverty and inequality analyses, but since the survey contains comprehensive information about income it remains a useful data source in the interim. Stats SA is in the process of collecting information that would specifically be used to measure poverty and inequality in future. However, the dates for releasing such data have not yet been finalised.

The datasets should be nationally representative and reflect a fairly accurate breakdown of the demographic characteristics of the population at provincial level. This is not the case for the 2000 dataset, in which the racial proportions are different and the absolute numbers of the people in the Western Cape are largely under-estimated. As the survey is sample-based, weights based on Census data are used to impute the population size and relevant racial proportions.

The weights released with the IES 2000 are more problematic. The two sets of weights currently available with the dataset are not representative of the population at provincial level. Although imperfect, there is more consistency in the ranking of populations by provinces with application of these weights.

The quality of the IES 2000 data is much more contentious. It appears that there are a range of problems which most likely occurred during all stages of the data collection process – fieldwork, data capture and data manipulation – prior to the dataset being released.

IES 2005/06 identified about 25 192 households out of the total 24 000 dwelling units sampled across the country, of which 22 617 households could be used for the analysis. The response rate of 75 per cent in the Western Cape province was the lowest of all provinces compared to the total response rate of 83 per cent in the rest of South Africa.

Stats SA highlighted the following survey biases in the 2005/06 IES:

- Unreliable reporting on non-consumption items e.g. debts and savings;
- Under reporting of income out of fear that the information may be used for taxation purposes;
- Inadequate data on income from capital;
- The survey is not continuous but a snapshot of income and expenditure every five years.

In refining the data, the outliers detected across all income and expenditure variables were dropped out of all subsequent calculations.

In the IES 2005/06, Stats SA adopted a survey methodology recommended by United Nations (UN), which is consistent with international best practice. The previous IESs reported mortgage payments as part of housing costs but it was realised later that these measurements were not reliable and difficult to measure. It was decided that the annual rental value of 7 per cent of the value of property be used. Imputed rent accounted for more than half of the housing, water, electricity, gas and fuels category.

Also owing to the methodological changes over the period, food expenditure is not compatible. In 2000, the value of food received, which is currently classified under consumption in kind, was included in the food component but singled out in the 2005/06 IES. This significantly reduces the percentage share of food expenditure.

In analysing the consumption patterns in the Province, gross income was adjusted for the household size and weighted using household level weights. The data has not been adjusted for the structure of households, which is based on the notion that larger households consume more than smaller households to achieve the same consumption level and that the cost of a child is relatively less than that of an adult (Sen, A, 1997, quoted in Wollard, I & Leibbrandt, M., 1999).

#### Poverty and inequality analyses

The unit of analysis used is gross per capita income at individual level. The 2005/06 data shows that about 41 households, (only 2 of which are in the Western Cape) out of total of 21 114 did not report income and 37 of the 41 are recorded in the African households. Therefore STATA software automatically sets these observations to zero during imputations.

The estimates of the Gini coefficient are individual level estimates, adjusted for household size and weighted using household level weights. Income referred to throughout the analysis of poverty and inequality is gross per capita income. It includes income from work, income from capital, private pensions and annuities, social insurance and grants and other income. Imputed rent income has been excluded from the calculation because of the changes in the methodologies used for the IES of 2005/06.

The 2000 survey dealt differently with imputed rent income, therefore the calculations and analyses that involve gross income excludes imputed rent income but include income received from refunds and gifts, donations and benefits. The latter two sources of income accounts for less than 1 per cent of total income and therefore it is most unlikely that its inclusion will affect the conclusions drawn from the analysis.

The unit of analysis used also excludes income tax and UIF contributions. The household rather than individual level weights were used in each of the databases to make the data representative at national and provincial level.

PROVIDE technical and background papers guided and facilitated the measurements and calculations throughout the chapter, particularly the creation of "do files" used. Also, creating the 2000 and 2005/06 IES datasets relied heavily on these papers.

### 3. The distribution of household incomes in the Western Cape

Higher levels of economic growth rate over the period under consideration resulted in significantly increased household incomes in the Province and in South Africa.

The national per capita income in 2005/06 was R18 908, up from R12 411 in 2000. The estimated per capita income in the Western Cape stood at R21 344 in 2000 and increased significantly to R29 677 in 2005/06. On average, the household in the Western Cape earned about R135 029 per annum, an increase of R59 688 or 56 per cent between 2000 and 2005/06. South Africa as a whole registered an average annual household income of R74 589 in 2005/06 (Stats SA statistical release P0100, 2005/06). The Province is relatively better off than the country as a whole if measured by per capita income and average household income.

#### 3.1 Changes in the distribution of household income by source

In 2005/06, households in the Western Cape received the bulk of their income (R147.9 billion or 73.9 per cent) from rendering labour services. Salaries and wages in particular, dominate income received from work, accounting for 64.5 per cent of the total household income alone.

If imputed rent and other income are not taken into consideration, social insurance and grants play an important role in supplementing income from work. Social grants income increased more than twofold from approximately R5 billion in 2000 to R11 billion in 2005/06 (or 16 per cent on average per annum), of which old age and war pensions and family and other allowances were dominant.

Imputed rent was the second largest single source of household income accounting for 13.4 per cent (R26.7 billion) of total gross income in 2005/06.

**Table 4.1 Distribution of income by source for the Western Cape households, 2000 - 2005/06**

Sources of household income	2000		2005/06		Total change	Average annual growth rate
	Gross income R' billion	Share (%)	Gross income R' billion	Share (%)	Gross income R' billion	(%)
<b>Income from work</b>	<b>99.5</b>	<b>84.6</b>	<b>147.9</b>	<b>73.9</b>	<b>48.4</b>	<b>8.3</b>
Salaries and wages	97.3	82.7	129.0	64.5	31.7	5.8
Self employment, business income	2.2	1.9	18.9	9.5	16.7	53.5
<b>Income from capital</b>	<b>2.3</b>	<b>1.9</b>	<b>6.4</b>	<b>3.2</b>	<b>4.1</b>	<b>23.0</b>
Rent income	1.0	0.8	2.1	1.0	1.1	16.2
Royalties	0.0	0.0	0.1	0.1	0.1	0.0
Interest	0.9	0.7	2.6	1.3	1.8	25.5
Dividends	0.5	0.4	1.6	0.8	1.1	28.0
<b>Private pensions and annuities</b>	<b>5.8</b>	<b>4.9</b>	<b>10.8</b>	<b>5.4</b>	<b>5.0</b>	<b>13.3</b>
Pensions from previous employment	5.1	4.3	8.2	4.1	3.1	10.1
Annuities from own investment	0.7	0.6	2.7	1.3	1.9	29.1
<b>Social insurance and grants</b>	<b>5.1</b>	<b>4.3</b>	<b>10.9</b>	<b>5.5</b>	<b>5.8</b>	<b>16.4</b>
Old age and war pensions	2.9	2.5	4.6	2.3	1.7	9.7
Disability grants	1.2	1.0	2.9	1.4	1.7	19.1
Family and other allowances	0.7	0.6	3.2	1.6	2.5	35.8
Other funds (UIF, workman's)	0.3	0.3	0.3	0.2	-0.0	-2.0
<b>Other income</b>	<b>5.0</b>	<b>4.2</b>	<b>23.9</b>	<b>12.0</b>	<b>19.0</b>	<b>37.0</b>
Alimony, palimony and allowances	0.6	0.5	2.2	1.1	1.7	31.0
Other income from individuals	1.3	1.1	0.8	0.4	-0.5	-8.6
Other income	1.9	1.6	19.3	10.0	17.5	59.9
Benefits donations and gifts	1.0	0.8	1.2	0.6	0.2	3.7
Tax refunds received	0.3	0.3	0.4	0.2	0.1	6.5
<b>Imputed rent</b>	<b>0</b>	<b>0</b>	<b>26.7</b>	<b>13.4</b>	<b>26.7</b>	<b>0.0</b>
<b>Gross income</b>	<b>117.7</b>	<b>100.0</b>	<b>200.0</b>	<b>100.0</b>	<b>82.4</b>	<b>11.2</b>

Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

“Other income” is made up of various sources including sale of vehicles and property, gratuities and other lump sum payments and income received from other part-time activities.

The composition and distribution of household income in the Province is largely consistent with the trend at national level. According to IES 2005/06 results, the Western Cape Province contributed R200 billion or 24 per cent (close to one quarter) of the total gross income generated in the country. Of note is the significant increase of R48.4 billion in salaries and wages in the Western Cape, which increased by 8.3 per cent per annum on average between 2000 and 2005/06.

Almost all the major sources of income grew substantially between 2000 and 2005/06, totaling R82 billion or 11.2 per cent on average each year. This could be attributed to the buoyant economic growth of 5 per cent on average registered over the period under analysis, which was also underpinned by increased employment creation in the Province.

On average, between 2000 and 2005/06, the fastest growing single sources of household income within the various income components were income from family and other allowances and income from self-employment and business, registering growth rates of 35.8 per cent and 53.5 per cent, respectively, if “other income” is excluded.

### **3.2 Changes in the distribution of household income by population group**

A further decomposition of household income by population group reveals that income has not been shared proportionally over time in the Province. Table 4.2 below shows household income earned by each population group as a percentage of the total of each income source.

Despite the considerable increase in total labour income in the Province, the data shows that on average, the African and Coloured population groups’ incomes have decreased by 1.6 per cent and 3.2 per cent in each of the five years, respectively. However, Whites benefited more from the economic fortunes that occurred over the reference period, registering an annual growth rate of 5.1 per cent in incomes on average.

The positive trend in the growth rate of income for the White population group is consistent throughout all the major components of household income with the exception of social grants income, which shows a negative growth rate of 4.1 per cent per annum on average. This also shows the importance of social grants as an alternative source of income for the African and Coloured population groups in the Province.

The Coloured population group received about 69.5 per cent of the total social grants in the Province in 2005/06, while the Africans and Whites earned 14.7 per cent and 15.8 per cent of social grants, respectively.

**Table 4.2 Changes in distribution of household income by population group, 2000 and 2005/06 (percentage share)**

Household income source	2000			2005/06			Average annual growth rate (%)		
	African	Coloured	White	African	Coloured	White	African	Coloured	White
Labour income	10.2	50.3	37.4	9.4	42.6	48.0	-1.6	-3.2	5.1
Capital income	11.1	12.7	70.9	0.1	3.2	96.7	-62.9	-24.0	6.4
Pension fund	1.1	26.2	71.7	0.7	12.0	87.3	-9.3	-14.5	4.0
Social grants	10.6	67.8	19.5	14.7	69.5	15.8	6.6	0.5	-4.1
Other income	8.9	52.1	37.6	8.1	34.2	57.7	-1.9	-8.1	8.9
<b>Total income<sup>1</sup></b>	<b>9.9</b>	<b>48.9</b>	<b>38.7</b>	<b>7.9</b>	<b>38.8</b>	<b>53.3</b>	<b>-4.4</b>	<b>-4.5</b>	<b>6.6</b>

Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

Overall, the Whites took ownership of more than half (53 per cent) of total household income followed by the Coloured group with approximately 39 per cent and Africans receiving only 7.9 per cent in 2005/06.

This result is consistent with the demographic profile of the unemployed in the Province, which shows that about 51 per cent and 44.2 per cent of the unemployed individuals are African and Coloured, respectively. Whites represent only 4.9 per cent of the unemployed. The unemployment rates by population groups using either broad or narrow definition of unemployment also depict the same trend (LFS, September 2007). Employment creation is critical to bridge income disparities across the population groups.

## 4. Household expenditure patterns in the Western Cape

The structure and size of the household, the household's needs and preferences and the level of household income largely influence household expenditure patterns (PROVIDE background paper 2003:02 & Woolard and Leibbrandt 1999).

In 2005/06, the total annual household consumption expenditure in the Province amounted to R175 billion compared to R700 billion for South Africa as a whole. This translated into R56 152 per household per annum, on average in South Africa and R102 977 in the Western Cape (Stats SA statistical release P0100, 2005/06). This implies that, overall the households in the Province are relatively better off than their national counterparts when considering average expenditure.

<sup>1</sup> Excludes imputed rent and income in kind. The total percentages may not add up as the Indian population group has been excluded from the calculation due to their small representation in the Western Cape.

#### 4.1 Changes in household expenditure patterns by “main” group

Households in the Province spent their income predominantly on housing, water, electricity and gas (26.7 per cent), transport (20.1 per cent) and food (15.7 per cent) in 2005/06. This trend is to a large extent consistent with the expenditure pattern nationally, except that the proportion of income spent on food is relatively lower at the provincial level.

The total household consumption expenditure in the Western Cape increased by R59.4 billion to R175 billion in 2005/06. On average, the fastest growing expenditure categories between 2000 and 2005/06 were housing (26.0 per cent), furnishings (25.2 per cent), transport (19.3 per cent) and restaurants and hotels (33 per cent). This spending trend is consistent with the economic growth that created job opportunities, increased real incomes and enhanced access to credit over the period. This afforded the households increased purchasing power on other expenditure items.

Expenditure on alcoholic beverages and tobacco, health and miscellaneous goods has been decreasing since 2000. The significant decrease of spending on health related activities in the Province require further investigation. However, this could be a result of increased government expenditure on health.

**Table 4.3 Changes in household expenditure patterns in the Western Cape between 2000 and 2005/06**

Expenditure Patterns	2000		2005/06		Change	Average annual growth rate (%)
	R' billion	Share (%)	R' billion	Share (%)	R' billion	
Food, non alcoholic beverages	27.1	23.4	27.4	15.7	0.3	0.2
Alcoholic beverages and tobacco	4.8	4.2	2.6	1.5	-2.2	-11.6
Clothing and footwear	5.4	4.7	7.6	4.3	2.2	7.1
Housing, water, electricity, gas	14.8	12.8	46.8	26.7	32.0	26.0
Furnishings	3.0	2.6	9.3	5.3	6.3	25.2
Health	5.5	4.8	2.8	1.6	-2.7	-12.6
Transport	14.5	12.5	35.1	20.1	20.6	19.3
Communication	3.4	3.0	6.5	3.7	3.1	13.8
Recreation and culture	6.6	5.7	8.7	5.0	2.1	5.6
Education	2.9	2.5	3.1	1.8	0.2	1.3
Restaurants and hotels	0.8	0.7	3.4	1.9	2.6	33.0
Miscellaneous goods <sup>2</sup>	26.7	23.1	21.3	12.2	-5.4	-4.7
<b>Total<sup>3</sup></b>	<b>115.6</b>	<b>100.0</b>	<b>175.0</b>	<b>100.0</b>	<b>59.4</b>	<b>8.7</b>

Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

<sup>2</sup> Miscellaneous goods used as the balancing figure, some components of furnishings could be in miscellaneous goods category.

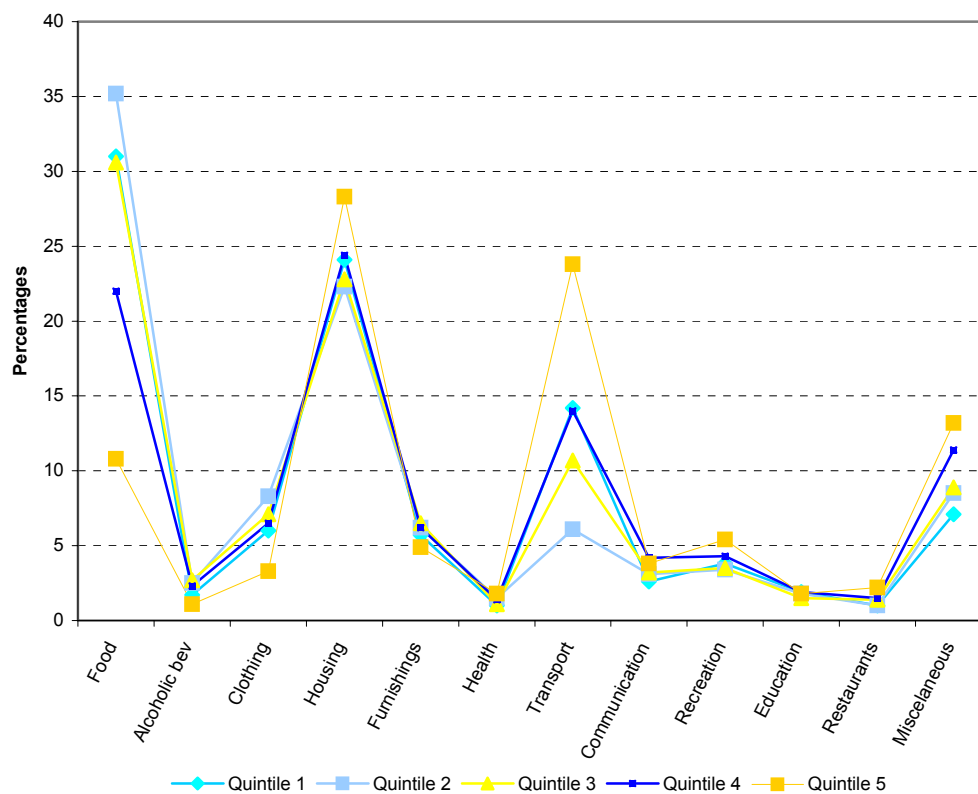
<sup>3</sup> Excludes other expenditure and imputed rent, mortgage payments and consumption in kind. Based on household expenditure not adjusted for household structure.

## 4.2 Household consumption expenditure patterns by quintiles

All households in the Province were divided into quintiles, where quintile 1 represents first 20 per cent of the population with the lowest income and quintile 5 represents 20 per cent of the population with the highest income. Ranking households according to their gross income created the quintiles (PROVIDE background paper 2003:2).

Figure 4.1 below demonstrates a consistent spending pattern on housing, food and transport across all the household quintiles in the Province in 2005/06. However, expenditure on food and non-alcoholic beverages tends to decrease as household income increases. As such, households in quintile 5 spent only 10 per cent of their income on food compared to 32 per cent each of households in quintiles 1, 2 and 3. This result is consistent with Engel's law, which postulates that households spend a smaller proportion of their income on food (basic commodities) and more on luxuries as their income increases.

**Figure 4.1 Consumption expenditure by income quintiles in the Western Cape, 2005/06**



Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

Contrary to food expenditure, as household income increases, so does spending on transport. The general trend is that the households in quintiles 1 and 2 spend the bulk of their income on food (32 per cent), housing (23 per cent on average) and transport (9 per cent), while the households in income quintiles 4 and 5 spend more on housing (27 per cent), transport (average 20 per cent) and food (13 per cent).

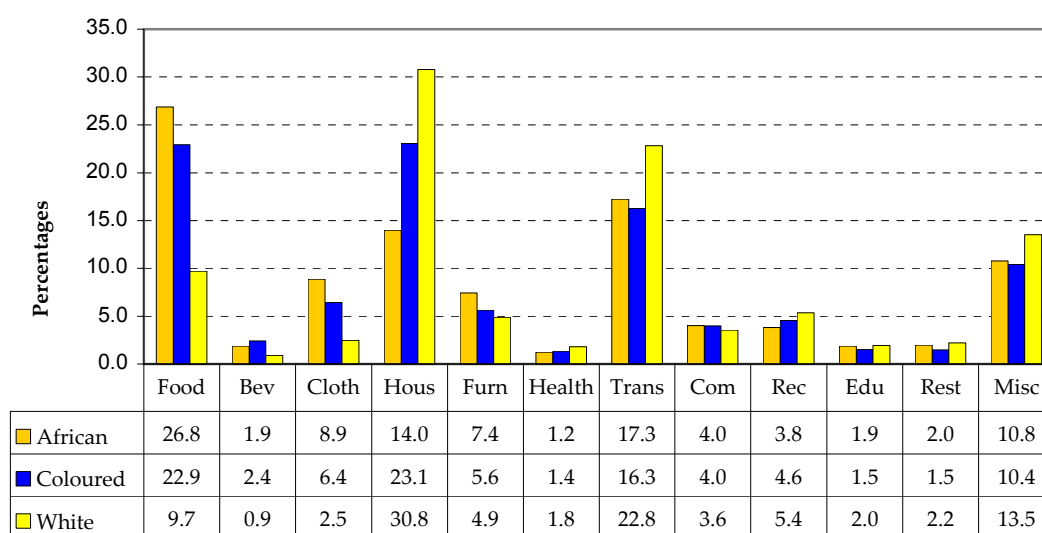
This trend could be partly explained by the fact that households in lower quintiles are generally poorer and have relatively more children on average than the richer households in quintiles 4 and 5. Also, the meager incomes that the poorer households earn imply that the money can mostly be spent on relatively cheaper basic expenditure items such as food than spent on more expensive durable and semi-durable items.

### 4.3 Household expenditure patterns by population groups

Disaggregating household consumption expenditure by population groups shows that the African and Coloured population groups in the Province spent in a range of a quarter (26 per cent for the former) of their income on food, compared to their White (9.7 per cent) counterparts in 2005/06.

The White household group spent 30 per cent of their total household income on housing, water and electricity, 22.8 per cent on transport and only 9.7 per cent on food. However, except for expenditure on miscellaneous goods, there is a general trend of about 60 per cent spending on food, housing and transport across all the population groups.

Figure 4.2 Household expenditure patterns by population group, 2005/06



Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

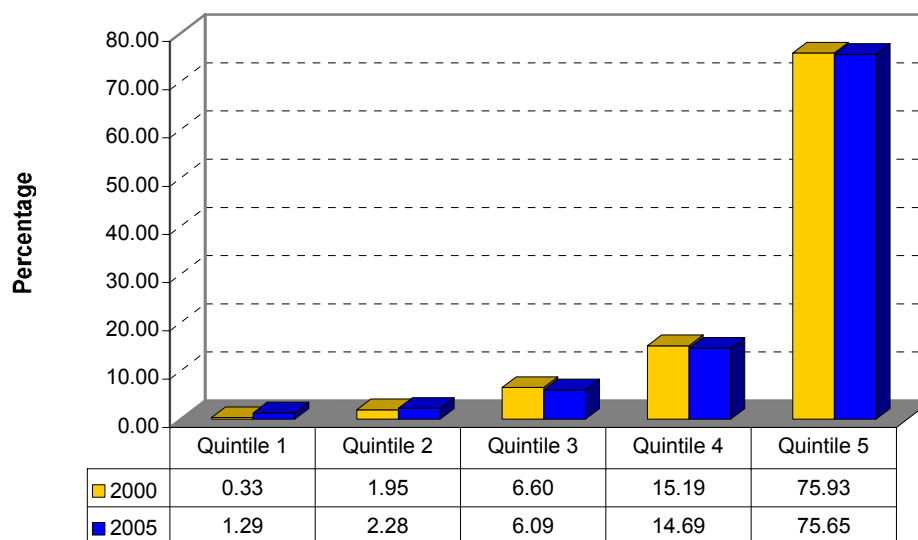


#### 4.4 Changes in household expenditure shares by quintiles

The household share of expenditure by quintile is one of the measures of the degree of inequality in the Province. Total household income has been used as the unit of analysis in generating the quintiles.

Figure 4.3 below demonstrates that about 75.9 per cent of total household income has been spent in quintile 5 compared to 0.3 per cent in quintile 1 in 2000.

**Figure 4.3 Western Cape household expenditure shares by quintiles**



Source: Own calculations based on IES 2000 and 2005/06; Stats SA

The poorest 40 per cent of the population of the Western Cape accounted for less than 3 per cent of the total household expenditure in 2000. The expenditure share trend remained almost unchanged between 2000 and 2005/06, where the spending power of the 40 per cent of the poor remained less than 4 per cent. This demonstrates the high and persistent level of inequality across income quintiles in the Province.

## 5. Measuring income inequality<sup>4</sup>

### 5.1 Changes in the Lorenz curves for South Africa and the Western Cape

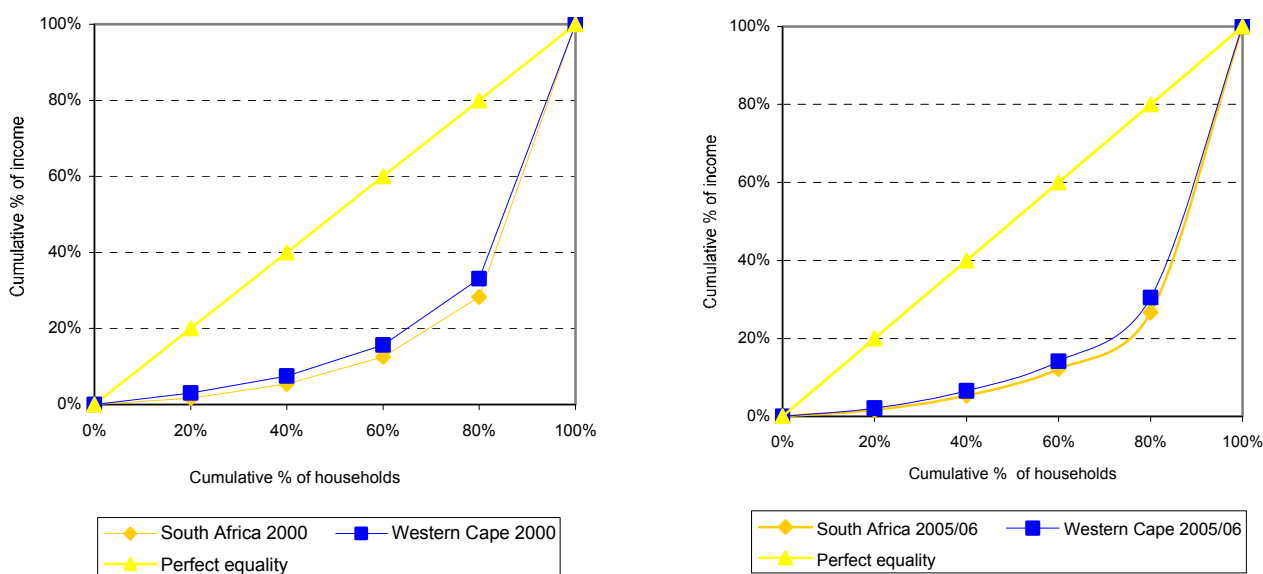
The review of literature informed the choice of the measures of inequality in the distribution of income in South Africa and in the Province. The Gini coefficient is the most commonly reported measure of inequality. It is related to the concept of income shares of population groups and can be represented graphically by a Lorenz curve.

<sup>4</sup> The analyses from this section and poverty section draw mainly from Woolard and Leibbrandt 1999, PERO 2005, Haroon et.al 2005 and various PROVIDE technical and background papers 2003 and 2005. The confidence intervals are given underneath the ratios throughout the tables in this section.

The Lorenz curve plots the cumulative share of households against the cumulative share of household income. If perfect equality prevails, the poorest 20 per cent of the population receives 20 per cent of income and the richest 20 per cent also receives 20 per cent of total income. The greater the deviation of the Lorenz curves from the perfect equality line, the greater the inequality in the economy/society.

Figure 4.4 below demonstrates the Lorenz curves for the Western Cape and South Africa between 2000 and 2005/06.

**Figure 4.4 Lorenz curves for the Western Cape and South Africa between 2000 and 2005/06**



Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

The IES results for 2000 and 2005/06 show that the Western Cape Lorenz curve is relatively closer to the line of equality than the national Lorenz curve in almost all the instances, indicating that inequality in the distribution of income was more pronounced nationally than in the Province. However, the inequality gap between the national and the provincial economy narrowed significantly, implying that the degree of inequality in the Western Cape intensified faster than the national average over the period under consideration.

## 5.2 Changes in Gini coefficients for South Africa and the Western Cape

The Gini coefficient for all the households in the Western Cape in 2000 was 62 per cent compared to 69 per cent for South Africa. Although the gap between the rich and the poor widened further, the Western Cape still fared better than South Africa in 2005/06, measured by the Gini coefficient of 65 per cent compared to 69 per cent at national level. However, in aggregate, the level of inequality in the distribution of income in the Province is getting worse.

Decomposing the Gini coefficient across population groups reveals higher levels of inequality in the distribution of income amongst the Africans compared to their Coloured and White counterparts. Income inequality appears to have decreased across the racial and geographical locations between 2000 and 2005, both for the Western Cape and South Africa. However, the trend of inequality predominantly amongst the Africans and the rural households still persists.

It appears that inequality amongst Africans in the Province decreased considerably from 68 per cent to 46 per cent, while that of the Whites and Coloureds increased over the period under consideration.

**Table 4.4 Gini coefficients for South Africa and the Western Cape, 2000 and 2005/06**

Decomposition of Gini coefficients by groups	National		Western Cape	
	2000	2005/06	2000	2005/06
	Gini coefficients			
African	0.64 [0.636; 0.649]	0.63 [0.619; 0.639]	0.68 [0.541; 0.743]	0.46 [0.438; 0.479]
Coloured	0.59 [0.566; 0.598]	0.60 [0.579; 0.638]	0.51 [0.506; 0.532]	0.56 [0.490; 0.601]
Asian	0.49 [0.447; 0.529]	0.55 [0.464; 0.579]	0.43 Sample size very small	0.35
White	0.53 [0.478; 0.576]	0.47 [0.454; 0.489]	0.44 [0.403; 0.455]	0.50 [0.443; 0.542]
Urban households	0.65 [0.640; 0.667]	0.65 [0.634; 0.659]	0.62 [0.598; 0.632]	0.65 [0.608; 0.687]
Rural households	0.73 [0.718; 0.749]	0.66 [0.647; 0.676]	0.62 [0.552; 0.660]	0.63 [0.565; 0.648]
All households	0.69 [0.691; 0.704]	0.69 [0.682; 0.702]	0.62 [0.601; 0.636]	0.65 [0.630; 0.691]

Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

Based on the 2000 IES information, there existed a high correlation between the aggregate Gini and the Gini within the labour income component, when the Gini is decomposed by sources of income (PROVIDE technical paper 2003:4). Based on this information it can be deduced that labour income largely drives income inequality. As discussed earlier, both the 2000 and 2005/06 IES data showed that households in the Province and South Africa earn the bulk of their income (more than 70 per cent) from rendering labour services. The decomposition of the Gini by income source using the current information is beyond the scope of this chapter.

Notwithstanding, the slight improvements in the degree of inequality in the Province between 2000 and 2005/06, the Gini coefficients still remain high by international standards (PERO, 2005).

### Use of confidence intervals in statistical analysis

Confidence intervals are calculated because datasets used are from sample surveys and the possibility therefore exists that the estimates generated will not be truly representative of the entire population. The confidence intervals indicate the likely range within which the estimate should fall, if one was to resample the same population and calculate these estimates with the new data.

If the intervals overlap, one cannot say with any precision that there has been a change. If they do not overlap, one can say with a certain degree of confidence that a statistically significant change has occurred. Although the confidence intervals are useful in that they provide us with the likely range, they are affected by data quality concerns, and are only as 'precise' as the data upon which they are based.

*Source: PER&O 2005*

Using the IES 2005/06 data, Bhorat, et. al, in Development indicators, 2008 found that "The changes in the levels of the Gini coefficients between 2000 and 2005/06 are not statistically significant at the 95 per cent level, for the total, Asians and Whites". This finding is consistent with the results of the PERO 2008 except that the truth holds for the Coloured and African groups as well, in the Western Cape and in South Africa at large. The population weights for the 2005/06 IES dataset have been weighted using the household weight adjusted for the household size based on the 2001 Census.

The confidence intervals calculated for all the Gini coefficients presented in the section above overlap, suggesting that it cannot be determined with some degree of certainty that the high distribution of income in South Africa and the Western Cape slightly decreased between 2000 and 2005/06. However, we can still deduce the overall trend in inequality in the Province between 2000 and 2005/06.

### 5.3 Changes in Theil indices for South Africa and the Western Cape

The Theil index is an alternative measure of inequality and a member of the Generalised Entropy class of inequality measures and therefore satisfies the Pigou-Dalton<sup>5</sup> transfer principle and the other relevant axioms (PROVIDE technical paper 2003:4 & PERO, 2005).

The aggregate Theil index for the Western Cape and South Africa in 2000 measured 0.81 and 1.09, respectively. There has been a slight reduction in the level of inequality measured by Theil to 0.83 and 0.81 for the Province and South Africa in 2005/06. The overall indices suggest that income inequality in the Province is relatively better than inequality at national level but the rates are still considered high by international standards.

Similar to the Gini coefficients, the Theil indices reveal higher income inequality amongst the African and Coloured population groups than the Whites. The distribution of income is more skewed amongst the Coloured population in South Africa and in the Province. The level of the Theil index increased and the trend is generally sloping upward (except for the Africans and rural people) over the period under analysis.

<sup>5</sup> Postulates that an income transfer from a poorer to a richer person should register a rise in inequality or at least not a fall.

The population sizes of the African and White population groups in the Province are quite small, therefore results should be interpreted cautiously.

**Table 4.5 Decomposition of Theil indices for South Africa and the Western Cape by groups, 2000 and 2005/06**

Decomposition of Theil indices by groups	National		Western Cape	
	2000	2005	2000	2005
	<b>Theil contributions</b>			
African	0.88 [0.771; 1.079]	0.77 [0.734; 0.809]	1.53 [0.529; 2.090]	0.36 [0.326; 0.386]
Coloured	0.68 [0.596; 0.734]	0.70 [0.597; 0.810]	0.47 [0.449; 0.524]	0.58 [0.420; 0.694]
Asian	0.44 [0.336; 0.517]	0.54 [0.382; 0.641]	0.32 Sample size very small	0.23
White	0.62 [0.449; 0.789]	0.39 [0.356; 0.443]	0.35 [0.278; 0.366]	0.47 [0.341; 0.542]
Urban households	0.92 [0.796; 1.113]	0.79 [0.734; 0.847]	0.80 [0.681; 0.845]	0.83 [0.665; 1.036]
Rural households	1.49 [1.345; 1.578]	1.01 [0.920; 1.101]	0.83 [0.694; 0.969]	0.74 [0.598; 0.846]
All households	1.09 [1.053; 1.170]	0.93 [0.892; 0.999]	0.81 [0.652; 1.012]	0.84 [0.735; 0.940]

Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

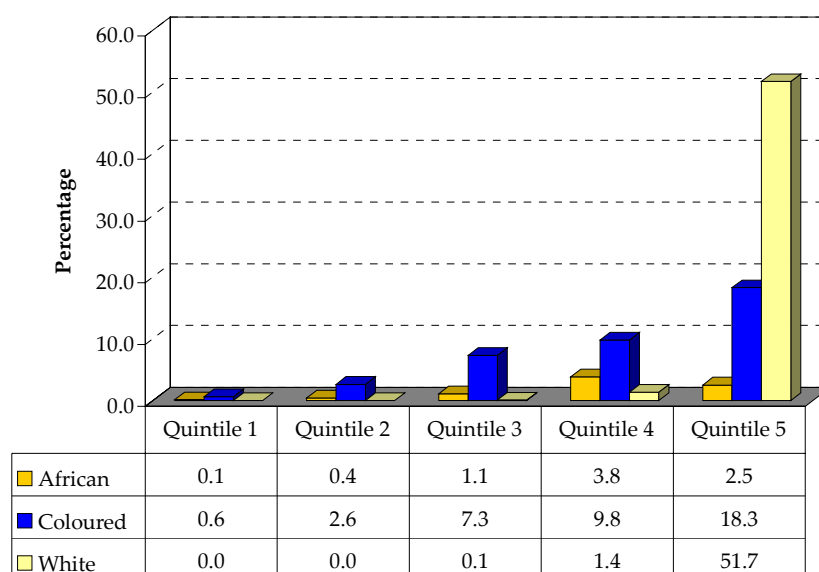
Unfortunately, even when using an alternative measure of inequality the Theil index, it still cannot be determined with certainty at 95 per cent level of confidence that the changes occurred over the period of analysis. However, the general level and direction of change of the Theil indices remain similar to that of the Gini coefficients. Nevertheless, these results point to high and persistent levels of inequality in the Province and across the population groups.

#### **5.4 Share of total income across income quintiles and population groups**

The analysis and measurement of the share of total income across quintiles is another measure of income inequality that can be used to bridge the gap between the aggregate Gini coefficients and Theil indices.

As evident from Figure 4.5 below, the distribution of income in the Western Cape is highly unequal across different quintiles and population groups. In total, 72.5 per cent of the total income earners are over represented in quintile 5, of which 51.7 per cent are Whites with Africans accounting for less than 3 per cent and Coloureds representing approximately 18 per cent of total income in quintile 5.

**Figure 4.5 Western Cape household income shares by quintiles and population group 2005/06**



Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

The Coloured individuals comprise about half of the population of the Western Cape but their ownership of income is relatively insignificant compared to Whites. The income distribution is highly skewed towards Whites across the population groups and quintiles.

## 6. Measuring income poverty<sup>6</sup>

The 40<sup>th</sup> and 20<sup>th</sup> percentile cut-off poverty lines of per capita income per annum have been used for this analysis. In 2005 prices, the 40<sup>th</sup> and 20<sup>th</sup> percentile cut-off poverty lines were equivalent to R4 715 (or R393 per capita per month) and R2 507 (or R209 per capita per month) per capita per annum, respectively. The latter poverty line is sometimes referred to as the “ultra” poverty line in the literature on poverty.

In order to determine where the poor people live and who the poor people are, population group and geographical location characteristics further disaggregate the above-mentioned indices. The disaggregation by regions in the Province falls beyond the scope of this chapter.

<sup>6</sup> The poverty and inequality calculations throughout the chapter uses per capita household income adjusted for household size as the unit of analysis also using household weights.

## 6.1 Changes in measures of aggregate poverty in South Africa and Western Cape

Table 4.6 below analyses the poverty headcount ratio<sup>7</sup>, poverty gap index<sup>8</sup> and the depth and severity of poverty index<sup>9</sup> in the Western Cape and South Africa between 2000 and 2005/06. The poverty rate measures the proportion of the population living below a defined poverty line but does not give an indication of how far below the poverty line the poor households are. As such, the poverty gap has been calculated to determine the distance by which the poor households' income falls below the poverty line.

The poverty measures in Table 4.6 below demonstrate that the proportion of people living below the "upper" poverty line in South Africa and the Western Cape decreased between 2000 and 2005/06 (see Table 4.9 for the statistics). The poverty rate for South Africa decreased to 40 per cent in 2005/06, while the Western Cape's strong economic performance reduced the poverty headcount to 20 per cent.

**Table 4.6 Measures of income poverty in South Africa and the Western Cape, 2000 and 2005/06**

Poverty levels	2000			2005/06		
	Headcount	Poverty gap	Poverty depth	Headcount	Poverty gap	Poverty depth
<b>South Africa</b>						
R393 per month	0.52 [0.500; 0.530]	0.27 [0.262; 0.279]	0.17 [0.166; 0.178]	0.40 [0.387; 0.407]	0.20 [0.194; 0.206]	0.12 [0.121; 0.129]
R209 per month	0.32 [0.308; 0.331]	0.13 [0.128; 0.139]	0.07 [0.070; 0.076]	0.23 [0.224; 0.240]	0.09 [0.091; 0.098]	0.05 [0.049; 0.054]
<b>Western Cape</b>						
R393 per month	0.28 [0.250; 0.315]	0.13 [0.093; 0.123]	0.05 [0.046; 0.064]	0.20 [0.171; 0.221]	0.08 [0.068; 0.092]	0.04 [0.036; 0.053]
R209 per month	0.10 [0.085; 0.122]	0.03 [0.026; 0.039]	0.01 [0.011; 0.018]	0.08 [0.063; 0.095]	0.03 [0.0224; 0.037]	0.02 [0.011; 0.020]

Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

Considering the "ultra" poverty rate, the Western Cape appears to have improved marginally compared to South Africa (which reduced the headcount ultra poverty from 32 per cent to 23 per cent in 2005/06).

<sup>7</sup> The ratio of the number of poor individuals to the total population or the proportion of the population living below the poverty line. The measure is also referred to as the poverty rate or the extent of absolute poverty.

<sup>8</sup> Measured by summing up the distance of each poor household from the poverty line and the number of poor people.

<sup>9</sup> Measured by summing the distance of each poor household from the poverty line and the number of poor people (PERO, 2005 & PROVIDE technical papers).

The poverty gap index also suggests that the incomes of the people living in abject poverty in South Africa were 20 per cent below the “upper” poverty line despite some improvements. This also implies that not only have the numbers of the poor people in the country decreased but that about 7 per cent of the poor people are currently better-off in 2005/06 than they were in 2000. This widened the gap between the rich and the poor further.

The Western Cape’s “upper” poverty gap index measured 13 per cent in 2000, registering a decrease of 5 per cent to 8 per cent in 2005/06. The “ultra” poverty gap index reveals that the distance of poorest of the poor people in the Province from the poverty line remained unchanged over the period, at 3 per cent.

The poverty depth measure, which puts more emphasis on the gap between the poverty line and the incomes of the poor by squaring it, also shows a worrying increasing trend from 1 to 2 per cent in the Western Cape over the period under analysis. This indicates that the income of the poorest of the poor has not improved.

At 95 per cent confidence interval, it cannot be determined with certainty that these changes indeed occurred.

## **6.2 Changes in measures of upper income poverty by population group and location**

The poverty rates differ substantially between the population groups and the geographical regions, in South Africa and in the Province, meaning the aggregate view masks the other population-specific trends in poverty.

The number of poor African people in South Africa in 2005/06 stood at 19.7 million, a decrease from 60 per cent in 2000 to 52 percent in 2005/06. Their Coloured counterparts graduated faster out of poverty and in significant numbers (see Table 4.9 for statistics).

Poverty was virtually nonexistent among the White people in South Africa and the Western Cape in 2000. However, the situation reversed in 2005/06, where, about 57 986 (or 2 per cent) and 11 451 White individuals slipped into poverty in South Africa and the Western Cape, respectively. The depth of poverty amongst this population group rose to 1 per cent in a 5 year-period.

The number of poor African people in the Western Cape decreased relatively faster than their Coloured counterparts albeit the higher rates and levels of poverty for the former population group. However, the poverty gap index shows that over the period only 1 per cent of the African poor people graduated out of poverty while the situation remained constant for the Coloured group. The depth of poverty for the Coloured group (10 per cent) remains significantly lower than that of the poor African people (17 per cent) in the Province in 2005/06.

Poverty is more pronounced in rural areas judging by the great disparities between the rural and urban areas. The proportion of the poor people living in rural areas barely changed in South Africa in 2005/06 as measured by the poverty rate of 69 per cent. To the contrary, the headcount ratio for the urban poor people decreased considerably to 27 per cent and about 6 per cent of the urban poor emerged out of poverty in 2005/06.



**Table 4.7 Measures of “upper” income poverty for South Africa and the Western Cape by population group, 2000 and 2005/06**

Poverty levels by groups, R393 per capita per month, 2005 prices	2000		2005/06	
	Poverty rate	Poverty gap	Poverty rate	Poverty gap
<b>National</b>				
African	0.62 [0.601; 0.628]	0.33 [0.323; 0.341]	0.52 [0.511; 0.534]	0.27 [0.261; 0.274]
Coloured	0.46 [0.428; 0.501]	0.21 [0.190; 0.232]	0.29 [0.257; 0.315]	0.12 [0.102; 0.131]
White	0.00 [0.001; 0.006]	0.00 [0.000; 0.004]	0.02 [0.009; 0.024]	0.01 [0.004; 0.011]
Urban	0.41 [0.385; 0.428]	0.20 [0.185; 0.210]	0.27 [0.260; 0.282]	0.13 [0.121; 0.133]
Rural	0.71 [0.690; 0.722]	0.40 [0.387; 0.409]	0.69 [0.680; 0.707]	0.37 [0.363; 0.381]
<b>Western Cape</b>				
African	0.47 0.415; 0.531]	0.20 [0.162; 0.228]	0.37 [0.304; 0.433]	0.17 [0.136; 0.206]
Coloured	0.29 [0.257; 0.333]	0.11 [0.089; 0.122]	0.27 [0.230; 0.310]	0.10 [0.082; 0.121]
White	0.01 [-0.004; 0.016]	0.00 [-0.003; 0.010]	0.02 [-0.003; 0.039]	0.01 [-0.001; 0.011]
Urban	0.26 [0.222; 0.295]	0.10 [0.084; 0.118]	0.19 [0.162; 0.213]	0.08 [0.066; 0.091]
Rural	0.46 [0.407; 0.512]	0.16 [0.134; 0.178]	0.35 [0.294; 0.411]	0.11 [0.0857; 0.127]

Source: Provincial Treasury calculations based on IES 2000 and 2005/06: Stats SA

The geographical poverty trend was somewhat different in the Western Cape in that although poverty remains concentrated in the rural than in urban areas, 8 per cent (a decrease from 43 per cent to 35 per cent) of the total rural poor individuals shared the benefits of economic growth over the five-year period. About 3 per cent of the rural poor people graduated out of poverty compared to only 1 per cent of their urban counterparts. These changes are not statistically significant at 95 per cent level of confidence.

### 6.3 Changes in measures of “ultra” income poverty by population group and location

The poverty trend barely changed in South Africa when the ultra poverty line is used in 2005/06 in that almost all the poverty indicators point to some improvement in reducing poverty. The proportion of the poor Whites living below the “ultra” poverty line increased to 1 per cent in 2005/06 from being virtually non-existent in 2000, however, poverty is not deep amongst this group.

**Table 4.8 Measures of “ultra” income poverty for South Africa and the Western Cape by population group, 2000 and 2005/06**

Poverty levels by groups, R209 per capita per month, 2005 prices	2000		2005/06	
	Poverty rate	Poverty gap	Poverty rate	Poverty gap
<b>National</b>				
African	0.40 [0.385; 0.410]	0.17 [0.163; 0.175]	0.31 [0.304; 0.324]	0.13 [0.123; 0.132]
Coloured	0.23 [0.202; 0.261]	0.09 [0.071; 0.099]	0.12 [0.097; 0.135]	0.04 [0.034; 0.052]
White	0.00 [-0.000; 0.005]	0.00 [-0.000; 0.002]	0.01 [0.004; 0.013]	0.00 [0.002; 0.007]
Urban	0.23 [0.210; 0.243]	0.09 [0.080; 0.094]	0.14 [0.131; 0.147]	0.06 [0.052; 0.060]
Rural	0.48 [0.467; 0.498]	0.21 [0.205; 0.222]	0.45 [0.437; 0.465]	0.18 [0.177; 0.191]
<b>Western Cape</b>				
African	0.20 [0.147; 0.241]	0.07 [0.048; 0.084]	0.17 [0.123; 0.22]	0.07 [0.047; 0.095]
Coloured	0.10 [0.078; 0.116]	0.03 [0.021; 0.035]	0.10 [0.071; 0.123]	0.04 [0.023; 0.048]
White	0.00 [-0.005; 0.015]	0.00 [-0.001; 0.004]	0.01 [-0.004; 0.019]	0.00 [-0.000; 0.003]
Urban	0.10 [0.080; 0.120]	0.03 [0.024; 0.039]	0.08 [0.062; 0.096]	0.03 [0.022; 0.038]
Rural	0.13 [0.095; 0.159]	0.04 [0.027; 0.047]	0.08 [0.054; 0.107]	0.02 [0.015; 0.034]

Source: Own calculations based on IES 2000 and 2005/06: Stats SA

It appears that the benefits of economic growth have been shared unequally in the Western Cape over the period under analysis judging by high poverty rates amongst Africans followed by Coloureds when compared to their White counterparts.

The proportion of the poorest poor Coloured and White individuals in the Province increased slightly over the five-year period, compared to their African counterparts. However, the levels of poverty remain higher for the latter group (17 per cent versus 10 per cent and 1 per cent for the Coloured and White population groups, respectively in 2005/06). The poverty gap grew wider amongst Africans and Coloureds in the Province while at national level there are some noted improvements.

#### 6.4 Changes in the number of poor people in South Africa and Western Cape by population group, 2000 and 2005/06

Approximately, 1.3 million people in the Province fell below the “upper” poverty line of R393 per capita per month. In 2005/06, this number decreased to approximately 1.2 million people.

**Table 4.9 People living under poverty in South Africa and the Western Cape, 2000 and 2005/06**

Population size by group	South Africa		Western Cape		South Africa	Western Cape
	2000	2005/06	2000	2005/06	Change (million)	
<b>Poverty measured at R393 per capita per month in 2005 prices</b>						
African	21.958.023	19.684.929	567.492	465.054	-2.273.094	-102.438
Coloured	1.837.472	1.201.024	707.303	683.919	-636.448	-23.384
White	14.517	72.503	5.156	16.607	57.986	11.451
<b>Total</b>	<b>23.810.012</b>	<b>20.958.457</b>	<b>1.279.951</b>	<b>1.165.579</b>	<b>-2.851.556</b>	<b>-114.372</b>
<b>Poverty measured at R209 per capita per month in 2005 prices</b>						
African	14.166.466	11.816.829	241.486	216.772	-2.349.637	-24.714
Coloured	918.736	486.045	243.898	245.342	-432.691	1.444
White	10.816	37.401	4.137	7.003	26.585	2.867
<b>Total</b>	<b>15.096.019</b>	<b>12.340.275</b>	<b>489.520</b>	<b>469.117</b>	<b>-2.755.743</b>	<b>-20.403</b>

Source: Provincial Treasury based on IES 2000 and 2005/06: Stats SA

**Notes:** \* The number of poor people by population group in the Province and South Africa are calculated using Census 2001 data and 2006 mid-year population estimates and population shares.

\*\* IES 2000 data over represented the Coloured population than other population groups. Hence, there is inconsistency between Census 2001 and IES 2000 such that approximately 1.17 million households or 4.52 million people were in the Western Cape were underestimated (Check PROVIDE background paper 2005: 1 (1))

\*\*\* The weights supplied with the IES 2000 were based on 1996 population estimates.

Approximately, 489 520 individuals in the Province fell below the “ultra” poverty line of R209 per person per month in 2000. In 2005/06, this number decreased to 469 117. The provincial economy has not been able to rapidly reduce poverty over the period under analysis. The situation is relatively better when considering South Africa as a whole.

## 7. Conclusion

The dominance of labour income, particularly salaries and wages, as proportion of total income lost momentum over the period under review but remains a major source of income for most households. The social insurance and grants category improved its importance quite significantly as a supplement to labour income. With the exception of “other income”, income from family and other allowances and business income were the fastest growing single sources of income.

Overall, the social insurance and grants income category shows positive average annual growth for the African and Coloured population groups over the period analysed. Whites and Coloured people continue to dominate ownership of all household income meaning that the distribution of income remains highly skewed towards these population groups in the Province.

Households in the Western Cape, like their national counterparts, spend their income mainly on food and non-alcoholic beverages, housing, water electricity and gas and transport. Household spending on the latter two expenditure categories increased considerably over the five-year period following the economic fortunes prevalent at the time. To the contrary, spending on food dropped, consistent with notion that food expenditure is inversely related to household income since income is a key determinant of the spending patterns of households.

White people spent their income predominantly on housing and transport while food dominates the Africans and Coloured groups’ expenditure, followed by housing and transport.

The inequality in the distribution of income remains high by international standards in the Western Cape and has increased but it still fairs relatively better than in South Africa as a whole.

South Africa performed relatively better than the Western Cape in reducing poverty between 2000 and 2005/06, when considering both poverty lines. However, the incidence, the depth and the severity of poverty are relatively less in the Province than in South Africa as a whole.

Great disparities exist between the rural and urban poor people and the poor people in the Province and in South Africa are more likely to be African. Poverty remains concentrated amongst the African and Coloured people than Whites and Asians, irrespective of the poverty line or measure used for analysis. Even at the extremely low poverty line, Africans in the Province remain poor.

The poor people have somewhat shared the benefits of growth albeit the highly unequal distribution of income in the same period.

The analysis done leaves room for improvement in future research in terms of intensifying the analysis to cover a broad range of issues such as measuring and analyzing access and asset poverty and inequality.

# 5

## Education, Health and Social Development at a glance

### Key findings:

- HIV and AIDS, TB and injuries pose serious challenges to the public health sector as the largest contributors to the Burden of Disease in the Province.
- Reducing the burden of disease requires a focus on inter-sectoral collaboration to addresses the critical determinants, especially the upstream.
- The total number of social grant beneficiaries increased by 14.2 per cent from 688 952 beneficiaries in July 2005 to 786 913 in July 2006 and reached 866 104 by July 2008.
- The total number of learners who have written the Senior Certificate Examination in the Western Cape has been increasing since 2004.
- Improving the quality of grade 12 passes as measured by exemptions and mathematics and science HG passes remains a challenge.
- Significant progress has been achieved in reducing education inequality in the allocation of resources at the provincial level.
- As the production in the economy continues to move away from the primary to the secondary and particularly tertiary sectors, there is a greater demand for skilled individuals in the economy.

## 1. Introduction

From previous chapters it is clear that participation in economic activity is the most effective means of reducing poverty on a sustainable basis and that higher levels of economic growth and job creation are required.

Government policies are orientated towards redistributing the gains from economic growth towards poorer and vulnerable groups in society. A large proportion of government expenditure, therefore, has been aimed at improving access to social services through spending on social welfare, social income grants and increased spending on health and education. Income support alone is neither adequate nor sustainable in the fight against poverty. Government thus also needs to create an environment and opportunities for people to improve their standard of living and to provide for themselves.

This chapter focuses on the social sector and provides an overview of the social profile of society in the Western Cape with regard to health, social welfare and education. It also provides an insight into the responses of government to the challenges it faces in creating an environment and opportunities for increased prosperity.

The table below shows the expenditure trends and the percentage of the total provincial budget that has been allocated for education, health and social development (excluding social grant spending). In the 2008/09 financial year, 75.3 per cent of the total budget for the Province has been allocated for education, health and social development.

**Table 5.1 Total provincial expenditure on education, health and development 2005/06 - 2010/11**

Provincial department R'000	Outcome			Main appropriation 2008/09	Medium-term estimate		
	Audited 2005/06	Audited 2006/07	Revised estimate 2007/08		% Change from Main Appropriation		
					2009/10	2008/09	2010/11
Education	6 449 244	6 920 362	7 822 732	<b>9 019 913</b>	10 013 961	9.93	10 864 296
Health	5 718 812	6 419 515	7 561 837	<b>8 641 973</b>	9 470 424	8.75	10 350 772
*Social Development	653 512	719 516	901 564	<b>1 088 065</b>	1 180 151	7.80	1 260 583
<b>Total payments and estimates Education, Health and Social Development</b>	<b>12 821 568</b>	<b>14 059 393</b>	<b>16 286 133</b>	<b>18 749 951</b>	20 664 536	9.27	22 475 651
Total Provincial Expenditure Western Cape	16 734 101	18 834 592	21 782 552	<b>24 892 054</b>	27 378 414	9.08	29 841 322
<b>% share per provincial department</b>							
Education	38.54	36.74	35.91	<b>36.24</b>	36.58		36.41
Health	34.17	34.08	34.72	<b>34.72</b>	34.59		34.69
Social Development	3.91	3.82	4.14	<b>4.37</b>	4.31		4.22
<b>Total payments and estimates Education, Health and Social Development</b>	<b>76.62</b>	<b>74.65</b>	<b>74.77</b>	<b>75.33</b>	75.48		75.32

\*Note: Excluding social grants

Source: Budget 2008

## 2. Profiles of the Western Cape

Access to quality health services plays a critical role in improving standards of living for the population of the Western Cape. Improvement in service delivery and notably health service delivery is a government priority both at a provincial and national level and at an international level. The Millennium Development Goals (MDGs) place health at the centre of the development agenda.

The health profile, contained in this chapter, provides a brief overview of the health sector and focuses on selected key socio-economic health indicators.

The analysis reviews trends in key indicators related to fertility, mortality and the burden of disease in the Province. It further highlights the significant challenges posed by HIV/AIDS and TB and other health issues.

The social development profile provides an overview of the social trends within the Province that guide the programmes and budget allocations within the social development framework for the Province.

The chapter also provides a brief overview of the education sector, looking at the number of learners and educators and the various indicators of learner achievement/performance. This is followed by a discussion of the skills profile of the labour market in South Africa and the Western Cape and how labour market changes are necessitating changes in the skill profile of the population.

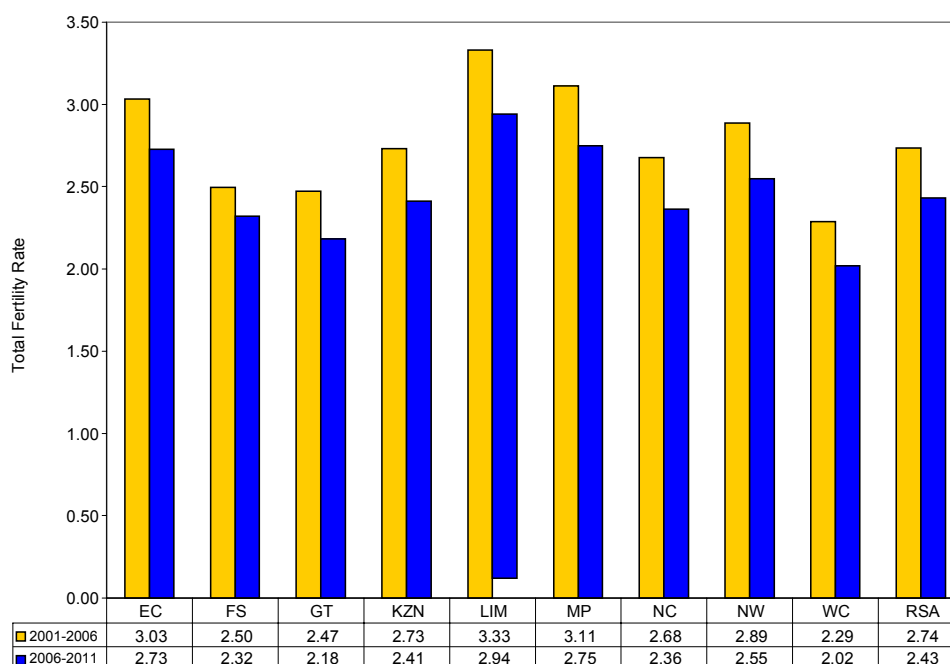
### 2.1 Health profile of the Western Cape

#### 2.1.1 Fertility in the Western Cape

Fertility is a key variable that relates to the level of economic development in a country and is important from a health planning and management perspective. The total number of children that an average woman is expected to have is measured by the total fertility rate. It has been shown that total fertility rates tend to be lower in regions with higher incomes and higher in regions with lower incomes.

Figure 5.1 below provides a comparison of average total fertility rates of the 9 provinces in South Africa for the period 2001 to 2006 and for 2006 to 2011. It shows that the Western Cape has the lowest average fertility rates in the country for the period 2001 to 2006, followed by Gauteng and the Free State. Fertility rates in the Province are further projected to decline to just about 2.0 children in 2006 to 2011 in comparison to the national average of 2.4 children. The implication of this decline in the fertility rate is that increase in the population of the Province will be largely driven by immigration.

**Figure 5.1 Provincial average total fertility rates for the periods 2001 - 2006 and 2006 - 2011**



Source: Western Cape Department of Health - Mid year population estimates, Statistical release 0302 Stats SA, 2008

### 2.1.2 Mortality and the burden of disease in the Western Cape

Mortality is a key variable linking to development of a country. Understanding the major causes of mortality enables government to target resources to areas of greatest need in order to reduce the burden of disease, specifically in the case of addressing the upstream factors that contribute to the burden of disease in the Province. Therefore, this section also takes a brief look at the burden of disease profile for the Province.

The MDGs focus on improving health outcomes while also targeting key developmental issues of reduction in poverty and malnutrition; improved education; women's empowerment - the "so called" social determinants of health. This is a departure from the predominantly disease-focus strategies where the focus was on the health sector to provide health services, drugs, health education etc. There is now increased emphasis on what other sectors could do to address the social determinants of health. Global and local experience has shown that when causes of disease are not addressed the need for health services actually continues to escalate.

Tables 5.2 and 5.3 below outline the progress of the Western Cape on selected MDG indicators towards meeting the health related Millennium Development Goals.



**Table 5.2 Infant and child mortality rates for the Western Cape, 2000 to 2007**

MDG: Reduce Child Mortality					
MDG Objective: Reduce under 5 mortality by two thirds by 2015					
MDG indicator	2000	2003	2006	2007	2015 target
Infant mortality rate/1000 live births	44 (1998)	43.5	26	25.3	15
Child (<5 years) mortality rate/1000 live births	56.6 (1998)	56.3	39	38.8	19

Source: South African Demographic Health Survey 1998 and 2003 and ASSA<sup>1</sup> 2003

**Table 5.3 Measles coverage under 1 year for the Western Cape, 2001 to 2007**

MDG: Reduce Child Mortality								
MDG Objective: Reduce under 5 mortality by two thirds by 2015								
MDG indicator	2001	2002	2003	2004	2005	2006	2007	2015 target
Measles coverage under 1 year	82.5	84.9	78.1	91.7	90.7	93.7	102.8	>90

Source: Western Cape Department of Health Annual Reports and own calculations

Two indicators used to measure the progress are the infant mortality rate per 1 000 live births and the under 5 mortality rate per 1 000 live births which reflects the probability of dying between birth and 1 year of age and between birth and 5 years of age expressed per 1 000 live births. Infant mortality rate (IMR) is a useful indicator of a country's level of health or development and tends to be much higher in the developing countries than in the developed world.

The data shows a decline of approximately 43 per cent in the infant mortality rate and a 31 per cent decline in the under 5 mortality rate from 2000 to 2007. The provincial Health Department partly attributes the decline in child mortality to improvements in the Prevention of Mother-to-Child Transmission (PMTCT) rates of HIV and AIDS. The PMTCT programme is implemented at all provincial health facilities that provide antenatal care services. Western Cape Department of Health (WCDoH) data shows that the PMTCT transmission rate has declined from 6.1 per cent in 2005/06 to 5.5 per cent in 2006/07 and was recorded at 5.1 per cent in 2007/08.

Table 5.3 also provides the progress towards the MDG of reducing under 5 mortality as measured by the measles coverage for children under 1 year. Indications are that with the exception of 2003, measles coverage for under 1 year has been improving since 2001 and the Province has met the 2015 target of coverage of more than 90 per cent in since 2004. This progress could be indicative of improvements in immunisation coverage and access to basic health care services in the Province.

<sup>1</sup> Actuarial Society of South Africa (2005); ASSA 2003 AIDS and demographic model; Cape Town, Actuarial Society of South Africa.

**Table 5.4 Maternal mortality ratio for the Western Cape, 2001 - 2004**

MDG: Improve Maternal Health						
MDG Objective: Maternal Mortality Ratio/100 000 live births						
MDG indicator	2001	2001	2002	2003	2004	2015 target
Maternal Mortality Ratio/ 100 000 live births	62.4	54.5	74.7	85.7	98.8	15

Source: *Saving mothers: Third report on confidential enquiries into maternal deaths in South Africa, 2002 - 2004.*

Table 5.4 above illustrates the annual Maternal Mortality Ratio (MMR) per 100 000 live births for the Western Cape from 2001 to 2004. The table indicates that MMR has increased over the period 2001 to 2004, which is largely due to HIV and AIDS related deaths. The Province has developed a plan in 2007/08 to reduce the MMR, which is based on recommendations of the National Saving Mothers Third Report.

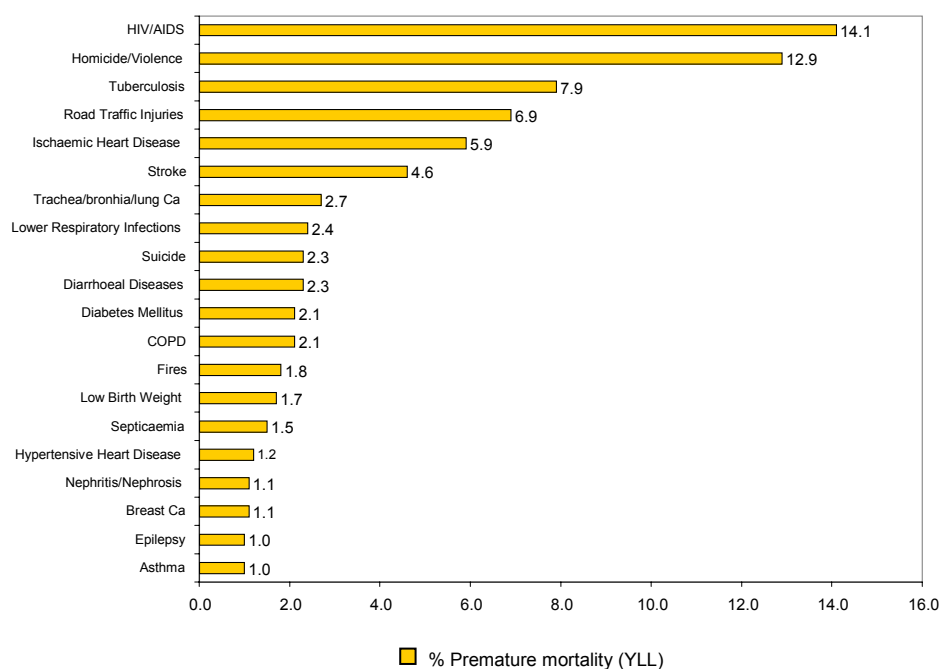
### **National Saving Mothers Third Report**

The Saving Mothers report contains 10 recommendations of the National Committee on Confidential Enquiry into Maternal Deaths (NCCEMD). It is recommended that all maternity facilities should implement these recommendations in order to reduce maternal mortality in South Africa and achieve the MDG 5 of reducing the maternal mortality ratio. Some key recommendations include: Clinical Management protocols addressing key conditions that most commonly cause maternal deaths at all facilities; screening services for communicable and non-communicable diseases; Emergency transport for pregnant mothers and their newborn; and empowerment of communities regarding Women's Health issues. The Western Cape has addressed and implemented these recommendations, among others, in its facilities and has already started a process of providing facilities with feedback on progress and identifying areas which still need improvement.

Years of Life Lost (YLL)<sup>2</sup> due to HIV/AIDS is a leading cause of premature mortality and contributor to the provincial burden of disease and when combined with the burden resulting from Tuberculosis (TB), the two infectious diseases account for approximately 22 per cent of the provincial burden. However, combining homicide/violence, road traffic injuries, suicide and fires shows that injuries due to these causes contribute almost a quarter (23.9 per cent) of the burden of disease in the Province.

<sup>2</sup> Years of Life Lost (YLL) measures mortality by weighting the causes of premature mortality i.e. taking into account the number of years a person lost when he/she died before the end of their expected lifespan.

**Figure 5.2 Top 20 causes of premature mortality (YLL) in the Western Cape, 2000**



Source: Bradshaw et al 2003<sup>3</sup> provided by Western Cape Department of Health

Two other components of the burden that are also important and have received attention with regards to assessing global evidence for effective interventions are the burden of mental disease and the burden of childhood disease (which is often masked by the adult burden). Mental illness/disease is not well reflected in mortality data, however, substance abuse is one of the known contributors to this burden in the Western Cape.

The standard method for measuring the BOD is using the Disability Adjusted Life Years (DALYs). This method includes the sum of years of life lost (YLL) due to premature mortality in the population and years lost due to disability (YLD) from a specific disease. The Comparative Risk Assessment component of the SA National Burden of Disease study for 2000 done by the Medical Research Council (MRC) estimated the BOD measured in DALYs attributed to selected risk factors. Table 5.5 below illustrates the top ten risk factors for the country.

<sup>3</sup> Bradshaw D, Nannan N, Groenewald P, Joubert J, Laubscher R, Nojilana B, Norman R, Pieterse D and Schneider M. Provincial mortality in South Africa, 2000: priority-setting for now and a benchmark for the future. *S Afr Med J* 2005; 95 (7): 496-503.

**Table 5.5 DALYs attributed to selected risk factors for South Africa, 2000**

Rank	Risk factor	% total DALYs <sup>4</sup>
1	Unsafe sex/STIs	31.5
2	Interpersonal violence (risk factor)	8.4
3	Alcohol harm	7.0
4	Tobacco smoking	4.0
5	High BMI (excess body weight)	2.9
6	Childhood and maternal underweight	2.7
7	Unsafe water sanitation and hygiene	2.6
8	High blood pressure	2.4
9	Diabetes (risk factor)	1.6
10	High cholesterol	1.4

Source <sup>5</sup>: *A comparative risk assessment for South Africa in, 2000*

At national level the top risk factor contributing to 31.5 per cent of the Burden of Disease is unsafe sex and sexually transmitted infections; interpersonal violence accounts for 8.4 per cent of the burden and alcohol harm and tobacco contributes 11 per cent. Similar data for the Western Cape is not available but alcohol harm and interpersonal violence are likely to feature high in the ranking since the Western Cape has such a much higher burden of injuries.

The importance of chronic diseases is also very evident in these risk factors, five out of the top ten risk factors namely alcohol harm, tobacco smoking, high BMI, high Blood Pressure and diabetes are related to chronic diseases particularly cardiovascular diseases.

To address the burden of disease, it needs to be acknowledged that the determinants of health include both downstream i.e. biological and behavioural risk factors, as well as upstream societal and structural risk factors, the “causes of causes” so to speak<sup>6</sup>. The major determinants of health are therefore not only influenced by the provision of and access to health care but also to a range of socio-cultural or development issues such as income inequalities, poverty, social behavioural norms and access to basic services such as sanitation, water etc.

<sup>4</sup> DALYs are Disability adjusted Life years It is the standard method for measuring BoD and comprises the sum of years of life lost (YLL) due to premature mortality in the population and years lost due to disability (YLD) from a specific disease.

<sup>5</sup> R Norman, D Bradshaw, M Schneider, J Joubert, P Groenewald, S Lewin, K Steyn, T Vos, R Laubscher, N Nannan, B Nojilana, D Pieterse South African Comparative Risk Assessment Collaboration Group. A comparative risk assessment for South Africa in 2000: Towards promoting health and preventing disease SAMJ 2007; 97(8):637-641.

<sup>6</sup> Burden of Disease Summary Report, 2007

The Provincial Government of the Western Cape (PGWC) mandated the Western Cape Department of Health to lead an initiative to define the components of the burden of disease in the Province and to provide evidence-based recommendations as to how these can be reduced. The Western Cape Department of Health has institutionalised a mortality surveillance system, which will allow the Province to measure and monitor the burden of disease at sub-district level. Reducing the burden requires a focus on inter-sectoral collaboration that addresses the critical determinants, especially the upstream factors of this burden in order to build and sustain health security. The current focus of the provincial Burden of Disease project is on reducing alcohol harm. The provincial departments of Health, Community Safety, Social Development and Economic Development and Tourism are currently pursuing initiatives aimed at influencing the supply and demand of alcohol through inputs to Liquor Bill legislation and initiatives to reduce alcohol misuse through awareness.

Substance abuse awareness and Early Childhood Development (ECD) are amongst the recommended areas critical to address the high rate of incidence related to the BOD in the Province.

### **2.1.3 HIV/AIDS and TB profile in the Western Cape**

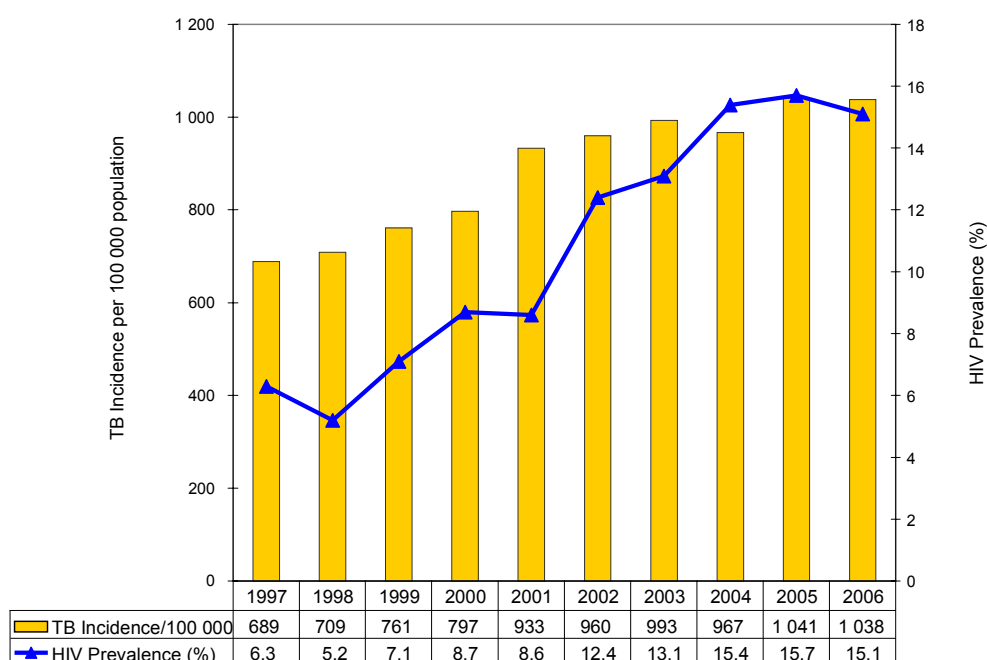
HIV and AIDS and TB pose significant challenges to the health care sector. As highlighted in the previous section, these two infectious diseases together constitute a significant portion of the burden of disease in the Province and rank among the top 3 causes of premature mortality. Furthermore the HIV/AIDS epidemic has further exacerbated the TB epidemic in the Province.

Figure 5.3 provides a comparison of the TB incidence rates and HIV/AIDS prevalence over the period 1997 - 2006. The HIV/AIDS prevalence rate is at 15.1 per cent for the Province in 2006. The figure below illustrates that the prevalence of HIV infection was occurring at a more rapid pace in the 1990s than the current decade and the growth in the prevalence has been leveling off since 2004 and could be attributed to a maturing epidemic.

TB incidence per 100 000 increased by almost 50 per cent from 1997 to 2007. Despite the large increase over the 10-year period, interventions within the health sector are starting to show a decline in the TB incidence rates from the 10 year high of 1 041/100 000 in 2005 to 1 004/100 000 in 2007<sup>7</sup>.

<sup>7</sup> Department of Health

**Figure 5.3 TB incidence and HIV prevalence in the Western Cape, 1997 - 2006**



Source: Western Cape Department of Health, HIV/AIDS and TB Directorate

The table below illustrates HIV prevalence based on the National and Provincial HIV and Syphilis Surveys. These surveys are based on surveillance among women attending antenatal clinics in the public sector and provide the basis for HIV estimation in the general population.

**Table 5.6 Provincial HIV prevalence estimates among antenatal clinic attendees, 2005 - 2006**

	2005*	2006**
Cape Metropole	17.0% (16.0% -18.1%)	17.0% (15.5% -18.4%)
Cape Winelands	13.2% (10.6% - 16.1%)	13.2% (10.4% -16.1%)
Overberg	11.4% (9.7% -13.1%)	13.0% (7.5%-18.5%)
West Coast	8.8% (6.9% - 11.1%)	7.3% (4.0%-10.7%)
Eden	12.6% (10.7% -14.6%)	11.5% (8.1% -14.8%)
Central Karoo	8.9% (3.8% - 14.1%)	8.3% (10.5% -16.1%)
Western Cape	15.7% (11.3% - 20.1%)	15.1% (11.6% -18.7%)

\* Source: Western Cape Province HIV and Syphilis Prevalence Survey South Africa, 2005

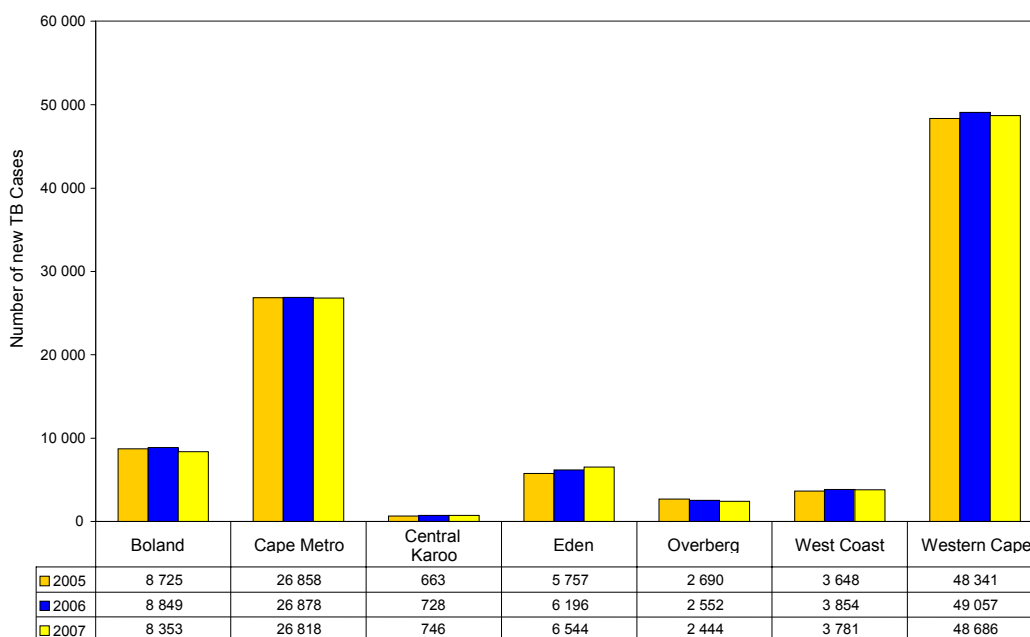
\*\* Source: National HIV and Syphilis Prevalence Survey South Africa, 2006

It is important to note that a 95 per cent confidence interval (CI) was used, therefore statistically it means that there is 95 per cent certainty that the HIV prevalence falls within the confidence limits which is illustrated in parentheses in the table above.

It is noted that if the CIs overlap e.g. CIs for the Province of 11.3 per cent to 20.1 per cent for 2005 to 11.6 to 18.7 per cent for 2006, it means that even though the point estimate has moved down from 15.7 per cent in 2005 to 15.1 per cent in 2006, statistically this is not a real increase in the prevalence, in fact the prevalence has stayed the same

The TB caseload for the Province disaggregated by district is shown in Figure 5.4 below. This shows that the Cape Metro has the highest number of new TB cases in the Province, which is more than half the total provincial case load. This has significant service delivery challenges in the Metro where a facility such as Site B in Khayelitsha has the equivalent of 50 per cent of all cases in the West Coast district.

**Figure 5.4 TB caseload by district, Western Cape, 2005 - 2007**



Source: Western Cape Department of Health

## 2.2 Social profile of the Western Cape

### 2.2.1 Substance abuse

Substance abuse remains one of the main social problems in the Western Cape and has a direct impact on the health care system, crime levels and families stability. Research data for the period between 2003 and 2006 shows that the number of patients treated at specialist treatment centres increased by 62.3 per cent. Since the beginning of 2005, methamphetamine (Tik) use by under 20 year olds in treatment has increased from 11 per cent to a current 57 per cent. Alcohol also continues to be abused across all age groups and treatment centres reported 30 per cent of people accessing treatment have alcohol as primary drug of abuse<sup>8</sup>.

<sup>8</sup> South African Community Epidemiology Network on Drug Use (SACENDU) Update: 19 November 2007.

Analysis done by South African Community Epidemiology Network on Drug Use (SACENDU) has highlighted specific areas, which are more prevalent to drug abuse and identified Paarl and Mitchell's Plain as the highest referral areas. In Paarl, the prevalent age group for alcohol abuse is between 5 and 29 years with Tik and dagga as the primary drug of choice. In Mitchell's Plain the same age group has been identified but with Tik and heroin as primary drugs of choice.

Drug-related crime shows an increase of 12 per cent with the number of cases increasing from 41 067 cases in 2007 to 45 985 this year. Areas mostly affected by drug-related crime include Mitchell's Plain, Cape Town Central, Elsies River, Bishop Lavis, Kleinvele, Steenberg, Philippi, Ravensmead, Manenberg and Delft<sup>9</sup>.

### **2.2.2 Older persons**

Of the 299 106 older persons in the Province there are currently 10 440 who are accommodated in 132 old age homes funded by the Provincial Government of the Western Cape (PGWC). This excludes older persons accommodated in private registered homes, not funded by the Department, as well as unregistered facilities. In addition, 12 527 older persons are receiving services at 167 service centres and 9 000 older persons belong to senior clubs.

In recent years, the focus of Government has changed to home-based care as a viable alternative to institutional care and, like community-based care, will have to be accelerated. Government embarked on an audit of all residential facilities for aged persons, funded or unfunded by Government, private, registered, unregistered and even boarding house facilities for older persons within the Western Cape Province to assess the availability and quality of services and develop strategies to intervene where necessary.

### **2.2.3 Crime**

There are currently 1 905 821 young people between the ages of 15 and 34 in the Western Cape. Studies specifically on youth in conflict with the law by the Department of Social Development indicate that the Western Cape is the province with the highest incidence of youth crime, with high levels of rape, sexual assault and even murder. The number of youth awaiting trial in detention increased from 6 558 in December 2005 to 8 800 in December 2007 and has already reached 8 826 in July 2008. As a result of the violent behaviour amongst the youth, especially amongst the males, the Province also experiences a high burden of mortality amongst young men<sup>10</sup>.

<sup>9</sup> SAPS Crime Statistics, 2007/08

<sup>10</sup> A Situation Analysis of the Western Cape, Department of Social Development, 2008.



#### **2.2.4 Services to persons with disabilities**

Disability is a diverse sector, which includes physical, visual, hearing, intellectual, mental, psychiatric and multiple disabilities, epilepsy, albinism and autism. Disability not only reinforces and deepens poverty, but people with disabilities are also at increased risk for every known risk factors such as HIV/AIDS and substance abuse, yet they are still largely ignored in prevention campaigns. According to the 2007 Community Survey, 282 833 people in the Western Cape indicated that they have a disability.

#### **2.2.5 Child care and protection services**

Results of the 2007 Community Survey show that the Western Cape is home to 1 770 859 children under the age of 18 years. Studies by the Human Sciences Research Council (HSRC) have shown that children in the Province are subject to a disturbingly high incidence of maltreatment and violence:

- 3 in every 1 000 children in the Province were subject to a Children's Court Inquiry in 2005. This high rate of statutory removal is assumed to be related to poverty and the impact of HIV/AIDS;
- Most physically abused children requiring hospital treatment are under the age of 5 years, and more than half are boys;
- Most assaults occur in the child's home. The perpetrators of child abuse are usually someone known to the child – often the child's father or the mother's partner; and
- There appears to be an upward trend in reports of sexual assaults on children under the age of 13 as reported to health facilities.

All of these factors place children at enormous risk and challenge Government to adopt a multi-faceted collaborative approach in which communities play a central role in protecting the vulnerable cohort, children and the aged.

#### **2.2.6 Victim empowerment**

The Integrated Victim Empowerment Policy adopted by Government acknowledges the importance of victims and all stakeholders, in both the public and private sectors in the delivery of services to victims.

In the past, the focus of victim empowerment has been on the progress of the perpetrator through the system. However, the current focus is on serving the needs of the victim. It has been proven, nationally and internationally, that a victim focused approach, with strong emphasis on service delivery to victims promotes the reduction of secondary victimisation and improves co-operation with the criminal justice process. Socially desirable behaviour is reinforced and offenders and potential offenders are deterred.

### **2.2.7 HIV and AIDS**

In the Western Cape, it is evident that the diversity of the HIV epidemic closely mirrors wide disparities within the Province with regard to a range of factors from socio-economic status, unemployment rates, and poverty levels. There is a concern that HIV/AIDS infected and affected people could become dependent on government for support in the form of grants. Therefore, it is critical that Government promotes a self-reliant life style, but also provides care and support to the vulnerable people.

### **2.2.8 Social relief**

The Western Cape is characterised by a wide range of disasters such as droughts, floods and fires. The establishment of the Provincial Disaster Management Centre, therefore, represents a multi-disciplinary, multi-sectoral approach to disaster management. The focus of disaster management in the Western Cape is on awareness, training and education, mitigation, preparedness and disaster recovery.

The most disaster prone areas are in the metropolitan areas of Cape Town. In the 2006/07 financial year, there were 153 disaster incidents within the Metro, 857 claims of social relief and approximately 3 564 persons were displaced and were assisted with temporary relief by the Department of Social Development.

### **2.2.9 Care and support services to families**

The well-being of the family is of critical importance to the overall functioning of society as any breakdown in its functioning and its ability to provide care increases the vulnerability of its members. The Provincial Government of the Western Cape is therefore committed to have resilient, optimal functioning families and communities that care, protect and develop children.

One of the main observations in the Western Cape is the changing social roles that influence the structure of families. Evidence of this is the increasing proportion of households headed by women in the Province, particularly households headed by urban African and Coloured women.

### **2.2.10 Poverty**

The deepening levels of inequality and vulnerability of the poorest segments of our communities have been the unintended consequence of South Africa's integration into the global economy on terms that did not prioritise the interests of the poor. As the Consumer Price Index of food (CPI-food) has risen by 15.7 per cent from April 2007 to April 2008, South Africa is currently experiencing the highest rate of food inflation since January 2003. Especially worrying is the fact that the prices of certain staple foods increased by white bread (26.3 per cent); brown bread (21.5 per cent) and potatoes (29.3 per cent) while cooking oil, often used in poorer communities, even increased by 102.9 per cent over the period<sup>11</sup>.

<sup>11</sup> Introduction to the Western Cape Food Summit, 18 June 2008

Welfare services and social security grants are currently the most direct form of wealth transfers to poor households. These grants include grants for old age, war veterans, disability, care dependency, foster care, child support and grant in aid. Government not only addresses social failures by providing social security, but also implements and facilitates social welfare programmes to address the needs of the poor.

The implementation of the Food Summit 2008 resolutions would also alleviate in the short-term the burden of hunger on the poor.

## **2.3 Education profile in the Western Cape**

The first section is a discussion regarding a number of characteristics of education in the Western Cape. Secondly it looks at learner performance in the Western Cape. The third section examines how South Africa has adopted a pro-poor approach to funding education. In this section we also examine how funding education across provinces has changed over time.

### **2.3.1 Learners, educators and schools in the Western Cape**

Data from the 2008 Snap survey sent to schools in the Western Cape on the 10<sup>th</sup> day of the school calendar indicated that there were 911 503 learners in 1 455 public ordinary schools with 25 988 educators – excluding School Governing posts and 30 543 – including School Governing posts<sup>12</sup>.

In the Western Cape, the learner educator ratio in public ordinary schools (taking an average for both primary and secondary schools), excluding School Governing Posts is 35.1:1, declining to 29.8:1 with the inclusion of School Governing Posts.

A closer look at learner-educator ratios shows that wealthier schools and wealthier provinces, where schools are able to charge higher school fees and where there is a higher proportion of learners who's parents are able to pay school fees have made significant use of School Governing Positions in order to lower their learner-educator ratios. The financial ability of schools to employ additional teachers in order to lower their learner-educator ratio differs across provinces and poverty quintiles. The Western Cape together with Gauteng have the highest number of school governing body funded posts.

The use of these school-governing posts has resulted in the effective learner-educator ratio at the national level being reduced by 7 per cent in 2006/07. Gauteng and the Western Cape were able to reduce their effective learner-educator ratio by 16 and 19 per cent respectively. For 2008, quintile 5 schools in the Western Cape were able to reduce their effective learner educator ratio by 28 per cent with the result that schools in the poorest quintile have a higher effective learner educator ratio of 31:1 compared with the least poor quintile having an effective learner educator ratio of 25.5:1<sup>13</sup>.

<sup>12</sup> WCED, Annual Performance Plan, 2008/09 to 2010/11

<sup>13</sup> Department of Education, 2006 School Realities and WCED, Annual Performance Plan, 2008/09 to 2010/11

**Table 5.7 Number of learners per Grade for 2008**

Grade R	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10	Grade 11	Grade 12
37 932*	89 439	83 037	79 033	85 450	86 598	77 880	75 788	69 813	73 059	79 529	64 178	43 208

\* CEMIS (8 February 2008) – 37 932 in public ordinary schools and 24 000 (estimate) in registered community centres

Learner numbers for the remaining grades are taken from the SNAP Survey for 2008

Source: WCED APP 2008/09 – 2010/11

Table 5.7 above illustrates two key issues prevalent in the Western Cape and other provinces. First, the low number of learners in registered Grade R facilities. Expanding and improving comprehensive early childhood education, especially for the most vulnerable and disadvantaged children has been identified in a number of key policy documents including Education for All goals adopted by 164 countries in 2000 and White Paper 5 of 2001. The WCED has prioritised the expansion of access to quality Grade R programmes in both public ordinary schools and registered community sites. This has seen the number of Grade R learners in registered sites (register community sites and public ordinary schools) increase from 21 000 in 1996 to in excess of 60 000 in 2008. Importantly, the focus has included an emphasis on enhancing the quality of Grade R programmes, with specific allocations being made for training ECD practitioners and the provision of resource kits to ECD community sites. The budget allocated towards Grade R has increased significantly in recent years from R60 135 million in 2004/05 to R226 792 million in 2008/09, nearly a four-fold increase in 4 years.

The second key issue illustrated in Table 5.7 is the decline in learner numbers in Grades 8, 11 and 12 which are critical moments of transition in the schooling system. Grade 8 marks the transition to secondary school, Grade 11 the preparation for the final exit examination, and Grade 12 the preparation for entry into tertiary education. It would be incorrect to simply deduce from these figures that these learners have dropped out of the education system as the Western Cape has the highest proportion of learners in independent schools in the country with an estimated 3 per cent of learners in independent schools. The decline in learner numbers in public ordinary schools does however warrant further analysis. Key factors that result in learners exiting the education system are to a large extent beyond the direct control of the education department and include a wide range of societal and socio-economic factors.

### 2.3.2 Improving learner performance remains a challenge

South Africa's poor performance in international learning tests such as the Trends in International Mathematics and Science Study (TIMSS) and the Progress in International Reading Literacy Study (PIRLS) point to serious challenges regarding the quality of education.

Domestic measures of learner achievement such as the Senior Certificate Examination and the national standardised achievement tests (Systemic Evaluation) similarly indicate slow progress towards the realisation of quality education for all learners.

Poor quality education and learner performance is indicated by: lower than expected achievement levels in international learning tests (given South Africa's level of development and socio-economic status); low learner achievement levels in literacy and numeracy as measured by Grade 3 and 6 systemic evaluation results; inadequate number of learners passing higher grade mathematics and science in order to enter tertiary education; minimal increases in Senior Certificate exemption rates; significant number of learners exiting school between grades 10 and 12 as well as high repetition rates in these grades; high drop-out rates at tertiary education institutions and poor prospects of finding employment amongst the youth.

Grade 3 learners show improvements in literacy results with the percentage of learners attaining acceptable outcomes increasing from 39.5 per cent in 2004/05 to 47.7 per cent in 2006/07 and an estimated 50.1 per cent in 2008/09. This improvement shows the impact of the Department's interventions such as the provision of 100 reading books per primary school. In contrast, numeracy results for Grade 3 learners have deteriorated over this period declining from 37.3 per cent in 2004/05 to 31 per cent in 2006/07 and improving to an estimated 32.6 per cent in 2008/09<sup>14</sup>.

Achievement in terms of equality of outcomes between least advantaged and most advantaged schools show that in 2006/07, Grade 3 learners in the least advantaged schools on average attained literacy levels that were 62.5 per cent lower than the average for the most advantaged schools. In the case of numeracy, learners in the least advantaged schools attained numeracy levels on average that were 82.6 per cent lower than the most advantaged schools. Thus despite progress in increased funding to the poorest schools and efforts to narrow the gap in outcomes, learner achievement rates remain closely correlated with poverty<sup>15</sup>.

Results from the testing of Grade 6 learner's literacy levels indicate an increase from 42.1 per cent of learners attaining acceptable outcomes in 2005/06 to 44.8 per cent in 2007/08. However, there was a decline from 17.2 per cent to 14 per cent in the number of learners attaining acceptable outcomes over the same period<sup>16</sup>.

Figure 5.5 shows that the WCED has experienced an increase in the number of learners who wrote the Senior Certificate Examination. This has translated into a slight improvement in the number of learners passing the Senior Certificate Examination. However, the number of learners achieving exemptions and A-aggregates has remained flat since 2002. The performance regarding the number of learners passing mathematics HG has seen the number of learners passing fluctuating from 3 092 (8.32 per cent<sup>17</sup>) in 1999 to a high of 4 321 (11.2 per cent) in 2005. The number and percentage of learners passing mathematics on the HG level was 3 990 (9.52 per cent) in 2007. Recent trends show that the number of learners who passed mathematics on the higher grade has declined from 4 268 in 2004 to 3 990 in 2007.

<sup>14</sup> WCED, Draft 2009/10 Annual Performance Plan

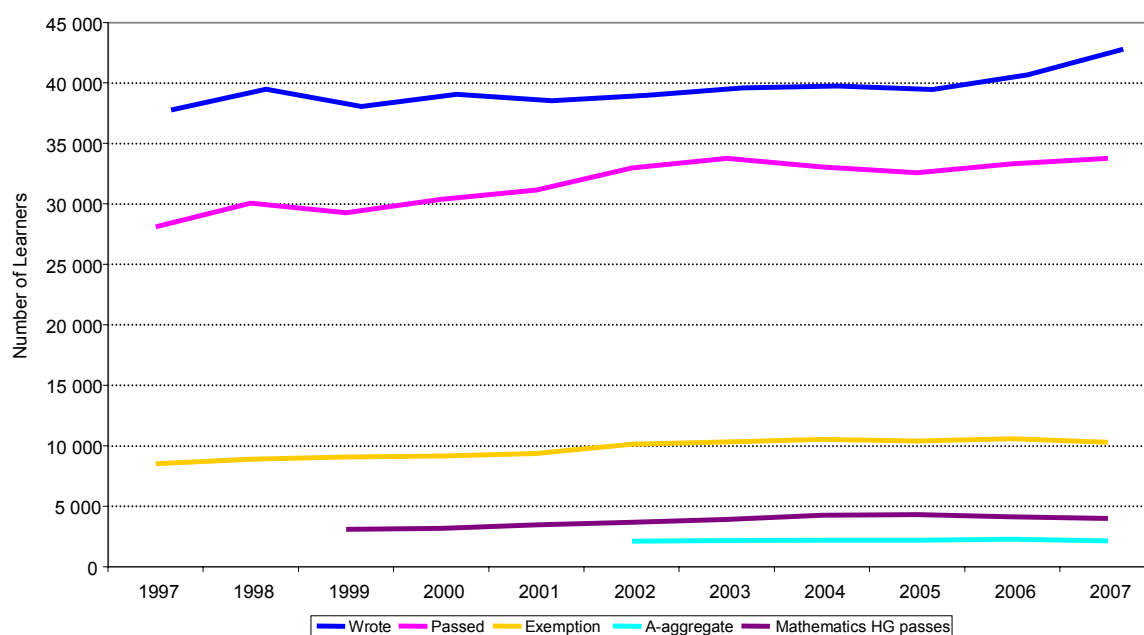
<sup>15</sup> WCED, 2008/09 Annual Performance Plan

<sup>16</sup> WCED, 2008/09 Annual Performance Plan

<sup>17</sup> Of those who wrote the Senior Certificate Examination

The majority of mathematics HG passes are still located in the former Cape Education Department (CED) (former White only schools) accounting for slightly more than 70 per cent of passes in 2007, down from 76.88 per cent in 1999. An important national initiative to improve mathematics and science performance amongst historically disadvantaged learners has been the introduction of the Dinaledi schools which aims to double mathematics and science high school graduates by 2008.

**Figure 5.5 Senior Certificate Examination results in the Western Cape, 1997 to 2007**



Source: Western Cape Education Department

The low attainment levels in critical subjects (particularly in science, engineering and technology fields) has serious ramifications for addressing the skills shortage and achieving transformation in the labour market.

## 2.4 Skills profile of the labour force in the Western Cape

Although the unemployment rate in the Western Cape is lower than the national rate, 17 per cent (official unemployment definition) of labour force participants are unable to find employment (September 2007)<sup>18</sup>. The severity of the problem is more acute amongst the youth (15 to 34 year olds) where 25.4 per cent (official unemployment definition) are unable to find employment.

<sup>18</sup> Statistics South Africa, Labour Force Survey September 2001

The link between education and access to the labour market is well documented. The education level of the labour force plays an important part firstly, in whether an individual finds employment, and secondly, in the type of employment found. Table 5.8 indicates that at present the labour force in the Western Cape consists primarily of individuals with a highest educational attainment of matric or less. However within a relatively short period of time the proportion of the broad labour force with less than a matric has shrunk from 67 per cent in 1995 to 53 per cent in 2006. This follows the trend one would expect that as the production in the economy continues to move away from the primary to the secondary and particularly tertiary sectors, there is a greater demand for skilled individuals in the economy.

A noticeable shift towards skilled individuals has taken place within a relatively short period of time. The share of Matriculants in the Western Cape labour force increased from 19 per cent in 1995 to 28 per cent in 2006. As to be expected the share of individuals with no education or incomplete GET has decreased from 42 per cent to 24 per cent over the same period. Generally, it is clear that the Western Cape labour force reached higher education attainment levels over this period. However, while there was an increase in the number of degreed individuals between 1995 and 2001, their share of the broad labour force has remained fairly constant.

**Table 5.8 Changes in the broad labour force, by education level, 1995 - 2006**

				Share (%)			Average annual growth (%)		
	1995	2001	2006	1995	2001	2006	1995-2001	2001-2006	1995-2006
<b>Western Cape</b>									
None	67 530	43 921	34 942	4	2	1	-6.92	-4.47	-5.81*
Incomplete GET	651 285	621 781	547 252	38	30	23	-0.77	-2.52	-1.57
Complete GET	428 020	528 878	701 905	25	26	29	3.59	5.82*	4.60*
Matric	326 764	535 403	678 651	19	26	28	8.58*	4.86*	6.87*
D/C less Matric	10 765	18 354	33 307	1	1	1	9.30	12.66	10.81*
D/C with Matric	123 209	158 767	244 454	7	8	10	4.32	9.02	6.43*
Degree	84 474	139 936	130 012	5	7	5	8.78	-1.46	4.00
<b>Total</b>	<b>1 693 938</b>	<b>2 068 572</b>	<b>2 388 416</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>3.39</b>	<b>2.92*</b>	<b>3.17*</b>
<b>National</b>									
None	1 181 903	1 212 836	963 723	9	6	5	0.43	-4.49	-1.84
Incomplete GET	4 767 863	6 380 876	5 467 559	35	34	27	4.98*	-3.04*	1.25*
Complete GET	3 263 556	4 649 774	5 852 695	24	25	29	6.08*	4.71*	5.45*
Matric	2 873 360	4 322 962	5 608 480	21	23	27	7.04*	5.34*	6.27*
D/C less Matric	113 401	180 831	190 445	1	1	1	8.09*	1.04	4.83*
D/C with Matric	966 494	1 098 102	1 419 923	7	6	7	2.15	5.27*	3.56*
Degree	463 602	806 922	807 632	3	4	4	9.68*	0.02	5.18*
<b>Total</b>	<b>13 753 750</b>	<b>18 830 008</b>	<b>20 407 879</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>5.38*</b>	<b>1.62*</b>	<b>3.65*</b>

Source: "Skills Development Strategy Review of the Western Cape Situational Analysis", 2008, commissioned by the Department of the Premier, Western Cape Provincial Government. – Based on data from the OHS 1995, LFS 2001:2, LFS 2006:2 (Statistics South Africa)

\* Significant at the 10 per cent level

### 3. Challenges and responses

This section shows Government responses to the social, health and education trends in the Western Cape. It focuses on social assistance, highlights some key challenges facing the health sector and society as a whole as well as challenges specific to access to quality public health care services. It also briefly discusses some responses and interventions within the public health sector to address key challenges impacting on the health status and delivery of public health services in the Western Cape, while noting that an inter-sectoral and intergovernmental approach is required to effectively address the social determinants of health.

In the discussion under education and skills responses, specific attention is given to how South Africa in the post-Apartheid period has adopted a pro-poor approach to funding education. A number of specific interventions by the Department of Education to improve education outcomes are discussed. Lastly, there is a brief discussion of some of the strategies adopted by Departments to address the skills shortage facing Departments and particular sectors of the economy.

#### 3.1 Health responses

At a provincial level, the Western Cape Department of Health's mission is to "improve the health of all people in the Western Cape and beyond, by ensuring the provision of a balanced health care system, in partnership with all stakeholders, within the context of optimal socio-economic development"<sup>19</sup>. The Health Care 2010 framework was developed to improve the quality of the health care services and to provide a financially sustainable health service in the Western Cape. While the Health Care 2010 framework provides the strategic directions of Health care in the Province, the Comprehensive Service Plan (CSP) guides the implementation thereof.

Implementation of the CSP is a key challenge for the WCDoH due to the enormous service transformation challenges and the required financial resources. The ultimate goal of the CSP is to reshape the service platform at central, regional and district hospitals as well as clinics to treat patients at the level of care most appropriate to their need. This entails strengthening health service delivery at the district and community based care level.

The lack of sufficient human resources for public health both from a clinical and management perspective is another serious challenge for the health sector. The inability to recruit and retain experienced and quality health care professionals has a negative impact on the quality of care provided. Addressing the current shortage of nurses in the public health sector, who are the backbone of health services, especially nurses with specialist training is a government priority. The implementation of the Occupation Specific Dispensation (OSD) for nurses, which provides for improvements in salaries and conditions of service is a national initiative aimed to retain and attract nurses to the public sector.

<sup>19</sup> Provincial Government of the Western Cape: Department of Health Annual Performance Plan 2008/09



It is clear that HIV and AIDS and TB are major public health challenges in the Western Cape despite progress made in dealing with these two infectious diseases. The TB epidemic has been exacerbated with the emergence of multi drug (MDR) and extreme drug resistant (XDR) TB.

In response to the growing TB epidemic the WCDoH developed a strategy to accelerate and enhance the response to TB. In recent years, five high TB and HIV burden sub-districts were targeted with additional resources to strengthen TB control. These TB crisis districts have already shown significant improvement in the new smear positive TB cure rates between 2006/07 and 2007/08.

- Khayelitsha: 51.6% to 55.4%
- Cape Town Eastern: 71.4% to 72.2%
- Klipfontein: 68.5% to 73.2%
- Breede Valley: 59% to 71.6%
- Drakenstein: 67.7% to 72.1%

In 2008/09, the Department's current Primary Health Care strategy aims to strengthen Tuberculosis Control and services in 11 high burden TB/HIV sub-districts in the Western Cape and 22 high TB burden clinics. These 22 high burden clinics make up 35 per cent of the provincial TB burden. The sub-districts with the greatest number of high burden facilities are Khayelitsha, Klipfontein and Mitchell's Plain.

The Department has implemented the 'Comprehensive HIV and AIDS Care, Management and Treatment Plan' adopted by the National Cabinet in November 2003 and is committed to integrating the HIV and AIDS programme into the general health services. The Department has developed a Provincial Strategic Plan, which aims to address the issues arising from the National Strategic Plan (NSP) for HIV and AIDS for 2007 – 2011. The Department of Health also continues to: expand its Anti Retroviral Treatment (ART) services and district health based treatment; offer increased counseling and support; undertake targeted prevention initiatives in high transmission areas and scale-up and adapt relevant public health services including the integration of TB and HIV/ART services.

Other important challenges are the incidence of injuries due to violence and road traffic injuries, which are a burden on the emergency medical services and acute hospital services. In addition, non-communicable diseases account for a significant proportion (43 per cent)<sup>20</sup> of premature mortality in the Province. This component of the burden also provides a huge challenge in terms of the number of clients that require services for chronic disease management on a regular basis and those that require acute hospitalisation.

The greatest challenge in the Province is in the prevention of the burden of disease before it even gets to the health sector to receive health services. It is evident that the burden of disease has risk factors that not only reside in the ambit of the health sector but also in other sectors, the so called social determinants of health or up stream risk

<sup>20</sup> Bradshaw D, Nannan N, Groenewald P, Joubert J, Laubscher R, Nojilana B, Norman R, Pieterse D and Schneider M. *Provincial mortality in South Africa, 2000: priority-setting for now and a benchmark for the future.* S Afr Med J 2005; 95 (7): 496-503.

factors such as poverty, poor or lack of adequate housing, poor water and sanitation and misuse of alcohol etc. This requires an inter-sectoral approach in order to address the social determinants of health. For example, to prevent cardiovascular diseases the following are factors that need to be addressed in addition to the availability of health services for early screening, diagnosis and management of risk factors resultant disease: safety and availability of resources to address high BMI for adults and children in and out of schools, the availability and cost of fruits and vegetables and other healthy foods, health promotion and education efforts to change behaviour.

## 3.2 Social welfare responses

### 3.2.1 Social assistance grants

The Constitution of the Republic of South Africa, 1996 (Act 1 of 1996) provides for everyone to have the right to access social security. This right includes, if they are unable to support themselves and their dependants, appropriate social assistance and obliges the state to take reasonable legislative and other measures within its available resources to achieve the progressive realisation of these rights.

The South African Social Security Agency (SASSA) established by the South African Social Security Agency Act, 2004 (Act 9 of 2004) has the responsibility of rendering social assistance to persons. The main aim with the establishment of SASSA had been to improve service delivery to the public. These improvements are demonstrated in Table 5.9 below. The total number of beneficiaries increased by 14.2 per cent from 688 952 beneficiaries in July 2005 to 786 913 in July 2006 and reached 866 104 by July 2008.

Older persons are the second largest beneficiary group of social assistance grants in the Western Cape. The number of beneficiaries increased by an annual average of rate of 2.8 per cent since July 2005. The old age grant of R940 per month provides support to older people whose financial income is below a certain level.

**Table 5.9 Beneficiary numbers in the Western Cape per grant type, June 2005 - June 2008**

Grant	Jul 05	Jul 06	Percentage growth 05-06	Jul 07	Jul 08	Annual average percentage growth
Old Age	164 720	172 167	4.52	174 923	178 761	2.76
War Veterans	786	673	-14.38	544	452	-16.82
Disability	127 834	141 253	10.50	145 651	153 775	6.35
Care Dependency	6 862	7 471	8.87	7 749	8 053	5.48
Foster Care	25 951	27 216	4.87	28 939	29 794	4.71
CSG (0 - 6)	231 628	240 215	3.71	242 199	245 366	1.94
CSG Ext.	131 171	190 771	45.44	219 308	242 553	22.74
Grant in aid		7 147		7 223	7 348	0.93
<b>Total CSG</b>	<b>362 799</b>	<b>430 986</b>	<b>49.14</b>	<b>461 507</b>	<b>487 919</b>	<b>10.38</b>
<b>Total</b>	<b>688 952</b>	<b>786 913</b>	<b>14.22</b>	<b>826 536</b>	<b>866 104</b>	<b>7.93</b>

Source: South African Social Security Agency, July 2008

A war veteran grant amounts to R960 per month and supports persons who have served in the First (1914 - 1918) or Second World War (1939 - 1945) or in the Korean War (1950 - 1953). Although the number of war veterans is decreasing in the Western Cape, 452 war veterans still benefited from this grant in July 2008.

Disability grant of R940 per month supports the physically or mentally disabled who are unfit to work and support themselves. A permanent disability grant is granted if a disability will continue for more than a year and a temporary disability grant if a disability will continue for a continuous period of not less than six months or for a continuous period of not more than twelve months. There are 153 775 disabled persons who benefited from the disability grant in July 2008.

A care dependency grant of R940 per month supports people who care for children with severe disabilities and in need of full-time and special care. These people can be parents, foster parents, or those who have been appointed as caregivers by the court. Beneficiaries from the care dependency grant increased by 5.5 per cent on average per year since July 2005 and total 8 053 caregivers in July 2008.

Beneficiaries who cannot look after themselves and need full-time care from someone else may also apply for a grant-in-aid in addition to their social grants. A grant in aid of R210 per month is an additional grant awarded to persons who are in receipt of an old age grant, disability grant or war veteran's grant, and needs fulltime care from someone else. A total of 7 348 beneficiaries benefited from a grant in aid in July 2008.

A foster care grant of R650 per month provides essential family and child welfare service support for children and their families who have to live apart temporarily or for longer periods of time. Specific reasons such as abuse, neglect, death of parents and temporary inability of the family to take care for the children can lead to the placement of a child in the care of a suitable person who is not a parent or guardian.

The main purpose of foster care is to protect and nurture a child; providing a safe and healthy environment with positive support that meets the child's needs does this. Facilitation of relationships between the child, his/her family and other family members is encouraged to strengthen and preserve family ties with a goal to ultimately rehabilitate the parties affected and where possible reunify the child with his/her family. Children benefited from the foster care grant as at July 2008 amounted to 29 794 beneficiaries.

Children are the main beneficiaries of social assistance grants in the Western Cape. A total number of 245 366 beneficiaries are in the 0-6 age group and 242 553 in the extended category received a child support grant of R210 per month to provide for their child's basic needs in July 2008.

### **3.2.2 Provincial Government's responsibility**

The shifting of the responsibility for the management, administration and payment of social assistance grants from provinces to the South African Social Security Agency (SASSA) in 2006 provided the Department of Social Development with an opportunity to focus on the delivery of social welfare services.

The Department fulfills its mandate through a broad set of initiatives, guided by the social profile in the Western Cape which include the coordination of programmes for substance abuse, prevention and rehabilitation, care and services to older persons, crime prevention and support, services to persons with disabilities, child care and protection services, victim empowerment, HIV and AIDS, social relief, care and support services to families.

Government also provides sustainable development services to empower communities. These services include programmes for youth development, sustainable livelihood and capacity building and support for governmental and non-governmental organisations.

The Children's Act, (Act 38 of 2007) defines the rights and responsibilities of children and parents; determines principles and guidelines for protection and well being of children, especially those that are the most vulnerable; to consolidate the laws relating to the welfare and protection of children and provides for incidental matters.

The Provincial Government will spend R307.2 million in 2008/09 to fund 192 social services organisations to provide care and protection to 2 105 children in children's homes. The funding will also benefit 660 children in shelters. Government will train 350 additional volunteers in 2008/09 specifically for child care and protection. To continue and increase the services, funding for these services is estimated to increase over the next three years to reach R389 million in 2010/11.

### **3.2.3 Services to older persons**

The Older Persons Act (Act 13 of 2006) deals with the plight of older persons by establishing a framework aimed at the empowerment and protection of older persons, as well as the promotion and maintenance of their status, rights, well-being, safety and security; and to provide for matters connected therewith.

The Older Persons Act, with its strong emphasis on the rights of older persons, provides the basis for future strategic direction and transformation of services to older persons. Based on the Provincial Department of Social Development's Integrated Service Delivery Model, services to older persons need to, among other things, include the promotion of inter-generational programmes to keep older persons in the communities for as long as possible and initiate early intervention programmes to promote the well being of the older persons. The departmental response includes the following interventions:

- Residential facilities/Service centres/Senior Clubs;
- Awareness on abuse and neglect of older persons, HIV/AIDS, substance abuse and dementia issues;
- Awareness on rights of older persons;
- Strengthened partnerships amongst Departments (Department of Health, Cultural Affairs & Sport, Education, Local Government and Housing, Local Authorities);
- Strengthened partnerships with NGOs, CBOs, CFOs regarding delivery of services to older persons and quality assurance of services; and
- Building networks within and amongst communities to enhance self-reliance.

### 3.2.4 Crime prevention and support

The Probation Services Act (Act no 35 of 2002) provides for the establishment and implementation of programmes aimed at the combating of crime and for the rendering of assistance to and treatment of certain persons involved in crime. The Act serves as an interim measure to facilitate the transformation of the child and youth care system and provides, amongst others, for:

- New definitions, such as “assessment”, “diversion”, “early intervention”, ‘Family finder”, “home based supervision” and “restorative justice”, which are relevant to the transformation of the child and youth care system;
- The introduction of assessment, support, referral and mediation services in respect of victims of crime;
- The establishment of restorative justice programmes and services as part of appropriate sentencing options;
- The assessment of arrested children who have not been released from custody; and
- The establishment of a probation advisory committee to advise the Minister on matters relating to probation services.

The Provincial Government of the Western Cape allocated R104.409 million in 2008/09 to prevent crime and support children awaiting trial and facilitate the reintegration of children and youth into their families and communities. Government strives to reduce the number of children awaiting trial in prisons and will assess all arrested children within 48 hours. There is hardly a discourse about poverty and unemployment in South Africa that does not include a discussion on education and skills development. Not surprisingly, the education system is perceived to be the major tool to overcome human capital and labour market inequalities in South Africa.

### 3.2.5 Improving food security

Rising inflationary pressures, specifically in the prices of food, is threatening food security of the poor who spend a large proportion of their income on food.

The outcome of the Western Cape Food Summit, 18 June 2008 was a set of short, medium and long term measures to soften the hunger burden and hardship on the vulnerable. Over the longer term the measures would enhance the Province’s ability to provide food for all its citizens.

A number of provincial departments are already engaged in short-term measures to improve food security such as school feeding schemes, soup kitchens and developing and supporting communal and household food gardens. The Department of Education is the lead agent in the National School Nutrition Programme, while the Department of Social Development is implementing a Developmental Community Nutrition Centre (DCNC) Programme. The Department of Agriculture would lead a comprehensive and well coordinated Food Garden Programme.

### 3.3 Education responses

#### 3.3.1 Financing education in South Africa

Within a relatively short period of time South Africa has managed to make major inroads in reducing inter-provincial and intra-provincial inequality in the allocation of financial resources to education. This has seen the adoption of a pro-poor funding approach to education with significant resource shifts away from the more wealth provinces and schools to poorer provinces and schools.

Given the huge financial inequalities in the investment in education during the apartheid era, the initial focus regarding education policy reform was to ensure the more equitable allocation of resources. This brought about significant resource shifts to black schools. At the height of apartheid, for every R1.00 spent on White learners, per capital expenditure on Indian learners was 76 cents, for Coloured learners it was 48 cents, while expenditure on each African learner stood at 19 cents. By 1997, 3 years into the post-apartheid era, the resource allocation had shifted with the result that for every R1.00 spend on African pupils, 90 cents was allocated for Coloured learners, 99 cents for Indian learners and 71 cents per White learner<sup>21</sup>. More recently, the introduction of no-fee schools introduced a system of pro-poor per student allocations based on established norms. These large historical gaps in expenditure are attributable to differences in educator-learner ratio, teacher salaries, physical facilities, and learner teacher support materials.

As can be seen in Table 5.10 hereunder, significant progress has been achieved in reducing inequality at the provincial level. Since the early 1990's provincial education fiscal inequality has been reduced by 69 per cent based on the 2006/07 preliminary expenditure results. Looking at the trend in inter-provincial education allocations indicate that although there is a continued reduction in inequality since 1991/92, much of reduction was achieved in the earlier years (2001/02). The significant shifts in inter-provincial resource allocations have largely been due to efforts to equalise the learner-educator ratio across provinces. Of lesser significance is the use of norms and standards funding in which schools are placed in national poverty quintiles and sees the poorest school obtaining almost six times more than their wealthier counterparts.

<sup>21</sup> Bhorat, H. and Oosthuizen, M., 2006, "Determinants of Grade 12 Pass Rates in the Post-Apartheid South African Schooling System, DPRU and TIPS Conference 2006, Johannesburg.

**Table 5.10 Reductions in inter-provincial inequality in education spending (current Rand per-learner)**

	Actual 1991/92*	Actual 1995/96	Actual 1997/98	Actual 2001/02	Actual 2003/04**	Actual 2004/05	Actual 2005/06	Pre- liminary 2006/07	MTEF estimates 2007/08	MTEF estimates 2008/09	MTEF estimates 2009/10
Eastern Cape	1 034	1 897	2 450	3 333	4 870	4 955	5 222	6 058	7 007	7 906	8 421
Free State	1 473	2 091	2 913	3 638	5 871	6 372	7 349	7 771	8 294	9 224	10 217
Gauteng	2 054	2 883	3 638	3 763	5 740	5 792	6 184	7 039	7 861	8 630	9 260
KZN	1 117	1 971	2 353	3 066	4 320	4 795	5 526	6 003	6 698	7 349	8 124
Limpopo	1 109	1 256	2 737	3 095	4 549	5 075	5 435	5 902	6 777	7 736	8 521
Mpumalanga	1 177	1 761	2 380	3 243	4 951	5 211	6 323	6 688	7 215	7 800	8 500
Northern Cape	2 234	3 765	3 944	4 500	6 458	6 685	7 440	7 838	8 661	9 684	10 589
North West	1 255	2 110	3 072	3 896	5 495	5 733	7 034	7 490	6 770	7 571	8 241
Western Cape	2 530	3 509	3 390	3 870	5 544	5 814	6 580	7 270	7 851	8 681	9 543
Simple Mean	1 554	2 360	2 986	3 600	5 311	5 604	6 344	6 895	7 459	8 287	9 046
Mean absolute deviation	479	684	466	370	567	528	673	651	629	683	761
Coefficient of absolute variation	0.31	0.29	0.16	0.10	0.11	0.09	0.11	0.09	0.08	0.08	0.08
Reduction in inequality from 91/92		-0.06	-0.49	-0.67	-0.65	-0.69	-0.66	-0.69	-0.73	-0.73	-0.73
Reduction in inequality from 95/96			-0.46	-0.65	-0.63	-0.67	-0.63	-0.67	-0.71	-0.72	-0.71

Source: Crouch, L., 2005, "South Africa equity and quality reforms: Possible lessons" *Journal of Education for International Development*

\*\* The table is based on the one by Crouch (2005) and has been updated with figures from 2003/04 onwards, own calculations.

\* In 1991/92 the current nine provinces did not exist. The data was manipulated and allocated to the nine provinces based on the proportion of learners from various ex-Departments of Education and the 10 self-governing territories and four original provinces.

\*\* Allocations per learner post 2001/02 are total education expenditure under the control of provinces and not only public ordinary school education. This should however not be of significant concern as the significant majority of funding is located in public ordinary schools.

### 3.4 Addressing the skills challenge

In responding to the skills challenge at the provincial level, the WCED has developed the Human Capital Development Strategy (HCDS)<sup>22</sup>. Other provincial departments have also developed response strategies regarding skills development two of which will be briefly discussed.

The WCED identifies the following four key objectives on which the HCDS is based:

1. To improve the **conditions of education**, with a specific emphasis on strong school management, infrastructure, equipment etc.
2. To improve the **educational environment**, with a focus on crime and social breakdown involving the Department of Community Safety and Social Development;

<sup>22</sup> WCED, 2006, "A Human Capital Development Strategy for the Western Cape: A Focus on Youth".

3. To improve the **quality of education**, through classroom management, teacher competence and development, and developing relevant curriculum packages; and
4. To expand the **skills and qualifications** base through supporting the Micro-economic Development Strategy<sup>23</sup>.

Taken as a whole the strategy is aimed at improving literacy and numeracy levels, reducing the drop-out rate, improving throughput rate, increasing the participation and success rates, especially for black learners, in mathematics and science, providing career guidance and aptitude testing to increase participation rate in the FET band either in schools or colleges and increasing the number of learners who have access to purpose-driven ABET programmes. Through these targeted interventions the HCDS aims to set up stronger links between school outcomes, the supply of skills at the tertiary level, and the demand for skills within the Provincial and the South African economy.

The WCED launched its Literacy and Numeracy Strategy in 2006 which flows from the HCDS. The strategy was launched in specific recognition that low levels of literacy and numeracy directly contribute to high levels of attrition and failure amongst learners. The strategy includes a number of interventions ranging from pre-school programmes, teacher development, changes in classroom practices, advocacy, family and community literacy through to monitoring and support.

The Department of Transport and Public Works established the Masakh'iSizwe (Let's Build the Nation) Centre of Excellence at the beginning of 2006. The centre aims to develop professionals in engineering and the built environment fields. The centre offers a bursary programme and works with higher education institutions to develop supplementary programmes, which emphasise the values and attitudes needed to develop the economy, as well as social justice, environmental sustainability and lifelong learning. Between 2006 and 2008 over 600 bursaries have been offered in various engineering and built environment fields.

The Department of Economic Development and Tourism has also been actively involved with skills development initiatives at the provincial level through its Workforce Development Strategy. The Workforce Development Strategy has undertaken research to ensure that skills interventions are targeted to ensure better alignment between the types of skills demanded in the Western Cape economy and supply of these skills. Sectors identified for support are informed by the provincial Micro Economic Development Strategy and show strong prospects for job creation, economic growth and black economic empowerment. Workforce development initiatives include IT training, up skilling of toolmakers, training offered within the business process and outsourcing sectors, oil and gas, boat building industries and creative industries.

<sup>23</sup> The Micro Economic Development Strategy developed by the Department of Economic Development and Tourism forms the basis of the Provinces economic strategy, 2004.



## 4. Conclusion

A review of key health and health related development indicators show that the Western Cape has the lowest average fertility rates compared to the other provinces and to the average for South Africa as whole. The implication is that given that the average woman in the Western Cape is expected to have 2.0 children on average, projected increases in the population is likely to be driven by in migration. Mortality data indicate that the mortality rates for children have been declining since 2000, however, maternal mortality rates have increased largely due to HIV and AIDS related deaths.

Research into delineating the burden of disease for the Province show that the top five causes of premature mortality in the Western Cape are: HIV/AIDS (14 per cent), homicide/violence (12.9 per cent), Tuberculosis (7.9 per cent), road traffic injuries (6.9 per cent) and ischaemic heart disease (5.9 per cent). Major concerns for the health sector arises from the evidence that HIV/AIDS and TB combined represent 22 per cent of the provincial burden and injuries account for approximately 24 per cent of the burden. Data on both on HIV prevalence and TB incidence have shown an increasing trend since 1997, however, the rate of increase has been leveling off in recent years. The two epidemics still pose a serious challenge to the public health sector and dealing with these epidemics remains a national and provincial health priority.

Determinants of health status include both downstream i.e. biological and behavioural risk factors, as well as upstream societal and structural risk factors such as poverty, alcohol misuse, sanitation etc. and therefore interventions to reduce the burden require an inter-sectoral approach. Another key challenges facing the health sector which impact on the delivery of quality health services is the critical shortage of health professionals, especially nurses.

A review of social trends in the Western Cape indicated that substance abuse, the care for older persons, HIV/AIDS, poverty, crime and child care and protection affect families, children, youth and the elderly in the Western Cape. The responsibility of Government is not only to identify the challenges but also to respond to the challenges by creating opportunities and an enabling environment for a better future of the people in the Western Cape.

The South African Social Security Agency provided social assistance to 866 104 people in the Western Cape in July 2008. Besides the social assistance, the provincial government allocated 78.79 per cent of the Department of Social Development budget for social welfare.

This chapter has also provided a brief overview of key trends regarding education provision and performance outcomes in the Western Cape. Significant progress has been made in equalising funding across provincial education departments. The Western Cape Department of Education has made progress in increasing the number of learners writing the Senior Certificate Examination, however the high drop-out rate in key grades remains a challenge.

The Department of Education has introduced a number of interventions aimed at improving learner performance during the Foundation, General Education and Training and Further Education and Training phases. Other critical problems relate to the low number of Grade 12s that pass with endorsement and the low pass rates in Mathematics and Science.

Changes in the education profile of the labour force towards an increasing reliance on those with tertiary qualifications, highlights the urgent need to improve the quality of education outcomes and not simply attainment levels. The last section of the paper has provided a brief overview of some of the interventions being adopted by a few Departments with regards to improving the human resources of the Province.

# Appendix 1

## Snapshot of the Western Cape population

This appendix provides the readers of PER&O 2008 with a demographic backdrop of the Western Cape Province. The population statistics are best on the Community Survey of 2007 and Census 2001. The population of the Western Cape in 2007 was estimated to be 5 278 586 people and which represents about 10.9 per cent of the total population of South Africa. The Western Cape population grew at an average annual rate of 2.6 per cent between 2001 and 2007.

### Racial composition of the population

There is a marked difference between the racial composition of the Western Cape population from the rest of the country as can be seen in Table 1 below. The population of the Western Cape in 2007 was predominantly Coloured (50.2 per cent) with Black Africans constituting the second largest proportion at 30.1 per cent. At national level, the population is primarily composed of Black Africans (78.9 per cent) with Coloureds and Whites constituting less than 10 per cent each in 2007.

The proportion of Black Africans in the Province has increased from 26.7 per cent in 2001 to 30.1 per cent in 2007, and is expected to continue growing due to migration patterns. Whites form the third largest population group and their proportion of the Western Cape population between 2001 and 2007 remained constant at 18.4 per cent. Asians are still the minority population group at 1.3 per cent in 2007.

**Table 1 South Africa and Western Cape population by racial group, 2001 - 2007**

	2001		2007	
	South Africa	Western Cape	South Africa	Western Cape
Indians/Asians	1 115 467 2.5%	45 030 1.0%	1 244 634 2.6%	69 446 1.3%
Black Africans	35 416 166 79.0%	1 207 429 26.7%	38 255 167 78.9%	1 588 563 30.1%
Coloureds	3 994 505 8.9%	2 438 976 53.9%	4 375 526 9.0%	2 647 465 50.2%
Whites	4 293 640 9.6%	832 901 18.4%	4 626 736 9.5%	973 114 18.4%
<b>Total</b>	<b>44 819 778</b>	<b>4 524 336</b>	<b>48 502 063</b>	<b>5 278 588</b>

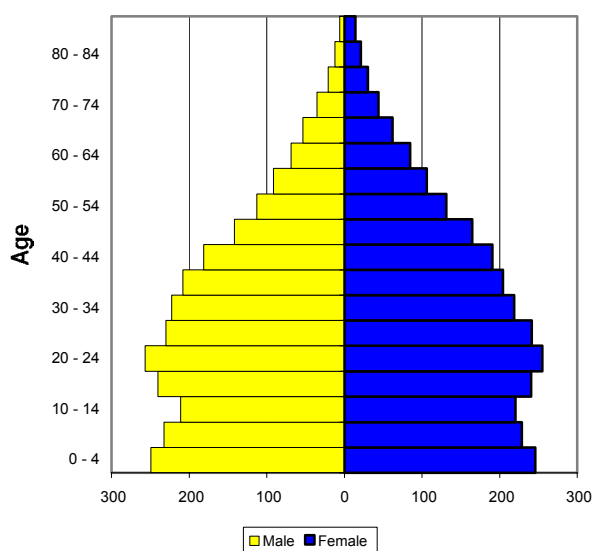
Source: Stats SA; Census 2001 and Community Survey, 2007

### Age and sex composition of the Western Cape population

The features of the Western Cape population age structure are summarised in Figure 2 and Table 2 below. The sex ratio for the Province in 2007 was 95 males per 100 females. The sex ratio oscillates around a value of 100 up to the age of 40 years, but declines thereafter either as a result of higher male mortality or male

out-migration. In particular, for the economically active portion of the Western Cape population, the 20-24 and 30-39 age cohorts have sex ratios above 100, possibly as a result of labour in-migration.

**Figure 1** Age pyramid for the Western Cape population, 2007



**Table 2** Western Cape population estimates, 2007

	Male	Female
0 - 4	249 360	245 991
5 - 9	232 519	228 665
10 - 14	210 772	220 493
15 - 19	240 113	240 721
20 - 24	256 818	255 038
25 - 29	229 983	241 641
30 - 34	222 577	218 930
35 - 39	208 150	204 447
40 - 44	181 065	190 568
45 - 49	141 575	164 869
50 - 54	112 711	131 224
55 - 59	91 209	106 266
60 - 64	68 837	84 928
65 - 69	53 439	61 908
70 - 74	35 458	43 764
75 - 79	20 628	30 413
80 - 84	12 024	21 190
85+	6 173	14 119
<b>Total</b>	<b>2 573 411</b>	<b>2 705 175</b>

Source: Stats SA Community Survey, 2007

The population of the Western Cape is regarded as mature with a median age of 27 in 2007. Children in the 0–14 age group numbered 1 387 800 and accounted for 26.3 per cent of the Western Cape population. The 15–24 age group amounted 992 690 and represented 18.8 per cent of the Western Cape population, while the number of people classified as the youth<sup>1</sup> constituted 36.1 per cent (or 1 905 821 people) of the Province’s population.

The impact of labour in-migration on the age structure can be seen in the bulge in the population pyramid from the age of 15 to 34 years (see Figure 1 above). The shape of the Western Cape population pyramid is not typical of a developing economy where the pyramid has a broad base due to high proportion of children aged 0-14 years. There were 299 166 people aged 65 years and older in 2007 accounting for 5.7 per cent of the Western Cape population.

For a more detailed analysis of the demographic dynamics of the Western Cape, readers should consult the *State of the population in the Western Cape Province*, published by The Department of Social Development, Western Cape Provincial Government, 2008.

<sup>1</sup> Refers to people aged 15 to 34 years.

# Appendix 2

## Supplementary tables to Chapter 1: Economic outlook: 2008/09 – 2012/13

**Table 1 Western Cape GDP at constant 2000 prices, R'million, 2007 - 2013**

	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	6 614	6 805	6 924	7 048	7 189	7 333	7 480
Mining and quarrying	289	275	273	270	267	264	262
Manufacturing	29 093	29 769	30 257	30 996	31 960	32 969	34 015
Electricity, gas and water	2 737	2 828	2 904	2 995	3 106	3 222	3 342
Construction (contractors)	8 426	9 226	9 826	10 661	11 695	12 853	14 035
Wholesale and retail trade, catering and accommodation	28 334	29 024	29 450	30 625	32 188	33 872	35 608
Transport, storage and communication	18 275	19 136	19 746	20 920	22 156	23 467	24 774
Financial intermediation, insurance, real estate and business services	51 724	53 858	55 345	57 642	61 023	64 845	68 844
Community, social and personal services	8 022	8 209	8 390	8 583	8 788	8 998	9 212
General government services	15 301	15 760	16 233	16 752	17 289	17 807	18 341
<b>Total GDP</b>	<b>168 816</b>	<b>174 891</b>	<b>179 347</b>	<b>186 491</b>	<b>195 661</b>	<b>205 630</b>	<b>215 914</b>

**Table 2 Growth in Western Cape GDP, averages**

	Actual 2000-2007	Average 2008-2013	Average 2010-2013
Agriculture, forestry and fishing	0.8	2.1	2.0
Mining and quarrying	-0.5	-1.6	-1.0
Manufacturing	3.2	2.6	3.0
Electricity, gas and water	3.7	3.4	3.6
Construction (contractors)	10.4	8.9	9.3
Wholesale and retail trade, catering and accommodation	6.4	3.9	4.9
Transport, storage and communication	6.1	5.2	5.8
Financial intermediation, insurance, real estate and business services	7.0	4.9	5.6
Community, social and personal services	3.5	2.3	2.4
General government services	1.5	3.1	3.1
<b>Total GDP</b>	<b>5.1</b>	<b>4.2</b>	<b>4.7</b>



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