

**Western Cape Government
Provincial Treasury**

**Municipal Economic Review
and Outlook
2014**

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Foreword

One of the principles of the Western Cape Governance architecture is evidence-based practice. The goals, strategies, and programmes are rooted in research, and practices of monitoring and evaluation.

The Western Cape Government therefore introduced the Municipal Economic Review and Outlook (MERO) as complimentary research to the Provincial Economic Review and Outlook (PERO). The 2014 MERO marks the third anniversary of the research publication. The main objective of the MERO is to provide economic intelligence to municipalities within the Western Cape in support of enhanced planning for economic growth, job creation and socio-economic upliftment. As a research document it analyses past trends, assesses present performance and provides future scenarios based on scientific data.

The MERO compliments the PERO by providing disaggregated economic information from a national to provincial and to a sub-regional level. Therefore, the same data sets and models used to inform the PERO were also used in the compilation of the MERO to ensure synergy and credibility.

The 2014 MERO builds on the 2013 MERO and largely retains the structure of its predecessor. The analysis has been refined by reinforcing the evidence-based socio-economic research for the formulation and synchronisation of regional economic development strategies.

The 2014 MERO comprises of 7 chapters including the Introduction. Chapter 2 discusses the trends (2000 - 2013, including the economic recovery period, 2010 - 2013) and outlook (2014 - 2019) for the regional economy in a macro-economic context. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the PERO publication. Chapter 3 analyses comparative advantages among industries conducted in the 2013 MERO – to deepen the regional economic analysis by sector. Specifically, this chapter analyses real GDP growth trends, employment creation and the skills composition of labour demand. In Chapter 4 a value chain analysis is conducted, with the focus on the most prominent value chains for the different regional economies. Chapter 5 considers the formal-informal sector linkages and the business cycle impact on the informal sector. Chapter 6 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. Lastly, Chapter 7 concludes with a socio-economic profile of each Region.

In summary, the 2014 MERO highlights that the 2009 global recession had a material impact on the different regions and economic sectors. The study therefore focuses on the regional economic recovery from the recession impact and to explore existing bottlenecks or constraints which may impede economic growth and development. One thing is clear there are three important global risks, namely water, energy, food security and the PERO and MERO research confirm this in the Western Cape and propose appropriate policy responses.

One of the principles of good governance is predictability and the MERO provides the Western Cape Government and Municipalities with the tools for planning, budgeting, implementation and monitoring. The results from the study can, amongst other, feed into official economic strategy plans and assist the public and private sectors in identifying growth opportunities.

Lastly, I wish to express a sincere word of appreciation to my cabinet colleagues, officials from the various provincial government sector departments and municipal officials and the research team for their valuable contributions and inputs in making the 2014 MERO a reality.

A handwritten signature in black ink, appearing to read 'Ivan Meyer', with a horizontal line underneath.

Dr Ivan Meyer
Minister of Finance
15 October 2014

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Acronyms

ACSA	Airports Company South Africa
AISA	Aquaculture Institute of South Africa
BER	Bureau for Economic Research
BPeSA	Business Process enabling South Africa
BPO	Business Process Outsourcing
CCDI	Cape Craft & Design Institute
CCID	Central City Improvement District
CCTC	Cape Clothing & Textile Cluster
CHEC	Cape Higher Education Consortium
CITI	Cape Information Technology Initiative
CKD	Central Karoo District
CMT	Cut, Make & Trim
CoCT	City of Cape Town
COGSI	Cape Oil and Gas Supply Initiative
CTBi	Cape Town Boatbuilding Initiative
CTFC	Cape Town Fashion Council
CTICC	Cape Town International Convention Centre
CTRU	Cape Town Routes Unlimited
CWD	Cape Winelands District
DEDAT	Department of Economic Development and Tourism
DHET	Department of Higher Education & Training
ECB	European Central Bank
ED	Eden District
ESP	Economic Synthesis Project
EU	European Union
FET	Further Education and Training
FIFA	Fédération Internationale de Football Association
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GDPR	Gross Domestic Product Regional
GPS	Growth Potential Study

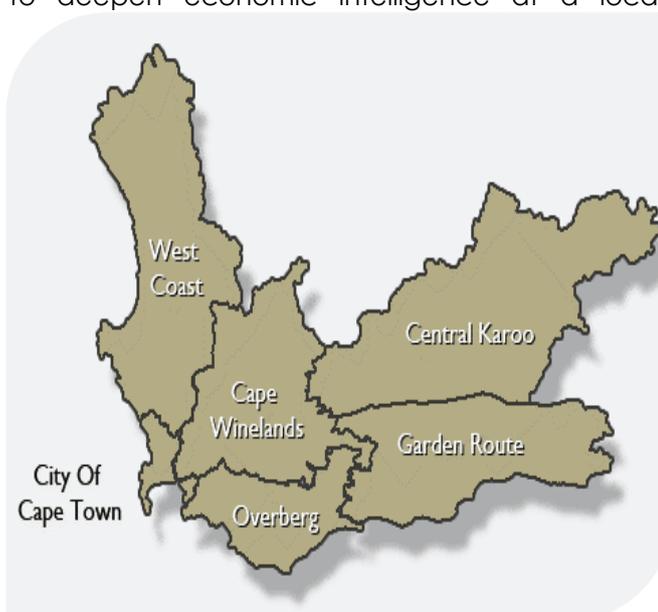
GPTS	Growth Potential of Towns Study
HDI	Human Development Index
ICT	Information & Communications Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IDZ	Industrial Development Zone
IMF	International Monetary Fund
IPAP	Industrial Policy Action Plan
LED	Local Economic Development
LQ	Location Quotient
MEDS	Micro-Economic Development Strategy
NDP	National Development Plan
NIP	National Infrastructure Plan
NYDA	National Youth Development Agency
OBD	Overberg District
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturers
PERO	Provincial Economic Review and Outlook
PMI	Purchasing Managers Index
PSO1	Provincial Strategic Objective 1
QE	Quantitative Easing
RCA	Revealed Comparative Advantage
RMB	Rand Merchant Bank
RSA	Republic of South Africa
SA	South Africa
SACU	South African Customs Union
SAOGA	South African Oil & Gas Alliance
SARB	South African Reserve Bank
SARS	South African Revenue Services
SAWEC	South African Wind Energy Council
SAWIS	South African Wine Industry Information & Systems NPC
SEDA	Small Enterprise Development Association
SERI	Socio-economic Rights Institute of South Africa

SIC	Standard Industrial Classification
SIP(s)	Strategic Infrastructure Projects
SMME	Small Micro Medium Enterprises
SPV	Special Purpose Vehicle
Stats SA	Statistics South Africa
TASA	Tooling Association of South Africa
the dti	Department of Trade and Industry
TSA	Tourism Satellite Account
USA	United States of America
WC EDP	Western Cape Economic Development Partnership
WC	Western Cape
WCD	West Coast District
WCFFI	Western Cape Fine Food Initiative
WCFI	Western Cape Furniture Initiative
WCG	Western Cape Government
WCIF	Western Cape Infrastructure Framework
WCP	Western Cape Province
WEO	World Economic Outlook
WTO	World Trade Organisation

Introduction

The Municipal Economic Review and Outlook (MERO) 2014 provides an overview of the economy with a particular focus on the Western Cape economy at a regional level – metropolitan, district and municipal level. Since its inception in 2012 as a conceptual working paper, the annual research publication has proven to be a valuable source of information to deepen economic intelligence at a local government level in the quest to propel the regional economies onto higher growth paths to ensure inclusive growth and much needed socio-economic development; which is also the central theme of 2014 MERO.

The 2012 and 2013 Municipal Economic Review and Outlooks have laid a solid foundation for this year's publication. The 2014 MERO therefore retains the structure of the 2013 publication but with the socio-economic profiles being promoted as chapters in order to display the benefits of economic growth on social upliftment.



The 2014 MERO comprises of six profiles – one each for the City of Cape Town and five district municipalities. The research is further disaggregated within each profile to an area or municipal level to the extent that it is possible.

The 2014 MERO comprises of six profiles – one each for the City of Cape Town and five district municipalities. The research is further disaggregated within each profile to an area or municipal level to the extent that it is possible.

The timely release of the research findings will aid policy-makers and more specifically municipal and district officials tasked with Integrated Development Planning and Local Economic Development in developing appropriate policy responses that can feed into the strategic planning and budget formulation processes.

Although the global and national economic outlook remain bleak at the time of study, the evidence presented in the research could lay a basis for identifying opportunities which supported by correct policy choices will translate to sustained inclusive economic growth and socio-economic development at all levels of society that will transcend our current developmental challenges.

City of Cape Town

Metropolitan Municipality

Key points

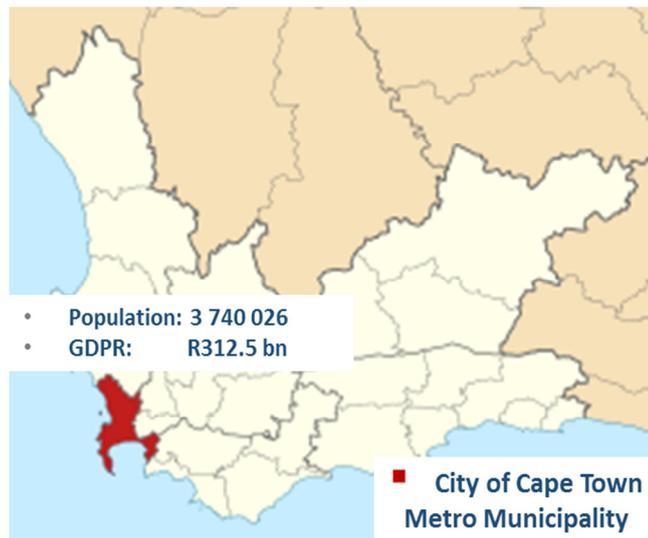
- The Cape Metro economy is the second largest metro economy in the country and accounts for 73 per cent of Western Cape GDP. In the previous upswing phase of the business cycle (2000 - 2007) real GDP growth averaged 5.0 per cent per annum. Being an economy that is open to trade, the 2009 recession had a major adverse impact, with GDP contracting by 1.0 per cent in that year.
- The economy recovered along with the national and global economies during 2010 - 2011 and growth accelerated to 3.7 per cent in 2011, where after it tapered off to 1.8 per cent last year. It is expected to come in at 2.2 per cent during 2014 and to average 3.0 per cent per annum over the forecast period (2014 - 2019). The growth outlook has been scaled down substantially in view of weaker than expected growth during the post-financial crisis period and domestic labour market instability. This growth environment will present the Metro with several development challenges.
- While 104 200 jobs were created on balance in the Metro economy over the 2000 - 2013 period (at a rate of 0.7 per cent per annum), substantial retrenchments occurred in the manufacturing and construction sectors during the recession, which also continued over the period of economic recovery, 2010 - 2013. The Metro suffered an overall net loss of jobs over this period.
- Growth in the leading financial and business services sector (which accounts for 80 per cent of the provincial-wide corresponding sector) slowed from 7.5 per cent per annum (2004 - 2008) to 3.3 per cent (2010 - 2013). Sluggishness in manufacturing (2.7 per cent per annum, 2010 - 2013) and construction (1.5 per cent) also contributed to the slowdown.

- The formal sector retrenchments amounted to 61 000 during the recession (2008 - 2009), whilst the informal sector recorded gains totalling 59 000; the informal sector contributes 25 per cent of total employment. In view of the counter-cyclical role of the informal sector and the sector's linkages with the formal sector. This may warrant a more nuanced policy approach towards the informal sector, which would acknowledge these intricacies and provide technical and business support required to build informal businesses to eventually migrate to the formal sector.
- The clothing and textiles value chain has substantial potential in terms of labour intensive growth. However, the complete value chain must be evaluated in terms of support. Competitiveness vis-à-vis international suppliers is a key requirement (e.g. textile suppliers). According to the Cape Town Fashion Council (CTFC), locally produced fashion has exciting export potential. Other value chains with growth and employment potential include business services (e.g. BPOs and call centres), the tourism sector (as reflected in the catering and accommodation, transport and business services sectors); financial services; the furniture value chain; construction; communication and wholesale and retail trade; and the fishing and electronics industries as well.
- Generally, those municipalities with high levels and maintenance of (economic) infrastructure experience higher rates of economic growth which, in turn, help to afford the required infrastructure budgets. Substantial infrastructure spending plans are afoot in the Metro: broadband infrastructure for the Cape Metro area network; extension of the MyCiti bus service; a joint upgrade of the Cape Town Port by the City and Transnet; and plans to upgrade waste water capacity, electricity services, bulk water services and landfill space. Some of the major property investments either under construction or planning phase, include, amongst other, the expansion of the Cape Town International Convention Centre; construction of The Modern; the Portside commercial property development; and the Standard Bank Towers.
- The Cape Metro socio-economic indicators have shown meaningful improvement over the years. Literacy rates (90.5 per cent) are high and per capita income has increased, competing well with other metro economies. However, youth unemployment rates are at high levels, presumably due to high school drop-out rates and in-migration.
- The latter-mentioned phenomenon is restraining the improvement in the poverty count and the decline in unemployment. The Metro also experiences a serious mismatch in its labour market, i.e. between the demands of a modern economy and the available labour supply.

Executive summary

1. Introduction

The 2014 *Municipal Economic Review and Outlook (MERO)* study builds on the analysis of the Cape Metro growth and development trends in the corresponding 2012 and 2013 studies. The MERO's objective is to provide economic intelligence at the metropolitan, district and municipal level in the Western Cape Province, alongside its sister publication, the *Provincial Economic Review and Outlook (PERO)*.



The Cape Metro is the second largest metro economy in the country and is the nucleus of the Western Cape economy. The 2009 global recession had a material impact on the region and growth has also slowed down in its leading financial and business services sector. Whilst the socio-economic indicators attest to gradual improvement in the region, a central theme in the 2014 study is to track the region's recovery from the recession impact and to explore existing bottlenecks or constraints which may be restraining economic growth and development. The results from the study can hopefully feed into official economic strategy plans and assist the private sector in identifying growth opportunities.

The recent and expected macro-economic environment and implications for the Cape Metro economy are first assessed. Thereafter, the sectoral analysis is deepened, with the focus on sectoral growth, employment and skills demand trends and an analysis of the Cape Metro textiles and clothing value chain. The informal sector analysis is also taken further by investigating the sector's linkages with the formal sector and its cyclical sensitivities. Furthermore, the municipal revenue and infrastructure spending trends and their relationship with the growth of the regional economy come under the spotlight. The report is concluded by a welcome addition to the MERO study, namely a consideration of the Cape Metro's socio-economic climate and the apparent economic growth and employment linkages.

2. Regional growth trends

The Cape Metro showed signs of recovery in 2010 - 2011, but growth tapered off to 1.8 per cent last year and is expected to average 2.2 per cent in 2014. This is in line with the global and national economic trends over this period. Due to weaker than expected world economic growth and local labour market instability impacting country-wide, the Cape Metro GDP growth forecast (2014 - 2019) had been reduced to 3.0 per cent per annum from 3.6 per cent per annum previously (for the period 2012 - 2017, MERO 2013). The region has strong links with the global economy. Macro-economic conditions are likely to be less than robust over the next 3 - 5 years, which constitutes a challenge to the Cape Metro.

The Cape Metro is commonly referred to as the gateway to South Africa and is a preferred destination for companies and people. The region's locational attributes and quality of infrastructure ensure it is globally connected. The Metro economy accounts for 72.5 per cent of Western Cape GDP and has been largely driven by the financial and business services sector, accounting for no less than 80 per cent of the provincial-wide sector. Sectors that grew above or equal to average during the 2000 - 2013 period are the agriculture and fishing sector, construction, wholesale and retail, catering and accommodation, transport, storage and communication and the financial and business services sectors.

In terms of employment the region took a serious hit from the 2008 - 2009 recession, with major job losses occurring in the manufacturing and construction sectors. The outlook is for stronger global economic growth, which will benefit the Cape Metro given the region's exposure to global economic developments. It is expected that the construction sector will be the highest growth sector and will be closely followed by the transport, storage and communication sector and the finance and business services sector. The sectoral forecast is motivated in more detail in Chapter 3 (main report).

3. Sectoral growth, employment and skills

The broader services sector, ranging from wholesale and retail, catering and accommodation to financial and business services and the general government, accounts for 80 per cent of Cape Metro GDP, reflecting the outright services

orientation of the economy. The services orientation of the Metro economy could, however, not shield it from contracting in 2009 due to the global recession impact.

Closer inspection of the post-financial crisis period (2010 - 2013) reveals that the region's services sector in general, and the financial and business services sector in particular, slowed materially (with real services value added growth averaging 2.8 per cent per annum), which assists in explaining a reduced margin of general economic outperformance of the Western Cape economy compared to its provincial peer economies. Sluggishness in the manufacturing sector (2.7 per cent per annum) and construction (1.5 per cent) during the economic recovery also contributed to the slower growth.

The sustained job losses in manufacturing and construction during the economic recovery period are also cause for concern, as these, combined with those in agriculture and some in services, exceeded the net job gains in the other services sectors, notably business services. The Metro is faced with the provincial-wide challenge of closing the growing gap between skills-intensive labour demand associated with a sophisticated modern economy and the available labour supply.

As noted, the economic growth outlook is less than robust, albeit that there are grounds for local optimism in view of the array of planned and existing infrastructure developments in the area. Growth projections have been downscaled due to the expected macro-economic environment. To the extent that the local and provincial authorities succeed, in cooperation with national government, to establish a business climate conducive to investment, this projection (3.0 per cent annual real GDP growth, 2014 - 2019) can be proven as being too pessimistic.

4. Value chains

The 2013 MERO study identified the textile and clothing value chain in the Metro economy as one revealing comparative advantage and was further analysed in the 2014 study. The linkage between textiles manufacture and clothing manufacture is relatively weak and supplemented with imports of textiles. This is due to the limited availability of local textile manufacturing capability. If feasible, local inputs of textiles should be supported in order to improve competitiveness in the industry. The local comparative advantage of the entire clothing and textile industry should be considered before endeavouring to strengthen a particular part of the value chain. The feasibility of succeeding in boosting the output of the textiles industry should be fully considered. This would require South African producers to be more than or equally as competitive as international suppliers. If this is not possible the focus could be shifted to enhancing the output potential of the clothing sector.

According to the Clothing and Textiles Fashion Council (CTFC), locally produced fashion has significant export potential for markets in Europe and the United States. By both increasing local production and focusing on promoting unique Cape Town fashion products on the international market, value added and employment could be increased through increased production and exports. Export markets are very

lucrative as the revenue earning potential in these markets far outweighs that of the local market per garment produced.

5. Informal sector

The 2013 survey of the informal sector in the Western Cape districts was followed up by a similar survey of the SMME sector in the Cape Metro. The results provide evidence of close formal and informal sector linkages, albeit that details regarding the nature of these linkages were not extracted. Between 10 - 15 per cent of formal small, micro and medium-sized businesses sustain linkages with informal businesses in the Cape Metro. Two potent constraints coming to the fore though, i.e. access to credit and the low-level of skills within the informal sector, combined with the evidence in academic literature in this regard, suggest that these linkages may be at risk of 'unfair' formal sector outsourcing, i.e. informal businesses sourcing products from the formal sector at retail prices and then selling to poor consumers at higher prices. More research may be required to ascertain the prevalence of this phenomenon¹.

Regarding the cyclical sensitivities of the Cape Metro informal sector, the (2008 - 2009) recession caused significant net job losses (61 000) in the formal sectors of the regional economy while there were 59 000 net jobs created in the informal sector over the same period. The informal work force was estimated at 25 per cent of the total work force in 2013, i.e. an estimated 304 200 informal workers (Quantec Research, 2014). Most of the employment gains in the informal sector were created in the wholesale, retail trade and catering and accommodation sector during the recession, with the number of new informal jobs surpassing formal net retrenchments. This indicates that downward rigidities during the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed.

Sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts, revealing a *de facto* counter-cyclical role for the informal sector. The Cape Metro demonstrates a kind of dualistic labour market, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector. This may be useful to the City, as a thriving informal market may alleviate the Metro from developing policies aimed at assisting the openly unemployed.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms); it appears that the Cape Metro in their Economic Growth Strategy (EGS) is considering a more nuanced view of the informal economy. The EGS focus is to provide technical and business support that are unique to local areas for the informal sector. The structured implementation of this strategy could certainly build a capacity for autonomous development for informal

¹ The Metro is currently conducting research, investigating amongst other, the links between the formal and informal economy.

entrepreneurs and migration to the formal sector. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

6. Municipal revenues and expenditure on infrastructure

It is accepted that basic service delivery through infrastructure investment is a cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure impacts positively on economic growth. An important factor considered by investors when relocating into an area is the provision of basic services within that area. The Municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000.

The provision of Municipal Infrastructure for basic service delivery takes place through intergovernmental transfers or own revenue and borrowing. The data presented in this chapter analysed two important sides of the budget, i.e. revenue and spending on infrastructure. The analysis revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery in the Cape Metro. Municipal revenues increased at an inflation-adjusted 15 per cent per annum over the period between 2008/09 and 2012/13, which is a high growth rate presumably tied to the increases in rates and tariffs, as well as improved revenue collection.

The Cape Metro is the largest in terms of population (66 per cent of the Western Cape population). The region has a high population density and high movement of goods and services. The region's infrastructure development makes it the preferred destination for people and businesses; hence the Cape Metro has often been referred to as the gateway to South Africa. The Cape Metro has had great success in the delivery of infrastructure over the years, but population increases and ageing infrastructure has placed pressure on service delivery. It is critical for the Metro to establish a balance between greenfield investments and the maintenance and upgrading of existing infrastructure in order to ensure that the infrastructure supports economic growth.

Economic characteristics and development potential should guide infrastructure investment decisions. The Metro should focus on providing infrastructure that supports industries in which it has comparative advantage. Such investments will have multiplier or knock-on effects on the rest of the economy. The negative impact of consumer and business confidence within the region could be countered by infrastructure spending, which could be a key source of economic growth and employment creation. Substantial infrastructure spending plans are afoot: broadband infrastructure for the Cape Metro area network; extension of the MyCiti

bus service, especially to the South-East of the City; a joint upgrade of the Cape Town Port by the City and Transnet; and plans to upgrade waste water capacity, electricity services, bulk water services and landfill space. Investment in the maintenance of such infrastructure is not only fundamental to improving service delivery and the quality of life of Cape Metro citizens but also in attracting foreign and local private investments.

7. Socio-economic and development indicators

The socio-economic analysis, contained in a separately released working paper at the time of the 2013 MERO study, has this year been brought into the main report. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its constituent municipalities, with the intelligence needed to understand their socio-economic reality and also the impact of the economy.

The Cape Metro economy grew at a faster rate than the population (2.6 per cent per annum), which has led to rising per capita incomes. This indicates higher average standards of living for the inhabitants of the City. The Cape Metro boasts the second-fastest increase (between 2001 and 2011) in per capita income compared to the other metros in the country. While the literacy rates are relatively high in the City (90.5 per cent compared to 87.2 per cent average for the Province), the Metro has the highest levels of youth unemployment in the Province perhaps due to their lack of experience and skills.

There is also a tendency towards mechanisation and employing skilled and highly skilled labour. Going forward, further skills development as well as low-skilled labour intensive initiatives are necessary to stimulate employment. In-migration is an additional factor causing the unemployment rate to ease only slowly. Likewise, poverty rates have fallen slowly between 2001 and 2010. However, they are the lowest in the Province, painting a good picture for the standard of living of the inhabitants of the metropolitan area. The high and increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the Metro.

The Cape Metro has shown improvement over the years with regard to all areas of its socio-economic environment. This chapter illustrates how the economy impacts on the standard of living within the City. The fast growing economy and relatively high literacy rates have led to some decline in unemployment rates in the Cape Metro. This has in turn led to increasing household and per capita income. These have translated to declining poverty levels or indigent support required within the Metro, albeit that the decline has been slow. There is also room for improvement with regard to skills development and employment creation. Furthermore, sustained job losses during the economic recovery, the lower economic growth rate and the down-graded economic outlook define a challenging environment going forward.

1

Introduction

1.1 Background and purpose of study

The 2014 Municipal Economic Review and Outlook (MERO) study will be the third one produced annually since its inception in 2012. With its origins in the micro-economic research undertaken at the time of the Micro-Economic Development Strategy (MEDS) initiative (2004 to 2008), and accompanying its sister publication, the Provincial Economic Review and Outlook (PERO) over the past three years, the central objective of the MERO is the provision of economic intelligence at the metro, district and municipal levels in the Western Cape Province.

The growth of towns, cities and regions has become a focal point of contemporary socio-political and economic analysis. While the MERO study provides guidelines for identifying socio-economic constraints and related policy actions, the review of microeconomic trends and developments, including the medium-term outlook, has the potential to generate the economic intelligence that can feed into strategic economic development initiatives.

A special attempt is made this time around to improve the accessibility of the MERO by refining the analysis in previous studies, shortening the report and improving the dissemination of the information. It is hoped that the information will not only be useful to local and provincial authorities but will also enable private business enterprises to identify growth opportunities and reacting upon them in order to propel the regional economy to a higher growth plane.

1.2 Central issues covered

The MERO research publication was conceived in the wake of the 'Great Recession', which was triggered at the end of 2007 by the unsustainable financial growth and macroeconomic developments over the 1990s and 2000s in the world's leading industrial economies, notably the USA and the Euro area. The impact of the

subsequent recession (2008 - 2009) has been uneven across regions and countries. In fact, the 2012 - 2013 MERO analyses showed that the differential impact reached deeply into the Western Cape metro and non-metro districts.

A key theme of the 2013 study was how the Western Cape Metro, Districts and municipalities have recovered from the impact of the global recession. One of the key consequences of the global recession, has been "a search for a new development paradigm that is both more inclusive and more sustainable ecologically" (see Turok et. al., 2013: 2). In the same vein, the consistent theme throughout the MERO report, is an emphasis on inclusive economic growth through employment creation. While it is accepted that public policy intervention has a constructive role to play, the focus is on the identification of the bottlenecks and constraints which are hampering private sector growth and employment creation. Consistent with the tenets of inclusive economic growth, attention also focuses on the developmental challenges embodied in making a dent in unemployment, poverty and underdevelopment.

Consequently, the central issues covered in the 2014 MERO study are, firstly, a consideration of the global, national and provincial economic performances and outlook in view of the general recovery from the 2008 - 2009 global recession and the mid-2011 slowdown, and how this macro-economic environment impacts on the Cape Metro economy (Chapter 2 of this report).

The historical patterns of sectoral growth and employment, including the performance and outlook in this regard of the Cape Metro since the onset of the global economic recovery at the end of 2009, are also discussed in greater detail (Chapter 3 of the report). Turok, et. al. (2013: 3) note that education and skills have become major determinants of regional economic growth, which has not necessarily been the case a century ago. The skills composition of sectoral economic growth is therefore also under consideration. Whilst the analysis is somewhat superficial, it effectively demonstrates the wider developmental challenge of the mismatch between the demand for skilled labour and the predominantly unskilled surplus labour supply also present in the Cape Metro economy. Expanding on the 2012 and 2013 MERO studies, an attempt is made to conduct the sectoral analysis of Cape Metro trends in a country-wide municipal context. Reference is also made to the stock of infrastructure and the annual municipal spending in this regard, as well as the socio-economic profile of the Cape Metro regional economy.

The Cape Metro has a vibrant economy, i.e. the second largest municipal economy in the country and it contributes close to three quarters of the Western Cape economic output and employment. It is a leading world city with a diverse economic base. This year's value chain analysis (Chapter 4 of the report) investigates the clothing industry value chain in the Cape Metro, attempting to uncover growth and employment constraints and potential.

The 2013 MERO study introduced the results from a survey of 200 informal sector firms in the Cape Metro conducted by the Department of Economic Development and Tourism (DEDAT). This year, the analysis is taken some steps further by an investigation into the linkages between the formal and informal sectors of the Cape Metro, both

conceptually and empirically. An attempt is also made to investigate the cyclical nature of the informal sector by showing the extent to which the informal sector played a counter-cyclical role in the Cape Metro during the 2008 - 2009 recession (Chapter 5 of the report).

The important relationship between infrastructure investment and economic growth is explored at the regional level in respect of the Cape Metro economy (Chapter 6 of the report). The actual infrastructure spending and municipal revenues over the 2008 to 2013 period are analysed and the outcomes in terms of economic growth by municipality are compared.

Finally, a socio-economic synopsis of the Cape Metro region is provided (Chapter 7 of the report), including an attempt to highlight the linkages between regional economic growth (value-added and employment) and the local economic development indicators.

1.3 Outline of the report

Apart from the first introductory section, the report consists of six chapters. As noted above, Chapter 2 discusses the trends (2000 - 2013, including the economic recovery period, 2010 - 2013) and outlook (2014 - 2019) for the Cape Metro economy in a macro-economic context. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the accompanying PERO publication. Chapter 3 utilises secondary data sources – e.g. Quantec's regional data base; the results from a municipal survey in the metro; and the analysis of comparative advantages among industries conducted in the 2013 MERO – to deepen the regional economic analysis by sector. Specifically, this chapter analyses real GDP growth trends, employment creation and the skills composition of labour demand in the Cape Metro.

In Chapter 4, a value chain analysis is conducted, with the focus on the Cape Metro clothing industry. The linkages and employment potential of the clothing value chain are analysed. Chapter 5 takes the informal sector analysis further, considering the formal-informal sector linkages and the business cycle impact on the informal sector. Thereafter Chapter 6 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. Chapter 7 concludes with a socio-economic profile of the Cape Metro.

2

Economic outlook

2.1 Introduction

This chapter provides a five-year economic outlook for the Cape Metro economy. The outlook is embedded in realistic global and national socio-political and economic assumptions, which are all briefly discussed in this chapter. In presenting the district economic outlook, attention is given to the historical growth trends, a consideration of the 2010 - 2013 economic recovery thus far, the region's industry comparative advantages and an assessment of the macro-economic implications pertaining to the medium-term district economic outlook. The analysis of the sectoral district economic prospects is deepened in Chapter 3 in which sector developments are discussed.

2.2 Global, national and provincial economic developments

The global economic outlook remains uneven and uncertain. This follows the recent downward revision of the IMF's forecast for the global economy in July 2014 following a weak first quarter. The downgrade has shown that the global economy should grow at 3.4 per cent in 2014 down from its January forecast of 3.7 per cent. Weaker than expected growth in the developed economies and emerging markets forced the downgrade. Table 2.1 gives a clear illustration of the differences between the April 2014 outlook and the latest IMF outlook. The downgrades are an indication that nations are still struggling to recover from the aftermaths of the financial crisis.

A generally negative outlook dominated the report; however the economic prospects for Japan, Germany and the UK were upgraded. Japan experienced stronger than expected growth in the first quarter resulting in an upgrade of its economic outlook. Growth in Japan is projected to be 1.6 per cent in 2014 and ease down to 1.1 per cent in 2015. In the **advanced countries** the economic outlook for

the US and Canada was downgraded. The cut in the outlook for the world's largest economy, the US, by 1.1 percentage points in respect of 2014 dragged the world outlook down. An overhang in inventories at the end of 2013 appeared to be much higher than expected and output during the first quarter of 2014 contracted due to the severe winter weather negatively impacting on domestic demand. However, a growth rebound is expected in the US as the key drivers to the downturn were only temporary. Growth is expected at 1.7 per cent and 3.0 per cent in 2014 and 2015 respectively.

Table 2.1 World economic growth outlook: 2014 - 2015 (%)

Country	Actual	Projections		Difference*	
	2013	2014	2015	2014	2015
World output	3.2	3.4	4.0	-0.3	0.0
Advanced economies	1.3	1.8	2.4	-0.4	0.1
United States	1.9	1.7	3.0	-1.1	0.1
Euro Area	-0.4	1.1	1.5	0.0	0.1
Japan	1.5	1.6	1.1	0.3	0.1
Developing economies	4.7	4.6	5.2	-0.2	-0.1
Emerging and developing Asia	6.6	6.4	6.7	-0.2	-0.1
China	7.7	7.4	7.1	-0.2	-0.2
India	5.0	5.4	6.4	0.0	0.0
Latin America and the Caribbean	2.6	2.0	2.6	-0.5	-0.3
Middle East, North Africa, Afghanistan and Pakistan	2.5	3.1	4.8	-0.2	0.2
Sub-Saharan Africa	5.4	5.4	5.8	0.0	0.2
South Africa	1.9	1.7	2.7	-0.6	0.0

* Difference between July and April 2014 forecasts

Source: IMF World Economic Outlook July 2014

The latest economic indicators in the **Euro Area** remained unchanged from the April 2014 IMF World Economic Outlook (WEO) report. Growth is expected to remain uneven within the area with Italy and France's economic outlook being revised to 0.3 and 0.7 per cent respectively. Financial conditions in the Euro area have eased with inflation coming in at below expectations in April 2014. However, the Euro area continues to suffer from financial market fragmentation and high unemployment rates as a result of fiscal headwinds. Following two calendar years of contraction the Euro area is expected to return to positive growth, growing at 1.1 and 1.5 per cent in 2014 and 2015 respectively. High debt and tight credit conditions will continue to weigh on economic activity.

Economic indicators in **Asia** were also not promising. Projected growth in India remained unchanged (projected to be 5.4 and 6.4 per cent in 2014 and 2015 respectively) whilst the world's second largest economy, China is now expected to grow at 7.4 per cent, a 0.2 per cent cut from previous predictions. An effort to reign in credit growth in China led to the fall in domestic demand resulting in the downward revision.

The uneven growth pattern in the global economy can also be seen in the **emerging market** group of economies. The economic outlook of these countries was downgraded by 0.2 per cent to 4.6 per cent for 2014. Latin America also experienced

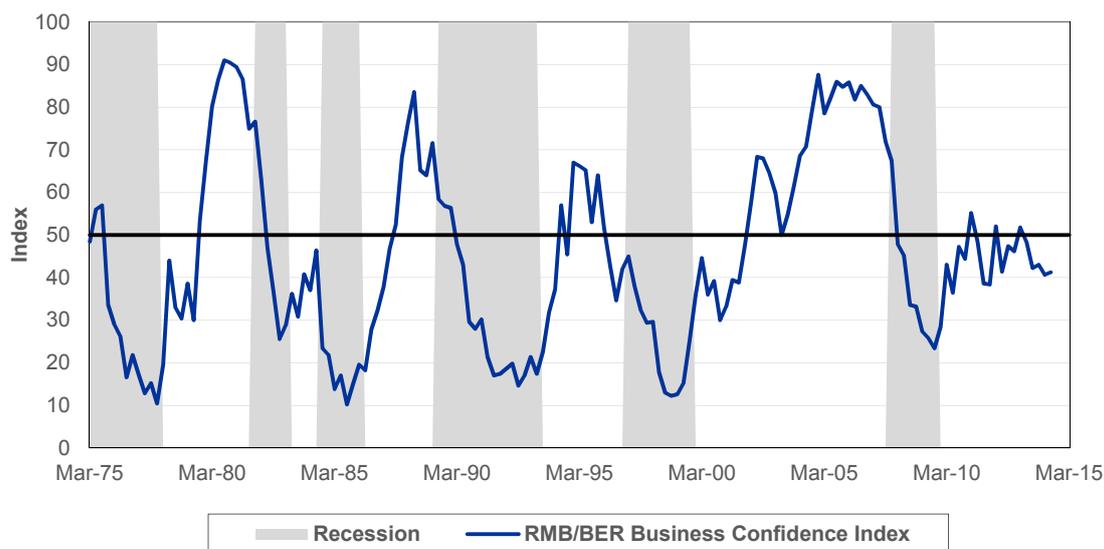
a downward revision by 0.5 per cent to 2.0 per cent in 2014. The Russian economy is expected to grow at only 0.2 per cent this year. Massive capital flight and geopolitical tensions have been highlighted as the cause of the 1.1 percentage cut from the previous forecast of 1.3 per cent. It is projected that investment in Russia will remain weak for a long time, thus accounting for an expected growth of only 1.0 per cent in 2015.

The economic outlook for sub Saharan Africa remained unchanged. Countries with external vulnerabilities may however experience a reversal in capital flows in the event of there being a reversal in financial market sentiments. South Africa's growth forecast in respect of 2014 was revised downwards from 2.3 per cent to 1.7 per cent. This sluggish growth projection for the country is a result of labour strikes, electricity constraints and weak global demand.

In summary, the IMF has warned that weaker US growth and slower demand in emerging market economies will have a negative impact on world economic growth. Furthermore, higher geopolitical risks, the Ukraine crisis and risks of oil price increases could place growth under additional pressure. Despite all these downgrades the economic outlook for 2015 remains unchanged as stronger economic growth is expected. According to the WEO report global growth is expected to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015 from 3.2 per cent in 2013. It is expected that the global recovery will regain strength in the second half of 2014.

The **South African** economy is currently going through a difficult period. It is experiencing a number of challenges which includes the slowing down of economic growth, reflected by a 0.6 per cent economic contraction in the first quarter of 2014. The previous 2014 economic growth forecast for South Africa has been downgraded by a number of local and international institutions following growing economic challenges. The SA Reserve Bank has thus also downgraded the forecasted economic growth for 2014 from 2.1 per cent to 1.7 per cent. The World Bank has also revised South Africa's economic growth forecast for 2014 downwards to 2 per cent from an earlier forecast of 2.7 per cent. Persistent labour strikes caused mining production to decrease by 6.5 per cent year-on-year in May 2014 and contributed to renewed weakness in the manufacturing sector. The poor performance in mining production was driven by a decline in Platinum Group Metals (PGM) mining production and due to suppressed commodity prices.

Some of the economic challenges facing the economy include the weakening of the rand, the increasing inflation rate, the growing unemployment rate and poor levels of business and consumer confidence. The RMB/BER Business Confidence Index remained unchanged at 41 in the second quarter of 2014. The index has remained below its long term average of 45.12 for the period since the middle of 2013 (see Figure 2.1). The index is less than encouraging, reflecting as it does domestic concerns and how unhappy respondents are with current economic conditions. On the other hand, though not indicated in Figure 2.1, the consumer confidence index recovered from -6 to 4 points in the second quarter of 2014; however, it remains below its long-term average.

Figure 2.1 The RMB/BER Business Confidence Index

Source: BER June 2014

Growth over the expansion period 2000 - 2007 trended at 4.3 per cent per annum declining to 1.2 per cent per annum over the recessionary period 2008 - 2009 and recovering to 2.7 per cent per annum over the period 2010 - 2013. Table 2.2 shows the economic growth outlook for the South African economy. During the forecast period 2014 - 2019 it is expected that the construction sector will grow the fastest, with growth averaging 3.7 per cent per annum. Forecast growth in the transport, storage and communication sector coupled with the finance, insurance, real estate and business services sector are forecast to also positively influence overall growth, each growing at 3.4 per cent per annum. The forecast growth of the general government of 2.1 per cent is noticeable albeit downgraded from previous forecast due to the tighter fiscal position. Overall real GDP growth has been downscaled substantially, currently forecast to average 2.6 per cent per annum, 2014 - 2019.

A key development (from the middle of 2011) and reason for slower forecast growth has been the slowdown in consumer spending. The sector has been the backbone of the economic recovery in the country in the aftermath of the global financial crisis. Consumer spending lost momentum due to rising inflation, weaker real disposable income and slow economic growth; interest rates also began rising in the first quarter of 2014. Fixed investment spending is also a driver of growth and its outlook has been downscaled due to the poor domestic demand conditions and low business confidence levels.

Table 2.2 South Africa sectoral economic growth outlook: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 – 2019
Agriculture, forestry and fishing	2.3	1.9	2.8	2.3	1.9	2.2	2.2	2.2
Mining and quarrying	3.1	0.8	1.7	1.0	0.6	0.8	0.9	1.0
Manufacturing	0.8	1.8	2.6	2.3	2.0	2.2	2.3	2.2
Electricity, gas and water	-0.4	1.1	2.5	2.4	2.5	2.7	2.8	2.3
Construction	2.8	3.4	3.3	3.4	3.7	4.0	4.1	3.7
Wholesale and retail trade, catering and accommodation	2.2	1.0	3.2	2.8	2.6	2.7	2.8	2.5
Transport, storage and communication	1.9	2.7	3.5	3.4	3.6	3.6	3.8	3.4
Finance, insurance, real estate and business services	2.4	1.9	3.6	3.5	3.8	3.9	4.0	3.4
Community, social and personal services	1.8	1.6	2.6	2.1	1.9	2.1	2.2	2.1
General government	1.5	1.6	2.3	1.9	2.1	2.2	2.3	2.1
Total	1.9	1.7	3.0	2.7	2.7	2.8	2.9	2.6

Source: BER/Quantec Research 2014 (e = estimate; f = forecast)

Year-on-year headline inflation increased in 2014Q2 to 6.5 per cent from 5.9 per cent in 2014Q1. Despite the lowering of growth forecasts the inflation outlook remained unchanged. It is expected that headline inflation will decrease to 6.4 per cent in the third quarter and further decrease to 6.3 per cent in 2014Q4, remaining outside the SARB target range. Headline inflation forecast for 2015 was adjusted to 5.7 per cent and for 2014 to 6.3 per cent (see Table 2.3). The rand dollar exchange has come under pressure depreciating by more than 40 per cent since the beginning of 2012. Global and domestic factors, such as the Marikana strike (August 2012) and a widening current account deficit, have been major contributors to the weakening of the rand.

Table 2.3 South Africa: Forecast of inflation, interest rates and the rand exchange rate, 2014 - 2015

Financial variable	2012	2013	2014f	2015f
CPI inflation (average)	5.70	5.70	6.30	5.70
Prime overdraft interest rate (eop)	8.50	8.50	9.50	10.00
Rand/\$ exchange rate (eop)	8.64	10.47	10.70	10.95
Rand/€ exchange rate (eop)	11.32	14.36	14.10	13.75

eop: end of period

Source: BER (f = forecast)

The **Western Cape** economy grew at a rate of 2.1 per cent during calendar year 2013 compared to 1.9 per cent for the country as a whole. The contraction in output in the mining sector weighed down on national growth. Although the province was not able to reap the rewards from increases in mining activity in the second half of the year, it did benefit from growth in the manufacturing sector (which accounts for 17 per cent of overall GDP).

Table 2.4 shows the sectoral growth and employment trends in the Western Cape economy. While growth trended at 3.9 per cent per annum (2000 - 2013) it decelerated sharply during the recession years (2008 - 2009) to 1.7 per cent. Over the current years of the expansion phase (2010 - 2013) GDP growth has averaged 2.9 per cent per annum, well below its growth trend. The expansion of the wholesale and retail, catering and accommodation sector is notable, with the sector growing above average at 3.7 per cent per annum. Also notable is the growth in general government (3.4 per cent) and the growth in the finance, insurance, real estate and business services sector.

The rate of employment creation within the Western Cape followed national trends. Whereas the rate of employment creation in the Western Cape trended at 0.4 per cent it contracted to 0.3 per cent during the recession years (2008 - 2009). Unfortunately the rate of employment creation has not been restored during the recovery years (2010 - 2013). The contractions in the agriculture, forestry and fishing sector (2.0 per cent per annum), the construction sector (5.8 per cent per annum) and the manufacturing sector (1.0 per cent per annum) are major causes for concern.

Table 2.4 Western Cape economy sectoral growth and employment (formal and informal): 2000 - 2013

	Real GDP growth (yoy %)				Formal and informal employment (yoy % change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	2.0	1.1	8.2	0.8	-2.0	-0.9	-6.3	-2.0
Mining and quarrying	-1.2	-0.5	-7.4	0.5	1.3	0.7	1.6	2.6
Manufacturing	2.4	3.8	-3.3	2.6	-2.2	-2.1	-4.6	-1.0
Electricity, gas and water	2.5	4.2	-1.6	1.1	2.6	6.6	-12.5	2.0
Construction	6.5	9.1	5.5	1.7	-2.5	-0.9	-2.6	-5.8
Wholesale and retail trade, catering and accommodation	4.2	5.7	-0.6	3.7	0.9	1.3	0.8	0.3
Transport, storage and communication	4.7	6.6	2.0	2.4	1.6	0.0	5.8	2.8
Finance, insurance, real estate and business services	5.5	7.0	3.9	3.3	3.3	4.9	-0.2	1.9
Community, social and personal services	2.9	3.9	1.4	1.7	2.0	2.7	4.7	-0.5
General government	2.5	1.6	4.3	3.4	2.1	2.4	2.7	1.0
Total	3.9	5.0	1.7	2.9	0.4	0.9	-0.3	-0.1

Source: Quantec Research 2014

Table 2.5 shows the outlook for real economic growth in the province. Real GDP is forecast at a similar rate in 2014 compared to 2013 (i.e. 2.1 per cent) and expected to accelerate to a real growth rate of 3.1 per cent in 2015. Real GDP is forecast to grow at an average growth rate of 3.0 per cent per annum over the period 2014 - 2019. The tertiary sector is expected to drive economic growth, with growth averaging 3.1 per cent per annum. Services such as transport and communication

and finance and insurance and business services are expected to grow at above-average rates, as well as construction. The Provincial Government highlighted its commitment towards achieving sustained economic growth. The 2014 Budget Statement highlighted the four core objectives of Government, i.e. a commitment to promoting economic growth, increasing employment, improving the quality of public education and healthcare and reducing poverty within the Western Cape. From Table 2.4 it is clear that the employment creation objective remained elusive during the economic recovery (2010 - 2013), with overall employment in the province continuing to contract, particularly in construction, agriculture and manufacturing.

Table 2.5 Western Cape economy: Real GDP growth forecast: 2014 - 2019

Sector	2013e	Forecast						2014 - 2019
		2014f	2015f	2016f	2017f	2018f	2019f	
Agriculture, forestry and fishing	2.6	2.3	1.9	1.5	1.6	1.7	1.6	1.8
Mining and quarrying	1.3	1.2	1.1	0.8	1.7	1.8	1.8	1.4
Manufacturing	0.5	2.2	2.4	2.3	2.4	2.4	2.5	2.4
Electricity, gas and water	1.6	1.5	2.1	2.1	2.2	2.2	2.2	2.1
Construction	3.2	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	2.4	1.2	3.0	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	2.1	3.0	3.6	3.7	3.9	3.7	3.9	3.6
Finance, insurance, real estate and business services	2.5	2.2	3.8	3.6	3.8	3.9	3.8	3.5
Community, social and personal services	2.2	2.1	2.4	2.1	1.9	2.4	2.2	2.2
General government	2.4	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Total	2.1	2.1	3.1	3.0	3.1	3.2	3.3	3.0
Primary sector	2.6	2.2	1.9	1.5	1.6	1.7	1.6	1.7
Secondary sector	1.1	2.5	2.7	2.7	2.7	2.8	2.9	2.7
Tertiary sector	2.4	2.0	3.3	3.2	3.4	3.4	3.5	3.1

Source: Quantec Research 2014 (e = estimate; f = forecast)

2.3 The Cape Metro economy

In line with the downward revision of the global economic outlook and the substantial downward revision of the outlook for growth nationally and in the province, the Cape Metro GDP growth forecast for the period 2014 - 2019 has been reduced to 3.0 per cent per annum, from 3.6 per cent per annum at the time of the 2013 MERO study (for the period 2012 - 2017). The growth performance of the Cape Metro (1.8 per cent) was below that recorded for the Western Cape Province (2.1 per cent) in 2013. The Cape Metro economy is the largest in the province, contributing an average of 73 per cent of the Western Cape GDP in 2013 and 11 per cent to national gross domestic product in 2013. Hence, the growth performance of the region by sector mirrors that of the Western Cape Province.

The Cape Metro is also the largest contributor to employment in the province; accounting for 66 per cent of the Provincial total employed population (i.e. 1 238 040 workers) and 8 per cent of the country's total employed population. Close to half of the workforce is employed in the finance and business services sector and

the wholesale, retail trade, catering and accommodation sector. Although the financial and business services sector constitutes the Metro's largest economic sector, the growth in this sector was less when compared to the agricultural and construction sectors. The highest growth rates were realised in the agricultural sector followed by the construction sector and financial and business services. The sub-par growth of the manufacturing sector and the contraction in the mining sector dampened overall growth in the region over the period 2000 - 2013. The agriculture (1.5 per cent) and the mining (0.1 per cent) sectors only make a small contribution to the Cape Metro's GDP. The historical growth of economic sectors within the district is considered in the following section.

2.3.1 Historical growth and employment trends

Table 2.6 shows the sectoral composition of GDP growth and net employment creation in the Cape Metro economy over the period 2000 - 2013. The Cape Metro has not fully recovered to its trend growth rate (3.9 per cent per annum, 2000 - 2013) and has under-performed during the economic recovery thus far. During the recession years (2008 - 2009) real growth slowed to 1.5 per cent per annum and recovered to 2.7 per cent per annum over the period 2010 - 2013, compared to 5.0 per cent per annum recorded over the period 2000 - 2007, i.e. the previous business cycle expansion.

From a sectoral perspective, the agriculture, forestry and fishing sector was the fastest growing sector in the region, both in terms of GDP growth (9.3 per cent) and employment creation (4.0 per cent) over the period 2000 - 2013. Other sectors that grew above or equal to average during the 2000 - 2013 period are the construction sector (5.8 per cent), wholesale and retail, catering and accommodation sector (4.0 per cent), transport storage and communication (4.6 per cent) and the finance and business services sectors (5.0 per cent).

The Metro recorded an expansion in its workforce over the period 2000 - 2013. The largest employer in the region is the wholesale and retail, catering and accommodation sector and is closely followed by the finance and business services sector. The sector that shed the most jobs was the manufacturing sector (68 340 workers) followed by the construction sector (38 820 workers). The net job growth in the services sector (including general government) was much higher than the retrenchments in manufacturing and construction, resulting in a net cumulative growth of 104 189 jobs over the 2000 - 2013 period.

Table 2.6 Cape Metro GDP and employment trends 2000 - 2013

Sector	GDP (yoy %)			Employment (net change)		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2013	2008 - 2009	2010 - 2013	2000 - 2013	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	9.3	21.9	2.2	16 618	1 923	-1 451
Mining and quarrying	-0.4	-7.2	1.5	-503	48	-48
Manufacturing	2.4	-3.0	2.7	-68 342	-20 229	-7 105
Electricity, gas and water	3.0	-1.4	1.0	1 499	-1 462	440
Construction	5.8	4.3	1.5	-38 824	-6 752	-18 075
Wholesale and retail trade, catering and accommodation	4.0	-0.7	3.4	29 569	3 948	3 255
Transport, storage and communication	4.6	1.9	2.3	11 238	5 517	6 888
Finance, insurance, real estate, business services	5.0	3.1	3.0	81 744	-7 005	17 042
Community, social and personal services	2.5	1.1	1.4	39 770	15 197	-4 462
General government	2.0	4.0	2.7	31 420	6 852	2 546
Total	3.9	1.5	2.7	104 188	-1 963	-969

Source: Quantec Research 2014

2.3.2 The economic recovery

The Metro was heavily impacted by the 2009 recession contracting by 1 per cent in 2009. The impact of the recession was very severe in the mining industry (-7.2 per cent) and the manufacturing industry (-3.0 per cent). However, the growth in the agricultural sector, general government, construction and financial services softened the impact of the recession. In the early years after the recession these sectors showed signs of recovery. However, growth during the recovery period (2.7 per cent per annum) has remained well below its trend growth rate (of 3.9 per cent) and the real GDP growth of the Western Cape Province (3.9 per cent).

Table 2.7 and Table 2.8 show the sectoral growth performance and employment trends of the Cape Metro economy during the economic recovery (2010 - 2013) in the context of the other five Western Cape districts. GDP growth within the Metro matched that of the Cape Winelands district (2.7 per cent per annum). In comparison to other districts the growth of the agricultural sector stands out, the sector grew at 2.2 per cent over the recovery period. It is clear that the wholesale and retail, catering and accommodation sector was the fastest growing sector in the Metro during the recovery period, presumably boosted by tourism activity.

Table 2.7 Cape Metro real GDP growth in provincial perspective: 2010 - 2013 (%)

Sector	Cape Metro	Cape Winelands District	West Coast District	Eden District	Overberg District	Central Karoo District
Agriculture, forestry and fishing	2.2	-0.4	-0.1	1.5	0.6	1.2
Mining and quarrying	1.5	4	3	1.5	2.6	0.3
Manufacturing	2.7	2.1	1.9	4.3	2.6	3.9
Electricity, gas and water	1	2.1	-0.4	0.9	0.4	-0.4
Construction	1.5	1.7	1.5	2.5	2	2.1
Wholesale and retail trade, catering and accommodation	3.4	4.8	3.4	5	4.1	2.1
Transport, storage and communication	2.3	2.2	1.7	2.4	2.6	0.9
Finance, insurance, real estate and business services	3	3.8	5.4	3.9	5.6	3.8
Community, social and personal services	1.4	2.1	2	2.7	2.4	1.1
General government	2.7	4.2	3.4	5.4	3.8	3.5
Total	2.7	2.7	2.8	3.8	3.4	2.6

Source: Quantec Research 2014

Table 2.8 Cape Metro employment trends in provincial perspective: 2010 - 2013

Sector	Cape Metro	Cape Winelands District	West Coast District	Eden District	Overberg District	Central Karoo District
Agriculture, forestry and fishing	-1 451	-7 266	-423	-2 824	-1 398	-227
Mining and quarrying	-48	-32	-16	-3	-2	1
Manufacturing	-7 105	-84	-546	-1 086	-623	-79
Electricity, gas and water	440	-6	11	23	11	1
Construction	-18 075	-2 863	-1 471	-4 929	-1 964	-291
Wholesale and retail trade, catering and accommodation	3 255	836	62	1 132	253	-76
Transport, storage and communication	6 888	507	365	555	258	67
Finance, insurance, real estate and business services	17 042	2 078	2 045	1 865	1 775	200
Community, social and personal services	-4 462	-990	-166	-386	1	-231
General government	2 546	2 172	501	3 186	561	16
Total	-970	-5 648	362	-2 468	-1 129	-617

Source: Quantec Research 2014

As in the case of South Africa as a whole other sectors that have recorded relatively rapid growth during the recovery years are the general government, manufacturing and the finance and business services sectors. A notable feature of the Cape Metro is the dominant finance and business services sector. However the growth of this sector has been the lowest in comparison to other districts. Employment creation of the finance and business services sector is also notable, with this sector creating a total of 17 042 jobs over the period 2010 - 2013. In comparison to other districts, the Cape Metro experienced the largest job losses in the construction sector over the recovery period. From the table it is clear that the construction sector and the agriculture, forestry and fishing sector are still experiencing job losses across all districts. Net job shedding has persisted across all districts except the West Coast District.

2.3.3 Macroeconomic implications and the growth outlook

The Metro economy's real GDP growth rate is expected to increase from 1.8 per cent in 2013 to 2.2 per cent in 2014. The average annual GDP growth rate forecast for the period 2014 - 2019 is 3.0 per cent per annum (see Table 2.9). As in the case of South Africa as a whole the construction sector is expected to lead economic growth in the region (4.0 per cent per annum) and will be closely followed by the transport, storage and communication sector (3.5 per cent) and the finance and business services sector (3.4 per cent). The downgrading of the country's credit ratings, increased inflationary pressure, the deterioration of the current account, the weakening of the rand, the shaky business confidence and the consequent slowdown of the national economic growth rate, could slow down the Cape Metro's economic performance. Contrary to the poor national economic performance, the global economy is set on a growth trajectory. This may help in offsetting the national negative impact on the Metro economy. According to the World Bank economic outlook, global growth is projected to strengthen from 3.2 per cent in 2013 to 3.4 per cent in 2014, before reaching 4.0 per cent in 2015. Given the Cape Metros' exposure to global economic developments due to its wide trading links, this favourable global economic performance will help improve economic growth in the Metro.

Table 2.9 Metro real GDP growth forecast by broad sector: 2014 - 2019

Sector	Forecast						Forecast
	2014	2015	2016	2017	2018	2019	2014 - 2019
Agriculture, forestry and fishing	3.0	2.5	2.1	2.2	2.3	2.2	2.4
Mining and quarrying	1.6	1.4	1.1	1.8	2.1	2.1	1.7
Manufacturing	2.3	2.2	2.2	2.2	2.3	2.5	2.3
Electricity, gas and water	1.8	2.2	2.3	2.4	2.4	2.4	2.3
Construction	3.7	3.9	4.0	4.1	4.3	4.3	4.0
Wholesale and retail trade, catering and accommodation	1.2	2.9	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	3.1	3.4	3.5	3.7	3.6	3.9	3.5
Finance, insurance, real estate, business services	2.2	3.6	3.4	3.7	3.7	3.7	3.4
Community, social and personal services	2.1	2.2	2.0	1.8	2.3	2.1	2.1
General government	2.0	2.1	2.0	2.2	2.3	2.5	2.2
Total	2.2	3.0	3.0	3.1	3.2	3.3	3.0

Source: Western Cape Provincial Treasury/BER/Quantec Research 2014

2.4 Concluding remarks

The Metro was severely affected by the global financial crisis (2008 - 2009) but began to show signs of recovery in 2010. However growth tapered off to 1.8 per cent last year and is expected to average 2.2 per cent in 2014. This is in line with the uncertain global and national economic outlook that the Metro economy is exposed to. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the Metro has been reduced to 3.0 per cent per annum from 3.6 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been highlighted as weak global growth

and domestic issues such as labour unrest. Given the strong links between the Metro and the global economy, the region is exposed to the uncertain global economic conditions.

The Cape Metro is commonly referred to as the gateway to South Africa and is a preferred destination for companies and people. The region's locational attributes and quality of infrastructure ensure it is globally connected. In relation to other districts in the Western Cape Province the Metro economy is the largest and has been largely driven by the financial and business services sector. Sectors that grew above or equal to average during the 2000 - 2013 period are the agriculture, forestry and fishing sector, the construction sector, wholesale and retail catering and accommodation sector, transport storage and communication and the finance and business services sectors. Although the financial and business services sector constitutes the Metro's largest economic sector, the growth of the sector has been lower than other leading non-metro district services sectors such as Eden and the Cape Winelands.

In terms of employment the region took a serious hit from the 2008 - 2009 recession, with major job losses occurring in the manufacturing sector. The outlook is for stronger global economic growth, which will benefit the Cape Metro given the region's exposure to global economic developments. It is expected that the construction sector will be the highest growth sector and will be closely followed by the transport, storage and communication sector and the finance and business services sector. The sectoral forecast is motivated in more detail in Chapter 3.

3

Sectoral growth, employment and skills

3.1 Introduction

The Cape Metro regional economy is the second largest metro economy in the country and contributed 10.3 per cent of national GDP in 2013. It generated 72.5 per cent of the Western Cape GDP during calendar 2013, i.e. R313 billion of the total R431 billion and employed 1 238 000 workers in its formal and informal sectors. Table 3.1 shows the sectoral composition of the metro economy, both in terms of value added and employment. From the table it is clear that the financial and business services sector (accounting for 34 per cent of GDP) is the largest sector. In terms of employment the internal trade sector, i.e. wholesale, retail, catering and accommodation employs the largest share of the work force (i.e. 24 per cent, or 294 000 workers).

Table 3.1 Cape Metro GDP and employment, 2013

Broad sector	GDP (R million)		Employment (number)	
		%		%
Agriculture	4 949	1.6	42 900	3.5
Mining	654	0.2	1 900	0.2
Manufacturing	35 982	11.5	163 500	13.2
Electricity and water	7 813	2.5	5 000	0.4
Construction	14 196	4.5	64 500	5.2
Trade	60 400	19.3	294 000	23.7
Transport and communication	30 475	9.8	65 700	5.3
Financial and business services	105 216	33.7	265 700	21.5
Community, social and personal services	16 249	5.2	183 000	14.8
Government	36 610	11.7	151 900	12.3
Total	312 543	100.0	1 238 000	100.0

Source: Quantec Research 2014

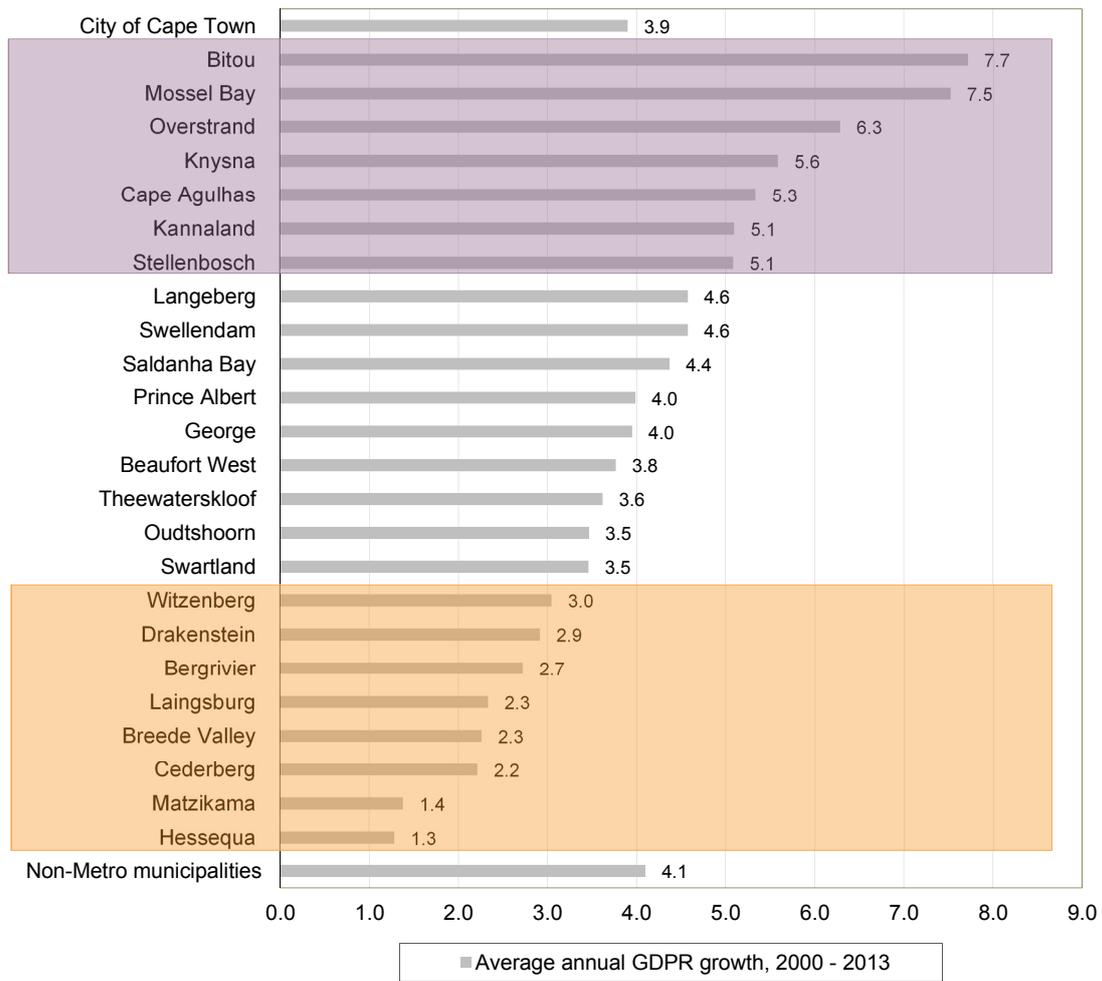
The Cape Metro has developed into a modern world city, with services accounting for 80 per cent of economic activity. Its services orientation increased from 74 per cent of activity ten years ago to 80 per cent currently. The sector that witnessed a rapid relative decline is manufacturing, whose contribution shrunk from 19 per cent 10 years ago to 11.5 per cent currently. Interestingly, the contribution by agriculture and fishing increased from 0.8 per cent to 1.6 per cent over the corresponding period, presumably due to the rapid growth of the local fishing industry. The historical growth of the Metro economy is discussed in section 3.2, also in the context of the growth of the other metro economies country-wide. The focus in this part of the analysis is on the period of economic recovery (i.e. 2010 - 2013) from the 2009 recession. The trends in the agriculture, manufacturing and services industries are analysed. Section 3.3 investigates the changing skills composition of labour demand in the formal sectors of the metro economy.

The 2013 Municipal Economic Review and Outlook (MERO) study, applying a location quotient analysis, revealed that the clothing and textile, business services, catering and accommodation, financial services, wood products and furniture, construction, transport and communication and retail and wholesale sub-sectors were all industries with a competitive edge in the region expanding faster compared to their peers on average nationally. The outlook for the sectoral growth of the municipal economy is considered in section 3.4 and some concluding remarks follow in section 3.5.

3.2 Historical growth and employment trends by sector: An update

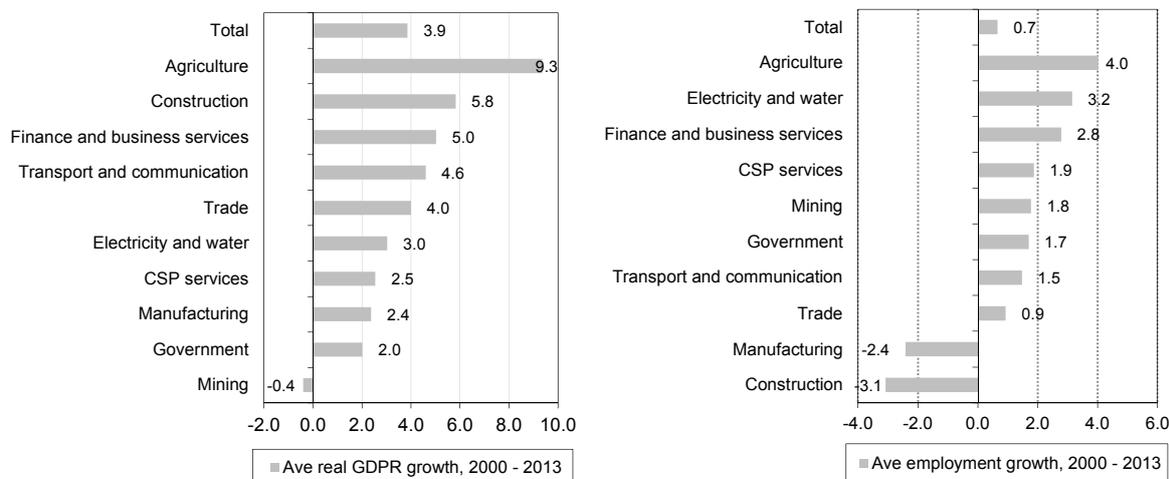
The Cape Metro economy expanded by 3.9 per cent per annum in real terms over the 2000 - 2013 period, while its workforce grew by 0.7 cent per annum, adding a cumulative 104 200 jobs over this period (see Figure 3.2). This high growth is remarkable in view of the fact that the national economy only expanded by 3.4 per cent per annum over the corresponding period. In fact, closer to home the growth of the metro economy is only a touch lower compared to the growth of the non-metro districts, at 4.1 per cent per annum (see Figure 3.1).

Figure 3.1 Cape Metro economic growth in Western Cape perspective, 2000 - 2013



Source: Quantec Research 2014

Figure 3.2 shows the (average annual) trend growth rates across the broad sectors of the Cape metro over a 14-year period from 2000 to 2013. This period witnessed a strong expansionary phase of the business cycle (2000 - 2007) when the growth in financial services were particularly buoyant, a deep recession (2008 - 2009) sparked by the global financial crisis, and a rather subdued economic recovery since (2010 - 2013). Before the economic recovery period is analysed, attention focuses on the average trend growth rates over the full period.

Figure 3.2 Cape Metro average real economic and employment growth by broad sector, 2000 – 2013

Source: Quantec Research 2014

Over this period, the agriculture, forestry and fishing sector performed the strongest, posting average annual growth of 9.3 per cent. Data showing the breakdown of the sector indicate that it is specifically the strong growth of the fishing industry and – to a lesser extent – the agricultural sector which account for the high growth (see EPIC, Quarter 1, 2014: 9). The second fastest growing sector was construction (5.8 per cent per annum). The run-up to the 2010 FIFA World Cup stimulated infrastructure investments. Unfortunately, this build-phase was followed by a deep slump in the sector, which only recovered slowly over the ensuing years (see below). The construction sector also shed much of its labour in the wake of the 2009 recession, causing it to subtract from overall employment in the metro over the 2000 - 2013 period – see Figure 3.2.

The third fastest growing sector was financial and business services (5 per cent per annum), also creating employment at a rate of 2.8 per cent per annum². The other sectors, which grew above average, are the transport and accommodation (4.6 per cent) and the internal trade sector, i.e. wholesale, retail, catering and accommodation (4.0 per cent). The growth of the internal trade, transport and business services sectors was supported by vibrant tourism activity in the Metro.

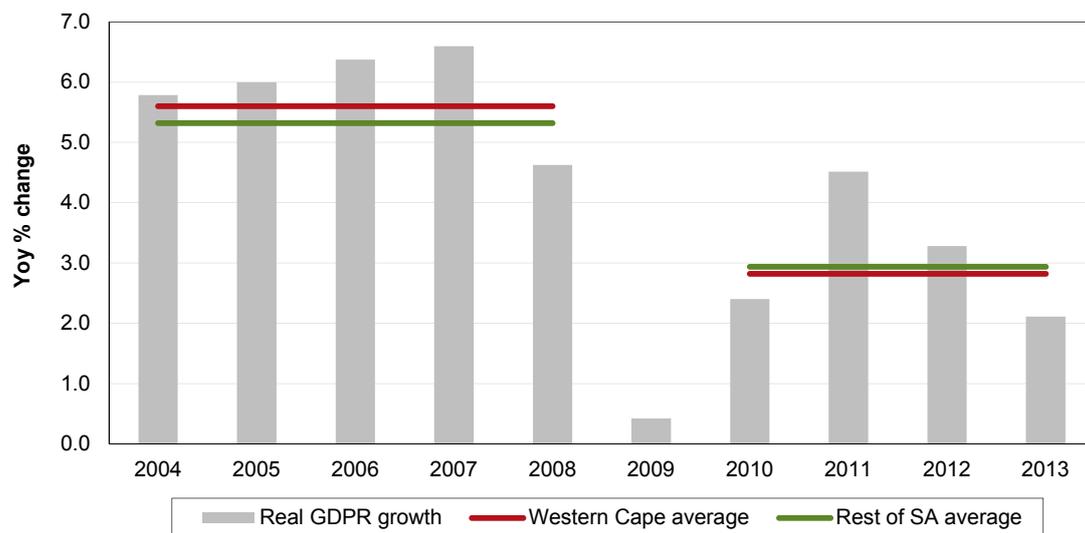
The growth of the manufacturing sector (2.4 per cent per annum) was disappointing, with the net job losses in this sector amounting to a cumulative 68 300 over the 2000 - 2013 period (at a rate of 2.4 per cent per annum). The heavy job losses in manufacturing and construction were countered by healthy job growth in the services industries (at a rate of 1.7 per cent per annum) leading to overall net job growth in the Cape Metro economy in aggregate. More analysis follows below.

² The business services sub-sector (24 per cent of Cape Metro GDP) consists, *inter alia*, of legal, bookkeeping and auditing services, tax consulting, market research and business consulting. It is the dominant sector and not finance and insurance (12.0 per cent of GDP). Considering the contribution to real value added growth in the Cape Metro, this sector accounted for 26 per cent of the cumulative growth, 2000 - 2013; the finance and insurance sector grew somewhat faster on average and contributed 18 per cent.

3.2.1 The economic recovery, 2010 - 2013

The national and provincial economies began recovering from the 2009 recession during the third quarter of that year. The Cape Metro economy recovered from a real contraction of 1.0 per cent in calendar 2009 to growth of 2.6 per cent and 3.7 per cent in the subsequent two calendar years, before growth decelerated again to a more modest 1.8 per cent in 2013. This deceleration of the growth momentum since 2011 was in line with the slowdown in the global and national economies (South Africa also registered a real GDP growth rate of 1.9 per cent during 2013). As shown in Table 3.2, real GDP growth has averaged 2.7 per cent per annum in the Cape Metro over the current recovery phase of the business cycle (2010 - 2013), below the trend growth tempo registered over the 2000 - 2013 period and also below that of the Province (2.9 per cent per annum). The slower growth momentum over the 2010 - 2013 period points to the lingering impact of the global recession in 2009 and more specifically, the step-down in the growth of the services sector, notably financial services.

Figure 3.3 Western Cape vs Rest of SA services sector growth, 2004 - 2013



Source: Quantec Research 2014/Stats SA

Figure 3.3 shows the slowdown in the Western Cape services sector and also the fact that the out-performance of services growth over the 2004 - 2008 period in the Western Cape deteriorated in the post-financial crisis period. Whereas the provincial services sector expanded by 5.8 per cent per annum (2004 - 2008) compared to 5.3 per cent in the rest of the country, this reversed, with the province's services sector growing by 2.8 per cent per annum (2010 - 2013; the Metro services sector also grew by 2.8 per cent per annum) compared to 2.9 per cent per annum in the rest of the country. The sector where the biggest change occurred was financial and business services, the traditional powerhouse of the Western Cape economy, where growth tapered off from 7.5 per cent per annum to 3.3 per cent. Growth in this sector came under pressure in the post-financial crisis period. The Cape Metro hosts close to 80 per cent of the province's services sector, suggesting these trends are an appropriate reflection of the situation in the Metro as well – see below. The disappearance of the

margin of out-performance in the province's services sector assist in explaining the narrower margin of out-performance of the Western Cape's economy in a national perspective (see PERO 2014).

Table 3.2 Cape Metro: Growth and employment, 2000 - 2013

Sector	Net employment (number)			Real GDP growth (ave yoy%)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	16 600	1 900	-1 500	9.3	21.9	2.2
Mining and quarrying	-500	0	0	-0.4	-7.2	1.5
Manufacturing	-68 300	-20 200	-7 100	2.4	-3.0	2.7
Electricity, gas and water	1 500	-1 500	400	3.0	-1.4	1.0
Construction	-38 800	-6 800	-18 100	5.8	4.3	1.5
Wholesale and retail trade, catering and accommodation	29 600	3 900	3 300	4.0	-0.7	3.4
Transport, storage and communication	11 200	5 500	6 900	4.6	1.9	2.3
Finance, insurance, real estate and business services	81 700	-7 000	17 000	5.0	3.1	3.0
Community, social and personal services	39 800	15 200	-4 500	2.5	1.1	1.4
General government	31 400	6 900	2 500	2.0	4.0	2.7
Total	104 200	-2 000	-1 000	3.9	1.5	2.7

Source: Quantec Research 2014

A concerning aspect of the economic growth and employment performance in the Cape Metro, is the fact that the period of economic recovery (2010 - 2013) witnessed net job losses, mainly as a result of heavy job losses in the construction sector (18 100) and to a lesser extent in manufacturing (7 100) and community, social and personal services (4 500). Facing the post-construction phase in the run-up to the 2010 FIFA World Cup, the construction sector shed more than a fifth of its 2009 work force. This reflects the slump in the civil construction and residential and non-residential property sectors in the Cape Metro as a result of the recession and the end of the World Cup infrastructure build phase. Construction activity was slow to recover, expanding on average by only 1.5 per cent per annum over the past four calendar years (2010 - 2013).

The Cape Metro services sectors added more than 25 000 employment opportunities on balance over the 2010 - 2013 period, which was marginally exceeded by the net retrenchments in the sectors noted above. The result is that the overall level of employment in the Cape Metro last year stood 4.5 per cent below its pre-recession level in 2008. The sectoral growth and employment trends are discussed in more detail in section 3.2.2. The fact that the local labour market deteriorated so sharply during the first four years of the recovery is very disappointing. This also happened despite the positive GDP growth in agriculture, manufacturing and construction real GDP.

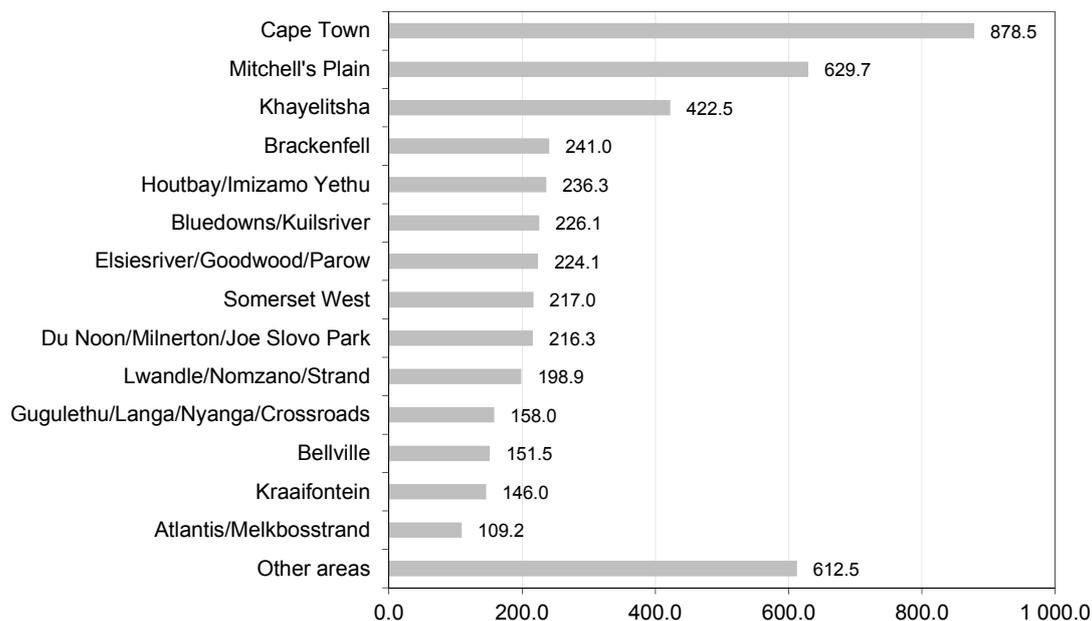
3.2.2 Agriculture, manufacturing and services – municipal economic growth performances

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is shown in Table 3.2 that the wholesale, retail, catering and accommodation sector was the strongest growing sector, expanding by 3.4 per cent per annum. The recovery growth in this sector also reflects the stimulus from tourism activity, which benefited in the wake of the global recession and due to the depreciation of the rand exchange rate. It also reflects the domination of consumer spending in the current business cycle revival. All the other sectors posted relatively subdued growth not exceeding 3.0 per cent per annum – agriculture 2.2 per cent per annum, manufacturing 2.7 per cent, construction 1.5 per cent and services 2.8 per cent, producing an overall real GDP growth rate for the Metro of 2.7 per cent per annum, 2010 - 2013. The net job losses in agriculture, manufacturing, construction and community, social and personal services were referred to above. The sectoral growth and employment performances are discussed in more detail below per economic area in the Cape Metro.

In Table 3.1 it was seen that the **agriculture, forestry and fishing sector** generated 1.6 per cent of the Cape Metro value added (or GDP) in 2013, which translates to R4.9 billion; and the sector employed 3.5 per cent of the regional workforce, i.e. 42 900 workers. The fishing and fish farming sector is the most dynamic and ostensibly account for the larger share of value added; the Cape Town wine farms, animal products (e.g. poultry) and other small scale farming account for the remainder of the agricultural sector in the metropolitan area (see EPIC, Quarter 1 2014: 9-10).

Across economic areas, the leading contribution originates from the City of Cape Town (R880 million or 18 per cent). The economic areas listed in Figure 3.4 contribute more than 80 per cent of the value added in the agricultural and fishing sector of the Cape Metro. The agricultural and fishing sector also created jobs on balance over the 2000 - 2013 period – the listed economic areas created 12 830 new job opportunities and the other areas 3 790, i.e. a total of 16 620 new jobs.

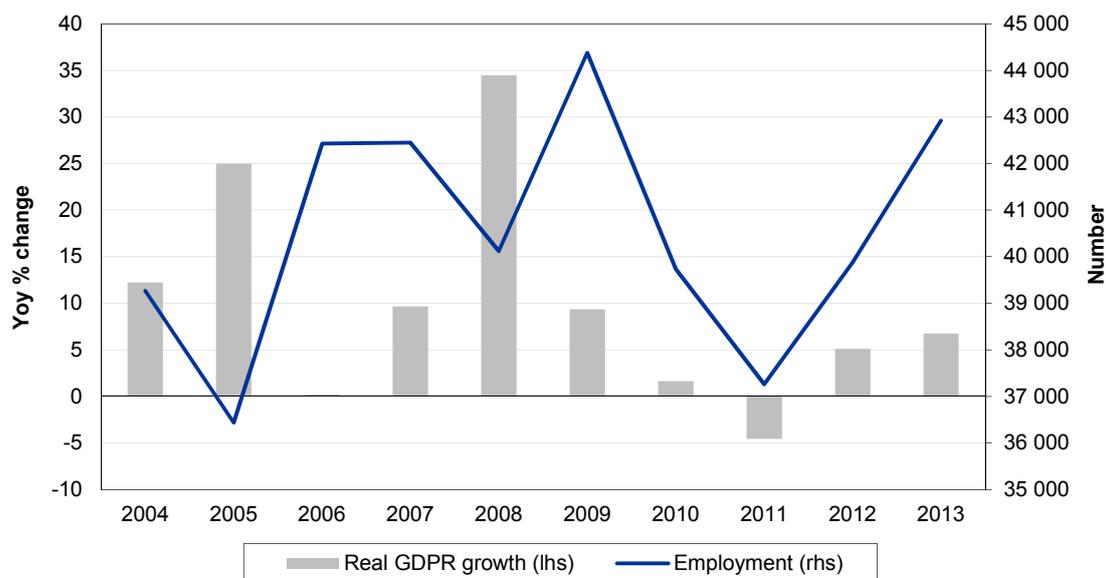
Figure 3.4 Cape Metro: Agriculture, forestry and fishing sector: GDPR breakdown (R million)



Source: Quantec Research 2014

From a growth perspective, the agricultural and fishing sector of the Cape Metro experienced two bumper years, i.e. 2005 and 2008, growing by 25 and 35 per cent respectively. While growth tapered off sharply after 2009 to -5 per cent in 2011, it recovered again during 2012 - 2013. The latter-mentioned period also witnessed a sharp recovery in the employment levels, which declined by 7 100 after the recession (2010 - 2011) – see Figure 3.4.

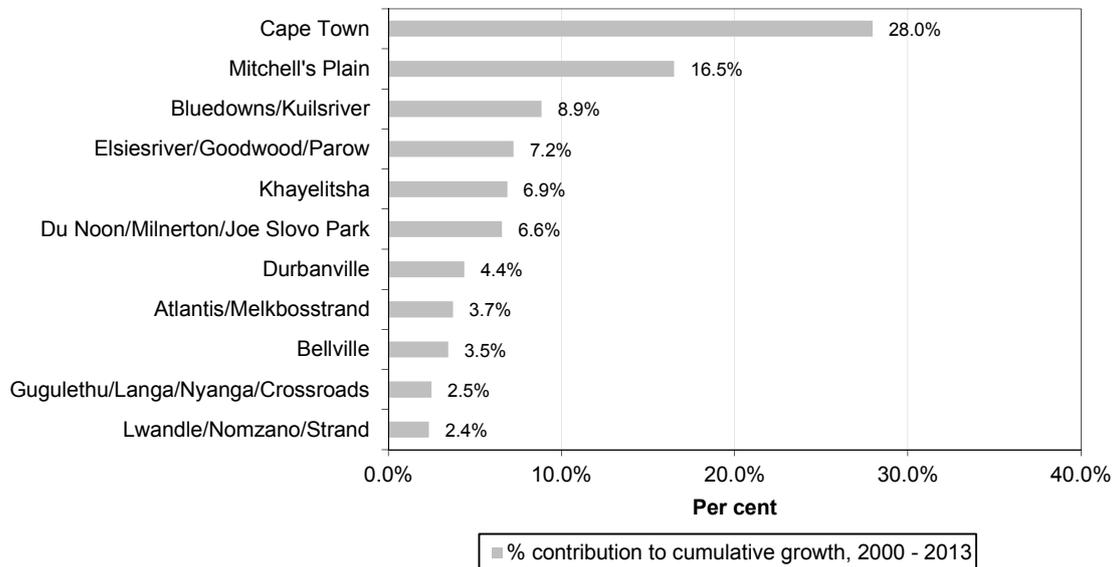
Figure 3.5 Cape Metro: Agriculture real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

The **manufacturing sector** contributed 11.5 per cent of the Cape Metro value added (or GDP), i.e. R36 billion of the total R312 billion, during last year (see Table 3.1) and employed 163 500 workers (or 13.2 per cent of the work force). Whilst real value added growth averaged a respectable 4.9 per cent per annum over the 2004 - 2008 period, it contracted by a massive 8 per cent in 2009, rebounded in 2010 and then tapered off to a trickle in 2013 – see Figure 3.8. The Cape Metro manufacturing work force shrunk from 204 000 workers in 2004 to 163 500 in 2013, i.e. a decline of 20 per cent (see Figure 3.8). The recession had in major adverse impact during 2008 - 2009. As Figure 3.7 shows the Cape Metro manufacturing employment level remained 19 per cent below its pre-recession peak (i.e. 2006). All economic areas in the Metro, except Du Noon/Milnerton/JSP, continued to retrench labour on balance in their manufacturing sectors over the economic recovery period 2010 - 2013.

Figure 3.6 Cape Metro: Economic area contribution to manufacturing growth: 2000 - 2013



Source: Provincial Treasury/Quantec Research, 2014

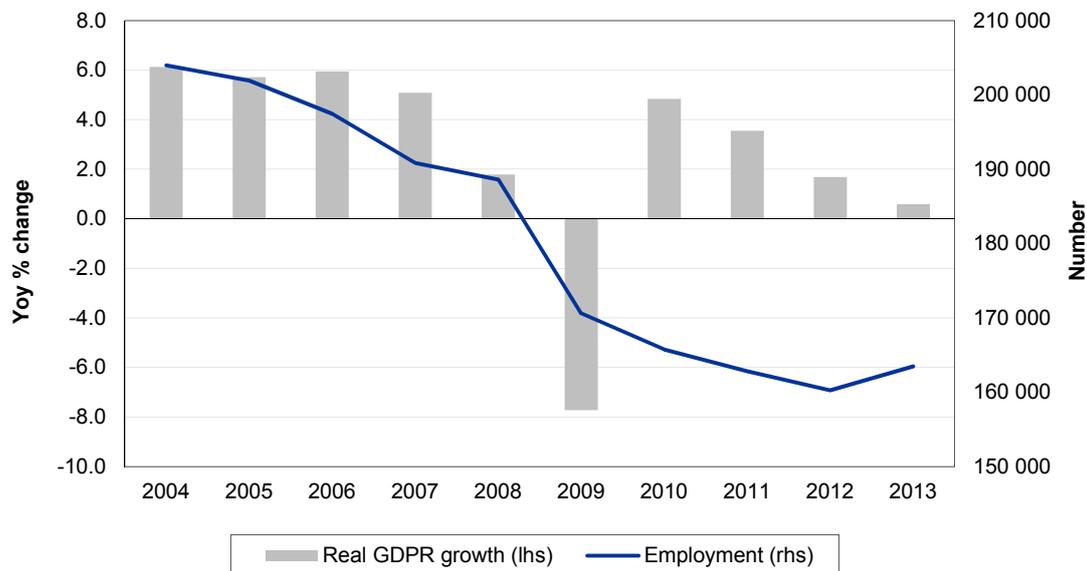
Figure 3.6 shows the composition and growth of the Cape Metro manufacturing GDP. The various economic areas are ranked according to the contribution each made to the cumulative growth of the Cape Metro manufacturing sector over the 2000 - 2013 period. Also shown is the actual value of GDP in 2013 in order to gain some perspective of the size of each economic area manufacturing sector. The listed areas account for more than 90 per cent of the Cape Metro's aggregate manufacturing value added (R36 billion). The City of Cape Town CBD account for 28 per cent of the cumulative growth of the Metro manufacturing sector (and generating R11.4 billion GDP in 2013) at the one end of the spectrum and Lwandle/Nomzano/Strand for 2.4 per cent (and R688 million GDP) on the other end of the spectrum (all the areas not listed contribute the remaining 9.5 per cent of value added). The strongest growing sector during the economic recovery period was Du Noon/Milnerton/JSP, which expanded by 4.7 per cent per annum and created 1 540 employment opportunities, 2010 - 2013.

Figure 3.7 Western Cape municipalities: Employment recovery in manufacturing, 2010 - 2013



Source: Quantec Research 2014

Figure 3.8 Cape Metro: Manufacturing real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

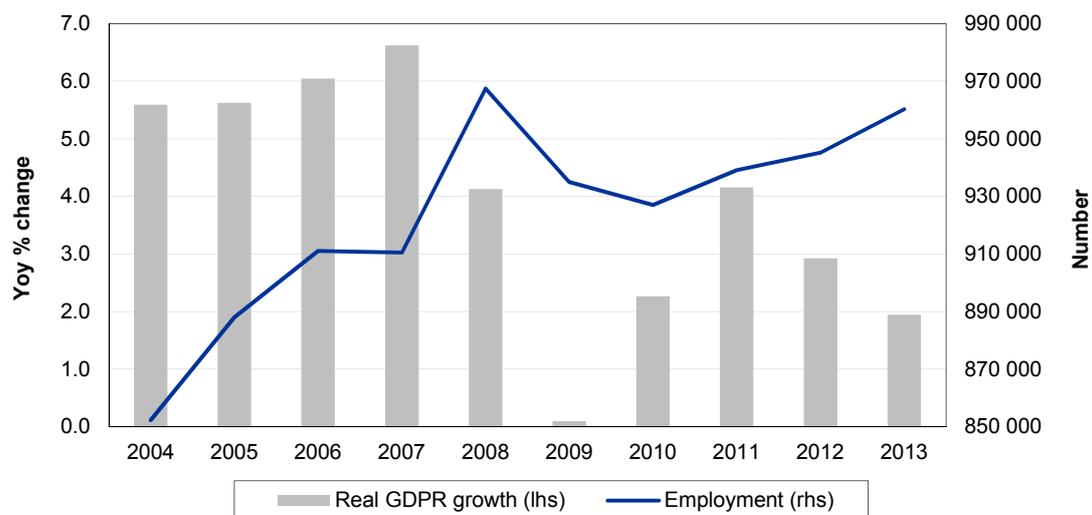
In all, manufacturing growth averaged 2.7 per cent per annum during the economic recovery period, which is disappointing particularly when one considers the fact that the sector shed 7 100 jobs on a net basis over this period, with only Milnerton bucking the trend. The sub-sectors which performed the strongest over the recovery period were radio, TV and scientific equipment (5.4 per cent per annum); petro-chemicals (5.1 per cent); non-metal minerals (3.9 per cent); wood products (3.8 per cent); and automotive (3.5 per cent).

Table 3.1 shows that the **services sector**, ranging from wholesale and retail activities to financial and business services and the general government, contributes 80 per cent (or R250 billion) of the total R312 billion of value added generated in the Cape Metro. The services economy of the Metro is concentrated in the CBD (accounting for 35 per cent of GDP), but has been expanding outside the CBD in the remainder of the metropolitan area. The two leading sub-sectors in services are financial and business services (generating value added of R105.2 billion in 2013) and internal trade, i.e. wholesale, retail, catering and accommodation (R60.4 billion). Whereas the financial and business services sector accounts for 34 per cent of economic activity in the Metro, this ratio is only 24 per cent nationally, revealing the comparative advantage of this sector in the Cape Metro. The internal trade sector employs more workers, namely 294 000 compared to the financial and business services sector employing 265 700 workers. The region's services industries employ 960 300 of the workforce in the region (1 238 000), i.e. 78 per cent. Services industries in the City of Cape Town employ 30 per cent of the total services workforce and the economic areas listed in Figure 3.10 account for more than 90 per cent of total services employment.

In line with the experience in the wider province, Figure 3.9 shows that the Cape Metro services sector expanded at high rates (averaging 5.6 per cent per annum) over the period 2004 - 2008 and that the growth momentum has halved in the wake of the 2009 recession to 2.8 per cent. The initial years of the economic recovery was characterised by a reasonable rebound with growth coming in at 4 per cent in calendar 2011; however, since then it has tapered down markedly to slightly below 2 per cent in 2013.

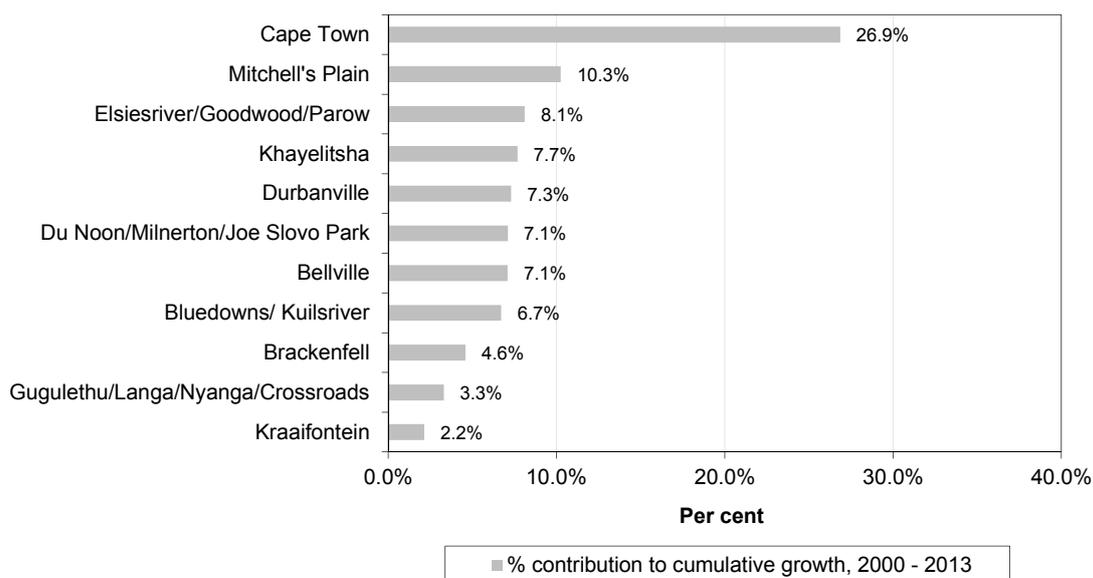
While the level of services employment declined in 2009 - 2010, it recovered and employment increased to a high of 960 300 in 2013 from close to 850 000 10 years ago, i.e. a net increase of 110 300 jobs on balance; from averaging 2.2 per cent per annum (2000 - 2007) the employment growth rate tapered off to 0.7 per cent per annum, both during the recession years and the ensuing economic recovery. This translates to a cumulative increase in services employment in the Cape Metro amounting to 25 300 during the economic recovery period.

Figure 3.9 Cape Metro: Services sector real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

Figure 3.10 Cape Metro: Economic area contribution to services sector growth: 2000 - 2013



Source: Quantec Research 2014

From a real value added growth perspective, considering both the average annual growth rate (2000 - 2013) and size in terms of value added, Cape Town made the strongest contribution, i.e. accounting for 27 per cent of the cumulative services growth; Mitchell's Plain is second (10 per cent) and then a list of economic areas follows, ranging from Elsie'sriver/Goodwood/Parow to Bluedowns/Kuilsrivier contributing around 7 per cent of the cumulative growth in overall services value added in the Metro – see Figure 3.10.

In all, the Cape Metro economy is a predominantly services oriented economy, albeit that the growth has come under pressure beyond the financial crises and recession of 2009. Whilst the financial and business services sector remains the largest in terms of value added, the wholesale, retail, catering and accommodation sector expanded somewhat faster during the economic recovery period, presumably boosted by tourism activity. The real growth of the manufacturing sector (2.7 per cent per annum) matched that of the Cape Metro services sector during the economic recovery, however, the sector shed employment on a large scale, with the work force remaining 20 per cent down from its pre-recession peak four calendar years into the economic recovery. Milnerton appears to be the only economic area bucking the trend in manufacturing, by expanding rapidly and creating jobs on balance. The agriculture and fishing sector also shed labour during the economic recovery, however, over the full 2000 - 2013 period the sector managed to generate jobs on balance.

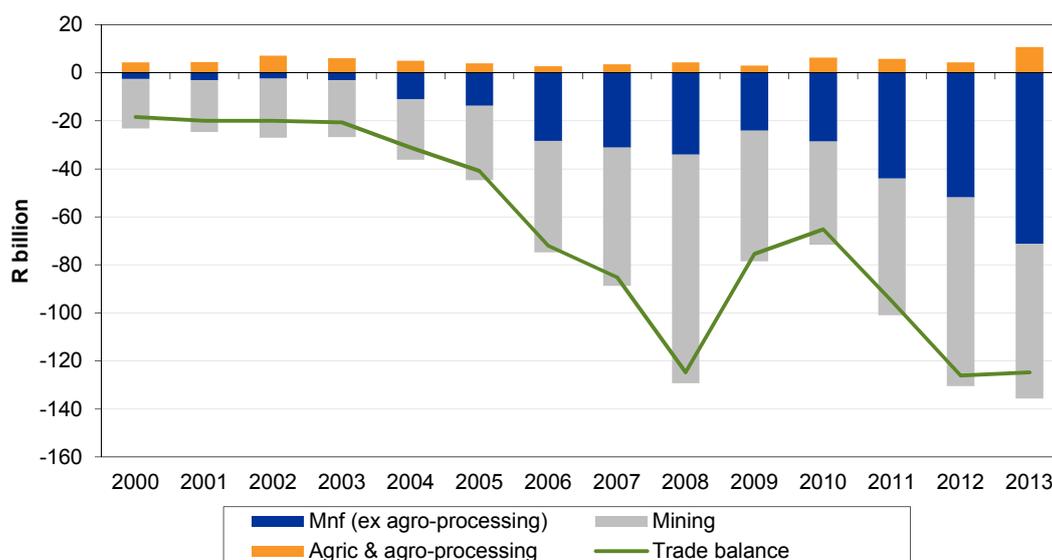
3.2.3 International trade

As noted in previous MERO studies, the Cape Metro economy is an open economy, with trade accounting for a large share of GDP. While exports have performed well, the Metro runs a structural trade deficit due to the large oil import bill. Goods exports were valued at R53.9 billion in 2013³, while goods imports were valued at R178.4 billion, resulting in a trade deficit of R124.7 billion – see Figure 3.11. The estimated goods trade deficit, excluding oil, was R60.2 billion in 2013.

The export trade from the Cape Metro is well diversified, with agriculture, fishing and processed food and beverage exports accounting for 45 per cent of the total, manufacturing for 50 per cent and petroleum/oil (re-) exports for 5 per cent. Within manufacturing, the export categories that have gained market share over the past ten years are metals and machinery (accounting for 14 per cent of total manufacturing exports), food and beverages (30 per cent), furniture (5.7 per cent) and radio, TV and scientific equipment (3 per cent). Petro-chemical exports are the largest manufacturing export category, but its export share has declined moderately over the past ten years to the current 35 per cent. The share of transport equipment and automotive component exports has fallen sharply by 9 percentage points over the past ten years to the current 6.4 per cent.

In terms of growth, the value of Cape Metro goods exports grew by close to 14 per cent per annum during the economic recovery; using a non-gold export price deflator, this translates into growth in export volumes of 3.1 per cent per annum; the volume of manufacturing goods exports performed better expanding by 5.8 per cent per annum, 2010 - 2013, buoyed by agro-processing exports growing by 9.5 per cent per annum.

³ It should be noted that the trade figures are captured at the source of the agent (via postal codes), which can cause goods produced in areas outside the Cape Metro being classified as Cape Metro exports given the location of the Cape Town harbour. It follows that the export number may be overstated.

Figure 3.11 Cape Metro goods trade balance, 2000 - 2013

Source: Quantec Research 2014

On the import side, the goods basket is dominated by the oil import bill (37 per cent); combined with petro-chemical imports (in manufacturing), more than 55 per cent of the Cape Metro goods imports reside in these sectors. Total manufactured goods imports comprise 61 per cent of the Cape Metro import bill. Petro-chemical imports have grown sharply over the past 10 years increasing its share of manufacturing by 16 percentage points to 42 per cent in 2013. Other important import categories are metals and machinery (13.3 per cent of manufacturing), clothing and textiles (12.6 per cent), food and beverages (10.5 per cent) and radio, TV and scientific equipment (7 per cent).

The agro-processing goods trade surplus amounted to R10.7 billion in 2013, while the manufacturing sector (excluding food and beverages) ran a deficit of R71.1 billion and the oil sector R64.5 billion, which suggests a total goods trade deficit of R124.7 billion. The trade deficit narrowed to R65.5 billion in 2010 in the wake of the recession, but widened again to its pre-recession level (2008) in 2013. Not included here are the foreign exchange earnings from inward tourism and other services exports (e.g. BPO and financial services), which are likely to make a big difference to the trade deficit.

3.3 Municipal labour forces: Skills composition

The previous MERO studies alluded to the labour market dilemma faced in South African in general and also in the Western Cape, namely the mismatch between the demand for labour skills and the supply thereof. Whereas the demand for highly skilled human resources continues to grow, these skills are in short supply whilst at the same time there is an oversupply of *semi and unskilled* labour with the corresponding demand actually declining. This trend has been evident from the 1970s nationally (see Kibuuka & Van Aardt, 1999: 11-12) and continues to the present time. Table 3.3 shows that this trend also existed in the Cape Metro during the 2000s⁴.

The demand for highly skilled labour grew by 1.6 per cent per annum between 2000 and 2013, that for skilled labour by 0.6 per cent per annum, whilst that for semi and unskilled labour contracted by 1.1 per cent per annum. It would appear that some of the decline in the demand for semi and unskilled labour swelled the informal sector labour force growing by 2.8 per cent per annum (see also the informal sector analysis in Chapter 5). Unemployment increased over this period as the overall demand for labour grew by less than one per cent per annum being insufficient to absorb the new entrants to the Cape Metro labour market.

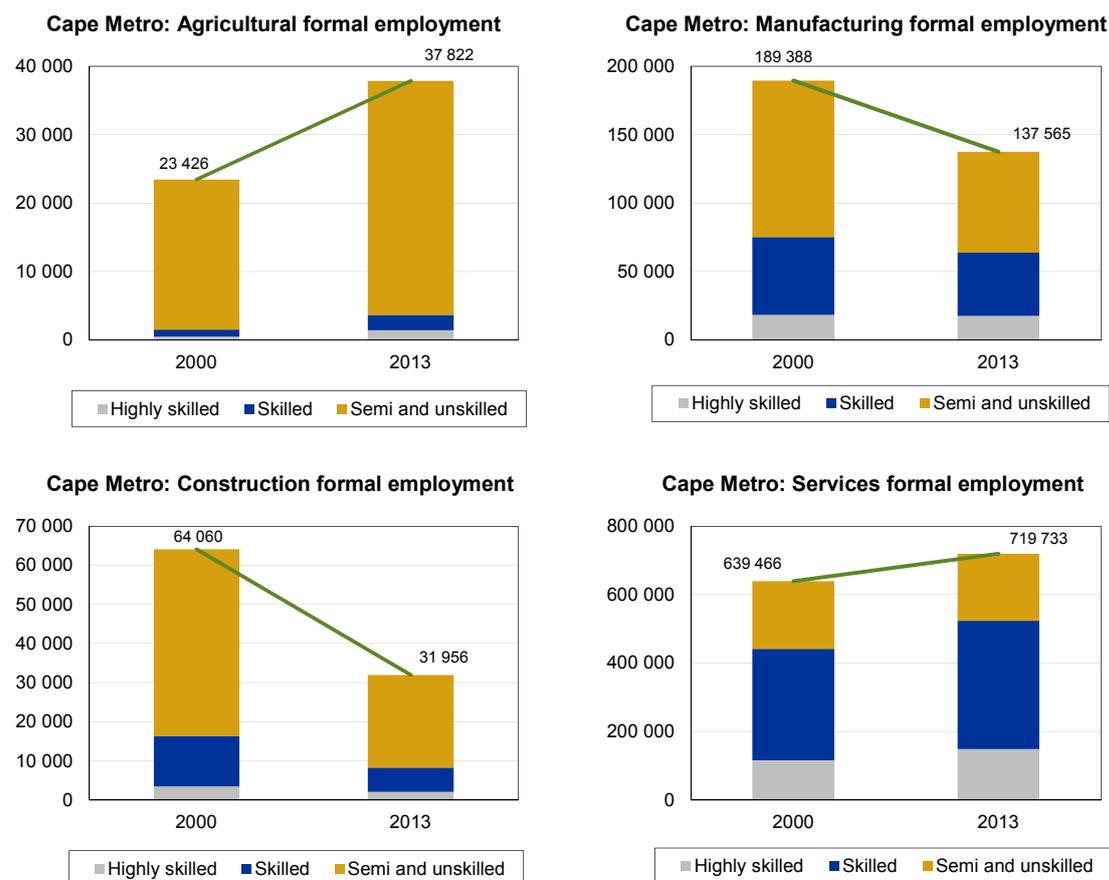
Table 3.3 Cape Metro employment by skill level

Labour category	2000	% share	2013	% share	% change p.a.
Highly skilled	139 400	12.3	172 200	13.9	1.6
Skilled	398 000	35.1	431 100	34.8	0.6
Semi and unskilled	384 000	33.9	330 500	26.7	-1.1
Informal	211 400	18.7	304 200	24.6	2.8
Total	1 132 900	100.0	1 238 000	100.0	0.7

Source: Quantec Research 2014

Whilst the demand for labour is generally derived from a country's or region's sectoral growth patterns and the accompanying macro-economic conditions, factors such as internal and external competitive conditions, wage rates in relation to productivity, the use of technology and the relationship between the cost of labour and the cost of capital, etc. all have an impact.

⁴ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Figure 3.12 Cape Metro formal sector employment by skill level: 2013 vs 2000

Source: Quantec Research 2014

The objective here is not to unpack the reasons for the labour market mismatch in the Cape Metro, but rather to highlight the trends in skills demand across the broad sectors, i.e. agriculture, forestry and fishing, manufacturing, construction and services – see Figure 3.12. The charts depict the skills composition of formal employment in the Cape Metro in calendar 2000 versus that in 2013 and the absolute change in formal employment over this period. The results largely confirm the historic and the anticipated patterns. *The following remarks are in order:*

- The first notable trend has been the increase in formal employment in the agricultural sector, which is completely contrary to that in the non-metro Western Cape districts. This may be a reflection of the fact that the Cape Metro agriculture, forestry and fishing sector is dominated by the fishing subsector. All categories of employment in the agriculture, forestry and fishing sector increased between 2000 and 2013; however, of the 14 400 net increase, 12 300 were in the semi and unskilled category.
- The second notable trend is the decline of employment in the manufacturing and construction sectors contrasting with the increase in employment in the services sector. In all, 46 100 formal jobs were lost in the manufacturing and construction sectors over the period between 2000 and 2013 while a cumulative 80 300 were gained in services.

- The manufacturing sector (50 - 60 per cent) and construction sector (around 75 per cent) are significantly more semi and unskilled labour intensive and job shedding in this labour market segment was most profuse in these sectors. In all, 30 300 of the 46 100 total formal sector job losses occurred in this labour category and in these two sectors. Even the services sector shed some semi and unskilled employment opportunities (1 300) over the same period.
- Around 72 per cent of all services jobs in the Cape Metro are in the highly skilled and skilled categories. The demand for skilled labour (15 100) and highly skilled labour (700) also contracted in the manufacturing and construction sectors, whilst it expanded considerably in the services sector, i.e. by 81 500 new job opportunities in total or 48 500 skilled and 33 000 highly skilled jobs.

The loss of jobs in the manufacturing and construction sectors, which are relatively semi and unskilled labour intensive is obviously a cause for concern given the skills composition of the unemployed labour force. These jobs losses are only partially offset by the job gains in the agricultural sector. The net job losses in manufacturing coincide with the relative structural decline of the sector and it may reflect other factors such as the impact of technology and a mechanisation tendency in the Cape Metro.

Other factors may also explain the attrition of semi and unskilled labour, namely wage costs in relation to productivity and the cost of capital, competitive pressures (in manufacturing), etc. The training and up-skilling of labour has thus become critical given the demands of the modern economy.

3.4 Sectoral economic prospects, 2014 – 2019

In Chapter 2 it was motivated why the forecast for economic growth has been scaled down markedly, both over the short and the medium term. The poorer global and national economic outlooks also impact on the outlook for the Western Cape economy and that of the Cape Metro. Whereas the Western Cape economy was expected to grow by 3.7 per cent in 2014 and 3.7 per cent per annum on average over the six-year period, 2012 – 2017 in the previous study (MERO 2013), the current forecast is for 2.1 per cent growth this year and an average real GDP growth rate of 3.0 per cent per annum, 2014 - 2019. The main reasons for the slower growth are:

- Weaker than expected global growth. While the world economic recovery appears to be on track, growth forecasts have been scaled down generally. Weaker than expected growth in China and other emerging markets is a key factor. Recovery growth has also turned out weaker than expected in the developed economies of the world (see Chapter 2). The weaker demand conditions abroad impacted on the Cape Metro export industries. However, it appears that the export-oriented tourism sector benefited from a larger inflow of price-sensitive travelers.

- Domestic economic issues have also led to the scaling down of growth forecasts, particularly regarding 2014 due to extensive labour unrest, which commenced the year with the unprecedented five month strike in the Rustenburg platinum belt. Real GDP contracted unexpectedly during the first quarter of the year, mainly due to a sharp fall in mining production, as well as manufacturing real value added. The latter contracted due to its linkages with the mining sector, but also due to problems within the sector (including once-off events such as maintenance schedules in the petroleum and heavy metals sectors) and the impact of electricity blackouts.
- The Western Cape manufacturing sector was relatively unscathed in this regard, but also succumbed to the weaker general demand conditions. The forecast for gross domestic expenditure, i.e. the sum total of household and government consumption expenditure, private and public sector fixed investment and inventory investment, is for real growth of only 1.6 per cent during 2014, recovering to 3.0 per cent per annum over the medium term; the previous forecast was for 4.5 per cent growth in 2014 and 4.3 per cent per annum on average over the medium term.
- This is a major downward revision and suggests the domestic market could remain lacklustre and/or slow growing. This may force manufacturers to shift production to the export market, particularly in view of the world economic recovery becoming sustained and a more competitive value for the rand exchange rate. The economic recovery has presented some evidence of stronger growing manufacturing goods exports from the Cape Metro.

3.4.1 Local issues – Cape Metro

The Cape Metro is the second largest metro economy in the country and its growth has been in line with the provincial average, i.e. 3.9 per cent per annum (2000 - 2013) and 2.7 per cent (2010 - 2013) compared to 3.9 and 2.9 per cent per annum respectively provincially. Given the openness to foreign trade of the Cape Metro's economy, the City was heavily impacted by the 2009 recession and the subsequent Euro crisis (from 2010). Real GDP growth contracted by 1.0 per cent in 2009 at the height of the recession impact and as discussed in the previous section economic growth has been under strain during the first four years of the economic recovery, coming in at 1.8 per cent last year. The construction sector witnessed a slump and heavy net job losses after 2009 and net retrenchments continued in agriculture and manufacturing, causing a net decline in overall Cape Metro employment despite strong job growth in the financial and business services sector. Before, the sectoral economic prospects are discussed, the Metro's comparative advantages and some other local issues are briefly assessed.

Figure 3.13 Cape Metro industries with comparative advantage

Source: Provincial Treasury: MERO, 2013

In the MERO 2013 study it was found that a number of key value chains in the Cape Metro have a comparative advantage, namely the clothing and textile sector (see a value chain analysis of this industry in Chapter 4); business services (including BPOs and call centres), tourism sector (as reflected in the catering and accommodation, transport and business services sectors); financial services; the furniture value chain (wood products and furniture); construction; communication and wholesale and retail. Disaggregating the standard classified sectors reported here, the City of Cape Town highlights the competitive edge of the fishing and electronics industries as well (see EPIC, Quarter 1: 9-10).

Figure 3.13 ranks those sub-sectors with comparative advantage as indicated by the 2011 location quotient analysis (see MERO 2013)⁵. It is expected that these industries will continue to do well over the forecast period. According to the City, “[i]f the City is effective in creating an enabling environment for investment, there is no reason that the growth rate should not move closer towards its long-term trend of 4 - 5 per cent per annum.” (Provincial Treasury, Municipal Survey: June 2014).

From a sectoral perspective, the finance, insurance, real estate and business services sector is likely to remain the mainstay of the Cape Metro economy over the next 3 - 5 years, despite its growth being under more pressure in the post-financial crisis period. The City is positioning itself to capture much of the growth in the financial and business services sector by attracting foreign companies to locate their headquarters in Cape Town. This sector is expected to be the key driver of growth and employment, while other key niche industries are also likely to make a strong contribution, e.g. oil and gas processing, boat building, metals and engineering, BPO (including call centres), ICT, creative industries and tourism. Both the tourism and BPO industries benefit from Cape Town's international reputation as one of the world's

⁵ The Location Quotient (LQ) ratio is the share of a specific industry in a region's value added expressed as a ratio of the same industry's share (nationally) in the national GDP. A reading above one indicates comparative advantage, implying the same industry expanded faster in the region compared to the sector nationally.

most attractive cities. Renewable energy and green business is also a growth sector, with promising prospects. Furthermore, the City possesses a thriving higher education sector.

The City is also targeting manufacturing exports as a vehicle to revive the floundering relative contribution to value added of this sector. New higher growth export markets are explored and, assisted by a more competitive value of the rand exchange rate, exports are like to pick-up over the short to medium term; there is already evidence of this as discussed in the section on trade.

The locational attributes and competitive strengths of the Cape Metro were highlighted in the 2013 MERO study, as well as a number of the key developmental constraints and challenges. A central challenge – as discussed above regarding the skills composition of labour demand – is the fact that a growing gap exists between the demand for skills in a modern sophisticated economy and the skills available in the labour supply. There are also indications of physical constraints in that some economic areas, such as Blackheath, Brackenfell and Airport Industria have attracted the bulk of industrial development in recent years to the extent that these areas do not have scope to expand further, while others such as Atlantis and Phillipi remain under developed due to accessibility and safety issues respectively (Provincial Treasury, Municipal Survey: June 14). Furthermore, the general movement from rail to road transport has generated distortions as warehousing and roads are displacing more productive industrial developments in a spatial context. The City also reports clear evidence of increased capital intensity – in warehousing and in light industrial activities, which assist in explaining the adverse manufacturing employment trend. Furthermore, in areas such as Salt River, Paarden Eiland and Marconi Beam retail and commercial developments intrude on industrial areas, which tend to drive up rentals, in turn, rendering labour intensive manufacturing production activities unprofitable causing such firms to relocate.

The broad sector forecast for the Cape Metro is motivated below.

3.4.2 Sector forecast

A key aspect of this year's regional economic outlook was motivated in Chapter 2 and that is the dramatic downward revision of the forecast. Whereas the Cape Metro was projected to grow by 3.6 per cent per annum over the six-year period 2012 - 2017 in the 2013 MERO study, this projection has been downscaled to 3.0 per cent growth per annum over the 2014 - 2019 period – see Table 3.4. This downward revision is in line with that for the wider Province; Western Cape real GDP growth is currently projected to average 3.0 per cent per annum over the period 2014 - 2019 compared to 3.7 per cent per annum previously over the 2012 - 2017 period.

Regarding the sectoral outlook, the following remarks are in order:

- Overall agriculture, forestry and fishing real value added is projected to increase by 2.4 per cent per annum, i.e. faster compared to the projection for the province (1.8 per cent) as the fishing industry is expected to continue out-performing in relative terms; the average growth rate during the economic recovery was 2.2 per cent per annum (2010 - 2013). The key positive factor in the agriculture and fishing outlook is the growing food demand from an expanding middle class population, not only in South Africa, but also in the rest of Africa and other destinations for our agricultural exports, e.g. China, India, Brazil and East Asia.
- The agriculture and fishing sector has strong forward linkages to the manufacturing sector in the form of food and beverage processing; in the wider province no less than 37 per cent of agriculture, forestry and fishing output sales are destined for food and beverage processing (intermediate sales) and close to 40 per cent final export sales (see MERO 2013). The food and beverage processing industries are less export intensive in the wider province with only around 13 per cent of its output sales exported and close to 60 per cent of output being sold to the household sector.

Table 3.4 Cape Metro: Real GDP growth outlook, 2014 - 2019

Sector	Trend	Recession	Recovery	Metro	Western Cape
	2000 - 2013	2008 - 2009	2010 - 2013	2014 - 2019	2014 - 2019
Agriculture, forestry and fishing	9.3	21.9	2.2	2.4	1.8
Mining and quarrying	-0.4	-7.2	1.5	1.7	1.4
Manufacturing	2.4	-3.0	2.7	2.3	2.4
Electricity, gas and water	3.0	-1.4	1.0	2.3	2.1
Construction	5.8	4.3	1.5	4.0	4.1
Wholesale and retail trade, catering and accommodation	4.0	-0.7	3.4	2.8	2.8
Transport, storage and communication	4.6	1.9	2.3	3.5	3.6
Finance, insurance, real estate and business services	5.0	3.1	3.0	3.4	3.5
Community, social and personal services	2.5	1.1	1.4	2.1	2.2
General government	2.0	4.0	2.7	2.2	2.1
Total	3.9	1.5	2.7	3.0	3.0

Source: Quantec Research 2014/Provincial Treasury, MERO

- While the search for faster growing export markets will remain important, domestic demand conditions are also important regarding the region's economic outlook as sales to households remain a large part of output (60 per cent). Manufacturing export growth has improved in recent years and the outlook for the Cape Metro manufacturing sector is also dependent on export demand conditions.

- The improved competitive levels of the rand should be supportive to exports from the region; furthermore, export producers need to take advantage of the projected two-speed world economic growth trajectory and diversify towards faster growing emerging market economies. In this regard, the City also has the opportunity to tap into the BRICs and SADC markets in view of the closer trading relations developing with these economies – Brazil, India and SADC countries are favourably located for Cape export firms. Assuming the competitive gains of the rand exchange rate's depreciation can be maintained this will support the region's export sector, as well as create opportunities for import replacement and stimulate inward tourism and other services exports (such education, BPO, etc.).
- Regarding tourism prospects, experts in the industry warn that the pending implementation of complex new visa requirements for foreign visitors to South Africa, ranging from biometric scans to unabridged birth certificates for minors, could severely disrupt inbound tourism. Some source countries (e.g. China and India) lack the infrastructure to implement the new regulations. The potential negative impact on tourism and linked sectors is a risk in the short- to medium term outlook.
- Currently the SA consumer is under pressure, with slowing real after tax personal income growth, a result of both weak employment conditions, lower real wage growth and slower growth in social grants as the government seeks to engineer a better fiscal balance. Consumer confidence is also weak (particularly the low-income groups impacted by retrenchments and labour strike activity), with household demand for credit slowing. Consumer debt levels are relatively high and impairments are growing. While pockets of strength continue to exist in the upper end of the market and given the enduring global economic recovery, it is not expected that the bottom of the domestic consumer market will collapse; the slowdown is rather likely to bottom-out and renewed momentum to develop as the broader economy re-accelerates towards year-end.
- Real wholesale, retail, catering and accommodation value added is projected to expand by 2.8 per cent on average, 2014 - 2019. This projection is in line with the provincial forecast for this sector.
- Overall manufacturing real value added is projected to grow by 2.3 per cent per annum over the medium term, which is moderately slower compared to the recovery momentum registered in recent years and in line with the provincial forecast in respect of the manufacturing sector.
- Heightened infrastructure investment activity and associated property development (residential and non-residential) is also likely to boost the construction sector, from 1.5 per cent growth per annum during the economic recovery thus far to 4.0 per cent per annum, 2014 - 2019, i.e. faster than the average growth projected for the wider province. Some of the major property investments either in construction or planning phase in the Metro, include, amongst other, the expansion of the Cape Town International Convention Centre (R690 million); construction of The Modern (R650 million); the Portside commercial

property development (R1.6 billion); and the Standard Bank Towers (R498 million) – see *The State of Cape Town Central City Report 2013: A year in review: 14-15*.

- The downscaling of the growth forecast also impacts the outlook for the faster growing services sector in the Cape Metro. The pressure on the consumer sector was alluded to above. The services sector is projected to grow by 3.1 per cent per annum compared to a trend growth rate of 4.1 per cent per annum and 2.8 per cent per annum during the economic recovery period thus far. The transport and storage sector, with close linkages with the wider economy, and the rapidly growing financial and business services sector are expected to top the growth rankings in the broader services sector, expanding by 3.5 per cent per annum. This growth tempo is well below that over the previous business cycle expansion, 2000 - 2007. Consumer credit extension is cooling down and there has been a sea-change in credit uptake since the introduction of the National Credit Act in July 2007. The generally poor business and consumer confidence levels in the Province⁶ also contribute to hesitancy on the part of consumers to commit income on credit. The growth in business services will also be dragged down by the slower overall growth in the region.
- An additional factor, which is likely to result in pressure on the household sector, is the constrained growth in government non-interest expenditure, implying limitations to public sector employment and wage growth. The government sector added significantly to growth during the initial period of the economic recovery; however, that was always going to be a temporary counter-cyclical measure. The general government sector of the Cape Metro is projected to grow by 2.2 per cent per annum compared to growth of 2.7 per cent per annum, 2010 - 2013. The community, social and personal services sector is projected to grow at 2.1 per cent per annum.

3.5 Concluding remarks

The Cape Metro is the second largest metropolitan economy in the country and it accounts for 72.5 per cent of all Western Cape economic activity – in its mainstay financial and business services sector the Metro accounts for close to 80 per cent of provincial value added. The broader services sector, ranging from wholesale and retail, catering and accommodation to financial and business services and the general government, accounts for 80 per cent of Cape Metro GDP, reflecting the outright services orientation of the metro economy.

⁶ The RMB/BER business confidence index showed that only 6 out of every 10 business executives in the Western Cape were satisfied with general business conditions during the second quarter of 2014. This is slightly better than the national average (4 out of ten); however, consumer confidence at -11 index points in the Western Cape is significantly below the national average (+6).

The global recession had a major impact on the Cape Metro economy – not only did economic activity contract in calendar 2009, but did the out-performance of the metro economy – and the broader Western Cape economy – come under pressure during the ensuing economic recovery. Real GDP growth in the Cape Metro tapered off to a rather subdued 2.7 per cent per annum, 2010 - 2013. It is not only slower growth in the metro's services sector (2.8 per cent), but also sluggishness in manufacturing (2.7 per cent) and construction (1.5 per cent) explaining the slower growth. The heavy job losses in the manufacturing and construction sectors are also cause for concern, as these, combined with those in agriculture and some in services, exceeded the net job gains in the other services sectors, notably business services. The Cape Metro also faces the provincial-wide challenge of closing the growing gap between skills-intensive labour demand associated with a sophisticated modern economy and the available labour supply.

The economic growth outlook is less than robust, albeit that there are grounds for local optimism in view of planned and existing infrastructure developments. Growth projections have been downscaled due to the expected macro-economic environment. To the extent that the local and provincial authorities succeed in cooperation with national government to establish a favourable business climate for investment, this projection (3.0 per cent annual real GDP growth, 2014 - 2019) can be proven as being too pessimistic.

4

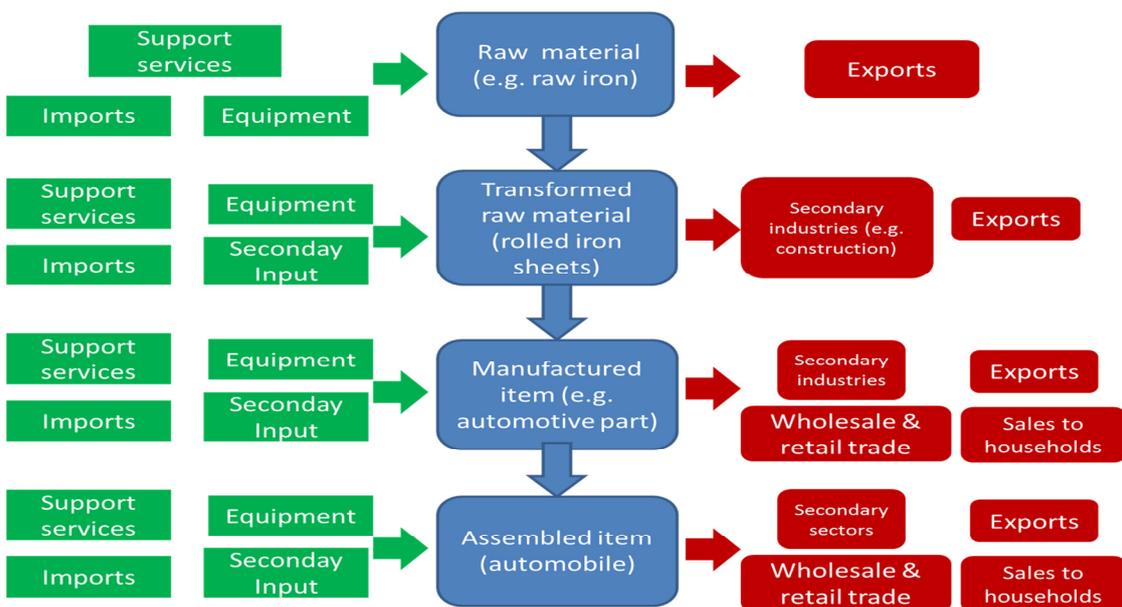
Value chains

4.1 Introduction

The current analysis will primarily focus on the value chain as represented by the supply chain and take into account the distribution of benefits, through value added within the value chain. The legal and policy implications will not be investigated as the primary focus is on the value added and job creating potential of the identified industries/sectors.

Each regional economy has been assessed and the most important selected value chain within each regional economy has been analysed. It must be noted that the choice of value chain is based on the future potential for change in a specific industry or the decline in a specific industry within a value chain.

Figure 4.1 Example of a simplified value chain



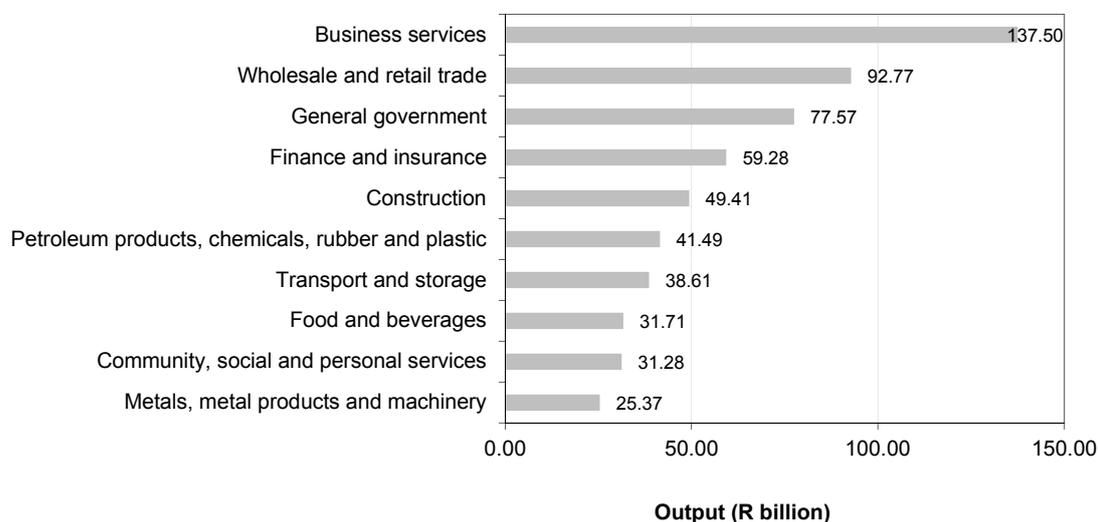
Source: Stats SA

The value chain is analysed according to the forward and backward linkages connecting various manufacturing and services sectors and forming an integrated value chain. The forward and backward linkages flowing from these sectors will also be represented in the value chain, with the percentage contribution to inputs and outputs to the respective sectors. An example of a simplified value chain is presented in Figure 4.1. It shows a hypothetical automotive value chain from source material. The linkages are tracked backward from the assembled automobile to the individual automotive parts; these automotive parts are in turn made up of processed metals. The processed metals are made up of basic processed iron which was initially sourced from raw iron. Each part of the value chain will have inputs from other sectors in the economy. Some of these are for inputs used in the production process or support the production process and others are merely inputs to support business processes. Each sector will also import a certain proportion of its inputs and also export a certain proportion of its outputs. As we move to the finished product, it also becomes more likely that there are direct sales to households.

4.2 Cape Metro value chain analysis

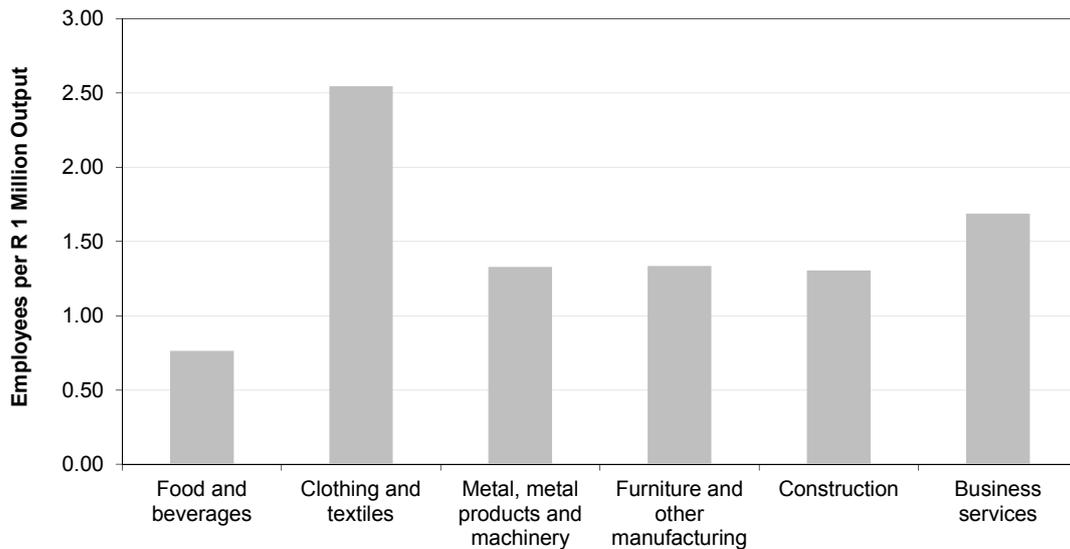
The largest sectors in the Cape Metro in terms of output are business services, wholesale and retail trade and the government. Tertiary sectors dominate as the largest contributors to total output, however, in the secondary sector, petroleum and chemical products, as well as food and beverage manufacture and metals and machinery are prominent in the Cape Metro.

Figure 4.2 Largest sectors based on output, Cape Metro, 2013



Source: Quantec Research 2014

The choice of value chain for study in the Cape Metro is not solely based on the size of the sector, but also on the relative potential this sector has for employment creation and value addition in the local economy. In this regard, the clothing and textiles value chain has significant potential in creating employment and generating GDP.

Figure 4.3 Employment potential in selected sectors, Cape Metro, 2013

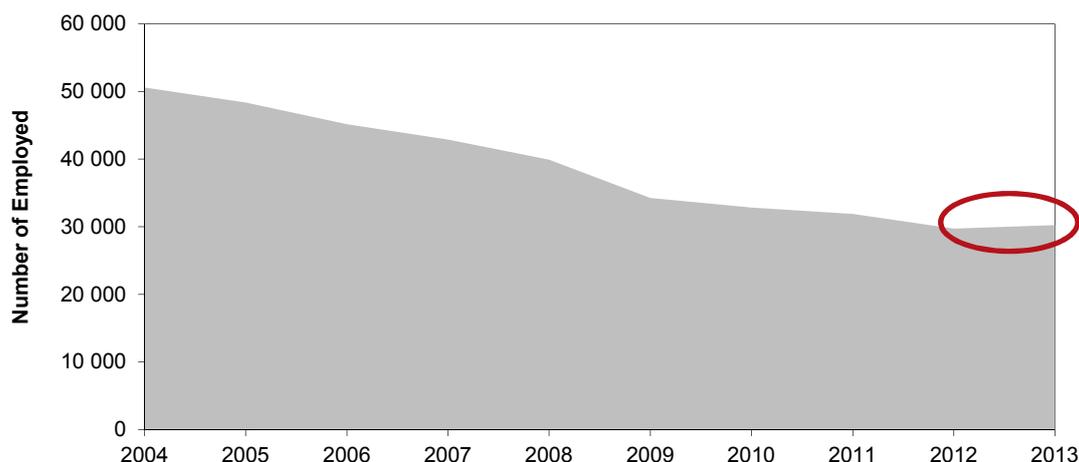
Source: Quantec Research 2014

Figure 4.3 shows the relevant importance of the clothing and textile industry in creating employment. Employees per million rand of output indicates that for each million rand created in output in the clothing and textile industry, on average, 2.6 people are employed. This figure is significantly less in other manufacturing sectors such as food and beverages (0.8) and in furniture manufacture (1.3). On average, therefore, adding output potential in the clothing and textiles industry has almost double the impact on employment than in other types of manufacturing. The labour intensive nature of the clothing and textiles industry greatly enhances the positive impact of strengthening the linkages in this industry.

4.2.1 Clothing and textile industry analysis

Clothing and textiles are grouped together under Statistics South Africa's Standard industrial Classification (SIC) codes. Employment trends have been a contentious topic around the clothing and textile industry as long-term trends for employment have shown significant declines. From 1995 to 2003 employment levels declined by an annual average rate of 2.4 per cent and from 2004 to 2008 employment declined by an annual average rate of 5.3 per cent. In 2009 the declining trend slowed, and from 2009 to 2012 employment declined by an annual average rate of 4.4 per cent. Employment levels are estimated to have shown an increase of 1.7 per cent in 2013 compared to 2012. This hints towards a possible stabilisation of the declining employment levels in the Cape Metro clothing and textile sector – see Figure 4.4.

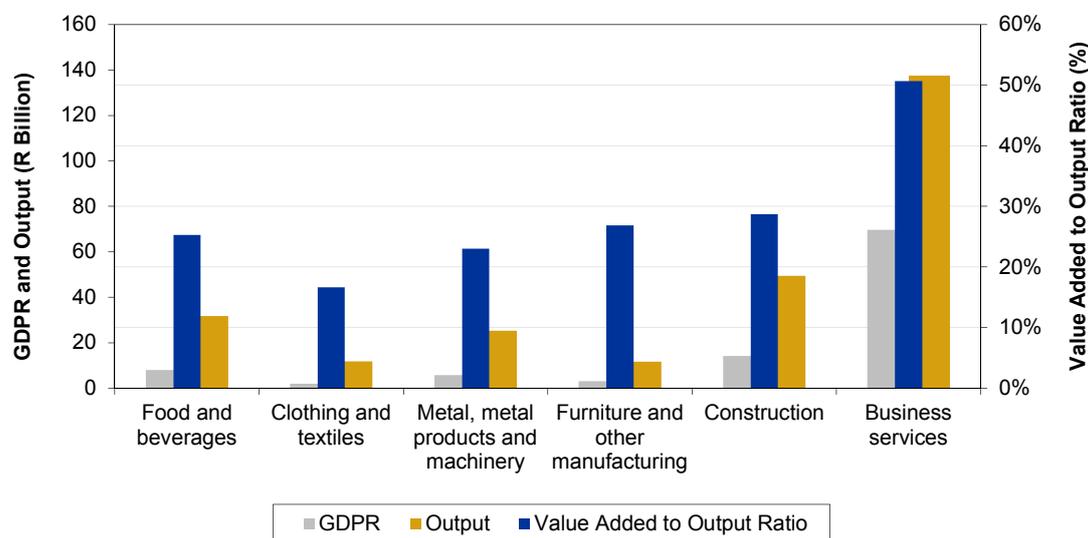
Figure 4.4 Clothing and textile industry employment trend, Cape Metro, 2004 - 2013



Source: Quantec Research 2014

In terms of value added potential the clothing and textiles industry has a low value added to output ratio compared to other manufacturing sectors, such as food and beverages and furniture manufacturing⁷. As indicated in Figure 4.3, however, the employment creation potential of the clothing and textile industry is significantly higher than any other manufacturing sector in the Cape Metro. Services industries and internal trade have significantly higher value added to output ratios than manufacturing sectors and they also have relatively high employment potential. This makes these sectors particularly important for small business development.

Figure 4.5 Value added to output ratios for selected sectors, Cape Metro, 2013

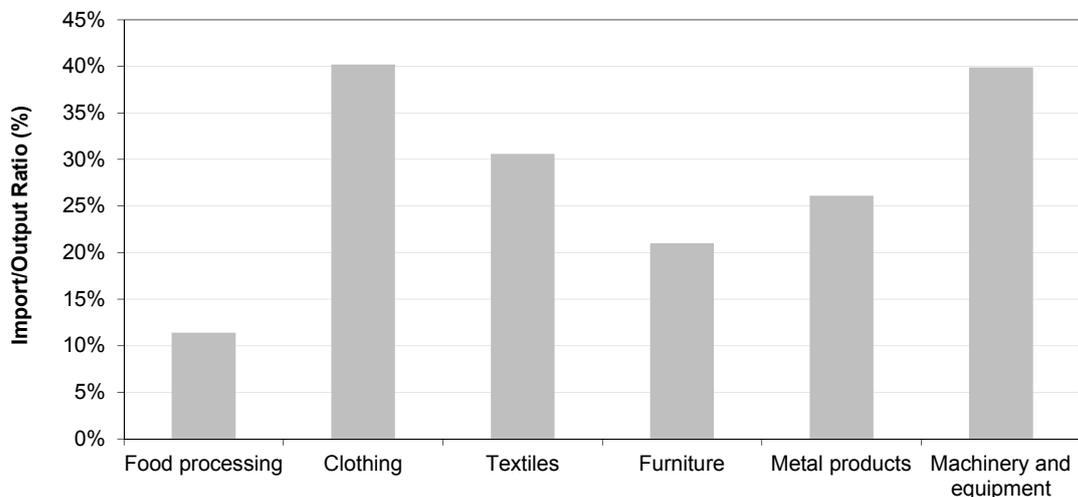


Source: Quantec Research 2014

⁷ The ratio of GDP to output provides some indication what value is added to intermediate inputs (imported and sourced from other sectors) in the production process. A higher ratio implies the greater the economic welfare benefits tied to the particular economic activity.

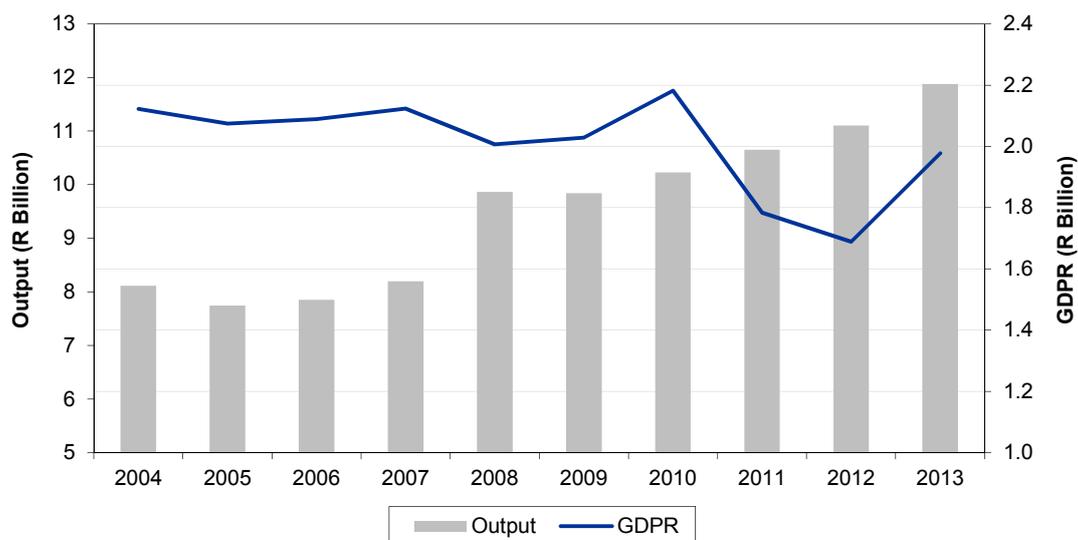
The effectiveness of a manufacturing value chain is highly dependent on local inputs into the manufacturing process. The relative percentage of intermediate imports into the manufacturing process indicates a possible inefficiency in the value chain where local inputs could be used. Using local inputs increases the employment and value added potential of a value chain. Figure 4.6 depicts the intermediate import to output ratios for selected manufacturing sectors that are prominent in the Cape Metro. Intermediate imports into food processing are low, but in contrast, the import values into clothing manufacture are the highest of all manufacturing industries at just over 40 per cent. High volumes of imports of cheap clothing from Asia are seen as a major challenge for the clothing industry. Not only are imports of clothing to the end-consumer a competitive challenge, but the high volume of imported textile inputs into the clothing industry is diminishing the value added and employment potential of the clothing and textiles value chain.

Figure 4.6 Intermediate import to output ratios for selected sectors, Cape Metro, 2011



Source: Quantec Research 2014

According to estimates from the Cape Town Fashion Council (CTFC) approximately 25 to 30 per cent of clothing sold in South Africa is manufactured locally. Significant pressure was placed on local manufacturers from global brands as these often had efficient and elaborate supply chains and distribution channels which secured a low landing price for imported clothing into the country. The local manufacturing industry, despite employment losses, has increased output at an annual average rate of 7.5 per cent from 2007 to 2013. GDP and employment trends have recently turned positive and this bodes well for improving the GDP and employment potential of the clothing and textiles industry.

Figure 4.7 GDP and output for clothing and textiles, Cape Metro, 2004 - 2013

Source: Quantec Research 2014

the dti is currently involved in supporting the clothing and textile value chain and to improve local input content into the manufacturing process. This involves input from agriculture and fibre production which then flows into textile production and into clothing design and then clothing manufacture.

It is important to strengthen certain aspects of the local clothing and textile value chain (Personal interview: Bryan Ramkilawan, CEO of the CTFC). Importantly it should be noted that although employment has decreased, the levels of output for the industry have steadily increased from 2004 to 2013. Cape Town has climbed 27 places in the Fashion Capital global rankings and is now placed ahead of any other African city. The CTFC was founded in 2006 and has a key role of supporting and representing the Cape Town fashion industry in local and international markets. Ramkilawan notes that many of those who were employed in the formal sector have moved to the informal sector. The actual number of employed by small firms is also not being accurately accounted as many local small producers do not want to be burdened with the additional costs of conforming to the National Bargaining Council for the Clothing Manufacturing Industry. The debate as to whether conforming to wage requirements is fair between those producing high-end fashion items and those producing clothing for mass distribution is a major concern for the industry.

Key support programmes of the CTFC include the marketing and development of the Cape Town fashion industry, development of small and micro-sized enterprises, youth and skills development workshops, the development of products and technical innovation. The focus of product development is on the creation of a niche market for uniquely South African products that are differentiated from those of China or India.

The CTFC believes that the key focus to creating value in the clothing and textile industry will be through the focus on the design aspects of the clothing industry and to promote these products on the international market. Local market focus is still important, but according to Ramkilawan the export market could prove lucrative to

clothing manufacturers who deliver a uniquely South African product. Expansion into Africa is also a key focus, with plans already in place to move fashion products to the markets in Botswana, Namibia, Kenya and Zimbabwe.

The key strengths of the clothing industry in the Cape Metro are⁸:

- Original design ability not mass manufactured.
- Ability to produce for a niche market.
- Quick turnaround time of local designers (approximately one week to a production-ready state).
- Strong fashion and clothing-related skills and education in Cape Town.

The key challenges identified by the CTFC are:

- High labour rates – labour rates are key to competitiveness.
- Shortage of local input material (textiles, buttons etc.).
- Gap between government knowledge of clothing and fashion industry and the intention to promote the South African clothing and fashion industry.
- Limited knowledge on the size of the informal clothing manufacturing industry.

According to estimates provided by the CTFC, 400 additional designers starting small enterprises could potentially provide an additional R980 million in revenue to the Western Cape.

4.2.2 Clothing and textiles value chain

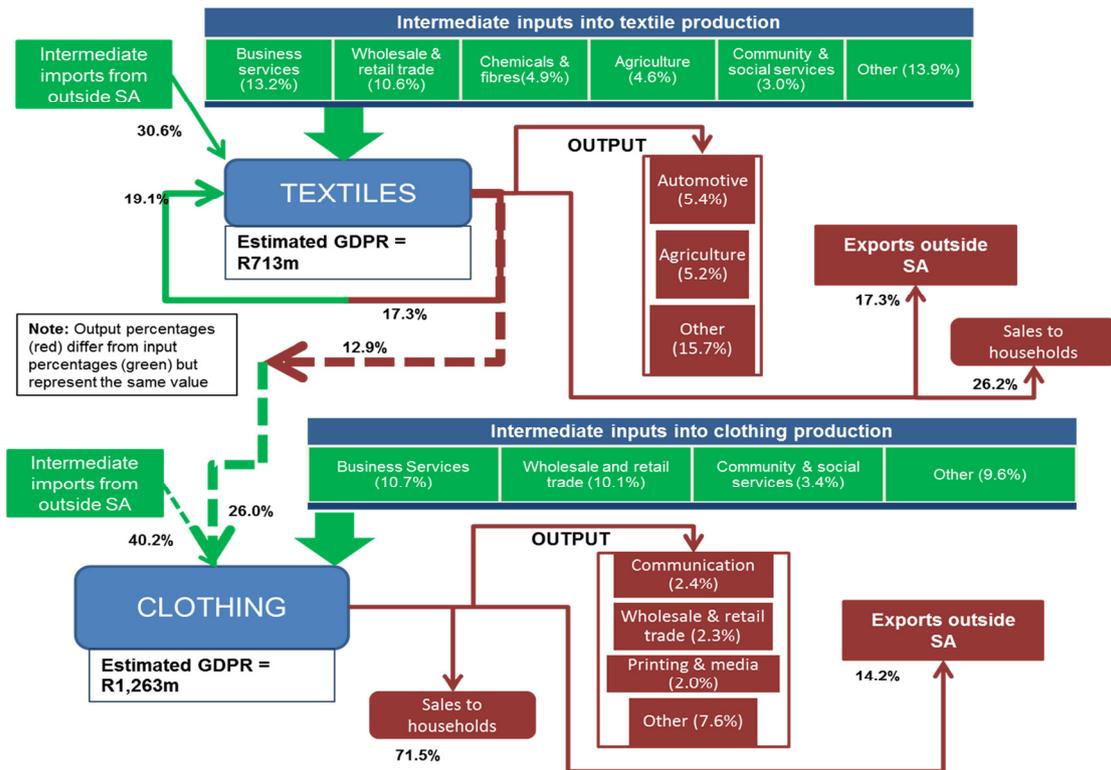
The clothing and textile value chain comprises raw inputs into the textiles industry, such as fibres. These are then processed to form fabrics and these fabrics are then utilised in the clothing manufacturing process. Clothing manufacture will also require inputs from the plastics, timber and metals industry in the form of buttons or zippers. The finished clothing products are then sold to the final consumer (households) or exported to the international market.

In this analysis the value chain representation will be done at a macroeconomic level and the broad industry classifications of the textiles and clothing industry will be utilised.

In Figure 4.8 the green arrows and boxes represent the inputs into the specific sector and the red arrows or boxes represent the outputs from those sectors. The percentages represented are the relative input and output percentages. All the input percentages for a specific sector add to 100 and similarly, all the output percentages for a particular sector add to 100.

⁸ CTFC

Figure 4.8 Clothing and textile value chain, Cape Metro



Source: Stats SA

The textiles industry in the Cape Metro is relatively small but inputs into this sector are provided by the agricultural sector and the chemicals sector. The chemicals industry provides 4.9 per cent of the total inputs into the textiles industry. Similarly the agricultural sector provides 4.6 per cent of the total inputs into the textiles industry. Intermediate imports into the textiles production process are 30.6 per cent of total input. Support services are also necessary for the textiles manufacturing sector to function. Expenditures on these services are recorded as the backward linkages from the textiles industry and represent an input into the industry. Business services represent 13.2 per cent of inputs into the textiles industry. The expenditure on business services by the textiles industry is high and this indicates a strong backward linkage. Given the high level of clothing intermediate imports (i.e. 40.2 per cent), only a small share of textiles output (i.e. 12.9 per cent) is to be used in clothing manufacture. Textile manufacturers have diversified to supplying intermediate inputs to other sectors of the economy, e.g. automotive and mining. The automotive sector receives 5.4 per cent of output from the textiles industry - this is most likely in the form of stitched leather, for instance; in mining the textile industry supplies conveyor belts, amongst other products. The largest amount of output (26.2 per cent) is for sales to households and exports are 17.3 per cent of total output.

Clothing manufacturers source 26.0 per cent of their total input from the textiles industry. As noted, imports are very high at 40.2 per cent, due to the local shortage of textile inputs. Local textile manufacturers may find it difficult to compete with importers supplying the clothing industry. Business services provide 10.7 per cent input and wholesale and retail trade provides 10.1 per cent input into clothing manufacture. As clothing is an end-consumer product, sales to households forms the largest component of output at 71.5 per cent. Exports to international markets are 14.2 per cent of total output.

4.3 Concluding remarks

The linkage between textiles manufacture and clothing manufacture is relatively weak and supplemented with imports of textiles. This is due to the limited availability of local textile manufacturing capability. If feasible, local inputs of textiles should be supported in order to improve competitiveness in the industry. The local comparative advantage of the entire clothing and textile industry should be considered before endeavouring to strengthen a particular part of the value chain. The feasibility of succeeding in boosting the output of the textiles industry should be fully considered. This would require South African producers to be more than or equally as competitive as international suppliers. If this is not possible the focus could be shifted to enhancing the output potential of the clothing sector.

According to the CTFC locally produced fashion has significant export potential for markets in Europe and the United States. By both increasing local production and focusing on promoting unique Cape Town fashion products on the international market, value added and employment could be increased through increased production and exports. Export markets are very lucrative as the revenue earning potential in these markets far outweighs that of the local market per garment produced.

5

Informal sector analysis

5.1 Introduction

The persistence of high levels of unemployment, poverty and inequality is widely recognised as major socio-economic challenges for South Africa. The informal economy is often seen as an important component in expanding economic participation. However, the conceptualisation of what this practically means is not always played out. The expansion of the informal economy can have a positive effect on poverty if it arises as an off-shoot of a rapidly growing formal sector. It can also reflect worsening poverty where it is stimulated by a collapsing formal economy and/or alternatively is caused by firms seeking to evade regulatory measures and the tax net (Altman, 2009).

This coupled with the contemporary context of global economic crisis and the dramatic expansion of the informal economy across the developing world, has highlighted the importance of understanding the relationship between the formal and informal economies. However, while much attention has been spent on formal employment, a large fraction of workers (almost 30 per cent in 2013)⁹ are employed in the informal sector in South Africa.

As a result, this chapter focuses on the issue of linkages across the formal-informal divide and possible policy considerations.

Before proceeding further, we provide a brief definition of 'formal' versus 'informal'. The formal sector is defined as economic activity that occurs within the purview of state regulation and formal employment is defined as employment originating from a business or firm that is registered with the state. On the other hand, the informal economy covers both businesses and employment. Informal employment extends to both the informal and formal sector, as well as private households, where the informally employed do not have written employment contracts and are not entitled to employment benefits such as pension and medical aid contributions from their

⁹ Quantec data 2014

employers. The informal sector is defined as one where, firstly, employees work in establishments of less than five employees, where income tax is not deducted from their salaries and wages; and secondly, where employees are not registered with the Receiver of Revenue for income tax or value added tax purposes. (Statistics SA, 2012).

In both academic and policy circles, there is much debate over the relationship between the formal and informal sectors, and whether informal employment is a benefit or liability for the overall economy. Here there are three schools of thought:

- 1) The dualistic labour market approach, which sees informal employment as a substitute for formal employment. In this approach informal employment is a residual "sponge" that soaks up unskilled, surplus labour from the formal sector and there are very few connections between the informal and formal sectors (Chen, 2004). Generally the informal sector is, at best, seen as a safety net for unemployed workers.
- 2) The alternative (or neo-liberal) approach sees informal employment as a complement to formal employment. In this approach the informal sector is a voluntary strategy where entrepreneurs are able to establish new firms and contracts. Effectively it is a cost saving strategy for small firms trying to avoid arduous and costly labour regulations. (Maloney, 1998).
- 3) The 'Structural Articulation' approach sees the informal sector as heterogeneous and made up of at least two distinct sub-sectors (Portes and Schauffler, 1993). One of these sub-sectors represents entrepreneurs and small firms trying to grow by avoiding costly regulation while on the other hand, the other sub-sector is largely disconnected from the formal economy and demonstrates countercyclical behaviour. This static sub-sector is driven by excess labour supply and represents the involuntary subsistence strategies of unskilled workers who cannot find employment in the formal sector.

5.2 Understanding the informal and formal sector linkages

To understand the linkages between the formal and informal sectors one needs to ascertain whether a relationship does exist. Extrapolating from two recent surveys, one on the informal businesses (750 informal businesses – MERO 2013) and the other on formal businesses (750 formal businesses) in the Cape Metro we note the following.

From Table 5.1 we note that all formal businesses in the sample range have informal businesses as their customers or clients. This situation therefore highlights the existence of significant linkages between the formal and the informal sector.

Table 5.1 Cape Metro: Main customers or clients of SMMEs

Formal businesses customers or clients	Formal businesses		
	Microenterprises	Small business	Medium business
Private businesses	51.5	41.7	29.8
Other small businesses	15.8	25.7	27.7
Other large businesses	12.2	18.1	23.0
Government	5.2	9.2	10.2
Informal businesses	14.6	4.6	8.9
Other	0.8	0.7	0.4

Source: Anix 2014

Unfortunately the questionnaire was not designed to explore detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies. However, after further investigation it has become clear that even where "other small businesses" are the clients or customers, SMMEs were not too interested whether these businesses were formal or informal. Therefore, the percentage of informal businesses as clients could effectively be larger. The focus for SMMEs was mainly whether these informal (or any other) businesses represented a cost advantage. Therefore, particularly given the current economic slowdown in the economy, SMMEs were seeking links with informal firms as a cost-cutting strategy. Such a strategy could certainly favour informal businesses and particularly so if the competition amongst formal businesses were increased.

However the type of formal and informal linkage is very important. For e.g. forward linkages refer to the use of an enterprise's output as an input in other productive activities, while backward linkages comprise the enterprise's purchases of intermediate inputs. Generally, forward linkages between a modernising informal segment and the formal economy can lead to growth in the informal as well as the formal sectors, while in backward linkages, informal firms tend to purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets. This leads to a dependent and regressed informal sector constrained to buy dearly and sell cheaply.

Given the effect that the lack of skills and capital finance may have on the manner of formal and informal business linkages we further extrapolate from the two unique surveys as mentioned earlier and review the "main challenges for business growth" faced by both formal and informal businesses in the Cape Metro.

From Table 5.2 we note that access to finance (just over 59 per cent) is a major constraint to business growth for informal businesses. For formal businesses, access to finance appears to be the biggest challenge for only microenterprises (just under 25 per cent) while the most small and medium businesses in the Cape Metro cited that they experienced no significant constraints to the growth of their businesses. These figures coupled with the literature as mentioned earlier leads one to assume that there could be a possible risk of exploitation of backward linkages, which could lead to weak markets or limited growth potential in the Cape Metro.

Table 5.2 Cape Metro: Challenges for business growth – formal and informal sectors

Challenges for business growth (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Access to affordable finance	59.2	24.7	17.9	14.6
Crime	50.5	-	-	-
Shortage of business premises	49.8	7.9	3.2	4.5
Competition	39.3	-	-	-
Electricity cost access/Increasing electricity rates	34.3	16.0	16.5	7.9
Lack of specialised equipment	30.7	-	-	-
Cost and difficulty of business licensing	26.3	-	-	-
Transport of goods costs	21.6	-	-	-
Water cost access	17.4	-	-	-
Increasing labour rates	-	3.2	8.3	10.1
Skill and education of workforce	-	4.9	6.2	7.9
Bad weather	-	7.5	3.5	2.2
None	-	19.6	24.9	29.2
Other	-	16.2	19.6	23.6

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: *Informal Data (MERO, 2013); Formal Data (Anix, 2014)*

Given the above, it is important to consider the nature of the production system through which informal and formal businesses are linked when trying to understand the linkage between informal and formal enterprises. This is because the nature of the linkage, specifically the allocation of authority and economic risk between the informal and formal firm, varies according to the nature of the production system.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

This linkage is very important for the financial services sector for example, as it gives the sector an opportunity to use the linkage to the best advantage of the informal sector. Banks would be keen to deal with those informal sectors that have a clear understanding of how they are linked to the formal sector players.

Understanding the linkages is also important because the amount of financial sector support available to informal sector players is far less than ideal but has the potential to increase if the opportunities brought about by the linkages are fully exploited.

Despite SMMEs' strong interest in credit, banks' profit orientation may deter them from supplying credit because of the high transaction costs and risks involved. However, with linkages to the formal sector this can be easily resolved because the source of the problem can be minimised due to the links between the informal and the formal structures.

First, SMMEs' loan requirements are small, so the costs of processing the loans tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to fully assess the risks of new, unproven ventures,

especially because the success of small firms often depends heavily on the abilities of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high. These challenges can be easily met if formal sector players are willing and able to support the sector.

Through financing the value chain or the big end user of the product, the banks will be indirectly financing the informal sector player producing intermediate inputs to the formal final producer.

5.3 Key characteristics of the Cape Metro informal sector

Extrapolating from the surveys mentioned earlier we note that entrepreneurs in the informal sector have different motivations for starting a business compared to their formal sector counterparts, with just over 74 per cent of informal entrepreneurs citing a lack of alternative employment opportunities or financial hardship as their main motivation (see Table 5.3). This figure coincides with a recent Stats SA survey of employers and self-employed, which highlighted that 60 per cent of people started informal businesses as a result of unemployment/have no alternative income source (Stats SA 2014). In contrast formal sector entrepreneurs were significantly more likely to say that they were interested in taking advantage of business opportunities as the reason they started their businesses. In a nutshell, informal businesses were necessity driven while formal businesses were opportunity driven.

Table 5.3 Cape Metro: Reasons for starting a business – formal and informal

Reasons for starting a business (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
I could not find alternative employment/unemployed	46.9	6.0	2.9	2.5
I wanted to earn more money/financial hardship	27.3	6.9	8.8	2.5
I am good at running this business	10.9	-	-	-
I didn't enjoy working for someone else/To be my own boss	10.4	16.0	15.5	12.5
Have passion for it/It's a calling	1.2	-	-	-
Create employment/Help the community	1.2	-	-	-
Saw an opportunity	0.7	36.2	36.7	37.5
Gap in the market	0.3	-	-	-
Needed more flexibility	0.1	-	-	-
Health reasons	0.1	-	-	-
Lost my job	-	4.3	1.9	0.8
Interested in particular product or service	-	8.7	11.0	12.5
Wanted to	-	15.7	12.5	13.3
Took over from previous owner/manager	-	3.1	5.8	5.8
Inherited the business	-	1.4	2.8	10.0
My family expected me to	-	1.8	2.0	2.5
Other	0.8	-	-	-

Note Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Female entrepreneurs are generally more likely to operate in the informal than in the formal sector in the Cape Metro, with female exposure at just over 42 per cent in informal businesses and just over 35 per cent in the formal microenterprise sector. For small and medium formal businesses, female exposure was significantly lower at just over 24 per cent and just over 27 per cent, respectively (see Table 5.4).

The ownership patterns of female entrepreneurs in the Cape Metro reveal similar characteristics compared to the CWD and OBD¹⁰ where there is a rather large spread of female entrepreneurs across the entire business spectrum. Generally within the other Districts it appears that women are concentrated in business activities such as retail trade and food and garment production. However this does not appear to be the case within the Cape Metro. Literature suggests that the substantial differences in the choice of sector and business activity between male and female entrepreneurs may suggest that the challenges to business, constrain some entrepreneurs' ability to enter the formal sector generally directing women into activities with lower capital requirements. The diversity of female ownership patterns in formal businesses augurs well for the Cape Metro.

Table 5.4 Cape Metro: Distribution by gender – formal and informal

Gender (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Male	57.5	64.9	75.7	72.6
Female	42.5	35.1	24.3	27.4

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Entrepreneurs in the formal sector also have more education than entrepreneurs in the informal sector (see Table 5.5). While just over 21 per cent of all formal sector entrepreneurs surveyed have diploma or university-level training, just over 5 per cent of informal sector entrepreneurs do. Interestingly, however, just fewer than 30 per cent of informal entrepreneurs have a matric level training compared to their formal sector counterparts who average at just fewer than 35 per cent. From the data it is clear that there is a low transition for informal businesses from matric to post-matric studies while the opposite holds true for formal businesses.

¹⁰ Please note: The analysis for the Overberg District comes off a low base therefore results have a low confidence level.

Table 5.5 Cape Metro: Level of education – formal and informal

Highest level of education (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
No schooling	3.2	1.7	0.3	0.0
Some primary school	16.6	2.8	2.1	1.0
Some high school	29.6	21.7	14.3	7.2
Matric	29.6	33.8	34.5	36.1
Apprenticeship	15.7	3.0	3.7	9.3
Post Matric Qualification (Diploma)	2.4	18.1	19.2	14.4
University Degree (undergrad/postgrad/Honours/Masters)	2.9	18.9	25.9	32.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

As mentioned in MERO 2013, incomes in the Cape Metro informal economy appear generally low, but the term "survivalist" is not appropriate for these enterprises as it does not do justice to the demonstrated sustainability of such enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their informal enterprises in favour of a theoretical offer of alternative formal work at minimum wage.

Informal enterprises demonstrate considerable connectedness to the Cape Metro's formal economy. The data shows how the informal economy is generally of larger scope and scale closer to diverse formal economic activity such as urban areas, whilst declining in number and financial returns in contexts outside urban centers. Furthermore, their response regarding the general prospects for growth are linked to the level of business confidence reported in the formal sector.

Whilst the MERO could not comment on the economic scale of the Cape Metro's informal economy (in terms of employment numbers or GDP) the micro-enterprises studied, especially the majority operating within the township context, play an important employment role in their immediate economies. Each business employs more or less two workers and 58 per cent of enterprises provide employment opportunities. Informal employment provides a means of skills acquisition, enabling the workers to either obtain a better paying job (possibly within the formal sector) or establish their own micro-enterprise.

Furthermore, the key findings of the 2013 informal sector survey indicate that there is significant scope for a policy to strengthen the relationship between informal and formal businesses in the Cape Metro that will allow for growth of the informal and formal businesses.

Having highlighted the relationship between the informal and formal businesses, we now turn our attention to the performance of the Cape Metro's informal labour market.

5.4 The business cycle impact on the Cape Metro's informal labour market

This section analyses the Cape Metro's informal labour market at the sectoral level from 2000 - 2013. The main aim of this section is to assess the cyclicity of informal employment during the expansionary (2000 - 2013), recessionary (2008 - 2009) and the recovery (2010 - 2013) periods of the business cycle.

The issue of the effect of the business cycle on labour force participation behaviour has not received much attention in the South African literature mainly because of the difficulty of combining macroeconomic and microeconomic data in a coherent way.

However, workers' participation decisions during expansionary or recessionary periods are crucial for understanding how labour markets adjust to macroeconomic fluctuations (Darby et al, 1998). At the same time, the economic environment also affects the performance of the firms operating in the labour market which make their decisions on labour demand needs partly based on the economic conditions of a particular region or country. Furthermore, the effect of the business cycle on firm performance is usually heterogeneous varying among different economic sectors and industries within a single country or region.

5.4.1 The economic recovery, 2010 - 2013

As shown in Table 5.6, employment growth in the informal sector of the City averaged 0.9 per cent per annum over the current recovery (expansion) phase of the business cycle (2010 - 2013), resulting in a cumulative net increase of 10 191 jobs. This is significantly below the trend growth tempo of 2.5 per cent per annum registered over the 2000 - 2013 period, i.e. a cumulative net increase of 89 545 jobs.

There has been some net job growth over the recovery period; however, this has been achieved at a considerably lower rate than during the recession years (2008 - 2009). The manufacturing sector recorded somewhat encouraging job growth, which after shedding 3 936 jobs during the recession (2008 - 2009) recovered to create 778 jobs during the recovery period (2010 - 2013); however over the full period, 2000 - 2013, 6 355 net informal jobs were lost in the sector. The CSP services sector on the other hand created 6 868 new jobs.

Of concern are the significant jobs losses (6 680) in the construction sector during the recovery period resulting in a contraction of 4.6 per cent during this period. These job losses could be attributed to the completion of infrastructure projects in preparation for the 2010 FIFA World Cup, which generally buffered job losses in the construction sector during the recession. The sectoral informal employment trends are discussed in more detail in section 5.4.2 below.

Table 5.6 Cape Metro: Formal vs informal employment growth and employment creation, 2000 - 2013

Sector	Informal Net Employment Creation (number)			Formal Net Employment Creation (number)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	1 946	577	-310	14 672	1 346	-1 141
Mining and quarrying	-7	1	-2	-496	47	-46
Manufacturing	-6 355	-3 936	778	-61 987	-16 293	-7 883
Electricity, gas and water	-41	-82	-103	1 540	-1 380	543
Construction	-3 943	-415	-6 680	-34 881	-6 337	-11 396
Wholesale and retail trade, catering and accommodation	29 669	25 217	804	-100	-21 268	2 451
Transport, storage, communication	16 077	9 217	3 819	-4 839	-3 700	3 070
Finance, insurance, real estate, and business services	22 388	15 186	5 016	59 356	-22 191	12 025
Community, social and personal services	29 811	13 296	6 868	9 958	1 901	-11 329
General government	0	0	0	31 420	6 852	2 546
Total	89 545	59 060	10 191	14 644	-61 024	-11 160
Yoy % change	2.5	11.9	0.9	0.1	-3.1	-0.3

Source: Quantec 2014

5.4.2 Agriculture, manufacturing and services – informal employment growth performances

The Cape Metro's labour market (formal and informal) grew at an annual rate of 1.5 per cent in 2013; growth mainly occurred in the informal labour market, expanding by 7.6 per cent.

Table 5.6 displays the informal and formal employment trends in the Cape Metro over the period 2000 - 2013. The informal sector experienced significant growth of 2.5 per cent per annum (i.e. 2000 - 2013, a net increase of 89 545 jobs), however this growth was mainly a result of the strong growth experienced during the recession years (11.9 per cent per annum, 2008 - 2009, or a cumulative 59 060 jobs). Unfortunately, it would appear from the evidence below that this was not new employment created but merely a displacement of formal sector employment. Net retrenchments in the formal sector of the Metro economy during the recession amounted to 61 024. As noted, there has been modest job growth during the economic recovery thus far (0.9 per cent per annum, 2010 - 2013, i.e. 10 191 new jobs) in the informal sector while the net retrenchments in the formal sector continued (11 160).

Within the informal sector, significant retrenchments were experienced in the manufacturing and construction sectors (4 351 total net retrenchments, 2008 - 2009). However, there was a considerable increase in informal employment in the services sector, and particularly the trade sector, that was notable, with a cumulative total of 62 916 net jobs created during the recession years. As mentioned earlier, it should be noted that many of these jobs may simply have involved workers being displaced from the formal sector during the recession.

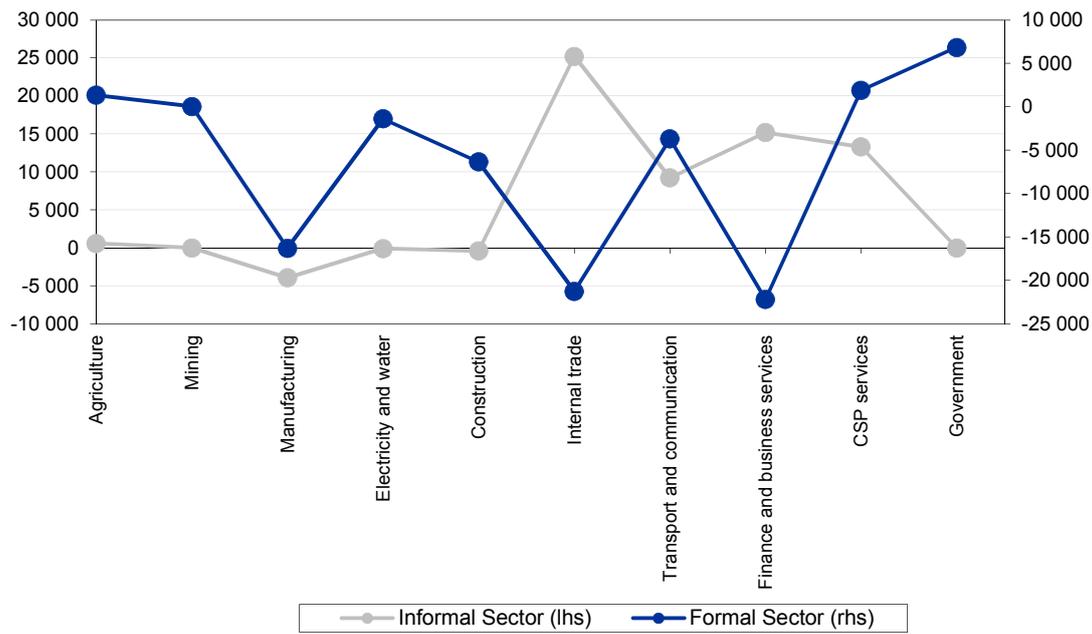
Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is clear from Table 5.6 that the growth in the region has been dominated by the services sectors, particularly the CSP services sector, with a cumulative total of 16 507 informal jobs created over the same period. Despite the growth experienced in the agricultural sector during the recession, the primary and secondary sectors experienced a combined contraction of a cumulative 7 095 jobs.

5.4.3 Cyclical impact on informal employment in the Cape Metro

The first notable trend when comparing employment creation in the informal and formal sectors in the Cape Metro over the 2000 - 2013 period is the significant number of net retrenchments in the formal sector during the recession (61 024 net retrenchments, 2008 - 2009) compared with the 59 060 net additional jobs created in the informal sector over the same period. Even though it is evident that during the recessionary period many workers losing their jobs in the formal sector moved to the informal sector, the informal sector was unfortunately unable to absorb all job losses in the formal sector.

As shown in Figure 5.1, within the wholesale and retail trade and catering and accommodation sector there was a, the high number of informal net jobs created (25 217 during 2008 - 2009), which considerably surpassed formal net retrenchments (21 268) during the same period. Literature indicates that there has been a growing trend of informalisation within the sector and that in fact a significant number of employers are operating in the informal sector. Of these employers, a number of small and micro-enterprises are not formally registered (i.e. they fall within the informal sector), with roughly 86 per cent of the sector comprising of small enterprises nationally (DHET, 2013). Furthermore, approximately 34 per cent of people in the sector are in informal employment, with the Western Cape Province having the second highest density of employees in the sector (DHET, 2013; Stats SA, 2013). This suggests that the informal sector acts as an absorber of formal sector retrenchments, and it may also be indicative of low barriers to entry into the informal sector for this industry.

Figure 5.1 Cape Metro: Change in employment during recession, 2008 - 2009



Source: Quantec Research 2014

Furthermore, the transport, storage and communication sector created 9 217 informal net additional jobs during 2008 - 2009, which significantly exceeded the 3 700 formal net retrenchments over the same period. The data therefore indicates that this informal sector not only absorbed all the job losses in the transport, storage and communication sector formal sector but also from a number of other displaced formal employment in other sectors.

There was employment created in both the formal and informal sectors within the CSP services sector and the agriculture during the recession years.

Within the manufacturing sector, there were net retrenchments in both the formal sector (16 293 during 2008 - 2009) and in the informal sector during the recession years (3 936 net retrenchments). In the construction sector, 415 net retrenchments were experienced in the informal sector during 2008 - 2009, but this was overshadowed by the 6 337 job losses in the formal sector over the same period.

Generally, it appears that those workers who were retrenched in the trade and transport sectors (or any other sector for that matter) became informal entrepreneurs (or found employment) in other sectors. This situation ties in with the indication in Table 5.3 that highlights that most informal business owners started their businesses due to financial hardship and/or difficulty in finding employment.

5.5 Concluding remarks

This chapter expanded on the understanding of informal and formal linkages and highlighted that there are significant linkages of informal and formal businesses in the Cape Metro. While detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies were not able to be analysed there appears, given the financial constraints and low-level of skills within the informal sector, that these linkages may be at risk of 'unfair' formal sector outsourcing.

During the recession (2008 - 2009) in the Cape Metro, the informal sector was able to absorb nearly 97 per cent of job losses in the formal sector with the wholesale and retail trade and catering and accommodation sector and transport, storage and communication sector leading the way. This situation indicates that the downward rigidities of the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed.

Furthermore, given that during the recession (2008 - 2009), informal employment expanded by 11.9 per cent per annum while formal employment contracted by 3.1 per cent per annum, it would appear that the Cape Metro demonstrates a kind of dualistic labour market, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector. This may be useful to the City, as a thriving informal market may alleviate the Metro from developing policies aimed at assisting the openly unemployed.

The high prevalence of female entrepreneurs across the entire spectrum of businesses which is only evident in the Cape Metro and the CWD, may indicate barriers to starting a business is less severe or onerous for potential female entrepreneurs in these regions. In addition, the diversity of female entrepreneurs across various sectors augurs well for the Cape Metro.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms); it appears that the Cape Metro in their Economic Growth Strategy (EGS) is considering a more nuanced view of the informal economy. The EGS focus is to provide technical and business support that are unique to local areas for the informal sector. The structured implementation of this strategy could certainly build a capacity for autonomous development for informal entrepreneurs.

Finally, there is a need for policy attention to extend beyond the question of how to create and manage linkages between the formal and informal economies. What is required is a more explicit focus on who designs particular linkage arrangements, whose interests they serve, and how policy and partnership arrangements can achieve a more equitable balance of benefits for informal actors and their associations as preferred contractors, insurance providers, or workers for decent wages, rather than as cheap labour and institutional solutions. Instead of assuming that institutional complementarities between the formal and informal sectors automatically create synergy through which both sides benefit, clearer policy

attention must be directed at how to turn potential formal-informal complementarities into synergistic arrangements. This requires attention to legal as well as skill-based obstacles, and to building power, leverage, negotiating skills and supportive alliances in the formal sector as part of the process of building informal associations. It may also require that the Cape Metro amends its strategy of developing the informal sector independently to the formal sector as outlined in the EGS. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Service delivery is vital to economic success. According to the Reconstruction and Development Policy framework (1994: 28) at the time of the first democratic elections in South Africa in 1994, it is estimated that 12 million South Africans did not have access to clean drinking water and 21 million people did not have adequate sanitation. South Africa has a long and difficult path with service delivery. Through programs such as the Reconstruction and Development Plan (RDP), the country ventured on a path to improve service delivery and access to basic infrastructure for the masses. The provision of basic services as a vehicle for improving local economic development has always been a key priority for Government.

Following the adoption of the 1996 Constitution municipalities were mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. Chapter 1 of the Systems Act defines basic municipal services, as a *“service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health, safety and the environment”*. Municipalities would require adequate infrastructure in order to ensure access to basic services and ensure delivery of the requirements set out in section 73(2) of the Systems Act.

The Department of Provincial and Local Government define municipal infrastructure as *“the capital works required to provide municipal services. It includes all the activities necessary to ensure that the works are delivered effectively, such as feasibility studies, project planning and capacity building to establish sound operational arrangements for the works”*. Municipal infrastructure includes transport, communication, energy, water and sanitation facilities. The provision of these basic services is dependent on the availability of infrastructure. Municipalities are not only

faced with the challenge of addressing infrastructure backlogs but also the upgrade and maintenance of existing infrastructure.

Governments have continued to highlight the importance of infrastructure investment for basic service delivery. According to a Non-financial Municipal Census conducted by Stats SA the provision of basic services increased by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). The highest percentage change between 2011 and 2012 was recorded in the provision of water – going up by 6 per cent. The provision of electricity, sewer and refuse increased by 4.4 per cent 3.4 per cent and 2.7 per cent respectively over the same period.

Despite these positive changes social protests over basic service delivery in South Africa have become a common occurrence. Data compiled by the Municipal IQ showed that 173 service delivery protests were recorded in 2012, the highest number over the past decade. Municipalities are faced with varying challenges in collecting revenue and meeting the increasing demand for basic services.

This chapter analyses two important sides of the budget - revenue and expenditure. Both revenue and expenditure play very important roles in local economic and social development. This chapter examines the revenue and expenditure performance of the Cape Metro. Data for the analysis was sourced from various sources such as Quantec, Municipal Budget Schedules and Stats SA. An overview of Municipal revenue trends is provided, and its resulting impact on basic service delivery. In addition Municipal expenditure is also assessed.

6.2 Overview of municipal revenue trends in the Cape Metro

Since 1994 there has been a remarkable transformation of Local Government and the services they provide. The democratisation of Local Government involved municipal fiscal independence, administrative restructuring, structural transformations and an overhaul of the intergovernmental fiscal system, all within the context of the Constitution. Hence the provision of municipal infrastructure takes place through intergovernmental transfers or own revenue which includes property taxes, licensing fees, electricity charges, surcharges on services, user fees and borrowing.

According to the Constitution, municipalities should provide basic services within their financial and administrative capacities. Due to various economic inequalities revenue collection differs amongst municipalities, with certain municipalities not being able to provide for basic services due to limited revenue bases. Governmental transfers help to bridge these gaps. According to a report by the Financial and Fiscal Commission (2014: 97) grants and subsidies from National and Provincial Government make the largest contribution to capital revenues. The second largest contributor to capital financing is municipal own revenue followed by borrowing.

Table 6.1 illustrates total revenue generation from roads and trading services in the Cape Metro. Revenue grew by a real annual average rate of 15.7 per cent between 2008/09 and 2012/13. Revenue collection is generally affected by annual tariff price changes, changes in the tax base and administrative capabilities of the Cape Metro to collect revenue. The administrative capabilities refer to internal municipal revenue collection inefficiencies. The tax base of a Municipality is influenced by economic and demographic factors such as income levels and number of indigent¹¹ consumers. Generally high levels of poverty, a declining revenue base and poor economic growth constrains service delivery by municipalities and revenue collection.

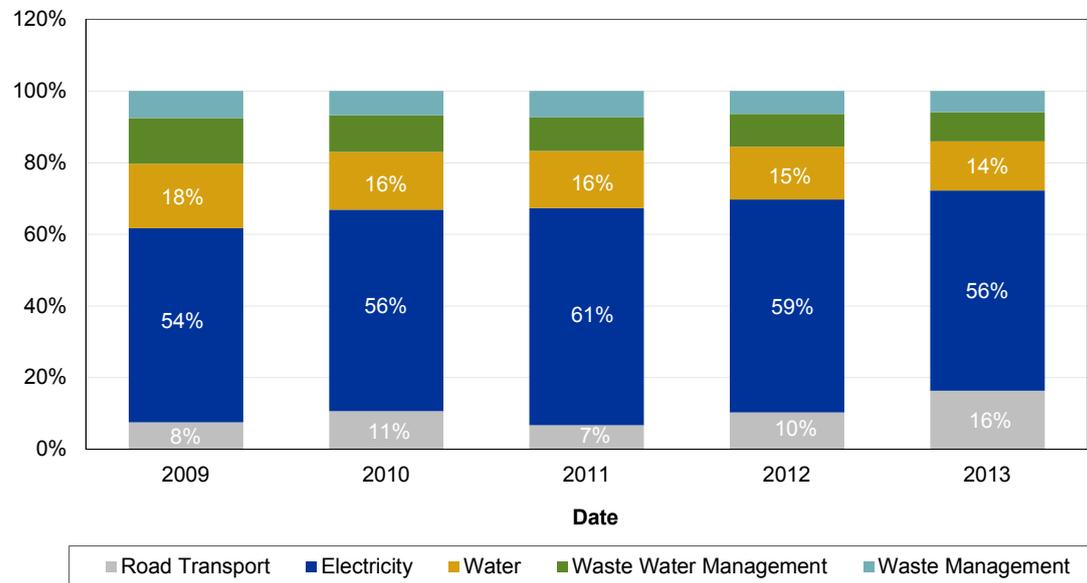
Table 6.1 Cape Metro revenue from roads and trading services (Rand; constant 2005 prices)

Municipality	2009	2010	2011	2012	2013
City of cape Town	5 678 856	7 176 563	7 749 160	9 089 550	10 166 633

Source: City of Cape Town Budget Schedules

Figure 6.1 illustrates revenue collection from road transport and trading services within the Cape Metro. Revenue derived from electricity contributes more than half of the total revenue generated within the Cape Metro. Since 2008/09 the contribution made by revenue from water charges has declined slightly, alongside increases in revenue from road transport charges. Revenue from waste management services contributed the least to total revenue.

Figure 6.1 Contribution of service charges to municipal revenue

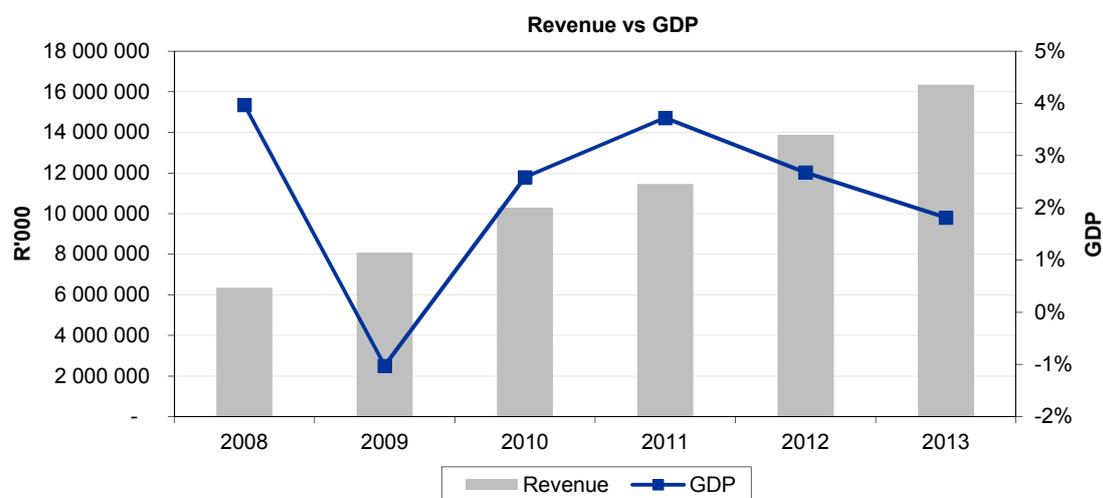


Source: Western Cape Provincial Treasury

¹¹ According to the Indigent Policy the term indigent means 'lacking the necessities of life' such as water, sanitation, refuse removal and housing amongst other things.

Figure 6.2 shows an approximate relationship between revenue generation in the Cape Metro and GDP growth. From a growth perspective the Cape Metro economy was heavily affected by the recession. Despite the contraction in economic activity the Metro recorded an average annual revenue growth rate of 24.3 per cent over the period 2008/09 to 2009/10 in comparison to a growth of 15.7 per cent over the period 2008/09 to 2012/13. Contrary to what is seen in the Cape Metro one would expect depressed economic activity during the recession to influence revenue collection. This high revenue growth rate presumably reflects the impact of annual tariff price increases, improvements in municipal revenue collection or changes in the number of indigent consumers.

Figure 6.2 Municipal revenue vs GDP: 2008 - 2013



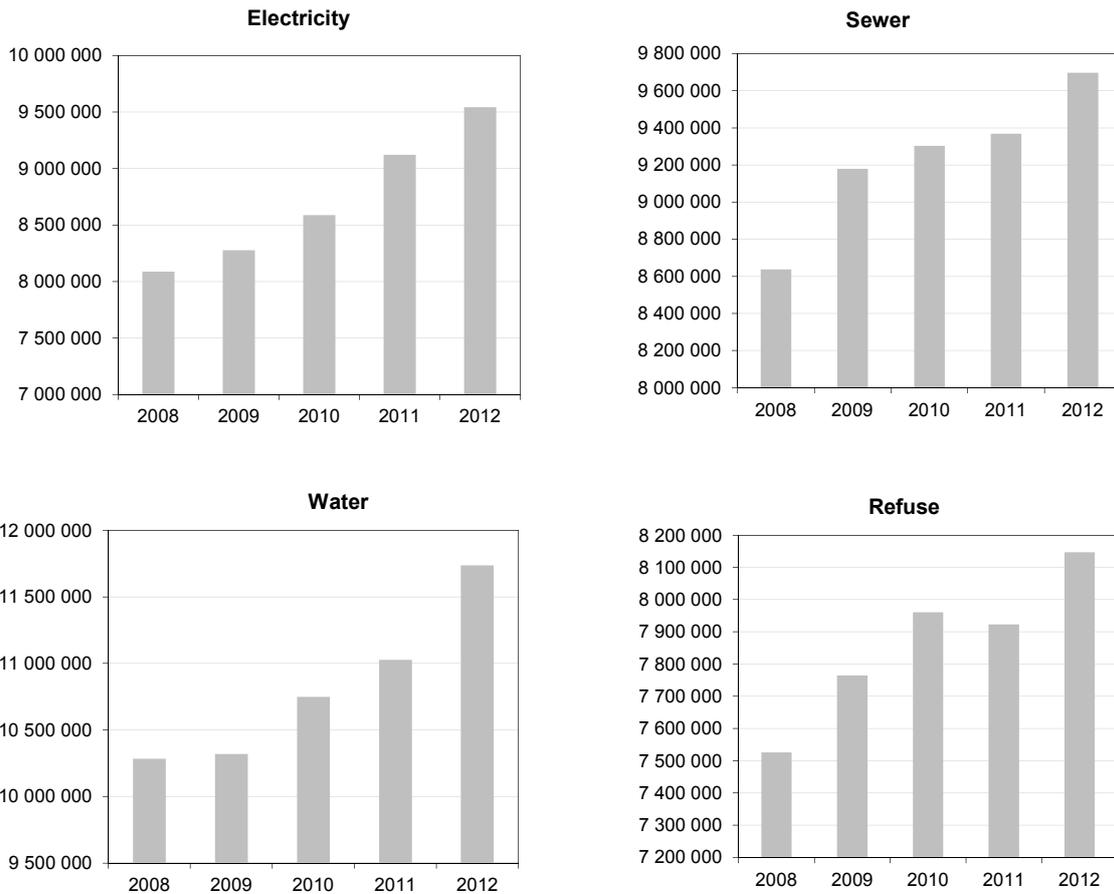
Source: Western Cape Provincial Treasury

For municipalities to maximise their revenue collection it is important for them to adopt revenue raising strategies through maintaining and improving service delivery quality. Revenue increasing strategies include expansion of service delivery, debt collection strategies, efficient revenue management, minimising water losses and maintaining an accurate billing system.

6.3 Access to basic services

Basic service delivery plays a central role in poverty alleviation. Statistics South Africa has been tracking the progress of service delivery across all Municipalities since 2003 through an annual Non-financial Census of Municipalities. Since 2008 the number of households receiving electricity, sewer, water and refuse has gone up (see Figure 6.3).

Figure 6.3 Number of households receiving basic services



Source: Stats SA: Non-financial Census of Municipalities

According to a Non-financial Census of Municipalities conducted by Stats SA for the year ended June 2012 the provision of basic services went up by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). Table 6.2 illustrates the number of households receiving basic services in each province.

Table 6.2 Number of households receiving basic services in each province

Province	Water		Electricity		Sewerage and sanitation		Solid waste management	
	2011	2012	2011	2012	2011	2012	2011	2012
Western Cape	1 023 117	1 223 237	1 215 410	1 242 786	1 014 527	1 032 682	1 257 378	1 274 281
Eastern Cape	1 496 300	1 568 621	997 571	1 056 322	1 021 752	1 098 311	752 350	778 202
Northern Cape	240 435	250 605	248 465	261 591	237 708	245 114	209 947	219 947
Free State	725 191	768 064	656 332	661 732	665 955	698 785	526 830	560 684
KwaZulu-Natal	1 919 351	1 991 349	1 526 952	1 597 910	1 675 267	1 723 360	1 429 068	1 455 627
North West	713 216	741 934	775 743	792 721	588 158	615 626	465 048	466 084
Gauteng	2 799 716	3 001 574	1 925 463	2 076 143	2 708 004	2 778 742	2 513 354	2 577 966
Mpumalanga	940 433	963 323	670 271	706 914	820 665	853 648	405 734	420 509
Limpopo	1 169 483	1 228 827	1 103 549	1 144 869	635 586	651 118	363 391	393 649
Total	11 027 242	11 737 534	9 119 756	9 540 988	9 367 622	9 697 386	7 923 100	8 146 949

Source: Stats SA: Non-financial census of municipalities

Access to basic services helps improve socio economic conditions of the poor enabling them to participate in economic activities. Since 1994 various laws have been adopted to improve the socio economic conditions of the poor (SERI, 2013). At the local level this comes in the form of the provision of free basic services to indigent consumers – 6 kl water and 50 kWh electricity per month.

The delivery of basic services is influenced by demographic and economic circumstances that make access to basic services vary across the Western Cape municipalities. The varying number of households with access to basic services across the Districts is a reflection of differing population sizes, economic activity and challenges that municipalities face in the delivery of basic services. The main obstacle to accelerating basic service delivery is the proliferation of urban settlements and lack of appropriate infrastructure.

Table 6.3 Number of households with access to basic services in 2012*

District	Water	Electricity	Sewer	Refuse
Cape Metro	814 235	821 075	642 503	828 951
Central Karoo District	14 416	14 549	15 329	14 588
Cape Winelands District	125 414	132 132	107 909	136 094
Eden District	138 189	143 307	136 449	159 173
Overberg District	60 310	58 887	62 670	65 358
West Coast District	70 673	72 836	67 822	70 117

* Information differs from primary data sources due to certain exclusions.

Source: Stats SA: Non-financial census of municipalities

One of the ways in which the success of any local government is measured is through the delivery of basic services. The table above shows the number of households with access to basic services in each District within the Western Cape. From the table it would appear as if more households under the Cape Metro region have access to basic services whilst the Central Karoo has the least. However the number of households with access to basic services under each district differs due to the differing population distribution. Most municipalities within the Western Cape Province face the problem of the maintenance of ageing infrastructure. Despite being the oldest City in the country the Cape Metro has had great success in the delivery of infrastructure over the years. The Cape Metro is the largest in terms of population (66 per cent of the Western Cape population). The influx of people into the municipal region has had an impact on the demand for and level of service delivery. Regarding the Cape Metro infrastructure the following points are worth noting:

- Lack of access to transportation networks constrains the movement of goods to points of export and constitutes a poverty trap. It is highly crucial that the focus should be placed on the mobility of individuals and the provision of alternative modes of goods transportation as it improves the socio-economic conditions of people. The Cape Metro has an extensive railway network and good public transport linkages. The region benefits from two major national highways that connect it with the rest of the country. A notable development in the transport sector is the roll out of the MyCiti bus service. The City has made commitments to ensuring the delivery of a reliable efficient transport system and infrastructure.

Integral to this is the City's Integrated Transport Plan which seeks to support the City's strategic development strategies. However, recent attacks on public transport across the metro south-east and rampant vandalism of railway transport are a setback in transport services delivery within the region.

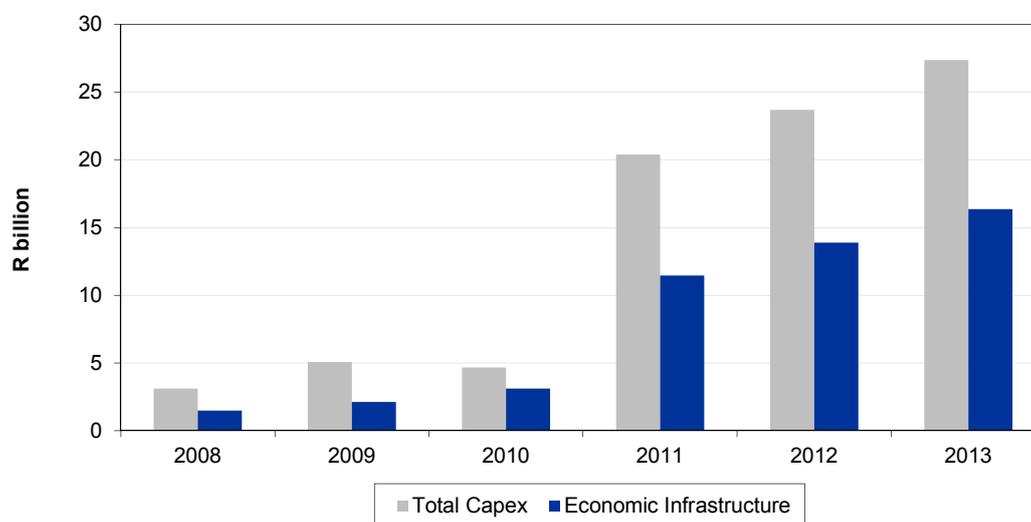
- Access to water and waste water management services is important in ensuring improved quality of life and economic development. Improved water sources are a key to preventing the use of unsafe supplies that impact public health. Population increases and new developments do put pressure on water demand. The Cape Metro recognises the need to upgrade waste water capacity at Bellville, Potsdam and Zandvliet (City of Cape Town IDP, 2014). Like most municipalities within the Western Cape the Cape Metro is faced with the challenge of minimising unaccounted water losses through leaks and burst pipes.
- The provision of refuse services is a means to prevent uncontrolled dumping of waste. Refuse removal helps in the avoidance of health problems whilst also protecting the environment. One of the infrastructure projects in which the Cape Metro will be investing in over the next five years is landfill space and infrastructure to support waste management within the area. The Metro recognises the need to address solid waste management challenges and prevent contamination or health hazards.
- Access to electricity is critical to ensuring social and economic development. The use of some alternative energy sources or polluting fuels causes a variety of illnesses and other health problems. The use of energy is not only important for households use but also for business activities. The availability of electricity is an important factor in the location decisions of investors. In recent years the volatility of the sector, investment costs and increases in demand have resulted in tariff price increases and load shedding. The Cape Metro has also been affected by these developments. Electricity supply within the Cape Metro is divided between the City of Cape Town and Eskom. The City supplies three quarters of the region's residents whilst the balance is supplied by Eskom. The City does have backlogs in electricity delivery particularly in the informal areas serviced by Eskom. The completion of the Medupi and Kusile new power stations will go a long way in relieving the pressure on the demand for electricity. Investments in greener renewable energy will also have a smaller effect.

Municipalities have a wide array of financial instruments to use in meeting their service delivery responsibilities. In order for municipalities to provide basic services they need to generate the required revenue. Hence revenue management and revenue raising strategies need to be implemented. It is crucial that these scarce resources should be used effectively and efficiently to ensure that service delivery is optimised. In this regard the following section analyses infrastructure expenditure.

6.4 Infrastructure expenditure

The President's 2014 State of the Nation Address highlighted Government's continued commitment to the National Infrastructure Plan as a tool for promoting economic growth. With this growing emphasis on infrastructure investments, the Cape Metro has continued in its effort to improve infrastructure availability and eradicate service backlogs through the adoption of an Infrastructure Led Growth Strategy. In its commitment to ensure the delivery of infrastructure the City adopted an Integrated Asset Management Plan (IAMP) that enables effective life cycle management of infrastructure assets. The plan enables the timely upgrade of all infrastructure assets. To this end in 2013, economic infrastructure expenditure took up 60 per cent of the entire capital expenditure budget for the whole region (see Figure 6.4).

Figure 6.4 Capex vs Economic infrastructure expenditure: 2008 - 2013



Source: Western Cape Provincial Treasury

Infrastructure expenditure should be directed towards influencing economic growth. Budgetary constraints call for an investigation into the types of infrastructure that would influence economic growth. Being the oldest City in the country the City's infrastructure is in need of repairs, upgrades and replacement. Expenditure continues to be high in five main forms of infrastructure, i.e. water provision, waste water management, waste management, road transport and electricity (see Table 6.4). Electricity and road transport were the largest capital expenditure items in 2013. It should be noted that both the City and Eskom are involved in the distribution of electricity to consumers in the Cape Metro. Eskom therefore also invests significantly in electricity infrastructure.

Table 6.4 Cape Metro economic infrastructure expenditure per budget line item (Rands)

City of Cape Town	2013
Road Transport	2 674 412
Trading Services	13 675 771
<i>Electricity</i>	9 141 319
<i>Water</i>	2 245 107
<i>Waste Water Management</i>	1 325 054
<i>Waste Management</i>	964 291

Source: Western Cape Provincial Treasury

6.4.1 Infrastructure investment and economic growth

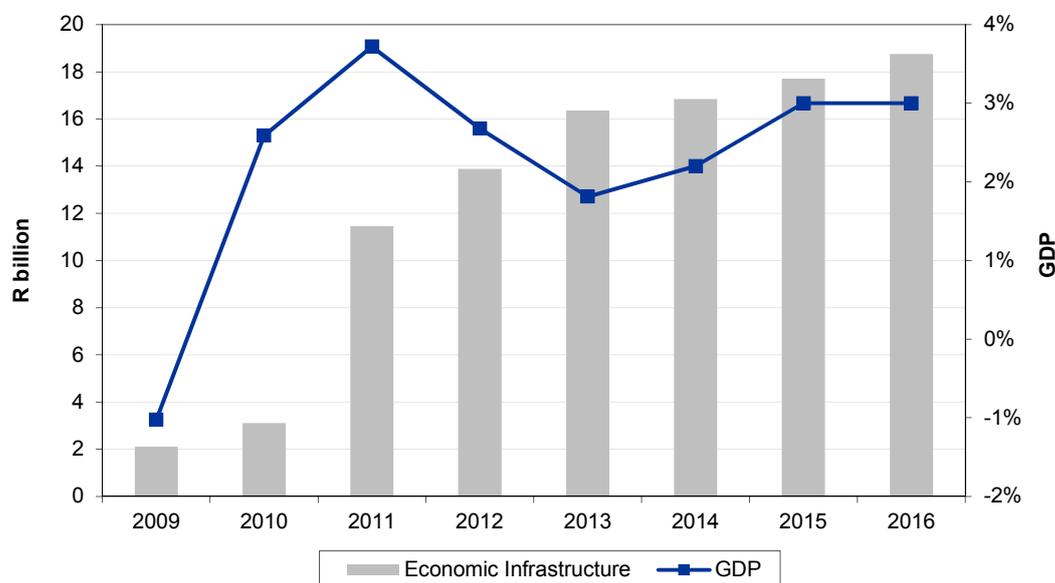
Empirical evidence has shown that infrastructure investment will have a variety of effects on growth. Various studies have tried to provide empirical proof of the typical impact that various forms of infrastructure expenditure would have on the economy. Early reviews of the empirical literature can be found in Fourie (2006).

Public spending on infrastructure is an effective tool for job creation and labour productivity. Kumo (2012) considered the relationship between economic growth, economic infrastructure investment, and employment in South Africa for the period 1960 - 2009. The author finds that there is a two way causal relationship between infrastructure investment and job creation in the public sector. An expansion of infrastructure expenditure has both a direct and an indirect impact on job creation. The direct effect are the jobs created by infrastructure production, whereas the indirect effects are the jobs created as a result of the increased demand for the material used in the production of infrastructure. As previously discussed in Chapter 3 over the period 2000 - 2013 the transport sector created employment at a rate of 1.0 per cent per annum. The electricity and water sector created employment at a rate of 3.0 per cent over the same period. In contrast the employment contractions in the construction sector are a cause for concern (3.0 per cent per annum). It is important to note that the indirect impact of infrastructure investment on employment may be much more visible than the direct impact. The resulting impact of an investment in infrastructure will be captured in the construction sector. Once construction is complete the capacity to provide basic services, transport and communications boosts economic activity thus creating jobs in other sectors.

The different forms of infrastructure expenditure have made differing contributions to GDP growth within the region. As previously shown in Chapter 3 the transport and communication sector expanded real value added by 4.6 per cent per annum over the period 2000 - 2013. In contrast growth in the electricity and water sector was below average expanding real value added by 3.0 per cent per annum. Despite its disappointing performance in employment creation, the construction sector grew above average, expanding real value added by 5.8 per cent per annum over the same period. The construction sector was one of the main growth sectors in the region. The sector in the Cape Metro constitutes 65 per cent of the construction sector in the Western Cape Province. According to the EPIC, Quarter 1, 2014 report,

the economic growth outlook of the construction sector is looking positive. Projects such as the expansion of the Cape Town International Convention Centre (CTICC), the upgrading of water infrastructure, investment in broadband infrastructure, the roll out of MyCiti services etc. will potentially stimulate the construction sector.

Figure 6.5 GDP vs Total economic infrastructure expenditure: 2009 - 2016



Source: Western Cape Provincial Treasury

Whilst data limitations preclude a complete empirical presentation, the Figure 6.5 provides an approximation of the relationship between infrastructure expenditure and economic growth. It is important to note the role played by time lags in between expenditure on infrastructure and its resulting impact on economic growth. In the investment phase the direct impact of infrastructure spending on GDP occurs mainly via the construction sector. During this phase the demand for construction equipment and employment increases. Once construction is completed the capacity to provide basic services, transport and communications increases facilitating higher economic activity. Thus infrastructure spending has a lagged effect on GDP.

Infrastructure expenditure is crucial in supporting the industries that influence growth. The Cape Metro is commonly referred to as the gateway to South Africa. The region has a comparative advantage in terms of its infrastructure development hence it is a preferred destination for companies and people locating to South Africa. According to the EPIC, Quarter 1, 2014 report, some of the regions' comparative advantages are that the region has the second busiest container port in South Africa, hosts the second busiest airport in South Africa, has an extensive railway network, good public transport linkages locally and with the rest of the country as well as multiple business districts and industrial areas. Regarding the infrastructure developments of the Cape Metro the following plans are mentioned:

- Plans are afoot to invest in broadband infrastructure for the Cape Metro area network. The success of the finance and business services sector within the Cape Metro hinges on the ability to access greater capacity for processing and transmitting large data transactions. The installation of high fibre optic cables is crucial for the realisation of social and economic benefits within the region. Enhanced bandwidth services could also support areas that did not have access to connectivity.
- Plans are also afoot to extend the MyCiti bus service in the Cape Metro area especially to the South-East of the City. The infrastructure required will include building of depots, acquisition of buses, installation of directional signs, conversion of traffic signals and a CCTV camera roll-out.
- The general upgrade of small-boat harbours in order to improve their business opportunities. Furthermore, the joint upgrade of the Cape Town Port by the City and Transnet plays a pivotal role in the regional economy. The general upgrade of the port includes extending the quay wall, increasing capacity, berth sizes, customs controls, logistic management etc.
- The City also plans to upgrade waste water capacity, electricity services, bulk water services and landfill space within the Cape Metro. Investment in the maintenance of such infrastructure is not only fundamental to improving service delivery and the quality of life of Cape Metro citizens but also attract foreign and local infrastructure investments.

The 2013 Municipal Economic Review and Outlook (MERO) study, found that industries revealing comparative advantage in the Cape Metro were the textiles, clothing and leather goods sector; business services; catering and accommodation; finance and insurance; wood and paper products; furniture; construction; transport and storage; retail and wholesale; communication and radio, TV and instruments manufacturing. These sectors should be supported through the provision of necessary infrastructure. Infrastructure investments within this area will provide economic returns and will also have multiplier or knock-on effects that have a longer term impact on the regional economy.

6.5 Conclusion

Government recognises that basic service delivery through infrastructure investment is the cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure has an impact on economic growth. The Municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act. The provision of Municipal Infrastructure for basic service delivery takes place through intergovernmental transfers or own revenue and borrowing. The data presented in this chapter analysed two important sides of the budget, i.e. revenue and spending on infrastructure. The analysis revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery in the Cape Metro.

The Cape Metro is the largest in terms of population (66 per cent of the Western Cape population). The region has a high population density and high movement of goods and services. The region's infrastructure development makes it the preferred destination for people and businesses; hence the Cape Metro has often been referred to as the gateway to South Africa. Despite being the oldest City in the country the Cape Metro has had great success in the delivery of infrastructure over the years. Population increases and ageing infrastructure has placed pressure on service delivery. It is crucial for the municipality to establish the balance between greenfield investments and the maintenance and upgrading of existing infrastructure in order to ensure that existing infrastructure supports economic growth. The bottom line is that in the long run poor infrastructure within the region cannot continue supporting high growth rates. Deteriorating roads, leaking water pipes, poor communication networks etc. will eventually impact the performance of the Cape Metro region.

Economic characteristics and development potential should guide infrastructure investment decisions within the Cape Metro. The City should focus on providing infrastructure that supports industries in which it has comparative advantage. Such investments will have multiplier or knock-on effects on the rest of the economy. The negative impact of consumer and business confidence within the region could be countered by infrastructure spending which could be a key source of economic growth and employment creation within the Cape Metro.

7

Socio-economic analysis and economic performance

7.1 Introduction

The previous Municipal Economic Review and Outlook (MERO) studies provide a focused institutional framework for microeconomic analysis – in the form of the Metro, Districts and their constituent municipalities. MERO 2014 follows from its predecessor, MERO 2013, in that it includes a socio-economic analysis. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact their economy has on it.

This chapter aims to create a link between the information provided in the Socio-Economic Profiles of 2013/14, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to the population, human development, education, household income, income inequality and poverty in the district, each in relation to the district's economic performance.

7.2 Demographic indicators

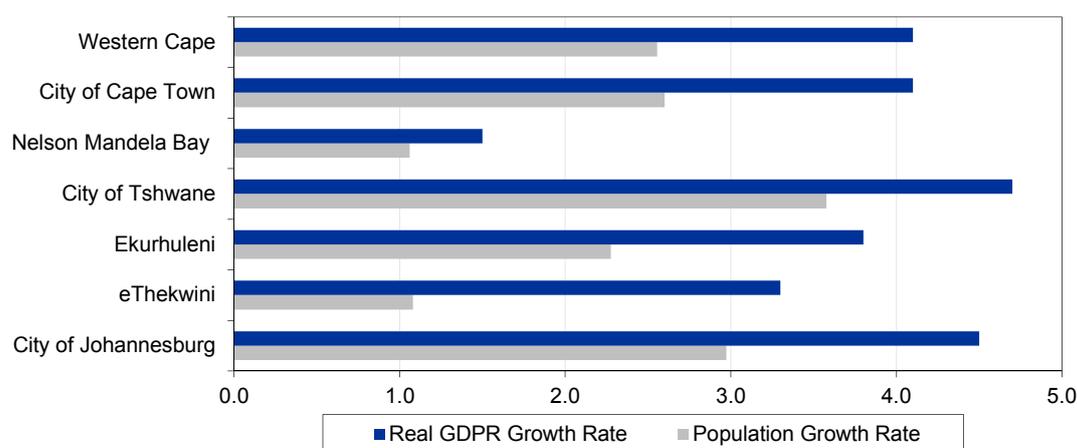
7.2.1 Population and economic growth

According to Statistics South Africa 2011 Census data, the Western Cape Province has 5.822 million people, having increased from 4.524 million in 2001. The average population growth rate in the Western Cape is thus 2.6 per cent per annum. The Western Cape economy grew at a rate of 4.1 per cent on average per annum from 2001 to 2011. The fact that the economy grew faster than the population within the

Province indicates that per capita income is increasing over time, ensuring improving, though uneven standards of living for its inhabitants. The per capita income¹² in constant 2005 prices increased from R37 496 in 2001 to R43 557 in 2011.

A closer look at the Cape Metro indicates that per capita income has been on the rise over the period from 2001 to 2011. The Cape Metro population size was 3 740 026 in 2011. As seen in the table below, its population grew at an average rate of 2.6 per cent per annum from 2001 to 2011. Its economy grew at a much faster rate of 4.1 per cent on average per annum, indicating that there has been an increase in per capita income over this period. The GDP per capita increased from R43 197 in 2001 to R49 647 in 2011. It is therefore above the Western Cape average.

Figure 7.1 Metro comparison of annual average population and real GDP growth rate, 2001 - 2011



Source: Statistics South Africa, Census 2001 and 2011

In comparison with the similar sized metro municipalities in the country, the Cape Metro per capita income grew at the second fastest rate, after eThekweni. The Cape Metro has the second largest population size of all the Metro's following the City of Johannesburg. It also has the third highest population growth rate among the Metro's. Its relatively high GDP growth rate and relatively low population growth rate enabled the Cape Metro's per capita income to grow more rapidly in a comparative perspective. It grew at a rate on par with that of the City of Tshwane and the City of Johannesburg.

All metro municipalities in the country experienced an increase in per capita incomes from 2001 to 2011 as in each case the economy grew at a faster rate than the population. Nelson Mandela Bay has the slowest growing per capita income, largely due to the low GDP growth rate of 1.5 per cent per annum. The population growth rate is however even lower at 1.1 per cent. It thus appears that there isn't as much in-migration to this metropolitan area, compared to the others in the country.

¹² Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

In comparison with the districts in the Western Cape, the Cape Metro had the second slowest growing per capita income in the Province, after the West Coast District which had a population growth rate of 3.3 per cent on par with that of its economy. Despite the slow per capita income growth relative to the other districts, it still has the highest per capita income in absolute terms. This implies a lower strain on municipal resources and improved standards of living for the inhabitants of the Cape Metropolitan area.

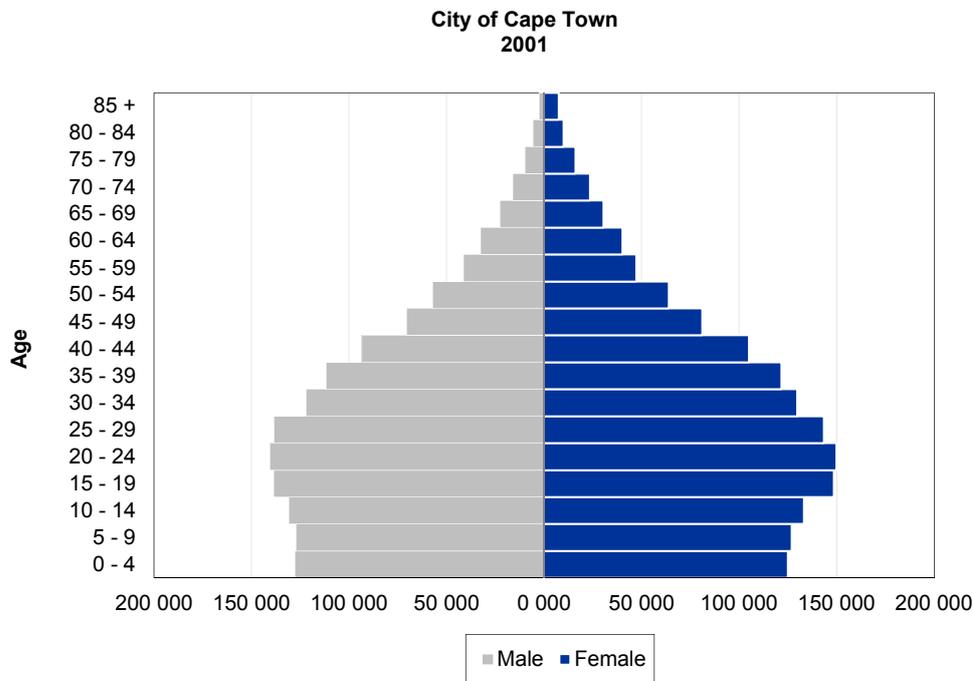
7.2.2 Age distribution, dependency and youth unemployment

The population can be classified into three main groups namely the children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older.

In 2011, the Cape Metro's population composition was as follows: children at 24.8 per cent, economically active population at 69.6 per cent and persons aged 65 and older at 3.9 per cent. The youth represented 37.8 per cent of the population in 2011.

When comparing the shape of the 2001 and 2011 population pyramids, population decreases are particularly noticeable at ages 5 to 14 years. This will have particular implications for the provision of facilities and services related to children and child care. The average child dependency and aged dependency ratio was 35.6 per cent and 8.0 per cent respectively in 2011. The total dependency ratio was thus 43.6 per cent having decreased from 46.3 per cent in 2001. This is one of the lowest in the Province thus depicting less strain on the income of the working age population.

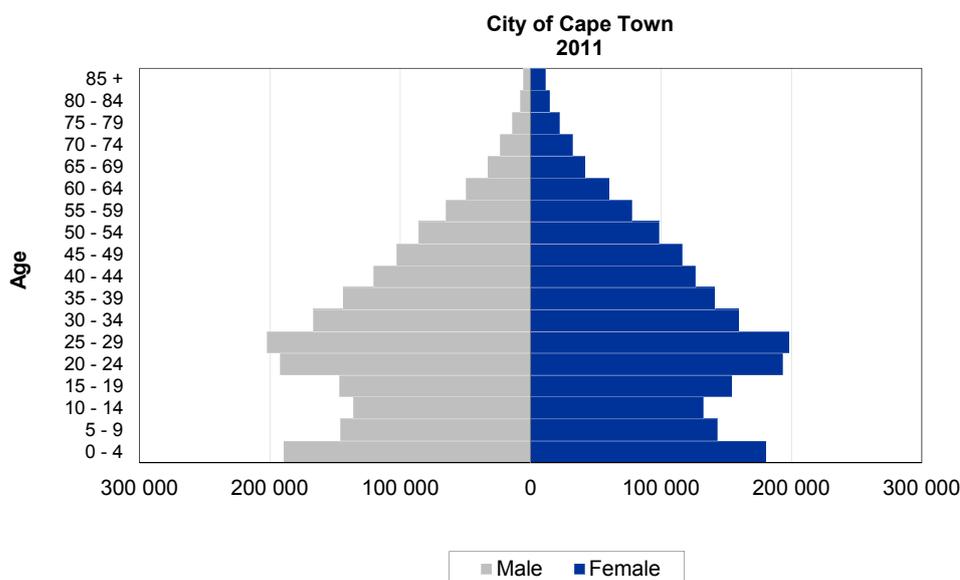
Figure 7.2 City of Cape Town's population pyramid for 2001



Source: Statistics South Africa, Census 2001

During 2011 there appeared to be in-migration in the 20 - 29 age group perhaps for these individuals to pursue work and study opportunities in the City. The implied growth in the labour force will have a direct impact in the form of a greater need for employment opportunities. There has however been a slight decline in the youth (age 15 - 34) share of the population in the Cape Metro between 2001 and 2011. This may explain, to an extent, the decline in the youth unemployment rate in the area from 36.8 to 31.9 per cent over this period. The Cape Metro however still has the highest youth unemployment rate in the Western Cape. This could be attributed to the youth's lack of hard skills and work experience, creating deficient labour demand for youth.

Figure 7.3 City of Cape Town's population pyramid for 2011



Source: Statistics South Africa, Census 2011

The high youth unemployment rate paints a negative picture for the Cape Metro. It is however the second lowest youth unemployment rate among the metro's within the country. This indicates that although the youth unemployment rate is high within the Cape Metro, it is being managed.

7.3 Development indicators

7.3.1 Educational level and employment

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate in the country as a whole of 80.9 per cent. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the provinces in the country from 2001 to 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and

substance abuse among the youth. Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education during the Apartheid regime. The same challenges exist in the Cape Metro.

In the Cape Metro the literacy rate is higher than the Province at 90.5 per cent. Its unemployment rate is also the highest amongst the districts within the Province at 23.9 per cent. This does not conform to economics which theorises that higher levels of education lead to lower levels of unemployment, *ceteris paribus*. This is however to be expected due to the large population size within the Cape Metro. The Cape Metro has high levels of in-migration largely in the form of job-seekers thus creating pressure in the job market. In comparison with the other metropolitan municipalities (which has the same problem) in South Africa, the City of Cape Town in fact has the lowest unemployment rate. Nevertheless, due to large job losses in the manufacturing sector, as well as the post-2009 slump in construction activities, this has had a negative impact on employment in the Cape Metro.

After the Cape Metro, the Eden District had the highest literacy rate at 82.6 per cent during 2011. The corresponding unemployment rate was relatively high at 22.5 per cent, having increased from 23.4 per cent in 2001. This may be explained by the large increase in the labour force from 2001 to 2011, indicating a large number of entrants to the labour force which the job market was not fully able to absorb. Population (and labour force) growth not only stems from natural causes but is also largely due to net in-migration in certain areas. The Central Karoo District has shown the largest improvement in its literacy rate from 63.0 per cent in 2001 to 73.4 per cent in 2011. Its literacy rate is however the lowest in the Province. This District has largely unskilled labour, but its high prevalence of primary activities creates a demand for semi-skilled and unskilled labour.

Table 7.1 Western Cape literacy rates per district, 2001 - 2011

	2001	2011
City of Cape Town	85.0%	90.5%
West Coast District	71.0%	79.1%
Cape Winelands District	72.0%	81.7%
Overberg District	73.0%	81.1%
Eden District	74.0%	82.6%
Central Karoo District	63.0%	73.4%
Western Cape	85.0%	87.2%

Source: *Statistics South Africa, Census 2001 and 2011*

Approximately 34 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2014), yet it is clear that there is room for improvement with regard to skills development in the Cape Metro and Western Cape as a whole. As mentioned in Chapter 3, the services sector has been able to create substantial skilled jobs. Unfortunately, over the period 2000 – 2013, large job losses in the manufacturing and construction sectors countered the jobs created in the services sector thus causing a slower improvement in unemployment. The Cape Metro unemployment rate did decline from 29.2 per cent in 2001 to 23.9 per cent in 2011. Further declines may be problematic as the Metro witnessed net retrenchments over the 2010 - 2013 period (see Chapter 3).

Table 7.2 Western Cape unemployment rates per district, 2001 – 2011

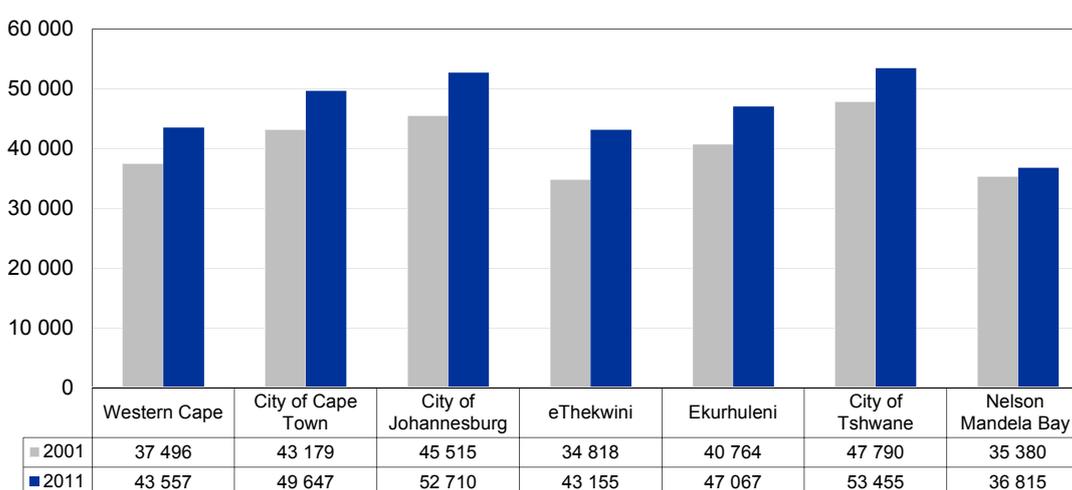
	2001	2011
City of Cape Town	29.2%	23.9%
West Coast District	13.2%	14.6%
Cape Winelands District	17.0%	14.2%
Overberg District	17.5%	17.0%
Eden District	23.4%	22.5%
Central Karoo District	33.2%	22.7%
Western Cape	26.2%	21.6%

Source: Statistics South Africa, Census 2001 and 2011

As per Chapter 3, there is a trend towards employing highly skilled and skilled labour. The largest component of employment is in the form of skilled positions. The demand for semi-skilled and unskilled labour has contracted by 1.1 per cent per annum between 2000 and 2013. This indicates that going forward, low skilled labour intensive employment initiatives as well as skills development will be necessary to stimulate the creation of new job opportunities in the Cape Metro.

7.3.2 Household income and income inequality

According to Statistics South Africa Census 2011, average household income in the country has doubled over the last decade; however, high levels of income inequality still persist. Most informed observers would agree that economic resources should be more evenly distributed amongst the inhabitants of the country and that such a redistribution policy should make a real positive difference to the livelihoods of the poor.

Figure 7.4 Metro GDP per capita (constant 2005 prices), 2001 - 2011

Source: Quantec, 2013

The GDP per capita in the Western Cape Province was estimated at R43 557 per annum in 2011 (based on 2005 prices). The GDP per capita in the Cape Metro was higher at R49 647 in 2011 (see Figure 7.4). This may be attributed to the high level of GDP (R185 682) (i.e. the second largest among the metro's), and relatively high GDP growth in the Cape Metro economy. The point made in section 7.2.1 above, i.e. that the metro economies grew at faster rates than their respective populations did, correspond with the evidence displayed in Figure 7.4.

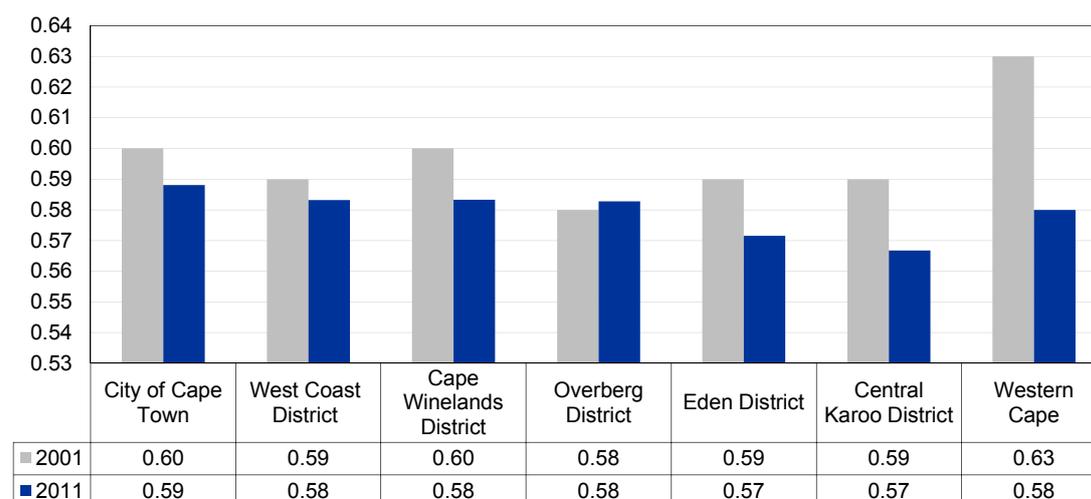
Table 7.3 Metro average household income in 2011

Metro	None income	R1 - R4 800	R4 801 - R9 600	R9 601 - R19 600	R19 601 - R38 200	R38 201 - R76 400	R76 401 - R153 800	R153 801 - R307 600	R307 601 - R614 400	R614 001 - R1 228 800	R1 228 801 - R2 457 600	R2 457 601+
City of Cape Town	13.7%	2.7%	4.0%	10.6%	16.0%	14.5%	13.0%	11.9%	8.7%	3.6%	0.9%	0.5%
City of Johannesburg	16.8%	3.1%	4.4%	10.7%	16.8%	14.2%	10.5%	9.1%	7.7%	4.5%	1.6%	0.8%
eThekweni	17.1%	4.2%	6.2%	14.3%	16.9%	13.4%	10.7%	8.6%	5.7%	2.0%	0.6%	0.3%
Ekurhuleni	17.8%	3.8%	5.3%	11.6%	16.9%	15.0%	10.8%	8.7%	6.3%	2.7%	0.7%	0.4%
City of Tshwane	14.9%	2.9%	4.2%	10.6%	15.5%	13.3%	11.8%	11.3%	9.3%	4.5%	1.2%	0.6%
Nelson Mandela Bay Metro	15.8%	4.4%	6.1%	15.9%	17.2%	12.9%	10.7%	9.0%	5.6%	1.6%	0.4%	0.3%

Source: Statistics South Africa, Census 2011

Table 7.3 shows that in 2011 the largest proportion of households earned between R19 601 and R153 800 per annum in the Cape Metro. The City of Tshwane had a similar distribution of income. Within the other Metro's the largest proportion of households earned between R9 601 and R76 400. A look at the proportion of households in each of the metros earning no income raises some concern. The Cape Metro and City of Tshwane are the only metros with less than 15 per cent of households as none-income earners. The remaining metro's have large proportions of households that earn no income. This is consistent with the high unemployment rates in these areas. These areas all have large economies; however, the high unemployment results from the mismatch in the labour market, i.e. an oversupply of semi and unskilled labour whilst the demand for skilled labour is growing.

The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. The coefficient varies between 0, which represents complete equality and 1, which represents complete inequality. The Gini coefficient is bound to be an under-estimation in that it does not measure wealth (only income) and it does not account for income that accrues to the owner, but never enters the country including the extent thereof. With a Gini coefficient of 0.77 in 2001, South Africa displayed very high levels of income inequality. The South African Government provides its households with free basic services, thus their wealth could be greater even though this is not represented when looking at income levels. The Gini coefficient in the Western Cape was also relatively high at 0.63 in 2001, but it declined to 0.58 in 2011.

Figure 7.5 Gini coefficients in the Western Cape per district, 2001 - 2011

Source: IHS Global Insight, 2013

Income inequality in the Cape Metro is slightly higher than that of the Western Cape (0.58 in 2011) at 0.59. It also showed only a 0.01 point decline or improvement from 2001. The Gini coefficients for all districts in the Western Cape (except the Overberg District which remained constant) showed a marginal improvement over the period 2001 to 2011.

Approximately 16 per cent of households in the Cape Metro earn between R19 601 and R38 200. These values are relatively low and explain the large number of indigent households within the Cape Metro. The relatively high levels of inequality indicate that the improving economic conditions may be slow to benefit the wider proportion of individuals within the area.

7.3.3 Poverty, employment and economic growth

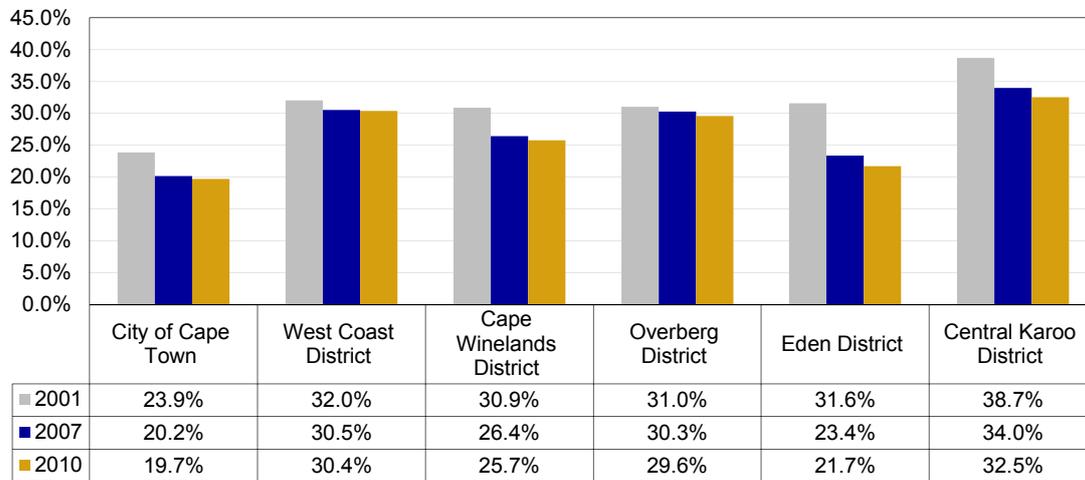
Poverty is generally influenced by levels of employment and economic growth. High poverty rates in South Africa in general and in the Western Cape Province in particular have led to poverty reduction being prioritised by the South African Government. Municipalities support those living in poverty, i.e. indigent households, by providing these households with access to free basic services (Municipal Indigent Support Policy, 2014/15).

The Western Cape Province has seen a 29.0 per cent decline in indigent households, which indicates a positive move towards coming to grips with addressing poverty. Accordingly, the poverty rate declined from 26.7 per cent in 2001 to 22.1 per cent in 2010. The Cape Metro has also displayed such positive results (see Figure 7.6).

The Cape Metro showed some improvement in its poverty rates from 23.9 per cent in 2001 to 19.7 per cent in 2010 and has thus outperformed the Provincial average. The general improvement in poverty rates is largely attributed to the 2000 - 2007 economic expansionary period during which there has been a decline in the unemployment rate. The regional area with the lowest poverty rate during 2010 was the Cape Metro and the highest was the Central Karoo District with 32.5 per cent. As

seen in Figure 7.6, this situation has improved in all districts within the province. This implies less strain on municipal resources to provide households with free basic services.

Figure 7.6 Percentage of households living in poverty 2001 - 2010



Source: IHS Global Insight, 2013

The relatively low levels of poverty and high levels of income within the Cape Metro paints a positive picture for the inhabitants of this regional area.

7.3.4 Human development

The Human Development Index (HDI) is a composite statistical index of life expectancy, education and income indices. It averages at 0.68 in the Western Cape Province. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2011.

Table 7.4 Western Cape Human Development Index per district, 2000 – 2012

	2001	2011	2012
City of Cape Town	0.71	0.74	0.74
West Coast District	0.63	0.67	0.67
Cape Winelands District	0.63	0.69	0.68
Overberg District	0.63	0.69	0.69
Eden District	0.64	0.71	0.71
Central Karoo District	0.57	0.65	0.65

Source: Statistics South Africa, Census 2001 and HIS Global Insight 2011 - 2012

The same holds true for the Cape Metro, as shown in Table 7.4. All districts in the province have seen significant improvement in human development from 2001 to 2011. The Cape Metro had the highest HDI in the province of 0.74. The high HDI can be attributed to its relatively high GDP per capita, life expectancy and literacy rate. The Central Karoo District had the lowest HDI in the District of 0.65. It has however shown the largest improvement between 2001 and 2012.

The relatively high HDI levels within the Cape Metro indicate that economic growth is being translated towards social development amongst individuals within the region.

7.4 Conclusion

The following conclusions can be made regarding the socio-economic analysis above:

- The economy grew at a faster rate than the population within the Cape Metro which has led to an increase in per capita income in the region. This indicates higher average standards of living for the inhabitants of the City.
- The Cape Metro has the highest levels of youth unemployment in the Province. The youth are over-represented among the unemployed perhaps due to their lack of experience and skills.
- Literacy rates in the Cape Metro are relatively high compared to the other Districts within the Western Cape. There is however a trend towards mechanisation and employing skilled and highly skilled labour. This indicates that going forward, further skills development as well as low skilled labour intensive initiatives will be necessary to stimulate employment in the region.
- The proportion of households that are living in poverty has fallen between 2001 and 2010 in the Cape Metro. It is also the lowest in the Province and paints a good picture for the standard of living of the inhabitants of the metropolitan area.
- The high and increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the Cape Metro.

The Cape Metro has shown improvement over the years with regard to all areas of its socio-economic environment as discussed above. This chapter illustrates how the economy impacts on the standard of living within the city. The fast growing economy and relatively high literacy rates have led to some decline in unemployment rates in the Cape Metro. This has in turn led to increasing household and per capita income. These have translated to declining poverty levels or indigent support required within the Metro. There is still room for improvement with regard to skills development and employment creation, but the Cape Metro is performing well in terms of allowing inhabitants to reap social benefits from the growing economy.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Cape Metro: GDP at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	-2.6	10.0	7.2	7.9	8.1	18.7	2.2
2 Secondary sector [SIC: 3-5]	1.8	3.3	2.7	2.9	4.3	-1.6	2.3
3 Tertiary sector [SIC: 6-9, 0]	3.3	5.0	3.9	4.1	5.3	2.1	2.8
Total: Cape Metro	2.8	4.6	3.6	3.9	5.0	1.5	2.7
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	8.2	12.4	8.5	9.3	9.8	21.9	2.2
2 Mining and quarrying [SIC: 2]	-17.3	-0.7	-2.2	-0.4	0.4	-7.2	1.5
3 Manufacturing [SIC: 3]	1.6	2.4	2.2	2.4	3.6	-3.0	2.7
4 Electricity, gas and water [SIC: 4]	3.7	6.4	1.0	3.0	5.2	-1.4	1.0
5 Construction [SIC: 5]	2.7	7.6	5.6	5.8	8.4	4.3	1.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	5.3	4.7	2.9	4.0	5.5	-0.7	3.4
7 Transport, storage and communication [SIC: 7]	7.8	6.5	3.4	4.6	6.5	1.9	2.3
8 Finance, insurance, real estate and business services [SIC: 8]	3.5	6.4	4.9	5.0	6.5	3.1	3.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.0	2.8	2.3	2.5	3.4	1.1	1.4
10 General government [SIC: 91, 94]	-2.0	1.4	3.5	2.0	1.2	4.0	2.7
Total: Cape Metro	2.8	4.6	3.6	3.9	5.0	1.5	2.7

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Cape Metro					
1 Primary sector [SIC: 1-2]	1.3	1.0	1.3	1.6	1.6
2 Secondary sector [SIC: 3-5]	26.0	24.8	23.1	22.0	21.4
3 Tertiary sector [SIC: 6-9, 0]	72.6	74.2	75.6	76.4	77.0
Total: Cape Metro	100	100	100	100	100
Broad sectors: Cape Metro					
1 Agriculture, forestry and fishing [SIC: 1]	0.6	0.8	1.1	1.5	1.5
2 Mining and quarrying [SIC: 2]	0.7	0.2	0.2	0.1	0.1
3 Manufacturing [SIC: 3]	21.2	19.9	17.9	16.4	16.0
4 Electricity, gas and water [SIC: 4]	1.6	1.6	1.8	1.6	1.5
5 Construction [SIC: 5]	3.3	3.2	3.5	4.0	3.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	14.2	15.9	15.9	15.1	15.4
7 Transport, storage and communication [SIC: 7]	8.0	10.2	11.1	11.0	10.9
8 Finance, insurance, real estate and business services [SIC: 8]	29.6	30.5	33.1	35.2	35.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.9	6.0	5.5	5.1	5.0
10 General government [SIC: 91, 94]	14.9	11.7	10.0	9.9	9.9
Total: Cape Metro	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Cape Metro: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	-2.3	5.9	1.7	3.6	6.0	-1.3	-0.6
2 Secondary sector [SIC: 3-5]	-4.3	-1.5	-3.8	-2.6	-2.0	-5.2	-2.5
3 Tertiary sector [SIC: 6-9, 0]	3.4	2.6	1.0	1.7	2.2	0.7	0.7
Total: Cape Metro	0.7	1.6	-0.1	0.7	1.2	-0.7	0.0
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	-1.0	7.2	0.8	4.0	6.7	-1.8	-0.5
2 Mining and quarrying [SIC: 2]	-13.2	-15.9	26.2	1.8	1.3	10.4	2.9
3 Manufacturing [SIC: 3]	-2.9	-1.7	-3.5	-2.4	-2.4	-4.5	-1.0
4 Electricity, gas and water [SIC: 4]	-0.8	6.4	4.3	3.2	7.4	-6.8	2.4
5 Construction [SIC: 5]	-7.0	-1.2	-4.8	-3.1	-1.5	-6.6	-5.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.2	1.4	0.6	0.9	1.3	-0.4	0.3
7 Transport, storage and communication [SIC: 7]	-1.9	0.6	3.7	1.5	-0.2	7.4	3.0
8 Finance, insurance, real estate and business services [SIC: 8]	7.4	4.9	0.2	2.8	4.3	-1.2	1.7
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.9	2.2	1.2	1.9	2.5	1.7	-0.6
10 General government [SIC: 91, 94]	0.5	3.6	1.8	1.7	2.1	2.6	0.5
Total: Cape Metro	0.7	1.6	-0.1	0.7	1.2	-0.7	0.0

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Cape Metro					
1 Primary sector [SIC: 1-2]	2.9	2.5	3.0	3.5	3.6
2 Secondary sector [SIC: 3-5]	36.6	28.4	24.3	20.0	18.8
3 Tertiary sector [SIC: 6-9, 0]	60.4	69.1	72.7	76.5	77.6
Total: Cape Metro	100	100	100	100	100
Broad sectors: Cape Metro					
1 Agriculture, forestry and fishing [SIC: 1]	2.5	2.3	3.0	3.3	3.5
2 Mining and quarrying [SIC: 2]	0.4	0.2	0.1	0.2	0.2
3 Manufacturing [SIC: 3]	23.4	19.4	16.5	13.7	13.2
4 Electricity, gas and water [SIC: 4]	0.3	0.3	0.4	0.4	0.4
5 Construction [SIC: 5]	13.0	8.7	7.4	6.0	5.2
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	20.4	23.0	22.4	23.3	23.7
7 Transport, storage and communication [SIC: 7]	5.4	4.8	4.6	5.4	5.3
8 Finance, insurance, real estate and business services [SIC: 8]	12.6	17.5	20.4	20.2	21.5
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	11.4	13.3	13.7	14.9	14.8
10 General government [SIC: 91, 94]	10.6	10.5	11.6	12.7	12.3
Total: Cape Metro	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Cape Metro: Composition of Goods Exports and Imports (nominal values)

Sector	1995	2000	% share		
			2005	2010	2013
Goods Exports (R million)					
Broad sectors: Cape Metro					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	33.5	35.2	30.8	39.4	44.9
2 Mining and quarrying [SIC: 2]	0.2	2.7	5.6	2.2	4.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	29.6	59.8	63.4	58.3	50.5
4 Undefined/other	36.7	2.2	0.1	0.1	0.5
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Cape Metro					
1 Food, beverages and tobacco [SIC: 301-306]	34.6	26.3	18.8	23.9	30.9
2 Textiles, clothing and leather goods [SIC: 311-317]	8.0	6.3	3.7	2.4	2.0
3 Wood, paper, publishing and printing [SIC: 321-326]	4.2	2.3	2.0	1.8	1.4
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	29.4	36.3	47.7	34.2	35.0
5 Other non-metal mineral products [SIC: 341-342]	1.8	0.7	0.7	0.8	0.5
6 Metals, metal products, machinery and equipment [SIC: 351-359]	9.2	5.6	10.3	17.5	14.1
7 Electrical machinery and apparatus [SIC: 361-363]	5.0	1.1	0.8	0.9	1.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.9	1.8	5.0	6.9	2.8
9 Transport equipment [SIC: 381-387]	4.3	15.6	6.1	5.7	6.4
10 Furniture and other manufacturing [SIC: 391-392]	2.5	3.9	5.0	6.1	5.7
Total: Manufacturing exports	100	100	100	100	100
Goods Imports (R million)					
Broad sectors: Cape Metro					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	8.1	4.5	5.9	7.5	7.6
2 Mining and quarrying [SIC: 2]	38.0	59.4	49.1	43.4	37.3
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	53.8	36.0	45.0	49.0	55.1
4 Undefined/other	0.1	0.0	0.1	0.0	0.1
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Cape Metro					
1 Food, beverages and tobacco [SIC: 301-306]	11.1	9.4	10.8	12.0	10.5
2 Textiles, clothing and leather goods [SIC: 311-317]	12.4	14.9	13.2	13.8	12.6
3 Wood, paper, publishing and printing [SIC: 321-326]	8.5	6.5	3.9	3.4	2.9
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	20.0	26.3	32.3	39.8	42.4
5 Other non-metal mineral products [SIC: 341-342]	1.7	2.1	2.8	2.6	1.9
6 Metals, metal products, machinery and equipment [SIC: 351-359]	25.0	19.3	15.9	13.5	13.3
7 Electrical machinery and apparatus [SIC: 361-363]	2.6	2.3	1.9	1.9	3.8
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	7.0	9.7	12.1	6.2	7.0
9 Transport equipment [SIC: 381-387]	8.3	4.7	3.2	2.4	1.8
10 Furniture and other manufacturing [SIC: 391-392]	3.5	4.7	4.0	4.5	3.8
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/CER

West Coast District

Key points

- The West Coast District (WCD) has been the slowest growing region in the Western Cape, despite the fact that it hosts two of the top-10 non-metro municipalities in terms of growth and size, i.e. Saldanha Bay and Swartland. The poor manufacturing growth of the leading Saldanha Bay Municipality is notable, albeit that the services activities and employment in this region have expanded. Furthermore, steadily contracting agriculture in Berg River, Matzikama and the Cederberg puts additional strain on the WCD's growth and employment creation, resulting in reduced municipal revenue bases and increased socio-economic pressures.
- During the previous expansion phase of the business cycle (2000 - 2007) real GDP growth averaged 3.8 per cent per annum. As exports – mainly agriculture, agri-processing and base metal exports – account for a large share of GDP, the region was severely impacted by the 2009 recession, a year during which real GDP contracted by 2.8 per cent. While growth rebounded to 4.2 per cent in 2011, it tapered off to 2 per cent in 2013 and is expected to come in at 2.2 per cent this year. The growth outlook has been scaled down substantially in view of weaker than expected growth in the post-financial crisis period and domestic labour market instability. This growth environment will no doubt present the WCD with development challenges.
- Four years after the recession ended, the region continues to feel the impact. The 2013 level of manufacturing employment was 73 per cent of its pre-recession peak (i.e. 2008); in Saldanha Bay, the corresponding number is 53 per cent. While services employment creation did compensate partly, the overall level of employment in 2013 was still close to 10 per cent below its pre-recession peak and this is despite the WCD being the only Western Cape region to create jobs on balance during the economic recovery period, i.e. 2010 - 2013. Some of the job losses occurred before the recession due to an adverse trend in employment creation – a cumulative 14 800 jobs were shed between 2000 and 2013, mainly in agriculture.

- During the recession (2008 - 2009) a cumulative 9 840 jobs were lost in the formal sectors of the West Coast, while 3 200 jobs were created in the informal sector. The informal sector employs more than one fifth of the regional workforce. In view of the counter-cyclical role of the informal sector and the sector's linkages with the formal sector, this may warrant a more nuanced policy approach towards the informal sector, which would acknowledge these intricacies and provide technical and business support required to build informal businesses to eventually migrate to the formal sector.
- The region's competitive strengths reside in its agro-processing, tourism and building and construction value chains. The development of the IDZ and growth of the oil and gas industry are also likely to generate competitive advantages. A value chain analysis shows that the development of the IDZ can have meaningful spin-offs for the downstream metals products industry. Urgency is required in developing the required infrastructure to support these developments, with particular attention being paid to the backward and forward linkages. The IDZ is, furthermore, seriously needed to support manufacturing growth in the region.
- Generally, those municipalities with high levels and maintenance of (economic) infrastructure experience higher rates of economic growth, which in turn helps them to afford the required infrastructure budgets. A number of construction projects – the IDZ, the expansion of the Clanwilliam Dam and the SIP 5 and 8 infrastructure projects – are likely to boost construction activity and broader economic growth over the short to medium term.
- Youth unemployment is a serious problem in the region, being 39.3 per cent in the 15 - 19 age cohort and 30.4 per cent in Saldanha Bay (age 15 - 34). Literacy rates are also relatively low – 79.1 per cent compared to 87.2 per cent in the Province. Current initiatives underway to train unskilled youth labour are commendable and need to be strengthened in view of the skills requirements of the planned IDZ investments. As most Western Cape districts the West Coast suffers from a serious mismatch in its labour market between skilled labour demand and unskilled labour supply.
- Per capita income growth was flat between 2001 and 2011 and the region has suffered increasing levels of poverty requiring indigent support. The planned infrastructure projects have become urgent to stimulate growth, employment creation and poverty alleviation in the region.

Executive summary

1. Introduction

The 2014 Municipal Economic Review and Outlook (MERO) study builds on the analysis of the West Coast District (WCD) growth and development trends in the corresponding 2012 and 2013 studies. The MERO's objective is to provide economic intelligence at the district and municipal level in the Western Cape Province, alongside its sister publication, the Provincial Economic Review and Outlook (PERO).

The WCD has been hard-hit by the 2009 global recession, particularly in terms of the adverse impact on employment levels. Furthermore, the region's socio-economic indicators paint an unsatisfactory picture. A central theme in the 2014 study is to track the region's recovery from the recession impact and to explore existing bottlenecks or constraints which may be restraining economic growth and development. The results from the study can hopefully feed into official economic strategy plans and assist the private sector in identifying growth opportunities.

The recent and expected macro-economic environment and implications for the WCD economy are first assessed. Thereafter, the sectoral analysis is deepened, with the focus on sectoral growth, employment and skills demand trends and an analysis of the WCD metal and machinery value chain (in order to assess the potential



stimulus of the Saldanha Bay IDZ development recently commissioned). The informal sector analysis is also taken further by investigating the sector's linkages with the formal sector and its cyclical sensitivities. Furthermore, the municipal revenue and infrastructure spending trends and their relationship with the growth of the regional economy come under the spotlight. The report is concluded by a welcome addition to the MERO study, namely a consideration of the WCD's socio-economic climate and the apparent economic growth and employment linkages.

2. Regional growth trends

The WCD showed strong signs of recovery in 2011 from the 2009 recession, registering a 4.2 per cent real GDP growth rate. However, growth tapered off to 2.1 per cent last year and is expected to average 2.1 per cent again in 2014. This is in line with the sluggish global and national economic conditions that the WCD is exposed to. The WCD GDP growth forecast for the period 2014 - 2019 has also been reduced to 2.9 per cent per annum from 3.5 per cent per annum previously (for the period 2012 - 2017), in concert with global and national developments. The main reasons for the slower macro-economic growth are weaker than expected global growth and the adverse domestic impact of labour instability.

It is expected that growth within the WCD will be topped by financial and business services, albeit significantly slower compared to the previous business cycle boom. Other sectors expected to grow above average are construction; transport, storage and communication and wholesale, retail, catering and accommodation, with the latter-mentioned sector stimulated by tourism activity. Saldanha Bay and Swartland are the largest and fastest growing sub-regions.

The region has experienced moderate net job growth over the recovery period (2010 - 2013) mainly within the services sector. Whilst modest, this is encouraging as the other 5 Western Cape districts recorded net job losses over the corresponding period. Significant work and policy craft is required to arrest the poor overall job creation in the region and the lingering recession impact.

3. Sectoral growth, employment and skills

The WCD has been the slowest growing region in the Western Cape, despite the fact that it hosts two of the top-10 municipalities in terms of growth and size, i.e. Saldanha Bay and Swartland. The regional economy's competitive strengths reside in its agro-processing, tourism and building and construction value chains. The development of the Saldanha Bay IDZ and other infrastructure projects (e.g. the Clanwilliam Dam extension; the government's SIP 5 and 8 projects) will boost growth. Unfortunately, the growth momentum has been sub-par (averaging 3.2 per cent per annum, 2000 - 2013), also during the economic recovery, 2010 - 2013 (2.8 per cent per annum). The poor manufacturing growth of the leading Saldanha Bay Municipality is notable, albeit that the services activities and employment in this region have expanded. Furthermore, steadily contracting agriculture in Berg River, Matzikama and the Cederberg puts additional strain on the WCD's growth and employment

creation, resulting in reduced municipal revenue bases and increased socio-economic pressures.

It is evident that the WCD continues to feel the impact of the 2009 recession in many respects; the 2013 level of manufacturing employment is 73 per cent of its pre-recession peak (in Saldanha Bay, 53 per cent). Unemployment has been increasing. There is a great need to employ, train, retrain and upskill workers as the agricultural, manufacturing and construction sectors have shed semi and unskilled labour on a large scale, not fully compensated for by the net job creation in the skills-intensive services industries. These growth patterns lead to distorted socio-economic outcomes – see below. The outlook is for some improvement, albeit evident that general economic conditions in the region will be far from booming apart possibly in the localities where major capital projects are planned. These infrastructure investments are critical in an otherwise challenging macro-economic environment anticipated over the next 3 – 5 years.

4. Value chains

On a more encouraging note, the development of the oil and gas industry around the Saldanha Bay area, as well as the incentives and supply chain benefits surrounding the Saldanha Bay IDZ, will provide the necessary demand to grow the metals and metal products industry. It is crucial that the necessary support services are provided to the IDZ. The increased output in the metals industry will not only increase the value added activity in the value chain, it will also increase demand in the local economy. The stimulus is critical in view of the 20 per cent-plus contractions in real value added and employment in the metals and machinery sector in the WCD over the past decade.

The value added/output ratio, which is exceptionally low in the metals and machinery sector in the WCD compared to other districts, will increase in the event of more active downstream manufacturing capacity being created. This will be achieved as new metals and engineering firms locate in, or close to the IDZ, to take advantage of improved logistics and the available basic metals supply. It is estimated that the metal products industry alone can increase value added from almost zero to more than R700 million on the basis of the current planned investments.

The business services sector and the retail sector will also benefit from the additional income and spending in the local economy. The spending potential of the local workforce will increase and this will create the opportunity for the development of new retail outlets and other property developments. In turn, this will also lead to an increased demand for social services. Spending on education, healthcare and social services will be necessary and this will drive overall socio-economic development in the WCD. On the basis of current plans, it is projected that the IDZ will sustain 7 800 direct employment opportunities once the infrastructure and associated private investments are in place; this is equivalent to a 7.5 per cent increase in the current regional work force.

5. Informal sector

Surveys of the informal and SMME sectors have shed some light on the characteristics of small and informal businesses in the WCD. These characteristics were discussed in the 2013 MERO study and this year the analysis is taken a step further by investigating the linkages between the informal and formal businesses. The results provide evidence of close formal and informal sector linkages, albeit that details regarding the nature of these linkages could not be extracted. Between 5 and 10 per cent of formal businesses sustain linkages with informal businesses in the WCD. Unfortunately, given the evident existence of financial constraints (i.e. lack of access to credit) and low-level skills within the informal sector, and in view of the evidence from academic literature, it appears that these linkages may be backward linkages involving 'unfair' formal sector outsourcing. This means that informal businesses may source formal sector products at retail prices only to sell them at higher prices to poor local customers. More research may be required to ascertain the prevalence of this phenomenon.

Regarding the cyclical sensitivities, the (2008 - 2009) recession caused significant net job losses (of about 9 840) in the formal sectors of the WCD economy while there were 3 200 net jobs created in the informal sector over the same period. The WCD informal work force was estimated at 22 per cent of the total work force in 2013, i.e. an estimated 22 600 informal workers (Quantec, 2014). Most of the employment gains in the informal sector were created in the wholesale, retail trade and catering and accommodation sector during the recession, with the number of new informal jobs surpassing formal net retrenchments. This indicates that downward rigidities during the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed. Sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts. Informal employment therefore acts as a residual 'sponge' that soaks up surplus labour from the formal sector. This may be favourable to the WCD as a thriving informal market may alleviate the District from developing policies aimed at assisting the openly unemployed.

Given the important poverty relieving role of the informal sector, it is recommended that the District and its municipalities consider a more nuanced view of the informal economy in order to recognise the distinct support needs of informal labour (and survivalist firms) and informal entrepreneurs. The focus should not be on extending social protection across the informal economy as that risks trapping informal entrepreneurs in relations of dependency. Instead, the objective should be to build capacity for autonomous development and migration to the formal economy, rather than reducing them to skilled labour in exploitative formal sector outsourcing arrangements. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

6. Municipal revenues and expenditure on infrastructure

It is accepted that basic service delivery through infrastructure investment is a cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure impacts positively on economic growth. The Municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. The provision of municipal infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. An analysis on both sides of the budget, i.e. revenue and infrastructure expenditure, was conducted. It revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the WCD. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality. Overall WCD municipal revenues grew by an estimated 12 per cent per annum between 2008/09 and 2012/13.

According to the Growth Potential Study (2014), Saldanha Bay and Swartland municipalities are rated high according to an infrastructure index. On the other hand, Matzikama and Cederberg fall within the low category of the infrastructure index. Various factors affect the ability of municipalities to invest in infrastructure for service delivery. Restraining factors such as the upgrading and maintenance of existing infrastructure impact massively on the ability of municipalities to provide basic services. The retention of skilled staff has also been a threat to efficient service delivery. Infrastructure delivery in Matzikama and Cederberg is influenced by the high poverty rates within their municipal jurisdictions. On the other hand, Saldanha Bay and Swartland benefit from their locational advantages, close proximity to the Cape Metro and harbour and have been able to attain higher rates of economic growth.

The WCD economy will be boosted by the planned infrastructure spending associated with projects such as the development of the IDZ at Saldanha Bay, the Clanwilliam Dam extension (Cederberg) and the government's Northern Cape corridor SIP 5 project. From the government's side (provincial and local) there is an urgent need to develop the required infrastructure, particularly regarding the IDZ, giving specific attention to backward and forward linkages in the iron and steel and oil and gas value chains. These projects are likely to boost the growth of the transport and construction sectors and will also have multiplier or knock-on effects on the rest of the regional economy. There is a positive correlation between the level of infrastructure and sub-regional economic growth. All infrastructure investments should be done in accordance with development and economic needs within the WCD.

7. Socio-economic climate and development indicators

The socio-economic analysis, contained in a separately released working paper at the time of the 2013 MERO study, has this year been brought into the main report. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its constituent municipalities, with the intelligence needed to understand their socio-economic reality and also the impact of the economy.

The fast growing population (3.3 per cent per annum) and low economic growth in the WCD (3.3 per cent) has led to stagnating real per capita incomes in the region, thus indicating no change in standards of living. Large discrepancies exist between population growth rates across the Province as well as within the WCD, which indicates that population growth does not only stem from natural causes but is also largely due to net in-migration. Per capita income only increased in Saldanha Bay municipality, while it declined for all the other municipalities in the WCD between 2001 and 2011.

Rising youth (age 15 - 34) unemployment in the WCD region is a concern (18.7 per cent in 2011, with the rate being as high as 39.3 per cent in the 15 - 19 age cohort; and as high as 30.4 per cent in Saldanha Bay). The youth is over-represented among the unemployed largely due to their lack of experience and the lack of diverse industries within this district may also play a role.

Literacy rates in the WCD (79.1 per cent compared to 87.2 per cent in the Province) are relatively low. There is a trend towards employing skilled to highly skilled individuals in the region thus increasing the levels of unemployment. Skills development and low skilled labour intensive initiatives are required in order to stimulate employment in the District. Current initiatives underway in WCD to train unemployed youth in technical occupations must be applauded.

The proportion of households that are indigent has risen from 2001 to 2011 in the WCD, despite the current (2010 - 2013) and previous (2000 - 2007) economic expansions. Saldanha Bay also hosts the highest share of households with no income and has the highest overall unemployment rate (23.4 per cent), despite it having the highest per capital income levels in the WCD. The growth of its skills-intensive services sector generates higher paid occupations, while the retrenchment of semi and unskilled labour in the manufacturing and construction sectors contribute to the high unemployment.

Bottom-line, and more encouraging, is the fact that the increasing Human Development Index (HDI) (between 2001 and 2012) indicates that economic growth is being translated towards social development within the WCD. There is still much room for improvement in terms of the region's socio-economic standing. This chapter illustrates how various indicators impact on the standard of living or poverty rates within the District. The increasing population and share of the working age population in conjunction with the sluggish economy and low literacy rates leads to unemployment and increasing youth unemployment as seen above. This has led to

low income or no income in some households, hence the decreasing per capita income. These have in turn led to increasing levels of poverty or indigent support required within the District. Addressing these issues may facilitate economic and social development in the region. The slow pace of job growth during the economic recovery, the lower economic growth rate and the down-graded economic outlook define a challenging environment going forward.

1

Introduction

1.1 Background and purpose of study

The 2014 Municipal Economic Review and Outlook (MERO) study will be the third one produced annually since 2012. With its origins in the micro-economic research undertaken at the time of the Micro-Economic Development Strategy (MEDS) initiative (2004 to 2008), and accompanying its sister publication, the Provincial Economic Review and Outlook (PERO) over the past three years, the central objective of the MERO is the provision of economic intelligence at the district and municipal levels in the Western Cape Province.

The growth of towns, cities and regions has become a focal point of contemporary socio-political and economic analysis. While the MERO study provides guidelines for identifying socio-economic constraints and related policy actions, the review of microeconomic trends and developments, including the medium-term outlook, has the potential to generate the economic intelligence that can feed into sub-regional Integrated Development Plans (IDPs) and Local Economic Development initiatives (LEDs).

A special attempt is made this time around to improve the accessibility of the MERO by refining the analysis in previous studies, shortening the report and improving the dissemination of the information. The hope is that the information will not only be useful to local and provincial authorities but will also enable private business enterprises to identify growth opportunities and reacting upon them in order to propel the regional economy to a higher growth plane.

1.2 Central issues covered

The MERO research publication was conceived in the wake of the 'Great Recession', which was triggered at the end of 2007 by the unsustainable financial growth and macroeconomic developments over the 1990s and 2000s in the world's leading

industrial economies, notably the USA and the Euro area. The impact of the subsequent recession (2008 - 2009) has been uneven across regions and countries. In fact, the 2012 - 2013 MERO analyses showed that the differential impact reached deeply into the Western Cape metro and non-metro districts.

A key theme of the 2013 study was how the Western Cape districts and municipalities have recovered from the impact of the global recession. One of the key consequences of the global recession, has been “a search for a new development paradigm that is both more inclusive and more sustainable ecologically” (see Turok et. al., 2013: 2). In the same vein, the consistent theme throughout the MERO report, is an emphasis on inclusive economic growth through employment creation. While it is accepted that public policy intervention has a constructive role to play, the focus is on the identification of the bottlenecks and constraints which are hampering private sector growth and employment creation. Consistent with the tenets of inclusive economic growth, attention also focuses on the developmental challenges embodied in making a dent in unemployment, poverty and underdevelopment.

Consequently, the central issues covered in the 2014 MERO study are, firstly, a consideration of the global, national and provincial economic performances and outlook in view of the general recovery from the 2008 - 2009 global recession and the mid-2011 slowdown, and how this macro-economic environment impacts on the WCD economy (Chapter 2 of this report).

The historical patterns of sectoral growth and employment, including the performance and outlook in this regard of the WCD since the onset of the global economic recovery at the end of 2009, are also discussed in greater detail (Chapter 3 of the report). Turok, et. al. (2013: 3) note that education and skills have become major determinants of regional economic growth, which has not necessarily been the case a century ago. The skills composition of sectoral economic growth is therefore also under consideration. Whilst the analysis is somewhat superficial, it effectively demonstrates the wider developmental challenge of the mismatch between the demand for skilled labour and the predominantly unskilled surplus labour supply present in the WCD economy. Expanding on the 2012 and 2013 MERO studies, an attempt is made to conduct the sectoral analysis of WCD trends in a provincial-wide municipal context. Reference is also made to the stock of infrastructure and the annual municipal spending in this regard, as well as the socio-economic profile of the WCD regional economy.

Whereas the WCD regional economy has tended to under-perform from a growth and employment perspective, a number of developmental initiatives are underway to address this problem, of which the establishment of the Saldanha Bay IDZ must rank as the number one priority. This year's value chain analysis (Chapter 4 of the report) neatly shows the potential that the booming demand from the offshore oil and gas market (and associated investments in the IDZ) holds for the development of a downstream metals and engineering industry in the region. The promised benefit is a movement up the value chain, i.e. greater value addition happening locally, including additional employment opportunities.

The 2013 MERO study introduced the results from a survey of 200 informal sector firms in the WCD conducted by the Department of Economic Development and Tourism (DEDAT). This year, the analysis is taken some steps further by an investigation into the linkages between the formal and informal sectors of the WCD, both conceptually and empirically. An attempt is also made to investigate the cyclical nature of the informal sector by showing the extent to which the informal sector played a counter-cyclical role in the WCD during the 2008 - 2009 recession (Chapter 5 of the report).

The important relationship between infrastructure investment and economic growth is explored at the regional level in respect of the WCD economy (Chapter 6 of the report). The actual infrastructure spending and municipal revenues over the 2008 to 2013 period are analysed and the outcomes in terms of economic growth by municipality are compared. The analysis also taps into the research undertaken in the *Growth Potential Study (2014)*.

Finally, a socio-economic synopsis of the WCD region is provided (Chapter 7 of the report), including an attempt to highlight the linkages between regional economic growth (value-added and employment) and the local economic development indicators.

1.3 Outline of the report

Apart from the first introductory section, the report consists of six chapters. As noted above, Chapter 2 discusses the trends (2000 - 2013, including the economic recovery period, 2010 - 2013) and outlook (2014 - 2019) for the WCD economy in a macro-economic context. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the accompanying PERO publication. Chapter 3 utilises secondary data sources – e.g. Quantec's regional data base; the 'Growth Potential of Western Cape Towns' study; the results from a municipal survey in the district; and the analysis of comparative advantages among industries conducted in the 2013 MERO – to deepen the regional economic analysis by sector. Specifically, this chapter analyses real GDP growth trends, employment creation and the skills composition of labour demand in the WCD.

In Chapter 4 a value chain analysis is conducted, with the focus on the metals and engineering sector, which is expected to benefit from the oil and gas sector development and the associated IDZ investments. The potential impact on the metals and engineering value chain comes under the spotlight. Chapter 5 takes the informal sector analysis further, considering the formal-informal sector linkages and the business cycle impact on the informal sector. Thereafter Chapter 6 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. Chapter 7 concludes with a socio-economic profile of the WCD.

2

Economic outlook

2.1 Introduction

This chapter provides a five-year economic outlook for the West Coast District (WCD) economy. The outlook is embedded in realistic global and national socio-political and economic assumptions, which are all briefly discussed in this chapter. In presenting the district economic outlook, attention is given to the historical growth trends, a consideration of the 2010 - 2013 economic recovery thus far, the region's industry comparative advantages, and an assessment of the macro-economic implications pertaining to the medium-term district economic outlook. The analysis of the sectoral district economic prospects is deepened in Chapter 3 in which sector developments are discussed.

2.2 Global, national and provincial economic developments

The global economic outlook remains uneven and uncertain. This follows the recent downward revision of the IMF's forecast for the global economy in July 2014 following a weak first quarter. The downgrade has shown that the global economy should grow at 3.4 per cent in 2014 down from its January forecast of 3.7 per cent. Weaker than expected growth in the developed economies and emerging markets forced the downgrade. Table 2.1 below gives a clear illustration of the differences between the April 2014 outlook and the latest IMF outlook. The downgrades are an indication that nations are still struggling to recover from the aftermaths of the financial crisis.

A generally negative outlook dominated the report; however the economic prospects for Japan, Germany and the UK were upgraded. Japan experienced stronger than expected growth in the first quarter resulting in an upgrade of its economic outlook. Growth in Japan is projected to be 1.6 per cent in 2014 and ease down to 1.1 per cent in 2015. In the **advanced countries** the economic outlook for

the US and Canada was downgraded. The cut in the outlook for the world's largest economy, the US, by 1.1 percentage points in respect of 2014 dragged the world outlook down. An overhang in inventories at the end of 2013 appeared to be much higher than expected and output during the first quarter of 2014 contracted due to the severe winter weather negatively impacting on domestic demand. However a growth rebound is expected in the US as the key drivers to the downturn were only temporary. Growth is expected at 1.7 per cent and 3.0 per cent in 2014 and 2015 respectively.

Table 2.1 World economic growth outlook: 2013 - 2015 (%)

Country	Actual	Projections		Difference*	
	2013	2014	2015	2014	2015
World output	3.2	3.4	4.0	-0.3	0.0
Advanced economies	1.3	1.8	2.4	-0.4	0.1
United States	1.9	1.7	3.0	-1.1	0.1
Euro Area	-0.4	1.1	1.5	0.0	0.1
Japan	1.5	1.6	1.1	0.3	0.1
Developing economies	4.7	4.6	5.2	-0.2	-0.1
Emerging and developing Asia	6.6	6.4	6.7	-0.2	-0.1
China	7.7	7.4	7.1	-0.2	-0.2
India	5.0	5.4	6.4	0.0	0.0
Latin America and the Caribbean	2.6	2.0	2.6	-0.5	-0.3
Middle East, North Africa, Afghanistan and Pakistan	2.5	3.1	4.8	-0.2	0.2
Sub-Saharan Africa	5.4	5.4	5.8	0.0	0.2
South Africa	1.9	1.7	2.7	-0.6	0.0

* Difference between July and April 2014 forecasts

Source: IMF World Economic Outlook July 2014

The latest economic indicators in the **Euro Area** remained unchanged from the April 2014 IMF World Economic Outlook (WEO) report. Growth is expected to remain uneven within the area with Italy and France's economic outlook being revised to 0.3 and 0.7 per cent respectively. Financial conditions in the area have eased with inflation coming in at below expectations in April 2014. However the area continues to suffer from financial market fragmentation and high unemployment rates as a result of fiscal headwinds. Following two calendar years of contraction the area is expected to return to positive growth, growing at 1.1 and 1.5 per cent in 2014 and 2015 respectively. High debt and tight credit conditions will continue to weigh on economic activity.

Economic indicators in **Asia** were also not promising. Projected growth in India remained unchanged (projected to be 5.4 and 6.4 per cent in 2014 and 2015 respectively) whilst the world's second largest economy, China is now expected to grow at 7.4 per cent, a 0.2 per cent cut from previous predictions. An effort to reign in credit growth in China led to the fall in domestic demand resulting in the downward revision.

The uneven growth pattern in the global economy can also be seen in the **emerging market** group of economies. The economic outlook of these countries was downgraded by 0.2 per cent to 4.6 per cent for 2014. Latin America also experienced

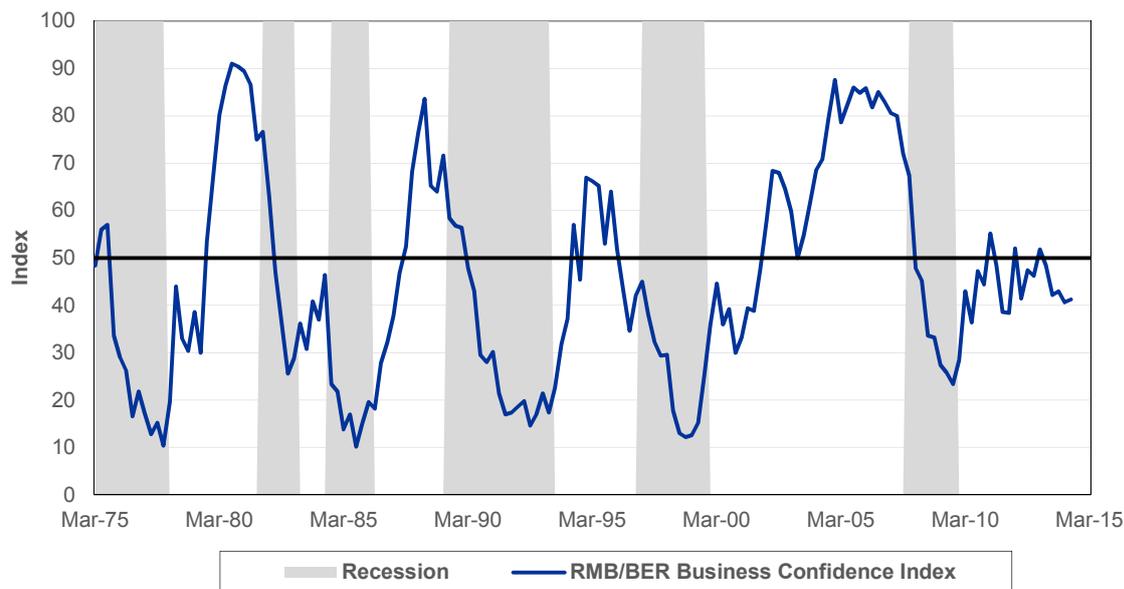
a downward revision by 0.5 per cent to 2.0 per cent in 2014. The Russian economy is expected to grow at only 0.2 per cent this year. Massive capital flight and geopolitical tensions have been highlighted as the cause of the 1.1 percentage cut from the previous forecast of 1.3 per cent. It is projected that investment in Russia will remain weak for a long time, thus accounting for an expected growth of only 1.0 per cent in 2015.

The economic outlook for **sub-Saharan Africa** remained unchanged. Countries with external vulnerabilities may however experience a reversal in capital flows in the event of there being a reversal in financial market sentiments. South Africa's growth forecast in respect of 2014 was revised downwards from 2.3 per cent to 1.7 per cent. This sluggish growth projection for the country is a result of labour strikes, electricity constraints and weak global demand.

In summary, the fund has warned that weaker US growth and slower demand in emerging market economies will have a negative impact on world economic growth. Furthermore, higher geopolitical risks, the Ukraine crisis and risks of oil price increases could place growth under additional pressure. Despite all these downgrades the economic outlook for 2015 remains unchanged as stronger economic growth is expected. According to the report global growth is expected to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015 from 3.2 per cent in 2013. It is expected that the global recovery will regain strength in the second half of 2014.

The **South African** economy is currently going through a difficult period. It is experiencing a number of challenges which includes the slowing down of economic growth, reflected by a 0.6 per cent economic contraction in the first quarter of 2014. The previous 2014 economic growth forecast for South Africa has been downgraded by a number of local and international institutions following growing economic challenges. The SA Reserve Bank has thus downgraded the forecasted economic growth for 2014 from 2.1 per cent to 1.7 per cent. The World Bank has also revised downwards South Africa's economic growth forecast for 2014 to 2 per cent from an earlier forecast of 2.7 per cent. Persistent labour strikes caused mining production to decrease by 6.5 per cent year-on-year in May 2014 and contributed to renewed weakness in the manufacturing sector. The poor performance in mining production was driven by a decline in Platinum Group Metals (PGM) mining production and due to suppressed commodity prices.

Some of the economic challenges facing the economy include the weakening of the rand, the increasing inflation rate, the growing unemployment rate and poor levels of business and consumer confidence. The RMB/BER Business Confidence Index remained unchanged at 41 in the second quarter of 2014. The index has remained below its long term average of 45.12 for the period since the middle of 2013 (see Figure 2.1). The index is less than encouraging reflecting as it does domestic concerns and the unhappiness of respondents about current economic conditions. On the other hand, though not indicated in Figure 2.1, the consumer confidence index recovered from -6 to 4 points in the second quarter of 2014; however, it remains below its long-term average.

Figure 2.1 The RMB/BER Business Confidence Index

Source: BER June 2014

Growth over the expansion period 2000 - 2007 trended at 4.3 per cent per annum declining to 1.2 per cent per annum over the recessionary period 2008 - 2009 and recovering to 2.7 per cent per annum over the period 2010 - 2013. Table 2.2 shows the economic growth outlook for the South African economy. During the forecast period 2014 - 2019 it is expected that the construction sector will grow the fastest, with growth averaging 3.7 per cent per annum. Forecast growth in the transport, storage and communication sector coupled with the finance, insurance, real estate and business services sector are forecast to also positively influence overall growth, each growing at 3.4 per cent per annum. The forecast growth of the general government of 2.1 per cent is noticeable albeit downgraded from previous forecasts due to the tighter fiscal position. Overall real GDP growth has been downscaled substantially, currently forecast to average 2.6 per cent per annum, 2014 - 2019.

A key development (from the middle of 2011) and reason for slower forecast growth has been the slowdown in consumer spending. The sector has been the backbone of the economic recovery in the country in the aftermath of the global financial crisis. Consumer spending lost momentum due to rising inflation, weaker real disposable income and slow economic growth; interest rates also began rising in the first quarter of 2014. Fixed investment spending is also a driver of growth and its outlook has been downscaled due to the poor domestic demand conditions and low business confidence levels.

Table 2.2 South Africa sectoral economic growth outlook: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 - 2019
Agriculture, forestry and fishing	2.3	1.9	2.8	2.3	1.9	2.2	2.2	2.2
Mining and quarrying	3.1	0.8	1.7	1.0	0.6	0.8	0.9	1.0
Manufacturing	0.8	1.8	2.6	2.3	2.0	2.2	2.3	2.2
Electricity, gas and water	-0.4	1.1	2.5	2.4	2.5	2.7	2.8	2.3
Construction	2.8	3.4	3.3	3.4	3.7	4.0	4.1	3.7
Wholesale and retail trade, catering and accommodation	2.2	1.0	3.2	2.8	2.6	2.7	2.8	2.5
Transport, storage and communication	1.9	2.7	3.5	3.4	3.6	3.6	3.8	3.4
Finance, insurance, real estate and business services	2.4	1.9	3.6	3.5	3.8	3.9	4.0	3.4
Community, social and personal services	1.8	1.6	2.6	2.1	1.9	2.1	2.2	2.1
General government	1.5	1.6	2.3	1.9	2.1	2.2	2.3	2.1
Total	1.9	1.7	3.0	2.7	2.7	2.8	2.9	2.6

Source: BER/Quantec Research 2014 (e = estimate; f = forecast)

Year-on-year headline inflation increased in 2014Q2 to 6.5 per cent from 5.9 per cent in 2014Q1. Despite the lowering of growth forecasts the inflation outlook remained unchanged. It is expected that headline inflation will decrease to 6.4 per cent in the third quarter and further decrease to 6.3 per cent in 2014Q4, remaining outside the SARB target range. Headline inflation forecast for 2015 was adjusted to 5.7 per cent and for 2014 to 6.3 per cent. The rand-dollar exchange has come under pressure depreciating by more than 40 per cent since the beginning of 2012 (see Table 2.3). Global and domestic factors, such as the Marikana strike (August 2012) and a widening current account deficit, have been major contributors to the weakening of the rand.

Table 2.3 South Africa: Forecast of inflation, interest rates and the rand exchange rate, 2014 - 2015

Financial variable	2012	2013	2014f	2015f
CPI inflation (average)	5.70	5.70	6.30	5.70
Prime overdraft interest rate (eop)	8.50	8.50	9.50	10.00
Rand/\$ exchange rate (eop)	8.64	10.47	10.70	10.95
Rand/€ exchange rate (eop)	11.32	14.36	14.10	13.75

eop: end of period

Source: BER

The **Western Cape** economy grew at a rate of 2.1 per cent during calendar year 2013 compared to 1.9 per cent for the country as a whole. The contraction in output in the mining sector weighed down on national growth. Although the Province was not able to reap the rewards from increases in mining activity in the second half of the year, it did benefit from growth in the manufacturing sector (which accounts for 17 per cent of overall GDP).

Table 2.4 shows the sectoral growth and employment trends in the Western Cape economy. While growth trended at 3.9 per cent per annum (2000 - 2013) it decelerated sharply during the recession years (2008 - 2009) to 1.7 per cent. Over the current years of the expansion phase (2010 - 2013) GDP growth has averaged 2.9 per cent per annum, well below its growth trend. The expansion of the wholesale and retail, catering and accommodation sector is notable, with the sector growing above average at 3.7 per cent per annum. Also notable is the growth in general government (3.4 per cent) and the growth in the finance, insurance, real estate and business services sector.

The rate of employment creation within the Western Cape followed national trends. Whereas the rate of employment creation in the Western Cape trended at 0.4 per cent it contracted to 0.3 per cent during the recession years (2008 - 2009). Unfortunately the rate of employment creation has not been restored during the recovery years (2010 - 2013). The contractions in the agriculture, forestry and fishing sector (2.0 per cent per annum), the construction sector (5.8 per cent per annum) and the manufacturing sector (1.0 per cent per annum) are major causes for concern.

Table 2.4 Western Cape economy sectoral growth and employment (formal and informal): 2000 - 2013

	Real GDP growth (yoy %)				Formal and informal employment (yoy % change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	2.0	1.1	8.2	0.8	-2.0	-0.9	-6.3	-2.0
Mining and quarrying	-1.2	-0.5	-7.4	0.5	1.3	0.7	1.6	2.6
Manufacturing	2.4	3.8	-3.3	2.6	-2.2	-2.1	-4.6	-1.0
Electricity, gas and water	2.5	4.2	-1.6	1.1	2.6	6.6	-12.5	2.0
Construction	6.5	9.1	5.5	1.7	-2.5	-0.9	-2.6	-5.8
Wholesale and retail trade, catering and accommodation	4.2	5.7	-0.6	3.7	0.9	1.3	0.8	0.3
Transport, storage and communication	4.7	6.6	2.0	2.4	1.6	0.0	5.8	2.8
Finance, insurance, real estate and business services	5.5	7.0	3.9	3.3	3.3	4.9	-0.2	1.9
Community, social and personal services	2.9	3.9	1.4	1.7	2.0	2.7	4.7	-0.5
General government	2.5	1.6	4.3	3.4	2.1	2.4	2.7	1.0
Total	3.9	5.0	1.7	2.9	0.4	0.9	-0.3	-0.1

Source: Quantec Research 2014

Table 2.5 shows the outlook for real economic growth in the Province. Real GDP is forecast at a similar rate in 2014 compared to 2013 (i.e. 2.1 per cent) and expected to accelerate to a real growth rate of 3.1 per cent in 2015. Real GDP is forecast to grow at an average growth rate of 3.0 per cent per annum over the period 2014 - 2019. The tertiary sector is expected to drive economic growth, with growth averaging 3.1 per cent per annum. Services such as transport and communication

and finance and insurance and business services are expected to grow at above-average rates, as well as construction. The Provincial Government highlighted its commitment towards achieving sustained economic growth. The 2014 budget statement highlighted the four core objectives of Government, i.e. a commitment to promoting economic growth, increasing employment, improving the quality of public education and healthcare, and reducing poverty within the Western Cape. From Table 2.4 it is clear that the employment creation objective remained elusive during the economic recovery (2010 - 2013), with overall employment in the Province continuing to contract, particularly in construction, agriculture and manufacturing.

Table 2.5 Western Cape economy: Real GDP growth forecast: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 - 2019
Agriculture, forestry and fishing	2.6	2.3	1.9	1.5	1.6	1.7	1.6	1.8
Mining and quarrying	1.3	1.2	1.1	0.8	1.7	1.8	1.8	1.4
Manufacturing	0.5	2.2	2.4	2.3	2.4	2.4	2.5	2.4
Electricity, gas and water	1.6	1.5	2.1	2.1	2.2	2.2	2.2	2.1
Construction	3.2	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	2.4	1.2	3.0	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	2.1	3.0	3.6	3.7	3.9	3.7	3.9	3.6
Finance, insurance, real estate and business services	2.5	2.2	3.8	3.6	3.8	3.9	3.8	3.5
Community, social and personal services	2.2	2.1	2.4	2.1	1.9	2.4	2.2	2.2
General government	2.4	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Total	2.1	2.1	3.1	3.0	3.1	3.2	3.3	3.0
Primary sector	2.6	2.2	1.9	1.5	1.6	1.7	1.6	1.7
Secondary sector	1.1	2.5	2.7	2.7	2.7	2.8	2.9	2.7
Tertiary sector	2.4	2.0	3.3	3.2	3.4	3.4	3.5	3.1

Source: Quantec Research 2014 (e = estimate; f = forecast)

2.3 The West Coast District (WCD) economy

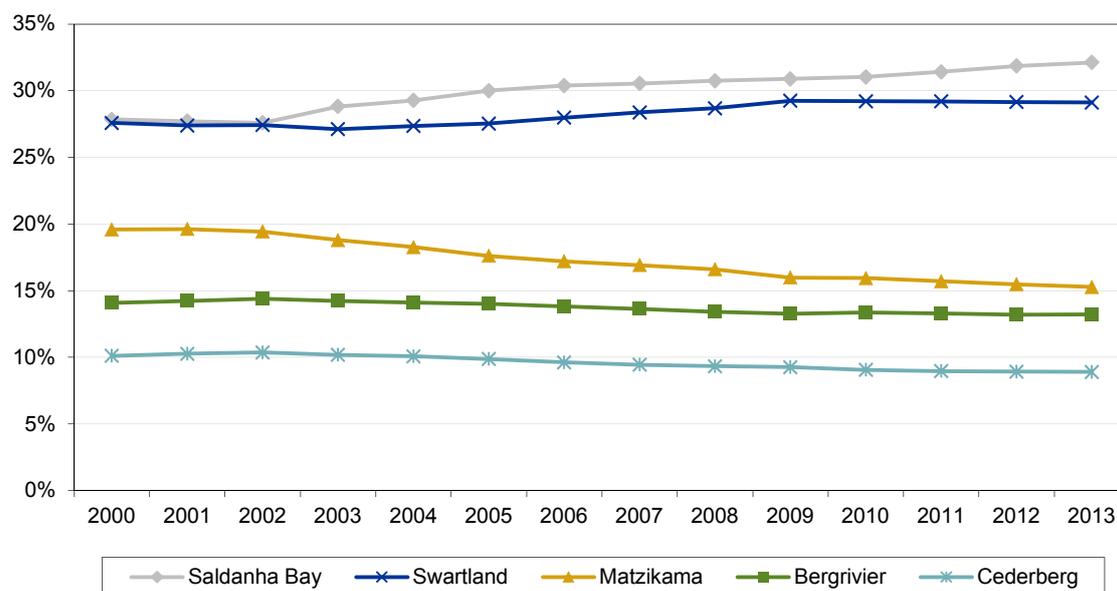
The WCD is highly economically active with strong and well-coordinated tertiary, secondary and primary industrial sectors. In line with the downward revision of the global economic outlook and the substantial downward revision of the outlook for growth nationally and in the Province, the WCD GDP growth forecast for the period 2014 - 2019 has been reduced to 2.9 per cent per annum, from 3.5 per cent per annum at the time of the 2013 MERO study (for the period 2012 - 2017). The growth performance of the district (2.0 per cent) was in line with that recorded for the Western Cape Province (2.1 per cent) in 2013. However, the district economy is relatively small in a provincial context, contributing an average of 4.4 per cent of the Western Cape GDP in 2013, making it the fourth largest district economy in the Western Cape. The District is home to two leading growing non-metropolitan municipalities, i.e. Swartland and Saldanha Bay, which contributed 29 per cent and 32 per cent to GDP in 2013 respectively. Bergrivier, Matzikama and Cederberg Municipalities are agricultural regions and jointly contributed a total of 37 per cent to GDP in 2013.

The district has a strong tertiary sector, with financial and business services, transport and communication and the trade sectors contributing strongly to growth. The historical growth of these sectors is considered in the following section.

2.3.1 Historical growth and employment trends

As noted, Saldanha Bay and Swartland are the two largest municipal economies. Figure 2.2 shows the rising contribution of these two municipalities to the WCD GDP for the period 2000 - 2013. A worrying trend is observed for the Matzikama Municipality, with its total contribution being on a downward trend since 2000. The contribution of the Bergrivier and Cederberg municipalities has been fairly constant over the 2000 to 2013 period. Employment contributions by municipality follow similar trends compared to GDP. Of interest is the rising contribution to employment by Saldanha Bay Municipality which is currently benefiting from the Saldanha Bay-Northern Cape development corridor project, which is set to embark on a railway and ports expansion drive. As a result employment levels in WCD are likely to continue increasing. The district is also benefiting from the construction of industrial space and the establishment of the Industrial Development Zone (IDZ), maritime support for the oil and gas project and the expansion of iron ore mining in the Northern Cape.

Figure 2.2 GDP contribution per municipality: 2000 - 2013



Source: Quantec Research 2014

Table 2.6 shows the sectoral composition of GDP growth and net employment creation in the WCD economy over the period 2000 - 2013. The WCD has not fully recovered to its trend growth rate (3.2 per cent per annum, 2000 - 2013) and has under-performed during the economic recovery thus far. During the recession years 2008 - 2009 real growth slowed to 1.4 per cent per annum and recovered to 2.8 per cent per annum over the period 2010 - 2013, compared to 3.8 per annum recorded over the period 2000 - 2007, i.e. the previous business cycle expansion.

From a sectoral perspective, the financial and business services sector was the fastest growing sector in the region, both in terms of GDP growth and employment creation. Despite its slowdown in growth, i.e. from 9.8 per cent per annum during the period 2000 - 2013 to 5.4 per cent per annum during the period 2010 - 2013, the sector remains one of the sectors that grew above average over the period 2000 - 2013.

Table 2.6 West Coast District GDP and employment trends 2000 - 2013

Sector	GDP (yoy %)			Employment (net change)		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2013	2008 - 2009	2010 - 2013	2000 - 2013	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	-0.2	2.6	-0.1	-19 786	-7 837	-423
Mining and quarrying	-2.5	-10.0	3.0	-507	18	-16
Manufacturing	0.8	-8.5	1.9	-7 640	-1 632	-546
Electricity, gas and water	-2.0	-7.7	-0.4	-82	-100	11
Construction	6.0	5.6	1.5	-3 027	-353	-1 471
Wholesale and retail trade, catering and accommodation	3.7	-1.0	3.4	562	134	62
Transport, storage and communication	3.9	1.5	1.7	749	440	365
Finance, insurance, real estate, business services	9.8	11.2	5.4	10 368	1 603	2 045
Community, social and personal services	2.8	0.2	2.0	1 898	728	-166
General government	2.6	3.4	3.4	2 665	361	501
Total	3.2	1.4	2.8	-14 800	-6 639	362

Source: Quantec Research 2014

The WCD is the fourth largest employer within the Western Cape, contributing 6 per cent to total formal and informal employment in 2013 (i.e. 104 900 workers). However, in comparison to other districts, the WCD recorded the largest workforce contraction over the period 2000 - 2013. This is largely due to the massive job losses recorded within the agricultural sector. Although the agricultural sector remains the largest employer (25 492 workers), the sector shed the largest number of jobs over the period 2000 - 2013 (see Table 2.6). The growth and employment creation of the finance and business services sector is notable, creating approximately 10 400 jobs over the period 2000 - 2013. Overall, the District has experienced significant job losses, with total employment contracting at a rate of 0.9 per cent per annum over the period 2000 - 2013. The largest number of job losses was recorded in Bergrivier municipality, with employment contracting at 1.7 per cent per annum over the period 2000 - 2013.

2.3.2 The economic recovery

The WCD was heavily impacted by the 2009 recession contracting by close to 3 per cent in 2009. During the recession the manufacturing industry (-8.5 per cent), mining industry (-10.0 per cent), electricity and water (-0.4 per cent) and wholesale and retail (-1.0 per cent) were the most affected. In the early years after the recession the sectors have shown signs of recovery. However, growth during the recovery period has remained well below its average growth rate (3.2 per cent) and the real GDP growth of the Western Cape Province (3.9 per cent) over the period 2000 - 2013.

Table 2.7 West Coast District real GDP growth in provincial perspective: 2010 - 2013 (%)

Sector	West Coast District	Eden District	Overberg District	Central Karoo District	Cape Winelands District	Cape Metro
Agriculture, forestry and fishing	-0.1	1.5	0.6	1.2	-0.4	2.2
Mining and quarrying	3.0	1.5	2.6	0.3	4.0	1.5
Manufacturing	1.9	4.3	2.6	3.9	2.1	2.7
Electricity, gas and water	-0.4	0.9	0.4	-0.4	2.1	1.0
Construction	1.5	2.5	2.0	2.1	1.7	1.5
Wholesale and retail trade, catering and accommodation	3.4	5.0	4.1	2.1	4.8	3.4
Transport, storage and communication	1.7	2.4	2.6	0.9	2.2	2.3
Finance, insurance, real estate and business services	5.4	3.9	5.6	3.8	3.8	3.0
Community, social and personal services	2.0	2.7	2.4	1.1	2.1	1.4
General government	3.4	5.4	3.8	3.5	4.2	2.7
Total	2.8	3.8	3.4	2.6	2.7	2.7

Source: Quantec Research 2014

Table 2.7 shows the sectoral growth performance of the WCD economy during the economic recovery (2010 - 2013) in the context of the other five Western Cape districts. GDP growth within the district was 2.8 per cent, surpassed by the recovery growth recorded in Eden and Overberg. From the table it is clear that the finance and business services sector is the fastest growing sector during the recovery period. The WCD recorded the second highest growth in the finance and business services sector over the recovery period, surpassed by only the Overberg District. Other sectors that have recorded sizable growth within the district are the general government, mining and quarrying and the wholesale and retail trade, catering and accommodation sectors. The strongest job creating sectors during this economic recovery period has been the tertiary sector, including general government, retail and wholesale catering and accommodation and finance and business services.

Table 2.8 West Coast District employment trends in provincial perspective: 2010 - 2013

Sector	West Coast District	Eden District	Overberg District	Central Karoo District	Cape Winelands District	Cape Metro
Agriculture, forestry and fishing	-423	-2 824	-1 398	-227	-7 266	-1 451
Mining and quarrying	-16	-3	-2	1	-32	-48
Manufacturing	-546	-1 086	-623	-79	-84	-7 105
Electricity, gas and water	11	23	11	1	-6	440
Construction	-1 471	-4 929	-1 964	-291	-2 863	-18 075
Wholesale and retail trade, catering and accommodation	62	1 132	253	-76	836	3 255
Transport, storage and communication	365	555	258	67	507	6 888
Finance, insurance, real estate and business services	2 045	1 865	1 775	200	2 078	17 042
Community, social and personal services	-166	-386	1	-231	-990	-4 462
General government	501	3 186	561	16	2 172	2 546
Total	362	-2 468	-1 129	-617	-5 648	-970

Source: Quantec Research 2014

Table 2.8 shows a sectoral breakdown of net employment creation of the WCD and the other five districts. In comparison to other districts, the WCD is the only region that has experienced net job growth over the recovery period. From the table it is clear that the agriculture, forestry and fishing sector and the mining and quarrying sector are still experiencing job losses across all districts.

2.3.3 Macroeconomic implications and the growth outlook

The WCD economy's real GDP growth rate is expected to increase from 2.0 per cent in 2013 to 2.2 per cent in 2014. The average annual GDP growth rate forecast for the period 2014 - 2019 is expected to be 2.9 per cent per annum. It is expected that this growth will largely be topped by the finance and business services sector (4.4 per cent). Other sectors expected to grow above average are the construction sector (4.1 per cent), the transport, storage and communication sector (3.8 per cent) and the wholesale and retail trade, catering and accommodation sectors (3.0 per cent) (see Table 2.9 below). All these sectors are likely to benefit from infrastructure expenditure plans tied to the Saldanha Bay–Northern Cape development corridor and the IDZ. On the other hand the downgrading of the country's credit ratings, higher inflation rates, the deterioration of the current account, the weakening of the rand, the shaky business confidence and the consequent slowdown of the national economic growth rate, could slow down the WCD economic performance. Contrary to the poor national economic performance, the global economy is set on a growth trajectory. This may help in offsetting the national negative impact on the WCD economy via increased exports. According to the World Bank economic outlook, global growth is projected to strengthen from 3.2 per cent in 2013 to 3.4 per cent in 2014, before reaching 4.0 per cent in 2015. Given the strong links between the WCD and the global economy, this favourable global economic performance should help improve economic growth in the WCD.

Table 2.9 West Coast real GDP growth forecast by broad sector: 2014 - 2019

Sectors	2014	2015	Forecast				Forecast
			2016	2017	2018	2019	2014 - 2019
Agriculture, forestry and fishing	1.3	0.9	0.5	0.6	0.7	0.6	0.8
Mining and quarrying	0.9	0.8	0.5	1.4	1.5	1.5	1.1
Manufacturing	1.9	2.1	2.0	2.0	2.1	2.2	2.1
Electricity, gas and water	-1.0	-0.4	-0.4	-0.3	-0.3	-0.3	-0.5
Construction	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	1.3	3.2	3.3	3.4	3.3	3.5	3.0
Transport, storage and communication	3.2	3.7	3.9	4.1	3.8	4.1	3.8
Finance, insurance, real estate and business services	3.1	4.7	4.5	4.7	4.8	4.8	4.4
Community, social and personal services	2.0	2.3	2.0	1.8	2.3	2.1	2.1
General government	1.6	1.9	1.7	2.0	2.0	2.2	1.9
Total	2.2	3.0	2.8	3.0	3.0	3.1	2.9

Source: Quantec Research 2014

2.4 Concluding remarks

The WCD was strongly affected by the financial crisis (2008 - 2009) but began to show strong signs of recovery in 2011. However growth tapered off to 2.1 per cent last year and is expected to average 2.1 per cent again in 2014. This is in line with the uncertain global and national economic outlook that the WCD economy is exposed to. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the WCD has been reduced to 2.9 per cent per annum from 3.5 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been highlighted as weak global growth and domestic issues such as labour unrest. It is expected that growth within the WCD will be topped by the finance and business services sector. Other sectors expected to grow above average are the construction sector, the transport, storage and communication sector and the wholesale and retail trade, catering and accommodation sectors. Considering the contributions of the five constituent municipalities, Saldanha Bay and Swartland municipalities are the largest and fastest growing sub-regions. The other three municipalities are smaller in terms of growth and size.

In terms of employment, the region has experienced timid net job growth over the recovery period mainly within the services sector. This is in contrast to the other 5 districts that recorded net job losses during the recovery period. However the poor overall job creation does not bode well for the district. The WCD is currently benefiting from the Saldanha Bay-Northern Cape Corridor development and should also benefit from the IDZ and associated infrastructure investments as well as the raising of the Clanwilliam Dam wall. These interventions should help stimulate growth and employment creation within the region.

3

Sectoral growth, employment and skills

3.1 Introduction

The West Coast District (WCD) regional economy generated 4.4 per cent of the Western Cape GDP during calendar 2013, i.e. R19 billion of the total of R431 billion, and employed 104 900 workers in its formal and informal sectors. Table 3.1 shows the sectoral composition of the regional economy, both in terms of value added and employment. From the table it is clear that the biggest share of value added is generated in the financial and business services sector, i.e. 24.4 per cent, but that the agricultural sector remains the largest in terms of employment (25 500 workers, or 24.3 per cent). Over the past 20 years the GDP share of agriculture has declined from 20 per cent in 1995 to 14.5 per cent in 2014, while that of financial and business services has grown from 10 per cent, reflecting the structural change of the regional economy. The historical growth of the municipal economy is discussed in section 3.2 below, also in the context of the growth of the other Western Cape municipalities. The focus in this part of the analysis is on the period of economic recovery (i.e. 2010 - 2013) from the 2009 recession, which impacted comparatively more severely on the WCD. The trends in the agriculture, manufacturing and services industries are analysed. Section 3.3 investigates the changing skills composition of labour demand in the formal sectors of the regional economy.

Table 3.1 West Coast District value added (GDPR) and employment, 2013

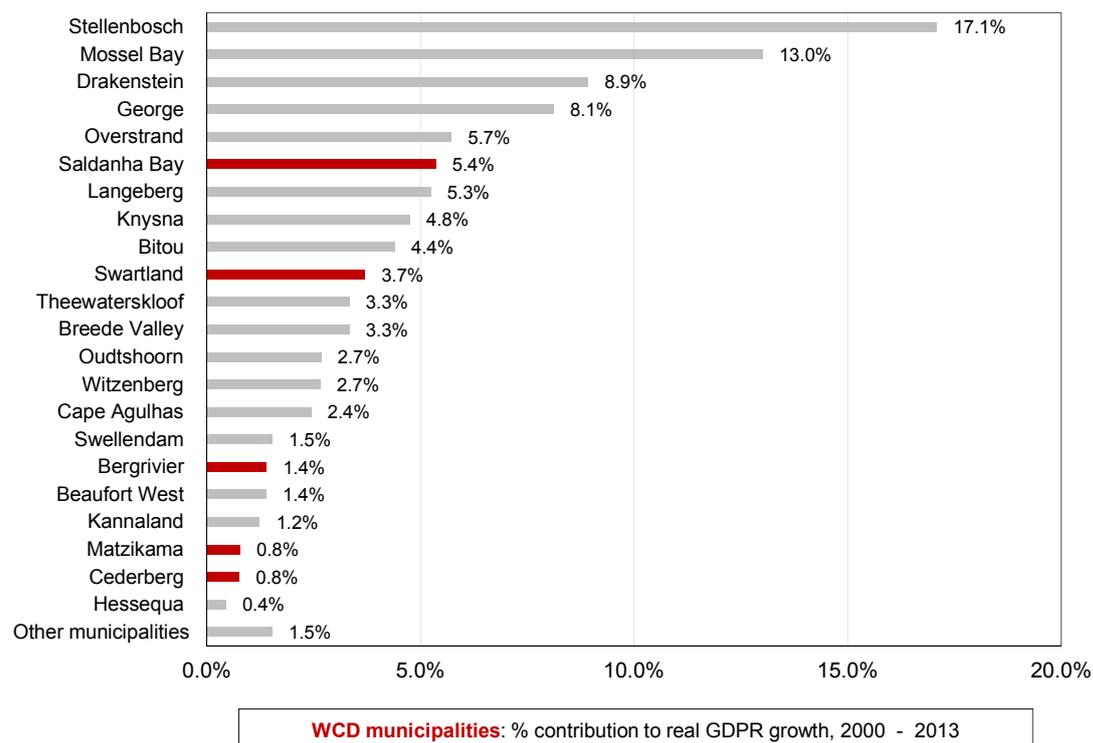
Broad sector	GDPR (R million)	%	Employment (number)	%
Agriculture	2 756	14.5	25 500	24.3
Mining	239	1.3	800	0.8
Manufacturing	2 602	13.7	9 800	9.3
Electricity and water	276	1.5	200	0.2
Construction	909	4.8	5 100	4.9
Trade	3 001	15.8	18 800	17.9
Transport and communication	1 474	7.8	4 000	3.8
Financial and business services	4 645	24.4	16 400	15.6
Community, social and personal services	727	3.8	12 000	11.4
Government	2 388	12.6	12 200	11.7
Total	19 018	100	104 900	100

Source: Quantec Research 2014

The 2013 Municipal Economic Review and Outlook (MERO) study, applying a location quotient analysis, revealed that the agriculture, forestry and fishing sector and associated food and beverage processing sectors, metals and engineering, building and construction, non-metal minerals, business services, catering and accommodation and transport and storage sectors were all industries with a competitive edge in the region expanding faster compared to the national average for these sectors. The growth of the catering and accommodation, business services and transport sectors can be linked to the growth of tourism in the region, which is not fully captured in the standard economic statistics. The outlook for the sectoral growth of the municipal economy is considered in section 3.4 and some concluding remarks follow in section 3.5.

3.2 Historical growth and employment trends by sector: an update

The WCD regional economy grew by 3.2 per cent per annum in real terms over the period 2000 to 2013, while its workforce contracted on balance at a rate of 0.9 per cent per annum (see Table 3.2). While this growth performance is sub-par in the Western Cape, which grew by 3.9 per cent per annum on average, creating employment at an average annual rate of 0.4 per cent per annum, the district hosts two of the Province's top-10 leading non-metro municipalities, i.e. Saldanha Bay and Swartland – see Figure 3.1.

Figure 3.1 Non-metro municipalities ranked according to growth and size, 2000 - 2013

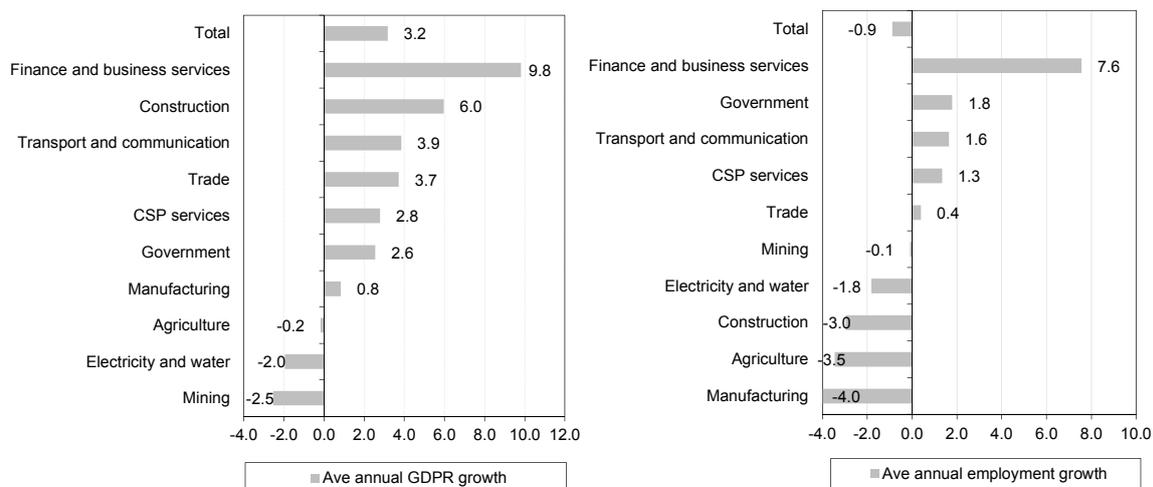
Source: Provincial Treasury/Quantec Research 2014

Saldanha Bay contributed 5.4 per cent of the cumulative growth (2000 - 2013) of the Province's non-metro municipalities, i.e. 6th on the list, and Swartland 3.7 per cent, i.e. 10th on the list. The ranking is determined by considering both the size and growth of the municipal economies. The Saldanha Bay and Swartland municipalities are both larger and faster growing in the WCD regional economy vis-a-vis Bergrivier, Matzikama and Cederberg, which are mainly agriculture producing regions, and trail in terms of growth and size. They contributed a combined 3 per cent to the cumulative growth of the non-metro municipalities in the Province over the corresponding period.

The Growth Potential Study (2014) ranked Saldanha Bay and Swartland 8th and 10th respectively on its list of 24 non-metro municipalities as regions with high growth potential; Bergrivier was ranked 12th with medium growth potential, and Matzikama and Cederberg, 18th and 19th respectively with low growth potential (Van Niekerk, A, November 2013: 28).

Figure 3.2 shows that across the broad sectors, financial and business services was by far the strongest growing sector, expanding real value added by close to 10 per cent per annum over the period 2000 - 2013, also creating employment at a rate of 7.6 per cent per annum¹.

¹ The business services sub-sector (20 per cent of WCD GDP) consists, *inter alia*, of legal, bookkeeping and auditing services, tax consulting, market research and business consulting. It is the dominant sector and not finance and insurance (7 per cent of GDP). Considering the contribution to real value added growth in the WCD, this sector accounted for 46 per cent of the cumulative growth, 2000 - 2013; the finance and insurance sector contributed 14 per cent.

Figure 3.2 West Coast District average real economic and employment growth by broad sector, 2000 – 2013

Source: Quantec Research 2014

Other sectors growing above average, include construction (6 per cent per annum), transport and communication (3.9 per cent) and the internal trade sector, i.e. wholesale, retail, catering and accommodation (3.7 per cent). In contrast, the poor growth of manufacturing activity (0.8 per cent per annum) and the marginal contraction of the agriculture, forestry and fishing sector are disappointing. In the same vein, the sharp contractions in employment in the construction (3 per cent per annum), agricultural (3.5 per cent) and manufacturing sectors (4 per cent) are notable and cause for concern. In all, more than 30 000 job opportunities were lost in these three sectors over the period 2000 - 2013. A third of these net job losses occurred during the recessionary years of 2008 - 2009 and the job losses continued over the economic recovery period 2010 - 2013. More analysis follows below.

3.2.1 The economic recovery, 2010 - 2013

The national and provincial economies began recovering from the 2009 recession during the third quarter of that year. As noted in Chapter 2, the initial period of the general economic recovery witnessed relatively strong growth, also in the WCD, where growth re-accelerated to 4.2 per cent in 2011 after contracting by a massive 2.8 per cent in calendar year 2009. However, in line with the global and national economies, growth tapered off subsequently, coming in at a paltry 2 per cent in the WCD last year (1.9 per cent nationally). As shown in Table 3.2, real GDP growth has averaged 2.8 per cent per annum in the WCD over the current recovery phase of the business cycle (2010 - 2013), well below the trend growth tempo registered over the 2000 - 2013 period.

Table 3.2 West Coast District: Growth and employment, 2000 – 2013

Sector	Net employment (number)			Real GDP growth (ave yoy%)		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2013	2008 - 2009	2010 - 2013	2000 - 2013	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	-19 800	-7 800	-400	-0.2	2.6	-0.1
Mining and quarrying	-500	0	0	-2.5	-10.0	3.0
Manufacturing	-7 600	-1 600	-500	0.8	-8.5	1.9
Electricity, gas and water	-100	-100	0	-2.0	-7.7	-0.4
Construction	-3 000	-400	-1 500	6.0	5.6	1.5
Wholesale and retail trade, catering and accommodation	600	100	100	3.7	-1.0	3.4
Transport, storage and communication	700	400	400	3.9	1.5	1.7
Finance, insurance, real estate and business services	10 400	1 600	2 000	9.8	11.2	5.4
Community, social and personal services	1 900	700	-200	2.8	0.2	2.0
General government	2 700	400	500	2.6	3.4	3.4
Total	-14 800	-6 600	400	3.2	1.4	2.8

Source: Quantec Research 2014

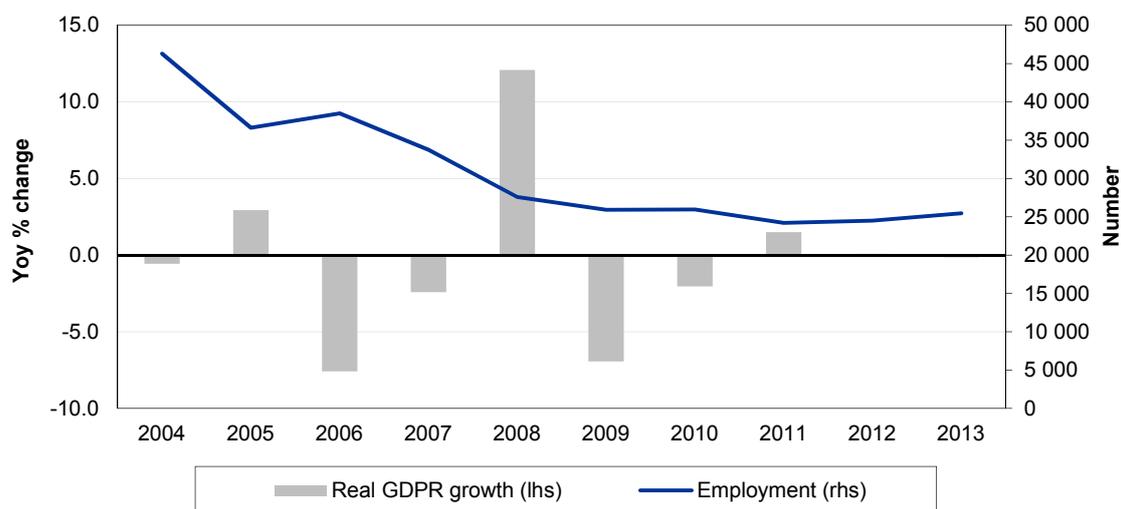
There has been some net job growth over the recovery period; however, the net retrenchments in the agriculture, manufacturing and construction sectors have almost cancelled the net job growth in the services sectors. The result is that the overall level of employment in the WCD last year stood 4 per cent below its pre-recession level in 2008 (and 10 per cent below its 2006 peak level). The sectoral growth and employment trends are discussed in more detail in section 3.2.2 below. Suffice it to say that the low growth in the region, combined with poor overall job creation does not bode well.

3.2.2 Agriculture, manufacturing and services – municipal economic growth performances

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is clear from Table 3.2 that the growth in the region has been dominated by the services industries, with the financial and business services sector leading the way growing by 5.4 per cent per annum on average over this period. The wholesale, retail, catering and accommodation and general government sectors also expanded more rapidly, growing by 3.4 per cent per annum. The services sector on the whole grew by 3.9 per cent per annum over this period. This compares to manufacturing expanding by a modest 1.9 per cent per annum (failing to recover fully from the deep recessionary contraction during 2008 - 2009), construction by 1.5 per cent per annum, and agriculture moving largely sideways at -0.1 per cent per annum.

The poor growth of the latter-mentioned three sectors contributed to sustained net job losses over the economic recovery period up to the end of last year. As noted above, the net job creation in the services industries compensated for and the region managed to add to overall employment during the economic recovery period. The sectoral patterns in the respective municipalities are investigated below.

Figure 3.3 West Coast District: Agriculture real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

In Table 3.1 it was seen that the agriculture, forestry and fishing sector generated 14.5 per cent of the WCD value added (or GDP) in 2013, which translates to R2.76 billion; and the sector employed a quarter of the regional workforce, i.e. 25 500 workers. This reveals the agricultural nature of the region. Unfortunately, in real terms, value added largely moved sideways following the steep contraction in 2009 (see Figure 3.3). This is in line with the sector's trend performance over the past decade, i.e. a marginal contraction in real value added accompanied by steep job losses. However, from Figure 3.3 and Table 3.3 it appears as if the declining trend in employment in the sector has been arrested.

Table 3.3 West Coast District: Agriculture growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment change (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Matzikama	20.5	-0.3	0.5	18.9	-3 260	110
Cederberg	16.3	-1.0	-0.7	18.0	-3 910	-70
Bergrivier	16.7	-2.1	-0.4	17.9	-5 950	-20
Saldanha Bay	15.6	3.4	-0.7	20.7	-2 190	330
Swartland	29.2	0.3	0.1	22.9	-4 370	-680
Former West Coast DMA	1.6	3.8	1.5	1.5	-100	-90
Total	100	-0.2	-0.1	100	-19 800	-400

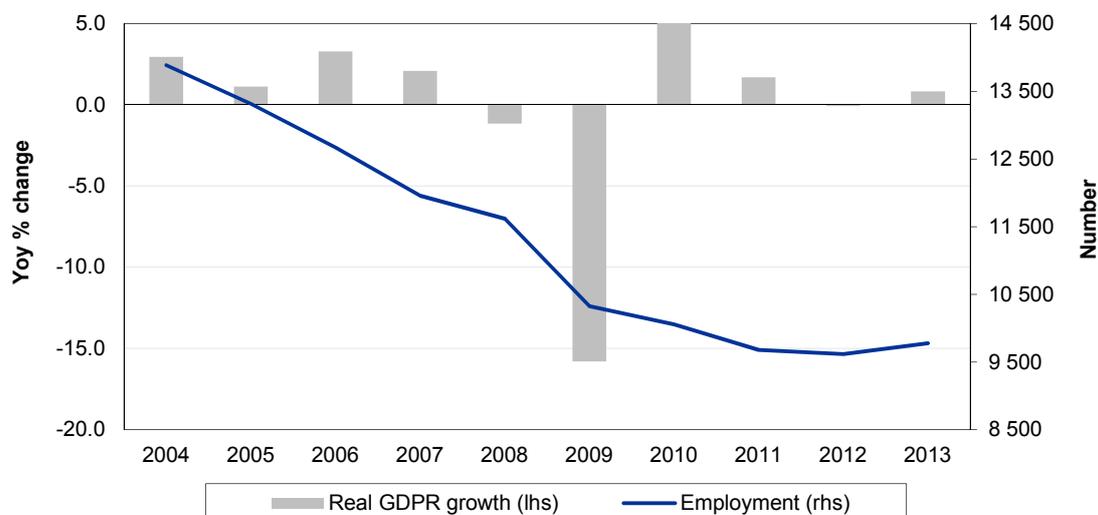
Source: Quantec Research 2014

Considering the contributions of the five constituent municipalities, Table 3.3 shows that the agricultural sector is well diversified geographically in the WCD. The Swartland, known for its grain fields (the 'bread basket of the Western Cape'), animal farming and other farming products (such as grapes, olives, dairy, canola and legumes) made the largest contribution in 2013, i.e. close to 30 per cent. Matzikama (with wine and table grapes being the dominant crops, and animals and vegetables, such as peppers, tomatoes, cucumbers and sweet potatoes) follows with a contribution of 20 per cent while the other three municipalities, namely Saldanha Bay (also hosting a fishing industry), Bergrivier and Cederberg all contribute between 15 - 17 per cent of real value add. Plans are also afoot to develop an aquaculture industry (abalone and kabeljou farming) in the West Coast (Matzikama and Saldanha Bay).

From a growth and employment perspective, conditions appear to have been relatively stable during the economic recovery period thus far. Matzikama and Swartland expanded marginally and Cederberg, Bergrivier and Saldanha Bay contracted marginally. In Saldanha Bay, the under-performance, considering trend growth of 3.4 per cent per annum, may point to problems in the fishing sector. Compared to the steep job losses across all municipalities over the past decade, the situation appears to have stabilised; however, Swartland continued to experience some significant net employment losses and Cederberg and Bergrivier to a lesser extent.

A recent study of Western Cape agriculture found that table grapes are likely to increase its relative economic value in the Province, while field crops (wheat, maize and barley) are likely to decrease in relative size (Provincial Treasury, 2014: 22). Other farming products from the WCD, i.e. wine grapes, livestock (cattle, sheep and pigs), vegetables, citrus fruit and aquaculture are all growing agricultural commodities likely to retain their relative economic values in the wider province.

The manufacturing sector contributed 13.7 per cent of the WCD value add (or GDP), i.e. R2.6 billion of the total R19 billion, during last year (see Table 3.1). Due to poor growth, the sector's share in the region's output has dwindled from 22 per cent 10 years ago; the big knock came in 2009 with the global recession impact, when real value added contracted by more than 15 per cent. As Figure 3.4 shows, apart from some rebound in 2010, the sector has hardly expanded in the wake of the recession. However, it does appear as if the declining employment trend has been arrested – the level of employment declined from 13 900 ten years ago to what appears to be a more stable level around 9 700 job opportunities.

Figure 3.4 West Coast District: Manufacturing real GDP growth and employment, 2004 - 2013

Source: Quantec Research 2014

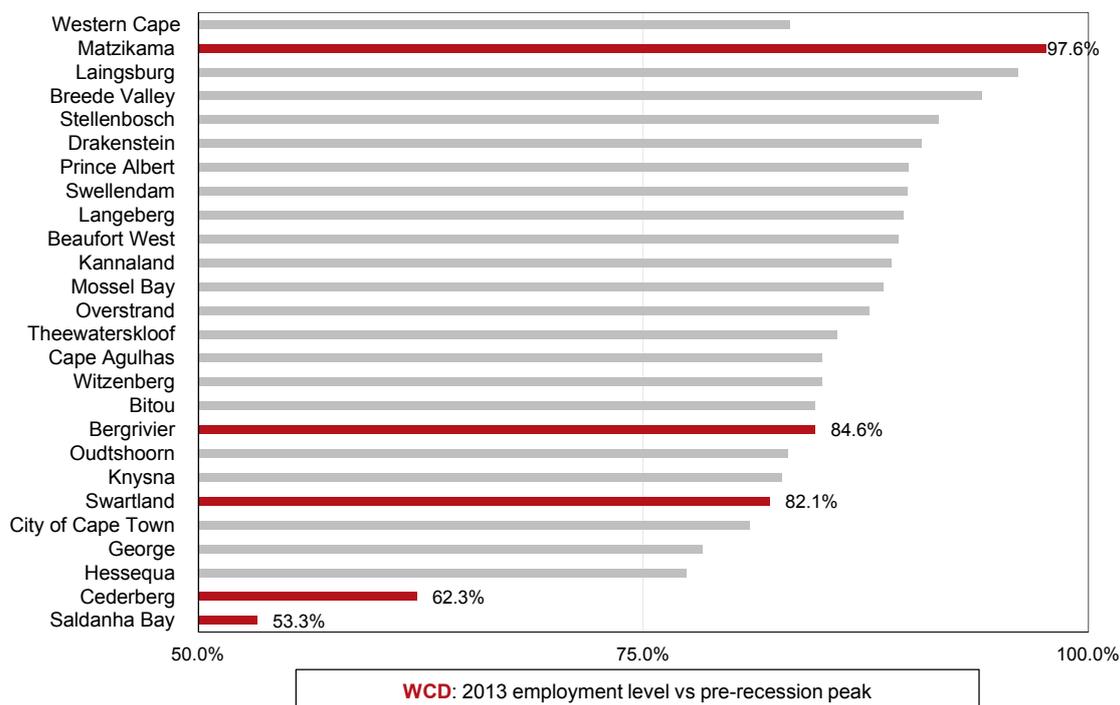
In Table 3.4 below it is shown that close to 60 per cent of the WCD's manufacturing sector is located in the two leading municipalities, i.e. Swartland (35 per cent) and Saldanha Bay (24 per cent). Matzikama (17 per cent) and Bergrivier (15 per cent) also make meaningful contributions, with the Cederberg lagging at 6 per cent. It would appear as if much of the relative decline in the sector is due to the secular contraction of manufacturing activity in the Saldanha Bay Municipality, whose contribution declined from 35 per cent back in 2000. In contrast, the manufacturing industries of the Swartland and Bergrivier municipalities expanded, also posting more meaningful recovery growth rates of 2.8 per cent and 2.4 per cent respectively over the period 2010 - 2013. Close to two thirds of all the net manufacturing job losses in the WCD over the 2000 - 2013 period occurred in the Saldanha Bay Municipality, with another fifth in the Swartland. Matzikama, Bergrivier and Cederberg registered net job losses over this period.

Table 3.4 West Coast District: Manufacturing growth and employment by municipality, 2000 – 2013

Municipality	Real GDP growth (yoy%)			Net employment change (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Matzikama	17.4	0.6	2.0	14.2	-100	90
Cederberg	6.3	1.0	1.6	7.3	-610	-30
Bergrivier	15.1	4.0	2.4	17.5	-490	-60
Saldanha Bay	24.4	-1.7	0.6	24.3	-4 860	-360
Swartland	35.3	2.0	2.8	35.4	-1 680	-180
Former West Coast DMA	1.4	21.5	-1.3	1.3	100	-20
Total	100	0.8	1.9	100	-7 600	-500

Source: Quantec Research 2014

Figure 3.5 Western Cape municipalities: Employment recovery in manufacturing, 2010 - 2013



Source: Quantec Research 2014

Figure 3.5 shows that, apart from Matzikama that managed to maintain its manufacturing workforce after the recession fallout in 2009, the other WCD municipalities generally performed poorly in this regard. Saldanha Bay manufacturing employed by 2013, i.e. four years into the economic recovery, slightly more than half its peak workforce before the recession, and Cederberg 62 per cent. As noted the Swartland and Bergrivier municipalities recovered faster and recouped some employment losses with their workforces restored to 82 per cent and 85 per cent respectively of their pre-recession peak levels by 2013.

The Saldanha Bay IDZ comes off the ground (continued) ...

The Saldanha Bay IDZ has been commissioned to tap into the sizeable and rapidly growing oil and gas market off the Central and West African coast. The objective is to establish a free port with a supply base to service the offshore oil and gas industry, including oil rig repair facilities and metals and machinery fabrication capacity. It makes economic sense given the size and growth of oil expenditures and the focus of the Cape Town port on container traffic and tourism and the country's proven capabilities in the metals and engineering industries linked to mining and manufacturing. The first ground works are about to commence.

R200 million worth of investment spending is currently being commissioned and another R200 million over the next 2 financial years. It is projected to attract at least another R1.5 billion capital spending in the medium term and around R500 million per year in the outer years of the 5 year period. These numbers reflect current plans and only direct capital costs; delays are possible; however, apart from the direct capital costs (which also have indirect multiplier effects on the remainder of the provincial and national economies), the overall GDP impact will be augmented depending on the new private investments and business attracted to the IDZ. The cumulative GDP impact on the Western Cape economy can amount up to R28.7 billion (2012 constant prices) over the 5 to 10 year period according to a recent economic impact study.

In the event of all the expected capital expenditures and new business materialising during the first year, this can increase the Western Cape real GDP by close to one per cent; the overall impact on WCD GDP will depend on the supplies generated in the region. The direct capital costs measure close to 5 per cent per annum of WCD real GDP on average, with a disproportionately bigger impact during the second year.

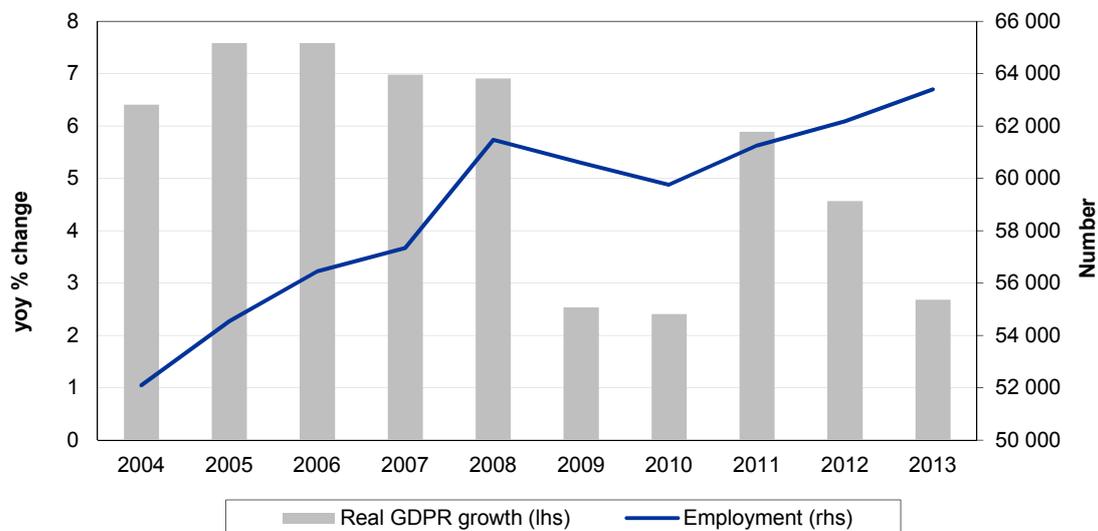
Total direct jobs created in the Western Cape could amount to 2 500 in the first year and up to 8 500 jobs over the 5 year period. A total of 7 800 sustainable direct jobs are expected to be created linked to the operations at the Saldanha Bay IDZ. Slightly more than one fifth of these jobs are likely in the oil supply base, one third in oil rig repair and close to 45 per cent in fabrication.

(See EIS: *Economic Analysis of the Saldanha Bay IDZ*, April 2012)

The result from these heavy job losses in WCD manufacturing is that the sector only contributed 9 per cent of the region's overall workforce in 2013 (see Table 3.1). It is to be hoped that the development of the IDZ will reverse this situation (see *text box above*).

The manufacturing growth and employment performances of the WCD municipalities are therefore quite dismal. Growth has been marginal, even during the past four years of economic recovery, and the declining employment levels over the past decade have at best stabilised. Growth has been more visible in the Swartland and Bergvliet manufacturing industries. As the manufacturing sector typically employs a larger share of the semi and unskilled section of the labour force, the retrenchment of workers in this sector can assist in explaining the rising unemployment levels in this segment of the regional labour market – the skills composition of the regional labour force is discussed further in section 3.3.

Whilst the agricultural, forestry and fishing sector played – and continues to play – an important role in the economic development of the WCD, also to the extent that it spurned the development of manufacturing and services activities, the region has been transformed, with services activities dominating economic activity. Table 3.1 shows that the services sector, ranging from wholesale and retail activities to financial and business services and the general government, contributes 63 per cent (or R12.2 billion of the total R19 billion) of value added generated in the WCD.

Figure 3.6 West Coast District: Services sector real GDP growth and employment, 2004 - 2013

Source: Quantec Research 2014

The largest sector is financial and business services (R4.7 billion), with wholesale, retail, catering and accommodation (R3 billion) and the government (R2.4 billion) also making sizeable contributions. The region's services industries employ no less than 63 400 of the workforce in the region (104 900). The services orientation of the Western Cape provincial economy is evident in all districts, even in the WCD known for a comparatively larger primary and secondary sector.

Table 3.5 West Coast District: Services sector growth and employment by municipality, 2000 – 2013

Municipality	Real GDP growth (yoy%)			Net employment change (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Matzikama	13.5	3.3	1.9	13.3	410	110
Cederberg	7.9	4.5	3.1	10.9	1 890	290
Bergivier	11.9	4.7	3.9	13.7	2 000	140
Saldanha Bay	38.4	6.8	5.0	36.5	9 380	1 990
Swartland	27.2	5.2	3.5	23.9	2 000	180
Former West Coast DMA	1.2	7.6	6.1	1.6	570	100
Total	100	5.4	3.9	100	16 200	3 300

Source: Quantec Research 2014

From a growth perspective, Figure 3.6 shows that while services have by far been the strongest growing industries in the region, the growth has tapered off sharply after the 2009 recession – real GDP growth averaged 3.9 per cent per annum (2010 - 2013) during the economic recovery compared to 7.1 per cent per annum (2004 - 2008) in the run-up to the recession. Nonetheless, the services sector has been the strongest in terms of employment creation, with a cumulative 3 300 job opportunities being created during the economic recovery years (at a growth rate of 1.1 per cent per annum). Figure 3.6 shows that, apart from some recessionary decline during 2009 - 2010, the level of employment expanded from 52 100 ten years ago to 63 400

last year; with the average annual growth rate over the 2000 - 2013 period being 2.2 per cent.

Saldanha Bay and Swartland host by far the largest components of the WCD services sector, accounting for 38 per cent and 27 per cent respectively of the value added generated (see Table 3.5). These two municipalities' services sectors and that of the Bergvriër expanded the most rapidly after the recession, growing by 5 per cent, 3.5 per cent and 3.9 per cent per annum respectively over the period 2010 - 2013. It is to be expected that some of the labour becoming redundant in the primary and secondary sectors were absorbed in these municipalities' growing services industries.

In all, the WCD services sector has led the recovery from the recession also adding to net employment in the region. The sector grew by 3.9 per cent per annum (2010 - 2013), also generating a cumulative 2 800 new jobs over this period. In contrast, the manufacturing and construction sectors have not fully recovered from the recession; in Saldanha Bay's manufacturing sector, for instance, the level of employment at the end of 2013 was only 53 per cent of its pre-recession peak. In Chapter 7 it is shown that this municipality also has the highest unemployment rate, namely 23 per cent. It would appear as if the poor performance of the manufacturing sector in Saldanha Bay explains much of the high unemployment in the region. The development of the IDZ will hopefully reverse this situation. The agriculture and fishing sector has also added substantially to unemployment in the WCD, albeit evident that the deteriorating trend in net job losses has been arrested during the 2010 - 2013 economic recovery.

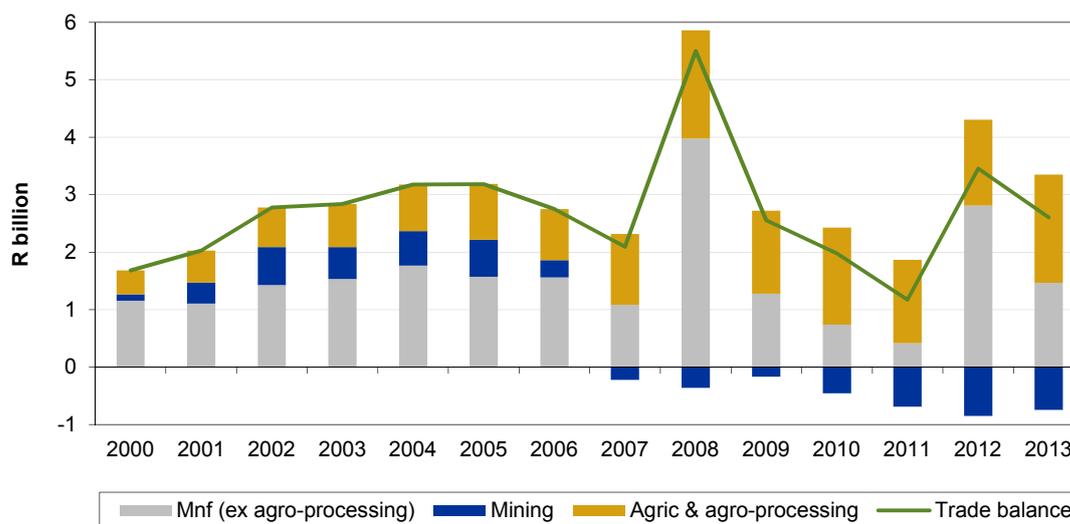
3.2.3 International trade

As noted in previous MERO studies, the export trade from the WCD is concentrated in two commodity groups. The largest export product from the region is steel exports from the Saldanha Bay steel mill; basic iron and steel accounted for 61.4 per cent of WCD goods exports in 2013. These exports witnessed a sharp recovery in calendars 2012 and 2013 and explains much of the improvement in the manufacturing and overall goods trade balance of the region during 2012 - 2013 (see Figure 3.7)². The second most important export category is agriculture and the associated processed exports, accounting for 37.2 per cent of total goods exports in 2013. Combined, agro-processing and steel exports accounted for almost all goods exports from the region in 2013, i.e. 98.6 per cent. Overall WCD goods exports contracted in 2009 and the subsequent two calendar years, reaching a low of R2.5 billion in 2011; but recovering significantly to R5.3 billion in 2013.

² It is not clear what the source of the sharp jump in basic metal exports in the region is. Over the 2000s its share in total WCD goods exports averaged around 43 per cent. It should be noted that the trade data is captured at head office and/or export agent level, who may reside in a different region (or even Province) compared to where the export product was produced.

On the import side, the basket is also relatively concentrated, with basic iron and steel imports accounting for 38 per cent of goods import trade and other mining (mainly oil) for another 25 per cent (presumably for consumption beyond the borders of the WCD). Other key goods imports are petro-chemicals (7.2 per cent), machinery and equipment (5.2 per cent), wood products (4 per cent) and non-metal minerals (3.9 per cent). Overall WCD imports recovered from R1 billion in 2009 at the trough of the recession back to R2.7 billion in 2013.

Figure 3.7 West Coast District goods trade balance, 2000 - 2013



Source: Quantec Research 2014

This implies a sizeable goods trade surplus resulting in 2013, i.e. R2.6 billion; the trade balance jumped from R1.2 billion in 2011 to R3.5 billion in 2012 before receding again to R2.6 billion in 2013. The agriculture and processing export surplus widened from R1.5 million in 2011 to R1.9 billion in 2013. The big change came in the manufacturing trade balance, which jumped from R417 million in 2011 to R2.8 billion in 2012 before receding again to R1.5 billion. The mining deficit (mainly due to the import of oil) remained stable around R700 million between 2011 and 2013 (see Figure 3.7).

The WCD net trade position is therefore favourable and dominated by the agro-processing and steel industries. There may be scope to diversify the export basket in the downstream metals industry (e.g. in the metal products industry with the manufacture of structural metal products).

3.3 Municipal labour forces: Skills composition

The previous MERO studies alluded to the labour market dilemma faced in South Africa in general and also in the Western Cape, namely, the mismatch between the demand for labour skills and the corresponding supply. Whereas the demand for highly skilled human resources continues to grow, these skills are in short supply whilst at the same time there is an oversupply of semi and unskilled labour with the corresponding demand actually declining. This trend has been evident from the 1970s nationally (see Kibuuka & Van Aardt, 1999: 11-12) and continues to the present time. Table 3.6 shows that this trend also existed in the WCD during the 2000s³.

The demand for highly skilled labour grew by close to 2.0 per cent per annum between 2000 and 2013, that for skilled labour by 0.8 per cent per annum, whilst that for semi and unskilled labour contracted by 3.2 per cent per annum. It would appear that some of the decline in the demand for semi and unskilled labour swelled the informal sector labour force which grew by one per cent per annum during the same period (see Chapter 5). Unemployment increased over this period as the overall demand for labour declined by close to one per cent per annum (a cumulative 12 400 employment opportunities), not even considering the new entrants to the WCD labour market.

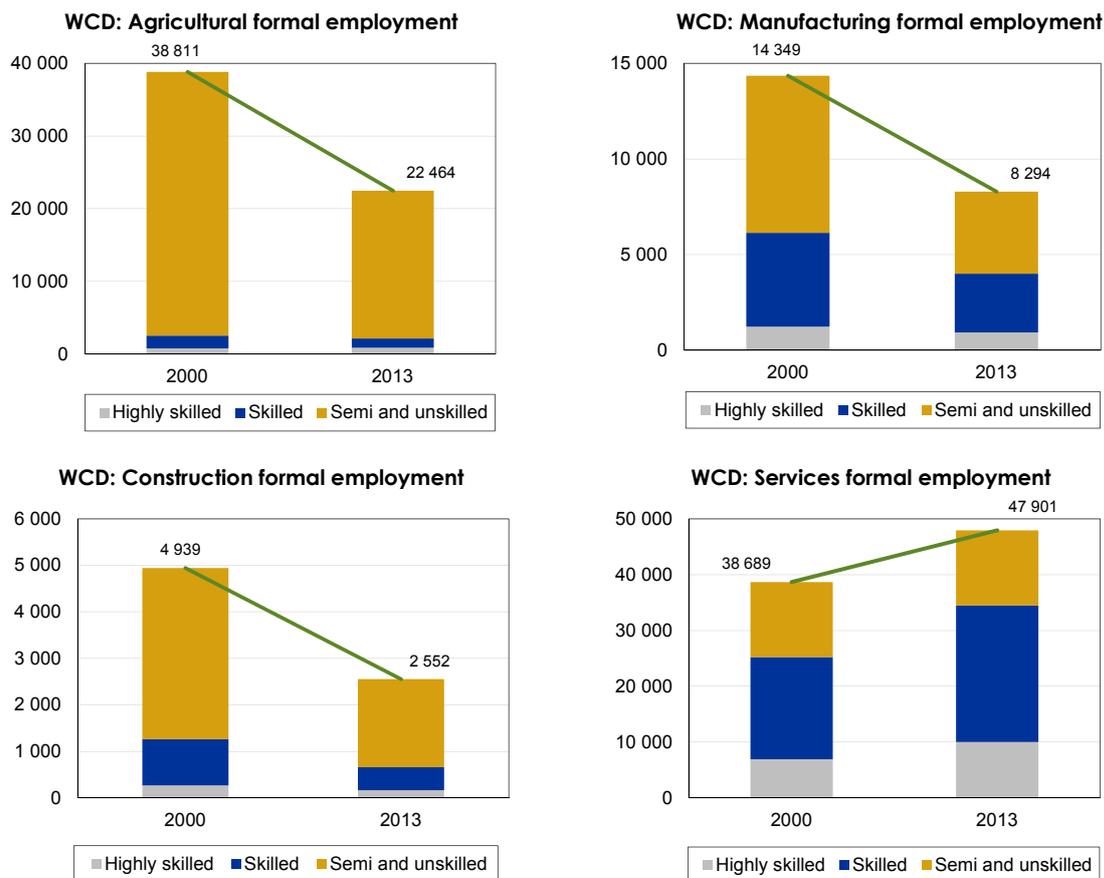
Table 3.6 West Coast District employment by skill level

Labour category	2000	% share	2013	% share	% change pa
Highly skilled	9 400	8.0	12 100	11.5	1.9
Skilled	26 200	22.3	29 600	28.2	0.8
Semi and unskilled	62 700	53.5	40 600	38.7	-3.2
Informal	19 000	16.2	22 600	21.5	1.0
Total	117 300	100.0	104 900	100.0	-0.9

Source: Quantec Research 2014

Whilst the demand for labour is generally derived from a country's or region's sectoral growth patterns and the accompanying macro-economic conditions, factors such as internal and external competitive conditions, wage rates in relation to productivity, the use of technology and the relationship between the cost of labour and the cost of capital, etc. all have an impact.

³ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Figure 3.8 West Coast District formal sector employment by skill level: 2013 vs 2000

Source: Quantec Research 2014

The objective here is not to unpack the reasons for the labour market mismatch in the WCD, but rather to highlight the trends in skills demand across the broad sectors, i.e. agriculture, forestry and fishing, manufacturing, construction and services – see Figure 3.8. The charts depict the skills composition of the WCD formal employment in calendar 2000 versus that in 2013 and the absolute change in formal employment over this period. The results largely confirm the historic and the anticipated patterns. The following remarks are in order:

- The first notable trend has been the decline in formal employment in the agricultural, manufacturing and construction sectors compared to the increase in employment in services sectors. In all, 24 800 jobs were lost in the agricultural, manufacturing and construction sectors over the period between 2000 and 2013 while a cumulative 9 200 were gained in services.
- The agricultural sector (more than 90 per cent), the manufacturing sector (50 - 60 per cent) and construction sector (around 75 per cent) are significantly more intensive in respect of semi and unskilled labour and job shedding in this labour market segment was most profuse in these sectors. In all, 21 700 of the 24 800 total job losses occurred in this labour category and in these three sectors. Only 100 semi and unskilled jobs were lost in the services sector over the corresponding period.

- At the other end of the spectrum, the demand for skilled and highly skilled labour also contracted in the agriculture, manufacturing and construction sectors, by 2 800 and 300 respectively, whilst it expanded considerably in the services sector, accounting for all the net job growth in the region. In services, 3 000 highly skilled and 6 200 skilled jobs were created over the period under consideration.

The loss of jobs in the agricultural, manufacturing and construction sectors, which are relatively semi and unskilled labour intensive is obviously a cause for concern given the skills composition of the unemployed labour force. On the one hand, the loss of jobs in these sectors is linked to the relative decline experienced in these sectors – in 2000 they accounted for 49 per cent of real value added generated in the WCD; by 2013 they accounted for only 35 per cent; in contrast the relative contribution of the services sector increased from 48 per cent to 63 per cent over the corresponding period.

Other factors may also explain the attrition of semi and unskilled labour, namely labour-saving technological trends, wage costs in relation to productivity and the cost of capital, competitive pressures (in manufacturing), and farming legislative changes (which caused lay-offs in the agricultural sector). However, further research is required in this regard. Suffice it to say that the training and up-skilling of labour has become critical given the demands of the modern economy. Furthermore, any attempt to revive particularly the manufacturing sector will assist in addressing the labour market mismatch between the demand and supply of skills.

The range of infrastructure investment initiatives in the WCD, ranging from the establishment of the Saldanha Bay IDZ, the Northern Cape-Saldanha Bay corridor development (i.e. the government's SIP 5 infrastructure project), the Renewable Energy hub along the West Coast (SIP 8) and other projects will address the relative decline of manufacturing and construction activity; however, it will also accentuate the shortage of particularly artisanal skills. The Western Cape DEDAT, in association with the other key stakeholders, has embarked on an initiative to train 1 000 young persons (aged 18 to 35 years) annually with the required artisanal and associated skills in an Occupational Readiness Programme stretching over 12 weeks at the West Coast FET College (DEDAT, 2014). The subject focus will be on mathematics, science, communications, work readiness and life skills and practical career paths in mechanical engineering, hospitality and office practice will be catered for in the training.

3.4 Sectoral economic prospects, 2014 – 2019

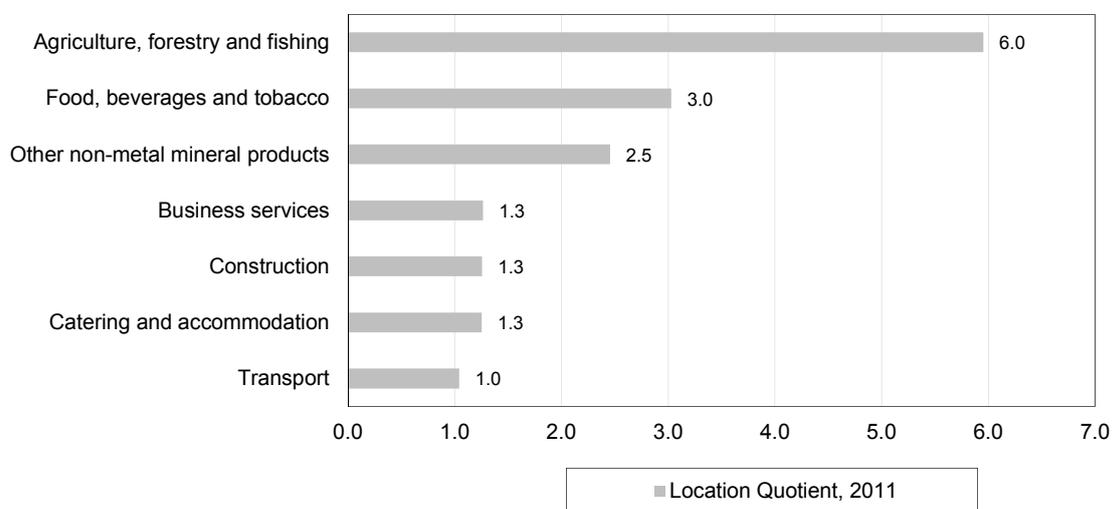
In Chapter 2 it was motivated why the forecast for economic growth has been scaled down markedly, both over the short and the medium term. The poorer global and national economic outlooks do impact on the outlook for the Western Cape economy and that of the WCD. Whereas the Western Cape economy was expected to grow by 3.7 per cent in 2014 and 3.7 per cent per annum on average over the six-year period, 2012 - 2017 in the previous study (MERO 2013), the current forecast is for 2.1 per cent growth this year and an average real GDP growth rate of 3.0 per cent per annum, 2014 - 2019. The main reasons for the slower growth are:

- Weaker than expected global growth. While the world economic recovery appears to be on track, growth forecasts have been scaled down generally. Weaker than expected growth in China and other emerging markets is a key factor. Tighter financial conditions in these economies in the wake of the tapering off of the Federal Reserve's unprecedented asset purchases programme is a key reason. Recovery growth has also turned out weaker than expected in the developed economies of the world (see Chapter 2). The weaker demand conditions abroad impacted on the WCD export industries, i.e. agro-processing and steel. Basic metal exports did recover sharply in 2012 from the 2009 lows, however, fell back slightly again in 2013.
- Domestic economic issues have also led to the scaling down of growth forecasts, particularly regarding 2014 due to extensive labour unrest, which commenced the year with the unprecedented five month strike in the Rustenburg platinum belt. Real GDP contracted unexpectedly during the first quarter of the year, mainly due to a sharp fall in mining production, as well as manufacturing real value added. The latter contracted due to its linkages with the mining sector, but also due to problems within the sector (including once-off events such as maintenance schedules in the petroleum and heavy metals sectors) and the impact of electricity blackouts.
- The Western Cape manufacturing sector was relatively unscathed in this regard, but also succumbed to the weaker general demand conditions. The forecast for gross domestic expenditure, i.e. the sum total of household and government consumption expenditure, private and public sector fixed investment and inventory investment, is for real growth of only 1.6 per cent during 2014, recovering to 3.0 per cent per annum over the medium term; the previous forecast was for 4.5 per cent growth in 2014 and 4.3 per cent per annum on average over the medium term.
- This is a major downward revision and suggests the domestic market could remain lacklustre and/or slow growing. This may force manufacturers to shift production to the export market, particularly in view of the world economic recovery becoming more sustained and a more competitive value for the rand exchange rate. The export oriented agro-processing and steel sectors in the WCD may benefit in this respect.

3.4.1 Local issues – West Coast District

The WCD has been one of the slower growing districts in the Western Cape and it is clear that the 2009 global recession had a major adverse impact on the region, which it is still reeling from, certainly in terms of employment creation. In the MERO 2013 study it was found that three key value chains in the WCD have a comparative advantage, namely the food value chain (agriculture, fishing and the associated food and beverage processing industries); tourism (as reflected in the catering and accommodation, business services and transport and storage sectors); and the building value chain (including building materials manufacturing and construction activities).

Figure 3.9 West Coast District industries with comparative advantage



Source: Provincial Treasury: MERO, 2013

Figure 3.9 ranks those sub-sectors with comparative advantage as indicated by the 2011 location quotient analysis (see MERO 2013)⁴. It is expected that these industries will continue to do well over the forecast period. The agro-processing sector is the backbone of the region's economy and tourism is a key growth sector. The building and construction sector should also benefit from the development of the IDZ and the associated property development. The construction works have commenced and a capital budget of R400 million is planned to be spent over the next year, starting August 2014. Another mega investment project, i.e. the increase of the height of the Clanwilliam Dam wall in the Cederberg municipality, is expected to boost economic activity, not only in this municipal economy, but also wider in the region to the extent that supplies are sourced elsewhere. The capital budget for this project is estimated at R2.8 billion over a period of 3 - 5 years and the project is planned to create an additional 650 direct employment opportunities over this time period. Given the

⁴ The Location Quotient (LQ) ratio is the share of a specific industry in a region's value added expressed as a ratio of the same industry's share (nationally) in the national GDP. A reading above one indicates comparative advantage, implying the same industry expanded faster in the region compared to the sector nationally.

economic multipliers, it is to be expected that the employment spin-offs will be more substantial (see Chapter 6 for more detail regarding this project)⁵.

Amongst other important sector developments in the WCD, is the establishment of a viable aquaculture industry. Currently such plans are already afoot at Doringbaai in the Matzikama Municipality and in Saldanha Bay. These developments are very labour intensive and hold great employment potential over the coming years. Renewable energy projects are also attracting substantial capital investment, especially in the wind and solar energy fields in the Swartland municipality, among others.

The broad sector forecasts for the WCD are motivated below.

3.4.2 Sector forecast

A key aspect of this year's regional economic outlook was motivated in Chapter 2 and that is the dramatic downward revision of the forecast. Whereas the WCD was projected to grow by 3.5 per cent per annum over the six-year period 2012 - 2017 in the 2013 MERO study, this projection has been downscaled to 2.9 per cent growth per annum over the 2014 - 2019 period – see Table 3.7⁶. This downward revision is in line with that for the wider Province; Western Cape real GDP growth is currently projected to average 3.0 per cent per annum over the period 2014 - 2019 compared to 3.7 per cent per annum previously over the 2012 - 2017 period.

Table 3.7 West Coast District: Real GDP growth outlook, 2014 - 2019

Sector	Trend	Recession	Recovery	West Coast District	Western Cape
	2000 - 2013	2008 - 2009	2010 - 2013	2014 - 2019	2014 - 2019
Agriculture, forestry and fishing	-0.2	2.6	-0.1	0.8	1.8
Mining and quarrying	-2.5	-10.0	3.0	1.1	1.4
Manufacturing	0.8	-8.5	1.9	2.1	2.4
Electricity, gas and water	-2.0	-7.7	-0.4	-0.5	2.1
Construction	6.0	5.6	1.5	4.1	4.1
Wholesale and retail trade, catering and accommodation	3.7	-1.0	3.4	3.0	2.8
Transport, storage and communication	3.9	1.5	1.7	3.8	3.6
Finance, insurance, real estate and business services	9.8	11.2	5.4	4.4	3.5
Community, social and personal services	2.8	0.2	2.0	2.1	2.2
General government	2.6	3.4	3.4	1.9	2.1
Total	3.2	1.4	2.8	2.9	3.0

Source: Quantec Research 2014/Provincial Treasury, MERO

⁵ In the Western Cape Province, R1 million additional demand, e.g. fixed investment spending in the construction sector, generates an economy-wide impact of 3.8 additional employment opportunities. Assuming the capital budget is spent over five years this translates to an additional 2 100 jobs created per annum over this period. However, all the jobs will not necessarily be created in the Cederberg locality, but also in the adjacent districts and the rest of the country. Furthermore, the greater employment creation potential lies in the expected agricultural development due to increase irrigation capacity.

⁶ The projections in Table 3.7 do not account for the quantified impact of the major infrastructure projects likely to be launched during the forecast period in the WCD, such as the Saldanha IDZ, the SIP 5 and 8 projects and the extension of the Clanwilliam Dam. Given the scope of these projects, the actual spending in this regard can have a significant bearing on the projections.

Regarding the sectoral outlook, the following remarks are in order:

- While climatic conditions are key to the agricultural outlook, the trends in the sector are quite evident, namely a small contraction in real value added over the past decade. Declines in the Matzikama, Cederberg and Bergrivier agricultural sectors are to some extent countered by expansion of the Swartland and Saldanha Bay agriculture (and fishing) sectors. Bumper wheat and grape crops are anticipated in the current harvesting season due to favourable climatic conditions in the growing season. Aquaculture is also a new growth industry in the fishing sector. Overall agriculture, forestry and fishing's real value added is projected to increase by a moderate 0.8 per cent per annum. The key positive factor in the agriculture outlook is the growing food demand from an expanding middle class population, not only in South Africa, but also in the rest of Africa and other export destinations, e.g. China, India and East Asia.
- The agriculture and fishing sectors have strong forward linkages to the manufacturing sector in the form of food and beverage processing. In the wider province no less than 37 per cent of the WCP's agriculture, forestry and fishing output is destined for food and beverage processing (intermediate sales) and close to 40 per cent is exported to the rest of Africa and beyond. (See MERO 2013.) These ratios can be used as a proxy for the inter-industry linkages in the WCD. The food and beverage processing industries are less export intensive with only around 13 per cent of their output being exported and close to 60 per cent of output sold to the household sector. Domestic demand conditions are therefore a greater determinant of prospects in this sector. This sector accounts for half of all manufacturing real value added generated in the WCD; the basic metals and machinery sector accounts for a further 18 per cent. The basic metals and machinery sector, in turn, is much more export oriented with more than half of its output being exported. The outlook for the WCD manufacturing sector is therefore to a large extent determined by both local and export demand conditions.
- The domestic consumer sector is expected to remain under pressure over the short to medium term. Employment growth is weak while real incomes are under increasing pressure from higher inflation (e.g. food and energy price rises, as well as creeping currency-induced and wage cost-push inflation in the durable and semi-durable goods market segments such as motor vehicles and clothing). In addition, the central bank has embarked on a moderate interest rate tightening cycle. As noted, the pressure may be on for food and beverage processing operations to seek lucrative export markets in the face of the lackluster domestic market conditions projected over the short to medium term. This is evidently a most worrisome scenario.
- Real wholesale, retail, catering and accommodation value added is projected to expand by 3.0 per cent on average, 2014 - 2019. The manufacturing sector's domestic sales will be impacted by this slow growth and this may spurn exports; however, though it is expected to receive some stimulus from the development of the IDZ and new investment in manufacturing capacity over the medium term. Infrastructure projects, such as the expansion of the Clanwilliam Dam and the

government's Northern Cape corridor SIP 5 project, are likely to boost the demand for manufactured construction materials (see footnote 5). Overall manufacturing real value added is projected to grow by 2.1 per cent per annum over the medium term, which at least represents some acceleration of the growth tempo registered during the economic recovery thus far.

- The heightened infrastructure investment activity and associated property development (residential and non-residential) is also likely to boost the construction sector, from 1.5 per cent growth per annum during the economic recovery thus far to 4.1 per cent per annum, 2014 - 2019, i.e. in line with the average growth projected for the wider province.
- The downscaling of the growth forecast also impacts the outlook for the faster growing services sector in the WCD. The pressure on the consumer sector was alluded to above; the transport and storage sector has close linkages with the wider regional economy and is likely to slow in unison. The rapidly growing financial and business services sector is also not expected to repeat the double-digit real growth rates registered during the previous economic expansion. Consumer credit extension is cooling down and there has been a sea-change in credit uptake since the introduction of the National Credit Act in July 2007. The generally poor business and consumer confidence levels in the Province⁷ also contribute to hesitancy on the part of consumers to commit income on credit. The growth in business services will also be dragged down by the slower overall growth in the region. The financial and business services sector is forecast to grow by 4.4 per cent per annum (2014 - 2019) compared to a recovery growth of 5.4 per cent (2010 - 2013).
- An additional factor, which is likely to result in pressure on the household sector, is the constrained growth in government non-interest expenditure, implying limitations to public sector employment and wage growth. The government sector added significantly to growth during the initial period of the economic recovery; however, that was always going to be a temporary counter-cyclical measure. The general government sector of the WCD is projected to grow by 1.9 per cent per annum compared to recovery growth of 3.4 per cent per annum, 2010 - 2013. The community, social and personal services sector is projected to grow at 2.1 per cent per annum, in line with its performance over the 2010 - 2013 period.

⁷ The RMB/BER business confidence index showed that only 6 out of every 10 business executives in the Western Cape were satisfied with general business conditions during the second quarter of 2014. This is slightly better than the national average (4 out of ten); however, consumer confidence at -11 index points in the Western Cape is significantly below the national average (+6).

3.5 Concluding remarks

The WCD hosts two of the top-10 municipalities in terms of growth potential, i.e. Saldanha Bay and Swartland. The regional economy's competitive strengths reside in its agro-processing, tourism and building and construction value chains. The development of the Saldanha Bay IDZ and other infrastructure projects (e.g. the increase of the Clanwilliam Dam; the government's SIP 5 and 8 projects) will provide an additional impetus to the growth momentum. Unfortunately, the growth momentum has been sub-par in a provincial context (averaging 3.2 per cent per annum, 2000 - 2013), also during the economic recovery, 2010 - 2013 (2.8 per cent per annum). The growth outlook has also been scaled down, from 3.5 per cent per annum (2012 - 2017) previously to 2.9 per annum (2014 - 2019) currently. This is in line with provincial, national and global trends.

It is evident that the WCD was heavily impacted by the 2009 recession and continues to reel under this impact in many respects; the 2013 level of manufacturing employment is 53 per cent of its pre-recession peak. Unemployment is increasing and the poor manufacturing performance has to be addressed. There is a great need to train, retrain and upskill workers as the agricultural, manufacturing and construction sectors have shed unskilled labour on a large scale, not fully compensated for by the net job creation in the services industries. The outlook is for some improvement, albeit evident that general economic conditions in the region will be far from booming apart possibly in the localities where major capital projects are planned.

4

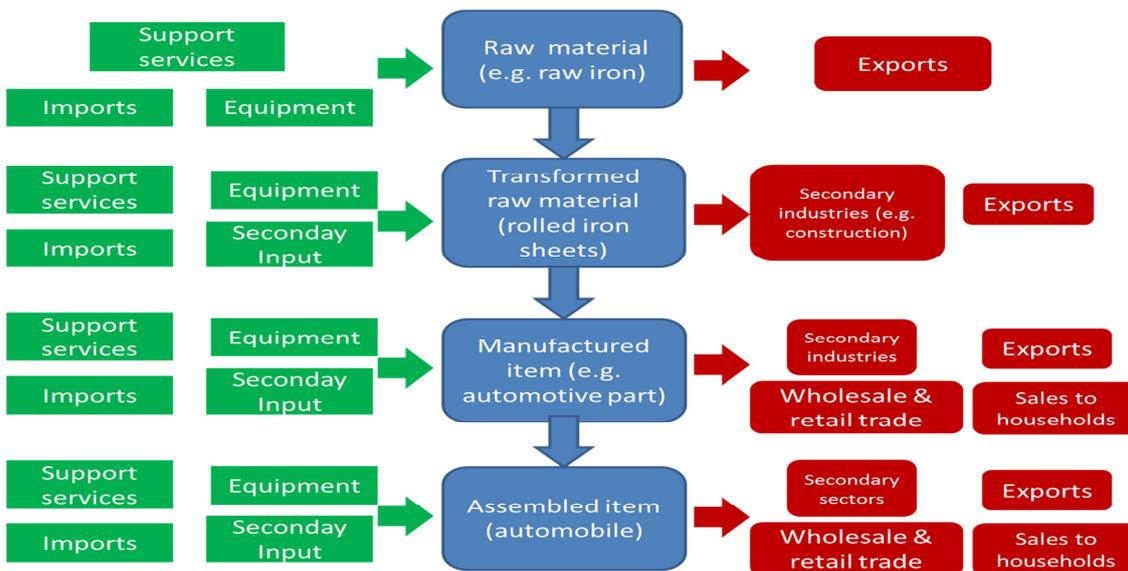
Value chains

4.1 Introduction

The current analysis will primarily focus on the value chain as represented by the supply chain and take into account the distribution of benefits, through value added within the value chain. The legal and policy implications will not be investigated as the primary focus is on the value added and job creating potential of the identified industries/sectors.

Each district municipality has been assessed and the most important selected value chain within each district economy has been analysed. It must be noted that the choice of value chain is based on the future potential for change in a specific industry or the decline in a specific industry within a value chain.

Figure 4.1 Example of a simplified value chain



Source: Stats SA

The value chain is analysed according to the forward and backward linkages connecting various manufacturing and services sectors and forming an integrated value chain. The forward and backward linkages flowing from these sectors will also be represented in the value chain, with the percentage contribution to inputs and outputs to the respective sectors. An example of a simplified value chain is presented in Figure 4.1. It shows a hypothetical automotive value chain from source material. The linkages are tracked backward from the assembled automobile to the individual automotive parts; these automotive parts are in turn made up of processed metals. The processed metals are made up of basic processed iron which was initially sourced from raw iron. Each part of the value chain will have inputs from other sectors in the economy. Some of these are for inputs used in the production process or support the production process and others are merely inputs to support business processes. Each sector will also import a certain proportion of its inputs and also export a certain proportion of its outputs. As we move to the finished product, it also becomes more likely that there are direct sales to households.

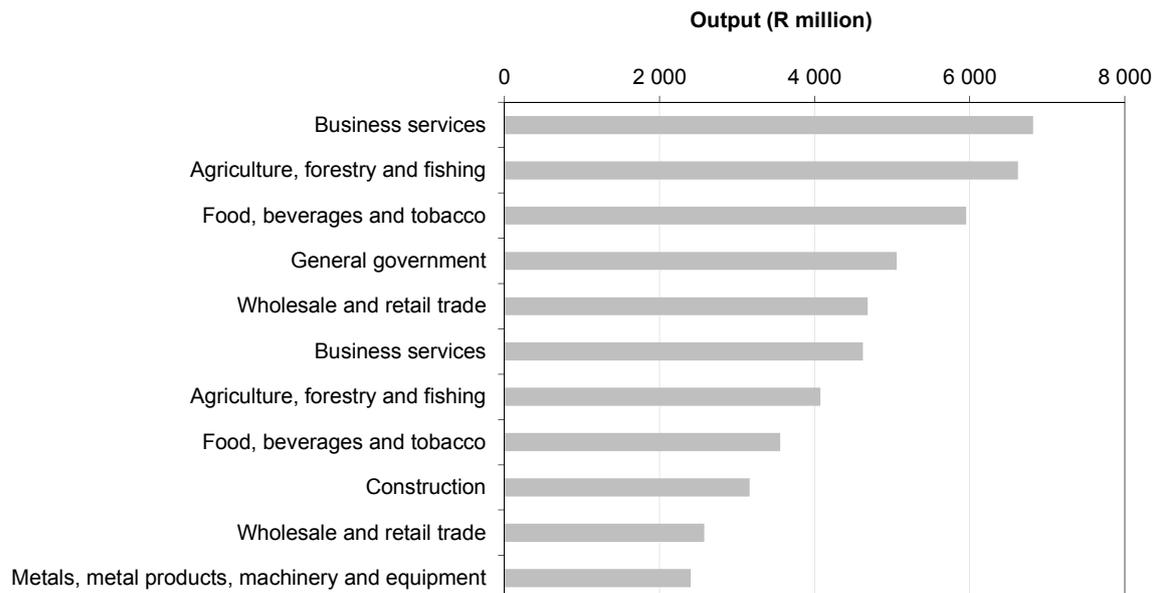
4.2 The West Coast District (WCD) value chain analysis

The largest sectors in the WCD, based on output are business services and the agricultural and food and beverages sectors (see Figure 4.4). The employment potential of these sectors is also great, but the choice of sectors to consider for the value chain analysis will not be based solely on the size of the sectors, but rather on the opportunities that are created and the potential for job creation.

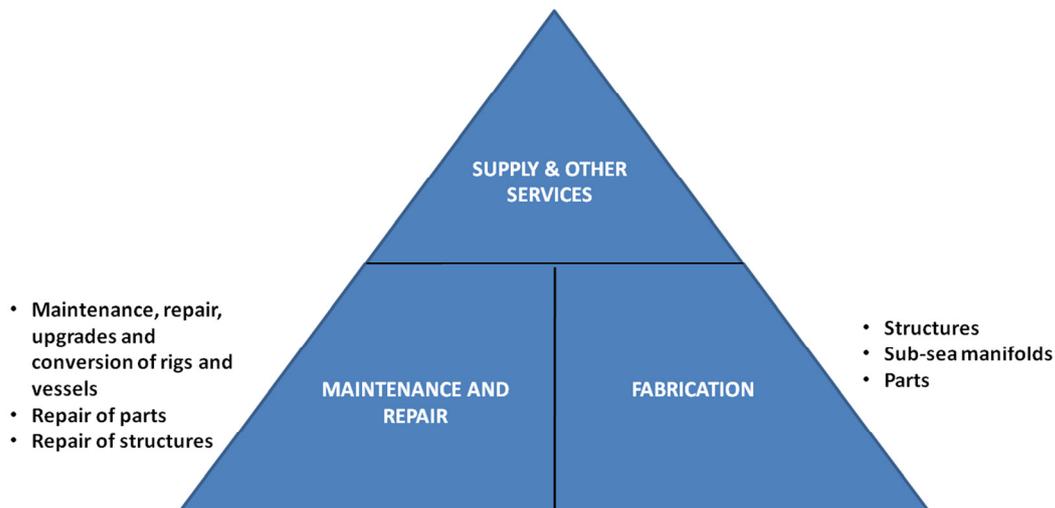
The development of the Saldanha Bay IDZ and its strategic location to serve the oil and gas industry has the potential to create many jobs through the numerous upstream activities that serve the industry. Development of the oil and gas industry in the west coast of Africa greatly increases the potential for industries involved in rig repair, ship repair, engineering services and metals and equipment manufacture. The Saldanha Bay IDZ is highly focused on becoming a hub to provide the infrastructure to house rigs and ships involved in the oil and gas industry. The purpose of this value chain analysis will be to identify the key sectors in the value chain associated with the oil and gas industry in the WCD. The main focus will be on the (downstream) metals and engineering sector surrounding the upstream activities associated with the oil and gas industry.

The oil and gas industry has both upstream and downstream activities, but the focus of this analysis will be on the inputs provided into the industry from the metals and machinery sector. The major reason for the choice of this sector is due to the establishment of the Saldanha Bay IDZ and how this may provide new opportunities. The major service offerings are depicted in the figure below, they comprise of a) maintenance and repair, b) fabrication and c) supply and other services.⁸

⁸ Information Document for Government Gazette Notice. An Application for IDZ Designation and Operator Permit for the Saldanha Bay Industrial Development Zone, 2012

Figure 4.2 Largest sectors based on output, West Coast District, 2013

Source: Quantec Research 2014

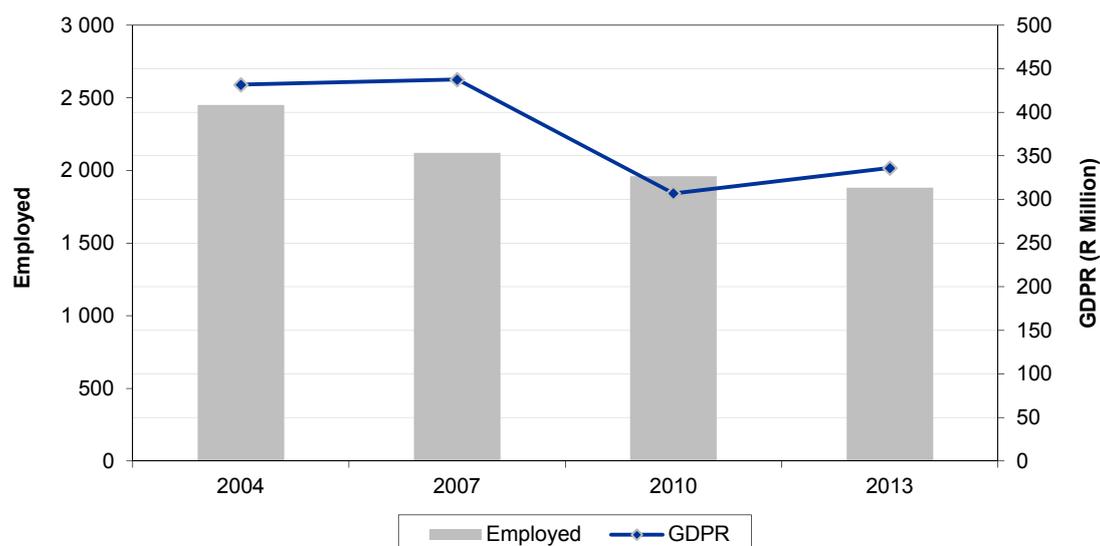
Figure 4.3 Major service offerings relevant to the oil and gas sector in the Saldanha Bay IDZ

The metals and machinery industry will directly benefit from the oil and gas market and this will create additional opportunities for the establishment of manufacturing facilities and the creation of job opportunities in the IDZ. The growing local industry may also allow metals and machinery manufacturing companies to locate to the area to take advantage of decreased logistics costs and the lower costs of acquiring iron and steel by rail transportation.

4.2.1 Metals, metal products and equipment sector analysis

The potential for growing the metals, metal products and equipment sector in the WCD is great. By taking advantages of the linkages to the oil and gas sector and the benefits created by the Saldanha Bay IDZ, this industry can once again begin to show employment growth. The employment and GDPR values for the industry are shown in Figure 4.4 below.

Figure 4.4 Employment and GDPR of the metals, metal products and equipment industry, West Coast District, 2004 - 2013



Source: Quantec Research 2014

Table 4.1 Metals and steel companies to potentially act as anchors in the West Coast District

Company	Status of Production	Product	Market	Production	Employed
ArcelorMittal	Operational	Ultra-thin hot rolled coil using Corex/Midrex process	Export	1.2 million tons per annum	568
Duferco Steel Processing (Pty) Ltd	Operational	Hot rolled pickled and oiled, galvanised and cold rolled products	Export	600 000 tons per annum	-
Rare Metals Industries (Pty) Ltd	Feasibility Assessment	Titanium and titanium alloy and mill products (bars, ingots, plates, sheet, pipe and wire)	Export	To process 32 400 tons titanium and 23 308 tons of zircon annually	-

Source: Wesgro

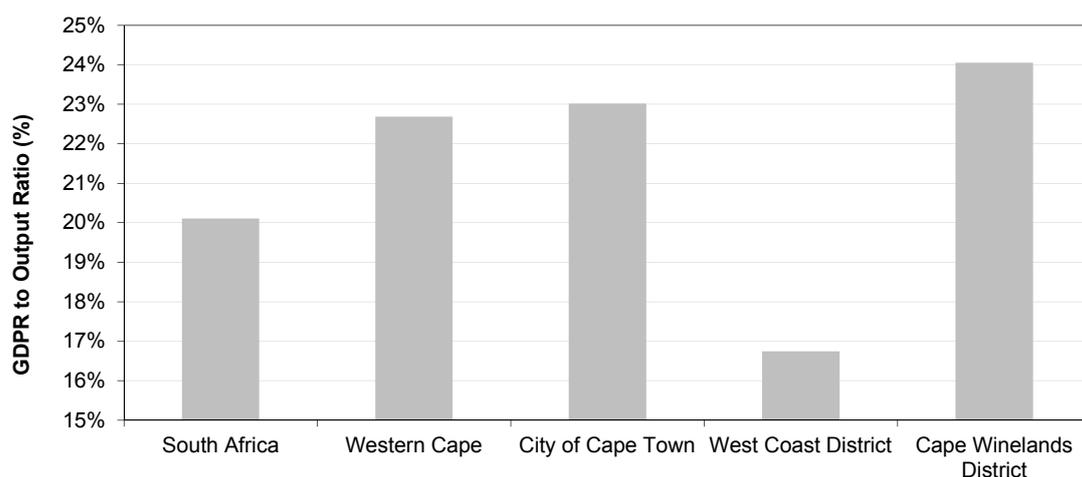
The employment values clearly indicate that the sector is currently in decline in the WCD with significant employment losses over the past decade. There has been a 23.2 per cent decrease in employment and a 22.1 per cent decrease in GDPR during the period. As the potential to move production capacity into the Saldanha Bay area increases, so will FDI into the WCD. In the past decade the two major investments into the WCD have been from Europe; with R10 million investment into ArcelorMittal and a R340 million investment into MAN Ferrostaal in Saldanha Bay. The investment into

ArcelorMittal was primarily for steel manufacturing and investment into MAN Ferrostaal for the manufacture of agriculture, construction and mining machinery.⁹ The major steel and metals companies that are to potentially operate in the WCD are represented in Table 4.1 below. The activities that have been identified as part of the value chain utilising the inputs from the iron and steel industry are:

- Fabricated metals
- Special industry machinery
- Non-electrical machinery

The major focus of iron and steel's industries in Saldanha Bay and the IDZ is the export market. The value added of the metals and equipment value chain in the WCD is relatively low in comparison to other industries in the region and to the value added of the same sector in different regions. The difference in the GDP to output ratio is depicted in Figure 4.4¹⁰.

Figure 4.5 GDP to output ratios for the metals, metal products and equipment industry in SA, 2013



Source: Quantec Research 2014

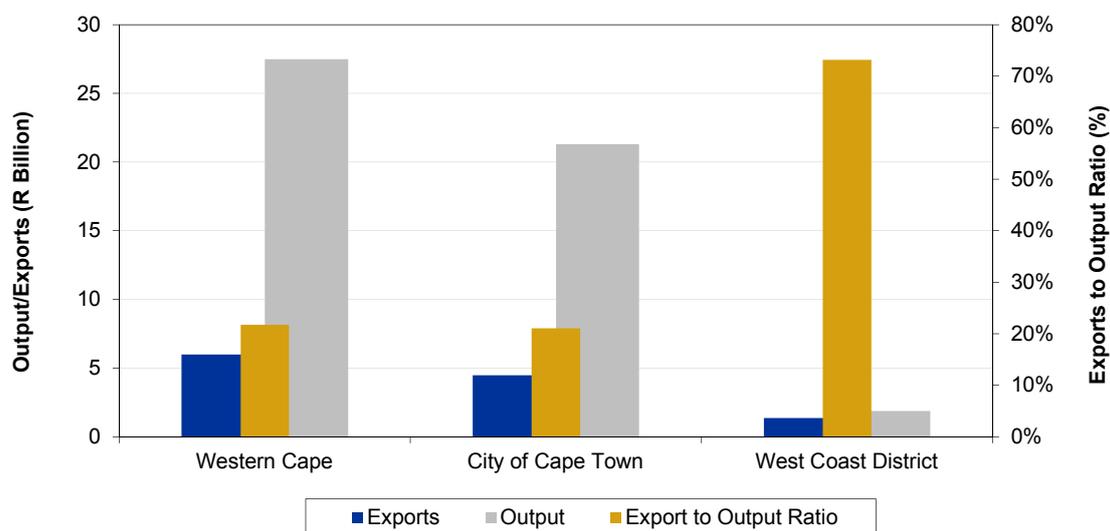
The relatively low GDP to output ratio in the WCD indicates that there is a large proportion of value added activities that are not captured in the value chain. The major proportion of the output from the iron and steel sector of the value chain is exported. The value added/export ratio will increase in the event of more active downstream manufacturing capacity being created in the higher value added fabricated metals and machinery sectors.

⁹ FDI Intelligence, 2013

¹⁰ The ratio of GDP to output provides some indication what value is added to intermediate inputs (imported and sourced from other sectors) in the production process. A higher ratio implies the greater the economic welfare benefits tied to the particular economic activity.

When analysing the metals, metal products, machinery and equipment sector in the WCD it is noted that there is a relatively small GDPR contribution in relation to the total output of the industry as shown in Figure 4.4. This indicates it is possible to improve the value added potential of this sector and contribute greater GDPR to the WCD by taking advantage of the growing oil and gas sector.

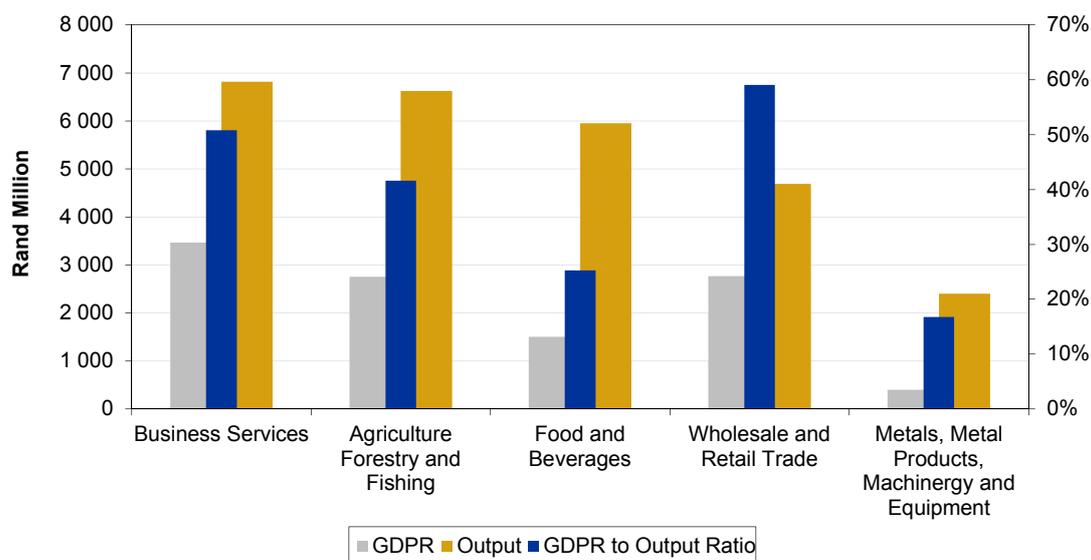
Figure 4.6 Export to output ratio in the metals, metal products and equipment sector, Western Cape, City of Cape Town and the West Coast District, 2010



Source: Quantec Research 2014

When analysing the GDPR of the metal products, machinery and equipment sector in the WCD it is noted that the GDPR contribution is relatively small in relation to the total output of the industry as shown in Figure 4.6. This indicates it is possible to improve the value added potential of this sector and contribute greater GDPR to the WCD by taking advantage of the growing oil and gas sector.

Figure 4.7 Value added to output comparison, West Coast District, 2013



Source: Quantec

4.2.2 Metals, metal products and equipment value chain

The basic structure of the metals, metal products and equipment industry comprises the mining of iron and ores which is then processed in the iron and steel industry. These products are then further processed into metal products and then utilised in the manufacture of machinery and equipment made out of different types of metals. The basic structure of the value chain and the various sectors are depicted below. The Standard Industrial Classification (SIC) codes are also presented for each of the major sectors.

Figure 4.8 The basic metals value chain with SIC codes



Source: Stats SA

The oil and gas sector off the west coast of Africa will act as a driver for the metals, metal products and equipment sector. The oil and gas sector will especially drive those sectors further along in the value chain, such as the metal products, machinery and equipment sectors. This will be to great advantage to the WCD as the current value chain reflects low value added in those sectors. Currently the value added activity is relatively low and centered around the basic iron and steel sector.

The value chain structure analysis will first focus on the backward and forward linkages to the metals value chain, including the oil and gas industry as a driver for growth. Figure 4.9 depicts the value chain for the Iron, Steel, Metals, Metal Products, Equipment and Machinery industry in the WCD. The value chain has been simplified to include the two major components, 'iron and steel' and 'metal products and machinery'. The value chain begins with inputs into the iron and steel industry. The major inputs are from mining (26.7 per cent) and from intermediate imports (35.3 per cent). The input from the metal products sector is 7.6 per cent.

Improving the value added activity of the metals and metal products industry in the West Coast District

Focus area: Improving value added potential of the metal products, machinery and equipment sectors in the metals value chain in the WCD.

Key driver: The growing oil and gas industry off the west coast of Africa.

Catalyst for development: Taking advantage of the current iron and steel industry in Saldanha Bay and the newly developed IDZ.

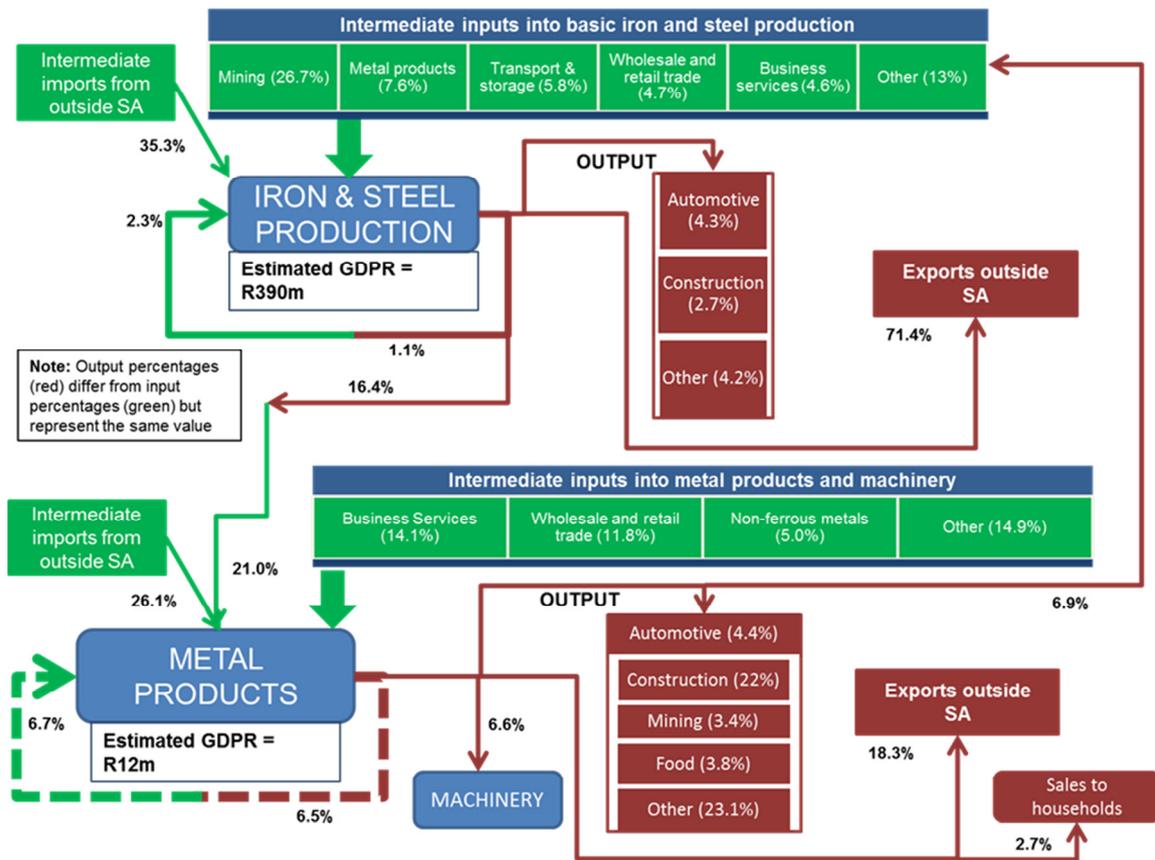
Economic rationale:

- Utilising support structures under development in the IDZ.
- Taking advantage of government support programmes and tax incentives associated with the IDZ.
- Utilising newly developed infrastructure, economic and transport corridors.
- Using economies of scale associated with IDZ's and integrated supply chains.

The iron and steel industry deals with bulk materials and the input from transport and storage is high in this industry relative to the metal products sector. The iron and steel industry has a large proportion of production destined for exports; 71.4 per cent of production in the iron and steel sector is exported. The production plants in the Saldanha Bay area are specifically designed to take advantage of the deep water port and most of the product is exported. The major proportion of production that is not exported is sent to the metal products and machinery industry (16.4 per cent). After that the South African automotive industry receives 4.3 per cent of the output of iron and steel production, with the construction industry receiving 2.7 per cent.

The second part of the value chain deals with metal products. This is currently a very small industry in the WCD; however, it is a key sector to focus on as there is a significant future potential for increasing employment opportunities and GDP. Currently the linkage between the iron and steel industry and metal products can be strengthened to boost the production of metal product in the WCD. The largest input sector for metal products comes from imports (26.1 per cent), with the input from the iron and steel industry slightly less, at 21 per cent. Strong backward linkages exist with the business services sector providing a significant 14.1 per cent of total input and the wholesale and retail trade sector, with a further 11.8 per cent share. Much of the basic products that are manufactured in the metal products sector are again utilised in more specialised production. Certain outputs are re-introduced to the metal product sector and account for 6.7 per cent of input.

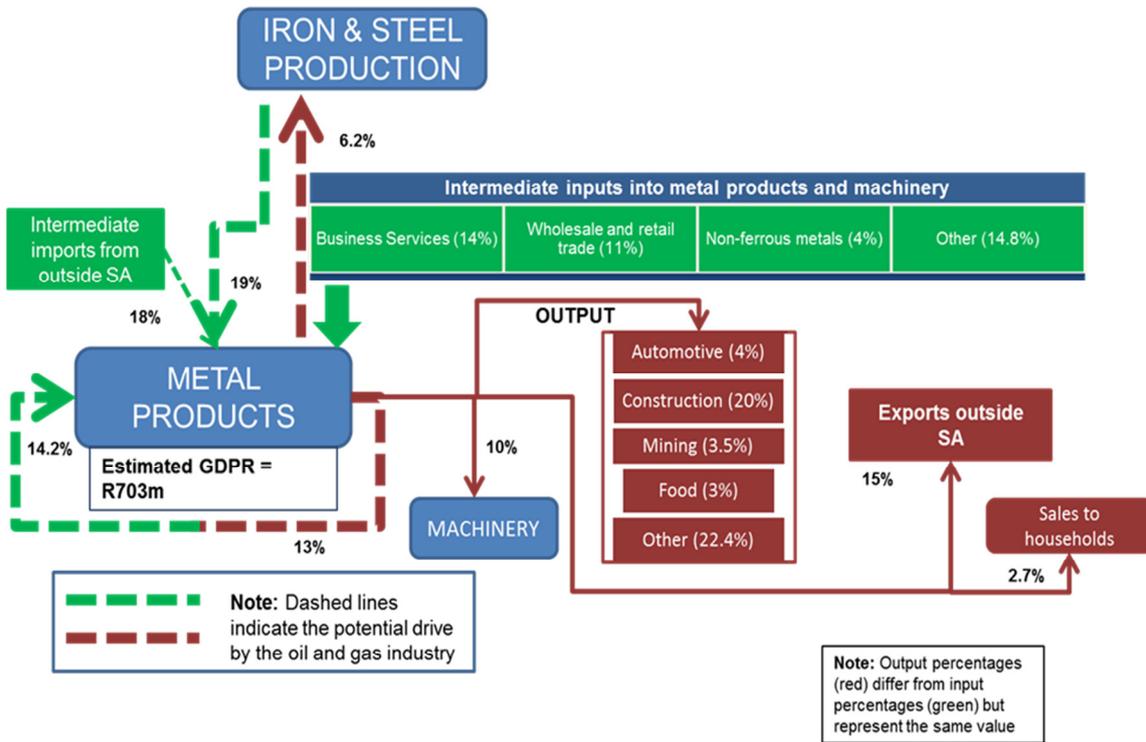
Figure 4.9 Metals and machinery value chain, West Coast District



Source: Stats SA

If the oil and gas industry acts as a driver for metal products and machinery as it is expected to do, there will be an increase in employment and value added activity. Furthermore, there will be a change in the current percentage shares of backward and forward linkages in the value chain. According to the projections of Wesgro (Saldanha Bay IDZ Fact Sheet, Wesgro, 2012) the earnings potential of the IDZ in 7 years could be R7.9 billion. Rig repair services are assumed to have the potential to generate R3.37 billion and the fabrication of the metal products that are used in the servicing of these rigs in the off-shore oil and gas industry could generate R2.25 billion. This would mean an injection of an additional R2.25 billion in output to the metal products and equipment industry in the WCD, specifically around Saldanha Bay. Utilising the multiplier for GDPR to output for the metal products and machinery industry in the Western Cape the additional GDPR generated for R2.25 billion of output is R703 million. Figure 4.10 below depicts the potential influence on the backward and forward linkages of the metal products industry in the WCD if the oil and gas industry develops as envisaged and acts as a driver.

Figure 4.10 Oil and gas driving the metals and machinery value chain, West Coast District



Source: Stats SA

The increased demand from the oil and gas industry for repairs and new products made from metal will increase output in the metal products industry. This would lead to an increase in the inputs from the metals sector into itself as these products will be re-utilised in repair work and to manufacture more specialised products from the basic metal products. Utilising the ratios based on an increase in GDP it is estimated that the metal products industry will increase its input share to 14.2 per cent and this will lower the relative share of intermediate imports. The increase in value added activity in the sector will also increase the value of the backward and forward linkages, boosting the business services and trade sectors in the WCD. The relative proportion of exports will also decrease to 15 per cent from 18.3 per cent currently. The linkage to the manufacture of machinery will also be strengthened as machinery will be utilised in the oil and gas industry. This forward linkage will increase by 3.4 per cent to 10 per cent.

4.3 Concluding remarks

The development of the oil and gas industry around the Saldanha Bay area, as well as the incentives and supply chain benefits surrounding the Saldanha Bay IDZ will provide the necessary demand to grow the metals and metal products industry. It is crucial that the necessary support services are provided to the IDZ. The increased output in the metals industry will not only increase the value added activity in the value chain, it will also increase demand in the local economy. The business services sector and the retail sector will also benefit from the additional income and spending in the local economy. The spending potential of the local workforce will increase and this will create the opportunity for the development of new retail outlets and malls in the area. These indirect and induced effects will in turn drive development of the property market. Property values will be positively affected and there will be an increased demand for social services. Spending on education, healthcare and social services will be necessary and this will drive overall socio-economic development in the WCD.

5

Informal sector analysis

5.1 Introduction

The persistence of high levels of unemployment, poverty and inequality is widely recognised as major socio-economic challenges for South Africa. The informal economy is often seen as an important component in expanding economic participation. However, the conceptualisation of what this practically means is not always played out. The expansion of the informal economy can have a positive effect on poverty if it arises as an off-shoot of a rapidly growing formal sector. It can also reflect worsening poverty where it is stimulated by a collapsing formal economy and/or alternatively is caused by firms seeking to evade regulatory measures and the tax net (Altman, 2009).

This coupled with the contemporary context of global economic crisis and the dramatic expansion of the informal economy across the developing world, has highlighted the importance of understanding the relationship between the formal and informal economies. However, while much attention has been spent on formal employment, a large fraction of workers (almost 30 per cent in 2013)¹¹ are employed in the informal sector in South Africa.

As a result, this chapter focuses on the issue of linkages across the formal-informal divide and possible policy considerations.

Before proceeding further, we provide a brief definition of 'formal' versus 'informal'. The formal sector is defined as economic activity that occurs within the purview of state regulation and formal employment is defined as employment originating from a business or firm that is registered with the state. On the other hand, the informal economy covers both businesses and employment. Informal employment extends to both the informal and formal sector, as well as private households, where the informally employed do not have written employment contracts and are not entitled to employment benefits such as pension and medical aid contributions from their employers. The informal sector is defined as one where, firstly, employees work in establishments of less than five employees, where income tax is not deducted from their salaries and wages; and secondly, where employees are not registered with the

¹¹ Quantec data 2014

Receiver of Revenue for income tax or value added tax purposes. (Statistics SA, 2012).

In both academic and policy circles, there is much debate over the relationship between the formal and informal sectors, and whether informal employment is a benefit or liability for the overall economy. Here there are three schools of thought:

- 1) The dualistic labour market approach, which sees informal employment as a substitute for formal employment. In this approach informal employment is a residual “sponge” that soaks up unskilled, surplus labour from the formal sector and there are very few connections between the informal and formal sectors (Chen, 2004). Generally the informal sector is, at best, seen as a safety net for unemployed workers.
- 2) The alternative (or neo-liberal) approach sees informal employment as a complement to formal employment. In this approach the informal sector is a voluntary strategy where entrepreneurs are able to establish new firms and contracts. Effectively it is a cost saving strategy for small firms trying to avoid arduous and costly labour regulations (Maloney, 1998).
- 3) The ‘Structural Articulation’ approach sees the informal sector as heterogeneous and made up of at least two distinct sub-sectors (Portes and Schauffler, 1993). One of these sub-sectors represents entrepreneurs and small firms trying to grow by avoiding costly regulation while on the other hand, the other sub-sector is largely disconnected from the formal economy and demonstrates countercyclical behaviour. This static sub-sector is driven by excess labour supply and represents the involuntary subsistence strategies of unskilled workers who cannot find employment in the formal sector.

5.2 Understanding the informal and formal sector linkages

To understand the linkages between the formal and informal sectors one needs to ascertain whether a relationship does exist. Extrapolating from two recent surveys, one on the informal businesses (200 informal businesses – MERO 2013) and the other on formal businesses (200 formal businesses) in the West Coast District (WCD) we note the following.

From Table 5.1 we note that formal businesses in the sample range have informal businesses as their customers or clients. This situation therefore highlights the existence of significant linkages between the formal and the informal sector.

Table 5.1 West Coast District: Main customers or clients of SMMEs

Formal businesses customers or clients	Formal businesses		
	Microenterprises	Small business	Medium business
Private businesses	53.8	42.2	36.4
Other small businesses	16.4	20.9	22.9
Other large businesses	13.1	19	23.5
Government	6.8	9.8	10
Informal businesses	8.4	7.3	5.6
Other	1.6	0.8	1.6

Source: Anix 2014

Unfortunately the questionnaire was not designed to explore detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies. However, after further investigation it has become clear that even where “other small businesses” are the clients or customers, SMMEs were not too interested whether these businesses were formal or informal. Therefore, the percentage of informal businesses as clients could effectively be larger. The focus for SMMEs was mainly whether these informal (or any other) businesses represented a cost advantage. Therefore, particularly given the current economic slowdown in the economy, SMMEs were seeking links with informal firms as a cost-cutting strategy. Such a strategy could certainly favour informal businesses and particularly so if the competition amongst formal businesses were increased.

However the type of formal and informal linkage is very important. For e.g. forward linkages refer to the use of an enterprise's output as an input in other productive activities, while backward linkages comprise the enterprise's purchases of intermediate inputs. Generally, forward linkages between a modernising informal segment and the formal economy can lead to growth in the informal as well as the formal sectors, while in backward linkages, informal firms tend to purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets. This leads to a dependent and regressed informal sector constrained to buy dearly and sell cheaply.

Given the effect that the lack of skills and capital finance may have on the manner of formal and informal business linkages we further extrapolate from the two unique surveys as mentioned earlier and review the “main challenges for business growth” faced by both formal and informal businesses in the WCD.

From Table 5.2 we note that access to finance is a major constraint to business growth for both formal and informal businesses. For formal businesses, just over 18 per cent of businesses (micro = 20 per cent, small = 14 per cent and medium = 20 per cent) view access to finance as a constraint to business growth, while nearly 64 per cent of informal respondents see this as a major constraint. These figures coupled with the literature as mentioned earlier leads one to assume that there could be a possible risk of exploitation of backward linkages, which could lead to weak markets or limited growth potential in the West Coast region.

Table 5.2 West Coast District: Challenges for business growth – formal and informal sectors

Challenges for business growth (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Access to affordable finance	63.6	20.8	14.0	20.0
Shortage of business premises	56.0	0.0	0.9	0.0
Electricity cost access/Increasing electricity rates	47.3	31.3	24.3	20.0
Water cost access	41.3	-	-	-
Lack of specialised equipment	38.6	-	-	-
Cost and difficulty of business licensing	33.2	-	-	-
Crime	32.1	-	-	-
Competition	31.0	-	-	-
Transport of goods costs	28.3	-	-	-
Increasing labour rates	-	4.2	8.4	40.0
Skill and education of workforce	-	4.2	8.4	0.0
Bad weather	-	0.0	0.9	0.0
None	-	14.6	9.3	0.0
Other	-	25.0	33.6	20.0

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: *Informal Data (MERO, 2013); Formal Data (Anix, 2014)*

Given the above, it is important to consider the nature of the production system through which informal and formal businesses are linked when trying to understand the linkage between informal and formal enterprises. This is because the nature of the linkage, specifically the allocation of authority and economic risk between the informal and formal firm, varies according to the nature of the production system.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

This linkage is very important for the financial services sector for example, as it gives the sector an opportunity to use the linkage to the best advantage of the informal sector. Banks would be keen to deal with those informal sectors that have a clear understanding of how they are linked to the formal sector players.

Understanding the linkages is also important because the amount of financial sector support available to informal sector players is far less than ideal but has the potential to increase if the opportunities brought about by the linkages are fully exploited.

Despite SMMEs strong interest in credit, banks' profit orientation may deter them from supplying credit because of the high transaction costs and risks involved. However, with linkages to the formal sector this can be easily resolved because the source of the problem can be minimised due to the links between the informal and the formal structures.

First, SMMEs loan requirements are small, so the costs of processing the loans tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to fully assess the risks of new, unproven ventures, especially because the success of small firms often depends heavily on the abilities of the entrepreneur. Third, the probability of failure for new small ventures is considered

to be high. These challenges can be easily met if formal sector players are willing and able to support the sector.

Through financing the value chain or the big end user of the product, the banks will be indirectly financing the informal sector player producing intermediate inputs to the formal final producer.

5.3 Key characteristics of the West Coast District informal sector

Extrapolating from the surveys mentioned earlier we note that entrepreneurs in the informal sector have different motivations for starting a business compared to their formal sector counterparts, with 66 per cent of informal entrepreneurs citing a lack of alternative employment opportunities or financial hardship as their main motivation (see Table 5.3 below). This figure coincides with a recent Stats SA survey on employers and self-employed, which highlighted that 60 per cent of people started informal businesses as a result of unemployment/have no alternative income source (Stats SA 2014). In contrast formal sector entrepreneurs on the other hand were significantly more likely to say that they were interested in taking advantage of business opportunities as the reason they started their businesses.

Female entrepreneurs are more likely to operate in the informal and formal microenterprise sectors, with the female exposure just over 37 per cent in informal businesses and just under 58 per cent in the formal microenterprise sector. For small and medium businesses, female entrepreneurs are significantly less represented, recording a mere 21 per cent for small businesses and zero for medium businesses (see Table 5.4).

Table 5.3 West Coast District: Reasons for starting a business – formal and informal

Reasons for starting a business (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
I wanted to earn more money/financial hardship	40.6	6.0	2.3	0.0
I could not find alternative employment/unemployed	25.4	3.0	3.0	0.0
I am good at running this business	17.3	-	-	-
I didn't enjoy working for someone else/To be my own boss	10.2	9.0	9.0	42.9
Have passion for it/It's a calling	1.5	-	-	-
Saw an opportunity	1.0	53.7	42.1	28.6
Health reasons	1.0	-	-	-
Gap in the market	1.0	-	-	-
Create employment/Help the community	1.0	-	-	-
Lost my job	-	1.5	3.8	0.0
Interested in particular product or service	-	4.5	15.8	0.0
Wanted to	-	14.9	11.3	0.0
Took over from previous owner/manager	-	4.5	7.5	28.6
Inherited the business	-	3.0	3.0	0.0
My family expected me to	-	0.0	2.3	0.0
Other	1.0	-	-	-

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Women tend to be concentrated in business activities such as retail trade and food and garment production. Literature suggests that the substantial differences in the choice of sector and business activity between male and female entrepreneurs may suggest that the challenges to business constrain some entrepreneurs' ability to enter the formal sector. Given this, it may be that more women have been directed into activities with lower capital requirements.

Table 5.4 West Coast District: Distribution by gender – formal and informal

Gender (%)	Informal businesses	Formal Businesses		
		Micro businesses	Small businesses	Medium businesses
Male	62.8	42.3	79.1	100.0
Female	37.2	57.7	20.9	0.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Entrepreneurs in the formal sector also have more education than entrepreneurs in the informal sector (see Table 5.5 below). While nearly 42 per cent of all formal sector entrepreneurs surveyed have diploma or university-level training, only about 10 per cent of informal sector entrepreneurs do. Sixteen per cent of informal entrepreneurs have a matric level training compared to their formal sector counterparts, who average close to 47 per cent.

Table 5.5 West Coast District: Level of education – formal and informal

Highest level of education (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
No schooling	2.5	0.0	0.0	0.0
Some primary school	16.1	0.0	1.8	0.0
Some high school	43.7	12.5	6.4	0.0
Matric	16.1	41.7	38.5	60.0
Apprenticeship	12.1	4.2	4.6	0.0
Post Matric Qualification (Diploma)	8.5	22.9	22.9	20.0
University Degree (undergrad/postgrad/Honours/Masters)	1.0	18.8	25.7	20.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

As mentioned in MERO 2013, incomes in the WCD informal economy appear generally low, but the term "survivalist" is not appropriate for these enterprises as it does not do justice to the demonstrated sustainability of such enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their informal enterprises in favour of a theoretical offer of alternative formal work at minimum wage.

Informal enterprises demonstrate considerable connectedness to the WCD formal economy. The data shows how the informal economy is generally of larger scope and scale closer to diverse formal economic activity such as the larger towns, whilst declining in number and financial returns in contexts outside urban centers. Furthermore, their response regarding the general prospects for growth are linked to the level of business confidence reported in the formal sector.

Whilst the MERO could not comment on the economic scale of the WCD informal economy (in terms of employment numbers or GDP) the micro-enterprises studied, especially the majority operating within the township context, play an important employment role in their immediate economies. Each business employs two or more workers and over 60 per cent of enterprises provide employment opportunities. Informal employment provides a means of skills acquisition, enabling the workers to either obtain a better paying job (possibly within the formal sector) or establish their own micro-enterprise.

Furthermore, the key findings of the 2013 informal sector survey indicate that there is significant scope for a policy to strengthen the relationship between informal and formal businesses in the West Coast that will allow for growth of both informal and formal businesses.

Having highlighted the relationship between the informal and formal businesses, we now turn our attention to the performance of the West Coast's informal labour market.

5.4 The business cycle impact on the West Coast District informal labour market

This section analyses the WCD informal labour market at the sectoral level from 2000 - 2013. The main aim of this section is to assess the cyclicity of informal employment during the expansionary (2000 - 2007), recessionary (2008 - 2009) and the recovery (2010 - 2013) periods of the business cycle.

The issue of the effect of the business cycle on labour force participation behaviour has not received much attention in the South African literature mainly because of the difficulty of combining macroeconomic and microeconomic data in a coherent way.

However, workers' participation decisions during expansionary or recessionary periods are crucial for understanding how labour markets adjust to macroeconomic fluctuations (Darby et al, 1998). At the same time, the economic environment also affects the performance of the firms operating in the labour market which make their decisions on labour demand needs partly based on the economic conditions of a particular region or country. Furthermore, the effect of the business cycle on firm performance is usually heterogeneous varying among different economic sectors and industries within a single country or region.

5.4.1 The economic recovery, 2010 - 2013

As shown in Table 5.6 below, employment growth in the informal sector of the WCD averaged 0.6 per cent per annum over the current recovery (expansion) phase of the business cycle (2010 - 2013), resulting in a cumulative net increase of 547 jobs. This is marginally below the trend growth tempo of 1.0 per cent per annum registered over the 2000 - 2013 period, i.e. a cumulative net increase of 2 886 jobs.

There has been some net job growth over the recovery period; however, this has been achieved at a considerably lower rate than during the recession years (2008 - 2009). A notable feature of the recovery years is the strong performance of the manufacturing sector (112 net additional jobs during 2008 - 2009). However, the CSP services sector created 489 new jobs, giving it the strongest job growth during the recovery years. Sustained job growth was also experienced in the transport, storage and communication sector and business services sector.

Net job losses were experienced in the construction sector, while sustained net job losses were experienced in the agricultural sector. The sectoral informal employment trends are discussed in more detail in section 5.4.2 below.

Table 5.6 West Coast District: Formal vs informal employment growth and employment creation, 2000 - 2013

Sector	Informal Net Employment Creation (number)			Formal Net Employment Creation (number)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-2 399	-683	-130	-17 387	-7 155	-292
Mining and quarrying	-5	0	-1	-502	18	-15
Manufacturing	-501	-206	112	-7 139	-1 427	-658
Electricity, gas and water	-7	-5	-5	-75	-95	16
Construction	-289	50	-547	-2 738	-404	-925
Wholesale and retail trade, catering and accommodation	1 372	1 581	-30	-811	-1 447	93
Transport, storage, communication	1 003	602	213	-254	-162	152
Finance, insurance, real estate, and business services	1 760	1 018	445	8 608	585	1 600
Community, social and personal services	1 950	844	489	-53	-116	-656
General government	0	0	0	2 665	361	501
Total	2 886	3 201	547	-17 686	-9 840	-185
Yoy % change	1.0	8.1	0.6	-1.3	-5.5	-0.1

Source: Quantec 2014

5.4.2 Agriculture, manufacturing and services – informal employment growth performances

The WCD labour market (formal and informal) grew at an annual rate of 1.8 per cent in 2013; growth mainly occurred in the informal labour market, expanding by 7.2 per cent.

Table 5.6 displays the informal and formal employment trends in the WCD over the period 2000 - 2013. The informal sector experienced slow trend growth of 1.0 per cent per annum (i.e. 2000 - 2013, a net increase of 2 886 jobs), yet experienced exponential growth during the recession years (8.1 per cent per annum, 2008 - 2009, or a cumulative 3 201 jobs). Unfortunately, it would appear from the evidence below that this was not new employment created but merely a displacement of formal

sector employment. Thus far there has been modest growth during the recovery (0.6 per cent per annum, 2010 - 2013, i.e. 547 new jobs).

Within the informal sector, significant retrenchments were experienced in the agriculture and manufacturing sectors (889 total net retrenchments, 2008 - 2009). However, it was the increase in informal employment in the services sector, and particularly the trade sector, that was notable, with a cumulative total of 4 045 net additional jobs created during the recession years. As mentioned earlier, it should be noted that many of these jobs may simply have involved workers being displaced from the formal sector during the recession.

Surprisingly, the rate of employment creation accelerated sharply during the recession years – with 3 201 net additional jobs created in the period 2008 - 2009 at a rate of just over 8 per cent per annum, with 2 886 net additional jobs created over the period 2000 - 2013.

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is clear from Table 5.6 that the growth in the region has been dominated by the services sectors with a cumulative total of 1 147 new jobs created over the same period, with the financial and business services sector leading the way. Despite the growth experienced in the manufacturing sector during the recession, the primary and secondary sectors experienced a combined contraction of a cumulative 571 informal jobs lost during the economic recovery period.

5.4.3 Cyclical impact on informal employment in the West Coast District

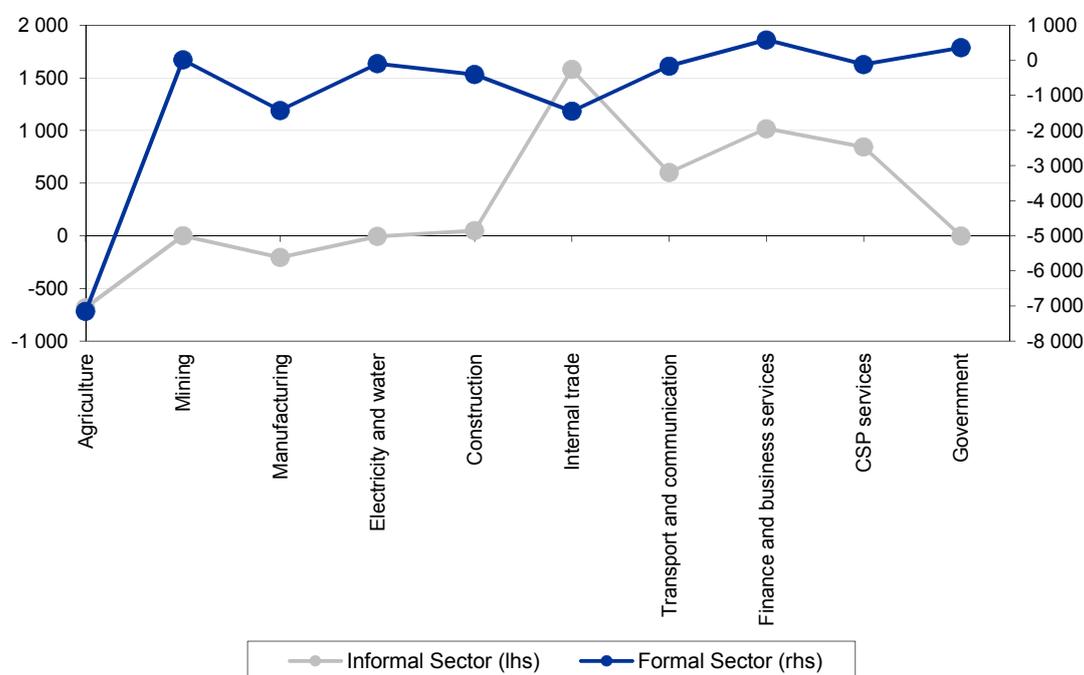
The first notable trend when comparing employment creation in the informal and formal sectors in the WCD over the 2000 - 2013 period is the significant number of net retrenchments in the formal sector during the recession (9 840 net retrenchments, 2008 – 2009) compared with the 3 201 net additional jobs created in the informal sector over the same period. It is evident that during the recessionary period many workers losing their jobs in the formal sector moved to the informal sector.

As shown in Figure 5.1, the most noteworthy performance falls within the wholesale and retail trade and catering and accommodation sector. In particular, the high number of informal net additional jobs created (1 581 during 2008 - 2009) surpassed formal net retrenchments (1 447) during the same period. Literature indicates that there has been a growing trend of informalisation within the sector and that in fact a significant number of employers are operating in the informal sector. Of these employers, a number of small and micro-enterprises are not formally registered (i.e. they fall within the informal sector), with roughly 86 per cent of the sector comprising of small enterprises nationally (DHET, 2013). Furthermore, approximately 34 per cent of people in the sector are in informal employment, with the Western Cape Province having the second highest density of employees in the sector (DHET, 2013; Stats SA, 2013). This suggests that the informal sector acts as an absorber of formal sector retrenchments, and it may also be indicative of low barriers to entry into the informal sector for this industry.

For the construction, CSP services and transport, storage and communication sectors, the number of net retrenchments experienced within the formal sector was surpassed by the net job creation in the informal sector during the recession years. This is potentially indicative of a high transfer or flow of skilled labour from the formal sector to the informal sector, as well as possible low barriers to entry within the informal sector.

Within both the agricultural and manufacturing sectors, a high rate of net retrenchments in the formal sector (7 155 and 1 427, respectively during 2008 - 2009) far surpassed the net retrenchments experienced in the informal sector during the recession years (683 and 206, respectively). This is highly indicative of high barriers to entry and very low transfer of skilled labour from the formal sector to the informal sector.

Figure 5.1 West Coast District: Change in employment during recession, 2008 - 2009



Source: Anix 2014

Generally, however, it is also likely that workers laid-off in the agricultural and manufacturing sectors (or any other sector for that matter) become informal entrepreneurs (or find employment) in other sectors, e.g. transport, tourism, etc. This situation ties in with the indication in Table 5.3 above that most informal business owners began their businesses due to financial hardship and/or difficulty in finding employment.

5.5 Concluding remarks

This chapter expanded on the understanding of informal and formal linkages and highlighted that there are significant linkages of informal and formal businesses in the WCD. While detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies were not able to be analysed there appears, given the financial constraints and low-level of skills within the informal sector, that these linkages may be at risk of 'unfair' formal sector outsourcing.

During the recession (2008 - 2009) in the WCD, there were significant job losses (9 840) in the formal sectors while there were 3 201 net additional jobs created in the informal sector over the same period. Most of the employment gains in the informal sector were created in the wholesale and retail trade and catering and accommodation sector during the recession, with the high number of informal net additional jobs surpassing formal net retrenchments. This indicates that the downward rigidities of the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed.

Furthermore, given that during the recession (2008 - 2009), informal employment expanded by 8.1 per cent per annum while formal employment contracted by 5.5 per cent per annum, it would appear that WCD demonstrates a kind of a dualistic labour market approach where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector. This may be extremely useful to the WCD as a thriving informal market may alleviate the District from developing policies aimed at assisting the openly unemployed.

The high prevalence of female entrepreneurs in the informal and formal microenterprise sectors and the absence of them in the formal medium business may indicate the effect of the constraints to starting a business has on potential female entrepreneurs. Findings indicate that access to finance, for example, may constrain entrepreneurs' ability to enter the formal market and therefore due to a lack of alternative formal employment, many female entrepreneurs have been directed to activities with lower capital requirements.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms); it is recommended that the District and its Municipalities consider a more nuanced view of the informal economy. The focus here should not be on extending social protection across the informal economy as this risks trapping informal entrepreneurs in relations of dependency. Instead of reducing informal entrepreneurs to skilled labour in exploitative formal sector outsourcing arrangements; the policies should instead aim at for example, advocating informal entrepreneurs' distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., that could build a capacity for autonomous development.

Finally, there is a need for policy attention to extend beyond the question of how to create and manage linkages between the formal and informal economies. What is required is a more explicit focus on who designs particular linkage arrangements, whose interests they serve, and how policy and partnership arrangements can achieve a more equitable balance of benefits for informal actors and their associations as preferred contractors, insurance providers, or workers for decent wages, rather than as cheap labour and institutional solutions. Instead of assuming that institutional complementarities between the formal and informal sectors automatically create synergy through which both sides benefit, clearer policy attention must be directed at how to turn potential formal-informal complementarities into synergistic arrangements. This requires attention to legal as well as skill-based obstacles, and to building power, leverage, negotiating skills and supportive alliances in the formal sector as part of the process of building informal associations. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Service delivery is vital to economic success. According to the Reconstruction and Development Policy framework (1994:28) at the time of the first democratic elections in South Africa in 1994, it is estimated that 12 million South Africans did not have access to clean drinking water and 21 million people did not have adequate sanitation. South Africa has a long and difficult path with service delivery. Through programmes such as the Reconstruction and Development Plan (RDP), the country ventured on a path to improve service delivery and access to basic infrastructure for the masses. The provision of basic services as a vehicle for improving local economic development has always been a key priority for Government.

Following the adoption of the 1996 Constitution, municipalities were mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act of 2000. The Local Government: Municipal Systems Act, Act No. 32 of 2000, Chapter 1, defines basic municipal services, as a “service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health, safety and the environment”. Municipalities would require adequate infrastructure in order to ensure access to basic services and ensure delivery of the requirements set out in section 73(2) of the Systems Act.

The Department of Provincial and Local Government define municipal infrastructure as “the capital works required to provide municipal services. It includes all the activities necessary to ensure that the works are delivered effectively, such as feasibility studies, project planning and capacity building to establish sound operational arrangements for the works”. Municipal infrastructure includes transport, communication, energy, water and sanitation facilities. The provision of these basic services is dependent on the availability of infrastructure. Municipalities are faced

with the growing challenge of addressing infrastructure backlogs and the upgrade and maintenance of existing infrastructure.

Governments have continued to highlight the importance of infrastructure investment for basic service delivery. According to a Non-Financial Municipal Census conducted by Stats SA the provision of basic services increased by 6.4 per cent between 2011 and 2012. The census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). The highest percentage change between 2011 and 2012 was recorded in the provision of water – going up by 6 per cent. The provision of electricity, sewer and refuse increased by 4.4 per cent 3.4 per cent and 2.7 per cent, respectively, over the same period.

Despite these positive changes social protests over basic service delivery in South Africa have become a common occurrence. Data compiled by the Municipal IQ showed that 173 service delivery protests were recorded in 2012, the highest number over the past decade. Municipalities are faced with varying challenges in collecting revenue and meeting the increasing demand for basic services.

This chapter analyses two important sides of the budget - revenue and expenditure. Both revenue and expenditure play very important roles in local economic and social development. This chapter is based on several sources including Quantec, the Western Cape Provincial Treasury and Stats SA. An overview of Municipal revenue trends is provided, and its resulting impact on basic service delivery. In addition Municipal expenditure is also assessed.

6.2 Overview of municipal revenue trends in the West Coast District

Since 1994 there has been a remarkable transformation of Local Government and the services they provide. The democratisation of Local Government involved Municipal fiscal independence, administrative restructuring, structural transformations and an overhaul of the intergovernmental fiscal system, all within the context of the constitution. Hence the provision of Municipal Infrastructure takes place through intergovernmental transfers or own revenue which includes property taxes, licensing fees, electricity charges, surcharges on services, user fees and borrowing.

According to the Constitution municipalities should provide basic services within their financial and administrative capacities. Due to various economic inequalities revenue collection differs amongst municipalities, with certain municipalities not being able to provide for basic services due to limited revenue bases. Governmental transfers help to bridge these gaps. According to a report by the Financial and Fiscal Commission (2014: 97) grants and subsidies from National and Provincial Government make the largest contribution to capital revenues. The second largest contributor to capital financing is Municipal own revenue followed by borrowing.

Table 6.1 illustrates total revenue generation from roads and trading services per Municipality in the WCD. As can be seen over the period under analysis revenue generated was higher in Swartland and Saldanha Bay Municipalities. The municipalities contributed 23 per cent and 36 per cent to West Coast District roads and trading services revenue in 2013. Bergrivier, Matzikama and Cederberg each accounted for 10 per cent, 9 per cent and 8 per cent. WCD revenue grew by a real annual average rate of 12 per cent between 2008 - 2009 and 2012 - 2013.

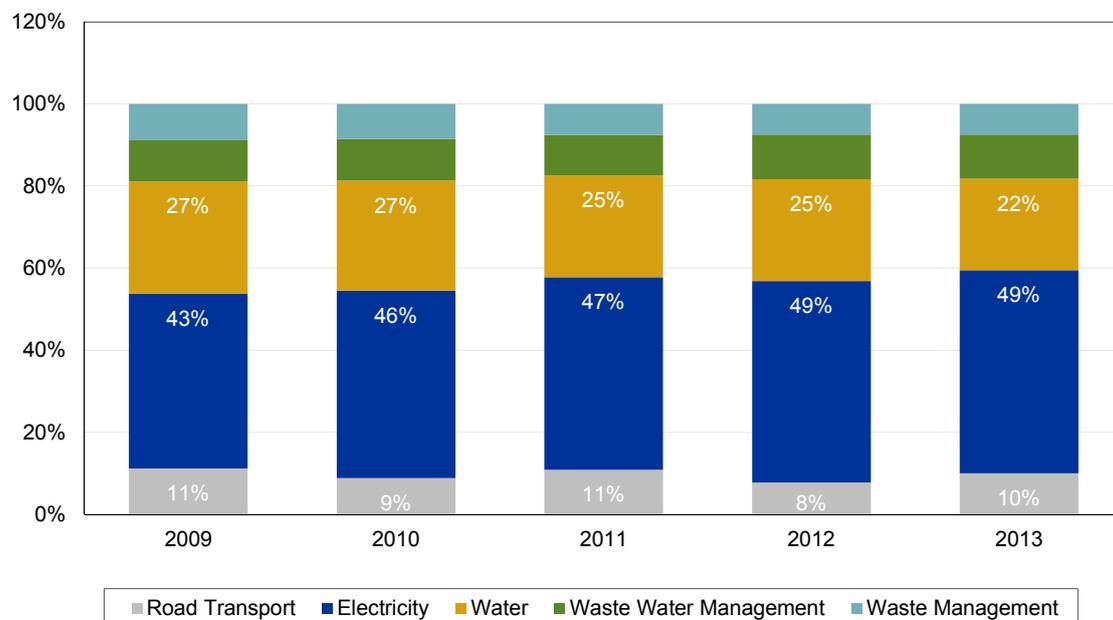
Table 6.1 Revenue per municipality (Rand; constant 2005 prices)

Municipality	2009	2010	2011	2012	2013
West Coast District	81 038	83 175	99 257	98 503	101 448
Matzikama	42 818	52 352	59 538	68 257	68 911
Cederberg	30 919	36 342	57 897	77 935	61 758
Bergrivier	44 042	55 919	64 296	69 557	74 108
Saldanha Bay	159 969	201 564	236 464	254 653	262 048
Swartland	101 749	119 300	132 686	157 580	167 088
Total	460 536	548 652	650 138	726 486	735 361

Source: Western Cape Provincial Treasury

Figure 6.1 below illustrates revenue collection from road transport and trading services within the WCD. Revenue derived from electricity contributes close to half of the total revenue generated within the WCD. Since 2008 - 2009 the contribution made by revenue from water charges has declined slightly, alongside increases in revenue from electricity charges. Revenue from waste management services contributed the least to total revenue.

Figure 6.1 Contribution of service charges to municipal revenue



Source: Western Cape Provincial Treasury

The differences in revenue collection may be a result of differing tariff price structures or a reflection of a differing tax base, administrative capabilities of Municipalities to collect revenue on the basis of economic performance. The administrative capabilities refer to internal municipal revenue collection inefficiencies. The tax base of a municipality is influenced by economic and demographic factors such as income levels and number of indigent¹² consumers. Indigent households in the Cederberg and Matzikama Municipalities place enormous pressure on the Municipalities' financial resources. In Bergrivier indigent households make up 25 per cent of the total urban households in the Municipality. Generally high levels of poverty, a declining revenue base and poor economic growth constrains service delivery by Municipalities and revenue collection.

Table 6.2 shows the contribution to GDP in 2013 and the average GDP growth for the local municipalities over the period 2000 - 2013. This is compared to the share of revenue generated from trading services and road transport per municipality. As can be seen in Table 6.2, municipalities that display higher growth rates over the period 2000 - 2013 collect more revenue. Saldanha Bay Municipality made the largest contribution (36 per cent) to revenue collection and GDP (32 per cent) for the district and grew at 4.3 per cent per annum. On the other hand Matzikama made the smallest contribution (9 per cent) to revenue collection for the district and grew at 1.3 per cent per cent.

Table 6.2 West Coast District: GDP growth vs revenue shares in 2013

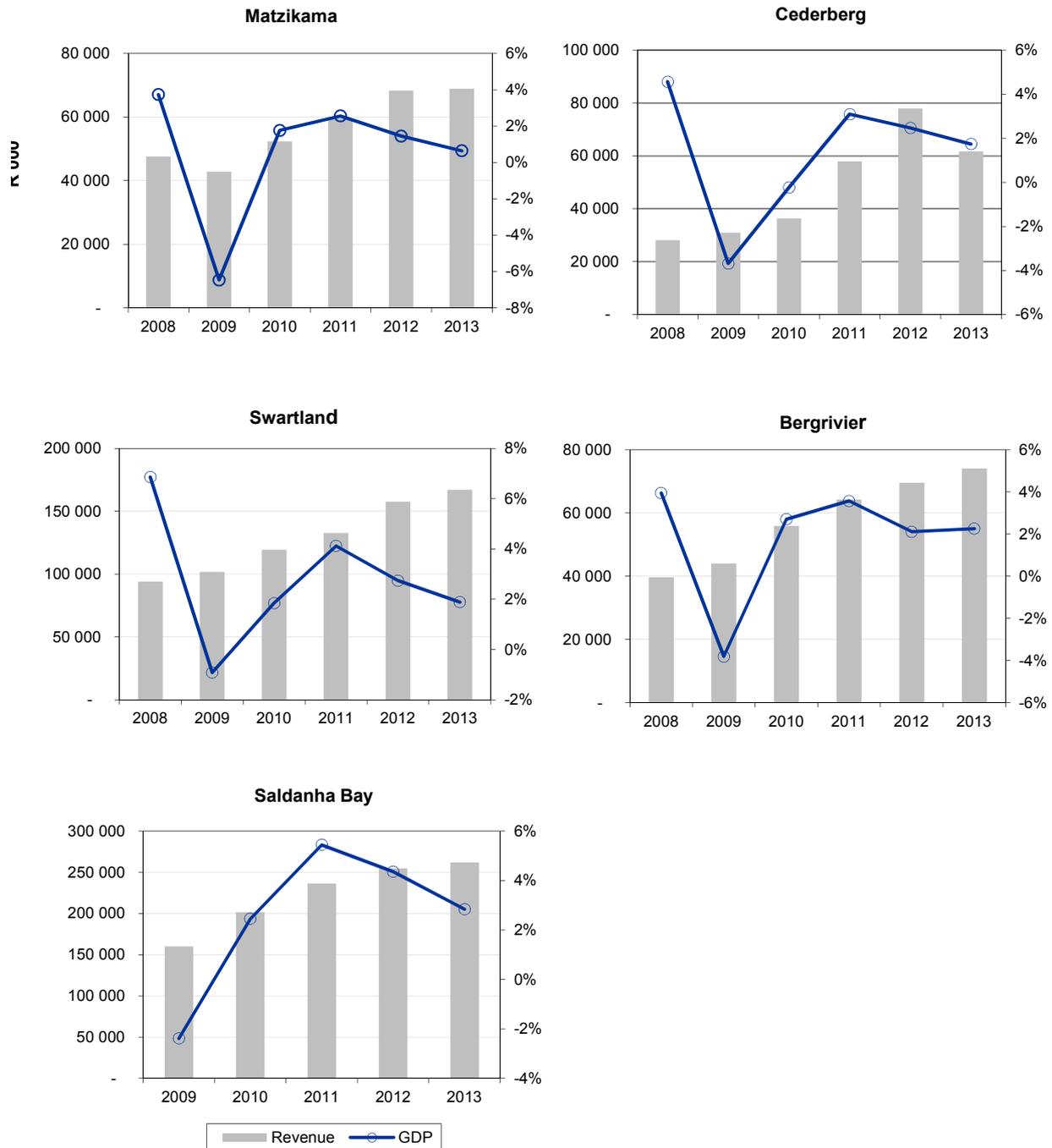
Municipality	Revenue % share	GDP % share	GDP growth 2000 - 2013
Matzikama	9%	15%	1.37
Cederberg	8%	9%	2.21
Bergrivier	10%	13%	2.72
Saldanha Bay	36%	32%	4.37
Swartland	23%	29%	3.46

Source: Western Cape Provincial Treasury

Figure 6.2 shows an approximate relationship between revenue generation per Municipality and GDP growth. The dip in GDP and revenue collected from trading services and road transport in Matzikama in 2009 is notable. This decline in revenue collection is presumably a result of depressed economic activity during the recession. All municipalities within the WCD except for Cederberg and Matzikama recorded higher revenue collection growth rates for the recession (2008/09 and 2009/10) in comparison to the recovery years (2010/11 and 2012/13). Contrary to what is seen in these municipalities one would expect depressed economic activity during the recession to influence revenue collection. This high revenue growth rate presumably reflects the impact of annual tariff price increases, improvements in municipal revenue collection or changes in the number of indigent consumers.

¹² According to the Indigent Policy the term indigent means 'lacking the necessities of life' such as water, sanitation, refuse removal and housing amongst other things.

Figure 6.2 Municipal revenue vs GDP: 2008 – 2013 (R'000)



Source: Western Cape Provincial Treasury Budget Schedules 2009 – 2013

For municipalities to maximise their revenue collection it is important for them to adopt revenue raising strategies through maintaining and improving service delivery quality. Revenue increasing strategies include expansion of service delivery, debt collection strategies, efficient revenue management, minimising water losses, maintaining an accurate billing system. The Municipality's revenue collection and financial viability are undeniably linked to its ability to render quality services and improve access to basic services. As such the next section discusses access to basic services.

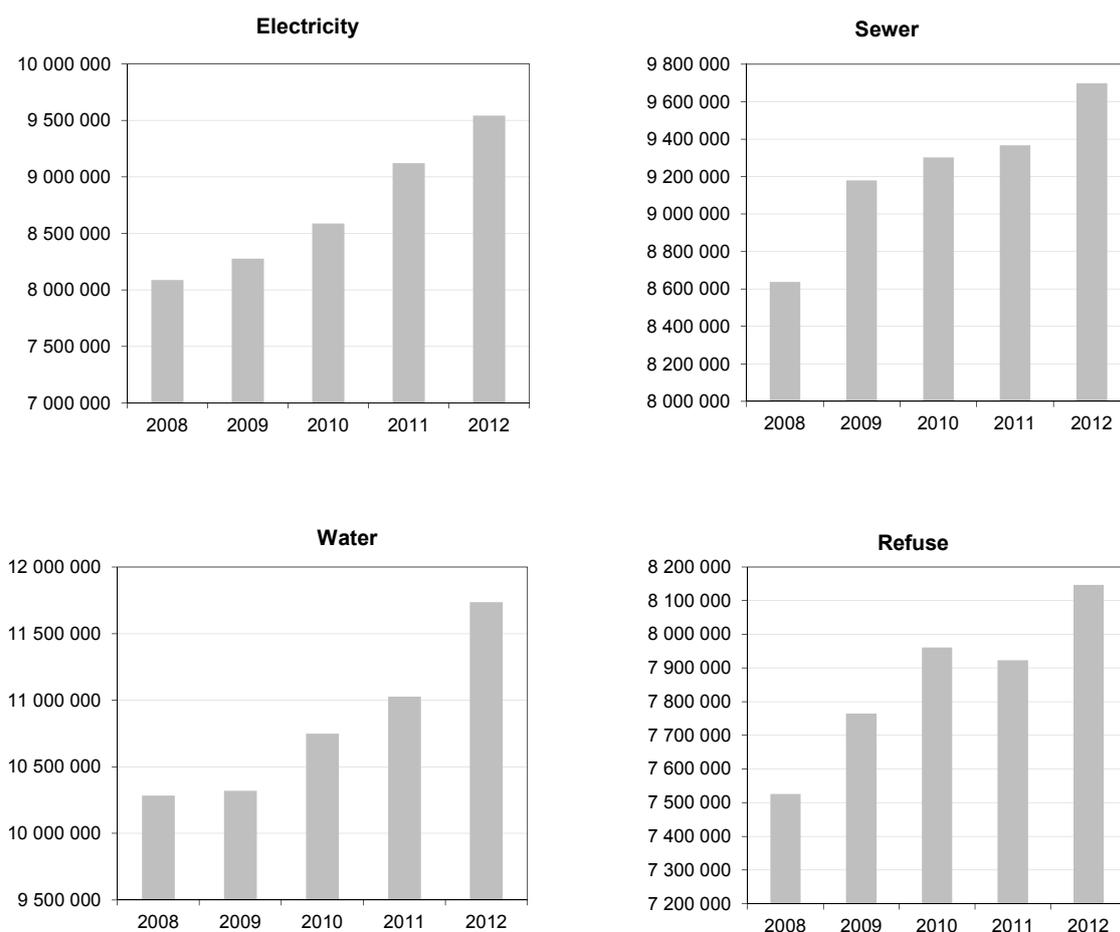
6.3 Access to basic services

Basic service delivery plays a central role in poverty alleviation. Statistics South Africa has been tracking the progress of service delivery across all municipalities since 2003 through an annual Non-financial Census of Municipalities. Since 2008 the number of consumer units receiving electricity, sewer, water and refuse has gone up (see Figure 6.3 below).

According to a Non-financial Census of Municipalities conducted by Stats SA for the year ended June 2012 the provision of basic services went up by 6.4 per cent between 2011 and 2012. Table 6.3 below illustrates the number of Consumer Units receiving basic services in each province. The highest provincial increases over the period 2011 to 2012 were recorded in the Western Cape (19.6 per cent).

The main obstacle to accelerating basic service delivery is the proliferation of urban settlements and lack of appropriate infrastructure. Water provision is influenced by locational factors and distance from water source.

Figure 6.3 Number of consumer units receiving basic services



Source: Stats SA: Non-financial Census of Municipalities

Access to basic services helps improve socio-economic conditions of the poor enabling them to participate in economic activities. Since 1994 various laws have been adopted to improve the socio-economic conditions of the poor (SERI, 2013). At the local level this comes in the form of the provision of free basic services to indigent consumers – 6 kl water and 50 kWh electricity per month. The provision of free basic services plays an important role in enabling the poor to take part in economic activity.

Table 6.3 Number of consumer units receiving basic services in each province

Province	Water		Electricity		Sewerage and sanitation		Solid waste management	
	2011	2012	2011	2012	2011	2012	2011	2012
Western Cape	1 023 117	1 223 237	1 215 410	1 242 786	1 014 527	1 032 682	1 257 378	1 274 281
Eastern Cape	1 496 300	1 568 621	997 571	1 056 322	1 021 752	1 098 311	752 350	778 202
Northern Cape	240 435	250 605	248 465	261 591	237 708	245 114	209 947	219 947
Free State	725 191	768 064	656 332	661 732	665 955	698 785	526 830	560 684
KwaZulu-Natal	1 919 351	1 991 349	1 526 952	1 597 910	1 675 267	1 723 360	1 429 068	1 455 627
North West	713 216	741 934	775 743	792 721	588 158	615 626	465 048	466 084
Gauteng	2 799 716	3 001 574	1 925 463	2 076 143	2 708 004	2 778 742	2 513 354	2 577 966
Mpumalanga	940 433	963 323	670 271	706 914	820 665	853 648	405 734	420 509
Limpopo	1 169 483	1 228 827	1 103 549	1 144 869	635 586	651 118	363 391	393 649
Total	11 027 242	11 737 534	9 119 756	9 540 988	9 367 622	9 697 386	7 923 100	8 146 949

Source: Stats SA: Non-financial Census of Municipalities

Each municipality within the WCD operates in unique demographic and economic circumstances that make access to basic services vary across Municipalities. The varying number of consumer units with access to basic services across the local municipalities in the WCD is a reflection of differing population sizes, economic activity and challenges that municipalities face in the delivery of basic services. The table below shows the number of consumer units with access to basic services in each municipality within the WCD.

Table 6.4 Number of consumer units with access to basic services in West Coast District in 2012*

Municipality	Water	Electricity	Sewer	Refuse
Bergrivier	8 272	8 485	8 336	8 272
Cederberg	8 407	8 485	8 336	8 407
Matzikama	8 835	11 767	8 909	9 825
Saldanha Bay	24 609	29 647	23 961	25 494
Swartland	19 586	14 368	18 196	18 035

* Information differs from primary data sources due to certain exclusions.

Source: Stats SA: Non-financial Census of Municipalities

Households in rural based municipalities, Bergrivier, Cederberg and Matzikama have relatively low access to refuse removal when compared with Swartland and Saldanha Bay. Matzikama Municipality recognises the challenge it faces in the provision of wheelie bins due to lack of capital and operational funds. Most towns and villages in Matzikama have access to potable water except those that fall under Ward 8 (Nuwerus, Bitterfonten, Kliprand, Stofkraai, Molsvlei, Rietpoort and Put-se-Kloof). The lack of water in the area has also impacted on the Municipality's

ability to eradicate the dry bucket system toilets. Huge backlogs that have been identified in Matzikama Municipality are the building of surface roads in residential areas and storm water networks.

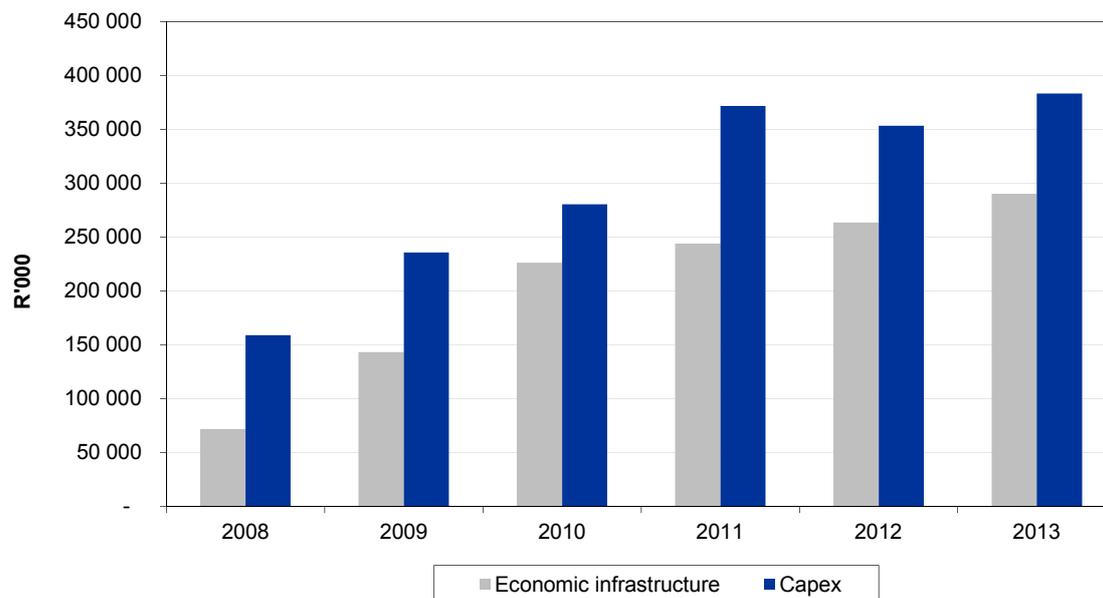
As mentioned in the MERO 2013 report, the Growth Potential Study (2014) categorises towns in the WCD in terms of an infrastructure index. Towns with infrastructural challenges fall within Matzikama followed by Cederberg Municipality. Towns that fall under Saldanha Bay and Swartland Municipality tend to fall within the high growth potential category (Van Niekerk et al 2014).

Municipalities potentially have a wide array of financial instruments to use in meeting their service delivery responsibilities. In order for Municipalities to provide basic services they need to generate the required revenue. Hence revenue management and revenue raising strategies need to be implemented. It is crucial that these scarce resources should be used effectively and efficiently to ensure that service delivery is maximised. In this regard the following section analyses infrastructure expenditure.

6.4 Infrastructure expenditure

The President's 2014 State of the Nation Address highlighted Government's continued commitment to the National Infrastructure Plan as a tool for promoting economic growth. The Infrastructure Plan announced 18 Strategic Integration Projects (SIPs) covering a range of economic and social infrastructure projects across the country. In the WCD SIP 5 is of particular importance; i.e. a project linking Saldanha Bay and the Northern Cape development corridor. The SIP also includes mining, maritime, industrial, oil and gas projects. Increasing capacity of the railway line that links mines in the Northern Cape to the port of Saldanha Bay is expected to have positive economic spinoffs within the area and also presents an opportunity to create jobs.

With this growing emphasis on infrastructure investments, municipalities within the WCD have continued in their efforts to improve infrastructure availability and eradicate service backlogs. To this end the proportion of the budget that has been used on infrastructure has continued to increase over the years (see Figure 6.4 below). Of the capital expenditure budget allocated to municipalities within the WCD a large percentage of it goes to Economic and Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance and Administration and Community and Public Safety. In 2013 economic infrastructure expenditure took up 76 per cent of the entire capital expenditure budget for the whole district.

Figure 6.4 Capex vs Economic infrastructure expenditure: 2008 - 2013

Source: Western Cape Provincial Treasury

Infrastructure expenditure is higher in Swartland and Saldanha Bay Municipalities contributing 25 per cent and 35 per cent respectively to total infrastructure expenditure in the region in 2013 (see Table 6.5 below). Bergrivier Municipality had the least infrastructure expenditure within the region, accounting for 5 per cent of the total infrastructure expenditure. Cederberg Municipality recorded the highest percentage change in infrastructure expenditure from 2012 to 2013, however this Municipality contributed 15 per cent to total infrastructure expenditure in the region. The lowest percentage change in infrastructure expenditure was recorded in Matzikama Municipality, the Municipality's expenditure accounted for 8 per cent of the total expenditure in the region in 2013.

Table 6.5 West Coast infrastructure expenditure per municipality, 2009 - 2013

Municipality	2009	2010	2011	2012	2013
West Coast District	29%	27%	21%	11%	12%
Matzikama	19%	13%	10%	9%	8%
Cederberg	1%	14%	9%	9%	15%
Bergrivier	0%	0%	2%	10%	5%
Saldanha Bay	34%	31%	26%	23%	35%
Swartland	18%	15%	31%	38%	25%

Source: Western Cape Provincial Treasury

Infrastructure expenditure should be directed towards influencing economic growth. Budgetary constraints call for an investigation into the types of infrastructure that would influence economic growth. As shown in Table 6.6 expenditure continues to be high in five main forms of infrastructure, i.e. water provision; waste water management, waste management, road transport and electricity. Water and waste water management are the largest capital expenditure items. Expenditure on these budget line items is highest in the West Coast District Municipality and Saldanha Bay

Municipality, respectively. Electricity and waste management constitute relatively smaller shares of Municipal capital expenditure. The relatively smaller contribution made by electricity could be a result of intergovernmental arrangements (Financial and Fiscal Commission, 2014). For example, local government and Eskom are both involved in the distribution of electricity to consumers. Eskom therefore also invests significantly in electricity infrastructure.

Table 6.6 West Coast economic infrastructure expenditure per budget line item 2013

Budget Line Item	Municipality (R million)						Total
	Bergrivier	Cederberg	Matzikama	Saldanha Bay	Swartland	West Coast	
Planning and Development	0.001	0.000	0.000	0.529	0.000	0.000	0.530
Road Transport	2.554	3.650	4.886	32.908	16.174	0.000	60.173
Environmental Protection	0.000	0.000	0.000	0.012	0.000	0.000	0.012
Electricity	0.448	5.380	1.257	12.875	16.631	0.000	36.591
Water	1.477	22.751	0.036	11.613	5.914	33.666	75.457
Waste Water Management	10.649	12.489	17.059	30.999	0.000	0.000	71.196
Waste Management	0.532	0.000	0.000	11.431	34.360	0.000	46.324
Total	15.662	44.270	23.238	100.369	73.080	33.666	290.284

Source: Western Cape Provincial Treasury

6.4.1 Infrastructure investment and economic growth

Empirical evidence has shown that infrastructure investment will have a variety of effects on growth. Various studies have tried to provide empirical proof of the typical impact that various forms of infrastructure expenditure would have on the economy. Early reviews of the empirical literature can be found in Fourie (2006).

Public spending on infrastructure is an effective tool for job creation and labour productivity. Kumo (2012) considered the relationship between economic growth, economic infrastructure investment, and employment in South Africa for the period 1960 - 2009. The author finds that there is a two way causal relationship between infrastructure investment and job creation in the public sector. An expansion of infrastructure expenditure has both a direct and an indirect impact on job creation. The direct effect are the jobs created by infrastructure production, whereas the indirect effects are the jobs created as a result of the increased demand for the material used in the production of infrastructure. As previously discussed in Chapter 3 over the period 2000 – 2013 the transport sector created employment at a rate of 1.6 per cent per annum. In contrast the employment contractions in the electricity and water sector and the construction sector are a cause for concern (1.8 per cent and 3 per cent respectively). It is important to note that the indirect impact of infrastructure investment on employment may be a lot more visible than the direct impact. The resulting impact of an investment in infrastructure will be captured in the construction sector. Once construction is complete the capacity to provide basic services, transport and communications boosts economic activity thus creating jobs in other sectors as well.

Empirical evidence at National level has shown that infrastructure investment does have an impact on growth. As mentioned in the MERO 2013 report, results from the *Growth Potential Study* (Van Niekerk et al., 2014) revealed that the best performing Municipalities in the WCD according to an infrastructure index are Saldanha Bay and Swartland Municipalities. The Growth Potential Study also finds that towns that fall under Saldanha Bay and Swartland Municipality tend to fall within the high growth potential category. Table 6.6 below shows that at Municipal level Municipalities that recorded the highest average annual growth rates over the period 2000 - 2010 were also ranked high according to the infrastructure index¹³. Those that were ranked low also contributed the least to GDP growth in the District.

Table 6.7 GDP vs infrastructure levels at municipal level

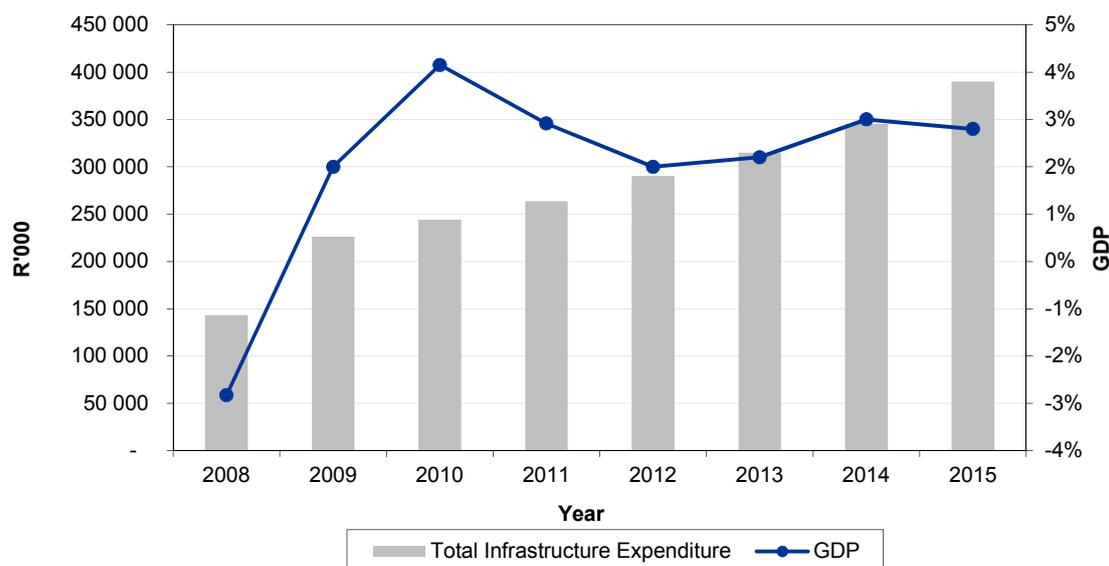
Municipality	GDP growth 2000 - 2013	Infrastructure level
Matzikama	1.37	Low
Cederberg	2.21	Low
Bergrivier	2.72	Medium
Saldanha Bay	4.37	High
Swartland	3.46	High

Source: Van Niekerk et al (2014) and Quantec Research 2014

The different forms of infrastructure expenditure have made differing contributions to GDP growth within the District. As previously shown in Chapter 3 the transport and communication sector contributed 7.8 per cent to the regions GDP in 2013. The sector grew above average expanding real value added by 3.9 per cent per annum over the period 2000 - 2013. Despite its disappointing performance in employment creation the construction sector also grew above average, expanding real value added by 6 per cent per annum over the same period. In contrast the electricity and water sectors proved to be disappointing (2 per cent per annum over the period 2000 - 2013).

Whilst data limitations preclude a complete empirical presentation, the graph below provides an approximation of the relationship between infrastructure expenditure and economic growth. It is important to note the role played by time lags in between expenditure on infrastructure and its resulting impact on economic growth. In the investment phase the direct impact of infrastructure spending on GDP occurs mainly via the construction sector. During this phase the demand for construction equipment and employment increases. Once construction is complete the capacity to provide basic services, transport and communications increases facilitating higher economic activity. Infrastructure spending has a lagged effect on GDP.

¹³ Their final core indicators were vacant industrial stands, distance to nearest scheduled airport, distance to nearest small harbour and slipway, percentage households with in-house access to water, percentage household with access to electricity, and spare capacity of waste water treatment works (WWTW) (Van Niekerk 2014:66).

Figure 6.5 GDP vs Total economic infrastructure expenditure: 2008 - 2015

Thriving tourism growth and projects such as the Saldanha Bay IDZ, Clanwilliam Dam extension (see the accompanying text box) and the government's Northern Cape corridor SIP 5 project are likely to boost the capacity and growth of the transport and construction sectors. Furthermore, municipal projects such as roads construction in Elands Bay and roads upgrades in Citrusdal are important in supporting potential growth (Cederberg 2014/15 IDP Review). Towns such as Vanrhynsdorp, Jacobsbaai and Piketberg that were ranked as having development potential in the Growth Potential of Western Cape Town study are recommended for infrastructure development. These projects will also have multiplier or knock-on effects that have a longer term macroeconomic impact on the economy.

6.5 Conclusion

Government recognises that basic service delivery through infrastructure investment is the cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure has an impact on economic growth. The Municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act of 2000. The provision of Municipal Infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. The data presented in this chapter analysed two important sides of the budget, i.e. revenue and infrastructure. The analysis revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across Municipalities within the WCD. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality.

Extension of the Clanwilliam Dam commences ...

In one of its drives to improve infrastructure, Government plans to invest in bulk water infrastructure. As mentioned by the newly appointed minister of water and sanitation in her address to MPs the raising of the Clanwilliam Dam wall is estimated to cost R2.5 billion and is expected to begin this year. Raising the wall of the Clanwilliam Dam is one of Governments' mega infrastructure projects. The raising of the wall by 13 meters will provide additional water to downstream farmers in the region, with more than three quarters of the additional supply expected to supply poor farmers. The project is expected to have positive economic spinoffs within the area. According to the Department of Water Affairs 2014 budget the project presents an opportunity for job creation; 2 500 permanent jobs and 650 temporary jobs. The permanent jobs are expected to be created in the agricultural sector due to the increase in water supply, whilst the temporary jobs will be created during the dam wall construction phase.

According to the Growth Potential of Town Study Saldanha Bay and Swartland Municipality are rated high according to an infrastructure index. On the other hand Matzikama and Cederberg Municipalities fall within the low category according to the infrastructure index. Various factors affect the ability of Municipalities to invest in infrastructure for service delivery. Restraining factors such as the upgrading and renewal of existing infrastructure impact massively on the ability of Municipalities to provide basic services. The retention of skilled staff has also been a threat to efficient service delivery. Infrastructure delivery in Matzikama and Cederberg is influenced by the high unemployment and poverty rates within their Municipal jurisdictions. On the other hand Saldanha Bay and Swartland Municipality benefit from their locational advantages; close proximity to the Cape Metro and harbor and have been able to attain higher rates of economic growth.

The WCD economy will be boosted by the planned infrastructure spending associated with projects such as the development of the IDZ at Saldanha Bay, the Clanwilliam Dam extension and the government's Northern Cape corridor SIP 5 project. These projects are likely to boost the growth of the transport and construction sectors and will also have multiplier or knock-on effects on the rest of the economy. All infrastructure investments should be done in accordance with development and economic needs within the district.

7

Socio-economic analysis and economic performance

7.1 Introduction

The previous Municipal Economic Review and Outlook (MERO) studies provide a focused institutional framework for microeconomic analysis – in the form of the Districts and their constituent municipalities. MERO 2014 follows from its predecessor, MERO 2013, in that it includes a socio-economic analysis. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact their economy has on it.

This chapter aims to create a link between the information provided in the Socio-Economic Profiles of 2013/14, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to the population, human development, education, household income, income inequality and poverty in the district, each in relation to the district's economic performance.

7.2 Demographic Indicators

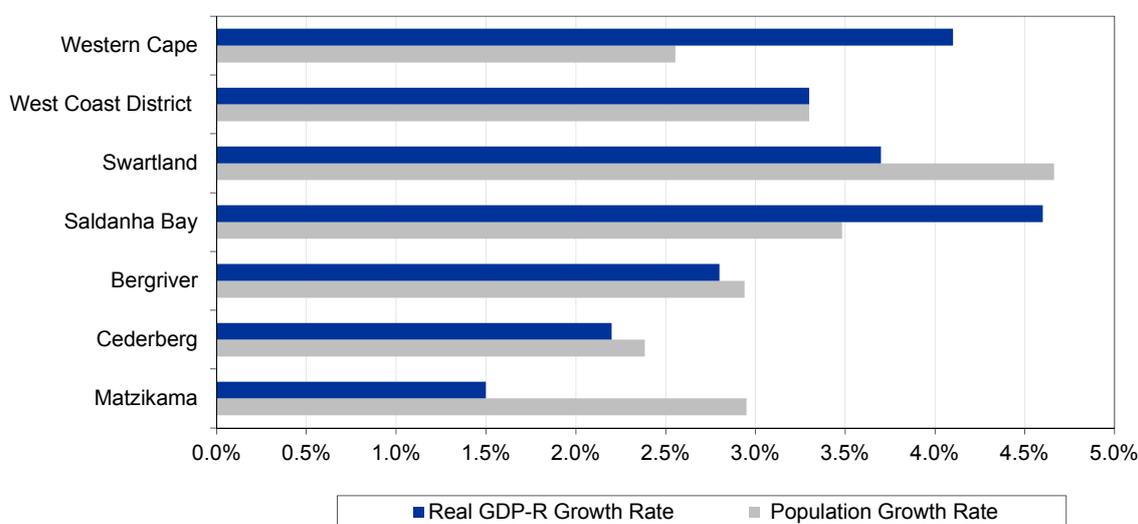
7.2.1 Population and economic growth

According to Statistics South Africa 2011 Census data, the Western Cape Province has 5.822 million people, having increased from 4.524 million in 2001. The average population growth rate in the Western Cape is thus 2.6 per cent per annum. The Western Cape economy grew at a rate of 4.1 per cent on average per annum from 2001 to 2011. The fact that the economy grew faster than the population within the

Province indicates that per capita income is increasing over time, ensuring improving though uneven standards of living for its inhabitants. The per capita income¹⁴ (based on 2005 prices) increased from R37 496 in 2001 to R43 557 in 2011.

A closer look at the West Coast District (WCD) indicates that per capita income is remaining constant. The West Coast District population size was 391 766 in 2011. As seen in the table below, its population grew at a rate of 3.3 per cent per annum from 2001 to 2011. This was equal to its economic growth rate of 3.3 per cent, indicating no improvement in the per capita income of the people of the West Coast District over this period. In fact, there has been a slight decline in per capita income from R27 966 in 2001 to R27 885 in 2011.

Figure 7.1 West Coast District population and real GDP growth rate, 2001 - 2011



Source: Statistics South Africa, Census 2001 - 2011

According to Stats SA, the Swartland Municipality has the highest population growth rate amongst the municipalities within the WCD at 4.7 per cent between 2001 and 2011. Its population growth rate is almost double that of Cederberg Municipality's. Discrepancies in population growth rates are evident across the Province. This indicates that population growth not only stems from natural causes but is also largely due to net in-migration in certain areas. Furthermore, Swartland's economic growth rate, although relatively high, is lower than its population growth rate at 3.7 per cent indicating a drop in per capita income over time.

Cederberg Municipality has the lowest population growth rate of 2.4 per cent and also the lowest population size of 49 768. Cederberg also has a lower economic growth rate at 2.2 per cent, similarly indicating a drop in per capita income and a strain on municipal economic resources.

¹⁴ Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

Matzikama and Swartland experienced the largest drop in per capita income (R30 953 to R25 549 and R30 017 to R27 923 respectively) over the period from 2001 to 2011. This is mainly because in both cases the population grew at a much faster rate than real GDP.

Saldanha Bay has the highest increase in per capita income over the period from 2001 to 2011. Its population size is the second largest in the WCD with 99 193 persons and a population growth rate of 3.5 per cent. Its real GDP growth rate over the period was 4.6 per cent. The discrepancy is an indication that per capita income is increasing in the Saldanha Bay region.

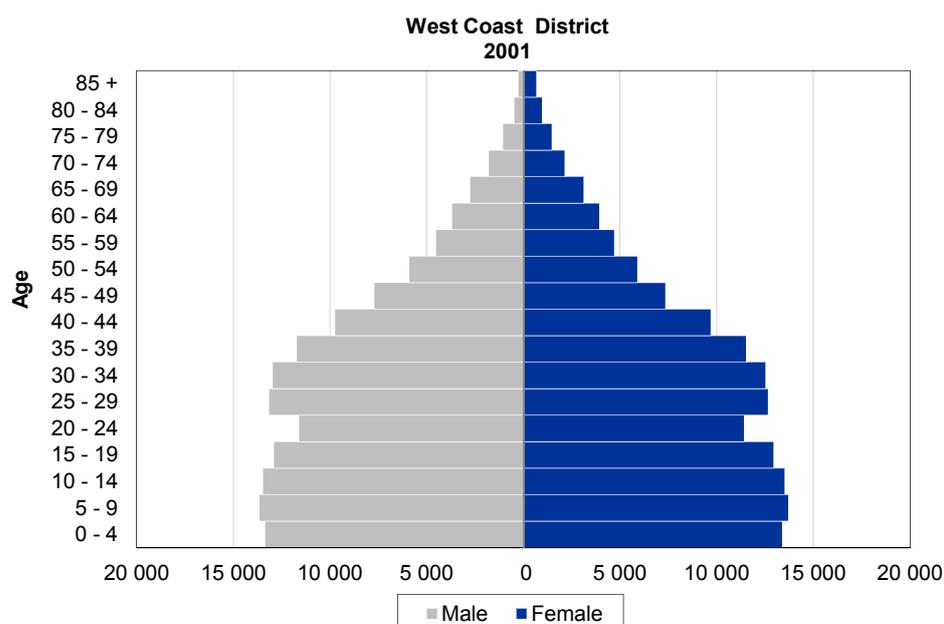
Figure 7.1 above shows that between 2001 and 2011 per capita income only increased in Saldanha Bay municipality, while it dropped for all the other municipalities in the WCD. This picture needs to be altered to ensure the improvement in the standards of living of inhabitants of the WCD.

7.2.2 Age distribution, dependency and youth unemployment

The population can be classified into three main groups namely the children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older.

In 2001, the District's population composition was as follows: children at 25.5 per cent, working age population at 68.5 per cent and persons aged 65 and older at 6 per cent of the total population. In 2011, the District's population changed most notably in the youth and working age population categories as seen in Figure 7.2 and Figure 7.3.

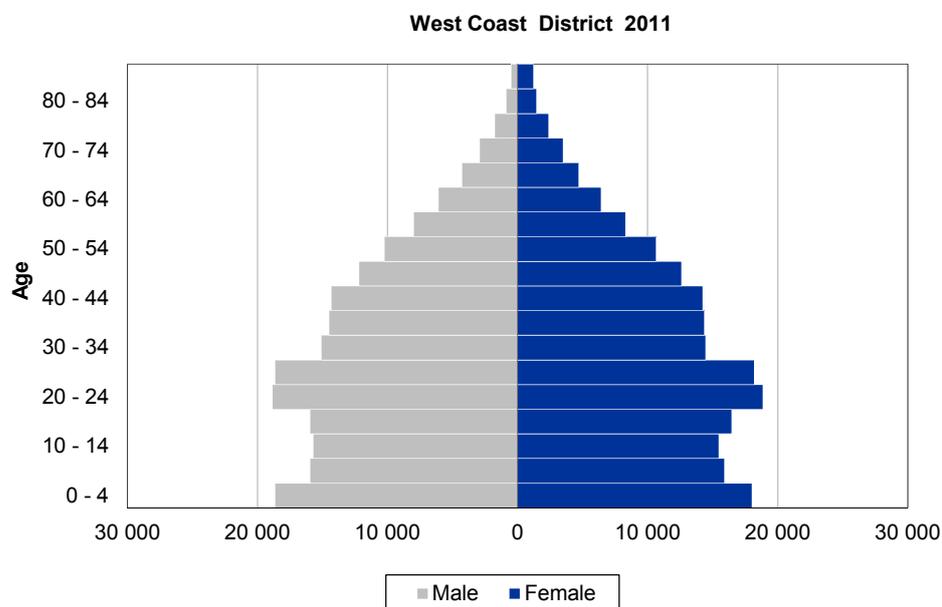
Figure 7.2 West Coast District population pyramid for 2001



Source: Statistics South Africa, Census 2001

The drop in the percentage share of children in the WCD population resulted in a decline in the average child dependency ratio by 17 per cent from 43.4 in 2001 to 37.1 in 2011, whilst the aged dependency ratio increased from 7.9 to 8.8 per cent over the same period. The strain on the income of the working age has thus declined.

Figure 7.3 West Coast District population pyramid for 2011



Source: Statistics South Africa, Census 2011

There has been an increase in the youth (age 15 - 34) share of the population from 2001 to 2011 in the WCD, which may explain the increasing youth unemployment rate in the region from 17.3 to 18.4 per cent over this period.

Unemployment for the age cohort 15 to 19 years is the highest at 39.3 per cent; this group represents only 5.3 per cent of the total labour force. The group aged 20 to 24 years has an unemployment rate of 23 per cent, but represents only 14.1 per cent of the labour force. Together these (15 to 24 years) represents approximately 19.4 per cent of the labour force, but represents 36.3 per cent of the unemployed. The ensuing category (25 to 34 years) is also beset with unemployment challenges with an unemployment rate of 15 per cent and a percentage share of the labour force and percentage share of unemployed hovering around 29.1 and 29.8 per cent respectively.

Young people are over-represented in the unemployed group, relative to their share of the labour force. In Saldanha Bay youth unemployment is most prevalent at a rate of 30.4 per cent having increased from 26.8 per cent in 2001. This portrays an alarming picture of youth unemployment in the WCD and is largely attributed to the youth's lack of hard skills and work experience, creating a deficient labour demand for youth. The lack of diverse industries and the selective nature of youth during their search for jobs also contribute to the high youth unemployment rate.

7.3 Development indicators

7.3.1 Educational level and employment

The jobs that individuals are able to obtain are highly dependent on their level of education. Higher levels of education generally lead to higher paying jobs and vice versa. South Africa has a large supply of unskilled labour, but also a large demand for skilled labour, thus resulting in high levels of unemployment.

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate in the country as a whole of 80.9 per cent. The Western Cape literacy rate showed the smallest improvement among all the provinces in the country from 2001 to 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth. Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education during the Apartheid Regime.

Table 7.1 Literacy rates across the West Coast District municipalities in 2011

Province/Municipality	2001	2011
Western Cape	85.0%	87.2%
Saldanha Bay	79.0%	86.7%
Swartland	69.0%	78.0%
Bergrivier	70.0%	76.4%
Matzikama	69.0%	76.4%
Cederberg	66.0%	73.2%
West Coast District	71.0%	79.1%

Source: Statistics South Africa, Census 2011

Table 7.2 Unemployment rates across the West Coast District municipalities, 2001 - 2011

Province/Municipality	2001	2011
Western Cape	26.2%	21.6%
Saldanha Bay	21.5%	23.4%
Swartland	10.2%	12.7%
Bergrivier	7.6%	6.8%
Matzikama	16.5%	14.0%
Cederberg	10.2%	10.5%
West Coast District	13.2%	14.6%

Source: Statistics South Africa, Census 2001 and 2011

In the WCD the literacy rate is much lower than the Provincial average, at 79.1 per cent. The Municipality with the highest literacy rate is Saldanha Bay at 86.7 per cent. The corresponding unemployment rate is however the highest in the District at 23.4 per cent, explained by the poor performance in the manufacturing sector as mentioned in Chapter 3. Economic sector developments in Saldanha Bay, as

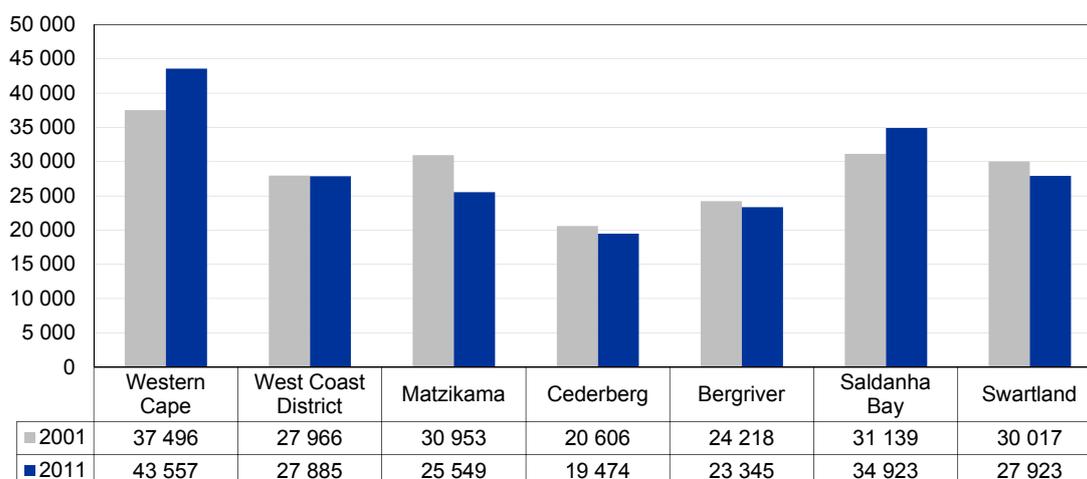
mentioned in Chapters 3 and 4, may bring about increasing employment opportunities in this area. The municipality with the lowest literacy rate is Cederberg with 73.2 per cent. Cederberg however has a relatively low unemployment rate of 10.5 per cent. This is also the case in the Bergriver Municipality with an unemployment rate of 6.8 per cent whilst having a relatively low literacy rate of 76.4 per cent. These municipalities have relatively large numbers of unskilled labour, but the high prevalence of activity in the primary and secondary sectors creates a demand for semi-skilled and unskilled labour.

Approximately 34 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2014), yet it is clear that there is much room for improvement with regard to skills development in the WCD and Western Cape as a whole. As seen in the earlier Table 3.6, the demand for semi-skilled and unskilled labour has declined by 38.2 per cent from 2000 to 2013. This explains the increase in unemployment from 2001 to 2011 in the WCD (especially Saldanha Bay and Swartland where literacy and unemployment rates are relatively high). Low skilled labour intensive employment initiatives are therefore necessary to stimulate the creation of new job opportunities in the WCD. There is also an urgent need to train and up-skill workers in this region given the demand for skilled labour.

7.3.2 Household income and income inequality

According to Statistics South Africa Census 2011, average household income in the country has doubled over the last decade; however high levels of income inequality still persist. Most informed observers would agree that economic resources should be more evenly distributed amongst the inhabitants of the country and that such a redistribution policy should make a real positive difference to the livelihoods of the poor.

The GDP per capita in the Western Cape Province was estimated at R43 557 per annum in 2011 (based on 2005 constant prices). The GDP per capita in the WCD however was much lower at only R27 885 in 2011. This is mainly because of its relatively large population size (3rd largest among the provincial Districts), combined with having the lowest economic growth in the WCD (see Figure 7.4). This corresponds with the deductions made in section 7.2.1 above in that the population grew at a faster rate than the economy in all municipalities (except Saldanha Bay) within the WCD hence the decline in per capita income within the WCD.

Figure 7.4 West Coast District per capita, 2001 - 2011

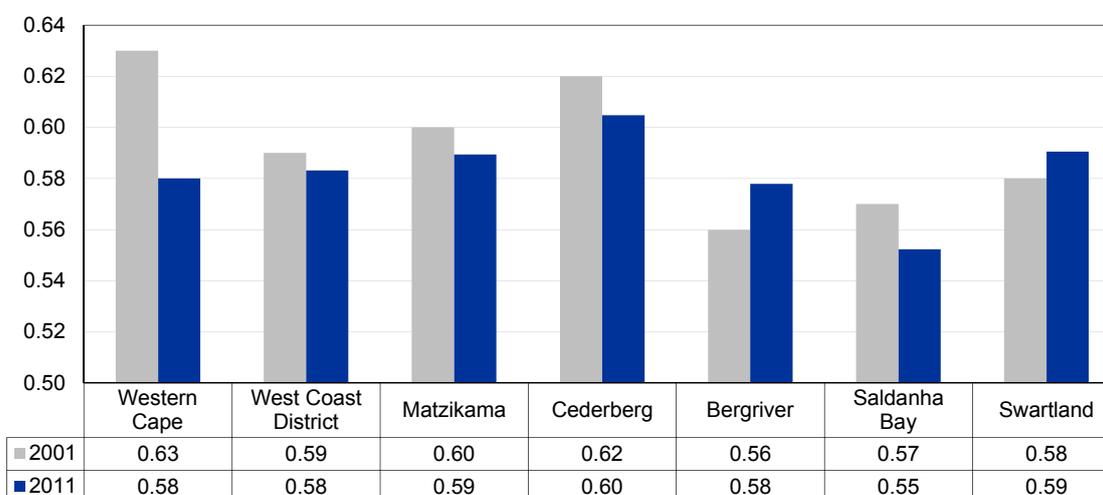
Source: Quantec, 2013

Table 7.3 West Coast District average household income, 2011

West Coast District	No Income	R1 - R4 800	R4 801 - R9 600	R9 601 - R19 600	R19 601 - R38 200	R38 201 - R76 400	R76 401 - R153 800	R153 801 - R307 600	R307 601 - R614 400	R614 401 - R1 228 800	R1 228 801 - R2 228 457 600	R2 228 457 601 +
Matzikama	8.2%	1.9%	3.3%	17.6%	24.7%	17.8%	11.8%	8.6%	4.4%	1.0%	0.4%	0.2%
Cederberg	9.5%	1.9%	3.2%	17.8%	25.4%	21.1%	10.6%	6.4%	3.0%	0.8%	0.3%	0.2%
Bergriver	9.3%	1.4%	1.9%	13.5%	22.3%	22.4%	14.0%	9.1%	4.4%	0.8%	0.4%	0.4%
Saldanha Bay	13.9%	2.4%	4.0%	10.7%	17.4%	16.7%	15.2%	11.5%	6.1%	1.5%	0.4%	0.3%
Swartland	10.5%	1.7%	2.6%	13.4%	21.7%	20.1%	13.0%	9.5%	5.5%	1.5%	0.4%	0.2%

Source: Statistics South Africa, Census 2001 and 2011

Table 7.3 above highlights that Matzikama and Cederberg have the largest proportion of households earning in the income bracket between R9 601 and R76 400, which is a lower bracket compared to Bergriver, Saldanha Bay and Swartland, with the larger proportion of households in these municipalities earning between R19 601 and R153 800 per annum.

Figure 7.5 West Coast District Gini coefficients, 2001 - 2011

Source: Global Insight, 2013

The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. The coefficient varies between 0, which represents complete equality and 1, which represents complete inequality. The Gini coefficient is bound to be an under-estimation in that it does not measure wealth (only income) and it does not account for financing that accrues to the owner, but never enters the country as well as the extent thereof. With a Gini coefficient of 0.77 in 2001, South Africa displayed very high levels of income inequality. The South African Government provides its households with free basic services, thus their wealth could be greater even though this is not represented when looking at income levels. The Gini coefficient in the Western Cape was also relatively high at 0.63 in 2001, but it declined to 0.58 in 2011. Income inequality in the WCD is on par with that of the Western Cape Province (0.58 in 2001); however it showed only a 0.1 percentage point improvement from 2001. The Gini coefficient for Matzikama, Cederberg and Saldanha Bay showed a marginal improvement over the period 2001 to 2011, while Bergriver and Swartland experienced a marginal deterioration over the same period.

Saldanha Bay has the largest GDP per capita of R34 923 owing to its relatively large levels of GDP; and It also has the largest proportion of households (13.9 per cent) earning no income in the WCD. This is of concern considering the developments taking place in this region i.e. the Saldanha Bay Industrial Development Zone. Current initiatives underway to train unemployed youth in technical occupations must be applauded (see Chapter 3). It is however clear from the values in Table 7.3 above, that the Saldanha Bay region requires mostly semi-skilled to skilled individuals, as it has the highest proportion of households earning more than R76 401 per annum in the WCD. This reflects how the higher skills services sector of the region has grown (see Chapter 3). It is not surprising that Saldanha Bay has the lowest Gini coefficient in the region, as income is relatively more evenly distributed across the income categories.

The GDP per capita in Cederberg Municipality is the lowest at R19 474 per annum. The average household income of the majority of Cederberg households (25.4 per cent) lies between R19 601 and R38 200 per annum. It in turn has the largest Gini coefficient of 0.60. This is mainly due to the largely unequal distribution of income among the income categories.

Generally, the largest proportion of households in the WCD earns between R19 601 and R38 200. These values are relatively low and explain the large number of indigent households within the WCD. The high levels of inequality (with a Gini coefficient equal to 0.58) indicate that the improving economic conditions may be slow to translate to all individuals within the region.

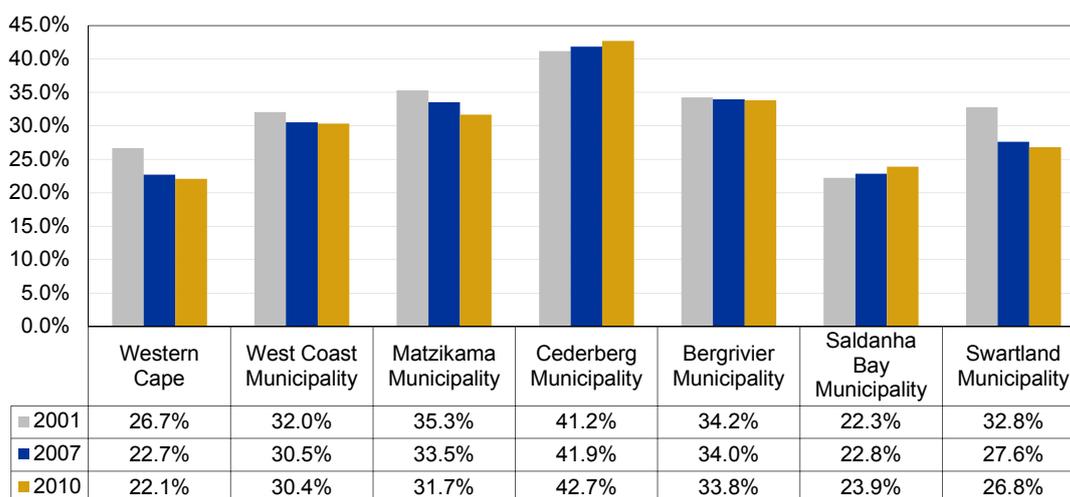
7.3.3 Poverty, employment and economic growth

Poverty is generally influenced by levels of employment and economic growth. High poverty rates in South Africa in general and in the Western Cape Province in particular imply that poverty reduction is a priority in the country, especially because poverty has a negative effect on the standard of living of households. For this reason municipalities support those living in poverty, i.e. indigent households, by providing

these households with access to free basic services (Municipal Indigent Support Policy, 2014/15).

The Western Cape Province has seen a 29 per cent decline in indigent households, which indicates a positive move towards coming to grips with addressing poverty. Accordingly, the poverty rate declined from 26.7 per cent in 2001 to 22.1 per cent in 2010. The WCD has however not displayed such positive results (see Figure 7.6).

Figure 7.6 Percentage of households living in poverty, 2001 - 2010



Source: IHS Global Insight, 2013

The WCD showed little improvement in its poverty rates from 32.0 per cent in 2001 to 30.4 per cent in 2010 and has thus lagged the Provincial average. The municipality with the lowest poverty rate in 2010 was Saldanha Bay with 23.9 per cent and the highest was Cederberg Municipality with 42.7 per cent. Poverty in both of these municipal areas has increased. As seen in Figure 7.6 above, Swartland has shown the largest improvement in poverty rates from 32.8 per cent in 2001 to 26.8 per cent in 2010.

Despite the decline in poverty within the WCD from 2001 - 2010, there has been an overall increase in the proportion of households that are indigent from 2011 to 2014, implying greater strain on municipal resources to provide households with free basic services. This has occurred despite the expansion in the WCD economy (2.8 per cent GDP growth per annum from 2010 - 2013). Even with the net positive job growth, the large job losses in the sectors employing unskilled labour, as also highlighted in Chapter 3, have contributed to the increasing numbers of indigent households over the economic recovery period. It therefore appears that poverty is more structural than cyclical in nature in the District. Issues such as a lack of skills, intergenerational poverty and inequalities need to be addressed to alter this picture.

7.3.4 Human development

The Human Development Index (HDI) is a composite statistical index of life expectancy, education indices and income indices. It averages at 0.68 in the Western Cape Province. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2011 as shown in Table 7.4.

Table 7.4 Human Development Index, 2000 - 2012

Municipality	2001	2011	2012
Saldanha Bay	0.67	0.71	0.71
Swartland	0.62	0.66	0.66
Bergrivier	0.61	0.66	0.66
Matzikama	0.62	0.67	0.67
Cederberg	0.59	0.64	0.65
West Coast District	0.63	0.67	0.67

Source: Statistics South Africa, Census 2001 and 2011

The same holds true for the WCD. All municipalities in the WCD have seen significant improvement in human development. Saldanha Bay has the highest HDI in the WCD and one of the highest in the Province at 0.71. The high HDI can be attributed to its high GDP per capita and literacy rate. Cederberg however has the lowest HDI in the District with 0.64. It has however shown a 0.05 point improvement between 2001 and 2011 and a further 0.01 point improvement from 2011 to 2012, where other municipalities HDIs have remained similar from 2011 to 2012.

The relatively high HDI levels within the Western Cape indicate that economic growth is translated towards social development amongst individuals within the Province.

7.4 Conclusion

The following conclusions can be made regarding the socio-economic analysis above:

- The fast growing population and low economic growth in the District has led to a decline in real per capita income in the region, thus indicating lower standards of living of the inhabitants of the region.
- Large discrepancies exist between population growth rates across the Province as well as within the WCD. This indicates that population growth does not only stem from natural causes but is also largely due to net in-migration. Policy makers can thus benefit from this as an area of future research focusing on migration patterns, distinguishing between local, national and foreign in- or out migrators, and the implications for the non-migratory local labour force.
- Rising youth unemployment in the region is a concern. They are over-represented among the unemployed largely due to their lack of experience. The lack of diverse industries within this district may also play a role in this regard.

- Literacy rates in the WCD are relatively low. There is a trend towards employing skilled to highly skilled individuals in the region thus increasing the levels of unemployment. Skills development and low skilled labour intensive initiatives are required in order to stimulate employment in the District.
- Poverty levels have shown some decline from 2001 to 2010 in the WCD, however these are still high.
- The increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards social development within the WCD.

Irrespective of the improving human development among the inhabitants of the WCD, there is still much room for improvement in terms of its socio-economic standing. This chapter illustrates how the socio-economic environment impact on the standard of living or poverty rates within the District. The increasing population and share of the working age population in conjunction with the sluggish economy and low literacy rates leads to unemployment, and increasing youth unemployment as seen above. This has led to low income or no income in some households, hence the decreasing per capita income. These have in turn led to increasing levels of poverty or indigent support required within the District. Addressing these issues may facilitate economic and social development in the region.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 West Coast District: GDP at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	1.6	0.9	-1.2	-0.3	-1.0	1.9	0.0
2 Secondary sector [SIC: 3-5]	2.0	2.2	0.1	1.3	3.0	-6.2	1.7
3 Tertiary sector [SIC: 6-9, 0]	4.4	6.1	5.4	5.4	6.3	4.7	3.9
Total: West Coast District	3.0	3.9	2.8	3.2	3.8	1.4	2.8
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	4.5	1.1	-0.9	-0.2	-0.9	2.6	-0.1
2 Mining and quarrying [SIC: 2]	-15.7	-2.5	-6.2	-2.5	-3.4	-10.0	3.0
3 Manufacturing [SIC: 3]	2.2	1.8	-0.8	0.8	2.6	-8.5	1.9
4 Electricity, gas and water [SIC: 4]	3.4	-0.6	-4.0	-2.0	-1.3	-7.7	-0.4
5 Construction [SIC: 5]	0.3	7.7	6.3	6.0	8.3	5.6	1.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	5.3	4.6	2.4	3.7	5.1	-1.0	3.4
7 Transport, storage and communication [SIC: 7]	2.8	6.0	2.7	3.9	5.6	1.5	1.7
8 Finance, insurance, real estate and business services [SIC: 8]	5.6	11.6	10.5	9.8	11.7	11.2	5.4
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	6.7	3.6	1.6	2.8	3.8	0.2	2.0
10 General government [SIC: 91, 94]	2.7	2.3	3.2	2.6	1.9	3.4	3.4
Total: West Coast District	3.0	3.9	2.8	3.2	3.8	1.4	2.8

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: West Coast District					
1 Primary sector [SIC: 1-2]	25.0	23.4	20.1	16.1	15.0
2 Secondary sector [SIC: 3-5]	30.3	28.8	26.6	23.1	21.7
3 Tertiary sector [SIC: 6-9, 0]	44.7	47.8	53.2	60.8	63.2
Total: West Coast District	100	100	100	100	100
Broad sectors: West Coast District					
1 Agriculture, forestry and fishing [SIC: 1]	20.2	21.7	18.9	15.4	14.3
2 Mining and quarrying [SIC: 2]	4.8	1.7	1.2	0.7	0.7
3 Manufacturing [SIC: 3]	24.9	23.9	21.7	17.7	16.6
4 Electricity, gas and water [SIC: 4]	1.8	1.8	1.4	1.0	0.9
5 Construction [SIC: 5]	3.6	3.1	3.5	4.4	4.3
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	11.5	12.9	13.3	13.0	13.1
7 Transport, storage and communication [SIC: 7]	7.7	7.6	8.4	8.5	8.2
8 Finance, insurance, real estate and business services [SIC: 8]	10.3	11.6	16.7	24.5	27.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.5	4.2	4.1	3.9	3.8
10 General government [SIC: 91, 94]	11.7	11.5	10.7	10.9	11.0
Total: West Coast District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 West Coast District: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	1.2	-2.9	-5.7	-3.5	-2.9	-11.8	-0.4
2 Secondary sector [SIC: 3-5]	-0.4	-3.1	-4.8	-3.7	-3.6	-5.5	-3.0
3 Tertiary sector [SIC: 6-9, 0]	8.3	2.6	2.0	2.2	2.5	2.9	1.1
Total: West Coast District	3.4	-0.8	-1.5	-0.9	-0.8	-3.0	0.1
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	1.6	-2.5	-6.4	-3.5	-2.8	-12.2	-0.3
2 Mining and quarrying [SIC: 2]	-8.5	-20.2	24.5	-0.1	-1.8	1.1	2.7
3 Manufacturing [SIC: 3]	2.0	-3.8	-5.1	-4.0	-4.6	-7.0	-1.3
4 Electricity, gas and water [SIC: 4]	1.9	-1.1	-0.4	-1.8	0.6	-18.0	1.5
5 Construction [SIC: 5]	-4.5	-1.4	-4.0	-3.0	-1.6	-2.4	-6.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.6	0.5	0.3	0.4	0.5	0.4	0.1
7 Transport, storage and communication [SIC: 7]	-0.8	0.7	4.6	1.6	-0.1	6.9	2.6
8 Finance, insurance, real estate and business services [SIC: 8]	14.4	10.1	5.7	7.6	9.9	6.5	3.5
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	11.8	1.1	0.5	1.3	1.7	3.2	-0.3
10 General government [SIC: 91, 94]	8.6	3.5	1.5	1.8	2.2	1.6	1.1
Total: West Coast District	3.4	-0.8	-1.5	-0.9	-0.8	-3.0	0.1
% share							
Sector	1995	2000	2005	2010	2013		
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	42.8	38.5	33.1	26.3	25.1		
2 Secondary sector [SIC: 3-5]	24.8	20.5	18.2	15.6	14.4		
3 Tertiary sector [SIC: 6-9, 0]	32.4	41.0	48.7	58.1	60.5		
Total: West Coast District	100	100	100	100	100		
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	40.9	37.5	32.7	25.3	24.3		
2 Mining and quarrying [SIC: 2]	1.9	1.0	0.3	1.0	0.8		
3 Manufacturing [SIC: 3]	14.8	13.8	11.9	9.8	9.3		
4 Electricity, gas and water [SIC: 4]	0.2	0.2	0.2	0.2	0.2		
5 Construction [SIC: 5]	9.7	6.5	6.1	5.6	4.9		
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	13.0	15.2	15.9	17.6	17.9		
7 Transport, storage and communication [SIC: 7]	3.2	2.6	2.9	3.8	3.8		
8 Finance, insurance, real estate and business services [SIC: 8]	3.4	5.6	9.6	13.4	15.6		
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	6.3	9.2	10.1	11.4	11.4		
10 General government [SIC: 91, 94]	6.5	8.3	10.2	11.9	11.7		
Total: West Coast District	100	100	100	100	100		

Source: Quantec Research/CER

Annexure 1.3 West Coast District: Composition of Goods Exports and Imports (nominal values)

Sector	1995	2000	% share		
			2005	2010	2013
Goods Exports (R million)					
Broad sectors: West Coast District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	84.5	22.8	26.5	53.9	37.2
2 Mining and quarrying [SIC: 2]	3.6	6.8	18.4	0.0	0.2
3 Manufacturing (excl. food and beverage processing) [SIC: 3]	11.8	70.5	55.1	46.0	62.6
4 Undefined/other	0.0	0.0	0.0	0.0	0.0
Total: Goods exports	100	100	100	100	100
Manufacturing sector:					
West Coast District					
1 Food, beverages and tobacco [SIC: 301-306]	84.8	18.3	20.0	37.1	16.2
2 Textiles, clothing and leather goods [SIC: 311-317]	0.2	0.4	0.0	0.0	0.0
3 Wood, paper, publishing and printing [SIC: 321-326]	4.8	4.0	8.7	3.7	0.8
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	0.4	3.2	0.3	0.4	0.1
5 Other non-metal mineral products [SIC: 341-342]	0.2	1.1	0.0	0.0	0.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	9.5	67.0	63.4	58.3	82.4
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.0	0.0	0.0	0.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.0	0.0	0.0	0.0	0.0
9 Transport equipment [SIC: 381-387]	0.0	0.5	0.1	0.3	0.3
10 Furniture and other manufacturing [SIC: 391-392]	0.1	5.5	7.5	0.1	0.0
Total: Manufacturing exports	100	100	100	100	100
Sector	1995	2000	% share		
			2005	2010	2013
Goods Imports (R million)					
Broad sectors: West Coast District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	55.8	5.1	6.3	2.8	3.0
2 Mining and quarrying [SIC: 2]	5.0	9.1	9.6	37.2	28.3
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	39.2	85.6	83.6	60.0	68.7
4 Undefined/other	0.0	0.2	0.5	0.0	0.0
Total: Goods imports	100	100	100	100	100
Manufacturing sector:					
West Coast District					
1 Food, beverages and tobacco [SIC: 301-306]	24.8	4.3	6.9	4.1	4.1
2 Textiles, clothing and leather goods [SIC: 311-317]	4.2	0.4	0.9	1.4	0.8
3 Wood, paper, publishing and printing [SIC: 321-326]	4.5	3.4	1.9	7.4	5.8
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	7.4	4.1	13.7	25.8	14.3
5 Other non-metal mineral products [SIC: 341-342]	0.5	45.6	9.4	12.4	5.5
6 Metals, metal products, machinery and equipment [SIC: 351-359]	34.9	35.5	65.0	40.3	64.6
7 Electrical machinery and apparatus [SIC: 361-363]	0.8	4.0	0.6	6.2	2.7
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	21.7	1.6	1.0	1.2	1.1
9 Transport equipment [SIC: 381-387]	1.0	0.1	0.1	0.3	0.7
10 Furniture and other manufacturing [SIC: 391-392]	0.0	1.1	0.5	0.9	0.2
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/CER

Cape Winelands District

Key points

- The Cape Winelands District (CWD) economy has strong agricultural origins, but with a well-diversified industrial base and strong linkages with its services industries, including tourism. During the previous upswing phase of the business cycle (2000 - 2007) real GDP growth averaged 4.6 per cent per annum. Exports are an increasingly important source of growth in the region and the 2009 recession impacted heavily, with GDP contracting by 2.8 per cent in that year.
- The economy rebounded in 2010 - 2011, growing by a brisk 4.2 per cent in 2011; however, growth tapered off to 1.9 per cent in 2013 in line with the global and national economic slowdowns. Real GDP growth is expected to come in at 2.4 per cent in 2014 and to average 3.1 per cent per annum over the forecast period (2014 – 2019). The growth outlook has been scaled down substantially in view of weaker than expected growth in the post-financial crisis period and domestic labour market instability. This growth environment will present the CWD with important development challenges.
- The CWD workforce remained stable between 2000 and 2013 as heavy retrenchments in the agriculture, manufacturing and construction sectors were counterbalanced by healthy job growth in the region's services sector. Worker retrenchments continued in the agriculture and construction sectors over the period of economic recovery (2010 - 2013), causing the CWD to shed jobs on balance overall over this period.
- Stellenbosch and Drakenstein are the leading municipalities – whereas growth and employment creation are strong in the former, the same cannot be said about the latter. The leading financial and business services sectors are concentrated in these two municipalities, with a vibrant tourism industry explaining the healthy economic performance of the Stellenbosch economy in particular.

- The formal sector retrenchments amounted to 13 680 during the recession (2008 - 2009), whilst the informal sector recorded gains totalling 9 900; the informal sector contributes 23 per cent of total employment. In view of the counter-cyclical role the informal sector plays and its linkages with the formal sector, this may warrant a more nuanced policy approach towards the informal sector, which would acknowledge these intricacies and provide technical and business support required to build informal businesses to eventually migrate to the formal sector.
- The region produces a growing goods trade surplus, valued at close to R9 billion in 2013; this excludes the foreign exchange earnings from inward tourism and other services exports.
- Tourism is a key industry in the CWD, with the region's wine lands being a draw card. The direct tourism linkage to agriculture is not high (4 per cent of inputs into the tourism sector derives from agriculture), but the indirect value tourism has for the wine industry is related to the exposure local wines get to international markets and the marketing efforts made by the tourism industry. The major backward linkages from tourism are to accommodation, restaurants, transport and business services. Other competitive value chains in the CWD are the food value chain, the building value chain, financial services and the ICT sector (located mostly at the Stellenbosch Techno Park). The CWD also has a vibrant education sector, including leading research facilities, and hosts a range of innovation industries, as well as the headquarters of major multi-national and national companies.
- Generally, those municipalities with high levels and maintenance of (economic) infrastructure experience higher rates of economic growth, which in turn help them to afford the required infrastructure budgets. Infrastructure investments should be done in accordance with development and economic needs within the CWD. Given the importance of agriculture and the employment potential of the manufacturing sector, investments within the region should focus on supporting these sectors. This will also address the mismatch between skills demand and supply in the local labour market.
- The Cape Winelands District fares well regarding its socio-economic indicators in a provincial perspective – it has a relatively high literacy rate (81.7 per cent), the lowest overall unemployment rate (14.2 per cent), low youth unemployment, whilst it also witnessed a significant decline in poverty rates. This could all take place in the context of rising per capita incomes. While growth is not as high as some other non-metro districts, the population growth rate is low and the economy is well-balanced.

Executive summary

1. Introduction

The 2014 *Municipal Economic Review and Outlook (MERO)* study builds on the analysis of the Cape Winelands District (CWD) growth and development trends in the corresponding 2012 and 2013 studies. The MERO's objective is to provide economic intelligence at the district and municipal level in the Western Cape Province, alongside its sister publication, the *Provincial Economic Review and Outlook (PERO)*.

The CWD has been hard-hit by the 2009 global recession, particularly in terms of the adverse impact on employment levels. Whilst the socio-economic indicators attest to the Cape Winelands District crafting a better quality of life for its inhabitants, a central theme in the 2014 study is to track the region's recovery from the recession impact and to explore existing bottlenecks or constraints which may be restraining economic growth and development. The results from the study can hopefully feed into official economic strategy plans and assist the private sector in identifying growth opportunities.

The recent and expected macro-economic environment and implications for the CWD economy are first assessed. Thereafter, the sectoral analysis is deepened, with the focus on sectoral growth, employment and skills demand trends and an analysis of the CWD tourism value chain. The informal sector analysis is also taken further by



investigating the sector's linkages with the formal sector and its cyclical sensitivities. Furthermore, the municipal revenue and infrastructure spending trends and their relationship with the growth of the regional economy come under the spotlight. The report is concluded by a welcome addition to the MERO study, i.e. a consideration of the CWD's socio-economic climate and the apparent economic growth and employment linkages.

2. Regional growth trends

The CWD was severely affected by the global recession (2008 - 2009). The region began to recover in 2010, with real GDP growth coming in at 3.6 per cent in 2011, but tapered off to 1.9 per cent last year and is expected to average 2.4 per cent in 2014. The slowdown was in line with the global and national economic slowdown from 2011. Given the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the CWD over the period 2014 - 2019 has also been reduced to 3.1 per cent per annum from 3.7 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower macro-economic growth are weaker than expected global growth and the adverse domestic impact of labour instability. Macro-economic conditions are likely to be less than robust over the next 3 - 5 years, which constitutes a challenge to the CWD.

Considering the contributions of the five constituent municipalities, Drakenstein and Stellenbosch municipalities make the largest contribution in terms of value added growth. The other three municipalities are smaller. In terms of employment, Stellenbosch Municipality managed to create employment on a net basis over the 2000 - 2013 period. On the other hand, Drakenstein suffered serious job losses over the same period. Breede Valley is the third largest municipality; however, it suffered the highest net job losses in the region over the corresponding period.

Heavy net job losses occurred in the agricultural sector, in line with the experiences of the other four Western Cape non-metro districts. The manufacturing and construction sectors added to the net job losses, which in all exceeded the net job growth in the region's services sector. It is expected that growth within the CWD will be topped by the construction sector over the forecast period. Other sectors expected to grow above average are the wholesale and retail trade, catering and accommodation sector and the transport, storage and communication sector.

3. Sectoral growth, employment and skills

The CWD economy has firm agricultural origins, the importance of which continues today and is reflected in the fact that one fifth of the region's work force is employed in this sector. Over the years, this sector has developed strong backward and forward linkages with manufacturing and services industries and the contemporary growth vehicle appears to be agri-tourism, reaching into all CWD municipal areas. The importance of the tourism industry, even though not captured in the official statistics, cannot be over-estimated in the region. It helps to explain the economic outperformance of the Stellenbosch municipal economy. The tourism sector forms

part of the wider wholesale, retail, catering and accommodation sector, which expanded fastest during the economic recovery years, 2010 - 2013, and has wider linkages to the transport and business services sector. Financial and business services growth has tapered off in the wake of the global recession, but it remains a leading industry in the region; the sector is concentrated in Stellenbosch and Drakenstein.

Given the export orientation of the agriculture and associated processing industries, as well as tourism, a heavy recession impact was to be expected. Apart from GDP contracting by 3 per cent in 2009, the net retrenchments in key sectors such as agriculture, manufacturing and construction continued during the first four years of the economic recovery, with the overall level of employment in 2013 still 5 per cent below its pre-recession peak. Export volumes have also tended to contract after the recession, which is somewhat concerning and emphasises the need to explore faster growing markets. The disappointing growth in the manufacturing sector also remains a cause for concern; it is critical that this sector be expanded so as to absorb and upskill semi and unskilled workers. The services sector added substantial semi and unskilled jobs despite its general skills intensity, which may also be a dividend from the growth of tourism in the region.

Regarding the economic outlook, forecasts have been scaled down in line with developments in the wider province and nationally. Key sectors expected to outperform the provincial average are wholesale, retail, catering and accommodation (boosted by tourism), financial and business services, transport and communication, community, social and personal services and – to a lesser extent – construction.

4. Value chains

Tourism is a key industry in the CWD, with the region's wine lands being a draw card for tourists. Given the large proportion of wine tourism in the CWD, it is important to consider the influence of the wine industry on tourism and, likewise, the impact of tourism on the wine industry. The direct tourism linkage to agriculture is not high (4 per cent of inputs into the tourism sector derives from agriculture), but the indirect value tourism has for the wine industry is related to the exposure local wines get to international markets and the marketing aspect of the tourism industry. Restaurant and tourist activity on wine farms also supplements the income of wine farmers and this in turn may be transferred to the agricultural sector. Also, the presence of wine farms in the CWD is a major attraction for tourism and this will boost expenditure on hotels and restaurants in the District which may be unrelated to the wine industry. The value gained from tourism is the additional demand it creates in other sectors in the economy. The major backward linkages from tourism are to accommodation, restaurants, transport and business services. It is estimated that up to 65 per cent of the catering and accommodation sector is linked to the tourism sector; this sector also has great potential to stimulate small business activities.

5. Informal sector

Surveys of the informal and SMME sectors have shed some light on the characteristics of small and informal businesses in the CWD. These characteristics were discussed in the 2013 MERO study and this year the analysis is taken a step further by investigating the linkages between the informal and formal businesses. The results provide evidence of close formal and informal sector linkages, albeit that details regarding the nature of these linkages were not extracted. The results show that around 10 per cent of formal small and micro businesses sustain linkages with informal businesses in the CWD. It appears that little or no linkages exist between medium-sized formal business and the informal sector, which is different from other districts. Unfortunately, given the evident existence of financial constraints (i.e. lack of access to credit) and low-level skills within the informal sector, and in view of the evidence from academic literature, it appears that where linkages exist, they may be backward linkages, involving 'unfair' formal sector outsourcing. This means that informal businesses may source formal sector products at retail prices only to sell them at higher prices to poor local customers. More research may be required to ascertain the prevalence of this phenomenon.

Regarding the cyclical sensitivities of the CWD informal sector, the (2008 - 2009) recession caused significant net job losses (13 680) in the formal sectors of the CWD economy while there were 9 900 net jobs created in the informal sector over the same period. The CWD informal work force was estimated at 23 per cent of the total work force in 2013, i.e. an estimated 56 600 informal workers (Quantec, 2014). Most of the employment gains in the informal sector were created in the wholesale, retail trade and catering and accommodation sector during the recession, with the number of new informal jobs surpassing formal net retrenchments. This indicates that downward rigidities during the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed. Sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts, revealing a *de facto* counter-cyclical role for the informal sector.

Given the important poverty relieving role of the informal sector, it is recommended that the District and its municipalities consider a more nuanced view of the informal economy in order to recognise the distinct support needs of informal labour (and survivalist firms) and informal entrepreneurs. The focus should not be on extending social protection across the informal economy as that risks trapping informal entrepreneurs in relations of dependency. Instead, advocating their distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., could serve to build a capacity for autonomous development and migration to the formal economy, rather than reducing them to skilled labour in 'unfair' formal sector outsourcing arrangements. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally. There appears to be more scope for medium-sized businesses in the CWD to source from the informal sector as a means to develop the latter.

6. Municipal revenues and expenditure on infrastructure

It is accepted that basic service delivery through infrastructure investment is a cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure impacts positively on economic growth. An important factor considered by investors when relocating into an area is the provision of basic services within that area. The Municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. The provision of municipal infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. An analysis on both sides of the budget, i.e. revenue and infrastructure expenditure, was conducted. It revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the CWD. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality. Overall CWD municipal revenues grew by an estimated 13 per cent per annum between 2008/09 and 2012/13 in inflation-adjusted terms. Given the relatively poor economic growth conditions, this high growth probably stems from rates and tariff increases, which may be counterproductive as consumer incomes are already under pressure.

According to the *Growth Potential Study* Stellenbosch Municipality is rated high according to an infrastructure index, while Langeberg, Drakenstein and Breede Valley were rated as medium performers. Witzenberg was rated low according to the infrastructure index. Various factors affect the ability of municipalities to invest in infrastructure for service delivery. Restraining factors such as the upgrading and renewal of existing infrastructure impact massively on the ability of municipalities to provide basic services. The retention of skilled staff has also been a threat to efficient service delivery. Infrastructure delivery in Witzenberg is influenced by the high poverty rates within their municipal jurisdiction. On the other hand Stellenbosch and Drakenstein municipalities benefit from their locational advantages; close proximity to the Cape Metro and national roads.

A positive correlation exists between the level of infrastructure and sub-regional economic growth. Infrastructure investments should be done in accordance with development and economic needs within the CWD. With agriculture being the backbone of the District infrastructure, investments within the region should focus on supporting the sector. Furthermore, given the importance of manufacturing and its capacity to absorb and up-skill semi and unskilled labour, there is scope to invest in industrial development. Such investments will not only impact the sectors' GDP growth but will also have multiplier or knock-on effects on the rest of the economy.

7. Socio-economic climate and development indicators

The socio-economic analysis, contained in a separately released working paper at the time of the 2013 MERO study, has this year been brought into the main report. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its constituent municipalities, with the intelligence needed to understand their socio-economic reality and also the impact of the economy.

The CWD experienced rising living standards over the past decade due to the fact that the economy grew faster compared to population growth, which led to higher per capita incomes in the region. All municipalities shared in this trend, except Witzenberg. Youth unemployment (17.1 per cent for CWD) is showing a declining trend and is the lowest in the Province. The youth are however over-represented among the unemployed perhaps due to their lack of experience. The lack of diverse industries may also play a role in this regard.

Literacy rates in the CWD (81.7 per cent) are relatively high compared to the other districts within the Western Cape and the unemployment rate (14.2 per cent) is the lowest. There is however a trend towards employing skilled and highly skilled labour. Skills development and lower skilled labour intensive initiatives are required in order to stimulate employment in the District. The proportion of households that are indigent has fallen from 2011 to 2014 and the increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the CWD. However, despite substantial improvements, poverty levels are still relatively high and need to be addressed.

The CWD has shown much improvement over the years with regard to all areas of its socio-economic environment. This chapter illustrates how the development indicators impact on the standard of living within the District. The low population growth rates in conjunction with the faster growing economy and relatively high literacy rates has led to decreasing unemployment rates in the CWD. This has in turn led to increasing household and per capita income. These have translated to declining poverty levels or indigent support required within the District. There is still room for improvement with regard to poverty reduction and skills development. Furthermore, sustained job losses during the economic recovery, the lower economic growth rate and the down-graded economic outlook define a challenging environment going forward.

1

Introduction

1.1 Background and purpose of study

The 2014 Municipal Economic Review and Outlook (MERO) study is the third one produced annually since 2012. With its origins in the micro-economic research undertaken at the time of the Micro-Economic Development Strategy (MEDS) initiative (2004 to 2008), and accompanying its sister publication, the Provincial Economic Review and Outlook (PERO) over the past three years, the central objective of the MERO is the provision of economic intelligence at the metro, district and municipal levels in the Western Cape Province.

The growth of towns, cities and regions has become a focal point of contemporary socio-political and economic analysis. While the MERO study provides guidelines for identifying socio-economic constraints and related policy actions, the review of microeconomic trends and developments, including the medium-term outlook, has the potential to generate the economic intelligence that can feed into sub-regional Integrated Development Plans (IDPs) and Local Economic Development initiatives (LEDs).

A special attempt is made this time around to improve the accessibility of the MERO by refining the analysis in previous studies, shortening the report and improving the dissemination of the information. The hope is that the information will not only be useful to local and provincial authorities but will also enable private business enterprises to identify growth opportunities and reacting upon them in order to propel the regional economy to a higher growth plane.

1.2 Central issues covered

The MERO research publication was conceived in the wake of the 'Great Recession', which was triggered at the end of 2007 by the unsustainable financial growth and macroeconomic developments over the 1990s and 2000s in the world's leading industrial economies, notably the USA and the Euro area. The impact of the subsequent recession (2008 - 2009) has been uneven across regions and countries. In fact, the 2012 - 2013 MERO analyses showed that the differential impact reached deeply into the Western Cape metro and non-metro districts.

A key theme of the 2013 study was how the Western Cape districts and municipalities have recovered from the impact of the global recession. One of the key consequences of the global recession, has been *"a search for a new development paradigm that is both more inclusive and more sustainable ecologically"* (see Turok et. al., 2013: 2). In the same vein, the consistent theme throughout the MERO report, is an emphasis on inclusive economic growth through employment creation. While it is accepted that public policy intervention has a constructive role to play, the focus is on the identification of the bottlenecks and constraints which are hampering private sector growth and employment creation. Consistent with the tenets of inclusive economic growth, attention also focuses on the developmental challenges embodied in making a dent in unemployment, poverty and underdevelopment.

Consequently, the central issues covered in the 2014 MERO study are, firstly, a consideration of the global, national and provincial economic performances and outlook in view of the general recovery from the 2008 - 2009 global recession and the mid-2011 slowdown, and how this macro-economic environment impacts on the Cape Winelands District (CWD) economy (Chapter 2 of this report).

The historical patterns of sectoral growth and employment, including the performance and outlook in this regard of the CWD since the onset of the global economic recovery at the end of 2009, are also discussed in greater detail (Chapter 3 of the report). Turok, et. al. (2013: 3) note that education and skills have become major determinants of regional economic growth, which has not necessarily been the case a century ago. The skills composition of sectoral economic growth is therefore also under consideration. Whilst the analysis is somewhat superficial, it effectively demonstrates the wider developmental challenge of the mismatch between the demand for skilled labour and the predominantly unskilled surplus labour supply present in the CWD economy. Expanding on the 2012 and 2013 MERO studies, an attempt is made to conduct the sectoral analysis of CWD trends in a provincial-wide municipal context. Reference is also made to the stock of infrastructure and the annual municipal spending in this regard, as well as the socio-economic profile of the CWD regional economy.

The CWD has the largest non-metro district economy in the Province and is well-known for its diversified industrial base, including a large agricultural sector. The agricultural sector has close linkages with the manufacturing and services industries, notably tourism. This year's value chain analysis (Chapter 4 of the report) investigates the tourism sector value chain in the CWD, which is not always discernable from

official industry classified statistics. Tourism is a flourishing industry in the Winelands and also played a key role in the general economic recovery in the region from the recession.

The 2013 MERO study introduced the results from a survey of 200 informal sector firms in the CWD conducted by the Department of Economic Development and Tourism (DEDAT). This year, the analysis is taken some steps further by an investigation into the linkages between the formal and informal sectors of the CWD, both conceptually and empirically. An attempt is also made to investigate the cyclical nature of the informal sector by showing the extent to which the informal sector played a counter-cyclical role in the CWD during the 2008 - 2009 recession (Chapter 5 of the report).

The important relationship between infrastructure investment and economic growth is explored at the regional level in respect of the CWD economy (Chapter 6 of the report). The actual infrastructure spending and municipal revenues over the 2008 to 2013 period are analysed and the outcomes in terms of economic growth by municipality are compared. The analysis also taps into the research undertaken in the '*Growth Potential Study*' (2014).

Finally, a socio-economic synopsis of the CWD region is provided (Chapter 7 of the report), including an attempt to highlight the linkages between regional economic growth (value-added and employment) and the local economic development indicators.

1.3 Outline of the report

Apart from the first introductory section, the report consists of six chapters. As noted above, Chapter 2 discusses the trends (2000 – 2013, including the economic recovery period, 2010 - 2013) and outlook (2014 - 2019) for the CWD economy in a macro-economic context. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the accompanying PERO publication. Chapter 3 utilises secondary data sources – e.g. Quantec's regional data base; the '*Growth Potential Study*'; the results from a municipal survey in the District; and the analysis of comparative advantages among industries conducted in the 2013 MERO – to deepen the regional economic analysis by sector. Specifically, this chapter analyses real GDP growth trends, employment creation and the skills composition of labour demand in the CWD.

In Chapter 4 a value chain analysis is conducted, with the focus on the CWD tourism sector. The linkages and employment potential of this cross-cutting sector are analysed, including some perspective on the growing agri-tourism sector. Chapter 5 takes the informal sector analysis further, considering the formal-informal sector linkages and the business cycle impact on the informal sector. Thereafter Chapter 6 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. Chapter 7 concludes with a socio-economic profile of the CWD.

2

Economic outlook

2.1 Introduction

This chapter provides a five-year economic outlook for the Cape Winelands District (CWD) economy. The outlook is embedded in realistic global and national socio political and economic assumptions, which are all briefly discussed in this chapter. In presenting the District economic outlook, attention is given to the historical growth trends, a consideration of the 2010 - 2013 economic recovery thus far, the region's industry comparative advantages and an assessment of the macroeconomic implications pertaining to the medium-term district economic outlook. The analysis of the sectoral district economic prospects is deepened in Chapter 3 in which sector developments are discussed.

2.2 Global, national and provincial economic developments

The global economic outlook remains uneven and uncertain. This follows the recent downward revision of the IMF's forecast for the global economy in July 2014 following a weak first quarter. The downgrade has shown that the global economy should grow at 3.4 per cent in 2014 down from its January forecast of 3.7 per cent. Weaker than expected growth in the developed economies and emerging markets forced the downgrade. Table 2.1 gives a clear illustration of the differences between the April 2014 outlook and the latest IMF outlook. The downgrades are an indication that nations are still struggling to recover from the aftermaths of the financial crisis.

A generally negative outlook dominated the report; however the economic prospects for Japan, Germany and the UK were upgraded. Japan experienced stronger than expected growth in the first quarter resulting in an upgrade of its economic outlook. Growth in Japan is projected to be 1.6 per cent in 2014 and ease down to 1.1 per cent in 2015. In the **advanced countries** the economic outlook for

the US and Canada was downgraded. The cut in the outlook for the world's largest economy, the US, by 1.1 percentage points in respect of 2014 dragged the world outlook down. An overhang in inventories at the end of 2013 appeared to be much higher than expected and output during the first quarter of 2014 contracted due to the severe winter weather negatively impacting on domestic demand. However a growth rebound is expected in the US as the key drivers to the downturn were only temporary. Growth is expected at 1.7 per cent and 3.0 per cent in 2014 and 2015 respectively.

Table 2.1 World economic growth outlook: 2013 - 2015 (%)

Country	Actual	Projections		Difference*	
	2013	2014	2015	2014	2015
World output	3.2	3.4	4.0	-0.3	0.0
Advanced economies	1.3	1.8	2.4	-0.4	0.1
United States	1.9	1.7	3.0	-1.1	0.1
Euro Area	-0.4	1.1	1.5	0.0	0.1
Japan	1.5	1.6	1.1	0.3	0.1
Developing economies	4.7	4.6	5.2	-0.2	-0.1
Emerging and developing Asia	6.6	6.4	6.7	-0.2	-0.1
China	7.7	7.4	7.1	-0.2	-0.2
India	5.0	5.4	6.4	0.0	0.0
Latin America and the Caribbean	2.6	2.0	2.6	-0.5	-0.3
Middle East, North Africa, Afghanistan and Pakistan	2.5	3.1	4.8	-0.2	0.2
Sub-Saharan Africa	5.4	5.4	5.8	0.0	0.2
South Africa	1.9	1.7	2.7	-0.6	0.0

* Difference between July and April 2014 forecasts

Source: IMF World Economic Outlook July 2014

The latest economic indicators in the **Euro Area** remained unchanged from the April 2014 IMF World Economic Outlook (WEO) report. Growth is expected to remain uneven within the area with Italy and France's economic outlook being revised to 0.3 and 0.7 per cent respectively. Financial conditions in the area have eased with inflation coming in at below expectations in April 2014. However, the Euro area continues to suffer from financial market fragmentation and high unemployment rates as a result of fiscal headwinds. Following two calendar years of contraction the Euro area is expected to return to positive growth, growing at 1.1 and 1.5 per cent in 2014 and 2015 respectively. High debt and tight credit conditions will continue to weigh on economic activity.

Economic indicators in **Asia** were also not promising. Projected growth in India remained unchanged (projected to be 5.4 and 6.4 per cent in 2014 and 2015 respectively) whilst the world's second largest economy, China is now expected to grow at 7.4 per cent, a 0.2 per cent cut from previous predictions. An effort to reign in credit growth in China led to the fall in domestic demand resulting in the downward revision.

The uneven growth pattern in the global economy can also be seen in the **emerging market** group of economies. The economic outlook of these countries was downgraded by 0.2 per cent to 4.6 per cent for 2014. Latin America also experienced

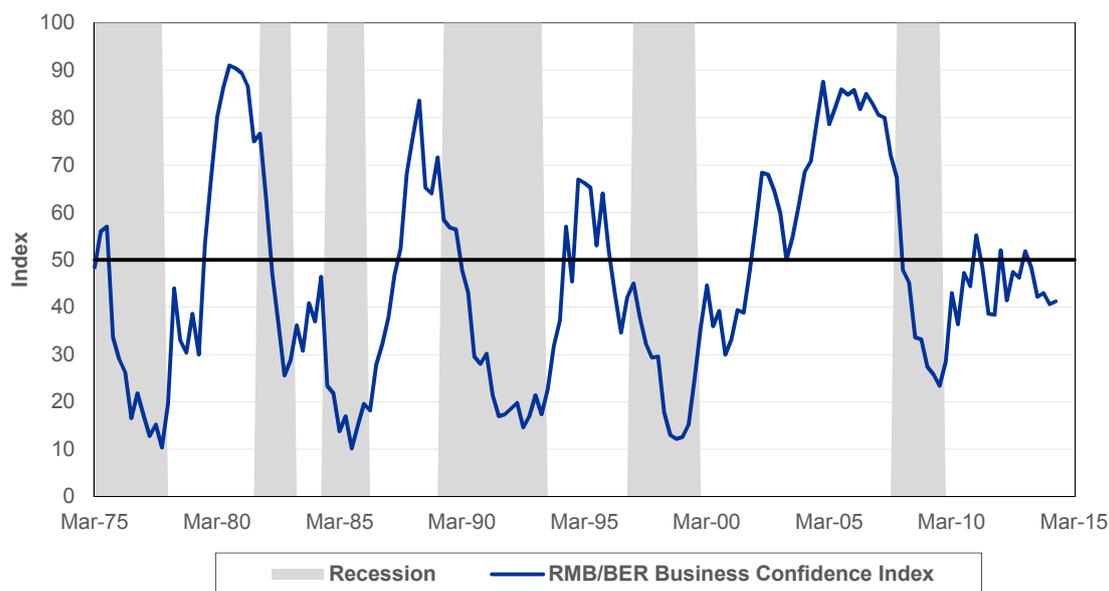
a downward revision by 0.5 per cent to 2.0 per cent in 2014. The Russian economy is expected to grow at only 0.2 per cent per cent this year. Massive capital flight and geopolitical tensions have been highlighted as the cause of the 1.1 percentage cut from the previous forecast of 1.3 per cent. It is projected that investment in Russia will remain weak for a long time, thus accounting for an expected growth of only 1.0 per cent in 2015.

The economic outlook for sub Saharan Africa remained unchanged. Countries with external vulnerabilities may however experience a reversal in capital flows in the event of there being a reversal in financial market sentiments. South Africa's growth forecast in respect of 2014 was revised downwards from 2.3 per cent to 1.7 per cent. This sluggish growth projection for the country is a result of labour strikes, electricity constraints and weak global demand.

In summary, the IMF has warned that weaker US growth and slower demand in emerging market economies will have a negative impact on world economic growth. Furthermore, higher geopolitical risks, the Ukraine crisis and risks of oil price increases could place growth under additional pressure. Despite all these downgrades the economic outlook for 2015 remains unchanged as stronger economic growth is expected. According to the IMF report global growth is expected to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015 from 3.2 per cent in 2013. It is expected that the global recovery will regain strength in the second half of 2014.

The **South African** economy is currently going through a difficult period. It is experiencing a number of challenges which includes the slowing down of economic growth, reflected by a 0.6 per cent economic contraction in the first quarter of 2014. The previous 2014 economic growth forecast for South Africa has been downgraded by a number of local and international institutions following growing economic challenges. The SA Reserve Bank has thus also downgraded the forecasted economic growth for 2014 from 2.1 per cent to 1.7 per cent. The World Bank has also revised downwards South Africa's economic growth forecast for 2014 to 2 per cent from an earlier forecast of 2.7 per cent. Persistent labour strikes caused mining production to decrease by 6.5 per cent year-on-year in May 2014 and contributed to renewed weakness in the manufacturing sector. The poor performance in mining production was driven by a decline in Platinum Group Metals (PGM) mining production and due to suppressed commodity prices.

Some of the economic challenges facing the economy include the weakening of the rand, the increasing inflation rate, the growing unemployment rate and poor levels of business and consumer confidence. The RMB/BER Business Confidence Index remained unchanged at 41 in the second quarter of 2014. The index has remained below its long term average of 45.12 for the period since the middle of 2013 (see Figure 2.1). The index is less than encouraging reflecting as it does domestic concerns and how unhappy respondents are with current economic conditions. On the other hand, though not indicated in Figure 2.1, the consumer confidence index recovered from -6 to 4 points in the second quarter of 2014; however, it remains below its long-term average.

Figure 2.1 The RMB/BER Business Confidence Index

Source: BER June 2014

Growth over the expansion period 2000 - 2007 trended at 4.3 per cent per annum declining to 1.2 per cent per annum over the recessionary period 2008 - 2009 and recovering to 2.7 per cent per annum over the recovery period 2010 - 2013. Table 2.2 shows the economic growth outlook for the South African economy. During the forecast period 2014 - 2019 it is expected that the construction sector will grow the fastest, with growth averaging 3.7 per cent per annum. Forecast growth in the transport, storage and communication sector coupled with the finance, insurance, real estate and business services sector are forecast to also positively influence overall growth, each growing at 3.4 per cent per annum. The forecast growth of the general government of 2.1 per cent is noticeable albeit downgraded from previous forecast due to the tighter fiscal position. Overall real GDP growth has been downscaled substantially, currently forecast to average 2.6 per cent per annum, 2014 - 2019.

A key development (from the middle of 2011) and reason for slower forecast growth has been the slowdown in consumer spending. The sector has been the backbone of the economic recovery in the country in the aftermath of the global financial crisis. Consumer spending lost momentum due to rising inflation, weaker real disposable income and slow economic growth; interest rates also began rising in the first quarter of 2014. Fixed investment spending is also a driver of growth and its outlook has been downscaled due to the poor domestic demand conditions and low business confidence levels.

Table 2.2 South Africa sectoral economic growth outlook: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 - 2019
Agriculture, forestry and fishing	2.3	1.9	2.8	2.3	1.9	2.2	2.2	2.2
Mining and quarrying	3.1	0.8	1.7	1.0	0.6	0.8	0.9	1.0
Manufacturing	0.8	1.8	2.6	2.3	2.0	2.2	2.3	2.2
Electricity, gas and water	-0.4	1.1	2.5	2.4	2.5	2.7	2.8	2.3
Construction	2.8	3.4	3.3	3.4	3.7	4.0	4.1	3.7
Wholesale and retail trade, catering and accommodation	2.2	1.0	3.2	2.8	2.6	2.7	2.8	2.5
Transport, storage and communication	1.9	2.7	3.5	3.4	3.6	3.6	3.8	3.4
Finance, insurance, real estate and business services	2.4	1.9	3.6	3.5	3.8	3.9	4.0	3.4
Community, social and personal services	1.8	1.6	2.6	2.1	1.9	2.1	2.2	2.1
General government	1.5	1.6	2.3	1.9	2.1	2.2	2.3	2.1
Total	1.9	1.7	3.0	2.7	2.7	2.8	2.9	2.6

Source: BER/Quantec Research 2014 (e = estimate; f = forecast)

Year-on-year headline inflation increased in 2014Q2 to 6.5 per cent from 5.9 per cent in 2014Q1. Despite the lowering of growth forecasts the inflation outlook remained unchanged. It is expected that headline inflation will decrease to 6.4 per cent in the third quarter and further decrease to 6.3 per cent in 2014Q4, remaining outside the SARB target range. Headline inflation forecast for 2015 was adjusted to 5.8 per cent and for 2014 to 6.2 per cent. The rand dollar exchange has come under pressure depreciating by more than 40 per cent since the beginning of 2012 (see Table 2.3). Global and domestic factors, such as the Marikana strike (August 2012) and a widening current account deficit, have been major contributors to the weakening of the rand.

Table 2.3 South Africa: Forecast of inflation, interest rates and the rand exchange rate, 2014 - 2015

Financial variable	2012	2013	2014f	2015f
CPI inflation (average)	5.70	5.70	6.30	5.70
Prime overdraft interest rate (eop)	8.50	8.50	9.50	10.00
Rand/\$ exchange rate (eop)	8.64	10.47	10.70	10.95
Rand/€ exchange rate (eop)	11.32	14.36	14.10	13.75

eop: end of period

Source: BER

The **Western Cape** economy grew at a rate of 2.1 per cent during calendar year 2013 compared to 1.9 per cent for the country as a whole. The contraction in output in the mining sector weighed down on national growth. Although the Province was not able to reap the rewards from increases in mining activity in the second half of the year, it did benefit from growth in the manufacturing sector (which accounts for 17 per cent of overall GDP).

Table 2.4 shows the sectoral growth and employment trends in the Western Cape economy. While growth trended at 3.9 per cent per annum (2000 – 2013) it decelerated sharply during the recession years (2008 - 2009) to 1.7 per cent. Over the current years of the expansion phase (2010 - 2013), GDP growth has averaged 2.9 per cent per annum, well below its growth trend. The expansion of the wholesale and retail, catering and accommodation sector is notable, with the sector growing above average at 3.7 per cent per annum. Also notable is the growth in general government (3.4 per cent) and the growth in the finance, insurance, real estate and business services sector.

The rate of employment creation within the Western Cape followed national trends. Whereas the rate of employment creation in the Western Cape trended at 0.4 per cent it contracted to 0.3 per cent during the recession years (2008 - 2009). Unfortunately, the rate of employment creation has not been restored during the recovery years (2010 - 2013). The contractions in the agriculture, forestry and fishing sector (2.0 per cent per annum), the construction sector (5.8 per cent per annum) and the manufacturing sector (1.0 per cent per annum) are major causes for concern.

Table 2.4 Western Cape economy sectoral growth and employment (formal and informal): 2000 - 2013

	Real GDP growth (yoy %)				Formal and informal employment (yoy % change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	2.0	1.1	8.2	0.8	-2.0	-0.9	-6.3	-2.0
Mining and quarrying	-1.2	-0.5	-7.4	0.5	1.3	0.7	1.6	2.6
Manufacturing	2.4	3.8	-3.3	2.6	-2.2	-2.1	-4.6	-1.0
Electricity, gas and water	2.5	4.2	-1.6	1.1	2.6	6.6	-12.5	2.0
Construction	6.5	9.1	5.5	1.7	-2.5	-0.9	-2.6	-5.8
Wholesale and retail trade, catering and accommodation	4.2	5.7	-0.6	3.7	0.9	1.3	0.8	0.3
Transport, storage and communication	4.7	6.6	2.0	2.4	1.6	0.0	5.8	2.8
Finance, insurance, real estate and business services	5.5	7.0	3.9	3.3	3.3	4.9	-0.2	1.9
Community, social and personal services	2.9	3.9	1.4	1.7	2.0	2.7	4.7	-0.5
General government	2.5	1.6	4.3	3.4	2.1	2.4	2.7	1.0
Total	3.9	5.0	1.7	2.9	0.4	0.9	-0.3	-0.1

Source: Quantec Research 2014

Table 2.5 shows the outlook for real economic growth in the Province. Real GDP is forecast at a similar rate in 2014 compared to 2013 (i.e. 2.1 per cent) and expected to accelerate to a real growth rate of 3.1 per cent in 2015. Real GDP is forecast to grow at an average growth rate of 3.0 per cent per annum over the period 2014 - 2019. The tertiary sector is expected to drive economic growth, with growth averaging 3.1 per cent per annum. Services such as transport and communication

and finance and insurance and business services are expected to grow at above-average rates, as well as construction. The Provincial Government highlighted its commitment towards achieving sustained economic growth. The 2014 Budget Statement highlighted the four core objectives of Government, i.e. a commitment to promoting economic growth, increasing employment, improving the quality of public education and healthcare, and reducing poverty within the Western Cape. From Table 2.4 it is clear that the employment creation objective remained elusive during the economic recovery (2010 - 2013), with overall employment in the Province continuing to contract, particularly in construction, agriculture and manufacturing.

Table 2.5 Western Cape economy: Real GDP growth forecast: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 - 2019
Agriculture, forestry and fishing	2.6	2.3	1.9	1.5	1.6	1.7	1.6	1.8
Mining and quarrying	1.3	1.2	1.1	0.8	1.7	1.8	1.8	1.4
Manufacturing	0.5	2.2	2.4	2.3	2.4	2.4	2.5	2.4
Electricity, gas and water	1.6	1.5	2.1	2.1	2.2	2.2	2.2	2.1
Construction	3.2	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	2.4	1.2	3.0	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	2.1	3.0	3.6	3.7	3.9	3.7	3.9	3.6
Finance, insurance, real estate and business services	2.5	2.2	3.8	3.6	3.8	3.9	3.8	3.5
Community, social and personal services	2.2	2.1	2.4	2.1	1.9	2.4	2.2	2.2
General government	2.4	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Total	2.1	2.1	3.1	3.0	3.1	3.2	3.3	3.0
Primary sector	2.6	2.2	1.9	1.5	1.6	1.7	1.6	1.7
Secondary sector	1.1	2.5	2.7	2.7	2.7	2.8	2.9	2.7
Tertiary sector	2.4	2.0	3.3	3.2	3.4	3.4	3.5	3.1

Source: Quantec Research 2014 (e = estimate; f = forecast)

2.3 The Cape Winelands District (CWD) economy

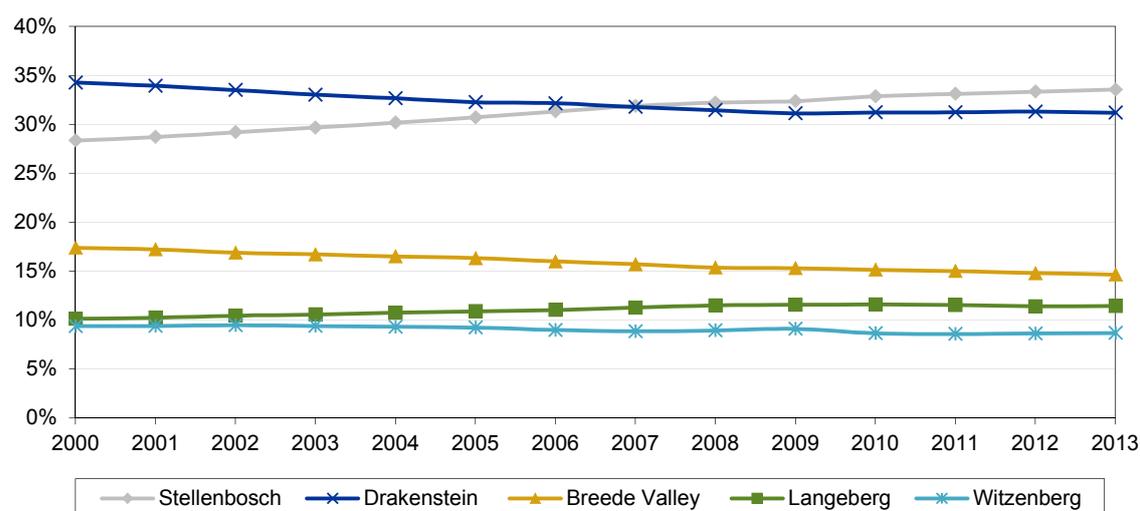
In line with the downward revision of the global economic outlook and the substantial downward revision of the outlook for growth nationally and in the Province, the CWD GDP growth forecast for the period 2014 - 2019 has been reduced to 3.1 per cent per annum, from 3.7 per cent per annum at the time of the 2013 MERO study (for the period 2012 - 2017). The growth performance of the District (1.9 per cent) was in line with that recorded for the Western Cape Province (2.1 per cent) in 2013. The District economy is the second largest in the Province, contributing an average of 11.6 per cent of the Western Cape GDP in 2013. The District hosts two of the Province's top-10 leading growing non-metropolitan municipalities, i.e. Stellenbosch and Drakenstein municipalities, which contributed 34 per cent and 31 per cent to GDP in 2013 respectively. Breede Valley, Langeberg and Witzenberg each contributed 15, 11 and 9 per cent to GDP respectively.

The CWD is well known for its flourishing table grape and wine industry. The region hosts mature agro-processing industries and manufacturing activities. The historical growth of economic sectors within the District is considered in the following section.

2.3.1 Historical growth and employment trends

As noted, Stellenbosch and Drakenstein are the two largest municipal economies. Figure 2.2 shows the rising contribution made by Stellenbosch Municipality to the CWD GDP. The contribution made by Langeberg has also increased slightly over the period 2000 – 2013. A worrying trend is observed for Drakenstein and Breede Valley municipalities, with their total contributions being on a downward trend since 2000. The contribution of Witzenberg Municipality has been fairly constant over the 2000 - 2013 period. Employment contributions by municipality follow similar trends compared to GDP. Of interest is the rising contribution to employment by Stellenbosch Municipality, with growth averaging 2.0 per cent per annum over the period 2000 - 2013. On the other hand, the contraction in employment in Drakenstein (1.1 per cent per annum) and Breede Valley (1.4 per cent) is notable and a cause for concern.

Figure 2.2 GDP contribution per municipality: 2000 - 2013



Source: Quantec Research 2014

Table 2.6 shows the sectoral composition of GDP growth and net employment creation in the CWD economy over the period 2000 - 2013. The CWD has not fully recovered to its trend growth rate (3.7 per cent per annum, 2000 - 2013) and has under-performed during the economic recovery thus far. During the recession years (2008 - 2009) real growth slowed to 1.8 per cent per annum and recovered to 2.7 per cent per annum over the period 2010 - 2013, compared to 4.6 per annum recorded over the period 2000 - 2007, i.e. the previous business cycle expansion.

From a sectoral perspective, the financial and business services sector was the fastest growing sector in the region, both in terms of GDP growth (6.7 per cent) and employment creation (4.0 per cent) over the period 2010 - 2013. Despite its slowdown

in growth to 3.8 per cent per annum during the period 2010 - 2013, the sector remains one of sectors that grew above average over the period 2000 - 2013. Other sectors that grew above or equal to average during the 2000 - 2013 period are the construction sector (6.5 per cent), wholesale and retail catering and accommodation sector (5.2 per cent), transport storage and communication (5.8 per cent) and the community, social and personal services sectors (3.7 per cent).

Table 2.6 Cape Winelands District GDP and employment trends: 2000 - 2013

Sectors	GDP (yoy %)			Employment (net change)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	0.7	4.8	-0.4	-33 784	-10 524	-7 266
Mining and quarrying	3.0	-7.0	4.0	19	13	-32
Manufacturing	1.9	-4.7	2.1	-4 517	-1 200	-84
Electricity, gas and water	2.3	2.7	2.1	109	-138	-6
Construction	6.5	6.3	1.7	-5 545	-668	-2 863
Wholesale and retail trade, catering and accommodation	5.2	0.2	4.8	7 849	1 377	836
Transport, storage and communication	5.8	3.6	2.2	2 541	1 167	507
Finance, insurance, real estate, business services	6.7	6.2	3.8	11 972	314	2 078
Community, social and personal services	3.7	2.4	2.1	10 637	4 133	-990
General government	3.4	5.2	4.2	9 015	1 749	2 172
Cape Winelands District	3.7	1.8	2.7	-1 705	-3 777	-5 648

Source: Quantec Research 2014

The CWD is the second largest employer within the Western Cape, contributing 13 per cent to total formal and informal employment in 2013 (i.e. 248 230 workers). The District recorded a contraction in its workforce over the period 2000 - 2013. The net job growth in the services sector (including general government) was much lower than the retrenchments in agriculture, manufacturing and construction, resulting in a net cumulative decline of 5 648 jobs over the 2010 - 2013 period of economic recovery. The growth and employment creation of the finance and business services sector is notable, with this sector creating a total of 11 970 jobs over the period 2000 - 2013. Although the agricultural sector remains the largest employer (52 049 workers) the sector shed the largest number of jobs over the period 2000 - 2013 (see Table 2.6). Massive job losses were also recorded within the construction sector (5 545) over the period 2000 - 2013. Overall, the District has experienced marginal job losses, with total employment remaining largely stable over the period 2000 - 2013. The largest number of job losses was recorded in Breede Valley (8 700 workers) and Drakenstein municipalities (7 200 workers) over the period 2000 - 2013.

2.3.2 The economic recovery

The CWD was heavily impacted by the 2009 recession contracting by 3 per cent in 2009. During the recession the manufacturing industry (-4.7 per cent) and the mining industry (-7.0 per cent) were the most severely affected. In the early years after the recession these sectors have shown signs of recovery. However, growth during the recovery period (2.7 per cent per annum) has remained well below its trend growth rate (of 3.7 per cent) and the real GDP growth of the Western Cape Province (3.9 per cent) over the period 2000 - 2013.

Table 2.7 Cape Winelands District real GDP growth in provincial perspective: 2010 - 2013 (%)

Sector	Cape Winelands District	West Coast District	Eden District	Overberg District	Central Karoo District	Cape Metro
Agriculture, forestry and fishing	-0.4	-0.1	1.5	0.6	1.2	2.2
Mining and quarrying	4.0	3.0	1.5	2.6	0.3	1.5
Manufacturing	2.1	1.9	4.3	2.6	3.9	2.7
Electricity, gas and water	2.1	-0.4	0.9	0.4	-0.4	1.0
Construction	1.7	1.5	2.5	2.0	2.1	1.5
Wholesale and retail trade, catering and accommodation	4.8	3.4	5.0	4.1	2.1	3.4
Transport, storage and communication	2.2	1.7	2.4	2.6	0.9	2.3
Finance, insurance, real estate and business services	3.8	5.4	3.9	5.6	3.8	3.0
Community, social and personal services	2.1	2.0	2.7	2.4	1.1	1.4
General government	4.2	3.4	5.4	3.8	3.5	2.7
Total	2.7	2.8	3.8	3.4	2.6	2.7

Source: Quantec Research 2014

Table 2.7 shows the sectoral growth performance of the CWD economy during the economic recovery (2010 - 2013) in the context of the other five Western Cape districts. GDP growth within the District was 2.7 per cent per annum, surpassed by the recovery growth recorded in Eden, West Coast and Overberg. From the table it is clear that the wholesale and retail, catering and accommodation sector was the fastest growing sector in the CWD during the recovery period, with only Eden recording a faster growth rate in this sector. Other sectors that have recorded relatively rapid growth within the District are the general government, mining and quarrying and the finance and business services sectors.

Table 2.8 Cape Winelands District employment trends in provincial perspective: 2010 – 2013

Sector	Cape Winelands District	West Coast District	Eden District	Overberg District	Central Karoo District	Cape Metro
Agriculture, forestry and fishing	-7 266	-423	-2 824	-1 398	-227	-1 451
Mining and quarrying	-32	-16	-3	-2	1	-48
Manufacturing	-84	-546	-1 086	-623	-79	-7 105
Electricity, gas and water	-6	11	23	11	1	440
Construction	-2 863	-1 471	-4 929	-1 964	-291	-18 075
Wholesale and retail trade, catering and accommodation	836	62	1 132	253	-76	3 255
Transport, storage and communication	507	365	555	258	67	6 888
Finance, insurance, real estate and business services	2 078	2 045	1 865	1 775	200	17 042
Community, social and personal services	-990	-166	-386	1	-231	-4 462
General government	2 172	501	3 186	561	16	2 546
Total	-5 648	362	-2 468	-1 129	-617	-970

Source: Quantec Research 2014

Table 2.8 shows a sectoral breakdown of net employment creation of the CWD and the other five districts. In comparison to other districts, the CWD experienced the largest net job losses over the recovery period. From the table it is clear that the agriculture, forestry and fishing sector and the construction sector are still experiencing job losses across all districts.

2.3.3 Macroeconomic implications and the growth outlook

The Cape Winelands District economy's real GDP growth rate is expected to increase from 1.9 per cent in 2013 to 2.4 per cent in 2014. The average annual GDP growth rate forecast for the period 2014 - 2019 is expected to be 3.1 per cent per annum. It is expected that the construction sector (4.2 per cent per annum) will be the highest growth sector and will be closely followed by the finance and business services sector (4.1 per cent). Other sectors expected to grow above average are the wholesale and retail trade, catering and accommodation sector (3.5 per cent), and the transport, storage and communication (4.0 per cent) (see Table 2.9 below). The downgrading of the country's credit ratings, higher inflation rates, the deterioration of the current account, the weakening of the rand, the shaky business confidence and the consequent slowdown of the national economic growth rate, could slow down the CWD economic performance. Contrary to the poor national economic performance, the global economy is set on a growth trajectory. This may help in offsetting the national negative impact on the CWD economy. According to the World Bank economic outlook, global growth is projected to strengthen from 3.2 per cent in 2013 to 3.4 per cent in 2014, before reaching 4.0 per cent in 2015. Given the strong links between the CWD and the global economy, this favourable global economic performance will help improve economic growth in the CWD.

Table 2.9 Cape Winelands District real GDP growth forecast by broad sector: 2014 - 2019

Sectors	2014	2015	Forecast				Forecast
			2016	2017	2018	2019	2014 - 2019
Agriculture, forestry and fishing	2.2	1.7	1.4	1.5	1.6	1.5	1.7
Mining and quarrying	1.4	1.3	1.0	1.9	2.0	2.0	1.6
Manufacturing	2.2	2.4	2.4	2.3	2.4	2.5	2.4
Electricity, gas and water	1.8	2.3	2.4	2.5	2.5	2.5	2.3
Construction	3.8	4.1	4.4	4.3	4.5	4.5	4.2
Wholesale and retail trade, catering and accommodation	1.9	3.7	3.8	3.9	3.8	4.1	3.5
Transport, storage and communication	3.5	4.0	4.2	4.2	4.0	4.3	4.0
Finance, insurance, real estate and business services	2.8	4.4	4.2	4.4	4.5	4.4	4.1
Community, social and personal services	2.3	2.6	2.3	2.1	2.6	2.4	2.4
General government	2.0	2.3	2.1	2.4	2.4	2.6	2.3
Total	2.4	3.1	3.1	3.2	3.2	3.3	3.1

Source: Quantec Research 2014

2.4 Concluding remarks

The CWD was severely affected by the global financial crisis (2008 - 2009) but began to show strong signs of recovery in 2010. However, growth tapered off to 1.9 per cent last year and is expected to average 2.4 per cent in 2014. This is in line with the uncertain global and national economic outlook that the CWD economy is exposed to. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the CWD has been reduced to 3.1 per cent per annum from 3.7 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been highlighted as weak global growth and domestic issues such as labour unrest. Given the strong links between the CWD and the global economy, the region is exposed to the uncertain global economic conditions.

Considering the contributions of the five constituent municipalities, Drakenstein and Stellenbosch municipalities are the largest and fastest growing sub-regions. The other three municipalities are smaller in terms of size. In terms of employment, Stellenbosch Municipality managed to create employment on a net basis over the 2000 - 2013 period. On the other hand, Drakenstein suffered serious job losses over the same period. Breede Valley is the third largest municipality; however it suffered the highest job losses in the region over the corresponding period.

Overall, the region has experienced a contraction in employment over the recovery period mainly within the agricultural sector. This is in line with the other four districts that recorded net job losses during the recovery period. It is expected that growth within the CWD will be topped by the construction sector. Other sectors expected to grow above average are the wholesale and retail trade, catering and accommodation sector and the transport, storage and communication sector.

3

Sectoral growth, employment and skills

3.1 Introduction

The Cape Winelands District (CWD) regional economy generated 11.6 per cent of the Western Cape GDP during calendar 2013, i.e. R50 billion of the total R431 billion and employed 248 200 workers in its formal and informal sectors. Table 3.1 shows the sectoral composition of the regional economy, both in terms of value added and employment. From the table it is clear that the financial and business services sector (accounting for 21.5 per cent of value-added), manufacturing (19 per cent) and internal trade (17.4 per cent) are the leading sectors, but that the agricultural sector remains the largest in terms of employment (52 000 workers, or 21 per cent). Over the past 20 years the GDP share of agriculture has declined from 23 per cent in 1995 to 11.6 per cent in 2014, while that of financial and business services has grown from 13 per cent, reflecting the structural change of the regional economy. The historical growth of the municipal economy is discussed in section 3.2, also in the context of the growth of the other Western Cape municipalities. The focus in this part of the analysis is on the period of economic recovery (i.e. 2010 - 2013) from the 2009 recession. The trends in the agriculture, manufacturing and services industries are analysed. Section 3.3 investigates the changing skills composition of labour demand in the formal sectors of the regional economy.

Table 3.1 Cape Winelands District value added (GDPR) and employment, 2013

Broad sector	GDPR (R million)		Employment (number)	
		%		%
Agriculture	5 798	11.6	52 000	21.0
Mining	173	0.3	600	0.2
Manufacturing	9 556	19.0	31 900	12.9
Electricity and water	714	1.4	500	0.2
Construction	1 982	4.0	9 900	4.0
Trade	8 706	17.4	47 900	19.3
Transport and communication	3 513	7.0	7 700	3.1
Financial and business services	10 763	21.5	29 300	11.8
Community, social and personal services	2 906	5.8	39 000	15.7
Government	6 065	12.1	29 200	11.8
Total	50 176	100.0	248 200	100.0

Source: Quantec Research 2014

The 2013 Municipal Economic Review and Outlook (MERO) study, by applying a location quotient analysis, revealed that the food and beverage processing sector and its backwardly linked agriculture, forestry and fishing sector, catering and accommodation, non-metal minerals, finance and insurance, building and construction and transport and storage sectors were all industries with a competitive edge in the region expanding faster compared to their national peers. The growth of the catering and accommodation and transport sectors can be linked to the growth of tourism in the region, which is not fully captured in the standard economic statistics. The outlook for the sectoral growth of the municipal economy is considered in section 3.4 and some concluding remarks follow in section 3.5.

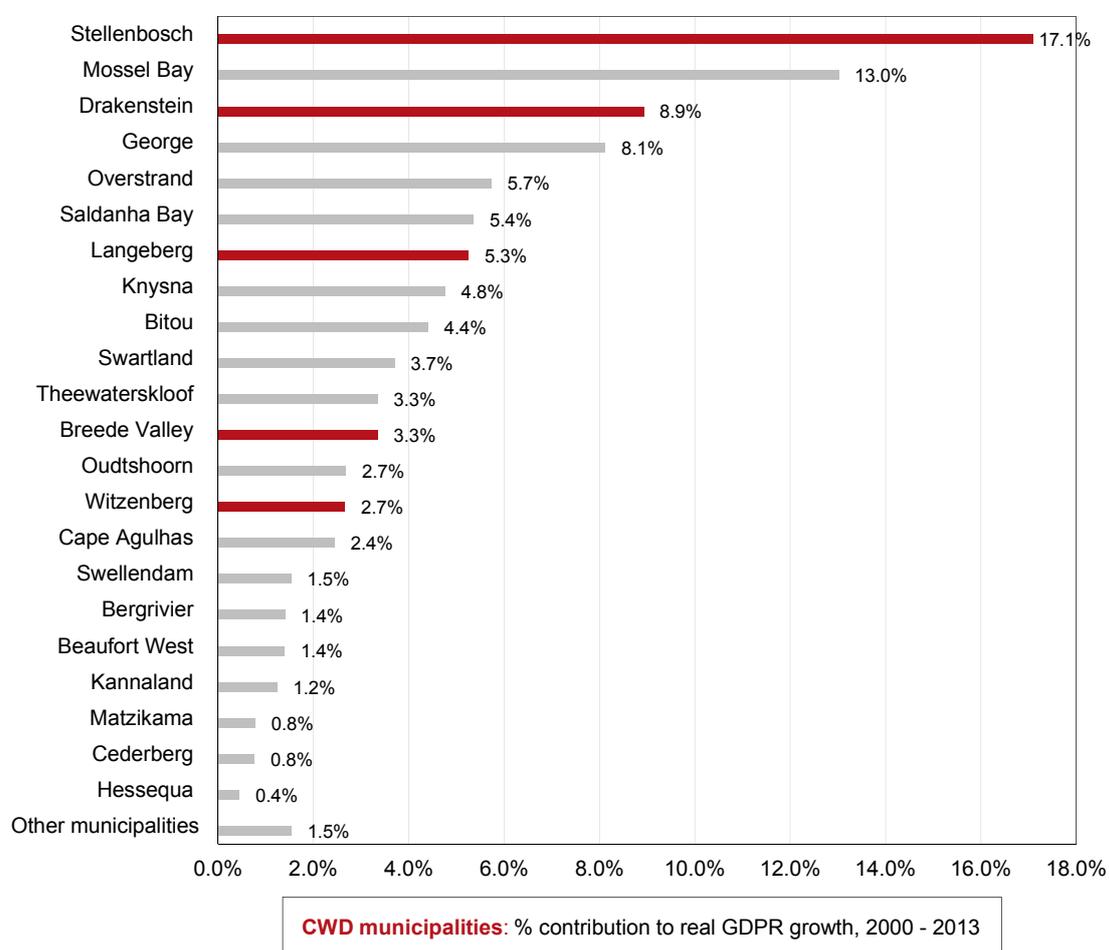
3.2 Historical growth and employment trends by sector: An update

The CWD regional economy grew by 3.7 per cent per annum in real terms over the period 2000 to 2013, while its workforce remained more or less stable (see Table 3.2). While this growth performance is slightly below the Western Cape average (3.9 per cent per annum, creating employment at a rate of 0.4 per cent per annum), the District hosts three of the Province's top-10 leading non-metro municipalities, i.e. Stellenbosch (leading the pack), Drakenstein and Langeberg – see Figure 3.1. Stellenbosch is both the largest and fastest growing in terms of GDPR, contributing no less than 17 per cent of the cumulative growth (2000 - 2013) of the Province's non-metro municipalities. Drakenstein's growth was sub-par in the District; however, it is of similar size to Stellenbosch, with it being ranked 3rd. Langeberg is the second fastest growing municipality in the District and is ranked 7th. The ranking is determined by considering both the size and growth of the municipal economies. Breede Valley and Witzenberg, being mainly agriculture producing regions, are trailing in terms of growth and size and contributed a combined 6 per cent to the growth of the non-metro municipalities over the corresponding period.

The *Growth Potential Study (2014)* ranked Stellenbosch and Drakenstein 2nd and 3rd respectively on its list of 24 non-metro municipalities as regions with high growth potential, Breede Valley 13th, ahead of Langeberg (16th), both with medium growth potential and Witzenberg 20th with low growth potential (Van Niekerk, A, November 2013: 28).

Figure 3.2 shows that across the broad sectors, financial and business services was the strongest growing sector, expanding real value added by 6.7 per cent per annum over the period 2000 - 2013, also creating employment at a rate of 3.9 per cent per annum¹. Other sectors growing above average, include construction (6.5 per cent per annum), transport and communication (5.8 per cent) and the internal trade sector, i.e. wholesale, retail, catering and accommodation (5.2 per cent).

Figure 3.1 Non-metro municipalities ranked according to growth and size, 2000 - 2013

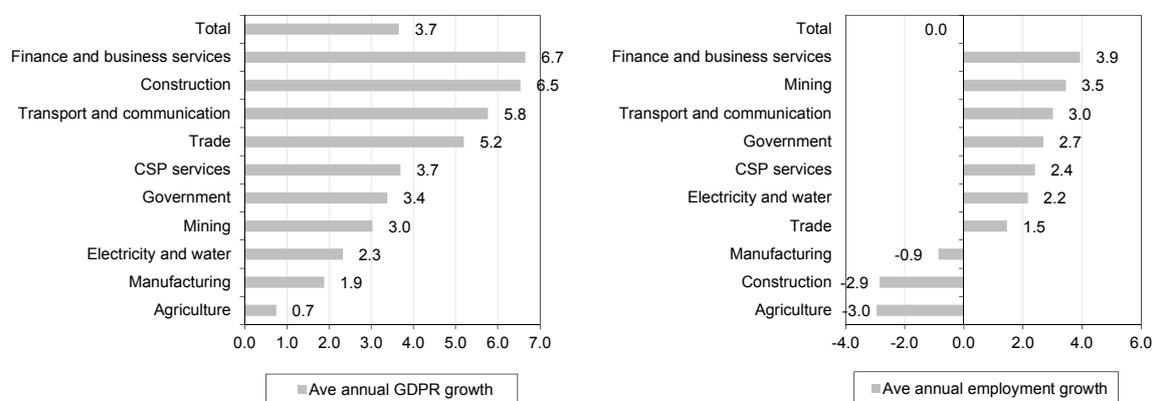


Source: Provincial Treasury/Quantec Research 2014

¹ The business services sub-sector (14 per cent of CWD GDP) consists, *inter alia*, of legal, bookkeeping and auditing services, tax consulting, market research and business consulting. It is the dominant sector and not finance and insurance (9.5 per cent of GDP). Considering the contribution to real value added growth in the CWD, this sector accounted for 21 per cent of the cumulative growth, 2000 - 2013; the finance & insurance sector grew somewhat faster on average and contributed 17.5 per cent.

The strong growth of the internal trade sector is notable and reflects the impact of the flourishing tourism sector. In contrast, the slow growth of manufacturing activity (1.9 per cent per annum) is disappointing given the importance of the sector in the region. The marginal growth of the agriculture, forestry and fishing sector should be noted as a positive factor in the Province. Regarding employment creation, however, the sharp contractions in the construction (2.9 per cent per annum), agricultural (3.0 per cent) and manufacturing (0.9 per cent) workforces are notable and cause for concern. In all, more than 43 800 job opportunities were lost in these three sectors over the period 2000 - 2013. Close to 30 per cent of these net job losses occurred during the recessionary years of 2008 - 2009 and the job losses continued over the economic recovery period 2010 - 2013. More analysis follows below.

Figure 3.2 Cape Winelands District average real economic and employment growth by broad sector, 2000 - 2013



Source: Provincial Treasury/Quantec Research 2014

3.2.1 The economic recovery, 2010 - 2013

The national and provincial economies began recovering from the 2009 recession during the third quarter of that year. The CWD economy recovered from a 3 per cent contraction in 2009 to positive growth of 2.3 per cent and 3.6 per cent in the subsequent two calendar years, before growth decelerated again to a paltry 1.9 per cent in 2013. This deceleration of the growth momentum since 2011 was in line with the slowdown in the global and national economies (South Africa also registered a real GDP growth rate of 1.9 per cent during 2013). As shown in Table 3.2, real GDP growth has averaged 2.7 per cent per annum in the CWD over the current recovery phase of the business cycle (2010 - 2013), below the trend growth tempo registered over the 2000 - 2013 period. This slow growth momentum points to the lingering impact of the global recession in 2009.

Table 3.2 Cape Winelands District: Growth and employment, 2000 – 2013

Sector	Net employment (number)			Real GDP growth (ave yoy%)		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2013	2008 - 2009	2010 – 2013	2000 - 2013	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	-33 800	-10 500	-7 300	0.7	4.8	-0.4
Mining and quarrying	000	000	000	3.0	-7.0	4.0
Manufacturing	-4 500	-1 200	-100	1.9	-4.7	2.1
Electricity, gas and water	100	-100	0	2.3	2.7	2.1
Construction	-5 500	-700	-2 900	6.5	6.3	1.7
Wholesale and retail trade, catering and accommodation	7 800	1 400	800	5.2	0.2	4.8
Transport, storage and communication	2 500	1 200	500	5.8	3.6	2.2
Finance, insurance, real estate and business services	12 000	300	2 100	6.7	6.2	3.8
Community, social and personal services	1 0600	4 100	-1 000	3.7	2.4	2.1
General government	9 000	1 700	2 200	3.4	5.2	4.2
Total	-1 700	-3 800	-5 600	3.7	1.8	2.7

Source: Quantec Research 2014

In a reversal of fortunes, the CWD reported a new wave of retrenchments in the agricultural sector amounting to a cumulative 7 300 net job loss over the period 2010 - 2013. The construction sector also reported substantial net job losses (2 900) over the corresponding period, as did the community, social and personal services sector (1 000). In fact the net job losses in these sectors overshadowed the net employment gains during the economic recovery in the predominantly services sectors, resulting in a staggering overall cumulative 5 600 net job losses during the first four years of the economic recovery, i.e. at a rate of 0.5 per cent per annum, only slightly less than the 0.7 per cent rate registered during the recession years (2008 - 2009). The result is that the overall level of employment in the CWD last year stood 4 per cent below its pre-recession level in 2008 (and 5 per cent below its 2006 peak level). The sectoral growth and employment trends are discussed in more detail in section 3.2.2. The fact that the deterioration in the local labour market continued almost unabatedly during the first four years of the recovery is very disappointing.

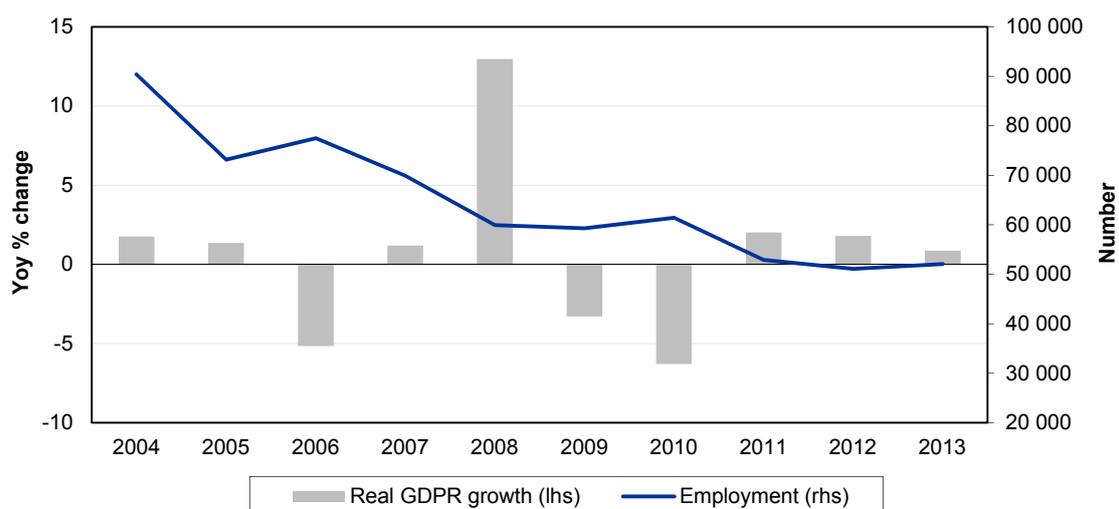
3.2.2 Agriculture, manufacturing and services – municipal economic growth performances

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is shown in Table 3.2 that the wholesale, retail, catering and accommodation sector was the strongest growing sector, expanding by 4.8 per cent per annum close to this sector's trend growth rate of 5.2 per cent per annum. This relatively strong recovery growth reflects the stimulus from tourism activity, which benefited in the wake of the global recession and due to the depreciation of the rand exchange rate. Only Eden's internal trade sector grew stronger than that of the CWD over the corresponding period, most likely also linked to the impact of tourism (see Chapter 4 for a more in depth analysis of the tourism value chain in the CWD). The financial and business services sector also expanded at a relatively rapid growth

rate of 3.8 per cent per annum; however, this performance is way down from the 6 per cent per annum-plus growth rates registered previously (2000 - 2009). From Table 3.2 it is also clear that the government sector expanded quite rapidly in the wake of the recession, growing by 4.2 per cent per annum; it is not altogether clear if this growth is sustainable.

On the downside, the very slow recovery of the construction sector (1.5 per cent per annum) is disappointing, albeit evident that this is a wider phenomenon in the Province and nationally. Whereas the CWD is blessed with a relatively large manufacturing sector, the growth of this sector continues to disappoint – it expanded by 2.1 per cent per annum during the economic recovery so far, not regaining its pre-recession peak and also under-performing relative to the other provincial districts (excluding the WCD). The small annual contraction of the agricultural sector is also disappointing in view of this region's historical track record of steady expansion. The net job losses in these sectors, particularly agriculture and construction, were alluded to above. The sectoral growth and employment performances are discussed in more detail below per municipality.

Figure 3.3 Cape Winelands District: Agriculture real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

In Table 3.1 it was seen that the agriculture, forestry and fishing sector generated 11.6 per cent of the CWD value added (or GDP) in 2013, which translates to R5.8 billion; and the sector employed 21 per cent of the regional workforce, i.e. 52 000 workers. This reveals the importance of agriculture in the region. As noted in previous studies, the sector has become more export oriented, particularly the wine and deciduous fruit industries and were hard hit in 2009 - 2010, contracting sharply. Real value added only recovered moderately following these steep contractions (see Figure 3.3). This is in line with the sector's trend performance over the past decade, i.e. marginal growth in real value add accompanied by steep job losses. Figure 3.3 shows that sharp job cuts occurred during the 2010 - 2011 season, but that the level of employment in the sector stabilised after that.

Table 3.3 Cape Winelands District: Agriculture growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Witzenberg	23.3	1.6	-1.4	27.4	-5 590	-1 590
Drakenstein	23.5	1.0	-0.2	20.5	-7 350	-2 100
Stellenbosch	14.3	0.5	0.2	12.6	-5 140	-1 050
Breede Valley	17.7	0.1	0.0	21.1	-9 330	-1 370
Langeberg	18.2	0.3	0.1	15.1	-5 680	-990
Former Cape Winelands DMA	3.0	1.5	-1.2	3.4	-680	-170
Total	100	0.7	-0.4	100	-33 770	-7 300

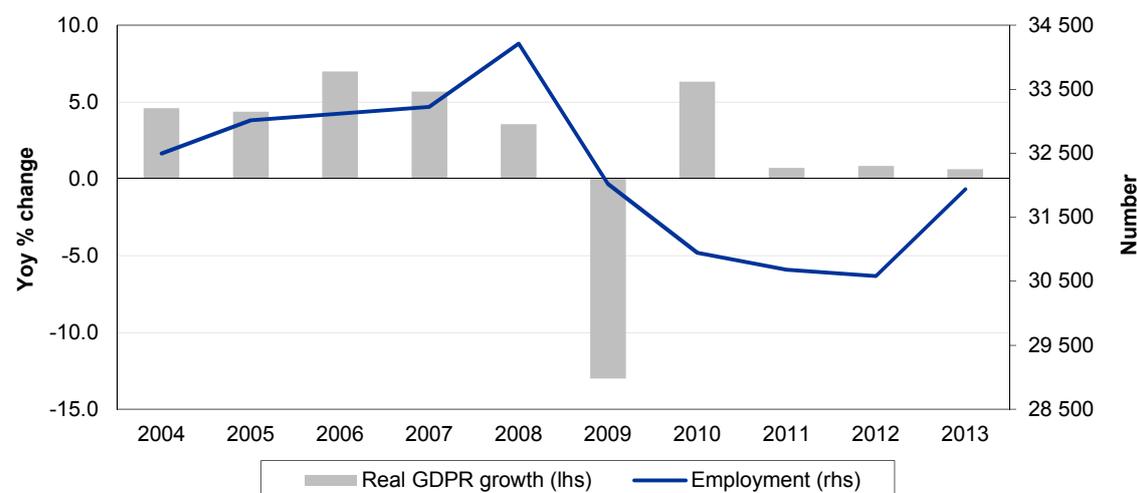
Source: Quantec Research 2014

Table 3.3 shows that the agricultural sector is well diversified geographically in the CWD, with the leading contributions originating from the Witzenberg and Drakenstein municipalities. Important agricultural commodities produced in the CWD include deciduous fruit (Witzenberg, Langeberg and Breede Valley); wine and table grapes (Stellenbosch, Drakenstein and Witzenberg), livestock (in all municipalities, with poultry well-represented in Drakenstein and Stellenbosch), dairy (Langeberg) and vegetables (e.g. onions and potatoes in Witzenberg).

The Witzenberg municipal economy is predominantly an agricultural region, with one third of its value added produced in this sector. Stellenbosch and Drakenstein – and increasingly other municipalities in the District – are well-known for the close agri-tourism industry linkages, with it also being a key source of growth. Furthermore, the agricultural sector has close forward linkages to the manufacturing and other services industries in the District and beyond.

From a growth perspective, conditions appear to have been stable, with all municipal areas making a steady and positive contribution. However, some mild contraction was reported in Witzenberg and Drakenstein during the economic recovery years. In contrast to this relatively stable output conditions, the tendency in agricultural employment is very negative, with the rate of retrenchments remaining at 3 per cent per annum during the economic recovery years. It is to be hoped that the negative employment trend will be arrested as the outlook for the sector remains promising.

The growth in a number of commodities produced in the region remains positive. In relative terms, the economic value of deciduous fruit (e.g. pears, peaches, apricots and nectarines) are expected to increase in the Province; likewise table grapes, while that of wine grapes, vegetables and livestock are expected to maintain their relative market shares (Provincial Treasury, March 2014: 22).

Figure 3.4 Cape Winelands District: Manufacturing real GDP growth and employment, 2004 - 2013

Source: Quantec Research 2014

Table 3.4 Cape Winelands District: Manufacturing growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Witzenberg	5.5	2.4	1.4	6.6	-800	-20
Drakenstein	31.2	0.1	3.8	33.2	-4 660	790
Stellenbosch	34.7	2.5	1.2	30.6	990	-430
Breede Valley	12.4	2.5	2.6	14.3	-1 010	20
Langeberg	15.9	4.7	1.1	15.1	880	-430
Former Cape Winelands DMA	0.2	22.9	-0.4	0.3	80	-10
Total	100	1.9	2.1	100	-4 520	-80

Source: Quantec Research 2014

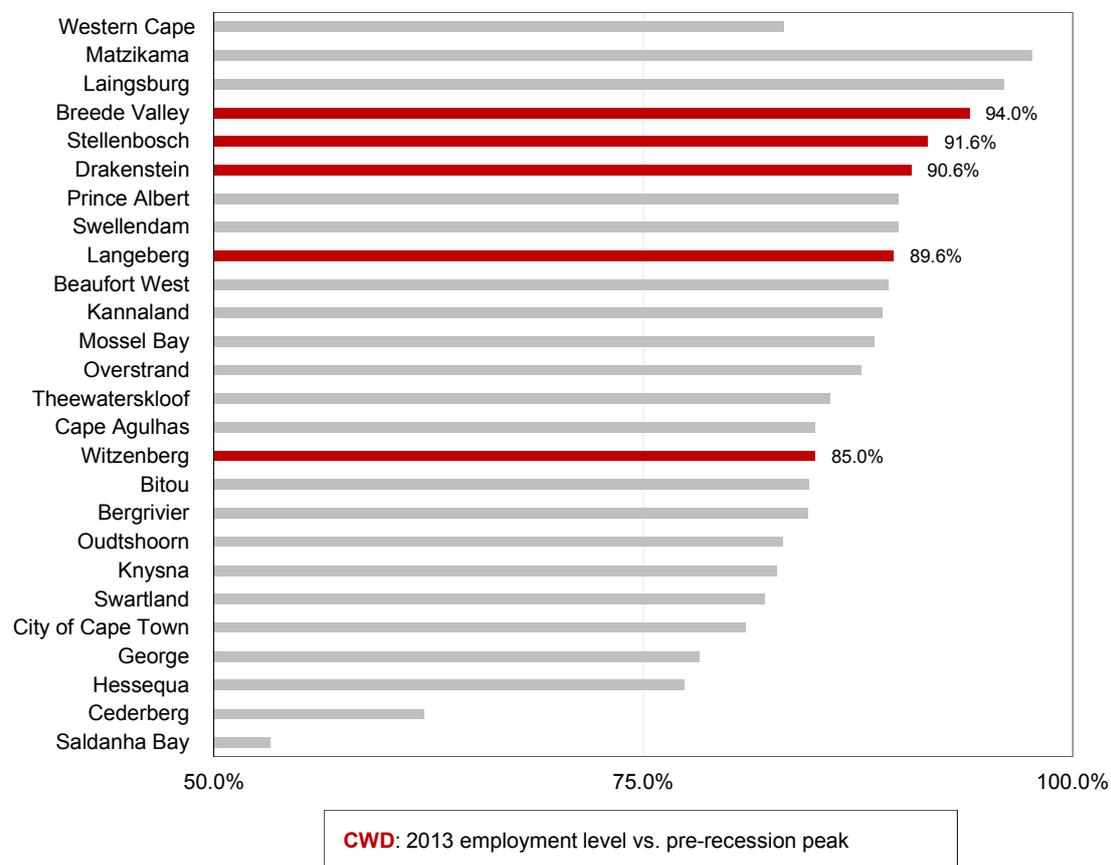
The manufacturing sector contributed 19 per cent of the CWD value add (or GDP), i.e. R9.6 billion of the total R50.2 billion, during last year (see Table 3.1). Due to relatively low growth, the sector's share in the region's output has dwindled from 26 per cent 10 years ago; the big knock came in 2009 with the global recession impact, when real value added contracted by 13 per cent. As Figure 3.4 shows, apart from some rebound in 2010, the sector has hardly expanded in the wake of the recession. Manufacturing employment recovered in 2013; however, it remained close to 7 per cent below the pre-recession peak (i.e. 2008). The recovery of manufacturing employment in the Drakenstein Municipality is notable, with it being preceded by steep retrenchments.

In Table 3.4 it is shown that two thirds of the CWD's manufacturing sector is located in the two leading municipalities, i.e. Stellenbosch (35 per cent) and Drakenstein (31 per cent). Langeberg (16 per cent) and Breede Valley (12 per cent) also make meaningful contributions, with Witzenberg lagging at 6 per cent. While the growth of Drakenstein's manufacturing sector lagged the rest, it rebounded during the economic recovery, posting the strongest growth (3.8 per cent per annum). Breede

Valley manufacturing sector maintained its 2.5 per cent trend growth rate during the recovery, while the other sub-regions (Stellenbosch, Langeberg and Witzenberg) only grew moderately.

Figure 3.5 shows that the CWD municipal manufacturing sectors performed relatively well in a provincial context in terms of maintaining their work forces at the time and beyond the recession impact. Four municipalities retained 90 per cent and more of their pre-recession work forces; the Western Cape average is 83 per cent. This does not detract from the reality that the sector suffered a serious recession impact, which continues to linger. It is quite concerning that the manufacturing workforces of the CWD remain 5 - 15 per cent below their pre-recession peaks.

Figure 3.5 Western Cape municipalities: Employment recovery in manufacturing, 2010 - 2013



Source: Quantec Research 2014

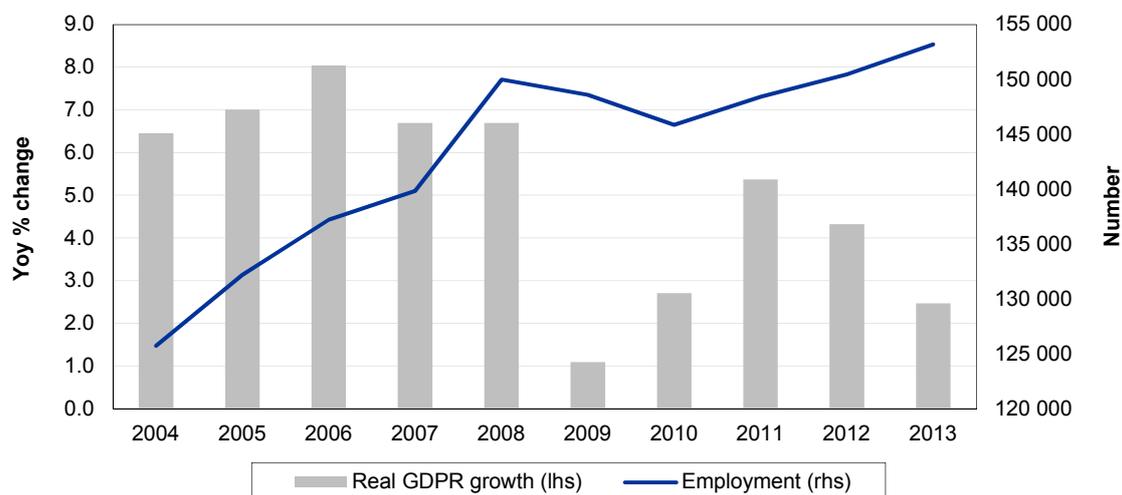
The manufacturing growth and employment performances of the CWD municipalities have generally disappointed. The only positive aspects include the rebound of the Drakenstein Municipality following the recession and the fact that the district-wide rate of retrenchments moderated notably during the economic recovery thus far, i.e. 2010 - 2013.

Being the largest non-metro district and given its close geographical linkages with the City of Cape Town and the wider Metropolitan area, the CWD has an evolved services sector. Table 3.1 shows that the services sector, ranging from wholesale and

retail activities to financial and business services and the general government, contributes 64 per cent (or R32 billion of the total R50 billion) of value added generated in the CWD. Whereas the CWD industrial base is well diversified, with a strong agricultural sector, associated processing industries, other manufacturing activities and strong forward linkages to the services sector happens, it happens to be geographically concentrated. This is especially true regarding the services sector. The leading Stellenbosch and Drakenstein municipalities account for close to 70 per cent of the value added generated in this sector.

The largest sub-sector in services is financial and business services (R10.8 billion), with wholesale, retail, catering and accommodation (R8.7 billion) and the government (R6.1 billion) also making sizeable contributions to value added. The region's services industries employ no less than 153 000 of the workforce in the region (248 200). The Stellenbosch and Drakenstein municipalities' services sectors employ no less than 63 per cent of this services work force.

Figure 3.6 Cape Winelands District: Services sector real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

In line with the experience in the wider province, Figure 3.6 shows that the CWD services sector expanded at high rates (averaging around 7 per cent per annum) over the period 2004 - 2008 and that average growth has tapered off sharply in the wake of the 2009 recession. Real value added growth averaged 3.7 per cent per annum during the period of economic recovery, i.e. 2010 - 2013, which compares to a trend growth rate of 5.2 per cent per annum and the high growth of the 2004 - 2008 period. The initial years of the economic recovery was characterised by a reasonable rebound with growth coming in at 5 per cent in calendar 2011; however, since then it has tapered down markedly to slightly above 2 per cent in 2013.

The services sector has been the strongest in terms of employment creation in the region, with a cumulative 4 600 job opportunities being created during the economic recovery years (at a growth rate of 0.8 per cent per annum). This is well down on the trend employment growth rate of 2.4 per cent per annum (2000 - 2013) and three quarters of this employment creation occurred in Stellenbosch Municipality.

Figure 3.6 shows that, apart from some recessionary decline during 2009 - 2010, the level of services employment expanding from 125 700 ten years ago to 153 000 last year.

Table 3.5 Cape Winelands District: Services sector growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Witzenberg	7.4	4.7	3.8	7.9	2 060	630
Drakenstein	32.5	4.7	3.0	30.0	7 980	90
Stellenbosch	36.2	6.7	5.0	33.2	22 380	3 460
Breede Valley	15.0	2.9	1.8	18.2	2 450	-620
Langeberg	8.7	7.3	4.5	10.0	6 420	820
Former Cape Winelands DMA	0.2	10.3	10.2	0.6	720	220
Total	100	5.2	3.7	100	42 000	4 600

Source: Quantec Research 2014

Stellenbosch Municipality's services sector real value added continued to expand at a 5 per cent annual growth rate during the economic recovery, which is quite remarkable in the context of the slower growth in this sector in the wider province and even nationally around 3 per cent per annum. The sub-sector, which has out-performed over this period, is wholesale, retail, catering and accommodation growing by 8.4 per cent per annum in Stellenbosch. This reflects the impact of the flourishing tourism industry in the area. The same deduction can be made regarding the high services growth in Langeberg (4.5 per cent per annum), with the wholesale, retail, catering and accommodation sector expanding by close to 7 per cent per annum, also boosted by tourism. Witzenberg (3.8 per cent) and Drakenstein (3.0 per cent) municipal services sectors also put in reasonable growth and employment performances.

In all, considering the sectoral growth and employment performances by municipality in the CWD during the economic recovery period thus far, a notable feature is the vibrant growth of the wholesale, retail, catering and accommodation sector, particularly in Stellenbosch Municipality, which reflects the stimulus from the flourishing tourism industry in the region. The growth in the internal trade sector actually surpassed that of the leading financial and business services sector during the economic recovery, with increased tourism being the likely driver. Whilst the steady expansion of the agricultural sector has come under pressure during the 2010 - 2013 period, the growing agri-tourism linkages in the CWD are well-known and need to be expanded further. This phenomenon reaches far wider than only in Stellenbosch, with Langeberg also performing well in this regard. In contrast, the CWD manufacturing growth and employment performances have generally disappointed during the economic recovery, with their work forces in 2013 still 5 - 15 per cent below pre-recession peak levels. On the positive side, it appears as if the adverse trend in manufacturing, agriculture and construction employment has stabilised. Regarding the services sector growth generally, it remains the leading sector; however, activity is geographically concentrated in Stellenbosch and Drakenstein. There is also a notable out-performance in the Stellenbosch municipal services sector in terms of

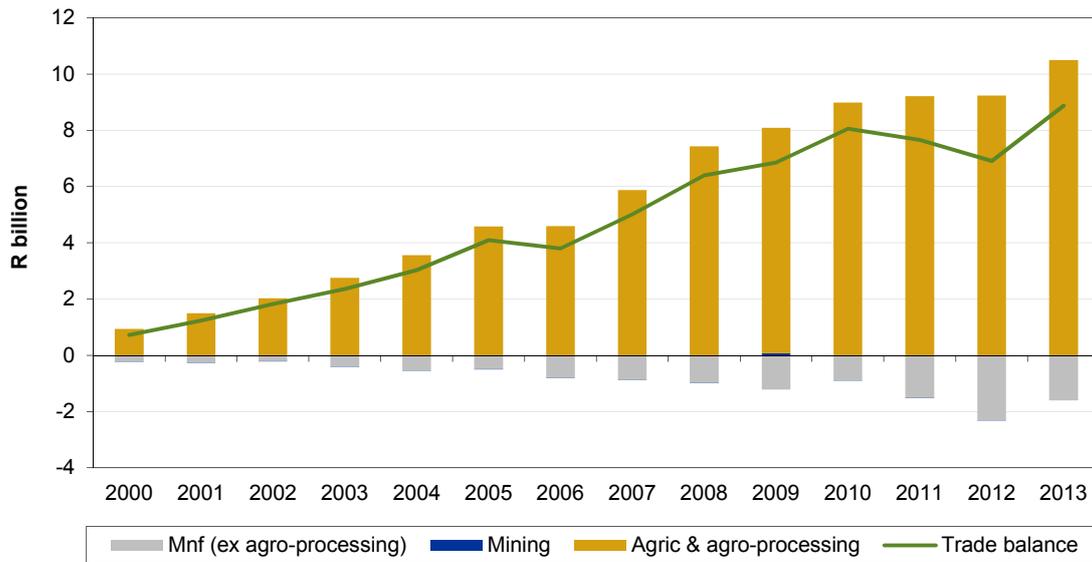
growth and employment creation and it appears that tourism is playing a key driving role.

3.2.3 International trade

The export trade from the CWD is highly concentrated in the agricultural and associated processing industries, which accounted for 94 per cent of total goods exports from the region in 2013 (valued at R12.4 billion). Other manufacturing exports (e.g. chemicals, professional equipment, metals and machinery and automotive components) account for the remaining 6 per cent, i.e. valued at R770 million in 2013. Whilst the CWD region's goods exports expanded strongly over the 2000s, also during the recessionary years of 2008 - 2009, with growth averaging 23 per cent per annum in rand value terms (and 10 per cent per annum in real terms), 2000 - 2009, the growth rate tapered off notably since 2010, averaging 7 per cent per annum in rand value terms and contracting in real terms at an average annual rate of 2.8 per cent over the 2010 - 2013 period. The weaker export performance appears to be located in the beverage processing industry (wine and fruit juices) and – to a lesser extent – in the wider agricultural and manufacturing sectors. However, in rand value terms, overall CWD goods exports were up from R10 billion in 2010 to R13.2 billion in 2013. Not included, are services exports in the form of tourism and BPO services, for instance. This will add further to the export success of the Cape Winelands District region.

On the import side, the goods basket is more diversified, with agriculture and agro-processing accounting for 45 per cent of the total and manufactured goods (e.g. machinery, chemicals and plastics, radio and TV equipment, wood and paper products) imports for 53 per cent. Overall CWD goods imports grew from a cyclical low of R3.2 billion in 2009 to R4.3 billion in 2013; in fact, due to a sharp drop in agricultural imports last year, the overall level of imports declined from R5.5 billion in 2012 and this assisted in the improvement of the trade balance last year – see Figure 3.7.

This implies a sizeable goods trade surplus resulted in 2013, i.e. R8.9 billion; the trade balance is up from only R3 billion ten years ago, revealing the strong export growth in the agriculture and associated processing industries over this period. From Figure 3.7 it is clear that the manufacturing sector (excluding food and beverage processing) runs a trade deficit valued at around R1.5 billion. In all, the growing goods trade surplus of the CWD region can be listed as a key strength. By tapping into foreign markets the value added and employment generated in the region can be expanded. The slower export growth of recent years is probably a reflection of the economic slowdown in our trading partner economies. It follows that the search for alternative and faster growing markets should remain part of any export strategy.

Figure 3.7 Cape Winelands District goods trade balance, 2000 - 2013

Source: Quantec Research 2014

3.3 Municipal labour forces: Skills composition

The previous MERO studies alluded to the labour market dilemma faced in South African in general and also in the Western Cape, namely the mismatch between the demand for labour skills and the supply thereof. Whereas the demand for highly skilled human resources continues to grow, these skills are in short supply whilst at the same time semi and unskilled labour is in oversupply and for which the demand is actually declining. This trend has been evident from the 1970s nationally (see Kibuuka & Van Aardt, 1999: 11-12) and continues to the present time. Table 3.6 shows that this trend also existed in the CWD during the 2000s².

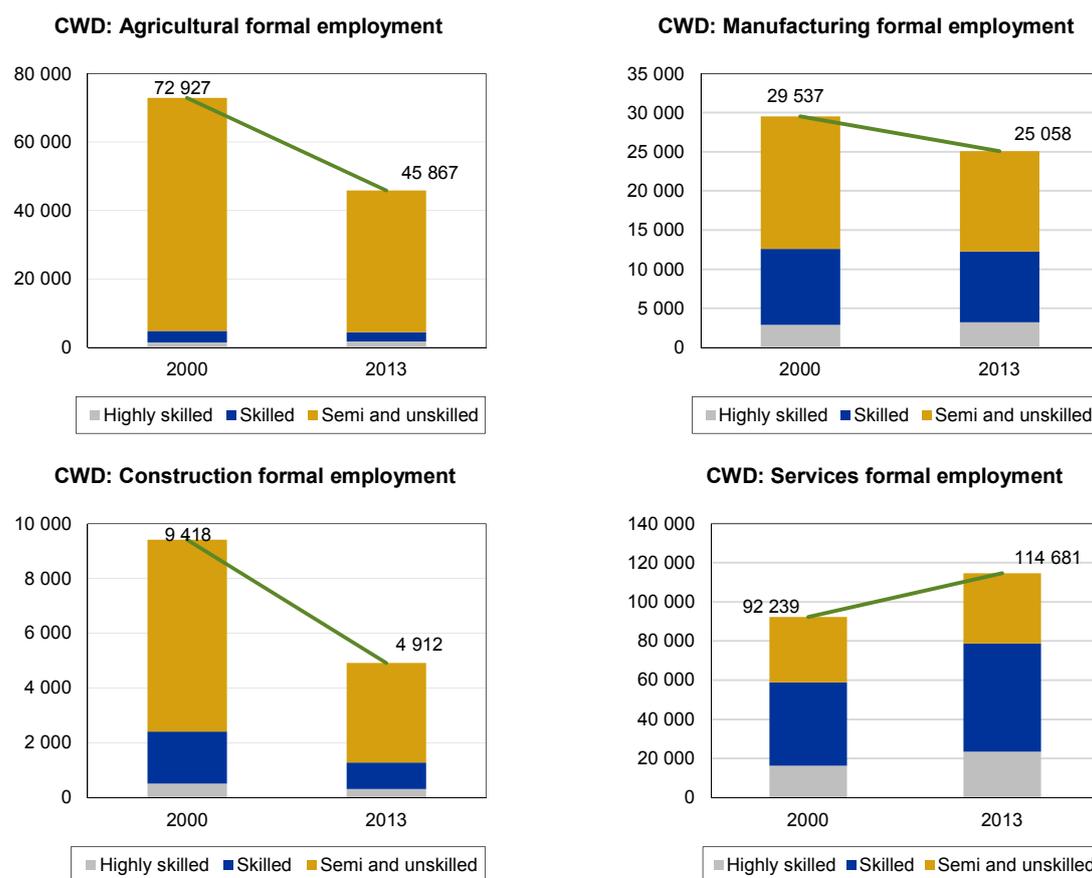
The demand for highly skilled labour grew by 2.4 per cent per annum between 2000 and 2013, that for skilled labour by 1.3 per cent per annum, whilst that for semi and unskilled labour contracted by 2.2 per cent per annum. It would appear that some of the decline in the demand for semi and unskilled labour swelled the informal sector labour force growing by a staggering 2.7 per cent per annum (see also the informal sector analysis in Chapter 5). Unemployment increased over this period as the overall demand for labour remained almost flat, not even considering the new entrants to the CWD labour market.

² The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Table 3.6 Cape Winelands District employment by skill level

Labour category	2000	% share	2013	% share	% change pa
Highly skilled	21 300	8.7	28 900	11.7	2.4
Skilled	57 700	23.5	68 300	27.5	1.3
Semi and unskilled	126 000	51.4	94 500	38.1	-2.2
Informal	40 200	16.4	56 600	22.8	2.7
Total	245 200	100.0	248 200	100.0	0.1

Source: Quantec Research 2014

Figure 3.8 Cape Winelands District formal sector employment by skill level: 2013 vs 2000

Source: Quantec Research 2014

Whilst the demand for labour is generally derived from a country's or region's sectoral growth patterns and the accompanying macro-economic conditions, factors such as internal and external competitive conditions, wage rates in relation to productivity, the use of technology and the relationship between the cost of labour and the cost of capital, etc. all have an impact.

The objective here is not to unpack the reasons for the labour market mismatch in the CWD, but rather to highlight the trends in skills demand across the broad sectors, i.e. agriculture, forestry and fishing, manufacturing, construction and services – see Figure 3.8. The charts depict the skills composition of the CWD formal employment in calendar 2000 versus that in 2013 and the absolute change in formal employment

over this period. The results largely confirm the historic and the anticipated patterns. The following remarks are in order:

- The first notable trend has been the decline in formal employment in the agricultural, manufacturing and construction sectors compared to the increase in employment in services sectors. In all, 36 000 formal jobs were lost in the agricultural, manufacturing and construction sectors over the period between 2000 and 2013 while a cumulative 22 400 were gained in services.
- The agricultural sector (more than 90 per cent), the manufacturing sector (50 – 60 per cent) and construction sector (around 75 per cent) are significantly more semi and unskilled labour intensive and job shedding in this labour market segment was most profuse in these sectors. In all, 34 200 of the 36 000 total formal sector job losses occurred in this labour category and in these three sectors. Whilst the services sector is known to be more skills intensive, it is interesting to note that this sector also *created* 2 600 semi and unskilled employment opportunities over the period under consideration.
- At the other end of the spectrum, around 60 per cent of all services jobs in the CWD are in the highly skilled and skilled categories. The demand for skilled labour also contracted in the agriculture, manufacturing and construction sectors, by 2 200, whilst it expanded marginally in the highly skilled category, i.e. by 400 in these sectors and quite considerably in the services sector, i.e. by 19 900 new job opportunities in total or 12 700 skilled and 7 200 highly skilled jobs.

The loss of jobs in the agricultural, manufacturing and construction sectors, which are relatively semi and unskilled labour intensive is obviously a cause for concern given the skills composition of the unemployed labour force. On the one hand, the loss of jobs in these sectors is linked to the relative decline experienced in these sectors – in 2000 they accounted for 48 per cent of real value added generated in the CWD; by 2013 they accounted for only 38 per cent; in contrast the relative contribution of the services sector increased from 50 per cent to 61 per cent over the corresponding period.

Other factors may also explain the attrition of semi and unskilled labour, namely technological trends, wage costs in relation to productivity and the cost of capital, competitive pressures (in manufacturing), farming legislative change (which caused lay-offs in the agricultural sector), etc. Suffice to say that the training and up-skilling of labour has become critical given the demands of the modern economy. Furthermore, any attempt to revive particularly the manufacturing sector will assist in addressing the labour market mismatch between the demand and supply of skills.

3.4 Sectoral economic prospects, 2014 – 2019

In Chapter 2 it was motivated why the forecast for economic growth has been scaled down markedly, both over the short and the medium term. The poorer global and national economic outlooks also impact on the outlook for the Western Cape economy and that of the CWD. Whereas the Western Cape economy was expected to grow by 3.7 per cent in 2014 and 3.7 per cent per annum on average over the

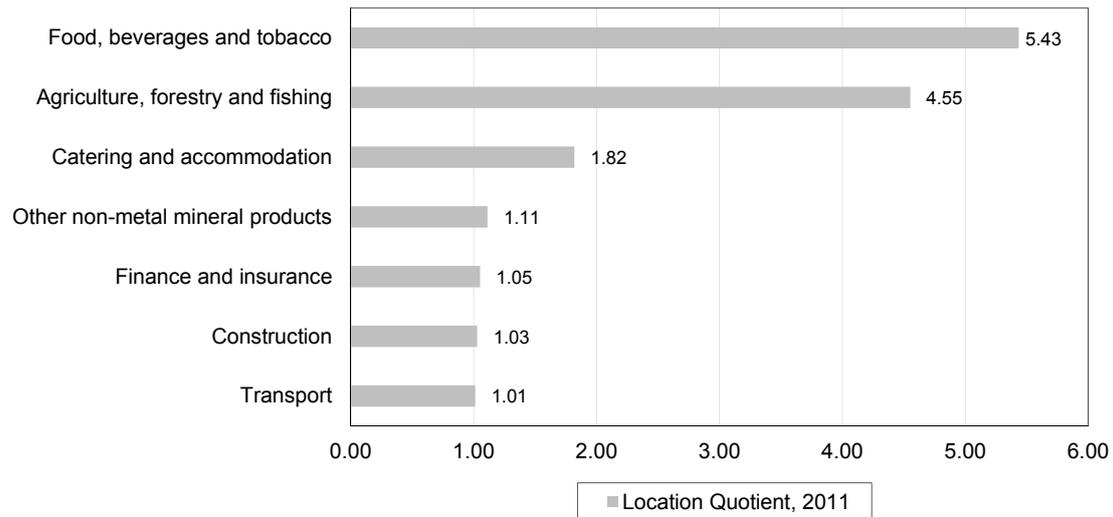
six-year period, 2012 - 2017 in the previous study (MERO 2013), the current forecast is for 2.1 per cent growth this year and an average real GDP growth rate of 3.0 per cent per annum, 2014 - 2019. The main reasons for the slower growth are:

- Weaker than expected global growth. While the world economic recovery appears to be on track, growth forecasts have been scaled down generally. Weaker than expected growth in China and other emerging markets is a key factor. Tighter financial conditions in these economies in the wake of the tapering of the US Federal Reserve's unprecedented asset purchases programme is a key reason. Recovery growth has also turned out weaker than expected in the developed economies of the world (see Chapter 2). The weaker demand conditions abroad impacted on the CWD export industries, i.e. agriculture and agro-processing. As noted goods export growth has tapered down to the extent that volumes actually contracted on balance over the 2010 - 2013 period, which is a cause for concern. However, it appears that the export-oriented tourism sector benefited from a larger inflow of price-sensitive travelers.
- Domestic economic issues have also led to the scaling down of growth forecasts, particularly regarding 2014 due to extensive labour unrest, which commenced the year with the unprecedented five month strike in the Rustenburg platinum belt. Real GDP contracted unexpectedly during the first quarter of the year, mainly due to a sharp fall in mining production, as well as manufacturing real value added. The latter contracted due to its linkages with the mining sector, but also due to problems within the sector (including once-off events such as maintenance schedules in the petroleum and heavy metals sectors) and the impact of electricity blackouts.
- The Western Cape manufacturing sector was relatively unscathed in this regard, but also succumbed to the weaker general demand conditions. The forecast for gross domestic expenditure, i.e. the sum total of household and government consumption expenditure, private and public sector fixed investment and inventory investment, is for real growth of only 1.6 per cent during 2014, recovering to 3.0 per cent per annum over the medium term; the previous forecast was for 4.5 per cent growth in 2014 and 4.3 per cent per annum on average over the medium term.
- This is a major downward revision and suggests the domestic market could remain lacklustre and/or slow growing. This may force manufacturers to shift production to the export market, particularly in view of the world economic recovery becoming sustained and a more competitive value for the rand exchange rate. The export oriented agriculture, agro-processing and services sectors (e.g. BPO and tourism) in the CWD may benefit in this respect.

3.4.1 Local issues – Cape Winelands District

The CWD is the largest non-metro district in the Western Cape and its growth has been only slightly below the provincial average, i.e. 3.7 per cent per annum (2000 - 2013) and 2.7 per cent (2010 - 2013) compared to 3.9 and 2.9 per cent per annum respectively provincially. Given its export orientation, the 2009 global recession had a major adverse impact on the region, which it is still recovering from.

Figure 3.9 Cape Winelands District industries with comparative advantage



Source: Provincial Treasury: MERO, 2013

In the MERO 2013 study it was found that a number of key value chains in the CWD have a comparative advantage, namely the food value chain (agriculture, forestry and fishing and the associated food and beverage processing industries); tourism (as reflected in the catering and accommodation, business services and transport sectors); the building value chain (including building materials manufacturing and construction activities); and financial services. The competitive edge of the ICT sector located at Stellenbosch Techno Park was also pointed out. The region hosts a range of innovation industries and the headquarters of major multi-national and national companies. Finally, CWD has a vibrant education sector, including leading research facilities.

Figure 3.9 ranks those sub-sectors with comparative advantage as indicated by the 2011 location quotient analysis (see MERO 2013)³. It is expected that these industries will continue to do well over the forecast period. The agro-processing sector and agriculture (e.g. wine and deciduous fruit) are key industries in the region and tourism is a high growth sector, including its linkages with agriculture. The building and construction sector should also benefit from infrastructure investment and property developments. The outlook for financial services remains positive, albeit more

³ The Location Quotient (LQ) ratio is the share of a specific industry in a region's value added expressed as a ratio of the same industry's share (nationally) in the national GDP. A reading above one indicates comparative advantage, implying the same industry expanded faster in the region compared to the sector nationally.

subdued than over the 2000s. The CWD has close linkages with the Cape Metro economy and a strong brand (i.e. the Cape Winelands District), which draws many business, holiday and student travelers to the region, as well as inward investment. The locational attributes of the region were highlighted in the 2013 MERO study, as well as a number of the key developmental constraints and challenges.

As can be expected in an environment of weaker general economic growth, consumers are under financial pressure, which makes the affordability of municipal taxes and rates more difficult. The inability to pay municipal accounts, in turn, exacerbates the financial constraints of local government already under pressure from the constitutional funding model. It is also evident that skills shortages are a major problem affecting service delivery. According to municipal survey responses, there is an additional burden on the shoulders of municipalities resulting from a shift in functional mandates from national and provincial government to local government not necessarily being funded. These fault lines come to the fore in an environment of weak growth.

Municipalities are hopeful that economic conditions will improve in the Cape Winelands District. The high-growing Stellenbosch Municipality plans to step-up infrastructure fixed investment in areas such as waste water management, bulk water provision, landfill capacity, roads and public transport. According to estimates, the Stellenbosch Municipality is faced with infrastructure backlogs valued at between R2 to R4 billion, whilst its capital budget can hardly sustain spending above R200 million per annum (see Chapter 6). The needed infrastructure investment will, however, be a key economic injection in the region over the short to medium term.

The broad sector forecast for the CWD is motivated below.

3.4.2 Sector forecast

A key aspect of this year's regional economic outlook was motivated in Chapter 2 and that is the dramatic downward revision of the forecast. Whereas the CWD was projected to grow by 3.7 per cent per annum over the six-year period 2012 - 2017 in the 2013 MERO study, this projection has been downscaled to 3.1 per cent growth per annum over the 2014 - 2019 period – see Table 3.7. This downward revision is in line with that for the wider province; Western Cape real GDP growth is currently projected to average 3.0 per cent per annum over the period 2014 - 2019 compared to 3.7 per cent per annum previously over the 2012 - 2017 period.

Table 3.7 Cape Winelands District: Real GDP growth outlook, 2014 - 2019

Sector	Trend	Recession	Recovery	Cape Winelands District	Western Cape
	2000 - 2013	2008 - 2009	2010 - 2013	2014 - 2019	2014 - 2019
Agriculture, forestry and fishing	0.7	4.8	-0.4	1.7	1.8
Mining and quarrying	3.0	-7.0	4.0	1.6	1.4
Manufacturing	1.9	-4.7	2.1	2.4	2.4
Electricity, gas and water	2.3	2.7	2.1	2.3	2.1
Construction	6.5	6.3	1.7	4.2	4.1
Wholesale and retail trade, catering and accommodation	5.2	0.2	4.8	3.5	2.8
Transport, storage and communication	5.8	3.6	2.2	4.0	3.6
Finance, insurance, real estate and business services	6.7	6.2	3.8	4.1	3.5
Community, social and personal services	3.7	2.4	2.1	2.4	2.2
General government	3.4	5.2	4.2	2.3	2.1
Total	3.7	1.8	2.7	3.1	3.0

Source: Quantec Research 2014/Provincial Treasury, MERO

Regarding the sectoral outlook, the following remarks are in order:

- While climatic conditions are key to the agricultural outlook, the trend in the sector has been one of steady expansion in most municipal areas. Bumper grape crops are anticipated in the current harvesting season due to favourable climatic conditions in the growing season. Overall agriculture, forestry and fishing real value added is projected to increase by 1.7 per cent per annum, i.e. in line with the projection for the Province. The key positive factor in the agriculture outlook is the growing food demand from an expanding middle class population, not only in South Africa, but also in the rest of Africa and other destinations for our agricultural exports, e.g. China, India and East Asia.
- The agriculture sector has strong forward linkages to the manufacturing sector in the form of food and beverage processing; in the wider province no less than 37 per cent of agriculture, forestry and fishing output sales are destined for food and beverage processing (intermediate sales) and close to 40 per cent final export sales (see MERO 2013). The food and beverage processing industries are less export intensive in the wider province with only around 13 per cent of its output sales exported and close to 60 per cent of output being sold to the household sector.
- However, given the importance and export orientation of the wine industry, the CWD food and beverage processing industry exports a larger share of its output (close to 30 per cent). External demand conditions are therefore key to the outlook for the sector. Domestic demand conditions are also important as sales to households remain a large part of output (40 - 50 per cent). This sector accounts for more than 60 per cent of all manufacturing real value added generated in the CWD; the chemicals and plastics sector and machinery sector accounts for a further 17 per cent. The outlook for the CWD manufacturing sector is therefore to a large extent determined by both local and export demand conditions.

- The improved competitive levels of the rand should be supportive to exports from the region; furthermore, export producers need to take advantage of the projected two-speed world economic growth trajectory and diversify towards faster growing emerging market economies. Assuming the competitive gains of the rand exchange rate's depreciation can be maintained this will support the region's vibrant export sector, as well as create opportunities for import replacement and stimulate inward tourism. Unfortunately, experts in the tourism industry warn that the pending implementation of complex new visa requirements for foreign visitors to South Africa, ranging from biometric scans to unabridged birth certificates for minors, could severely disrupt inbound tourism. Some source countries (e.g. China and India) lack the infrastructure to implement the new regulations. The potential negative impact on tourism and linked sectors is a risk in the short to medium term outlook.
- Currently, the SA consumer is under pressure, with slowing real after tax personal income growth, a result of both weak employment conditions, lower real wage growth and slower growth in social grants as the government seeks to engineer a better fiscal balance. Consumer confidence is also weak (particularly the low-income groups impacted by retrenchments and labour strike activity), with household demand for credit slowing. Consumer debt levels are relatively high and impairments are growing. While pockets of strength continue to exist in the upper end of the market and given the enduring global economic recovery, it is not expected that the bottom of the domestic consumer market will collapse; the slowdown is rather likely to bottom-out and renewed momentum to develop as the broader economy re-accelerates towards year-end.
- Real wholesale, retail, catering and accommodation value added is projected to expand by 3.5 per cent on average, 2014 - 2019. This projection includes a significant margin above the provincial forecast for this sector, i.e. 2.8 per cent per annum and is explained by the anticipated growth of the tourism industry.
- Overall, manufacturing real value added is projected to grow by 2.4 per cent per annum over the medium term, which will be some acceleration of the growth tempo registered during the economic recovery thus far and is in line with the provincial forecast in respect of the manufacturing sector.
- Heightened infrastructure investment activity and associated property development (residential and non-residential) is also likely to boost the construction sector, from 1.7 per cent growth per annum during the economic recovery thus far to 4.2 per cent per annum, 2014 - 2019, i.e. slightly faster than the average growth projected for the wider province.
- The downscaling of the growth forecast also impacts the outlook for the faster growing services sector in the CWD. The pressure on the consumer sector was alluded to above; the transport and storage sector has close linkages with the wider regional economy and is likely to slow in unison. The rapidly growing financial and business services sector is also not expected to repeat the double-digit real growth rates registered during the previous economic expansion. Consumer credit extension is cooling down and there has been a sea-change in

credit uptake since the introduction of the National Credit Act in July 2007. The generally poor business and consumer confidence levels in the Province⁴ also contribute to hesitancy on the part of consumers to commit income on credit. The growth in business services will also be dragged down by the slower overall growth in the region. The financial and business services sector is forecast to grow by 4.1 per cent per annum (2014 - 2019) compared to recovery growth of 3.8 per cent (2010 - 2013).

- An additional factor, which is likely to result in pressure on the household sector, is the constrained growth in government non-interest expenditure, implying limitations to public sector employment and wage growth. The government sector added significantly to growth during the initial period of the economic recovery; however, that was always going to be a temporary counter-cyclical measure. The general government sector of the CWD is projected to grow by 2.3 per cent per annum compared to recovery growth of 4.2 per cent per annum, 2010 - 2013. The community, social and personal services sector is projected to grow at 2.4 per cent per annum, i.e. slightly faster than its performance over the 2010 - 2013 period.

3.5 Concluding remarks

The CWD economy has firm agricultural origins, the importance of which continues today and is reflected in the fact that one fifth of the region's work force is employed in this sector. Over the years, this sector has developed strong backward and forward linkages with manufacturing and services industries and the contemporary growth vehicle appears to be agri-tourism, reaching into all CWD municipal areas.

The importance of the tourism industry, even though not captured in the official statistics, cannot be over-estimated in the region. In fact, the evident growth and employment creation outperformance of the Stellenbosch Municipality can be linked to the growth of this sector. The sector forms part of the wider wholesale, retail, catering and accommodation sector, which expanded fastest during the economic recovery years, 2010 - 2013, and has wider linkages to the transport and business services sector. Financial and business services growth has tapered off in the wake of the global recession, but it remains a leading industry in the region, albeit concentrated in the Stellenbosch and Drakenstein municipalities.

Given the export orientation of the agriculture and associated processing industries, as well as tourism, a heavy recession impact was to be expected. Apart from GDP contracting by 3 per cent in 2009, the net retrenchments in key sectors such as agriculture, manufacturing and construction continued during the first four years of the economic recovery, with the overall level of employment in 2013 still 5 per cent below its pre-recession peak. Export volumes have also tended to contract after the

⁴ The RMB/BER business confidence index showed that only 6 out of every 10 business executives in the Western Cape were satisfied with general business conditions during the second quarter of 2014. This is slightly better than the national average (4 out of ten); however, consumer confidence at -11 index points in the Western Cape is significantly below the national average (+6).

recession, which is somewhat concerning and emphasises the need to explore faster growing markets.

The disappointing growth in the manufacturing sector also remains a cause for concern, particularly to the extent that it exacerbates the skills mismatch in the regional labour market. It is notable that the services sector added substantial semi and unskilled jobs despite its general skills intensity; this may also be a dividend from the growth of tourism in the region. However, it is critical that manufacturing activities be expanded so as to absorb and upskill semi and unskilled workers.

Regarding the economic outlook, forecasts have been scaled down in line with developments in the wider province and nationally. Key sectors expected to outperform the provincial average are wholesale, retail, catering and accommodation (boosted by tourism), financial and business services, transport and communication, community, social and personal services and – to a lesser extent – construction.

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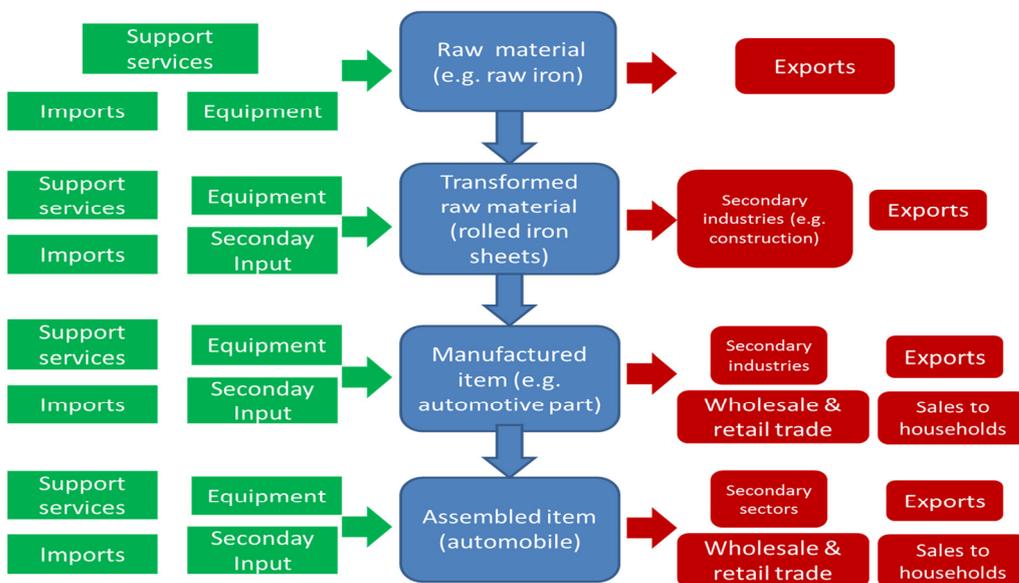
Value Chains

4.1 Introduction

The current analysis will primarily focus on the value chain as represented by the supply chain and take into account the distribution of benefits, through value added within the value chain. The legal and policy implications will not be investigated as the primary focus is on the value added and job creating potential of the identified industries/sectors.

Each district municipality has been assessed and the most important selected value chain within each district economy has been analysed. It must be noted that the choice of value chain is based on the future potential for change in a specific industry or the decline in a specific industry within a value chain.

Figure 4.1 Example of a simplified value chain



Source: Stats SA

The value chain is analysed according to the forward and backward linkages connecting various manufacturing and services sectors and forming an integrated value chain. The forward and backward linkages flowing from these sectors will also be represented in the value chain, with the percentage contribution to inputs and outputs to the respective sectors. An example of a simplified value chain is presented in Figure 4.1. It shows a hypothetical automotive value chain from source material. The linkages are tracked backward from the assembled automobile to the individual automotive parts; these automotive parts are in turn made up of processed metals. The processed metals are made up of basic processed iron which were initially sourced from raw iron. Each part of the value chain will have inputs from other sectors in the economy. Some of these are for inputs used in the production process or support the production process and others are merely inputs to support business processes. Each sector will also import a certain proportion of its inputs and also export a certain proportion of its outputs. As we move to the finished product, it also becomes more likely that there are direct sales to households.

4.2 Cape Winelands District (CWD) value chain analysis

The tourism industry in the CWD has significant linkages to the wine industry and the catering and accommodation industries. The choice of the tourism industry results from the potential it has to create value added activity and employment opportunities across a wide variety of sectors and skill levels; the sector is employment intensive and a generator of foreign exchange. The 2013 MERO study found that all Western Cape districts reveal a comparative advantage in the tourism sector.

In order to analyse the tourism industry and the value chain of the tourism industry in the CWD we must first define the tourism industry. Value chains in the manufacturing industry usually follow the development of a product through stages from raw inputs to the final product. For example, in the furniture value chain, the raw input, timber is transformed into usable wood raw materials and then used to make furniture. The tourism industry, on the other hand, comprises sellers and inputs from many heterogeneous products. The ability to follow the linkages in the value chain of the tourism industry is, therefore, more complicated and it is necessary to utilise some assumptions in order to present the tourism value chain and the linkages to various other sectors in the economy.

Firstly, we define tourism as both domestic and international visitors consuming products in the District and secondly the tourism industry will have minimal forward linkages as the tourist is usually the end consumer. The benefits of tourism will rather be felt through the indirect increased spending potential in the community. For this reason we will be concentrating mainly on the input industries into tourism industry.

Catering and accommodation, transport and retail trade will be the major beneficiaries of tourism activity in a region. The CWD is unique in that it has a major tourism sector linked closely with the wine industry, i.e. so-called agri-tourism. This also places the agricultural and agro-processing industries in the tourism value chain in the CWD.

Major Tourist Support Sectors

- Hotels
- Car rental
- Air transportation
- Passenger transportation
- Golf courses
- Wine farms
- Restaurants
- Museums
- Retail stores
- Entertainment
- Monuments and parks

4.2.1 Tourism and wine industry analysis

In order to analyse the tourism industry in the CWD it is necessary to determine the major demand factors responsible for drawing tourists to the region. These are the catalysts responsible for driving the tourism industry and represent the core focus area to increase tourism demand.

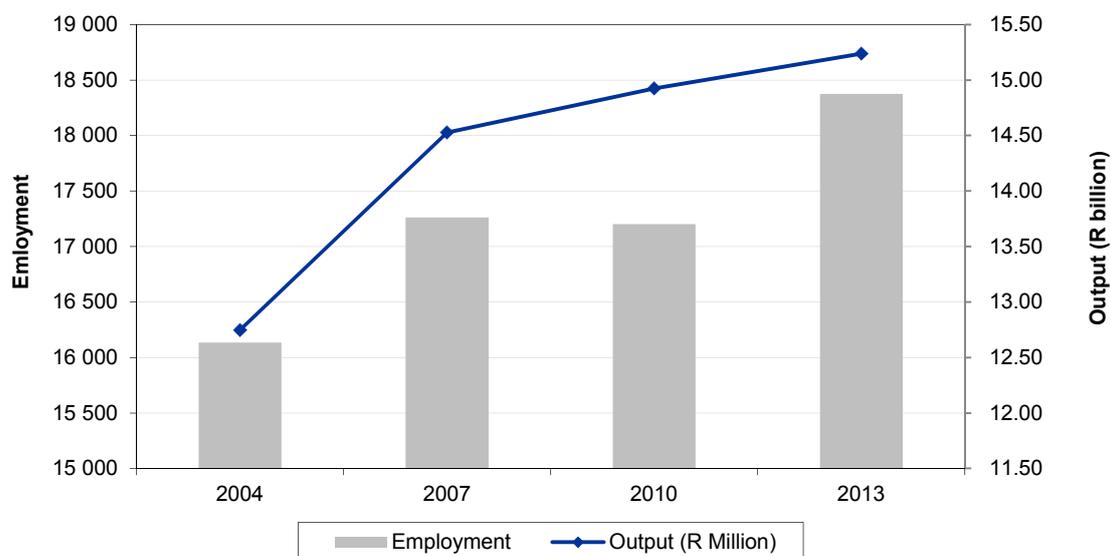
In the Western Cape, the beverages sector is dominated by the CWD, accounting for close to 60 per cent of beverages output and exports. The food, beverages and tobacco sector is used as a proxy to understand the relative growth or decline in employment in the wine industry in the CWD.

From Figure 4.2 it is clear that employment, as well as, output in the food and beverages industry has increased in the CWD. In the period after the 'Great Recession', employment figures have improved by 6.8 per cent from 2010 to 2013 and just under 1 200 jobs have been created in the industry in the District.

In the wine industry specifically, there were approximately 179 000 (directly and indirectly) employed in the Western Cape in 2013. It is estimated that 110 000 are employed in the CWD, including indirect employment in linked industries.⁵ The jobs in the wine industry will mainly form part of the agriculture and food and beverages sectors. A large proportion of jobs in the industry are unskilled as shown in Figure 4.3.

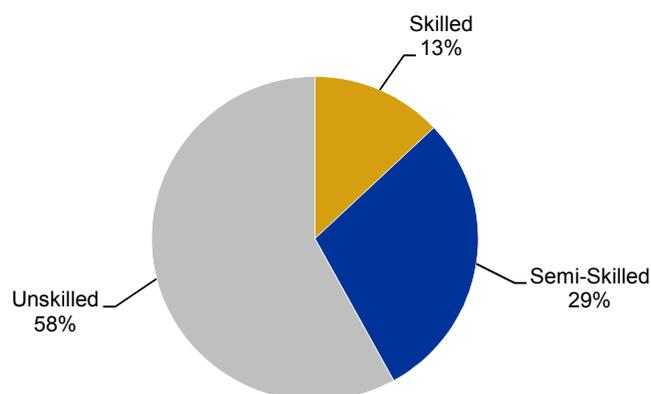
⁵ Estimates derived from SAWIS (2009): Macro-economic Impact of the Wine Industry on the South African Economy (also with reference to the Impacts on the Western Cape).

Figure 4.2 Employment and GDRP of the food and beverages industry, Cape Winelands District, 2004 - 2013



Source: Quantec Research 2014

Figure 4.3 Employment split by skill category, wine industry, Cape Winelands District, 2013



Source: South African Wine Industry Information and Systems

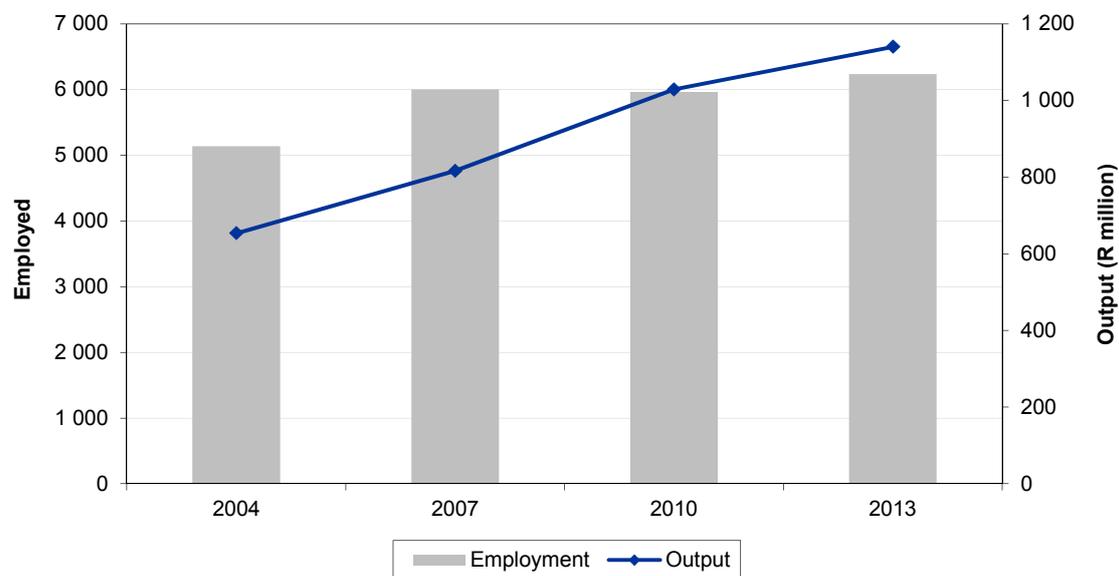
Employment in the wine industry is highly cyclical and promotion of the tourism aspect of the industry will increase the potential for employment of semi-skilled workers.

It is estimated that the total GDP impact (of R1 billion additional spending), taking into account the induced and indirect effects of the linkages to tourism in the wine industry in the Western Cape economy, was R2.5 billion in 2013. The total contribution to GDP from tourism in the wine industry in the CWD was estimated at R1.6 billion in

2013.⁶ As the tourism industry is not a 'real' industry contributing to GDP, the value gained from tourism is the additional demand it creates in other sectors in the economy. The major backward linkages from tourism are to accommodation, restaurants and transport and business services.

Significant output growth was present in the catering and accommodation sector. From 2010 to 2013 output in the sector increased by 10.7 per cent. Employment levels have risen at a slower pace, by only 4.6 per cent over the same period. Services sectors usually have the capacity to increase output without employment creation to a greater degree than in the manufacturing industry.

Figure 4.4 Output and employment in Catering and accommodation, Cape Winelands District, 2004 - 2013



Source: Quantec Research 2014

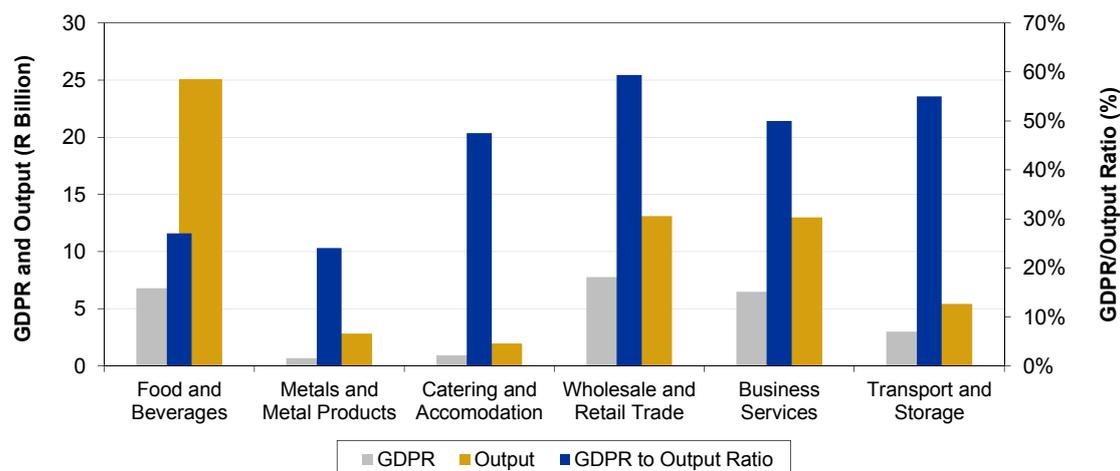
The long, term trend, however, suggests that there is significant potential for growth of employment in catering and accommodation in the CWD. The spending potential of the domestic population and the number of tourists will have a direct impact on output in the catering and accommodation sector.

The value added to output ratios in catering and accommodation, wholesale and retail trade, transport and storage and business services are high in comparison to that of other sectors in the District⁷. Any demand injection into these sectors will therefore have a significant impact on GDPR for the region, i.e. the profits of the businesses and the wages of the workers in the relevant sectors. The demand created by tourism will have a high impact in the value chain through the linkages to these sectors.

⁶ The figures are based on, SAWIS (2009): Macro-economic Impact of the Wine Industry on the South African Economy (also with reference to the Impacts on the Western Cape). Figures have been adjusted according to relevant growth rates.

⁷ The ratio of GDPR to output provides some indication what value is added to intermediate inputs (imported and sourced from other sectors) in the production process. A higher ratio implies the greater the economic welfare benefits tied to the particular economic activity.

Figure 4.5 Value added to output comparison, Cape Winelands District, 2013

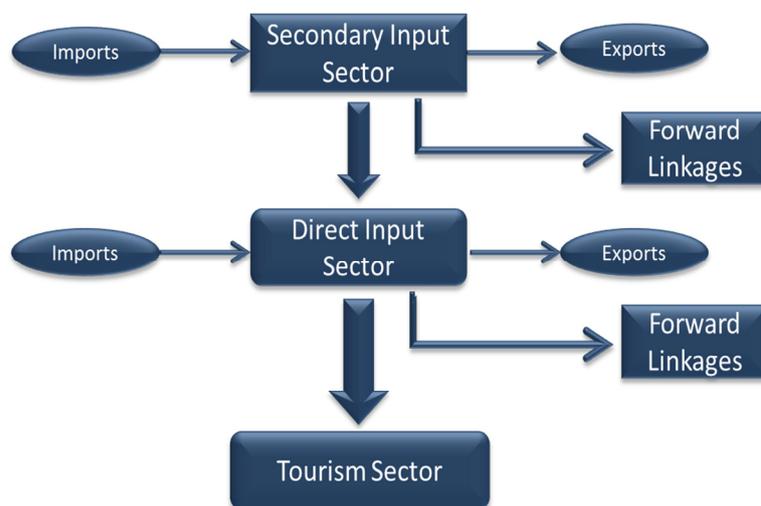


Source: Quantec

4.2.2 The tourism value chain

Tourism will have a number of linkages back to economic sectors that provide services or sell goods to the end consumers. The industries that sell into the tourism industry, may, however, have forward linkages into other sectors. The current value chain analysis will not analyse these linkages in depth as it will mainly focus on the linkages between tourism and the input sectors, i.e. the so-called tourism multipliers. The basic tourism value chain is depicted in Figure 4.6.

Figure 4.6 The basic tourism value chain structure



Source: Stats SA

For the purposes of this analysis we will only focus on the direct input sectors into tourism. Utilising data from the Tourism Satellite Accounts from Statistics South Africa it is possible to determine the relative expenditure proportions of tourists on various sectors. This gives the input proportions into the tourism sector. Determining the relative outputs from the input sectors relies on ratios and multipliers derived from various sources and the Tourism Satellite Accounts. It must be noted that as the analysis cannot rely solely on an existing input-output analysis from Statistics South Africa, the relative output proportions are based on assumptions and ratio analysis.

The following expenditures in the tourism industry have been identified by Statistics South Africa.

Table 4.1 Tourism expenditure shares on input products and services, South Africa, 2012

Tourism product or service	Expenditure percentage
Accommodation for visitors	16.7
Restaurants	8.1
Railway passenger transport services	0.2
Road passenger transport services	23.0
Water passenger transport services	0.0
Air passenger transport services	13.2
Transport rental	1.7
Travel agencies	3.3
Cultural services	0.2
Sports and recreation	4.5
Tourism-connected products	12.6
Non-specific products	16.7
Total	100.0

Source: Stats SA

Expenditure shares expressed in Table 4.1 will be considered when deriving the input shares into the tourism sector in the CWD. Tourism in the CWD includes a significant proportion of input from the wine industry and this is accounted for in the calculations. The table below represents the output proportions from the various input sectors into tourism. The percentage represents the proportion of output of that sector that is sold or provided to tourism in relation to the total output of that sector.

For the purposes of this analysis we will be using the sector breakdown as provided by Statistics South Africa. The three major input sectors into tourism will be catering and accommodation services and transport. Even though the wine industry is a major demand driver for tourism in the District, the input from the wine industry is recorded from restaurants. There is a minor linkage between the agricultural sector and the tourism industry. The proportion of input from the agricultural sector is estimated at 4.0 per cent⁸. Inputs into the tourism industry have been revised and included in the table below.

⁸ The percentage has been derived from various secondary sources and academic studies. For example, see *Tourism's Forward and Backward Linkages*, Junning Cai, PingSun Leung, and James Mak and *The Contribution of the Grape and Wine Industry to Idaho's Economy: Agribusiness and Tourism Impacts*, John C Foltz, Stacie Woodall, Philip R Wandschneider, and RG Taylor, *Journal of Agribusiness*, 2007.

The full value chain for the tourism industry is presented below. The two major input sectors have been represented with their forward and backward linkages in order to understand the impact tourism has on upstream service sectors and the linkages these sectors have with the rest of the economy.

Table 4.2 Proportion of output to tourism, 2012

Sector	Output proportion
Accommodation for visitors	79.0
Food and beverages servicing industry	36.0
Railway passenger transport services	7.0
Road passenger transport services	37.0
Water passenger transport services	53.0
Air passenger transport services	94.0
Transport rental	65.0
Travel agencies	98.0
Cultural services	21.0
Sports and recreation	31.0
Trade of non-specified products into tourism	8.0

Source: Stats SA

Table 4.3 Proportional inputs into the tourism industry (2012)

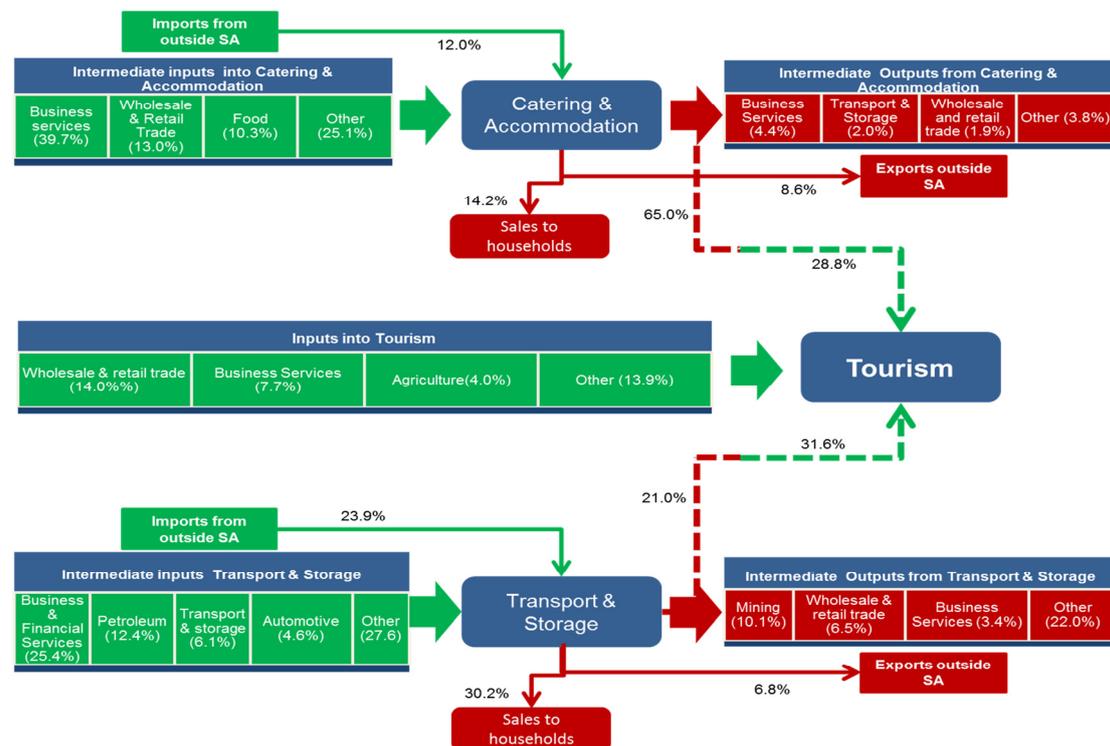
Tourism product or service	Proportional input
Agriculture	4.00
Accommodation for visitors	16.01
Restaurants	7.70
Railway passenger transport services	0.19
Road passenger transport services	22.08
Water passenger transport services	0.00
Air passenger transport services	12.60
Transport rental	1.63
Travel agencies	3.17
Cultural services	0.19
Sports and recreation	4.30
Tourism-connected products	12.10
Non-specific products	16.03
Total	100.00

Source: Stats SA

In Figure 4.7 the green arrows and boxes represent the inputs into the specific sector and the red arrows or boxes represent the outputs from those sectors. The percentages represented are the relative input and output percentages. All the input percentages for a specific sector add to 100 and similarly, all the output percentages for a particular sector add to 100. The greatest expenditure and consequently the largest input into the tourism industry is from the transport sector. The industry grouping as per the standard industrial classifications from Statistics South Africa aggregates transport with storage. The relative weightings for inputs from these sectors have been taken into account in the calculations. The second-largest input into the tourism industry is from the catering and accommodation sector. Examples of businesses in this sector include hotels, holiday resorts, game farms and restaurants.

Business and financial services is the largest input into the transport and storage sector at 25.4 per cent, with petroleum products at 12.4 per cent. The transport and storage sector has strong linkages to the mining industry as its major output, at 10.1 per cent. Transport costs are a major expenditure in the mining industry and the logistics industry is highly involved in the fast moving consumer goods and retail sector, which is represented as the second highest output of the sector, at 6.5 per cent.

Figure 4.7 Tourism value chain, Cape Winelands District



Source: Stats SA

There is a strong backward linkage to the catering and accommodation industry as the output from this sector is primarily dedicated to tourism, i.e. 65 per cent of the output from catering and accommodation is to tourism. This indicates that the catering and accommodation industry is highly dependent on the level of tourist activity and expenditure. For every R1 million lost in tourism expenditure on accommodation and restaurants, the catering and accommodation industry will lose R650 000. Following the linkage back from catering and accommodation sector, the business services sector provides a significant proportion of input, at 39.7 per cent.

Backward linkages from tourism to the wine industry are represented through expenditure on restaurants, food, beverages and there will also be a linkage to agriculture directly. This percentage is relatively small, at only 4 per cent, but the linkages filter through expenditure in the catering and accommodation sector.

4.3 Concluding remarks

With a large proportion of wine tourism in the CWD, it is important to consider the influence of the wine industry on tourism and, likewise, the tourism industry on the wine industry. The tourism linkage to agriculture is not high directly, but the indirect value tourism has for the wine industry is related to the exposure local wines get to international markets and the marketing aspect of the tourism industry. Restaurant and tourist activity on wine farms also supplements the income of wine farmers and this in turn may be transferred to the agricultural sector. In turn, the presence of wine farms in the CWD is a major attraction for tourism and this will boost expenditure on hotels and restaurants in the District which may be unrelated to the wine industry.

5

Informal sector analysis

5.1 Introduction

The persistence of high levels of unemployment, poverty and inequality are widely recognised as major socio-economic challenges for South Africa. The informal economy is often seen as an important component in expanding economic participation. However, the conceptualisation of what this practically means is not always played out. The expansion of the informal economy can have a positive effect on poverty if it arises as an off-shoot of a rapidly growing formal sector. It can also reflect worsening poverty where it is stimulated by a collapsing formal economy and/or alternatively is caused by firms seeking to evade regulatory measures and the tax net (Altman, 2009).

This coupled with the contemporary context of global economic crisis and the dramatic expansion of the informal economy across the developing world, has highlighted the importance of understanding the relationship between the formal and informal economies. However, while much attention has been spent on formal employment, a large fraction of workers (almost 30 per cent in 2013)⁹ are employed in the informal sector in South Africa.

As a result, this chapter focuses on the issue of linkages across the formal-informal divide and possible policy considerations.

Before proceeding further, we provide a brief definition of 'formal' versus 'informal'. The formal sector is defined as economic activity that occurs within the purview of state regulation and formal employment is defined as employment originating from a business or firm that is registered with the state. On the other hand, the informal economy covers both businesses and employment. Informal employment extends to both the informal and formal sector, as well as private households, where the informally employed do not have written employment contracts and are not entitled to employment benefits such as pension and medical aid contributions from their

⁹ Quantec data 2014

employers. The informal sector is defined as one where, firstly, employees work in establishments of less than five employees, where income tax is not deducted from their salaries and wages; and secondly, where employees are not registered with the Receiver of Revenue for income tax or value added tax purposes (Statistics SA, 2012).

In both academic and policy circles, there is much debate over the relationship between the formal and informal sectors, and whether informal employment is a benefit or liability for the overall economy. Here there are three schools of thought:

- 1) The dualistic labour market approach, which sees informal employment as a substitute for formal employment. In this approach informal employment is a residual “sponge” that soaks up unskilled, surplus labour from the formal sector and there are very few connections between the informal and formal sectors (Chen, 2004). Generally the informal sector is, at best, seen as a safety net for unemployed workers.
- 2) The alternative (or neo-liberal) approach sees informal employment as a complement to formal employment. In this approach the informal sector is a voluntary strategy where entrepreneurs are able to establish new firms and contracts. Effectively it is a cost saving strategy for small firms trying to avoid arduous and costly labour regulations (Maloney, 1998).
- 3) The ‘Structural Articulation’ approach sees the informal sector as heterogeneous and made up of at least two distinct sub-sectors (Portes and Schauffler, 1993). One of these sub-sectors represents entrepreneurs and small firms trying to grow by avoiding costly regulation while on the other hand, the other sub-sector is largely disconnected from the formal economy and demonstrates countercyclical behaviour. This static sub-sector is driven by excess labour supply and represents the involuntary subsistence strategies of unskilled workers who cannot find employment in the formal sector.

5.2 Understanding the informal and formal sector linkages

To understand the linkages between the formal and informal sectors one needs to ascertain whether a relationship does exist. Extrapolating from two recent surveys, one on the informal businesses (200 informal businesses – MERO 2013) and the other on formal businesses (200 formal businesses) in the Cape Winelands District (CWD) the following is noted.

From Table 5.1 it is noted that all formal businesses other than medium businesses in the sample range have informal businesses as their customers or clients. This situation therefore highlights the existence of significant linkages between the formal (microenterprises and small businesses) and the informal sector.

Table 5.1 Cape Winelands District: Main customers or clients of SMMEs

Formal businesses customers or clients	Formal businesses		
	Microenterprises	Small business	Medium business
Private businesses	50.0	40.0	39.1
Other small businesses	15.4	11.6	17.4
Other large businesses	11.5	23.2	30.4
Government	9.0	11.6	8.7
Informal businesses	10.3	9.0	0.0
Other	3.9	0.5	4.4

Source: Anix 2014

Unfortunately the questionnaire was not designed to explore detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies. However, after further investigation it has become clear that even where “other small businesses” are the clients or customers, SMMEs were not too interested whether these businesses were formal or informal. Therefore, the percentage of informal businesses as clients could effectively be larger. The focus for SMMEs was mainly whether these informal (or any other) businesses represented a cost advantage. Therefore, particularly given the current economic slowdown in the economy, SMMEs were seeking links with informal firms as a cost-cutting strategy. Such a strategy could certainly favour informal businesses and particularly so if the competition amongst formal businesses were increased.

However, the type of formal and informal linkage is very important. For e.g. forward linkages refer to the use of an enterprise's output as an input in other productive activities, while backward linkages comprise the enterprise's purchases of intermediate inputs. Generally, forward linkages between a modernising informal segment and the formal economy can lead to growth in the informal as well as the formal sectors, while in backward linkages, informal firms tend to purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets. This leads to a dependent and regressed informal sector constrained to buy dearly and sell cheaply.

Given the effect that the lack of skills and capital finance may have on the manner of formal and informal business linkages we further extrapolate from the two unique surveys as mentioned earlier and review the “main challenges for business growth” faced by both formal and informal businesses in the CWD.

From Table 5.2 it is noted that while access to finance is a major constraint for (nearly 48 per cent) of informal businesses, for formal businesses access to finance appears to be the biggest challenge (for just over 24 per cent). These figures coupled with the literature as mentioned earlier lead one to assume that there could be a possible risk of exploitation of backward linkages, which could lead to weak markets or limited growth potential in the Cape Winelands District region. However, of note is that the CWD was the only district in the Western Cape where informal businesses highlighted that shortages of businesses premises as its biggest challenge to its business growth.

Table 5.2 Cape Winelands District: Challenges for business growth – formal and informal sectors

Challenges for business growth (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Shortage of business premises	55.7	2.4	1.3	0.0
Access to affordable finance	47.8	26.2	26.3	20.0
Crime	38.8	-	-	-
Electricity cost access/Increasing electricity rates	34.8	16.7	25.0	20.0
Water cost access	29.4	-	-	-
Competition	26.4	-	-	-
Lack of specialised equipment	22.4	-	-	-
Cost and difficulty of business licensing	20.9	-	-	-
Transport of goods costs	19.9	-	-	-
Increasing labour rates	-	0.0	13.2	0.0
Skill and education of workforce	-	4.8	3.9	20.0
Bad weather	-	2.4	0.0	20.0
None	-	21.4	11.8	20.0
Other	-	26.2	18.4	0.0

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Given the above, it is important to consider the nature of the production system through which informal and formal businesses are linked when trying to understand the linkage between informal and formal enterprises. This is because the nature of the linkage, specifically the allocation of authority and economic risk between the informal and formal firm, varies according to the nature of the production system.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

This linkage is very important for the financial services sector for example, as it gives the sector an opportunity to use the linkage to the best advantage of the informal sector. Banks would be keen to deal with those informal sectors that have a clear understanding of how they are linked to the formal sector players.

Understanding the linkages is also important because the amount of financial sector support available to informal sector players is far less than ideal but has the potential to increase if the opportunities brought about by the linkages are fully exploited.

Despite SMMEs' strong interest in credit, banks' profit orientation may deter them from supplying credit because of the high transaction costs and risks involved. However, with linkages to the formal sector this can be easily resolved because the source of the problem can be minimised due to the links between the informal and the formal structures.

Firstly, SMMEs' loan requirements are small, so the costs of processing the loans tend to be high relative to the loan amounts. Secondly, it is difficult for financial institutions

to obtain the information necessary to fully assess the risks of new, unproven ventures, especially because the success of small firms often depends heavily on the abilities of the entrepreneur. Thirdly, the probability of failure for new small ventures is considered to be high. These challenges can be easily met if formal sector players are willing and able to support the sector.

Through financing the value chain or the big end user of the product, the banks will be indirectly financing the informal sector player producing intermediate inputs to the formal final producer.

5.3 Key characteristics of the Cape Winelands District informal sector

Extrapolating further from the surveys mentioned earlier we note that entrepreneurs in the informal sector have different motivations for starting a business compared to their formal sector counterparts, with close to 72 per cent of informal entrepreneurs citing a lack of alternative employment opportunities or financial hardship as their main motivation (see Table 5.3). This figure coincides with a recent Stats SA survey on employers and self-employed, which highlighted that 60 per cent of people started informal businesses as a result of unemployment/have no alternative income source (Stats SA 2014). In contrast formal sector entrepreneurs were significantly more likely to say that they were interested in taking advantage of business opportunities as the reason they started their businesses. In a nutshell, informal businesses were necessity driven while formal businesses were opportunity driven.

Table 5.3 Cape Winelands District: Reasons for starting a business – formal and informal

Reasons for starting a business (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
I could not find alternative employment/unemployed	37.9	7.1	0.8	0.0
I wanted to earn more money/financial hardship	33.8	14.3	5.8	0.0
I am good at running this business	15.2	-	-	-
I didn't enjoy working for someone else/ To be my own boss	10.1	13.1	8.3	7.1
Create employment/Help the community	1.0	-	-	-
Saw an opportunity	0.5	28.6	40.0	28.6
Have passion for it/It's a calling	0.5	-	-	-
Wanted to	-	16.7	11.7	14.3
Interested in particular product or service	-	15.5	13.3	14.3
Lost my job	-	2.4	2.5	0.0
Took over from previous owner/manager	-	1.2	7.5	7.1
My family expected me to	-	1.2	4.2	7.1
Inherited the business	-	0.0	5.8	21.4
Other	1.0	-	-	-

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

The ownership patterns of female entrepreneurs in the CWD are significantly different when compared to the other districts within the Western Cape. While in all the other districts female entrepreneurs are more likely to operate in the informal and formal microenterprise sectors with generally no female ownership patterns in the medium formal business category; the CWD share similar characteristics to the Metro where there is a rather large spread of female entrepreneurs across the entire business spectrum.

Table 5.4 Cape Winelands District: Distribution by gender – formal and informal

Gender (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Male	61.7	51.2	72.1	63.6
Female	38.3	48.8	27.9	36.4

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Generally, within the other Districts it appears that women are concentrated in business activities such as retail trade and food and garment production. However this does not appear to be the case within the CWD. Literature suggests that the substantial differences in the choice of sector and business activity between male and female entrepreneurs may suggest that the challenges to business, constrain some entrepreneurs' ability to enter the formal sector generally directing women into activities with lower capital requirements. However with the diversity of female ownership patterns in the CWD it appears to augur well for improved innovation and competition amongst formal businesses.

Entrepreneurs in the formal sector also have more education than entrepreneurs in the informal sector (see Table 5.5). While nearly 59 per cent of all formal sector entrepreneurs surveyed have diploma or university-level training, only about 6 per cent of informal sector entrepreneurs do. Interestingly, however, just over 31 per cent of informal entrepreneurs have a matric level training compared to their formal sector counterparts, who average just over 34 per cent.

Table 5.5 Cape Winelands District: Level of education – formal and informal

Highest level of education (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
No schooling	5.0	2.4	0.0	0.0
Some primary school	18.9	2.4	1.2	0.0
Some high school	30.3	2.4	3.7	0.0
Matric	31.3	36.6	36.6	30.0
Apprenticeship	8.5	2.4	6.1	0.0
Post Matric Qualification (Diploma)	4.5	17.1	14.6	30.0
University Degree (undergrad/ postgrad/Honours/Masters)	1.5	36.6	37.8	40.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

As mentioned in MERO 2013, incomes in the CWD informal economy appear generally low, but the term "survivalist" is not appropriate for these enterprises as it does not do justice to the demonstrated sustainability of such enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their informal enterprises in favour of a theoretical offer of alternative formal work at minimum wage.

Informal enterprises demonstrate considerable connectedness to the CWD formal economy. The data shows how the informal economy is generally of larger scope and scale closer to diverse formal economic activity such as the larger towns, whilst declining in number and financial returns in contexts outside urban centres. Furthermore, their response regarding the general prospects for growth are linked to the level of business confidence reported in the formal sector.

Whilst the MERO could not comment on the economic scale of the CWD informal economy (in terms of employment numbers or GDP) the micro-enterprises studied, especially the majority operating within the township context, play an important employment role in their immediate economies. Each business employs more or less two workers and nearly 52 per cent of enterprises provide employment opportunities. Informal employment provides a means of skills acquisition, enabling the workers to either obtain a better paying job (possibly within the formal sector) or establish their own micro-enterprise.

Furthermore, the key findings of the 2013 informal sector survey indicate that there is significant scope for a policy to strengthen the relationship between informal and formal businesses in the Cape Winelands District that will allow for growth of both informal and formal businesses.

Having highlighted the relationship between the informal and formal businesses, we now turn our attention to the performance of the Cape Winelands District's informal labour market.

5.4 The business cycle impact on the Cape Winelands District informal labour market

This section analyses the CWD informal labour market at the sectoral level from 2000 - 2013. The main aim of this section is to assess the cyclicity of informal employment during the expansionary (2000 - 2007), recessionary (2008 - 2009) and the recovery (2010 - 2013) periods of the business cycle.

The issue of the effect of the business cycle on labour force participation behaviour has not received much attention in the South African literature mainly because of the difficulty of combining macroeconomic and microeconomic data in a coherent way.

However, workers' participation decisions during expansionary or recessionary periods are crucial for understanding how labour markets adjust to macroeconomic fluctuations (Darby et al, 1998). At the same time, the economic environment also affects the performance of the firms operating in the labour market which make their

decisions on labour demand needs partly based on the economic conditions of a particular region or country. Furthermore, the effect of the business cycle on firm performance is usually heterogeneous varying among different economic sectors and industries within a single country or region.

5.4.1 The economic recovery, 2010 - 2013

As shown in Table 5.6, employment growth in the informal sector of the CWD averaged 0.5 per cent per annum over the current recovery (expansion) phase of the business cycle (2010 - 2013), resulting in a cumulative net increase of 1 176 jobs. This is below the trend growth tempo of 2.3 per cent per annum registered over the 2000 - 2013 period, i.e. a cumulative net increase of 15 271 informal jobs.

There has been some net job growth over the recovery period; however, this has been achieved at a considerably lower rate than during the recession years (2008 - 2009). During the recovery years, the manufacturing sector was able to create 695 net jobs. However, the CSP services sector created 1 451 new jobs, giving it the strongest job growth during the recovery years. Sustained informal job growth was also experienced throughout the tertiary sector (excluding general government), as well as in manufacturing.

Net job losses were experienced in the construction sector, while sustained net job losses were experienced in the agricultural sector. The sectoral informal employment trends are discussed in more detail in section 5.4.2 below.

Table 5.6 Cape Winelands District: Formal vs informal employment growth and employment creation, 2000 - 2013

Sector	Informal Net Employment Creation (number)			Formal Net Employment Creation (number)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-4 105	-719	-1 047	-29 680	-9 805	-6 219
Mining and quarrying	-2	0	-1	21	12	-31
Manufacturing	2 399	170	695	-6 917	-1 370	-779
Electricity, gas and water	-6	-8	-13	115	-130	7
Construction	-457	103	-1 067	-5 088	-771	-1 796
Wholesale and retail trade, catering and accommodation	5 904	4 352	262	1 944	-2 975	574
Transport, storage, communication	2 238	1 300	323	304	-133	184
Finance, insurance, real estate, and business services	2 630	1 714	572	9 342	-1 400	1 506
Community, social and personal services	6 670	2 994	1 451	3 967	1 139	-2 441
General government	0	0	0	9 015	1 749	2 172
Total	15 271	9 906	1 176	-16 977	-13 683	-6 824
Yoy % change	2.3	10.4	0.5	-0.6	-3.3	-0.9

Source: Quantec 2014

5.4.2 Agriculture, manufacturing and services – informal employment growth performances

The CWD labour market (formal and informal) grew at an annual rate of 1.8 per cent in 2013; growth mainly occurred in the informal labour market, expanding by 8.1 per cent.

Table 5.6 displays the informal and formal employment trends in the CWD over the period 2000 - 2013. The informal sector experienced significant growth of 2.3 per cent per annum (i.e. 2000 - 2013 a net increase of 15 271 jobs), however this growth was as a result of the strong growth experienced during the recession years (10.4 per cent per annum, 2008 - 2009, or a cumulative 9 906 jobs). Unfortunately, it would appear from the evidence below that this was not new employment created but merely a displacement of formal sector employment. As noted, there has been modest growth during the economic recovery thus far (0.5 per cent per annum, 2010 - 2013, i.e. 1 176 new jobs).

Within the informal sector, significant retrenchments were experienced in the agricultural sector (719 total net retrenchments, 2008 - 2009). However, it was the increase in informal employment in the services sector, and particularly the trade sector, that was notable, with a cumulative total of 10 360 net jobs created during the recession years. As mentioned earlier, it should be noted that many of these jobs may simply have involved workers being displaced from the formal sector during the recession.

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is clear from Table 5.6 that the growth in the region has been dominated by the services sectors with a cumulative total of 2 608 informal jobs created over this same period, with the CSP services sector leading the way. Despite the growth experienced in the manufacturing sector during the recession, the primary and secondary sectors experienced a combined contraction of a cumulative 1 433 informal jobs.

5.4.3 Cyclical impact on informal employment in the Cape Winelands District

The first notable trend when comparing employment creation in the informal and formal sectors in the CWD over the 2000 - 2013 period is the significant number of net retrenchments in the formal sector during the recession (13 683 net retrenchments, 2008 - 2009) compared with the 9 906 net additional jobs created in the informal sector over the same period. Even though it is evident that during the recessionary period many workers losing their jobs in the formal sector moved to the informal sector, the informal sector was unfortunately unable to absorb all job losses in the formal sector.

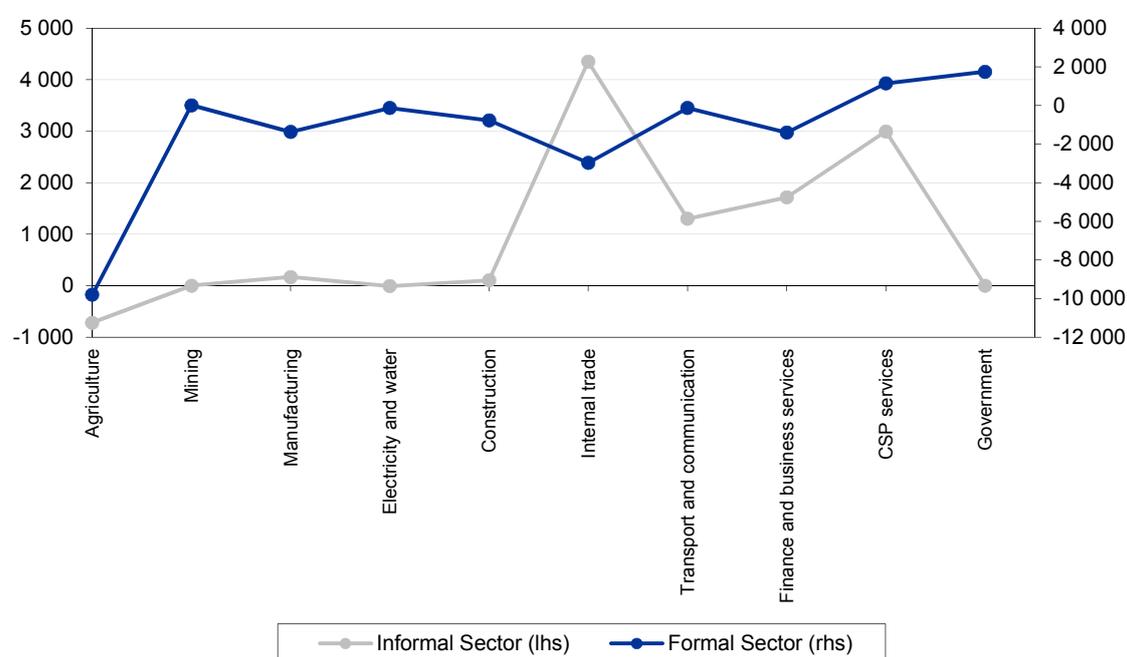
As shown in Figure 5.1, the most noteworthy performance falls within the wholesale and retail trade and catering and accommodation sector. In particular, the high number of informal net jobs created (4 352 during 2008 - 2009) far surpassed formal

net retrenchments (2 975) during the same period. Literature indicates that there has been a growing trend of informalisation within the sector and that in fact a significant number of employers are operating in the informal sector. Of these employers, a number of small and micro-enterprises are not formally registered (i.e. they fall within the informal sector), with roughly 86 per cent of the sector comprising of small enterprises nationally (DHET, 2013). Furthermore, approximately 34 per cent of people in the sector are in informal employment, with the Western Cape Province having the second highest density of employees in the sector (DHET, 2013; Stats SA, 2013). This suggests that the informal sector acts as an absorber of formal sector retrenchments, and it may also be indicative of low barriers to entry into the informal sector for this industry.

For the transport, storage and communication and finance and business services sectors, the number of net retrenchments experienced within the formal sector was surpassed by the net job creation in the informal sector during the recession years. This is potentially indicative of a high transfer or flow of skilled labour from the formal sector to the informal sector, as well as possible low barriers to entry within the informal sector.

Within the CSP services sector, net additional jobs were created in both the formal sector (1 139 net additional jobs) and the informal sector (2 994 net additional jobs) during the period 2008 - 2009.

Figure 5.1 Cape Winelands District: Change in employment during recession, 2008 - 2009



Source: Anix 2014

Within the agricultural sector, a high rate of net retrenchments in the formal sector (9 805 during 2008 - 2009) far surpassed the net retrenchments experienced in the informal sector during the recession years (719 net retrenchments). In the manufacturing sector 170 net additional jobs were created in the informal sector during 2008 - 2009, but this was overshadowed by the high rate of net retrenchments within the formal sector over the same period (1 370).

It may also be likely that those workers who were retrenched in the agricultural and manufacturing sectors (or any other sector for that matter) became informal entrepreneurs (or found employment) in other sectors, e.g. transport, tourism, etc. This situation ties in with the indication in Table 5.3 that most informal business owners began their businesses due to financial hardship and/or difficulty in finding employment.

5.5 Concluding remarks

This chapter expanded on the understanding of informal and formal linkages and highlighted that there are significant linkages of informal and formal businesses in the CWD. While detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies were not able to be analysed there appears, given the financial constraints and low-level of skills within the informal sector, that these linkages may be at risk of 'unfair' formal sector outsourcing.

During the recession (2008 - 2009) in the CWD, there were significant job losses (13 683) in the formal sectors while there were 9 906 net additional jobs created in the informal sector over the same period. Most of the employment gains in the informal sector were created in the wholesale and retail trade and catering and accommodation sector during the recession, with the high number of informal net additional jobs surpassing formal net retrenchments. This indicates that the downward rigidities of the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed.

Furthermore, given that during the recession (2008 - 2009), informal employment expanded by 10.4 per cent per annum while formal employment contracted by 3.3 per cent per annum, it would appear that the CWD demonstrates a kind of dualistic labour market approach, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector. This may be extremely useful to the CWD, as a thriving informal market may alleviate the District from developing policies aimed at assisting the openly unemployed.

The high prevalence of female entrepreneurs through the entire spectrum of businesses which is only evident in the CWD and to a lesser degree, the Metro, may indicate a lower barrier to starting a business is less severe or onerous for potential female entrepreneurs in this region. In addition, the diversity of female entrepreneurs across various sectors augurs well for innovation and increased competition within formal businesses.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms); it is recommended that the District and its municipalities consider a more nuanced view of the informal economy. The focus here should not be on extending social protection across the informal economy as this risks trapping informal entrepreneurs in relations of dependency. Instead of reducing informal entrepreneurs to skilled labour in 'unfair' formal sector outsourcing arrangements; the policies should instead aim at for example, advocating informal entrepreneurs' distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., that could build a capacity for autonomous development. Based on the municipal survey response it appears that Stellenbosch Municipality in their Municipal Economic Development Strategy are already attempting to do this.

Lastly, there is a need for policy attention to extend beyond the question of how to create and manage linkages between the formal and informal economies. What is required is a more explicit focus on who designs particular linkage arrangements, whose interests they serve, and how policy and partnership arrangements can achieve a more equitable balance of benefits for informal actors and their associations as preferred contractors, insurance providers, or workers for decent wages, rather than as cheap labour and institutional solutions. Instead of assuming that institutional complementarities between the formal and informal sectors automatically create synergy through which both sides benefit, clearer policy attention must be directed at how to turn potential formal-informal complementarities into synergistic arrangements. This requires attention to legal as well as skill-based obstacles, and to building power, leverage, negotiating skills and supportive alliances in the formal sector as part of the process of building informal associations. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Service delivery is vital to economic success. According to the Reconstruction and Development Policy framework (1994:28) at the time of the first democratic elections in South Africa in 1994, it is estimated that 12 million South Africans did not have access to clean drinking water and 21 million people did not have adequate sanitation. South Africa has a long and difficult path with service delivery. Through programs such as the Reconstruction and Development Plan (RDP), the country ventured on a path to improve service delivery and access to basic infrastructure for the masses. The provision of basic services as a vehicle for improving local economic development has always been a key priority for Government.

Following the adoption of the 1996 Constitution municipalities were mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. Chapter 1 of the Systems Act defines basic municipal services, as a "service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health, safety and the environment". Municipalities would require adequate infrastructure in order to ensure access to basic services and ensure delivery of the requirements set out in section 73(2) of the Systems Act.

The Department of Local Government define municipal infrastructure as "the capital works required to provide municipal services. It includes all the activities necessary to ensure that the works are delivered effectively, such as feasibility studies, project planning and capacity building to establish sound operational arrangements for the works". Municipal infrastructure includes transport, communication, energy, water and sanitation facilities. Most, but not all, basic services require municipal infrastructure. Municipalities are not only faced with the challenge of addressing

infrastructure backlogs but also the upgrade and maintenance of existing infrastructure.

Governments have continued to highlight the importance of infrastructure investment for basic service delivery. According to a Non-Financial Municipal Census conducted by Stats SA the provision of basic services increased by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). The highest percentage change between 2011 and 2012 was recorded in the provision of water – going up by 6 per cent. The provision of electricity, sewer and refuse increased by 4.4 per cent, 3.4 per cent and 2.7 per cent respectively over the same period.

Despite these positive changes social protests over basic service delivery in South Africa have become a common occurrence. Data compiled by the Municipal IQ showed that 173 service delivery protests were recorded in 2012, the highest number over the past decade. Municipalities are faced with varying challenges in collecting revenue and meeting the increasing demand for basic services.

This chapter analyses two important sides of the budget - revenue and expenditure. Both revenue and expenditure play very important roles in local economic and social development. This chapter examines the revenue and expenditure performance of municipalities within the Cape Winelands District (CWD). Data for the analysis was sourced from various sources such as Quantec, Western Cape Provincial Treasury and Stats SA. An overview of municipal revenue trends is provided, and its resulting impact on basic service delivery. In addition, municipal expenditure is also assessed.

6.2 Overview of municipal revenue trends in the Cape Winelands District

Since 1994 there has been a remarkable transformation of Local Government and the services they provide. The democratisation of Local Government involved municipal fiscal independence, administrative restructuring, structural transformations and an overhaul of the intergovernmental fiscal system. Hence the provision of municipal infrastructure takes place through intergovernmental transfers or own revenue which includes property taxes, surcharges on services, user fees or borrowing.

According to the Constitution municipalities should provide basic services within their financial and administrative capacities. Due to various economic inequalities revenue collection differs amongst municipalities, certain municipalities cannot provide for basic services due to limited revenue bases. Governmental transfers help to bridge these gaps. According to a report by the Financial and Fiscal Commission (2014: 97) grants and subsidies from National and Provincial Government make the largest contribution to capital revenues. The second largest contributor to capital financing is municipal own revenue followed by borrowing.

Table 6.1 illustrates total revenue generation from roads and trading services per municipality in the CWD. As can be seen over the period under consideration revenue generated was higher in Drakenstein and Stellenbosch municipalities. These municipalities contributed 37 per cent and 23 per cent to Cape Winelands District roads and trading services revenue in 2013. Breede Valley, Langeberg, Witzenberg each accounted for 19 per cent, 12 per cent and 10 per cent respectively. CWD revenue grew by a real annual average rate of 13 per cent between 2008 - 2009 and 2012 - 2013.

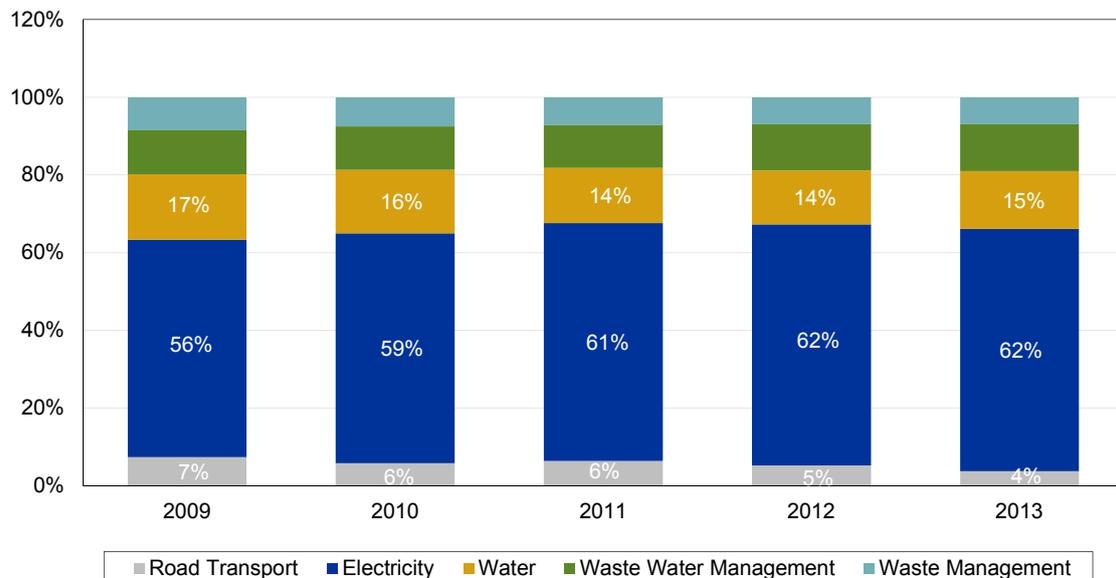
Table 6.1 Revenue per municipality (Rand; constant 2005 prices)

Municipality	2009	2010	2011	2012	2013
Cape Winelands District	3 721	2 974	3 453	3 530	3 080
Witzenberg	93 044	111 828	136 428	159 604	166 187
Drakenstein	404 387	468 784	527 132	582 806	630 423
Stellenbosch	245 443	306 278	351 761	378 966	391 395
Breede Valley	208 479	236 836	270 129	282 434	318 094
Langeberg	132 770	166 220	161 277	179 782	206 226
Total	1 084 123	1 289 945	1 446 727	1 583 592	1 712 325

Source: Western Cape Provincial Treasury

Figure 6.1 illustrates revenue collection from road transport and trading services within the CWD. Revenue derived from electricity contributes more than half of the total revenue generated within the CWD over the period 2008 - 2009 and 2012 - 2013. Since 2008 - 2009 the contribution made by revenue from water charges has declined slightly, alongside increases in revenue from electricity charges. Revenue from waste management services contributed the least to total revenue.

Figure 6.1 Contribution of service charges to municipal revenue



Source: Western Cape Provincial Treasury

The differences in revenue collection may be a result of differing tariff price structures or a reflection of a differing tax base, administrative capabilities of municipalities to collect revenue or economic performance. The administrative capabilities refer to internal municipal revenue collection inefficiencies. The tax base of a municipality is influenced by economic and demographic factors such as income levels and number of indigent¹⁰ consumers. In Drakenstein, indigent households reduced from 23 per cent in 2009/10 to 15 per cent in 2011/12, contributing to the increase in revenue collection (Drakenstein IDP, 2014). Generally high levels of poverty, a declining revenue base and poor economic growth constrains service delivery by municipalities and revenue collection. Table 6.2 shows the average GDP growth for the local municipalities over the period 2000 - 2013. We compare it to the share of revenue generated per Municipality within the CWD. Drakenstein Municipality made the largest contribution (37 per cent) to revenue collection for the District but grew at 2.9 per cent per annum; below the average GDP growth for the District (3.7 per cent over the period 2000 - 2013). Stellenbosch Municipality recorded the highest GDP growth rate (5.1) and contributed 23 per cent of the revenue collected. The above average growth of Langeberg is notable; the Municipality recorded an average GDP growth of 4.6 per cent but accounted for only 12 per cent of the total revenue collected in the District in 2013, which presumably reflects a relatively small tax base.

Table 6.2 GDP vs Percentage revenue generated in the Cape Winelands District in 2013

Municipality	Revenue % share	GDP % share	GDP Growth 2000 - 2013
Drakenstein	37%	31%	2.9%
Stellenbosch	23%	34%	5.1%
Breede Valley	19%	15%	2.3%
Langeberg	12%	11%	4.6%
Witzenberg	10%	9%	3.0%

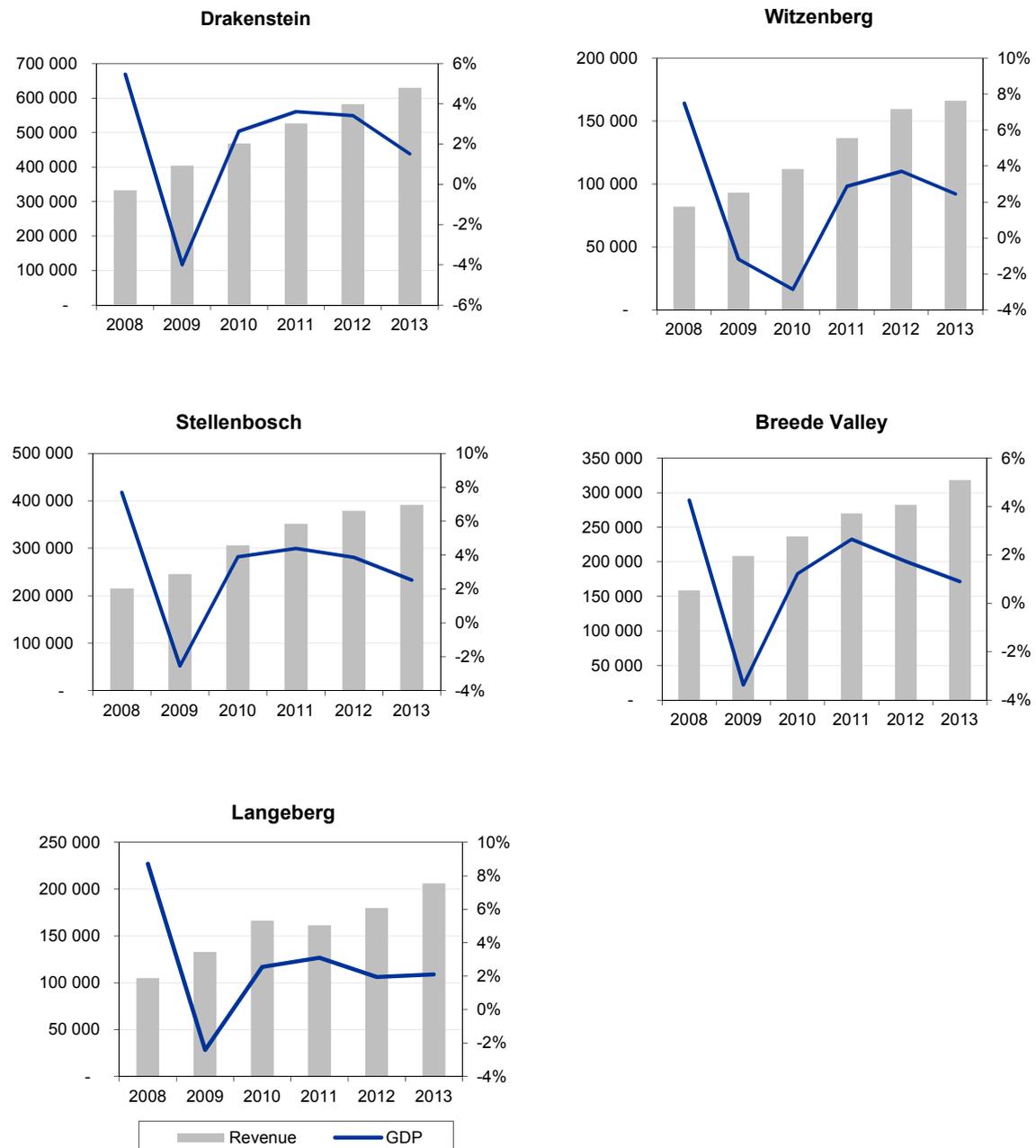
Source: Western Cape Provincial Treasury

Figure 6.2 shows an approximate relationship between revenue generation per municipality and GDP growth. From a growth perspective it is clear that Stellenbosch Municipality is the fastest growing municipality (5.1 per cent over the period 2000 - 2013). However, the municipality recorded the lowest percentage change in revenue collection over the period 2008/09 and 2012/13 (12.9 per cent). All municipalities within the CWD recorded higher revenue collection growth rates for the recession (2008/09 and 2009/10) in comparison to the recovery years (2010/11 and 2012/13). The average growth in revenue collection for Langeberg Municipality over the recession is notable; growing at an average of 25.9 per cent then dropping to 7.7 per cent during the recovery years. Contrary to what is seen in the CWD one would expect depressed economic activity during the recession to influence revenue collection. The higher revenue collection during these years suggests that municipalities weathered the impact of the recession relatively well. This high revenue growth rate presumably reflects the impact of annual tariff price increases,

¹⁰ According to the Indigent Policy the term indigent means 'lacking the necessities of life' such as water, sanitation, refuse removal and housing amongst other things.

improvements in municipal revenue collection or changes in the number of indigent consumers.

Figure 6.2 Municipal revenue vs GDP: 2008 – 2013 (R'000)



Source: Western Cape Provincial Treasury

For municipalities to maximise their revenue collection it is important for them to adopt revenue raising strategies through maintaining and improving service delivery quality. Revenue increasing strategies include expansion of service delivery, debt collection strategies, efficient revenue management, minimising water losses, maintaining an accurate billing system. For example unaccounted water losses (35 per cent) and electricity losses (12 per cent in June 2011) in Witzenberg Municipality have placed pressure on its budget process (Witzenberg IDP, 2014). These unaccounted water and electricity losses limit revenue generation due to unaccounted purchases. Municipal revenue collection and financial viability is undeniably linked to its ability to render quality services and improve access to basic services. As such the next section discusses access to basic services.

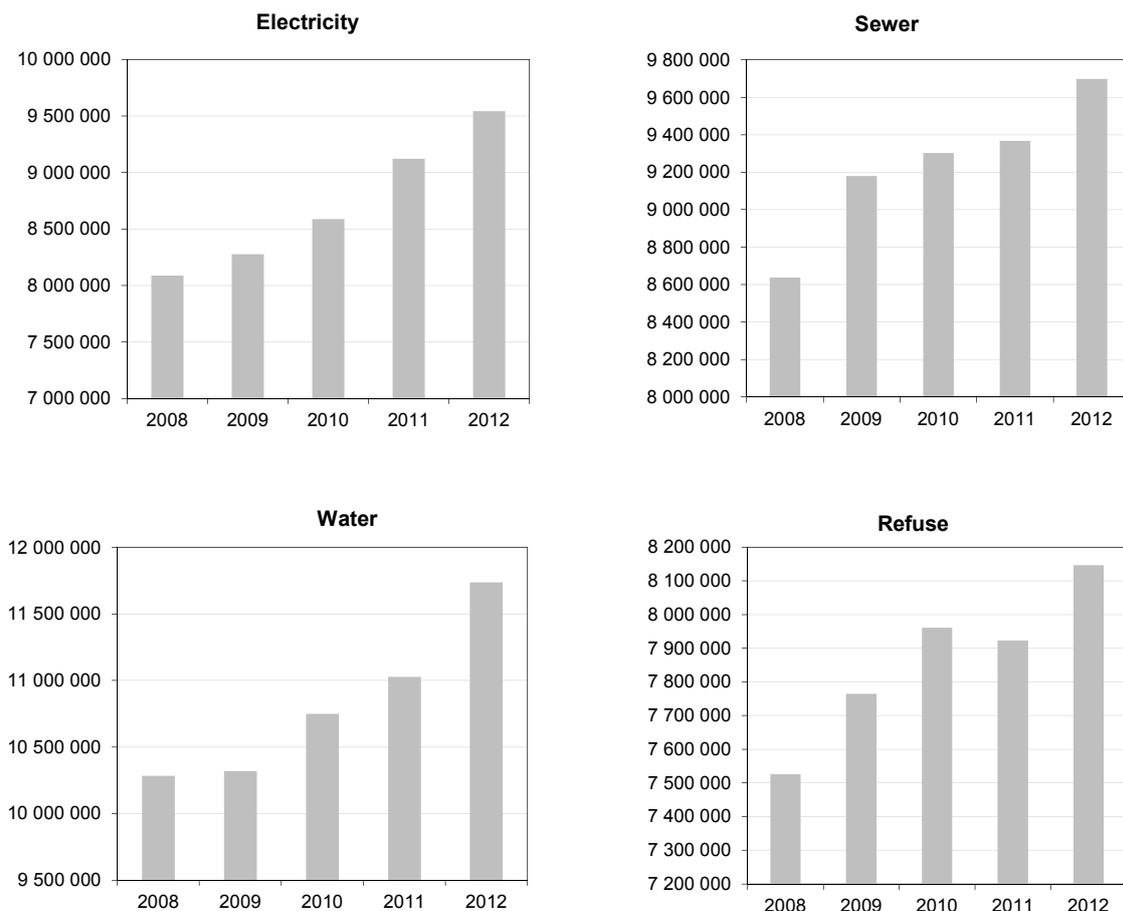
6.3 Access to basic services

Basic service delivery plays a central role in poverty alleviation. Statistics South Africa has been tracking the progress of service delivery across all municipalities since 2003 through an annual Non-financial Census of Municipalities. Since 2008 the number of households receiving electricity, sewer, water and refuse has gone up (see Figure 6.3).

According to a Non-financial Census of Municipalities conducted by Stats SA for the year ended June 2012 the provision of basic services went up by 6.4 per cent between 2011 and 2012. The census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). Table 6.3 illustrates the number of households receiving basic services in each province.

The main obstacle to accelerating basic service delivery is the proliferation of urban settlements and lack of appropriate infrastructure. Water provision is influenced by locational factors and distance from water source.

Access to basic services helps improve socio economic conditions of the poor enabling them to participate in economic activities. Since 1994 various laws have been adopted to improve the socio economic conditions of the poor (SERI, 2013). At the local level this comes in the form of the provision of free basic services to indigent consumers - 6 kl water and 50 kWh electricity per month. The provision of free basic services plays an important role in enabling the poor to take part in economic activity.

Figure 6.3 Number of households receiving basic services

Source: Stats SA: Non-financial Census of Municipalities

Table 6.3 Number of households receiving basic services in each province

Province	Water		Electricity		Sewerage and sanitation		Solid waste management	
	2011	2012	2011	2012	2011	2012	2011	2012
Western Cape	1 023 117	1 223 237	1 215 410	1 242 786	1 014 527	1 032 682	1 257 378	1 274 281
Eastern Cape	1 496 300	1 568 621	997 571	1 056 322	1 021 752	1 098 311	752 350	778 202
Northern Cape	240 435	250 605	248 465	261 591	237 708	245 114	209 947	219 947
Free State	725 191	768 064	656 332	661 732	665 955	698 785	526 830	560 684
KwaZulu-Natal	1 919 351	1 991 349	1 526 952	1 597 910	1 675 267	1 723 360	1 429 068	1 455 627
North West	713 216	741 934	775 743	792 721	588 158	615 626	465 048	466 084
Gauteng	2 799 716	3 001 574	1 925 463	2 076 143	2 708 004	2 778 742	2 513 354	2 577 966
Mpumalanga	940 433	963 323	670 271	706 914	820 665	853 648	405 734	420 509
Limpopo	1 169 483	1 228 827	1 103 549	1 144 869	635 586	651 118	363 391	393 649
Total	11 027 242	11 737 534	9 119 756	9 540 988	9 367 622	9 697 386	7 923 100	8 146 949

Source: Stats SA: Non-financial Census of Municipalities

Each municipality within the CWD operates in unique demographic and economic circumstances that make access to basic services vary across municipalities. The varying number of households with access to basic services across the local municipalities in the CWD is a reflection of differing population sizes, economic activity and challenges that municipalities face in the delivery of basic services.

Table 6.4 Number of households with access to basic services in 2012*

Municipality	Water	Electricity	Sewer	Refuse
Breede Valley	27 693	26 913	19 481	20 069
Drakenstein	41 427	48 164	41 049	51 972
Langeberg	16 074	18 007	15 624	14 987
Stellenbosch	28 612	26 429	19 233	32 668
Witzenberg	11 608	12 619	12 522	16 398

* Information differs from primary data sources due to certain exclusions.

Source: Stats SA: Non-financial census of municipalities

One of the ways in which the success of any local government is measured is through the delivery of basic services. The table above shows the number of households with access to basic services in each municipality within the CWD. From the table it would appear as if more households under the Drakenstein region have access to basic services whilst Witzenberg has the least households with access to basic services. However the number of households with access to basic services under each municipal region differs due to the differing population distribution across these municipalities. The CWD has the second largest population in the Western Cape after the City of Cape Town. Most municipalities within the region face the problem of the maintenance of ageing infrastructure. Major challenges faced by the municipalities are as follows:

- The provision of refuse services is a means to prevent uncontrolled dumping of waste. Refuse removal helps in the avoidance of health problems whilst also protecting the environment. The relatively low number of households with access to refuse removal in Witzenberg is mainly due the low population figures recorded within the municipality. High poverty levels and an inability to pay for services hampers the ability of Witzenberg Municipality to fund basic service delivery backlogs.
- Access to electricity is critical to ensuring social and economic development. The use of some alternative energy sources or polluting fuels causes a variety of illnesses and other health problems. The use of energy is not only important for households use but also for business activities. Of particular concern in the Drakenstein Municipality area is the current electrification backlogs and the need to upgrade its electricity infrastructure. The Drakenstein municipal region is largely supplied with electricity by the municipality and the balance which is a relatively small portion are being supplied by Eskom. There is pressing needs for additional bulk capacity in most areas within the municipal region. Stellenbosch Municipality also recognises the dire need for the electrification of Enkanini and similar areas (Provincial Treasury: Municipal Survey, June 2014).

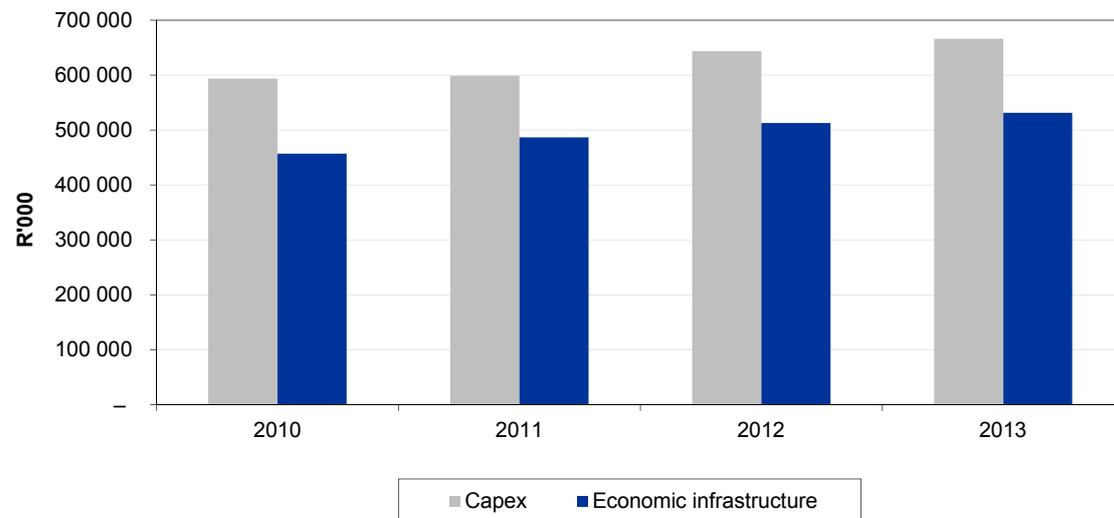
- Access to water is important in ensuring improved quality of life and economic development. Improved water sources are a key to preventing the use of unsafe supplies that impact public health. Population increases and new developments often put pressure on water demand. Based on the Stellenbosch municipal survey questionnaire the sustained provision of water within the area is a challenge. The municipality recognises the need to upgrade its water infrastructure. Witzenberg municipality also recognises the significant water backlogs that are recorded within its rural areas (Witzenberg IDP 2014).

Municipalities have a wide array of financial instruments to use in meeting their service delivery responsibilities. In order for municipalities to provide basic services they need to generate the required revenue. Hence revenue management and revenue raising strategies need to be implemented. It is crucial that these scarce resources are used effectively and efficiently to ensure that service delivery is optimised. In this regard the following section analyses infrastructure expenditure.

6.4 Infrastructure expenditure

The President's 2014 State of the Nation Address highlighted Government's continued commitment to the National Infrastructure Plan as a tool for promoting economic growth. With this growing emphasis on infrastructure investments, municipalities within the CWD have continued in their efforts to improve infrastructure availability and eradicate service backlogs. Figure 6.4 shows the total infrastructure expenditure in the CWD against the Capital expenditure budget for the period 2010 to 2013. In 2013, infrastructure expenditure took up 80 per cent of the entire capital expenditure budget for the whole district.

Drakenstein and Stellenbosch are part of the Province's top-10 leading non-metro municipalities and each contributed 35 per cent and 25 per cent respectively to total infrastructure expenditure in the region (see Table 6.5). Langeberg Municipality had the least infrastructure expenditure within the region, accounting for 7 per cent of the total infrastructure expenditure. Witzenberg Municipality recorded the second highest percentage change in infrastructure expenditure from 2012 to 2013, however this Municipality contributed 14 per cent to economic infrastructure expenditure in the region.

Figure 6.4 Capex vs Economic infrastructure expenditure: 2008 - 2013

Source: Western Cape Provincial Treasury

Infrastructure expenditure should be directed towards influencing economic growth. Budgetary constraints call for an investigation into the types of infrastructure that would influence economic growth. Expenditure continues to be high in five main forms of infrastructure, i.e. water provision, waste water management, road transport and electricity (see Table 6.6). Water and waste water management are the largest capital expenditure items. Electricity and waste management constitute relatively smaller shares of municipal capital expenditure. The relatively smaller contribution made by electricity could be a result of intergovernmental arrangements (Financial and Fiscal Commission, 2014). For example, local government and Eskom are both involved in the distribution of electricity to consumers. Eskom therefore also invests significantly in electricity infrastructure.

Table 6.5 Cape Winelands District infrastructure expenditure per municipality, 2013

Municipality	2009	2010	2011	2012	2013
Cape Winelands District	0%	0%	0%	0%	0%
Witzenberg	0%	5%	10%	12%	14%
Drakenstein	6%	36%	36%	43%	35%
Stellenbosch	87%	19%	20%	28%	25%
Breede Valley	4%	26%	27%	13%	19%
Langeberg	2%	13%	6%	5%	7%

Source: Western Cape Provincial Treasury

Table 6.6 Cape Winelands District economic infrastructure expenditure per budget line item, 2013

Budget Line Item	Municipality (Rand)						Cape Winelands District	Total
	Witzenberg	Drakenstein	Stellenbosch	Breede Valley	Langeberg			
Planning and Development	139 362	1 374 497	338 413	0	0	18 201	1 870 474	
Road Transport	25 846 614	18 140 402	36 593 907	6 497 631	3 816 437	192 937	91 087 929	
Environmental Protection	0	0	367 419	151 926	82 033	0	601 378	
Electricity	2 169 134	30 012 232	20 473 561	29 914 732	7 569 898	0	90 139 556	
Water	25 291 860	38 417 946	17 067 341	40 201 033	12 146 458	0	133 124 638	
Waste Water Management	16 025 465	92 909 834	50 314 481	23 373 903	10 249 000	0	192 872 683	
Waste Management	6 241 126	3 406 771	6 108 778	999 700	5 008 910	0	21 765 284	
Total	75 713 562	184 261 682	131 263 900	101 138 925	38 872 735	211 138	531 461 942	

Source: Western Cape Provincial Treasury

6.4.1 Infrastructure investment and economic growth

Empirical evidence has shown that infrastructure investment will have a variety of effects on growth. Various studies have tried to provide empirical proof of the typical impact that various forms of infrastructure expenditure would have on the economy. Early reviews of the empirical literature can be found in Fourie (2006).

Public spending on infrastructure is an effective tool for job creation and labour productivity. Kumo (2012) considered the relationship between economic growth, economic infrastructure investment, and employment in South Africa for the period 1960 - 2009. The author finds that there is a two way causal relationship between infrastructure investment and job creation in the public sector. An expansion of infrastructure expenditure has both a direct and an indirect impact on job creation. The direct effect are the jobs created by infrastructure production, whereas the indirect effects are the jobs created as a result of the increased demand for the material used in the production of infrastructure. As previously discussed in Chapter 3 over the period 2000 - 2013 the transport sector created employment at a rate of 3.0 per cent per annum and the electricity and water sector grew at a rate of 2.0 per cent per annum. In contrast the employment contractions in the construction sector are a cause for concern (3 per cent over the period 2000 - 2013). It is important to note that the indirect impact of infrastructure investment on employment may be a lot more visible than the direct impact. The resulting impact of an investment in infrastructure will be captured in the construction sector. Once construction is complete the capacity to provide basic services, e.g. transport and communications, boosts economic activity thus creating jobs in other sectors.

Table 6.7 GDP vs Infrastructure levels at municipal level

Municipality	GDP Growth 2000 - 2013	Infrastructure Level
Drakenstein	2.9%	Medium
Stellenbosch	5.0%	High
Breede Valley	2.2%	Medium
Langeberg	4.5%	Medium
Witzenberg	3.0%	Low

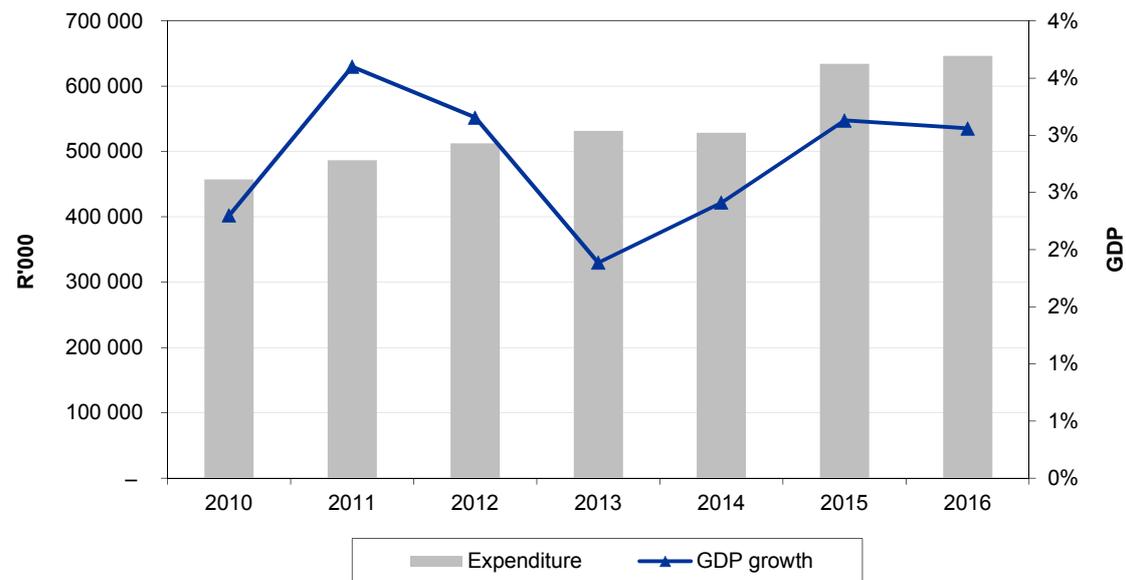
Source: Van Niekerk, A et al (2014) and Quantec Research 2014

Empirical evidence at the national level has shown that infrastructure investment does have an impact on growth. As mentioned in the MERO 2013 report, results from the 2014 Growth Potential Study by Van Niekerk, A et al (2014) revealed that the best performing municipality in the CWD according to an infrastructure index is Stellenbosch Municipality. The Growth Potential Study also finds that towns that fall under Stellenbosch Municipality were rated high according to the infrastructure index except for Klapmuts and Franschoek which are rated low. Towns with the most severe infrastructure challenges in the CWD are De Doorns, Robertson, Ashton, and Touws River. Table 6.7 shows that at municipal level Stellenbosch Municipality recorded the highest average annual growth rates over the period 2000 - 2013 and is also ranked high according to the infrastructure index¹¹. The municipality benefits from its location advantages by being close to the Cape Metro and bordered by the N1 and N2 roads.

Despite making the highest contribution to infrastructure expenditure within the District, Drakenstein Municipality (2.9 per cent) grew at a rate lower than Witzenberg Municipality (3.0 per cent) over the period 2000 - 2013. Witzenberg Municipality is the smallest within the region and performs poorly according to the infrastructure index. The challenge the municipality faces in meeting its infrastructure need are compounded by its rural dominance, low revenue bases and resource constraints (Witzenberg IDP, 2014). The bottom line is that poor infrastructure in Witzenberg (such as poor communication systems or poor roads) cannot continue supporting a growing economy over the long term.

The different forms of infrastructure expenditure have made differing contributions to GDP growth within the District. As previously shown in Chapter 3 the transport and communication sector grew above average expanding real value added by 5.8 per cent per annum over the period 2000 - 2013. Despite its disappointing performance in employment creation the construction sector also grew above average, expanding real value added by 6.5 per cent per annum over the same period. In contrast the electricity and water sector grew below average at 2.3 per cent per annum over the period 2000 - 2013.

¹¹ Their final core indicators were vacant industrial stands, distance to nearest scheduled airport, distance to nearest small harbour and slipway, percentage households with in-house access to water, percentage household with access to electricity, and spare capacity of waste water treatment works (WWTW) (Van Niekerk, A, 2014:66).

Figure 6.5 GDP vs Total economic infrastructure expenditure: 2010 - 2013

Source: Western Cape Provincial Treasury

Whilst data limitations preclude a complete empirical presentation, Figure 6.5 provides an approximation of the relationship between infrastructure expenditure and economic growth. It is important to note the role played by time lags in between expenditure on infrastructure and its resulting impact on economic growth. In the investment phase the direct impact of infrastructure spending on GDP occurs mainly via the construction sector. During this phase the demand for construction equipment and employment increases. Once construction is complete the capacity to provide basic services, transport and communications increases facilitating higher economic activity. Thus infrastructure spending has a lagged effect on GDP.

The largest contributing sector to GDP under Witzenberg municipality is agriculture; unfortunately most primary agricultural production takes place in areas far away from markets. Hence there is a growing need to provide infrastructure to convey goods effectively to points of export. Towns such as Ashton that were ranked low according to the infrastructure index in the Growth Potential Study and have medium development potential are recommended for infrastructure development. Investment in infrastructure would be more effective if it focused on the growth centres for which the region has comparative advantage. With financial and business services sector accounting for 21.5 per cent of value-added, manufacturing accounting for 19 per cent and internal trade accounting for 17.4 per cent it is important that infrastructure investment projects support these sectors. In Stellenbosch the roll out of free Wi-Fi in 2012 will go a long way in supporting these sectors. The close proximity the manufacturing sector to raw materials and ports has resulted in a diversified manufacturing sector within the region. With agriculture being the largest employer it is important to also strengthen the infrastructure that supports the agricultural sector. Infrastructure projects such as these will also have multiplier or knock-on effects that have a longer term macroeconomic impact on the economy.

6.5 Conclusion

Government recognises that basic service delivery through infrastructure investment is the cornerstone to economic and social upliftment. It is important that municipalities also endorse an infrastructure led growth approach. Economic theory and empirical work suggest that public investment in infrastructure has a positive impact on economic growth. An important factor considered by investors when relocating into an area is the provision of basic services within that area. The Municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act. The provision of Municipal Infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. The data presented in this chapter analysed two important sides of the budget, i.e. revenue and infrastructure. The analysis revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the CWD. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each Municipality.

According to the Growth Potential Study, Stellenbosch Municipality is rated high according to an infrastructure index. Langeberg, Drakenstein and Breede Valley municipalities were rated as medium performers whilst Witzenberg was rated low according to the infrastructure index. Various factors affect the ability of municipalities to invest in infrastructure for service delivery. Restraining factors such as the upgrading and renewal of existing infrastructure impact massively on the ability of municipalities to provide basic services. The retention of skilled staff has also been a threat to efficient service delivery. Infrastructure delivery in Witzenberg is influenced by the high poverty rates within their municipal jurisdiction. On the other hand Stellenbosch and Drakenstein municipalities benefit from their locational advantages; close proximity to the Cape Metro and national roads.

The impact of infrastructure investment on growth within the CWD depends on individual municipalities' infrastructure investment decisions. Economic characteristics and development potential should guide infrastructure investment decisions. With agriculture being the backbone of the District infrastructure, investments within the region should focus on supporting the sector. Such investments will not only impact agriculture GDP growth but will also have multiplier or knock-on effects on the rest of the economy.

7

Socio-economic analysis and economic performance

7.1 Introduction

The previous Municipal Economic Review and Outlook (MERO) studies provide a focused institutional framework for microeconomic analysis – in the form of the districts and their constituent municipalities. MERO 2014 follows from its predecessor, MERO 2013, in that it includes a socio-economic analysis. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact their economy has on it.

This chapter aims to create a link between the information provided in the Socio-Economic Profiles of 2013/14, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to the population, human development, education, household income, income inequality and poverty in the District, each in relation to the District's economic performance.

7.2 Demographic indicators

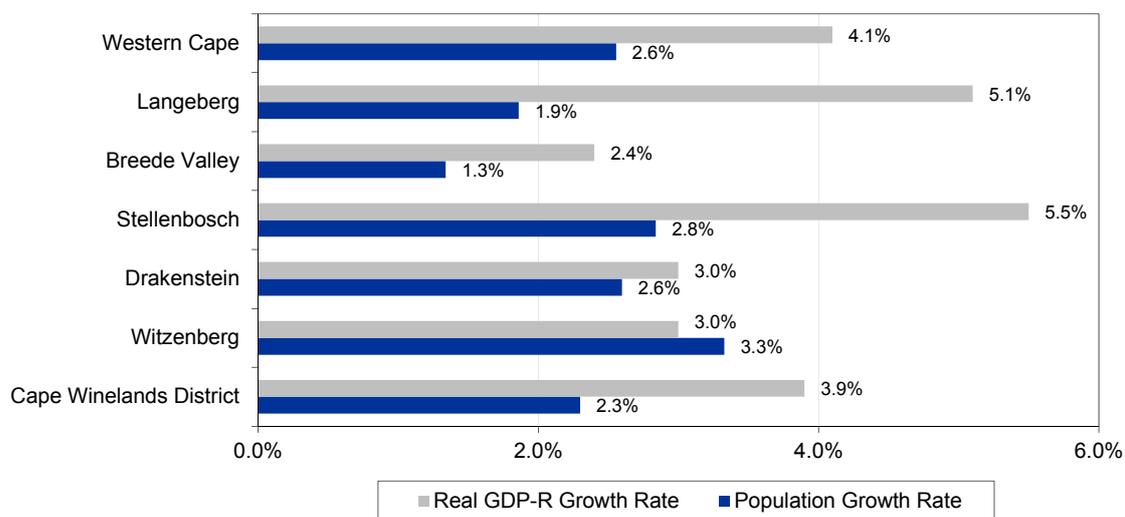
7.2.1 Population and economic growth

According to Statistics South Africa 2011 Census data, the Western Cape Province has 5.822 million people, having increased from 4.524 million in 2001. The average population growth rate in the Western Cape is thus 2.6 per cent per annum. The Western Cape economy grew at a rate of 4.1 per cent on average per annum from 2001 to 2011. The fact that the economy grew faster than the population within the

Province indicates that per capita income is increasing over time, ensuring improving, though uneven standards of living for its inhabitants. The per capita income¹² in constant 2005 prices increased from R37 496 in 2001 to R43 557 in 2011.

A closer look at the Cape Winelands District (CWD) indicates that per capita income has been on the rise over the period from 2001 to 2011. The CWD population size was 787 490 in 2011. As seen in the table below, its population grew at a rate of 2.3 per cent per annum from 2001 to 2011. Its economy grew at a faster rate of 3.9 per cent on average per annum, indicating that there has been an increase in per capita income over this period. The GDP per capita increased from R31 282 in 2001 to R36 730 in 2011.

Figure 7.1 Cape Winelands District annual average population and real GDP growth rate, 2001 - 2011



Source: Statistics South Africa, Census 2001 and 2011

According to Stats SA, Witzenberg Municipality has the highest population growth rate amongst the municipalities within the CWD between 2001 and 2011 at 3.3 per cent. It has the second smallest population size in the District of 115 946 people. Witzenberg's economic growth rate of 3.0 per cent is lower than its population growth rate indicating a drop in per capita income over time and a strain on municipal resources. Population growth not only stems from natural causes but is also largely due to net in-migration in certain areas.

Langeberg, Drakenstein and Breede Valley each experienced an increase in per capita income over the period from 2001 to 2011 of 38.6, 10.9 and 4.3 per cent respectively. This is mainly because in each case the real GDP-R grew at a faster rate than the population.

¹² Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

Stellenbosch has the highest increase in per capita income (R47 833 to R61 733) over the period from 2001 to 2011. It has a population size of 155 733 persons and a population growth rate of 3.3 per cent. Its real GDP growth rate over the period was one of the highest in the Province at 5.5 per cent. The discrepancy is an indication that per capita income has been increasing in the Stellenbosch region.

Figure 7.1 shows that between 2001 and 2011 per capita income increased in all municipalities within the CWD, apart from Witzenberg Municipality which experienced a decline. This translates to an improvement in the standard of living of the inhabitants of the CWD as a whole.

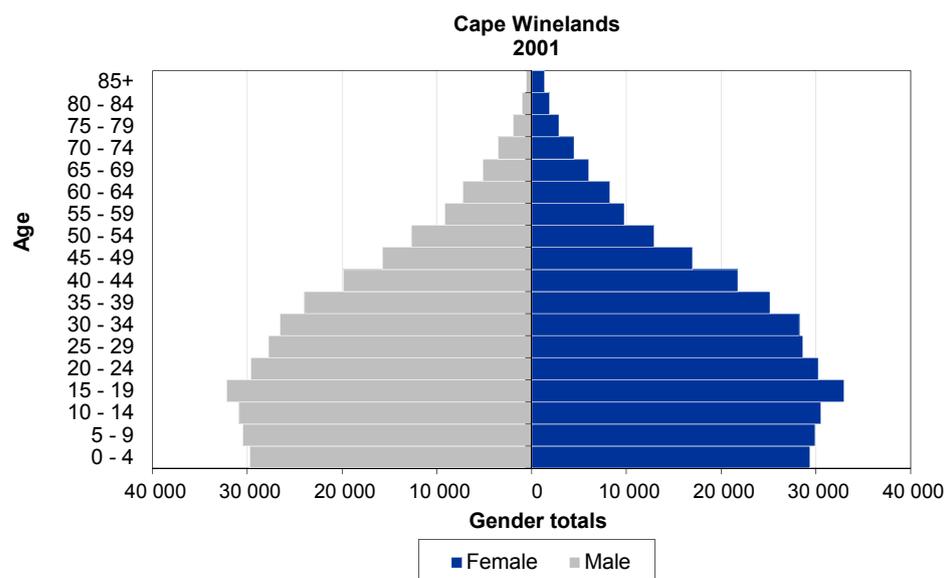
7.2.2 Age distribution, dependency and youth unemployment

The population can be classified into three main groups namely the children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older.

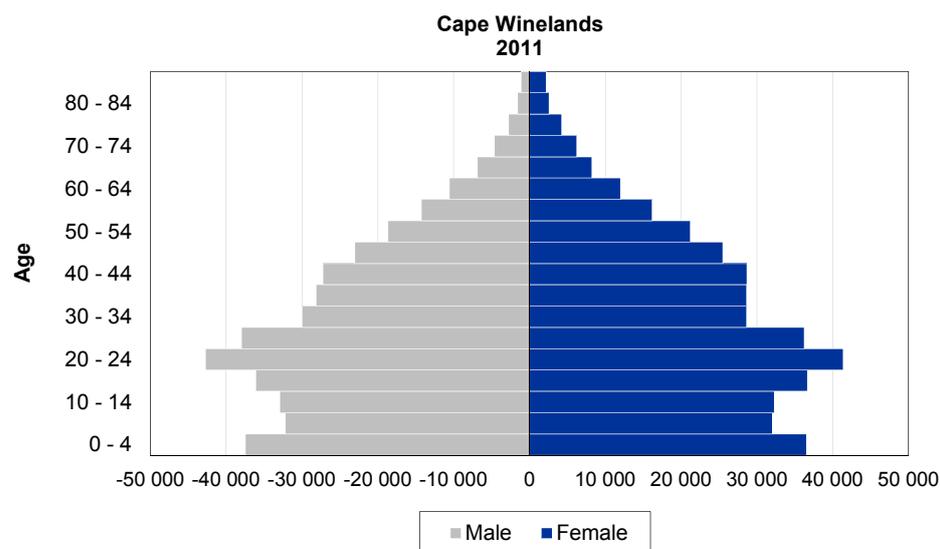
In 2011, the Cape Winelands District regional population composition was as follows: 203 475 (25.8 per cent) children, 543 601 (69 per cent) economically active and 40 417 persons (5.1 per cent) aged 65 years and older. Between 2001 and 2011 the children (aged 0 – 14) and youth (aged 15 - 34 years) population grew at an annual average rate of 0.9 per cent per annum respectively, whereas the aged population (65 years and older) grew at an annual average rate of 10.3 per cent. This implies an increase in life expectancy in the region.

Accordingly, the average child dependency ratio decreased from 43.1 per cent in 2001 to 37.4 in 2011 whilst the age dependency ratio increased from 6.9 per cent to 7.4 per cent over the same period. The total dependency ratio has thus declined implying a lowered strain on the income of the working age population.

Figure 7.2 Cape Winelands District population pyramid for 2001



Source: Statistics South Africa, Census 2001

Figure 7.3 Cape Winelands District population pyramid for 2011

Source: Statistics South Africa, Census 2011

There has been a decline in the youth (age 15 - 34) share of the population in the CWD from 37.5 per cent in 2001 to 36.8 per cent in 2011. This may explain, to an extent, the decline in the youth unemployment rate in the region from 22.2 to 17.1 per cent over this period. CWD has the lowest youth unemployment rate amongst all the districts in the Western Cape.

The youth represent 53.3 per cent of the labour force; however they represent 59.1 per cent of the unemployed. Young people are therefore over-represented in the unemployed group, relative to their share of the labour force. This could be attributed to the youth's lack of hard skills and work experience, creating deficient labour demand for youth. The lack of diverse industries and the selective nature of youth during their search for jobs also contribute to the high youth unemployment rate. Youth unemployment is most prevalent in Drakenstein Municipality at a rate of 24.6 per cent, having declined from 29.5 per cent in 2001.

The decline in the dependency ratio, as well as the steady decline in the youth unemployment rate paints a positive picture for the municipality.

7.3 Development indicators

7.3.1 Educational level and employment

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate in the country as a whole of 80.9 per cent. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the provinces in the country from 2001 to 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and

substance abuse among the youth. Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education during the Apartheid regime.

In the CWD the literacy rate is slightly lower than the Provincial average at 81.7 per cent. Nevertheless, it is the District with the second highest literacy rate. Its unemployment rate is the lowest in the Province at 14.2 per cent. This conforms with economic theory in that higher levels of education have led to lower levels of unemployment.

The Municipality with the highest literacy rate is Stellenbosch at 84.9 per cent. The corresponding unemployment rate is however the second highest in the District at 15.2 per cent, explained by the poor performance in the manufacturing and agricultural sector in terms of employment creation as mentioned in Chapter 3. The municipality with the lowest literacy rate is Langeberg with 73.2 per cent. Langeberg however has a relatively low unemployment rate of 11.3 per cent. This is also the case in Witzenberg Municipality with an unemployment rate of 7.6 per cent whilst having a relatively low literacy rate of 75.5 per cent. These municipalities have largely unskilled labour, but its high prevalence of primary/secondary activities creates a demand for semi-skilled and unskilled labour.

Table 7.1 Literacy rates across the Cape Winelands District municipalities in 2011

Province/Municipality	2001	2011
Western Cape	85.0%	87.2%
Witzenberg	65.0%	75.5%
Drakenstein	77.0%	84.8%
Stellenbosch	80.0%	84.9%
Breede Valley	71.0%	82.1%
Langeberg	62.0%	75.3%
Cape Winelands District	72.0%	81.7%

Source: Statistics South Africa, Census 2011

Table 7.2 Cape Winelands District unemployment rates 2001 – 2011

Province/Municipality	2001	2011
Western Cape	26.2%	21.6%
Cape Winelands District	17.0%	14.2%
Witzenberg	13.6%	7.6%
Drakenstein	22.8%	17.6%
Stellenbosch	16.9%	15.2%
Breede Valley	19.7%	14.4%
Langeberg	12.2%	11.3%

Source: Statistics South Africa, Census 2001 and 2011

Approximately 34 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2014), yet it is clear that there is room for improvement with regard to skills development in the CWD and Western Cape as a whole. As mentioned in Chapter 3, the services sector has been able to create substantial unskilled and semi-skilled jobs, but large job losses in the

manufacturing, construction and agricultural sectors, even during the economic recovery period, have led to an overall increase in unemployment.

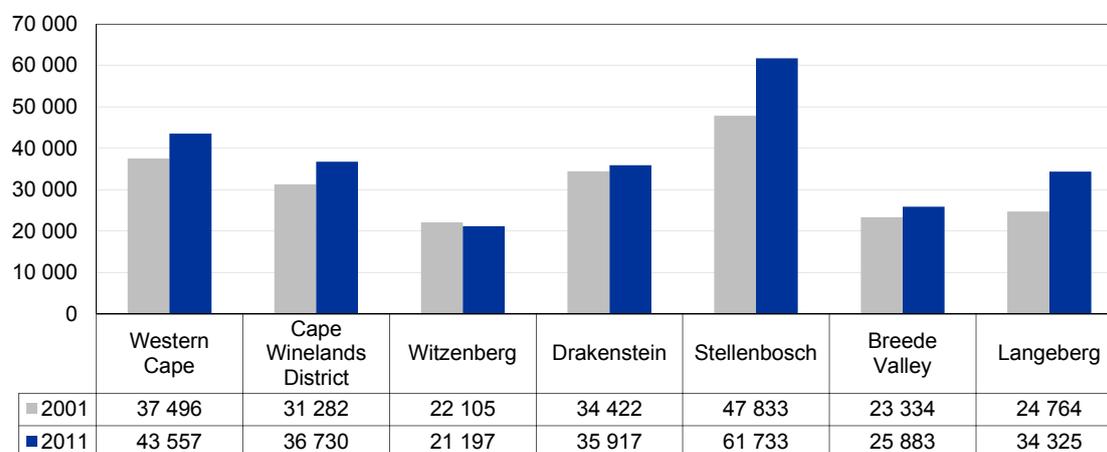
There is a trend towards employing highly skilled and skilled labour. As mentioned in Chapter 3, the demand for semi-skilled to unskilled labour contracted by 2.2 per cent per annum between 2000 and 2013. This indicates that going forward, low skilled labour intensive employment initiatives as well as skills development will be necessary to stimulate the creation of new job opportunities in the CWD.

7.3.2 Household income and income inequality

According to Statistics South Africa Census 2011, average household income in the country has doubled over the last decade; however, high levels of income inequality still persist. Most informed observers would agree that economic resources should be more evenly distributed amongst the inhabitants of the country and that such a redistribution policy should make a real positive difference to the livelihoods of the poor.

The CWD has a large population size, but the population growth rate is lower than the economic growth rate, which implies real per capita incomes increased between 2001 and 2011, as deduced in section 7.2.1. Despite this increase, the level of GDP per capita incomes in the CWD of R36 730 is below the provincial average estimated at R43 557 per annum (see Figure 7.4 below).

Figure 7.4 Cape Winelands District GDP per capita (constant 2005 prices), 2001 - 2011



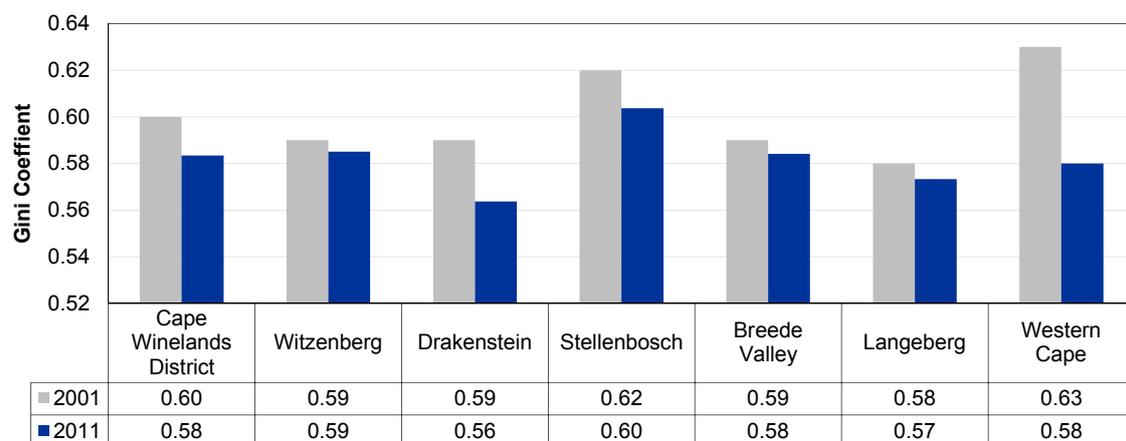
Source: Quantec, 2013

Witzenberg, Langeberg and Breede Valley have the largest proportion of households earning in the income bracket between R9 601 and R76 400, which is a lower bracket compared to that of Drakenstein and Stellenbosch with the larger proportion of households in these municipalities earning between R19 601 and R153 800 per annum (see Table 7.3).

Table 7.3 Cape Winelands District average household income, 2011

Cape Winelands District	None income	R1 - R4 800	R4 801 - R9 600	R9 601 - R19 600	R19 601 - R38 200	R38 201 - R76 400	R76 401 - R153 800	R153 801 - R307 600	R307 601 - R614 400	R614 001 - R1 228 800	R1 228 801 - R2 457 600	R2 457 601+
Witzenberg	6.4%	1.9%	4.0%	18.5%	25.8%	20.9%	10.4%	6.8%	3.9%	0.9%	0.3%	0.2%
Drakenstein	13.0%	1.7%	3.1%	10.7%	17.2%	18.4%	13.9%	11.0%	7.4%	2.5%	0.7%	0.4%
Stellenbosch	20.6%	2.1%	3.5%	10.2%	16.5%	15.5%	11.5%	8.5%	6.6%	3.3%	1.0%	0.7%
Breede Valley	12.0%	1.7%	2.9%	14.9%	22.2%	19.0%	12.6%	8.5%	4.7%	1.0%	0.3%	0.2%
Langeberg	9.7%	2.3%	4.4%	15.5%	24.9%	20.0%	11.0%	7.3%	3.6%	0.8%	0.2%	0.2%

Source: Statistics South Africa, Census 2001 and 2011

Figure 7.5 Cape Winelands District Gini coefficients, 2001 - 2011

Source: IHS Global Insight, 2013

The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. The coefficient varies between 0, which represents complete equality and 1, which represents complete inequality. The Gini coefficient is bound to be an under-estimation in that it does not measure wealth (only income) and it does not account for income that accrues to the owner, but never enters the country as well as the extent thereof. With a Gini coefficient of 0.77 in 2001, South Africa displayed very high levels of income inequality. The South African Government provides its households with free basic services, thus their wealth could be greater even though this is not represented when looking at income levels. The Gini coefficient in the Western Cape was also relatively high at 0.63 in 2001, but it declined to 0.58 in 2011 (see Figure 7.5 above).

Income inequality in the CWD is on par with that of the Western Cape (0.58 in 2011); however it only showed a 0.02 point decline from 2001. The Gini coefficients for all municipalities except Witzenberg showed a marginal improvement over the period 2001 to 2011.

Stellenbosch has the largest GDP per capita of R47 833 owing to its relatively large levels of GDP. It also has the largest proportion of households (20.6 per cent) earning no income in the CWD. Stellenbosch is the largest and fastest growing non-metro municipality in the Province. However, it experienced large declines in employment in the manufacturing and agricultural sectors, which, amongst other, explains the large

percentage of households earning no income. Stellenbosch also has the highest Gini coefficient in the region, as can be seen from the largely unequal distribution of income among the income categories.

The GDP per capita in Witzenberg Municipality is the lowest in the District at R21 197 per annum. This is due to the low levels of GDP in the Witzenberg economy. In 2011 it contributed only 8.5 per cent of total GDP in the CWD. The average household income of the majority of Witzenberg households (25.8 per cent) lies between R19 601 and R38 200 per annum. It in turn has the second highest Gini coefficient of 0.59 as can be deduced from the largely unequal distribution of income among the income categories.

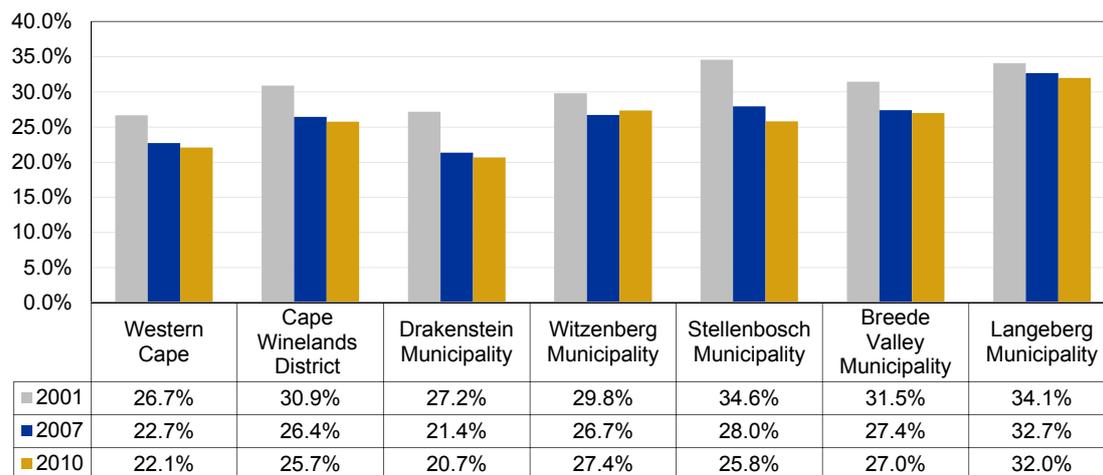
Generally the largest proportion of households in the CWD earn between R19 601 and R38 200. These values are relatively low and explain the large number of indigent households within the CWD. The high levels of inequality (with a Gini coefficient equal to 0.58) indicate that the improving economic conditions may be slow to translate to all individuals within the region.

7.3.3 Poverty, employment and economic growth

Poverty is generally influenced by levels of employment and economic growth. High poverty rates in South Africa in general and in the Western Cape Province in particular have led to poverty reduction being prioritised by the South African Government. Municipalities support those living in poverty, i.e. indigent households, by providing these households with access to free basic services (Municipal Indigent Support Policy, 2014/15).

Figure 7.6 outlines the proportion of households living in poverty in each municipal area within the CWD between 2001 and 2010. The Western Cape Province has seen a 29.0 per cent decline in indigent households, which indicates a positive move towards coming to grips with addressing poverty. The CWD has also displayed positive results. Overall, there has been a decline in the proportion of indigent households in the CWD, albeit that this improvement was limited to the Stellenbosch, Drakenstein and Breede Valley municipalities. This is mirrored when considering the poverty rates within the District.

The percentage of people living in poverty in the Western Cape has declined from 26.7 per cent in 2001 to 22.1 per cent in 2010. The CWD showed a similar improvement, however the poverty rate was higher compared to that for the Province at 25.7 per cent in 2010. The general improvement in poverty rates is largely attributed to the economic expansionary period over the 2000 - 2007 period. The municipality with the lowest poverty rate was Drakenstein with 20.7 per cent (2010) and the highest was Langeberg Municipality with 32.0 per cent.

Figure 7.6 Percentage of households living in poverty 2001 - 2010

Source: IHS Global Insight, 2013

Poverty levels in the CWD are relatively high despite the improvements shown. Issues such as a lack of skills, intergenerational poverty and inequalities need to be addressed in order to alter this picture.

7.3.4 Human development

The Human Development Index (HDI) is a composite statistical index of life expectancy, education indices and income indices. It averages at 0.68 in the Western Cape Province. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2011.

Table 7.4 Human Development Index 2000 – 2012

Municipality	2001	2011	2012
Cape Winelands District	0.63	0.69	0.68
Witzenberg	0.58	0.65	0.65
Drakenstein	0.65	0.70	0.70
Stellenbosch	0.66	0.71	0.71
Breede Valley	0.62	0.68	0.68
Langeberg	0.58	0.66	0.66

Source: Statistics South Africa, Census 2001 and HIS Global Insight 2011 - 2012

The same holds true for the CWD, as shown in Table 7.4. All municipalities in Cape Winelands District have seen significant improvement in human development. Stellenbosch has the highest HDI in the CWD and one of the highest in the Province at 0.71. The high HDI can be attributed to its high GDP per capita and literacy rate. Witzenberg has the lowest HDI in the District of 0.65. It has however shown a 0.07 point improvement between 2001 and 2012.

The relatively high HDI levels within the CWD indicate that economic growth is being translated towards social development amongst individuals within the region.

7.4 Conclusion

The following conclusions can be made regarding the socio-economic analysis above:

- The economy growing faster compared to population growth within the CWD has led to an increase in per capita income in the region, thus indicating higher average standards of living of the inhabitants of the region.
- Youth unemployment is showing a declining trend and is the lowest in the Province. Youths are however over-represented among the unemployed perhaps due to their lack of experience. The lack of diverse industries within this district may also play a role in this regard.
- Literacy rates in the CWD are relatively high compared to the other Districts within the Western Cape. There is however a trend towards employing skilled and highly skilled labour. This indicates that going forward further skills development will be necessary to stimulate employment in the CWD.
- The proportion of households that are indigent has fallen from 2011 to 2014 in the CWD. Despite substantial improvements, poverty levels are still relatively high and need to be addressed.
- The increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the CWD.

The CWD has shown much improvement over the years with regard to all areas of its socio-economic environment as discussed above. This chapter illustrates how development indicators impact on the standard of living within the District. The low population growth rates in conjunction with the faster growing economy and relatively high literacy rates has led to decreasing unemployment rates in the CWD. This has in turn led to increasing household and per capita income. These have translated to declining poverty levels or indigent support required within the District. There is still room for improvement with regard to poverty reduction and skills development, but the District is performing well in terms of allowing inhabitants to reap social benefits from the growing economy.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Cape Winelands District: GDPR at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	1.5	2.1	0.2	0.8	0.4	4.6	-0.3
2 Secondary sector [SIC: 3-5]	-0.4	2.5	2.2	2.3	3.8	-3.3	2.1
3 Tertiary sector [SIC: 6-9, 0]	3.6	6.2	5.1	5.2	6.3	3.9	3.7
Total: Cape Winelands District	1.8	4.4	3.5	3.7	4.6	1.8	2.7
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	1.9	2.1	0.2	0.7	0.3	4.8	-0.4
2 Mining and quarrying [SIC: 2]	-8.9	2.8	-2.5	3.0	5.1	-7.0	4.0
3 Manufacturing [SIC: 3]	-0.7	2.0	1.7	1.9	3.4	-4.7	2.1
4 Electricity, gas and water [SIC: 4]	5.5	3.0	1.7	2.3	2.3	2.7	2.1
5 Construction [SIC: 5]	1.3	8.4	6.8	6.5	9.0	6.3	1.7
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.7	6.1	3.9	5.2	6.6	0.2	4.8
7 Transport, storage and communication [SIC: 7]	4.2	8.5	4.5	5.8	8.1	3.6	2.2
8 Finance, insurance, real estate and business services [SIC: 8]	4.3	8.0	6.9	6.7	8.2	6.2	3.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.9	4.5	3.2	3.7	4.8	2.4	2.1
10 General government [SIC: 91, 94]	-0.7	3.1	4.7	3.4	2.5	5.2	4.2
Total: Cape Winelands District	1.8	4.4	3.5	3.7	4.6	1.8	2.7

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Cape Winelands District					
1 Primary sector [SIC: 1-2]	16.6	16.4	14.7	12.1	11.7
2 Secondary sector [SIC: 3-5]	37.3	33.3	30.4	28.7	27.1
3 Tertiary sector [SIC: 6-9, 0]	46.1	50.3	55.0	59.2	61.2
Total: Cape Winelands District	100	100	100	100	100
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing [SIC: 1]	16.1	16.1	14.4	11.9	11.5
2 Mining and quarrying [SIC: 2]	0.6	0.3	0.3	0.2	0.2
3 Manufacturing [SIC: 3]	33.7	29.6	26.4	24.1	22.7
4 , gas and water [SIC: 4]	0.9	1.1	1.0	1.0	0.9
5 Construction [SIC: 5]	2.7	2.6	2.9	3.6	3.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	9.9	12.6	13.7	13.7	14.4
7 Transport, storage and communication [SIC: 7]	4.9	5.4	6.6	7.0	6.9
8 Finance, insurance, real estate and business services [SIC: 8]	14.3	16.1	19.1	22.4	23.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.3	5.8	5.9	5.8	5.8
10 General government [SIC: 91, 94]	11.7	10.3	9.7	10.2	10.5
Total: Cape Winelands District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Cape Winelands District: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	-2.6	-1.4	-4.7	-2.9	-1.8	-7.5	-3.0
2 Secondary sector [SIC: 3-5]	-6.6	-0.6	-1.9	-1.4	-1.1	-2.0	-1.6
3 Tertiary sector [SIC: 6-9, 0]	3.2	3.1	2.0	2.4	2.9	3.2	0.8
Total: Cape Winelands District	-1.2	0.7	-0.6	0.0	0.5	-0.7	-0.5
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	-2.6	-1.3	-4.9	-3.0	-1.8	-7.6	-3.0
2 Mining and quarrying [SIC: 2]	-6.7	-13.6	26.3	3.5	5.0	1.1	1.5
3 Manufacturing [SIC: 3]	-5.6	-0.4	-1.2	-0.9	-1.1	-1.7	0.0
4 Electricity, gas and water [SIC: 4]	0.2	6.4	1.9	2.2	6.5	-10.2	-0.2
5 Construction [SIC: 5]	-8.8	-1.2	-4.0	-2.9	-1.4	-2.4	-6.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.9	1.9	1.2	1.5	1.9	1.6	0.5
7 Transport, storage and communication [SIC: 7]	-4.5	2.9	5.7	3.0	2.0	9.4	1.8
8 Finance, insurance, real estate and business services [SIC: 8]	7.5	6.1	1.5	3.9	5.7	0.9	1.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.4	2.7	2.0	2.4	3.1	5.7	-0.6
10 General government [SIC: 91, 94]	0.6	4.3	3.1	2.7	2.9	3.4	2.0
Total: Cape Winelands District	-1.2	0.7	-0.6	0.0	0.5	-0.7	-0.5

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Cape Winelands District					
1 Primary sector [SIC: 1-2]	36.4	33.9	29.1	24.8	21.2
2 Secondary sector [SIC: 3-5]	26.3	19.8	18.5	17.0	17.1
3 Tertiary sector [SIC: 6-9, 0]	37.3	46.3	52.4	58.2	61.7
Total: Cape Winelands District	100	100	100	100	100
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing [SIC: 1]	36.1	33.7	29.0	24.5	21.0
2 Mining and quarrying [SIC: 2]	0.3	0.2	0.1	0.3	0.2
3 Manufacturing [SIC: 3]	17.3	13.8	13.1	12.3	12.9
4 Electricity, gas and water [SIC: 4]	0.1	0.2	0.2	0.2	0.2
5 Construction [SIC: 5]	8.8	5.9	5.3	4.4	4.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	12.6	16.2	16.9	18.1	19.3
7 Transport, storage and communication [SIC: 7]	2.5	2.1	2.3	3.1	3.1
8 Finance, insurance, real estate and business services [SIC: 8]	5.0	7.7	10.0	10.5	11.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	9.7	12.2	13.4	15.2	15.7
10 General government [SIC: 91, 94]	7.4	8.2	9.8	11.3	11.8
Total: Cape Winelands District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Cape Winelands District: Composition of Goods Exports and Imports (nominal values)

Sector	1995	2000	% share		
			2005	2010	2013
Goods Exports (R million)					
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	83.5	85.9	92.5	94.0	94.1
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.0	0.0	0.0
3 Manufacturing (excl. food and beverage processing) [SIC: 3]	16.5	13.9	7.5	6.0	5.8
4 Undefined/other	0.0	0.2	0.0	0.1	0.0
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Cape Winelands District					
1 Food, beverages and tobacco [SIC: 301-306]	83.0	88.9	91.6	91.0	90.4
2 Textiles, clothing and leather goods [SIC: 311-317]	3.4	2.6	0.6	0.2	0.1
3 Wood, paper, publishing and printing [SIC: 321-326]	1.0	0.2	0.3	1.4	0.3
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	4.2	3.0	2.1	2.2	2.7
5 Other non-metal mineral products [SIC: 341-342]	0.5	0.3	0.4	0.2	0.1
6 Metals, metal products, machinery and equipment [SIC: 351-359]	7.3	4.6	3.1	1.6	2.4
7 Electrical machinery and apparatus [SIC: 361-363]	0.1	0.1	0.0	0.1	0.2
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.4	0.1	1.4	1.9	2.3
9 Transport equipment [SIC: 381-387]	0.0	0.1	0.2	1.1	1.4
10 Furniture and other manufacturing [SIC: 391-392]	0.3	0.1	0.2	0.2	0.1
Total: Manufacturing exports	100	100	100	100	100
Goods Imports (R million)					
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	42.2	40.0	38.9	40.5	37.9
2 Mining and quarrying [SIC: 2]	0.5	0.3	0.1	0.2	0.3
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	57.1	59.6	60.1	58.8	61.6
4 Undefined/other	0.2	0.1	0.9	0.5	0.2
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Cape Winelands District					
1 Food, beverages and tobacco [SIC: 301-306]	17.5	15.2	23.2	21.8	15.5
2 Textiles, clothing and leather goods [SIC: 311-317]	2.4	2.1	1.0	1.5	2.1
3 Wood, paper, publishing and printing [SIC: 321-326]	26.0	26.5	23.1	23.1	27.3
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	18.9	18.3	15.0	17.0	18.0
5 Other non-metal mineral products [SIC: 341-342]	1.8	2.2	2.0	2.0	2.3
6 Metals, metal products, machinery and equipment [SIC: 351-359]	28.9	29.5	25.2	26.6	27.5
7 Electrical machinery and apparatus [SIC: 361-363]	1.0	1.0	0.9	1.0	1.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	1.9	2.2	3.2	2.9	2.4
9 Transport equipment [SIC: 381-387]	1.0	2.4	5.0	3.2	2.8
10 Furniture and other manufacturing [SIC: 391-392]	0.6	0.6	1.4	1.0	0.9
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/CER

Overberg District

Key points

- The Overberg District (OBD) has a relatively small but rapidly growing economy in the Western Cape. While only accounting for 3.1 per cent of GDP, it expanded at the second fastest rate over the 2000 - 2013 period. Well-balanced growth across all four constituent municipalities is a key feature of the region's performance.
- During the previous upswing phase of the business cycle (2000 - 2007) real GDP growth averaged 5.7 per cent per annum, peaking at 7.6 per cent in 2008, i.e. during the first year of the recession. Economic growth decelerated sharply to 0.8 per cent during 2009 and averaged 3.4 per cent over the period 2010 - 2013. The recovery growth momentum did slow down after 2011, in line with the global and national economies, and is expected to come in at 2.9 per cent this year. The medium-term growth outlook (2014 - 2019) has been scaled down to 3.6 per cent per annum from 4.3 per cent previously. The main reasons for the downscaling of the growth outlook are the weaker than expected global growth in the post-financial crisis period and domestic labour market instability.
- The recession left its scars, best reflected in the fact that in all municipalities manufacturing employment remained 10 - 15 per cent below their pre-recession peaks by the end of last year. Processed food and beverage exports have also come under pressure. The construction sector slumped after the end of the recession and the adverse trend in agricultural employment continued. While employment creation in the services sector compensated in part, the region suffered a (marginal) net loss of employment over the 2000 - 2013 period.
- Some of the job losses in the formal sector of the Overberg District economy during the recession (4 750) were countered by informal sector job growth (2 740); the informal sector accounts for 23 per cent of employment in the region. In view of the counter-cyclical role of the informal sector and the sector's linkages with the formal sector, this may warrant a more nuanced policy approach towards the informal sector, which would acknowledge these intricacies and provide technical and business support required to build informal businesses to eventually migrate to the formal sector.

- The competitive strengths of the region resides in its food value chain, including a stable agricultural sector producing for the export market, as well as the associated food and beverage processing industries, a strong building and construction sector, business services, tourism and furniture manufacturing. The rapidly expanding manufacturing sector is able to generate employment on balance, which is a distinguishing feature of the OBD economy. There appears to be scope in the food value chain to strengthen the emerging farmer sector and for the commercial farms to move up the value chain into food and beverage processing, without losing their export focus.
- Generally, those municipalities with high levels and maintenance of (economic) infrastructure experience higher rates of economic growth, which would in turn help them to afford the required infrastructure budgets. The Overstrand and Cape Agulhas municipalities are rated highly in terms of infrastructure development and are also growing at the highest rates in the Overberg District region. However, municipalities report straining infrastructure, which threatens the sustainability of the high economic growth in the region, also impacted by the phenomenon of in-migration (e.g. Theewaterskloof). Most municipalities within the OBD face the problem of ageing infrastructure, vandalism and high water losses. The District should focus on providing infrastructure that supports industries in which it has a comparative advantage. Such investments will have multiplier or knock-on effects on the rest of the economy.
- Despite the high rate of economic growth in the region, high levels of in-migration constrain per capita income growth as well as exacerbate unemployment levels (including youth unemployment – the proportion of youth in the population increased from 26.7 per cent to 33.9 per cent between 2001 and 2011). Literacy rates (81.1 per cent; 2011) are also relatively low in the Overberg District and while poverty rates have moderated, this improvement is being limited by the high in-migration, while the region also has a high dependency ratio.
- Apart from in-migration, slowing the improvement in development indicators, the Overberg District has performed well in view of its well-balanced growth, both from a geographical and sectoral perspective.

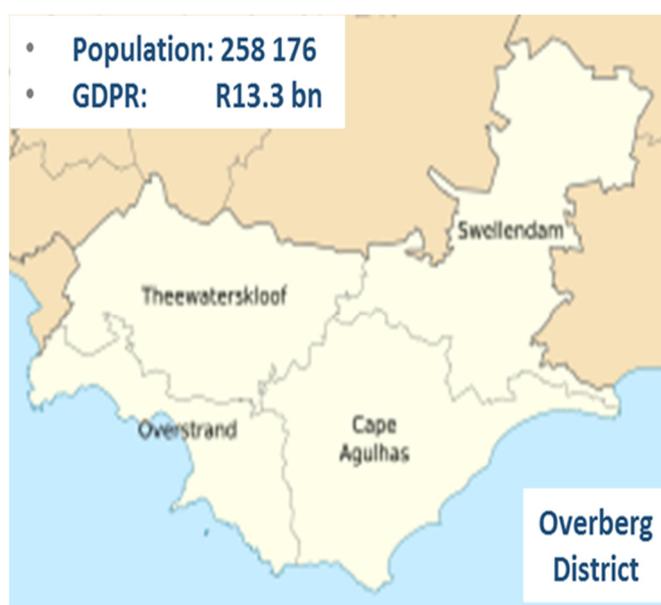
Executive summary

1. Introduction

The 2014 *Municipal Economic Review and Outlook (MERO)* study builds on the analysis of the Overberg District's growth and development trends in the corresponding 2012 and 2013 studies. The MERO's objective is to provide economic intelligence at the district and municipal level in the Western Cape Province, alongside its sister publication, the *Provincial Economic Review and Outlook (PERO)*.

The Overberg District has wide trading relations with the rest of the world and has been hard-hit by the 2009 global recession, particularly in terms of the adverse impact on employment levels. Whilst the region has witnessed fast economic growth and a general improvement in its socio-economic indicators, high in-migration is posing challenges. A central theme in the 2014 study is to track the region's recovery from the recession impact and to explore existing bottlenecks or constraints which may be restraining economic growth and development. The results from the study can hopefully feed into official economic strategy plans and assist the private sector in identifying growth opportunities.

The recent and expected macro-economic environment and implications for the Overberg District economy are first assessed. Thereafter, the sectoral analysis is deepened, with the focus on sectoral growth, employment and skills demand trends and an analysis of the Overberg District food value chain. The informal sector analysis is also taken further by investigating the sector's linkages with the formal sector and its cyclical sensitivities. Furthermore, the municipal revenue and infrastructure spending trends and their relationship with the growth of the regional economy come under



the spotlight. The report is concluded by a welcome addition to the MERO study, namely a consideration of the Overberg District's socio-economic climate and the apparent economic growth and employment linkages.

2. Regional growth trends

The 2008 - 2009 recession had a material impact on the Overberg District economy, particularly on employment levels. While real GDP did not contract in 2009 as most other Western Cape districts experienced, it slowed down sharply from 7.6 per cent in 2008 to 0.8 per cent in 2009 and employment took a serious knock. Growth rebounded nicely to 5.2 per cent in 2011; however tapered off again to 2.1 per cent last year and it is expected to average 2.9 per cent in 2014. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the Overberg District has been reduced to 3.6 per cent per annum from 4.3 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been weaker than expected global growth and domestic issues such as labour unrest. The net result of the recession impact has been that the overall OBD growth and employment momentum receded perceptively. Macro-economic conditions are likely to be less than robust over the next 3 - 5 years, which constitutes a challenge to the Overberg District.

The fastest growing municipality within the OBD was Overstrand, followed by Cape Agulhas, Swellendam and then Theewaterskloof. Theewaterskloof dominates the agricultural sector and is the largest municipal economy, along with Overstrand. In terms of employment, Overstrand and Cape Agulhas municipalities managed to create employment on a net basis over the 2000 - 2013 period, while Theewaterskloof and Swellendam suffered net job losses over the same period. Currently the region is embarked on an economic recovery and growth is likely to be topped by the finance and business services sector over the forecast period (2014 - 2019). Other sectors expected to grow above average are the construction and transport, storage and communication sectors.

3. Sectoral growth, employment and skills

The OBD has a relatively small but rapidly growing economy in the Western Cape. While only accounting for 3.1 per cent of the Provincial GDP, it expanded at the second fastest rate over the 2000 - 2013 period, i.e. 4.8 per cent per annum. Well-balanced growth across all four municipalities is a key feature of the region's performance, allowing it to punch above its weight. The competitive strengths of the region resides in its food value chain, including a stable agricultural sector producing for the export market, as well as the associated food and beverage processing industries, a strong building and construction sector, business services, tourism and furniture manufacturing. The rapidly expanding manufacturing sector is able to generate employment on balance, which is a distinguishing feature of the OBD economy. Unfortunately, deep retrenchments continue to occur in the agriculture and construction sectors, worsening the skills mismatch in the local labour market.

Over the years, the region has developed a vibrant financial and business services sector, which is also a key source of employment. Sustained growth of the services sector also ensured the region not contracting at the time of the 2009 recession. Nonetheless, the recession left its scars, best reflected in the fact that in all municipalities manufacturing employment remained 10 - 15 per cent below their pre-recession peaks by the end of last year. Processed food and beverage exports have also come under pressure. The construction sector slumped after the end of the recession. In all, real GDP growth came in weaker than trend during the current economic expansion. The economic outlook is positive, but has been influenced by the general downscaling of the provincial and national economic outlooks. The current outlook of 3.6 per cent growth per annum over the 2014 - 2019 period remains well above the forecast for the wider province at 3.0 per cent per annum. There appears to be scope to develop tourism in the region (with current initiatives showing great promise) and moving up the value chain in agriculture (including the blossoming aquaculture sector).

4. Value chains

Agriculture and fishing and its associated food and beverage processing industries, i.e. the agro-processing sector, constitute more than 16 per cent of the OBD economy. There are strong linkages between agricultural production and food and beverages manufacture. Significant job losses have occurred in the agricultural sector over the past decade, even though production levels have increased. As the linkages are strong between agricultural production and food and beverage manufacture, there is potential to support the formation of these value chains among smaller and emerging farmers in the District. It is entirely feasible that these farmers could produce their own unique food or beverage products for the local or export market. There is also scope for commercial farmers to move up the value chain and/or strengthen linkages with local food and beverage processors.

5. Informal sector

Surveys of the informal and SMME sectors have shed some light on the characteristics of small and informal businesses in the Overberg District. These characteristics were discussed in the 2013 MERO study and this year the analysis is taken a step further by investigating the linkages between the informal and formal businesses. The results provide evidence of close formal and informal sector linkages, albeit that those details regarding the nature of these linkages could not be extracted. Between 10 - 12 per cent of formal small, micro and medium-sized businesses sustain linkages with informal businesses in the Overberg District. Unfortunately, given the evident existence of financial constraints (i.e. lack of access to credit) and low-level skills within the informal sector, and in view of the evidence from academic literature, it appears that where linkages exist, they may be backward linkages, involving 'unfair' formal sector outsourcing. This means that informal businesses may source formal sector products at retail prices only to sell them at higher prices to poor local

customers. More research may be required to ascertain the prevalence of this phenomenon.

Regarding the cyclical sensitivities of the Overberg District informal sector, the (2008 - 2009) recession caused significant net job losses (4 750) in the formal sectors of the regional economy while there were 2 740 net jobs created in the informal sector over the same period. The informal work force was estimated at 23 per cent of the total work force in 2013, i.e. an estimated 17 800 informal workers. Most of the employment gains in the informal sector were created in the wholesale, retail trade and catering and accommodation sector during the recession, with the number of new informal jobs surpassing formal net retrenchments. This indicates that downward rigidities during the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed. Sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts, revealing a *de facto* counter-cyclical role for the informal sector.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms) and in view of the important poverty relieving role of the informal sector, it is recommended that the District and its municipalities consider a more nuanced view of the informal economy. The focus here should not be on extending social protection across the informal economy as this risks trapping informal entrepreneurs in relations of dependency. Instead, advocating their distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., could serve to build capacity for autonomous development and migration to the formal economy.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

6. Municipal revenues and expenditure on infrastructure

It is accepted that basic service delivery through infrastructure investment is a cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure impacts positively on economic growth. An important factor considered by investors when relocating into an area is the provision of basic services within that area. The municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. The provision of municipal infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. An analysis on both sides of the budget, i.e. revenue and infrastructure expenditure, was conducted. It revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the Overberg District.

The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality. Overall, Overberg District municipal revenues grew by an estimated 9.5 per cent per annum between 2008/09 and 2012/13 in inflation-adjusted terms. In view of the subdued economic growth over this period, the high revenue growth is presumably linked to the increase in rates and tariffs and improved revenue collection.

According to the *Growth Potential Study* Overstrand and Cape Agulhas municipalities are rated high according to an infrastructure index. The high infrastructure investments in Overstrand are matched by high growth rates, which are also correlated with the high economic growth achieved in the region. Despite the low current infrastructure investments in Cape Agulhas Municipality in comparison to other municipalities, the municipality is rated high according to the infrastructure index indicating stronger investment in the past. On the other hand, Theewaterskloof and Swellendam municipalities were rated medium according to the infrastructure index and had lower GDP growth (i.e. slightly below average) when compared to the other municipalities. Most municipalities within the OBD face the problem of ageing infrastructure, vandalism and high water losses. It is crucial for municipalities to invest in the upgrade and construction of new infrastructure whilst putting in place revenue enhancement and revenue management programmes.

In summary, the impact of infrastructure investment on growth within the OBD depends on individual municipalities' infrastructure investment decisions. Economic characteristics and development potential should guide infrastructure investment decisions. The District should focus on providing infrastructure that supports industries in which it has comparative advantage, e.g. the food value chain, the building value chain and the tourism sector. Such investments will have multiplier or knock-on effects on the rest of the economy.

7. Socio-economic climate and development indicators

The socio-economic analysis, contained in a separately released working paper at the time of the 2013 MERO study, has this year been brought into the main report. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its constituent municipalities, with the intelligence needed to understand their socio-economic reality and also the impact of the economy.

The economy grew at a faster rate than the population within the Overberg District which has led to an increase in per capita income in the region. This indicates higher average standards of living of the inhabitants of the region, which is true for all Overberg District municipalities. Despite the high growth of the economy, the region experiences high levels of youth unemployment, which are slow to decrease. This is perhaps due to in-migration of youth¹. The proportion of youth in the population

¹ Policy makers should consider launching new research focusing on migration patterns, distinguishing between local, national and foreign in- or out migrators, and implications for the non-migratory local labour force.

increased from 26.7 to 33.9 per cent between 2001 and 2011. The young people find it difficult to obtain jobs due to their lack of hard skills and experience. Literacy rates in the Overberg District are also relatively low compared to the Western Cape Province (i.e. 81.1 compared to 87.2 per cent). There is however a trend towards mechanisation and employing skilled and highly skilled labour. This indicates that going forward, further skills development as well as low skilled labour intensive initiatives will be necessary to stimulate employment in the region.

The increasing Human Development Index (HDI) between 2001 and 2012 is an indication that the rapid economic growth is being translated towards human development within the Overberg District. Nonetheless, the proportion of households that are living in poverty has fallen only slightly between 2001 and 2010. Poverty levels are still relatively high in some municipalities and the high dependency ratio and youth unemployment rate are key challenges. High in-migration appears to be an issue as migrants seek better material prospects in a high-growing region.

The Overberg District has shown some improvement over the years with regard to all areas of its socio-economic environment. The fast growing economy has led to some decline in unemployment rates in the region. This has in turn led to increasing household and per capita income, despite high in-migration. Poverty levels, as well as indigent support required, have moderated within the District. There is still room for improvement with regard to poverty reduction, skills development and the equal distribution of income. The relatively high unemployment rates may be the result of strong in-migration. Finally, sustained job losses during the economic recovery, the lower economic growth rate and the down-graded economic outlook define a challenging socio-economic environment going forward.

1

Introduction

1.1 Background and purpose of study

The 2014 Municipal Economic Review and Outlook (MERO) study is the third one produced annually since 2012. With its origins in the micro-economic research undertaken at the time of the Micro-Economic Development Strategy (MEDS) initiative (2004 to 2008), and accompanying its sister publication, the Provincial Economic Review and Outlook (PERO) over the past three years, the central objective of the MERO is the provision of economic intelligence at the metro, district and municipal levels in the Western Cape Province.

The growth of towns, cities and regions has become a focal point of contemporary socio-political and economic analysis. While the MERO study provides guidelines for identifying socio-economic constraints and related policy actions, the review of microeconomic trends and developments, including the medium-term outlook, has the potential to generate the economic intelligence that can feed into sub-regional Integrated Development Plans (IDPs) and Local Economic Development initiatives (LEDs).

A special attempt is made this time around to improve the accessibility of the MERO by refining the analysis in previous studies, shortening the report and improving the dissemination of the information. The hope is that the information will not only be useful to local and provincial authorities but will also enable private business enterprises to identify growth opportunities and reacting upon them in order to propel the regional economy to a higher growth plane.

1.2 Central issues covered

The MERO research publication was conceived in the wake of the 'Great Recession', which was triggered at the end of 2007 by the unsustainable financial growth and macroeconomic developments over the 1990s and 2000s in the world's leading industrial economies, notably the USA and the Euro area. The impact of the subsequent recession (2008 - 2009) has been uneven across regions and countries. In fact, the 2012 - 2013 MERO analyses showed that the differential impact reached deeply into the Western Cape metro and non-metro districts.

A key theme of the 2013 study is how the Western Cape districts and municipalities have recovered from the impact of the global recession. One of the key consequences of the global recession has been *"a search for a new development paradigm that is both more inclusive and more sustainable ecologically"* (see Turok et. al., 2013: 2). In the same vein, the consistent theme throughout the MERO report, is an emphasis on inclusive economic growth through employment creation. While it is accepted that public policy intervention has a constructive role to play, the focus is on the identification of the bottlenecks and constraints which are hampering private sector growth and employment creation. Consistent with the tenets of inclusive economic growth, attention also focuses on the developmental challenges embodied in making a dent in unemployment, poverty and underdevelopment.

Consequently, the central issues covered in the 2014 MERO study are, firstly, a consideration of the global, national and provincial economic performances and outlook in view of the general recovery from the 2008 - 2009 global recession and the mid-2011 slowdown, and how this macro-economic environment impacts on the Overberg District economy (Chapter 2 of this report).

The historical patterns of sectoral growth and employment, including the performance and outlook in this regard of the Overberg District region since the onset of the global economic recovery at the end of 2009, are also discussed in greater detail (Chapter 3 of the report). Turok, et. al. (2013: 3) note that education and skills have become major determinants of regional economic growth, which has not necessarily been the case a century ago. The skills composition of sectoral economic growth is therefore also under consideration. Whilst the analysis is somewhat superficial, it effectively demonstrates the wider developmental challenge of the mismatch between the demand for skilled labour and the predominantly unskilled surplus labour supply also present in the Overberg District economy. Expanding on the 2012 and 2013 MERO studies, an attempt is made to conduct the sectoral analysis of Overberg District regional trends in a provincial-wide municipal context. Reference is also made to the stock of infrastructure and the annual municipal spending in this regard, as well as the socio-economic profile of the Overberg District regional economy.

Overberg District has a small regional economy, but is rapidly growing (i.e. the second fastest in the Western Cape). While it has a strong agricultural base, particularly in the Theewaterskloof Municipality, secondary and tertiary economic activities are expanding rapidly in the region. This year's value chain analysis

(Chapter 4 of the report) investigates the food value chain in the Overberg District, i.e. the agriculture, fishing and associated processing industries, attempting to uncover growth and employment constraints and potential.

The 2013 MERO study introduced the results from a survey of 200 informal sector firms in the Overberg District conducted by the Department of Economic Development and Tourism (DEDAT). This year, the analysis is taken some steps further by an investigation into the linkages between the formal and informal sectors of Overberg, District both conceptually and empirically. An attempt is also made to investigate the cyclical nature of the informal sector by showing the extent to which the informal sector played a counter-cyclical role in the Overberg District during the 2008 - 2009 recession (Chapter 5 of the report).

The important relationship between infrastructure investment and economic growth is explored at the regional level in respect of the Overberg District economy (Chapter 6 of the report). The actual infrastructure spending and municipal revenues over the 2008 to 2013 period are analysed and the outcomes in terms of economic growth by municipality are compared. The analysis also taps into the research undertaken in the '*Growth Potential Study*' (2014).

Finally, a socio-economic synopsis of the Overberg District region is provided (Chapter 7 of the report), including an attempt to highlight the linkages between regional economic growth (value-added and employment) and the local economic development indicators.

1.3 Outline of the report

Apart from the first introductory section, the report consists of six chapters. As noted above, Chapter 2 discusses the trends (2000 - 2013, including the economic recovery period, 2010 - 2013) and outlook (2014 - 2019) for the Overberg District economy in a macro-economic context. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the accompanying PERO publication. Chapter 3 utilises secondary data sources – e.g. Quantec's regional data base; the '*Growth Potential Study*'; the results from a municipal survey in the District; and the analysis of comparative advantages among industries conducted in the 2013 MERO – to deepen the regional economic analysis by sector. Specifically, this chapter analyses real GDP growth trends, employment creation and the skills composition of labour demand in the Overberg District.

In Chapter 4 a value chain analysis is conducted, with the focus on the Overberg District agro-processing sector. The linkages and employment potential of the food value chain are analysed. Chapter 5 takes the informal sector analysis further, considering the formal-informal sector linkages and the business cycle impact on the informal sector. Thereafter Chapter 6 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. Chapter 7 concludes with a socio-economic profile of the Overberg District.

2

Economic outlook

2.1 Introduction

This chapter provides a five-year economic outlook for the Overberg District economy. The outlook is embedded in realistic global and national socio-political and economic assumptions, which are all briefly discussed in this chapter. In presenting the District economic outlook, attention is given to the historical growth trends, a consideration of the 2010 - 2013 economic recovery thus far, the region's industry comparative advantages and an assessment of the macroeconomic implications pertaining to the medium-term district economic outlook. The analysis of the sectoral district economic prospects is deepened in Chapter 3 in which sector developments are discussed.

2.2 Global, national and provincial economic developments

The global economic outlook remains uneven and uncertain. This follows the recent downward revision of the IMF's forecast for the global economy in July 2014 following a weak first quarter. The downgrade has shown that the global economy should grow at 3.4 per cent in 2014 down from its January forecast of 3.7 per cent. Weaker than expected growth in the developed economies and emerging markets forced the downgrade. Table 2.1 gives a clear illustration of the differences between the April 2014 outlook and the latest IMF outlook. The downgrades are an indication that nations are still struggling to recover from the aftermaths of the financial crisis.

A generally negative outlook dominated the report; however the economic prospects for Japan, Germany and the UK were upgraded. Japan experienced stronger than expected growth in the first quarter resulting in an upgrade of its economic outlook. Growth in Japan is projected to be 1.6 per cent in 2014 and ease down to 1.1 per cent in 2015. In the **advanced countries** the economic outlook for

the US and Canada was downgraded. The cut in the outlook for the world's largest economy, the US, by 1.1 percentage points in respect of 2014 dragged the world outlook down. An overhang in inventories at the end of 2013 appeared to be much higher than expected and output during the first quarter of 2014 contracted due to the severe winter weather negatively impacting on domestic demand. However, a growth rebound is expected in the US as the key drivers to the downturn were only temporary. Growth is expected at 1.7 per cent and 3.0 per cent in 2014 and 2015 respectively.

Table 2.1 World Economic growth outlook: 2014 - 2015 (%)

Country	Actual	Projections		Difference*	
	2013	2014	2015	2014	2015
World output	3.2	3.4	4.0	-0.3	0.0
Advanced economies	1.3	1.8	2.4	-0.4	0.1
United States	1.9	1.7	3.0	-1.1	0.1
Euro Area	-0.4	1.1	1.5	0.0	0.1
Japan	1.5	1.6	1.1	0.3	0.1
Developing economies	4.7	4.6	5.2	-0.2	-0.1
Emerging and developing Asia	6.6	6.4	6.7	-0.2	-0.1
China	7.7	7.4	7.1	-0.2	-0.2
India	5.0	5.4	6.4	0.0	0.0
Latin America and the Caribbean	2.6	2.0	2.6	-0.5	-0.3
Middle East, North Africa, Afghanistan and Pakistan	2.5	3.1	4.8	-0.2	0.2
Sub-Saharan Africa	5.4	5.4	5.8	0.0	0.2
South Africa	1.9	1.7	2.7	-0.6	0.0

* Difference between July and April 2014 forecasts

Source: IMF World Economic Outlook July 2014

The latest economic indicators in the **Euro Area** remained unchanged from the April 2014 IMF World Economic Outlook (WEO) report. Growth is expected to remain uneven within the area with Italy and France's economic outlook being revised to 0.3 and 0.7 per cent respectively. Financial conditions in the area have eased with inflation coming in at below expectations in April 2014. However, the Euro area continues to suffer from financial market fragmentation and high unemployment rates as a result of fiscal headwinds. Following two calendar years of contraction the area is expected to return to positive growth, growing at 1.1 and 1.5 per cent in 2014 and 2015 respectively. High debt and tight credit conditions will continue to weigh on economic activity.

Economic indicators in **Asia** were also not promising. Projected growth in India remained unchanged (projected to be 5.4 and 6.4 per cent in 2014 and 2015 respectively) whilst the world's second largest economy, China is now expected to grow at 7.4 per cent, a 0.2 per cent cut from previous predictions. An effort to reign in credit growth in China led to the fall in domestic demand resulting in the downward revision.

The uneven growth pattern in the global economy can also be seen in the **emerging market** group of economies. The economic outlook of these countries was downgraded by 0.2 per cent to 4.6 per cent for 2014. Latin America also experienced a downward revision by 0.5 per cent to 2.0 per cent in 2014. The Russian economy is expected to grow at only 0.2 per cent per cent this year. Massive capital flight and geopolitical tensions have been highlighted as the cause of the 1.1 percentage cut from the previous forecast of 1.3 per cent. It is projected that investment in Russia will remain weak for a long time, thus accounting for an expected growth of only 1.0 per cent in 2015.

The economic outlook for sub-Saharan Africa remained unchanged. Countries with external vulnerabilities may however experience a reversal in capital flows in the event of there being a reversal in financial market sentiments. South Africa's growth forecast in respect of 2014 was revised downwards from 2.3 per cent to 1.7 per cent. This sluggish growth projection for the country is a result of labour strikes, electricity constraints and weak global demand.

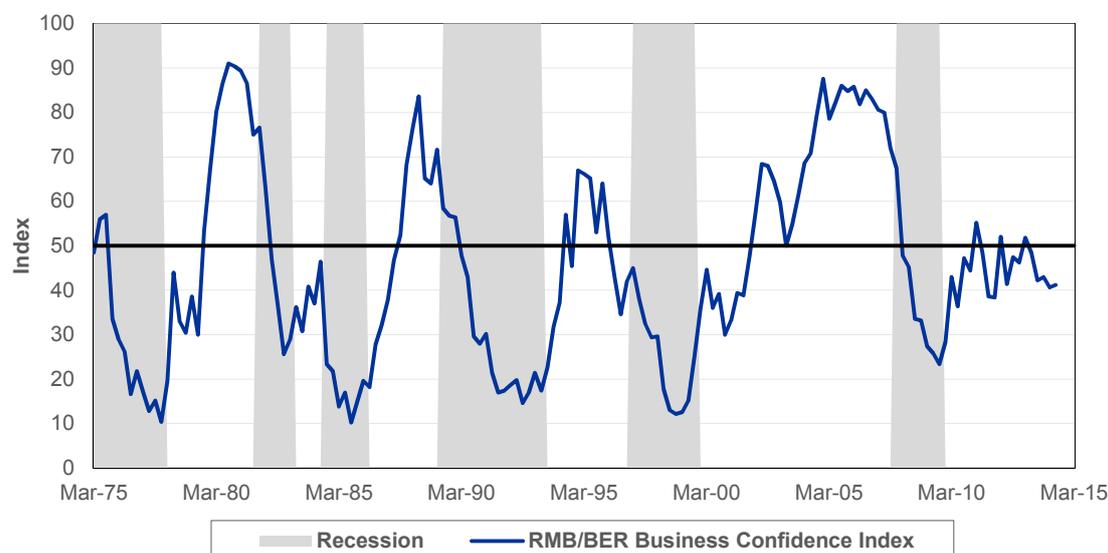
In summary, the IMF has warned that weaker US growth and slower demand in emerging market economies will have a negative impact on world economic growth. Furthermore, higher geopolitical risks, the Ukraine crisis and risks of oil price increases could place growth under additional pressure. Despite all these downgrades the economic outlook for 2015 remains unchanged as stronger economic growth is expected. According to the report global growth is expected to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015 from 3.2 per cent in 2013. It is expected that the global recovery will regain strength in the second half of 2014.

The **South African** economy is currently going through a difficult period. It is experiencing a number of challenges which includes the slowing down of economic growth, reflected by a 0.6 per cent economic contraction in the first quarter of 2014. The previous 2014 economic growth forecast for South Africa has been downgraded by a number of local and international institutions following growing economic challenges. The SA Reserve Bank has thus also downgraded the forecasted economic growth for 2014 from 2.1 per cent to 1.7 per cent. The World Bank has also revised downwards South Africa's economic growth forecast for 2014 to 2 per cent from an earlier forecast of 2.7 per cent. Persistent labour strikes caused mining production to decrease by 6.5 per cent year-on-year in May 2014 and contributed to renewed weakness in the manufacturing sector. The poor performance in mining production was driven by a decline in Platinum Group Metals (PGM) mining production and due to suppressed commodity prices.

Some of the economic challenges facing the economy include the weakening of the rand, the increasing inflation rate, the growing unemployment rate and poor levels of business and consumer confidence. The RMB/BER Business Confidence Index remained unchanged at 41 points in the second quarter of 2014. The index has remained below its long term average of 45.12 for the period since the middle of 2013 (see Figure 2.1). The index is less than encouraging reflecting as it does domestic concerns and how unhappy respondents are with current economic conditions. On the other hand, though not indicated in Figure 2.1), the consumer confidence index

recovered from -6 to 4 points in the second quarter of 2014; however, it remains below its long-term average.

Figure 2.1 The RMB/BER Business Confidence Index



Source: BER June 2014

Growth over the expansion period 2000 - 2007 trended at 4.3 per cent per annum declining to 1.2 per cent per annum over the recessionary period 2008 - 2009 and recovering to 2.7 per cent per annum over the recovery period 2010 - 2013. Table 2.2 shows the economic growth outlook for the South African economy. During the forecast period 2014 - 2019 it is expected that the construction sector will grow the fastest, with growth averaging 3.7 per cent per annum. Forecast growth in the transport, storage and communication sector coupled with the finance, insurance, real estate and business services sector are forecast to also positively influence overall growth, each growing at 3.4 per cent per annum. The forecast growth of the general government of 2.1 per cent is noticeable albeit downgraded from previous forecast due to the tighter fiscal position. Overall real GDP growth has been downscaled substantially, currently forecast to average 2.6 per cent per annum, 2014 - 2019.

A key development (from the middle of 2011) and a reason for slower forecast growth has been the slowdown in consumer spending. The sector has been the backbone of the economic recovery in the country in the aftermath of the global financial crisis. Consumer spending lost momentum due to rising inflation, weaker real disposable income and slow economic growth; interest rates also began rising in the first quarter of 2014. Fixed investment spending is also a driver of growth and its outlook has been downscaled due to the poor domestic demand conditions and low business confidence levels.

Table 2.2 South Africa sectoral economic growth outlook: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 - 2019
Agriculture, forestry and fishing	2.3	1.9	2.8	2.3	1.9	2.2	2.2	2.2
Mining and quarrying	3.1	0.8	1.7	1.0	0.6	0.8	0.9	1.0
Manufacturing	0.8	1.8	2.6	2.3	2.0	2.2	2.3	2.2
Electricity, gas and water	-0.4	1.1	2.5	2.4	2.5	2.7	2.8	2.3
Construction	2.8	3.4	3.3	3.4	3.7	4.0	4.1	3.7
Wholesale and retail trade, catering and accommodation	2.2	1.0	3.2	2.8	2.6	2.7	2.8	2.5
Transport, storage and communication	1.9	2.7	3.5	3.4	3.6	3.6	3.8	3.4
Finance, insurance, real estate and business services	2.4	1.9	3.6	3.5	3.8	3.9	4.0	3.4
Community, social and personal services	1.8	1.6	2.6	2.1	1.9	2.1	2.2	2.1
General government	1.5	1.6	2.3	1.9	2.1	2.2	2.3	2.1
Total	1.9	1.7	3.0	2.7	2.7	2.8	2.9	2.6

Source: BER/Quantec Research 2014 (e = estimate; f = forecast)

Year-on-year headline inflation increased in 2014Q2 to 6.5 per cent from 5.9 per cent in 2014Q1. Despite the lowering of growth forecasts the inflation outlook remained unchanged. It is expected that headline inflation will decrease to 6.4 per cent in the third quarter and further decrease to 6.3 per cent in 2014Q4, remaining outside the SARB target range. Headline inflation forecast for 2015 was adjusted to 5.7 per cent and for 2014 to 6.3 per cent (see Table 2.3). The rand dollar exchange has come under pressure depreciating by more than 40 per cent since the beginning of 2012. Global and domestic factors, such as the Marikana strike (August 2012) and a widening current account deficit, have been major contributors to the weakening of the rand.

Table 2.3 South Africa: Forecast of inflation, interest rates and the rand exchange rate, 2014 - 2015

Financial variable	2012	2013	2014f	2015f
CPI inflation (average)	5.70	5.70	6.30	5.70
Prime overdraft interest rate (eop)	8.50	8.50	9.50	10.00
Rand/\$ exchange rate (eop)	8.64	10.47	10.70	10.95
Rand/€ exchange rate (eop)	11.32	14.36	14.10	13.75

eop: end of period

Source: BER

The **Western Cape** economy grew at a rate of 2.1 per cent during calendar year 2013 compared to 1.9 per cent for the country as a whole. The contraction in output in the mining sector weighed down on national growth. Although the Province was not able to reap the rewards from increases in mining activity in the second half of the year, it did benefit from growth in the manufacturing sector (which accounts for 17 per cent of overall GDP).

Table 2.4 shows the sectoral growth and employment trends in the Western Cape economy. While growth trended at 3.9 per cent per annum (2000 - 2013) it decelerated sharply during the recession years (2008 - 2009) to 1.7 per cent. Over the current years of the recovery phase (2010 - 2013) GDP growth has averaged 2.9 per cent per annum, well below its growth trend. The expansion of the wholesale and retail, catering and accommodation sector is notable, with the sector growing above average at 3.7 per cent per annum. Also notable is the growth in general government (3.4 per cent) and the growth in the finance, insurance, real estate and business services sector.

The rate of employment creation within the Western Cape followed national trends. Whereas the rate of employment creation in the Western Cape trended at 0.4 per cent it contracted to 0.3 per cent during the recession years (2008 - 2009). Unfortunately the rate of employment creation has not been restored during the recovery years (2010 - 2013). The contractions in the agriculture, forestry and fishing sector (2.0 per cent per annum), the construction sector (5.8 per cent per annum) and the manufacturing sector (1.0 per cent per annum) are major causes for concern.

Table 2.4 Western Cape economy sectoral growth and employment (formal and informal): 2000 - 2013

	Real GDP growth (yoy %)				Formal and informal employment (yoy % change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	2.0	1.1	8.2	0.8	-2.0	-0.9	-6.3	-2.0
Mining and quarrying	-1.2	-0.5	-7.4	0.5	1.3	0.7	1.6	2.6
Manufacturing	2.4	3.8	-3.3	2.6	-2.2	-2.1	-4.6	-1.0
Electricity, gas and water	2.5	4.2	-1.6	1.1	2.6	6.6	-12.5	2.0
Construction	6.5	9.1	5.5	1.7	-2.5	-0.9	-2.6	-5.8
Wholesale and retail trade, catering and accommodation	4.2	5.7	-0.6	3.7	0.9	1.3	0.8	0.3
Transport, storage and communication	4.7	6.6	2.0	2.4	1.6	0.0	5.8	2.8
Finance, insurance, real estate and business services	5.5	7.0	3.9	3.3	3.3	4.9	-0.2	1.9
Community, social and personal services	2.9	3.9	1.4	1.7	2.0	2.7	4.7	-0.5
General government	2.5	1.6	4.3	3.4	2.1	2.4	2.7	1.0
Total	3.9	5.0	1.7	2.9	0.4	0.9	-0.3	-0.1

Source: Quantec Research 2014

Table 2.5 shows the outlook for real economic growth in the Province. Real GDP is forecast at a similar rate in 2014 compared to 2013 (i.e. 2.1 per cent) and expected to accelerate to a real growth rate of 3.1 per cent in 2015. Real GDP is forecast to grow at an average growth rate of 3.0 per cent per annum over the period 2014 - 2019. The tertiary sector is expected to drive economic growth, with growth averaging 3.1 per cent per annum. Services such as transport and communication

and finance and insurance and business services are expected to grow at above-average rates. The Provincial Government highlighted its commitment towards achieving sustained economic growth. The 2014 Budget Statement highlighted the four core objectives of government, i.e. a commitment to promoting economic growth, increasing employment, improving the quality of public education and healthcare and reducing poverty within the Western Cape. From Table 2.4 it is clear that the employment creation objective remained elusive during the economic recovery (2010 - 2013), with overall employment in the Province continuing to contract, particularly in construction, agriculture and manufacturing.

Table 2.5 Western Cape Economy: Real GDP growth forecast: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast 2014 - 2019
Agriculture, forestry and fishing	2.6	2.3	1.9	1.5	1.6	1.7	1.6	1.8
Mining and quarrying	1.3	1.2	1.1	0.8	1.7	1.8	1.8	1.4
Manufacturing	0.5	2.2	2.4	2.3	2.4	2.4	2.5	2.4
Electricity, gas and water	1.6	1.5	2.1	2.1	2.2	2.2	2.2	2.1
Construction	3.2	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	2.4	1.2	3.0	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	2.1	3.0	3.6	3.7	3.9	3.7	3.9	3.6
Finance, insurance, real estate and business services	2.5	2.2	3.8	3.6	3.8	3.9	3.8	3.5
Community, social and personal services	2.2	2.1	2.4	2.1	1.9	2.4	2.2	2.2
General government	2.4	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Total	2.1	2.1	3.1	3.0	3.1	3.2	3.3	3.0
Primary sector	2.6	2.2	1.9	1.5	1.6	1.7	1.6	1.7
Secondary sector	1.1	2.5	2.7	2.7	2.7	2.8	2.9	2.7
Tertiary sector	2.4	2.0	3.3	3.2	3.4	3.4	3.5	3.1

Source: Quantec Research 2014

2.3 The Overberg District (OBD) economy

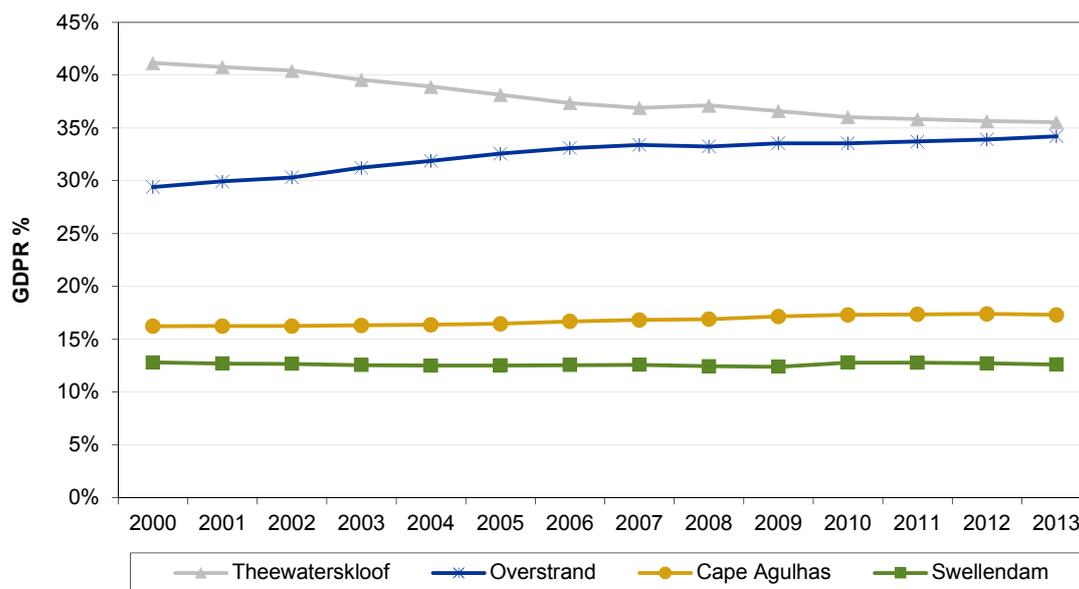
In line with the downward revision of the global economic outlook and the substantial downward revision of the outlook for growth nationally and in the Province, the Overberg District GDP growth forecast for the period 2014 - 2019 has been reduced to 3.6 per cent per annum, from 4.3 per cent per annum at the time of the 2013 MERO study (for the period 2012 - 2017). The growth performance of the District (2.0 per cent) was below that recorded for the Western Cape Province (2.1 per cent) in 2013. In terms of contribution to provincial GDP the OBD economy is small; contributing an average of 3 per cent of the Western Cape GDP in 2013. However the region was one of the fastest growing regions growing at 4.8 per cent over the period 2000 - 2013. According to the *Growth Potential Study*, Overstrand and Theewaterskloof are ranked as having *high* growth potential whilst Cape Agulhas and Swellendam municipal regions are ranked as having medium growth potential. Overstrand and Theewaterskloof municipalities accounted for 70 per cent of the total GDP within the region whilst Cape Agulhas and Swellendam accounted for 17 per cent and 13 per cent respectively in 2013.

The agriculture and agro-processing industries play a key role in the District's economy. The source of growth within the region has mainly been the manufacturing, construction, finance and business services and the transport and communication sectors. The historical growth of economic sectors within the District is considered in the following section.

2.3.1 Historical growth and employment trends

The fastest growing municipality within the OBD was Overstrand Municipality (growing by 6.2 per cent per annum over the period 2000 - 2013), followed by Cape Agulhas (5.3 per cent), Swellendam (4.5 per cent) and Theewaterskloof (3.6 per cent). Despite being one of the largest municipal economies in the region, the relative contribution made by Theewaterskloof to the District's GDP has been on a downward trend since 2000 (see Figure 2.2). On the other hand, the rising contribution made by Overstrand Municipality to the Overberg District GDP is notable. Whilst the contribution made by Cape Agulhas has also increased slightly over the period 2000 - 2013, the contribution by Swellendam Municipality has been fairly constant over corresponding period.

Figure 2.2 GDP contribution per municipality: 2000 - 2013



Source: Quantec Research 2014

Employment contributions by municipality follow similar trends compared to GDP. Of interest is the rising contribution to employment by Overstrand Municipality, with growth averaging 1.1 per cent per annum over the period 2000 - 2013. On the other hand, the contraction in employment in Theewaterskloof (1.1 per cent per annum) is notable and a cause for concern. As mentioned in the MERO 2013 report more than two thirds of the OBD agriculture is located in Theewaterskloof, this sector also accounted for the highest number of job losses in the region.

Table 2.6 shows the sectoral composition of GDP growth and net employment creation in the Overberg District economy over the period 2000 - 2013. The Overberg District has not fully recovered to its trend growth rate (4.8 per cent per annum, 2000 - 2013) and has under-performed during the economic recovery thus far. During the recession years (2008 - 2009) real growth slowed to 4.2 per cent per annum and during the subsequent economic recovery to 3.4 per cent per annum over the period 2010 - 2013, compared to 5.7 per annum recorded over the period 2000 - 2007, i.e. the previous business cycle expansion.

Table 2.6 Overberg District GDP and employment trends 2000 - 2013

Sector	GDP (yoy %)			Employment (net change)		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2013	2008 - 2009	2010 - 2013	2000 - 2013	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	-0.4	2.6	0.6	-13 549	-3 887	-1 398
Mining and quarrying	0.9	-2.9	2.6	-5	8	-2
Manufacturing	5.7	1.9	2.6	377	39	-623
Electricity, gas and water	1.0	-2.4	0.4	19	-76	11
Construction	8.1	8.2	2.0	-1 794	-96	-1 964
Wholesale and retail trade, catering and accommodation	3.5	-3.0	4.1	-747	-558	253
Transport, storage and communication	5.8	4.0	2.6	608	273	258
Finance, insurance, real estate and business services	10.2	11.1	5.6	8 755	1 156	1 775
Community, social and personal services	3.6	1.0	2.4	2 648	808	1
General government	3.3	4.0	3.8	2 470	328	561
Total	4.8	4.2	3.4	-1 218	-2 005	-1 129

Source: Quantec Research 2014

From a sectoral perspective, the finance, insurance, real estate and business services sector was the fastest growing sector in the region in terms of GDP growth (10.2 per cent) over the period 2000 - 2013. The Overberg District also hosts a very strong construction sector that grew at 8.1 per cent over the period 2000 - 2013. Other sectors that grew above or equal to average are the manufacturing sector (5.7 per cent) and the transport and accommodation sector (5.8 per cent). Whilst the contraction recorded in the agriculture sector (0.4 per cent per annum over the period 2000 - 2013) is noteworthy, another feature is the severe job losses recorded within this sector subtracting 13 550 workers from overall employment during the period 2000 to 2013.

The Overberg District is the fifth largest employer within the Western Cape, contributing 4 per cent to total formal and informal employment in 2013 (i.e. 76 220 workers). A notable feature is that the structure of employment has changed over the past ten years. Whilst employment within the primary sector has decreased, employment in the tertiary sector has increased. Even more noteworthy is that the District has continued to shed jobs during the recovery period. In comparison to other sectors the agricultural sector shed the largest number of jobs over the period

2000 - 2013 (see Table 2.6). Overall, the District has experienced net job losses over the period 2000 - 2013. Job losses were recorded in Theewaterskloof and Swellendam municipalities.

2.3.2 The economic recovery

The OBD, together with Eden District, did not experience a contraction in GDP growth during the recession. The region rather experienced a sharp slowdown in GDP from 7.6 per cent in 2008 to 0.7 in 2009. During the recession the mining and quarrying sector (-2.9 per cent), the electricity, gas and water sector (-2.4 per cent) and the wholesale and retail trade and accommodation sectors (-3.0 per cent) were the most severely affected. In the early years after the recession the sectors have shown signs of recovery. However, growth during the recovery period (3.4 per cent per annum) has remained well below its trend growth rate (of 4.8 per cent) and the real GDP growth of the Western Cape Province (3.9 per cent) over the period 2000 - 2013.

Table 2.7 Overberg District real GDP growth in Provincial perspective: 2010 - 2013 (%)

Sector	Overberg District	Eden District	Cape Winelands District	West Coast District	Central Karoo District	Cape Metro
Agriculture, forestry and fishing	0.6	1.5	-0.4	-0.1	1.2	2.2
Mining and quarrying	2.6	1.5	4	3	0.3	1.5
Manufacturing	2.6	4.3	2.1	1.9	3.9	2.7
Electricity, gas and water	0.4	0.9	2.1	-0.4	-0.4	1
Construction	2	2.5	1.7	1.5	2.1	1.5
Wholesale and retail trade, catering and accommodation	4.1	5	4.8	3.4	2.1	3.4
Transport, storage and communication	2.6	2.4	2.2	1.7	0.9	2.3
Finance, insurance, real estate and business services	5.6	3.9	3.8	5.4	3.8	3
Community, social and personal services	2.4	2.7	2.1	2	1.1	1.4
General government	3.8	5.4	4.2	3.4	3.5	2.7
Total	3.4	3.8	2.7	2.8	2.6	2.7

Source: Quantec Research 2014

Table 2.7 shows the sectoral growth performance of the Overberg District economy during the economic recovery (2010 - 2013) in the context of the other five Western Cape districts. The District recorded the second highest GDP growth within the District of 3.4 per cent per annum over the period 2010 - 2013. From the table it is clear that the finance, insurance, real estate and business services sector (5.6 per cent), general government (3.8 per cent) and the wholesale and retail, catering and accommodation sector (4.1 per cent) were the fastest growing sectors in the Overberg District during the recovery period. An outstanding feature is that the GDP growth of the financial and business services sector was the highest recorded within the Province over the recovery period. Growth in the agriculture, forestry and fishing sectors and the electricity gas and water sector has been below par.

Table 2.8 Overberg District employment trends in provincial perspective: 2010 - 2013

Sector	Overberg District	Eden District	Cape Winelands District	West Coast District	Central Karoo District	Cape Metro
Agriculture, forestry and fishing	-1 398	-2 824	-7 266	-423	-227	-1 451
Mining and quarrying	-2	-3	-32	-16	1	-48
Manufacturing	-623	-1 086	-84	-546	-79	-7 105
Electricity, gas and water	11	23	-6	11	1	440
Construction	-1 964	-4 929	-2 863	-1 471	-291	-18 075
Wholesale and retail trade, catering and accommodation	253	1 132	836	62	-76	3 255
Transport, storage and communication	258	555	507	365	67	6 888
Finance, insurance, real estate and business services	1 775	1 865	2 078	2 045	200	17 042
Community, social and personal services	1	-386	-990	-166	-231	-4 462
General government	561	3 186	2 172	501	16	2 546
Total	-1 129	-2 468	-5 648	362	-617	-970

Source: Quantec Research 2014

Table 2.8 shows a sectoral breakdown of net employment creation of the Overberg District and the other five districts. In comparison to other districts, the Overberg District experienced the third largest net job losses over the recovery period. From the table it is clear that the construction sector, agriculture, forestry and fishing sector and the manufacturing sectors are still experiencing job losses across all districts.

2.3.3 Macroeconomic implications and the growth outlook

The Overberg District economy's real GDP growth rate is expected to increase from 2.0 per cent in 2013 to 2.9 per cent in 2014 (Table 2.9). The average annual GDP growth rate forecast for the period 2014 - 2019 is expected to be 3.6 per cent per annum. It is expected that the finance and business services sector (5.3 per cent per annum) will be the highest growth sector and will be closely followed by the construction sector (4.0 per cent) and the transport, storage and communication sector (3.9 per cent). The downgrading of the country's credit ratings, higher inflation rates, the deterioration of the current account, the weakening of the rand, the shaky business confidence and the consequent slowdown of the national economic growth rate, could slow down the Overberg District economic performance.

Table 2.9 Overberg District real GDP growth forecast by broad sector: 2014 - 2019

Sector	2014	2015	Forecast				Forecast
			2016	2017	2018	2019	2014 - 2019
Agriculture, forestry and fishing	2.0	1.4	1.2	1.3	1.4	1.3	1.4
Mining and quarrying	1.5	1.2	1.1	2.0	2.1	2.1	1.7
Manufacturing	3.4	3.4	3.6	3.6	3.6	3.8	3.5
Electricity, gas and water	1.2	1.6	1.8	1.9	1.9	1.9	1.7
Construction	3.6	3.8	4.2	4.1	4.3	4.3	4.0
Wholesale and retail trade, catering and accommodation	0.8	2.3	2.6	2.7	2.7	2.9	2.4
Transport, storage and communication	3.4	3.7	4.0	4.1	4.0	4.3	3.9
Finance, insurance, real estate and business services	4.1	5.5	5.4	5.5	5.8	5.8	5.3
Community, social and personal services	2.5	2.6	2.5	2.3	2.8	2.6	2.6
General government	1.9	2.0	2.0	2.1	2.3	2.5	2.1
Total	2.9	3.5	3.6	3.7	3.8	3.9	3.6

Source: Quantec Research 2014

Contrary to the poor national economic performance, the global economy is set on a growth trajectory. This may help in offsetting the national negative impact on the OBD economy. According to the World Bank economic outlook, global growth is projected to strengthen from 3.2 per cent in 2013 to 3.4 per cent in 2014, before reaching 4.0 per cent in 2015.

The Western Cape Province hosts the largest share of aquaculture farms in South Africa. Plans to develop the blossoming aquaculture industry in Cape Agulhas and Overstrand municipalities could bolster job creation and economic growth in the Overberg District. As a result government departments such as **the dti** are implementing incentive programmes to support the sector (e.g. the Aquaculture Development and Enhancement Programme (ADEP)). The aim of the programme is to assist aquaculture ventures, increase investment within the sector, promote job creation and enhance the sector's competitiveness. The Overberg District could benefit from such ventures.

2.4 Concluding remarks

The impact of the recession on Overberg District economy was relatively mild, to the extent that real economic activity did not contract. The region rather experienced a sharp slowdown in GDP growth from 7.6 per cent in 2008 to 0.7 in 2009. The District began to show some signs of recovery in 2010 growing at 2.7 per cent. Growth accelerated to 5.2 per cent in 2011 and tapered off to 2.0 per cent last year and is expected to average 2.9 per cent in 2014. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the Overberg District has been reduced to 3.6 per cent per annum from 4.3 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been highlighted as weak global growth and domestic issues such as labour unrest.

The fastest growing municipality within the OBD was Overstrand Municipality followed by Cape Agulhas, Swellendam and then Theewaterskloof. Despite being one of the largest municipal economies in the region the relative contribution made by Theewaterskloof to the District's GDP and employment has been on a downward trend since 2000. This is presumably a result of the sideways performance of the agricultural sector. The other two municipalities (Cape Agulhas and Swellendam) are smaller both in terms of contribution to GDP and employment. In terms of employment, Overstrand and Cape Agulhas municipalities managed to create employment on a net basis over the 2000-2013 period. On the other hand, Theewaterskloof and Swellendam suffered serious job losses over the same period. Overall the region experienced net job losses during the recession and over the recovery period. This is a result of the sharp contraction in employment recorded within the agricultural sector.

It is expected that the fastest growing sector within the region over the forecast period 2014-2019 will be the finance and business services sector. Other sectors expected to grow above average are the construction sector and the transport, storage and communication sector. A range of initiatives to promote economic growth is underway (e.g. agri-tourism, the development of more aquaculture farms in Hermanus and beyond, etc.).

3

Sectoral growth, employment and skills

3.1 Introduction

The Overberg District (OBD) regional economy generated 3.1 per cent of the Western Cape GDP during calendar 2013, i.e. R13.3 billion of the total R431 billion and employed 76 200 workers in its formal and informal sectors. Table 3.1 shows the sectoral composition of the regional economy, both in terms of value added and employment. From the table it is clear that the financial and business services sector (accounting for 26 per cent of GDP) is the largest sector, with this sector also employing 18 per cent of the regional work force; the internal trade sector also employs close to 18 per cent of the work force. The largest employer is agriculture, accounting for close to 19 per cent of total employment (or 14 300 workers). The Overberg District has a small regional economy that has experienced high growth (i.e. the second fastest district real GDP growth after Eden) and witnessing a transition from being primarily agricultural-based, with this sector accounting for 25 per cent of output 20 years ago, to an economy consisting two-thirds of services and one quarter of secondary economic activities; the agricultural contribution has declined in relative terms to 11 per cent. A notable feature of the Overberg District economy is the moderately expanding relative contribution of manufacturing and construction activities. The historical growth of the municipal economy is discussed in section 3.2 below, also in the context of the growth of the other Western Cape municipalities. The focus in this part of the analysis is on the period of economic recovery (i.e. 2010 - 2013) from the 2009 recession. The trends in the agriculture, manufacturing and services industries are analysed. Section 3.3 investigates the changing skills composition of labour demand in the formal sectors of the regional economy.

Table 3.1 Overberg District value added (GDPR) and employment, 2013

Broad sector	GDPR		Employment	
	(R million)	%	(number)	%
Agriculture	1 522	11.5	14 300	18.7
Mining	17	0.1	100	0.1
Manufacturing	1 568	11.8	6 100	8.0
Electricity and water	250	1.9	200	0.3
Construction	1 153	8.7	6 900	9.0
Trade	2 267	17.1	13 400	17.6
Transport and communication	905	6.8	2 200	2.9
Financial and business services	3 449	26.0	13 700	18.0
Community, social and personal services	543	4.1	10 900	14.3
Government	1 605	12.1	8 400	11.0
Total	13 279	100.0	76 200	100.0

Source: Quantec Research 2014

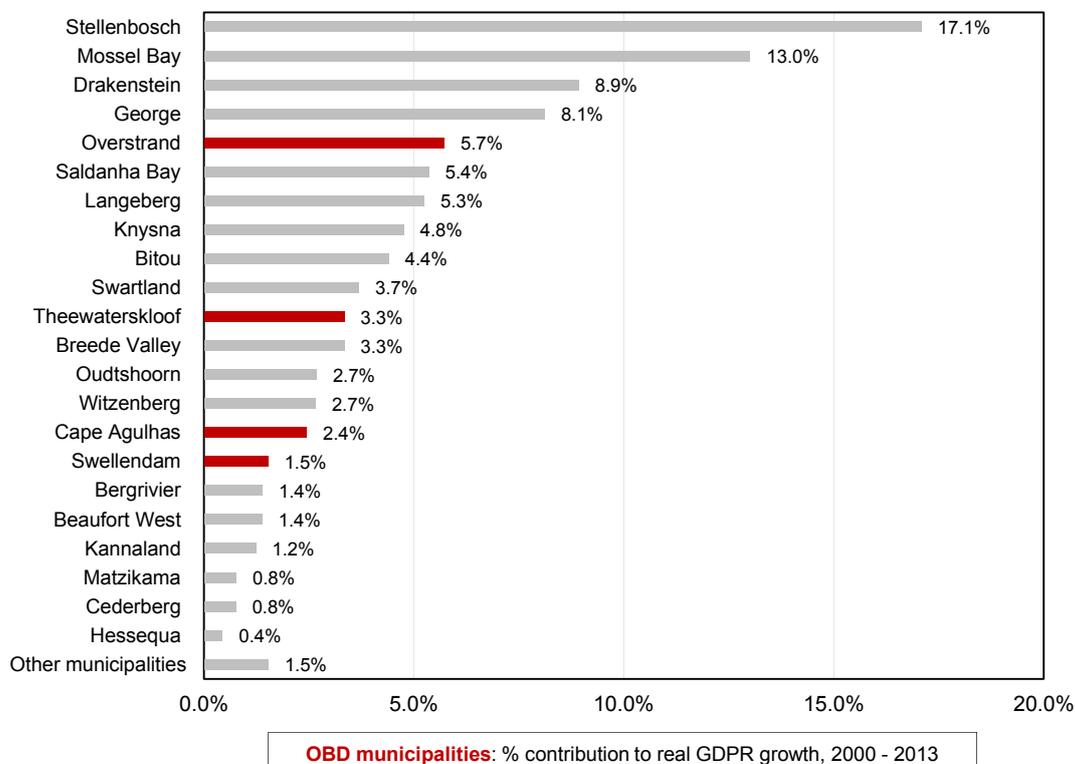
The 2013 Municipal Economic Review and Outlook (MERO) study, applying a location quotient analysis, revealed that the agriculture, forestry and fishing sector and its associated food and beverage processing industries; the building and construction and associated building materials manufacturing industry and the region's furniture sector, as well as catering and accommodation and business services sub-sectors – linked to tourism – were all industries with a competitive edge expanding faster compared to their peers on average nationally. The outlook for the sectoral growth of the municipal economy is considered in section 3.4 and some concluding remarks follow in section 3.5.

3.2 Historical growth and employment trends by sector: An update

The Overberg District regional economy expanded the second fastest over the 2000 - 2013 period, growing by 4.8 per cent per annum in real terms, while its workforce actually shrunk somewhat on balance over this period, mainly due to heavy and sustained job losses in the agricultural sector. The non-agricultural sector added a cumulative 13 300 jobs over this period. The leading municipal economy in the region is the Overstrand, ranked amongst the top-5 in the Province considering its size and growth. Theewaterskloof accounts for a similar share of OBD real GDP compared to the Overstrand; however, grew at a lower rate (3.6 per cent per annum versus the 6.3 per cent annual growth of the Overstrand). Another rapidly expanding municipality in the region is Cape Agulhas, more or less half the size of the Overstrand and Theewaterskloof in terms of economic output, but growing rapidly at 5.3 per cent per annum. The smallest economy in the region is Swellendam, which expanded at an above-average rate of 4.6 per cent per annum. The rapid growth of all four municipal economies is therefore an outstanding feature of the OBD and explains the high overall real GDPR growth rate. Given this high growth rate, the OBD actually accounted for 13 per cent of the *cumulative growth* of the non-metro municipalities in the Western Cape, despite it only accounting for 11 per cent of 2013 GDPR – see Table 3.1. The ranking in Figure 3.1 is determined by considering both the size and growth of the municipal economies.

The *Growth Potential Study* ranked Overstrand 6th out of 24 non-metro municipalities as a region with *high* economic potential, i.e. just outside the top-5 rated with very *high* growth potential².

Figure 3.1 Non-metro municipalities ranked according to growth and size, 2000 - 2013



Source: Provincial Treasury/Quantec Research 2014

Theewaterskloof is also ranked as a region with *high* economic potential (i.e. 9th on the list). Cape Agulhas and Swellendam are ranked 14th and 15th respectively as regions with medium economic potential (Van Niekerk, A, November 2013: 28).

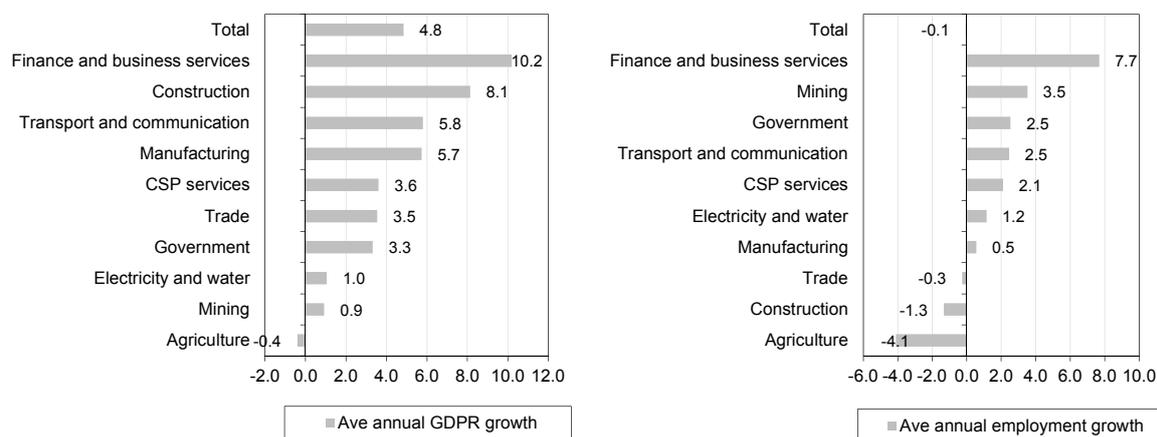
Figure 3.2 shows that across the broad sectors, the OBD's largest sector, i.e. financial and business services grew by far the fastest over the 2000 - 2013 period (10.2 per cent per annum), also creating employment at a rate of 7.7 per cent per annum³. The other sectors, which grew above average, are construction (8.1 per cent); transport and communication (5.8 per cent) and manufacturing (5.7 per cent). As noted in the 2013 MERO study, the growth of the manufacturing sector is an exception to the rule in the Western Cape Province. The entire region's manufacturing sub-sectors posted relatively robust growth; food and beverage

² In its ranking, the *Growth Potential Study* considers economic, physical and infrastructure factors as part of the economic pre-conditions of growth and innovation potential being determined by institutional and human capital factors. The list of indicators considered exceeds 50 and is therefore a much broader gauge of development potential. (See Van Niekerk, A, November 2013: 12-17)

³ The business services sub-sector (22 per cent of Overberg GDP) consists, *inter alia*, of legal, bookkeeping and auditing services, tax consulting, market research and business consulting. It is the dominant sector and not finance and insurance (6.0 per cent of GDP). Considering the contribution to real value added growth in the Overberg, this sector accounted for 37 per cent of the cumulative growth, 2000 - 2013; the finance and insurance sector grew somewhat faster on average and contributed 13 per cent.

processing account for a third of manufacturing activity, chemicals and plastics for a fifth, furniture 13 per cent and metals and engineering for 10 per cent. The sector also created employment on balance over the 2000 - 2013 period – only the Theewaterskloof Municipality experienced net job losses and the sector did shed some jobs during the period of economic recovery after the recession fallout.

Figure 3.2 Overberg District average real economic and employment growth by broad sector, 2000 - 2013



Source: Quantec Research 2014

The relatively mild growth (3.5 per cent per annum) and the net job losses in the internal trade sector, i.e. wholesale, retail, catering and accommodation is notable and may be a reflection of an under-developed tourism industry in the region. Furthermore, Figure 3.2 also shows that the construction industry shed jobs on a large scale despite its high rate of expansion. The agricultural sector contracted mildly over the 2000 - 2013 period and shed substantial labour over this period. A total of 13 550 jobs were lost in the agricultural sector over the 2000 - 2013 period; this was equivalent to the amount of jobs created in the region's services industries (13 700). More analysis follows below.

3.2.1 The economic recovery, 2010 - 2013

The national and provincial economies began recovering from the 2009 recession during the third quarter of that year. The Overberg District economy experienced a peculiar growth pattern during and after the recession. In fact, growth has tapered off from 5.7 per cent per annum during the previous economic expansion (2000 - 2007) to 4.2 per cent per annum during the recession and further to 3.4 per cent per annum during the recent economic recovery. This is explained by the fact that real GDP growth came in at a high rate of 7.6 per cent during calendar 2008, i.e. the first year of the recession. While it did slow down markedly to 0.8 per cent in 2009, the recovery has been more moderate, except in 2011 when an above 5 per cent growth rate was registered. Growth decelerated again subsequently to a more modest 2.1 per cent in 2013. This deceleration of the growth momentum since 2011 was in line with the slowdown in the global and national economies (South Africa registered a real GDP growth rate of 1.9 per cent during 2013).

As shown in Table 3.2, real GDP growth has averaged 3.4 per cent per annum in the Overberg District over the current expansion phase of the business cycle (2010 - 2013), below the trend growth tempo registered over the 2000 - 2013 period, but still the second fastest in the Province (which grew by 2.9 per cent per annum). The slower growth momentum over the 2010 - 2013 period points to the lingering impact of the global recession in 2009.

Table 3.2 Overberg District: Growth and employment, 2000 - 2013

Sector	Net employment (number)			Real GDP growth (ave yoy%)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-13 550	-3 890	-1 400	-0.4	2.6	0.6
Mining and quarrying	-10	10	0	0.9	-2.9	2.6
Manufacturing	380	40	-620	5.7	1.9	2.6
Electricity, gas and water	20	-80	10	1.0	-2.4	0.4
Construction	-1 790	-100	-1 960	8.1	8.2	2.0
Wholesale and retail trade, catering and accommodation	-750	-560	250	3.5	-3.0	4.1
Transport, storage and communication	610	270	260	5.8	4.0	2.6
Finance, insurance, real estate and business services	8 760	1 160	1 770	10.2	11.1	5.6
Community, social and personal services	2 650	810	0	3.6	1.0	2.4
General government	2 470	330	560	3.3	4.0	3.8
Total	-1 220	-2 010	-1 130	4.8	4.2	3.4

Source: Quantec Research 2014

Growth was led by the financial and business services sector (5.6 per cent per annum) and the government also put in relatively strong growth close to 4 per cent per annum. The wholesale, retail, catering and accommodation sector (4.1 per cent) also rebounded nicely from the adverse recession impact. Unfortunately the Overberg District region continued to witness net job losses during the economic recovery period. Closer inspection reveals that these net job losses mainly stem from Theewaterskloof Municipality and more specifically the construction and agricultural sectors and – to a lesser extent – manufacturing. The construction sector alone account for close to 2 000 net job losses, agriculture for 1 400 and manufacturing 620. The sharp losses in the construction sector is unusual and attest to the atypical slow recovery in this sector, which actually slumped after the recession, much like its counterpart in the Eden District. A measure of overheating in the property sector may have been present in the years running up to 2009.

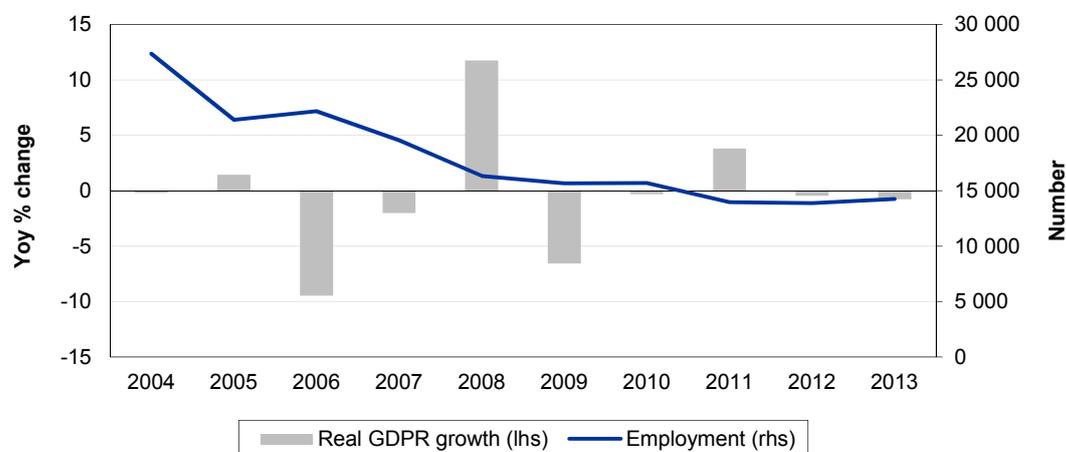
The combined job losses in agriculture, manufacturing and construction overshadowed the net employment gains in the predominantly services sectors, resulting in an overall cumulative 1 130 net job losses, i.e. at a rate of 0.3 per cent per annum during the economic recovery. The result is that the overall level of employment in Overberg District last year stood 5 per cent below its pre-recession level in 2008. The sectoral growth and employment trends are discussed in more

detail in section 3.2.2 below. The fact that the local labour market continued to deteriorate during the first four years of the recovery is very disappointing. This also happened despite the positive growth in agriculture, manufacturing and construction real GDP.

3.2.2 Agriculture, manufacturing and services – municipal economic growth performances

Table 3.2 shows the well-dispersed, albeit moderate, growth of the Overberg District economy during the recovery. The sectoral growth and employment performances are discussed in more detail below.

Figure 3.3 Overberg District: Agriculture real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

In Table 3.1 it was seen that the **agriculture, forestry and fishing** sector generated 11.5 per cent of OBD value added (or GDP) in 2013, which translates to R1.5 billion; and the sector employed 18.7 per cent of the regional workforce, i.e. 14 300 workers. Theewaterskloof Municipality is the main contributor to the agriculture, forestry and fishing output of the OBD, accounting for two thirds of value added; all the other three municipalities account for between 10 - 11 per cent each. In Theewaterskloof the main agricultural commodities are deciduous fruit, livestock, wheat and canola while farmers in the area report a move to wine grapes and olives (Provincial Treasury, March 2013: 72). In Cape Agulhas wool farming is an important agricultural activity and, apart from grains and livestock, also vegetable farming (e.g. sweet potatoes), fishing and aquaculture. Overstrand hosts a large part of the Province's blossoming aquaculture industry (i.e. abalone and fish farming). This segment of Overstrand's agricultural and fishing sector is growing, but the decade long steady contraction in agricultural real value added continued during the economic recovery in this region.

While overall OBD agricultural output has been stable, recent years have witnessed a recovery following the 2009 recession impact; the Theewaterskloof Municipality reports that particularly the current season is very promising, including good prices for fruit farms (apples and pears), also in the grain sector, but less favourable in the wine

sector. According to the data, the Swellendam agricultural sector (mainly grains and livestock) witnessed a remarkable turnaround during the economic recovery.

Table 3.3 Overberg District: Agriculture growth and employment by municipality, 2000 - 2013

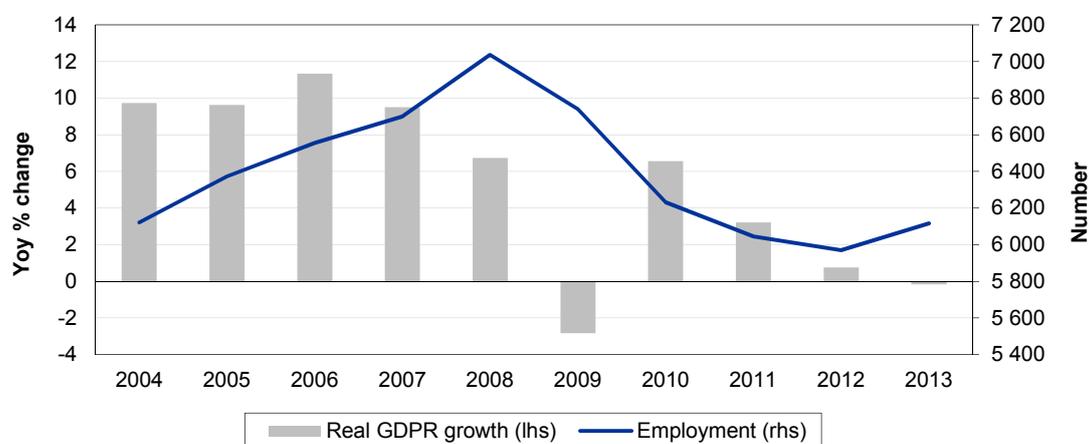
Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Theewaterskloof	67.1	0.0	0.3	68.0	-8 070	-1 050
Overstrand	11.3	-0.1	-0.3	13.4	-1 810	-110
Cape Agulhas	10.5	1.2	0.5	10.5	-770	-60
Swellendam	11.0	-3.3	3.6	8.1	-2 880	-180
Former Overberg DMA	0.0	-6.2	6.7	0.0	-20	0
Total	100	-0.4	0.6	100	-13 550	-1 400

Source: Quantec Research 2014

The *Growth Potential Study* rates some of the agricultural centres in Theewaterskloof Municipality with *high* developmental potential (such as Grabouw) and others with *medium* developmental potential (such as Botrivier, Caledon and Villiersdorp). Those with *low* developmental potential, include Barrydale, Swellendam and Rivieronderend. Hawston (Overstrand) is rated as a *fishing/residential* centre with *high* developmental potential and Gansbaai (Overstrand) as a *fishing/tourism* centre with *medium* developmental potential.

In all, the data indicates that the agriculture, forestry and fishing sector real value added only recovered moderately following the contraction in 2009 and the positive growth in 2011. This is in line with the sector's trend performance over the past decade. Figure 3.3 shows that steep job cuts occurred in the sector over the past decade, but that the level of employment may have stabilised. The outlook for the sector remains positive. The deciduous fruit sector (apples and pears) is expected to increase its relative economic value in the Province, while the outlook for field crops such as wheat, barley and canola is not as positive, expected to lose relative economic value; and that for livestock, dairy and vegetables being stable (Provincial Treasury, March 2014: 22).

Figure 3.4 Overberg District: Manufacturing real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

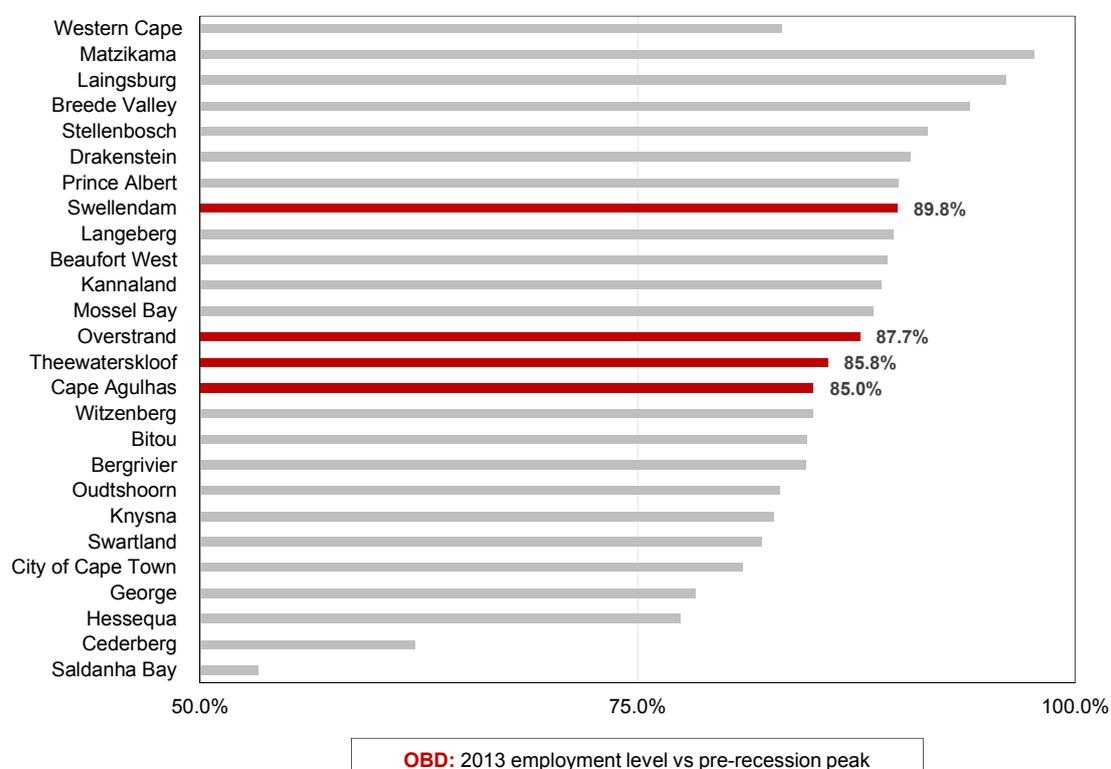
The **manufacturing sector** contributed 11.8 per cent of Overberg District value added (or GDP), i.e. R1.6 billion of the total R13.3 billion, during last year (see Table 3.1). It is quite a remarkable feat that the Overberg District manufacturing sector could increase its relative economic value in a district that grew by close to 5 per cent per annum over the 2000 - 2013 period. Like in Eden, the Overberg District manufacturing sector has been part of the regional growth story, growing by close to 6 per cent per annum over the 2000 - 2013 period. In constant 2005 price terms, its share increased from 14.2 per cent in 2000 to 15.2 per cent in 2013⁴.

Table 3.4 Overberg District: Manufacturing growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Theewaterskloof	33.4	4.2	2.2	32.5	-110	-200
Overstrand	34.5	6.4	2.5	35.8	130	-180
Cape Agulhas	17.6	5.7	2.3	17.4	50	-140
Swellendam	14.5	9.0	4.1	14.3	300	-100
Former Overberg DMA	0.0	-5.2	-4.5	0.0	0	0
Total	100.0	5.7	2.6	100.0	370	-620

Source: Quantec Research 2014

Figure 3.5 Western Cape municipalities: Employment recovery in manufacturing, 2010 - 2013



Source: Quantec Research 2014

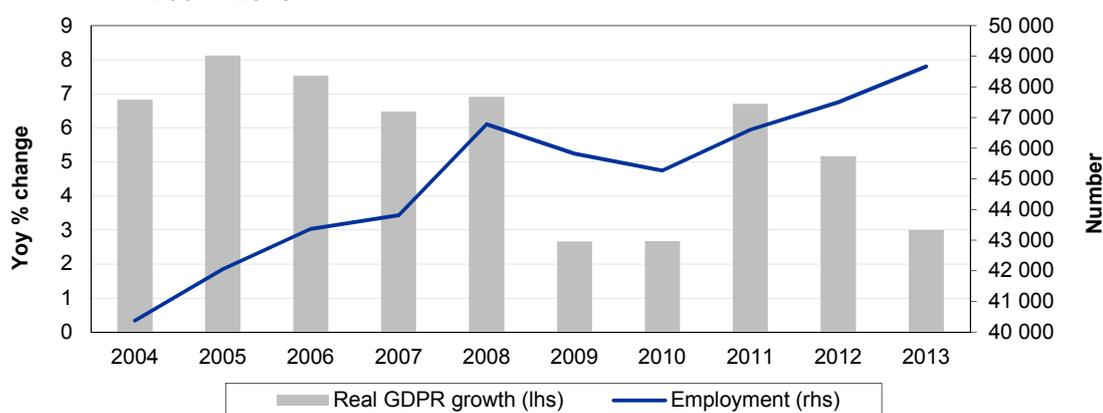
⁴ The large discrepancy between the constant and current price shares of manufacturing value added, hints at a likely mistake in the price deflator.

Having said that, the recession clearly had a major adverse impact on the sector during 2008 - 2009 and while the sector rebounded reasonably well thereafter, real value added growth has tapered off sharply towards 2013, with growth averaging 2.6 per cent per annum, 2010 - 2013. By 2013 the level of real GDP was only 7 per cent above its pre-recession peak (in 2008); however, as Figure 3.5 shows, the Overberg District municipal manufacturing employment levels remained between 10 - 15 per cent below their pre-recession peaks. All municipalities continued to retrench labour on balance in this sector over the economic recovery period 2010 - 2013.

In Table 3.4 it is shown that two thirds of the Overberg District's manufacturing sector is located in the two leading municipalities, i.e. the Theewaterskloof (33 per cent) and Overstrand (34 per cent). Cape Agulhas (18 per cent) and Swellendam (15 per cent) contributes more or less half the value added generated in the former-mentioned two municipalities. Regarding the growth of the sector, the municipal performances are all relatively robust, with the Swellendam Municipality catching up (expanding by close to a double-digit annual rate over the 2000 - 2013 period). During the economic recovery period Swellendam also registered the highest growth while that in the other three municipalities actually tapered down to a relatively pedestrian rate around 2.5 per cent per annum. The slower growth during the economic recovery assists in explaining the negative employment tendency (which can be exacerbated by adverse labour cost impacts, mechanisation, etc.).

In all, the manufacturing growth of the Overberg District municipalities has generally been well above average even if from a low base. While manufacturing activity is relatively concentrated in the Theewaterskloof and Overstrand municipalities, Swellendam has posted the highest growth, effecting some catch-up. The fact that employment levels in the sector remained 10 - 15 per cent below their pre-recession peak levels by the end of last year, attest to the slower recovery growth on the one hand and the lingering impact of the global recession (and possibly other adverse tendencies in the local labour market) being of concern. The increasing relative economic value of the Overberg District manufacturing sector slipped during the post-recession period and needs to be restored in order to correct the skills mismatch in the labour market (see below).

Figure 3.6 Overberg District: Services sector real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

Table 3.1 shows that the **services sector**, ranging from wholesale and retail activities to financial and business services and the general government, contributes two thirds (or R8.8 billion of the total R13.3 billion) of value added generated in the Overberg District. The geographical distribution of services activities mirrors that of manufacturing activity, with close to 70 per cent of the service economy located in Overstrand (38 per cent) and Theewaterskloof (31 per cent).

The two leading sub-sectors in services are financial and business services (R3.5 billion value added generated in 2013) and internal trade, i.e. wholesale, retail, catering and accommodation (R2.3 billion). The general government follows with R1.6 billion contributed to value added. The region's services industries employ 48 700 of the workforce in the region (76 220), i.e. 64 per cent.

Table 3.5 Overberg District: Services sector growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Theewaterskloof	31.3	5.3	3.8	32.1	2 780	680
Overstrand	37.8	6.9	4.8	37.5	6 560	1 310
Cape Agulhas	17.8	5.6	4.6	17.2	2 580	670
Swellendam	12.6	6.0	4.2	13.0	1 840	180
Former Overberg DMA	0.4	3.9	4.4	0.2	-20	10
Total	100	6.0	4.4	100	13 740	2 850

Source: Quantec Research 2014

In line with the experience in the wider province, Figure 3.6 shows that the Overberg District services sector expanded at high rates (averaging 7.2 per cent per annum) over the period 2004 - 2008 and that average growth has tapered off in the wake of the 2009 recession. Real value added growth averaged 4.4 per cent per annum during the period of economic recovery, i.e. 2010 - 2013, which compares to a trend growth rate of 6.0 per cent per annum and the high growth of the 2004 - 2008 period. The initial years of the economic recovery was characterised by a reasonable rebound with growth coming in close to 7.0 per cent in calendar 2011; however, since then it has tapered down markedly to 3.0 per cent in 2013.

The services sector has been the strongest in terms of employment creation in the region, with a cumulative 2 850 job opportunities being created during the economic recovery years (at a growth rate of 1.5 per cent per annum). This is down on the trend employment growth rate of 2.4 per cent per annum (2000 - 2013). Figure 3.6 shows that, apart from some recessionary decline during 2009 - 2010, the level of services employment expanding from 40 400 ten years ago to 48 700 last year.

A notable feature of the municipal growth trends in the services sector displayed in Table 3.5, is the relatively rapid growth of services activities in all four municipalities, both before and after the recession, albeit clear that the momentum receded beyond 2009. The relatively high growth (4.4 per cent per annum, 2010 - 2013) is quite remarkable in the context of the slower growth in the corresponding sector in the wider province and even nationally around 3 per cent per annum. The sub-sector,

which has out-performed over this period in these localities, is financial and business services growing by 6.3 per cent per annum in Theewaterskloof, 5.5 per cent in Overstrand and 5.2 per cent in Cape Agulhas. The growth and recovery of the agricultural and manufacturing sectors have spurred business and financial services activity; the Overstrand is also well-known for its well-established financial services industry given the high presence of the retirement industry.

In all, considering the sectoral growth and employment performances by municipality in Overberg District during the economic recovery period thus far, a notable feature is the vibrant growth of the financial and business services sector. While the manufacturing sector has also registered vibrant growth in the run-up to the 2009 recession, its recovery growth has come under pressure and the employment recovery has been weak. The steady expansion of the agricultural sector during the recovery is heartening, albeit not clear if this will be sustained in the Swellendam area; Overstrand also continued to contract marginally. However, it is critical to expand the growing agri-tourism linkages in the Overberg District and move higher up the value chain in agricultural production.

In the section below the Overberg District's international trade position is briefly considered.

3.2.3 International trade

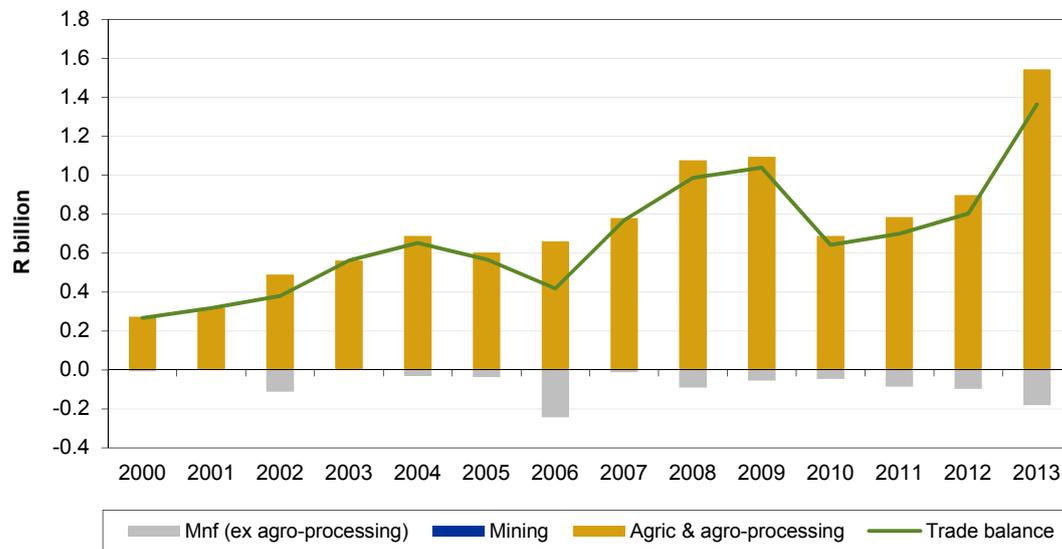
The value of goods exports from the Overberg District amounted to 12.5 per cent of the region's GDP in 2013 (or R1.7 billion), picking up quite sharply last year. The Overberg District's export basket is highly concentrated in the agriculture and fishing sector and the associated processing industries, accounting for 97 per cent of total goods exports in 2013; the agricultural sector accounts for 63 per cent and food and beverage manufacturing for a third. As noted in the previous MERO study, exports consist mainly of apples, pears, table grapes, fruit juices and wine to the European market whilst faster growing destinations are being explored. Some manufactured goods being exported include chemicals, automotive components, furniture and machinery. Not included here, are the services exports in the form of inbound tourism, which will add more to the region's foreign exchange earnings and the trade surplus.

On the import side, the basket is much better diversified, with a whole range of manufactured goods imports, measuring R300 million in 2013, up from R130 million in 2009. The dominant import items are machinery (35 per cent), processed food (14 per cent) and leather goods (14 per cent).

As the value of manufactured goods imports exceed the value of manufactured goods exports, a small deficit (of close to R200 million) resulted in manufactured goods trade (and that is excluding the food and beverage manufacturing trade). Adding the agricultural exports (more than R1 billion in value) to the food and beverage manufactured goods exports, i.e. total agro-processing exports amounted to R1.5 billion in 2013, exceeding the minimal imports of these commodities by a wide margin. The total goods trade surplus measured R1.4 billion in 2013 (see Figure 3.7). The surplus increased sharply due to a surge in agricultural and food processing

exports last year. This positive tendency may repeat itself this year given the favourable climatic conditions and optimism in the sector.

Figure 3.7 Overberg District goods trade balance, 2000 - 2013



Source: Quantec Research 2014

In the section below, the skills composition of labour demand in the Overberg District comes under the spotlight.

3.3 Municipal labour forces: Skills composition

The previous MERO studies alluded to the labour market dilemma faced in South Africa in general and also in the Western Cape, namely the mismatch between the demand for labour skills and the supply thereof. Whereas the demand for highly skilled human resources continues to grow, these skills are in short supply whilst at the same time there is an oversupply of *semi and unskilled* labour with the corresponding demand actually declining. This trend has been evident from the 1970s nationally (see Kibuuka & Van Aardt, 1999: 11-12) and continues to the present time. Table 3.6 shows that this trend also existed in the Overberg District during the 2000s⁵.

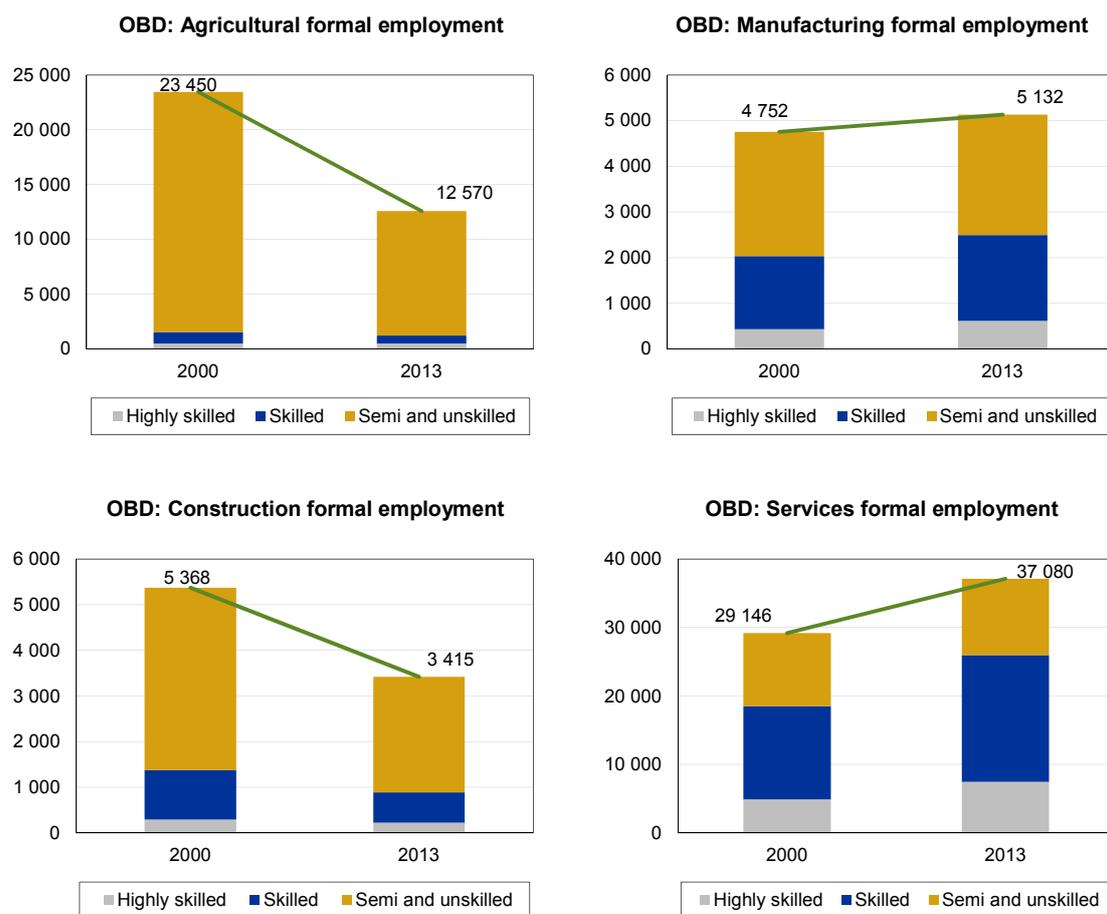
The demand for highly skilled labour grew by 2.8 per cent per annum between 2000 and 2013, that for skilled labour by 1.8 per cent per annum, whilst that for semi and unskilled labour contracted by 2.6 per cent per annum. It would appear that some of the decline in the demand for semi and unskilled labour swelled the informal sector labour force growing by 1.8 per cent per annum (see also the informal sector analysis in Chapter 5). Unemployment increased over this period as the overall demand for labour actually shrunk by 0.1 per cent per annum, not even accounting for the new entrants to the Overberg District labour market.

⁵ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi-and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Table 3.6 Overberg District employment by skill level

Labour category	2000	% share	2013	% share	% change pa
Highly skilled	6 100	8.0	8 800	11.6	2.8
Skilled	17 400	22.6	21 900	28.7	1.8
Semi and unskilled	39 400	51.1	27 800	36.4	-2.6
Informal	14 100	18.3	17 800	23.3	1.8
Total	77 000	100.0	76 200	100.0	-0.1

Source: Quantec Research 2014

Figure 3.8 Overberg District formal sector employment by skill level: 2013 vs 2000

Source: Quantec Research 2014

Whilst the demand for labour is generally derived from a country's or region's sectoral growth patterns and the accompanying macro-economic conditions, factors such as internal and external competitive conditions, wage rates in relation to productivity, the use of technology and the relationship between the cost of labour and the cost of capital, etc. all have an impact.

The objective here is not to unpack the reasons for the labour market mismatch in the Overberg District, but rather to highlight the trends in skills demand across the broad sectors, i.e. agriculture, forestry and fishing, manufacturing, construction and services – see Figure 3.8. The charts depict the skills composition of formal employment in the Overberg District in calendar 2000 versus that in 2013 and the absolute change in

formal employment over this period. The results largely confirm the historic and the anticipated patterns. *The following remarks are in order:*

- The first notable trend has been the decline in formal employment in the agriculture and construction sectors compared to the increase in employment in the manufacturing and services sectors. In all, 12 800 formal jobs were lost in the agricultural and construction sectors over the period between 2000 and 2013 while a cumulative 7 900 were gained in services and 380 in manufacturing. The net job growth in manufacturing, albeit small, bucks the provincial trend.
- The agricultural sector (more than 90 per cent), the manufacturing sector (50 - 60 per cent) and construction sector (around 75 per cent) are significantly more semi and unskilled labour intensive and job shedding in this labour market segment was most profuse in these sectors. Even the manufacturing sector shed some semi and unskilled jobs. In all, 12 100 of the 12 500 total formal sector job losses occurred in this labour category and in these three sectors. Whilst the services sector is known to be more skills intensive, it is interesting to note that this sector also *created* 500 semi and unskilled employment opportunities over the period under consideration.
- At the other end of the spectrum, around 70 per cent of all services jobs in the Overberg District are in the highly skilled and skilled categories. The demand for skilled and highly skilled labour also contracted in the agriculture and construction sectors, i.e. by 800, whilst it expanded marginally by 460 in the manufacturing sector and quite considerably in the services sector, i.e. by 7 400 new job opportunities in total or 4 900 skilled and 2 500 highly skilled jobs.

The loss of jobs in the agricultural and construction sectors, which are relatively semi and unskilled labour intensive is obviously a cause for concern given the skills composition of the unemployed labour force in the Overberg District. Whilst the agricultural sector in the region experienced a major relative decline from contributing 22 per cent to GDP in 2000 to 11 per cent in 2013, that of construction and manufacturing actually increased from 20 to 23 per cent over the corresponding period. The relative contribution of the services sector increased from 57 per cent to 65 per cent over the corresponding period. In other words, the Overberg District does not fully share the experience of other Western Cape districts which witnessed a notable relative decline in manufacturing and construction activities. This assists in explaining the positive manufacturing employment tendency. However, in agriculture and construction the region does share the experience of other districts in terms of laying off workers on a large scale in these industries. Apart from the relative decline in agriculture, this may point, amongst other, to the impact of technology and a mechanisation tendency in the Overberg District.

Other factors may also explain the attrition of semi and unskilled labour, namely wage costs in relation to productivity and the cost of capital, competitive pressures (in manufacturing), farming legislative change (which caused lay-offs in the agricultural sector), etc. However, further research is required in this regard. Suffice to say that the training and up-skilling of labour has become critical given the demands of the modern economy.

3.4 Sectoral economic prospects, 2014 - 2019

In Chapter 2 it was motivated why the forecast for economic growth has been scaled down markedly, both over the short and the medium term. The poorer global and national economic outlooks also impact on the outlook for the Western Cape economy and that of the Overberg District. Whereas the Western Cape economy was expected to grow by 3.7 per cent in 2014 and 3.7 per cent per annum on average over the six-year period, 2012 - 2017 in the previous study (MERO 2013), the current forecast is for 2.1 per cent growth this year and an average real GDP growth rate of 3.0 per cent per annum, 2014 - 2019. The main reasons for the slower growth are:

- Weaker than expected global growth. While the world economic recovery appears to be on track, growth forecasts have been scaled down generally. Weaker than expected growth in China and other emerging markets is a key factor. Recovery growth has also turned out weaker than expected in the developed economies of the world (see Chapter 2).
- Domestic economic issues have also led to the scaling down of growth forecasts, particularly regarding 2014 due to extensive labour unrest, which commenced the year with the unprecedented five month strike in the Rustenburg platinum belt. Real GDP contracted unexpectedly during the first quarter of the year, mainly due to a sharp fall in mining production, as well as manufacturing real value added. The latter contracted due to its linkages with the mining sector, but also due to problems within the sector (including once-off events such as maintenance schedules in the petroleum and heavy metals sectors) and the impact of electricity blackouts.
- The Western Cape manufacturing sector was relatively unscathed in this regard, but also succumbed to the weaker general demand conditions. The forecast for gross domestic expenditure, i.e. the sum total of household and government consumption expenditure, private and public sector fixed investment and inventory investment, is for real growth of only 1.6 per cent during 2014, recovering to 3.0 per cent per annum over the medium term; the previous forecast was for 4.5 per cent growth in 2014 and 4.3 per cent per annum on average over the medium term.
- This is a major downward revision and suggests the domestic market could remain lacklustre and/or slow growing. This may force manufacturers to shift production to the export market, particularly in view of the world economic recovery becoming sustained and a more competitive value for the rand exchange rate. The export oriented agriculture, agro-processing and services sectors (e.g. tourism) in the Overberg District may benefit in this respect.

3.4.1 Local issues – Overberg District

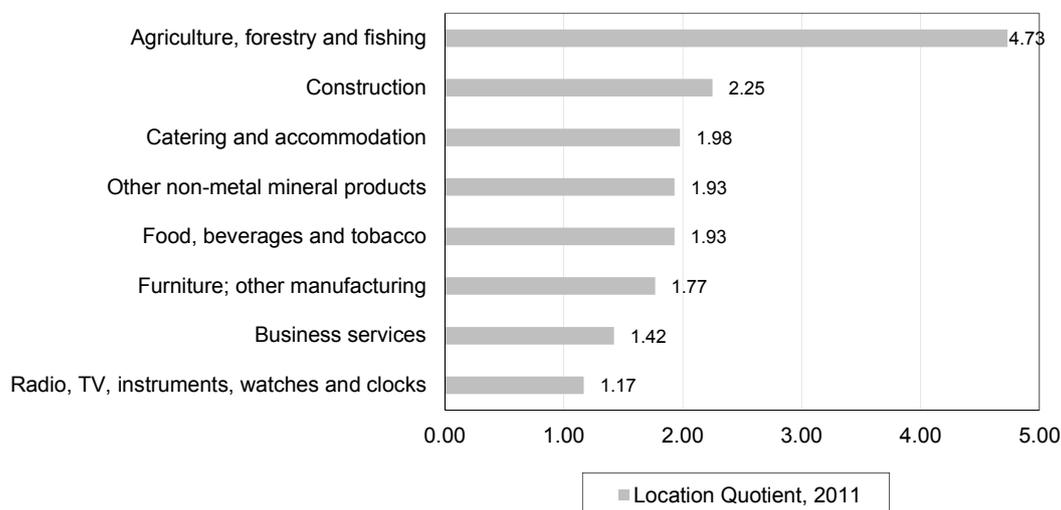
The Overberg District is a small non-metro district in the Western Cape, but its growth has been well above the provincial average, i.e. 4.8 per cent per annum (2000 - 2013) and 3.4 per cent (2010 - 2013) during the economic recovery compared

to 3.9 and 2.9 per cent per annum respectively provincially. Given the strong services orientation of the Overberg District's economy and sustained growth of the agriculture and construction sectors in 2008, the impact of the 2008 - 2009 global recession was relatively mild. Real GDP did not contract. However, job losses were quite severe, particularly in the region's construction sector after 2009.

In the MERO 2013 study it was found that a number of key value chains in the Overberg District have a comparative advantage, namely the food value chain (agriculture, forestry and fishing and the associated food and beverage processing industries); the building value chain (including building materials manufacturing and construction activities); the tourism sector (as reflected in the catering and accommodation and business services sectors); and the furniture value chain.

Figure 3.9 ranks those sub-sectors with comparative advantage as indicated by the 2011 location quotient analysis (see MERO 2013)⁶. It is expected that these industries will continue to do well over the forecast period. Municipalities in the region report a general recovery from the global recession impact in 2009, with conditions in the Theewaterskloof Municipality in particular looking up – more so in the deciduous fruit and grain sectors and less so in the wine sector. This Municipality is upbeat about the knock-on effects to the transport, retail and financial and business services sectors and the outlook for the region. Interesting initiatives regarding the branding of the region and efforts to boost tourism in the area are also paying off (e.g. agri-tourism, The Cape Country Meander initiative, the region's proximity to Cape Town, etc.). Towns such as Greyton, Grabouw/Elgin and Bot River consistently report increased tourist bookings.

Figure 3.9 Overberg District industries with comparative advantage



Source: Western Cape Provincial Treasury/Quantec Research 2014

⁶ The Location Quotient (LQ) ratio is the share of a specific industry in a region's value added expressed as a ratio of the same industry's share (nationally) in the national GDP. A reading above one indicates comparative advantage, implying the same industry expanded faster in the region compared to the sector nationally.

Some pessimism is picked up regarding the property market, also revealed in the Overstrand and Cape Agulhas – building plans are down and property transfers on an even to slower keel compared with a year ago. In the latter-mentioned two areas particularly coastal (and second) property prices remain under pressure following the recession fallout. The depressed nature of the OBD property sector agrees with the lacklustre building and construction conditions reported in the data. It is expected that the region's building and construction sector will emerge from its post-2009 slump and benefit from infrastructure investment planned over the medium term and the associated property developments.

Overstrand and Cape Agulhas municipalities are more upbeat regarding prospects in the fishing sector in general and aquaculture in particular, i.e. abalone and fish farming. Key initiatives are also underway in all municipalities to support and develop emerging farmers and small businesses (e.g. vegetable growing tunnels in Cape Agulhas; training initiatives and the promotion of subsistence farming); however, a plea is made for closer collaboration between communities, the informal sector bodies, the business chambers, training colleges and local government to coordinate support efforts, including skills training. While the agricultural sector has not expanded much and is in decline in some areas (e.g. Swellendam) there is clear scope to move up the value chain in terms of food and beverage processing (e.g. the fine foods industry).

The broad sector forecast for Overberg District is motivated below.

3.4.2 Sector forecast

A key aspect of this year's regional economic outlook was motivated in Chapter 2 and that is the dramatic downward revision of the forecast. Whereas the Overberg District was projected to grow by 4.3 per cent per annum over the six-year period 2012 - 2017 in the 2013 MERO study, this projection has been downscaled to 3.6 per cent growth per annum over the 2014 - 2019 period – see Table 3.7. This downward revision is in line with that for the wider province; Western Cape real GDP growth is currently projected to average 3.0 per cent per annum over the period 2014 - 2019 compared to 3.7 per cent per annum previously over the 2012 - 2017 period.

Regarding the sectoral outlook, the following remarks are in order:

- While climatic conditions are key to the agricultural outlook, the trend in the sector has been one of steady expansion in most municipal areas (except Overstrand and Swellendam). Overall agriculture, forestry and fishing real value added is projected to increase by 1.4 per cent per annum, i.e. slightly below the projection for the Province. The key positive factor in the agriculture outlook is the growing food demand from an expanding middle class population, not only in South Africa, but also in the rest of Africa and other destinations for our agricultural exports, e.g. China, India and East Asia.
- The agriculture sector has strong forward linkages to the manufacturing sector in the form of food and beverage processing; in the wider province no less than 37 per cent of agriculture, forestry and fishing output sales are destined for food

and beverage processing (intermediate sales) and close to 40 per cent final export sales (see MERO 2013). The food and beverage processing industries are less export intensive in the wider province with only around 13 per cent of its output sales exported and close to 60 per cent of output being sold to the household sector.

Table 3.7 Overberg District: Real GDP growth outlook, 2014 - 2019

Sector	Trend	Recession	Recovery	Overberg District	Western Cape
	2000 - 2013	2008 - 2009	2010 - 2013	2014 - 2019	2014 - 2019
Agriculture, forestry and fishing	-0.4	2.6	0.6	1.4	1.8
Mining and quarrying	0.9	-2.9	2.6	1.7	1.4
Manufacturing	5.7	1.9	2.6	3.5	2.4
Electricity, gas and water	1.0	-2.4	0.4	1.7	2.1
Construction	8.1	8.2	2.0	4.0	4.1
Wholesale and retail trade, catering and accommodation	3.5	-3.0	4.1	2.4	2.8
Transport, storage and communication	5.8	4.0	2.6	3.9	3.6
Finance, insurance, real estate and business services	10.2	11.1	5.6	5.3	3.5
Community, social and personal services	3.6	1.0	2.4	2.6	2.2
General government	3.3	4.0	3.8	2.1	2.1
Total	4.8	4.2	3.4	3.6	3.0

Source: Quantec Research 2014/Provincial Treasury, MERO

- The Overberg District has an even smaller export exposure regarding its agriculture and agro-processing sectors. While the search for faster growing export markets will remain important, domestic demand conditions are more critical regarding the region's economic outlook as sales to households remain a large part of output (75 per cent). The food and beverage processing sector accounts for one third of all manufacturing real value added generated in the Overberg District; the petro-chemicals, rubber and plastics sector for one fifth and wood products and furniture accounts for a further 19 per cent and metal products and machinery for 10 per cent. Manufacturing export growth has come under pressure during the economic recovery, mainly due to a contraction in food and beverage exports. Nonetheless, the outlook for the Overberg District manufacturing sector is also dependent on export demand conditions.
- The improved competitive levels of the rand should be supportive to exports from the region; furthermore, export producers need to take advantage of the projected two-speed world economic growth trajectory and diversify towards faster growing emerging market economies. Assuming the competitive gains of the rand exchange rate's depreciation can be maintained this will support the region's export sector, as well as create opportunities for import replacement and stimulate inward tourism. Unfortunately, experts in the tourism industry warn that the pending implementation of complex new visa requirements for foreign visitors to South Africa, ranging from biometric scans to unabridged birth certificates for minors, could severely disrupt inbound tourism. Some source countries (e.g. China and India) lack the infrastructure to implement the new regulations. The potential

negative impact on tourism and linked sectors is a risk in the short to medium term outlook.

- Currently the SA consumer is under pressure, with slowing real after tax personal income growth, a result of both weak employment conditions, lower real wage growth and slower growth in social grants as the government seeks to engineer a better fiscal balance. Consumer confidence is also weak (particularly the low-income groups impacted by retrenchments and labour strike activity), with household demand for credit slowing. Consumer debt levels are relatively high and impairments are growing. While pockets of strength continue to exist in the upper end of the market and given the enduring global economic recovery, it is not expected that the bottom of the domestic consumer market will collapse; the slowdown is rather likely to bottom-out and renewed momentum to develop as the broader economy re-accelerates towards year-end.
- Real wholesale, retail, catering and accommodation value added is projected to expand by a relatively subdued 2.4 per cent on average, 2014 - 2019. Overall manufacturing real value added is projected to grow by 3.5 per cent per annum over the medium term, which is higher compared to the recovery momentum registered in recent years and also above the provincial forecast in respect of the manufacturing sector. It is assumed that the manufacturing sector will regain some of its erstwhile vibrancy.
- Heightened infrastructure investment activity and associated property development (residential and non-residential) is also likely to boost the construction sector, from 2.0 per cent growth per annum during the economic recovery thus far to 4.0 per cent per annum, 2014 - 2019, i.e. in line with the average growth projected for the wider province.
- The downscaling of the growth forecast also impacts the outlook for the faster growing services sector in the Overberg District. The pressure on the consumer sector was alluded to above. The services sector is projected to grow by 3.9 per cent per annum compared to a trend growth rate of 6.0 per cent per annum and 4.4 per cent per annum during the economic recovery period thus far. The transport and storage sector, with close linkages with the wider economy, and the rapidly growing financial and business services sector are expected to top the growth rankings in the broader services sector, expanding by 3.9 and 5.3 per cent per annum respectively. This growth tempo is well below that over the previous business cycle expansion, 2000 - 2007. Consumer credit extension is cooling down and there has been a sea-change in credit uptake since the introduction of the National Credit Act in July 2007. The generally poor business and consumer confidence levels in the Province⁷ also contribute to hesitancy on the part of consumers to commit income on credit. The growth in business services will also be dragged down by the slower overall growth in the region.

⁷ The RMB/BER business confidence index showed that only 6 out of every 10 business executives in the Western Cape were satisfied with general business conditions during the second quarter of 2014. This is slightly better than the national average (4 out of ten); however, consumer confidence at -11 index points in the Western Cape is significantly below the national average (+6).

- An additional factor, which is likely to result in pressure on the household sector, is the constrained growth in government non-interest expenditure, implying limitations to public sector employment and wage growth. The government sector added significantly to growth during the initial period of the economic recovery; however, that was always going to be a temporary counter-cyclical measure. The general government sector of the Overberg District is projected to grow by 2.1 per cent per annum compared to recovery growth of 3.8 per cent per annum, 2010 - 2013. The community, social and personal (CSP) services sector is projected to grow at 2.6 per cent per annum, i.e. slightly faster than its performance over the 2010 - 2013 period.

3.5 Concluding remarks

The Overberg District has a relatively small but rapidly growing economy in the Western Cape. While only accounting for 3.1 per cent of the Provincial GDP, it expanded at the second fastest rate over the 2000 - 2013 period, i.e. 4.8 per cent per annum. Whilst economic activity tends to be concentrated in the leading Overstrand and Theewaterskloof municipalities, well-balanced growth across all four municipalities is a key feature of the region's performance, allowing it to punch above its weight. The competitive strengths of the region resides in its food value chain, including a stable agricultural sector producing for the export market, as well as the associated food and beverage processing industries, a strong building and construction sector, business services, tourism and furniture manufacturing. The rapidly expanding manufacturing sector, also able to generate employment on balance, is a distinguishing feature of the Overberg District economy. Unfortunately, deep retrenchments continue to occur in the agriculture and construction sectors worsening the skills mismatch in the local labour market.

Over the years, the region has developed a vibrant financial and business services sector, which is also a key source of employment. Sustained growth of the services sector also ensured the region not contracting at the time of the 2009 recession impact. Nonetheless, the recession left its scars, best reflected in the fact that in all municipalities manufacturing employment remained 10 - 15 per cent below their pre-recession peaks by the end of last year. Processed food and beverage exports have also come under pressure. The construction sector slumped after the end of the recession. In all, real GDP growth came in weaker than trend during the current economic expansion. The economic outlook is positive, but has been influenced by the general downscaling of the provincial and national economic outlooks. From 4.3 per cent per annum real GDP growth forecast previously (2012 - 2017), the current outlook is for 3.6 per cent growth per annum over the 2014 - 2019 period. This remains well above the forecast for the wider province at 3.0 per cent per annum. There appears to be scope to develop tourism in the region (with current initiatives showing great promise) and moving up the value chain in agriculture (including the blossoming aquaculture sector).

4

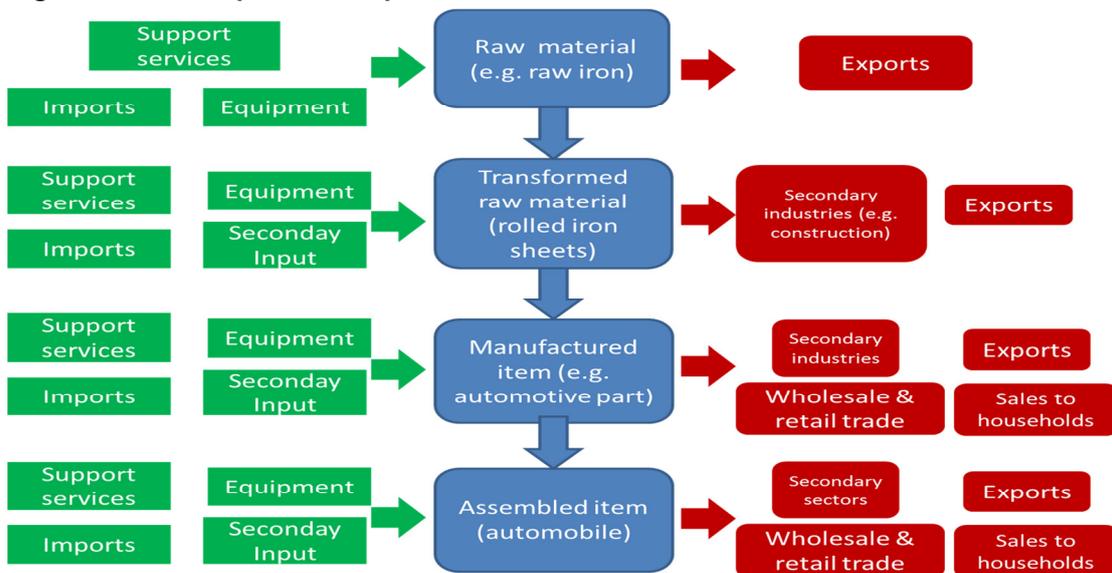
Value chains

4.1 Introduction

The current analysis will primarily focus on the value chain as represented by the supply chain and take into account the distribution of benefits, through value added within the value chain. The legal and policy implications will not be investigated as the primary focus is on the value added and job creating potential of the identified industries/sectors.

Each region has been assessed and the most important selected value chain within each regional economy has been analysed. It must be noted that the choice of value chain is based on the future potential for change in a specific industry or the decline in a specific industry within a value chain.

Figure 4.1 Example of a simplified value chain



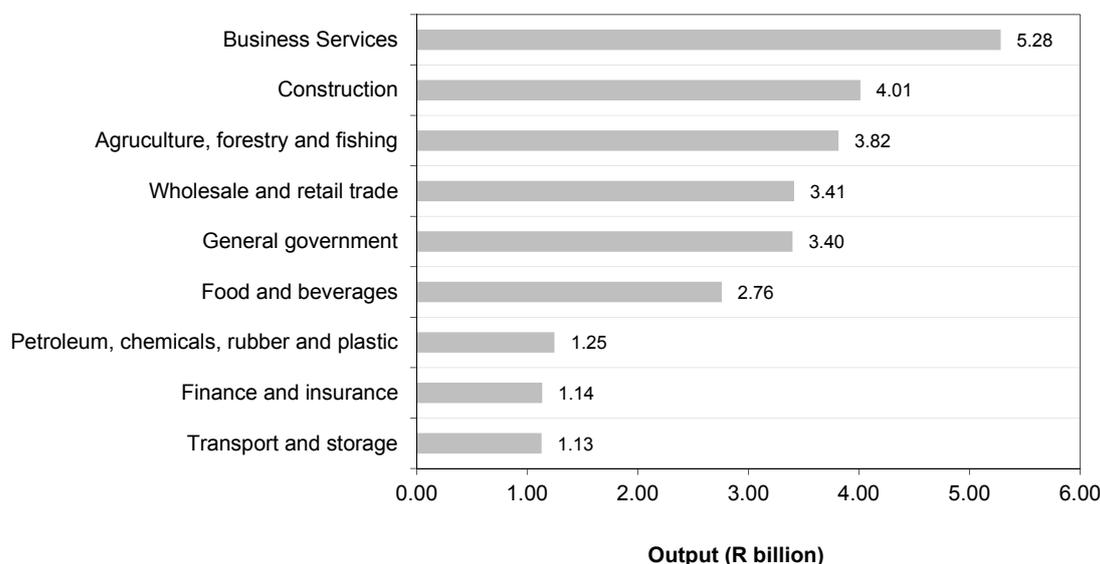
Source: Stats SA

The value chain is analysed according to the forward and backward linkages connecting various manufacturing and services sectors and forming an integrated value chain. The forward and backward linkages flowing from these sectors will also be represented in the value chain, with the percentage contribution to inputs and outputs to the respective sectors. An example of a simplified value chain is presented in Figure 4.1. It shows a hypothetical automotive value chain from source material. The linkages are tracked backward from the assembled automobile to the individual automotive parts; these automotive parts are in turn made up of processed metals. The processed metals are made up of basic processed iron which was initially sourced from raw iron. Each part of the value chain will have inputs from other sectors in the economy. Some of these are for inputs used in the production process or support the production process and others are merely inputs to support business processes. Each sector will also import a certain proportion of its inputs and also export a certain proportion of its outputs. As we move to the finished product, it also becomes more likely that there are direct sales to households.

4.2 Overberg District value chain analysis

The largest sectors in the Overberg District are business services, construction and agriculture, forestry and fishing and the two largest manufacturing sectors are food and beverages and petroleum, chemicals and rubber (see Figure 4.2). The sectors which present the greatest opportunity for further job creation and the possibility of enhancing the value added potential within the value chain are the agricultural and food and beverage processing sectors.⁸

Figure 4.2 Largest sectors based on output, Overberg District, 2013



Source: Quantec Research 2014

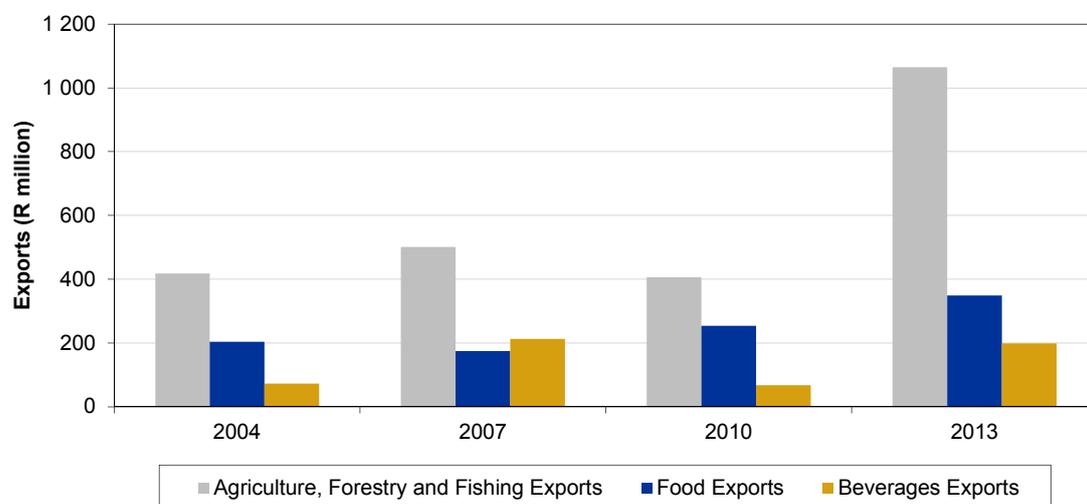
⁸ MERO 2013

The agricultural sector and its associated food and beverages processing industries comprise the agro-processing, or food value chain. In the following section a brief introduction to the two major sectors comprising the agro-processing value chain will be presented.

4.2.1 Agriculture and food and beverage industry analysis

Agriculture forms a large proportion of output in the OBD. The area in and around Theewaterskloof are major producers of agricultural produce, such as barley, wheat, wool and fruit. Livestock farming is prominent in the Cape Agulhas area with a key focus on merino farming. Wheat, barley, oats, canola and dry land lucerne are major land crops in the area.

Figure 4.3 Agriculture, food and beverage exports, Overberg District, 2004 - 2013



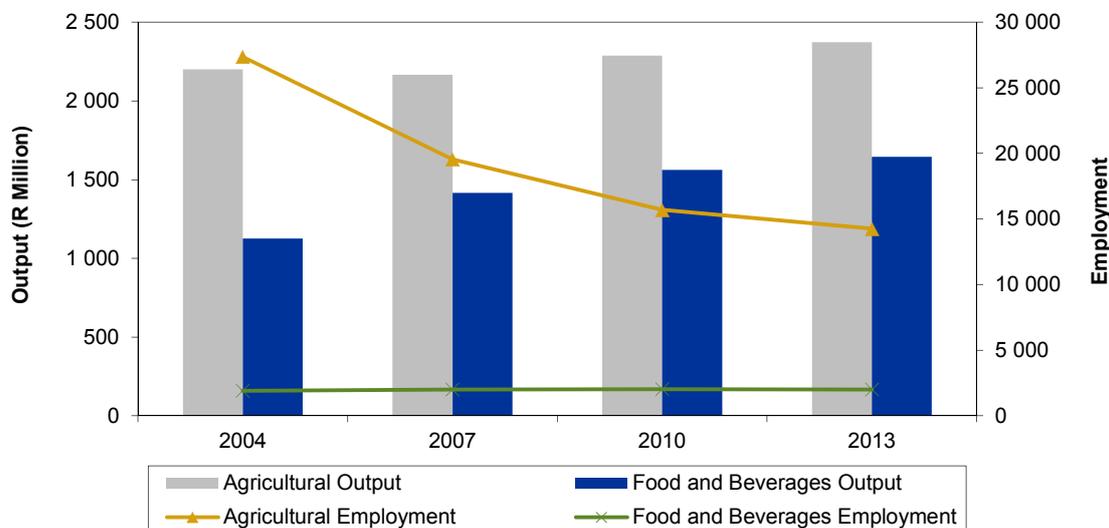
Source: Wesgro

Export growth is a prominent feature of the agricultural and food processing sector of the OBD (see Figure 4.3). Prominent agro-processing companies, such as Appletiser and Elgin Fruit Juices produce products with a large focus on the export market. Export levels were highly impacted by the 2008 - 2009 recession as international markets, especially Europe, suffered from low demand for fast-moving consumer goods (FMCG) during this period.

When comparing employment and output levels over time in the OBD, there is a clear trend of decreasing employment levels in the agricultural sector. Figure 4.4 shows rising output levels (at constant 2005 prices) for the agricultural and food processing sectors. Employment levels in the food and beverages processing sector have remained relatively steady over the past 10 years, increasing by only 5.0 per cent from 2004 to 2013, but employment levels in the agricultural sector have decreased by 47.9 per cent over the same period. This signifies major challenges to employment creation in the sector, which range from labour constraints to increased mechanisation on the part of commercial farmers. Overcoming the challenges associated with increasing employment in commercial farming is often outside the mandate of local or district municipalities. The potential for value enhancement and

employment opportunities further down the value chain should be the central focus instead.

Figure 4.4 Agriculture, food and beverage output and employment, Overberg District, 2004 - 2013



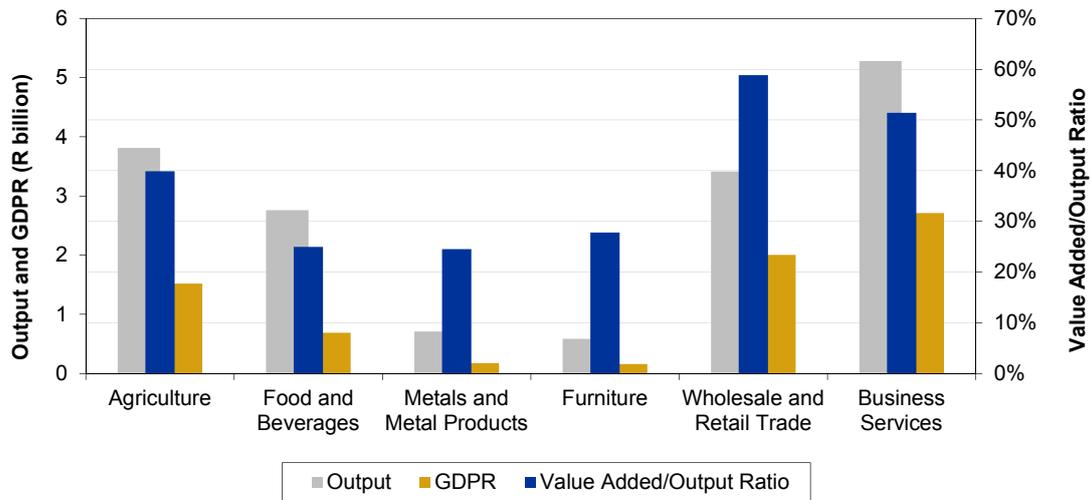
Source: Quantec Research 2014

In this regard, from Figure 4.5, it is clear that the services industries have a high value added to output ratio in comparison to manufacturing sectors⁹. The value added to output ratio of the food and beverages sector in the OBD is in line with the average for South Africa and other districts in the Western Cape at around 25 per cent. However, it is possible to strengthen the forward linkages from the food and beverages sector to the local economy and to strengthen the linkages between the agricultural sector to the local food processing sectors, and in this way increase employment and GDP in the local economy.

One of the possible ways to increase these linkages is to channel more agricultural output to the processing industries, which can add value to the product and find higher growth export markets. It should also be attempted to move up the value chain within the agro-processing industries producing more dynamic products. Commercial farmers are in a position to follow this route. Furthermore, the initiatives set in place to support emerging farmers should also support these farmers in becoming contributors to the food and beverages processing value chain. Smaller lines of products or fruit juices could be produced and marketed by emerging farmers and will create additional manual employment and GDP.

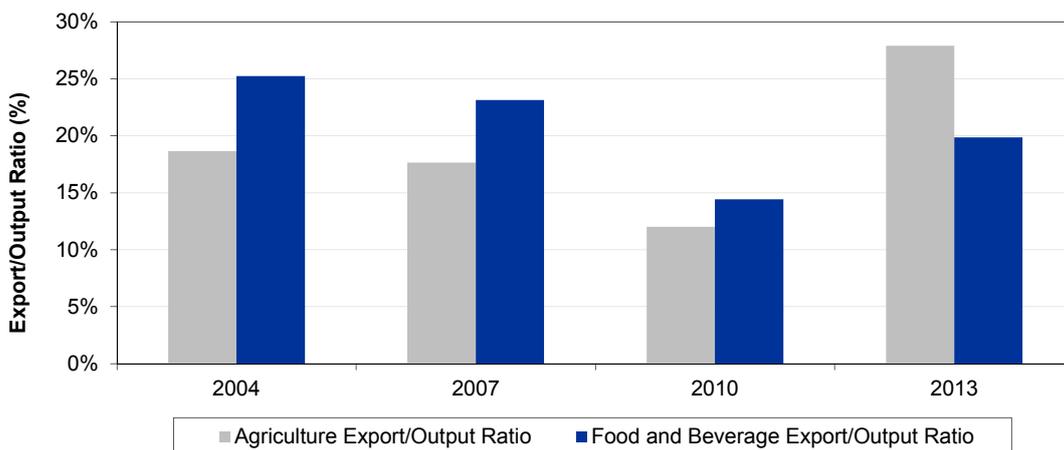
⁹ The ratio of GDP to output provides some indication what value is added to intermediate inputs (imported and sourced from other sectors) in the production process. A higher ratio implies the greater the economic welfare benefits tied to the particular economic activity.

Figure 4.5 Value added to output comparison for selected sectors, Overberg District, 2004 - 2013



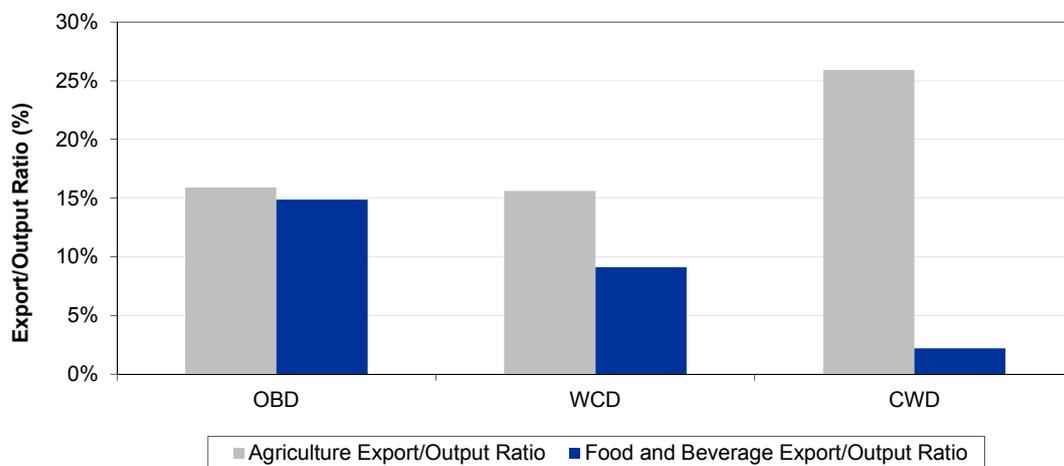
Source: Quantec Research 2014

Figure 4.6 Export to output comparison, Overberg District, 2004 - 2013



Source: Quantec Research 2014

Figure 4.7 Export to output comparison between districts, Overberg District, 2012



Source: Quantec Research 2014

Comparing the export to output ratios for agriculture and food and beverages in the major agricultural production districts of the Western Cape, it is clear that exports of products further down in the value chain of the OBD is higher than other districts. The greatest addition to value would be to strengthen the linkages between the agricultural sector, especially for smaller farmers, and the agro-processing industry. Commercial farmers also have potential to strengthen the linkages to local food and beverage processing, either by increasing production or by differentiating products. It must be noted that exports of a finished consumer product is lucrative to the manufacturing sector, provided this product cannot be utilised again in the local manufacturing value chain. In the case of food and beverage exports, the finished product cannot readily be re-utilised in any local manufacturing process and high exports of these finished products is a significant comparative advantage to the OBD. It is possible, however, that more lucrative export markets can be found and production expanded.

4.2.2 Agro-processing value chain

The agro-processing value chain consists of primary inputs from the agricultural sector which are then utilised in the production of food or beverages. These food and beverage products are usually sold to local wholesalers or retailers as FMCG products. Export of these products also forms a significant part of the commercial business of food and beverage companies.

Farming requires inputs from other sectors in the economy, either as direct input required to farm produce or livestock, or as support services that are required with the day-to-day running of the farming business. These inputs into the agricultural sector are accounted as expenditures for the agricultural industry.

Table 4.1 Agricultural intermediate expenditure on goods and services, South Africa, 2012

Type of expenditure	Share of intermediate expenditure
Farm Feeds	20.2%
Fuel	13.7%
Maintenance	12.9%
Farm Services	12.7%
Seeds and Plants	10.7%
Dips and Sprays	7.6%
Packing Material	6.9%
Fertiliser	6.4%
Building and Fencing	4.3%
Electricity	1.6%
Insurance	1.6%
Water Tax	1.0%
Other	0.2%

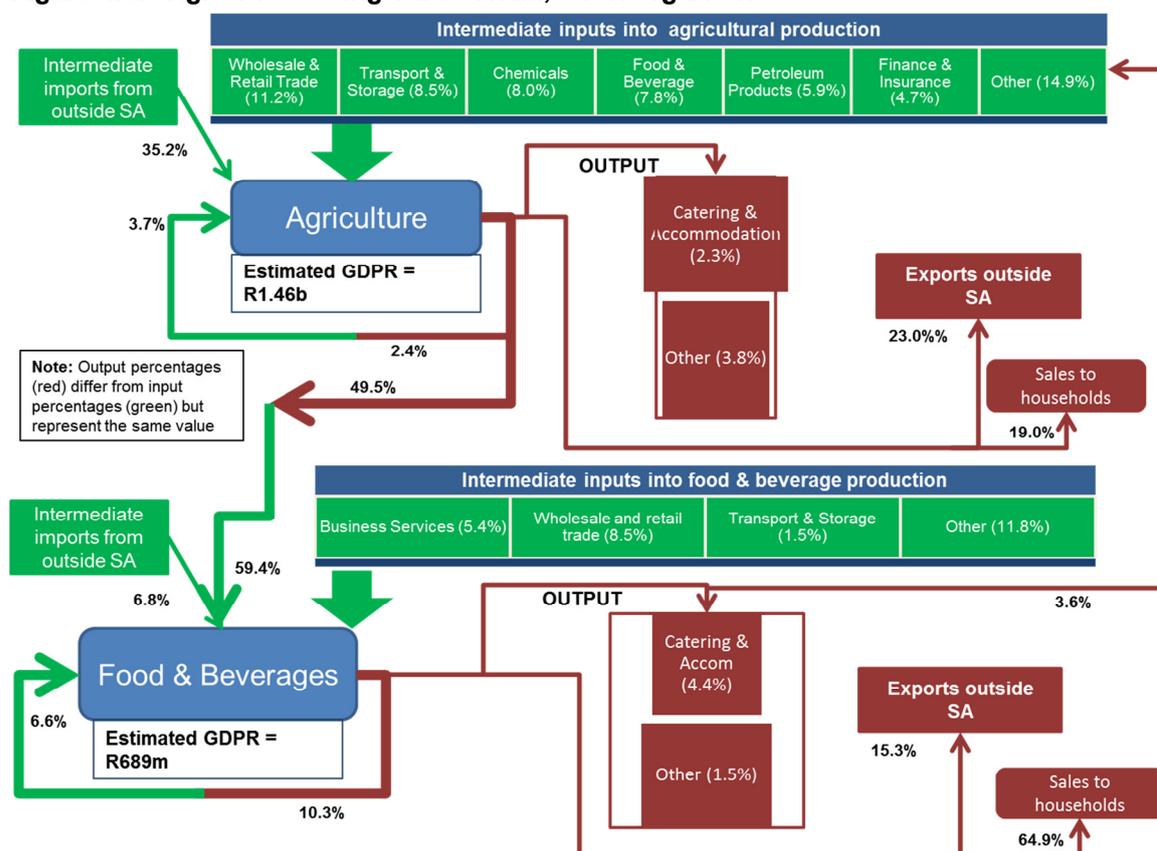
Source: Quarterly Economic Overview of Agriculture, Forestry and Fisheries Sector: Jan – March 2012

General types of expenditures into farming are presented in Table 4.1. Expenditure on operational aspects which require farm feeds, fuel, maintenance services and other farm services are greatest. Input expenditures such as farm feeds, packaging material and seeds will be grouped under wholesale and retail trade, whereas services will be separately grouped according to the SIC codes of Statistics South Africa. Inputs such as fertilisers will be grouped under chemicals and fuel and transport under petroleum products and storage and transport.

For the purposes of this analysis we will be using the sector breakdown as followed by Statistics South Africa. The two major sectors depicted in the agro-processing value chain will be the agricultural and food and beverages sectors.

The value chain for the agro-processing industry is presented in Figure 4.8. The green arrows and boxes represent the inputs into the specific sector and the red arrows or boxes represent the outputs from those sectors. All percentages represented are the relative input and output percentages. Input percentages for a specific sector add to 100 and similarly, all the output percentages for a particular sector add to 100.

Figure 4.8: Agro-Processing Value Chain, Overberg District



Source: Stats SA

The value chain begins with primary production in the agricultural sector. Inputs are required into the agricultural sector in order to produce outputs. Major inputs into agricultural production include wholesale and retail trade, transport and storage, chemicals and petroleum products. Wholesale and retail trade contributes 11.2 per cent of total inputs and imports into agricultural production are high, at 35.2 per cent.

Outputs of agricultural production are primarily used in food or beverage production and this is indicative of the type of farming in the region with barley, wheat, fruit and canola forming a large part of production. These products are not readily consumed in their raw form and processing is required. Approximately 19.0 per cent of agricultural output is sold directly to households, with a small proportion, 2.3 per cent, going to catering and accommodation services.

Agricultural production forms the largest input into food and beverages production at 59.4 per cent of total inputs. Additional input is provided through imports, at 6.8 per cent and inputs through wholesalers and retailers at 8.5 per cent. Support services from the business sector form 5.4 per cent of inputs; 6.6 per cent of input is re-used output from the food and beverage production process. This is often the case where refined products are re-used to produce a product used in final consumption. Households consume a significantly larger proportion of output from the food and beverages sector at 64.9 per cent. This signifies that the output from the food and beverages sector is primarily an end-user product, in comparison to relatively less end-use consumption in the agricultural sector; 15.3 per cent of output from food and beverage production is for export and 4.4 per cent is used by the catering and accommodation industry.

4.3 Concluding remarks

There is a strong linkage between agricultural production and food and beverages manufacture. Significant job losses have occurred in the agricultural industry in the OBD in the past decade, even though production levels have increased. As the linkages are strong between agricultural production and food and beverage manufacture, there is potential to support the formation of these value chains among smaller and emerging farmers in the District. It is entirely feasible that these farmers could produce their own unique food or beverage products for the local or export market with assistance. Commercial farmers could also possibly move up the value chain by expanding production potential to include food and beverage processing, or they could redistribute their output to strengthen the forward linkages to the processing sector.

5

Informal sector analysis

5.1 Introduction

The persistence of high levels of unemployment, poverty and inequality is widely recognised as major socio-economic challenges for South Africa. The informal economy is often seen as an important component in expanding economic participation. However, the conceptualisation of what this practically means is not always played out. The expansion of the informal economy can have a positive effect on poverty if it arises as an off-shoot of a rapidly growing formal sector. It can also reflect worsening poverty where it is stimulated by a collapsing formal economy and/or alternatively is caused by firms seeking to evade regulatory measures and the tax net (Altman, 2009).

This coupled with the contemporary context of global economic crisis and the dramatic expansion of the informal economy across the developing world, has highlighted the importance of understanding the relationship between the formal and informal economies. However, while much attention has been spent on formal employment, a large fraction of workers (almost 30 per cent in 2013)¹⁰ are employed in the informal sector in South Africa.

As a result, this chapter focuses on the issue of linkages across the formal-informal divide and possible policy considerations.

Before proceeding further, we provide a brief definition of 'formal' versus 'informal'. The formal sector is defined as economic activity that occurs within the purview of state regulation and formal employment is defined as employment originating from a business or firm that is registered with the state. On the other hand, the informal economy covers both businesses and employment. Informal employment extends to both the informal and formal sector, as well as private households, where the informally employed do not have written employment contracts and are not entitled

¹⁰ Quantec data 2014

to employment benefits such as pension and medical aid contributions from their employers. The informal sector is defined as one where, firstly, employees work in establishments of less than five employees, where income tax is not deducted from their salaries and wages; and secondly, where employees are not registered with the Receiver of Revenue for income tax or value added tax purposes (Statistics SA, 2012).

In both academic and policy circles, there is much debate over the relationship between the formal and informal sectors, and whether informal employment is a benefit or liability for the overall economy. Here there are three schools of thought:

- 1) The dualistic labour market approach, which sees informal employment as a substitute for formal employment. In this approach informal employment is a residual "sponge" that soaks up unskilled, surplus labour from the formal sector and there are very few connections between the informal and formal sectors (Chen, 2004). Generally the informal sector is, at best, seen as a safety net for unemployed workers.
- 2) The alternative (or neo-liberal) approach sees informal employment as a complement to formal employment. In this approach the informal sector is a voluntary strategy where entrepreneurs are able to establish new firms and contracts. Effectively it is a cost saving strategy for small firms trying to avoid arduous and costly labour regulations (Maloney, 1998).
- 3) The 'Structural Articulation' approach sees the informal sector as heterogeneous and made up of at least two distinct sub-sectors (Portes and Schauffler, 1993). One of these sub-sectors represents entrepreneurs and small firms trying to grow by avoiding costly regulation while on the other hand, the other sub-sector is largely disconnected from the formal economy and demonstrates countercyclical behaviour. This static sub-sector is driven by excess labour supply and represents the involuntary subsistence strategies of unskilled workers who cannot find employment in the formal sector.

5.2 Understanding the formal and informal sector linkages

To understand the linkages between the formal and informal sectors one needs to ascertain whether a relationship does exist. Extrapolating from two recent surveys, one on the informal businesses (200 informal businesses – MERO 2013) and the other on formal businesses (200 formal businesses) in the Overberg District (OBD) the following is noted.

From Table 5.1 it is noted that all formal businesses in the sample range have informal businesses as their customers or clients. This situation therefore highlights the existence of significant linkages between the formal and the informal sector.

Table 5.1 Overberg District: Main customers or clients of SMMEs

Formal businesses customers or clients	Formal businesses		
	Microenterprises	Small business	Medium business
Private businesses	39.2	39.0	33.3
Other small businesses	18.9	22.7	23.8
Other large businesses	14.7	17.0	23.8
Government	11.2	9.8	9.5
Informal businesses	11.9	10.5	9.5
Other	4.2	1.1	0.0

Source: Anix 2014

Unfortunately the questionnaire was not designed to explore detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies. However, after further investigation it has become clear that even where "other small businesses" are the clients or customers, SMMEs were not too interested whether these businesses were formal or informal. Therefore, the percentage of informal businesses as clients could effectively be larger. The focus for SMMEs was mainly whether these informal (or any other) businesses represented a cost advantage. Therefore, particularly given the current economic slowdown in the economy, SMMEs were seeking links with informal firms as a cost-cutting strategy. Such a strategy could certainly favour informal businesses and particularly so if the competition amongst formal businesses were increased.

However the type of formal and informal linkage is very important. For e.g. forward linkages refer to the use of an enterprise's output as an input in other productive activities, while backward linkages comprise the enterprise's purchases of intermediate inputs. Generally, forward linkages between a modernising informal segment and the formal economy can lead to growth in the informal as well as the formal sectors, while in backward linkages, informal firms tend to purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets. This leads to a dependent and regressed informal sector constrained to buy dearly and sell cheaply.

Given the effect that the lack of skills and capital finance may have on the manner of formal and informal business linkages it is further extrapolated from the two unique surveys as mentioned earlier and review the "main challenges for business growth" faced by both formal and informal businesses in the OBD.

From Table 5.2 it is noted that access to finance (60 per cent) is a major constraint to business growth for informal businesses; for formal businesses access to finance appears to be the biggest challenge for micro and medium businesses (just under 22 per cent and just over 33 per cent, respectively) while it's the second biggest challenge next to "electricity" for small businesses in the Overberg District. These figures coupled with the literature as mentioned earlier leads one to assume that there could be a possible risk of exploitation of backward linkages, which could lead to weak markets or limited growth potential in the Overberg District region.

Table 5.2 Overberg District: Challenges for business growth – formal and informal sectors

Challenges for business growth (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Access to affordable finance	60.0	21.9	16.8	33.3
Shortage of business premises	47.0	6.3	2.4	0.0
Electricity cost access/Increasing electricity rates	38.9	18.8	24.0	0.0
Water cost access	36.8	-	-	-
Crime	36.8	-	-	-
Competition	36.2	-	-	-
Cost and difficulty of business licensing	31.4	-	-	-
Lack of specialised equipment	31.4	-	-	-
Transport of goods costs	27.0	-	-	-
Increasing labour rates	-	4.7	8.0	22.2
Skill and education of workforce	-	4.7	4.0	0.0
Bad weather	-	4.7	3.2	0.0
None	-	6.3	10.4	22.2
Other	-	32.8	31.2	22.2

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Given the above, it is important to consider the nature of the production system through which informal and formal businesses are linked when trying to understand the linkage between informal and formal enterprises. This is because the nature of the linkage, specifically the allocation of authority and economic risk between the informal and formal firm, varies according to the nature of the production system.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

This linkage is very important for the financial services sector for example, as it gives the sector an opportunity to use the linkage to the best advantage of the informal sector. Banks would be keen to deal with those informal sectors that have a clear understanding of how they are linked to the formal sector players.

Understanding the linkages is also important because the amount of financial sector support available to informal sector players is far less than ideal but has the potential to increase if the opportunities brought about by the linkages are fully exploited.

Despite SMMEs' strong interest in credit, banks' profit orientation may deter them from supplying credit because of the high transaction costs and risks involved. However, with linkages to the formal sector this can be easily resolved because the source of the problem can be minimised due to the links between the informal and the formal structures.

First, SMMEs' loan requirements are small, so the costs of processing the loans tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to fully assess the risks of new, unproven ventures,

especially because the success of small firms often depends heavily on the abilities of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high. These challenges can be easily met if formal sector players are willing and able to support the sector.

Through financing the value chain or the big end user of the product, the banks will be indirectly financing the informal sector player producing intermediate inputs to the formal final producer.

5.3 Key characteristics of the Overberg District informal sector

Extrapolating from the surveys mentioned earlier it is noted that entrepreneurs in the informal sector have different motivations for starting a business compared to their formal sector counterparts, with close to 68 per cent of informal entrepreneurs citing a lack of alternative employment opportunities or financial hardship as their main motivation (see Table 5.3). This figure coincides with a recent Stats SA survey on employers and self-employed, which highlighted that 60 per cent of people started informal businesses as a result of unemployment/have no alternative income source (Stats SA 2014). In contrast formal sector entrepreneurs were significantly more likely to say that they were interested in taking advantage of business opportunities as the reason they started their businesses. In a nutshell, informal businesses were necessity driven while formal businesses were opportunity driven.

Female entrepreneurs are more likely to operate in the informal than in the formal sector in the Overberg District, with the female exposure just under 50 per cent in informal businesses and just under 49 per cent in the formal microenterprise sector. For small and medium formal businesses, female exposure was significantly lower at just under 26 per cent and 20 per cent, respectively (see Table 5.4).

Table 5.3 Overberg District: Reasons for starting a business – formal and informal

Reasons for starting a business (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
I could not find alternative employment/unemployed	42.0	5.4	1.2	0.0
I wanted to earn more money/financial hardship	25.9	8.6	7.1	9.1
I didn't enjoy working for someone else/To be my own boss	15.6	12.9	13.7	0.0
I am good at running this business	13.2	-	-	-
Saw an opportunity	2.0	36.6	34.5	18.2
Have passion for it/It's a calling	0.5	-	-	-
Lost my job	-	3.2	1.2	0.0
Interested in particular product or service	-	9.7	11.3	45.5
Wanted to	-	17.2	8.9	0.0
Took over from previous owner/manager	-	3.2	11.9	18.2
Inherited the business	-	2.2	6.0	9.1
My family expected me to	-	1.1	4.2	0.0
Other	1.0	-	-	-

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

The ownership patterns of female entrepreneurs in the OBD are similar characteristics to the Cape Metro and CWD where there is a rather large spread of female entrepreneurs across the entire business spectrum. Generally within the other Districts it appears that women are concentrated in business activities such as retail trade and food and garment production. However this does not appear to be the case within the OBD. Literature suggests that the substantial differences in the choice of sector and business activity between male and female entrepreneurs may suggest that the challenges to business, constrain some entrepreneurs' ability to enter the formal sector generally directing women into activities with lower capital requirements. However with the diversity of female ownership patterns in the OBD it appears to augur well for improved innovation and competition amongst formal businesses.

Table 5.4 Overberg District: Distribution by gender – formal and informal

Gender (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Male	50.5	51.4	74.6	80.0
Female	49.5	48.6	25.4	20.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Entrepreneurs in the formal sector also have more education than entrepreneurs in the informal sector (see Table 5.5). While just over 32 per cent of all formal sector entrepreneurs surveyed have diploma or university-level training, only about 6 per cent of informal sector entrepreneurs do. Interestingly, however, just under 17 per cent of informal entrepreneurs have a matric level training compared to their formal sector counterparts who average at just over 26 per cent. From the data it would therefore appear that there is an extremely low transition for informal businesses from Matric to post matric studies while the opposite holds true for formal businesses.

Table 5.5 Overberg District: Level of education – formal and informal

Highest Level of Education (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
No schooling	4.8	0.0	0.0	0.0
Some primary school	16.8	0.0	0.0	0.0
Some high school	51.0	1.4	6.8	0.0
Matric	16.8	24.6	34.1	20.0
Apprenticeship	4.8	4.3	6.1	10.0
Post Matric Qualification (Diploma)	5.8	24.6	21.2	20.0
University Degree (undergrad/postgrad/Honours/Masters)	0.0	44.9	31.8	50.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

As mentioned in MERO 2013, incomes in the Overberg District informal economy appear generally low, but the term "survivalist" as the OBD views them in their survey response is not appropriate for these enterprises as it does not do justice to the demonstrated sustainability of such enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their

informal enterprises in favour of a theoretical offer of alternative formal work at minimum wage.

Informal enterprises demonstrate considerable connectedness to the Overberg District formal economy. The data shows how the informal economy is generally of larger scope and scale closer to diverse formal economic activity such as larger towns, whilst declining in number and financial returns in contexts outside urban centres. Furthermore, their response regarding the general prospects for growth are linked to the level of business confidence reported in the formal sector.

Whilst the MERO could not comment on the economic scale of the Overberg District informal economy (in terms of employment numbers or GDP) the micro-enterprises studied, especially the majority operating within the township context, play an important employment role in their immediate economies. Each business employs more or less two workers and nearly just over 58 per cent of enterprises provide employment opportunities. Informal employment provides a means of skills acquisition, enabling the workers to either obtain a better paying job (possibly within the formal sector) or establish their own micro-enterprise.

Furthermore, the key findings of the 2013 informal sector survey indicate that there is significant scope for a policy to strengthen the relationship between informal and formal businesses in the Overberg District that will allow for growth of both informal and formal businesses.

Having highlighted the relationship between the informal and formal businesses, the attention now focuses on the performance of the Overberg District's informal labour market.

5.4 The business cycle impact on the Overberg District informal labour market

This section analyses the Overberg District's informal labour market at the sectoral level from 2000 - 2013. The main aim of this section is to assess the cyclicity of informal employment during the expansionary (2000 - 2013), recessionary (2008 - 2009) and the recovery (2010 - 2013) periods of the business cycle.

The issue of the effect of the business cycle on labour force participation behaviour has not received much attention in the South African literature mainly because of the difficulty of combining macroeconomic and microeconomic data in a coherent way.

However, workers' participation decisions during expansionary or recessionary periods are crucial for understanding how labour markets adjust to macroeconomic fluctuations (Darby et al, 1998). At the same time, the economic environment also affects the performance of the firms operating in the labour market which make their decisions on labour demand needs partly based on the economic conditions of a particular region or country. Furthermore, the effect of the business cycle on firm

performance is usually heterogeneous varying among different economic sectors and industries within a single country or region.

5.4.1 The economic recovery, 2010 - 2013

As shown in Table 5.6, employment in the informal sector of the OBD averaged 0.1 per cent per annum over the current recovery (expansion) phase of the business cycle (2010 - 2013), resulting in a cumulative net increase of 90 jobs. This is below the trend growth tempo of 1.5 per cent per annum registered over the 2000 - 2013 period, i.e. a cumulative net increase of 3 369 jobs.

There has been some net job growth over the recovery period; however, this has been achieved at a considerably lower rate than during the recession years (2008 - 2009). The CSP services sector created 475 new jobs. The manufacturing sector, which after shedding 36 jobs during the recession (2008 - 2009) shed a further 37 jobs during the recovery period (2010 - 2013); however, 128 net informal jobs over the full period, 2000 - 2013, were created in this sector.

Table 5.6 Overberg District: Formal vs informal employment growth and employment creation, 2000 - 2013

	Informal Net Employment Creation (number)			Formal Net Employment Creation (number)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-1 639	-316	-215	-11 910	-3 571	-1 184
Mining and quarrying	0	0	0	-5	8	-2
Manufacturing	128	-36	-37	249	75	-587
Electricity, gas and water	-3	-4	-5	22	-72	16
Construction	410	234	-729	-2 204	-330	-1 235
Wholesale and retail trade, catering and accommodation	490	883	71	-1 237	-1 441	182
Transport, storage, communication	604	336	143	4	-63	115
Finance, insurance, real estate, and business services	1 502	861	386	7 254	294	1 388
Community, social and personal services	1 878	781	475	770	27	-474
General government	0	0	0	2 470	328	561
Total	3 369	2 740	90	-4 587	-4 745	-1 219
Yoy % change	1.5	8.8	0.1	-0.5	-3.8	-0.5

Source: Quantec 2014

Of concern are the significant jobs losses (729) in the construction sector during the recovery period resulting in a contraction of 4.6 per cent during this period. These job losses could be attributed to the completion of infrastructure projects in preparation for the 2010 FIFA World Cup, which generally buffered job losses in the construction sector during the recession. The sectoral informal employment trends are discussed in more detail in section 5.4.2 below.

5.4.2 Agriculture, manufacturing and services – informal employment growth performances

The Overberg District labour market (formal and informal) grew at an annual rate of 2.0 per cent in 2013; growth mainly occurred in the informal labour market, expanding by 7.3 per cent.

Table 5.6 displays the informal employment trends in the OBD over the period 2000 - 2013. The informal sector experienced significant growth of 1.5 per cent per annum (i.e. 2000 - 2013, a net increase of 3 369 jobs), however this growth was a result of the robust growth experienced during the recession years (8.8 per cent per annum, 2008 - 2009, or a cumulative 2 740 jobs). Unfortunately, it would appear from the evidence below that this was not new employment created but merely a displacement of formal sector employment. As noted, there has been modest growth during the economic recovery (0.1 per cent per annum, 2010 - 2013, i.e. 90 new jobs).

Within the informal sector, significant retrenchments were experienced in the agricultural sector (316 total net retrenchments, 2008 - 2009). Notably, it was the increase in informal employment in the services sector, and particularly the trade sector, that had a cumulative total of 2 861 net jobs created during the recession years. As mentioned earlier, it should be noted that many of these jobs may simply have involved workers being displaced from the formal sector during the recession.

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is clear from Table 5.6 that the growth in the region has been dominated by the services sectors, particularly the CSP services sector, with a cumulative total of 1 075 informal jobs created over the same period. In contrast, the primary and secondary sectors experienced a combined contraction of 985 jobs.

5.4.3 Cyclical impact on informal employment in the Overberg District

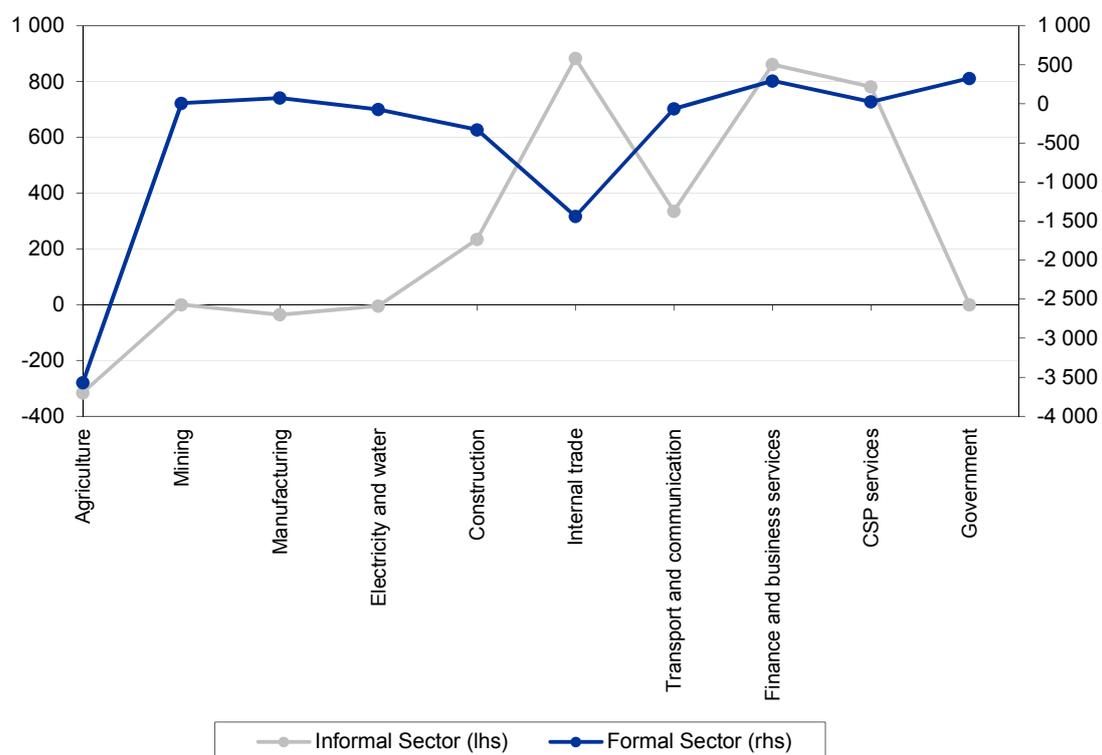
The first notable trend when comparing employment creation in the informal and formal sectors in the OBD over the 2000 - 2013 period is the significant number of net retrenchments in the formal sector during the recession (4 745 net retrenchments, 2008 - 2009) compared with the 2 740 net additional jobs created in the informal sector over the same period. Even though it is evident that during the recessionary period many workers losing their jobs in the formal sector moved to the informal sector, the informal sector was unfortunately unable to absorb all job losses in the formal sector.

As shown in Figure 5.1, in the wholesale and retail trade and catering and accommodation sector, there were 883 informal net jobs created while a significant of 1 441 formal net retrenchments during 2008 - 2009. Literature indicates that there has been a growing trend of informalisation within the sector and that in fact a significant number of employers are operating in the informal sector. Of these employers, a number of small and micro-enterprises are not formally registered (i.e. they fall within the informal sector), with roughly 86 per cent of the sector comprising of small enterprises nationally (DHET, 2013). Furthermore, approximately 34 per cent of

people in the sector are in informal employment, with the Western Cape Province having the second highest density of employees in the sector (DHET, 2013; Stats SA, 2013). This suggests that the informal sector acts as an absorber of formal sector retrenchments, and it may also be indicative of low barriers to entry into the informal sector for this industry.

For the transport, storage and communication, the number of net retrenchments experienced within the formal sector was surpassed by the net job creation in the informal sector during the recession years. This is potentially indicative of a high transfer or flow of labour from the formal sector to the informal sector, as well as possible low barriers to entry within the informal sector.

Figure 5.1 Overberg District: Change in employment during recession, 2008 - 2009



Source: Quantec 2014

Within the CSP services sector and finance and business services sectors, net additional jobs were created in both the formal and the informal sectors during the period 2008 - 2009, with informal CSP services sector job creation far surpassing its formal counterpart (781 informal jobs versus 27 formal jobs).

Within the agricultural sector there were net retrenchments in both the formal sector (3 571 during 2008 - 2009) and in the informal sector during the recession years (316 during 2008 - 2009). In the construction sector, while 234 new jobs were created in the informal sector during 2008 - 2009, this was overshadowed by 330 job losses in the formal sector over the same period.

Generally, it appears that those workers who were retrenched in the agricultural sector (or any other sector for that matter) became informal entrepreneurs (or found employment) in other sectors, e.g. transport, tourism, etc. This situation ties in with the

indication in Table 5.3 that highlights that most informal business owners started their businesses due to financial hardship and/or difficulty in finding employment.

5.5 Concluding remarks

This chapter expanded on the understanding of informal and formal sector linkages and highlighted that there are significant linkages of informal and formal businesses in the OBD. While detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies were not able to be analysed there appears, given the financial constraints and low-level of skills within the informal sector, that these linkages may be at risk of 'unfair' formal sector outsourcing.

During the recession (2008 - 2009) in OBD, there were significant job losses (4 745) in the formal sectors while there were 2 740 net additional jobs created in the informal sector over the same period. Most of the employment gains in the informal sector were created in the wholesale and retail trade and catering and accommodation sector during the recession, demonstrating an encouraging performance against its formal counterpart which experienced 1 441 net retrenchments over the same period. This indicates that the downward rigidities of the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed.

Furthermore, given that during the recession (2008 - 2009), informal employment expanded by 8.8 per cent per annum while formal employment contracted by 3.8 per cent per annum, it would appear that the OBD demonstrates a kind of dualistic labour market approach, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector. This may be extremely useful to the OBD, as a thriving informal market may alleviate the District from developing policies aimed at assisting the openly unemployed.

The high prevalence of female entrepreneurs through the entire spectrum of businesses may indicate a lower barrier to starting a business is less severe or onerous for potential female entrepreneurs in this region. In addition, the diversity of female entrepreneurs across various sectors augurs well for innovation and increased competition within formal businesses.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms); it is recommended that the District and its municipalities consider a more nuanced view of the informal economy. The focus here should not be on extending social protection across the informal economy as this risks trapping informal entrepreneurs in relations of dependency. Instead of reducing informal entrepreneurs to skilled labour in 'unfair' formal sector outsourcing arrangements; the policies should instead aim at for example, advocating informal entrepreneurs' distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., that could build a capacity for autonomous development.

Finally, there is a need for policy attention to extend beyond the question of how to create and manage linkages between the formal and informal economies. What is required is a more explicit focus on who designs particular linkage arrangements, whose interests they serve, and how policy and partnership arrangements can achieve a more equitable balance of benefits for informal actors and their associations as preferred contractors, insurance providers, or workers for decent wages, rather than as cheap labour and institutional solutions. Instead of assuming that institutional complementarities between the formal and informal sectors automatically create synergy through which both sides benefit, clearer policy attention must be directed at how to turn potential formal-informal complementarities into synergistic arrangements. This requires attention to legal as well as skill-based obstacles, and to building power, leverage, negotiating skills and supportive alliances in the formal sector as part of the process of building informal associations.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Service delivery is vital to economic success. According to the Reconstruction and Development Policy Framework (1994:28) at the time of the first democratic elections in South Africa in 1994, it is estimated that 12 million South Africans did not have access to clean drinking water and 21 million people did not have adequate sanitation. South Africa has a long and difficult path with service delivery. Through programmes such as the Reconstruction and Development Plan (RDP), the country ventured on a path to improve service delivery and access to basic infrastructure for the masses. The provision of basic services as a vehicle for improving local economic development has always been a key priority for Government.

Following the adoption of the 1996 Constitution municipalities were mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act of 2000. The Local Government: Municipal Systems Act, Act No. 32 of 2000, Chapter 1 of the Systems Act, defines basic municipal services, as a "service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health, safety and the environment". Municipalities would require adequate infrastructure in order to ensure access to basic services and ensure delivery of the requirements set out in section 73(2) of the Systems Act.

The Department of Local Government define municipal infrastructure as "the capital works required to provide municipal services. It includes all the activities necessary to ensure that the works are delivered effectively, such as feasibility studies, project planning and capacity building to establish sound operational arrangements for the works". Municipal infrastructure includes transport, communication, energy, water and sanitation facilities. The provision of these basic services is dependent on the availability of infrastructure. Municipalities are faced with the growing challenge of

addressing infrastructure *backlogs* and the upgrade and *maintenance of existing infrastructure*.

Governments have continued to highlight the importance of infrastructure investment for basic service delivery. According to a Non-Financial Municipal Census conducted by Stats SA the provision of basic services increased by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). The highest percentage change between 2011 and 2012 was recorded in the provision of water – going up by 6 per cent. The provision of electricity, sewer and refuse increased by 4.4 per cent, 3.4 per cent and 2.7 per cent respectively over the same period.

Despite these positive changes social protests over basic service delivery in South Africa have become a common occurrence. Data compiled by the Municipal IQ showed that 173 service delivery protests were recorded in 2012, the highest number over the past decade. Municipalities are faced with varying challenges in collecting revenue and meeting the increasing demand for basic services.

This chapter analyses two important sides of the budget - revenue and expenditure. Both revenue and expenditure play very important roles in local economic and social development. This chapter is based on several sources including Quantec, the Western Cape Provincial Treasury and Stats SA. An overview of municipal revenue trends is provided, and its resulting impact on basic service delivery. In addition municipal expenditure is also assessed.

6.2 Overview of municipal revenue trends in Overberg District

Since 1994 there has been a remarkable transformation of Local Government and the services they provide. The democratisation of Local Government involved municipal fiscal independence, administrative restructuring, structural transformations and an overhaul of the intergovernmental fiscal system, all within the context of the constitution. Hence, the provision of municipal infrastructure takes place through intergovernmental transfers or own revenue which includes property taxes, licensing fees, electricity charges, surcharges on services, user fees and borrowing.

According to the Constitution, municipalities should provide basic services within their financial and administrative capacities. Due to various economic inequalities revenue collection differs amongst municipalities, with certain municipalities not being able to provide for basic services due to limited revenue bases. Governmental transfers help to bridge these gaps. According to a report by the Financial and Fiscal Commission (2014: 97), grants and subsidies from National and Provincial Government make the largest contribution to capital revenues. The second largest contributor to capital financing is municipal own revenue followed by borrowing.

Table 6.1 illustrates total revenue generation from roads and trading services per municipality in the Overberg District (OBD). Overberg District revenue grew by a real annual average rate of 10.3 per cent between 2008/09 and 2012/13. As can be seen

over the period under consideration revenue generated was highest in Overstrand Municipality. The municipality contributed 54 per cent to OBD roads and trading services revenue in 2013. Cape Agulhas made the least contribution to local municipal revenue collection in the District (12 per cent). Theewaterskloof and Swellendam municipalities accounted for 17 per cent and 13 per cent of total revenue collected in OBD in 2013. The differences in revenue collection may be a result of differing tariff price structures or a reflection of a differing tax base, administrative capabilities of municipalities to collect revenue on the basis of economic performance. The administrative capabilities refer to internal municipal revenue collection inefficiencies. The tax base of a municipality is influenced by economic and demographic factors such as income levels and number of indigent¹¹ consumers. Generally high levels of poverty, a declining revenue base and poor economic growth constrains service delivery by municipalities and revenue collection.

Table 6.1 Revenue per municipality (Rand; constant 2005 prices)

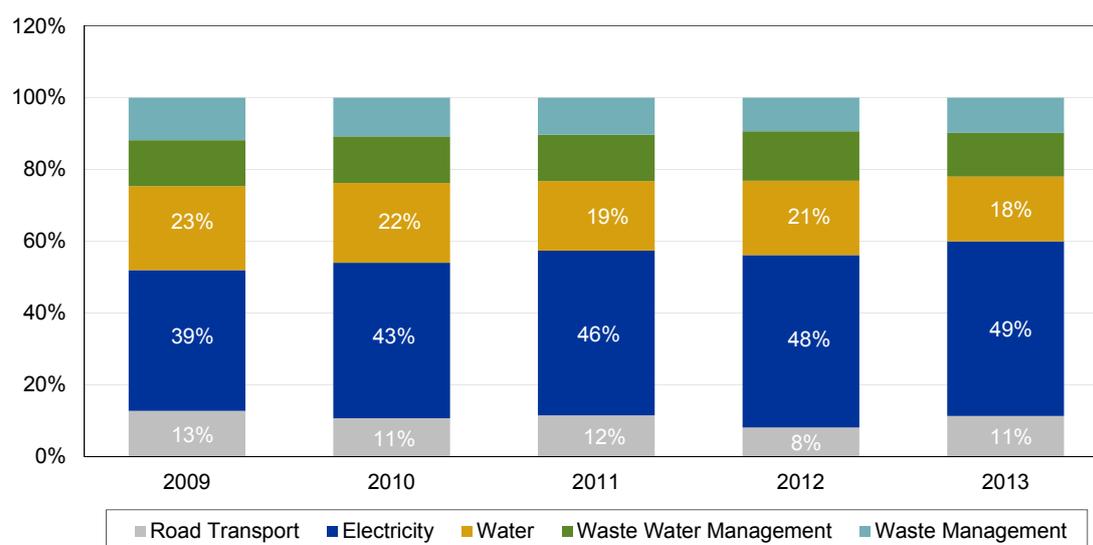
Municipality	2009	2010	2011	2012	2013
Overstrand	177 260	216 988	242 543	301 753	293 705
Theewaterskloof	69 874	76 801	83 246	90 741	94 651
Swellendam	51 546	52 233	73 512	57 713	69 171
Cape Agulhas	42 114	47 707	58 133	60 986	63 162
Overberg District	38 740	39 102	25 987	24 553	25 730
Total	379 534	432 832	483 421	535 747	546 420

Source: Western Cape Provincial Treasury

In Theewaterskloof the revenue collection is influenced by the narrow tax base. The tax base of the municipality is influenced by the influx of indigent people, high unemployment and the dependence on agricultural activities which are seasonal in nature. In addition, the municipality does not provide electricity to all its towns (i.e. Grabouw, Genadendal, Botrivier and Tesselaarsdal); hence it loses out on this important source of revenue.

Figure 6.1 illustrates revenue collection from road transport and trading services for OBD. Revenue derived from electricity contributes close to half of the total revenue generated within the District. Since 2008/09 the contribution made by revenue from water charges has declined slightly, alongside increases in revenue from electricity charges. Revenue from waste management services contributed the least to total revenue.

¹¹ According to the Indigent Policy the term indigent means 'lacking the necessities of life' such as water, sanitation, refuse removal and housing amongst other things.

Figure 6.1 Contribution of service charges to municipal revenue

Source: Western Cape Provincial Treasury

Table 6.2 shows the contribution to GDP in 2013 and the average GDP growth for the local municipalities over the period 2000 - 2013 compared to their revenue shares. It appears the GDP growth of the coastal municipal areas was higher than the inland municipalities. We compare it to the share of revenue generated from **trading services and road transport** per municipality within the District.

Table 6.2 GDP vs Percentage revenue generated in the Overberg District in 2013

	Revenue % share	GDP % share	GDP Growth 2000 - 2013
Theewaterskloof	17%	36%	3.6%
Overstrand	54%	34%	6.2%
Cape Agulhas	12%	17%	5.3%
Swellendam	13%	13%	4.5%

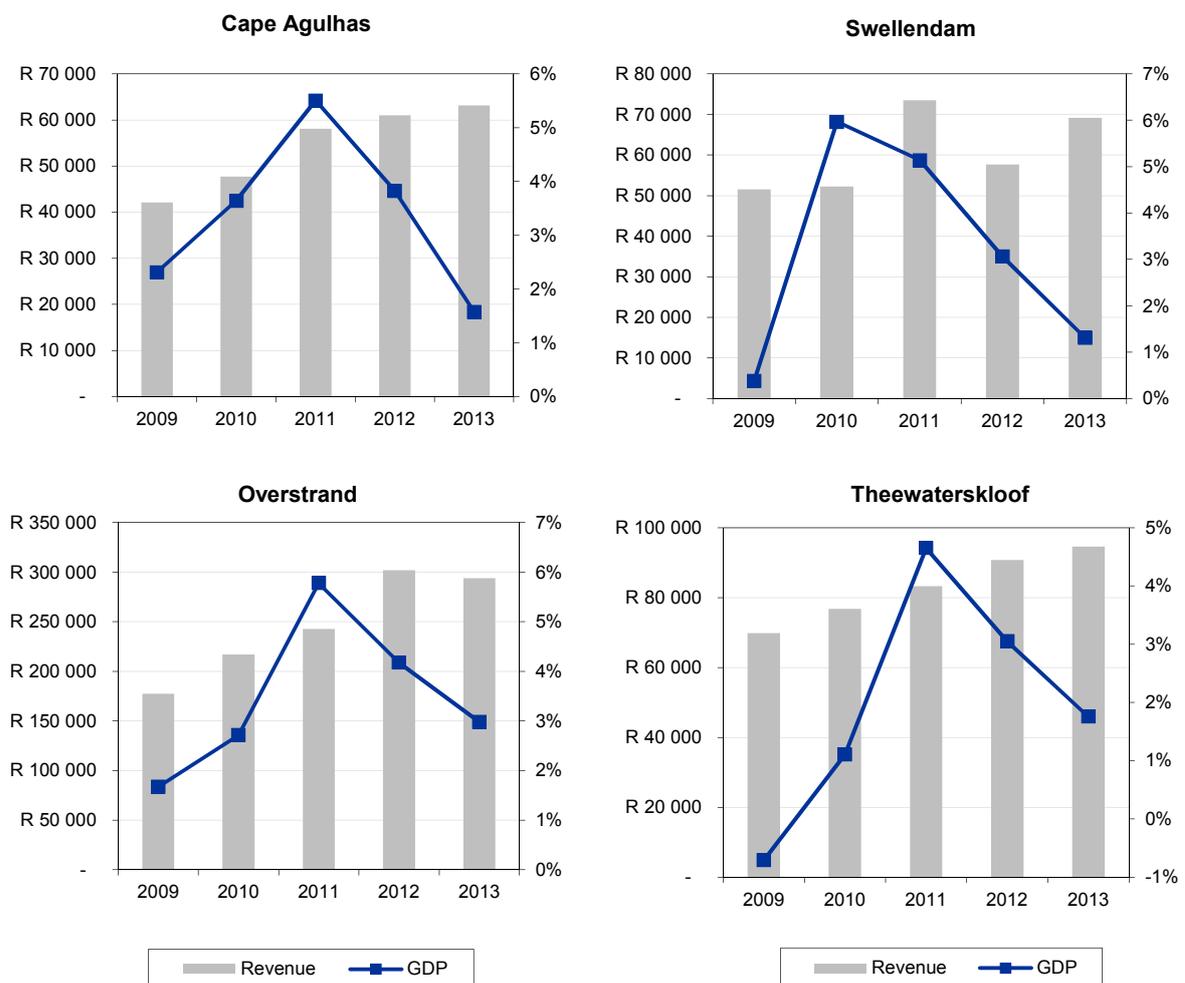
Source: Western Cape Provincial Treasury

The fastest growing municipality within the region was Overstrand Municipality. The municipality grew at 6.2 per cent per annum over the period 2000 - 2013 and made the largest contribution to revenue collected within the District. Theewaterskloof and Swellendam municipalities grew below the average GDP growth for the District and contributed 17 per cent and 13 per cent respectively to revenue collection for the District. Theewaterskloof is the largest local municipality in the OBD both in terms of contribution to GDP (36 per cent in 2013) and population; its lower revenue share is explained, amongst other possible factors, by its lower economic growth rate. The above average growth of Cape Agulhas is also notable; the municipality recorded an average GDP growth of 5.3 per cent but accounted for only 12 per cent of the total revenue collected in the District in 2013, pointing to other possible constraints in revenue collection.

Figure 6.2 shows an approximate relationship between revenue generation in the OBD and GDP growth. From a growth perspective it is clear the OBD economy escaped the recession in relatively good shape, growing at 0.7 per cent in 2009.

Despite a decrease in economic growth during the recession municipalities recorded an average annual revenue growth rate of 13.5 per cent over the period 2008/09 to 2009/10 in comparison to a growth of 10.3 per cent over the period 2008/09 to 2012/13. All municipalities recorded higher revenue collection growth rates during the recession (2008/09 and 2009/10) in comparison to the recovery years (2010/11 and 2012/13). Contrary to what is seen in municipalities in OBD one would expect depressed economic activity during the recession to influence revenue collection. This high revenue growth rate presumably reflects the impact of annual tariff price increases, improvements in municipal revenue collection or changes in the number of indigent consumers.

Figure 6.2 Municipal revenue vs GDP: 2008 – 2013 (R'000)



Source: Western Cape Provincial Treasury

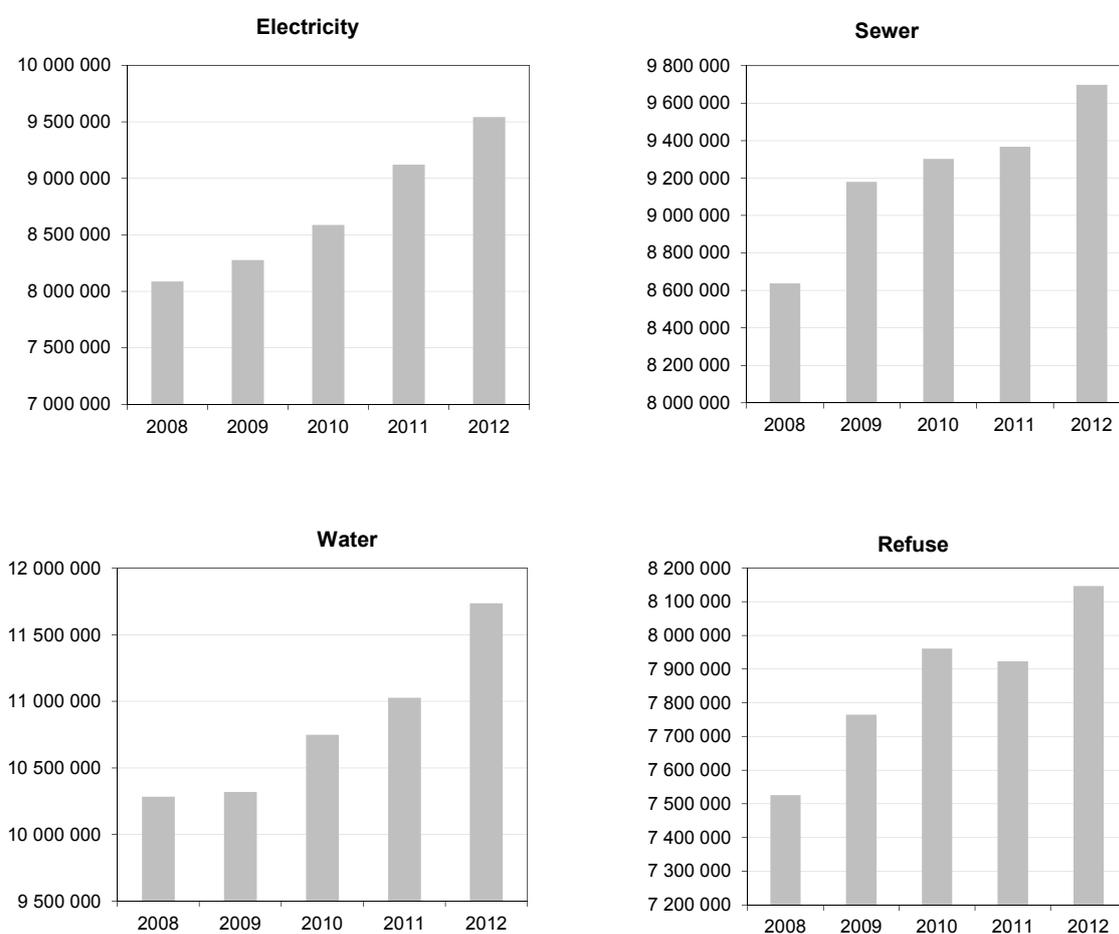
For municipalities to maximise their revenue collection it is important for them to adopt revenue raising strategies through maintaining and improving service delivery quality. Revenue increasing strategies include expansion of service delivery, debt collection strategies, efficient revenue management, minimising water losses, maintaining an accurate billing system. For example, unaccounted water losses in Overstrand Municipality (25.6 per cent in 2014) place pressure on the municipality's budget process. These unaccounted electricity losses limit revenue generation due to

unaccounted purchases. Municipal revenue collection and financial viability is undeniably linked to its ability to render quality services and improve access to basic services. As such the next section discusses access to basic services.

6.3 Access to basic services

Basic service delivery plays a central role in poverty alleviation. Statistics South Africa has been tracking the progress of service delivery across all municipalities since 2003 through an annual Non-financial Census of Municipalities. Since 2008 the number of households receiving electricity, sewer, water and refuse has gone up (see Figure 6.3 below).

Figure 6.3 Number of households receiving basic services



Source: Stats SA: Non-financial Census of Municipalities

According to a Non-financial Census of Municipalities conducted by Stats SA for the year ended June 2012 the provision of basic services went up by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). Table 6.3 illustrates the number of households receiving basic services in each province.

Table 6.3 Number of households receiving basic services in each province

Province	Water		Electricity		Sewerage and sanitation		Solid waste management	
	2011	2012	2011	2012	2011	2012	2011	2012
Western Cape	1 023 117	1 223 237	1 215 410	1 242 786	1 014 527	1 032 682	1 257 378	1 274 281
Eastern Cape	1 496 300	1 568 621	997 571	1 056 322	1 021 752	1 098 311	752 350	778 202
Northern Cape	240 435	250 605	248 465	261 591	237 708	245 114	209 947	219 947
Free State	725 191	768 064	656 332	661 732	665 955	698 785	526 830	560 684
KwaZulu-Natal	1 919 351	1 991 349	1 526 952	1 597 910	1 675 267	1 723 360	1 429 068	1 455 627
North West	713 216	741 934	775 743	792 721	588 158	615 626	465 048	466 084
Gauteng	2 799 716	3 001 574	1 925 463	2 076 143	2 708 004	2 778 742	2 513 354	2 577 966
Mpumalanga	940 433	963 323	670 271	706 914	820 665	853 648	405 734	420 509
Limpopo	1 169 483	1 228 827	1 103 549	1 144 869	635 586	651 118	363 391	393 649
Total	11 027 242	11 737 534	9 119 756	9 540 988	9 367 622	9 697 386	7 923 100	8 146 949

Source: Stats SA: Non-financial Census of Municipalities

Access to basic services helps improve socio-economic conditions of the poor enabling them to participate in economic activities. Since 1994 various laws have been adopted to improve the socio-economic conditions of the poor (SERI, 2013). At the local level this comes in the form of the provision of free basic services to indigent consumers - 6 kl water and 50 kWh electricity per month.

Each municipality within Overberg District operates in unique demographic and economic circumstances that make access to basic services vary across municipalities. The varying number of households with access to basic services across the local municipalities in the OBD is a reflection of differing population sizes, economic activity and challenges that municipalities face in the delivery of basic services. The main obstacle to accelerating basic service delivery is the proliferation of urban settlements and lack of appropriate infrastructure. Water provision is influenced by locational factors and distance from water source.

Table 6.4 Number of households with access to basic services in 2012*

Municipality	Water	Electricity	Sewer	Refuse
Overstrand	27 672	22 707	28 987	32 265
Theewaterskloof	17 473	19 463	17 401	16 884
Cape Agulhas	9 294	8 962	9 545	9 819
Swellendam	5 871	7 755	6 737	6 390

* Information differs from primary data sources due to certain exclusions.

Source: Stats SA: Non-financial Census of Municipalities

One of the ways in which the success of any local government is measured is through the delivery of basic services. Table 6.4 shows the number of households with access to basic services in each municipality within the OBD. From the table it would appear as if more households in the Overstrand have access to basic services whilst Swellendam has the least households with access to basic services. However, the number of households with access to basic services in each municipal region differs due to the differing population distribution across these municipalities. For example Theewaterskloof has the largest share of households with flush toilets connected to the sewer system in the OBD in 2011 (87.8 per cent) followed by Swellendam (81.7 per

cent) then Cape Agulhas (73.2 per cent) and Overstrand (69.9 per cent) (Cape Agulhas IDP, 2014).

Coastal municipalities within the Overberg District are affected by the migration of residents from the inland municipalities. These population increases impact negatively on service delivery due to an increased demand for services and an increase in indigent households. Most municipalities within the region face the problem of vandalism and high water losses. Major challenges faced by the municipalities are as follows:

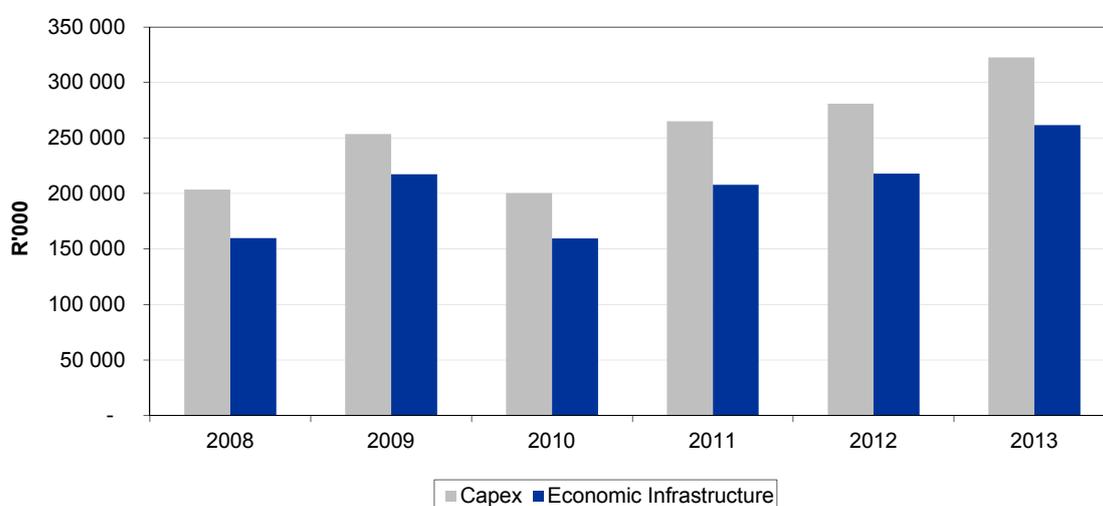
- Despite being the most populous municipal area in the OBD, Theewaterskloof has no backlogs with respect to access to basic water and sanitation services in the urban areas. However like most municipalities within the Western Cape backlogs still exist in the rural areas. Urgent challenges the municipality faces are the replacement of ageing water infrastructure, for example the Grabouw water treatment works (Theewaterskloof IDP, 2014).
- In the Cape Agulhas municipal region all towns have sufficient water sources except for Struisbaai. Increases in residential developments places the water source under pressure. In addition often the municipality has to institute water restrictions in its coastal towns during high demand periods such as the December holidays. Based on the municipal survey questionnaire the major challenge the municipality faces in service delivery is obtaining the necessary funding.
- Of particular concern in the Swellendam municipal region is access to water and waste services. According to the municipality's 2014 IDP, the number of houses with access to piped water inside dwelling were 78.9 per cent whilst those with access to refuse removal were 74.2 per cent (Swellendam IDP, 2014). Obsolete infrastructure and water loss have been highlighted as the major problems the municipality faces in the provision of water.
- Like most municipalities in the region Overstrand Municipality is also faced with the challenge of upgrading ageing infrastructure. Based on the municipal questionnaire survey rising electricity costs are becoming a huge challenge as they impact negatively on budgeting. In addition, an increase in indigent households places pressure on revenue generation. The popularity of Overstrand as a holiday destination places pressure on the municipality's service delivery and road infrastructure during holiday seasons.

Municipalities potentially have a wide array of financial instruments to use in meeting their service delivery responsibilities. In order for municipalities to provide basic services they need to generate the required revenue. Hence, revenue management and revenue raising strategies need to be implemented. It is crucial that these scarce resources should be used effectively and efficiently to ensure that service delivery is optimised. In this regard the following section analyses infrastructure expenditure.

6.4 Infrastructure expenditure

The President's 2014 State of the Nation Address highlighted Government's continued commitment to the National Infrastructure Plan as a tool for promoting economic growth. With this growing emphasis on infrastructure investments, municipalities within the OBD have continued in their efforts to improve infrastructure availability and eradicate service backlogs. To this end in 2013, infrastructure expenditure took up 81 per cent of the entire capital expenditure budget for the whole district (see Figure 6.4). Of the capital expenditure budget allocated to municipalities within the OBD a large percentage of it goes to Economic and Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance and Administration and Community and Public Safety.

Figure 6.4 Capex vs economic infrastructure expenditure: 2008 - 2013



Source: Western Cape Provincial Treasury

Table 6.5 Overberg District economic infrastructure expenditure per municipality 2013

Municipality	2009	2010	2011	2012	2013
Overberg District	0%	1%	0%	0%	0%
Theewaterskloof	11%	14%	15%	17%	20%
Overstrand	67%	60%	56%	62%	49%
Cape Agulhas	10%	12%	12%	12%	15%
Swellendam	11%	14%	16%	9%	16%

Source: Western Cape Provincial Treasury

Despite being the slowest growing municipality in terms of GDP Theewaterskloof contributed the highest to GDP within the region. In terms of infrastructure expenditure the municipality accounted for 20 per cent of the total infrastructure expenditure within the region for the year 2013 (see Table 6.5). Overstrand Municipality had the highest infrastructure expenditure within the region, accounting for 49 per cent of the total infrastructure expenditure. Cape Agulhas and Swellendam municipalities contributed the least to infrastructure expenditure within the District accounting for 15 and 16 per cent respectively in 2013.

Table 6.6 Overberg District economic infrastructure expenditure per budget line item

Budget line item	Municipality (Rand)					Total
	Overberg District	Theewater skloof	Overstrand	Cape Agulhas	Swellendam	
Planning and Development	6 781	4 445 255	945 000	0	0	5 397 036
Road Transport		8 295 779	24 607 000	8 358 163	0	41 260 942
Environmental Protection	168 195	0	0	0	0	168 195
Electricity	0	7 888 790	26 768 000	1 927 344	0	36 584 134
Water	0	9 058 738	50 766 000	8 351 828	0	68 176 566
Waste Water Management	0	21 096 954	20 728 000	9 113 372	42 380 000	93 318 326
Waste Management		347 127	5 528 000	10 773 265	0	16 648 392
Total	174 976	51 132 643	129 342 000	38 523 972	42 380 000	261 553 591

Source: Western Cape Provincial Treasury

Infrastructure expenditure should be directed towards influencing economic growth. Budgetary constraints call for an investigation into the types of infrastructure that would influence economic growth. Expenditure continues to be high in five main forms of infrastructure, i.e. water provision, waste water management, waste management, road transport and electricity (see Table 6.6). Water and waste water management are the largest capital expenditure items in OBD. Expenditure on these budget line items is highest in Overstrand and Swellendam municipalities respectively. Electricity and road transport constitute relatively smaller shares of municipal capital expenditure. The relatively smaller contribution made by electricity could be a result of intergovernmental arrangements (Financial and Fiscal Commission, 2014). In some case local government and Eskom are both involved in the distribution of electricity to consumers. Eskom therefore also invests significantly in electricity infrastructure.

6.4.1 Infrastructure investment and economic growth

Empirical evidence has shown that infrastructure investment will have a variety of effects on growth. Various studies have tried to provide empirical proof of the typical impact that various forms of infrastructure expenditure would have on the economy. Early reviews of the empirical literature can be found in Fourie (2006).

Public spending on infrastructure is an effective tool for job creation and labour productivity. Kumo (2012) considered the relationship between economic growth, economic infrastructure investment, and employment in South Africa for the period 1960 - 2009. The author finds that there is a two way causal relationship between infrastructure investment and job creation in the public sector. An expansion of infrastructure expenditure has both a direct and an indirect impact on job creation. The direct effect are the jobs created by infrastructure production, whereas the indirect effects are the jobs created as a result of the increased demand for the material used in the production of infrastructure. As previously discussed in Chapter 3 over the period 2000 - 2013 the transport sector created employment at a rate of 2.5 per cent per annum. The electricity and water sector created employment at a rate of 1.1 per cent over the same period. In contrast, the employment contractions

in the construction sector are a cause for concern (1.3 per cent). It is important to note that the indirect impact of infrastructure investment on employment may be a lot more visible than the direct impact. The resulting impact of an investment in infrastructure will be captured in the construction sector. Once construction is complete the capacity to provide basic services, transport and communications boosts economic activity thus creating jobs in other sectors.

Table 6.7 GDP vs infrastructure levels at municipal level

Municipality	GDPR Growth 2000 - 2013	Infrastructure level
Overstrand	6.2%	High
Cape Agulhas	5.3%	High
Swellendam	4.5%	Medium
Theewaterskloof	3.6%	Medium

Source: Van Niekerk, A et al (2014) and Quantec Research 2014

Empirical evidence at National level has shown that infrastructure investment does have an impact on growth. As mentioned in the MERO 2013 report, results from the 2014 Growth Potential Study by Van Niekerk et al (2014) revealed that the best performing municipalities in the OBD according to an infrastructure index are Overstrand and Cape Agulhas municipalities.

Table 6.7 shows the average annual growth rate of municipalities in Overberg District over the period 2000 - 2013. The table also shows how the municipalities performed according to the infrastructure index. The coastal municipalities performed better according to the infrastructure index in comparison to the inland municipalities.

The 2014 Growth Potential Study categorises towns and municipalities in the OBD in terms of an infrastructure index. Towns with the most severe infrastructure challenges in the OBD are Elim, Suurbraak, Villiersdorp and Grabouw. Notable is the fact that none of these towns fall under the Overstrand Municipal region. Overstrand grew above the District average growth rate (of 4.8 per cent) at an average growth rate of 6.2 per cent. The municipality is rated high according to the infrastructure index. This is matched by its relatively high investment in infrastructure which accounted for 49 per cent of the total infrastructure expenditure in the OBD. The municipality also recorded the highest GDPR growth rate over the period 2000 - 2013.

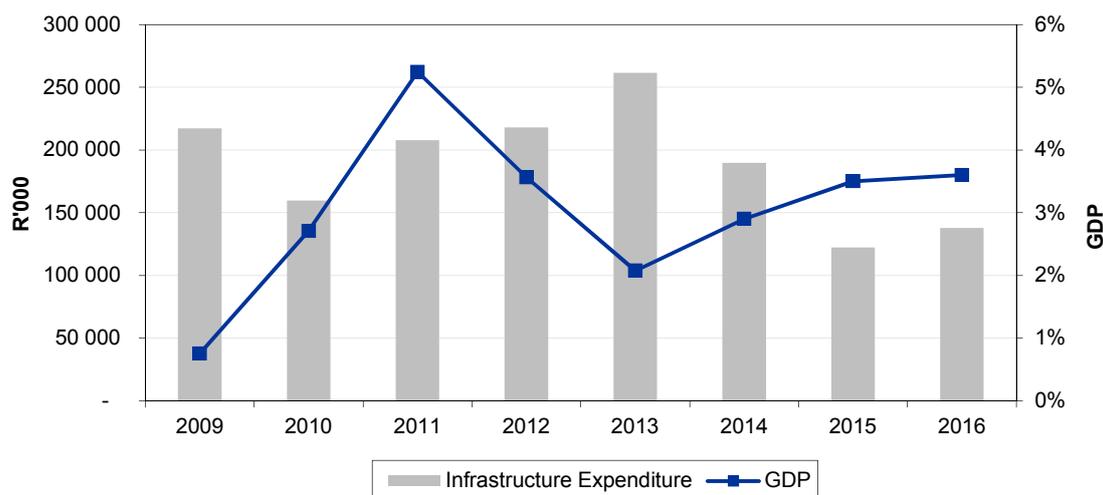
Cape Agulhas also grew above the District average growth rate at an average growth rate of 5.3 per cent and is rated high according to the infrastructure index. Whilst Cape Agulhas benefits from being a coastal town, the fact that there are no national roads that run through the municipality and no access to railway transport poses economic challenges for the municipality.

On the other hand, Theewaterskloof and Swellendam municipalities were rated medium according to the infrastructure index and grew at 3.6 per cent and 4.5 per cent over the period 2000 - 2013. High population growth rates have placed infrastructure provision in Theewaterskloof under pressure. Based on the municipality's survey questionnaire the low tax base makes it difficult to provide infrastructure in poorer communities.

Whilst Swellendam municipal region benefits from the main railway line which connects Cape Town with the Garden Route the limited public transport service and the poor road networks in residential areas in Theewaterskloof municipal region negatively impact economic activity. The dilapidated road network makes most areas inaccessible for emergency services such as medical, rescue and police services (Theewaterskloof IDP, 2014). Given the dependence of the municipal economy on agricultural activities it is important to provide infrastructure to convey workers and goods effectively to points of export. Infrastructure projects such as these will also have multiplier or knock-on effects that have a longer term macroeconomic impact on the economy.

Better infrastructure is crucial in attracting investment within the region. The different forms of infrastructure expenditure have made differing contributions to GDP growth within the District. As previously shown in Chapter 3, the transport and communication and construction sector grew above average; expanding real value added by 5.8 per cent and 8.1 per cent respectively over the period 2000 - 2013. In contrast growth in the electricity and water sector is disappointing (1.0 per cent per annum over the period 2000 - 2013).

Figure 6.5 GDP vs Total Economic infrastructure expenditure: 2008 - 2013



Source: Western Cape Provincial Treasury

Whilst data limitations preclude a complete empirical presentation, the graph below provides an approximation of the relationship between infrastructure expenditure and economic growth. It is important to note the role played by time lags in between expenditure on infrastructure and its resulting impact on economic growth. In the investment phase the direct impact of infrastructure spending on GDP occurs mainly via the construction sector. During this phase the demand for construction equipment and employment increases. Once construction is complete the capacity to provide basic services, transport and communications increases facilitating higher economic activity. Thus infrastructure spending has a lagged effect on GDP. Despite the decline in the contribution of agriculture to GDP within the region opportunities still exist to improve agricultural activities within the region. The Western Cape Province hosts the largest share of aquaculture farms in South Africa. Plans to develop the blossoming

aquaculture industry in Cape Agulhas and Overstrand municipalities could bolster job creation and economic growth in the OBD. The sector is capital intensive, has very strict sanitary requirements and various other health compliance criteria that have to be met. Infrastructure investments within this area will provide economic returns and will also have multiplier or knock-on effects that have a longer term impact on the regional economy.

6.5 Concluding remarks

Government recognises that basic service delivery through infrastructure investment is the cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure has an impact on economic growth. The municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act. The provision of municipal infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. The data presented in this chapter analysed two important sides of the budget, i.e. revenue and expenditure. The analysis revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the Overberg District. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality.

According to the Growth Potential Study, Overstrand and Cape Agulhas municipalities are rated high according to an infrastructure index. The high infrastructure investments in Overstrand are matched by high growth rates. Despite the low current infrastructure investments in Cape Agulhas Municipality in comparison to other municipalities the municipality is rated high according to the infrastructure index indicating stronger investment in the past. On the other hand, Theewaterskloof and Swellendam municipalities were rated medium according to the infrastructure index and had lower GDP growth (i.e. slightly below average) when compared to the other municipalities.

The major challenge the District faces is the increase in demand for basic services during the holiday season. Furthermore, most municipalities within the region face the problem of ageing infrastructure, vandalism and high water losses. It is crucial for municipalities to invest in the upgrade and construction of new infrastructure whilst putting in place revenue enhancement and revenue management programmes.

In summary, the impact of infrastructure investment on growth within the OBD depends on individual municipalities' infrastructure investment decisions. Economic characteristics and development potential should guide infrastructure investment decisions. The District should focus on providing infrastructure that supports industries in which it has comparative advantage (such as the food value chain, the building value chain and the tourism sector). Such investments will have multiplier or knock-on effects on the rest of the economy.

7

Socio-economic analysis and economic performance

7.1 Introduction

The previous Municipal Economic Review and Outlook (MERO) studies provide a focused institutional framework for microeconomic analysis – in the form of the districts and their constituent municipalities. MERO 2014 follows from its predecessor, MERO 2013, in that it includes a socio-economic analysis. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact their economy has on it.

This chapter aims to create a link between the information provided in the Socio-Economic Profiles of 2013/14, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to the population, human development, education, household income, income inequality and poverty in the District, each in relation to the District's economic performance.

7.2 Demographic indicators

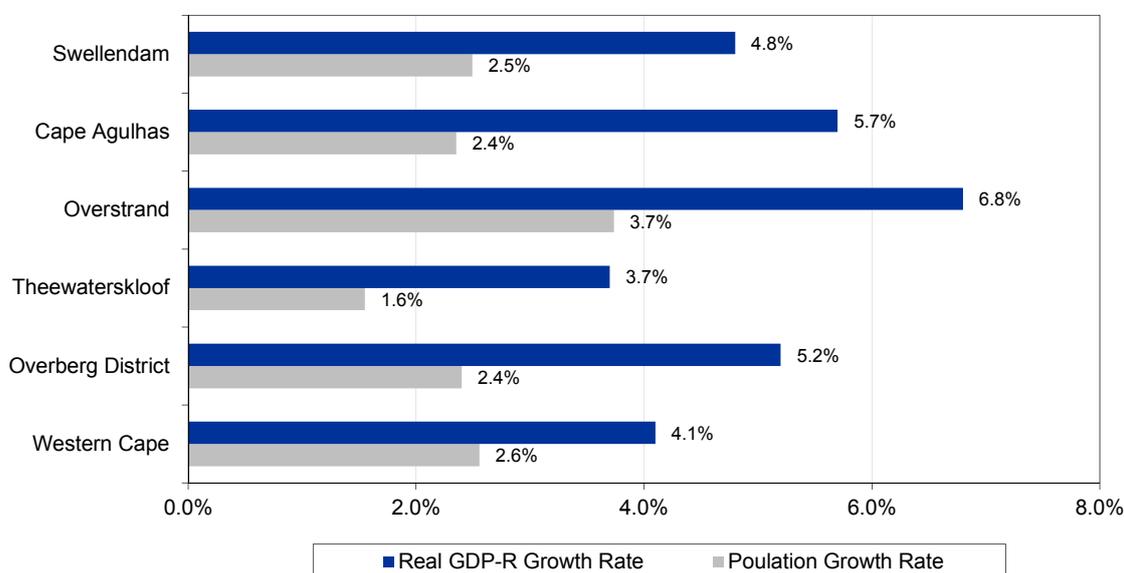
7.2.1 Population and economic growth

According to Statistics South Africa 2011 Census data, the Western Cape Province has 5.822 million people, having increased from 4.524 million in 2001. The average population growth rate in the Western Cape is thus 2.6 per cent per annum. The Western Cape economy grew at a rate of 4.1 per cent on average per annum from 2001 to 2011. The fact that the economy grew faster than the population within the

Province indicates that per capita income is increasing over time, ensuring improving, though uneven standards of living for its inhabitants. The per capita income¹² in constant 2005 prices increased from R37 496 in 2001 to R43 557 in 2011.

A closer look at the Overberg District indicates that per capita income has been on the rise over the period from 2001 to 2011. The Overberg District population size was 258 176 in 2011. As seen in Figure 7.1, its population grew at a rate of 2.4 per cent per annum from 2001 to 2011. Its economy grew at a much faster rate of 5.2 per cent on average per annum, indicating that there has been an increase in per capita income over this period. The GDP per capita increased from R22 666 in 2001 to R29 580 in 2011. This 30.5 per cent increase was the highest in the Western Cape, largely due to the Overberg District's fast growing economy.

Figure 7.1 Overberg District annual average population and real GDP growth rate, 2001 - 2011



Source: Statistics South Africa, Census 2001 and 2011

Cape Agulhas witnessed the highest increase in per capita income (R34 560 to R55 019) over the period from 2001 to 2011 and is on par with the provincial average. It has a population size of 33 038 persons and a population growth rate of 2.4 per cent. Its average annual real GDP-R growth rate over the period was the second highest in the District at 5.7 per cent. The growth margin is an indication that per capita income has been increasing in the Cape Agulhas region.

¹² Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

All municipalities within the Overberg District experienced an increase in per capita income over the period from 2001 to 2011. Cape Agulhas (39.9 per cent) was followed by Overstrand (30.8 per cent), Swellendam (28.6 per cent) and Theewaterskloof (24.0 per cent). This is mainly because in each case the real GDP grew at a faster rate than the population – see Figure 7.1. This implies an improvement in the standard of living of the inhabitants of the Overberg District as a whole.

7.2.2 Age distribution, dependency and youth unemployment

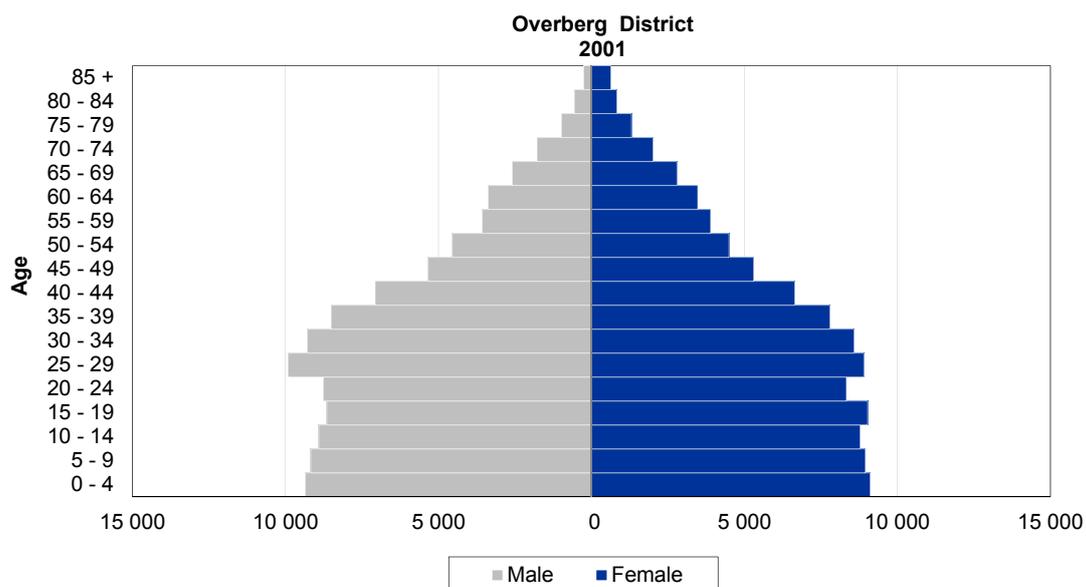
The population can be classified into three main groups namely the children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older.

In 2011, Overberg District's population composition was as follows: children at 24.1 per cent, economically active population at 67.6 per cent and persons aged 65 and older at 8.3 per cent.

During 2011, the total dependency ratio was relatively high at 54.1 per cent having increased from 50.2 per cent in 2001. This is one of the highest in the Province thus depicting the strain on the income of the working age population. This increasing dependency ratio is some evidence of the increase in life expectancy of the population as the proportion of the population that are 65 years and older has increased from 6.8 to 8.3 per cent from 2001 to 2011.

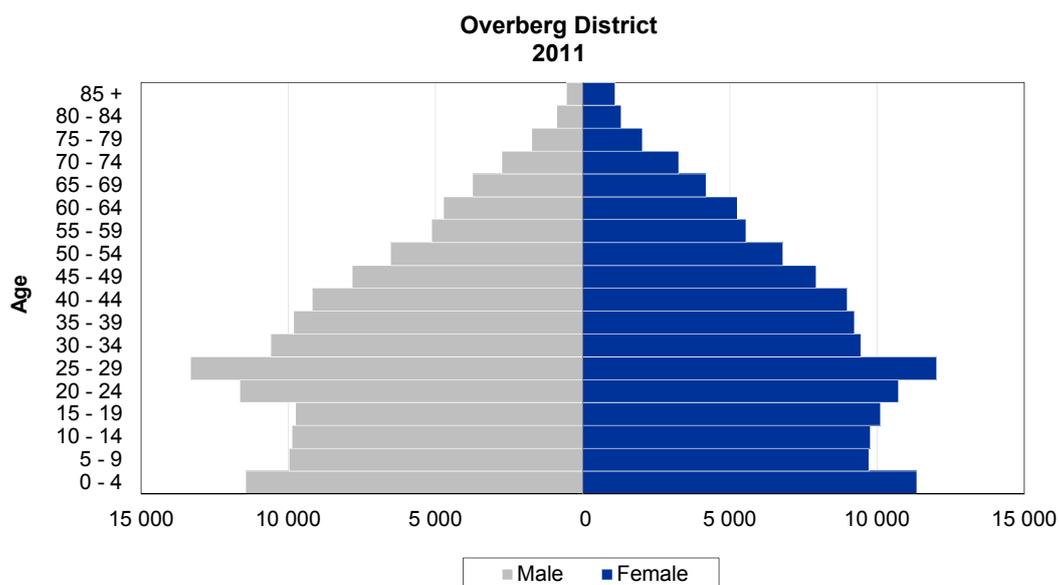
The youth represented 33.9 per cent of the Overberg District population in 2011. Note that there appeared to be in-migration during 2011 in the 20 - 29 age groups, perhaps to pursue work opportunities. These are age categories plagued with difficulties in finding work. The youth population increased from 71 457 to 87 577 from 2001 and 2011. The proportion of the Overberg District population that are categorised as youth has thus increased from 26.7 to 33.9 per cent over the corresponding period. While there has been some moderation in youth unemployment from 22.4 to 21.4 per cent between 2001 and 2011, Overberg District still has the second highest youth unemployment rate amongst all the districts in the Western Cape. This could be attributed to the youth's lack of hard skills and work experience, creating deficient labour demand for youth. Youth unemployment is most prevalent in Overstrand Municipality at a rate of 31.1 per cent, having increased from 29.3 per cent in 2001.

Figure 7.2 Overberg District's population pyramid for 2001



Source: Statistics South Africa, Census 2001

Figure 7.3 Overberg District's population pyramid for 2011



Source: Statistics South Africa, Census 2011

The high dependency ratio and youth unemployment rate, especially the slow decline thereof paints a negative picture for the Overberg District.

7.3 Development indicators

7.3.1 Educational level and employment

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate in the country as a whole of 80.9 per cent. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the provinces in the country from 2001 to 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth. Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education during the Apartheid regime.

In the Overberg District, the literacy rate was lower than the Provincial average at 81.1 per cent during 2011, having increased from 73.0 per cent in 2001. Its unemployment rate is however also lower than the Province at 17.0 per cent. This does not conform with economics which theorises that higher levels of education lead to lower levels of unemployment.

The non-metro municipality with the highest literacy rate is Overstrand at 87.5 per cent in 2011. The corresponding unemployment rate is however the highest in the District at 23.3 per cent having increased from 22.0 per cent in 2001. This may be explained by the 35.9 per cent increase in the working age population from 2001 to 2011, indicating a large number of entrants to the labour force which the job market was not fully able to absorb. Nevertheless, Overstrand has the largest percentage share of employment in the District although it has the second largest population. The municipality with the lowest literacy rate in the District is Swellendam with 74.2 per cent. Swellendam, however has the lowest unemployment rate in the District at 17.3 per cent. This is perhaps due to its relatively small working-age population size of only 24 926 people which allows for a greater labour absorption in the municipal area. Theewaterskloof had the greatest success in improving literacy rates in the municipal area as it increased by 10.4 percentage points from 2001 - 2011.

Table 7.1 Literacy rates across the Overberg District municipalities in 2011

Province/Municipality	2001	2011
Western Cape	85.0%	87.2%
Overberg District	73.0%	81.1%
Theewaterskloof	68.0%	78.4%
Overstrand	81.0%	87.5%
Cape Agulhas	76.0%	81.1%
Swellendam	65.0%	74.2%

Source: Statistics South Africa, Census 2011

Approximately 34 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2014), yet it is clear that there is still room for improvement with regard to skills development in the Overberg District and Western Cape as a whole.

Table 7.2 Overberg District unemployment rates 2001 – 2011

Province/Municipality	2001	2011
Western Cape	26.2%	21.6%
Overberg District	17.5%	17.0%
Theewaterskloof	18.6%	14.9%
Overstrand	22.0%	23.3%
Cape Agulhas	13.6%	13.8%
Swellendam	15.7%	11.4%

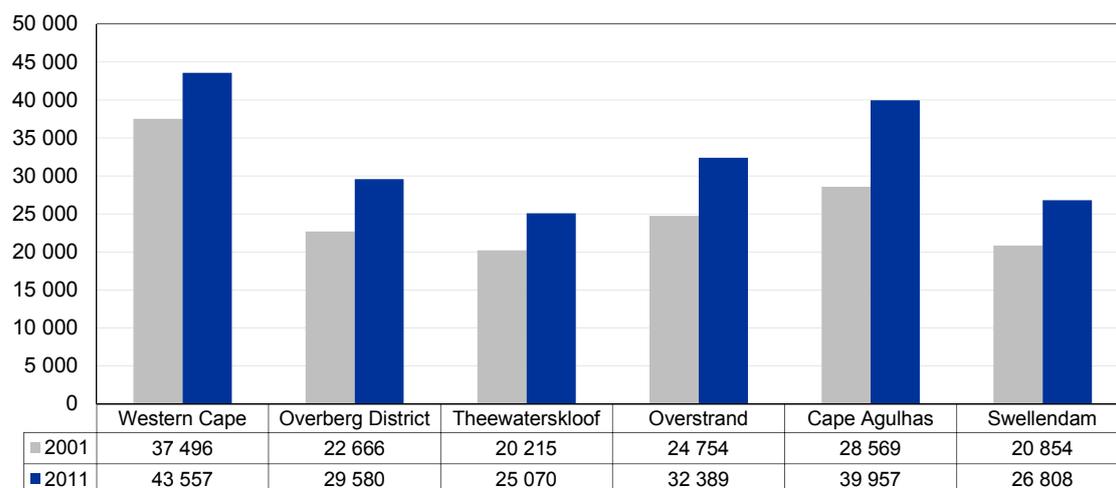
Source: Statistics South Africa, Census 2001 and 2011

As per Chapter 3, there is a trend towards mechanisation and employing highly skilled and skilled labour. The largest component of employment is still in the form of semi-skilled and unskilled positions, but the corresponding demand has contracted by 2.6 per cent per annum between 2000 and 2013. This indicates that going forward, low skilled labour intensive employment initiatives as well as skills development will be necessary to stimulate the creation of new job opportunities in the Overberg District.

7.3.2 Household income and income inequality

According to Statistics South Africa Census 2011, average household income in the country has doubled over the last decade; however, high levels of income inequality still persist. Most informed observers would agree that economic resources should be more evenly distributed amongst the inhabitants of the country and that such a redistribution policy should make a real positive difference to the livelihoods of the poor.

The GDP per capita in the Western Cape Province was estimated at R43 557 per annum in 2011 (based on 2005 constant prices). The GDP per capita in the Overberg District was much lower at only R29 579 in 2011 (see Figure 7.4). This may be attributed to its relatively large population size (second largest among the districts), which distorts the effect of the high GDP growth in the District. The deductions made in section 7.2.1 above i.e. that the economy grew at a faster rate than the population in all municipalities, corresponds with the resulting increase in per capita income displayed in Figure 7.4.

Figure 7.4 Overberg District GDP per capita (constant 2005 prices), 2001 - 2011

Source: Quantec, 2013

Table 7.3 Overberg District average household income 2011

Overberg District	None income	R1 - R4 800	R4 801 - R9 600	R9 601 - R19 600	R19 601 - R38 200	R38 201 - R76 400	R76 401 - R153 800	R153 801 - R307 600	R307 601 - R614 400	R614 001 - R1 228 800	R1 228 801 - R2 457 600	R2 457 601+
Theewaterskloof	11.8%	1.8%	3.4%	17.7%	22.9%	19.1%	11.4%	7.0%	3.6%	0.9%	0.2%	0.2%
Overstrand	16.4%	2.9%	4.1%	12.0%	17.4%	15.6%	13.7%	10.3%	5.2%	1.7%	0.4%	0.3%
Cape Agulhas	9.6%	1.3%	2.5%	12.7%	22.8%	19.9%	14.2%	10.6%	4.7%	1.2%	0.3%	0.2%
Swellendam	7.9%	1.3%	3.1%	14.3%	25.3%	20.5%	13.4%	8.2%	4.4%	0.9%	0.3%	0.3%

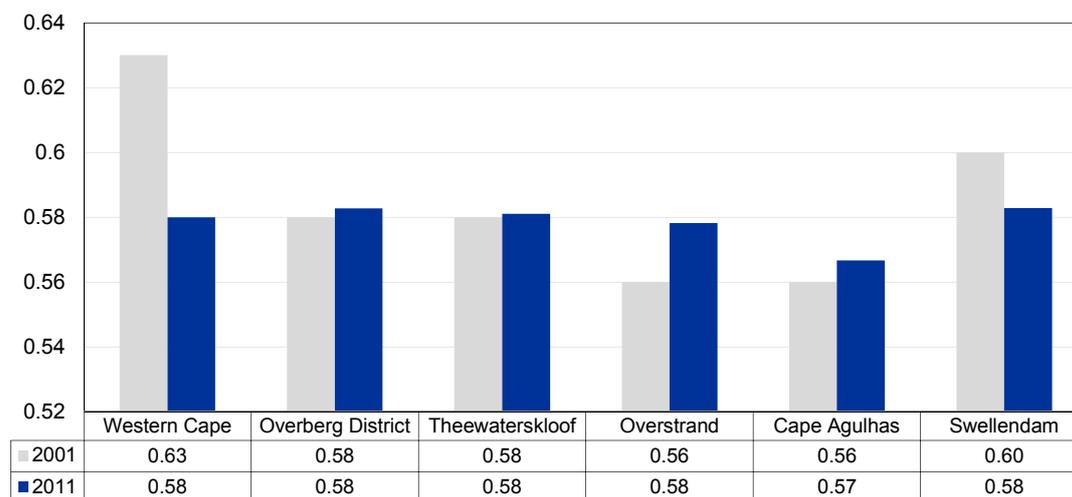
Source: Statistics South Africa, Census 2001 and 2011

Table 7.3 shows that Overstrand and Cape Agulhas have the highest proportion of households earning between R19 601 and R153 800 per annum. The remaining municipalities have lower household incomes with the largest proportion of households earning between R9 601 and R76 400. Overstrand however has a relatively large proportion of households (16.4 per cent) earning no income. This may be attributed to it having the highest unemployment rate in the District. This area hosts a rapidly expanding economy; however, the high unemployment results from the mismatch in the labour market, i.e. an oversupply of semi and unskilled labour whilst the demand for skilled labour is growing.

The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. The coefficient varies between 0, which represents complete equality and 1, which represents complete inequality. The Gini coefficient is bound to be an under-estimation in that it does not measure wealth (only income) and it does not account for income that accrues to the owner, but never enters the country including the extent thereof. With a Gini coefficient of 0.77 in 2001, South Africa displayed very high levels of income inequality. The South African Government provides its households with free basic services, thus their wealth could be greater even though this is not represented when looking at income levels. The Gini coefficient in the Western Cape was also relatively high at 0.63 in 2001, but it declined to 0.58 in 2011.

Income inequality in the Overberg District is on par with that of the Western Cape at 0.58; however it showed no decline (improvement) from 2001. The only municipality that showed some improvement in income inequality was Swellendam where the Gini coefficient declined from 0.6 in 2001 to 0.58 in 2011. The Gini coefficients for Overstrand and Cape Agulhas increased while that of Theewaterskloof remained constant over the period 2001 to 2011.

Figure 7.5 Overberg District Gini coefficients, 2001 - 2011



Source: IHS Global Insight, 2013

Generally, the largest proportion of households in the Overberg District earn between R19 601 and R38 200. These values are relatively low and explain the large number of indigent households within the Overberg District. The levels of income inequality may be relatively low but it is still high in value indicating that the improving economic conditions may be slow in benefitting the wider proportion of individuals within the region.

7.3.3 Poverty, employment and economic growth

Poverty is generally influenced by levels of employment and economic growth. High poverty rates in South Africa in general and in the Western Cape Province in particular have led to poverty reduction being prioritised by the South African Government. Municipalities support those living in poverty, i.e. indigent households, by providing these households with access to free basic services (Municipal Indigent Support Policy, 2014/15).

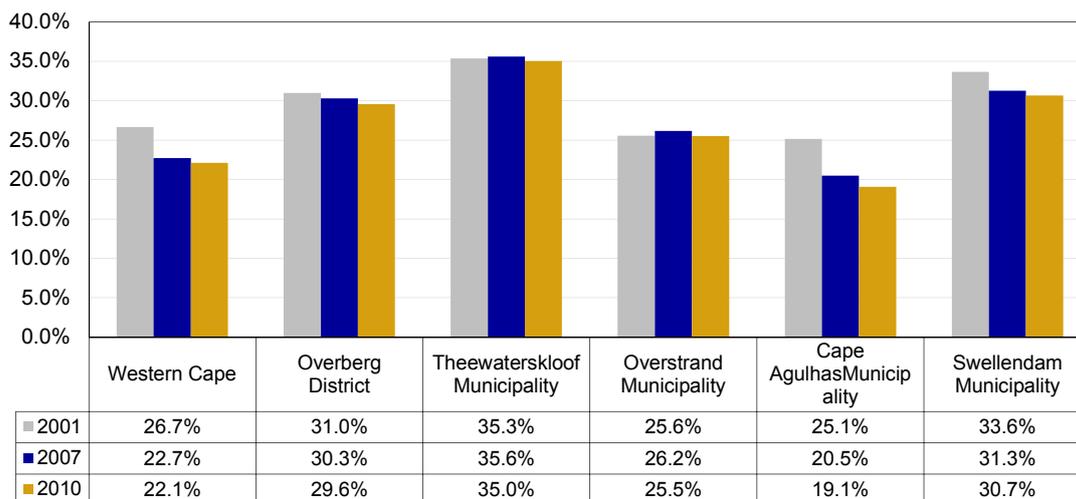
The Western Cape Province has seen a 29.0 per cent decline in indigent households, which indicates a positive move towards coming to grips with addressing poverty. Accordingly, the poverty rate declined from 26.7 per cent in 2001 to 22.1 per cent in 2010. The Overberg District has also displayed such positive results (see Figure 7.6).

The Overberg District showed little improvement in its poverty rates from 31.0 per cent in 2001 to 29.6 per cent in 2010 and has thus lagged the Provincial average. This may be surprising considering the relatively large average annual GDP growth and the relatively low unemployment rate over the corresponding period. This reiterates the

importance of a lower Gini coefficient in order to ensure that all individuals benefit from favourable economic conditions.

The municipality with the lowest poverty rate in 2010 was Cape Agulhas with 19.1 per cent and the highest was Theewaterskloof with 35.0 per cent. As seen in Figure 7.6, this situation has slightly improved in all municipalities within the Overberg District. This implies less strain on municipal resources to provide households with free basic services.

Figure 7.6 Percentage of households living in poverty 2001 - 2010



Source: IHS Global Insight, 2013

Poverty levels in the Overberg District are relatively high and the slow improvement over the decade in question is a cause for concern. Issues such as a lack of skills, intergenerational poverty and inequalities need to be addressed in order to alter this picture.

7.3.4 Human development

The Human Development Index (HDI) is a composite statistical index of life expectancy, education and income indices. It averages at 0.68 in the Western Cape Province. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2011.

The same holds true for the Overberg District, as shown in Table 7.4. All municipalities in the Overberg District region have seen significant improvement in human development. Overstrand had the highest HDI in the Overberg District and the second highest of all non-metro municipalities in the Province at 0.73. The high HDI can be attributed to its relatively high GDP per capita, life expectancy and literacy rate. Theewaterskloof had the lowest HDI in the District of 0.68. It has however shown a 0.07 point improvement between 2001 and 2012.

Table 7.4 Human Development Index 2000 – 2012

Municipality	2001	2011	2012
Overberg District	0.63	0.69	0.69
Theewaterskloof	0.59	0.66	0.66
Overstrand	0.70	0.73	0.73
Cape Agulhas	0.67	0.70	0.70
Swellendam	0.61	0.67	0.68

Source: Statistics South Africa, Census 2001 and HIS Global Insight 2011 - 2012

The relatively high HDI levels within the Overberg District indicate that economic growth is being translated towards social development amongst individuals within the region.

7.4 Conclusion

The following conclusions can be made regarding the socio-economic analysis above:

- The economy grew at a faster rate than the population within the Overberg District which has led to an increase in per capita income in the region. This indicates higher average standards of living of the inhabitants of the region.
- The Overberg District had slow decreasing levels of youth unemployment perhaps due to in-migration of youth whom find it difficult to obtain jobs due to their lack of hard skills and experience.
- Literacy rates in the Overberg District are relatively low compared to the Western Cape Province. There is however a trend towards mechanisation and employing skilled and highly skilled labour. This indicates that going forward, further skills development as well as low skilled labour intensive initiatives will be necessary to stimulate employment in the region.
- The proportion of households that are living in poverty has fallen only slightly between 2001 and 2010 in the Overberg District. Poverty levels are still relatively high in some municipalities and need to be addressed.
- The increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the Overberg District.

The Overberg District has shown some improvement over the years with regard to all areas of its socio-economic environment as discussed above. This chapter illustrates how indicators impact on the standard of living within the District. The fast growing economy and relatively high literacy rates have led to some decline in unemployment rates in the Overberg District. This has in turn led to increasing household and per capita income. These have translated to declining poverty levels or indigent support required within the District. There is still room for improvement with regard to poverty reduction, skills development and the equal distribution of income, but the District is performing well in terms of allowing inhabitants to reap social benefits from the growing economy.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Overberg District: GDPR at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	0.8	0.4	-0.5	-0.4	-1.6	2.6	0.6
2 Secondary sector [SIC: 3-5]	3.5	7.5	6.0	5.9	8.4	3.6	2.3
3 Tertiary sector [SIC: 6-9, 0]	7.2	7.0	5.5	6.0	7.1	4.8	4.4
Total: Overberg District	4.8	5.8	4.7	4.8	5.7	4.2	3.4
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	1.2	0.4	-0.5	-0.4	-1.6	2.6	0.6
2 Mining and quarrying [SIC: 2]	-26.5	2.2	0.7	0.9	1.0	-2.9	2.6
3 Manufacturing [SIC: 3]	4.1	7.2	5.8	5.7	8.2	1.9	2.6
4 Electricity, gas and water [SIC: 4]	4.5	3.3	-1.0	1.0	2.2	-2.4	0.4
5 Construction [SIC: 5]	1.7	10.7	8.2	8.1	11.2	8.2	2.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	8.6	4.4	1.5	3.5	4.9	-3.0	4.1
7 Transport, storage and communication [SIC: 7]	7.1	8.2	4.6	5.8	7.9	4.0	2.6
8 Finance, insurance, real estate and business services [SIC: 8]	8.8	12.6	10.1	10.2	12.3	11.1	5.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.7	4.6	2.3	3.6	4.9	1.0	2.4
10 General government [SIC: 91, 94]	3.7	3.4	3.7	3.3	2.9	4.0	3.8
Total: Overberg District	4.8	5.8	4.7	4.8	5.7	4.2	3.4

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Overberg District					
1 Primary sector [SIC: 1-2]	26.4	21.7	16.6	12.3	11.3
2 Secondary sector [SIC: 3-5]	22.8	21.4	23.1	25.5	24.0
3 Tertiary sector [SIC: 6-9, 0]	50.8	56.9	60.3	62.2	64.6
Total: Overberg District	100	100	100	100	100
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing [SIC: 1]	25.7	21.5	16.5	12.2	11.2
2 Mining and quarrying [SIC: 2]	0.7	0.1	0.1	0.1	0.1
3 Manufacturing [SIC: 3]	14.7	14.2	15.1	16.3	15.2
4 Electricity, gas and water [SIC: 4]	2.0	1.9	1.7	1.3	1.2
5 Construction [SIC: 5]	6.2	5.3	6.3	7.9	7.6
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	15.0	18.0	16.8	14.0	14.0
7 Transport, storage and communication [SIC: 7]	6.4	7.1	8.0	8.0	7.9
8 Finance, insurance, real estate and business services [SIC: 8]	12.1	14.6	19.9	25.8	28.4
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.3	4.9	4.6	4.1	4.0
10 General government [SIC: 91, 94]	12.9	12.3	10.9	10.4	10.4
Total: Overberg District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Overberg District: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	-3.6	-3.1	-6.5	-4.1	-3.5	-10.2	-2.2
2 Secondary sector [SIC: 3-5]	-3.1	1.8	-1.8	-0.5	1.3	-0.3	-4.3
3 Tertiary sector [SIC: 6-9, 0]	8.3	2.9	1.8	2.4	2.9	2.4	1.5
Total: Overberg District	1.1	0.5	-1.0	-0.1	0.4	-1.3	-0.3
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	-3.5	-3.1	-6.6	-4.1	-3.5	-10.3	-2.2
2 Mining and quarrying [SIC: 2]	-18.9	-16.3	31.3	3.5	3.2	7.4	2.2
3 Manufacturing [SIC: 3]	0.7	2.8	-0.8	0.5	2.0	0.4	-2.3
4 Electricity, gas and water [SIC: 4]	0.6	4.0	1.8	1.2	4.8	-14.1	1.5
5 Construction [SIC: 5]	-5.3	1.1	-2.7	-1.3	0.7	-0.4	-5.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	8.0	-0.4	-1.0	-0.3	-0.2	-2.0	0.5
7 Transport, storage and communication [SIC: 7]	-2.8	1.3	5.4	2.5	0.7	8.0	3.2
8 Finance, insurance, real estate and business services [SIC: 8]	15.2	10.6	5.1	7.7	10.2	5.6	3.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	9.4	2.1	1.2	2.1	2.7	4.0	0.0
10 General government [SIC: 91, 94]	6.4	4.4	2.2	2.5	3.0	2.2	1.8
Total: Overberg District	1.1	0.5	-1.0	-0.1	0.4	-1.3	-0.3

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Overberg District					
1 Primary sector [SIC: 1-2]	43.8	34.5	27.3	21.0	18.8
2 Secondary sector [SIC: 3-5]	22.6	18.2	19.2	18.8	17.3
3 Tertiary sector [SIC: 6-9, 0]	33.6	47.3	53.5	60.2	63.9
Total: Overberg District	100	100	100	100	100
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing [SIC: 1]	43.6	34.5	27.2	20.9	18.7
2 Mining and quarrying [SIC: 2]	0.2	0.1	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	7.4	7.3	8.1	8.3	8.0
4 Electricity, gas and water [SIC: 4]	0.2	0.2	0.3	0.3	0.3
5 Construction [SIC: 5]	15.0	10.7	10.8	10.2	9.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	13.3	18.4	17.5	17.1	17.6
7 Transport, storage and communication [SIC: 7]	2.5	2.1	2.1	2.8	2.9
8 Finance, insurance, real estate and business services [SIC: 8]	3.8	7.3	11.8	15.3	18.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.8	11.6	12.5	14.1	14.3
10 General government [SIC: 91, 94]	6.1	7.9	9.6	11.0	11.0
Total: Overberg District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Overberg District: Composition of Goods Exports and Imports (nominal values)

Sector	1995	2000	% share		
			2005	2010	2013
Goods Exports (R million)					
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	87.2	94.9	92.7	97.2	96.8
2 Mining and quarrying [SIC: 2]	1.0	0.0	0.1	0.1	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	7.0	5.0	7.2	2.6	3.1
4 Undefined/other	4.9	0.0	0.0	0.1	0.1
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Overberg District					
1 Food, beverages and tobacco [SIC: 301-306]	75.6	89.3	83.4	94.3	91.3
2 Textiles, clothing and leather goods [SIC: 311-317]	0.1	0.0	3.7	0.2	0.4
3 Wood, paper, publishing and printing [SIC: 321-326]	0.4	0.0	0.0	0.1	0.1
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	1.2	4.8	4.8	3.1	2.7
5 Other non-metal mineral products [SIC: 341-342]	0.4	0.0	0.4	0.5	0.3
6 Metals, metal products, machinery and equipment [SIC: 351-359]	0.2	0.2	1.6	0.3	0.8
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.3	0.1	0.2	0.4
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.0	0.0	1.6	0.0	0.6
9 Transport equipment [SIC: 381-387]	0.0	0.3	1.6	0.3	2.5
10 Furniture and other manufacturing [SIC: 391-392]	22.0	5.0	2.8	0.9	1.0
Total: Manufacturing exports	100	100	100	100	100
Goods Imports (R million)					
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	19.2	38.8	19.3	37.7	23.0
2 Mining and quarrying [SIC: 2]	1.2	0.0	0.4	0.0	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	79.4	61.2	80.2	62.3	76.9
4 Undefined/other	0.1	0.0	0.1	0.0	0.0
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Overberg District					
1 Food, beverages and tobacco [SIC: 301-306]	15.2	31.5	17.2	32.5	21.7
2 Textiles, clothing and leather goods [SIC: 311-317]	0.2	2.0	9.4	7.7	18.1
3 Wood, paper, publishing and printing [SIC: 321-326]	1.7	6.3	4.2	7.0	2.9
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	6.4	26.5	19.9	18.2	11.8
5 Other non-metal mineral products [SIC: 341-342]	2.1	0.6	1.7	1.7	1.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	68.9	25.7	29.5	22.0	38.9
7 Electrical machinery and apparatus [SIC: 361-363]	1.7	4.6	3.1	0.5	0.6
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	3.7	0.7	8.1	7.3	3.6
9 Transport equipment [SIC: 381-387]	0.0	1.8	3.7	1.5	0.3
10 Furniture and other manufacturing [SIC: 391-392]	0.1	0.3	3.3	1.7	1.1
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/CER

Eden District

Key points

- The Eden District economy has been the fastest expanding region in the Western Cape Province, hosting four of the Province's top-10 leading non-metro municipalities (in terms of economic growth and size), i.e. Mossel Bay, George, Knysna and Bitou. These four coastal municipal economies accounted for no less than 30 per cent of the cumulative growth of the non-metro regions of the Province over the 2000 - 2013 period.
- During the previous upswing phase of the business cycle (2000 - 2007) real GDP growth averaged 6.1 per cent per annum. While the 2009 recession impact was quite severe, particularly in the overheating construction sector, growth only slowed down and real GDP did not contract in that year coming in at 0.3 per cent. Growth re-accelerated rapidly to 5.2 per cent in 2011 but has tapered off subsequently in line with the global and national economic slowdowns to 2.5 per cent in 2013; it is expected to come in at 2.9 per cent in 2013 and to average 3.6 per cent per annum over the forecast period (2014 - 2019).
- The growth outlook has been scaled down substantially in view of weaker than expected growth in the post-financial crisis period and domestic labour market instability. This growth environment will present the Eden District with many development challenges.
- While 20 600 jobs were created on balance in the Eden District economy over the 2000 - 2013 period (at a rate of 0.9 per cent per annum), substantial retrenchments occurred in the construction sector and – to a lesser extent – in manufacturing during the recession, which also continued over the period of economic recovery, 2010 - 2013. The region suffered an overall net loss of jobs over this period – more than a fifth of construction employment in 2009 was retrenched. An overheating property sector in the preceding years was a contributing factor.

- Overall formal sector job losses (6 080) were counter-balanced by informal sector gains (8 700); 26 per cent of the work force is in the informal sector, which is relatively large. In view of the counter-cyclical role of the informal sector and the sector's linkages with the formal sector, this may warrant a more nuanced policy approach towards the informal sector, which would acknowledge these intricacies and provide technical and business support required to build informal businesses to eventually migrate to the formal sector.
- The competitive strength of Eden District resides in a number of value chains, including tourism, building and construction, the food value chain and timber, wood products and furniture. The Mossel Bay petro-chemical complex also contributes to manufacturing growth. Tourism played a key role in the economic recovery, with the linked retail, wholesale, catering and accommodation sector expanding faster than the leading financial and business services sector. The region manages to attract 15 per cent of the tourist foot count in the Province with close to half of all its tourists coming from other countries.
- Generally, those municipalities with high levels and maintenance of (economic) infrastructure experience higher rates of economic growth, which in turn, help them to afford the required infrastructure budgets. The Eden District hosts some exceptions, where lack of attention to infrastructure investment (e.g. Bitou) threatens the sustainability of high economic growth; or where past high levels of infrastructure investment have not been met by the required degree of economic diversification to support a higher rate of economic growth (e.g. Hessequa).
- Despite being the highest growing region and being a region with above-average literacy rates (82.6 per cent), Eden District is suffering from very high youth unemployment rates (29.3 per cent). There is evidence of in-migration inflating the population growth rate and constraining the increase in per capita incomes and causing unemployment to be a problem and slowing down the decline in poverty rates.
- Given the high (youth) unemployment, there is an acute need for skills development as well as labour-intensive initiatives for improving employment in the region. Like in the wider province, there is a higher propensity for skilled labour demand in Eden District.

Executive summary

1. Introduction

The 2014 *Municipal Economic Review and Outlook (MERO)* study builds on the analysis of the Eden District growth and development trends in the corresponding 2012 and 2013 studies. The MERO's objective is to provide economic intelligence at the district and municipal level in the Western Cape Province, alongside its sister publication, the *Provincial Economic Review and Outlook (PERO)*.



The Eden District has been hard-hit by the 2009 global recession (e.g. manufacturing and construction), particularly in terms of the adverse impact on employment levels. Whilst the region has witnessed fast economic growth and a general improvement in its socio-economic indicators, high in-migration is posing challenges. A central theme in the 2014 study is to track the region's recovery from the recession impact and to explore existing bottlenecks or constraints which may be restraining economic growth and development. The results from the study can hopefully feed into official economic strategy plans and assist the private sector in identifying growth opportunities.

The recent and expected macro-economic environment and implications for the Eden District economy are first assessed. Thereafter, the sectoral analysis is deepened, with the focus on sectoral growth, employment and skills demand trends and an analysis of the Eden District tourism value chain. The informal sector analysis is also taken further by investigating the sector's linkages with the formal sector and its

cyclical sensitivities. Furthermore, the municipal revenue and infrastructure spending trends and their relationship with the growth of the regional economy come under the spotlight. The report is concluded by an important addition to the MERO study, i.e. a consideration of the Eden District's socio-economic climate and the apparent economic growth and employment linkages.

2. Regional growth trends

Given the balanced nature of the Eden District economy, it was less seriously affected by the 2008 - 2009 recession compared to other Western Cape districts in that real GDPGR did not contract; however, employment took a serious knock. Real GDPGR growth slowed down from 5.6 per cent in 2008 to 0.3 per cent in 2009 and recovered to 3.4 per cent in 2010. Growth then accelerated to 5.1 per cent in 2011 before it tapered off to 2.5 per cent in 2013 and it is expected to come in at 2.9 per cent this year. The slowdown from 2011 was in line with the global and national economic slowdown and the forecast has also be reduced in sympathy with the downscaling of the provincial growth outlook. From 4.3 per cent per annum forecast previously (2012 - 2017) real GDPGR is projected to come in at 3.6 per cent per annum (2014 - 2019). The main reasons for the slower growth are weaker than expected global growth and domestic issues such as labour unrest. Macro-economic conditions are likely to be less than robust over the next 3 - 5 years, which constitutes a challenge to the Eden District. The well-diversified economy of Eden District and its well-established tourism value chains are key strengths and the region is still expected to outperform in terms of its economic growth rate.

Four of Eden District's seven constituent municipalities, i.e. Mossel Bay, George, Bitou and Knysna accounted for more than three quarters of the region's GDPGR in 2013. These four municipalities also managed to create employment on a net basis over the 2000 - 2013 period, more than compensating for the net losses in the others. A concerning development were the net job losses during the period of economic recovery (2010 - 2013), which resulted mainly due to a slump in the Eden District construction sector after 2009 (see below). Nonetheless, the property cycle appears to have turned and it is expected that growth within the Eden District will again be topped by the construction sector over the forecast period. Other sectors expected to grow above average are the wholesale and retail trade, catering and accommodation, transport, storage and communication and the finance, insurance, real estate and business services sectors. Tourism is likely to remain a key growth driver.

3. Sectoral growth, employment and skills

The Eden District economy has been the fastest expanding region in the Western Cape Province, hosting four of the Province's top-10 leading (in terms of economic growth and size) non-metro municipalities, i.e. the four coastal municipal economies noted above, accounting for no less than 30 per cent of the cumulative growth of the non-metro regions of the Province over the 2000 - 2013 period. The competitive

strength of Eden District resides in a number of value chains, including tourism, building and construction, the food value chain and timber, wood products and furniture. The Mossel Bay petro-chemical complex also contributes to manufacturing growth.

Economic growth has also outperformed the other Western Cape districts during the economic recovery, 2010 - 2013, with the wholesale, retail, catering and accommodation sector surpassing financial and business services as the leading growth sector. Closer analysis reveals the vibrant tourism market to be the driving force. Unfortunately the region was also impacted by the recession, but not as severely as other Western Cape districts. The downside from the recession impact is the fact that the overheating property sector in the preceding years resulted in a major construction slump in which many workers lost their jobs even during the economic recovery period. Steep job losses also continued in the agriculture and manufacturing sectors, exacerbating the skills mismatch in the labour market. There appears to be evidence of mechanisation (or increased capital intensity in production) in a regional economy in which the secondary sectors have maintained their relative economic value. Whilst Eden District is well diversified sectorally, there has been a tendency for manufacturing and services to be concentrated in the Mossel Bay and George municipalities.

The vibrancy of the Eden District economy is projected to continue; however, as noted, it has been impacted by the overall downgrading of the global and national macro-economic outlook. The current outlook is for 3.6 per cent growth per annum, remaining well above the provincial average of 3.0 per cent per annum. The region is also successful in generating jobs on balance, with the growth in the services sector overshadowing the losses in the agriculture, manufacturing and construction sectors. This does not detract from the need to train, re-train and upskill workers in the region and expand manufacturing capacity.

4. Value chains

Tourism is a key and rapidly expanding industry in the Eden District, with the region's wide range of locational attributes being a draw card for tourists. The Eden District tourism sector accounts for approximately 15 per cent of tourism activity in the Western Cape and international visitors make up a large proportion of the tourists. The Cape Metro (77.5 per cent) received the highest percentage of international visitors in 2012, followed by the Cape Winelands District (52.4 per cent) and then the Eden District (48.9 per cent). The value gained from tourism is the additional demand it creates in other sectors in the economy.

The major backward linkages from tourism are to accommodation, restaurants, transport services and business services. The business services sector grew at an average annual growth rate of 6.9 per cent from 2004 - 2013; catering and accommodation posted an annual average growth of 5.8 per cent and the wholesale and retail trade sector 4.9 per cent per annum over the same period. It is estimated that up to 65 per cent of the catering and accommodation sector is linked

to the tourism sector. The catering and accommodation sector is therefore highly dependent on the level of tourist activity and expenditure. It follows that the tourism sector has great potential to stimulate small business activities; alternatively, small businesses servicing the tourism sector should be supported.

5. Informal sector

Surveys of the informal and SMME sectors have shed some light on the characteristics of small and informal businesses in the Eden District. These characteristics were discussed in the 2013 MERO study and this year the analysis is taken a step further by investigating the linkages between the informal and formal businesses. The results provide evidence of close formal and informal sector linkages, albeit that it was not possible to extract details regarding the nature of these linkages. Between 4 - 14 per cent of formal small, micro and medium-sized businesses sustain linkages with informal businesses in the Eden District. Unfortunately, given the evident existence of financial constraints (i.e. lack of access to credit) and low-level skills within the informal sector, and in view of the evidence from academic literature, it appears that where linkages exist, they may be backward linkages, involving 'unfair' formal sector outsourcing. This means that Informal businesses may source formal sector products at retail prices only to sell them at higher prices to poor local customers. More research may be required to ascertain the prevalence of this phenomenon.

Regarding the cyclical sensitivities of the Eden District informal sector, the (2008 - 2009) recession caused significant net job losses (6 080) in the formal sectors of the Eden District economy while there were 8 700 net jobs created in the informal sector over the same period. The informal work force was estimated at 26 per cent of the total work force in 2013, i.e. an estimated 46 500 informal workers (Quantec Research, 2014). Most of the employment gains in the informal sector were created in the wholesale, retail trade and catering and accommodation sector during the recession, with the number of new informal jobs surpassing formal net retrenchments. This indicates that downward rigidities during the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would have otherwise become unemployed. Sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts, revealing a *de facto* counter-cyclical role for the informal sector.

Given the important poverty relieving role of the informal sector, it is recommended that the District and its municipalities consider a more nuanced view of the informal economy in order to recognise the distinct support needs of informal labour (and survivalist firms) and informal entrepreneurs. The focus should not be on extending social protection across the informal economy as that risks trapping informal entrepreneurs in relations of dependency. Instead, advocating their distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., could serve to build a capacity for autonomous development and migration to the formal economy.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

6. Municipal revenues and expenditure on infrastructure

It is accepted that basic service delivery through infrastructure investment is a cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure impacts positively on economic growth. An important factor considered by investors when relocating into an area is the provision of basic services within that area. The municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. The provision of Municipal Infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. An analysis on both sides of the budget, i.e. revenue and infrastructure expenditure, was conducted. It revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the Eden District. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality. Overall Eden District municipal revenues grew by an estimated 8 per cent per annum between 2008/09 and 2012/13 in inflation-adjusted terms.

According to the *Growth Potential Study*, Hessequa, Mossel Bay and George municipalities were rated high according to an infrastructure index. On the other hand, Bitou and Kannaland municipalities fall within the low category according to the same index. The Hessequa Municipality (rated high according to the infrastructure index) experienced the lowest GDP growth rate in Eden District for the period 2000 - 2013. The mismatch between infrastructure and economic growth could presumably be a result of various economic challenges the municipality faces, like a contracting agricultural sector. On the other hand, Kannaland and Bitou municipalities (rated low according to the infrastructure index) recorded an annual GDP growth rate of 5 per cent and 7.7 per cent respectively for the period 2000 - 2013. This is matched by both municipalities' relatively low investment in infrastructure, which places the sustainability of their high growth at risk.

The data presented revealed that the positive relationship between infrastructure expenditure and growth is influenced by various factors such as skills shortages, budgetary constraints and struggling economic activity. The impact of infrastructure investment on growth within the Eden District depends on individual municipalities' infrastructure investment decisions. Economic characteristics and development potential should guide infrastructure investment decisions. The District should focus on providing infrastructure that supports industries in which it has comparative advantage. Such investments will have multiplier or knock-on effects on the rest of the economy.

7. Socio-economic climate and development indicators

The socio-economic analysis, contained in a separately released working paper at the time of the 2013 MERO study, has this year been brought into the main report. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its constituent municipalities, with the intelligence needed to understand their socio-economic reality and also the impact of the economy.

In Eden District, the economy grew at a faster rate than the population, which has led to an increase in per capita incomes in the region. This indicates higher average standards of living for the inhabitants of the region. All municipalities shared in this trend, except Hessequa. Nonetheless, the Eden District has the highest levels of youth unemployment (29.3 per cent) amongst the districts within the Province. The youth are also over-represented among the unemployed perhaps due to their lack of experience.

Literacy rates in Eden District (82.6 per cent on average) are relatively high compared to the other districts; however, a trend towards mechanisation and employing skilled and highly skilled labour is evident. Skills development and lower skilled labour intensive initiatives are required in order to stimulate employment in the District. The proportion of households that are living in poverty has fallen between 2001 and 2010 and the increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the Eden District. However, despite substantial improvements, poverty levels are still relatively high and need to be addressed.

The Eden District has shown much improvement over the years with regard to all areas of its socio-economic environment as discussed above. This chapter illustrates how development indicators impact on the standard of living within the District. The fast growing economy and relatively high literacy rates have led to some decline in unemployment rates. This has in turn led to increasing household and per capita income. These have translated to declining poverty levels or indigent support required within the District. There is still room for improvement with regard to poverty reduction and skills development. The relatively high unemployment rates may be the result of strong in-migration as in the case of Bitou Municipality. This Municipality experienced a sharp increase in its labour force presumably due to in-migration from the Eastern Cape¹; however, despite recording the highest municipal real economic growth rate could not prevent a sharp rise in unemployment. Finally, sustained job losses during the economic recovery, the lower economic growth rate and the down-graded economic outlook define a challenging socio-economic environment going forward.

¹ Policy makers should consider launching new research focusing on migration patterns, distinguishing between local, national and foreign in- or out migrators, and implications for the non-migratory local labour force.

1

Introduction

1.1 Background and purpose of study

The 2014 Municipal Economic Review and Outlook (MERO) study will be the third one produced annually since its inception in 2012. With its origins in the micro-economic research undertaken at the time of the Micro-Economic Development Strategy (MEDS) initiative (2004 to 2008), and accompanying its sister publication, the Provincial Economic Review and Outlook (PERO) over the past three years, the central objective of the MERO is the provision of economic intelligence at the metro, district and municipal levels in the Western Cape Province.

The growth of towns, cities and regions has become a focal point of contemporary socio-political and economic analysis. While the MERO study provides guidelines for identifying socio-economic constraints and related policy actions, the review of microeconomic trends and developments, including the medium-term outlook, has the potential to generate the economic intelligence that can feed into sub-regional Integrated Development Plans (IDPs) and Local Economic Development initiatives (LEDs).

A special attempt is made this time around to improve the accessibility of the MERO by refining the analysis in previous studies, shortening the report and improving the dissemination of the information. It is hoped that the information will not only be useful to local and provincial authorities but will also enable private business enterprises to identify growth opportunities and reacting upon them in order to propel the regional economy to a higher growth plane.

1.2 Central issues covered

The MERO research publication was conceived in the wake of the 'Great Recession', which was triggered at the end of 2007 by the unsustainable financial growth and macroeconomic developments over the 1990s and 2000s in the world's leading industrial economies, notably the USA and the Euro area. The impact of the subsequent recession (2008 - 2009) has been uneven across regions and countries. In fact, the 2012 - 2013 MERO analyses showed that the differential impact reached deeply into the Western Cape metro and non-metro districts.

A key theme of the 2013 study was how the Western Cape districts and municipalities have recovered from the impact of the global recession. One of the key consequences of the global recession, has been *"a search for a new development paradigm that is both more inclusive and more sustainable ecologically"* (see Turok et. al., 2013: 2). In the same vein, the consistent theme throughout the MERO report, is an emphasis on inclusive economic growth through employment creation. While it is accepted that public policy intervention has a constructive role to play, the focus is on the identification of the bottlenecks and constraints which are hampering private sector growth and employment creation. Consistent with the tenets of inclusive economic growth, attention also focuses on the developmental challenges embodied in making a dent in unemployment, poverty and underdevelopment.

Consequently, the central issues covered in the 2014 MERO study are, firstly, a consideration of the global, national and provincial economic performances and outlook in view of the general recovery from the 2008 - 2009 global recession and the mid-2011 slowdown, and how this macro-economic environment impacts on the Eden District economy (Chapter 2 of this report).

The historical patterns of sectoral growth and employment, including the performance and outlook in this regard of Eden District since the onset of the global economic recovery at the end of 2009, are also discussed in greater detail (Chapter 3 of the report). Turok, et. al. (2013: 3) note that education and skills have become major determinants of regional economic growth, which has not necessarily been the case a century ago. The skills composition of sectoral economic growth is therefore also under consideration. Whilst the analysis is somewhat superficial, it effectively demonstrates the wider developmental challenge of the mismatch between the demand for skilled labour and the predominantly unskilled surplus labour supply also present in the Eden District economy. Expanding on the 2012 and 2013 MERO studies, an attempt is made to conduct the sectoral analysis of Eden District trends in a provincial-wide municipal context. Reference is also made to the stock of infrastructure and the annual municipal spending in this regard, as well as the socio-economic profile of the Eden District regional economy.

Eden District has the second largest non-metro district economy in the Province and it is the fastest growing. It is well-known for its diversified industrial base, which also have strong linkages with its services industries; tourism, in turn, is a key driver of services activity. This year's value chain analysis (Chapter 4 of the report) investigates the tourism sector value chain in Eden District, which is not always discernable from

official industry classified statistics. Tourism is a flourishing industry in Eden District and also played a key role in the general economic recovery in the region from the recession.

The 2013 MERO study introduced the results from a survey of 200 informal sector firms in Eden District conducted by the Department of Economic Development and Tourism (DEDAT). This year, the analysis is taken some steps further by an investigation into the linkages between the formal and informal sectors of Eden District, both conceptually and empirically. An attempt is also made to investigate the cyclical nature of the informal sector by showing the extent to which the informal sector played a counter-cyclical role in Eden District during the 2008 - 2009 recession (Chapter 5 of the report).

The important relationship between infrastructure investment and economic growth is explored at the regional level in respect of the Eden District economy (Chapter 6 of the report). The actual infrastructure spending and municipal revenues over the 2008 to 2013 period are analysed and the outcomes in terms of economic growth by municipality are compared. The analysis also taps into the research undertaken in the '*Growth Potential Study*' (2014).

Finally, a socio-economic synopsis of the Eden District region is provided (Chapter 7 of the report), including an attempt to highlight the linkages between regional economic growth (value-added and employment) and the local economic development indicators.

1.3 Outline of the report

Apart from the first introductory section, the report consists of six chapters. As noted above, Chapter 2 discusses the trends (2000 - 2013, including the economic recovery period, 2010 - 2013) and outlook (2014 - 2019) for the Eden District economy in a macro-economic context. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the accompanying PERO publication. Chapter 3 utilises secondary data sources – e.g. Quantec's regional data base; the '*Growth Potential Study*'; the results from a municipal survey in the District; and the analysis of comparative advantages among industries conducted in the 2013 MERO – to deepen the regional economic analysis by sector. Specifically, this chapter analyses real GDP growth trends, employment creation and the skills composition of labour demand in Eden District.

In Chapter 4 a value chain analysis is conducted, with the focus on the Eden District tourism sector. The linkages and employment potential of this cross-cutting sector are analysed, included some perspective on the growing agri-tourism sector. Chapter 5 takes the informal sector analysis further, considering the formal-informal sector linkages and the business cycle impact on the informal sector. Thereafter Chapter 6 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. Chapter 7 concludes with a socio-economic profile of Eden District.

2

Economic outlook

2.1 Introduction

This chapter provides a five-year economic outlook for the Eden District economy. The outlook is embedded in realistic global and national socio-political and economic assumptions, which are all briefly discussed in this chapter. In presenting the District economic outlook, attention is given to the historical growth trends, a consideration of the 2010 - 2013 economic recovery thus far, the region's industry comparative advantages and an assessment of the macro-economic implications pertaining to the medium-term district economic outlook. The analysis of the sectoral district economic prospects is deepened in Chapter 3 in which sector developments are discussed.

2.2 Global, national and provincial economic developments

The global economic outlook remains uneven and uncertain. This follows the recent downward revision of the IMF's forecast for the global economy in July 2014 following a weak first quarter. The downgrade has shown that the global economy should grow at 3.4 per cent in 2014 down from its January forecast of 3.7 per cent. Weaker than expected growth in the developed economies and emerging markets forced the downgrade. Table 2.1 gives a clear illustration of the differences between the April 2014 outlook and the latest IMF outlook. The downgrades are an indication that nations are still struggling to recover from the aftermaths of the financial crisis.

A generally negative outlook dominated the report; however the economic prospects for Japan, Germany and the UK were upgraded. Japan experienced stronger than expected growth in the first quarter resulting in an upgrade of its economic outlook. Growth in Japan is projected to be 1.6 per cent in 2014 and ease down to 1.1 per cent in 2015. In the **advanced countries** the economic outlook for

the US and Canada was downgraded. The cut in the outlook for the world's largest economy, the US, by 1.1 percentage points in respect of 2014 dragged the world outlook down. An overhang in inventories at the end of 2013 appeared to be much higher than expected and output during the first quarter of 2014 contracted due to the severe winter weather negatively impacting on domestic demand. However a growth rebound is expected in the US as the key drivers to the downturn were only temporary. Growth is expected at 1.7 per cent and 3.0 per cent in 2014 and 2015 respectively.

Table 2.1 World economic growth outlook: 2014 - 2015 (%)

Country	Actual	Projections		Difference*	
	2013	2014	2015	2014	2015
World output	3.2	3.4	4.0	-0.3	0.0
Advanced economies	1.3	1.8	2.4	-0.4	0.1
United States	1.9	1.7	3.0	-1.1	0.1
Euro Area	-0.4	1.1	1.5	0.0	0.1
Japan	1.5	1.6	1.1	0.3	0.1
Developing economies	4.7	4.6	5.2	-0.2	-0.1
Emerging and developing Asia	6.6	6.4	6.7	-0.2	-0.1
China	7.7	7.4	7.1	-0.2	-0.2
India	5.0	5.4	6.4	0.0	0.0
Latin America and the Caribbean	2.6	2.0	2.6	-0.5	-0.3
Middle East, North Africa, Afghanistan and Pakistan	2.5	3.1	4.8	-0.2	0.2
Sub-Saharan Africa	5.4	5.4	5.8	0.0	0.2
South Africa	1.9	1.7	2.7	-0.6	0.0

* Difference between July and April 2014 forecasts

Source: IMF World Economic Outlook July 2014

The latest economic indicators in the **Euro Area** remained unchanged from the April 2014 IMF World Economic Outlook (WEO) report. Growth is expected to remain uneven within the area with Italy and France's economic outlook being revised to 0.3 and 0.7 per cent respectively. Financial conditions in the area have eased with inflation coming in at below expectations in April 2014. However the Euro area continues to suffer from financial market fragmentation and high unemployment rates as a result of fiscal headwinds. Following two calendar years of contraction the Euro area is expected to return to positive growth, growing at 1.1 and 1.5 per cent in 2014 and 2015 respectively. High debt and tight credit conditions will continue to weigh on economic activity.

Economic indicators in **Asia** were also not promising. Projected growth in India remained unchanged (projected to be 5.4 and 6.4 per cent in 2014 and 2015 respectively) whilst the world's second largest economy, China is now expected to grow at 7.4 per cent, a 0.2 per cent cut from previous predictions. An effort to reign in credit growth in China led to the fall in domestic demand resulting in the downward revision.

The uneven growth pattern in the global economy can also be seen in the **emerging market** group of economies. The economic outlook of these countries was downgraded by 0.2 per cent to 4.6 per cent for 2014. Latin America also experienced

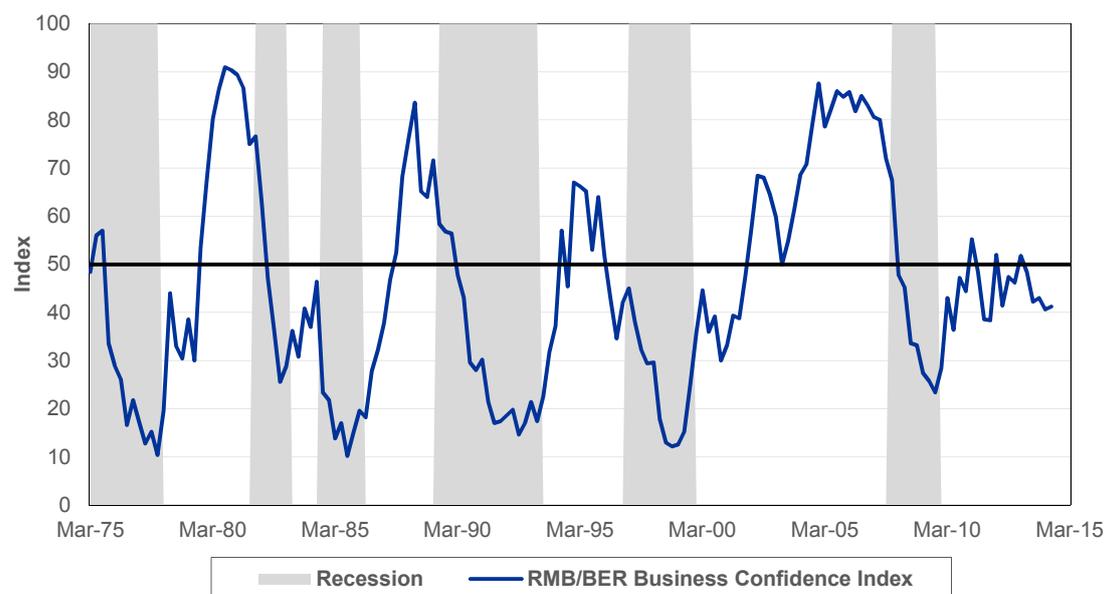
a downward revision by 0.5 per cent to 2.0 per cent in 2014. The Russian economy is expected to grow at only 0.2 per cent per cent this year. Massive capital flight and geopolitical tensions have been highlighted as the cause of the 1.1 percentage cut from the previous forecast of 1.3 per cent. It is projected that investment in Russia will remain weak for a long time, thus accounting for an expected growth of only 1.0 per cent in 2015.

The economic outlook for sub Saharan Africa remained unchanged. Countries with external vulnerabilities may however experience a reversal in capital flows in the event of there being a reversal in financial market sentiments. South Africa's growth forecast in respect of 2014 was revised downwards from 2.3 per cent to 1.7 per cent. This sluggish growth projection for the country is a result of labour strikes, electricity constraints and weak global demand.

In summary, the IMF has warned that weaker US growth and slower demand in emerging market economies will have a negative impact on world economic growth. Furthermore, higher geopolitical risks, the Ukraine crisis and risks of oil price increases could place growth under additional pressure. Despite all these downgrades the economic outlook for 2015 remains unchanged as stronger economic growth is expected. According to the WEO report global growth is expected to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015 from 3.2 per cent in 2013. It is expected that the global recovery will regain strength in the second half of 2014.

The **South African** economy is currently going through a difficult period. It is experiencing a number of challenges which includes the slowing down of economic growth, reflected by a 0.6 per cent economic contraction in the first quarter of 2014. The previous 2014 economic growth forecast for South Africa has been downgraded by a number of local and international institutions following growing economic challenges. The SA Reserve Bank has thus also downgraded the forecasted economic growth for 2014 from 2.1 per cent to 1.7 per cent. The World Bank has also revised South Africa's economic growth forecast for 2014 downwards to 2 per cent from an earlier forecast of 2.7 per cent. Persistent labour strikes caused mining production to decrease by 6.5 per cent year-on-year in May 2014 and contributed to renewed weakness in the manufacturing sector. The poor performance in mining production was driven by a decline in Platinum Group Metals (PGM) mining production and due to suppressed commodity prices.

Some of the economic challenges facing the economy include the weakening of the rand, the increasing inflation rate, the growing unemployment rate and poor levels of business and consumer confidence. The RMB/BER Business Confidence Index remained unchanged at 41 in the second quarter of 2014. The index has remained below its long term average of 45.12 for the period 1975 to 2014 (see Figure 2.1). The index is less than encouraging reflecting as it does domestic concerns and how unhappy respondents are with current economic conditions. On the other hand, though not indicated in Figure 2.1), the consumer confidence index recovered from -6 to 4 points in the second quarter of 2014; however, it remains below its long-term average.

Figure 2.1 The RMB/BER Business Confidence Index

Source: BER June 2014

Growth over the expansion period 2000 - 2007 trended at 4.3 per cent per annum declining to 1.2 per cent per annum over the recessionary period 2008 - 2009 and recovering to 2.7 per cent per annum over the period 2010 - 2013. Table 2.2 shows the economic growth outlook for the South African economy. During the forecast period 2014 - 2019 it is expected that the construction sector will grow the fastest, with growth averaging 3.7 per cent per annum. Forecast growth in the transport, storage and communication sector coupled with the finance, insurance, real estate and business services sector are forecast to also positively influence overall growth, each growing at 3.4 per cent per annum. The forecast growth of the general government of 2.1 per cent is noticeable albeit downgraded from previous forecast due to the tighter fiscal position. Overall real GDP growth has been downscaled substantially, currently forecast to average 2.6 per cent per annum, 2014 - 2019.

A key development (from the middle of 2011) and reason for slower forecast growth has been the slowdown in consumer spending. The sector has been the backbone of the economic recovery in the country in the aftermath of the global financial crisis. Consumer spending lost momentum due to rising inflation, weaker real disposable income and slow economic growth; interest rates also began rising in the first quarter of 2014. Fixed investment spending is also a driver of growth and its outlook has been downscaled due to the poor domestic demand conditions and low business confidence levels.

Table 2.2 South Africa sectoral economic growth outlook: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 – 2019
Agriculture, forestry and fishing	2.3	1.9	2.8	2.3	1.9	2.2	2.2	2.2
Mining and quarrying	3.1	0.8	1.7	1.0	0.6	0.8	0.9	1.0
Manufacturing	0.8	1.8	2.6	2.3	2.0	2.2	2.3	2.2
Electricity, gas and water	-0.4	1.1	2.5	2.4	2.5	2.7	2.8	2.3
Construction	2.8	3.4	3.3	3.4	3.7	4.0	4.1	3.7
Wholesale and retail trade, catering and accommodation	2.2	1.0	3.2	2.8	2.6	2.7	2.8	2.5
Transport, storage and communication	1.9	2.7	3.5	3.4	3.6	3.6	3.8	3.4
Finance, insurance, real estate and business services	2.4	1.9	3.6	3.5	3.8	3.9	4.0	3.4
Community, social and personal services	1.8	1.6	2.6	2.1	1.9	2.1	2.2	2.1
General government	1.5	1.6	2.3	1.9	2.1	2.2	2.3	2.1
Total	1.9	1.7	3.0	2.7	2.7	2.8	2.9	2.6

Source: BER/Quantec Research 2014

Year-on-year headline inflation increased in 2014Q2 to 6.5 per cent from 5.9 per cent in 2014Q1. Despite the lowering of growth forecasts the inflation outlook remained unchanged. It is expected that headline inflation will decrease to 6.4 per cent in the third quarter and further decrease to 6.3 per cent in 2014Q4, remaining outside the SARB target range. Headline inflation forecast for 2015 was adjusted to 5.7 per cent and for 2014 to 6.3 per cent (see Table 2.3). The rand dollar exchange has come under pressure depreciating by more than 40 per cent since the beginning of 2012. Global and domestic factors, such as the Marikana strike (August 2012) and a widening current account deficit, have been major contributors to the weakening of the rand.

Table 2.3 South Africa: forecast of inflation, interest rates and the rand exchange rate, 2014 - 2015

Financial variable	2012	2013	2014f	2015f
CPI inflation (average)	5.70	5.70	6.30	5.70
Prime overdraft interest rate (eop)	8.50	8.50	9.50	10.00
Rand/\$ exchange rate (eop)	8.64	10.47	10.70	10.95
Rand/€ exchange rate (eop)	11.32	14.36	14.10	13.75

eop: end of period

Source: BER

The **Western Cape** economy grew at a rate of 2.1 per cent during calendar year 2013 compared to 1.9 per cent for the country as a whole. The contraction in output in the mining sector weighed down on national growth. Although the Province was not able to reap the rewards from increases in mining activity in the second half of the year, it did benefit from growth in the manufacturing sector (which accounts for 17 per cent of overall GDP).

Table 2.4 shows the sectoral growth and employment trends in the Western Cape economy. While growth trended at 3.9 per cent per annum (2000 - 2013) it decelerated sharply during the recession years (2008 - 2009) to 1.7 per cent. Over the current years of the expansion phase (2010 - 2013) GDP growth has averaged 2.9 per cent per annum, well below its growth trend. The expansion of the wholesale and retail, catering and accommodation sector is notable, with the sector growing above average at 3.7 per cent per annum. Also notable is the growth in general government (3.4 per cent) and the growth in the finance, insurance, real estate and business services sector.

The rate of employment creation within the Western Cape followed national trends. Whereas the rate of employment creation in the Western Cape trended at 0.4 per cent it contracted to 0.3 per cent during the recession years (2008 - 2009). Unfortunately the rate of employment creation has not been restored during the recovery years (2010 - 2013). The contractions in the agriculture, forestry and fishing sector (2.0 per cent per annum), the construction sector (5.8 per cent per annum) and the manufacturing sector (1.0 per cent per annum) are major causes for concern.

Table 2.4 Western Cape economy sectoral growth and employment (formal and informal): 2000 - 2013

	Real GDP growth (yoy %)				Formal and informal employment (yoy % change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	2.0	1.1	8.2	0.8	-2.0	-0.9	-6.3	-2.0
Mining and quarrying	-1.2	-0.5	-7.4	0.5	1.3	0.7	1.6	2.6
Manufacturing	2.4	3.8	-3.3	2.6	-2.2	-2.1	-4.6	-1.0
Electricity, gas and water	2.5	4.2	-1.6	1.1	2.6	6.6	-12.5	2.0
Construction	6.5	9.1	5.5	1.7	-2.5	-0.9	-2.6	-5.8
Wholesale and retail trade, catering and accommodation	4.2	5.7	-0.6	3.7	0.9	1.3	0.8	0.3
Transport, storage and communication	4.7	6.6	2.0	2.4	1.6	0.0	5.8	2.8
Finance, insurance, real estate and business services	5.5	7.0	3.9	3.3	3.3	4.9	-0.2	1.9
Community, social and personal services	2.9	3.9	1.4	1.7	2.0	2.7	4.7	-0.5
General government	2.5	1.6	4.3	3.4	2.1	2.4	2.7	1.0
Total	3.9	5.0	1.7	2.9	0.4	0.9	-0.3	-0.1

Source: Quantec Research 2014

Table 2.5 shows the outlook for real economic growth in the Province. Real GDP is forecast at a similar rate in 2014 compared to 2013 (i.e. 2.1 per cent) and expected to accelerate to a real growth rate of 3.1 per cent in 2015. Real GDP is forecast to grow at an average growth rate of 3.0 per cent per annum over the period 2014 - 2019. The tertiary sector is expected to drive economic growth, with growth averaging 3.1 per cent per annum. Services such as transport and communication and finance and insurance and business services are expected to grow at above-

average rates, as well as construction. The Provincial Government highlighted its commitment towards achieving sustained economic growth. The 2014 Budget Statement highlighted the four core objectives of Government, i.e. a commitment to promoting economic growth, increasing employment, improving the quality of public education and healthcare, and reducing poverty within the Western Cape. From Table 2.4 it is clear that the employment creation objective remained elusive during the economic recovery (2010 - 2013), with overall employment in the Province continuing to contract, particularly in construction, agriculture and manufacturing.

Table 2.5 Western Cape economy: Real GDP growth forecast: 2014 - 2019

Sector	2013e	Forecast						2014 - 2019
		2014f	2015f	2016f	2017f	2018f	2019f	
Agriculture, forestry and fishing	2.6	2.3	1.9	1.5	1.6	1.7	1.6	1.8
Mining and quarrying	1.3	1.2	1.1	0.8	1.7	1.8	1.8	1.4
Manufacturing	0.5	2.2	2.4	2.3	2.4	2.4	2.5	2.4
Electricity, gas and water	1.6	1.5	2.1	2.1	2.2	2.2	2.2	2.1
Construction	3.2	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	2.4	1.2	3.0	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	2.1	3.0	3.6	3.7	3.9	3.7	3.9	3.6
Finance, insurance, real estate and business services	2.5	2.2	3.8	3.6	3.8	3.9	3.8	3.5
Community, social and personal services	2.2	2.1	2.4	2.1	1.9	2.4	2.2	2.2
General government	2.4	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Total	2.1	2.1	3.1	3.0	3.1	3.2	3.3	3.0
Primary sector	2.6	2.2	1.9	1.5	1.6	1.7	1.6	1.7
Secondary sector	1.1	2.5	2.7	2.7	2.7	2.8	2.9	2.7
Tertiary sector	2.4	2.0	3.3	3.2	3.4	3.4	3.5	3.1

Source: Quantec Research 2014

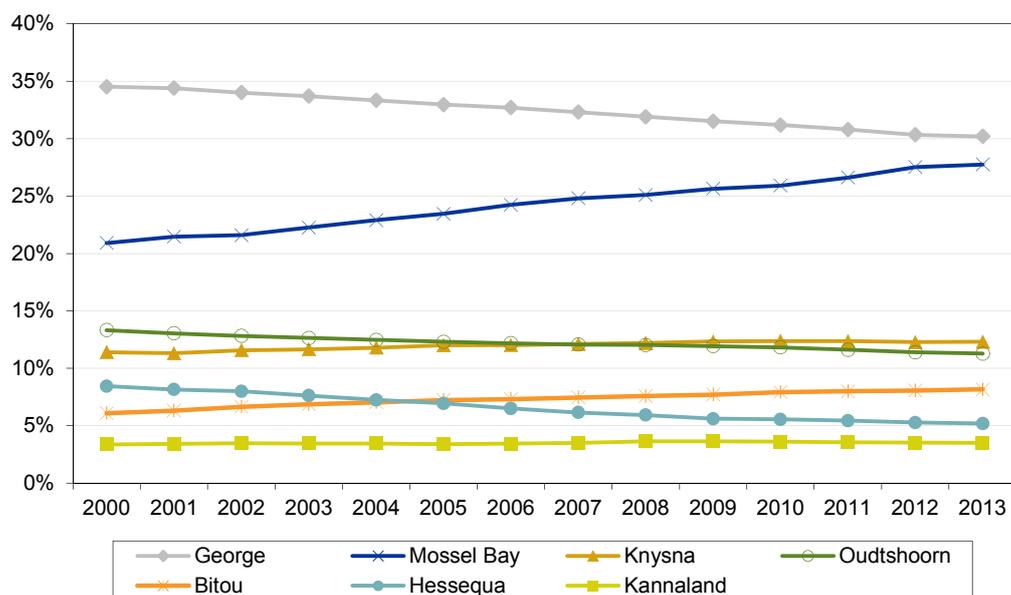
2.3 The Eden District economy

In line with the downward revision of the global economic outlook and the substantial downward revision of the outlook for growth nationally and in the Province, the Eden District GDP growth forecast for the period 2014 - 2019 has been reduced to 3.6 per cent per annum, from 4.3 per cent per annum at the time of the 2013 MERO study (for the period 2012 - 2017). The growth performance of the District (2.5 per cent) was above that recorded for the Western Cape Province (2.1 per cent) in 2013. The Eden District economy is the third largest in the Province (after the Cape Metro and Cape Winelands) contributing an average of 8 per cent of the Western Cape GDP in 2013. A notable feature of the District is that it hosts 4 of the Province's top-10 leading growing non-metropolitan municipalities, i.e. Mossel Bay, George, Bitou and Knysna municipalities, which contributed 28 per cent, 30 per cent, 8 per cent and 12 per cent to GDP in 2013 respectively. Furthermore, more than three quarters of workers within the District are employed within these municipal economies (135 790 workers). The Eden District is well known for its strong services sector and competitive advantage in the tourism sector. The historical growth of economic sectors within the District is considered in the following section.

2.3.1 Historical growth and employment trends

As noted, the District hosts four of the Province's top ten leading and growing municipalities (Mossel Bay, George, Bitou and Knysna). Figure 2.2 shows the rising contribution made by Mossel Bay Municipality to the Eden District GDP. The contributions made by Bitou and Knysna have also increased slightly over the period 2000 – 2013. The contribution of the Kannaland Municipality has been fairly constant over the 2000 to 2013 period. A disappointing trend is observed in respect of Oudtshoorn and Hessequa municipalities with their total contributions being on a downward trend since 2000. The municipalities grew at 3.5 per cent and 1.3 per cent respectively over the period 2000 - 2013. The performance of the Hessequa municipal region is dependent upon its agricultural sector, which is prone to the District's climate conditions. The large George Municipality grew at a relatively robust 4 per cent per annum, which is in line with that of the wider province (3.9 per cent per annum), but lower compared to the faster growing municipalities in Eden District. Employment contributions by municipality follow similar trends compared to GDP. Of interest is the rising contribution to employment by Mossel Bay and Bitou municipalities, with growth averaging 3.4 per cent and 3.1 per cent per annum over the period 2000 - 2013. On the other hand, the contraction in employment in Hessequa (2.9 per cent per annum) is notable and a cause for concern.

Figure 2.2 GDP contribution per municipality: 2000 - 2013



Source: Quantec Research

Table 2.6 shows the sectoral composition of GDP growth and net employment creation in the Eden District economy over the period 2000 - 2013. The Eden District has not fully recovered to its trend growth rate (5.0 per cent per annum, 2000 - 2013) and has under-performed during the economic recovery thus far. During the recession years (2008 - 2009) real growth slowed to 3.0 per cent per annum and thereafter recovered to 3.8 per cent per annum over the period 2010 - 2013. This compares to 6.1 per cent per annum recorded over the period 2000 - 2007, i.e. the previous business cycle expansion.

From a sectoral perspective, the construction sector was the fastest growing sector in the region in terms of GDP growth (9.3 per cent) over the period 2000 - 2013. Its impressive average annual growth rate of 9.2 per cent during the recession ensured that overall real GDP did not contract over the period 2008 - 2009. Sustained growth of the services sectors was another supportive factor during the recession. However, job losses within the construction sector have been quite severe after 2009; retrenching 4 900 workers over the period 2010 to 2013. The Eden District economy has also got a very strong services sector that grew at 6.6 per cent per annum over the period 2000 - 2013. Another sector that grew above average during the 2000 - 2013 period is the wholesale and retail, catering and accommodation sector (5.2 per cent).

Table 2.6 Eden District GDP and employment trends 2000 - 2013

Sectors	GDP (yoy %)			Employment (net change)		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2013	2008 - 2009	2010 - 2013	2000 - 2013	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	1.2	6.8	1.5	-11 640	-3 153	-2 824
Mining and quarrying	-2.9	-4.2	1.5	-294	28	-3
Manufacturing	4.4	-1.9	4.3	-4 398	-1 385	-1 086
Electricity, gas and water	0.7	-3.6	0.9	75	-182	23
Construction	9.3	9.2	2.5	-1 741	144	-4 929
Wholesale and retail trade, catering and accommodation	5.2	0.0	5.0	5 901	941	1 132
Transport, storage and communication	4.9	1.9	2.4	1 455	590	555
Finance, insurance, real estate and business services	6.6	5.4	3.9	10 532	207	1 865
Community, social and personal services	4.7	3.4	2.7	9 883	3 444	-386
General government	4.5	6.3	5.4	10 805	1 996	3 186
Total	5.0	3.0	3.8	20 577	2 629	-2 468

Source: Quantec Research

The Eden District is the third largest employer within the Western Cape, contributing 10 per cent to total formal and informal employment in 2013 (i.e. 181 680 workers). A notable feature is that the structure of the employment has remained fairly stable over the past ten years, with the secondary sector (36 285 workers in 2013) being a larger employer than the primary sector (16 452 workers in 2013). The District recorded a contraction in its workforce over the recovery period 2010 - 2013 whilst an expansion in employment was recorded during the recession period 2008 - 2009. The largest amount of job losses during the recovery were recorded in the agriculture, manufacturing and construction sectors. The growth and employment creation of the finance and business services sector is notable, with this sector creating a total of 10 500 jobs over the period 2000 - 2013. The agricultural sector shed the largest number of jobs over the period 2000 - 2013 (see Table 2.6). Massive job losses were also recorded within the manufacturing sector (4 400) over the period 2000 - 2013. Overall, the District has experienced an expansion in its employment, due to the net employment creation in the region's services industries. The largest number of job creation was recorded in Mossel Bay and Bitou municipalities over the period 2000 - 2013.

2.3.2 The economic recovery

The impact of the recession on Eden District was relatively mild. GDP growth did not contract but rather slowed down from 5.6 per cent in 2008 to 0.3 per cent in 2009. However the impact of the recession should not be underestimated as growth receded from an average of 6.1 per cent over the period 2000 - 2007 (i.e. the previous business cycle expansion). During the recession the manufacturing industry (-1.9 per cent), the mining industry (-4.2 per cent) and the electricity, gas and water sector (-3.6 per cent) were the most severely affected. In the early years after the recession the sectors have shown signs of recovery. However, growth during the recovery period (3.8 per cent per annum) has remained well below its trend growth rate (of 5.0 per cent) and the real GDP growth of the Western Cape Province (3.9 per cent) over the period 2000 - 2013.

Table 2.7 shows the sectoral growth performance of the Eden District economy during the economic recovery (2010 - 2013) in the context of the other five Western Cape districts. The District recorded the highest GDP growth within the Province, i.e. 3.8 per cent per annum. From the table it is clear that general government (5.4 per cent) and the wholesale and retail, catering and accommodation sector (5.0 per cent) were the fastest growing sectors in the Eden District during the recovery period. Other sectors that have recorded relatively rapid growth within the District are manufacturing and the finance, insurance, real estate and business services sectors.

Table 2.7 Eden District real GDP growth in provincial perspective: 2010 - 2013 (%)

Sector	Eden District	Cape Winelands District	West Coast District	Overberg District	Central Karoo District	Cape Metro
Agriculture, forestry and fishing	1.5	-0.4	-0.1	0.6	1.2	2.2
Mining and quarrying	1.5	4	3	2.6	0.3	1.5
Manufacturing	4.3	2.1	1.9	2.6	3.9	2.7
Electricity, gas and water	0.9	2.1	-0.4	0.4	-0.4	1
Construction	2.5	1.7	1.5	2	2.1	1.5
Wholesale and retail trade, catering and accommodation	5	4.8	3.4	4.1	2.1	3.4
Transport, storage and communication	2.4	2.2	1.7	2.6	0.9	2.3
Finance, insurance, real estate and business services	3.9	3.8	5.4	5.6	3.8	3
Community, social and personal services	2.7	2.1	2	2.4	1.1	1.4
General government	5.4	4.2	3.4	3.8	3.5	2.7
Total	3.8	2.7	2.8	3.4	2.6	2.7

Source: Quantec Research

Table 2.8 Eden District employment trends in provincial perspective: 2010 - 2013

Sector	Eden District	Cape Winelands District	West Coast District	Overberg District	Central Karoo District	Cape Metro
Agriculture, forestry and fishing	-2 824	-7 266	-423	-1 398	-227	-1 451
Mining and quarrying	-3	-32	-16	-2	1	-48
Manufacturing	-1 086	-84	-546	-623	-79	-7 105
Electricity, gas and water	23	-6	11	11	1	440
Construction	-4 929	-2 863	-1 471	-1 964	-291	-18 075
Wholesale and retail trade, catering and accommodation	1 132	836	62	253	-76	3 255
Transport, storage and communication	555	507	365	258	67	6 888
Finance, insurance, real estate and business services	1 865	2 078	2 045	1 775	200	17 042
Community, social and personal services	-386	-990	-166	1	-231	-4 462
General government	3 186	2 172	501	561	16	2 546
Total	-2 468	-5 648	362	-1 129	-617	-970

Source: Quantec Research

Table 2.8 shows a sectoral breakdown of net employment creation of the Eden District and the other five districts. In comparison to other districts, the Eden District experienced the second largest net job losses over the recovery period. From the table it is clear that the construction sector, agriculture, forestry and fishing sector and the manufacturing sector continued to experience job losses across all districts.

2.3.3 Macroeconomic implications and the growth outlook

The Eden District economy's real GDP growth rate is expected to increase from 2.5 per cent in 2013 to 2.9 per cent in 2014 (see Table 2.9). The average annual GDP growth rate forecast for the period 2014 - 2019 is expected to be 3.6 per cent per annum. It is expected that the construction sector (4.9 per cent per annum) will be the highest growth sector and will be closely followed by the finance and business services sector (4.5 per cent). Other sectors expected to grow above average are the wholesale and retail trade, catering and accommodation sector (3.6 per cent), and the transport, storage and communication sector (4.3 per cent). The downgrading of the country's credit ratings, higher inflation rates, the deterioration of the current account, the weakening of the rand, the shaky business confidence and the consequent slowdown of the national economic growth rate, could slow down the Eden District economic performance. Considering its limited trade exposure, poor business and consumer confidence will impact economic growth significantly as the economy relies heavily on domestic demand.

Table 2.9 Eden District real GDP growth forecast by broad sector: 2014 - 2019

Sectors	2014	2015	Forecast				Forecast
			2016	2017	2018	2019	2014 - 2019
Agriculture, forestry and fishing	2.3	1.7	1.5	1.6	1.7	1.6	1.7
Mining and quarrying	-0.2	-0.5	-0.6	0.3	0.4	0.4	0.0
Manufacturing	3.4	3.3	3.6	3.5	3.5	3.7	3.5
Electricity, gas and water	1.0	1.3	1.6	1.7	1.7	1.7	1.5
Construction	4.5	4.6	5.1	4.9	5.1	5.1	4.9
Wholesale and retail trade, catering and accommodation	2.0	3.5	3.9	4.0	3.9	4.2	3.6
Transport, storage and communication	3.7	4.0	4.4	4.5	4.4	4.6	4.3
Finance, insurance, real estate and business services	3.3	4.6	4.6	4.6	4.9	4.9	4.5
Community, social and personal services	3.1	3.2	3.1	2.9	3.4	3.2	3.1
General government	1.8	1.9	1.9	2.0	2.2	2.4	2.0
Total	2.9	3.5	3.7	3.7	3.9	4.0	3.6

Source: Quantec Research 2014

Contrary to the poor national economic performance, the global economy is set on a growth trajectory. According to the World Bank economic outlook, global growth is projected to strengthen from 3.2 per cent in 2013 to 3.4 per cent in 2014, before reaching 4.0 per cent in 2015. Improved global growth and the weaker rand exchange rate are likely to boost inward tourism to the region.

2.4 Concluding remarks

The impact of the recession on the Eden District economy was relatively mild. GDP growth did not contract but rather slowed down from 5.6 per cent in 2008 to 0.3 per cent in 2009. The District began to show strong signs of recovery in 2010 growing at 3.4 per cent. Growth accelerated to 5.1 per cent in 2011 and tapered off to 2.5 per cent last year and is expected to average 2.9 per cent in 2014. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the Eden District has been reduced to 3.6 per cent per annum from 4.3 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been highlighted as weak global growth and domestic issues such as labour unrest.

A notable feature of the District is that it possesses a well-balanced economy and hosts 4 of the Province's top-10 leading growing non-metropolitan municipalities, i.e. Mossel Bay, George, Bitou and Knysna, i.e. municipalities which contributed more than 75 per cent to the region's GDP in 2013. The other three municipalities are smaller both in terms of contribution to GDP and employment. In terms of employment, Mossel Bay, George, Bitou and Knysna municipalities managed to create employment on a net basis over the 2000 - 2013 period. On the other hand, Hessequa suffered serious job losses over the same period. Interestingly the region experienced net job growth during the recession and net job losses over the recovery period. This is a result of the massive contraction in employment recorded within the construction sector during the recovery period (see Chapter 3). Overall, the region has experienced an expansion in employment over the period 2000 - 2013.

It is expected that growth within the Eden District will be topped by the construction sector, projected to rebound from its post-2009 slump. Other sectors expected to grow above and equal to average are the wholesale and retail trade, catering and accommodation sector, the transport, storage and communication sector and the finance, insurance, real estate and business services sectors.

3

Sectoral growth, employment and skills

3.1 Introduction

The Eden District regional economy generated 8.1 per cent of the Western Cape GDP during calendar 2013, i.e. R35 billion² of the total R431 billion and employed 181 700 workers in its formal and informal sectors. Figure 3.1 shows the sectoral composition of the regional economy, both in terms of value added and employment. From the table it is clear that the financial and business services sector and internal trade sector (each accounting for 21 per cent of GDP) are the largest sectors, with the latter-mentioned sector employing by far the largest share of the work force (i.e. 24 per cent, or 43 400 workers). A notable feature of the Eden District economy is that its structure has remained fairly stable over the past 20 years; only the relative contribution of agriculture declined from 9 to 5 per cent, whilst that of services increased from 61 to 67 per cent; the share of secondary economic activities (i.e. manufacturing, construction, water and electricity) remained constant around 27 per cent. The historical growth of the municipal economy is discussed in section 3.2 below, also in the context of the growth of the other Western Cape municipalities. The focus in this part of the analysis is on the period of economic recovery (i.e. 2010 - 2013) from the 2009 recession. The trends in the agriculture, manufacturing and services industries are analysed. Section 3.3 investigates the changing skills composition of labour demand in the formal sectors of the regional economy.

² This aggregate in respect of the Eden District includes a revised calculation of the manufacturing GDP at current prices. The original data contains an apparent incorrect GDP deflator in respect of this sector, causing an under-estimation of the size of the sector in current price terms; in constant price terms the sector contributed 17.2 per cent to GDP in 2013.

Table 3.1 Eden District value added (GDPR) and employment, 2013

Broad sector	GDPR (R million)		Employment (number)	
		%		%
Agriculture	1 801	5.2	16 100	8.9
Mining	84	0.2	300	0.2
Manufacturing	5 305	15.2	16 700	9.2
Electricity and water	788	2.3	600	0.3
Construction	3 304	9.5	19 000	10.5
Trade	7 303	20.9	43 400	23.9
Transport and communication	2 304	6.6	6 100	3.4
Financial and business services	7 364	21.1	25 000	13.8
Community, social and personal services	1 786	5.1	28 500	15.7
Government	4 905	14.0	25 900	14.2
Total	34 945	100.0	181 700	100.0

Source: Quantec Research 2014

The 2013 Municipal Economic Review and Outlook (MERO) study, applying a location quotient analysis, revealed that the catering and accommodation, retail and wholesale and business services sub-sectors – all linked to tourism; the building and construction and associated building materials manufacturing industries; the agriculture, forestry and fishing sector and its associated food and beverage processing industries and the region's wood products and furniture sectors were all industries with a competitive edge in the region, expanding faster compared to their peers on average nationally. The outlook for the sectoral growth of the municipal economy is considered in section 3.4 and some concluding remarks follow in section 3.5.

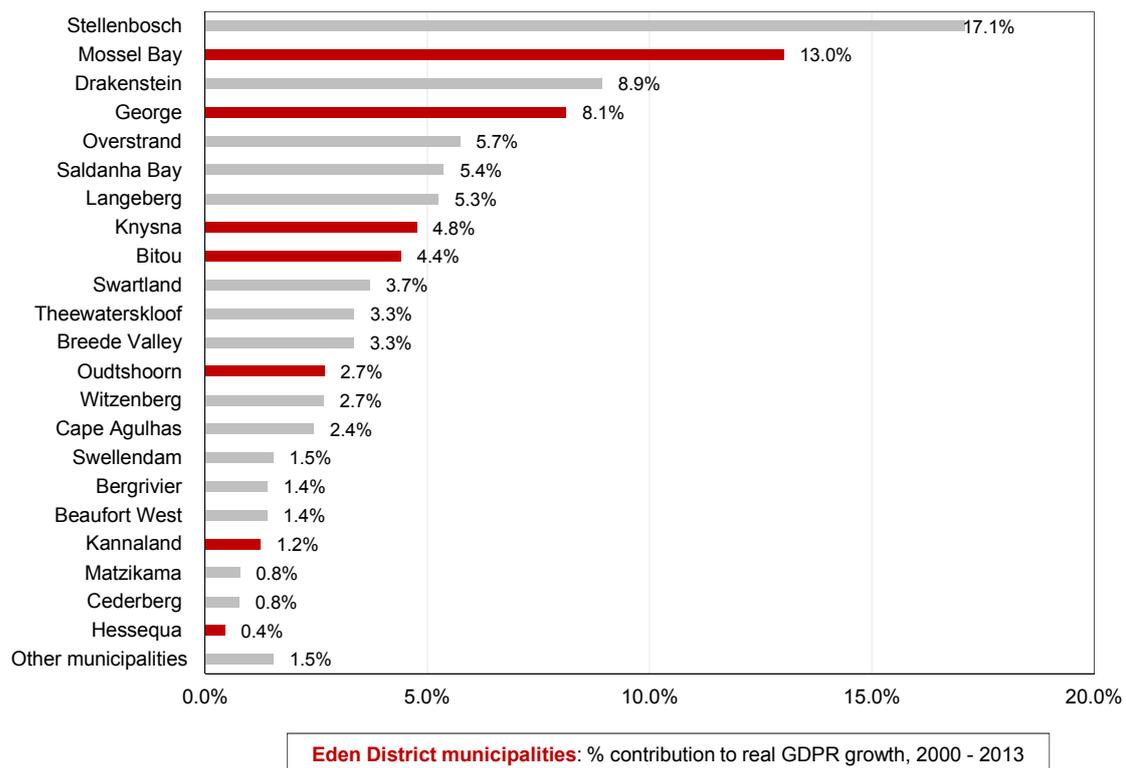
3.2 Historical growth and employment trends by sector: An update

The Eden District regional economy expanded the fastest over the 2000 - 2013 period, growing by 5.0 per cent per annum in real terms, while its workforce grew by close to one per cent per annum, i.e. adding a cumulative 20 500 new jobs over this period (see Figure 3.2). It is therefore no surprise that the District hosts four of the Province's top-10 non-metro municipalities, i.e. Mossel Bay (leading the pack), George (4th), Knysna (8th) and Bitou (9th) – see Figure 3.1. The ranking in Figure 3.1 is determined by considering both the size and growth of the municipal economies. Whilst George is the largest municipality in terms of economic value added, it has been outgrown by Mossel Bay, Bitou and Knysna. The combined contribution to real value added of the latter two municipalities, i.e. 20 per cent is, however, still smaller than the 31 per cent contribution of George (that is, considering only size). The large (27 per cent) and rapidly expanding (7.5 per cent per annum) Mossel Bay Municipality accounts for 13 per cent of the cumulative growth (2000 - 2013) of the Province's non-metro municipalities. In fact, including the George, Knysna and Bitou municipal contributions, the four leading Eden District municipalities account for no less than 30 per cent of the cumulative growth of the Province's non-metro municipalities.

Oudtshoorn (ranked 13th), Kannaland (19th) and Hessequa (22nd) account for a combined 4.3 per cent of the cumulative growth.

The *Growth Potential Study* ranked Knysna (1st out of 24 municipalities) and George (4th) above Mossel Bay (5th) as regions with *very high* growth potential. Bitou (7th) is regarded as a region with *high* development potential, while Hessequa (11th) is moved up the growth ranking as a region with *medium* potential; Oudtshoorn (17th) is regarded to possess *low* growth potential and Kannaland very low growth potential (Van Niekerk A, November 2013: 28).

Figure 3.1 Non-metro municipalities ranked according to growth and size, 2000 - 2013



Source: Western Cape Provincial Treasury/Quantec Research 2014

Figure 3.2 shows that across the broad sectors, construction was the strongest growing sector, expanding real value added by 9.3 per cent per annum over the period 2000 - 2013; however, this sector shed much of its labour in the wake of the 2009 recession, causing it to subtract from overall employment in the region over the 2000 - 2013 period. The second fastest growing sector was financial and business services, also creating employment at a rate of 4.1 per cent per annum³. The other sector, which grew above average, is the internal trade sector, i.e. wholesale, retail, catering and accommodation (5.2 per cent). The strong growth of the internal trade

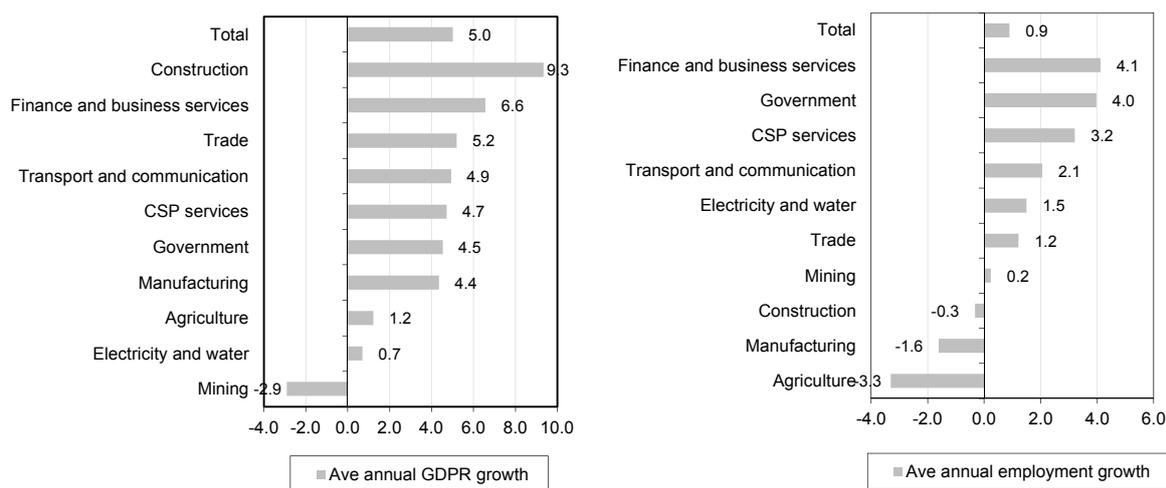
³ The business services sub-sector (18 per cent of Eden GDP) consists, *inter alia*, of legal, bookkeeping and auditing services, tax consulting, market research and business consulting. It is the dominant sector and not finance and insurance (6.0 per cent of GDP). Considering the contribution to real value added growth in Eden District, this sector accounted for 21 per cent of the cumulative growth, 2000 - 2013; the finance and insurance sector grew somewhat faster on average and contributed 9 per cent.

sector is notable and reflect the impact of the flourishing tourism sector in the region, very similar to the situation in the Cape Winelands. The transport and communication sector expanded at 4.9 per cent per annum, i.e. close to the average regional growth rate.

As noted in the 2013 MERO study, the growth of the manufacturing sector (4.4 per cent per annum) is an exception to the rule in the Western Cape Province, with the region's light industries making headway alongside the Mossel Bay petro-chemical complex. Apart from the rapid growth of the latter, industries ranging from clothing and textiles to metals and engineering, scientific equipment and automotive grew above average growth rates, which is heartening. The disappointing factor is the fact that the aggregate sector continued to shed jobs on balance over the 2000 - 2013 period.

The high growth of the community, social and personal (CSP) services and government sectors (4.7 and 4.5 per cent per annum respectively) should also be noted; these sectors also added to employment. The marginal growth of the agriculture, forestry and fishing sector (1.2 per cent per annum) should be noted as a positive factor in the Province. However, regarding employment creation the contractions in the agricultural (3.3 per cent per annum), manufacturing (1.6 per cent) and construction (0.3 per cent) workforces are notable and cause for concern. In all, more than 17 800 job opportunities were lost in these three sectors over the period 2000 - 2013. The most worrying aspect is that three quarters of these net job losses occurred during the recessionary years of 2008 - 2009 and during the economic recovery period, 2010 - 2013; in fact, half of them occurred during the latter-mentioned period (mostly in construction). More analysis follows below.

Figure 3.2 Eden District average real economic and employment growth by broad sector, 2000 - 2013



Source: Quantec Research 2014

3.2.1 The economic recovery, 2010 - 2013

The national and provincial economies began recovering from the 2009 recession during the third quarter of that year. The Eden District economy recovered from a 0.3 per cent real growth rate in 2009 to growth of 3.4 per cent and 5.2 per cent in the subsequent two calendar years, before growth decelerated again to a more modest 2.5 per cent in 2013. This deceleration of the growth momentum since 2011 was in line with the slowdown in the global and national economies (South Africa also registered a real GDP growth rate of 1.9 per cent during 2013). As shown in Table 3.2, real GDP growth has averaged 3.8 per cent per annum in Eden District over the current recovery phase of the business cycle (2010 - 2013), below the trend growth tempo registered over the 2000 - 2013 period, but the fastest in the Province (which grew by 2.9 per cent per annum). The slower growth momentum over the 2010 - 2013 period points to the lingering impact of the global recession in 2009.

A most unusual feature of the economic growth and employment performance in the Eden District, is the fact that the period of economic recovery (2010 - 2013) witnessed net job losses whilst the recession period itself (2008 - 2009) witnessed net job growth. For some reason the construction sector shed a massive 4 900 employment opportunities during the 2010 - 2013 period, i.e. a fifth of its pre-recession work force. This reflects the slump in the residential and non-residential property sectors in the Eden District region as a result of the recession. Construction activity grew at a rapid 14 per cent per annum in the five-year period leading up to the recession and the property sector became overheated. The subsequent recovery has also been slow (2.5 per cent per annum). The property boom lasted into calendar year 2009 and apart from that, the less cyclical services sector sustained its growth and added to employment, which explains the net employment creation during the recession years.

Table 3.2 Eden District: Growth and employment, 2000 - 2013

Sector	Net employment (number)			Real GDP growth (ave yoy%)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-11 640	-3 150	-2 820	1.2	6.8	1.5
Mining and quarrying	-290	30	00	-2.9	-4.2	1.5
Manufacturing	-4 400	-1 390	-1 090	4.4	-1.9	4.3
Electricity, gas and water	70	-180	20	0.7	-3.6	0.9
Construction	-1 740	140	-4 930	9.3	9.2	2.5
Wholesale and retail trade, catering and accommodation	5 900	940	1 130	5.2	0.0	5.0
Transport, storage and communication	1 460	590	560	4.9	1.9	2.4
Finance, insurance, real estate and business services	10 530	210	1 860	6.6	5.4	3.9
Community, social and personal services	9 880	3 440	-390	4.7	3.4	2.7
General government	10 800	2 000	3 190	4.5	6.3	5.4
Total	20 580	2 630	-2 470	5.0	3.0	3.8

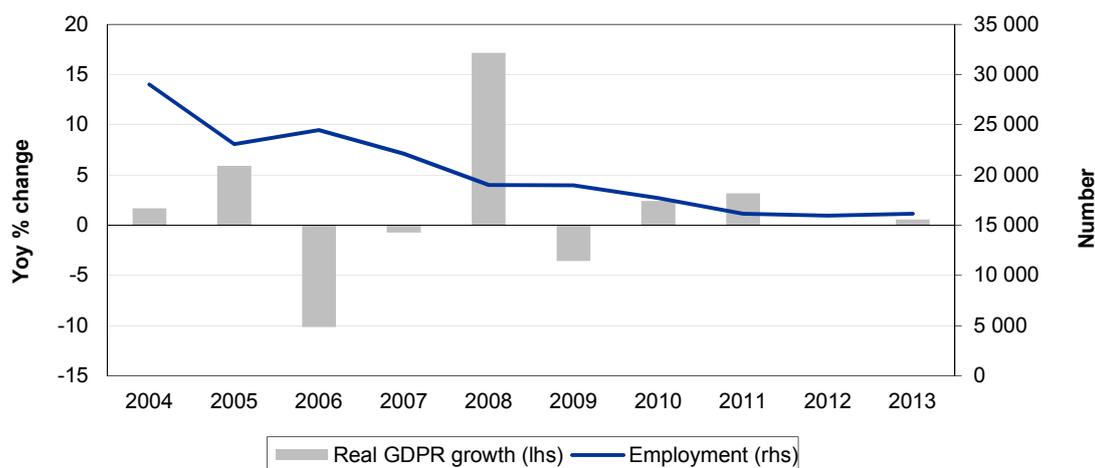
Source: Quantec Research 2014

Combined with the construction sector net job losses during the economic recovery period, the agriculture, forestry and fishing sector (2 820), manufacturing (1 090) and community, social and personal services sector (390) also shed jobs, which overshadowed the net employment gains in the predominantly services sectors, resulting in an overall cumulative 2470 net job losses, i.e. at a rate of 0.3 per cent per annum. The result is that the overall level of employment in Eden District last year stood 4 per cent below its pre-recession level in 2008. The sectoral growth and employment trends are discussed in more detail in section 3.2.2 below. The fact that the local labour market deteriorated so sharply during the first four years of the recovery is very disappointing. This also happened despite the positive growth in agriculture, manufacturing and construction real GDP.

3.2.2 Agriculture, manufacturing and services – municipal economic growth performances

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is shown in Table 3.2 that the wholesale, retail, catering and accommodation sector was the strongest growing sector, expanding by 5.0 per cent per annum close to this sector's trend growth rate of 5.2 per cent per annum. This relatively strong recovery growth reflects the stimulus from tourism activity, which benefited in the wake of the global recession and due to the depreciation of the rand exchange rate. The Eden District's internal trade sector also grew strongly, most likely also linked to the impact of tourism (see Chapter 4 for a more in depth analysis of the tourism value chain in Eden District). The manufacturing sector grew by 4.3 per cent per annum, rebounding from the severe recession impact. The financial and business services sector also expanded at a relatively rapid growth rate of 3.9 per cent per annum; however, this performance is way down from the 8.3 per cent per annum growth rates registered previously (2000 - 2008). From Table 3.2 it is also clear that the government sector expanded quite rapidly in the wake of the recession, growing by 5.4 per cent per annum; it is not altogether clear if this growth is sustainable.

Table 3.2 shows the well-dispersed growth of the Eden District economy during the recovery, even the relatively low growth of the agricultural sector (1.5 per cent per annum) is on a par with its historical trend and moderately better than other provincial districts. The only downside regarding the sector growth performance in the region during the economic recovery has been the deep job cuts in the construction sectors and – to a lesser extent – in agriculture and manufacturing alluded to above. The sectoral growth and employment performances per municipality are discussed in more detail below.

Figure 3.3 Eden District: Agriculture real GDP growth and employment, 2004 - 2013

Source: Quantec Research 2014

In Table 3.1 it was seen that the agriculture, forestry and fishing sector generated 5.2 per cent of Eden District value added (or GDP) in 2013, which translates to R1.8 billion. The sector employed 8.9 per cent of the regional workforce, i.e. 16 100 workers. While agriculture, fishing and forestry form part of most municipalities, the leading coastal municipalities of George, Mossel Bay, Knysna and Bitou have diversified their economies away from these sectors. The remaining agricultural centers are located in Hessequa (Albertinia, Riversdale and Heidelberg), Kannaland (Calitzdorp, Ladismith), Oudtshoorn (Volmoed), Uniondale (outside the town of George) and Herbertsdale (outside Mossel Bay). The *Growth Potential Study* rates all these agricultural centres as regions with low developmental potential, except Albertinia is rated with medium potential. The regional growth centers are in the four leading municipalities, however, the economic expansion is occurring outside agriculture, forestry and fishing. The agriculture, forestry and fishing sector real value added only recovered moderately following the contraction in 2009, which is in line with the sector's trend performance over the past decade. Figure 3.3 shows that steep job cuts occurred in the sector over the past decade, but that the level of employment may have stabilised.

Table 3.3 Eden District: Agriculture growth and employment by municipality, 2000 - 2013

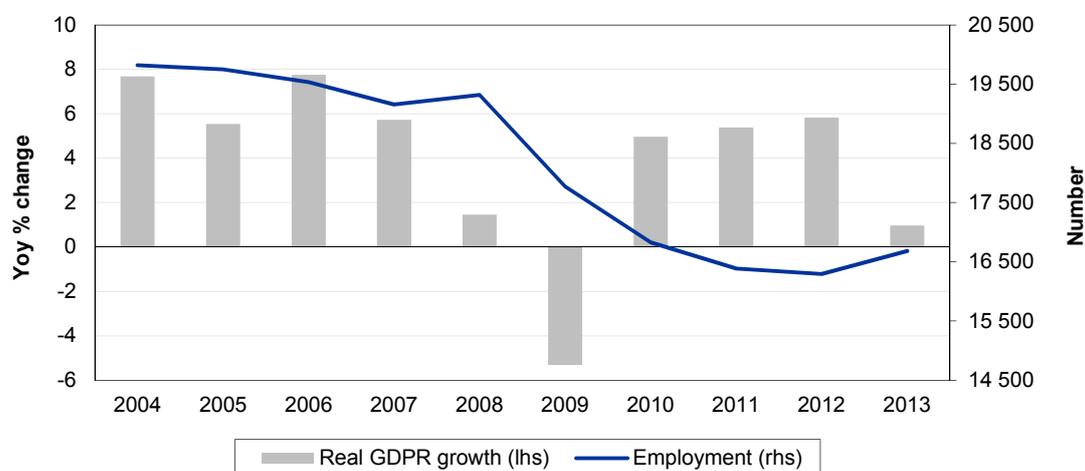
Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Kannaland	13.3	1.1	-0.2	13.1	-1 430	-420
Hessequa	14.9	-1.8	1.2	13.5	-3 320	-280
Mossel Bay	15.4	4.4	1.4	16.5	-550	-340
George	17.1	1.0	0.4	16.4	-2 010	-590
Oudtshoorn	13.2	0.5	0.6	16.0	-1 750	-200
Bitou	6.6	5.3	5.7	6.1	-250	-200
Knysna	10.9	6.1	6.9	7.8	-740	-790
Former Eden DMA	8.6	-1.0	0.8	10.7	-1 600	-10
Total	100	1.2	1.5	100	-11 650	-2 820

Source: Quantec Research 2014

Table 3.3 shows that the agricultural sector is well diversified geographically in Eden District. Whilst Hessequa and Kannaland generate only 15 and 13 per cent respectively of agriculture real value added in Eden District, this sector accounts for 15 and 20 per cent of their respective economies, reflecting the agricultural nature of these regions. However, the region is dependent upon the development of new sectoral activities. Agri-tourism has become a growth sector (e.g. ostrich farm trails, eco-farms, farmers' markets, etc.). Important agricultural commodities produced in Eden District include dairy, livestock, wheat, barley, canola, vegetables and olive oil. The agricultural sector has close forward linkages to the manufacturing and other services industries in the various districts.

From a growth perspective, conditions appear to have been expanding steadily, with most municipal areas making a steady and positive contribution. Some contraction was reported in Hessequa and Kannaland, both being agricultural regions. In contrast to this relatively positive output conditions, the tendency in agricultural employment is very negative, with the rate of retrenchments accelerating close to 4 per cent per annum during the economic recovery years, from a trend pace of -3.3 per cent per annum. It is to be hoped that the negative employment trend will be arrested as the outlook for the sector remains promising. However, the outlook for field crops such as wheat and barley is not as positive, expected to lose relative economic value; while that for livestock, dairy and vegetables are stable (Provincial Treasury, March 2014: 22).

Figure 3.4 Eden District: Manufacturing real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

The manufacturing sector contributed 15 per cent of Eden District value added (or GDP), i.e. R5.3 billion of the total R35 billion, during last year (see Table 3.1). Eden District's manufacturing sector has been part of the regional growth story. While not entirely expanding at the rate the region has been doing, the sector's share in the region's output has only moderated from 19 per cent 10 years ago to 17 per cent currently (or from 18 to 15 per cent in current price terms).

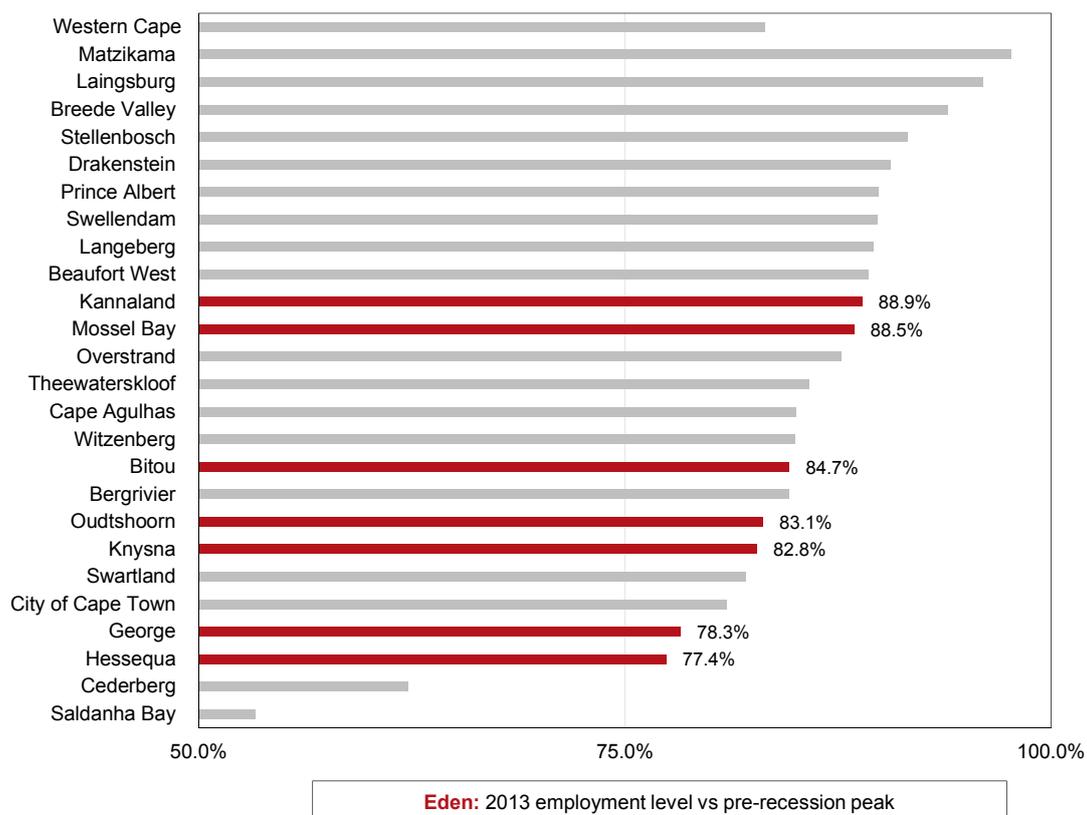
Table 3.4 Eden District: Manufacturing growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Kannaland	3.9	5.8	2.0	4.7	80	-60
Hessequa	4.9	2.7	2.8	6.0	-380	-80
Mossel Bay	41.8	6.7	7.8	25.1	-500	-140
George	23.8	2.2	2.3	29.5	-2 400	-250
Oudtshoorn	9.8	2.8	1.5	12.8	-820	-140
Bitou	6.1	7.0	2.1	7.6	210	-160
Knysna	8.4	2.8	1.8	12.3	-620	-240
Former Eden DMA	1.3	7.0	4.1	2.0	40	-10
Total	100.0	4.4	4.3	100.0	-4 400	-1 100

Source: Quantec Research 2014

The recession had a major adverse impact during 2008 - 2009, but the sector rebounded reasonably well thereafter. By 2013 the level of real GDP was 12 per cent above its pre-recession peak (in 2008). However, as Figure 3.5 shows Eden District municipal manufacturing employment levels remained between 11 - 22 per cent below their pre-recession peaks (i.e. 2008). All municipalities continued to retrench labour on balance in this sector over the economic recovery period 2010 - 2013.

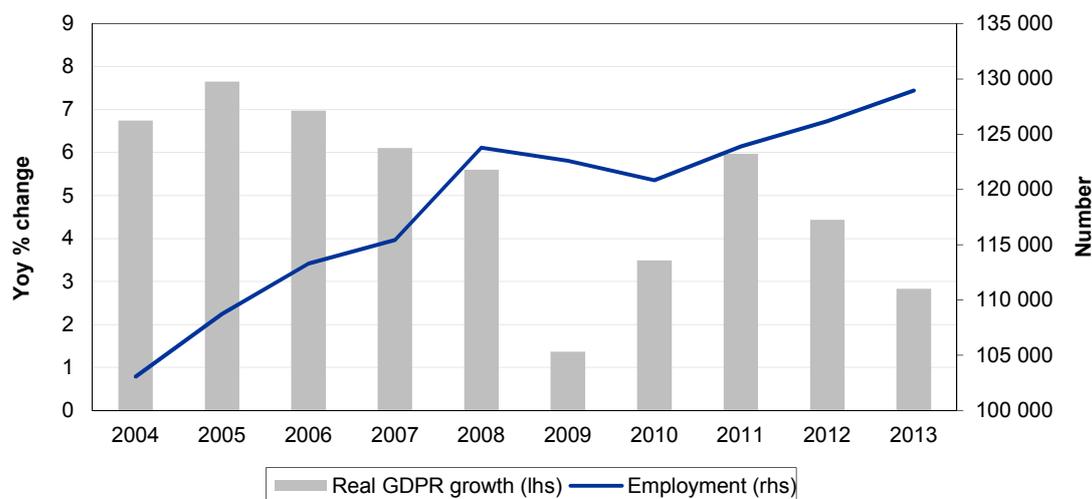
In Table 3.4 it is shown that two thirds of Eden District's manufacturing sector is located in the two leading municipalities, i.e. the Mossel Bay (42 per cent) and George (24 per cent). Beyond the borders of these two regions, the sector is well diversified, with Oudtshoorn (10 per cent) and Knysna (8 per cent) being the next most meaningful contributors. Regarding the growth of the sector, which has been above average in the Province, Mossel Bay clearly makes the leading impact, both due to its size and rapid growth (close to 7 per cent per annum and accelerating close to 8 per cent per annum, 2010 - 2013). In contrast, the growth of the George manufacturing sector has been rather pedestrian at 2.2 per cent per annum, also during the economic recovery and with this municipal manufacturing sector shedding more than half of all jobs lost in the region in the manufacturing sector over the period 2000 - 2013. The growth in the Mossel Bay manufacturing sector also appears to be capital intensive as the region continued to shed jobs despite real value added growth accelerating to 8 per cent per annum. Other municipal manufacturing sectors expanding rapidly in the Eden District, include Bitou (7 per cent per annum) and Kannaland (5.8 per cent); however, growth receded to a 2 per cent pace during the economic recovery period, 2010 - 2013. In fact, outside Mossel Bay, the recovery growth in the sector has been rather muted and worker retrenchments continued, which is most worrying.

Figure 3.5 Western Cape municipalities: Employment recovery in manufacturing, 2010 - 2013

Source: Quantec Research 2014

Figure 3.5 shows that the Eden District municipal manufacturing sectors did not perform well in a provincial context in terms of maintaining their work forces at the time and beyond the recession impact. The Eden District municipalities retained/rebuilt only between 78 per cent (Hessequa and George) and 89 per cent (Kannaland and Mossel Bay) of their pre-recession work forces by the end of last year, i.e. four years into the general economic recovery, which is quite disturbing and reflective of the recession impact on this sector in a region which otherwise came off relatively unscathed.

In all, the manufacturing growth of the Eden District municipalities has generally been above average. It is concentrated in Mossel Bay though, particularly since the recession impact; and across all municipalities in the region the manufacturing employment creation performances were poor. The rather pedestrian manufacturing growth in the large George Municipality, for instance, is also a reflection of the diversification away from manufacturing to services in this municipal economy – see below.

Figure 3.6 Eden District: Services sector real GDP growth and employment, 2004 - 2013

Source: Quantec Research 2014

Table 3.1 shows that the services sector, ranging from wholesale and retail activities to financial and business services and the general government, contributes two thirds (or R24 billion of the total R35 billion) of value added generated in Eden District. The services economy of Eden District is concentrated in the large George Municipality (contributing a third of services value added), obviously with substantial linkages to the manufacturing base of Mossel Bay, in turn, also sustaining a vibrant services sector (contributing a quarter of service value added in Eden District) – see Table 3.5. Knysna (13 per cent) also makes a relatively large contribution; however, beyond these municipalities, the services economies are relatively small. The concentration tendencies attest to the economic rationale of agglomeration.

Table 3.5 Eden District: Services sector growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Kannaland	2.8	6.7	4.5	2.6	1 200	180
Hessequa	4.6	2.1	2.0	5.2	-630	-190
Mossel Bay	25.0	7.9	6.0	23.6	15 910	3 230
George	33.0	4.4	3.1	29.9	7 030	1 010
Oudtshoorn	12.1	3.8	2.8	14.0	2 750	-30
Bitou	8.6	8.0	6.5	9.6	6 000	1 250
Knysna	12.8	5.8	4.3	13.9	6 020	830
Former Eden DMA	1.3	6.5	5.4	1.2	290	70
Total	100	5.4	4.2	100	38 600	6 350

Source: Quantec Research 2014

The two leading sub-sectors in services are financial and business services and internal trade, i.e. wholesale, retail, catering and accommodation, with each broad sector generating R7.3 billion in value added. The general government follows with R4.9 billion contributed to value added. The region's services industries employ 128 950 of the workforce in the region (181 700), i.e. more than 70 per cent. More than half of this employment has been created in the George and Mossel Bay municipalities; in fact, two thirds of the job growth in services during the economic recovery is accounted for by these two municipalities and the other third by Bitou and Knysna (with tourism possibly being a key driver in the latter-mentioned two municipalities).

In line with the experience in the wider province, Figure 3.6 shows that the Eden District services sector expanded at high rates (averaging 6½ per cent per annum) over the period 2004 - 2008 and that average growth has tapered off in the wake of the 2009 recession. Real value added growth averaged 4.2 per cent per annum during the period of economic recovery, i.e. 2010 - 2013, which compares to a trend growth rate of 5.4 per cent per annum and the high growth of the 2004 - 2008 period. The initial years of the economic recovery was characterised by a reasonable rebound with growth coming in at 6 per cent in calendar 2011; however, since then it has tapered down markedly to slightly below 3 per cent in 2013.

The services sector has been the strongest in terms of employment creation in the region, with a cumulative 6 350 job opportunities being created during the economic recovery years (at a growth rate of 1.3 per cent per annum). This is down on the trend employment growth rate of 3.1 per cent per annum (2000 - 2013) and, as noted, the employment creation was concentrated in the Mossel Bay and George municipalities. Figure 3.6 shows that, apart from some recessionary decline during 2009 - 2010, the level of services employment expanding from 103 000 ten years ago to 128 950 last year.

From a real value added growth perspective, the Bitou services sector expanded fastest during the economic recovery (6.5 per cent per annum), followed by Mossel Bay (6 per cent), Kannaland (4.5 per cent) and Knysna (4.3 per cent); these municipalities also have the highest trend growth rates in services in the Eden District. This high growth is quite remarkable in the context of the slower growth in this sector in the wider province and even nationally around 3 per cent per annum. The sub-sector, which has out-performed over this period in these localities, is wholesale, retail, catering and accommodation growing by 8.9 per cent per annum in Bitou, 7.8 per cent in Mossel Bay and 5.6 per cent in Knysna. This reflects the impact of the flourishing tourism industry in the area.

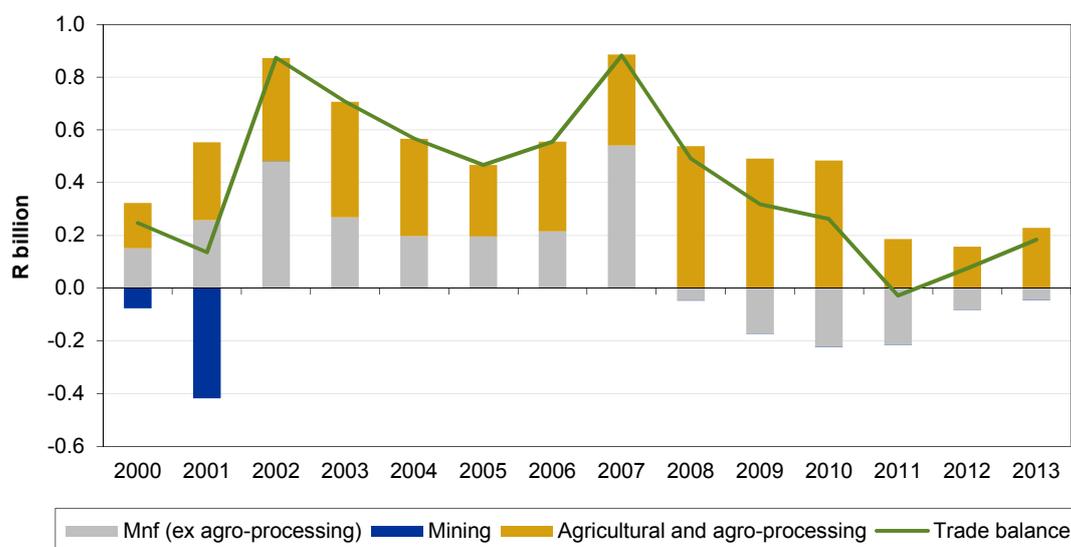
In all, considering the sectoral growth and employment performances by municipality in Eden District during the economic recovery period thus far, a notable feature is the vibrant growth of the wholesale, retail, catering and accommodation sector, which reflect the stimulus from the flourishing tourism industry in the region. The growth in the internal trade sector actually surpassed that of the leading financial and business services sector during the economic recovery, with increased tourism being the likely driver. The steady expansion of the agricultural sector also continues and the

growing agri-tourism linkages in Eden District need to be expanded further. The Eden District municipal manufacturing growth performances have generally been encouraging and above the provincial average; however, with their work forces in 2013 still 11 - 22 per cent below pre-recession peak levels, the employment track record is cause for concern. Manufacturing activities are also concentrated geographically. The sustained (and in construction, accelerating) net job losses in the manufacturing, agriculture and construction sectors are most worrying. While some of these jobs are moving to the services industry, the analysis in Chapter 5 also shows a strong flow of labour into the informal sector. Regarding the services sector growth generally, it remains the leading sector; however, activity is geographically concentrated in George and Mossel Bay.

3.2.3 International trade

As noted in previous MERO studies, Eden District does not host a large export sector – its exports were valued at R775 million in 2013, i.e. 2.3 per cent of nominal value added generated in the region. The trade balance of the region has also deteriorated quite sharply since 2007, albeit evident that some recovery transpired during 2012 and 2013 (see Figure 3.7).

Figure 3.7 Eden District goods trade balance, 2000 - 2013



Source: Quantec Research 2014

The export trade from Eden District is concentrated in the agricultural and associated processing industries, which accounted for 57 per cent of total goods exports from the region in 2013. Other manufacturing exports (e.g. leather and leather products; transport equipment and automotive components, machinery and equipment, furniture and wood products; and other unidentified industries) account for the remaining 43 per cent. Eden District exports were valued at R1.2 billion in 2007, but were severely impacted by the 2008 - 2009 recession and the level of exports has not recovered to its pre-recession level, actually contracting in real terms over the past four calendar years. This explains the dwindling trade balance.

On the import side, the goods basket is more diversified, with agriculture and agro-processing accounting for 36 per cent of the total and manufactured goods (e.g. textiles, clothing and leather goods; machinery and equipment; chemicals, rubber and plastics; and transport equipment) imports for 63 per cent. Overall Eden District goods imports grew throughout the recession from R300 million in 2007 to R592 million in 2013.

This implies a relatively small goods trade surplus resulting in 2013, i.e. R183 million; the trade balance was down from above R800 million in 2007. It appears that the agriculture and agro-processing exports tended to decline over this period while imports of these commodities increased. The source of this replacement of exports needs to be investigated. While the Eden District economy is a relatively closed economy in terms of goods trade, there is scope to change this. The stimulus to regional economic activity from tourism (i.e. a key services export) is evident. Likewise, larger and growing markets overseas can be an important source of growth and employment creation in Eden District's manufacturing and processing industries.

3.3 Municipal labour forces: Skills composition

The previous MERO studies alluded to the labour market dilemma faced in South Africa in general and also in the Western Cape, namely the mismatch between the demand for labour skills and the supply thereof. Whereas the demand for highly skilled human resources continues to grow, these skills are in short supply whilst at the same time there is an oversupply of *semi- and unskilled* labour with the corresponding demand actually declining. This trend has been evident from the 1970s nationally (see Kibuuka & Van Aardt, 1999: 11-12) and continues to the present time. Table 3.6 shows that this trend also existed in Eden District during the 2000s⁴.

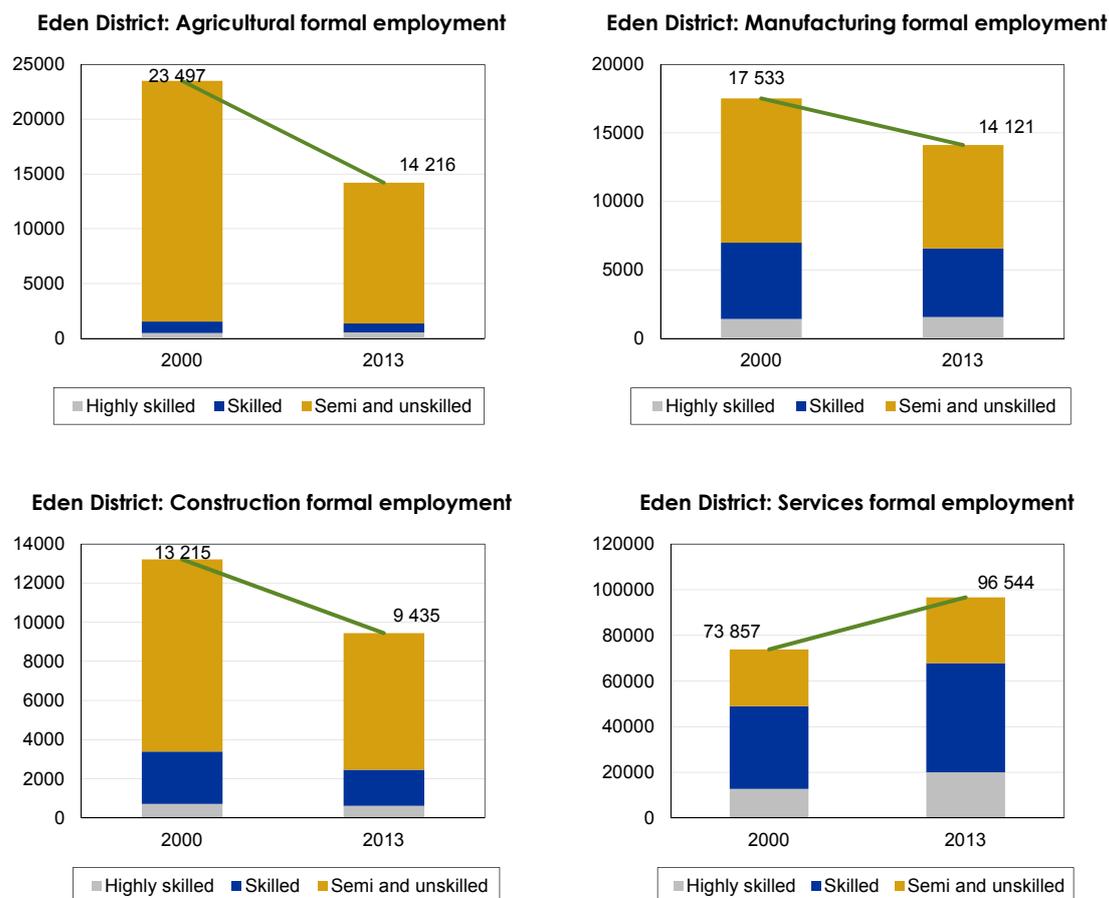
The demand for highly skilled labour grew by 3.0 per cent per annum between 2000 and 2013, that for skilled labour by 1.6 per cent per annum, whilst that for semi- and unskilled labour contracted by 1.4 per cent per annum. It would appear that some of the decline in the demand for semi- and unskilled labour swelled the informal sector labour force growing by staggering 3.0 per cent per annum (see also the informal sector analysis in Chapter 5). Unemployment increased over this period as the overall demand for labour grew by less than one per cent per annum being insufficient to absorb the new entrants to the Eden District labour market.

Table 3.6 Eden District employment by skill level

Labour category	2000	% share	2013	% share	% change pa
Highly skilled	15 500	9.6	22 800	12.6	3.0
Skilled	45 700	28.4	55 900	30.8	1.6
Semi and unskilled	67 800	42.2	56 500	31.1	-1.4
Informal	31 700	19.8	46 500	25.6	3.0
Total	160 700	100.0	181 700	100.0	0.9

Source: Quantec Research 2014

⁴ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi-and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Figure 3.8 Eden District formal sector employment by skill level: 2013 vs 2000

Source: Quantec Research 2014

Whilst the demand for labour is generally derived from a country's or region's sectoral growth patterns and the accompanying macro-economic conditions, factors such as internal and external competitive conditions, wage rates in relation to productivity, the use of technology and the relationship between the cost of labour and the cost of capital, etc. all have an impact.

The objective here is not to unpack the reasons for the labour market mismatch in Eden District, but rather to highlight the trends in skills demand across the broad sectors, i.e. agriculture, forestry and fishing, manufacturing, construction and services – see Figure 3.8 The charts depict the skills composition of formal employment in Eden District in calendar 2000 versus that in 2013 and the absolute change in formal employment over this period. The results largely confirm the historic and the anticipated patterns. *The following remarks are in order:*

- The first notable trend has been the decline in formal employment in the agricultural, manufacturing and construction sectors compared to the increase in employment in services sectors. In all, 16 500 formal jobs were lost in the agricultural, manufacturing and construction sectors over the period between 2000 and 2013 while a cumulative 22 700 were gained in services.

- The agricultural sector (more than 90 per cent), the manufacturing sector (50 - 60 per cent) and construction sector (around 75 per cent) are significantly more semi- and unskilled labour intensive and job shedding in this labour market segment was most profuse in these sectors. In all, 15 000 of the 16 500 total formal sector job losses occurred in this labour category and in these three sectors. Whilst the services sector is known to be more skills intensive, it is interesting to note that this sector also *created* 3 700 semi-and unskilled employment opportunities over the period under consideration.
- At the other end of the spectrum, around 70 per cent of all services jobs in Eden District are in the highly skilled and skilled categories. The demand for skilled labour also contracted in the agriculture, manufacturing and construction sectors, by 1 600, whilst it expanded marginally in the highly skilled category by 100 in these sectors and quite considerably in the services sector, i.e. by 18 900 new job opportunities in total or 11 800 skilled and 7 100 highly skilled jobs.

The loss of jobs in the agricultural, manufacturing and construction sectors, which are relatively semi- and unskilled labour intensive is obviously a cause for concern given the skills composition of the unemployed labour force. Whilst other districts in the Western Cape experienced a major relative decline in these sectors, in Eden District the share of GDP produced in agriculture, manufacturing and construction remained fairly stable only moderating from 33 per cent in 2000 to 31 per cent in 2013. The relative contribution of the services sector increased from 64 per cent to 67 per cent over the corresponding period. In other words, the Eden District does not fully share the experience of other Western Cape districts which witnessed a notable relative decline in agriculture, manufacturing and construction activities, yet the region does share the experience of these districts in terms of laying off workers on a large scale in these industries. This may point, amongst others, to the impact of technology and a mechanisation tendency in Eden District.

Other factors may also explain the attrition of semi- and unskilled labour, namely wage costs in relation to productivity and the cost of capital, competitive pressures (in manufacturing), farming legislative change (which caused lay-offs in the agricultural sector), etc. The training and up-skilling of labour has thus become critical given the demands of the modern economy.

3.4 Sectoral economic prospects, 2014 – 2019

In Chapter 2 it was motivated why the forecast for economic growth has been scaled down markedly, both over the short and the medium term. The poorer global and national economic outlooks also impact on the outlook for the Western Cape economy and that of Eden District. Whereas the Western Cape economy was expected to grow by 3.7 per cent in 2014 and 3.7 per cent per annum on average over the six-year period, 2012 - 2017 in the previous study (MERO 2013), the current forecast is for 2.1 per cent growth this year and an average real GDP growth rate of 3.0 per cent per annum, 2014 - 2019. The main reasons for the slower growth are:

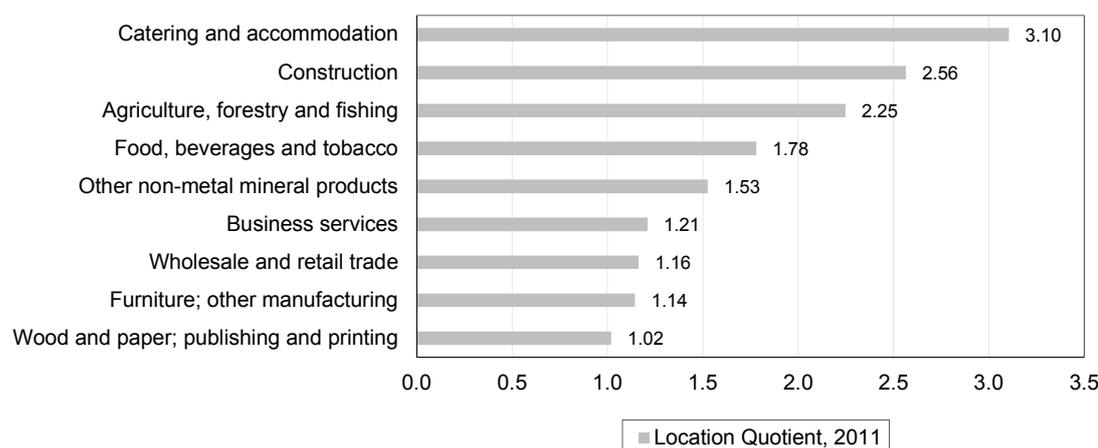
- Weaker than expected global growth. While the world economic recovery appears to be on track, growth forecasts have been scaled down generally. Weaker than expected growth in China and other emerging markets is a key factor. Tighter financial conditions in these economies in the wake of the tapering of the Federal Reserve's unprecedented asset purchases programme is a key reason. Recovery growth has also turned out weaker than expected in the developed economies of the world (see Chapter 2). The weaker demand conditions abroad impacted on the Eden District export industries, i.e. agriculture and agro-processing. As noted goods export growth has tapered down to the extent that volumes actually contracted on balance over the 2010 - 2013 period, which is a cause for concern. However, it appears that the export-oriented tourism sector benefited from a larger inflow of price-sensitive travelers.
- Domestic economic issues have also led to the scaling down of growth forecasts, particularly regarding 2014 due to extensive labour unrest, which commenced during the year of the unprecedented five month strike in the Rustenburg platinum belt. Real GDP contracted unexpectedly during the first quarter of the year, mainly due to a sharp fall in mining production, as well as manufacturing real value added. The latter contracted due to its linkages with the mining sector, but also due to problems within the sector (including once-off events such as maintenance schedules in the petroleum and heavy metals sectors) and the impact of electricity blackouts.
- The Western Cape manufacturing sector was relatively unscathed in this regard, but also succumbed to the weaker general demand conditions. The forecast for gross domestic expenditure, i.e. the sum total of household and government consumption expenditure, private and public sector fixed investment and inventory investment, is for real growth of only 1.6 per cent during 2014, recovering to 3.0 per cent per annum over the medium term; the previous forecast was for 4.5 per cent growth in 2014 and 4.3 per cent per annum on average over the medium term.
- This is a major downward revision and suggests the domestic market could remain lacklustre and/or slow growing. This may force manufacturers to shift production to the export market, particularly in view of the world economic recovery becoming sustained and a more competitive value for the rand exchange rate. The export oriented agriculture, agro-processing and services sectors (e.g. tourism) in Eden District may benefit in this respect.

3.4.1 Local issues – Eden District

Eden District is the second largest non-metro district in the Western Cape and its growth has been well above the provincial average, i.e. 5.0 per cent per annum (2000 - 2013) and 3.8 per cent (2010 - 2013) compared to 3.9 and 2.9 per cent per annum respectively provincially. Given the strong services orientation of Eden District's economy and its low trade exposure, the impact of the 2009 global recession was relatively mild to the extent that real GDP did not contract. However, job losses were quite severe, particularly in the region's construction sector.

In the MERO 2013 study it was found that a number of key value chains in Eden District have a comparative advantage, namely the tourism sector (as reflected in the catering and accommodation and business services sectors); the food value chain (agriculture, forestry and fishing and the associated food and beverage processing industries); the building value chain (including building materials manufacturing and construction activities); and the furniture value chain (wood products and furniture).

Figure 3.9 Eden District industries with comparative advantage



Source: Provincial Treasury: MERO, 2013

Figure 3.9 ranks those sub-sectors with comparative advantage as indicated by the 2011 location quotient analysis (see MERO 2013)⁵. It is expected that these industries will continue to do well over the forecast period. The agro-processing sector and agriculture are key industries in the region and tourism is a high growth sector, including its linkages with agriculture. It is also expected that the region's building and construction sector will emerge from its post-2009 slump and benefit from infrastructure investment planned over the medium term and the associated property developments. Respondents to a municipal survey conducted in Eden District are optimistic that the property cycle has turned, with a number of non-residential property developments in motion. The developments are concentrated in retail and other services industries, reflecting the structure of the Eden District economy. Bulk infrastructure plans are also in place, particularly in the George Municipality, and conducted according to a master plan, which will ensure a constant flow of work in this regard. The Mossel Bay Municipality also has plans to upgrade the CBD as many businesses have relocated to the outlying shopping malls. George Municipality reports the development of new industries such as berries, honey bush tea and the film industry, in turn, boosting the tourism and the rental industries.

The locational attributes of the region were highlighted in the 2013 MERO study, as well as a number of the key developmental constraints and challenges.

The broad sector forecast for Eden District is motivated below.

⁵ The Location Quotient (LQ) ratio is the share of a specific industry in a region's value added expressed as a ratio of the same industry's share (nationally) in the national GDP. A reading above one indicates comparative advantage, implying the same industry expanded faster in the region compared to the sector nationally.

3.4.2 Sector forecast

A key aspect of this year's regional economic outlook was motivated in Chapter 2 and that is the dramatic downward revision of the forecast. Whereas Eden District was projected to grow by 4.3 per cent per annum over the six-year period 2012 - 2017 in the 2013 MERO study, this projection has been downscaled to 3.6 per cent growth per annum over the 2014 - 2019 period – see Table 3.7. This downward revision is in line with that for the wider province; Western Cape real GDP growth is currently projected to average 3.0 per cent per annum over the period 2014 - 2019 compared to 3.7 per cent per annum previously over the 2012 - 2017 period.

Regarding the sectoral outlook, the following remarks are in order:

- While climatic conditions are key to the agricultural outlook, the trend in the sector has been one of steady expansion in most municipal areas. Overall agriculture, forestry and fishing real value added is projected to increase by 1.7 per cent per annum, i.e. in line with the projection for the Province. The key positive factor in the agriculture outlook is the growing food demand from an expanding middle class population, not only in South Africa, but also in the rest of Africa and other destinations for our agricultural exports, e.g. China, India and East Asia.
- The agriculture and fishing sector has strong forward linkages to the manufacturing sector in the form of food and beverage processing; in the wider province no less than 37 per cent of agriculture, forestry and fishing output sales are destined for food and beverage processing (intermediate sales) and close to 40 per cent for final export sales (see MERO 2013). The food and beverage processing industries are less export intensive in the wider province with only around 13 per cent of its output sales exported and close to 60 per cent of output being sold to the household sector.
- Eden District has an even smaller export exposure regarding its agriculture and agro-processing sectors. While the search for faster growing export markets will remain important, domestic demand conditions are more critical regarding the region's economic outlook as sales to households remain a large part of output (60 - 70 per cent). The food and beverage processing sector accounts for 27 per cent of all manufacturing real value added generated in Eden District; the petrochemicals, rubber and plastics sector is the largest manufacturing subsector, accounting for a third of manufacturing real value added; wood products and furniture accounts for a further 16 per cent and metal products and machinery for 8 per cent. Manufacturing export growth has improved in recent years, particularly in the furniture sector; food and beverage exports have tended to taper off. The outlook for the Eden District manufacturing sector is therefore also dependent on export demand conditions.

Table 3.7 Eden District: Real GDP growth outlook, 2014 - 2019

Sector	Trend	Recession	Recovery	Eden District	Western Cape
	2000 - 2013	2008 - 2009	2010 - 2013	2014 - 2019	2014 - 2019
Agriculture, forestry and fishing	1.2	6.8	1.5	1.7	1.8
Mining and quarrying	-2.9	-4.2	1.5	0.0	1.4
Manufacturing	4.4	-1.9	4.3	3.5	2.4
Electricity, gas and water	0.7	-3.6	0.9	1.5	2.1
Construction	9.3	9.2	2.5	4.9	4.1
Wholesale and retail trade, catering and accommodation	5.2	0.0	5.0	3.6	2.8
Transport, storage and communication	4.9	1.9	2.4	4.3	3.6
Finance, insurance, real estate and business services	6.6	5.4	3.9	4.5	3.5
Community, social and personal services	4.7	3.4	2.7	3.1	2.2
General government	4.5	6.3	5.4	2.0	2.1
Total	5.0	3.0	3.8	3.6	3.0

Source: Quantec Research 2014/Provincial Treasury, MERO

- The improved competitive levels of the rand should be supportive to exports from the region; furthermore, export producers need to take advantage of the projected two-speed world economic growth trajectory and diversify towards faster growing emerging market economies. Assuming the competitive gains of the rand exchange rate's depreciation can be maintained this will support the region's export sector, as well as create opportunities for import replacement and stimulate inward tourism. Mossel Bay Municipality is optimistic regarding the export prospects of the local petro-chemical complex and the fishing industry.
- Regarding tourism prospects, experts in the industry warn that the pending implementation of complex new visa requirements for foreign visitors to South Africa, ranging from biometric scans to unabridged birth certificates for minors, could severely disrupt inbound tourism. Some source countries (e.g. China and India) lack the infrastructure to implement the new regulations. The potential negative impact on tourism and linked sectors is a risk in the short- to medium term outlook.
- Currently the SA consumer is under pressure, with slowing real after tax personal income growth, a result of both weak employment conditions, lower real wage growth and slower growth in social grants as the government seeks to engineer a better fiscal balance. Consumer confidence is also weak (particularly the low-income groups impacted by retrenchments and labour strike activity), with household demand for credit slowing. Consumer debt levels are relatively high and impairments are growing. The Eden District municipalities all report this eroding consumer base, including increases in the value of bad debts and concern to recover these in the current economic environment. While pockets of strength continue to exist in the upper end of the market and given the enduring global economic recovery, it is not expected that the bottom of the domestic consumer market will collapse; the slowdown is rather likely to bottom-out and renewed momentum to develop as the broader economy re-accelerates towards year-end.

- Real wholesale, retail, catering and accommodation value added is projected to expand by 3.6 per cent on average, 2014 - 2019. This projection includes a significant margin above the provincial forecast for this sector, i.e. 2.8 per cent per annum and is explained by the anticipated growth of the tourism industry.
- Overall manufacturing real value added is projected to grow by 3.5 per cent per annum over the medium term, which is moderately slower compared to the recovery momentum registered in recent years, but above the provincial forecast in respect of the manufacturing sector.
- Heightened infrastructure investment activity and associated property development (residential and non-residential) is also likely to boost the construction sector, from 2.5 per cent growth per annum during the economic recovery thus far to 4.9 per cent per annum, 2014 - 2019, i.e. faster than the average growth projected for the wider province.
- The downscaling of the growth forecast also impacts the outlook for the faster growing services sector in Eden District. The pressure on the consumer sector was alluded to above. The services sector is projected to grow by 3.7 per cent per annum compared to a trend growth rate of 6.5 per cent per annum and 4.2 per cent per annum during the economic recovery period thus far. The transport and storage sector, with close linkages with the wider economy, and the rapidly growing financial and business services sector are expected to top the growth rankings in the broader services sector, expanding by 4 - 5 per cent per annum. This growth tempo is well below that over the previous business cycle expansion, 2000 - 2007. Consumer credit extension is cooling down and there has been a sea-change in credit uptake since the introduction of the National Credit Act in July 2007. The generally poor business and consumer confidence levels in the Province⁶ also contribute to hesitancy on the part of consumers to commit income on credit. The growth in business services will also be dragged down by the slower overall growth in the region.
- An additional factor, which is likely to result in pressure on the household sector, is the constrained growth in government non-interest expenditure, implying limitations to public sector employment and wage growth. The government sector added significantly to growth during the initial period of the economic recovery; however, that was always going to be a temporary counter-cyclical measure. The general government sector of Eden District is projected to grow by 2.0 per cent per annum compared to recovery growth of 5.4 per cent per annum, 2010 - 2013. The community, social and personal services sector is projected to grow at 3.1 per cent per annum, i.e. slightly faster than its performance over the 2010 - 2013 period.

⁶ The RMB/BER business confidence index showed that only 6 out of every 10 business executives in the Western Cape were satisfied with general business conditions during the second quarter of 2014. This is slightly better than the national average (4 out of ten); however, consumer confidence at -11 index points in the Western Cape is significantly below the national average (+6).

3.5 Concluding remarks

The Eden District economy has been the fastest expanding region in the Western Cape Province, hosting four of the Province's top-10 leading (in terms of economic growth and size) non-metro municipalities, i.e. Mossel Bay, George, Knysna and Bitou. These four coastal municipal economies account for no less than 30 per cent of the cumulative growth of the non-metro regions of the Province over the 2000 - 2013 period. The competitive strength of Eden District resides in a number of value chains, including tourism, building and construction, the food value chain and timber, wood products and furniture. The Mossel Bay petro-chemical complex also contributes to manufacturing growth.

Economic growth has also outperformed during the economic recovery, 2010 - 2013, with the wholesale, retail, catering and accommodation sector surpassing financial and business services as the leading growth sector. Closer analysis reveals the vibrant tourism market to be the driving force. Unfortunately the region was also impacted by the recession, but not as severely as other Western Cape districts. The downside from the recession impact, is the fact that the overheating property sector in the preceding years resulted in a major construction slump in which many workers lost their jobs even during the economic recovery period. Steep job losses also continued in the agriculture and manufacturing sectors, exacerbating the skills mismatch in the labour market. There appears to be evidence of mechanisation (or increased capital intensity in production) in a regional economy in which the secondary sectors have maintained their relative economic value. Whilst Eden District is well diversified sectorally, there has been a tendency for manufacturing and services to be concentrated in the Mossel Bay and George municipalities.

The vibrancy of the Eden District economy is projected to continue; however, it has been impacted by the overall downgrading of the global and national macro-economic outlook. From 4.3 per cent real GDP growth forecast previously (2012 - 2017), the current outlook is for 3.6 per cent growth per annum, i.e. well above the provincial average of 3.0 per cent per annum. The region is also successful in generating jobs on balance, with the growth in the services sector overshadowing the losses in the agriculture, manufacturing and construction sectors. This does not detract from the need to train, re-train and upskill workers in the region and expand manufacturing capacity.

4

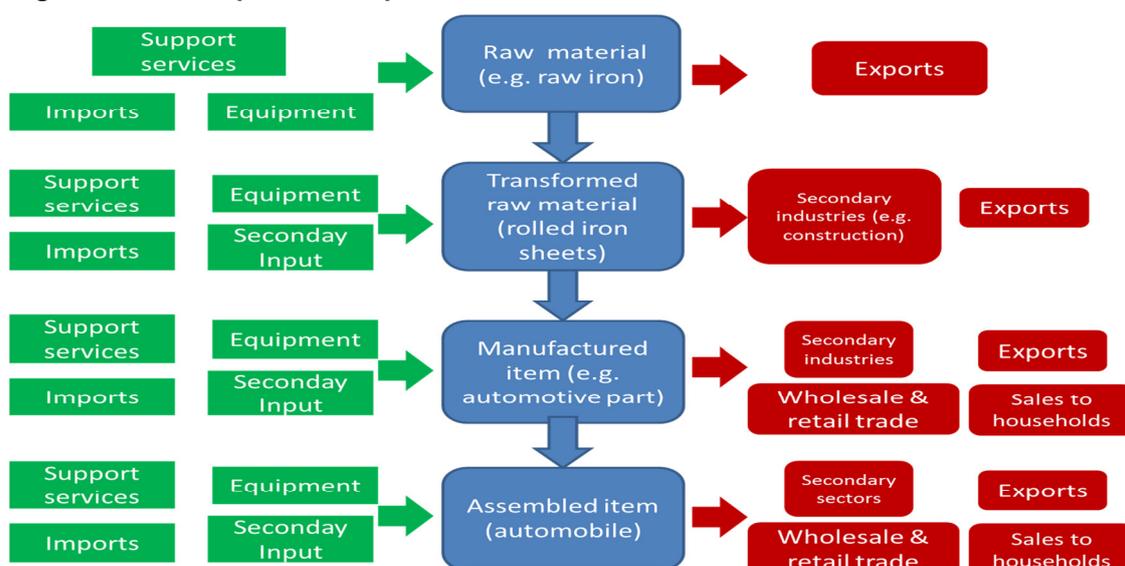
Value chains

4.1 Introduction

The current analysis will primarily focus on the value chain as represented by the supply chain and take into account the distribution of benefits, through value added within the value chain. The legal and policy implications will not be investigated as the primary focus is on the value added and job creating potential of the identified industries/ sectors.

Each regional economy has been assessed and the most important selected value chain within each regional economy has been analysed. It must be noted that the choice of value chain is based on the future potential for change in a specific industry or the decline in a specific industry within a value chain.

Figure 4.1 Example of a simplified value chain



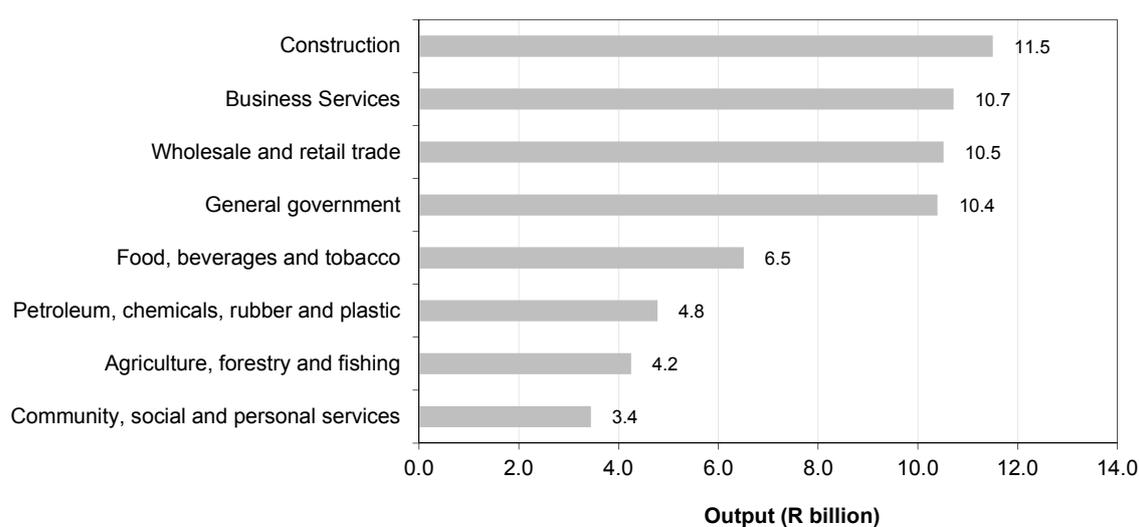
Source: Stats SA

The value chain is analysed according to the forward and backward linkages connecting various manufacturing and services sectors and forming an integrated value chain. The forward and backward linkages flowing from these sectors will also be represented in the value chain, with the percentage contribution to inputs and outputs to the respective sectors. An example of a simplified value chain is presented in Figure 4.1. It shows a hypothetical automotive value chain from source material. The linkages are tracked backward from the assembled automobile to the individual automotive parts; these automotive parts are in turn made up of processed metals. The processed metals are made up of basic processed iron which was initially sourced from raw iron. Each part of the value chain will have inputs from other sectors in the economy. Some of these are for inputs used in the production process or support the production process and others are merely inputs to support business processes. Each sector will also import a certain proportion of its inputs and also export a certain proportion of its outputs. As we move to the finished product, it also becomes more likely that there are direct sales to households.

4.2 Eden District value chain analysis

The largest sectors in the Eden District are construction, business services and wholesale and retail trade (see Figure 4.2). The two largest manufacturing sectors are food, beverages and tobacco and the petroleum/chemicals industry. The possible candidates for value chain analysis in the Eden District may include the agro-processing sector or the petroleum/chemicals industry as the largest manufacturing sectors. These sectors are, however, well established and the choice of value chain analysis should rather be focused on a sector which has high potential for job creation and the support of small enterprises in the region. Such an industry, which is very important to the Eden District, is the tourism industry.

Figure 4.2 Largest sectors based on output, Eden District, 2013



Source: Quantec Research

The choice of the tourism industry results from the potential it has to create value added activity and employment opportunities across a wide variety of sectors and skill levels.

In order to analyse the tourism industry and the value chain of the tourism industry in the Eden District we must first define the tourism industry. Value chains in the manufacturing industry usually follow the development of a product through stages from raw inputs to the final product, as presented in Figure 4.1. The tourism industry, on the other hand, comprises suppliers and inputs from many heterogeneous products. The ability to follow the linkages in the value chain of the tourism industry is, therefore, more complicated and it is necessary to utilise some assumptions in order to present the tourism value chain and the linkages to various other sectors in the economy.

Firstly, we define tourism as both domestic and international visitors consuming products in the District and secondly the tourism industry will have minimal forward linkages as the tourist is usually the end consumer. The benefits from tourism will rather be felt through the indirect increased spending potential in the community linked to tourism. For this reason we will be concentrating mainly on the input industries into tourism industry.

The following box reflects the major input sectors into tourism in a particular area.

Major Tourist Support Sectors

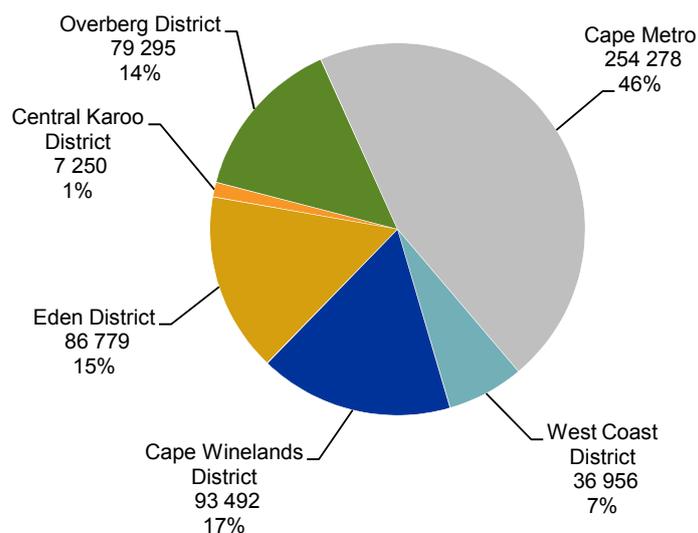
- Hotels
- Car rental
- Air transportation
- Passenger transportation
- Golf courses
- Agri-tourism
- Restaurants
- Museums
- Retail stores
- Entertainment
- Monuments or natural wonders

Catering and accommodation, transport and retail trade will be the major beneficiaries of tourism activity in a region.

4.2.1 Tourism and tourism related industry analysis

Tourism is an important sector in the Eden District. It represents approximately 15 per cent of tourism activity in the Western Cape with 86 779 walk-ins registered at tourism offices in 2012 (see Figure 4.3). International visitors make up a large proportion of the tourists in the Eden District. The Cape Metro (77.5 per cent) received the highest percentage of international visitors in 2012, followed by the Cape Winelands District (52.4 per cent) and then the Eden District (48.9 per cent).

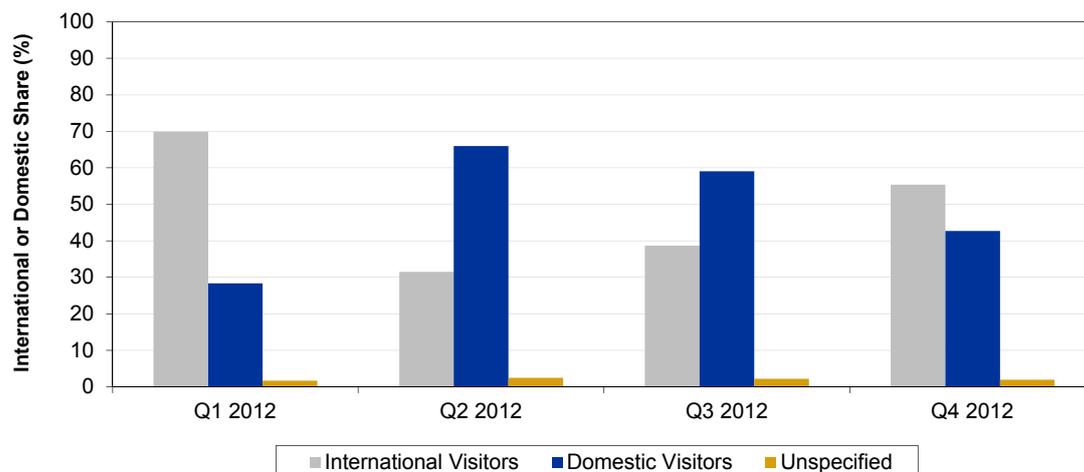
Figure 4.3 Tourist foot count of walk-ins in tourism offices, Western Cape, 2012



Source: Wesgro

Figure 4.4 shows that the greatest proportion of international visitors arrive in the last and first quarters, during the summer season. The most tourists entering the Western Cape are from the United Kingdom and Germany, then followed by the Netherlands and the United States. The countries of Europe collectively make up the largest regional market of tourist visitors into the Western Cape. The spending potential of international visitors is far higher than that of domestic tourists. The relative percentage of international visitors to domestic visitors has increased in the Eden District, from 38.7 per cent in 2010 to 48.9 per cent in 2012. The overall volume of international visitors has also increased during the same period. This indicates the rising potential of international tourism in the District. In fact, in Chapter 3 it was indicated that the tourism sector was a key driver of the economic recovery in Eden District over the period 2010 - 2013.

Table 4.1 depicts the relative differences between international and domestic tourists in length of stay in the Western Cape. International visitors have greater potential to stay five nights or longer. This is another indicator of higher spending potential and potential income to accommodation services and restaurants in the area due to longer staying visitors. Visitors spending more time in an area are also more likely to visit local attractions.

Figure 4.4 Domestic or international visitor share, Eden District, 2012

Source: Wesgro

Table 4.1 Average length of stay, domestic and international visitors, Western Cape

Average Length of Stay	International (% of visitors)	Domestic (% of visitors)
1 night	26.03	16.60
2 nights	15.43	9.53
3 nights	5.90	3.65
4 nights	3.93	2.20
5 or more nights	12.78	5.13

Source: SA Tourism

Table 4.2 below indicates the number of visitors to 3 major attractions in the Eden District. Visitors to the Wilderness National Park and Tsitsikamma National Park have increased by 6.5 per cent and 31.9 per cent respectively from 2010 to 2012.

Table 4.2 Number of visitors at major attractions, Eden District, 2010 - 2012

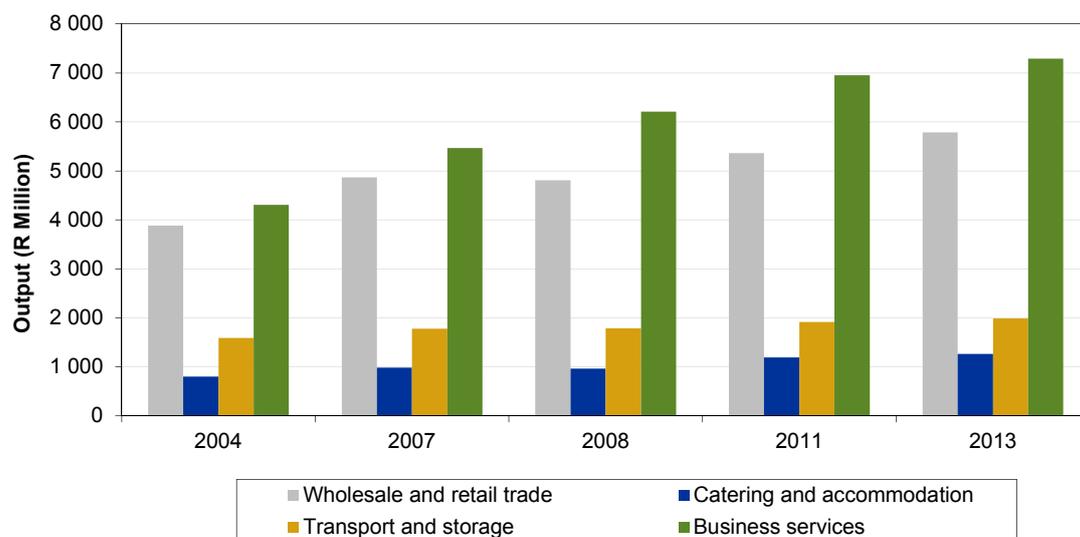
Attraction	2010	2011	2012
Cango Caves	184 290	182 956	185 590
Wilderness National Park	66 661	70 722	71 019
Tsitsikamma National Park	139 651	174 274	184 155

Source: Wesgro

The trend of visitors to the Eden District is positive, with increasing arrivals and an increasing proportion of international tourists. Major support sectors to the tourism industry will also benefit from the rising levels of tourism in the District. The catering and accommodation industry, the transport and retail trade sectors have strong linkages to the tourism industry. We will further discuss these linkages in section 4.2.2 under the tourism value chain.

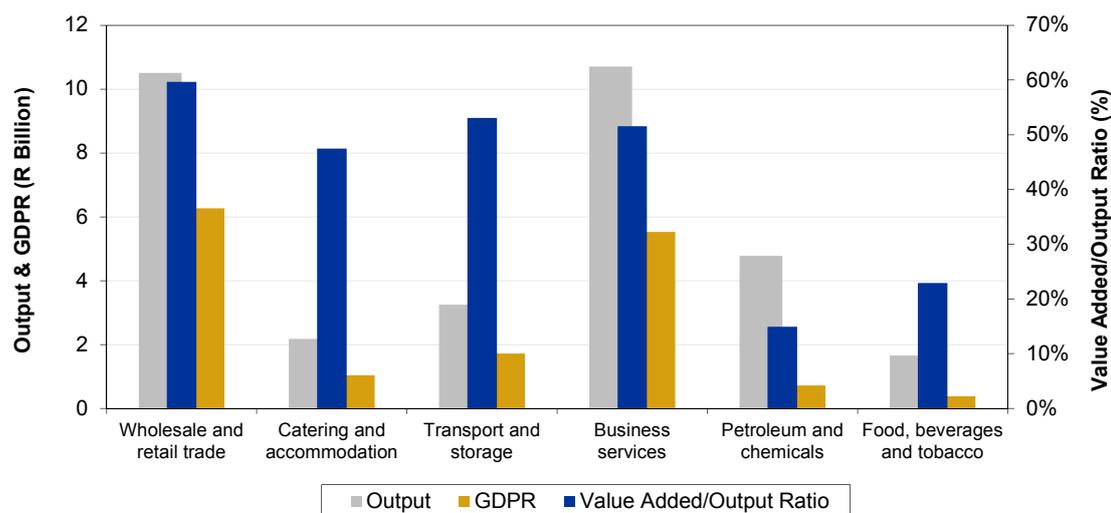
Analysing the growth in output of the tourism-related industries, it is clear that the support industries have realised significant growth in the past decade. The business services sector grew fastest, at an average annual growth rate of 6.9 per cent from 2004 to 2013. Catering and accommodation posted an annual average growth of 5.8 per cent with the wholesale and retail trade sector grew at an annual average of 4.9 per cent during the same period.

Figure 4.5 Output growth of tourism-related sectors: Constant 2005 Rand, Eden District, 2004 - 2013



Source: Quantec Research

Figure 4.6 Value added to output comparison, Eden District, 2013



Source: Quantec Research

The value added potential of various sectors is represented in Figure 4.6. Value added to output ratios in the services sectors are significantly higher than in those of the major manufacturing sectors in the Eden District⁷. This indicates that any backward linkage that could potentially increase the activity in these sectors will have a relatively high impact on value added and employment creation. The demand created from tourism is, therefore, important to drive GDPR and employment in the Eden District.

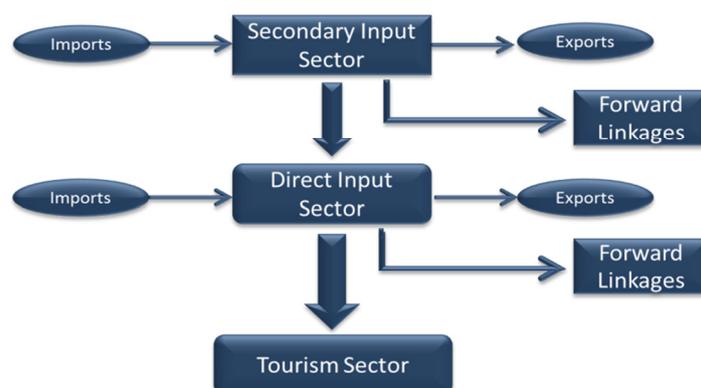
⁷ The ratio of GDPR to output provides some indication what value is added to intermediate inputs (imported and sourced from other sectors) in the production process. A higher ratio implies the greater the economic welfare benefits tied to the particular economic activity.

4.2.2 Tourism value chain

Tourism will have a number of linkages back to economic sectors that provide services or sell goods to the end consumers. The industries that sell into the tourism industry, may, however, have forward linkages into other sectors. The current value chain analysis will not analyse these linkages in depth as it will mainly focus on the linkages between tourism and the input sectors. The basic tourism value chain is depicted in Figure 4.7.

For the purposes of this analysis we will only focus on the direct input sectors into tourism. Utilising data from the Tourism Satellite Accounts from Statistics South Africa it is possible to determine the relative expenditure proportions of tourists on various sectors. This gives the input proportions into the tourism sector. Determining the relative outputs from the input sectors relies on ratios and multipliers derived from various sources and the Tourism Satellite Accounts. It must be noted that as the analysis cannot rely solely on an existing input-output analysis from Statistics South Africa, the relative output proportions are based on assumptions and ratio analysis. Table 4.3 depicts expenditures in the tourism industry which have been identified by Statistics South Africa.

Figure 4.7 The basic tourism value chain structure



Source: Stats SA

Table 4.3 Tourism expenditure shares on input products and services, South Africa, 2012

Tourism Product or Service	Expenditure Percentage
Accommodation for visitors	16.7
Restaurants	8.1
Railway passenger transport services	0.2
Road passenger transport services	23.0
Water passenger transport services	0.0
Air passenger transport services	13.2
Transport rental	1.7
Travel agencies	3.3
Cultural services	0.2
Sports and recreation	4.5
Tourism-connected products	12.6
Non-specific products	16.7
Total	100.0

Source: Stats SA

Expenditure shares expressed in Table 4.3 will be considered when deriving the input shares into the tourism sector in the Eden District. Table 4.4 shows the output proportions from the various input sectors into tourism. The percentage represents the proportion of output of that sector that is sold or provided to tourism in relation to the total output of that sector.

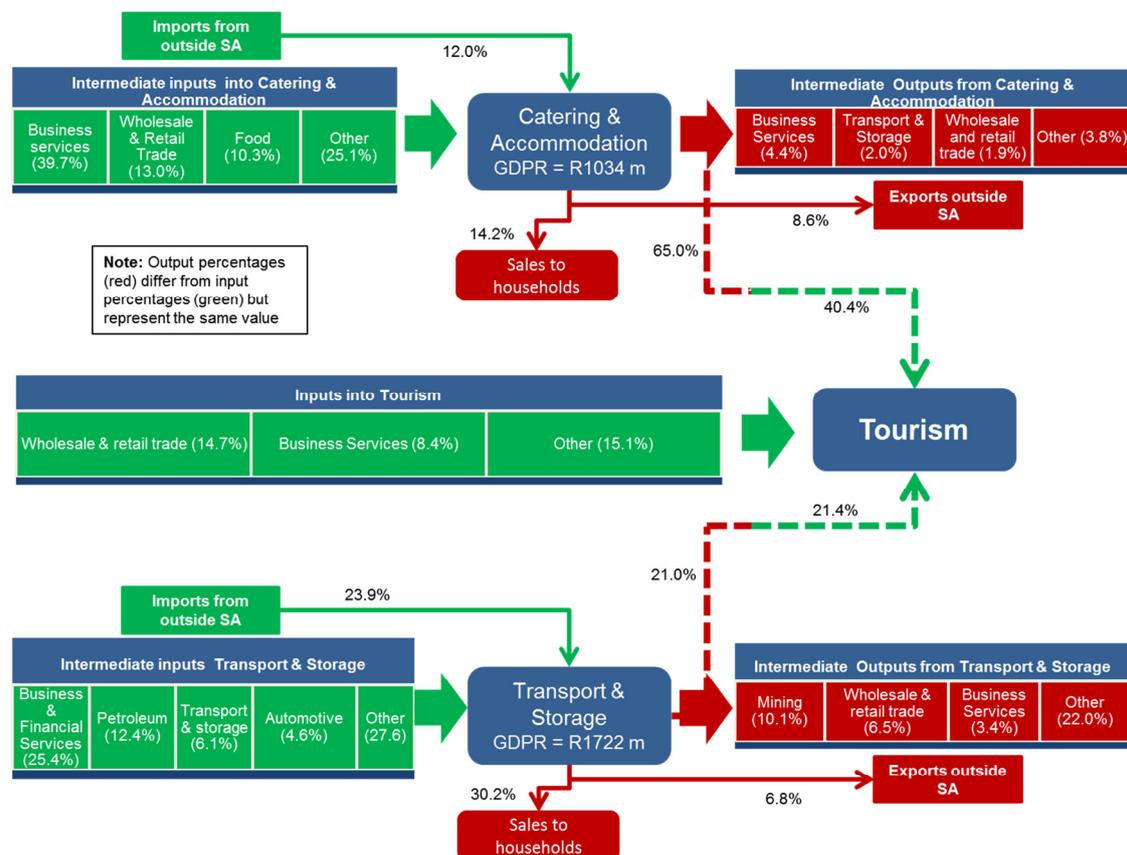
Table 4.4 Proportion of output to tourism, 2012

Sector	Output Proportion
Accommodation for visitors	79.0
Food and beverages servicing industry	36.0
Railway passenger transport services	7.0
Road passenger transport services	37.0
Water passenger transport services	53.0
Air passenger transport services	94.0
Transport rental	65.0
Travel agencies	98.0
Cultural services	21.0
Sports and recreation	31.0
Trade of non-specified products into tourism	8.0

Source: Stats SA

For the purposes of this analysis we will be using the sector breakdown as represented by Statistics South Africa. The two major input sectors into tourism will be catering and accommodation services and transport.

Figure 4.8 Tourism value chain, Eden District



Source: Stats SA

The full value chain for the tourism industry is presented in Figure 4.8 below. The two major input sectors have been represented with their forward and backward linkages in order to understand the impact tourism has on upstream service sectors and the linkages these sectors have with the rest of the economy.

The green arrows and boxes represent the inputs into the specific sector and the red arrows or boxes represent the outputs from those sectors. The percentages represented are the relative input and output percentages. All the input percentages for a specific sector add to 100 and similarly, all the output percentages for a particular sector add to 100. The greatest expenditure and consequently the largest input into the tourism industry is from the transport sector. The industry grouping as per the standard industrial classifications from Statistics South Africa aggregates transport with storage. The relative weightings for inputs from these sectors have been taken into account in the calculations. The second-largest input into the tourism industry is from the catering and accommodation sector. Examples of businesses in this sector include hotels, holiday resorts, game farms and restaurants.

The two major input sectors into tourism are catering and accommodation and transport and storage. Input percentages aggregated for South Africa have a substantially larger proportion dedicated to transport and storage due to domestic and international air travel and car rental. The Eden District will have minimal input from these sources and consequently the value added proportions have been utilised to reduce the input percentages.

The catering and accommodation sector has strong backward linkages to business services, wholesale and retail trade and the food processing industry. The high value added potential of the business services and wholesale and retail trade sectors was presented in Figure 4.6. Value added and employment creation has high potential in these sectors and the tourism industry is responsible for driving 65.0 per cent of the demand in the catering and accommodation sector. This demand is filtered through in the second-round backward linkages to the business services and wholesale and retail trade sectors. As tourism acts as the key driver for the catering and accommodation sector, the potential to offer better service to households and other sectors as inputs increases. Households purchase 14.2 per cent of the output from catering and accommodation directly.

4.3 Concluding remarks

There is a strong backward linkage to the catering and accommodation industry as the output from this sector is primarily dedicated to tourism; 65.0 per cent of the output from catering and accommodation is to tourism. This indicates that the catering and accommodation industry is highly dependent on the level of tourist activity and expenditure. For every R1 million lost in tourism expenditure on accommodation and restaurants, the catering and accommodation industry will lose R650 000 directly, then there is the knock-on effects to other sectors depending on the linkages of the catering and accommodation sector. This signifies the great importance of tourism in the Eden District and the necessity to support local small businesses that are primarily responsible for servicing the tourist market.

5

Informal sector analysis

5.1 Introduction

The persistence of high levels of unemployment, poverty and inequality is widely recognised as major socio-economic challenges for South Africa. The informal economy is often seen as an important component in expanding economic participation. However, the conceptualisation of what this practically means is not always played out. The expansion of the informal economy can have a positive effect on poverty if it arises as an off-shoot of a rapidly growing formal sector. It can also reflect worsening poverty where it is stimulated by a collapsing formal economy and/or alternatively is caused by firms seeking to evade regulatory measures and the tax net (Altman, 2009).

This coupled with the contemporary context of global economic crisis and the dramatic expansion of the informal economy across the developing world, has highlighted the importance of understanding the relationship between the formal and informal economies. However, while much attention has been spent on formal employment, a large fraction of workers (almost 30 per cent in 2013)⁸ are employed in the informal sector in South Africa.

As a result, this chapter focuses on the issue of linkages across the formal-informal divide and possible policy considerations.

Before proceeding further, we provide a brief definition of 'formal' versus 'informal'. The formal sector is defined as economic activity that occurs within the purview of state regulation and formal employment is defined as employment originating from a business or firm that is registered with the state. On the other hand, the informal economy covers both businesses and employment. Informal employment extends to both the informal and formal sector, as well as private households, where the informally employed do not have written employment contracts and are not entitled

⁸ Quantec data 2014

to employment benefits such as pension and medical aid contributions from their employers. The informal sector is defined as one where, firstly, employees work in establishments of less than five employees, where income tax is not deducted from their salaries and wages; and secondly, where employees are not registered with the Receiver of Revenue for income tax or value added tax purposes. (Statistics SA, 2012).

In both academic and policy circles, there is much debate over the relationship between the formal and informal sectors, and whether informal employment is a benefit or liability for the overall economy. Here there are three schools of thought:

- 1) The dualistic labour market approach, which sees informal employment as a substitute for formal employment. In this approach informal employment is a residual “sponge” that soaks up unskilled, surplus labour from the formal sector and there are very few connections between the informal and formal sectors (Chen, 2004). Generally the informal sector is, at best, seen as a safety net for unemployed workers.
- 2) The alternative (or neo-liberal) approach sees informal employment as a complement to formal employment. In this approach the informal sector is a voluntary strategy where entrepreneurs are able to establish new firms and contracts. Effectively it is a cost saving strategy for small firms trying to avoid arduous and costly labour regulations. (Maloney, 1998).
- 3) The ‘Structural Articulation’ approach sees the informal sector as heterogeneous and made up of at least two distinct sub-sectors (Portes and Schauffler, 1993). One of these sub-sectors represents entrepreneurs and small firms trying to grow by avoiding costly regulation while on the other hand, the other sub-sector is largely disconnected from the formal economy and demonstrates countercyclical behaviour. This static sub-sector is driven by excess labour supply and represents the involuntary subsistence strategies of unskilled workers who cannot find employment in the formal sector.

5.2 Understanding the formal and informal sector linkages

To understand the linkages between the formal and informal sectors one needs to ascertain whether a relationship does exist. Extrapolating from two recent surveys, one on the informal businesses (200 informal businesses – MERO 2013) and the other on formal businesses (200 formal businesses) in the Eden District we note the following.

From Table 5.1 we note that all formal businesses in the sample range have informal businesses as their customers or clients. This situation therefore highlights the existence of significant linkages between the formal (microenterprises and small businesses) and the informal sector.

Table 5.1 Eden District: Main customers or clients of SMMEs

Formal businesses customers or clients	Formal businesses		
	Microenterprises	Small business	Medium business
Private businesses	30.0	31.6	32.0
Other small businesses	24.3	20.0	28.0
Other large businesses	21.4	21.6	24.0
Government	7.1	12.1	8.0
Informal businesses	14.3	13.7	4.0
Other	2.9	1.1	4.0

Source: Anix 2014

Unfortunately the questionnaire was not designed to explore detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies. However, after further investigation it has become clear that even where "other small businesses" are the clients or customers, SMMEs were not too interested whether these businesses were formal or informal. Therefore, the percentage of informal businesses as clients could effectively be larger. The focus for SMMEs was mainly whether these informal (or any other) businesses represented a cost advantage. Therefore, particularly given the current economic slowdown in the economy, SMMEs were seeking links with informal firms as a cost-cutting strategy. Such a strategy could certainly favour informal businesses and particularly so if the competition amongst formal businesses were increased.

However the type of formal and informal linkage is very important. For e.g. forward linkages refer to the use of an enterprise's output as an input in other productive activities, while backward linkages comprise the enterprise's purchases of intermediate inputs. Generally, forward linkages between a modernising informal segment and the formal economy can lead to growth in the informal as well as the formal sectors, while in backward linkages, informal firms tend to purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets. This leads to a dependent and regressed informal sector constrained to buy dearly and sell cheaply.

Given the effect that the lack of skills and capital finance may have on the manner of formal and informal business linkages we further extrapolate from the two unique surveys as mentioned earlier and review the "main challenges for business growth" faced by both formal and informal businesses in Eden District.

From Table 5.2 we note that access to finance (more than 82 per cent) is a major constraint to business growth for informal businesses, for formal businesses access to finance is the biggest challenge for microenterprises (nearly 20 per cent) while small and medium businesses in the Eden District cited "electricity" as a significant constraint. Interestingly medium formal businesses of nearly 55 per cent claimed that their business had no real constraint to growth. These figures coupled with the literature as mentioned earlier leads one to assume that there could be a possible risk of exploitation of backward linkages, which could lead to weak markets or limited growth potential in the Eden District region.

Table 5.2 Eden District: Challenges for business growth – formal and informal sectors

Challenges for business growth (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Access to affordable finance	82.2	19.4	8.5	0.0
Shortage of business premises	61.0	0.0	2.4	0.0
Lack of specialised equipment	47.3	-	-	-
Competition	47.3	-	-	-
Electricity cost access/Increasing electricity rates	43.9	12.9	14.6	36.4
Crime	39.0	-	-	-
Water cost access	36.0	-	-	-
Cost and difficulty of business licensing	28.8	-	-	-
Transport of goods costs	28.8	-	-	-
Police harassments	11.0	-	-	-
Increasing labour rates	-	3.2	8.5	9.1
Skill and education of workforce	-	9.7	6.1	0.0
Bad weather	-	3.2	2.4	0.0
None	-	12.9	13.4	54.5
Other	-	38.7	43.9	0.0

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: *Informal Data (MERO, 2013); Formal Data (Anix, 2014)*

Given the above, it is important to consider the nature of the production system through which informal and formal businesses are linked when trying to understand the linkage between informal and formal enterprises. This is because the nature of the linkage, specifically the allocation of authority and economic risk between the informal and formal firm, varies according to the nature of the production system.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

This linkage is very important for the financial services sector for example, as it gives the sector an opportunity to use the linkage to the best advantage of the informal sector. Banks would be keen to deal with those informal sectors that have a clear understanding of how they are linked to the formal sector players.

Understanding the linkages is also important because the amount of financial sector support available to informal sector players is far less than ideal but has the potential to increase if the opportunities brought about by the linkages are fully exploited.

Despite SMMEs' strong interest in credit, banks' profit orientation may deter them from supplying credit because of the high transaction costs and risks involved. However, with linkages to the formal sector this can be easily resolved because the source of the problem can be minimised due to the links between the informal and the formal structures.

First, SMMEs' loan requirements are small, so the costs of processing the loans tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to fully assess the risks of new, unproven ventures, especially because the success of small firms often depends heavily on the abilities of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high. These challenges can be easily met if formal sector players are willing and able to support the sector.

Through financing the value chain or the big end user of the product, the banks will be indirectly financing the informal sector player producing intermediate inputs to the formal final producer.

5.3 Key characteristics of the Eden District informal sector

Extrapolating from the surveys mentioned earlier we note that entrepreneurs in the informal sector have different motivations for starting a business compared to their formal sector counterparts, with close to 76 per cent of informal entrepreneurs citing a lack of alternative employment opportunities or financial hardship as their main motivation (See Table 5.3). This figure coincides with a recent Stats SA survey on employers and self-employed, which highlighted that 60 per cent of people started informal businesses as a result of unemployment/have no alternative income source (Stats SA 2014). In contrast formal sector entrepreneurs were significantly more likely to say that they were interested in taking advantage of business opportunities as the reason they started their businesses. In a nutshell, informal businesses were necessity driven while formal businesses were opportunity driven.

Table 5.3 Eden District: Reasons for starting a business – formal and informal

Reasons for starting a business (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
I could not find alternative employment/unemployed	54.0	8.0	3.4	0.0
I wanted to earn more money/financial hardship	21.9	10.0	8.6	0.0
I didn't enjoy working for someone else/ To be my own boss	9.9	14.0	10.3	9.1
I am good at running this business	7.7	-	-	-
Have passion for it/It's a calling	1.8	-	-	-
Saw an opportunity	1.1	34.0	39.7	54.5
Health reasons	1.1	-	-	-
Gap in the market	1.1	-	-	-
Create employment/Help the community	0.4	-	-	-
Lost my job	-	8.0	5.2	0.0
Interested in particular product or service	-	6.0	12.1	0.0
Wanted to	-	12.0	6.0	0.0
Took over from previous owner/manager	-	8.0	10.3	18.2
Inherited the business	-	0.0	3.4	18.2
My family expected me to	-	0.0	0.9	0.0
Other	1.1	-	-	-

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Female entrepreneurs are more likely to operate in the informal than in the formal sector in Eden District, with female exposure at nearly 35 per cent in informal businesses and just over 22 per cent in the formal microenterprise sector. Interestingly there were no female entrepreneurs recorded in medium businesses (see Table 5.4).

Generally, it appears that women tend to be concentrated in business activities such as retail trade and food and garment production. Literature suggests that the substantial differences in the choice of sector and business activity between male and female entrepreneurs may suggest that the challenges to business, constrain some entrepreneurs' ability to enter the formal sector. Given this, it may be that more women have been directed into activities with lower capital requirements.

Table 5.4 Eden District: Distribution by gender – formal and informal

Gender (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Male	65.5	75.8	80.0	100.0
Female	34.5	24.2	20.0	0.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Entrepreneurs in the formal sector also have more education than entrepreneurs in the informal sector (see Table 5.5). While nearly 32 per cent of all formal sector entrepreneurs surveyed have diploma or university-level training, just over 8 per cent of informal sector entrepreneurs do. Interestingly, however, just over 24 per cent of informal entrepreneurs have a matric level training compared to their formal sector counterparts who average at 26 per cent. From the data it is clear that there is a low transition for informal businesses from matric to post-matric studies while the opposite holds true for formal businesses.

Table 5.5 Eden District: Level of education – formal and informal

Highest Level of education (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
No schooling	5.0	0.0	0.0	0.0
Some primary school	16.5	0.0	0.0	0.0
Some high school	31.7	0.0	9.8	0.0
Matric	24.1	32.3	36.6	9.1
Apprenticeship	14.4	6.5	4.9	9.1
Post Matric Qualification (Diploma)	6.8	41.9	22.0	27.3
University Degree (undergrad/postgrad/Honours/Masters)	1.4	19.4	26.8	54.5

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

As mentioned in MERO 2013, incomes in the Eden District informal economy appear generally low, but the term "survivalist" is not appropriate for these enterprises as it does not do justice to the demonstrated sustainability of such enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their informal enterprises in favour of a theoretical offer of alternative formal work at minimum wage.

Informal enterprises demonstrate considerable connectedness to the Eden District formal economy. The data shows how the informal economy is generally of larger scope and scale closer to diverse formal economic activity such as larger towns, whilst declining in number and financial returns in contexts outside urban centers. Furthermore, their response regarding the general prospects for growth are linked to the level of business confidence reported in the formal sector.

Whilst the MERO could not comment on the economic scale of the Eden District informal economy (in terms of employment numbers or GDP) the micro-enterprises studied, especially the majority operating within the township context, play an important employment role in their immediate economies. Each business employs more or less two workers and nearly 44 per cent of enterprises provide employment opportunities. Informal employment provides a means of skills acquisition, enabling the workers to either obtain a better paying job (possibly within the formal sector) or establish their own micro-enterprise.

Furthermore, the key findings of the 2013 informal sector survey indicate that there is significant scope for a policy to strengthen the relationship between informal and formal businesses in Eden District that will allow for growth of the informal and formal businesses.

Having highlighted the relationship between the informal and formal businesses, we now turn our attention to the performance of the Eden District's informal labour market.

5.4 The business cycle impact on the Eden District informal labour market

This section analyses the Eden District's informal labour market at the sectoral level from 2000 - 2013. The main aim of this section is to assess the cyclicity of informal employment during the expansionary (2000 - 2013), recessionary (2008 - 2009) and the recovery (2010 - 2013) periods of the business cycle.

The issue of the effect of the business cycle on labour force participation behaviour has not received much attention in the South African literature mainly because of the difficulty of combining macroeconomic and microeconomic data in a coherent way.

However, workers' participation decisions during expansionary or recessionary periods are crucial for understanding how labour markets adjust to macroeconomic fluctuations (Darby et al, 1998). At the same time, the economic environment also affects the performance of the firms operating in the labour market which make their decisions on labour demand needs partly based on the economic conditions of a particular region or country. Furthermore, the effect of the business cycle on firm performance is usually heterogeneous varying among different economic sectors and industries within a single country or region.

5.4.1 The economic recovery, 2010 - 2013

As shown in Table 5.6, employment in the informal sector of Eden District averaged 0.1 per cent per annum over the current recovery (expansion) phase of the business cycle (2010 - 2013), resulting in a cumulative net increase of 246 jobs. This is marginally below the trend growth tempo of 2.7 per cent per annum registered over the 2000 - 2013 period, i.e. a cumulative net increase of 14 368 jobs.

There has been some net job growth over the recovery period; however, this has been achieved at a considerably lower rate than during the recession years (2008 - 2009). The CSP services sector created 1 133 new jobs. The manufacturing experienced encouraging job growth, which after shedding 423 jobs during the recession (2008 - 2009) recovered to create 51 jobs during the recovery period (2010 - 2013); however over the full period, 2000 - 2013, 309 net informal jobs was lost in the sector.

Of concern are the significant jobs losses (1 779) in the construction sector during the recovery period resulting in a contraction of 4.2 per cent during this period. These job losses could be attributed to the completion of infrastructure projects in preparation for the 2010 FIFA World Cup, which generally buffered job losses in the construction sector during the recession. The sectoral informal employment trends are discussed in more detail in section 5.4.2 below.

Table 5.6 Eden District: Formal vs informal employment growth and employment creation, 2000 - 2013

Sector	Informal net employment creation (number)			Formal net employment creation (number)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-1 412	-206	-394	-10 227	-2 947	-2 430
Mining and quarrying	-1	0	0	-293	27	-3
Manufacturing	-309	-423	51	-4 089	-962	-1 137
Electricity, gas and water	-8	-10	-13	82	-172	36
Construction	2 268	813	-1 779	-4 009	-669	-3 151
Wholesale and retail trade, catering and accommodation	4 702	3 857	392	1 199	-2 916	739
Transport, storage, communication	1 625	902	323	-170	-312	232
Finance, insurance, real estate, and business services	2 363	1 534	532	8 169	-1 327	1 333
Community, social and personal services	5 139	2 241	1 133	4 743	1 203	-1 519
General government	0	0	0	10 805	1 996	3 186
Total	14 368	8 709	246	6 209	-6 080	-2 714
Yoy % change	2.7	11.0	0.1	0.3	-2.1	-0.5

Source: Quantec 2014

5.4.2 Agriculture, manufacturing and services – Informal employment growth performance

The Eden District labour market (formal⁹ and informal) grew at an annual rate of 1.7 per cent in 2013; growth mainly occurred in the informal labour market, expanding by 7.2 per cent.

Table 5.6 displays the informal employment trends in Eden District over the period 2000 - 2013. The informal sector experienced significant growth of 2.7 per cent per annum (i.e. 2000 - 2013, a net increase of 14 368 jobs), however this exponential growth was a result of the robust growth experienced during the recession years (11 per cent per annum, 2008 - 2009, or a cumulative 8 709 jobs). Unfortunately, it would appear from the evidence below that this was not new employment created but merely a displacement of formal sector employment. As noted, there has been modest growth during the economic recovery thus far (0.1 per cent per annum, 2010 - 2013, i.e. 246 new jobs).

Within the informal sector, significant retrenchments were experienced in the agricultural sector (206 total net retrenchments, 2008 - 2009). However, it was the increase in informal employment in the services sector, and particularly the trade sector, that was notable, with a cumulative total of 8 534 net jobs created during the recession years. As mentioned earlier, it should be noted that many of these jobs may simply have involved workers being displaced from the formal sector during the recession.

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is clear from Table 5.6 that the growth in the region has been dominated by the services sectors with a cumulative total of 1 665 informal jobs created over the same period, with the CSP services sector leading the way. Despite the growth experienced in the manufacturing sector during the recession, the primary and secondary sectors experienced a combined contraction of a cumulative 2 135 jobs.

5.4.3 Cyclical impact on informal employment in the Eden District

The first notable trend when comparing employment creation in the informal and formal sectors in Eden District over the 2000 - 2013 period is the significant number of net retrenchments in the formal sector during the recession (6 080 net retrenchments, 2008 - 2009) compared with the 8 709 net additional jobs created in the informal sector over the same period. Even though it is evident that during the recessionary period many workers losing their jobs in the formal sector moved to the informal sector, the informal sector was unfortunately unable to absorb all job losses in the formal sector.

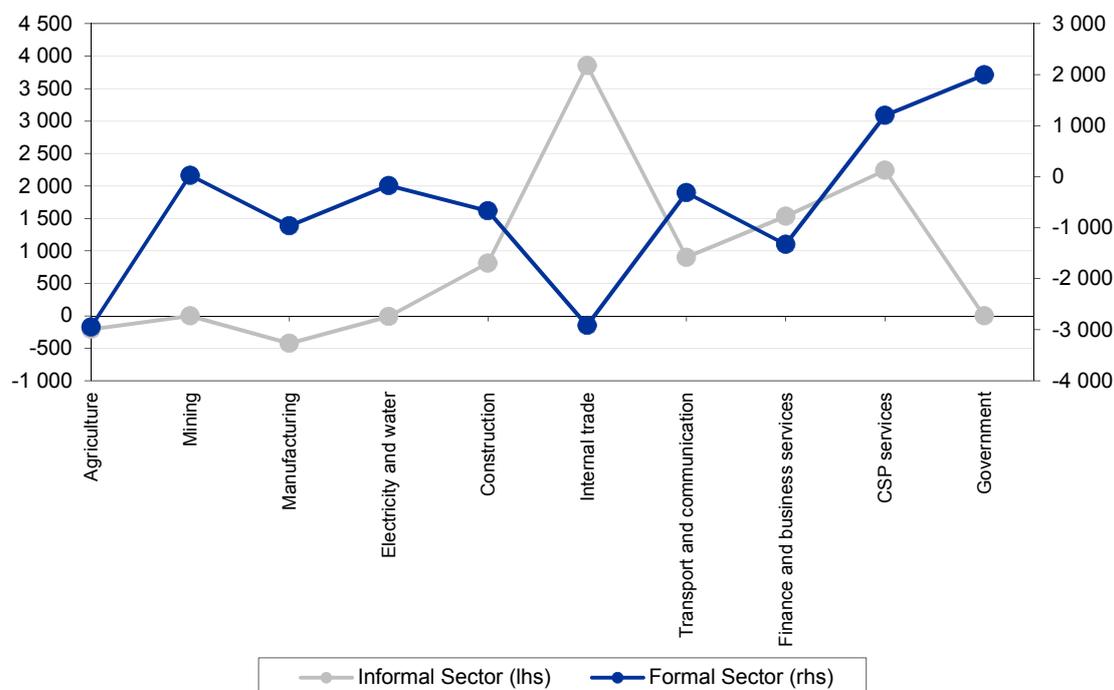
⁹ Please refer to Chapter 3 for the detail analyses of the formal labour market.

As shown in Figure 5.1, the wholesale and retail trade and catering and accommodation sector showed the most noteworthy performance where the number of informal net jobs created (3 857 during 2008 - 2009) far surpassed formal net retrenchments (2 916) during the same period. Literature indicates that there has been a growing trend of informalisation within the sector and that in fact a significant number of employers are operating in the informal sector. Of these employers, a number of small and micro-enterprises are not formally registered (i.e. they fall within the informal sector), with roughly 86 per cent of the sector comprising of small enterprises nationally (DHET, 2013). Furthermore, approximately 34 per cent of people in the sector are in informal employment, with the Western Cape Province having the second highest density of employees in the sector (DHET, 2013; Stats SA, 2013). This suggests that the informal sector acts as an absorber of formal sector retrenchments, and it may also be indicative of low barriers to entry into the informal sector for this industry.

For the transport, storage and communication and finance and business services sectors, the number of net retrenchments experienced within the formal sector was surpassed by the net job creation in the informal sector during the recession years. This is potentially indicative of a high transfer or flow of skilled labour from the formal sector to the informal sector, as well as the possible low barriers to entry within the informal sector as mentioned earlier.

Within the CSP services sector, net additional jobs were created in both the formal sector (1 203 net additional jobs) and the informal sector (2 241 net additional jobs) during the period 2008 - 2009.

Figure 5.1 Eden District: Change in employment during recession, 2008 - 2009



Source: Quantec Research, 2014

Within the agricultural sector, a high rate of net retrenchments in the formal sector (2 947 during 2008 - 2009) far surpassed the net retrenchments experienced in the informal sector during the recession years (206 net retrenchments). In the manufacturing sector, 423 net retrenchments were experienced in the informal sector during 2008 - 2009, but this was overshadowed by the high rate of net retrenchments within the formal sector over the same period (962).

It may be likely that those workers who were retrenched in the agricultural sector (or any other sector for that matter) became informal entrepreneurs (or found employment) in other sectors, e.g. transport, tourism, etc. This situation ties in with the indication in Table 5.3 that highlights that most informal business owners started their businesses due to financial hardship and/or difficulty in finding employment.

5.5 Concluding remarks

This chapter expanded on the understanding of informal and formal linkages and highlighted that there are significant linkages of informal and formal businesses in Eden District. While detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies were not able to be analysed there appears, given the financial constraints and low-level of skills within the informal sector, that these linkages may be at risk of 'unfair' formal sector outsourcing.

During the recession (2008 - 2009) in Eden District, there were significant job losses (6 080) in the formal sectors while there were 8 709 net additional jobs created in the informal sector over the same period. Most of the employment gains in the informal sector were created in the wholesale and retail trade and catering and accommodation sector during the recession, with the high number of informal net additional jobs surpassing formal net retrenchments. This indicates that the downward rigidities of the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed.

Furthermore, given that during the recession (2008 - 2009), informal employment expanded by 11 per cent per annum while formal employment contracted by 2.1 per cent per annum, it would appear that Eden District demonstrates a kind of dualistic labour market approach, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector. This may be extremely useful to Eden District, as a thriving informal market may alleviate the District from developing policies aimed at assisting the openly unemployed.

The high prevalence of female entrepreneurs in the informal and formal micro and small business sectors and the absence of them in the formal medium business may indicate the effect of the constraints to starting a business has on potential female entrepreneurs. Findings indicate that access to finance, for example, may constrain entrepreneurs' ability to enter the formal market and therefore due to a lack of alternative formal employment, many female entrepreneurs have been directed to activities with lower capital requirements.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms); it is recommended that the District and its Municipalities consider a more nuanced view of the informal economy. The focus here should not be on extending social protection across the informal economy as this risks trapping informal entrepreneurs in relations of dependency. Instead of reducing informal entrepreneurs to skilled labour in exploitative formal sector outsourcing arrangements; the policies should instead aim at for example, advocating informal entrepreneurs' distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., that could build a capacity for autonomous development.

Finally, there is a need for policy attention to extend beyond the question of how to create and manage linkages between the formal and informal economies. What is required is a more explicit focus on who designs particular linkage arrangements, whose interests they serve, and how policy and partnership arrangements can achieve a more equitable balance of benefits for informal actors and their associations as preferred contractors, insurance providers, or workers for decent wages, rather than as cheap labour and institutional solutions. Instead of assuming that institutional complementarities between the formal and informal sectors automatically create synergy through which both sides benefit, clearer policy attention must be directed at how to turn potential formal-informal complementarities into synergistic arrangements. This requires attention to legal as well as skill-based obstacles, and to building power, leverage, negotiating skills and supportive alliances in the formal sector as part of the process of building informal associations. Recent official policy and research activities relating to the informal sector are being informed by a more developmental and less regulatory oriented approach.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Service delivery is vital to economic success. According to the Reconstruction and Development Policy framework (1994:28) at the time of the first democratic elections in South Africa in 1994, it is estimated that 12 million South Africans did not have access to clean drinking water and 21 million people did not have adequate sanitation. South Africa has a long and difficult path with service delivery. Through programs such as the Reconstruction and Development Plan (RDP), the country ventured on a path to improve service delivery and access to basic infrastructure for the masses. The provision of basic services as a vehicle for improving local economic development has always been a key priority for Government.

Following the adoption of the 1996 Constitution, municipalities were mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. Chapter 1 of the Systems Act defines basic municipal services, as a *"service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health, safety and the environment"*. Municipalities would require adequate infrastructure in order to ensure access to basic services and ensure delivery of the requirements set out in section 73(2) of the Systems Act.

The Department of Local Government defines municipal infrastructure as "the capital works required to provide municipal services. It includes all the activities necessary to ensure that the works are delivered effectively, such as feasibility studies, project planning and capacity building to establish sound operational arrangements for the works". Municipal infrastructure includes transport, communication, energy, water and sanitation facilities. Most, but not all, basic services require Municipal Infrastructure. Municipalities are not only faced with the challenge of addressing

infrastructure backlogs but also the upgrade and maintenance of existing infrastructure.

Governments have continued to highlight the importance of infrastructure investment for basic service delivery. According to a Non-Financial Municipal Census conducted by Stats SA the provision of basic services increased by 6.4 per cent between 2011 and 2012. The census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). The highest percentage change between 2011 and 2012 was recorded in the provision of water – going up by 6 per cent. The provision of electricity, sewer and refuse increased by 4.4 per cent 3.4 per cent and 2.7 per cent respectively over the same period.

Despite these positive changes social protests over basic service delivery in South Africa have become a common occurrence. Data compiled by the Municipal IQ showed that 173 service delivery protests were recorded in 2012, the highest number over the past decade. Municipalities are faced with varying challenges in collecting revenue and meeting the increasing demand for basic services.

This chapter analyses two important sides of the budget - revenue and expenditure. Both revenue and expenditure play very important roles in local economic and social development. This chapter examines the revenue and expenditure performance of Municipalities within the Eden District. Data for the analysis was sourced from various sources such as Quantec, Municipal Budget Schedules and Stats SA. An overview of Municipal revenue trends is provided, and its resulting impact on basic service delivery. In addition Municipal expenditure is also assessed.

6.2 Overview of municipal revenue trends in Eden District

Since 1994 there has been a remarkable transformation of Local Government and the services they provide. The democratisation of Local Government involved Municipal fiscal independence, administrative restructuring, structural transformations and an overhaul of the intergovernmental fiscal system. Hence the provision of Municipal Infrastructure takes place through intergovernmental transfers or own revenue which includes property taxes, surcharges on services, user fees or borrowing.

According to the Constitution, municipalities should provide basic services within their financial and administrative capacities. Due to various economic inequalities revenue collection differs amongst municipalities, certain municipalities cannot provide for basic services due to limited revenue bases. Governmental transfers help to bridge these gaps. According to a report by the Financial and Fiscal Commission (2014: 97) grants and subsidies from National and Provincial Government make the largest contribution to capital revenues. The second largest contributor to capital financing is municipal own revenue followed by borrowing.

Table 6.1 illustrates total revenue generation from roads and trading services per municipality in the Eden District. Eden District revenue grew by a real annual average rate of 8.9 per cent between 2008/09 and 2012/13. As can be seen over the period

under consideration revenue generated was highest in George Municipality. The municipality contributed 36 per cent to Eden District roads and trading services revenue in 2013. The differences in revenue collection may be a result of differing tariff price structures or a reflection of a differing tax base, administrative capabilities of municipalities to collect revenue or economic performance. The administrative capabilities refer to internal municipal revenue collection inefficiencies. The tax base of a municipality is influenced by economic and demographic factors such as income levels and number of indigent¹⁰ consumers. Generally high levels of poverty, a declining revenue base and poor economic growth constrains service delivery by municipalities and revenue collection.

Table 6.1 Revenue per municipality (Rand; constant 2005 prices)

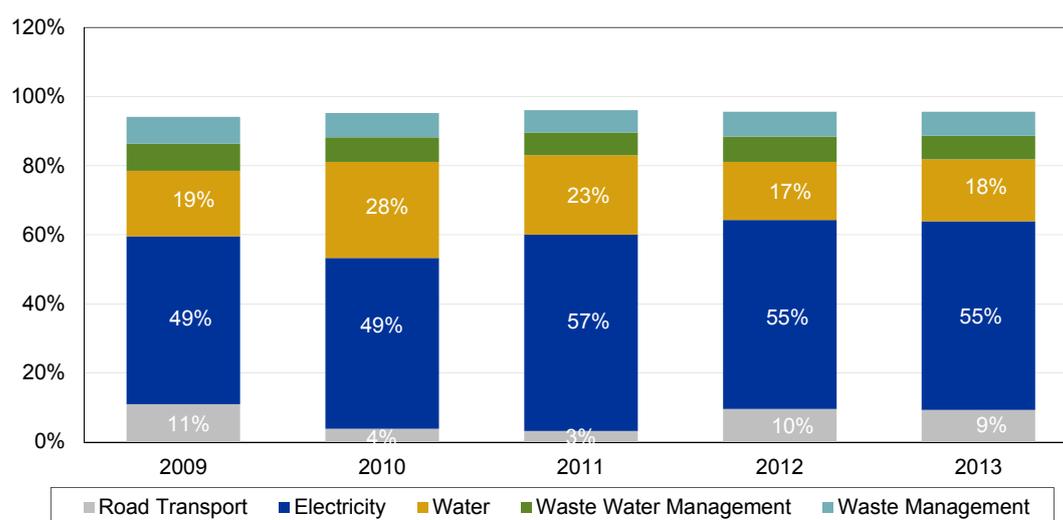
Municipality	2009	2010	2011	2012	2013
Eden District	66 771	6 141	8 415	79 090	68 652
Kannaland	35 240	34 581	31 081	35 665	50 203
Hessequa	86 290	95 172	87 390	100 197	100 810
Mossel Bay	233 991	280 793	176 019	182 230	185 934
George	276 636	386 703	371 424	439 873	486 508
Oudtshoorn	85 302	107 573	132 740	156 840	158 328
Bitou	78 834	107 501	127 114	117 305	125 213
Knysna	142 142	182 249	176 019	182 230	185 934
Total	1 005 208	1 200 713	1 110 204	1 293 429	1 361 583

Source: Western Cape Provincial Treasury

Figure 6.1 illustrates revenue collection from road transport and trading services within Eden District. Revenue derived from electricity contributes more than half of the total revenue generated within the Eden District. Since 2008/09 the contribution made by revenue from water charges has declined slightly, alongside increases in revenue from electricity charges. Revenue from waste management services contributed the least to total revenue.

Table 6.2 shows the contribution to GDP in 2013 and the average GDP growth for the local municipalities over the period 2000 - 2013. We compare it to the share of revenue generated per municipality within the Eden District. George Municipality made the largest contribution to revenue collection for the District but grew at 3.9 per cent, i.e. below the average GDP growth for the District (5.0 per cent over the period 2000 - 2013). Bitou Municipality recorded the highest GDP growth rate (7.7 per cent) and contributed 9 per cent of the revenue collected. The above average growth of Mossel Bay is also notable; the municipality recorded an average GDP growth of 7.5 per cent but accounted for only 14 per cent of the total revenue collected in the District in 2013. Kannaland Municipality grew at 5.0 per cent but contributed the least (4 per cent) to total revenue collected in the District. The municipality also has the smallest population within the Eden District.

¹⁰ According to the Indigent Policy the term indigent means 'lacking the necessities of life' such as water, sanitation, refuse removal and housing amongst other things.

Figure 6.1 Contribution of service charges to municipal revenue

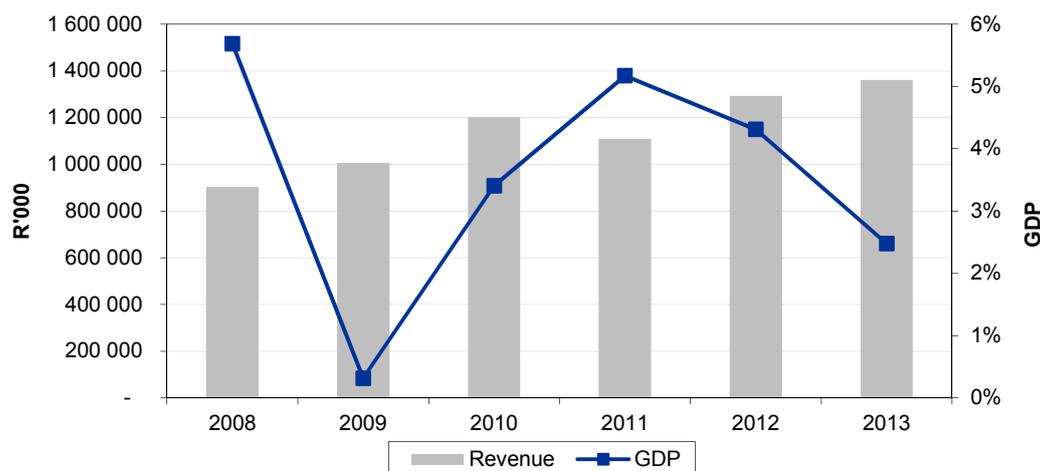
Source: Western Cape Provincial Treasury

Table 6.2 GDPR vs percentage revenue generated in the Eden District in 2013

Municipality	Revenue % share	GDPR % share	GDPR growth 2000 - 2013
Kannaland	4%	4%	5.0%
Hessequa	7%	5%	1.2%
Mossel Bay	14%	28%	7.5%
George	36%	30%	3.9%
Oudtshoorn	12%	11%	3.4%
Bitou	9%	8%	7.7%
Knysna	14%	12%	5.5%

Source: Western Cape Provincial Treasury

Figure 6.2 shows an approximate relationship between revenue generation in Eden District and GDPR growth. From a growth perspective it is clear the Eden District economy escaped the recession in relatively good shape, growing at 0.3 per cent in 2009. Despite this decrease in economic growth the municipality recorded an average annual revenue growth rate of 15.3 per cent over the period 2008/09 to 2009/10 in comparison to a growth of 8.9 per cent over the period 2008/09 to 2012/13. All Municipalities except Kannaland recorded higher revenue collection growth rates during the recession (2008/09 and 2009/10) in comparison to the recovery years (2010/11 and 2012/13). The average growth in revenue collection for Kannaland Municipality contracted over the recession period (4.6 per cent) and recorded an average growth in revenue collection of 15.1 per cent during the recovery years. The contraction in revenue during the recession is presumably a result of depressed economic activity and the municipality's weak revenue base. Contrary to what is seen in most municipalities in Eden District one would expect depressed economic activity during the recession to influence revenue collection. The increase in revenue collection during these years suggests that the rest of the municipalities weathered the impact of the recession relatively well. This high revenue growth rate presumably reflects the impact of annual tariff price increases, improvements in municipal revenue collection or changes in the number of indigent consumers.

Figure 6.2 Municipal revenue vs GDP: 2008 - 2013

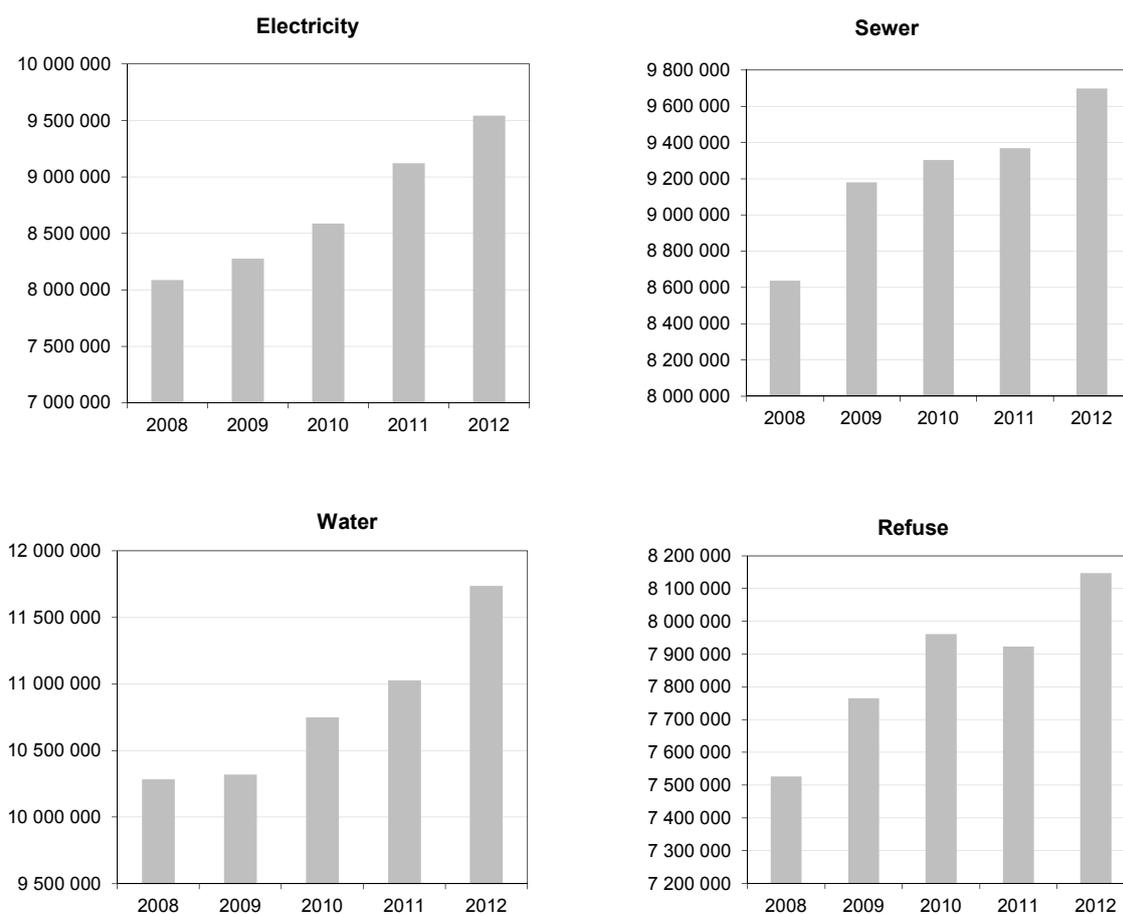
Source: Western Cape Provincial Treasury

For municipalities to maximise their revenue collection it is important for them to adopt revenue raising strategies through maintaining and improving service delivery quality. Revenue increasing strategies include expansion of service delivery, debt collection strategies, efficient revenue management, minimising water losses, maintaining an accurate billing system. For example, unaccounted electricity losses in Kannaland Municipality during the 2012/13 financial year (18 per cent in Ladismith and 19 per cent in Calitzdorp) place pressure on the municipality's budget process. These unaccounted electricity losses limit revenue generation due to unaccounted purchases. The municipality has also highlighted concerns over the non-payment for services by residents within its area. According to the municipality's IDP the payment rate for the 2012/13 financial year (78 per cent) was well below the norm (96 per cent). Municipal revenue collection and financial viability is undeniably linked to its ability to render quality services and improve access to basic services. As such the next section discusses access to basic services.

6.3 Access to basic services

Basic service delivery plays a central role in poverty alleviation. Statistics South Africa has been tracking the progress of service delivery across all municipalities since 2003 through an annual Non-financial Census of Municipalities. Since 2008 the number of households receiving electricity, sewer, water and refuse has gone up (see Figure 6.3).

According to a Non-financial Census of Municipalities conducted by Stats SA for the year ended June 2012 the provision of basic services went up by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). Table 6.3 illustrates the number of households receiving basic services in each province.

Figure 6.3 Number of households receiving basic services

Source: Stats SA: Non-financial Census of Municipalities

Access to basic services helps improve socio-economic conditions of the poor enabling them to participate in economic activities. Since 1994 various laws have been adopted to improve the socio-economic conditions of the poor (SERI, 2013). At the local level this comes in the form of the provision of free basic services to indigent consumers - 6 kl water and 50 kWh electricity per month.

Table 6.3 Number of households receiving basic services in each province

Province	Water		Electricity		Sewerage and sanitation		Solid waste management	
	2011	2012	2011	2012	2011	2012	2011	2012
Western Cape	1 023 117	1 223 237	1 215 410	1 242 786	1 014 527	1 032 682	1 257 378	1 274 281
Eastern Cape	1 496 300	1 568 621	997 571	1 056 322	1 021 752	1 098 311	752 350	778 202
Northern Cape	240 435	250 605	248 465	261 591	237 708	245 114	209 947	219 947
Free State	725 191	768 064	656 332	661 732	665 955	698 785	526 830	560 684
KwaZulu-Natal	1 919 351	1 991 349	1 526 952	1 597 910	1 675 267	1 723 360	1 429 068	1 455 627
North West	713 216	741 934	775 743	792 721	588 158	615 626	465 048	466 084
Gauteng	2 799 716	3 001 574	1 925 463	2 076 143	2 708 004	2 778 742	2 513 354	2 577 966
Mpumalanga	940 433	963 323	670 271	706 914	820 665	853 648	405 734	420 509
Limpopo	1 169 483	1 228 827	1 103 549	1 144 869	635 586	651 118	363 391	393 649
Total	11 027 242	11 737 534	9 119 756	9 540 988	9 367 622	9 697 386	7 923 100	8 146 949

Source: Stats SA: Non-financial Census of Municipalities

Each municipality within Eden District operates in unique demographic and economic circumstances that make access to basic services vary across municipalities. The varying number of households with access to basic services across the local municipalities in Eden District is a reflection of differing population sizes, economic activity and challenges that municipalities face in the delivery of basic services. The main obstacle to accelerating basic service delivery is the proliferation of urban settlements and lack of appropriate infrastructure. Water provision is influenced by locational factors and distance from water source. Table 6.4 shows the number of households with access to basic services in each municipality within the Eden District.

Table 6.4 Number of households with access to basic services in 2012*

Municipality	Water	Electricity	Sewer	Refuse
Bitou	14 118	12 801	14 105	15 186
George	35 702	40 245	39 886	43 000
Hessequa	13 355	14 460	13 444	12 713
Kannaland	5 650	4 952	5 590	4 553
Knysna	20 931	18 448	18 888	13 686
Mossel Bay	32 790	36 938	28 893	54 392
Oudtshoorn	15 643	15 463	15 643	15 643

* Information differs from primary data sources due to certain exclusions.

Source: Stats SA: Non-financial census of municipalities

Whilst Kannaland Municipality has the smallest population in the Eden District, Bitou Municipality has been highlighted as having the fourth-highest growing population in the country (Bitou IDP, 2014). Population increases might impact the municipality negatively due to an increased demand for services and an increase in indigent households. According to the municipal survey questionnaire rapid expansion of informal settlements within the Mossel Bay has placed pressure on service delivery as demand increases rapidly. Due to its location most municipalities within the Eden District are affected by the migration of residents from the poorly developed Eastern Cape to the Western Province. A challenge facing most municipalities within the District is the availability of water in the context of climate change and droughts. For example Ladismith town in Kannaland Municipality suffers from water shortages during summer months due to a lack of sufficient water storage capacity or disaster management plans. Kannaland Municipality recognises the challenge it faces in the provision of storm water infrastructure due to lack of capital and operational funds. Whilst George Municipality has an excellent track record in service delivery based on the municipal survey questionnaire the increase in unemployment within the area could potentially impact on revenue collection.

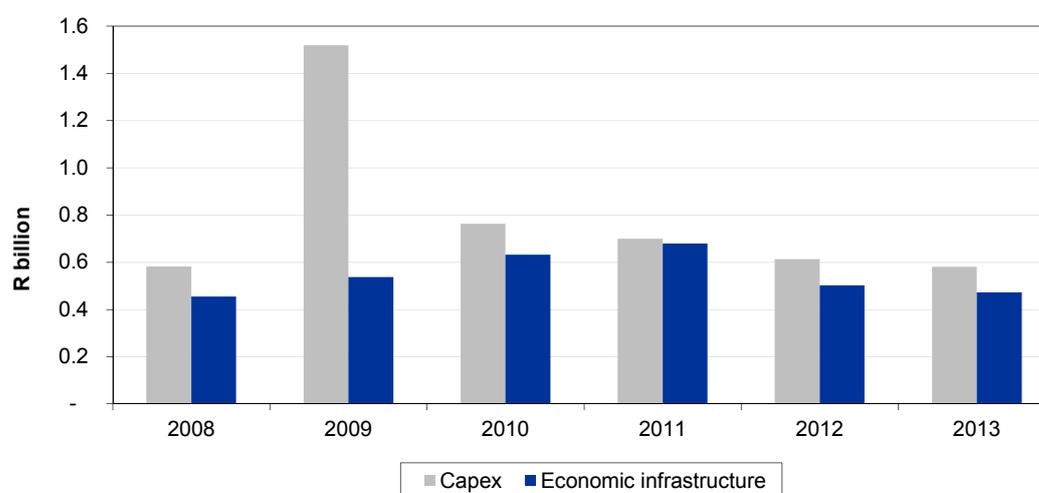
Municipalities have a wide array of financial instruments to use in meeting their service delivery responsibilities. In order for municipalities to provide basic services they need to generate the required revenue. Hence revenue management and revenue raising strategies need to be implemented. It is crucial that these scarce resources should be used effectively and efficiently to ensure that service delivery is maximised. In this regard the following section analyses infrastructure expenditure.

6.4 Infrastructure expenditure

The President's 2014 State of the Nation Address highlighted Government's continued commitment to the National Infrastructure Plan as a tool for promoting economic growth. With this growing emphasis on infrastructure investments, municipalities within Eden District have continued in their efforts to improve infrastructure availability and eradicate service backlogs. To this end in 2013, economic infrastructure expenditure took up 81 per cent of the entire capital expenditure budget for the whole District (see Figure 6.4).

Mossel Bay and George are part of the Province's top-10 leading non-metro municipalities in terms of economic growth and size and each contributed 15 per cent and 23 per cent respectively to total infrastructure expenditure in the region (see Table 6.5). Oudtshoorn Municipality had the highest infrastructure expenditure within the region, accounting for 27 per cent of the total infrastructure expenditure. Kannaland, Bitou and Hessequa municipalities contributed the least to infrastructure expenditure with the District each accounting for 8 per cent in 2013. Knysna Municipality recorded the highest growth in infrastructure expenditure from 2012 to 2013, however this Municipality contributed only 11 per cent to total infrastructure expenditure in the region.

Figure 6.4 Capex vs Economic infrastructure expenditure: 2008 - 2013



Source: Western Cape Provincial Treasury

Table 6.5 Eden District infrastructure expenditure per municipality, 2013

Municipality	2009	2010	2011	2012	2013
Eden District	3%	0%	6%	0%	0%
Kannaland	4%	2%	6%	12%	8%
Hessequa	9%	9%	6%	12%	8%
Mossel Bay	17%	21%	31%	17%	15%
George	47%	36%	19%	20%	23%
Oudtshoorn	2%	5%	17%	27%	27%
Bitou	11%	14%	10%	4%	8%
Knysna	7%	14%	6%	8%	11%

Source: Western Cape Provincial Treasury

As mentioned in the MERO 2013 report, the 2010 Growth Potential Study categorises towns and municipalities in Eden District in terms of an infrastructure index. Towns along the southern coast of the District are generally rated high and medium according to the infrastructure index (for example Mossel Bay, Brenton-on-Sea and Keurboomsrivier). Towns with the most severe infrastructure challenges in Eden District are De Rust, Friemersheim, Rheenendal, Zoar, Slangrivier, Haarlem and Kurland.

Infrastructure expenditure should be directed towards influencing economic growth. Budgetary constraints call for an investigation into the types of infrastructure that would influence economic growth. Expenditure continues to be high in five main forms of infrastructure, i.e. water provision, waste water management, waste management, road transport and electricity (see Table 6.6). Water and road transport are the largest capital expenditure items in Eden District. Expenditure on these budget line items is highest in Oudtshoorn Municipality. Electricity and waste water management constitute relatively smaller shares of Municipal capital expenditure. The relatively smaller contribution made by electricity could be a result of intergovernmental arrangements (Financial and Fiscal Commission, 2014). For example, local government and Eskom are both involved in the distribution of electricity to consumers. Eskom therefore also invests significantly in electricity infrastructure.

Table 6.6 Eden District economic infrastructure expenditure per budget line item

Municipality	Budget line Item (Rand)						
	Planning and Development	Road Transport	Environmental Protection	Electricity	Water	Waste Water Management	Waste Management
Eden District	12 000	0	3 000	0	0	0	9 000
Kannaland	3 485	19 518 952	23 035	5 970 528	8 017 869	2 248 833	0
Hessequa	3 485	19 518 952	23 035	5 970 528	8 017 869	2 248 833	0
Mossel Bay	295 332	23 443 905	0	20 208 110	8 418 131	15 601 460	2 189 065
George	0	24 079 946	0	17 864 654	30 685 684	37 089 187	346 626
Oudtshoorn	945 000	24 607 000	0	26 768 000	50 766 000	20 728 000	5 528 000
Bitou	12 115	15 989 739	0	2 411 142	11 587 742	9 282 072	0
Knysna	86 000	2 662 000	0	13 405 000	12 377 000	21 105 000	1 689 000
Total	1 357 417	129 820 494	49 070	92 597 961	129 870 296	108 303 385	9 761 691

Source: Western Cape Provincial Treasury

6.4.1 Infrastructure investment and economic growth

Empirical evidence has shown that infrastructure investment will have a variety of effects on growth. Various studies have tried to provide empirical proof of the typical impact that various forms of infrastructure expenditure would have on the economy. Early reviews of the empirical literature can be found in Fourie (2006).

Public spending on infrastructure is an effective tool for job creation and labour productivity. Kumo (2012) considered the relationship between economic growth, economic infrastructure investment, and employment in South Africa for the period 1960-2009. The author finds that there is a two way causal relationship between infrastructure investment and job creation in the public sector. An expansion of

infrastructure expenditure has both a direct and an indirect impact on job creation. The direct effect are the jobs created by infrastructure production, whereas the indirect effects are the jobs created as a result of the increased demand for the material used in the production of infrastructure. As previously discussed in Chapter 3 over the period 2000 - 2013 the transport sector created employment at a rate of 2.0 per cent per annum. The electricity and water sector created employment at a rate of 1.5 per cent over the same period. In contrast the employment contractions in the construction sector are a cause for concern (0.3 per cent). It is important to note that the indirect impact of infrastructure investment on employment may be a lot more visible than the direct impact. The resulting impact of an investment in infrastructure will be captured in the construction sector. Once construction is complete the capacity to provide basic services, transport and communications boosts economic activity thus creating jobs in other sectors.

Empirical evidence at National level has shown that infrastructure investment does have an impact on growth. As mentioned in the MERO 2013 report, results from the 2010 Growth Potential Study by Van Niekerk, A et al (2014) revealed that the best performing Municipalities in Eden District according to an infrastructure index are Mossel Bay, George and Hessequa Municipalities. Table 6.7 shows the average annual growth rate of municipalities in Eden District over the period 2000 - 2013. The table also shows how the municipalities performed according to the infrastructure index.

George Municipality grew below the District average growth rate (5.0 per cent over the period 2000 - 2013) at an average growth rate of 3.9 per cent, but is rated high according to the infrastructure index. The municipality benefits from its location and the existence of an airport, the municipality also hosts the town of George which has evolved to be the center of Eden District. Mossel Bay grew above average at 7.5 per cent over the period 2000 - 2013 and is also rated high according to the infrastructure index. The municipality benefits from its close proximity to the harbour.

Table 6.7 GDP vs Infrastructure levels at municipal level

Municipality	GDP Growth 2000 - 2013	Infrastructure Level
Mossel Bay	7.5%	High
Bitou	7.7%	Low
Knysna	5.5%	Medium
Kannaland	5.0%	Low
George	3.9%	High
Oudtshoorn	3.4%	Medium
Hessequa	1.2%	High

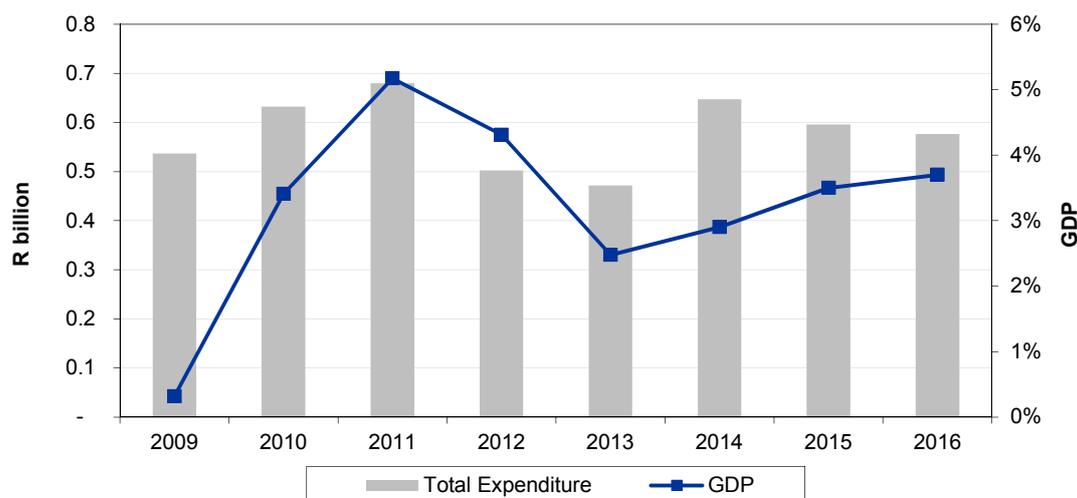
Source: Van Niekerk, A et al (2014) and Quantec Research

The performance of Bitou, Kannaland and Hessequa Municipality contradicts economic theory. In this regard the following points have relevance:

- Hessequa Municipality recorded the lowest GDP growth rate over the period 2000 - 2013 but is rated high according to the infrastructure index. A first observation is that all the towns under the municipality except for Slangrivier were rated high according to the infrastructure index. The poor growth rate the municipality recorded is an indication of various economic challenges the municipality faces, with an agricultural sector under duress being one of them. This region, therefore, has potential to grow given the stock of infrastructure and needs to diversify its economic activities.
- Bitou Municipality recorded an impressive average annual GDP growth rate of 7.7 per cent over the period 2000 - 2013. However the municipality was rated low according to the infrastructure index. This is matched by its relatively low investment in infrastructure which accounted for 8 per cent of the total infrastructure expenditure in the Eden District. The implication is that the high growth rate of the municipal economy may become unsustainable due to infrastructure constraints.
- Kannaland Municipality recorded an annual GDP growth rate of 5 per cent for the period 2000 - 2013. This growth rate is in line with that recorded for Eden District over the same period. The municipality is rated low according to the infrastructure index. This is matched by its relatively low investment in infrastructure which also accounted for 8 per cent of the total infrastructure expenditure in the Eden District. The bottom line is that in the long run poor infrastructure within the region cannot continue supporting high growth rates.

The different forms of infrastructure expenditure have made differing contributions to GDP growth within the District. As previously shown in Chapter 3 the transport and communication sector grew slightly below average expanding real value added by 4.9 per cent per annum over the period 2000 - 2013. Despite its disappointing performance in employment creation the construction sector grew above average, expanding real value added by 9.3 per cent per annum over the same period. In contrast growth in the electricity and water sector is disappointing (0.7 per cent per annum over the period 2000 - 2013).

Whilst data limitations preclude a complete empirical presentation, Figure 6.5 below provides an approximation of the relationship between infrastructure expenditure and economic growth. It is important to note the role played by time lags in between expenditure on infrastructure and its resulting impact on economic growth. In the investment phase the direct impact of infrastructure spending on GDP occurs mainly via the construction sector. During this phase the demand for construction equipment and employment increases. Once construction is complete the capacity to provide basic services, transport and communications increases facilitating higher economic activity. Thus infrastructure spending has a lagged effect on GDP.

Figure 6.5 GDP vs Total economic infrastructure expenditure: 2008 - 2013

Source: Western Cape Provincial Treasury

In Chapter 3 it was seen that real GDP growth in Eden District was the fastest in the Province growing at 5 per cent over the period 2000 - 2013. Infrastructure expenditure is crucial in supporting the industries that influence growth. Economic growth in Eden District is largely driven by the agricultural, manufacturing and construction sectors, all with strong forward linkages with the vibrant services sector. The construction sector is supported by increases in tourism investments. Investment in infrastructure would be more effective if it focused on supporting these sectors. These projects will also have multiplier or knock-on effects that have a longer term impact on the regional economy.

The availability of infrastructure is a key factor affecting the location of business within the Eden District. The Eden District 2013 fact sheet by Wesgro lists 19 top companies within the District in 2012. An interesting fact is that none of these companies are located in a town that was rated low according to the infrastructure index in the Growth Potential Study. Providing the necessary infrastructure in economically deprived regions is important in attracting firms to these regions creating jobs and economic growth.

6.5 Concluding remarks

Government recognises that basic service delivery through infrastructure investment is the cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure has an impact on economic growth. The municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act of 2000. The provision of Municipal Infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. The data presented in this chapter analysed two important sides of the budget, i.e. revenue and infrastructure. The analysis revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across Municipalities within

the Eden District. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality.

According to the Growth Potential Study, Hessequa, Mossel Bay and George municipalities are rated high according to an infrastructure index. On the other hand Bitou and Kannaland municipalities fall within the low category according to the infrastructure index. Economic theory and empirical work suggest that investment in infrastructure will affect economic growth. However the performance of some municipalities (Bitou, Kannaland and Hessequa) within the District contradicts this. The performance of Hessequa Municipality is notable. The municipality is rated high according to the infrastructure index but experienced the lowest GDP growth rate in the region for the period 2000 - 2013. The mismatch between infrastructure and economic growth could presumably be a result of various economic challenges the municipality faces. On the other hand Kannaland and Bitou municipalities recorded an annual GDP growth rate of 5 per cent and 7.7 per cent respectively for the period 2000 - 2013 but were rated low according to the infrastructure index. This is matched by both municipalities' relatively low investment in infrastructure, which places the sustainability of their high growth at risk.

The data presented revealed that the positive relationship between infrastructure expenditure and growth is influenced by various factors such as skills shortages, budgetary constraints and struggling economic activity. The impact of infrastructure investment on growth within the Eden District depends on individual municipalities' infrastructure investment decisions. Economic characteristics and development potential should guide infrastructure investment decisions. The District should focus on providing infrastructure that supports industries in which it has comparative advantage. Such investments will have multiplier or knock-on effects on the rest of the economy. Given the poor consumer and business confidence within the region infrastructure spending could be a key source of economic growth and employment creation.

7

Socio-economic analysis and economic performance

7.1 Introduction

The previous Municipal Economic Review and Outlook (MERO) studies provide a focused institutional framework for microeconomic analysis – in the form of the districts and their constituent municipalities. MERO 2014 follows from its predecessor, MERO 2013, in that it includes a socio-economic analysis. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact their economy has on it.

This chapter aims to create a link between the information provided in the Socio-Economic Profiles of 2013/14, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to the population, human development, education, household income, income inequality and poverty in the District, each in relation to the District's economic performance.

7.2 Demographic indicators

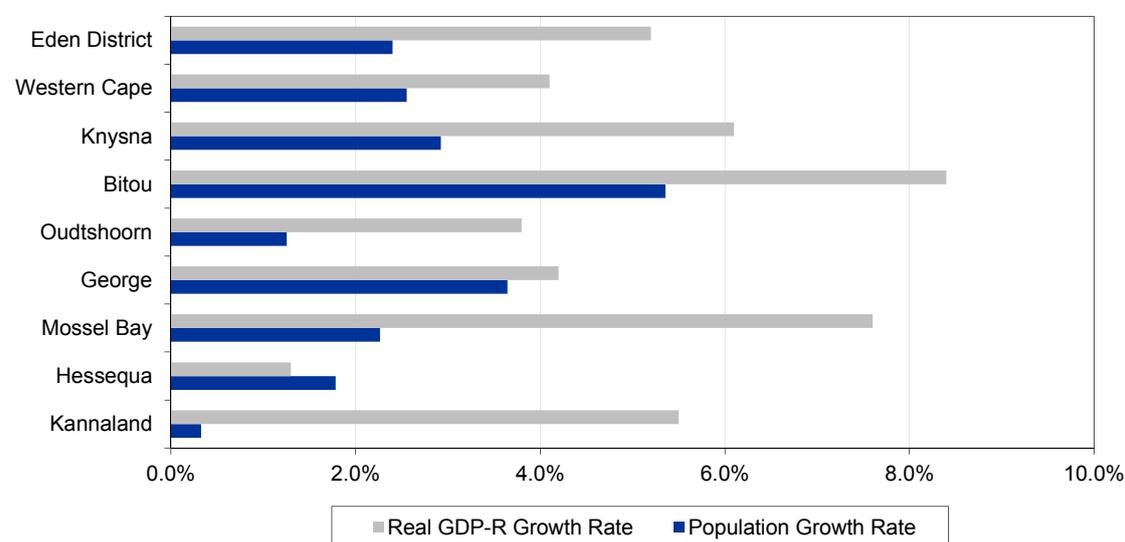
7.2.1 Population and economic growth

According to Statistics South Africa 2011 Census data, the Western Cape Province has 5.822 million people, having increased from 4.524 million in 2001. The average population growth rate in the Western Cape is thus 2.6 per cent per annum. The Western Cape economy grew at a rate of 4.1 per cent on average per annum from 2001 to 2011. The fact that the economy grew faster than the population within the

Province indicates that per capita income is increasing over time, ensuring improving, though uneven standards of living for its inhabitants. The per capita income¹¹ in constant 2005 prices increased from R37 496 in 2001 to R43 557 in 2011.

A closer look at the Eden District indicates that per capita income has been on the rise over the period from 2001 to 2011. The Eden District population size was 574 265 in 2011. As seen in the table below, its population grew at a rate of 2.4 per cent per annum from 2001 to 2011. Its economy grew at a much faster rate of 5.2 per cent on average per annum, indicating that there has been an increase in per capita income over this period. The GDP per capita increased from R25 279 in 2001 to R32 956 in 2011. This 30.4 per cent increase was the highest in the Western Cape, largely due to the Eden District's fast growing economy.

Figure 7.1 Eden District annual average population and real GDP growth rate, 2001 - 2011



Source: Statistics South Africa, Census 2001 and 2011

Mossel Bay witnessed the highest increase in per capita income (R34 560 to R55 019) over the period from 2001 to 2011 and is on par with the provincial average. It has a population size of 89 430 persons and a population growth rate of 2.3 per cent. Its average annual real GDP-R growth rate over the period was the second highest in the Province at 7.6 per cent. The growth margin is an indication that per capita income has been increasing in the Mossel Bay region.

Hessequa Municipality is the only municipality that experienced an income per capita decline over the period from 2001 to 2011. Its population growth rate is not very high at only 1.8 per cent, but its slow economic growth rate (1.3 per cent) over the period has led to a decline in per capita income by R1 609 from 2001 to 2011. This indicates a greater strain on municipal resources and relatively lower standards of living within the municipal area.

¹¹ Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

Kannaland, Knysna, Oudtshoorn, Bitou and George each experienced an increase in per capita income over the period from 2001 to 2011 of 66.8, 36.7, 30.6, 25.7 and 3.5 per cent respectively. This is mainly because in each case the real GDP grew at a faster rate than the population. Note the large discrepancies in the population growth rates within the Eden District region. Kannaland has the smallest population growth rate in the Province of 0.3 per cent, while Bitou had the largest population growth rate of 5.4 per cent in the Province. Bitou Municipality has a fast growing population largely because it is migrant receiving, especially from the Eastern Cape which borders the municipal area. The fact that Bitou managed to achieve a GDP growth rate of 8.4 per cent allowed it to maintain an increasing per capita income despite its above-average population growth. Population growth not only stems from natural causes but is also largely due to net in-migration in certain areas.

Figure 7.1 above shows that between 2001 and 2011 per capita income increased in all municipalities within the Eden District, apart from Hessequa Municipality which experienced a decline. This translates to an improvement in the standard of living of the inhabitants of the Eden District as a whole.

7.2.2 Age distribution, dependency and youth unemployment

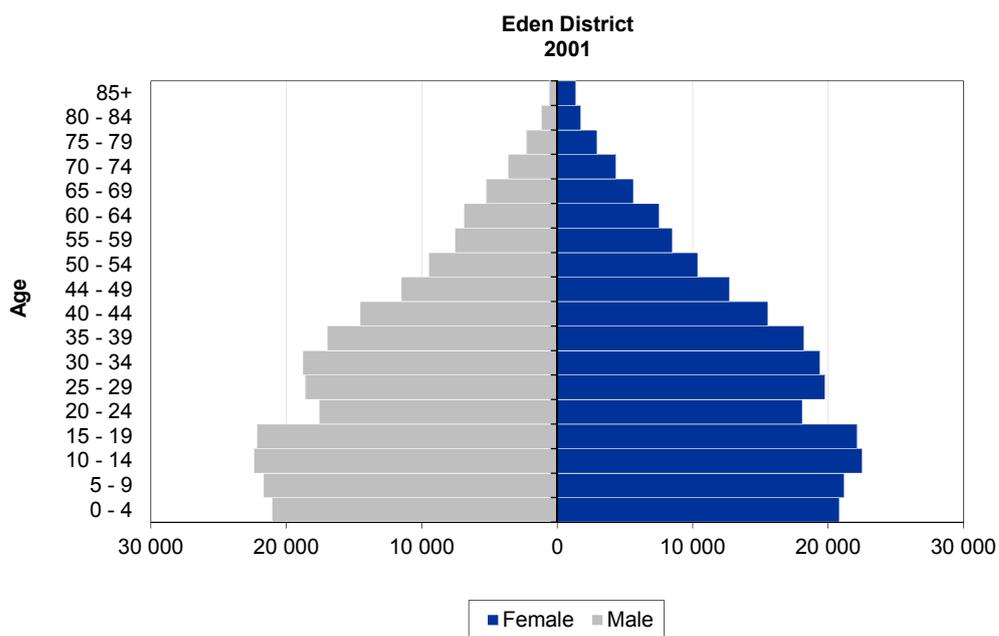
The population can be classified into three main groups namely the children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older.

In 2011, Eden District's population composition was as follows: children at 25.9 per cent, economically active population at 66.3 per cent and persons aged 65 and older at 7.8 per cent. The youth represented 32.7 per cent of the population in 2011. Note that in 2001 there was out-migration from the Eden District after the 15 - 19 years age group. This may have been to pursue work opportunities elsewhere. In 2011 however this picture has changed. There is an increase in persons aged 20 to 24 and the decline occurs in the 30 - 34 age group instead.

The average child dependency and aged dependency ratio was 39 per cent and 11.8 per cent respectively in 2011. The total dependency ratio was thus 50.8 per cent having decreased from 53.5 per cent in 2001. This is one of the highest in the Province thus depicting the strain on the income of the working age population.

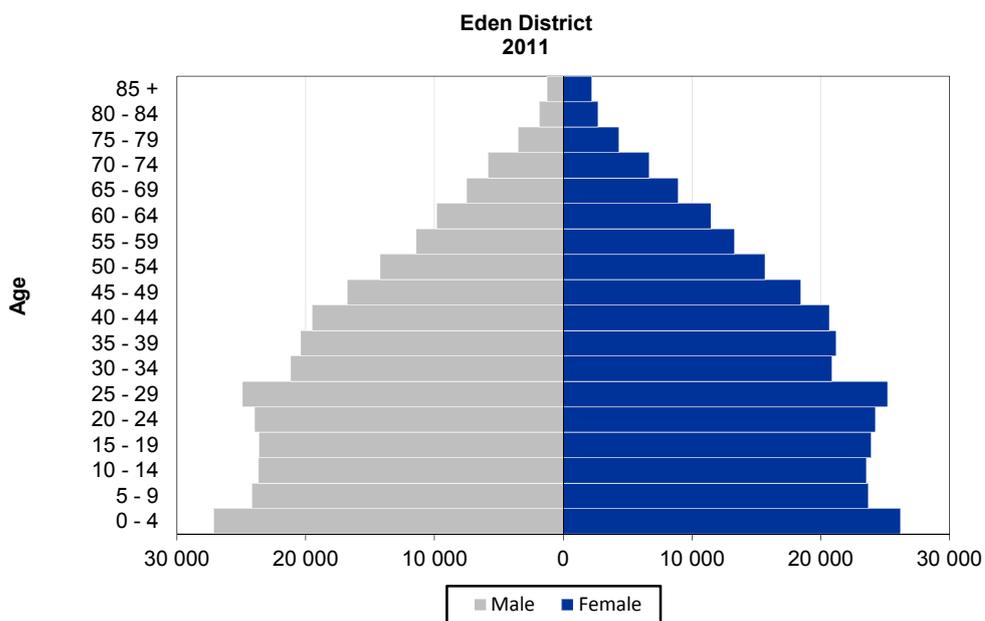
There has been a decline in the youth (age 15 - 34) share of the population in the Eden District from 2001 to 2011. This may explain, to an extent, the decline in the youth unemployment rate in the region from 31.2 to 29.3 per cent over this period. Eden District however still has the highest youth unemployment rate amongst all the districts in the Western Cape. This could be attributed to the youth's lack of hard skills and work experience, creating deficient labour demand for youth. Youth unemployment is most prevalent in Bitou Municipality at a rate of 37.9 per cent, having increased from 33.4 per cent in 2001.

Figure 7.2 Eden District's population pyramid for 2001



Source: Statistics South Africa, Census 2001

Figure 7.3 Eden District's population pyramid for 2011



Source: Statistics South Africa, Census 2011

The high dependency ratio and youth unemployment rate, especially the slow decline thereof paints a negative picture for the Eden District.

7.3 Development indicators

7.3.1 Educational level and employment

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate in the country as a whole of 80.9 per cent. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the provinces in the country from 2001 to 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth. Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education during the Apartheid regime.

In the Eden District the literacy rate is slightly lower than the Provincial average at 82.6 per cent. Nevertheless, it is the non-metro district with the highest literacy rate. Its unemployment rate is the second highest amongst the districts within the Province at 22.5 per cent. This does not conform with economics which theorises that higher levels of education lead to lower levels of unemployment.

The municipality with the highest literacy rate is Bitou at 85.8 per cent. The corresponding unemployment rate is however the highest in the District at 30.1 per cent having increased from 26.3 per cent in 2001. This may be explained by the 64.6 per cent increase in the labour force from 2001 to 2011, indicating a large number of entrants to the labour force which the job market was not fully able to absorb. Kannaland has shown the largest improvement in its literacy rate from 60.0 per cent in 2001 to 72.5 per cent in 2011. Its literacy rate is the lowest in the District. Kannaland however has one of the lowest unemployment rates in the District at 17.3 per cent. This is also the case in Hessequa Municipality with an unemployment rate of 14.1 per cent whilst having a relatively low literacy rate of 78.5 per cent. These municipalities have largely unskilled labour, but its high prevalence of primary activities creates a demand for semi-skilled and unskilled labour.

Table 7.1 Literacy rates across the Eden District municipalities in 2011

Province/Municipality	2001	2011
Western Cape	85.0%	87.2%
Eden District	74.0%	82.6%
Kannaland	60.0%	72.5%
Hessequa	70.0%	78.5%
Mossel Bay	79.0%	85.7%
George	76.0%	83.4%
Oudtshoorn	71.0%	79.4%
Bitou	76.0%	85.8%
Knysna	78.0%	85.1%

Source: Statistics South Africa, Census 2011

Approximately 34 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2014), yet it is clear that there is room for improvement with regard to skills development in the Eden District and Western Cape as a whole. As mentioned in Chapter 3, the services sector has been able to create substantial unskilled and semi-skilled jobs. Unfortunately, large job losses in the manufacturing, construction and agricultural sectors, even during the economic recovery period, have countered the jobs created in the services sector thus creating only a slight decline in unemployment.

Table 7.2 Eden District unemployment rates, 2001 – 2011

Province/Municipality	2001	2011
Western Cape	26.2%	21.6%
Eden District	23.4%	22.5%
Kannaland	13.9%	17.3%
Hessequa	14.0%	14.1%
Mossel Bay	24.7%	22.9%
George	27.8%	20.7%
Oudtshoorn	33.7%	25.3%
Bitou	26.3%	30.1%
Knysna	28.3%	24.8%

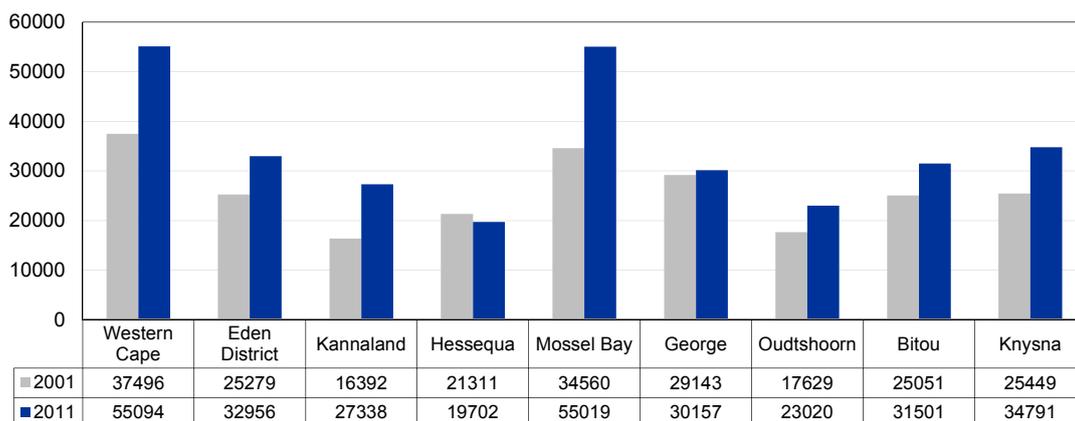
Source: Statistics South Africa, Census 2001 and 2011

As per Chapter 3, there is a trend towards employing highly skilled and skilled labour. However, the largest component of employment is in the form of semi-skilled and unskilled positions, for which the corresponding demand has contracted by 1.4 per cent per annum between 2000 and 2013. This indicates that going forward, low skilled labour intensive employment initiatives as well as skills development will be necessary to stimulate the creation of new job opportunities in the Eden District.

7.3.2 Household income and income inequality

According to Statistics South Africa Census 2011, average household income in the country has doubled over the last decade; however, high levels of income inequality still persist. Most informed observers would agree that economic resources should be more evenly distributed amongst the inhabitants of the country and that such a redistribution policy should make a real positive difference to the livelihoods of the poor.

The GDP per capita in the Western Cape Province was estimated at R43 557 per annum in 2011 (based on 2005 constant prices). The GDP per capita in the Eden District was much lower at only R32 956 in 2011 (see Figure 7.4). This may be attributed to its relatively large population size (second largest among the provincial Districts), which distorts the effect of the high GDP growth in the District. The deductions made in section 7.2.1 above i.e. that the economy grew at a faster rate than the population in all municipalities (except Hessequa Municipality), corresponds with the resulting increase in per capita income displayed in Figure 7.4.

Figure 7.4 Eden District GDP per capita (constant 2005 prices), 2001 - 2011

Source: Quantec, 2013

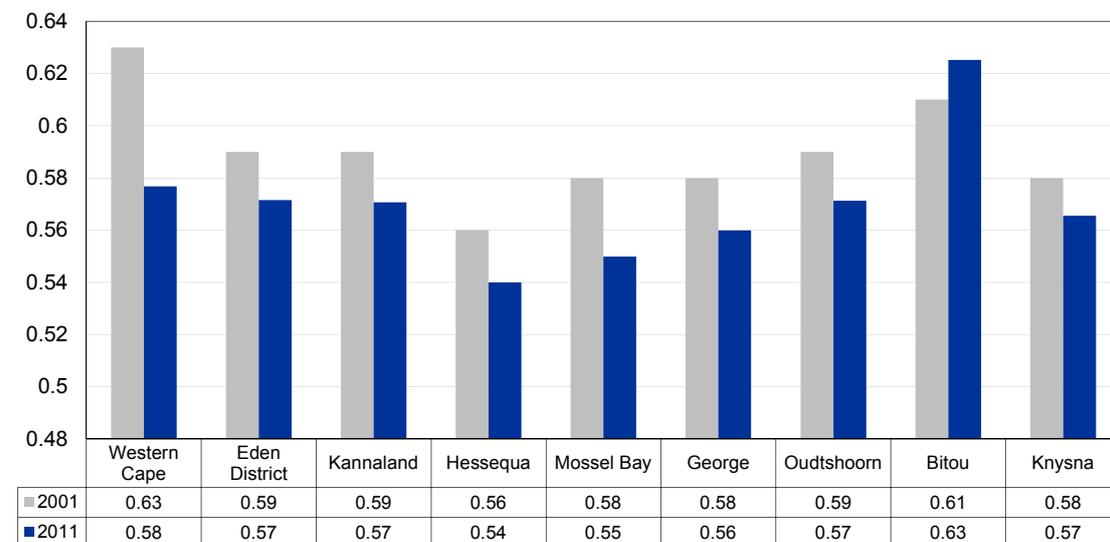
Table 7.3 Eden District average household income, 2011

Eden District	None income	R1 - R4 800	R4 801 - R9 600	R9 601 - R19 600	R19 601 - R38 200	R38 201 - R76 400	R76 401 - R153 800	R153 801 - R307 600	R307 601 - R614 400	R614 001 - R1 228 800	R1 228 801 - R2 457 600	R2 457 601+
Kannaland	8.0%	2.4%	4.7%	20.1%	28.1%	18.6%	9.3%	5.8%	2.1%	0.5%	0.2%	0.2%
Hessequa	7.9%	1.7%	3.0%	14.1%	22.5%	22.5%	14.3%	9.0%	3.6%	0.9%	0.3%	0.3%
Mossel Bay	17.4%	2.8%	4.1%	12.5%	16.0%	15.4%	13.2%	10.5%	5.5%	1.7%	0.5%	0.4%
George	12.1%	2.6%	4.4%	13.2%	19.4%	17.3%	12.7%	9.8%	6.0%	1.7%	0.5%	0.3%
Oudtshoorn	9.0%	2.3%	4.5%	16.3%	23.7%	18.9%	11.5%	8.4%	4.2%	0.8%	0.3%	0.2%
Bitou	18.1%	4.4%	5.5%	16.4%	19.7%	13.8%	9.0%	6.7%	4.0%	1.5%	0.5%	0.4%
Knysna	16.4%	3.3%	4.3%	13.8%	18.8%	15.0%	11.1%	8.8%	5.6%	1.9%	0.6%	0.4%

Source: Statistics South Africa, Census 2001 and 2011

Table 7.3 shows that Hessequa and Mossel Bay have the highest proportion of households earning between R19 601 and R153 800 per annum. The remaining municipalities have lower household incomes with the largest proportion of households earning between R9 601 and R76 400. The Eden District has a relatively large proportion of households earning no income with Bitou, Mossel Bay and Knysna each having over 15 per cent of total households earning no income. This is largely due to the high unemployment rates in these areas of 30.1 per cent, 22.9 per cent and 24.8 per cent respectively. These areas all host rapidly expanding economies; however, the high unemployment results from the mismatch in the labour market, i.e. an oversupply of semi- and unskilled labour whilst the demand for skilled labour is growing.

The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. The coefficient varies between 0, which represents complete equality and 1, which represents complete inequality. The Gini coefficient is bound to be an under-estimation in that it does not measure wealth (only income) and it does not account for income that accrues to the owner, but never enters the country including the extent thereof. With a Gini coefficient of 0.77 in 2001, South Africa displayed very high levels of income inequality. The South African Government provides its households with free basic services, thus their wealth could be greater even though this is not represented when looking at income levels. The Gini coefficient in the Western Cape was also relatively high at 0.63 in 2001, but it declined to 0.58 in 2011.

Figure 7.5 Eden District Gini coefficients, 2001 - 2011

Source: IHS Global Insight, 2013

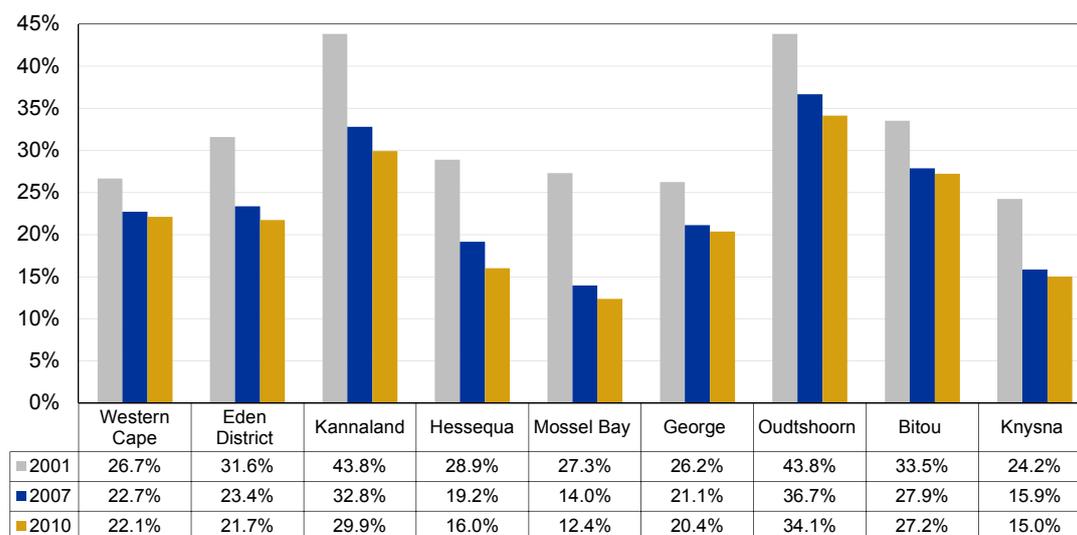
Income inequality in the Eden District is slightly lower than that of the Western Cape (0.58 in 2011) at 0.57; however it only showed a 0.02 point decline or improvement from 2001. The Gini coefficients for all municipalities except Bitou showed a marginal improvement over the period 2001 to 2011.

Generally the largest proportion of households in the Eden District earn between R19 601 and R38 200. These values are relatively low and explain the large number of indigent households within the Eden District. The relatively low levels of inequality (although still high in value) indicate that the improving economic conditions may be benefitting a wider proportion of all individuals within the region.

7.3.3 Poverty, employment and economic growth

Poverty is generally influenced by levels of employment and economic growth. High poverty rates in South Africa in general and in the Western Cape Province in particular have led to poverty reduction being prioritised by the South African Government. Municipalities support those living in poverty, i.e. indigent households, by providing these households with access to free basic services (Municipal Indigent Support Policy, 2014/15).

The Western Cape Province has seen a 29.0 per cent decline in indigent households, which indicates a positive move towards coming to grips with addressing poverty. Accordingly, the poverty rate declined from 26.7 per cent in 2001 to 22.1 per cent in 2010. The Eden District has also displayed such positive results (see Figure 7.6).

Figure 7.6 Percentage of households living in poverty 2001 - 2010

Source: IHS Global Insight, 2013

The Eden District showed a significant improvement in its poverty rates from 31.6 per cent in 2001 to 21.7 per cent in 2010 and has thus outperformed the Provincial average. The general improvement in poverty rates is largely attributed to the economic expansionary period over the 2000 - 2007 and 2010 - 2013 periods. The municipality with the lowest poverty rate was Mossel Bay with 12.4 per cent (2010) and the highest was Oudtshoorn Municipality with 34.1 per cent. As seen in Figure 7.6, this situation has improved in all municipalities within the Eden District. This implies less strain on municipal resources to provide households with free basic services.

Poverty levels in the Eden District are relatively high in some areas (e.g. Oudtshoorn and Kannaland) despite the improvements shown. Issues such as a lack of skills, intergenerational poverty and inequalities need to be addressed in order to alter this picture.

7.3.4 Human development

The Human Development Index (HDI) is a composite statistical index of life expectancy, education and income indices. It averages at 0.68 in the Western Cape Province. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2011.

The same holds true for the Eden District, as shown in Table 7.4. All municipalities in the Eden District region have seen significant improvement in human development. Mossel Bay had the highest HDI in the Eden District and the highest in the Province at 0.74. The high HDI can be attributed to its relatively high GDP per capita, life expectancy and literacy rate. Kannaland has the lowest HDI in the District of 0.65. It has however shown a 0.09 point improvement between 2001 and 2012.

Table 7.4 Human Development Index, 2000 – 2012

	2001	2011	2012
Eden District	0.64	0.71	0.71
Kannaland	0.56	0.66	0.65
Hessequa	0.63	0.70	0.70
Mossel Bay	0.68	0.75	0.74
George	0.66	0.71	0.71
Oudtshoorn	0.59	0.66	0.66
Bitou	0.65	0.71	0.71
Knysna	0.68	0.73	0.73

Source: Statistics South Africa, Census 2001 and HIS Global Insight 2011 - 2012

The relatively high HDI levels within the Eden District indicate that economic growth is being translated towards social development amongst individuals within the region.

7.4 Concluding remarks

The following conclusions can be made regarding the socio-economic analysis above:

- The economy grew at a faster rate than the population within the Eden District which has led to an increase in per capita income in the region. This indicates higher average standards of living of the inhabitants of the region.
- Eden District has the highest levels of youth unemployment amongst the districts within the Province and the youth are over-represented among the unemployed perhaps due to their lack of experience.
- Literacy rates in the Eden District are relatively high compared to the other districts within the Western Cape. There is, however, a trend towards mechanisation and employing skilled and highly skilled labour. This indicates that going forward, further skills development as well as low skilled labour intensive initiatives will be necessary to stimulate employment in the region.
- The proportion of households that are living in poverty has fallen between 2001 and 2010 in the Eden District. Despite substantial improvements, poverty levels are still relatively high in some districts and need to be addressed.
- The increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the Eden District.

The Eden District has shown much improvement over the years with regard to all areas of its socio-economic environment as discussed above. This chapter illustrates how the socio-economic climate impact on the standard of living within the District. The fast growing economy and relatively high literacy rates have led to some decline in unemployment rates in the Eden District. This has in turn led to increasing household and per capita income. These have translated to declining poverty levels or indigent support required within the District. There is still room for improvement with regard to poverty reduction and skills development, but the District is performing well in terms of allowing inhabitants to reap social benefits from the growing economy.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Eden District: GDPR at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	-1.8	1.5	1.3	1.0	-0.6	6.4	1.5
2 Secondary sector [SIC: 3-5]	4.6	5.9	4.5	5.2	7.0	1.2	3.5
3 Tertiary sector [SIC: 6-9, 0]	4.9	6.6	4.9	5.4	6.5	3.5	4.2
Total: Eden District	4.1	6.0	4.5	5.0	6.1	3.0	3.8
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	2.1	2.0	1.4	1.2	-0.3	6.8	1.5
2 Mining and quarrying [SIC: 2]	-25.4	-8.8	0.1	-2.9	-4.8	-4.2	1.5
3 Manufacturing [SIC: 3]	4.5	4.8	3.3	4.4	6.0	-1.9	4.3
4 Electricity, gas and water [SIC: 4]	5.8	2.7	-1.5	0.7	1.7	-3.6	0.9
5 Construction [SIC: 5]	4.7	12.3	8.9	9.3	12.8	9.2	2.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.2	6.1	3.9	5.2	6.6	0.0	5.0
7 Transport, storage and communication [SIC: 7]	9.4	7.3	3.0	4.9	7.0	1.9	2.4
8 Finance, insurance, real estate and business services [SIC: 8]	6.3	8.5	6.1	6.6	8.2	5.4	3.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.7	5.7	4.1	4.7	6.1	3.4	2.7
10 General government [SIC: 91, 94]	-0.5	4.2	6.0	4.5	3.7	6.3	5.4
Total: Eden District	4.1	6.0	4.5	5.0	6.1	3.0	3.8

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Eden District					
1 Primary sector [SIC: 1-2]	11.8	8.8	7.1	5.9	5.5
2 Secondary sector [SIC: 3-5]	27.0	27.6	27.5	27.7	27.4
3 Tertiary sector [SIC: 6-9, 0]	61.1	63.5	65.4	66.4	67.2
Total: Eden District	100	100	100	100	100
Broad sectors: Eden District					
1 Agriculture, forestry and fishing [SIC: 1]	9.3	8.4	6.9	5.7	5.3
2 Mining and quarrying [SIC: 2]	2.6	0.4	0.2	0.2	0.1
3 Manufacturing [SIC: 3]	19.4	19.7	18.6	17.2	17.2
4 Electricity, gas and water [SIC: 4]	2.4	2.5	2.2	1.6	1.4
5 Construction [SIC: 5]	5.3	5.4	6.8	8.9	8.7
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	16.6	18.3	18.3	17.6	17.9
7 Transport, storage and communication [SIC: 7]	6.0	7.8	8.2	7.6	7.4
8 Finance, insurance, real estate and business services [SIC: 8]	17.6	19.5	22.0	23.6	24.1
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.3	5.5	5.4	5.3	5.3
10 General government [SIC: 91, 94]	15.6	12.5	11.4	12.2	12.6
Total: Eden District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Eden District: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	-5.0	-2.0	-5.1	-3.3	-2.2	-7.0	-3.8
2 Secondary sector [SIC: 3-5]	-3.5	0.9	-2.5	-1.0	0.5	-1.5	-3.7
3 Tertiary sector [SIC: 6-9, 0]	3.8	3.3	2.2	2.6	3.1	3.1	1.3
Total: Eden District	0.0	1.7	0.3	0.9	1.5	0.8	-0.3
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	-4.3	-1.7	-5.5	-3.3	-2.1	-7.1	-3.9
2 Mining and quarrying [SIC: 2]	-24.7	-21.4	29.3	0.2	-2.1	4.6	2.7
3 Manufacturing [SIC: 3]	-2.0	-0.5	-3.0	-1.6	-1.1	-3.6	-1.5
4 Electricity, gas and water [SIC: 4]	0.4	4.2	2.2	1.5	5.3	-13.0	1.2
5 Construction [SIC: 5]	-5.0	2.4	-2.1	-0.3	2.0	0.5	-5.4
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.5	1.3	1.0	1.2	1.5	1.2	0.7
7 Transport, storage and communication [SIC: 7]	-0.2	1.6	3.8	2.1	0.9	5.9	2.5
8 Finance, insurance, real estate and business services [SIC: 8]	9.8	6.4	1.4	4.1	6.0	0.8	2.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.3	3.7	2.7	3.2	4.1	6.6	-0.3
10 General government [SIC: 91, 94]	0.7	5.5	4.6	4.0	4.1	4.7	3.4
Total: Eden District	0.0	1.7	0.3	0.9	1.5	0.8	-0.3

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Eden District					
1 Primary sector [SIC: 1-2]	21.8	16.8	13.3	10.2	9.1
2 Secondary sector [SIC: 3-5]	30.6	25.5	24.4	21.6	20.0
3 Tertiary sector [SIC: 6-9, 0]	47.7	57.6	62.3	68.2	71.0
Total: Eden District	100	100	100	100	100
Broad sectors: Eden District					
1 Agriculture, forestry and fishing [SIC: 1]	20.6	16.6	13.2	10.0	8.9
2 Mining and quarrying [SIC: 2]	1.1	0.3	0.1	0.2	0.2
3 Manufacturing [SIC: 3]	14.0	12.7	11.3	9.5	9.2
4 Electricity, gas and water [SIC: 4]	0.3	0.3	0.3	0.3	0.3
5 Construction [SIC: 5]	16.3	12.6	12.8	11.7	10.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	19.5	23.2	22.3	23.2	23.9
7 Transport, storage and communication [SIC: 7]	3.0	3.0	2.9	3.4	3.4
8 Finance, insurance, real estate and business services [SIC: 8]	6.2	9.9	12.4	12.5	13.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	10.0	12.3	13.5	15.5	15.7
10 General government [SIC: 91, 94]	9.0	9.3	11.2	13.6	14.2
Total: Eden District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Eden District: Composition of Goods Exports and Imports (nominal values)

Sector	1995	2000	% share		
			2005	2010	2013
Goods Exports (R million)					
Broad sectors: Eden District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	9.4	32.0	46.7	78.1	57.0
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.0	0.0	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	90.2	68.0	53.2	21.7	42.9
4 Undefined/other	0.3	0.1	0.2	0.2	0.1
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Eden District					
1 Food, beverages and tobacco [SIC: 301-306]	5.8	22.6	16.8	73.8	28.8
2 Textiles, clothing and leather goods [SIC: 311-317]	70.5	57.4	59.9	1.5	21.4
3 Wood, paper, publishing and printing [SIC: 321-326]	0.7	0.4	2.8	1.2	2.2
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	7.8	1.5	2.4	1.1	2.0
5 Other non-metal mineral products [SIC: 341-342]	0.4	0.2	0.4	0.8	1.4
6 Metals, metal products, machinery and equipment [SIC: 351-359]	1.3	4.1	1.0	1.8	6.8
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.1	0.2	0.6	0.6
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.1	0.1	0.2	0.2	0.4
9 Transport equipment [SIC: 381-387]	0.3	0.4	0.6	1.7	6.9
10 Furniture and other manufacturing [SIC: 391-392]	13.1	13.1	15.7	17.3	29.5
Total: Manufacturing exports	100	100	100	100	100
Goods Imports (R million)					
Broad sectors: Eden District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	13.7	3.0	17.8	21.8	36.0
2 Mining and quarrying [SIC: 2]	3.8	23.7	0.1	0.1	0.1
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	82.6	73.1	81.1	78.1	63.7
4 Undefined/other	0.0	0.2	1.0	0.0	0.2
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Eden District					
1 Food, beverages and tobacco [SIC: 301-306]	8.3	0.1	4.5	2.7	15.1
2 Textiles, clothing and leather goods [SIC: 311-317]	15.7	3.9	21.1	16.9	24.7
3 Wood, paper, publishing and printing [SIC: 321-326]	9.0	3.2	3.0	1.6	1.9
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	15.7	33.2	19.0	9.1	16.4
5 Other non-metal mineral products [SIC: 341-342]	1.1	0.6	8.1	1.6	1.6
6 Metals, metal products, machinery and equipment [SIC: 351-359]	40.3	40.0	21.1	12.0	22.3
7 Electrical machinery and apparatus [SIC: 361-363]	0.5	7.8	5.7	1.7	1.8
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	3.1	9.8	10.2	6.7	4.7
9 Transport equipment [SIC: 381-387]	0.4	0.6	3.3	44.1	8.4
10 Furniture and other manufacturing [SIC: 391-392]	6.0	0.8	3.9	3.7	3.2
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/CER

Central Karoo District

Key points

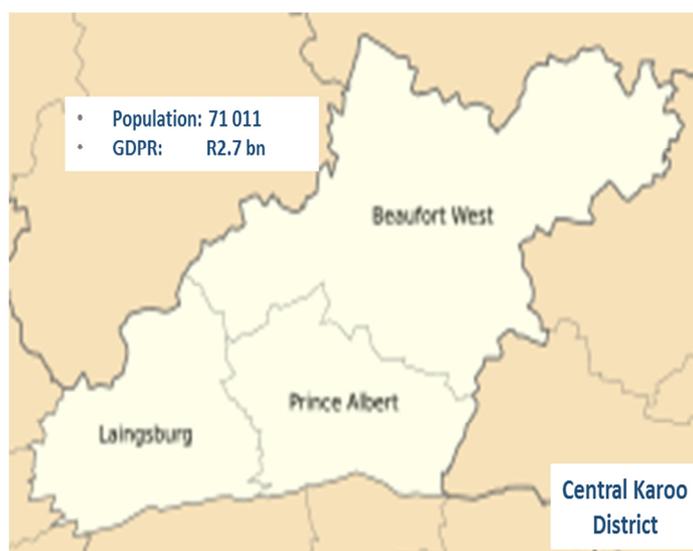
- The Central Karoo District (CKD) is an agrarian and services economy making a small contribution to the Western Cape economy. The economy is relatively closed with it being mainly dependent on the demand conditions in the rest of the country. While the agricultural sector is in decline, with knock-on effects to other sectors, it remains a cornerstone of the local economic outlook.
- During the previous upswing phase of the business cycle (2000 - 2007) real GDP growth averaged 4.3 per cent per annum, but came to a standstill in 2009 due to the recession impact. While growth recovered to 3.9 per cent in 2011, it tapered off in sync with the national economy to a modest 1.7 per cent in 2013. Real GDP growth is expected to come in at 2.1 per cent this year and to average 2.9 per cent per annum over the forecast period (2014 - 2019). The main reasons for the downscaling of the growth outlook are the weaker than expected global growth in the post-financial crisis period and domestic labour market instability.
- Economic activity is concentrated in Beaufort West, accounting for close to 70 per cent of CKD GDP. This Municipality also managed to create jobs on a net basis over the 2000 - 2013 period. In all, however, a cumulative 1 050 jobs were lost on balance due to the employment losses in the agriculture, construction, wholesale and retail and transport and communication sectors over this period.
- The gradual decline in the agricultural sector contributes to the relative under performance of retail and wholesale trade and transport and communication activity. The manufacturing and construction sectors have expanded their relative contributions in GDP, which is contrary to the trend in the remainder of the Province. Services currently account for three quarters of economic activity in the region and this share has remained stable over the past 10 years.

- The formal sector net job losses (761) during the recession (2008 - 2009) were almost balanced by the informal sector employment gains (672) over the same period. In view of the counter-cyclical role of the informal sector and the sector's linkages with the formal sector, this may warrant a more nuanced policy approach towards the informal sector.
- The construction sector has been one of the faster growing sub-sectors in the Central Karoo District, expanding by 8.4 per cent per annum over the 2000 - 2013 period; only the Eden construction sector expanded at a faster average rate over the corresponding period. Increased demand for construction activity directly benefits the metal products and non-metallic mineral sectors (i.e. building material manufacturers), as well as building material suppliers. The greatest gain in the CKD will be for businesses in the surrounding areas; especially those in wholesale and retail trade and the business services sector.
- Generally, those municipalities with high levels and maintenance of (economic) infrastructure experience higher rates of economic growth, which would in turn help them to afford the required infrastructure budgets. Beaufort West Municipality is rated medium according to the infrastructure index as per the Growth Potential Study. This is matched by high investments in infrastructure and high GDP growth rates. Laingsburg is rated low according to the same infrastructure index, which is matched by very low investments in infrastructure. Economic activity within this Municipality is sparse and an industrial base is lacking. On the other hand, Prince Albert Municipality is rated low according to the infrastructure index but recorded an above average growth rate over the period 2000 - 2013. The implication is that the high growth rate of the municipal economy may become unsustainable due to infrastructure constraints.
- Relatively fast economic growth (albeit off a low base) and a low population growth rate (1.3 per cent) has allowed a rapid increase in living standards (on average) and decline in unemployment (youth unemployment is, for instance, down from 43 per cent in 2001 to 27.3 per cent in 2011). However, these levels of unemployment remain unacceptable. Literacy rates are also relatively low (73.4 per cent) and the poverty rate too high. The region has made good socio-economic progress, but much room for improvement remains.

Executive summary

1. Introduction

The 2014 *Municipal Economic Review and Outlook (MERO)* study builds on the analysis of the Central Karoo District growth and development trends in the corresponding 2012 and 2013 studies. The MERO's objective is to provide economic intelligence at the district and municipal level in the Western Cape Province, alongside its sister publication, the *Provincial Economic Review and Outlook (PERO)*.



The Central Karoo District is a small and closed economy, but has been hard-hit by the 2009 global recession. National domestic demand conditions slowed sharply, stalling growth in the district. Whilst the region's socio-economic indicators have shown big improvements, key ones remain at unacceptable levels. A central theme in the 2014 study is to track the region's recovery from the recession impact and to explore existing bottlenecks or constraints which may be restraining economic growth and development. The results from the study can hopefully feed into official economic strategy plans and assist the private sector in identifying growth opportunities.

The recent and expected macro-economic environment and implications for the Central Karoo District economy are first assessed. Thereafter, the sectoral analysis is deepened, with the focus on sectoral growth, employment and skills demand trends and an analysis of the Central Karoo District building and construction value chain. The informal sector analysis is also taken further by investigating the sector's linkages with the formal sector and its cyclical sensitivities. Furthermore, the municipal revenue

and infrastructure spending trends and their relationship with the growth of the regional economy come under the spotlight. The report is concluded by an important addition to the MERO study, namely a consideration of the Central Karoo District's socio-economic climate and the apparent economic growth and employment linkages.

2. Regional growth trends

Despite being a relatively closed economy, the Central Karoo District economy was heavily impacted by the 2009 recession with growth stalling in 2009 due to the slowdown of national demand conditions. The District began to show signs of recovery in 2010 growing by 2.3 per cent. Growth accelerated to 3.9 per cent in 2011 and thereafter tapered off to 1.7 per cent last year and is expected to average 2.1 per cent in 2014. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the Central Karoo District has been reduced to 2.9 per cent per annum from 3.6 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been highlighted as weaker than expected global growth and domestic issues such as labour unrest.

A notable feature of the district is that economic activity is concentrated in the Beaufort West Municipality. Prince Albert and Laingsburg municipalities are smaller both in terms of contribution to GDP and employment. In terms of employment, Beaufort West Municipality managed to create employment on a net basis over the 2000 - 2013 period. On the other hand, Prince Albert and Laingsburg municipalities suffered job losses over the same period. Overall, the region has experienced a contraction in employment over the period 2000 - 2013. The net job losses were actually sustained during the economic recovery period and by 2013 the level of overall employment was still 6 - 7 per cent below its pre-recession peak in 2008.

Regarding sectoral growth, the contraction of the agricultural sector has adversely impacted on the transport and storage as well as the retail and wholesale trade sectors. It is expected that the manufacturing sector (4.4 per cent per annum, growing off a low base) will be the highest growth sector and will be closely followed by the finance, insurance, real estate and business services and the construction sectors.

3. Sectoral growth, employment and skills

The Central Karoo District is an agrarian and services economy making a small contribution to the Western Cape economy. The economy is relatively closed with it being mainly dependent on the demand conditions in the rest of the country. While the agricultural sector is in decline, causing agricultural employment to contract sharply, the sector's fortunes remain a critical factor in the wider region. This is best reflected in the under-performance of the internal trade sector (retail, catering and accommodation) and the slower growth of the services sector in general, both impacted by the decline in agriculture. Services currently account for three quarters

of economic activity in the region and this share has remained stable over the past 10 years. The sectors that have expanded their share are manufacturing and construction, which bucks the provincial trend. Unfortunately, net job losses characterised the construction sector, which combined with agriculture, account for the bulk of semi and unskilled labour retrenchments in the region. This exacerbates the skills mismatch in the local labour market; labour has also flowed into the informal sector and the ranks of the unemployed.

The growth projection for the Central Karoo District has been scaled down to 2.9 per cent per annum (2014 - 2019) from 3.6 per cent previously (over the period 2012 - 2017). Economic conditions are likely to be less than robust over the short to medium terms, causing pressure on municipal revenue bases.

4. Value chains

The construction sector has been one of the faster growing sub-sectors in the Central Karoo District, expanding by 8.4 per cent per annum over the 2000 - 2013 period; only the Eden District construction sector expanded at a faster average rate over the corresponding period. In this chapter the linkages of the construction sector with the other sectors in the CKD were investigated.

Increased demand for construction activity directly benefits the metal products and non-metallic mineral sectors (i.e. building material manufacturers), as well as building material suppliers. The greatest gain in the CKD will be for businesses in the surrounding areas; especially those in wholesale and retail trade and the business services sector. The building professions (architects, quantity surveyors and civil engineers) are key components in the building value chain.

Spending in the construction industry creates significant additional GDP in the tertiary sector and this is beneficial to the local economy as the induced spending will stimulate the local economy. Construction projects are not only essential for social development of the community, but it will also have beneficial impacts on the spending potential in the local economy. Construction is a fixed investment activity and to the extent that the region's production capacity is boosted, this creates longer term spin-offs for higher economic growth – see *Chapter 6*.

5. Informal sector

This chapter expanded on the understanding of informal and formal sector linkages and highlighted that there are significant linkages between informal and formal businesses in the CKD. Of the surveyed SMME's 27 per cent of micro enterprises and 13 per cent of small businesses indicated links with their informal counterparts. While detailed information on the linkages were not surveyed, there appears to be a risk of 'unfair' formal sector outsourcing (given the existence of financial constraints and the low skills levels within the informal sector). This means that informal businesses may source formal sector products at retail prices only to sell them at higher prices to poor

local customers. More research may be required to ascertain the prevalence of this phenomenon.

Regarding the cyclical sensitivities of the Central Karoo District informal sector, the (2008 - 2009) recession caused significant net job losses (761, or close to 7 per cent of the work force) in the formal sectors of the regional economy while there were 672 net jobs created in the informal sector over the same period. The informal work force was estimated at 24 per cent of the total work force in 2013, i.e. an estimated 3 500 informal workers (Quantec, 2014). Most of the employment gains in the informal sector (259) were created in the wholesale, retail trade and catering and accommodation sector during the recession, while the formal net retrenchments in this sector amounted to 282. This indicates that downward rigidities during the recession prevented wages from adjusting to the adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed. Sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts, revealing a *de facto* counter-cyclical role for the informal sector. This is also supportive evidence of a kind of *dualistic* labour market in the CKD, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms) and in view of the important poverty relieving role of the informal sector, it is recommended that the District and its municipalities consider a more nuanced view of the informal economy. The focus here should not be on extending social protection across the informal economy as this risks trapping informal entrepreneurs in relations of dependency. Instead, advocating their distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., could serve to build capacity for autonomous development and migration to the formal economy.

6. Municipal revenues and expenditure on infrastructure

It is accepted that basic service delivery through infrastructure investment is a cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure impacts positively on economic growth. An important factor considered by investors when relocating into an area is the provision of basic services within that area. The municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Local Government: Municipal Systems Act, Act No. 32 of 2000. The provision of municipal infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing.

An analysis on both sides of the budget, i.e. revenue and infrastructure expenditure, was conducted. It revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the Central Karoo District. The differences in service delivery is a reflection of the various

budgetary and resource constraints faced by each municipality. Overall, Central Karoo District municipal revenues grew by an estimated 13.8 per cent per annum between 2008/09 and 2012/13 in inflation-adjusted terms. In view of the subdued economic growth over this period, the high revenue growth is presumably linked to the increase in rates and tariffs and improved revenue collection.

Economic activity within the district is highly concentrated in Beaufort West Municipality whilst the other two municipalities are generally regarded as poor; 70 per cent of municipal revenue generation from roads and trading services is accounted for by Beaufort West, in line with its contribution to CKD GDP. According to the *Growth Potential Study*, Beaufort West Municipality is rated medium according to an infrastructure index. This is matched by high investments in infrastructure and high GDP growth rates. Laingsburg is rated low according to the same infrastructure index. This is matched by very low investments in infrastructure. Economic activity within this Municipality is sparse and an industrial base is lacking. On the other hand, Prince Albert Municipality is rated low according to the infrastructure index but recorded an above average growth rate over the period 2000 - 2013. The implication is that the high growth rate of the municipal economy may become unsustainable due to infrastructure constraints.

Focusing on the industries with revealed comparative advantage and leading employment creation potential (i.e. agriculture and agro-processing, tourism, electrical machinery, building and construction and finance, insurance, real estate and business services) may help in unlocking the potential of the District. Efforts to address the municipal infrastructure shortages may be a welcome injection to supporting these sectors. Such investments will have multiplier or knock-on effects on the rest of the economy.

A major challenge the District faces, is the scarce underground water sources. Due to the history of droughts (2009 - 2011) and flooding (e.g. 2014) within the CKD, it is paramount for the region to invest in disaster management strategies and water storage. It is also crucial for municipalities to invest in the upgrade and construction of new infrastructure whilst putting in place revenue enhancement and revenue management programmes.

7. Socio-economic climate and development indicators

The socio-economic analysis, contained in a separately released working paper at the time of the 2013 MERO study, has this year been brought into the main report. This is important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its constituent municipalities, with the intelligence needed to understand their socio-economic reality and also the impact of the economy.

Given a relatively low population growth rate (1.3 per cent per annum, 2001 - 2011), per capita incomes in the CKD have risen as the economy grew at a faster rate (4.0 per cent per annum). This indicates higher average standards of living for the inhabitants of the region. Due to the high economic growth of the region (albeit off

a low base), the CKD witnessed a sharp fall in its unemployment rate (22.7 per cent down from 33.2 per cent) and youth unemployment rate (27.3 per cent sharply down from 43.7 per cent) between 2001 and 2011. The decrease can be attributed to higher levels of education and work opportunities in the CKD. Nonetheless, the levels of unemployment remain unacceptable. Further declines are constrained by the low literacy rates in the region (73.4 per cent compared to 87.2 per cent in the wider province), with Prince Albert, for instance, recording the lowest literacy rate in the Province (69.9 per cent). Skills development as well as low skilled labour intensive initiatives will be necessary to stimulate employment in the region, due to the general trend towards employing skilled and highly skilled labour in services industries.

Although, the proportion of households that are living in poverty in the Central Karoo District eased somewhat between 2001 and 2010, poverty levels are still relatively high and need to be addressed. Furthermore, despite the improvements between 2001 and 2012, the HDI in the CKD continues to be lower than that of other regions in the Province. The CKD has shown some improvement over the years with regard to its socio-economic environment and this chapter illustrates the impact on the standard of living within the District. The growing economy has led to increasing household and per capita income and declining poverty levels or indigent support required within the District, but there is still much room for improvement with regard to poverty reduction and skills development. Furthermore, sustained job losses during the economic recovery, the lower economic growth rate and the down-graded economic outlook define a challenging socio-economic environment going forward.

1

Introduction

1.1 Background and purpose of study

The 2014 Municipal Economic Review and Outlook (MERO) study is the third one produced annually since 2012. With its origins in the micro-economic research undertaken at the time of the Micro-Economic Development Strategy (MEDS) initiative (2004 to 2008), and accompanying its sister publication, the Provincial Economic Review and Outlook (PERO) over the past three years, the central objective of the MERO is the provision of economic intelligence at the metro, district and municipal levels in the Western Cape Province.

The growth of towns, cities and regions has become a focal point of contemporary socio-political and economic analysis. While the MERO study provides guidelines for identifying socio-economic constraints and related policy actions, the review of microeconomic trends and developments, including the medium-term outlook, has the potential to generate the economic intelligence that can feed into sub-regional Integrated Development Plans (IDPs) and Local Economic Development initiatives (LEDs).

A special attempt is made this time around to improve the accessibility of the MERO by refining the analysis in previous studies and improving the dissemination of the information. The hope is that the information will not only be useful to local and provincial authorities but will also enable private business enterprises to identify growth opportunities and reacting upon them in order to propel the regional economy to a higher growth plane.

1.2 Central issues covered

The MERO research publication was conceived in the wake of the 'Great Recession', which was triggered at the end of 2007 by the unsustainable financial growth and macroeconomic developments over the 1990s and 2000s in the world's leading

industrial economies, notably in the USA and the Euro area. The impact of the subsequent recession (2008 - 2009) has been uneven across regions and countries. In fact, the 2012 - 2013 MERO analyses showed that the differential impact reached deeply into the Western Cape metro and non-metro districts.

A key theme of the 2013 study was how the Western Cape districts and municipalities have recovered from the impact of the global recession. One of the key consequences of the global recession, has been *“a search for a new development paradigm that is both more inclusive and more sustainable ecologically”* (see Turok et. al., 2013: 2). In the same vein, the consistent theme throughout the MERO report, is an emphasis on inclusive economic growth through employment creation. While it is accepted that public policy intervention has a constructive role to play, the focus is on the identification of the bottlenecks and constraints which are hampering private sector growth and employment creation. Consistent with the tenets of inclusive economic growth, attention also focuses on the developmental challenges embodied in making a dent in unemployment, poverty and underdevelopment.

Consequently, the central issues covered in the 2014 MERO study are, firstly, a consideration of the global, national and provincial economic performances and outlook in view of the general recovery from the 2008 - 2009 global recession and the mid-2011 slowdown, and how this macro-economic environment impacts on the Central Karoo District economy (Chapter 2 of this report).

The historical patterns of sectoral growth and employment, including the performance and outlook in this regard of the Central Karoo District since the onset of the global economic recovery at the end of 2009, are also discussed in greater detail (Chapter 3 of the report). Whilst the analysis is somewhat superficial, the wider developmental challenge embodied in the mismatch between the demand for skilled labour and the predominantly unskilled surplus labour supply, which is also present in the Central Karoo District economy, is investigated. Reference is also made to the stock of infrastructure and the annual municipal spending in this regard, as well as the socio-economic profile of the Central Karoo District regional economy.

Central Karoo District has a small regional economy, making a marginal contribution to the Western Cape economic output. Whilst growth has been average in a wider Provincial context, the construction sector has grown rapidly and appears to reveal a comparative advantage in the region. In this year's value chain analysis (Chapter 4 of the report) the economic linkages and impact of this sector on the Central Karoo District economy are briefly analysed.

The 2013 MERO study introduced the results from a survey of 200 informal sector firms in the Central Karoo District conducted by the Department of Economic Development and Tourism (DEDAT). This year, the analysis is taken some steps further by an investigation into the linkages between the formal and informal sectors of the Central Karoo District, both conceptually and empirically. An attempt is also made to investigate the cyclical nature of the informal sector by showing the extent to which the informal sector played a counter-cyclical role in the Central Karoo District during the 2008 - 2009 recession (Chapter 5 of the report).

The important relationship between infrastructure investment and economic growth is explored at the regional level in respect of the Central Karoo District economy (Chapter 6 of the report). The actual infrastructure spending and municipal revenues over the 2008 to 2013 period are analysed and the outcomes in terms of economic growth by municipality are compared. The analysis also taps into the research undertaken in the '*Growth Potential Study*' (2014).

Finally, a socio-economic synopsis of the Central Karoo District region is provided (Chapter 7 of the report), including an attempt to highlight the linkages between regional economic growth (value-added and employment) and the local socio-economic development indicators.

1.3 Outline of the report

Apart from the first introductory section, the report consists of six chapters. As noted above, Chapter 2 discusses the trends (2000 - 2013, including the economic recovery period, 2010 - 2013) and outlook (2014 - 2019) for the Central Karoo District economy in a macroeconomic context. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the accompanying PERO publication. Chapter 3 utilises secondary data sources – be Quantec's regional data base; the '*Growth Potential Study*'; the results from a municipal survey in the district; and the analysis of comparative advantages among industries conducted in the 2013 MERO – to deepen the regional economic analysis by sector. Specifically, this chapter analyses real GDP growth trends, employment creation and the skills composition of labour demand in the Central Karoo District.

In Chapter 4 a value chain analysis is conducted, with the focus on the building and construction value chain in the Central Karoo District economy. Chapter 5 takes the informal sector analysis further, considering the formal-informal sector linkages and the business cycle impact on the informal sector. Thereafter, Chapter 6 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. Chapter 7 concludes with a socio-economic profile of the Central Karoo District.

2

Economic outlook

2.1 Introduction

This chapter provides a five-year economic outlook for the Central Karoo District (CKD) economy. The outlook is embedded in realistic global and national socio-political and economic assumptions, which are all briefly discussed in this chapter. In presenting the district economic outlook, attention is given to the historical growth trends, a consideration of the 2010 - 2013 economic recovery thus far, the region's industry comparative advantages and an assessment of the macro-economic implications pertaining to the medium-term district economic outlook. The analysis of the sectoral district economic prospects is deepened in Chapter 3 in which sector developments are discussed.

2.2 Global, national and provincial economic developments

The global economic outlook remains uneven and uncertain. This follows the recent downward revision of the IMF's forecast for the global economy in July 2014 following a weak first quarter. The downgrade has shown that the global economy should grow at 3.4 per cent in 2014 down from its January forecast of 3.7 per cent. Weaker than expected growth in the developed economies and emerging markets forced the downgrade. Table 2.1 gives a clear illustration of the differences between the April 2014 outlook and the latest IMF outlook. The downgrades are an indication that nations are still struggling to recover from the aftermaths of the financial crisis.

A generally negative outlook dominated the report; however the economic prospects for Japan, Germany and the UK were upgraded. Japan experienced stronger than expected growth in the first quarter resulting in an upgrade of its economic outlook. Growth in Japan is projected to be 1.6 per cent in 2014 and ease down to 1.1 per cent in 2015. In the **advanced countries** the economic outlook for

the US and Canada was downgraded. The cut in the outlook for the world's largest economy, the US, by 1.1 percentage points in respect of 2014 dragged the world outlook down. An overhang in inventories at the end of 2013 appeared to be much higher than expected and output during the first quarter of 2014 contracted due to the severe winter weather negatively impacting on domestic demand. However, a growth rebound is expected in the US as the key drivers to the downturn were only temporary. Growth is expected at 1.7 per cent and 3.0 per cent in 2014 and 2015 respectively.

Table 2.1 World economic growth outlook: 2014 - 2015 (%)

Country	Actual	Projections		Difference*	
	2013	2014	2015	2014	2015
World output	3.2	3.4	4.0	-0.3	0.0
Advanced economies	1.3	1.8	2.4	-0.4	0.1
United States	1.9	1.7	3.0	-1.1	0.1
Euro Area	-0.4	1.1	1.5	0.0	0.1
Japan	1.5	1.6	1.1	0.3	0.1
Developing economies	4.7	4.6	5.2	-0.2	-0.1
Emerging and developing Asia	6.6	6.4	6.7	-0.2	-0.1
China	7.7	7.4	7.1	-0.2	-0.2
India	5.0	5.4	6.4	0.0	0.0
Latin America and the Caribbean	2.6	2.0	2.6	-0.5	-0.3
Middle East, North Africa, Afghanistan and Pakistan	2.5	3.1	4.8	-0.2	0.2
Sub-Saharan Africa	5.4	5.4	5.8	0.0	0.2
South Africa	1.9	1.7	2.7	-0.6	0.0

* Difference between July and April 2014 forecasts

Source: IMF World Economic Outlook July 2014

The latest economic indicators in the **Euro Area** remained unchanged from the April 2014 IMF World Economic Outlook (WEO) report. Growth is expected to remain uneven within the area with Italy and France's economic outlook being revised to 0.3 and 0.7 per cent respectively. Financial conditions in the area have eased with inflation coming in at below expectations in April 2014. However, the Euro area continues to suffer from financial market fragmentation and high unemployment rates as a result of fiscal headwinds. Following two calendar years of contraction the Euro area is expected to return to positive growth, growing at 1.1 and 1.5 per cent in 2014 and 2015 respectively. High debt and tight credit conditions will continue to weigh on economic activity.

Economic indicators in **Asia** were also not promising. Projected growth in India remained unchanged (projected to be 5.4 and 6.4 per cent in 2014 and 2015 respectively) whilst the world's second largest economy, China is now expected to grow at 7.4 per cent, a 0.2 per cent cut from previous predictions. An effort to reign in credit growth in China led to the fall in domestic demand resulting in the downward revision.

The uneven growth pattern in the global economy can also be seen in the **emerging market** group of economies. The economic outlook of these countries was downgraded by 0.2 per cent to 4.6 per cent for 2014. Latin America also experienced

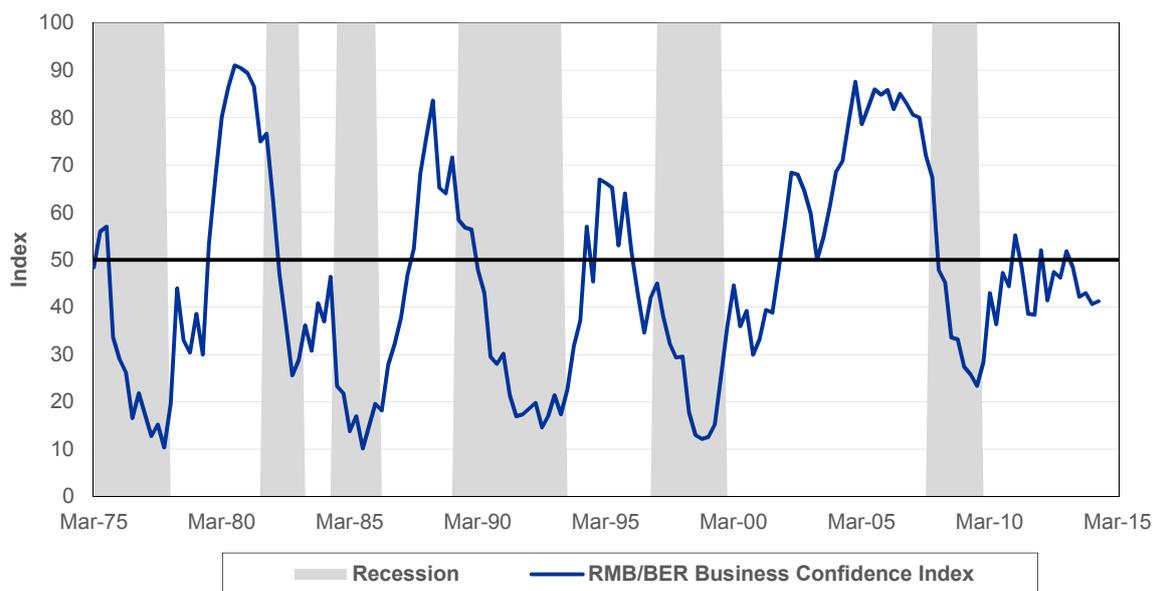
a downward revision by 0.5 per cent to 2.0 per cent in 2014. The Russian economy is expected to grow at only 0.2 per cent this year. Massive capital flight and geopolitical tensions have been highlighted as the cause of the 1.1 percentage cut from the previous forecast of 1.3 per cent. It is projected that investment in Russia will remain weak for a long time, thus accounting for an expected growth of only 1.0 per cent in 2015.

The economic outlook for sub-**Saharan Africa** remained unchanged. Countries with external vulnerabilities may however experience a reversal in capital flows in the event of there being a reversal in financial market sentiments. South Africa's growth forecast in respect of 2014 was revised downwards from 2.3 per cent to 1.7 per cent. This sluggish growth projection for the country is a result of labour strikes, electricity constraints and weak global demand.

In summary, the IMF has warned that weaker US growth and slower demand in emerging market economies will have a negative impact on world economic growth. Furthermore, higher geopolitical risks, the Ukraine crisis and risks of oil price increases could place growth under additional pressure. Despite all these downgrades the economic outlook for 2015 remains unchanged as stronger economic growth is expected. According to the report global growth is expected to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015 from 3.2 per cent in 2013. It is expected that the global recovery will regain strength in the second half of 2014.

The **South African** economy is currently going through a difficult period. It is experiencing a number of challenges which includes the slowing down of economic growth, reflected by a 0.6 per cent economic contraction in the first quarter of 2014. The previous 2014 economic growth forecast for South Africa has been downgraded by a number of local and international institutions following growing economic challenges. The SA Reserve Bank has thus also downgraded the forecasted economic growth for 2014 from 2.1 per cent to 1.7 per cent. The World Bank has also revised downwards South Africa's economic growth forecast for 2014 to 2 per cent from an earlier forecast of 2.7 per cent. Persistent labour strikes caused mining production to decrease by 6.5 per cent year-on-year in May 2014 and contributed to renewed weakness in the manufacturing sector. The poor performance in mining production was driven by a decline in Platinum Group Metals (PGM) mining production and due to suppressed commodity prices.

Some of the economic challenges facing the economy include the weakening of the rand, the increasing inflation rate, the growing unemployment rate and poor levels of business and consumer confidence. The RMB/BER Business Confidence Index remained unchanged at 41 in the second quarter of 2014. The index has remained below its long term average of 45.12 for the period since middle of 2013 (see Figure 2.1). The index is less than encouraging reflecting domestic concerns and the unhappiness of respondents with regard to current economic conditions. On the other hand, though not indicated in Figure 2.1, the consumer confidence index recovered from -6 to 4 points in the second quarter of 2014; however, it remains below its long-term average.

Figure 2.1 The RMB/BER Business Confidence Index

Source: BER June 2014

Growth over the expansion period 2000 - 2007 trended at 4.3 per cent per annum declining to 1.2 per cent per annum over the recessionary period 2008 - 2009 and recovering to 2.7 per cent per annum over the recovery period 2010 - 2013. Table 2.2 shows the economic growth outlook for the South African economy. During the forecast period 2014 - 2019 it is expected that the construction sector will grow the fastest, with growth averaging 3.7 per cent per annum. Forecast growth in the transport, storage and communication sector coupled with the finance, insurance, real estate and business services sector are forecast to also positively influence overall growth, each growing at 3.4 per cent per annum. The forecast growth of the general government of 2.1 per cent is noticeable albeit downgraded from previous forecast due to the tighter fiscal position. Overall, real GDP growth has been downscaled substantially, currently forecast to average 2.6 per cent per annum, 2014 - 2019.

A key development (from the middle of 2011) and reason for slower forecast growth has been the slowdown in consumer spending. The sector has been the backbone of the economic recovery in the country in the aftermath of the global financial crisis. Consumer spending lost momentum due to rising inflation, weaker real disposable income and slow economic growth; interest rates also began rising in the first quarter of 2014. Fixed investment spending is also a driver of growth and its outlook has been downscaled due to the poor domestic demand conditions and low business confidence levels.

Table 2.2 South Africa sectoral economic growth outlook: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 - 2019
Agriculture, forestry and fishing	2.3	1.9	2.8	2.3	1.9	2.2	2.2	2.2
Mining and quarrying	3.1	0.8	1.7	1.0	0.6	0.8	0.9	1.0
Manufacturing	0.8	1.8	2.6	2.3	2.0	2.2	2.3	2.2
Electricity, gas and water	-0.4	1.1	2.5	2.4	2.5	2.7	2.8	2.3
Construction	2.8	3.4	3.3	3.4	3.7	4.0	4.1	3.7
Wholesale and retail trade, catering and accommodation	2.2	1.0	3.2	2.8	2.6	2.7	2.8	2.5
Transport, storage and communication	1.9	2.7	3.5	3.4	3.6	3.6	3.8	3.4
Finance, insurance, real estate and business services	2.4	1.9	3.6	3.5	3.8	3.9	4.0	3.4
Community, social and personal services	1.8	1.6	2.6	2.1	1.9	2.1	2.2	2.1
General government	1.5	1.6	2.3	1.9	2.1	2.2	2.3	2.1
Total	1.9	1.7	3.0	2.7	2.7	2.8	2.9	2.6

Source: BER/Quantec Research 2014 (e = estimate; f = forecast)

Year-on-year headline inflation increased in 2014Q2 to 6.5 per cent from 5.9 per cent in 2014Q1. Despite the lowering of growth forecasts the inflation outlook remained unchanged. It is expected that headline inflation will decrease to 6.4 per cent in the third quarter and further decrease to 6.3 per cent in 2014Q4, remaining outside the SARB target range. Headline inflation forecast for 2015 was adjusted to 5.7 per cent and for 2014 to 6.3 per cent (see Table 2.3). The rand dollar exchange has come under pressure depreciating by more than 40 per cent since the beginning of 2012. Global and domestic factors, such as the Marikana strike (August 2012) and a widening current account deficit, have been major contributors to the weakening of the rand.

Table 2.3 South Africa: Forecast of inflation, interest rates and the rand exchange rate, 2014 - 2015

Financial variable	2012	2013	2014f	2015f
CPI inflation (average)	5.70	5.70	6.30	5.70
Prime overdraft interest rate (eop)	8.50	8.50	9.50	10.00
Rand/\$ exchange rate (eop)	8.64	10.47	10.70	10.95
Rand/€ exchange rate (eop)	11.32	14.36	14.10	13.75

eop: end of period

Source: BER

The **Western Cape** economy grew at a rate of 2.1 per cent during calendar year 2013 compared to 1.9 per cent for the country as a whole. The contraction in output in the mining sector weighed down on national growth. Although the Province was not able to reap the rewards from increases in mining activity in the second half of the year, it did benefit from growth in the manufacturing sector (which accounts for 17 per cent of overall GDP).

Table 2.4 shows the sectoral growth and employment trends in the Western Cape economy. While growth trended at 3.9 per cent per annum (2000 - 2013) it decelerated sharply during the recession years (2008 - 2009) to 1.7 per cent. Over the current years of the expansion phase (2010 - 2013) GDP growth has averaged 2.9 per cent per annum, well below its growth trend. The expansion of the wholesale and retail, catering and accommodation sector is notable, with the sector growing above average at 3.7 per cent per annum. Also notable is the growth in general government (3.4 per cent) and the growth in the finance, insurance, real estate and business services sector.

The rate of employment creation within the Western Cape followed national trends. Whereas the rate of employment creation in the Western Cape trended at 0.4 per cent it contracted to 0.3 per cent during the recession years (2008 - 2009). Unfortunately the rate of employment creation has not been restored during the recovery years (2010 - 2013). The contractions in the agriculture, forestry and fishing sector (2.0 per cent per annum), the construction sector (5.8 per cent per annum) and the manufacturing sector (1.0 per cent per annum) are major causes for concern.

Table 2.4 Western Cape economy sectoral growth and employment (formal and informal): 2000 - 2013

	Real GDP growth (yoy %)				Formal and informal employment (yoy % change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2000 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	2.0	1.1	8.2	0.8	-2.0	-0.9	-6.3	-2.0
Mining and quarrying	-1.2	-0.5	-7.4	0.5	1.3	0.7	1.6	2.6
Manufacturing	2.4	3.8	-3.3	2.6	-2.2	-2.1	-4.6	-1.0
Electricity, gas and water	2.5	4.2	-1.6	1.1	2.6	6.6	-12.5	2.0
Construction	6.5	9.1	5.5	1.7	-2.5	-0.9	-2.6	-5.8
Wholesale and retail trade, catering and accommodation	4.2	5.7	-0.6	3.7	0.9	1.3	0.8	0.3
Transport, storage and communication	4.7	6.6	2.0	2.4	1.6	0.0	5.8	2.8
Finance, insurance, real estate and business services	5.5	7.0	3.9	3.3	3.3	4.9	-0.2	1.9
Community, social and personal services	2.9	3.9	1.4	1.7	2.0	2.7	4.7	-0.5
General government	2.5	1.6	4.3	3.4	2.1	2.4	2.7	1.0
Total	3.9	5.0	1.7	2.9	0.4	0.9	-0.3	-0.1

Source: Quantec Research 2014

Table 2.5 shows the outlook for real economic growth in the Province. Real GDP is forecast at a similar rate in 2014 compared to 2013 (i.e. 2.1 per cent) and expected to accelerate to a real growth rate of 3.1 per cent in 2015. Real GDP is forecast to grow at an average growth rate of 3.0 per cent per annum over the period 2014 - 2019. The tertiary sector is expected to drive economic growth, with growth averaging 3.1 per cent per annum. Services such as transport and communication

and finance and insurance and business services are expected to grow at above-average rates. The Provincial Government highlighted its commitment towards achieving sustained economic growth. The Budget Statement highlighted the four core objectives of Government, i.e. a commitment to promoting economic growth, increasing employment, improving the quality of public education and healthcare and reducing poverty within the Western Cape.

Table 2.5 Western Cape economy: Real GDP growth forecast: 2014 - 2019

Sector	2013e	2014f	2015f	2016f	2017f	2018f	2019f	Forecast
								2014 - 2019
Agriculture, forestry and fishing	2.6	2.3	1.9	1.5	1.6	1.7	1.6	1.8
Mining and quarrying	1.3	1.2	1.1	0.8	1.7	1.8	1.8	1.4
Manufacturing	0.5	2.2	2.4	2.3	2.4	2.4	2.5	2.4
Electricity, gas and water	1.6	1.5	2.1	2.1	2.2	2.2	2.2	2.1
Construction	3.2	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	2.4	1.2	3.0	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	2.1	3.0	3.6	3.7	3.9	3.7	3.9	3.6
Finance, insurance, real estate and business services	2.5	2.2	3.8	3.6	3.8	3.9	3.8	3.5
Community, social and personal services	2.2	2.1	2.4	2.1	1.9	2.4	2.2	2.2
General government	2.4	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Total	2.1	2.1	3.1	3.0	3.1	3.2	3.3	3.0
Primary sector	2.6	2.2	1.9	1.5	1.6	1.7	1.6	1.7
Secondary sector	1.1	2.5	2.7	2.7	2.7	2.8	2.9	2.7
Tertiary sector	2.4	2.0	3.3	3.2	3.4	3.4	3.5	3.1

Source: Quantec Research 2014 (e = estimate; f = forecast)

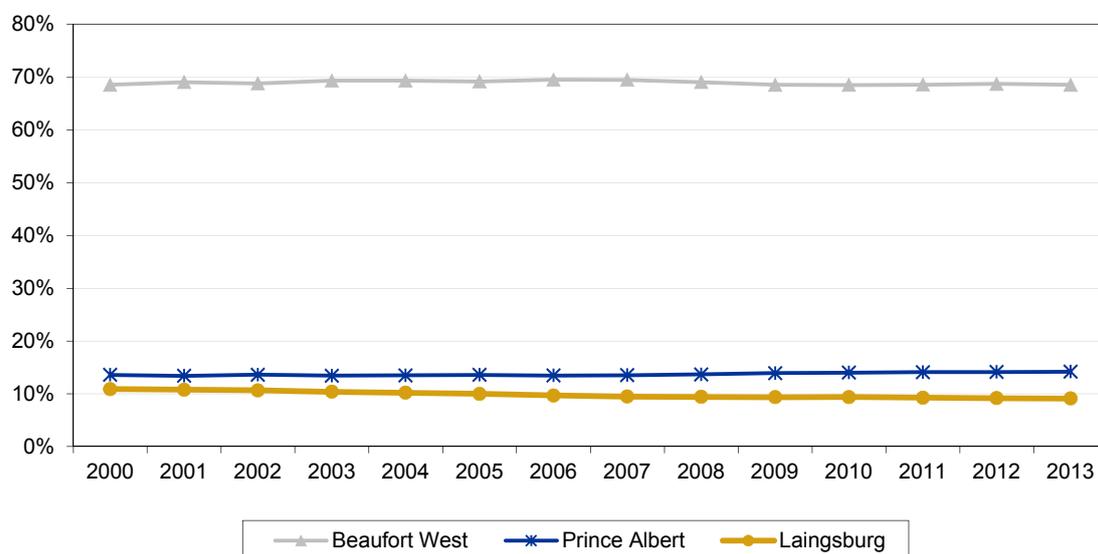
2.3 The Central Karoo District (CKD) economy

In line with the downward revision of the global economic outlook and the substantial downward revision of the outlook for growth nationally and in the Province, the CKD GDP growth forecast for the period 2014 - 2019 has been reduced to 2.9 per cent per annum, from 3.6 per cent per annum at the time of the 2013 MERO study (for the period 2012 - 2017). The growth performance of the District (1.7 per cent) was below that recorded for the Western Cape Province (2.1 per cent) in 2013. The District economy is the smallest in the Province contributing 0.6 per cent of the Western Cape GDP in 2013. A notable feature of the District is the contraction of the agriculture sector (1.1 per cent per annum over the period 2000 - 2013) which has impacted on other sectors such as the transport and storage and retail sectors. The historical growth of the economic sectors within the District is considered in the following section.

2.3.1 Historical growth and employment trends

Central Karoo District hosts three local municipalities; Beaufort West, Prince Albert and Laingsburg. Figure 2.2 shows the contribution made by these municipalities to GDP over the period 2000 - 2013. From the graph it is clear that the relative contribution to GDP made by each municipality has remained fairly constant over the period 2000 - 2013. Beaufort West Municipality continues to dominate the region contributing more than two thirds of economic activity within the CKD (69 per cent in 2013). On the other hand Prince Albert and Laingsburg contributed 14 per cent and 9 per cent respectively to GDP in 2013. Prince Albert and Laingsburg municipalities grew at 4.0 per cent and 2.3 per cent respectively over the period 2000 - 2013. Employment contributions by municipality follow similar trends compared to GDP. Beaufort West experienced a slight increase in employment whilst Prince Albert and Laingsburg shed jobs.

Figure 2.2 GDP contribution per municipality: 2000 - 2013



Source: Quantec Research 2014

Table 2.6 shows the sectoral composition of GDP growth and net employment creation in the CKD economy over the period 2000 - 2013. The District has not fully recovered to its trend growth rate (3.7 per cent per annum, 2000 - 2013) and has under-performed during the economic recovery thus far. During the recession years (2008 - 2009) real growth slowed to 3.4 per cent per annum and has not recovered over the period 2010 - 2013 (2.6 per cent). This compares to 4.3 per cent per annum recorded over the period 2000 - 2007, i.e. the previous business cycle expansion.

From a sectoral perspective, it was the manufacturing sector (7.0 per cent per annum), construction (9.3 per cent), finance and business services (8.2 per cent) and the general government (4.8 per cent) that sustained growth during the recession. The shrinking agriculture sector has impacted adversely on other sectors such as the retail and wholesale trade and the transport and storage sectors.

Table 2.6 Central Karoo District GDP and employment trends 2000 - 2013

Sectors	GDP (yoy %)			Employment (net change)		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2013	2008 - 2009	2010 - 2013	2000 - 2013	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	-1.0	0.3	1.2	-2 405	-651	-227
Mining and quarrying	13.8	13.9	0.3	6.2	1	1
Manufacturing	8.4	7.0	3.9	303	114	-79
Electricity, gas and water	-0.3	-3.2	-0.4	-9	-14	1
Construction	8.4	9.3	2.1	-236	13	-291
Wholesale and retail trade, catering and accommodation	2.9	-1.6	2.1	-253	-23	-76
Transport, storage and communication	1.5	-2.3	0.9	-66	30	67
Finance, insurance, real estate, business services	7.4	8.2	3.8	998	69	200
Community, social and personal services	2.5	1.7	1.1	241	2 501	-231
General government	2.5	4.8	3.5	367	121	17
Total	3.7	3.4	2.6	-1 052.2	-88.8	-616.9

Source: Quantec Research 2014

The CKD is the smallest employer within the Western Cape, contributing 0.8 per cent to total formal and informal employment in 2013 (i.e. 14 600 workers). A notable feature of employment in the District is the severe jobs losses recorded in the agricultural sector; the sector retrenched 2 400 workers over the period 2000 – 2013. Other sectors that shed jobs over the period 2000 - 2013 are the construction sector (236 workers), the retail and wholesale trade sector (253 workers) and the transport, storage and communication sector (66 workers). The growth and employment creation of the finance and business services sector is notable, with this sector creating a total of 998 jobs over the period 2000 - 2013. However, the net retrenchments in the agriculture sector alone cancelled the net job growth in the services sector. Overall, the District has experienced a contraction in its employment over the period 2000 - 2013 (1 050 workers).

2.3.2 The economic recovery

The CKD was heavily impacted by the 2009 recession with growth stalling in 2009 and then growing at 2.3 per cent the following year. During the recession the electricity, gas and water sector (-3.2 per cent), retail and wholesale trade sector (-1.6 per cent) and the transport, storage and communication sector (-2.3 per cent) were the most severely affected. In the early years after the recession the retail and wholesale trade and the transport, storage and communication sectors have shown signs of recovery. However, the electricity, gas and water sector continued to contract (0.4 per cent per annum). Growth during the recovery period (2.6 per cent per annum) has remained well below the CKD's trend growth rate (of 3.7 per cent) and the real GDP growth of the Western Cape Province (3.9 per cent) over the period 2000 - 2013.

Table 2.7 Central Karoo District real GDP growth in provincial perspective: 2010 - 2013 (%)

Sector	Central Karoo District	Eden District	Cape Winelands District	West Coast District	Overberg District	Cape Metro
Agriculture, forestry and fishing	1.2	1.5	-0.4	-0.1	0.6	2.2
Mining and quarrying	0.3	1.5	4	3	2.6	1.5
Manufacturing	3.9	4.3	2.1	1.9	2.6	2.7
Electricity, gas and water	-0.4	0.9	2.1	-0.4	0.4	1
Construction	2.1	2.5	1.7	1.5	2	1.5
Wholesale and retail trade, catering and accommodation	2.1	5	4.8	3.4	4.1	3.4
Transport, storage and communication	0.9	2.4	2.2	1.7	2.6	2.3
Finance, insurance, real estate and business services	3.8	3.9	3.8	5.4	5.6	3
Community, social and personal services	1.1	2.7	2.1	2	2.4	1.4
General government	3.5	5.4	4.2	3.4	3.8	2.7
Total	2.6	3.8	2.7	2.8	3.4	2.7

Source: Quantec Research 2014

Table 2.7 shows the sectoral growth performance of the Central Karoo District economy during the economic recovery (2010 - 2013) in the context of the other five Western Cape districts. The District recorded the lowest GDP growth within the Province, i.e. 2.6 per cent per annum. From the table it is clear that the manufacturing (3.9 per cent) and the financial and business services sector (3.8 per cent) were the fastest growing sectors in the CKD during the recovery period followed by general government (3.5 per cent). In comparison to other districts the growth of the manufacturing sector stands out, only in the Eden District did this sector grow faster than the CKD. The agricultural sector also recovered; growing at 1.2 per cent during the recovery period. Unfortunately small job losses were still recorded in the agricultural sector (227 workers over the period 2010 - 2013). Like most other districts within the region the largest numbers of job losses during the recovery period were recorded in the construction sector (see Table 2.8). Job losses also persisted in the retail and wholesale trade and the community, social and personal services sectors.

Table 2.8 Central Karoo District employment trends in provincial perspective: 2010 - 2013

Sector	Central Karoo District	Eden District	Cape Winelands District	West Coast District	Overberg District	Cape Metro
Agriculture, forestry and fishing	-227	-2 824	-7 266	-423	-1 398	-1 451
Mining and quarrying	1	-3	-32	-16	-2	-48
Manufacturing	-79	-1 086	-84	-546	-623	-7 105
Electricity, gas and water	1	23	-6	11	11	440
Construction	-291	-4 929	-2 863	-1 471	-1 964	-18 075
Wholesale and retail trade, catering and accommodation	-76	1 132	836	62	253	3 255
Transport, storage and communication	67	555	507	365	258	6 888
Finance, insurance, real estate and business services	200	1 865	2 078	2 045	1 775	17 042
Community, social and personal services	-231	-386	-990	-166	1	-4 462
General government	16	3 186	2 172	501	561	2 546
Total	-617	-2 468	-5 648	362	-1 129	-970

Source: Quantec Research 2014

2.3.3 Macroeconomic implication and the growth outlook

The CKD economy's real GDP growth rate is expected to increase from 1.7 per cent in 2013 to 2.1 per cent in 2014 (see Table 2.9). The average annual GDP growth rate forecast for the period 2014 - 2019 is 2.9 per cent per annum. It is expected that the welcome recovery of the agriculture sector will continue during the forecast period albeit at a slower pace (0.6 per cent). The manufacturing sector (4.4 per cent per annum) is forecast to be the highest growth sector and will be closely followed by the finance and business services sector, mining and quarrying and the construction sectors, all expected to grow at 4.1 per cent per annum. The downgrading of the country's credit ratings, higher inflation rates, the deterioration of the current account, the weakening of the rand, the shaky business confidence and the consequent slowdown of the national economic growth rate, could slow down the CKD's economic performance. Considering its limited trade exposure and dependence on national economic growth poor business and consumer confidence could impact economic growth significantly as the economy relies heavily on domestic demand.

Table 2.9 Central Karoo District real GDP growth forecast by broad sector: 2014 - 2019

Sectors	2014	2015	Forecast				Forecast
			2016	2017	2018	2019	2014 - 2019
Agriculture, forestry and fishing	1.1	0.7	0.3	0.4	0.5	0.4	0.6
Mining and quarrying	3.9	3.8	3.5	4.4	4.5	4.5	4.1
Manufacturing	4.1	4.4	4.3	4.4	4.5	4.6	4.4
Electricity, gas and water	-0.8	-0.2	-0.2	-0.1	-0.1	-0.1	-0.3
Construction	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Wholesale and retail trade, catering and accommodation	0.6	2.4	2.5	2.6	2.5	2.8	2.2
Transport, storage and communication	1.0	1.6	1.8	2.0	1.6	1.9	1.6
Finance, insurance, real estate, business services	2.8	4.4	4.2	4.4	4.4	4.4	4.1
Community, social and personal services	1.7	2.0	1.7	1.5	2.0	1.8	1.8
General government	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Total	2.1	3.0	2.9	3.0	3.1	3.2	2.9

Source: Quantec Research 2014

2.4 Concluding remarks

The CKD economy was heavily impacted by the 2009 recession with growth stalling in 2009. The District began to show signs of recovery in 2010 growing at 2.3 per cent. Growth accelerated to 3.9 per cent in 2011 and tapered off to 1.7 per cent last year and is expected to average 2.1 per cent in 2014. In line with the substantial downward revision of the provincial economic outlook, the GDP growth forecast for the period 2014 - 2019 in the CKD has been reduced to 2.9 per cent per annum from 3.6 per cent per annum previously (for the period 2012 - 2017). The main reasons for the slower growth have been highlighted as weak global growth and domestic issues, such as labour unrest.

A notable feature of the District is that economic activity within the District is concentrated in the Beaufort West Municipality. The Prince Albert and Laingsburg municipalities are smaller both in terms of contribution to GDP and employment. In terms of employment, Beaufort West Municipality managed to create employment on a net basis over the 2000 - 2013 period. On the other hand, Prince Albert and Laingsburg municipalities suffered job losses over the same period. Whilst most job losses in the Province occurred in the manufacturing sector the CKD and Overberg Districts had net employment creation within the manufacturing sector over the period 2000 - 2013. Overall, the region has experienced a contraction in employment over the period 2000 - 2013.

The contraction of the agricultural sector has adversely impacted on the transport and storage as well as the retail and wholesale trade sectors. It is expected that the manufacturing sector (4.4 per cent per annum) will be the highest growth sector and will be closely followed by the finance and business services sector, mining and quarrying and the construction sectors. The sectoral forecast is motivated in more detail in Chapter 3.

3

Sectoral growth, employment and skills

3.1 Introduction

The Central Karoo District (CKD) is an agrarian district, making only a marginal contribution to Western Cape's GDP. During calendar 2013 this amounted to R2.7 billion (or 0.6 per cent) of the total R431 billion; and the region employed 14 600 workers in its formal and informal sectors. Whilst it is an agrarian region, the CKD's agricultural sector is actually in decline and economic activity is dominated by services, accounting for three quarters of GDP in 2013 – see Table 3.1. The agriculture sector has shrunk in relative and absolute terms; whereas it accounted for 16.3 per cent of GDP 20 years ago, it currently accounts for 8.5 per cent. While services expanded, the two sectors that really compensated for the decline of agriculture are manufacturing and construction, which increased their combined share from 10 per cent 10 years ago to 16.7 per cent currently. The expansion of manufacturing and construction is encouraging; however, they remain relatively small sectors in the CKD as more than 70 per cent of the work force is employed in the services sectors. The historical growth of the municipal economy is discussed in section 3.2 below, also in the context of the growth of the other Western Cape municipalities. The focus in this part of the analysis is on the period of economic recovery (i.e. 2010 - 2013) from the 2009 recession. The trends in the agriculture, manufacturing and services industries are analysed. Section 3.3 investigates the changing skills composition of labour demand in the regional economy.

Table 3.1 Central Karoo value added (GDPR) and employment, 2013

Broad sector	GDPR (R million)		Employment (number)	
		%		%
Agriculture	231	8.6	2 100	14.3
Mining	4	0.1	0	0.1
Manufacturing	226	8.4	1 000	7.1
Electricity and water	44	1.6	0	0.3
Construction	169	6.3	1 000	7.1
Trade	440	16.4	3 100	21.4
Transport and communication	310	11.5	700	5.0
Financial and business services	693	25.8	1 900	12.9
Community, social and personal services	164	6.1	2 600	17.9
Government	407	15.1	2 100	14.0
Total	2 688	100.0	14 600	100.0

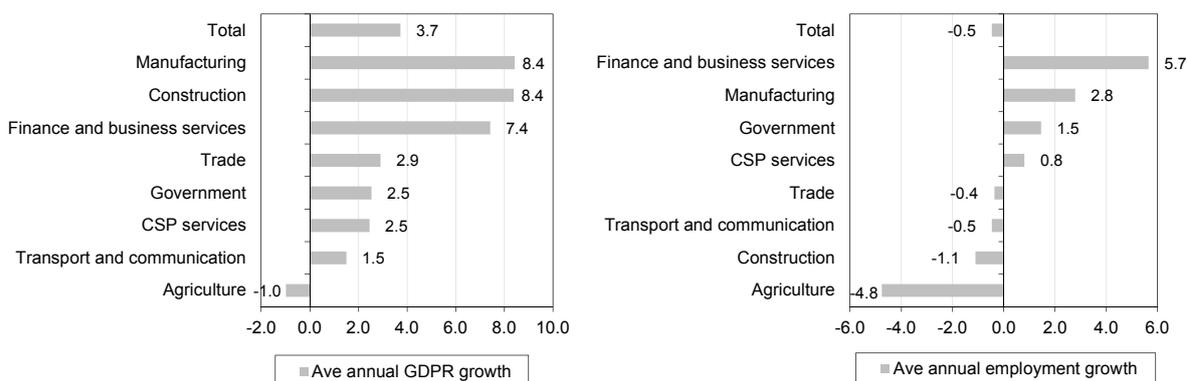
Source: Quantec Research 2014

The 2013 Municipal Economic Review and Outlook (MERO) study, applying a location quotient analysis, revealed that the agriculture sector and its associated food and beverage processing industries; building and construction and building materials, as well as catering and accommodation, transport and business services – linked to tourism – were all industries with a competitive edge in the region. Electrical machinery, financial services and community, social and personal (CSP) services also showed high growth from a low base. The outlook for the sectoral growth of the municipal economies is considered in section 3.4 and some concluding remarks follow in section 3.5.

3.2 Historical growth and employment trends by sector: An update

The Central Karoo District regional economy expanded in line with the Western Cape Province over the 2000 - 2013 period, growing by 3.7 per cent per annum. The leading municipality, accounting for close to 70 per cent of the CKD's GDPR, i.e. Beaufort West, grew slightly faster (3.8 per cent per annum). The smaller Prince Albert Municipality grew by 4 per cent per annum and Laingsburg by a more modest 2.3 per cent per annum. Unfortunately, employment contracted at a rate of 1.0 per cent per annum in the CKD, which means that, cumulatively, slightly more than 1 000 jobs (out of a total work force around 15 000) have been lost over the period 2000 - 2013.

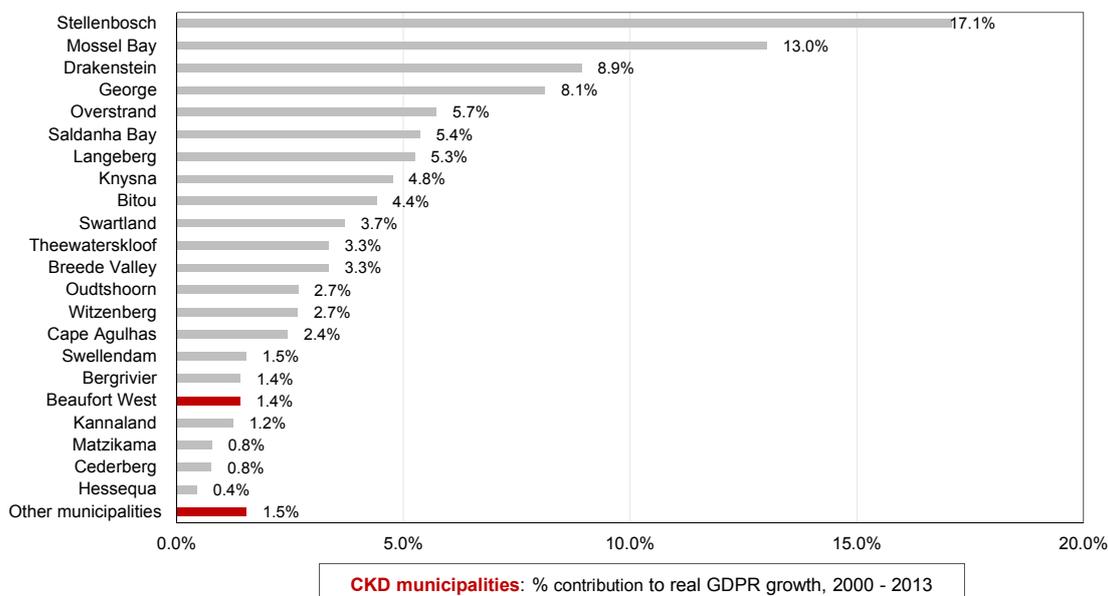
Figure 3.1 Central Karoo District average real economic and employment growth by broad sector, 2000 - 2013



Source: Quantec Research 2014

Due to its small size, the CKD contributed less than 2 per cent to the cumulative growth of the non-metro municipalities in the Western Cape over the 2000 - 2013 period – see Figure 3.2. All three of the region’s municipalities grew below the average of the non-metro municipalities (i.e. 4.1 per cent per annum) and only employed a small share of the Province’s work force. The *Growth Potential Study* ranks these three municipalities numbers 21 – 23 out of 24 non-metro municipalities in the Western Cape in terms of economic potential (Van Niekerk, A, November 2013: 28)¹. Whilst the small size of the regional economy is an obvious fact, the more important fact is that despite the decline of agricultural activity in the area, other secondary and tertiary activities have been expanding and the region has registered a reasonable real economic growth rate.

Figure 3.2 Non-metro municipalities ranked according to growth and size, 2000 - 2013



Source: Provincial Treasury/Quantec Research 2014

¹ In its ranking, the *Growth Potential Study* considers economic, physical and infrastructure factors as part of the economic pre-conditions of growth and innovation potential being determined by institutional and human capital factors. The list of indicators considered exceeds 50 and is therefore a much broader gauge of development potential. (See Van Niekerk, A, November 2013: 12-17)

Figure 3.1 shows that across the broad sectors in the CKD, the rapid growth of three sectors stand out, being manufacturing (8.4 per cent per annum, 2000 - 2013), construction (8.4 per cent) and financial and business services (7.4 per cent).² The high growth of these sectors compensated for the contraction in agriculture and the low growth in the other broad sectors – see Figure 3.1. The financial and business services sector and – to a lesser extent – manufacturing have been the strongest employment creators in the district. In the former-mentioned sector the 5.7 per cent annual growth in employment translates to 1 000 new jobs over the full period; in manufacturing the 2.8 per cent growth translates to 300 new jobs. The government and community, social and personal services also added to employment whereas all the other sectors witnessed a contraction in employment.

The decline of employment in the wholesale, retail, catering and accommodation sector is noteworthy. The growth of this sector has also been atypically low (i.e. below 3 per cent per annum) in the Province, which may reflect the impact of the decline in agriculture and the associated worker retrenchments on the internal trade sector. A total of 2 400 jobs were lost in the agricultural sector over the period 2000 - 2013. Despite its high growth, the construction sector also shed jobs at a relative high rate³. More analysis follows below.

3.2.1 The economic recovery, 2010 – 2013

The national and provincial economies began recovering from the 2009 recession during the third quarter of that year. The CKD economy experienced a peculiar growth pattern during and after the recession. Average annual growth only tapered down from a trend growth rate of 3.7 per cent to 3.4 per cent during the recession years (2008 - 2009), and then further to 2.6 per cent per annum during the first four calendar years of the economic recovery. This growth pattern is explained by the fact that growth continued at a relatively high rate into 2008, i.e. the first year of economic recession, slowing down sharply to zero in 2009 and then recovering close to 4 per cent in 2011, where after it slowed down again to 1.7 per cent last year. As such, it was very much in line with the provincial experience, with the only difference being that economic activity did not contract in real terms possibly due to the closed nature of the regional economy (i.e. very little exposure to international exports).

The sectoral growth and employment trends are discussed in more detail in section 3.2.2 below. The fact that the local labour market continued to deteriorate during the first four years of the recovery is disappointing; in fact the rate of retrenchments actually picked up after the recession. Agriculture, construction, community, social and personal services and manufacturing accounted for the bulk

² The business services sub-sector (18 per cent of Central Karoo GDP) consists, *inter alia*, of legal, bookkeeping and auditing services, tax consulting, market research and business consulting. It is the dominant sector and not finance and insurance (11 per cent of GDP). Considering the contribution to real value added growth in the Central Karoo, this sector accounted for 29 per cent of the cumulative growth, 2000 - 2013; the finance and insurance sector contributed 17 per cent.

³ This may be a statistical error in that employment via labour brokers is being classified under business services, rather than in the sector where the actual workers provide their labour services.

of the job losses over the period 2010 - 2013. This also happened despite the positive growth in agriculture, manufacturing and construction real GDP.

Table 3.2 Central Karoo District: Growth and employment, 2000 - 2013

Sector	Net employment (number)			Real GDP growth (ave yoy%)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-2 400	-650	-230	-1.0	0.3	1.2
Mining and quarrying	0	00	0	13.8	13.9	0.3
Manufacturing	300	110	-80	8.4	7.0	3.9
Electricity, gas and water	0	-10	0	-0.3	-3.2	-0.4
Construction	-200	10	-290	8.4	9.3	2.1
Wholesale and retail trade, catering and accommodation	-300	-20	-80	2.9	-1.6	2.1
Transport, storage and communication	-100	30	70	1.5	-2.3	0.9
Finance, insurance, real estate and business services	1 000	70	200	7.4	8.2	3.8
Community, social and personal services	200	250	-230	2.5	1.7	1.1
General government	400	120	20	2.5	4.8	3.5
Total	-1 100	-90	-620	3.7	3.4	2.6

Source: Quantec Research 2014

3.2.2 Agriculture, manufacturing and services – municipal economic growth performance

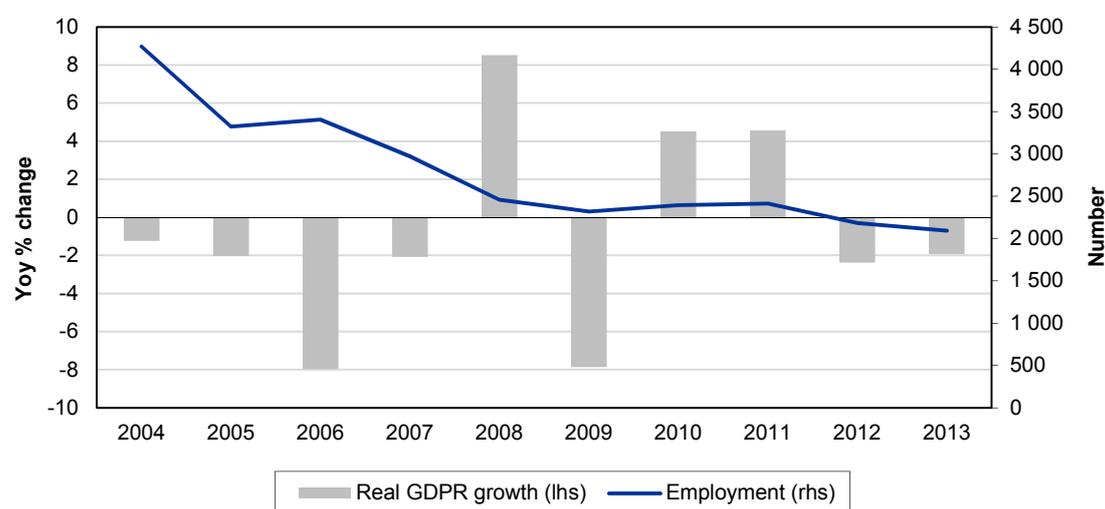
Table 3.2 highlighted the broad sectoral growth and employment performance of the CKD economy during the current economic recovery period. Whilst the region did not contract it was impacted by the slowdown in demand conditions in the rest of the country at the time of the recession, as well as over the period since 2011. In this section of the report, closer attention is paid to the sectoral developments (agriculture, manufacturing and services) at municipal level.

In Table 3.1 it was seen that the **agriculture, forestry and fishing** sector generated 8.6 per cent of CKD value added (or GDP) in 2013, which translates to R231 million; and the sector employed 14.3 per cent of the regional workforce, i.e. 2 100 workers. The Beaufort West Municipality is the main contributor to the agricultural output of the CKD, accounting for 60 per cent of value added, the other two municipalities account for around 20 per cent each. The Central Karoo District is well-known for its extensive small stock graze farming and animal production (Merinos, Dorspers and Angoras). Key agricultural commodities include mutton, wool, mohair and skins. The wool and mohair are exported with little local value addition taking place (Provincial Treasury, March 2014: 86). There has also been a tendency to develop new kinds of farming like game farming, linked with the tourism industry. Other farming activities include horses, garlic, olives, apricots and prickly pears.

As noted, overall CKD agricultural output contracted over the 2000 - 2013 period; however, growth averaged 1.2 per cent per annum during the economic recovery period (2010 - 2013) mainly due to a sharp acceleration in output during calendars

2010 and 2011 – see Figure 3.3. The contraction in agricultural output has been stronger in the larger Beaufort West and Prince Albert municipalities. The (structural) decline in agricultural employment continued unabated during the recession period and is prevalent in all municipal areas – see Figure 3.3 and Table 3.3.

Figure 3.3 Central Karoo District: Agriculture real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

Table 3.3 Central Karoo District: Agriculture growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Laingsburg	19.8	-0.4	0.6	24.1	-370	10
Prince Albert	20.6	-1.6	1.8	24.2	-770	-60
Beaufort West	38.8	-1.8	2.4	29.4	-1 000	-90
Former Central Karoo DMA	20.8	1.3	-0.6	22.4	-270	-80
Total	100	-1.0	1.2	100	-2 410	-220

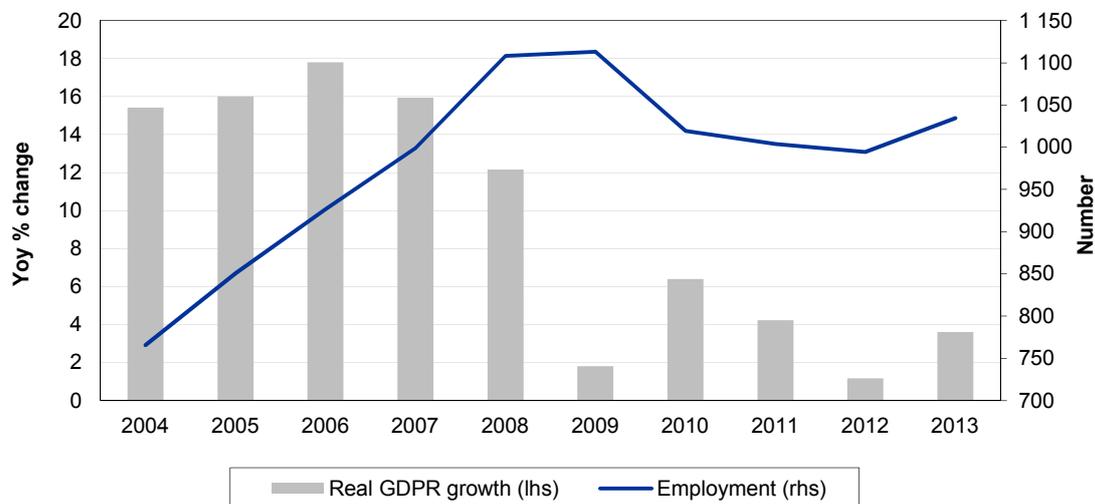
Source: Quantec Research 2014

In all, the CKD makes a small contribution to the Western Cape agricultural sector (estimated at 1.5 per cent), but it remains an important economic activity in the region. Its contraction is impacting other sectors, which shows its importance. It is not clear if the declining tendency will be stabilised except to note that the outlook for livestock and wool as agricultural commodities remain stable (Provincial Treasury, March 2014: 22).

The CKD **manufacturing sector** contributed 8.4 per cent of region's value added (or GDP), i.e. R226 million of the total R2.7 billion, during last year, which is slightly less than the agricultural sector (see Table 3.1). The manufacturing sector's contribution has grown from R40 million in 2000 to R226 million in 2013, i.e. an average annual growth rate of 8.4 per cent in inflation-adjusted terms. Needless to say, much of the manufacturing activities reside around food and beverage processing (one third of the sector). Other industries in the region, include chemicals, building materials

manufacturing, metals and engineering and electrical machinery. These are all light industries growing off a small base.

Figure 3.4 Central Karoo District: Manufacturing real GDP growth and employment, 2004 - 2013



Source: Quantec Research 2014

Table 3.4 Central Karoo District: Manufacturing growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Laingsburg	10.4	9.3	5.3	12.6	20	-10
Prince Albert	9.5	2.8	0.9	9.5	0	0
Beaufort West	64.3	8.4	3.9	64.5	180	-80
Former Central Karoo DMA	15.7	16.8	5.1	13.4	100	10
Total	100.0	8.4	3.9	100.0	300	-80

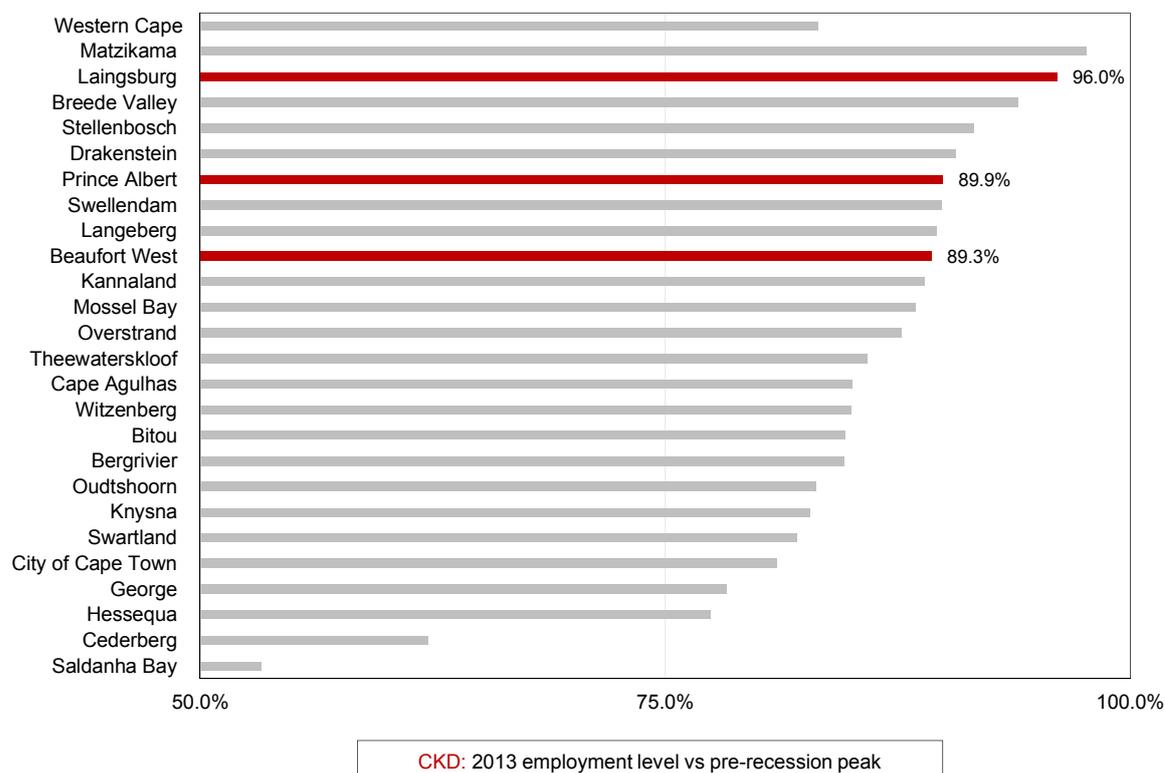
Source: Quantec Research 2014

The recession had some adverse impact on the sector during 2008 - 2009 to the extent that growth slowed down from double digit growth rates in the run-up to the recession to 1.8 per cent in 2009. The sustained growth of the sector limited the net job losses, albeit evident that some job losses continued during the economic recovery period – see Table 3.4. The growth in the sector has also slowed down beyond the recession, measured at half the trend pace. By 2013 the level of real GDP was 18 per cent above its pre-recession level (in 2008); however, as Figure 3.5 shows, the CKD municipal manufacturing employment levels remained between 5 - 10 per cent below their pre-recession peaks. This is of concern, albeit an above-average performance in the wider provincial context.

In Table 3.4 it is shown that close to two thirds of the CKD's manufacturing sector is located in Beaufort West, with the other three areas contributing each between 10 and 15 per cent of GDP. The growth has also been the strongest in Beaufort West and Laingsburg (as well as the former DMA); manufacturing activities did not expand much in Prince Albert. In all, the manufacturing growth of the CKD has generally

been well above average even if from a low base. The fact that employment levels in the sector remained 5 - 10 per cent below their pre-recession peak levels by the end of last year, attests to the slower recovery growth on the one hand and the lingering impact of the global recession (and possibly other adverse tendencies in the local labour market) being of concern.

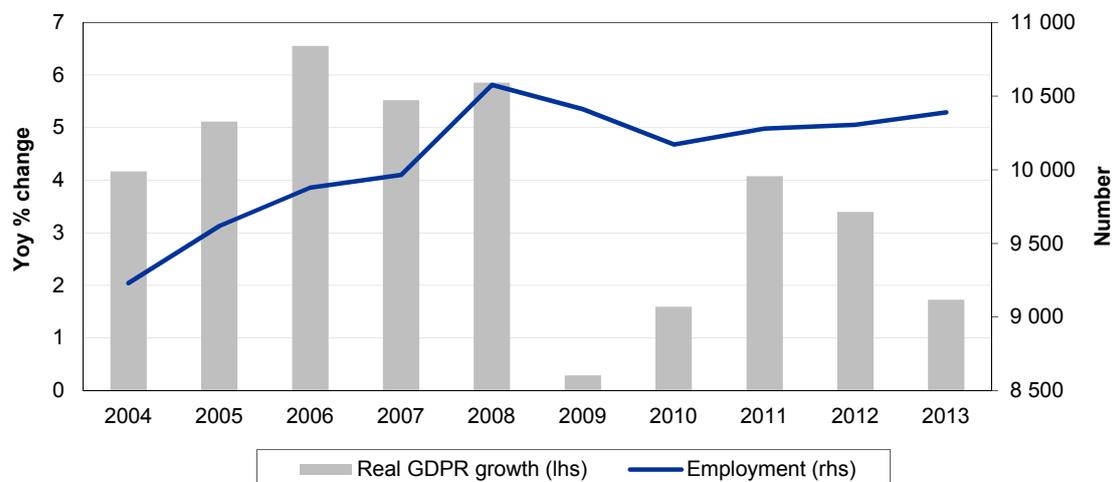
Figure 3.5 Western Cape municipalities: Employment recovery in manufacturing, 2010 - 2013



Source: Quantec Research 2014

Table 3.1 shows that the **services sector**, ranging from wholesale and retail activities to financial and business services and the general government, contributes three quarters (or R2 billion of the total R2.7 billion) of value added generated in the Central Karoo District. The geographical distribution of services activities mirrors that of manufacturing activity, with three quarters of the service economy located in Beaufort West.

The two leading sub-sectors in services are financial, insurance, real estate and business services (approximately R700 million value added generated in 2013) and internal trade, i.e. wholesale, retail, catering and accommodation (R440 million). The region's services industries employ 10 400 of the workforce in the region (14 600), i.e. more than 70 per cent.

Figure 3.6 Central Karoo District: Services sector real GDP growth and employment, 2004 - 2013

Source: Quantec Research 2014

Table 3.5 Central Karoo District: Services sector growth and employment by municipality, 2000 - 2013

Municipality	Real GDP growth (yoy%)			Net employment (number)		
	% share	Trend	Recovery	% share	Trend	Recovery
	2013	2000 - 2013	2010 - 2013	2013	2000 - 2013	2010 - 2013
Laingsburg	7.2	2.0	2.0	8.7	-110	-10
Prince Albert	12.7	5.0	3.7	12.1	19	0
Beaufort West	74.2	3.9	2.6	73.8	1 290	10
Former Central Karoo DMA	6.0	4.5	3.2	5.3	-80	-20
Total	100	3.9	2.7	100	1 290	-20

Source: Quantec Research 2014

Whilst the services sector grew above average in the region, its growth was less robust compared to that in the wider province and – in line with the provincial experience – growth rates have tapered off during the aftermath of the recession. The sector actually also witnessed (small) net job losses over the economic recovery period compared to net job growth happening in the other districts. Apart from the services activity in the main Beaufort West Municipality, not much appears to be happening in the other municipalities, certainly not in terms of employment creation.

In all, considering the sectoral growth and employment performances by municipality in the Central Karoo District during the economic recovery period thus far, some concerns come to the fore. Firstly, the decline in agricultural employment continued unabated despite some positive output growth in 2010 - 2011. Secondly, whilst the manufacturing (and construction) growth and employment creation compensate for the decline in agriculture, the level of manufacturing employment remained between 5-10 per cent below their pre-recession peaks across the municipalities. Finally, the growth and employment creation in services are concentrated in the Beaufort West Municipality and has generally disappointed during the 2010 - 2013 economic recovery phase. The Central Karoo District posted the lowest average real GDP growth rate during the economic recovery period in the Province, i.e. 2.6 per

cent per annum. The region has been impacted by the decline in agriculture and the poor economic growth in the rest of the country.

In the section below, the skills composition of labour demand in the Central Karoo District comes under the spotlight.

3.3 Municipal labour forces: Skills composition

The previous MERO studies alluded to the labour market dilemma faced in South Africa in general and also in the Western Cape, namely the mismatch between the demand for labour skills and the supply thereof. Whereas the demand for highly skilled human resources continues to grow, these skills are in short supply whilst at the same time there is an oversupply of *semi and unskilled* labour, with the corresponding demand actually declining. This trend has been evident from the 1970s nationally (see Kibuuka & Van Aardt, 1999: 11-12) and continues to the present time. Table 3.6 shows that this trend also existed in the Central Karoo District during the 2000s⁴.

Table 3.6 Central Karoo District employment by skill level

Labour category	2000	% share	2013	% share	% change pa
Highly skilled	1 400	9.3	1 800	12.4	1.9
Skilled	3 800	25.0	4 200	29.0	0.9
Semi and unskilled	7 200	47.3	5 000	34.3	-2.7
Informal	2 800	18.4	3 500	24.3	1.9
Total	15 200	100.0	14 600	100.0	-0.3

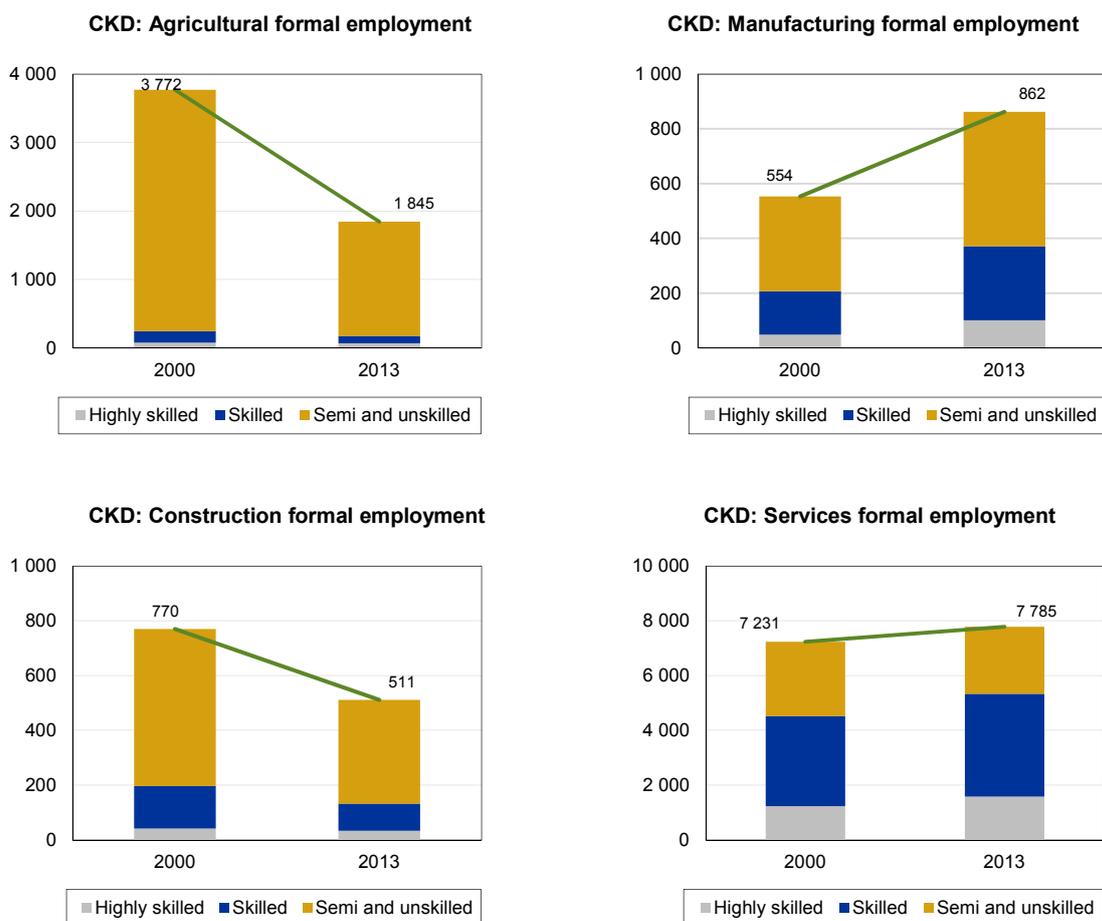
Source: Quantec Research 2014

The demand for highly skilled labour grew by 1.9 per cent per annum between 2000 and 2013, that for skilled labour by 0.9 per cent per annum, whilst that for semi and unskilled labour contracted by 2.7 per cent per annum. It would appear that some of the decline in the demand for semi and unskilled labour swelled the informal sector labour force growing by 1.9 per cent per annum (see also the informal sector analysis in Chapter 5). Unemployment increased over this period as the overall demand for labour actually shrunk by 0.3 per cent per annum, not even accounting for the new entrants to the Central Karoo District labour market.

Whilst the demand for labour is generally derived from a country's or region's sectoral growth patterns and the accompanying macro-economic conditions, factors such as internal and external competitive conditions, wage rates in relation to productivity, the use of technology and the relationship between the cost of labour and the cost of capital, etc. all have an impact.

⁴ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Figure 3.7 Central Karoo District formal sector employment by skill level: 2013 vs 2000



Source: Quantec Research 2014

The objective here is not to unpack the reasons for the labour market mismatch in the Central Karoo District, but rather to highlight the trends in skills demand across the broad sectors, i.e. agriculture, forestry and fishing, manufacturing, construction and services – see Figure 3.7. The charts depict the skills composition of formal employment in the Central Karoo District in calendar 2000 versus that in 2013 and the absolute change in formal employment over this period. *The following remarks are in order:*

- The first notable trend has been the decline in formal employment in the agriculture and construction sectors compared to the increase in employment in the manufacturing and services sectors. In all, 2 190 formal jobs were lost in the agricultural and construction sectors over the period between 2000 and 2013 while a cumulative 550 were gained in services and 310 in manufacturing. The net job growth in manufacturing, albeit small, bucks the provincial trend (only the Overberg reported a similar development). On the other hand, the employment gains in services was relatively mild compared to the tendency in the other districts of the Province.
- The agricultural sector (more than 90 per cent), the manufacturing sector (50 - 60 per cent) and construction sector (around 75 per cent) are significantly

more semi and unskilled labour intensive. Job shedding in this labour market segment was most profuse in the agriculture and construction sectors. The CKD manufacturing sector created some semi and unskilled jobs. In all, 2 050 of the 2 190 total formal sector job losses occurred in this labour category and in these two sectors. The services sector also shed 250 semi and unskilled employment opportunities over the period under consideration.

- Close to 70 per cent of all services jobs in the Central Karoo District are in the highly skilled and skilled categories. The demand for skilled and highly skilled labour also contracted in the agriculture and construction sectors, i.e. by 140, whilst it expanded marginally by 160 in the manufacturing sector and by 810 in the services sector, or 570 skilled and 380 highly skilled jobs.

The loss of jobs in the agricultural and construction sectors, which are relatively semi and unskilled labour intensive is obviously a cause for concern given the skills composition of the unemployed labour force in the Central Karoo District. Whilst the agricultural sector in the region experienced a major relative decline from contributing 16 per cent to GDP in 2000 to 9 per cent in 2013, that of construction and manufacturing actually increased from 10 to 17 per cent over the corresponding period. The relative contribution of the services sector remained stable around 73 per cent over the corresponding period. In other words, the CKD does not fully share the experience of other Western Cape districts which witnessed a notable relative decline in manufacturing and construction activities. This assists in explaining the positive manufacturing employment tendency. However, in agriculture and construction the CKD region does share the experience of other districts in terms of laying off workers on a large scale in these industries. Apart from the relative decline in agriculture, this may point, amongst other, to the impact of technology and a mechanisation tendency in the Central Karoo District.

Other factors which may also explain the attrition of semi and unskilled labour, namely wage costs in relation to productivity and the cost of capital, competitive pressures (in manufacturing), farming legislative change (which caused lay-offs in the agricultural sector), etc. However, further research is required in this regard. Suffice to say that the training and up-skilling of labour has become critical given the demands of the modern economy.

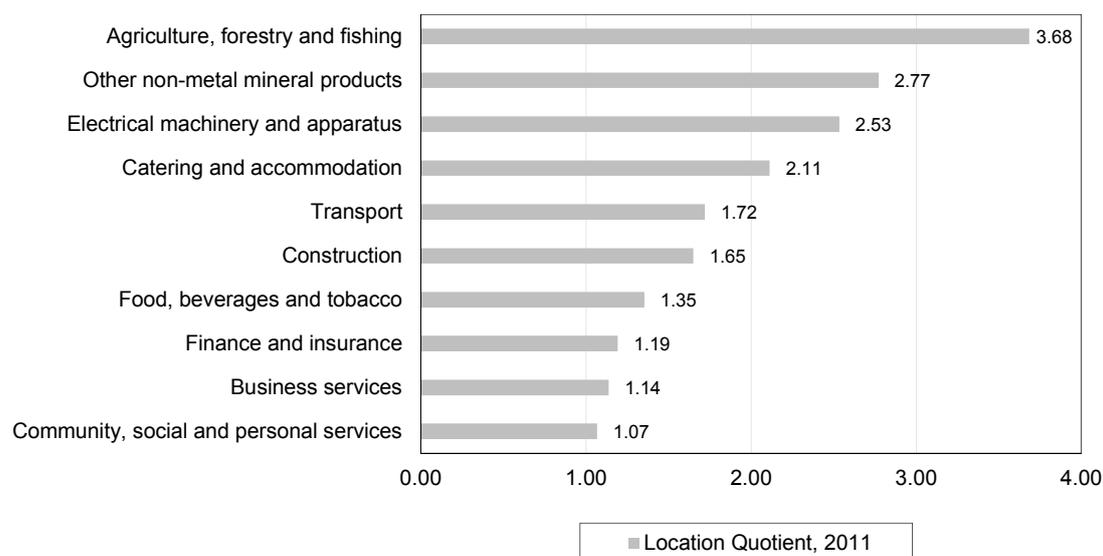
3.4 Sectoral economic prospects, 2014 – 2019

In Chapter 2 it was motivated why the forecast for economic growth has been scaled down markedly, both over the short and the medium term. The poorer global and national economic outlooks also impact on the outlook for the Western Cape economy and that of the Central Karoo District. Whereas the Western Cape economy was expected to grow by 3.7 per cent in 2014 and 3.7 per cent per annum on average over the six-year period, 2012 - 2017 in the previous study (MERO 2013), the current forecast is for 2.1 per cent growth this year and an average real GDP growth rate of 3.0 per cent per annum, 2014 - 2019. The main reasons for the slower growth are as follows:

- Weaker than expected global growth. While the world economic recovery appears to be on track, growth forecasts have been scaled down generally. Weaker than expected growth in China and other emerging markets is a key factor. Recovery growth has also turned out weaker than expected in the developed economies of the world (see Chapter 2).
- Domestic economic issues have also led to the scaling down of growth forecasts, particularly regarding 2014 due to extensive labour unrest, which commenced the year with the unprecedented five month strike in the Rustenburg platinum belt. Real GDP contracted unexpectedly during the first quarter of the year, mainly due to a sharp fall in mining production, as well as manufacturing real value added. The latter contracted due to its linkages with the mining sector, but also due to problems within the sector (including once-off events such as maintenance schedules in the petroleum and heavy metals sectors) and the impact of electricity blackouts.
- The Western Cape manufacturing sector was relatively unscathed in this regard, but also succumbed to the weaker general demand conditions. The forecast for gross domestic expenditure, i.e. the sum total of household and government consumption expenditure, private and public sector fixed investment and inventory investment, is a real growth of only 1.6 per cent during 2014, recovering to 3.0 per cent per annum over the medium term. The previous forecast was for 4.5 per cent growth in 2014 and 4.3 per cent per annum on average over the medium term. This is a major downward revision and suggests the domestic market could remain lacklustre and/or slow growing. This will impact on the Central Karoo District region, which is dependent on demand conditions in the rest of the country given its small local market.

3.4.1 Local issues – Central Karoo District

The Central Karoo District is a small non-metro district in the Western Cape, but its growth has managed to keep up with the provincial average, i.e. 3.7 per cent per annum (2000 - 2013). Regional growth did slow down to below the 3.4 per cent per annum provincial average during the economic recovery (2010 - 2013), coming in at 2.6 per cent per annum. Given the strong services orientation of the Central Karoo District's economy and sustained growth of the manufacturing and construction sectors in 2008, the impact of the 2008 - 2009 global recession was relatively mild. Real GDP did not contract. However, job losses continued after 2009.

Figure 3.8 Central Karoo District industries comparative advantage

Source: Provincial Treasury: MERO, 2013

In the MERO 2013 study it was found that a number of key value chains in the Central Karoo District have a comparative advantage, namely the food value chain (agriculture and the associated food and beverage processing industries); the building value chain (including building materials manufacturing and construction activities); the tourism sector (as reflected in the catering and accommodation, transport and business services sectors); and the financial services and electrical machinery sector as well as the community, social and personal services sector also revealed a competitive edge. Figure 3.8 ranks those sub-sectors with comparative advantage as indicated by the 2011 location quotient analysis (see MERO 2013)⁵. It is expected that these industries will continue to do well over the forecast period.

Municipalities in the region report a general recovery from the global recession impact in 2009, however, little optimism is detected. The general expectation is that conditions will be very similar over the next 3 – 5 years compared to the past 3 - 5 years, which may not be far from the reality. The revised forecast is for 2.9 per cent real GDP growth over the 2014 - 2019 period, not much better compared to the 2.6 per cent registered over the past four years. Neutral expectations are picked up regarding the property market, with building plans and property transfers expected to remain on an even keel over the short term.

The broad sector forecast for the Central Karoo District is motivated below.

⁵ The Location Quotient (LQ) ratio is the share of a specific industry in a region's value added expressed as a ratio of the same industry's share (nationally) in the national GDP. A reading above one indicates comparative advantage, implying the same industry expanded faster in the region compared to the sector nationally.

3.4.2 Sector forecast

A key aspect of this year's regional economic outlook was motivated in Chapter 2 and that is the dramatic downward revision of the forecast. Whereas the Central Karoo District was projected to grow by 3.6 per cent per annum over the six-year period 2012 - 2017 in the 2013 MERO study, as noted this projection has been downscaled to 2.9 per cent growth per annum over the 2014 - 2019 period – see Table 3.7. This downward revision is in line with that for the wider province; Western Cape real GDP growth is currently projected to average 3.0 per cent per annum over the period 2014 - 2019 compared to 3.7 per cent per annum previously over the 2012 - 2017 period.

Regarding the sectoral outlook, the following remarks are in order:

- While climatic conditions are key to the agricultural outlook, the sector is projected to increase by 0.6 per cent per annum, i.e. lower than the projection for the Province. The key positive factor in the agriculture outlook is the growing food demand from an expanding middle class population, not only in South Africa, but also in the rest of Africa and other destinations for our agricultural exports, e.g. China, India and East Asia.
- The agriculture sector has strong forward linkages to the manufacturing sector in the form of food and beverage processing. In the wider province no less than 37 per cent of agriculture, forestry and fishing output sales are destined for food and beverage processing (intermediate sales) and close to 40 per cent for final export sales (see MERO 2013). The food and beverage processing industries are less export intensive in the wider province with only around 13 per cent of its output sales exported and close to 60 per cent of output being sold to the household sector.

Table 3.7 Central Karoo District: Real GDP growth outlook, 2014 - 2019

Sector	Trend	Recession	Recovery	Central Karoo District	Western Cape
	2000 - 2013	2008 - 2009	2010 - 2013	2014 - 2019	2014 - 2019
Agriculture, forestry and fishing	-1.0	0.3	1.2	0.6	1.8
Mining and quarrying	13.8	13.9	0.3	4.1	1.4
Manufacturing	8.4	7.0	3.9	4.4	2.4
Electricity, gas and water	-0.3	-3.2	-0.4	-0.3	2.1
Construction	8.4	9.3	2.1	4.1	4.1
Wholesale and retail trade, catering and accommodation	2.9	-1.6	2.1	2.2	2.8
Transport, storage and communication	1.5	-2.3	0.9	1.6	3.6
Finance, insurance, real estate and business services	7.4	8.2	3.8	4.1	3.5
Community, social and personal services	2.5	1.7	1.1	1.8	2.2
General government	2.5	4.8	3.5	2.1	2.1
Total	3.7	3.4	2.6	2.9	3.0

Source: Quantec Research 2014/Provincial Treasury, MERO

- The Central Karoo District has an even smaller export exposure regarding its agriculture and agro-processing sectors. Domestic demand conditions are more critical regarding the region's economic outlook as sales to households remain a large part of output (85 per cent). The food and beverage processing sector accounts for one third of all manufacturing real value added generated in the Central Karoo District. The chemicals, building materials, metals and engineering and electrical machinery sectors for around 12 per cent each, i.e. half of manufacturing value added. Only a small part of manufacturing output is exported, which makes the sector almost entirely reliant on domestic demand conditions, both in the CKD and the rest of the country.
- Currently the SA consumer is under pressure, with slowing real after tax personal income growth, a result of both weak employment conditions, lower real wage growth and slower growth in social grants as the government seeks to engineer a better fiscal balance. Consumer confidence is also weak (particularly the low-income groups impacted by retrenchments and labour strike activity), with household demand for credit slowing. Consumer debt levels are relatively high and impairments are growing. While pockets of strength continue to exist in the upper end of the market and given the enduring global economic recovery, it is not expected that the bottom of the domestic consumer market will collapse; the slowdown is rather likely to bottom-out and renewed momentum to develop as the broader economy re-accelerates towards year-end.
- Real wholesale, retail, catering and accommodation value added is projected to expand by a relatively subdued 2.2 per cent on average, 2014 - 2019. This sector is sensitive to the conditions in agriculture. Overall, manufacturing real value added is projected to grow by 4.4 per cent per annum over the medium term, which is higher compared to the recovery momentum registered in recent years and also above the provincial forecast in respect of the manufacturing sector.
- Heightened infrastructure investment activity is likely to boost the construction sector, from 2.1 per cent growth per annum during the economic recovery thus far to 4.1 per cent per annum, 2014 - 2019, i.e. in line with the average growth projected for the wider province.
- The downscaling of the growth forecast also impacts the outlook for the services sector in the Central Karoo District. The pressure on the consumer sector was alluded to above. The services sector is projected to grow by 2.8 per cent per annum compared to a trend growth rate of 3.9 per cent per annum and 2.7 per cent per annum during the economic recovery period thus far. The financial, insurance, real estate and business services sector are expected to top the growth rankings in the broader services sector, expanding by 4.1 per cent per annum. This growth tempo is well below that over the previous business cycle expansion, 2000 - 2007. Consumer credit extension is cooling down and there has been a sea-change in credit uptake since the introduction of the National Credit Act in July 2007. The generally poor business and consumer confidence levels in

the Province⁶ also contribute to hesitancy on the part of consumers to commit income on credit. The growth in business services will also be dragged down by the slower overall growth in the region.

- An additional factor, which is likely to result in pressure on the household sector, is the constrained growth in government non-interest expenditure, implying limitations to public sector employment and wage growth. The government sector added significantly to growth during the initial period of the economic recovery; however, that was always going to be a temporary counter-cyclical measure. The general government sector of the Central Karoo District is projected to grow by 2.1 per cent per annum compared to recovery growth of 3.5 per cent per annum, 2010 - 2013. The community, social and personal services sector is projected to grow at 1.8 per cent per annum, i.e. slightly faster than its performance over the 2010 - 2013 period.

3.5 Concluding remarks

The Central Karoo District is a small agrarian economy making a marginal contribution to the Western Cape economy. The economy is relatively closed with it being mainly dependent on the demand conditions in the rest of the country. While the agricultural sector is in decline, causing agricultural employment to contract sharply, the sector's fortunes remain a critical factor in the wider region. This is best reflected in the under-performance of the internal trade sector (wholesale and retail, catering and accommodation) and the slower growth of the services sector in general, both impacted by the decline in agriculture. Services currently account for three quarters of economic activity in the region and this share has remained stable over the past 10 years. The sectors that have expanded their share are manufacturing and construction, which bucks the provincial trend. Unfortunately, net job losses characterised the construction sector, which combined with agriculture, account for the bulk of semi and unskilled labour retrenchments in the region. This exacerbates the skills mismatch in the local labour market. Labour has also flowed into the informal sector and the ranks of the unemployed (see Chapter 5).

The growth projection for the Central Karoo District has been scaled down to 2.9 per cent per annum (2014 - 2019) from 3.6 per cent previously (over the period 2012 - 2017). Economic conditions are likely to be less than robust over the short to medium terms, causing pressure on municipal revenue bases.

⁶ The RMB/BER business confidence index showed that only 6 out of every 10 business executives in the Western Cape were satisfied with general business conditions during the second quarter of 2014. This is slightly better than the national average (4 out of ten); however, consumer confidence at -11 index points in the Western Cape is significantly below the national average (+6).

4

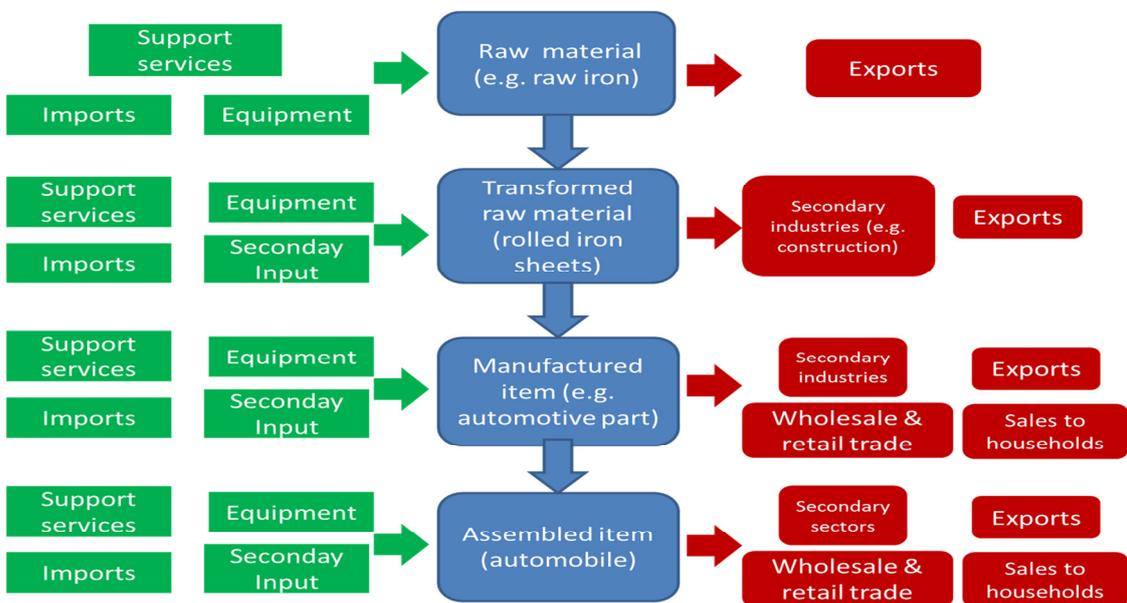
Value chains

4.1 Introduction

The current analysis will primarily focus on the value chain as represented by the supply chain and take into account the distribution of benefits, through value added within the value chain. The legal and policy implications will not be investigated as the primary focus is on the value added and job creating potential of the identified industries/sectors.

Each district municipality has been assessed and the most important selected value chain within each district economy has been analysed. It must be noted that the choice of value chain is based on the future potential for change in a specific industry or the decline in a specific industry within a value chain.

Figure 4.1 Example of a simplified value chain



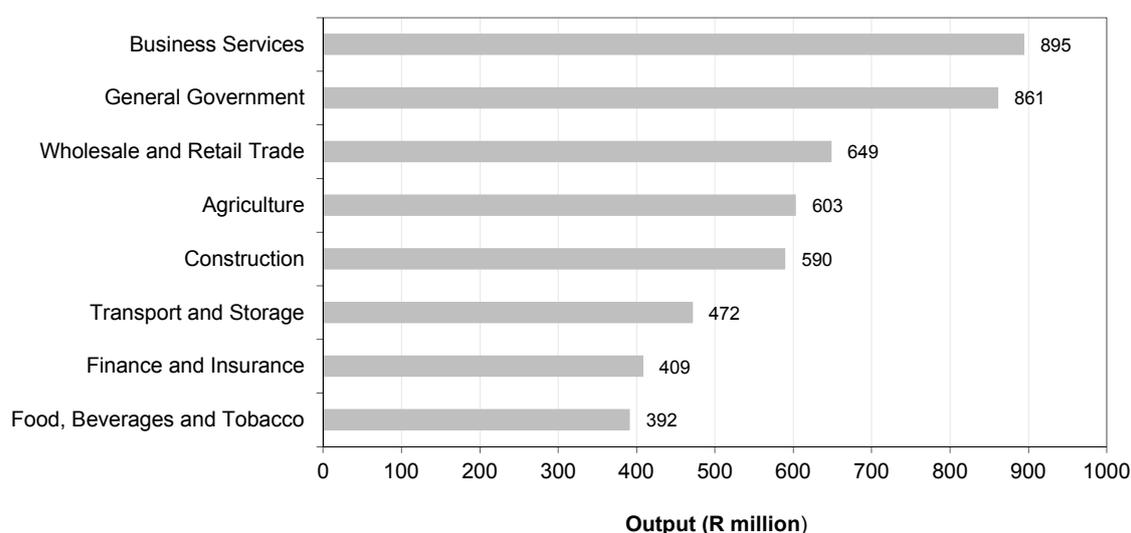
Source: Stats SA

The value chain is analysed according to the forward and backward linkages connecting various manufacturing and services sectors and forming an integrated value chain. The forward and backward linkages flowing from these sectors will also be represented in the value chain, with the percentage contribution to inputs and outputs to the respective sectors. An example of a simplified value chain is presented in Figure 4.1. It shows a hypothetical automotive value chain from source material. The linkages are tracked backward from the assembled automobile to the individual automotive parts; these automotive parts are in turn made up of processed metals. The processed metals are made up of basic processed iron which was initially sourced from raw iron. Each part of the value chain will have inputs from other sectors in the economy. Some of these are for inputs used in the production process or support the production process and others are merely inputs to support business processes. Each sector will also import a certain proportion of its inputs and also export a certain proportion of its outputs. As we move to the finished product, it also becomes more likely that there are direct sales to households.

4.2 Central Karoo District value chain analysis

The largest three sectors in the CKD are business services, the general government and wholesale and retail trade (see Figure 4.2). Manufacturing is not a large sector in the district and agriculture is small in comparison to other districts in the Western Cape. Construction output ranks high in relation to services sectors which dominate output in the region. Food and beverage manufacture is the largest manufacturing activity in the region, but generates significantly less GDP than in the construction industry.

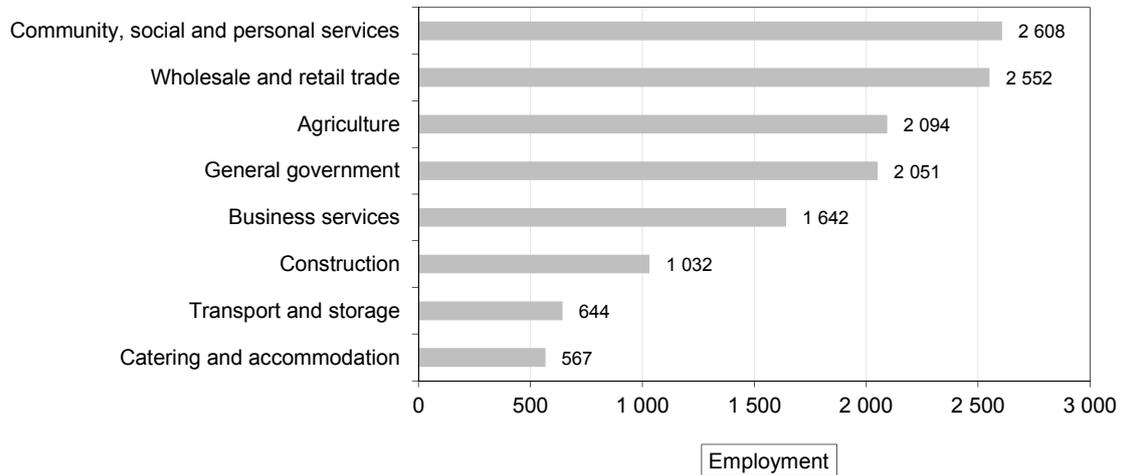
Figure 4.2 Largest sectors based on output, Central Karoo District, 2013



Source: Quantec Research 2014

Services sectors, trade enterprises and the agricultural sector are the greatest employers in the district (see Figure 4.3). Construction activity is responsible for directly employing just over 1 000 people as estimated in 2013. The value added activity and the linkages of the construction sector is a strong driver for indirect employment and value added in sectors such as wholesale and retail trade and business services.

Figure 4.3 Largest sectors based on employment, Central Karoo District, 2013

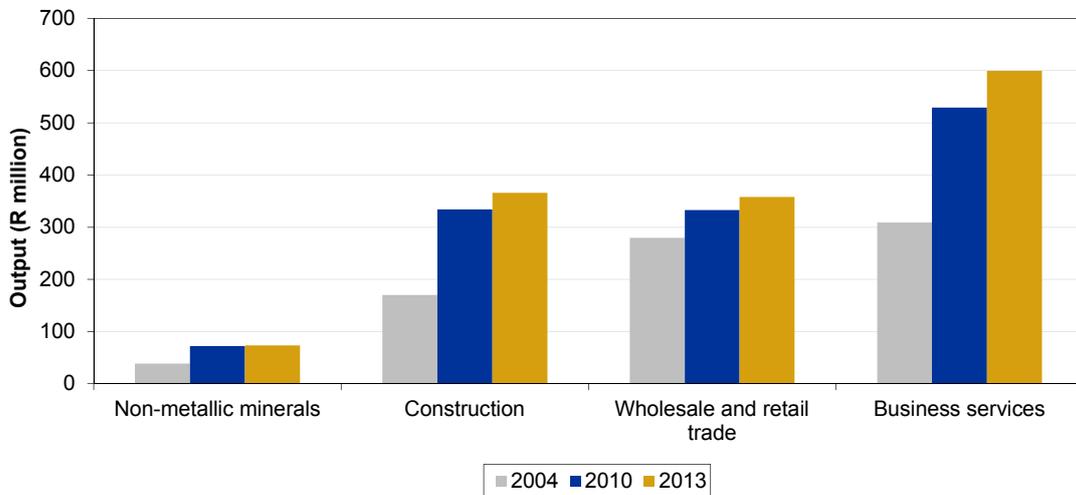


Source: Quantec Research 2014

4.2.1 Building and construction value chain analysis

The backward linkages from the construction sector and the non-metallic mineral sector (bricks and cement for example) to the wholesale and retail trade and business services sectors are strong and part of the physical value chain of the construction sector. Figure 4.4 depicts the output growth of construction-related sectors in the CKD. These services sectors have shown high levels of growth in the past 10 years, in conjunction with the manufacturing and construction industries.

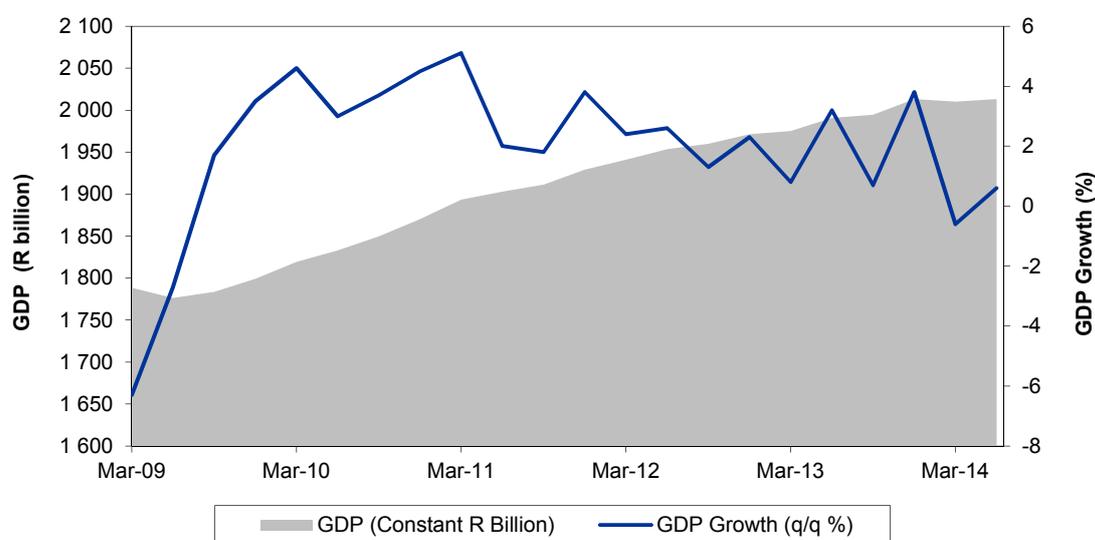
Figure 4.4 Output growth of sectors linked to construction, Central Karoo District, 2004 - 2013



Source: Quantec Research 2014

The construction sector averaged 12.8 per cent annual growth from 2004 to 2013, with the business services sector growing by 10.4 per cent per annum over the same period. When we consider the drivers for construction activity it is clear that GDP growth, population growth, disposable income, household debt burdens, access to credit and local economic development all contribute to increased construction activity in the region. There may be specific regional drivers, such as the development of a business park or industrial zone which drives demand for housing. Residential construction activity is often a spin-off of economic growth in an area brought about by the establishment of new businesses or by increased wealth generation, allowing additional private construction activity.

Figure 4.5 GDP and GDP growth, South Africa, Q1 2009 - Q2 2014



Source: Stats SA

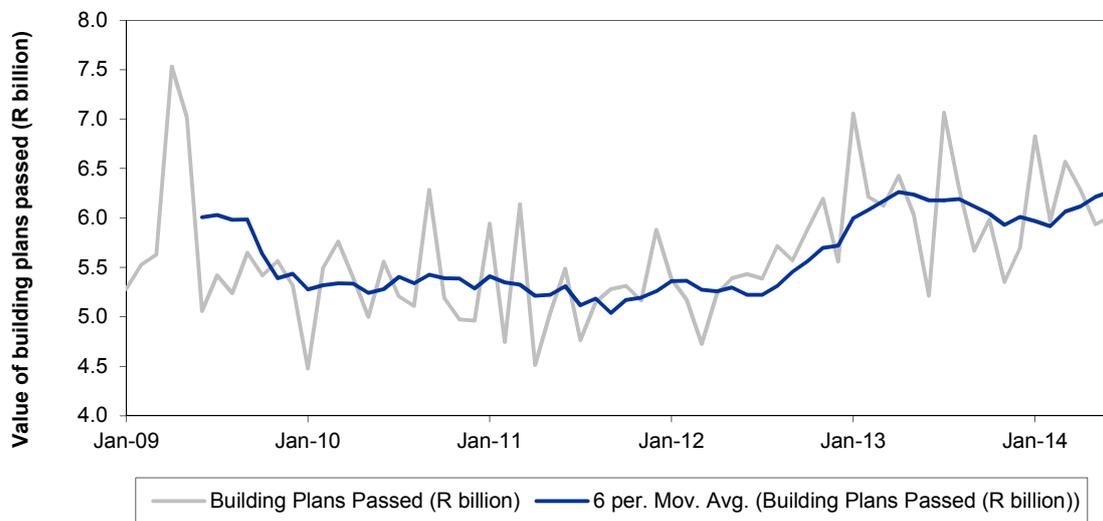
GDP growth is essential for construction activity. An expanding economy will create demand for commercial property and the wealth generated in the economy will be utilised by consumers or businesses to invest into property and potentially generate new property development. The number of building plans passed in South Africa strongly correlates with GDP growth. The total number of building plans passed in South Africa shows a long period of stagnation from the end of 2009 to the middle of 2012 (see Figure 4.6).

Completed buildings in South Africa have shown relatively little growth over the period from 2009 to the middle of 2014 and in the Western Cape, the number of completed buildings have declined considerably from October 2013 to June 2014 (see Figure 4.7 and Figure 4.8).

During the recovery period following the 2009 recession from 2010 to 2012, housing prices remained stagnant and new construction projects showed a decline. During 2011 there was also an interesting trend where smaller residential construction (buildings smaller than 80 square meters) increased to just over 50 per cent of total residential construction during the year. Consumers remained constrained during this period due to high debt burdens and difficulty in acquiring mortgages due to the

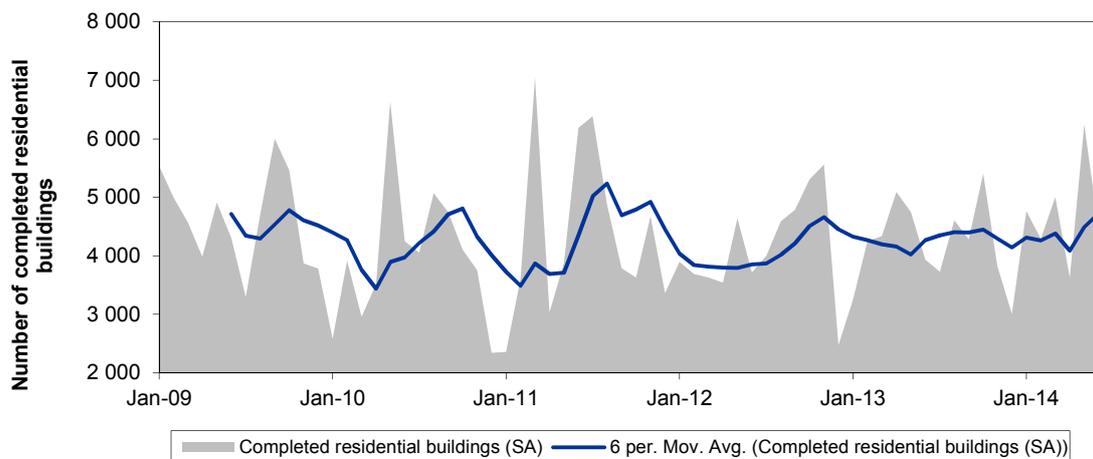
stricter requirements of the National Credit Act. In 2007 the amount of mortgages granted was R160 billion, which dropped to R37 billion in 2010⁷. South Africa did not experience a similar subprime crisis as in the United States, but credit extensions by financial institutions dropped significantly in the period after the international crisis. Domestic growth conditions and especially business and investor confidence levels had a significant impact on the amount of construction activity in the residential and commercial market. Recent developments in 2014, with a sooner-than-expected interest rate hike, subdued business sentiment, low GDP growth and the re-emergence of premium sales to local and international buyers has constrained growth of the property market. Housing prices are increasing, but actual construction of new homes has stagnated in South Africa.

Figure 4.6 Value of residential and commercial building plans passed, South Africa, 2000 - 2014



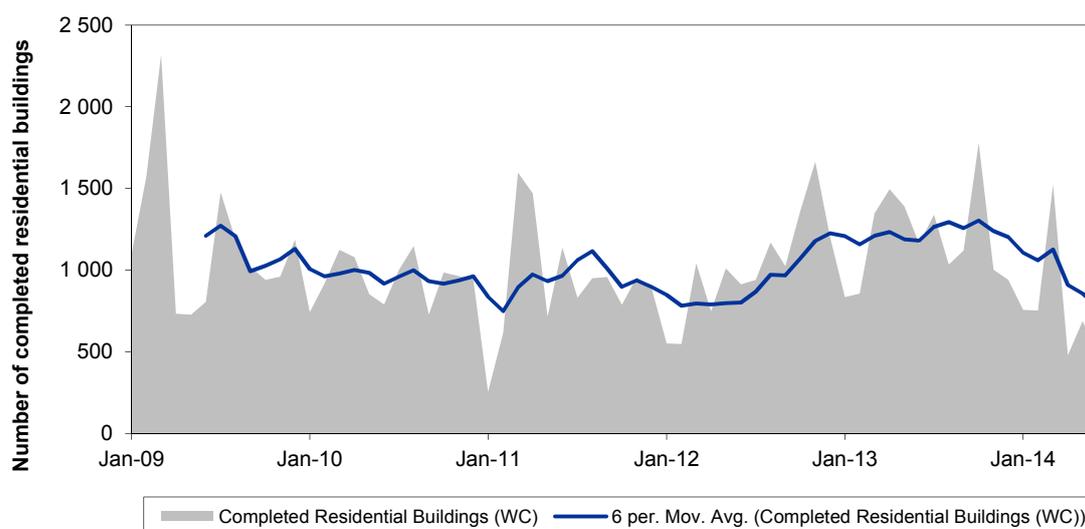
Source: Stats SA

Figure 4.7 Number of completed residential buildings, South Africa, 2009 – 2014



Source: Stats SA

⁷ National Credit Regulator

Figure 4.8 Number of completed residential buildings, Western Cape, 2009 – 2014

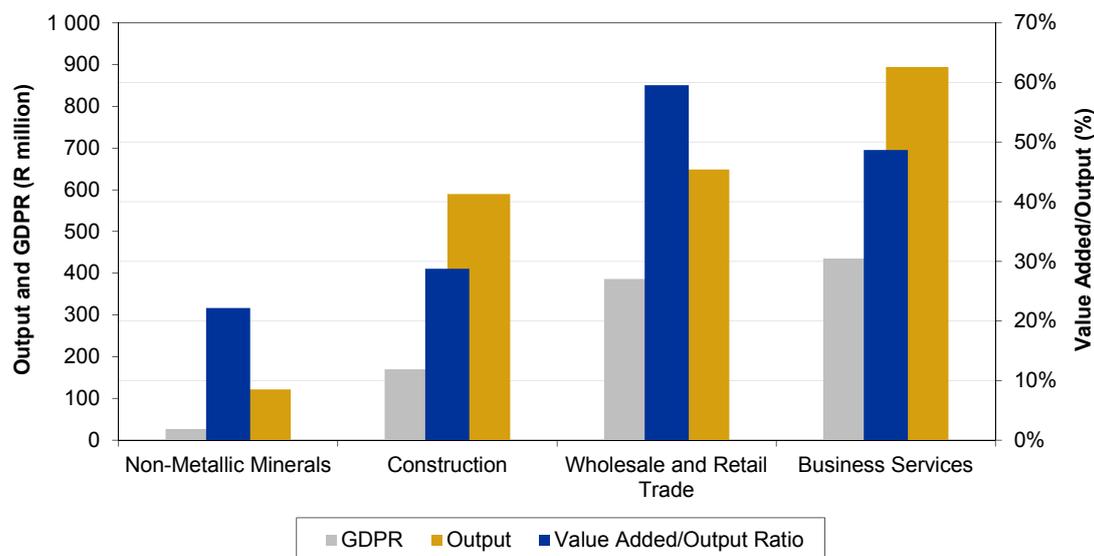
Source: Stats SA

Construction activity in the CKD has increased at an average growth rate of 16.1 per cent per annum from 2004 to 2010, but only at an average rate of 3.1 per cent per annum from 2010 to 2013. Construction activity in the region was strongly related to GDP growth and that of the business services sector in the district (see Figure 4.4).

Value added activity in the services sectors is high in comparison to those in manufacturing in general⁸ (see Figure 4.9). The strong linkages between construction and the services sectors are beneficial for further value addition in the district. The increased activity in the services sector in the district can create the induced demand for additional construction activity through the spending potential of new employees in the services sectors. Additional construction activity will, in turn generate backward linkages to the services sectors. The services sector shows significant potential in the CKD as the manufacturing sector in the District is showing promising growth. Construction activity in the CKD will be driven by a growing manufacturing sector and the increased demand for housing created by an expanding services industry.

⁸ The ratio of GDP to output provides some indication what value is added to intermediate inputs (imported and sourced from other sectors) in the production process. A higher ratio implies the greater the economic welfare benefits tied to the particular economic activity.

Figure 4.9 Value added to output ratios for construction-related sectors, Central Karoo District, 2013



Source: Quantec Research 2014

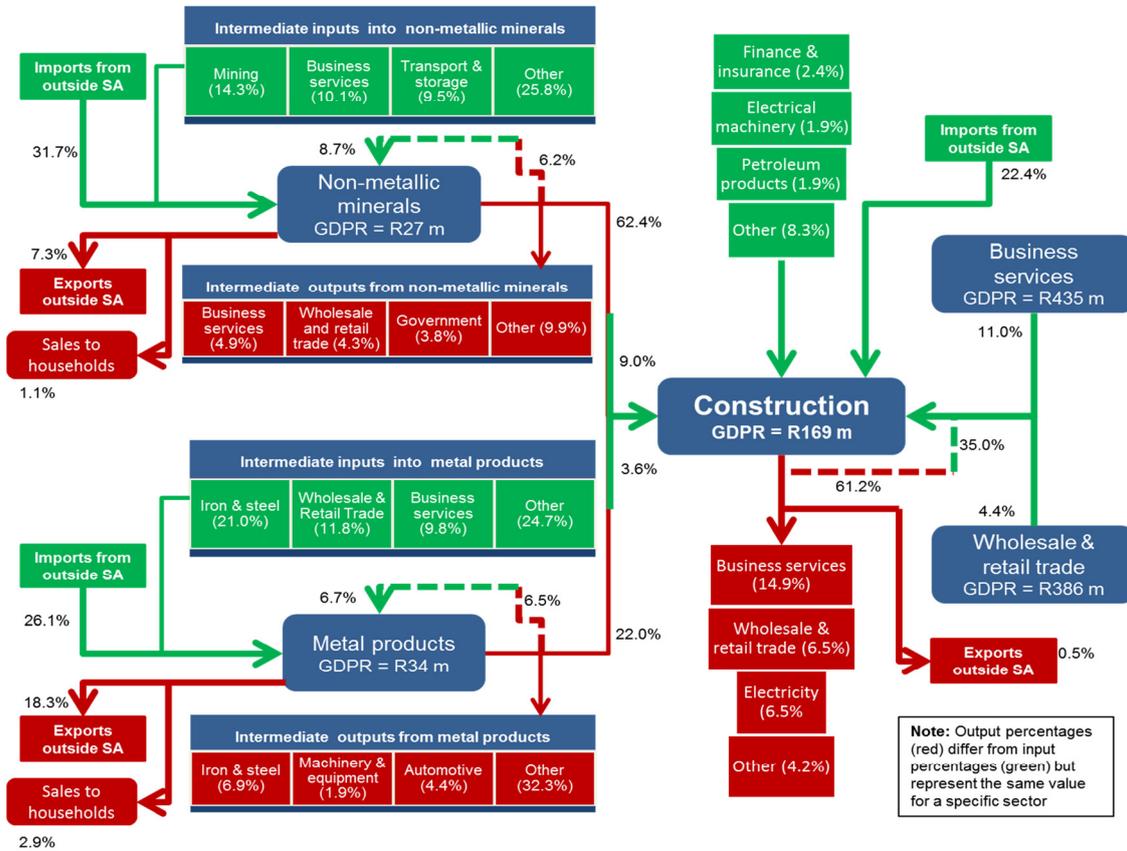
4.2.2 Construction value chain

Construction activity relies on physical inputs as well as support from services industries. The physical inputs into construction are mainly from cement and brick manufacturers. The metals industry and the timber industry will also provide input. The construction sector requires business services in operational aspects (e.g. architects, quantity surveyors and civil engineers) and the wholesale and retail trade sector will also provide input for consumable products or additional construction materials.

For the purposes of this analysis the sector breakdown as followed by Statistics South Africa has been applied. The major sectors depicted in the construction value chain will be non-metallic minerals, metal products, wholesale and retail trade and business services.

The value chain for the construction industry is presented in Figure 4.10. The green arrows and boxes represent the inputs into the specific sector and the red arrows or boxes represent the outputs from those sectors. All percentages represented are the relative input and output percentages. Input percentages for a specific sector add to 100 and similarly, all the output percentages for a particular sector add to 100.

Figure 4.10 Construction value chain, Central Karoo District



Source: Stats SA

The physical inputs to the construction value chain are depicted by the non-metallic mineral and metal products sectors. The non-metallic minerals sector contributes 9.0 per cent of input into construction, but it sells 62.4 per cent of its output to the construction sector. This signifies that the relative output values of the two sectors differ, with the construction sector having a substantially larger output value. Similarly, 3.6 per cent of inputs into the construction sector are from metal products and the metal products sector sells 22.0 per cent of its output to the construction sector.

The largest input into the construction industry is from the construction sector itself. Construction sells 61.2 per cent of its output back into construction. The input is valued at 35.0 per cent considering the other intermediate inputs into the sector.

Services sectors also have strong linkages to the construction industry and inputs from the business services sector constitutes 11.0 per cent of total inputs into the construction sector. Approximately 4 per cent of business services output is destined for the construction industry. Service inputs into the construction industry are crucial as many building professionals such as architects, engineers, plumbers and electricians are utilised in construction activity. The wholesale and retail trade sector contributes 4.4 per cent to total input into the construction sector and the construction sector output sales to the wholesale and retail trade sector account for 2.2 per cent of its intermediate sales.

4.3 Concluding remarks

Increased demand for construction activity will directly benefit the metal products and non-metallic mineral sectors, but the greatest gain in the CKD will be for businesses in the surrounding areas; especially those in wholesale and retail trade and the business services sector.

Spending in the construction industry creates significant additional GDP in the tertiary sector and this is beneficial to the local economy as this induced spending will stimulate the local economy. Construction projects are, not only essential for social development of the community, but they will also have beneficial impact on the spending potential in the local economy. Infrastructure investment has a strong linkage to economic growth, as discussed in Chapter 6, as it is a component of aggregate demand and impacts on GDP. If this investment has the additional impact of increasing productive capacity in the district, it will have a further positive impact on GDP.

5

Informal sector analysis

5.1 Introduction

The persistence of high levels of unemployment, poverty and inequality is widely recognised as major socio-economic challenges for South Africa. The informal economy is often seen as an important component in expanding economic participation. However, the conceptualisation of what this practically means is not always played out. The expansion of the informal economy can have a positive effect on poverty if it arises as an off-shoot of a rapidly growing formal sector. It can also reflect worsening poverty where it is stimulated by a collapsing formal economy and/or alternatively is caused by firms seeking to evade regulatory measures and the tax net (Altman, 2009).

This coupled with the contemporary context of global economic crisis and the dramatic expansion of the informal economy across the developing world, has highlighted the importance of understanding the relationship between the formal and informal economies. However, while much attention has been spent on formal employment, a large fraction of workers (almost 30 per cent in 2013)⁹ are employed in the informal sector in South Africa.

As a result, this chapter focuses on the issue of linkages across the formal-informal divide and possible policy considerations.

Before proceeding further, we provide a brief definition of 'formal' versus 'informal'. The formal sector is defined as economic activity that occurs within the purview of state regulation and formal employment is defined as employment originating from a business or firm that is registered with the state. On the other hand, the informal economy covers both businesses and employment. Informal employment extends to both the informal and formal sector, as well as private households, where the informally employed do not have written employment contracts and are not entitled to employment benefits such as pension and medical aid contributions from their

⁹ Quantec data 2014

employers. The informal sector is defined as one where, firstly, employees work in establishments of less than five employees, where income tax is not deducted from their salaries and wages; and secondly, where employees are not registered with the Receiver of Revenue for income tax or value added tax purposes. (Statistics SA, 2012).

In both academic and policy circles, there is much debate over the relationship between the formal and informal sectors, and whether informal employment is a benefit or liability for the overall economy. Here there are three schools of thought:

- 1) The dualistic labour market approach, which sees informal employment as a substitute for formal employment. In this approach informal employment is a residual "sponge" that soaks up unskilled, surplus labour from the formal sector and there are very few connections between the informal and formal sectors (Chen, 2004). Generally the informal sector is, at best, seen as a safety net for unemployed workers.
- 2) The alternative (or neo-liberal) approach sees informal employment as a complement to formal employment. In this approach the informal sector is a voluntary strategy where entrepreneurs are able to establish new firms and contracts. Effectively it is a cost saving strategy for small firms trying to avoid arduous and costly labour regulations (Maloney, 1998).
- 3) The 'Structural Articulation' approach sees the informal sector as heterogeneous and made up of at least two distinct sub-sectors (Portes and Schauffler, 1993). One of these sub-sectors represents entrepreneurs and small firms trying to grow by avoiding costly regulation while on the other hand, the other sub-sector is largely disconnected from the formal economy and demonstrates countercyclical behaviour. This static sub-sector is driven by excess labour supply and represents the involuntary subsistence strategies of unskilled workers who cannot find employment in the formal sector.

5.2 Understanding the informal and formal sector linkages

To understand the linkages between the formal and informal sectors one needs to ascertain whether a relationship does exist. Extrapolating from two recent surveys, one on the informal businesses (200 informal businesses – MERO 2013) and the other on formal businesses (200 formal businesses) in the Central Karoo District (CKD) the following is noted.

From Table 5.1 it is noted that all formal businesses¹⁰ in the sample range have informal businesses as their customers or clients. This situation therefore highlights the existence of significant linkages between the formal (microenterprises and small businesses) and the informal sector.

¹⁰ There were only 3 medium business respondents in the CKD and therefore the information obtained from these businesses is too insignificant to infer any confidence levels. As a result, all medium businesses have been included in the tables but are excluded from the CKD analysis.

Table 5.1 Central Karoo District: Main customers or clients of SMMEs

Formal businesses customers or clients	Microenterprises	Formal businesses	
		Small business	Medium business
Private businesses	40.0	33.6	100.0
Other small businesses	18.2	20.3	0.0
Other large businesses	7.3	21.0	0.0
Government	7.3	12.6	0.0
Informal businesses	27.3	12.6	0.0
Other	0.0	0.0	0.0

Source: Anix 2014

Unfortunately, the questionnaire was not designed to explore detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies. However, after further investigation it has become clear that even where "other small businesses" are the clients or customers, SMMEs were not too interested whether these businesses were formal or informal. Therefore, the percentage of informal businesses as clients could effectively be larger. The focus for SMMEs was mainly whether these informal (or any other) businesses represented a cost advantage. Therefore, particularly given the current economic slowdown in the economy, SMMEs were seeking links with informal firms as a cost-cutting strategy. Such a strategy could certainly favour informal businesses and particularly so if the competition amongst formal businesses were increased.

However, the type of formal and informal sector linkage is very important. For e.g. forward linkages refer to the use of an enterprise's output as an input in other productive activities, while backward linkages comprise the enterprise's purchases of intermediate inputs. Generally, forward linkages between a modernising informal segment and the formal economy can lead to growth in the informal as well as the formal sectors, while in backward linkages, informal firms tend to purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets. This leads to a dependent and regressed informal sector constrained to buy dearly and sell cheaply.

Given the effect that the lack of skills and capital finance may have on the manner of formal and informal business linkages we further extrapolate from the two unique surveys as mentioned earlier and review the "main challenges for business growth" faced by both formal and informal businesses in the CKD.

From Table 5.2 it is noted that access to finance (just over 74 per cent) is a major constraint to business growth for informal businesses, whereas for formal businesses electricity costs appears to be the biggest challenge for only micro and small businesses (25 per cent and just over 19 per cent, respectively). These figures coupled with the literature as mentioned earlier leads one to assume that there could be a possible risk of exploitation of backward linkages, which could lead to weak markets or limited growth potential in the Central Karoo District region.

Table 5.2 Central Karoo District: Challenges for business growth – formal and Informal sectors

Challenges for business growth (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Access to affordable finance	74.3	19.4	12.9	0.0
Shortage of business premises	43.1	2.8	1.6	0.0
Competition	37.7	0.0	0.0	50.0
Lack of specialised equipment	36.5	-	-	-
Electricity cost access/Increasing electricity rates	34.1	25.0	19.4	0.0
Transport of goods costs	28.7	-	-	-
Crime	25.7	-	-	-
Cost and difficulty of business licensing	25.1	-	-	-
Water cost access	16.8	-	-	-
Increasing labour rates	-	5.6	3.2	0.0
Skill and education of workforce	-	0.0	3.2	0.0
Bad weather	-	5.6	1.6	0.0
None	-	5.6	11.3	0.0
Other	-	36.1	46.8	50.0

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: *Informal Data (MERO, 2013); Formal Data (Anix, 2014)*

Given the above, it is important to consider the nature of the production system through which informal and formal businesses are linked when trying to understand the linkage between informal and formal enterprises. This is because the nature of the linkage, specifically the allocation of authority and economic risk between the informal and formal firm, varies according to the nature of the production system.

Given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies that balances the relative costs and benefits of working formally and informally.

This linkage is very important for the financial services sector for example, as it gives the sector an opportunity to use the linkage to the best advantage of the informal sector. Banks would be keen to deal with those informal sectors that have a clear understanding of how they are linked to the formal sector players.

Understanding the linkages is also important because the amount of financial sector support available to informal sector players is far less than ideal but has the potential to increase if the opportunities brought about by the linkages are fully exploited.

Despite SMMEs' strong interest in credit, banks' profit orientation may deter them from supplying credit because of the high transaction costs and risks involved. However, with linkages to the formal sector this can be easily resolved because the source of the problem can be minimised due to the links between the informal and the formal structures.

First, SMMEs' loan requirements are small, so the costs of processing the loans tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to

obtain the information necessary to fully assess the risks of new, unproven ventures, especially because the success of small firms often depends heavily on the abilities of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high. These challenges can be easily met if formal sector players are willing and able to support the sector.

Through financing the value chain or the big end user of the product, the banks will be indirectly financing the informal sector player producing intermediate inputs to the formal final producer.

5.3 Key characteristics of the Central Karoo District informal sector

Extrapolating from the surveys mentioned earlier it is noted that entrepreneurs in the informal sector have different motivations for starting a business compared to their formal sector counterparts, with just over 76 per cent of informal entrepreneurs citing a lack of alternative employment opportunities or financial hardship as their main motivation (See Table 5.3). This figure coincides with a recent Stats SA survey on employers and self-employed, which highlighted that 60 per cent of people started informal businesses as a result of unemployment/have no alternative income source (Stats SA 2014). In contrast, formal sector entrepreneurs were significantly more likely to say that they were interested in taking advantage of business opportunities as the reason they started their businesses. In a nutshell, informal businesses were necessity driven while formal businesses were opportunity driven.

Table 5.3 Central Karoo District: Reasons for starting a business – formal and informal

Reasons for starting a business (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
I could not find alternative employment/unemployed	47.3	7.1	1.4	0.0
I wanted to earn more money/financial hardship	29.0	7.1	7.2	0.0
I am good at running this business	9.1	-	-	-
I didn't enjoy working for someone else/To be my own boss	8.6	19.0	4.3	0.0
Saw an opportunity	1.6	35.7	52.2	66.7
Gap in the market	1.1	-	-	-
Have passion for it/It's a calling	1.1	-	-	-
Health reasons	0.5	-	-	-
Interested in particular product or service	-	9.5	11.6	0.0
Wanted to	-	4.8	4.3	0.0
Took over from previous owner/manager	-	4.8	2.9	33.3
Inherited the business	-	9.5	8.7	0.0
My family expected me to	-	2.4	5.8	0.0
Lost my job	-	0.0	1.4	0.0
Other	1.6	-	-	-

Note: Two separate surveys were conducted to obtain this data. '-' indicates that the specific challenge to business growth was not surveyed for the particular sector.

Source: *Informal Data (MERO, 2013); Formal Data (Anix, 2014)*

Female entrepreneurs are more likely to operate in the informal than in the formal sector in the Central Karoo District, with the female exposure just over 45 per cent in informal businesses and just over 36 per cent in the formal microenterprise sector and just under 24 per cent in formal small businesses

Generally, it appears that women tend to be concentrated in business activities such as retail trade and food and garment production. Literature suggests that the substantial differences in the choice of sector and business activity between male and female entrepreneurs may suggest that the challenges to business, constrain some entrepreneurs' ability to enter the formal sector. Given this, it may be that more women have been directed into activities with lower capital requirements.

Entrepreneurs in the formal sector also have more education than entrepreneurs in the informal sector (see Table 5.5). While just over 24 per cent of all formal sector entrepreneurs surveyed have diploma or university-level training, only about 7 per cent of informal sector entrepreneurs do. Interestingly, however, 24.5 per cent of informal entrepreneurs have a matric level training compared to their formal sector counterparts who average at just under 45 per cent. From the data it would therefore appear that there is an extremely low transition for informal businesses from matric to post-matric studies while the opposite holds true for formal businesses.

Table 5.4 Central Karoo District: Distribution by gender – formal and informal

Gender (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
Male	54.8	63.9	76.2	100.0
Female	45.2	36.1	23.8	0.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

Table 5.5 Central Karoo District: Level of education – formal and informal

Highest Level of Education (%)	Informal businesses	Formal businesses		
		Micro businesses	Small businesses	Medium businesses
No schooling	2.7	0.0	0.0	0.0
Some primary school	13.8	0.0	0.0	0.0
Some high school	41.5	8.6	4.8	0.0
Matric	24.5	40.0	44.4	50.0
Apprenticeship	10.1	2.9	4.8	0.0
Post Matric Qualification (Diploma)	6.9	25.7	23.8	0.0
University Degree (undergrad/postgrad/Honours/Masters)	0.5	22.9	22.2	50.0

Source: Informal Data (MERO, 2013); Formal Data (Anix, 2014)

As mentioned in MERO 2013, incomes in the Central Karoo District informal economy appear relatively low, but the term "survivalist" is not appropriate for these enterprises as it does not do justice to the demonstrated sustainability of such enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their informal enterprises in favour of a theoretical offer of alternative formal work at minimum wage.

Informal enterprises demonstrate considerable connectedness to the Central Karoo District formal economy. The data shows how the informal economy is generally of larger scope and scale closer to diverse formal economic activity such as larger towns, whilst declining in number and financial returns in contexts outside urban centres. Furthermore, their response regarding the general prospects for growth are linked to the level of business confidence reported in the formal sector.

Whilst the 2013 MERO could not comment on the economic scale of the Central Karoo District informal economy (in terms of employment numbers or GDP) the micro-enterprises studied, especially the majority operating within the township context, play an important employment role in their immediate economies. Each business employs more or less two workers and nearly just over 39 per cent of enterprises provide employment opportunities. Informal employment provides a means of skills acquisition, enabling the workers to either obtain a better paying job (possibly within the formal sector) or establish their own micro-enterprise.

Furthermore, the key findings of the 2013 informal sector survey indicate that there is significant scope for a policy to strengthen the relationship between informal and formal businesses in the Central Karoo District that will allow for growth of both informal and formal businesses.

Having highlighted the relationship between the informal and formal businesses, we now turn our attention to the performance of the Central Karoo District's informal labour market.

5.4 The business cycle impact on the Central Karoo District informal labour market

This section analyses the Central Karoo District's informal labour market at the sectoral level from 2000 - 2013. The main aim of this section is to assess the cyclicity of informal employment during the trend (2000 - 2013), recessionary (2008 - 2009) and the recovery (2010 - 2013) periods of the business cycle.

The issue of the effect of the business cycle on labour force participation behaviour has not received much attention in the South African literature mainly because of the difficulty of combining macroeconomic and microeconomic data in a coherent way.

However, workers' participation decisions during expansionary or recessionary periods are crucial for understanding how labour markets adjust to macroeconomic fluctuations (Darby et al, 1998). At the same time, the economic environment also affects the performance of the firms operating in the labour market which make their decisions on labour demand needs partly based on the economic conditions of a particular region or country. Furthermore, the effect of the business cycle on firm performance is usually heterogeneous varying among different economic sectors and industries within a single country or region.

5.4.1 The economic recovery, 2010 - 2013

As shown in Table 5.6, employment in the informal sector of the CKD contracted at an average rate of 0.3 per cent per annum over the current recovery phase of the business cycle (2010 - 2013), resulting in a cumulative total of 42 net retrenchments. This is significantly below the trend growth tempo of 1.4 per cent per annum registered over the 2000 - 2013 period, i.e. a cumulative net increase of 628 jobs.

There have been some net job losses over the recovery period, which has been achieved in stark contrast with the growth experienced during the recession years (2008 - 2009). The CSP services sector created 62 new jobs.

Of concern are the significant jobs losses (108) in the construction sector during the recovery period. The sectoral informal employment trends are discussed in more detail in section 5.4.2 below.

Table 5.6 Central Karoo District: Formal vs informal employment growth and employment creation, 2000 - 2013

Sector	Informal Net Employment Creation (number)			Formal Net Employment Creation (number)		
	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2000 - 2013	Recession 2008 - 2009	Recovery 2010 - 2013
Agriculture, forestry and fishing	-290	-55	-34	-2 115	-596	-193
Mining and quarrying	0	0	0	6	1	1
Manufacturing	50	13	-1	253	102	-77
Electricity, gas and water	-1	-1	-1	-7	-13	2
Construction	73	47	-108	-309	-34	-183
Wholesale and retail trade, catering and accommodation	84	259	-44	-337	-282	-32
Transport, storage, communication	132	94	39	-198	-64	28
Finance, insurance, real estate, and business services	185	108	44	813	-39	156
Community, social and personal services	395	207	62	-155	43	-293
General government	0	0	0	367	121	16
Total	628	672	-42	-1 680	-761	-575
Yoy % change	1.4	10.9	-0.3	-1.0	-3.1	-1.3

Source: Quantec 2014

5.4.2 Agriculture, manufacturing and services – informal employment growth performance

The Central Karoo District labour market (formal and informal) grew at an annual rate of 0.1 per cent in 2013; growth mainly occurred in the informal labour market, expanding by 6.0 per cent.

Table 5.6 displays the informal employment trends in the Central Karoo District over the period 2000 - 2013. The informal sector experienced significant growth of 1.4 per cent per annum (i.e. 2000 - 2013, a net increase of 628 jobs), however this growth was mainly a result of the robust growth experienced during the recession years (10.9 per cent per annum, 2008 - 2009, or a cumulative 672 jobs). Unfortunately, it would appear from the evidence below that this was not new employment created but merely a displacement of formal sector employment. Furthermore, some of these jobs were again lost in the informal sector during the economic recovery (at a rate of 0.3 per cent per annum, 2010 - 2013, i.e. 42 net retrenchments).

Within the informal sector, retrenchments were also experienced in the agricultural sector (55 total net retrenchments, 2008 - 2009). However, it was the increase in informal employment in the services sector, and particularly the trade sector that was notable, with a cumulative total of 668 jobs created during the recession years. As mentioned earlier, it should be noted that many of these jobs may simply have involved workers being displaced from the formal sector during the recession.

Considering the sectoral growth pattern during the economic recovery period, i.e. 2010 - 2013, it is clear from Table 5.6 that the growth in the region has been dominated by the services sectors with a cumulative total of 101 informal jobs created over the same period, with the CSP services sector leading the way. In contrast, the primary and secondary sectors experienced a combined cumulative contraction of a 186 jobs.

5.4.3 Cyclical impact on informal employment in the Central Karoo District

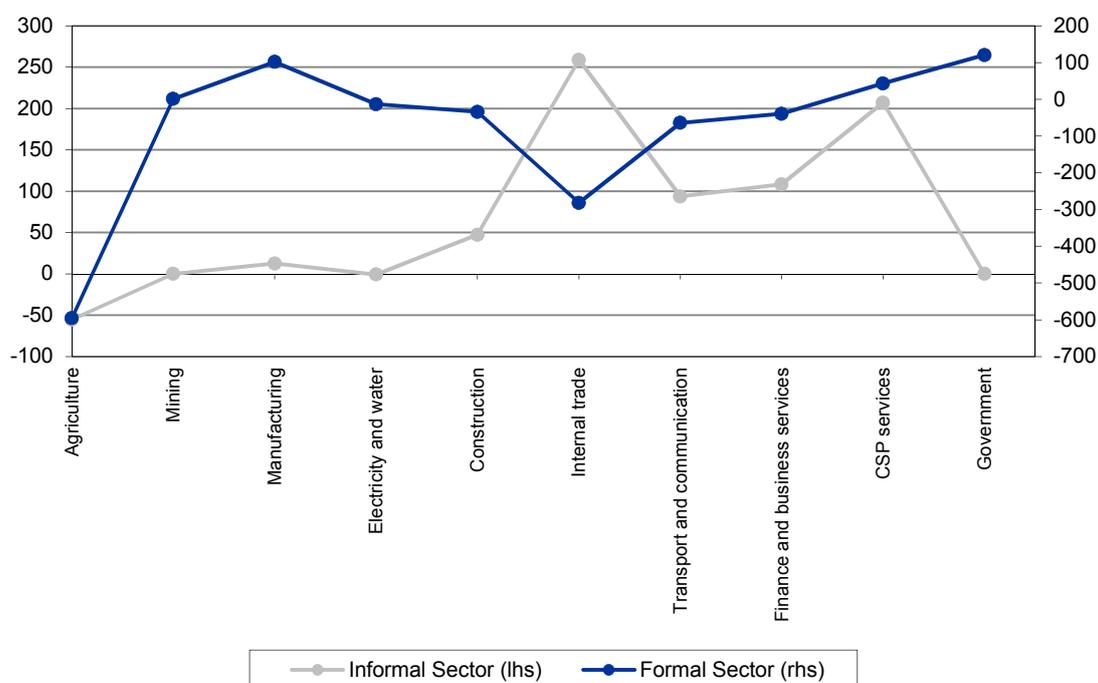
The first notable trend when comparing employment creation in the informal and formal sectors in the CKD over the 2000 - 2013 period is the significant number of net retrenchments in the formal sector during the recession (761 net retrenchments, 2008 - 2009) compared with the 672 net additional jobs created in the informal sector over the same period. Even though it is evident that during the recessionary period many workers losing their jobs in the formal sector moved to the informal sector, the informal sector was unfortunately unable to absorb all job losses in the formal sector.

As shown in Figure 5.1, the most noteworthy performance falls within the wholesale and retail trade and catering and accommodation sector. In particular, the number of informal net jobs created (259 during 2008 - 2009) demonstrates an encouraging performance when considering formal net retrenchments (282) during the same period. Literature indicates that there has been a growing trend of informalisation within the sector and that in fact a significant number of employers are operating in

the informal sector. Of these employers, a number of small and micro-enterprises are not formally registered (i.e. they fall within the informal sector), with roughly 86 per cent of the sector comprising of small enterprises nationally (DHET, 2013). Furthermore, approximately 34 per cent of people in the sector are in informal employment, with the Western Cape Province having the second highest density of employees in the sector (DHET, 2013; Stats SA, 2013). This suggests that the informal sector acts as an absorber of formal sector retrenchments, and it may also be indicative of low barriers to entry into the informal sector for this industry.

For the transport, storage and communication and the finance, insurance, real estate and business services sectors, the number of net retrenchments experienced within the formal sector was surpassed by the net job creation in the informal sector during the recession years. This is potentially indicative of a high transfer or flow of skilled labour from the formal sector to the informal sector, as well as possible low barriers to entry within the informal sector.

Figure 5.1 Central Karoo District: Change in employment during recession, 2008 - 2009



Source: Quantec 2014

Within the CSP services sector, net additional jobs were created in both the formal sector and the informal sector during the period 2008 - 2009, with informal CSP services sector job creation surpassing its formal counterpart (207 informal jobs versus 43 formal jobs).

Within the agricultural sector, a high rate of net retrenchments in the formal sector (596 during 2008 - 2009) far surpassed the net retrenchments experienced in the informal sector during the recession years (55 net retrenchments).

It may also be likely that those workers who were retrenched in the agricultural sector (or any other sector for that matter) became informal entrepreneurs (or found employment) in other sectors, e.g. transport, tourism, etc. This situation ties in with the indication in Table 5.3 above that highlights that most informal business owners started their businesses due to financial hardship and/or difficulty in finding employment.

5.5 Concluding remarks

This chapter expanded on the understanding of informal and formal linkages and highlighted that there are significant linkages of informal and formal businesses in the CKD. While detailed linkages through possible connections such as finance, inputs, labour, information, outputs, and flow between the formal and informal economies were not able to be analysed there appears, given the financial constraints and low-level of skills within the informal sector, that these linkages may be at risk of 'unfair' formal sector outsourcing.

During the recession (2008 - 2009) in the CKD, there were significant job losses (761) in the formal sectors while there were 672 net additional jobs created in the informal sector over the same period. Most of the employment gains in the informal sector were created in the wholesale and retail trade and catering and accommodation sector during the recession (259 new jobs, 2008 - 2009), demonstrating an encouraging performance against its formal counterpart which experienced 282 net retrenchments over the same period. This indicates that the downward rigidities of the recession prevented wages from adjusting to adverse shocks in the formal sector, leaving the informal sector to absorb workers who would otherwise have become unemployed.

Furthermore, given that during the recession (2008 - 2009), informal employment expanded by 10.9 per cent per annum, while formal employment contracted by 3.1 per cent per annum, it would appear that the CKD demonstrates a kind of dualistic labour market approach, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector. This may be extremely useful to the CKD, as a thriving informal market may alleviate the District from developing policies aimed at assisting the openly unemployed.

The high prevalence of female entrepreneurs in the informal and formal micro and small business sectors and the absence of them in the formal medium business may indicate the effect of the constraints to starting a business has on potential female entrepreneurs. Findings indicate that access to finance, for example, may constrain entrepreneurs' ability to enter the formal market and therefore due to a lack of alternative formal employment, many female entrepreneurs have been directed to activities with lower capital requirements.

In order to recognise the distinct support needs of informal entrepreneurs and informal labour (and survivalist firms); it is recommended that the District and its Municipalities consider a more nuanced view of the informal economy. The focus here should not be on extending social protection across the informal economy as

this risks trapping informal entrepreneurs in relations of dependency. Instead of reducing informal entrepreneurs to skilled labour in 'unfair' formal sector outsourcing arrangements; the policies should instead aim at for example, advocating informal entrepreneurs' distinctive needs for technical upgrading, small enterprise credit, public procurement, etc., that could build a capacity for autonomous development.

Finally, there is a need for policy attention to extend beyond the question of how to create and manage linkages between the formal and informal economies. What is required is a more explicit focus on who designs particular linkage arrangements, whose interests they serve, and how policy and partnership arrangements can achieve a more equitable balance of benefits for informal actors and their associations as preferred contractors, insurance providers, or workers for decent wages, rather than as cheap labour and institutional solutions. Instead of assuming that institutional complementarities between the formal and informal sectors automatically create synergy through which both sides benefit, clearer policy attention must be directed at how to turn potential formal-informal complementarities into synergistic arrangements. This requires attention to legal as well as skill-based obstacles, and to building power, leverage, negotiating skills and supportive alliances in the formal sector as part of the process of building informal associations.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Service delivery is vital to economic success. According to the Reconstruction and Development Policy framework (1994:28) at the time of the first democratic elections in South Africa in 1994, it is estimated that 12 million South Africans did not have access to clean drinking water and 21 million people did not have adequate sanitation. South Africa has a long and difficult path with service delivery. Through programmes such as the Reconstruction and Development Plan (RDP), the country ventured on a path to improve service delivery and access to basic infrastructure for the masses. The provision of basic services as a vehicle for improving local economic development has always been a key priority for Government.

Following the adoption of the 1996 Constitution Municipalities were mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act of 2000. The Local Government: Municipal Systems Act, Act No. 32 of 2000, Chapter 1 of the Systems Act, defines basic municipal services, as a “service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health, safety and the environment”. Municipalities would require adequate infrastructure in order to ensure access to basic services and ensure delivery of the requirements set out in section 73(2) of the Systems Act.

The Department of Provincial and Local Government define municipal infrastructure as “the capital works required to provide municipal services. It includes all the activities necessary to ensure that the works are delivered effectively, such as feasibility studies, project planning and capacity building to establish sound operational arrangements for the works”. Municipal infrastructure includes transport, communication, energy, water and sanitation facilities. The provision of these basic services is dependent on the availability of infrastructure. Municipalities are faced

with the growing challenge of addressing *infrastructure backlogs and the upgrade and maintenance of existing infrastructure*.

Governments have continued to highlight the importance of infrastructure investment for basic service delivery. According to a Non-financial Municipal Census conducted by Stats SA the provision of basic services increased by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). The highest percentage change between 2011 and 2012 was recorded in the provision of water – going up by 6 per cent. The provision of electricity, sewer and refuse increased by 4.4 per cent, 3.4 per cent and 2.7 per cent respectively over the same period.

Despite these positive changes social protests over basic service delivery in South Africa have become a common occurrence. Data compiled by the Municipal IQ showed that 173 service delivery protests were recorded in 2012, the highest number over the past decade. Municipalities are faced with varying challenges in collecting revenue and meeting the increasing demand for basic services.

This chapter analyses two important sides of the budget - revenue and expenditure. Both revenue and expenditure play very important roles in local economic and social development. This chapter is based on several sources including Quantec, the Western Cape Provincial Treasury and Stats SA. An overview of Municipal revenue trends is provided, and its resulting impact on basic service delivery. In addition Municipal expenditure is also assessed.

6.2 Overview of municipal revenue trends in Central Karoo District

Since 1994 there has been a remarkable transformation of Local Government and the services they provide. The democratisation of Local Government involved municipal fiscal independence, administrative restructuring, structural transformations and an overhaul of the intergovernmental fiscal system, all within the context of the constitution. Hence, the provision of municipal infrastructure takes place through intergovernmental transfers or own revenue which includes property taxes, licensing fees, electricity charges, surcharges on services, user fees and borrowing.

According to the Constitution, municipalities should provide basic services within their financial and administrative capacities. Due to various economic inequalities revenue collection differs amongst municipalities, with certain municipalities not being able to provide for basic services due to limited revenue bases. Governmental transfers help to bridge these gaps. According to a report by the Financial and Fiscal Commission (2014: 97), grants and subsidies from National and Provincial Government make the largest contribution to capital revenues. The second largest contributor to capital financing is municipal own revenue followed by borrowing.

Table 6.1 illustrates total revenue generation from roads and trading services per municipality in the Central Karoo District (CKD). Central Karoo District revenue grew by a real annual average rate of 13.8 per cent between 2008/09 and 2012/13. As can be seen over the period under consideration revenue generated was highest in

Beaufort West Municipality. The municipality contributed 70 per cent to CKD roads and trading services revenue in 2013. Laingsburg made the least contribution to local municipal revenue in the District (6 per cent). Prince Albert and the Central Karoo District Municipality accounted for 9 per cent and 15 per cent of total revenue in CKD in 2013.

The differences in revenue may be a result of differing grants received, tariff price structures or a reflection of a differing tax base, administrative capabilities of municipalities to collect revenue on the basis of economic performance. The administrative capabilities refer to internal municipal revenue collection inefficiencies. The tax base of a municipality is influenced by economic and demographic factors such as income levels and number of indigent¹¹ consumers. Generally, high levels of poverty, a declining revenue base and poor economic growth constrains service delivery by municipalities and revenue collection.

Table 6.1 Revenue per municipality (Rand; constant 2005 prices)

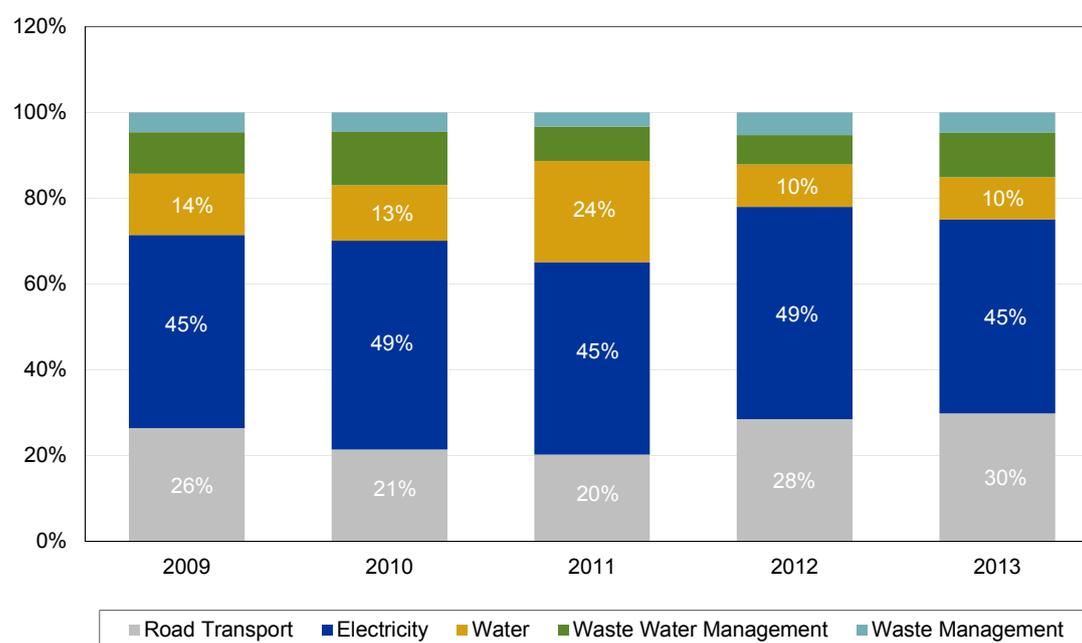
Municipality	2009	2010	2011	2012	2013
Central Karoo District	19 327	20 639	20 537	17 522	18 673
Laingsburg	6 877	8 533	8 421	10 387	8 112
Prince Albert		6 126	9 456	10 371	10 916
Beaufort West	49 218	68 709	81 311	75 962	88 892
Total	75 422	104 008	119 725	114 243	126 593

Source: Western Cape Provincial Treasury Stats SA

In Laingsburg Municipality, the revenue is influenced by the narrow tax base. The tax base of the municipality is influenced by the influx of indigent people, high unemployment and the dependence on agricultural activities which are seasonal in nature. In addition, 27 per cent of households within the municipal area are indigent households.

Figure 6.1 illustrates revenue from road transport and trading services in the CKD. Revenue derived from electricity contributes close to half of the total revenue generated within the District. Since 2008/09 the contribution made by revenue from water charges has decreased, alongside increases in revenue from road transport. Revenue from waste management services contributed the least to total revenue.

¹¹ According to the Indigent Policy the term indigent means 'lacking the necessities of life' such as water, sanitation, refuse removal and housing amongst other things.

Figure 6.1 Contribution of service charges to municipal revenue

Source: Western Cape Provincial Treasury

Table 6.2 shows the contribution to GDP in 2013 and the average GDP growth for the local municipalities over the period 2000 – 2013 in relation to the share of revenue generated from **trading services and road transport** per municipality. The fastest growing municipality within the region was Prince Albert Municipality. The municipality grew at 4.0 over the period 2000 - 2013 but only contributed 9 per cent to revenue collection, which was below its GDP contribution, in turn, hinting at possible constraints regarding revenue collection. The above average growth of Beaufort West is also notable; the municipality recorded an average GDP growth of 3.8 per cent and contributed the most to revenue collection within the district, in line with its GDP contribution. Laingsburg Municipality grew below the average GDP growth for the district at 2.3 per cent and contributed the least to revenue collection for the district.

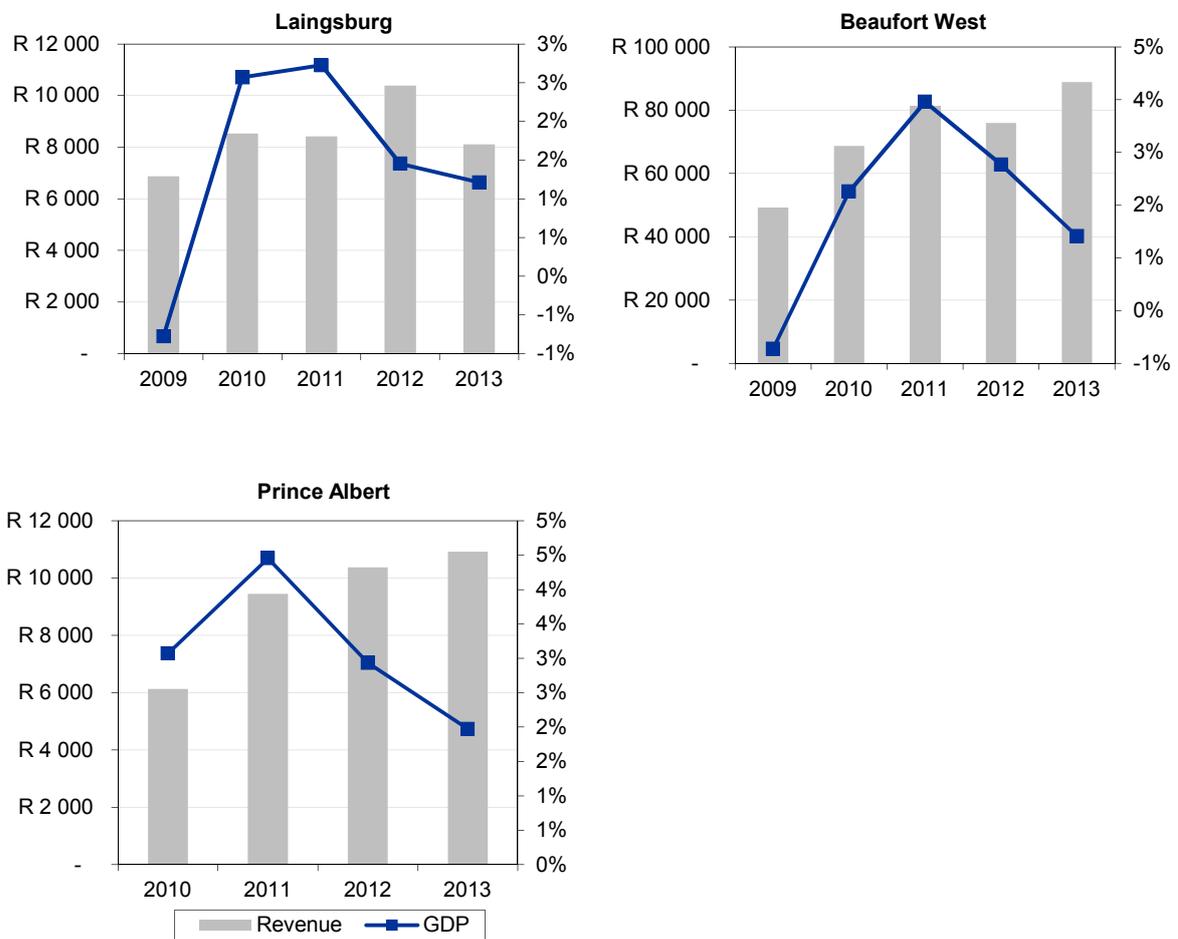
Table 6.2 GDP vs Percentage revenue generated in the Central Karoo District in 2013

Municipality	Revenue % share	GDP % share	GDP Growth 2000 - 2013
Central Karoo District	15%	8%	-
Former Central Karoo DMA	-	-	4.7%
Laingsburg	6%	9%	2.3%
Prince Albert	9%	14%	4.0%
Beaufort West	70%	69%	3.8%

Source: Western Cape Provincial Treasury

Figure 6.2 shows an approximate relationship between revenue generation in the CKD and GDP growth. From a growth a perspective it is clear the CKD economy was strongly affected by the recession with growth stalling and then growing at 2.2 per cent in 2010. Despite a decrease in economic growth during the recession municipalities recorded an average annual revenue growth rate of 55.3 per cent over the period 2008/09 to 2009/10 in comparison to a growth of 26.4 per cent over the period 2008/09 to 2012/13. Contrary to what is seen in municipalities in the CKD one would expect depressed economic activity during the recession to influence revenue collection. The increase in revenue collection during these years presumably reflects the impact of annual tariff price increases, improvements in municipal revenue collection or changes in the number of indigent consumers.

Figure 6.2 Municipal revenue vs GDP: 2008 – 2013 (R'000)



Source: Western Cape Provincial Treasury

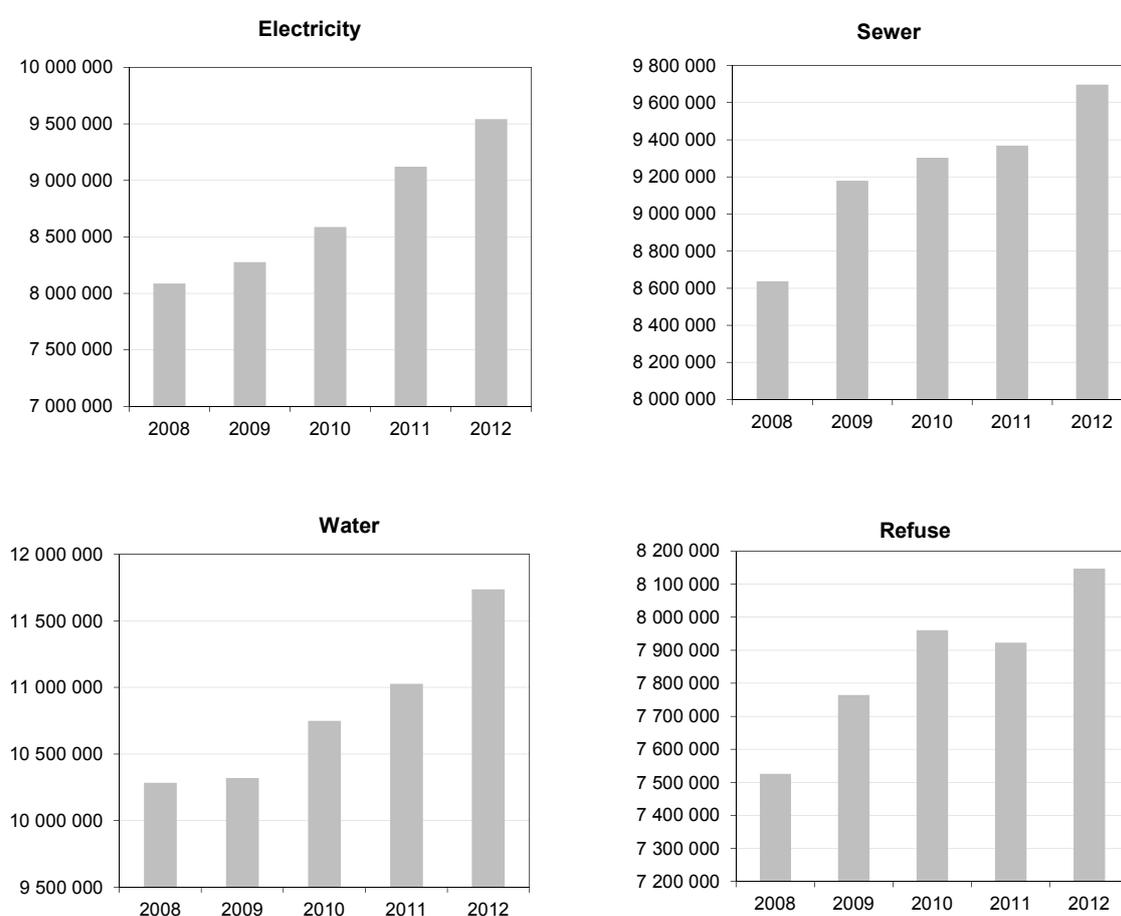
For municipalities to maximise their revenue collection it is important for them to adopt revenue raising strategies through maintaining and improving service delivery quality. Revenue increasing strategies include expansion of service delivery, debt collection strategies, efficient revenue management, minimising water losses, maintaining an accurate billing system. For example, revenue collection in Laingsburg Municipality is constrained by increases in outstanding debtors. As at December 2013, the payment trends within the municipality was estimated to be 85 per cent of the total outstanding debtors (Laingsburg IDP). Municipal revenue

collection and financial viability is undeniably linked to its ability to render quality services and improve access to basic services. As such the next section discusses access to basic services.

6.3 Access to basic services

Basic service delivery plays a central role in poverty alleviation. Statistics South Africa has been tracking the progress of service delivery across all Municipalities since 2003 through an annual Non-financial Census of Municipalities. Since 2008 the number of households receiving electricity, sewer, water and refuse has gone up (see Figure 6.3).

Figure 6.3 Number of households receiving basic services



Source: Stats SA: Non-financial Census of Municipalities

According to a Non-financial Census of Municipalities conducted by Stats SA for the year ended June 2012 the provision of basic services went up by 6.4 per cent between 2011 and 2012. The Census also showed that the highest provincial increases were recorded in the Western Cape (19.6 per cent). Table 6.3 illustrates the number of households receiving basic services in each province.

Table 6.3 Number of households receiving basic services in each province

Province	Water		Electricity		Sewerage and sanitation		Solid waste management	
	2011	2012	2011	2012	2011	2012	2011	2012
Western Cape	1 023 117	1 223 237	1 215 410	1 242 786	1 014 527	1 032 682	1 257 378	1 274 281
Eastern Cape	1 496 300	1 568 621	997 571	1 056 322	1 021 752	1 098 311	752 350	778 202
Northern Cape	240 435	250 605	248 465	261 591	237 708	245 114	209 947	219 947
Free State	725 191	768 064	656 332	661 732	665 955	698 785	526 830	560 684
KwaZulu-Natal	1 919 351	1 991 349	1 526 952	1 597 910	1 675 267	1 723 360	1 429 068	1 455 627
North West	713 216	741 934	775 743	792 721	588 158	615 626	465 048	466 084
Gauteng	2 799 716	3 001 574	1 925 463	2 076 143	2 708 004	2 778 742	2 513 354	2 577 966
Mpumalanga	940 433	963 323	670 271	706 914	820 665	853 648	405 734	420 509
Limpopo	1 169 483	1 228 827	1 103 549	1 144 869	635 586	651 118	363 391	393 649
Total	11 027 242	11 737 534	9 119 756	9 540 988	9 367 622	9 697 386	7 923 100	8 146 949

Source: Stats SA: Non-financial Census of Municipalities

Access to basic services helps improve socio-economic conditions of the poor enabling them to participate in economic activities. Since 1994 various laws have been adopted to improve the socio-economic conditions of the poor (SERI, 2013). At the local level this comes in the form of the provision of free basic services to indigent consumers - 6 kl water and 50 kWh electricity per month.

Each Municipality within Central Karoo District operates in unique demographic and economic circumstances that make access to basic services vary across municipalities. The varying number of households with access to basic services across the local municipalities in CKD is a reflection of differing population sizes, economic activity and challenges that Municipalities face in the delivery of basic services. The main obstacle to accelerating basic service delivery is the proliferation of urban settlements and lack of appropriate infrastructure. Water provision is influenced by locational factors and distance from water source.

Table 6.4 Number of households with access to basic services in 2012*

Municipality	Water	Electricity	Sewer	Refuse
Beaufort West	10 845	10 953	11 440	10 705
Laingsburg	1 246	1 271	1 564	1 558
Prince Albert	2 325	2 325	2 325	2 325

* Information differs from primary data sources due to certain exclusions.

Source: Stats SA: Non-financial Census of Municipalities

One of the ways in which the success of any local government is measured is through the delivery of basic services. Table 6.4 shows the number of households with access to basic services in each municipality within the CKD. From the table it would appear as if more households under the Beaufort West region have access to basic services whilst Laingsburg has the least households with access to basic services. However the number of households with access to basic services under each municipal region differs due to the differing population distribution across these municipalities. Beaufort West Municipality is the most populous municipality within the CKD. The influx of people into the municipal region has an impact on the demand for and level of service delivery. Despite having the smallest population within the District, Laingsburg

Municipality also faces significant challenges in service delivery due to the low density population. Most municipalities within the region face the problem of the maintenance of ageing infrastructure. Major challenges faced by the municipalities are as follows:

- Access to water is important in ensuring improved quality of life and economic development. Improved water sources are a key to preventing the use of unsafe supplies that impact public health. Population increases and new developments have put pressure on water demand within the Prince Albert municipal region. The region is supplied by one surface water source (the Dorps River) and nine boreholes. Climate change and droughts have also amplified the water problem. The municipality recognises the need to manage water demand, minimise unaccounted water losses and augment more water storage capacity.
- The provision of refuse services is a means to prevent uncontrolled dumping of waste. Refuse removal helps in the avoidance of health problems whilst also protecting the environment. Major challenges facing the District in waste management is insufficient landfill space and the upgrading of landfill sites to ensure compliance with legislation. Of particular concern in the Prince Albert municipal area is the lack of adequate fencing at waste disposal areas which has left it accessible to pickers and poses a health hazard. The municipality recognises the need to address solid waste management challenges and prevent contamination or health hazards.
- Lack of access to transportation networks constrains the movement of goods to points of export and constitutes a poverty trap. It is critical to focus on the mobility of individuals and the provision of alternative modes of goods transportation as it improves their socio-economic conditions. Geographically, the Central Karoo District is the largest district in the Western Cape Province but has the smallest population. As a result distances between settlements are large. Municipalities in the CKD benefit from the N1 road which bisects the municipal regions. Laingsburg has often been referred to as the entry point of the Central Karoo District when travelling from Cape Town. Despite it benefiting from the N1 freeway and main railway line the absence of public transport is a challenge for residents who have to walk long distances. The low population density in the Central Karoo District is a challenge in providing cost effective public transportation.
- Access to electricity is critical to ensuring social and economic development. The use of some alternative energy sources or polluting fuels causes a variety of illnesses and other health problems. The use of energy is not only important for household use but also for business activities. The lack of electrification in some areas in Laingsburg has resulted in the use of solar as an alternative. The municipality recorded a backlog of 16 per cent of households without access to electricity for lighting and cooking.

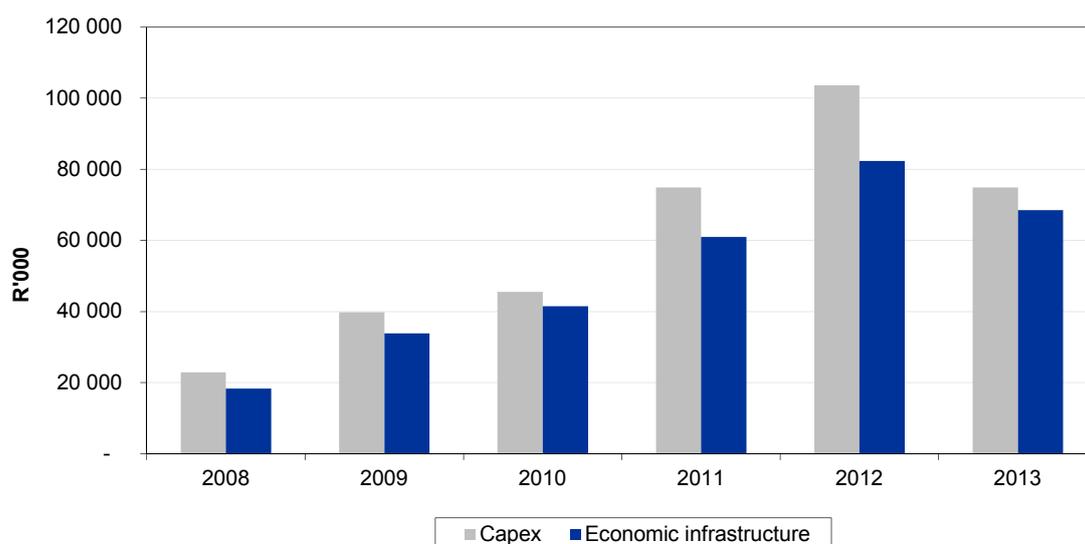
Municipalities potentially have a wide array of financial instruments to use in meeting their service delivery responsibilities. In order for municipalities to provide basic services they need to generate the required revenue. Hence, revenue management and revenue raising strategies need to be implemented. It is crucial that these scarce resources should be used effectively and efficiently to ensure that service delivery is optimised. In this regard the following section analyses infrastructure expenditure.

6.4 Infrastructure expenditure

The President's 2014 State of the Nation Address highlighted Government's continued commitment to the National Infrastructure Plan as a tool for promoting economic growth. With this growing emphasis on infrastructure investments, municipalities within the CKD have continued in their efforts to improve infrastructure availability and eradicate service backlogs. To this end in 2013 infrastructure expenditure took up 91 per cent of the entire capital expenditure budget for the whole district (see Figure 6.4). Of the capital expenditure budget allocated to municipalities within the CKD a large percentage of it goes to Economic and Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance and Administration and Community and Public Safety.

Despite being the fastest growing municipality in terms of GDP, Prince Albert contributed the least to infrastructure expenditure within the region in 2013. The municipality accounted for 6 per cent of the economic infrastructure expenditure within the region (see Table 6.5). Beaufort West Municipality had the highest economic infrastructure expenditure within the region, accounting for 78 per cent of the total economic infrastructure expenditure. Laingsburg Municipality contributed 16 per cent to economic infrastructure expenditure within the District in 2013.

Figure 6.4 Capex vs Economic infrastructure expenditure: 2008 - 2013



Source: Western Cape Provincial Treasury

Table 6.5 Central Karoo District economic infrastructure expenditure per municipality, 2013

Municipality	2009	2010	2011	2012	2013
Central Karoo District	14%	14%	10%	0%	0%
Laingsburg	8%	11%	6%	11%	16%
Prince Albert	11%	12%	12%	1%	6%
Beaufort West	68%	63%	72%	88%	78%

Source: Western Cape Provincial Treasury

Table 6.6 Central Karoo District economic infrastructure expenditure per budget line item

Budget Line Item	Municipality				Total
	Central Karoo District	Laingsburg	Prince Albert	Beaufort West	
Planning and Development	0	0	0	237 000	237 000
Road Transport	54 393	769 213	2 693 434	35 352 000	38 869 040
Environmental Protection	0	0	0	0	0
Electricity	0	120 524	0	12 980 000	13 100 524
Water	0	2 671 773	1 461 908	3 654 000	7 787 681
Waste Water Management	0	7 566 634	0	556 000	8 122 634
Waste Management	0	0	0	375 000	375 000
Total	54 393	11 128 144	4 155 342	53 154 000	68 491 878

Source: Western Cape Provincial Treasury

Infrastructure expenditure should be directed towards influencing economic growth. Budgetary constraints call for an investigation into the types of infrastructure that would influence economic growth. Expenditure continues to be high in four main forms of infrastructure, i.e. water provision, waste water management, road transport and electricity (see Table 6.6). Road transport is the largest capital expenditure item in the CKD. Expenditure on this budget line item is highest in Beaufort West municipality. Electricity, waste water management and water constitute relatively smaller shares of Municipal capital expenditure. The relatively smaller contribution made by electricity could be a result of intergovernmental arrangements (Financial and Fiscal Commission, 2014). In some case local government and Eskom are both involved in the distribution of electricity to consumers. Eskom therefore also invests significantly in electricity infrastructure.

6.4.1 Infrastructure investment and economic growth

Empirical evidence has shown that infrastructure investment will have a variety of effects on growth. Various studies have tried to provide empirical proof of the typical impact that various forms of infrastructure expenditure would have on the economy. Early reviews of the empirical literature can be found in Fourie (2006).

Public spending on infrastructure is an effective tool for job creation and labour productivity. Kumo (2012) considered the relationship between economic growth, economic infrastructure investment, and employment in South Africa for the period 1960 - 2009. The author finds that there is a two way causal relationship between

infrastructure investment and job creation in the public sector. An expansion of infrastructure expenditure has both a direct and an indirect impact on job creation. The direct effect are the jobs created by infrastructure production, whereas the indirect effects are the jobs created as a result of the increased demand for the material used in the production of infrastructure. As previously discussed in Chapter 3 over the period 2000 - 2013 the contraction of employment in the transport sector (0.4 per cent per annum), electricity and water sector (0.6 per cent) and the construction sector (1.1 per cent) are a cause for concern. It is important to note that the indirect impact of infrastructure investment on employment may be a lot more visible than the direct impact. The direct impact of investment in infrastructure will be captured in the construction sector. Once construction is complete the capacity to provide basic services, transport and communications boosts economic activity thus creating jobs in other sectors.

As mentioned in the MERO 2013 report, the 2014 Growth Potential Study categorises towns and municipalities in CKD in terms of an infrastructure index. Notable is the fact that none of the towns within the District are rated as having high infrastructure levels. The limited economic infrastructure in the CKD can be traced back to its limited industrial base. According to the Growth Potential Study, Murraysburg and Matjiesfontein were rated *very low* according to the infrastructure index. Due to its semi-arid nature and the high costs of doing business the CKD attracts limited investments. This significantly impacts on the levels of infrastructure within the region.

Table 6.7 GDP vs Infrastructure levels at municipal level

Municipality	GDPR Growth	
	2000 - 2013	Infrastructure Level
Central Karoo District	4.7%	Medium
Laingsburg	2.3%	Low
Prince Albert	4.0%	Low
Beaufort West	3.8%	Medium

Source: Van Niekerk et al (2014) and Quantec Research 2014

Table 6.7 shows the average annual growth rate of municipalities in Central Karoo District over the period 2000 - 2013. The table also shows how the municipalities performed according to the infrastructure index. The Beaufort West Municipality and the Central Karoo District Municipality performed better according to the infrastructure index in comparison to the other local municipalities.

Prince Albert grew above the district average growth rate at an average growth rate of 4.0 per cent. The municipality is rated low according to the infrastructure index. This is matched by its relatively low investment in infrastructure which accounted for 6 per cent of the total infrastructure expenditure in the CKD. The municipality also recorded the highest GDPR growth rate over the period 2000 - 2013. The municipality is renowned for its historic architecture and attracts many tourists. However, the bottom line is that in the long run poor infrastructure within the region cannot continue supporting high growth rates.

Laingsburg Municipality grew below the district's average growth rate at an average growth rate of 2.3 per cent and is rated low according to the infrastructure index. This

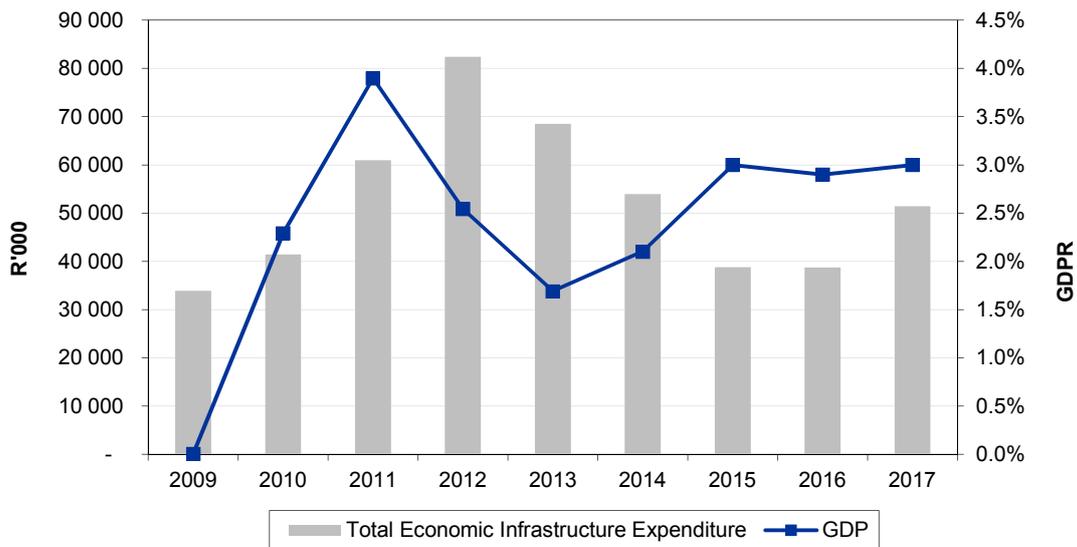
is matched by relatively low investment in infrastructure expenditure which accounted for 16 per cent of the total infrastructure expenditure in the CKD. The municipality was hit by terrible flooding early this year that resulted in the closure of the N1 highway, wiped out some buildings in town and some crops were submerged. The floods had a massive impact on the economy and call for the development of disaster management strategies. The municipality is faced with daunting financial challenges in the provision of basic services. Laingsburg is a one town municipality with more than a quarter of its population scattered on farms.

Beaufort West grew at an average growth rate of 3.8 per cent and is rated medium according to the infrastructure index. The municipality's infrastructure expenditure accounted for 78 per cent of the district's total infrastructure. The municipality hosts the towns of Beaufort West, Merweville and Murraysburg. Beaufort West is the largest town in the district and the district's economic, political and administrative centre. Given the dependence of the municipal economy on agricultural activities it is important to provide infrastructure to convey workers and goods effectively to points of export. Infrastructure projects such as these will also have multiplier or knock-on effects that have a longer term macroeconomic impact on the economy.

Better infrastructure is crucial in attracting investment to the region. The different forms of infrastructure expenditure have made differing contributions to GDP growth within the District. As previously shown in Chapter 3 the construction sector grew above average; expanding real value added by 8.4 per cent over the period 2000 - 2013. In contrast growth in the electricity and water sector is disappointing (1.0 per cent per annum over the period 2000 - 2013). The transport storage and communication sector grew below average at 1.5 per cent.

Whilst data limitations preclude a complete empirical presentation, the graph below provides an approximation of the relationship between infrastructure expenditure and economic growth. It is important to note the role played by time lags in between expenditure on infrastructure and its resulting impact on economic growth. In the investment phase the direct impact of infrastructure spending on GDP occurs mainly via the construction sector. During this phase the demand for construction equipment and employment increases. Once construction is complete the capacity to provide basic services, transport and communications increases facilitating higher economic activity. Thus infrastructure spending has a lagged effect on GDP.

Whilst the CKD is mostly a semi-arid area with limited opportunities to earn a living, the District is strategically located and well poised to be a distribution centre for road freight. The 2013 Municipal Economic Review and Outlook (MERO) study, revealed that industries with comparative advantage, also being leading employment generating sectors were the agriculture and agro-processing sectors, the tourism sector, electrical machinery, building and construction value chain and the finance and insurance sector. These sectors should be supported through the provision of necessary infrastructure. Infrastructure investments within this area will provide economic returns and will also have multiplier or knock-on effects that have a longer term impact on the regional economy.

Figure 6.5 GDP vs Total Economic Infrastructure Expenditure: 2008 - 2013

Source: Western Cape Provincial Treasury

6.5 Concluding remarks

Government recognises that basic service delivery through infrastructure investment is the cornerstone to economic and social upliftment. Economic theory and empirical work suggest that public investment in infrastructure has an impact on economic growth. The municipality as the service authority is mandated with an obligation to provide access to basic services, a task clearly set out in the Systems Act of 2000. The provision of municipal infrastructure for basic services delivery takes place through intergovernmental transfers or own revenue and borrowing. The data presented in this chapter analysed two important sides of the budget, i.e. revenue and infrastructure. The analysis revealed that there has been varying levels of infrastructure revenue, expenditure and service delivery across municipalities within the Central Karoo District. The differences in service delivery is a reflection of the various budgetary and resource constraints faced by each municipality.

Economic activity within the District is highly concentrated in Beaufort West Municipality whilst the other two municipalities are generally regarded as poor. According to the Growth Potential of Town Study, Beaufort West Municipality is rated medium according to an infrastructure index. This is matched by high investments in infrastructure and high GDPR growth rates. Laingsburg is rated low according to the infrastructure index. This is matched by very low investments in infrastructure. Economic activity within this Municipality is sparse and industrial infrastructure lacking. On the other hand, Prince Albert Municipality is rated low according to the infrastructure but recorded above average growth rates over the period 2000 - 2013. The implication is that the high growth rate of the municipal economy may become unsustainable due to infrastructure constraints.

Focusing on the industries with revealed comparative advantage and leading employment creation (i.e. agriculture and agro-processing sectors, the tourism sector, electrical machinery, building and construction value chain and the finance and insurance sector) may help in unlocking the potential of the district. Efforts to address the municipal infrastructure shortages may be a welcome injection to supporting these sectors. Such investments will have multiplier or knock-on effects on the rest of the economy.

A major challenge the district faces, is the scarce underground water sources. Due to the history of droughts (2009 - 2011) and flooding (e.g. 2014) within the CKD, it is paramount for the region to invest in disaster management strategies and water storage. It is also crucial for municipalities to invest in the upgrade and construction of new infrastructure whilst putting in place revenue enhancement and revenue management programmes.

7

Socio-economic analysis and economic performance

7.1 Introduction

The previous Municipal Economic Review and Outlook (MERO) studies provide a focused institutional framework for microeconomic analysis – in the form of the Districts and their constituent municipalities. MERO 2014 follows from its predecessor, MERO 2013, in that it includes a socio-economic analysis. This is highly important as it shows the relationship between economic growth and economic or social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact their economy has on it.

This chapter aims to create a link between the information provided in the Socio-Economic Profiles of 2013/14, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to the population, human development, education, household income, income inequality and poverty in the district, each in relation to the district's economic performance.

7.2 Demographic indicators

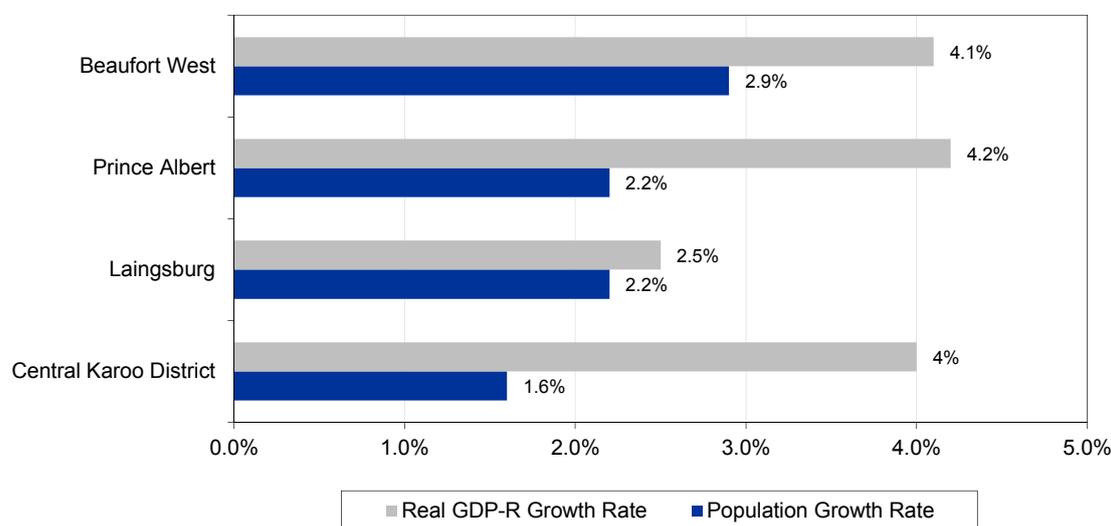
7.2.1 Population and economic growth

According to Statistics South Africa 2011 Census data, the Western Cape Province has 5.822 million people, having increased from 4.524 million in 2001. The average population growth rate in the Western Cape is thus 2.6 per cent per annum. The Western Cape economy grew at a rate of 4.1 per cent on average per annum from 2001 to 2011. The fact that the economy grew faster than the population within the

Province indicates that per capita income is increasing over time, ensuring improving, though uneven standards of living for its inhabitants. The per capita income¹² in constant 2005 prices increased from R37 496 in 2001 to R43 557 in 2011.

A closer look at the CKD indicates that per capita income has been on the rise over the period from 2001 to 2011. The CKD population size was 71 011 in 2011. As seen in the table below, its population grew at a rate of 1.6 per cent per annum from 2001 to 2011. Its economy grew at a much faster rate of 4.0 per cent on average per annum, indicating that there has been an increase in per capita income over this period. The GDP per capita increased from R16 650 in 2001 to R21 492 in 2011. This 29 per cent increase reflects improvements in terms of the Central Karoo District's socio-economic development.

Figure 7.1 Central Karoo District annual average population and real GDP growth rate, 2001 – 2011



Source: Statistics South Africa, Census 2001 and 2011

Prince Albert had the highest increase in per capita income (R12 835 to R16 356) over the period from 2001 to 2011 and is on par with the provincial average. It had a population size of 13 136 persons and an annual average population growth rate of 2.2 per cent. Its average annual real GDP-R growth rate over the period was highest in the district at 4.2 per cent, compared to the 4.0 per cent for the CKD, pointing to increasing per capita income in the Prince Albert region.

Laingsburg, Prince Albert and Beaufort West each experienced an increase in per capita income over the period from 2001 to 2011 of 4.5 per cent, 27.5 per cent and 12.7 per cent respectively. Note that there are no real discrepancies in the population growth rates within the Central Karoo District region with the exception of Beaufort West having the largest population growth rate of 2.9 per cent.

¹² Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

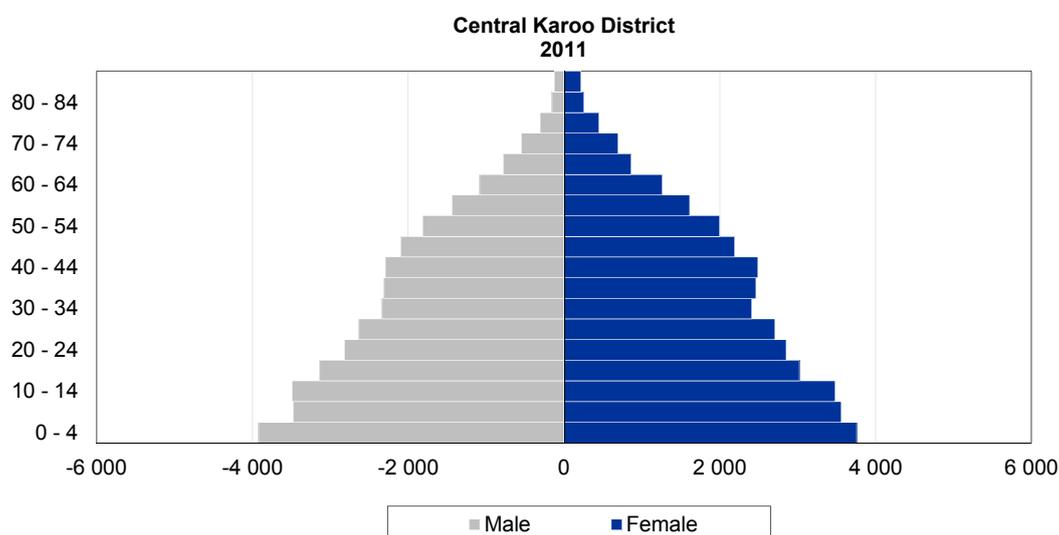
The increasing per capita income translates to an improvement in the standard of living of the inhabitants of the CKD as a whole.

7.2.2 Age distribution, dependency and youth unemployment

The population can be classified into three main groups namely children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older. In 2011, the Central Karoo District's population composition was as follows: children at 30.5 per cent, the economically active population at 63.3 per cent and the elderly at 6.2 per cent.

The population pyramid in Figure 7.2 below displays that in 2011 there was 1 477 more females in the CKD than males. According to the pyramid the majority of the population falls within the economically active group from 15 – 64.

Figure 7.2 Central Karoo District's population pyramid for 2011



Source: Statistics South Africa, Census 2011

The wide base at the bottom pyramid indicates high fertility rates. The pyramid narrows toward the top which indicates a higher death rate amongst the older generations than amongst the younger people. The child dependency ratio for the Central Karoo District based on the 2011 Census is 48.20 per cent and the aged dependency ratio during the same period is 9.7 per cent, resulting in a total dependency ratio of 57.9 per cent. For the Province as a whole, the total dependency ratio is much lower at 44.9 per cent. This highlights the strain on the incomes of the working age population in the CKD. The CKD had the highest youth unemployment rate in 2001 amounting to 43.7 per cent but decreased substantially to 27.3 per cent. This may be so due to the higher levels of education and greater job opportunities within the CKD.

7.3 Development indicators

7.3.1 Educational level and employment

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate in the country as a whole of 80.9 per cent. The Western Cape literacy rate showed the smallest improvement among all the provinces in the country from 2001 to 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth. Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education during the Apartheid regime.

In the CKD the literacy rate is lower than the Provincial average at 73.4 per cent. It is also the District with the lowest literacy rate. The District's unemployment rate is the second highest amongst the other districts within the Province at 22.7 per cent. This does not conform to economics which theorises that higher levels of education lead to lower levels of unemployment *ceteris paribus*. Note however that there are other factors that affect unemployment such as the larger population growth in the Beaufort West municipal area.

The municipality with the highest literacy rate in the District is Beaufort West at 74.9 per cent. The corresponding unemployment rate is however the second highest in the District at 25.5 per cent having decreased from 38.2 per cent in 2001. The municipality with the lowest literacy rate is Prince Albert with 69.9 per cent. Prince Albert however, had the lowest unemployment rate in the District at 19.4 per cent in 2011 decreasing from 35 per cent in 2001. This is also the case in Laingsburg Municipality with an unemployment rate of 17.9 per cent whilst having a relatively low literacy rate of 70 per cent. These municipalities have largely unskilled labour, but its high prevalence of primary activities creates a demand for semi-skilled and unskilled labour.

Table 7.1 Literacy rates across the Central Karoo District municipalities in 2011

Province/Municipality	2001	2011
Western Cape	85.0%	87.2%
Central Karoo District	63.0%	73.4%
Laingsburg	58.0%	70.0%
Prince Albert	59.0%	69.9%
Beaufort West	68.0%	74.9%

Source: Statistics South Africa, Census 2011

Table 7.2 Central Karoo District unemployment rates 2001 – 2011

Province/Municipality	2001	2011
Western Cape	29.2%	23.9%
Central Karoo District	33.2%	22.7%
Laingsburg	26.3%	17.9%
Prince Albert	35.0%	19.4%
Beaufort West	38.2%	25.5%

Source: *Statistics South Africa, Census 2001 and 2011*

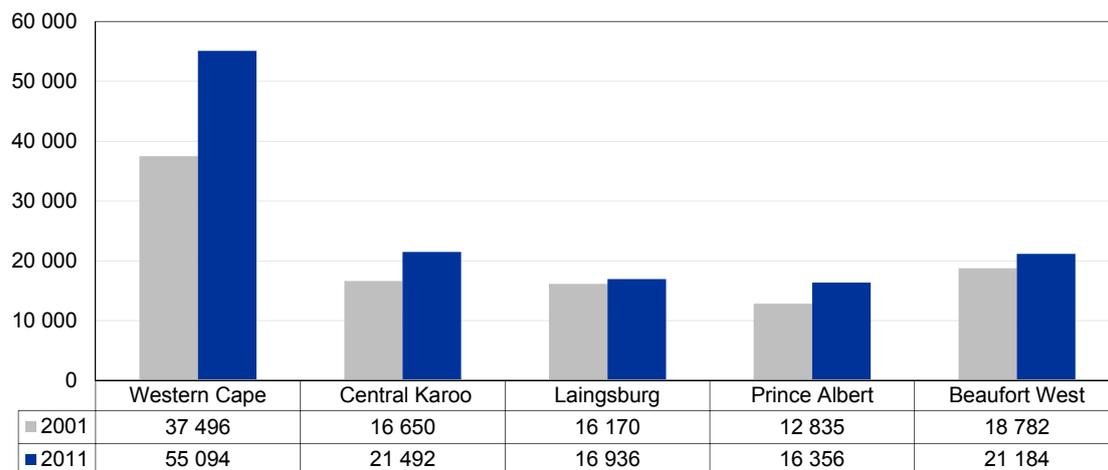
Approximately 34 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2014), yet it is clear that there is room for improvement with regard to skills development in the CKD and Western Cape as a whole. As mentioned in Chapter 3, the manufacturing and services sectors have been able to create substantial unskilled and semi-skilled jobs hence the large decline in unemployment in the CKD.

As per Chapter 3, there is a trend towards employing highly skilled and skilled labour. The largest percentage of employment is still however in the form of unskilled and semi-skilled positions, for which the corresponding demand has contracted by 2.7 per cent per annum between 2000 and 2013. This indicates that going forward, low skilled labour intensive employment initiatives as well as skills development will be necessary to stimulate the creation of new job opportunities in the CKD.

7.3.2 Household income and income inequality

According to Statistics South Africa Census 2011, average household income in the country has doubled over the last decade; however, high levels of income inequality still persist. Most informed observers would agree that economic resources should be more evenly distributed amongst the inhabitants of the country and that such a redistribution policy should make a real positive difference to the livelihoods of the poor.

The GDP per capita in the Western Cape Province was estimated at R43 557 per annum in 2011 (based on 2005 constant prices). The GDP per capita in the CKD was much lower at only R21 492 in 2011 (see Figure 7.3). This may be attributed to its relatively large population size compared to the small economic output, which negates the effect of the high GDP growth in the District. As noted in section 7.2.1 above, i.e. that the economy grew at a faster rate than the population in all municipalities within the CKD, which corresponds with the evidence displayed in Figure 7.3.

Figure 7.3 Central Karoo District GDP per capita (constant 2005 prices), 2001 - 2011


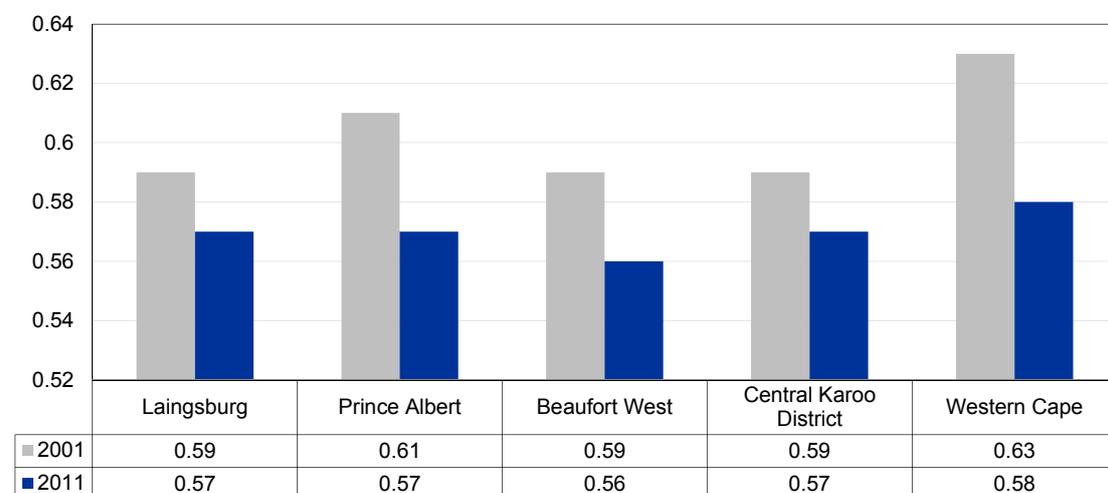
Source: Quantec, 2013

Table 7.3 Central Karoo District average household income, 2011

Central Karoo District	None income	R1 - R4 800	R4 801 - R9 600	R9 601 - R19 600	R19 601 - R38 200	R38 201 - R76 400	R76 401 - R153 800	R153 801 - R307 600	R307 601 - R614 400	R614 001 - R1 228 800	R1 228 801 - R2 457 600	R2 457 601+
Laingsburg	5.3%	2.0%	2.9%	20.9%	25.4%	21.8%	11.0%	6.6%	2.9%	0.7%	0.5%	0.0%
Prince Albert	6.3%	3.3%	6.1%	19.6%	26.7%	17.1%	9.4%	6.5%	3.6%	0.6%	0.3%	0.3%
Beaufort West	9.5%	3.3%	5.8%	21.7%	23.8%	15.3%	9.5%	6.9%	3.2%	0.7%	0.2%	0.2%

Source: Stats SA, Census 2011

Table 7.3 highlights that Laingsburg Municipality has the largest proportion of household earning between R9 601 and R76 400 per annum in the District. Prince Albert has second largest proportion of households earning an income ranging from R9 601 to R76 400, while Beaufort West has the third largest proportion. The CKD has the lowest proportion of households earning no income in the Province (less than 10 per cent), but it remains the District with the lowest overall earnings.

Figure 7.4 Central Karoo District Gini coefficients, 2001 - 2011


Source: IHS Global Insight, 2013

The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. The coefficient varies between 0, which represents complete equality and 1, which represents complete inequality. The Gini coefficient is bound to be an under-estimation in that it does not measure wealth (only income) and it does not account for income that accrues to the owner, but never enters the country including the extent thereof. With a Gini coefficient of 0.77 in 2001, South Africa displayed very high levels of income inequality. The South African Government provides households with free basic services, thus their wealth could be greater even though this is not represented when looking at income levels. The Gini coefficient in the Western Cape was also relatively high at 0.63 in 2001, but it declined to 0.58 in 2011.

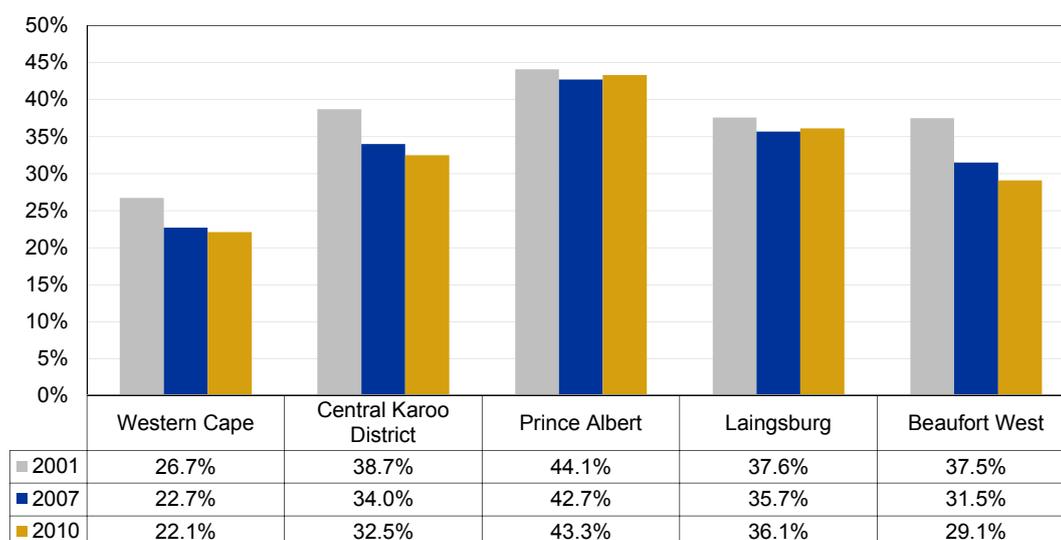
Figure 7.5 above shows that the CKD had a Gini coefficient of 0.57 in 2011, which is slightly lower than that of the Western Cape. In comparison to 2001, the region's income inequality improved marginally, from 0.59 to 0.57. The Gini coefficients for all municipalities showed a marginal improvement over the period 2001 to 2011, with Prince Albert showing the largest improvement.

Generally the largest proportion of households in the CKD earn between R9 601 and R76 400. These levels are quite low and explain the large number of indigent households within the region. However, the relatively low levels of inequality (although still high in value) indicates that the improving economic conditions may be spreading faster to all individuals within the region.

7.3.3 Poverty, employment and economic growth

Poverty is generally influenced by levels of employment and economic growth. High poverty rates in South Africa in general and in the Western Cape Province in particular have led to poverty reduction being prioritised by the South African Government. Municipalities support those living in poverty, i.e. indigent households, by providing these households with access to free basic services (Municipal Indigent Support Policy, 2014/15).

The Western Cape Province has seen a 29.0 per cent decline in indigent households, which indicates a positive move towards coming to grips with addressing poverty. Accordingly, the poverty rate in the Province declined from 26.7 per cent in 2001 to 22.1 per cent in 2010. The CKD has also displayed such positive results. Figure 7.5 below shows the percentage of households living in poverty at the CKD between 2001 and 2010.

Figure 7.5 Percentage of households living in poverty at Central Karoo District, 2001 - 2010

Source: IHS Global Insight, 2013

The CKD showed a significant improvement in its poverty rates from 38.7 per cent in 2001 to 32.5 per cent in 2010 although it remains higher than the Provincial average of 22.1 per cent. The general improvement in poverty rates is largely attributed to the economic expansion over the 2000 - 2007 period. Beaufort West Municipality has the lowest poverty rate in the Central Karoo District region at 29.1 per cent (2010) and Prince Albert has the highest poverty levels at 43.3 per cent (2010). Figure 7.5 shows that poverty levels have dropped marginally within Beaufort West Municipality between 2001 and 2010 and increased marginally in Prince Albert and Laingsburg during the same period. Increasing poverty levels places greater strain on municipal resources to provide households with free basic services.

Poverty levels in the CKD remain relatively high despite the improvements shown. Issues such as a lack of skills, intergenerational poverty and inequalities need to be addressed in order to alter this picture.

7.3.4 Human development

The Human Development Index (HDI) is a composite statistical index of life expectancy, education and income indices. It averages at 0.68 in the Western Cape Province. Overall, HDIs for all municipalities in the Province have shown improvement from 2001 to 2012, including Central Karoo District municipalities as shown in Table 7.4.

Table 7.4 Central Karoo District Human Development Index 2001, 2011 and 2012

Municipality	2001	2011	2012
Central Karoo District	0.57	0.65	0.65
Laingsburg	0.56	0.65	0.64
Prince Albert	0.55	0.63	0.63
Beaufort West	0.58	0.65	0.65

Source: Statistics South Africa, Census 2001 and HIS Global Insight 2011 - 2012

As shown in Table 7.4, all municipalities in the Central Karoo District region have seen significant improvement in human development. Laingsburg and Beaufort West have the highest HDI in the CKD at 0.65 while Prince Albert is lowest of the three at 0.63. Despite the improvements between 2001 and 2012, HDI in the CKD continues to be lower to that of other regions in the Province. The relatively low HDI can be attributed to its relatively low GDP per capita, life expectancy and literacy rate.

A high HDI level is necessary to indicate that economic growth is being translated towards social development amongst individuals within the region.

7.4 Conclusion

The following conclusions can be made regarding the socio-economic analysis above:

- The economy grew at a faster rate than the population within the CKD which has led to an increase in per capita income in the region. This indicates higher average standards of living of the inhabitants of the region.
- CKD had the highest unemployment and youth unemployment rates in 2001, but this had decreased significantly by 2011. The decrease can be attributed to higher levels of education and work opportunities in the CKD.
- The CKD has the lowest literacy rates in the Province, with Prince Albert recording the lowest literacy rate of 69.9 per cent. Skills development as well as low skilled labour intensive initiatives will be necessary to stimulate employment in the region, due to the general trend towards employing skilled and highly skilled labour.
- Although, the proportion of households that are living in poverty in Central Karoo District dropped somewhat between 2001 and 2010 poverty levels are still relatively high and need to be addressed.
- Despite the improvements between 2001 and 2012, the HDI in the CKD continues to be lower to that of other regions in the Province.

The CKD has shown some improvement over the years with regard to its socio-economic environment as discussed above. This chapter illustrates how indicators impact on the standard of living within the District. The growing economy has led to increasing household and per capita income and declining poverty levels or indigent support required within the District, but there is still room for improvement with regard to poverty reduction and skills development.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Central Karoo District: GDPR at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	-0.4	-0.6	0.0	-0.9	-2.3	0.4	1.2
2 Secondary sector [SIC: 3-5]	-2.9	9.1	8.6	7.4	9.7	7.0	3.0
3 Tertiary sector [SIC: 6-9, 0]	0.9	4.5	4.0	3.9	4.7	3.1	2.7
Total: Central Karoo District	0.2	4.3	4.2	3.7	4.3	3.4	2.6
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-0.3	-0.7	-0.1	-1.0	-2.4	0.3	1.2
2 Mining and quarrying [SIC: 2]	-13.1	16.1	15.8	13.8	20.5	13.9	0.3
3 Manufacturing [SIC: 3]	-2.7	10.3	9.7	8.4	11.1	7.0	3.9
4 Electricity, gas and water [SIC: 4]	-7.5	1.5	-0.6	-0.3	0.4	-3.2	-0.4
5 Construction [SIC: 5]	-0.2	10.8	8.9	8.4	11.3	9.3	2.1
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	2.3	4.1	1.5	2.9	4.5	-1.6	2.1
7 Transport, storage and communication [SIC: 7]	2.1	3.1	-0.1	1.5	2.8	-2.3	0.9
8 Finance, insurance, real estate and business services [SIC: 8]	5.3	8.3	8.1	7.4	9.0	8.2	3.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	-0.6	3.1	2.4	2.5	3.3	1.7	1.1
10 General government [SIC: 91, 94]	-4.5	2.1	4.3	2.5	1.5	4.8	3.5
Total: Central Karoo District	0.2	4.3	4.2	3.7	4.3	3.4	2.6

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Central Karoo District					
1 Primary sector [SIC: 1-2]	16.4	15.8	12.4	9.5	8.8
2 Secondary sector [SIC: 3-5]	13.1	11.1	13.8	17.7	17.7
3 Tertiary sector [SIC: 6-9, 0]	70.6	73.1	73.8	72.8	73.5
Total: Central Karoo District	100	100	100	100	100
Broad sectors: Central Karoo District					
1 Agriculture, forestry and fishing [SIC: 1]	16.3	15.8	12.3	9.4	8.7
2 Mining and quarrying [SIC: 2]	0.1	0.0	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	7.1	6.1	8.1	10.9	11.0
4 Electricity, gas and water [SIC: 4]	2.5	1.6	1.4	1.1	1.0
5 Construction [SIC: 5]	3.5	3.4	4.3	5.8	5.7
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	14.9	16.4	16.3	14.1	13.8
7 Transport, storage and communication [SIC: 7]	14.6	16.0	15.1	12.2	11.4
8 Finance, insurance, real estate and business services [SIC: 8]	14.5	18.4	22.2	26.9	28.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.7	7.4	7.0	6.5	6.2
10 General government [SIC: 91, 94]	18.9	14.8	13.3	13.2	13.4
Total: Central Karoo District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Central Karoo District: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy% growth			Trend 2000 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	-4.4	-3.8	-4.8	-4.7	-4.2	-11.4	-2.4
2 Secondary sector [SIC: 3-5]	-9.8	2.7	0.2	0.5	2.2	2.5	-3.8
3 Tertiary sector [SIC: 6-9, 0]	-0.9	1.4	1.2	1.0	1.2	2.3	0.0
Total: Central Karoo District	-3.3	-0.1	-0.2	-0.5	-0.2	-0.3	-1.0
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-4.4	-3.8	-4.9	-4.8	-4.3	-11.4	-2.4
2 Mining and quarrying [SIC: 2]	-14.3	3.4	35.2	12.6	16.9	6.3	6.9
3 Manufacturing [SIC: 3]	-9.2	5.4	3.0	2.8	4.3	5.7	-1.7
4 Electricity, gas and water [SIC: 4]	-12.6	-0.1	2.7	-0.7	1.9	-14.0	0.8
5 Construction [SIC: 5]	-10.0	1.2	-2.1	-1.1	0.8	0.7	-5.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	-0.4	-0.4	-0.3	-0.4	-0.3	-0.3	-0.6
7 Transport, storage and communication [SIC: 7]	-5.2	-2.0	2.2	-0.5	-2.8	2.5	2.7
8 Finance, insurance, real estate and business services [SIC: 8]	11.1	8.2	2.9	5.7	7.9	2.4	2.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	-1.4	0.9	0.8	0.8	1.2	4.8	-2.1
10 General government [SIC: 91, 94]	-3.7	3.1	2.2	1.5	1.6	3.1	0.2
Total: Central Karoo District	-3.3	-0.1	-0.2	-0.5	-0.2	-0.3	-1.0

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Central Karoo District					
1 Primary sector [SIC: 1-2]	29.9	28.2	22.1	16.3	14.4
2 Secondary sector [SIC: 3-5]	17.6	12.4	14.0	14.9	14.4
3 Tertiary sector [SIC: 6-9, 0]	52.5	59.4	63.9	68.8	71.2
Total: Central Karoo District	100	100	100	100	100
Broad sectors: Central Karoo District					
1 Agriculture, forestry and fishing [SIC: 1]	29.8	28.2	22.1	16.2	14.3
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	6.0	4.4	5.7	6.9	7.1
4 Electricity, gas and water [SIC: 4]	0.4	0.3	0.3	0.3	0.3
5 Construction [SIC: 5]	11.2	7.8	8.1	7.7	7.1
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	18.5	21.4	20.7	20.6	21.4
7 Transport, storage and communication [SIC: 7]	5.6	5.0	4.5	5.0	5.0
8 Finance, insurance, real estate and business services [SIC: 8]	3.3	6.6	9.8	11.2	12.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	14.4	15.8	16.5	18.0	17.9
10 General government [SIC: 91, 94]	10.8	10.6	12.4	14.1	14.0
Total: Central Karoo District	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Central Karoo District: Composition of Goods Exports and Imports (nominal values)

Sector	1995	2000	% share		
			2005	2010	2013
Goods Exports (R million)					
Broad sectors: Central Karoo District	-	-	-	-	80.7
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	-	-	-	-	0.0
2 Mining and quarrying [SIC: 2]	-	-	-	-	9.7
3 Manufacturing (excl. food and beverage processing) [SIC: 3]	-	-	-	-	9.6
4 Undefined/other	-	-	-	-	100
Total: Goods exports					
Manufacturing sector:					
Central Karoo District	-	-	-	-	86.0
1 Food, beverages and tobacco [SIC: 301-306]	-	-	-	-	2.0
2 Textiles, clothing and leather goods [SIC: 311-317]	-	-	-	-	3.8
3 Wood, paper, publishing and printing [SIC: 321-326]	-	-	-	-	0.0
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	-	-	-	-	0.0
5 Other non-metal mineral products [SIC: 341-342]	-	-	-	-	0.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	-	-	-	-	0.0
7 Electrical machinery and apparatus [SIC: 361-363]	-	-	-	-	0.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	-	-	-	-	0.0
9 Transport equipment [SIC: 381-387]	-	-	-	-	8.2
10 Furniture and other manufacturing [SIC: 391-392]	-	-	-	-	100
Total: Manufacturing exports	-	-	-	-	80.7
Goods Imports (R million)					
Broad sectors: Central Karoo District	-	-	-	-	0.0
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	-	-	-	-	0.0
2 Mining and quarrying [SIC: 2]	-	-	-	-	100.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	-	-	-	-	0.0
4 Undefined/other	-	-	-	-	100
Total: Goods imports					
Manufacturing sector:					
Central Karoo District	-	-	-	-	0.0
1 Food, beverages and tobacco [SIC: 301-306]	-	-	-	-	0.0
2 Textiles, clothing and leather goods [SIC: 311-317]	-	-	-	-	0.0
3 Wood, paper, publishing and printing [SIC: 321-326]	-	-	-	-	0.0
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	-	-	-	-	0.0
5 Other non-metal mineral products [SIC: 341-342]	-	-	-	-	100.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	-	-	-	-	0.0
7 Electrical machinery and apparatus [SIC: 361-363]	-	-	-	-	0.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	-	-	-	-	0.0
9 Transport equipment [SIC: 381-387]	-	-	-	-	0.0
10 Furniture and other manufacturing [SIC: 391-392]	-	-	-	-	100
Total: Manufacturing imports	-	-	-	-	0.0

Source: Quantec Research/CER

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