

**Western Cape Government
Provincial Treasury**

**Municipal Economic Review
and Outlook
2013**

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Foreword

The 2013 Municipal Economic Review and Outlook (MERO), as a rich source of disaggregated economic information, provides an opportunity to all municipalities to improve their economic intelligence in support of enhanced planning for economic growth and job creation and socio-economic improvement in its municipal jurisdiction.

The Western Cape Government, through its annual publication of the Provincial Economic Review and Outlook (PERO), has been able to disaggregate Statistics South Africa's national economic data to provincial information. The PERO was able to provide a view of the Western Cape economy in relation to the global and national economy, economic sectors, and prevailing socio-economic realities within the Province. The 2013 Municipal Economic Review dovetails with the PERO by providing disaggregated economic information from a national to provincial and to a district and municipal level. Data used to compile the 2013 MERO has been sourced from the same data sets and models used to inform the PERO thereby ensuring their credibility.

The 2013 MERO describes the performance of economic sectors per municipality and their forecasted economic performance over the next five-year period. The value chain analyses provide an opportunity to identify the areas of current and future economic synergies and the possibilities for increased employment uptake. MERO 2013 also outlines the characteristics of the informal sector and the challenges confronting entrepreneurs operating in the sector. The infrastructure chapter illustrates the importance of investment in economic infrastructure to support an enabling environment for the economy to grow and absorb more labour.

A chapter is devoted to each of the five districts and that of the City of Cape Town highlighting the comparative advantage of each region and its important value chains. To create an enabling economic environment for inclusive growth and development, each of these regions are required to support the economic drivers, priority sectors and value chains and create linkages between the formal and informal economic sectors. It is envisioned that in realising this objective would create an all improving cycle where investments in the key economic and social infrastructure should contribute to a climate in which business and communities can prosper and in turn support increased competitiveness, particularly in priority sectors and industries.

The 2013 MERO is further complemented by a socio-economic profile for each of these regions which provide details on the well-being of the communities which serve as a current and potential future source of labour to its local economies. These profiles provide information on the social challenges facing communities, which include the demand for education, health and social welfare services together with the resource investment from the Western Cape Government.

The annual Municipal Economic Review and Outlook will continuously be refined to provide a sound basis for the formulation and synchronisation of regional economic development strategies. It is hoped that the 2013 MERO will assist Municipal Mayors and Councillors to engage positively in the transformation of their local and regional economic landscapes and to ensure that their municipalities contribute to economic growth, job creation and the competitiveness of the Province.

Lastly, I wish to express a sincere word of appreciation to my colleagues and officials from the various provincial government sector departments and municipal officials and the research team for their valuable contributions and inputs in making the 2013 MERO a reality.

A handwritten signature in black ink, appearing to read 'Alan Winde', with a stylized, cursive script.

Alan Winde

Minister of Finance, Economic Development and Tourism

17 October 2013

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Acronyms

AATP	Accelerated Artisan Training Programme
BER	Bureau for Economic Research
BPO	Business Process Outsourcing
CER	Corporation for Economic Research
CIPRO	Companies and Intellectual Property Registration Office
CKD	Central Karoo District
CMA	Cape Metropolitan Area
CoCT	City of Cape Town
CPI	Consumer Price Index
CSP	Community, Social and Personal
CTICC	Cape Town International Convention Centre
CWD	Cape Winelands District
DBSA	Development Bank of SA
DEDAT	Department of Economic Development and Tourism
DMA	District Management Area
ECB	European Central Bank
ED	Eden District
EPWP	Expanded Public Works Programme
EU	European Union
FET	Further Education & Training
FIFA	Fédération Internationale de Football Association
FNB	First National Bank
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GDPR	Gross Domestic Product Regional
IAMPs	Integrated Asset Management Plans
ICT	Information & Communications Technology
IDC	Industrial Development Cooperation of South Africa
IDZ	Industrial Development Zone
IMF	International Monetary Fund
LQ	Location quotients

MERO	Municipal Economic Review and Outlook
OBD	Overberg District
OECD	Organisation for Economic Cooperation & Development
PERO	Provincial Economic Review and Outlook
PMI	Purchasing Managers Index
PPI	Producer Price Index
QE	Quantitative easing
RMB	Rand Merchant Bank
RSA	Republic of South Africa
SARB	South African Reserve Bank
SEDA	Small Enterprise Development Agency
SEZ	Special Economic Zone
SIC	Standard Industrial Classification
SIP(s)	Strategic Integrated Project(s)
SME	Small, Medium Enterprise
SMME	Small, Micro, Medium Enterprises
SOEs	State-owned enterprises
SSACI	Swiss-South African Cooperation Initiative
Stats SA	Statistics South Africa
the dti	Department of Trade and Industry
UK	United Kingdom
US	United States
USA	United States of America
WC	Western Cape
WCD	West Coast District
WCG	Western Cape Government
WCIF	Western Cape Infrastructure Framework
WCP	Western Cape Province
WTO	World Trade Organisation

Introduction

The Municipal Economic Review and Outlook (MERO) 2013 is a research publication that provides an overview of the economy with a particular focus on the Western Cape economy at a district/municipal level. The intention with the Municipal Economic Review and Outlook 2013 is to provide a comprehensive overview of the recent economic performance and outlook of the Western Cape economy at district/municipal level by further disaggregating the data and findings of the original MERO 2012 assignment.

Upon consultation with municipal and district officials responsible for the areas of Integrated Development Planning and Local Economic Development initiatives and policy-makers alike, there exists an obvious need to strengthen the economic intelligence within municipalities. Following on from the Provincial Economic Review



and Outlook (PERO) in this regard, the Municipal Economic Review and Outlook aims to provide the economic intelligence needed by municipalities to propel the regional economies onto a higher growth plain and ensure sustainability simultaneously.

The long-term intent for this initiative is to establish and sustain an institutional memory for all role players through activities that seek to encourage the growth of particular sectors through targeted interventions that include access to capital and premises, sector and cluster promotion, fostering entrepreneurship and innovation systems.

Additional benefits for this initiative are that it will provide solutions to address broader challenges in the agricultural sector as well as new opportunities in the non-agricultural growth sectors e.g. tourism, manufacturing, etc.

The medium to long term goal/strategy of Western Cape Government through this initiative is to address systematic and structural factors, i.e. industrial value chain analysis, integrated development and economic footprints as the scale of comprehensive development interventions is solely focused at community level.

City of Cape Town

Metropolitan Municipality

Executive summary

1. Introduction

The overall objective of the Municipal Economic Review and Outlook (MERO) 2013 is similar to that of its predecessor, MERO 2012, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO).

But MERO 2013 also extends the focus and analyses of its predecessor. In addition to estimating the recent and forecasted GDP growth for each municipality and the major economic sectors and industries (Chapters 2 and 3), the current study also provides extensive analyses of value or supply chains (Chapter 4), the informal sector (Chapter 5), and the economic infrastructure (Chapter 6). Complimentary to the MERO 2013 findings is an Executive Summary detailing the key outcomes/trends related to the Socio-economic profile per Region. These Executive Summaries may be located at the following website: www.westerncape.gov.za.

2. Regional growth trends

The global economy hit a recessionary low point in 2009 before turning around and growing at about 5 per cent in 2010 and the first half of 2011, driven largely by the United States of America (USA) and Chinese economies. Since then world growth has dipped to 2.6 per cent (in 2012 and possibly 2013), due partly to debt crises and fiscal restraint policies in the major advanced economies. But the global economy is expected to strengthen again reaching 3.1 per cent in 2014 and beyond, due mainly to expansionary monetary policies coupled with continued fiscal restraint and structural reform.

How did South Africa, the Western Cape (WC) Province and the WC municipalities respond to this hesitant and uneven global turnaround? After growing at 3.5 per cent in 2011, the South African economy followed the world trend growing at 2.5 per cent

in 2012 which, according to the latest forecasts, is expected to decelerate further in 2013. The Western Cape economy fared slightly better with real economic growth in the region decelerating from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. Similar trends were recorded for formal and informal employment in the Province. However, it should be noted that the employment recovery only commenced late in 2010 and some sectors and municipal areas continue to suffer the heavy recessionary impact during calendars 2008/09.

The Cape Metro took a relatively serious hit from the 2008 - 2009 recession, with real GDP growth slowing down to 1.5 per cent per annum (2008 - 2009). Real GDP growth averaged 3 per cent per annum during both calendars 2010 and 2011 before following world trends and dipping to 2.9 per cent in 2012. The impact on the ten main municipal areas (i.e. those that contributed in all 86 per cent of the Cape Metro GDP in 2011) was variable. Historical growth patterns across sectors within these municipal areas revealed the following (in descending order) with Durbanville, Khayelitsha, Blue Downs/ Kuils River, Mitchell's Plain, Brackenfell and to a lesser extent, Milnerton and Bellville growing faster than the Parow/Goodwood/ Elsie's River, Somerset West and Cape Town areas.



The economic recovery in the Cape Metro economy has been uncharacteristically relatively subdued compared to the national economy. The manufacturing sector recovery has been weak and the erstwhile high growth of the leading financial and business services sector has tapered down in the aftermath of the global financial crisis. These relatively low growth rates can be partly explained by the poor recovery among industrially advanced economies generally, and the EU in particular, when compared to the higher growth rates recorded in emerging and other developing economies. The EU regional economy – a major trading partner – remains under severe strain due to fiscal austerity and structural reform with growth lagging behind the USA economy and especially the developing economies which, as a longer term strategy, may call for export diversification on the part of the country, the WC and the WC municipalities.

It is proposed that an independent research study be launched to consider the desirability and efficacy of diversifying Cape Metro exports away from the EU in favour of more attractive markets in East Asia, Africa and Latin America. Such a study should also look at cost-effective practical steps that can be taken to achieve such diversification.

3. Cape Metro: Sectoral growth

The recessionary impact on economic sectors and industries in the Cape Metro mirrored the above trends, with the manufacturing (contracting by 3 per cent in 2009) and construction sectors being worst affected, both experiencing declining growth and shedding labour in 2008/09. During the uncertain aftermath of the recession, however, the financial & business services sector (contributing almost half), the broad retail, wholesale, catering & accommodation sector (incorporating the impact of tourism), manufacturing and transport & storage sectors stand out in leading the recovery in the Metro economy, as well as fiscal support from the government. However, persistent net job losses in manufacturing sub-sectors are a cause for concern.

A somewhat unsettling finding of the current review and outlook is the uncharacteristic under-performance of the metropolitan economy during the first two years of the general economic recovery. This under-performance can be linked to the material post-recession slowdown in the region's leading financial & business services sector on the one hand and the lingering recession impact on the region's primary and secondary industries.

An estimated 6.3 per cent of the Cape Metro workforce lost their jobs over the 2008 - 2010 period and by the end of 2011 only one fifth of these lost jobs were restored. The impact on manufacturing and construction employment was particularly rough, whilst the services industries continued to generate employment. The services orientation of the Metro economy is likely to deepen over the medium term presenting a formidable challenge in terms of training and attracting sufficient skills to this sector and at the same time revive secondary economic activity which typically absorbs semi- and unskilled labour.

Looking at the future, an attempt was made to determine the growth potential of the 22 main industry groups in the Cape Metro by estimating their so-called "revealed comparative advantage". Using location quotients the analysis indicated that several industries did indeed have a positive comparative advantage, including the textiles, clothing & leather goods; business services; catering & accommodation; finance & insurance; wood & paper products; furniture; construction; transport & storage; retail & wholesale; communication and radio, TV & instruments manufacturing sectors. Value chains or clusters of economic activity that revealed both comparative advantage and were also leading employment generating sectors were; textile, clothing & leather goods industry tourism, financial sector and business services and timber & furniture manufacturing.

The Cape Metro is forecast to grow at a somewhat disappointing 3.6 per cent per annum between 2013 and 2017, driven mostly by the relatively large financial & related business services sector (4.3 per cent), construction (4.1 per cent) and transport storage and communication sector (4 per cent). The overall regional real economic growth rate is dampened by the relatively subdued projected growth in manufacturing (2.4 per cent). Cape Metro economy is unfortunately exposed to

global economic developments as it has wide trading links and hence is prone to global developments particularly the struggling European market.

4. Value chains

Value or supply chains represent a collection of different industries (in the primary, secondary and tertiary sectors) that are economically interlinked in the sense of supplying inputs to or demanding inputs from one another. These inter-linkages may cut across different sectors, municipalities and districts and are important from a policy perspective as they may assist policy-makers in focussing on a more broadly based and relevant set of target areas aimed at adding local value.

There are several value chains in the Cape Metro, some of which are linked to neighbouring and other districts, such as agriculture and food processing chains. A typical scenario would be the use of a variety of farming inputs to produce an agricultural product, part of which is domestically consumed, another part which is exported, and yet another part being supplied as inputs to food and beverage processors in the manufacturing sector. The latter food processors may in turn supply to other processors within the value chain, with both groups also acquiring inputs from services and other local industries, and with the final supply either exported or domestically consumed.

Although the tertiary sector is the largest contributor to employment and GDP in the Cape Metro, the textiles & clothing value chain (mostly in Cape Town itself and Mitchell's Plain) and the metals & machinery value chain (mostly in Cape Town, Mitchell's Plain, Khayelitsha and Milnerton) have been chosen for analysis. This was done on the basis of the large potential contribution of the textiles & clothing value chain to employment and its relative success in increasing value added from 2000 to 2011. The same applies to the metals & machinery value chain.

Textile manufacturers acquire their inputs from abroad (30.6 per cent) and from a host of local industries, including agriculture, forestry, chemicals, wholesale & retail trade, business services and from the textile industry itself (bringing second-round backward linkages into the equation). The output thus produced is partly exported (11.8 per cent) and partly sold to local households (28 per cent), clothing manufacturers (13.8 per cent) and other local industries.

The major proportion of output from clothing manufacturers goes to final sales to households, at 72.1 per cent. The output to other sectors in the economy is relatively small in comparison, with only 13.6 per cent being exported. The share of intermediate imports into the clothing sector is however high, at 40.2 per cent, and this may well show that there are definite opportunities to boost inputs from the local textiles industry into clothing.

The metals & machinery value chain in the Cape Metro is significant in proportion to the total sector in the Western Cape, with a large machinery manufacturing component. The chain analysis managed to capture all the inputs used and outputs produced by each of the two sectors.

The level of intermediate imports into the metal products manufacturing process is relatively high, at 26.1 per cent, with basic iron and steel contributing the second highest amount at 21 per cent. The support sectors make a significant contribution, with wholesale & retail trade and business services contributing a collective 21.6 per cent to metal production.

A significant part of metals output is supplied as inputs to the construction industry, at 24.1 per cent, with metal products output to machinery only contributing 7.2 per cent to total metal production. The support sectors to the production of machinery include wholesale & retail trade and business services, contributing 12.2 per cent and 10.3 per cent of inputs into the machinery sector respectively. The level of intermediate imports into the production process is also high, at 40 per cent. But the output from the machinery sector is mainly for exports, at 83.3 per cent, with local industry and sectors receiving relatively insignificant amounts of output.

From a policy perspective, it is suggested that an independent study be conducted to determine the eligibility, as well as the desirability and feasibility of the clothing and textile and the iron and steel value chains for attaining Special Economic Zone (SEZ) status. The latter would entail a more broadly based industrial policy focusing on industries within the value chains, and involving all levels of government. The alternative would be a more conventional approach providing state support to selected industries within the value chains.

5. Informal sector

From a jobs training and survivalist perspective, the informal sector is evidently of critical importance, though very little is known about it. But this information gap is being narrowed by extensive surveys of about 200 informal enterprises conducted by the Department of Economic Development & Tourism (DEDAT) in each of the five districts and the Cape Metropolitan Area. The main purpose of these surveys is to provide a profile of the sector which includes the reasons for starting up informal micro-enterprises, the nature of their businesses, employment created, skills attainment and the challenges and prospects they face.

Retail food and drink was by far the largest category of overall business activity (34.8 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The selling of clothing (19.4 per cent) and household goods (10.8 per cent) also featured prominently. Small numbers were engaged in manufacturing, including furniture making, tailoring and cobbling. Some 7 per cent of respondents were also engaged in (small) capital investment activities, including mechanical and appliance repairs, computer services and money lending. As such they are closely linked to the formal sector and also form part of value chains within the Metro.

The informal economy provides a means for skills acquisition through informal apprenticeship, with almost half the sample (49.6 per cent) reporting having acquired their skills "on the (informal) job", rather than from formal institutions. A further 17.5 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for basic skills acquisitions. A further 14.9 per cent reported acquiring skills from a former

job in the formal sector, while only 2.5 per cent reported having acquired business skills formally.

The majority of the businesses surveyed were relatively low profit earners, with some 73 per cent of respondents reporting average monthly profits of just less than R2 500. The remaining 27 per cent earned more than R2 500 per month with their informal business enterprises propelling individual earnings over the South African median, and making them comparatively financially well off amongst local peers. However, despite the relatively low incomes for the great majority of participants, a majority of survey participants (both men and women) indicated that they would not give up their businesses in preference to a formal “minimum wage” job paying R126.00 per day. This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

The main reason for starting up or continuing with an informal micro-enterprise is an inability to find alternative employment coupled with the high regulatory costs involved in starting and running a formal business. The latter included the costs of registration, high taxes and difficulties in securing local government tenders. 59.6 per cent of the sample reported that their businesses were not registered in any way, while a further 26 per cent were what one might call “partially registered”, being in possession of a municipal licence. The main reason why informal activities exist and are growing in the Metro is that the benefits of formalising are overshadowed by the corresponding costs.

Other constraints included a lack of affordable micro-financing (59.2 per cent of respondents), crime (50.5 per cent), a shortage of business premises (49.8 per cent), the cost of access to water (17.4 per cent) and electricity (34.3 per cent), a lack of specialised equipment (30.7 per cent), increased competition (39.3 per cent), and the high costs of transporting goods and services (21.6 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

A major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable or simply not possible due to a lack of collateral. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

As most participants in the informal sector are generally poor, though surviving and adding local value, policies addressing these constraints may simultaneously help to combat poverty and promote growth.

An independent research study could focus on policies aimed at addressing some of the constraints discussed here, including the introduction of a more flexible and affordable registration system; the provision of appropriate infrastructure services at designated business premises; securing the safety of such premises; and providing assistance with collaterals in respect of micro-financing.

6. Economic infrastructure

Both the national and provincial governments view infrastructure as an important means of promoting sustainable growth and reducing poverty, with the national government having allocated large portions of its budget for this purpose. Economic infrastructure – which is the focus here – includes road building and maintenance, transport, water supply, electricity transmission, pump stations and piped networks, and sanitation facilities; whilst social infrastructure refers to health, education and a range of social grants.

Economic theory and empirical work suggest that public investment in infrastructure will lower production costs and boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect”. In fact, a recent World Bank study found that the contribution of infrastructure investment to GDP growth is substantial and often greater than that of investment in other forms of capital.

The latter proposition is partly borne out by the fact that the Western Cape Province has the lowest incidence of infrastructure backlogs and also grew more rapidly than other provinces and the country as a whole. A similar relationship seems to hold in the Cape Metro where the Brackenfell, Parow/Goodwood/Elsies River, Milnerton and the Blue Downs/Kuils River municipal areas recorded relatively high levels of investment in infrastructure, especially in transport & storage, electricity and water. These investments are also matched by relatively high GDP growth rates.

Following its Integrated Asset Management Plan (AMPs), a large part of the Metro budget for the 2012/13 financial year has been allocated to the development and maintenance of transport & storage, roads, water, electricity, sanitation and solid waste management infrastructure.

It is important to note that different economic sectors and communities require a different mix of infrastructure services. In terms of the earlier LQ analysis, higher growth industries like financial and business services, wholesale & retail and construction require relatively large amounts of water, electricity, broadband communication and the removal of hazardous waste; whilst poorer industries and communities may need relatively more sanitation and municipal roads and pavements.

Infrastructure backlogs include inadequate dry dock and other harbour facilities, poor train and bus transportation systems and insufficient broadband internet connectivity.

It may be worth doing an independent study looking at the different infrastructure needs of different sectors, industries and municipalities. Such a study can be simply based on personal interviews with relevant stakeholders; and also help to prioritise municipal budgets.

1

Introduction

1.1 Background and purpose of study

The origin of the Municipal Economic Review and Outlook (MERO) studies can be traced to the earlier microeconomic policy research programme launched and conducted by the Provincial Department of Economic Development and Tourism (DEDAT)¹. The subsequent MERO research reports provide a more focused institutional framework for microeconomic analysis – in the form of the Districts/Metro and their constituent municipalities. Internationally too there has been a shift in favour of focusing on microeconomic policy issues at local government level.

MERO 2013 follows on from its predecessor, MERO 2012, and also extends it in several important ways, as discussed below. The overall objective remains the same, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at district/municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO). Using the district/metro municipalities as our broad demarcation, MERO 2013 will probe and interrogate each and every municipality in the Western Cape Province to provide the economic intelligence needed to propel the municipal economies onto a higher growth plain and ensure sustainability at the same time.

1.2 MERO 2013: What's new?

Using the latest data from Quantec and other secondary sources, the analysis of the district and municipal growth, employment and skills data is extended in MERO 2013 in order to ascertain how the economic recovery (2010/11) has been progressing among different sectors and industries at the municipal level. This prompted an attempt to estimate the *revealed comparative advantages* of sectors and industries

¹ Kaplan, D (ed.) (2008): Micro-Economic Development Strategy for the Western Cape (MEDS) - Synthesis Report.

at the local government level. Location quotients were used to measure the performance of industries in the Cape Metropolitan Area (CMA) relative to the same industries in the reference region, i.e. the province or nation.

Following on from the 2012 feedback, many micro and small enterprises operate within the *informal sector*, and yet there is little or no data available on these enterprises. Although it serves as a means of survival for many unemployed poor persons, certain informal activities may help develop basic skills, create linkages with the formal sector, and ultimately become a source of sustainable growth. Apart from the need for desktop searching, the required data was obtained from the municipal survey and from important work being done at DEDAT.

The DEDAT survey of the informal sector in the CMA brought into focus some of the strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may well benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

The 2012 MERO study found that agro-processing is an important industry that forms part of *value or supply chains*, or clusters, that also contain manufacturing and service industries within and across different districts and municipalities. This issue is taken further here by identifying and quantifying other existing and potential inter-industry linkages that can be clustered together for policy purposes. For this purpose Quantec's input-output model and Stats SA's supply-and-use tables were used to estimate the size and extent of two value chains in the Cape Metro. Having done so, it is recommended that an independent study be conducted to consider the suitability of these value chains as potential Special Economic Zones (SEZs). The latter study would require information about the conditions for SEZ status and the roles played by **the dti**, the provincial government and the national government.

Following on from the 2012 MERO study, there is a need to determine the extent to which *municipal infrastructure spending* (water, electricity, sewerage, refuse, roads) is prioritised and indeed implemented in accordance with pre-determined targets. The present study therefore compares municipal actions with plans, identify problem areas, and suggest policy actions where necessary.

Infrastructure spending is an important prerequisite for poverty relief and economic growth, and it is critical that the actions taken by the provincial government, individual municipalities and electricity suppliers be coordinated in order to maximise the returns to their respective infrastructure investments.

1.3 Outline of report

The rest of this report consists of 5 parts. Chapter 2 provides the broad macroeconomic context within which the CMA operates. Its primary aim is to translate the macroeconomic forces and determine their impact on the dominant sectors in the Metro. Chapter 3 uses and refines the latest Quantec data to estimate recent trends in the growth of GDP per economic sector and employment for each municipality, with special attention being given to the agricultural, manufacturing and services sectors. Using the latest PERO, the estimated comparative advantages and relevant municipal data the chapter provides a forecast of municipal GDP and employment growth for the next 5 years. An attempt is also made to highlight the skills requirements of especially the faster growing sectors and industries within the CMA.

Chapter 4 identifies and quantifies two important value chains within the CMA, i.e. the textile & clothing value chain and the metals and machinery production value chain. With both being relatively substantial (and job-intensive) they may be flagged as possible independent studies to determine their eligibility for state support generally and SEZ status in particular. Chapter 5 reports on the results of a survey of 200 informal enterprises, focusing on their size, age, type of business and, importantly, their outlook for the future. As far as the latter is concerned, it would seem that informal entrepreneurs take a positive future view of their own businesses and of the Cape Metro, much like their municipal counterparts did in their responses to the Metro municipal survey. Chapter 6 considers and compares infrastructure spending in the CMA, and finds that faster growing municipal areas spend more on economic infrastructure than do their slower-growing counterparts. Different sectors, industries and value chains also require different types of infrastructure which may change over time.

2

Economic outlook

2.1 Introduction

This chapter provides a concise macroeconomic overview of the Cape Metropolitan Area (CMA) economy. The focus of the chapter is on the City of Cape Town Metropolitan economy, which accounts for close to three quarters of the Western Cape GDP. The metropolitan economy has a well-established and large financial & business services sector contributing more than two thirds of the municipal GDP. Given the Cape Town and surrounding areas' locational attributes, the region is attractive to finance houses' head offices and this sector has developed a major competitive edge for the region. Business Process Outsourcing (BPO), including call centres, are closely linked to the financial sector, have also taken off in the City, and is the source for growing employment creation.

Other key industries in the region are oil & gas processing, boat building, metals & engineering, ICT, creative industries (design & filmmaking) and tourism. The CMA also has a reasonable manufacturing sector (beyond the industries noted here), albeit that this sector has tended to shed jobs over the past decade. While agricultural activity is relatively minor within the Cape Metro, it has been growing. Finally, a key competitive advantage for the region is its tertiary education institutions with international links and acclaim, which plays a key catalytic and supportive role in the regional economy and beyond.

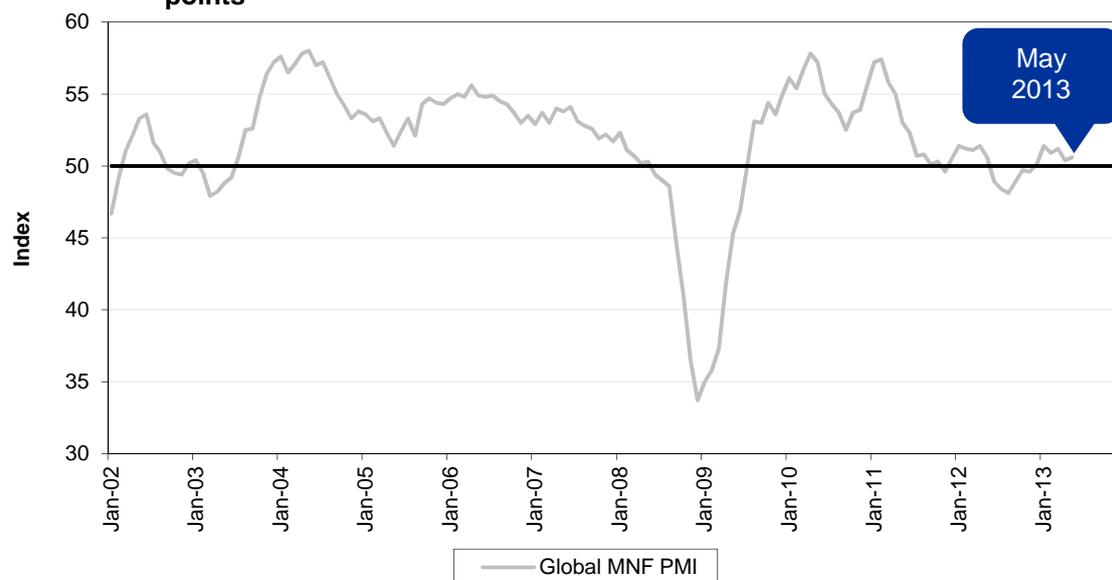
The aim of the chapter is to translate the macroeconomic forces and its potential impact at the district/metro level. To this end, a brief overview is first provided of the global, national and provincial economic developments and prospects. In the final section, the macroeconomic review & outlook for the Cape Metro economy is considered. In Chapter 3 a more in-depth sectoral analysis follows of the Cape Metro economic growth and employment prospects.

2.2 Global, national & provincial economic developments

The **global economic outlook** remains uncertain and loaded with risk. From a decent rebound since the end of 2009 the world economy recovered strongly during calendar year 2010 (registering real GDP growth of 5.3 per cent) and the first half of 2011; however, since then the growth pattern has been hesitant. The fiscal consolidation and outright austerity in the major advanced economies became a significant drag on global growth and during both the middle quarters of 2011 and 2012 growth dipped. The 2012 slowdown alarmed the policy authorities in all the major advanced economies and beyond, who responded with forceful policy action – quantitative easing, forward guidance on interest rates at zero bound levels and in some parts even fiscal stimulus (e.g. China) – in order to avert a second leg of the Great Recession of 2008/09. In April 2013 Japan embarked on an extensive economic stimulus programme including quantitative easing, in order to rid that economy from deflation.

The accompanying chart shows that the policy authorities achieved a measure of success, with the composite global manufacturing PMI edging higher from a low point of 48.1 index points in August 2012 to 52.1 points in March 2013. While the April/May readings came in somewhat lower including services, the May reading stood at 53.1 index points. These readings are consistent with the world economy expanding at a steady pace just below trend. Whilst questions regarding sustainability remains, the outlook is for the current uneven improvement in global economic activity to become better synchronised during the second half of the year and next year. The IMF forecasts global real economic growth to move sideways at 2.6 per cent in 2013 (i.e. at a similar rate compared to 2012) and then to accelerate to 3.4 per cent in 2014².

Figure 2.1 The Global Manufacturing PMI edges above the critical level of 50 index points



Source: JP Morgan, June 2013

² At purchasing power parity exchange rates the corresponding figures are 3.3 per cent and 4 per cent.

The USA economy has managed to progress at a rate around 2 per cent (year-on-year) and this remains the outlook even though fiscal tightening is expected to take some toll in 2013. The housing sector appears to be responding well to the stimulatory policies; the unemployment rate is trending lower gradually and payroll employment continues to increase at a moderate pace. The Fed is targeting an unemployment rate of 6.5 per cent (poised at 7.6 per cent in May 2013) and the zero-bound interest rates, aggressive bond buying (quantitative easing) and central bank communications are likely to persist in order to instil confidence in the market and within the corporate sector to step-up fixed investment and employment creation.

The European economy was expected to emerge from recession early in 2013; however, going by the latest economic indicators (with the composite Euro area PMI dipping to 45 index points in March), the region is only expected to emerge from recession during the second half of the year. Unemployment rates are at record highs, particularly in the peripheral southern European countries and popular resistance against the fiscal austerity measures appears to be growing. The region is forecast to contract by a further 0.3 per cent in 2013 on top of the 0.6 per cent contraction in 2012; only moderate growth is projected for 2014.

Economic conditions are generally more lively in Asia currently, with China's real GDP growth rate coming in at 7.7 per cent during the first quarter of 2013. However, growth appears to have decelerated further during the second quarter as the Chinese economy rebalances towards a more sustainable (read: lower) trend growth rate. An overheated property sector remains cause for concern and financial volatility emerged during the second quarter as the authorities attempt to rid the economy from excesses, leading to a general scaling down of forecasts in line with the official targeted growth rate of 7.5 per cent.

In Japan, the new political leadership (and Governor of the Bank of Japan) has implemented radical economic stimulus policies to rid the economy from the grip of deflation, including aggressive quantitative easing and fiscal expansion in order to achieve a 2 per cent inflation target. An atypical recovery in household spending attests to the probability that the stimulus measures are having the intended impact; however, analysts remain unsure regarding the sustainability of the turnaround, with forecast for real GDP growth remaining around 1 - 1.5 per cent.

Table 2.1 World economic growth outlook: 2012 – 2014 (%)

Country	2012	2013	2014	Country	2012	2013	2014
Advanced countries				Developing countries			
USA	2.2	1.9	3.0	Developing Asia	6.6	7.1	7.3
Japan	2.0	1.6	1.4	China	7.8	8.0	8.2
Euroland ¹	-0.6	-0.3	1.1	India	4.0	5.7	6.2
Germany	0.9	0.6	1.5	Latin America	3.0	3.4	3.9
UK	0.2	0.7	1.5	Central & East Europe	1.6	2.2	2.8
Canada	1.8	1.5	2.4	Sub-Saharan Africa	4.8	5.6	6.1

¹ The 17 Euro countries

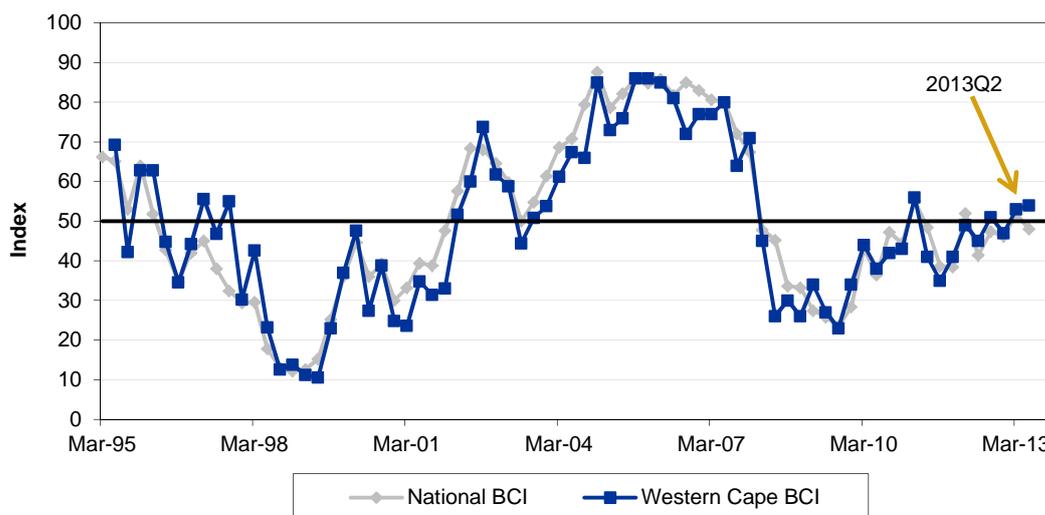
Source: IMF World Economic Outlook, April 2013

The uneven growth pattern in the global economy is also clear in the emerging market group of countries, with particularly India and Brazil under performing in terms of their recent growth performance. However, real GDP growth is still projected between 5.5 and 6 per cent over the short term, suggesting the emerging economies will continue catching-up with the advanced economies and remain a key source of demand for South Africa's goods. The favourable outlook for economic growth in Sub-Saharan Africa also continues to be an area for closer ties with Southern African producers in terms of expanding trade and investment.

In all, the global economy is trapped in a multi-year slow and uneven growth trajectory, with emerging economies growing significantly faster than the advanced economies. The emerging economies are being affected by the advanced countries' attempts to deleverage from high debt levels. The implication is that general inflation is unlikely to become a problem anytime soon and that interest rates could remain low for the foreseeable future (at least until the end of 2014). Unfortunately, in this environment the outlook is not positive for commodity prices. Key commodity prices have been trending lower since mid-2011 and could remain under pressure as demand conditions remain lacklustre and new production capacity comes on stream in coming years (related to the long lead times of mining developments). Regarding food prices, the latest development has been a softening in grain prices on the back of favourable harvests in the USA.

The **South African economy** has been impacted by the hesitant growth in her main trading partner economies and, domestically, the deep-seated labour market instability which broke out during the third quarter of 2012 causing a major drag on business, investor and consumer confidence as well as real economic growth. Real GDP growth slowed to 2.5 per cent in 2012 from 3.5 per cent in 2011 and is likely to slow further in 2013 (the first quarter annualised growth rate amounted to 0.9 per cent). The RMB/BER Business Confidence Index has been slow to recover since the 2009 recession, with the index tending to oscillate around the neutral level of 50 since the end of 2010. The brittle business confidence levels, combined with less than robust demand conditions in the world economy and domestically, do not bode well for private fixed investment spending and employment creation.

A key development during the course of 2012 has been the slowdown in the consumer sector, which has been the mainstay of the economic recovery witnessed since the end of 2009. The consumption-led recovery lost momentum due to the lack of employment creation, lower wage increases, the impact on household budgets of higher electricity, petrol and food prices and a general decline in consumer confidence – the FNB/BER Consumer Confidence Index declined from 11 index points in 11Q2 to -7 in 13Q1.

Figure 2.2 Hesitant recovery in business confidence since 2009

Source: JP Morgan, June 2013

In a typical business cycle private fixed investment spending replaces consumer spending as the main driver of growth two to three years into the recovery. However, private fixed investment intentions were dealt a severe blow during the third quarter of 2012 due to the deep-seated labour market instability in the mining and Western Cape agricultural sectors. A real danger exists that the 52 per cent increase in the minimum wage in the agricultural sector, as well as the wage settlements in the mining sector will lead to mechanisation and employment losses in the coming months, adding to the woes in the consumer sector.

The rand exchange rate has depreciated sharply since the middle of 2012 and came under additional pressure recently following the Federal Reserve's announcement regarding the likely tapering of its bond purchase programme later in the year, which caused financial market uncertainty and capital flight from emerging market currencies.

Table 2.2 South Africa: BER forecast for selected economic variables: 2013 – 2014 (%)

	Estimate	Projections	
	2012	2013	2014
Final household consumption expenditure	3.5	3.0	3.9
Government consumption expenditure	4.2	3.5	3.6
Gross fixed capital formation	5.7	3.5	5.1
Real GDE	4.1	3.1	4.2
Total exports	0.1	3.5	6.4
Total imports	6.3	4.9	8
Real GDP growth	2.5	2.6	3.5
Total employment growth (formal & informal)	1.2	1.0	1.6
Inflation (annual averages)			
CPI (Headline)	5.6	5.9	5.4
PPI (All items)	6.9	5.5	4.8
Exchange rates (annual averages)			
R/US\$	8.5	8.5	8.5
R/Euro	8.69	8.9	8.5

Source: BER Economic Prospects, April 2013

The expectation is that a sustained recovery in the world economy, combined with the more competitive levels of the rand exchange rate will stimulate exports – South Africa’s exposure to the faster-growing Asian region in terms of primary commodity exports has grown in recent years and its manufacturing exports are increasingly penetrating rapidly-growing African markets. Furthermore, the government’s infrastructure investment drive remains a key growth support and should crowd-in private fixed investment spending. Core inflation is also expected to remain contained (bar an unexpected further sharp currency depreciation), which should keep interest rates at a low level for the foreseeable future (end-2014). Fiscal policy is finely balanced in terms of its counter-cyclical stance necessary to support the lacklustre growth in the economy and the imperative to narrow the budget deficit (measuring 5.7 per cent of GDP in fiscal 2013) over the medium term. In this context real GDP growth is not expected to decelerate further in 2013 and to recover closer to a trend growth rate next year – see Table 2.2.

The **Western Cape economy** grew at a rate of 3 per cent during calendar 2012 compared to the 2.5 per cent real GDP growth rate of the national economy as the region did not experience the impact of the sharp decline in mining output experienced in other regions. However, economic activity was impacted adversely by the unrest in the agricultural sector, which erupted towards the end of the year. Real economic growth in the region decelerated from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. The slowdown was mainly driven by the impact of weaker global economic growth and the recovery in the national consumer sector running out of steam.

Table 2.3 Western Cape economy sectoral growth and employment: 2000 – 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	2.0	8.2	-0.8	-186 297	-48 263	-5 874
Mining and quarrying	-1.4	-7.5	1.1	1 138	872	871
Manufacturing	2.7	-3.3	4.3	-63 932	-27 506	-1 828
Electricity, gas and water	2.8	-1.6	1.2	1 487	-1 370	764
Construction	7.1	5.5	0.7	-14 843	-17 160	735
Wholesale and retail trade, catering and accommodation	4.4	-0.6	4.3	70 280	-4 115	16 461
Transport, storage and communication	5.1	2.0	2.5	6 858	479	6 778
Finance, insurance, real estate & business services	5.8	3.9	2.9	105 169	-18 699	10 452
Community, social and personal services	3.0	1.4	1.3	46 831	9 333	-5 016
General government	2.4	4.2	3.9	71 647	12 189	23 763
Total Western Cape economy	4.1	1.7	3.0	38 338	-94 241	47 107

Source: Quantec Research/CER

Table 2.3 shows the sectoral growth and employment trends in the Western Cape economy. Whereas growth trended at 4.1 per cent per annum (this compares to 3.6 per cent per annum nationally), it slowed sharply during the recession years (i.e. 2008/09) to 1.7 per cent per annum. The sharp contraction in the manufacturing

sector (3.3 per cent per annum and with this sector contributing around 17 per cent of GDP) is notable and – to a lesser extent – that of mining, electricity & water and wholesale & retail. Sustained growth in the agriculture, forestry & fishing sector, construction, transport & communication, finance & business services, CSP services and – importantly – the general government in an attempt at (national) counter-cyclical fiscal policy ensured the continued expansion of the regional economy.

Achieving inclusive economic growth

The WCG remains committed towards achieving labour-absorbing economic growth in the Province. The following initiatives were, amongst other, announced in the 2013 Provincial Budget aimed at sustaining and expanding the 250 000-plus job opportunities in infrastructure development in the social, economic and environmental sectors in the very successful Expanded Public Works Programme (EPWP):

- R140 million towards road building, education & health infrastructure, neighbourhood security services, Cape Nature, sports training, home-based care for the elderly and the infirm and fire fighters.
- R112 million towards skills training for the unemployed youth, e.g. the creation of 3 000 on-the-job training opportunities with the Work & Skills programme; the training of 200 artisans in the Artisan programme and the employment of 100 unemployed post-graduate students in the CAPACITI 1000 programme.
- Finally, the WCG also accommodates paid internships training skilled public servants and runs the Masakh'iSizwe programme offering bursaries to student engineers in the engineering and built environment fields.

As one would expect, the rate of employment creation deteriorated during the recession years – from trending at 0.6 per cent per annum (i.e. around 38 000 net additional jobs, 2000 - 2011), net retrenchments amounted to 2.7 per cent per annum (i.e. around 94 000 net job losses, 2008 - 2009) during the recession. During the economic recovery the rate of employment creation was restored to 1.4 per cent per annum (i.e. around 47 000 jobs per annum).

Table 2.4 Western Cape Province: Real GDP growth forecast: 2013 – 2017 (%)

Sector	2012e	2013f	2014f	2015f	2016f	2017f	Average annual growth, 2013 - 2017
Agriculture, forestry and fishing	1.7	0.8	2.0	1.7	1.8	2.0	1.7
Mining and quarrying	-5.1	1.3	1.0	0.6	1.0	1.2	1.0
Manufacturing	2.0	2.5	2.7	3.0	3.6	3.3	3.0
Electricity, gas and water	-1.4	2.6	2.9	2.7	3.0	2.8	2.8
Construction	2.6	4.1	4.6	4.6	5.0	5.3	4.7
Wholesale and retail trade, catering and accommodation	4.3	3.3	3.7	3.9	3.8	4.0	3.8
Transport, storage and communication	2.5	3.2	4.1	4.5	4.5	4.8	4.2
Finance, insurance, real estate and business services	3.5	3.5	4.5	4.8	5.1	5.3	4.6
Community, social and personal services	2.0	2.6	2.8	3.0	3.0	3.2	2.9
General government	3.5	2.5	3.0	3.0	3.2	3.0	2.9
Total Western Cape	3.0	3.0	3.7	3.9	4.1	4.2	3.8
Primary sector	1.4	0.8	2.0	1.7	1.8	2.0	1.6
Secondary sector	1.9	2.8	3.1	3.3	3.8	3.7	3.3
Tertiary sector	3.4	3.2	3.9	4.2	4.3	4.5	4.0

Source: Western Cape Government: Provincial Budget Review, February 2013 (e = estimate; f = forecast)

A notable feature of the recovery years (2010 - 2011) is the strong performance of the manufacturing sector (4.3 per cent per annum, actually rising above trend growth at 2.7 per cent per annum). However, this was in large part a rebound from the sharp contraction in 2008/09 and it could not stem the employment losses in the sector – both agriculture and manufacturing reported sustained net job losses during the economic recovery, as well as the CSP services sector. The strongest job growth during the economic recovery occurred in the tertiary sectors, with the general government leading the way and followed by retail, wholesale, catering & accommodation, finance & business services.

Regarding the outlook for real economic growth in the region (see Table 2.4), the weakness in the global economy, the second quarter financial volatility, brittle business and consumer confidence and the slowdown in the (national) consumer sector are likely to continue to weigh on the provincial economic performance during calendar 2013. Real GDP growth is forecast at a similar rate compared to 2012 (i.e. three per cent per annum) and projected to accelerate thereafter, with an average real growth rate of 3.8 per cent over the medium term³.

During both calendar 2013 and the remainder of the forecast period, the tertiary sector is expected to drive real economic growth in the region, with growth averaging 4 per cent per annum, 2013 - 2017. However, the slowdown in the consumer sector will likely drive somewhat slower growth in the tertiary sector in 2013 compared to 2012, whereas the secondary sector recovery is projected to strengthen from 1.9 per cent average growth in 2012 to 2.8 per cent in 2013 and projected at 3.3 per cent over the medium term.

2.3 The Cape Metropolitan Area (CMA) economy

In the 2012 MERO report the structure of the Cape Metro economy was discussed in detail. The regional economy grew in line with that of the wider province, i.e. by 4.1 per cent per annum, 2000 - 2011. The most dominant contribution to growth came from the financial & business services sector and – to a lesser extent – the retail, wholesale, catering & accommodation sector (incorporating the growth of inward tourism). The metro economy is therefore strongly services oriented and this sector's growth has also been above average (4.4 per cent per annum); however, being substantially larger and with industries more mature, the growth was lower compared to the leading non-metro district services sectors such as Eden and the Cape Winelands. Furthermore, the subpar growth of the region's manufacturing sector (2.3 per cent per annum, 2000 - 2011) also dampened overall growth.

While the region took a serious hit from the 2008 - 2009 recession, with real GDP growth contracting by 1.1 per cent in 2009, the sustained (marginal) growth of the services sector and counter-cyclical growth in the region's agricultural sector softened the impact, which was quite severe in the manufacturing sector contracting by 3 per cent in 2009. Of the 58 000 net jobs lost in the Metro's manufacturing sector

³ The forecast was compiled with information known up to and including the middle of June 2013; it is possible that growth may be slower during 2012/13 than forecast here.

over the period 2000 - 2011, no less than 42 per cent occurred during 2008 - 2009 and the net job losses continued during the first two calendar years of the economic recovery. Job losses were not only limited to the manufacturing sector – big job losses occurred in the construction sector and a range of services industries, notably in business services.

Table 2.5 Cape Metro: Sectoral contribution to recovery growth: 2010 - 2011 and employment creation

Sector	Ave real GDPR growth 2010 - 2011	% point contribution	% share	Net employment creation 2010 - 2011
Agriculture, forestry & fishing	-1.0	0.0	-0.5%	-6 217
Mining & quarrying	0.9	0.0	0.0%	541
Manufacturing	2.7	0.4	14.1%	-9 410
Electricity, gas & water	1.3	0.0	0.7%	400
Construction	1.0	0.0	1.3%	-916
Wholesale & retail trade, catering & accommodation	3.5	0.5	17.5%	4 300
Transport, storage & communication	2.3	0.2	8.1%	1 115
Finance, insurance, real estate & business services	3.9	1.4	46.4%	5 227
Community, social & personal services	1.6	0.1	2.6%	-6 276
General government	3.0	0.3	9.7%	12 708
Total Cape Metro economy	3.0	3.1	100.0%	1 471

Source: Quantec Research/CER

Table 2.5 shows the broad sectoral spread of the economic recovery during calendars 2010 - 2011, including the net job growth over this period. Real GDPR growth averaged 3 per cent per annum during both calendars 2010 and 2011, in line with the growth registered in the wider province, however, slightly below that for the national economy (expanding by 3.1 per cent in 2010 and 3.5 per cent in 2011). Cape Metro real GDPR is estimated to have slowed slightly during 2012 to 2.9 per cent and is expected to sustain this pace during 2013.

In Table 2.5 it is shown that the financial & business services sector contributed almost half of the recovery growth of the regional economy. The second most important contribution came from retail, wholesale, catering & accommodation, which includes an impact from the revival in tourism activity. The manufacturing sector also rebounded, which assisted the recovery, however, by 2011 its pre-recession level of real value added was not reached and the net job losses continued. In fact, 16 per cent of the overall net manufacturing job losses over the 2000 - 2011 period occurred during the first two years of economic recovery from the 2009 recession (including the recession, the net job losses over the 2008 - 2011 period amounted to 60 per cent of all manufacturing job losses over the period 2000 - 2011). While all the manufacturing sub-sectors recovered during 2010 - 2011, all except electrical machinery continued to shed jobs over this period.

The remaining sectors which made a meaningful contribution to the recovery growth in the region include the government (which responded with counter-cyclical fiscal policy due to the impact of the recession) and transport, storage & communication.

In all, the recovery growth in the region typifies the City's economy, i.e. a strong contribution from the regional services industries notably, finance, insurance, real estate & business services and somewhat less so, retail, wholesale, catering & accommodation (linked to the tourism revival). Furthermore, the manufacturing rebound aided the recovery, albeit evident that much of the recessionary damage continues to linger. The persisting net job losses in the sector are a cause for concern.

2.3.1 Current profile – growth and employment trends in a provincial context

Table 2.6 and Table 2.7 show the composition and growth of the Cape Metro economy in the context of the five non-metro district economies in the Western Cape. While the non-metro district economies are overshadowed by the Cape Metro economy (the Cape Winelands is the largest non-metro district economy and contributes 11.4 per cent to GDP compared with the Cape Metro's 73 per cent), the salient features of the comparison remain interesting.

- The finance, insurance, real estate & business services sector is the largest in all districts, but even substantially more so in the case of the Cape Metro. Only in the Cape Winelands this sector is ranked second (after manufacturing). However, real value added growth came in below average in the Cape Metro also to be expected given the size and level of development of the sector in the Province.
- Manufacturing is not as large in relative terms to that in the CWD but close to the same than in the other regions/municipalities. However, it would appear that the growth of manufacturing and the retention of jobs have been superior in regions such as Eden, the Overberg and even in the Central Karoo (from a low base). Manufacturing growth has been similar in the Cape Metro and Cape Winelands regions, albeit that job retention was much better in the latter-mentioned district. Both these regions possess large agro-processing industries, presumably including key cross municipal border linkages (also with the Overberg region). Agro-processing accounts for 17 per cent of the Cape Metro manufacturing sector.
- A notable aspect is the fact that the government is both relatively smaller and its expansion slower in the Cape Metro compared to the case for the non-metro district economies.
- Finally, while agriculture, forestry & fishing only contributes 1.4 per cent of Cape Metro GDP, the data indicates strong growth in the sector⁴.

⁴ Further research is required to establish which agricultural production areas are performing well in the metropolitan region.

Table 2.6 Cape Metro economy in provincial perspective: Sectoral composition: 2011 (%)

Sector	Cape Metro	Cape Winelands	Eden	West Coast	Overberg	Central Karoo
Agriculture, forestry & fishing	1.4	11.1	5.5	14.6	11.6	9.0
Mining & quarrying	0.1	0.2	0.2	0.7	0.1	0.1
Manufacturing	15.9	24.2	16.5	17.7	16.2	11.1
Electricity, gas & water	1.5	0.9	1.5	0.9	1.2	1.1
Construction	3.9	3.5	8.7	4.3	7.7	5.6
Wholesale & retail trade, catering & accommodation	15.2	13.8	17.9	12.8	13.9	13.9
Transport, storage & communication	10.9	7.3	7.7	8.5	7.9	12.2
Finance, insurance, real estate & business services	36.1	22.9	24.3	25.6	27.1	27.4
Community, social & personal services	5.1	5.8	5.3	4.1	4.2	6.5
General government	9.8	10.2	12.4	10.7	10.2	13.1
Total Cape Metro economy	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research/CER

Table 2.7 Cape Metro economy in provincial perspective: Real GDP growth: 2000 – 2011 (%)

Sector	Cape Metro	Cape Winelands	Eden	West Coast	Overberg	Central Karoo
Agriculture, forestry & fishing	10.0	0.3	1.1	-0.4	-0.7	-1.2
Mining & quarrying	-0.8	2.1	-4.1	-4.0	0.1	15.8
Manufacturing	2.3	2.4	4.1	1.2	6.7	9.7
Electricity, gas & water	3.4	2.1	0.6	-2.2	1.1	-0.3
Construction	6.5	7.2	10.3	6.6	9.0	9.3
Wholesale & retail trade, catering & accommodation	4.1	5.4	5.5	3.8	3.6	3.1
Transport, storage & communication	5.0	6.8	5.5	4.5	6.3	2.0
Finance, insurance, real estate & business services	5.5	7.1	7.1	10.6	11.0	7.9
Community, social & personal services	2.8	3.8	5.0	2.9	3.6	2.6
General government	1.9	3.3	4.5	2.4	3.3	2.4
Total Cape Metro economy	4.1	3.9	5.2	3.3	5.2	4.0

Source: Quantec Research/CER

Table 2.8 shows the growth and employment performance of the Cape Metro economy over the period 2000 to 2011. As noted above, the real economic growth rate amounted to 3 per cent on average during the first two calendar years of the general economic recovery (2010 - 2011) in line with the growth in the wider province. This is on the disappointing side given the City's and the Province's demonstrated out-performance of the national economic growth rate over the 2000s⁵.

⁵ Real GDP growth averaged 3.6 per cent per annum nationally, 2000 -2010, compared to 4.2 per cent per annum in the Western Cape.

From Table 2.8 it is clear that the recession had a major impact on the Cape Metro economy despite its strong (non-cyclical) services orientation. Real economic growth slowed down to 1.5 per cent per annum (2008 - 2009) compared to a trend growth rate of 4.1 per cent per annum. However, the growth deceleration (including a contraction of GDP in calendar 2009 at the depth of the recession) was not as serious compared to the impact on the region's labour force. More than a third (36 per cent) of the net employment opportunities created over the preceding expansionary phase of the business cycle was lost during the recession. Furthermore, by the end of 2011, two years into the general economic recovery, a mere 2.5 per cent of these lost employment opportunities was restored.

The recessionary job losses occurred across most sectors, being the heaviest in manufacturing, construction, business services⁶ and agriculture. During the recovery, the net job shedding persisted in the manufacturing and agricultural sectors and – to a lesser extent – in construction. As noted, the recovery growth rate was rather subdued (this issue is investigated further in Chapter 3). A notable development is the net job losses reported in the community, social & personal services sector during the first two years of the economic recovery, which may reflect employment developments surrounding the hosting of the 2010 FIFA World Cup.

Table 2.8 Cape Metro GDP and employment trends: 2000 – 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	10.0	22.0	-1.0	-9 356	-5 661	-6 217
Mining and quarrying	-0.8	-7.2	0.9	888	560	541
Manufacturing	2.3	-3.0	2.7	-57 949	-24 882	-9 410
Electricity, gas and water	3.4	-1.4	1.3	1 133	-695	400
Construction	6.5	4.3	1.0	-13 250	-14 806	-916
Wholesale and retail trade, catering and accommodation	4.1	-0.6	3.5	52 327	-9 592	4 300
Transport, storage and communication	5.0	1.9	2.3	1 071	-1 054	1 115
Finance, insurance, real estate & business services	5.5	3.1	3.9	66 989	-18 115	5 227
Community, social and personal services	2.8	1.1	1.6	27 360	4 390	-6 276
General government	1.9	3.8	3.0	41 661	7 647	12 708
Total Cape Metro	4.1	1.5	3.0	110 874	-62 207	1 471

Source: Quantec Research/CER

The Cape Metro economy is exposed to global economic developments as it has wide trading links, which assist in explaining the recessionary impact. The fact is that by far the largest share of export trade is destined for the struggling European market, which presumably (at least partly) explains the relatively subdued economic recovery. Growth actually slowed down again in 2012 – in line with the global and

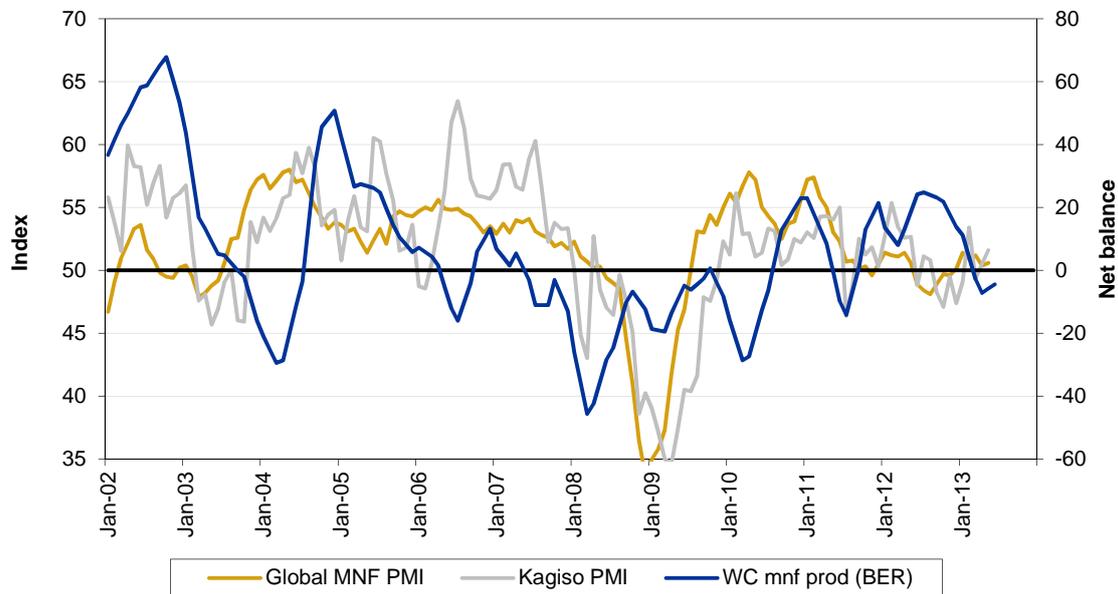
⁶ Part of the net job losses reported in the business services sector may in fact have occurred in agriculture, manufacturing or construction simply due to the way Statistics SA records employment via labour brokers.

national economic slowdowns. The macroeconomic implications and the outlook for the Cape Metro economic are considered below.

2.3.2 Macro implications and district economic outlook

The Cape Metro economy is estimated to have slowed down from real GDP growth of 3 per cent in 2011 to 2.9 per cent in 2012 in line with the slowdown in the provincial (from 3.5 to 3 per cent) and the national economies (from 3.1 to 2.5 per cent). The drivers of the slowdown have been the local consumer recovery running out of steam (due to sluggish employment growth, lower wage growth, higher energy and food costs, declining consumer confidence and stricter credit standards limiting credit spending) as well as some adverse impact on exports related to the global slowdown in economic activity.

Figure 2.3 Global PMI vs Kagiso PMI vs Western Cape manufacturing production (BER survey)



Source: BER/JP Morgan, June 2013

Furthermore, private fixed investment spending has been weak due to the impact of uncertainty (at the global level and, domestically, regarding economic policy and the general political climate) and slowing domestic demand. The weak tendency in private fixed investment spending is countered by the public sector infrastructure investment drive. In the otherwise constrained economic environment the investment in required infrastructure will remain a key economic support also adding to the longer term growth potential of the City. The upgrading of Cape Town’s train and bus system has become a priority; likewise the upgrading of the port in general and the installation of internet bandwidth capacity. These infrastructure investments have direct and indirect economic growth effects (see Chapter 6).

While the recovery growth in the Cape Metro since 2010 has been somewhat slower compared to that of the Province, it would appear that the region is embarked on an upswing phase of the business cycle in synch with the provincial and national

economies – see Figure 2.1 tracking the composite global PMI, the Kagiso PMI (revealing manufacturing business conditions domestically) and the trajectory of manufacturing production in the wider province. There is a broad correspondence between the global, the national and the regional business cycle as depicted in Figure 2.1, albeit evident that the improvement in economic activity has followed a hesitant pattern since the end of 2010.

The 3 per cent per annum current growth tempo in the Cape Metro economy is expected to persist during calendar 2013, with growth projected to accelerate to 3.6 per cent next year and to average 4.1 per cent, 2015 - 2017 (see footnote 3) (in line with the trend growth rate for the region, 2000 - 2011). The financial & business services sector is forecast to lead the economic growth of the region, with real GDP growth averaging 4.3 per cent per annum. While financial services are mainly focused on the domestic market, financial intermediation conditions may be somewhat constrained over the near term due to the national consumer sector slowdown, which has now also been adversely impacted by the weaker rand exchange rate. The weaker rand cause prices to increase, which puts household budgets under additional strain.

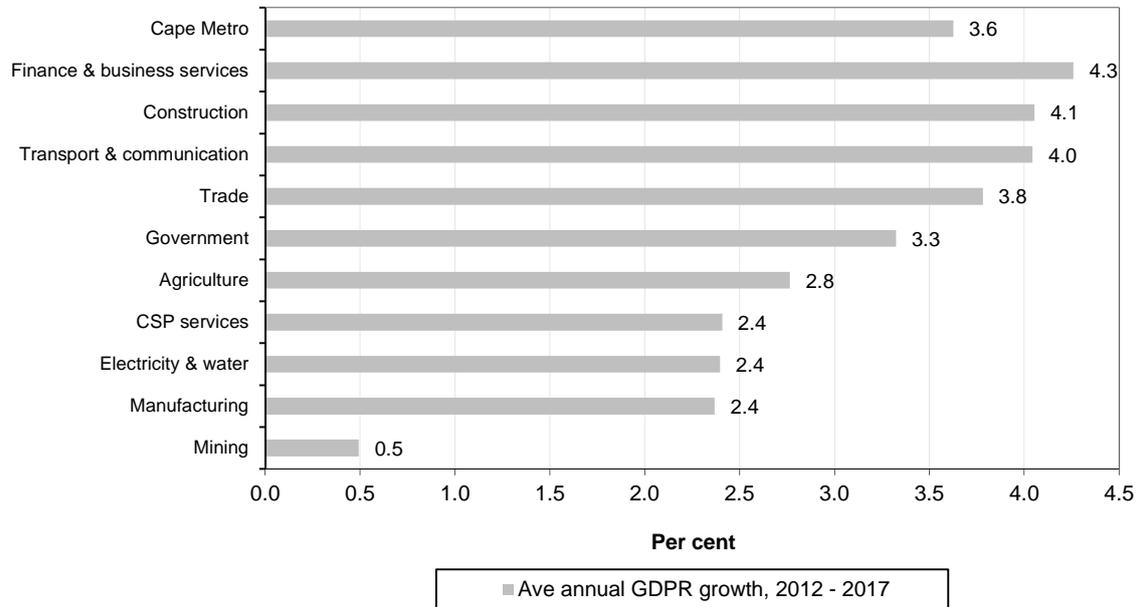
On the positive side, the rand's depreciation (particularly since the middle of last year) – not only against the major currencies, but also emerging market currencies – will aid the competitiveness of the local flourishing BPO (including call centre) industry (as local BPO operators compete with Asian cities such as Bangalore and Manila). It will also strengthen niche opportunities in the developed markets of the English-speaking UK and USA.

The transport, storage & communication sector is also forecast to expand rapidly, with ICT being a targeted sector in the Cape Metro economy. Construction is also projected to revive and the first conclusive signs of an eventual recovery in this sector following the post-recession/2010 FIFA World Cup slump have come to the fore in recently released economic indicators. The expansion of the Cape Town International Convention Centre (CTICC) is likely to have a key impact during the forecast period, apart from the other infrastructure initiatives noted above. The retail, wholesale, catering & accommodation sector is also projected to grow above average given the close linkages with the region's vibrant tourism industry. However, as noted this sector is likely to be under pressure over the near term due to the slowdown in the national consumer sector.

The manufacturing sector is forecast to accelerate above its trend growth rate of 2.3 per cent per annum (2000 - 2011) on the assumption that current initiatives in key industries (such as clothing & textiles) succeed in the upgrading of productive platforms and international competitiveness. The more competitive level of the rand exchange rate should also assist in this regard provided the competitive gains are not wiped out by wage-price spirals and the currency's depreciation is contained. The positive growth in the Metro's agriculture, forestry & fishing sector is also projected to continue, albeit not at the high rates of increase recorded over the 2000s.

Overall Cape Metro real GDP growth is forecast to average 3.6 per cent per annum over the forecast period (2012 - 2017), in line with the average growth rate forecast for the Province (3.7 per cent per annum). The sectoral forecast is motivated in more detail in Chapter 3.

Figure 2.4 Cape Metro economy: Forecast real GDP growth by broad sector: 2012 - 2017



Source: Quantec Research/CER

2.4 Concluding remarks

The City of Cape Town Metropolitan economy contributes close to three quarters of the real value added generated in the Western Cape Province and therefore dictates the economic growth in the region. The City of Cape Town is well-known for its locational attributes, being a sought after destination for companies and people to locate, work, travel and study in. The metropolitan region has specifically developed a strong financial & business services sector, has a large retail, wholesale, catering & accommodation sector linked to a vibrant tourism industry, and a rich cultural history. Whilst manufacturing also account for a large share of GDP, the growth of this sector and its employment creation ability have disappointed over the past decade and more.

The Cape Metro economy has a large exposure to the global economy via its trade in goods (mainly petro-chemicals; agriculture, forestry & fishing products and processed food & beverages) and services. The manufacturing sector took a huge hit in 2008 - 2009 due to the recession, which resulted in heavy job losses exacerbating the observable trend of diminishing jobs in the sector over the 2000s. The sector (and the region) is still reeling from this impact as only a fraction of the lost jobs have been restored. The economic recovery in the region has been relatively subdued compared to the national economy, which is uncharacteristic for the Cape

Metro economy. It also reveals the impact of the Metro economy's close trading links with the struggling European economy.

From an export perspective, the region is exposed to the uncertain global economic conditions. Facing a relatively price and income inelastic demand for its agricultural exports, the rand exchange rate's depreciation will boost export revenues in local currency terms. Furthermore, the search is on for faster-growing alternative markets. The agro-processing and other manufacturing industries will be more susceptible to the global economic weakness with the rand only providing some reprieve to exports and import-competing firms. Should the exchange rate-induced inflationary impact (and consequent wage pressures) be contained, the competitiveness of local exporters and producers will improve, creating opportunities for expansion when demand conditions recover.

However, the bulk of the regional output is sold into the domestic market, which is likely to remain under pressure over the short term given the consumer sector slowdown nationally and the weak private investment prospects. The consumer sector is under pressure due to sluggish economic growth and employment creation, deteriorating confidence and the impact of higher energy and food prices on consumer budgets. The national government also has to tighten the growth of real expenditure in order to generate a better budget balance, which may impact on local government. Public sector infrastructure spending could in the interim be a key countervailing source of economic growth and employment creation.

The outlook is for a stabilisation of the global economic slowdown experienced last year and a gradual re-acceleration towards the end of 2013 and during next year. The domestic consumer slowdown is also expected to be of a temporary nature, with interest rates remaining low, the stimulus from infrastructure investment (crowding-in private fixed investment) adding to income growth, and exporters and import-competing producers benefiting from the more competitive level of the exchange rate. While significant risks prevail (both on the global and domestic economic fronts), the Cape Metro economy is projected to remain embarked on a recovery road.

3

Sectoral growth, employment and skills

This chapter deepens the analysis presented in Chapter 2 of the sectoral economic growth and employment performance of the Cape Metropolitan Area (CMA) economy. The current chapter is divided into two sections: *in the first main section*, the focus is historical:

- *Firstly*, the real GDP and employment creation performances over the period 2000 to 2011 are analysed. An overview is provided of the municipal growth record by way of background. As a sector's output expands one would expect a commensurate increase in the number of employees active in the sector. However, due to various reasons this may not happen (e.g. due to mechanisation trends in the underlying production technologies; distortions in relative factor prices; or due to the skills intensity of production, etc.). An attempt is made to classify all of the 22 sub-sectors in the CMA economy into four groups in order to determine which sectors have grown the strongest and are the leading employment generators.
- *Secondly*, a standard analysis follows of the recovery growth experienced across sectors since the onset of the business cycle upswing after the 2009 recession. The analysis is conducted for the agricultural sector, manufacturing and services sectors.
- *Thirdly*, the international trade performance of the metro is investigated.

In the *second main section* the focus turns forward-looking: *first* a brief sectoral outlook and forecast is presented (linking with the outlook outlined in Chapter 2). Thereafter a number of local issues come under the spotlight, e.g. an analysis of the comparative advantage of sub-sectors in the CMA economy; a look at key constraints and bottlenecks facing the metro; what is known regarding skills shortages in the region and, *finally*, some tentative remarks regarding policy options aimed at the further development of the region.

3.1 Sector growth and employment: Historical

In Chapter 2 it was seen that the Cape Metro economy grew by 4.1 per cent per annum, 2000 - 2011 in line with the wider province with it accounting for close to three-quarters of the region's economic output. While this trend growth rate was significantly higher than the national real economic growth rate (3.6 per cent per annum over the corresponding period), the growth performance during the recovery from the 2008 - 2009 recession was somewhat disappointing.

- The region's dominant services sector, notably finance, insurance, real estate & business services, made its usual leading contribution to the economic recovery, albeit evident that the growth tempo receded noticeably from the booming 2004 - 2007 period.
- Furthermore, the manufacturing sector absorbed a huge recessionary hit, resulting in heavy job losses, which continued into the first two years of the economic recovery. Cape Metro's real GDP growth averaged only 3 per cent per annum during 2010 - 2011, with this tempo more or less persisting during 2012 - 2013, if not lower.

In this section the historical growth pattern across sectors is investigated, focusing on sub-regional trends (i.e. by main municipal area), the agriculture, manufacturing and services sectors and, finally, international trade.

Table 3.1 Cape Metro economy: Municipal growth across sectors: 2000 – 2011 (%)

Sector	Cape Town	Mitchell's Plain	Parow/ Goodwood/ Elsies River	Bellville	Milnerton*	Blue Downs/ Kuils River	Khayelitsha	Durbanville	Brackenfell	Somerset West	Cape Metro
Agriculture, forestry and fishing	9.9	12.0	9.8	7.9	10.5	11.5	12.5	10.0	11.3	7.4	10.0
Mining and quarrying	-1.6	-0.6	-1.7	-1.2	0.9	0.1	0.5	1.1	1.6	-2.7	-0.8
Manufacturing	1.8	3.4	1.8	2.0	2.7	3.5	3.3	3.5	2.1	1.0	2.3
Electricity, gas and water	2.7	4.8	2.7	2.4	3.1	4.9	5.2	4.7	3.8	2.2	3.4
Construction	5.6	7.3	6.0	6.2	8.5	7.9	6.8	8.3	7.4	5.3	6.5
Wholesale and retail trade, catering and accommodation	3.0	5.0	3.6	4.1	4.6	5.5	6.7	7.1	4.3	2.9	4.1
Transport, storage and communication	4.3	5.9	4.3	5.2	5.3	6.4	6.7	8.1	5.9	4.4	5.0
Finance, insurance, real estate and business services	4.6	6.9	5.4	5.9	5.8	7.2	7.4	8.6	7.2	4.9	5.5
Community, social and personal services	2.1	3.7	2.0	1.6	3.2	3.8	5.9	4.4	3.5	2.7	2.8
General government	1.1	3.2	1.1	0.8	2.6	3.0	5.3	3.9	3.1	1.6	1.9
Total	3.3	5.1	3.6	4.2	4.6	5.2	6.0	7.0	5.0	3.3	4.1

* Milnerton includes Du Noon and Joe Slovo Park

Note: The ten main areas shown contribute in all 86 per cent of the Cape Metro GDP in 2011.

Source: Quantec Research

Table 3.1 shows the average annual growth rates over the 2000 to 2011 period across the main municipal areas and by broad sector and Table 3.2 shows the composition of the respective municipal area economies. The following remarks are in order:

- The finance, insurance, real estate & business services sector is the largest sector (contributing 36 per cent of GDP) and was only outgrown by the construction sector (contributing 5 per cent of GDP). The Durbanville and Bellville municipal areas (with more than half of their real value added produced in this sector) and – to a lesser extent – Cape Town, Milnerton and Somerset West (close to 40 per cent) all have a strong representation of the financial & business services sector. The strong growth of financial services in Durbanville assists in explaining the strong overall growth of this area (7 per cent per annum, 2000 - 2011); growth was also well spread across all the other sectors in this municipal area.
- Other areas with a strong representation and above average growth in financial & business services include Khayelitsha, Blue Downs/Kuils River, Brackenfell and Mitchell’s Plain. In these areas financial & business services have stronger ties with manufacturing activity (Mitchell’s Plain, Blue Downs/Kuils River and Khayelitsha) and in Brackenfell with the transport, storage & communication sector, which grew above average and assist in explaining the out-performance of these municipal areas (all growing in excess of 5 per cent per annum, 2000 - 2011).
- In the municipal areas where financial & business services are well represented, however, with sub-par overall growth, it is noticeable that manufacturing is either under-represented (e.g. Bellville and Milnerton) and/or grew below average (e.g. Cape Town, Bellville and Somerset West).

Table 3.2 Cape Metro economy: Sectoral composition by main area: 2011 (%)

Sector	Cape Town	Mitchell's Plain	Parow/ Goodwood/ Elsies River	Bellville	Milnerton*	Blue Downs/ Kuils River	Khayelitsha	Durbanville	Brackenfell	Somerset West	Cape Metro
Agriculture, forestry and fishing	0.8	2.1	0.8	0.6	0.9	1.1	2.3	0.6	1.6	2.1	1.4
Mining and quarrying	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Manufacturing	15.1	22.0	16.5	10.3	13.6	19.5	17.0	10.5	13.2	16.8	15.9
Electricity, gas and water	1.0	1.3	1.4	1.7	1.9	1.8	1.3	1.1	2.5	1.0	1.5
Construction	3.5	5.2	2.4	1.7	2.5	4.8	7.9	1.9	3.5	5.7	3.9
Wholesale and retail trade, catering and accommodation	14.8	16.8	14.3	11.3	16.7	13.6	20.6	13.1	13.0	14.3	15.2
Transport, storage and communication	9.5	11.9	13.7	10.5	13.6	12.2	10.8	9.1	15.7	7.0	10.9
Finance, insurance, real estate and business services	39.2	26.5	36.1	50.2	38.7	29.1	28.3	52.7	36.1	38.1	36.1
Community, social and personal services	6.0	4.3	4.2	4.0	4.0	5.6	4.4	3.8	3.8	7.7	5.1
General government	10.2	9.9	10.7	9.6	7.8	12.3	7.3	7.0	10.4	7.2	9.8
Total	100	100	100	100	100	100	100	100	100	100	100

* Milnerton includes Du Noon and Joe Slovo Park

Note: The ten main areas shown contribute in all 86 per cent of the Cape Metro GDP in 2011.

Source: Quantec Research

- Areas with a relatively strong representation and growth of the retail, wholesale, catering & accommodation sector include Khayelitsha, Mitchell's Plain and Milnerton. The transport, storage & communication sector is well dispersed throughout the Metro, albeit that Brackenfell hosts a somewhat larger transport sector. A notable feature of Table 3.1 is the relatively high growth of the various services sub-sectors in all the Metro municipal areas. The only exception appears to be the general government, which grew by less than 2 per cent per annum (2000 - 2011) and which reflects a disciplined metropolitan fiscus.
- Finally, it is worth making the point that while Cape Town only grew by 3.3 per cent per annum (with growth potential constrained due to spatial limitations and mature industries), it still accounts for the bulk of the cumulative growth of the metropolitan economy over the 2000s as it contributes no less than 34 per cent to the Cape Metro GDP. To illustrate, Cape Town contributed 27 per cent of the Cape Metro's average 4.1 per cent growth per annum over the 2000 - 2011 period compared to Durbanville, which grew by 7 per cent per annum and accounted for close to 4 per cent of GDP, contributing close to 7 per cent of the 4.1 per cent average Cape Metro real GDP growth.

This is by way of background regarding the Cape Metro's municipal growth performance over the 2000s tracked over the nine broad sectors. The missing variable is employment creation. While data reliability tends to be a challenge, the employment creation track record across 22 sub-sectors is investigated below in an attempt to identify the leading employment-creating sectors in the Cape Metro.

3.1.1 Leading employment - creating growth sectors

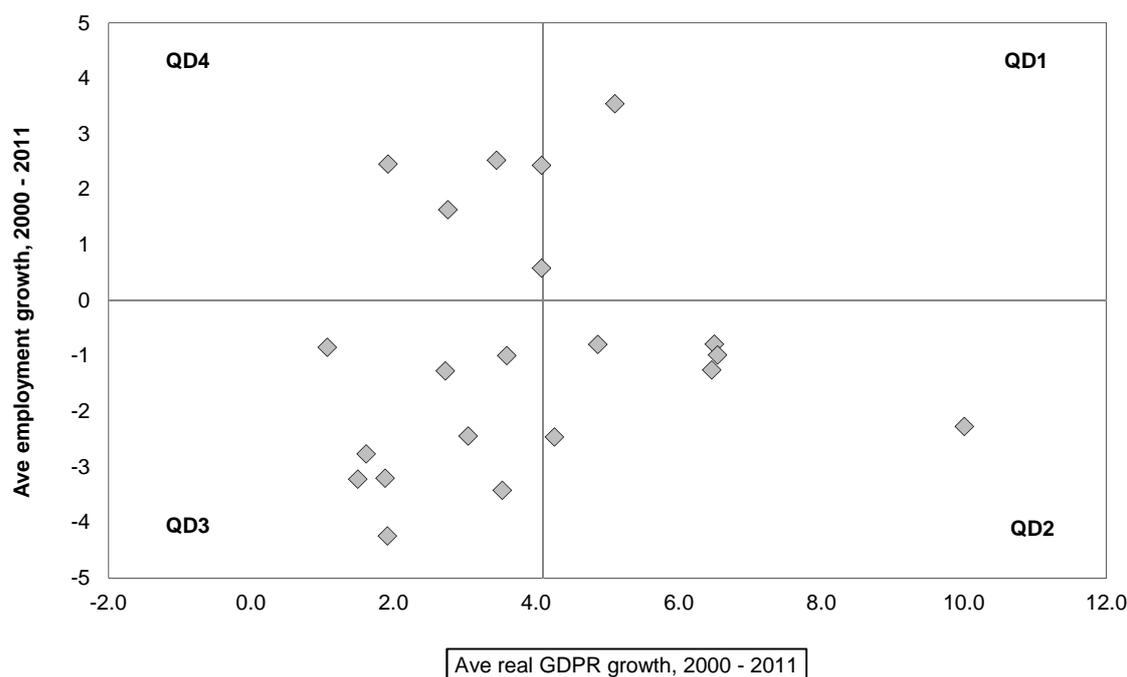
The Western Cape Government (WCG) is committed to achieving inclusive economic growth in the Province as embodied in PSO1 (Provincial Strategic Objective 1). With inclusive economic growth is meant economic growth on the basis of employment generation, i.e. inclusivity should be strived for by maximising opportunities for employment in the economic growth process.

In this way, economic growth can be 'broadened' (i.e. the benefits of growth be spread wider) in a way that the productive contributions of each and every one are also broadened (rather than simply redistributing the benefits of growth via transfer schemes). The 2012 MERO study highlighted the fact that the growth path deviated from the employment creation path over the period 2000 to 2010, particularly in the primary and secondary sectors, not only in the Cape Metro, but also in the other districts. In fact, this tends to be a national and a global phenomenon.

In the current section, some cursory investigation is made of the real economic growth and employment creation trends in the Cape Metro over the period 2000 to 2011. In Figure 3.1 a scatter plot is made of the combination of each (of the 22) sectors' growth and employment performance over the said period: the 11-year average real value added growth rate is plotted on the horizontal axis and the 11-year average employment growth rate on the vertical axis. On this basis, Figure 3.1 and the accompanying table, show four quadrants/groups of sub-sectors:

1. QD1 depicts the sub-sectors that *grew above the provincial average (i.e. more than 4.1 per cent per annum, 2000 - 2011) and created jobs on balance*. The only sector included is business services (creating jobs at a rate of 3.5 per cent per annum).
2. QD2 depicts the sub-sectors that *grew above average but shed jobs on balance* over the corresponding period. Included is a mix of sectors ranging from the rapid expanding agricultural sector (shedding jobs at a relatively high rate of 2.3 per cent per annum) to construction (-1.3 per cent per annum), finance (-1 per cent), communication and catering & accommodation (-0.8 per cent each).
3. QD3 depicts the sub-sectors that *grew below average and shed jobs on balance* over the period 2000 to 2011. Included in this group is almost the complete list of manufacturing sub-sectors revealing the Metro's struggling economic performance in this regard. The sectors included range from wood products (shedding jobs at a rate of 0.8 per cent per annum) to clothing & textiles (-4.2 per cent per annum). The only manufacturing sub-sector not included in the third quadrant is automotive (see second quadrant above).
4. QD4 depicts the sub-sectors that *grew below average; however, succeeded in creating jobs* over the period. Included here are a number of sectors which compensated for the poor employment contribution of manufacturing and some other sectors, e.g. government (2.5 per cent per annum); electricity & water (2.5 per cent); retail & wholesale (2.4 per cent); CSP services (1.6 per cent) and transport & storage (0.6 per cent).

Figure 3.1 Cape Metro: Classification of sub-sectors: Growth and employment creation: 2000 - 2011



QD1: Above ave growth/ job creation	QD2: Above ave growth/ job losses	QD3: Below ave growth/ job losses	QD4: Below ave growth/ job creation
Business services (3.5)	Catering & accommodation (-0.8)	Wood & paper (-0.8)	Mining (4.3)
	Communication (-0.8)	Metals & machinery (-1.0)	Government (2.5)
	Finance (-1.0)	Petroleum & chemicals (-1.3)	Electricity & water (2.5)
	Construction (-1.3)	Electrical machinery (-2.4)	Retail & wholesale (2.4)
	Agriculture (-2.3)	Furniture & other (-2.8)	CSP services (1.6)
	Auto (-2.5)	Food & beverages (-3.2)	Transport & storage (0.6)
		NMM (-3.2)	
		Radio & TV (-3.4)	
		Clothing & textiles (-4.2)	

Note: Average annual growth in employment, 2000 - 2011, indicated in parenthesis

Source: Quantec Research/CER

It is evident from Figure 3.1 that it is mainly services sectors creating jobs and only one services sector, namely business services, managed to grow higher than average. All the manufacturing sub-sectors shed jobs over the period under consideration, i.e. a cumulative net loss of 58 000 jobs (i.e. at a rate of 2.5 per cent per annum, 2000 - 2011, which is alarming). Also in agriculture (-2.3 per cent per annum) and construction (-1.3 per cent) jobs were shed on a net basis.

In striving for inclusive economic growth, it is not only necessary to establish which sectors are growing fastest and creating the most jobs; in economics it is also an issue of supply. It is a well-known fact that the domestic supply of labour is predominantly semi- and unskilled, i.e. workers absorbed much easier in the primary and secondary sectors of the economy. The Cape Metro economy is therefore faced with a predicament: its primary and secondary sectors are shedding semi-and unskilled jobs on a large scale while the faster growing services sectors require skilled and highly skilled workers (see the section below). In the Cape Metro, the agriculture, manufacturing & construction sectors contribute close to 22 per cent of economic

output, for instance (see Table 3.2), and they tend to be semi- and unskilled labour intensive where the surplus labour supply resides.

Economic development typically progresses from the primary to the secondary sector of the economy, with services being a 'derived' sector supporting the growth in the former. The ultimate objective of economic development is to move up the value chain in production. The productivity of manufacturing production, which typically reaps economies of scale, is much higher than for other industries. It follows that, in terms of policy intervention, an economy needs to be structured in a way that maximises the growth (and employment creation) of the productive sectors of the economy.

Given the services orientation of the Cape Metro economy and the parallel under-performance of its manufacturing sector (particularly in terms of employment creation) this embodies a policy conundrum. Suffice to say that the analysis above did provide evidence of manufacturing growth in some areas – policy support for these areas/sectors should be a step in the right direction.

In the *second main section* of this chapter of the report a cursory analysis is made of the comparative advantage of the regional economy and in Chapter 5 the clothing & textiles and metals & machinery value chains, both key areas of the regional economy, come under the spotlight. The results from these analyses should be combined with the above in order to arrive at some assessment of which sub-sectors/industries warrant official support with the objective of inclusive economic growth in mind.

Before we turn to these analyses, a brief overview is provided of the detailed sectoral growth performances during the economic recovery (2010 - 2011) as well as a re-cap of the agriculture, manufacturing and services broad sectoral growth trends by municipality in the Cape Metro.

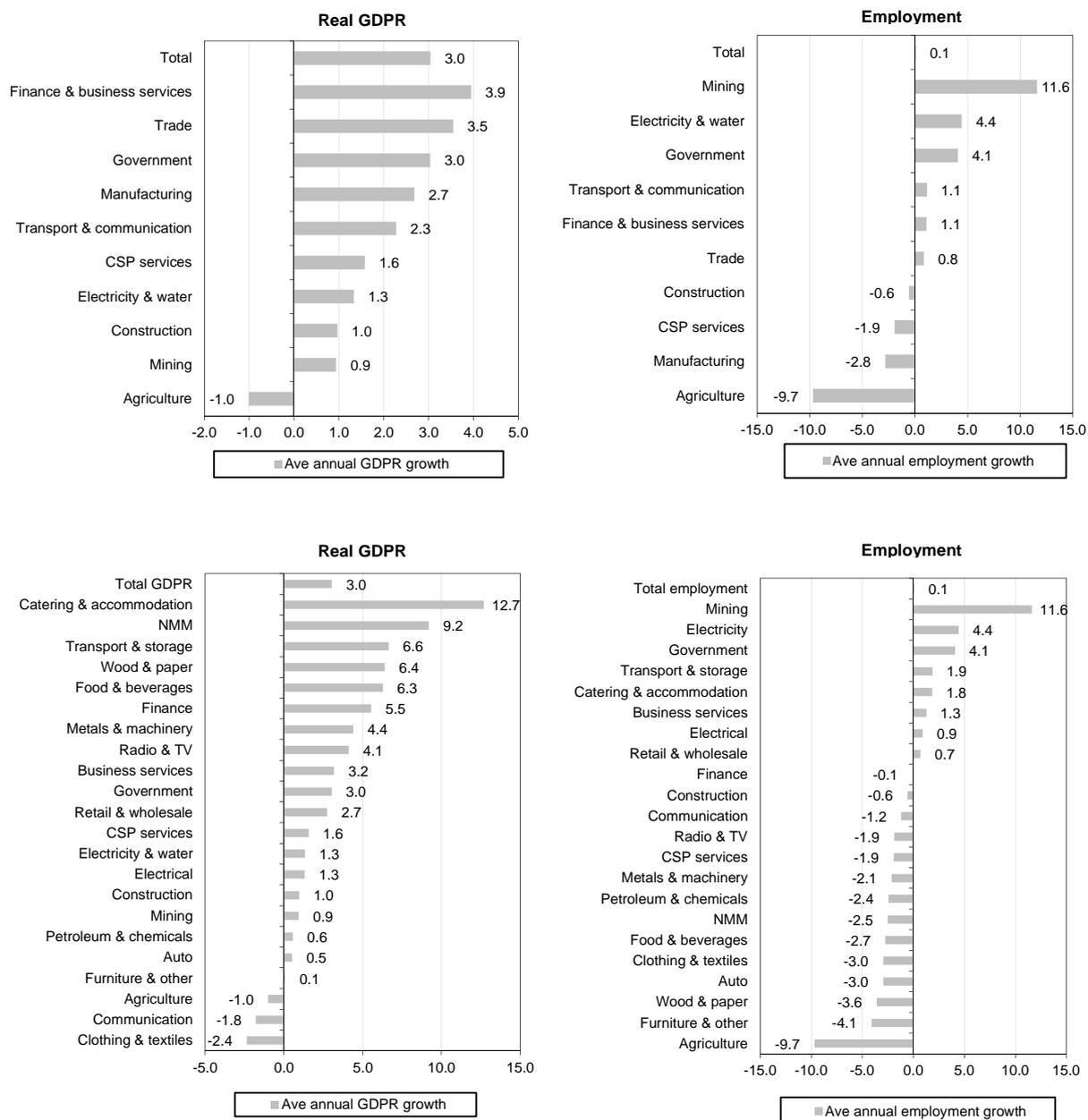
3.1.2 Agriculture, manufacturing & services

In calendar 2011, the Cape Metro agriculture, forestry & fishing sector contributed 1.5 per cent of GDP, manufacturing 16 per cent and services 77 per cent. In terms of employment, the agriculture, forestry & fishing sector employed 2.5 per cent of the workforce, manufacturing 14 per cent and the services sector 77 per cent.

As discussed in Chapter 2, the Cape Metro economy witnessed a relatively serious recession impact in 2008 - 2009 – the economy contracted by 1.1 per cent in 2009 at the depth of the recession (following real growth of 6.6 per cent in calendar 2007) and in the ensuing three calendar years (i.e. 2008 to 2010) 6.3 per cent of the workforce lost their jobs; by the end of 2011 only one fifth of these lost jobs were restored. The impact on manufacturing and construction employment was particularly rough. While growth receded again in 2012 in the current recovery, it would appear as if the Cape Metro economy is embarked on a sustainable economic recovery in synch with the national and global economies. Figure 3.2 depicts the growth and employment performance of the Cape Metro economy

during the first two calendar years of the economic recovery, both at the broad sector level and the more disaggregated sub-sector level.

Figure 3.2 Cape Metro: Sectoral real GDP growth and employment growth: 2010 - 2011 (% per annum)



Source: Quantec Research

The chart (top left) shows the leading growth contribution from the Cape Metro economy's two leading sectors, i.e. finance, insurance, real estate and business services and retail, wholesale, catering & accommodation. While the value added growth in the former broad sector was produced by the finance & insurance sub-sector (5.5 per cent per annum, 2000 - 2011), the employment creation occurred in the business services sector.

- It is evident from the sharp growth witnessed in the catering & accommodation sector that a revival in tourism played a key role in the growth of the broad retail,

wholesale, catering & accommodation sector also in renewed job growth; the retail & wholesale sector also added to employment growth.

- The impact of the government's anti-cyclical fiscal policies is also evident in the sectoral growth pattern, with the government making a specific strong contribution to employment creation during the initial phase of the economic recovery.
- The transport & storage sector also recovered strongly (growing by 6.6 per cent per annum) and adding to employment growth (1.9 per cent per annum).
- The rebound in manufacturing activity also contributed to the economic recovery. The average growth rate (2.7 per cent per annum) is higher than the trend growth rate over the 2000s; however, was insufficient to restore the level of real GDP to pre-recession levels by the end of 2011. Furthermore, net job losses continued. The only manufacturing sub-sector, which added to employment growth during the initial two calendar years of economic recovery, is electrical machinery. Sub-sectors, which rebounded strongly, but without adding to employment, are non-metal minerals, wood products, food & beverage processing, metals & machinery and radio & TV equipment. The manufacturing sub-sectors where net job losses persisted at a rate above 2 per cent per annum, include metals & machinery, petro-chemicals, non-metal minerals, food & beverages, clothing & textiles, automotive, wood products and furniture & other industries.
- In the agriculture, forestry & fishing sector, communication and clothing & textiles, the contraction in real value added growth continued during 2010 - 2011; needless to say, net job losses continued as well, particularly in the agricultural sector.

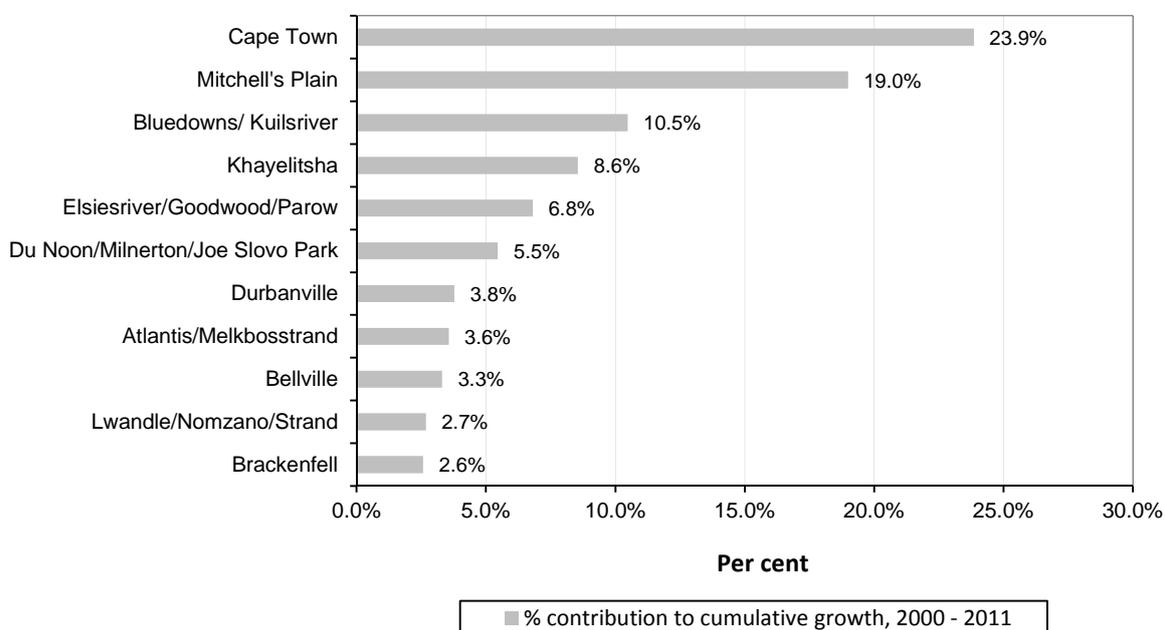
The Cape Metro economic recovery has therefore been characteristic to the extent that the full complement of services industries contributed, both in terms of value added and employment. The contributions by the financial & business services sector, the broad retail, wholesale, catering & accommodation sector (incorporating the impact of tourism) and transport & storage stand out, as well as fiscal support from the government. On the downside, while the manufacturing rebound aided the recovery, the persisting net job losses in a range of sub-sectors are a cause for concern as they create pressures in the social departments. In the sections below the spotlight turns to a closer inspection of the growth in the agriculture, manufacturing and services sectors across the main municipal areas in the Cape Metro.

While the **agriculture, forestry & fishing sector** is relatively small in the Metro (contributing only 1.5 per cent of GDP), it is relatively large in Western Cape agriculture. Due to data limitations it is not clear what the sub-sector breakdown of the agriculture, forestry & fishing broader sector is; however, it is likely that the Cape Town wine farms, animal products (e.g. poultry), small scale farming and the fishing industry account for much of the primary sector economic activity in the Cape Metro. Across municipal areas, the leading contribution originated from the City of Cape Town (18 per cent).

According to the data real GDP growth in the sector averaged 9.5 per cent per annum between 2000 and 2011; in fact, all the municipal areas contributing to agriculture showed strong growth during the recession, with calendar 2008 being a specifically favourable year (in line with agricultural conditions in the non-metro districts). The available data also shows a favourable trend in agriculture real value added across all municipal areas over the 2000 - 2011 period. The sector also succeeded in growing its workforce on balance during the years of economic expansion (2000 - 2007); however, according to the data the sector shed no less than 30 per cent of its workforce in 2007 and during the ensuing four years (2008 - 2011)⁷.

Figure 3.3 shows the growth of the **manufacturing sector** across the main municipal areas in the Cape Metro. What is depicted is in fact each area's *contribution* to cumulative growth over the 2000 - 2011 period, i.e. by weighing the actual real growth rate with the size of the area in the Cape Metro's manufacturing sector and expressing this as a percentage of the overall growth (in this case 2.3 per cent per annum). The leading contribution came from Cape Town, growing by a relative moderate growth rate (1.8 per cent per annum - see Table 3.1), however, accounting for a third of the manufacturing sector in the Cape Metro. Mitchell's Plain also accounted for a high share of the cumulative growth, with real value added growth coming in stronger (3.4 per cent per annum) and the area accounting for 13 per cent of the Metro manufacturing sector. Other strong contributions came from Blue Downs/Kuils River, Khayelitsha, Parow/Goodwood/Elsies River and Milnerton.

Figure 3.3 Cape Metro: Contribution to growth in manufacturing by main municipal area: 2000 - 2011

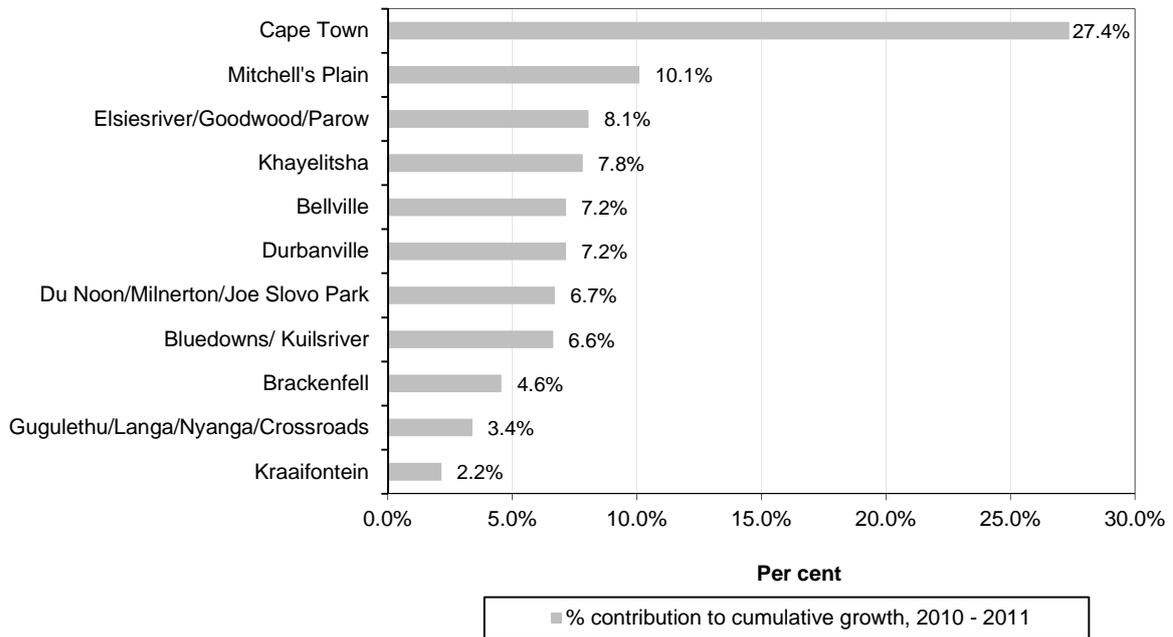


Note: The main municipal areas shown in the chart account for 90 per cent of the cumulative growth in the sector.

Source: Quantec Research/CER

⁷ The data showing close to double-digit growth of real value added in the agricultural sector, combined with the heavy post-recession job losses in the sector, needs to be interrogated. Growth is coming off a low base in most of the sub-regions; however, the method followed in estimating the GDP at sub-regional level may be inaccurate (Interview: C van der Merwe, Quantec Research, May 2012).

Figure 3.4 Cape Metro: Contribution to growth in the services sector by main municipal area: 2000 - 2011



Note: The main municipal areas shown in the chart account for 91 per cent of the cumulative growth in the sector.
 Source: Quantec Research/CER

Following the same methodology, Figure 3.4 shows the contribution to the cumulative growth of the Cape Metro **services sector** over the 2000 - 2011 period across the main municipal areas. The outsized contribution of Cape Town is immediately noticeable. While the overall growth in services real value added has been moderate (i.e. 3.5 per cent per annum compared to the Metro growth rate of 4.4 per cent), the City hosts 35 per cent of Cape Metro’s services sector (in financial & business services it is as high as 37 per cent). The second largest contribution is made from Mitchell’s Plain (10 per cent) and then a range of municipal areas, from Parow/Goodwood/Elsies River (8 per cent) to Blue Downs/Kuils River (6.6 per cent), make similar and sizeable contributions.

In all, the Cape Metro economy is a fully services oriented regional economy, with a faltering manufacturing base. The leading services industries are financial & business services and retail, wholesale, catering & accommodation with tourism playing an important part; transport, storage & communication also makes an important contribution. The growth of the government sector has been contained, albeit evident that it provided key counter cyclical support during the recent recession and during the initial years of the economic recovery.

The recession impacted quite heavily on the manufacturing (and with some time delay, the construction) sectors, which led to substantial net job losses during the recession and into the first calendar year of the economic recovery. The municipal areas with all-rounded growth (e.g. within manufacturing and services) appear to out-perform the others, namely Durbanville, Khayelitsha, Blue Downs/Kuils River, Mitchell’s Plan and Brackenfell. While Cape Town’s growth rate is also below par, it remains the strongest contributor to growth as more than two thirds of both the

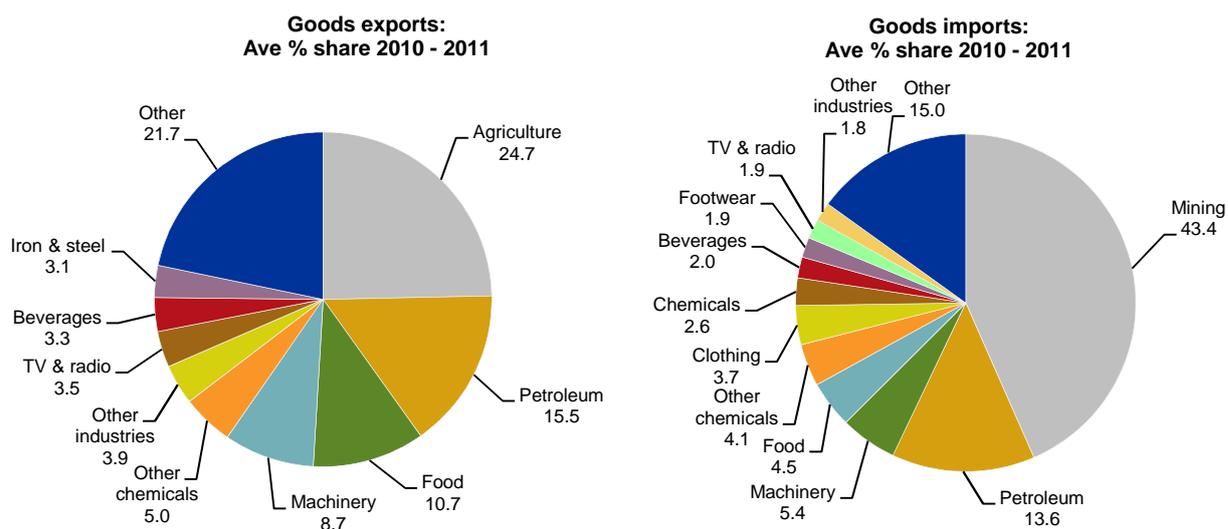
manufacturing and services sector are located here. Cape Town's agricultural sector also performed comparatively better and leads the expansion of the sector in the region. However, the sector shed substantial jobs following the onset of the recession at the end of 2007.

The focus now shifts to the international trade position of the Cape Metro.

3.1.3 International trade

Trade promotion remains a cornerstone of the WCG's economic strategy. In order to grow the regional economy external markets have to be explored and when we engage in exports we also have to import. While the definition of exports and imports are problematic at the municipal level, the current section briefly focuses on two aspects of the Cape Metro international trade: *firstly*, the composition of goods exports and imports to the rest of the world (basically re-capping the analysis conducted in the 2012); and *secondly*, the composition and trend in the regional 'trade balance'⁸.

Figure 3.5 Cape Metro composition of goods trade: 2010 - 2011



Source: Quantec Research

⁸ It needs to be emphasised that a sub-regional 'trade balance' is conceptually somewhat misleading. Sales by any firm in the region to buyers outside the region should be regarded as exports, i.e. including sales to other districts in the Province and other provinces in the country. However, due to data limitations these 'exports' are ignored in the current analysis – only the sale of goods in foreign markets are accounted for; and on the import side, only purchases from foreign countries. The derived 'trade balance' therefore gives some indication of the balance of forex earnings generated in the region.

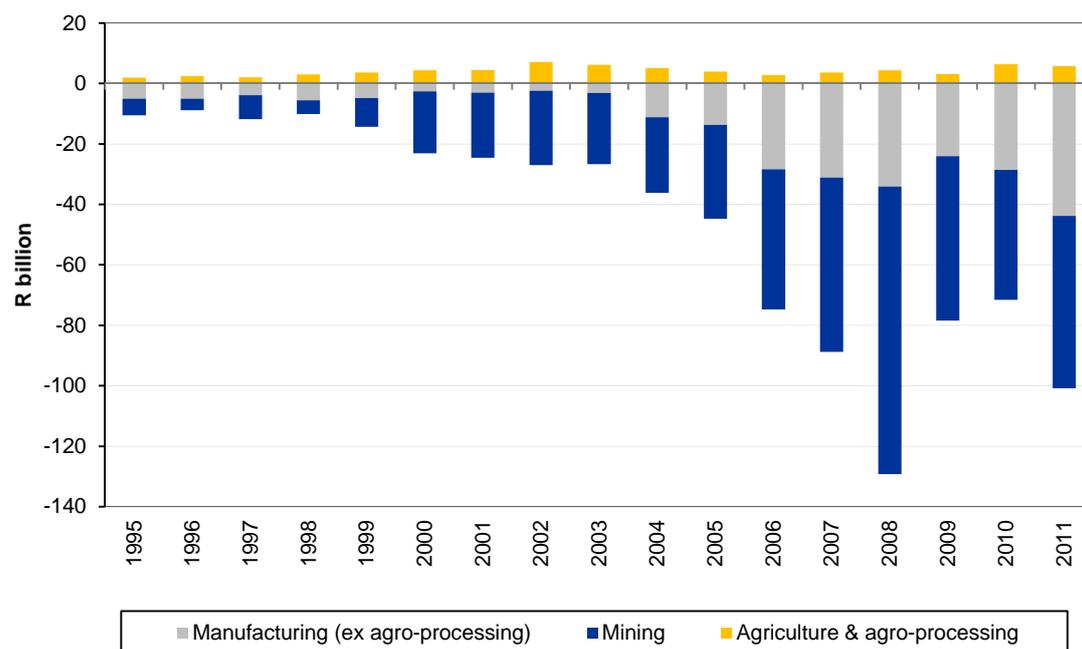
Whilst the Cape Metro economy is open to international trade, with the value of goods imports and exports measuring 66 per cent of GDP in 2011, its export exposure is more limited only measuring 14 per cent of GDP (i.e. excluding traded services, such as tourism receipts and BPO sales). Figure 3.5 contains an exposition of the goods export and import baskets of the Cape Metro.

On the export side more than half of the region's exports consist of three product categories, i.e. agriculture, forestry & fishing (one quarter), petro-chemical products (16 per cent) and processed foods (11 per cent); machinery is also a sizeable export, i.e. 9 per cent of the basket. Other key export products shown in Figure 3.5 include other chemicals, other industries, radio & TV equipment, beverages and iron & steel.

There have been key shifts in the composition of the export basket: the share of agricultural products increased from 16 per cent (2001 - 2005) to 21 per cent (2006 - 2011), countered by an equivalent drop in the agro-processed exports, leaving the overall contribution of agriculture and agro-processing exports around 34 per cent (on average, 2006 - 2011). The share of petro-chemical exports, however, declined quite sharply over the corresponding period, from 27 per cent to 18 per cent (and further to 15.5 per cent, 2010 - 2011). Another manufacturing product category, which suffered a declining share of exports is clothing & textiles, its share receding from 4.7 per cent to 1.9 per cent. On the positive side, the share of machinery & equipment almost doubled from 4 per cent between 2001 - 2005 and 2006 - 2011, with it rising close to 9 per cent, 2010 - 2011. The overall share of manufacturing exports in the basket remained remarkably stable in view of all the other pressures on the sector.

On the import side, a stark feature is the huge oil and petro-chemical bill accounting for no less than 60 per cent of the import basket in 2010 - 2011. These imports are obviously tied to the Chevron oil refinery in Milnerton. Other key manufacturing import products range from machinery (5.4 per cent, 2010 - 2011) to footwear and radio & TV equipment (1.9 per cent each) and other industries (1.8 per cent) – see Figure 3.5. The biggest shifts that occurred between the early 2000s and 2010 - 2011 include a noticeable drop in metals & machinery and radio, TV & instrument imports, which tended to be countered by an increase in the share of petro-chemical exports leaving the overall manufacturing share of imports relatively stable.

In Figure 3.6 the Cape Metro goods trade balance is depicted, including its composition. In order to link with other analyses contained in the current report, the agriculture and agro-processing exports and imports were combined (i.e. providing some indication of the food value chain exports), whilst obviously at the same time excluding the food & beverage processed exports from the manufacturing category.

Figure 3.6 Cape Metro: Goods trade balance (Rbn)

Source: Quantec Research

While the trade deficit increased sharply over the period of economic expansion from R20 billion in 2001 to R125 billion in 2008, it declined sharply during 2009 - 2010 in response to the recession (and sharply lower imports). It also needs to be borne in mind that 60 per cent of this trade deficit comprise oil & petro-chemical imports. The trade deficit edged upwards again in 2011 to R95 billion (excluding oil, the deficit amounted to R38 billion).

- Regarding the composition of the trade deficit, the agriculture & agro-processing sector produces a small and (marginally) growing surplus on the region's trade account (amounting to around R6 billion in 2010 - 2011). Excluding agro-processing, the manufacturing share of exports has remained stable while that of imports increased causing the trade deficit to widen substantially – see Figure 3.6. The 2011 deficit is bigger than its pre-recession peak.
- The stable export ratio conceals an important fact regarding the Cape Metro economy and that is that the actual growth in the value of exports has tapered off sharply following the global recession. The growth in goods exports averaged 12 per cent per annum (2000 - 2011) and no less than 17 per cent per annum during the expansion phase of the business cycle (2000 - 2007); however, this slackened to a paltry 2.4 per cent (2008 - 2011). The slow export growth is, amongst other, a reflection of the Metro's strong trading links with the struggling European and other advanced economies and this is adding to the widening trade deficit.

3.2 Sectoral economic prospects, 2013 - 2017

In this section of the report, the focus moves to the economic outlook for the Cape Metro. Chapter 2 provided the macroeconomic backdrop, which may just briefly be restated here. While the improvement in the global economy remains uneven and loaded with risk, the domestic economic recovery (from the end of 2009) appears to be well-established, albeit exposed to substantial global and domestic risks. The recovery growth in the Metro since 2010 has been somewhat – and uncharacteristically – slower compared to that of the Province.

In the first section of Chapter 3 an analysis was made of the growth and employment performance of the metro across the various sectors and municipal sub-regions, including a brief assessment of the international trade position of the metro. This information was applied together with a comprehensive macro-econometric/input-output model forecast of sectoral GDP growth for the Province⁹ and other information pertaining to the metro (as discussed below), as well as a comparative advantage analysis in order to derive sector forecasts for the metro. The resultant Cape Metro economic outlook is briefly discussed below.

3.2.1 Sectoral outlook/forecast

Table 3.3 summarises the average forecast growth rates across the nine broad sectors of the Cape Metro economy; regarding the outlook for the Cape Metro economy, the following remarks may be in order:

- The openness of the Cape Metro economy is clear from the impact of the global recession in 2008 - 2009 and the subsequent sluggish real economic growth in the region in response to the struggling (and actual contraction of real economic activity during the past six consecutive quarters) in one of the Cape's key markets, i.e. the Euro area.
- The weaker rand exchange rate should be positive to the Cape Metro regional exporters as rand export revenues are boosted and the search for alternative faster-growing markets (outside of the troubled European Union) is made more lucrative. The rand depreciated substantially vis-à-vis the emerging market currencies since August/September 2012, which tended to appreciate against the US dollar in response to the US liquidity injection programmes (QE). The rand's depreciation vis-à-vis these emerging market currencies (such as the Indian rupee and Philippine peso) will be a particular support to the BPO sector competing with operators from these markets in the English speaking countries such as the UK, Canada and the USA. Inward tourism will also be stimulated by the weaker rand. Finally, should the competitive gains of the weaker rand not be dissipated on an adverse wage-price spiral, this will open up opportunities to replace imports.
- However, the Cape Metro is a services oriented economy and the bulk of its producers and service providers' sales are destined for the local and domestic markets, which are projected to remain under pressure during 2013. From a

⁹ See WCG: Provincial Economic Review & Outlook (PERO) 2012 and the Provincial Budget Review, 2013.

domestic market perspective (and imports) the weaker rand is obviously a negative; it tends to increase retail selling prices, which impact adversely on household budgets.

- Furthermore, selling conditions will be tight over the short term due to the national consumer sector slowdown. Even the livelier durable goods market (benefiting from low interest rates and competitive pricing in a more lucrative consumer segment) is slowing down. The non-durable goods market is under substantial pressure due to sluggish growth in wage incomes (in turn, a function of lower nominal wage increases and sluggish employment growth), the impact of higher food, electricity and petrol prices on household budgets and generally lower consumer confidence and therefore willingness to commit income to credit spending. In the unsecured lending market (the main driver of consumer credit growth since the onset of the economic recovery) credit standards are also being tightened, which should impact adversely on the semi-durable goods and furniture & appliances market.
- The consumer sector slowdown is expected to be temporary (on the assumption that the global economic recovery endures). Interest rates are expected to remain low at least until the end of next year, with inflation remaining more or less in the target range and the weaker level of the rand exchange rate providing a competitive edge to import competing producers.
- While it is difficult to project agricultural growth given the impact of climatic influences, the forecast provincial-wide growth rate (1.7 per cent per annum, 2012 - 2017) and the small contraction in the sector over the 2010 - 2011 period informed the assumption of close to 3 per cent per annum growth over the medium term. This suggests that the positive trend in the Cape Metro's agricultural sector continues, albeit necessary to point out that further research is required given the data limitations.
- Manufacturing real value added is projected to grow by 2.4 per cent per annum, i.e. in line with trend growth over the 2000 - 2011 period. While this projected growth rate may be conservative in view of the 2.7 per cent per annum recovery growth rate (2010 - 2011), the latter includes an element of a rebound which may not repeat itself over the forecast period. The Cape Metro manufacturing sector's relative under-performance is therefore projected to continue (Western Cape manufacturing real value added is projected to grow by 2.8 per cent per annum). To the extent that the rand's competitive gains can be preserved and the provincial authorities succeed with initiatives to assist with industrial policies to upgrade manufacturing production platforms, this forecast may turn out to be too bearish. However, based on the current available information, this is a realistic forecast.
- With growth having slumped from the pre-recession levels, the construction sector appears to have turned the corner following an unusually slow recovery. Both residential and non-residential property development are expected to improve going forward. The imminent construction phase of the CTICC will also be a key catalyst of faster growth in the sector. Furthermore, the upgrading of port facilities, installation of internet bandwidth and broadband connectivity, the

upgrading of the water infrastructure, etc. are all expected to stimulate the construction sector. Construction real value added is projected to increase by 4.1 per cent per annum over the forecast period (i.e. slightly slower than the provincial average).

- Employment growth is also expected to pick up somewhat as fixed investment activity accelerates from the second half of 2013. Combined with reduced uncertainties this should in time boost consumer confidence and spending (end-2013/14).
- Retail, wholesale, catering & accommodation real value added is projected to grow by 3.8 per cent per annum, up from an estimated 3.1 per cent in 2013 and in line with the provincial average of 3.9 per cent per annum. The Cape’s vibrant tourism industry is assumed will remain a key source of consumer spending in the region.
- Linked to these performances, the growth in finance & business services and transport & communication is projected to continue out-performing other sectors, albeit with a narrower margin already evident during the economic recovery years, i.e. 2010 - 2011. The growth of these sectors is hampered by the faltering manufacturing growth in key producer areas such as Cape Town, Parow/Goodwood/Elsies River, Milnerton and Somerset West. The growth rate of financial & business services real value added is projected at 4.3 per cent per annum, which is significantly below the 6.5 per cent average annual growth rate registered over the 2000 - 2007 period, i.e. the previous business cycle expansion phase. The transport, storage & communication sector is projected to grow by 4 per cent per annum, i.e. slightly faster than the wider province.
- While the government and community, social & personal services sectors will continue to underpin growth and employment creation, the public sector is under tremendous pressure to trim spending in order to drive a narrower overall budget deficit over the medium term. Moderate, albeit firm, growth is expected in these sub-sectors over the medium term.

Table 3.3 Cape Metro: Real GDP growth outlook: 2012 – 2017 (%)

Sector	Trend	Recession	Recovery	Cape Metro	Western Cape
	2000 - 2011	2008 - 2009	2010 - 2011	2012 - 2017	2012 - 2017
Agriculture, forestry and fishing	10.0	22.0	-1.0	2.8	1.7
Mining and quarrying	-0.8	-7.2	0.9	0.5	0.0
Manufacturing	2.3	-3.0	2.7	2.4	2.8
Electricity, gas and water	3.4	-1.4	1.3	2.4	2.1
Construction	6.5	4.3	1.0	4.1	4.4
Wholesale and retail trade, catering and accommodation	4.1	-0.6	3.5	3.8	3.9
Transport, storage and communication	5.0	1.9	2.3	4.0	3.9
Finance, insurance, real estate & business services	5.5	3.1	3.9	4.3	4.5
Community, social and personal services	2.8	1.1	1.6	2.4	2.7
General government	1.9	3.8	3.0	3.3	3.0
Total Cape Metro	4.1	1.5	3.0	3.6	3.7

Source: Quantec Research/CER

From the analysis above it is apparent that 2013 will be another constrained year. Even a more meaningful recovery anticipated next year and beyond is likely to be constrained. *Firstly*, the slow growth in the advanced economies is likely to be a multi-year affair (also impacting negatively on inward tourism); *secondly*, domestic business and consumer confidence may be slow to recover more convincingly given the likely uncertainty in the run-up to general elections next year – we may have to get beyond the election next year only before attention can fully shift to the economy again. Overall *Cape Metro real GDP growth is projected to accelerate from an estimated 3 per cent per annum (2012/13) to 3.6 per cent next year and 4.1 per cent per annum (2015 - 2017).*

3.2.2 Local issues – Cape Metro

While the range of challenges and constraints facing the City is wide and varied, the City has narrowed it down to two key constraining effects on economic production in the region, i.e.

- *Firstly*, the mismatch between skills required and that available locally, particularly managers and technical artisans (*see the section below on skills considerations*).
- *Secondly*, poor infrastructure, specifically referring to the Cape Town harbor, the poor public transport system and poor broadband internet connectivity and access.

Plans are afoot to improve the reliability, increase the safety, enhance the connectivity and reduce overcrowding on Cape Town's train and bus systems. The focus will be on investment in rolling stock and the signalling system and the modernisation of stations. Regarding the port, a general upgrade is in order and more specifically, the sturrok dry dock equipment and facilities, capacity, berth sizes, efficiency, customs controls, dry dock capacity, logistics management and land management plans require upgrades. It is furthermore necessary to maintain strong working relationships with other levels of government and SOEs to tap into their resources and processes to fast-track the development of economic infrastructure. *Finally*, bandwidth capacity has to increase to a level that allows companies to send large volume data transmissions; and the installation of fibre optic cables to support the growth of targeted industries needs to be investigated.

Plans are also afoot to export more value-added goods to emerging markets and expand local tourism through marketing initiatives in the BRICS countries and the rest of Africa. Projects such as the planned expansion of the CTICC and the hosting of events related to the City being chosen as World Design Capital 2014, look to extend the comparative advantage the City enjoys in the ICT and tourism industries.

It is envisaged that addressing these two central areas, i.e. the skills mismatch and poor infrastructure, will unlock much economic value and growth in the region. The City is optimistic that should it be effective in creating a favourable investment environment, *growth expectations can lift from the current around 3 per cent actual performance and outlook closer to a 4 - 5 per cent per annum trend growth rate.*

In view of these local issues, including the region's strengths and challenges, an analysis is made below of the revealed comparative advantage across the various sectors/industries in the Cape Metro.

Comparative advantage

The next step is to disaggregate some of the above forecasts by estimating the revealed comparative advantages of sectors and industries in the Cape Metropolitan economy. The theory of comparative advantage has its origins in the classical economist, David Ricardo's, work in which he tried to explain why it is beneficial for a country to trade and in what goods and services any country should be trading in order to maximise economic welfare gains. Over the years his theory of comparative advantage has evolved and various analytic techniques designed in order to determine revealed comparative advantage, not only at the national level (and in relation to trade), but also at the local/regional level in order to gain some understanding of the sectors of economic activity which should be promoted by way of (industrial) policy intervention.

One such technique involves the calculation of so-called 'location quotients' (LQ), which simply tracks the growth of a sector in relation to that of the region relative to the growth of the same sector at a broader level (e.g. nationally) in relation to the growth of the wider economy (e.g. nationally). Expressed in symbols, the location quotient (LQ) is defined as:

$$LQ = \frac{g_i/g}{G_i/G}$$

Where:

g_i = value added in sector or industry i

g = total value added (i.e. for the region/country)

G_i = reference area value added in sector/region i

G = total value added in the reference area

Relative to some common base year therefore, the location quotient measures the performance of the sector or industry investigated in relation to that of the sector/industry in the reference area. As we currently investigate the sectoral growth performance of the sector at the regional level compared to that of the same sector at the broader (reference) area, the reference area can either be the province or the national economy.

If we assume that the growth of a particular sector/industry at the regional level is a function of the growth of the national economy, then the national economy magnitudes should be the denominator in the above equation. However, it may also be appropriate to include the Province's value added as the reference magnitude. In order to respect the capacity constraints in adopting such an approach, the national economy magnitudes are used in the current exercise also assuming that the growth of the industry at the regional level is an integral function of the national growth performance.

Using the relative shares of sectors for the country as reference areas, the LQ's in Table 3.4 (rightmost column) provide some indication of the sectors with a revealed comparative advantage being those sectors in respect of which the LQ > 1; in other words, should the regional industry reveal a higher proportion of the regional economic activity compared to the same sector share at the national level, it can be concluded that the region expanded at a faster rate with reference to some base year compared to the same sector at national level, suggesting '*revealed comparative advantage*'¹⁰.

Table 3.4 Revealed comparative advantage of the Cape Metro economy

	Cape Metro		South Africa		LQ ratio 2011
	GDPR % share	Ave growth	GDPR % share	Ave growth	
	2011	2000 - 2011	2011	2000 - 2011	
Agriculture, forestry and fishing	1.4	10.0	2.4	2.0	0.58
Mining	0.1	-0.8	5.9	0.0	0.02
Food, beverages and tobacco	2.8	1.9	2.9	2.4	0.95
Textiles, clothing and leather goods	1.3	1.9	0.8	2.8	1.66
Wood and paper; publishing and printing	1.9	1.1	1.5	1.4	1.28
Petroleum products, chemicals, rubber and plastic	3.8	2.7	4.3	3.7	0.88
Other non-metal mineral products	0.5	1.5	0.6	1.6	0.80
Metals, metal products, machinery and equipment	2.4	3.6	3.3	3.5	0.73
Electrical machinery and apparatus	0.4	3.0	0.5	3.5	0.70
Radio, TV, instruments, watches and clocks	0.3	3.5	0.3	4.6	1.00
Transport equipment	1.1	4.3	1.7	5.5	0.66
Furniture; other manufacturing	1.7	1.6	1.4	2.4	1.18
Electricity & water	1.5	3.4	2.0	2.0	0.75
Construction	3.9	6.5	3.4	7.3	1.16
Wholesale & retail trade	13.8	4.1	12.9	3.9	1.07
Catering and accommodation	1.4	4.9	1.0	3.5	1.48
Transport & storage	6.0	4.1	5.5	3.7	1.08
Communication	4.9	6.5	4.6	7.4	1.07
Finance and insurance	12.0	6.5	8.4	6.4	1.43
Business services	24.1	5.1	15.3	5.2	1.58
Community, social and personal services	5.1	2.8	6.1	3.1	0.83
General government	9.8	1.9	15.2	2.5	0.64
Total Cape Metro	100	4.1	100	3.6	1.00

Source: Quantec Research/CER

Applying this method to the 22 main industry groups of the Cape Metro, the results contained in Table 3.4 suggest the following sectors (in order of strength of revealed comparative advantage) should be supported: *textiles, clothing & leather goods; business services; catering & accommodation; finance & insurance; wood & paper products; furniture; construction; transport & storage; retail & wholesale; communication and radio, TV & instruments manufacturing*. In view of this list of sub-sectors/industries revealing comparative advantage and the leading

¹⁰ This is a very basic technique for guidance on revealed comparative advantage and is derived from *economic base analysis*; other techniques investigating comparative advantage include so-called '*shift-share analysis*', i.e. a procedure that decomposes the growth of a region into three comprehensive sources: i.e. (i) growth related to the growth of the reference area; (ii) growth related to the changing mix of regional sectors; and (iii) growth related to economic activities shifting to the region.

employment generating sectors identified in the first section of the chapter above, the following *value chains* or clusters of economic activity and sectors can be identified for being key growth areas in the Cape Metro economy:

- While the *textile, clothing & leather goods industry* performed dismally over the 2000s in terms of job retention and growth, it is evident that this historic industry reveals comparative advantage which may be '*rediscovered*' (a combination of too rapid tariff liberalisation in a highly segmented industry shackled with labour cost-raising wage bargaining agreements can go a long way in explaining the haemorrhage).
- The tourism value chain is visible from the revealed comparative advantage in the business services sector, catering & accommodation, retail & wholesale and transport & communication.
- The *financial sector and business services*, including the closely linked *BPO activities and ICT* form a key cluster of economic activity justifying policy support. Not only have these sectors *revealed* comparative advantages in the Cape metropolitan economy, but *dynamic* comparative advantages in a forward-looking sense. These sectors are strategic to the Western Cape as a knowledge hub (with the Cape Metro, *inter alia*, at the forefront), which will unlock value in other sectors also bridging the divides between the skills intensive services economy and the entrepreneurial SMME sector.
- The *timber & furniture manufacturing value chain* presents itself as a candidate for policy support.
- *Finally*, it has to be emphasised that the current analysis is of a cursory nature; more in depth and rigorous research is required to arrive at robust policy recommendations. Furthermore, the concept of *dynamic comparative advantage* referred to above is not explored in the current report, which is a *review & outlook* of regional economic activity. Issues pertaining to global mega trends (e.g. the social-digital revolution, climate change, profound technological advances and geo-political shifts from West to East and North to South) and issues regarding food and energy security also come into play. Suffice to say that the competitive edge provided by the region's quality schooling and tertiary education system, its research & development capacities and human capital resource base render the development of the so-called '*knowledge economy*' imperative. Furthermore, the renewable energy sector and oil & gas developments and agriculture & research activities with the objective to ensure food security, are key sectors justifying policy support from a dynamic comparative advantage perspective; these issues obviously reach beyond the borders of the Cape Metro and is collaboration with the non-metro districts a high priority.

The *clothing & textile and metals & machinery value chains* are investigated further in Chapter 5 in view of the size and importance of these sectors in the Cape Metro¹¹.

Skills considerations

Having identified the potentially fast growing industries within the Cape Metro, this section briefly considers the relevant skills requirements.

The economic outlook presented in this report is based on the existing structure of the metro economy and as such make implicit assumptions on the availability of the required skills in the production process. While the required skills cover the whole spectrum from the most menial tasks to more technical requirements and management, the key concern tends to be artisanal/technical and engineering skills hence the emphasis on mathematics and science pass rates at the school level. In this section of the report, a brief overview is provided of, *firstly*, skills supply issues in this field and, *secondly*, based on the economic outlook presented above, areas in the metro economy where demand for artisanal/technical/engineering skills may be keen. This could assist the authorities and the private sector in their planning to match the supply of and demand for these scarce skills going forward.

In a recent study by the Department of Economic Development & Tourism (DEDAT) of the Western Cape¹², a number of key weaknesses, but also encouraging aspects, were identified regarding the supply of artisans in the Province. Incomplete data, key bottlenecks linked to college completion, pass rates and work experience requirements, confusion regarding the various routes to the artisan trade test, etc. are all supply issues that need to be addressed.

However, what became clear, both international best practice and the literature suggest that public-private sector partnerships are critical, i.e. some form of collaboration between the training institutions and the employers. The matching of the supply of artisanal skills with the demand in the private and public sectors is best approached via the building of the necessary institutional mechanisms aimed at meeting the requirements of industry, again, collaboration between the public and private sectors. In this regard there are a number of encouraging initiatives, which can be used to replicate (e.g. the SSACI, AATP and the DEDAT artisan training & development projects). Practical experience during training is critical. Municipalities should bear this in mind when designing and implanting skills training initiatives.

While the current economic review does not provide the scope to entertain the greater detail on the supply side, it may suffice to consider the question: *given the economic outlook for the Cape Metro economy, in which areas may skills demand tend to grow stronger than average over the coming three to five years?*

¹¹ The *Cape Town Global Competitiveness Study* (2010) suggests the following key clusters operating within Cape Town's regional economy, which broadly agrees with the above list: business process outsourcing; clothing and textiles; creative industries; fashion; film; financial services; higher education; oil & gas; renewable energy & green business; Information and Communication Technology (ICT); tourism and agro processing.

¹² UWC FET Institute (March 2013): *Supply and Demand for Artisans in the Western Cape, A Study* conducted for the Department of Economic Development and Tourism (DEDAT).

- Given the dominance of the skills-intensive services sector in the Cape Metro the development of human capital is a key requirement to enhance economic performance; however, critical skills shortages exist in this respect, which makes the importation (from abroad and elsewhere in the Province and the country) of the required skills a necessity. In 2011 close to 60 per cent of the Cape Metro workforce was employed in skilled and highly-skilled occupations, 30 per cent in semi-and unskilled occupations and 12 per cent in informal activities (Survey: City of Cape Town, April 2013). In view of the current projections, which assume the services orientation of the Cape Metro economy will deepen over the medium term, the availability of qualified financial and technical professionals (e.g. in the ICT sector) will be critical¹³. This will place commensurate demands on the tertiary education sector and collaboration with firms, the research community and local government.
- The City also emphasises the need to *broaden* the skills base by improving learners' quality of literacy and numeracy, paying particular attention to disadvantaged communities. Furthermore, the number of artisans and technicians entering the labour force need to increase by improving the quality and credibility of technical qualifications at both intermediate and high skills levels. Building the necessary links between FET colleges, employers, higher education institutions and local government are also key. *Regarding specific skills requirements projected over the medium term, the following qualitative indications are in order:*
- In the manufacturing sector, a turnaround in the employment-intensive clothing & textiles sector will require the full spectrum of skills, ranging from seamstresses to machinists, which could be expected to gradually pick-up in demand.
- Construction workers and related skills will also be in higher demand once the anticipated revival in the building & construction sector acquires critical momentum.
- The same goes for carpenters and technicians in the wood products and furniture industries. The metals & machinery sector is also significant in the region and demand for tool makers, specialist welders, boilermakers, fitters and turners should be keen.
- An area of large vacancies appears to be the automotive sector, where welders, automotive engineers, qualified exhaust fitters (not in trade), petrol & diesel mechanics, diagnostic technicians, automotive machinists and auto electricians are required. Cape Metro does have a significant, albeit not large, transport equipment industry.

¹³ The skills conundrum can also be portrayed in a different perspective. The fact is that the skills profile of the labour supply is exactly opposite to that of the employed workforce. The promotion and development of semi- and unskilled primary and secondary economic activities will be more suited to match the supply of labour. This may, for instance, require that progressively more factory and farm managers and (construction and other) project managers be trained rather than financial managers, advisors and expertise in an endeavour to grow manufacturing, construction and agricultural activities which can absorb and develop the available labour supply. This involves key strategic choices for the region over the long haul.

- Given the importance of the agriculture and agro-processing industry in the Cape Metro, technicians in the agricultural machinery field will remain in high demand.
- *Finally*, to the extent that semi-and unskilled labour is lost in the agricultural sector (as happened since the onset of the recession in 2007 - 2008), there is a need for retraining/up-skilling of these workers for potential employment in the growing services industry such as tourism, retail & wholesale, transport & storage for instance.

3.3 Conclusion: Options and policy pointers

The Cape Metro economy is the second largest metropolitan economy in the country and is widely known and an attractive destination for firms, households and individuals to locate, work, travel and study in, given the region's spectacular natural beauty and other locational attributes. The economy grew by 4.1 per cent per annum over the 2000s, in line with the wider provincial growth rate as close to three-quarters of the economic output of the region originate in the Metro.

The Cape Metro economy is a fully fledged services economy, with the finance, insurance, real estate and business services sector being the leading economic sector (contributing 36 per cent of real value added); retail, wholesale, catering & accommodation, incorporating the impact of a vibrant tourism sector, is also important as are transport & communication and the region's higher education sector.

On the down side, the Metro's manufacturing sector is gradually diminishing and it took a particularly hard hit with the 2008 - 2009 global recession -60 per cent of all the net job losses in the sector over the 2000 - 2011 period occurred during the recession and the net retrenchments continued in 2011, two years into the general economic recovery. The agricultural and construction sectors suffered equally harsh recessionary impacts.

A somewhat unsettling finding of the current review & outlook is the uncharacteristic under-performance of the metropolitan economy during the first two years of the general economic recovery. Whereas the region's trend growth rate (4.1 per cent) is well above the national trend growth rate (3.6 per cent), growth averaged 3 per cent per annum, 2010 - 2012, i.e. slightly below the national average.

This under-performance can be linked to the material post-recession slowdown in the region's leading financial & business services sector on the one hand and the lingering recession impact on the region's primary and secondary industries. These two phenomena are obviously linked as well - the diminishing manufacturing base (with its GDP contribution dipping below 16 per cent in 2011, down from 20 per cent in 2000) will exert a negative impact on the services industries.

This underlying vulnerability of the Metro economy is reflected in the rising (non-oil) trade deficit, which was higher in 2011 compared to its pre-recessing peak despite sluggish economic growth. Export growth has tapered off sharply due to the struggling (and contracting) real economic conditions in the region's largest trading partner economy, the European Union. From a policy perspective the urgency to seek alternative faster growing export markets has intensified.

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. Furthermore, the region's flourishing BPO sector stands to benefit in particular due to the rand's sharp depreciation against both the dollar and emerging market currencies of cities competing with Cape Town in English speaking markets.

Given the dominance of the region's services sector and the implied skills demand, the regional economy faces two central challenges: one, the mismatch between the required and the available local supply of skills; and two, poor infrastructure (with transport, the port and internet bandwidth identified as key economic infrastructure shortages; water infrastructure is also in need of urgent upgrade).

In terms of the former issue, plans are afoot to collaborate with and between training and education institutions, employers, communities and local government to bridge the gaps. The policy thrust should be to both deepen and broaden skills in the regional economy.

In terms of directing infrastructure investment, efforts to upgrade skills and reducing business constraints in general, the following value chains exhibit comparative advantage: clothing & textiles; tourism; financial & business services (including BPO) and communications/ICT; timber & furniture manufacturing; fashion & design; creative industries, etc. and from a *dynamic comparative advantage perspective*, renewable energy & green business, oil & gas, agro-processing and higher education with a view to developing the region as a '*knowledge hub*' in collaboration with the non-metro districts.

4

Value chains

4.1 Introduction to value chain analysis

An analysis of value chains can focus on the intra-firm relationships or the activities and inter-relationships amongst productive agents in the economy. The analysis presented in this chapter will focus on the inter-relationships between various participants in the selected sectors/identified clusters of industrial activity at various points along the supply chain. This will essentially entail an examination of the backward and forward linkages of the selected industries, including an assessment of the growth and employment potential of the selected industries if possible.

The concept of the value chain was first used by Porter (1980) who identified it as a representation of the firm's value-adding activities, based on its pricing strategy and cost structure. This analysis was primarily based on the internal assessment of the firm's competitive advantage, but in the 1990's the concept of the value chain was extended to include the global commodity chain by Gereffi and Korzeniewicz (1994). This approach focused on the linkages between firms. The concept was further clarified and 'codified' by Kaplinsky and Morris (2001). They distinguish between value chains and supply chains by emphasising the linkages and relationships both between and within actors at each stage of production.

The value chain concept can be extended to a number of different forms of analysis; however it is necessary to limit this analysis to present 'real value' to policy makers and those seeking to improve the general welfare of the regional economy. Value chain analysis can be extended to include policy interventions, governance and legal issues related to the value chain, as well as the distribution of benefits in the value chain.

At the outset it is important to clarify the intention of this analysis, the limitations, the advantages and the assumptions that are necessary.

4.1.1 Methodology and assumptions

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 and the metro municipality have been assessed and the most important selected value chain(s) within each district and the metro economy have been analysed. It must be noted that this analysis will not focus on the quantitative specification of each value chain in the specified district/metro, but will rather focus on identifying and mapping the value chain, the actors involved, and the value-added and job-creating potential.

Two major considerations are applicable to the analysis at hand. Firstly it must be determined how far to follow the forward and backward linkages along the supply chain and secondly, the level at which these linkages must be determined.

The analysis below captures most of the forward/backward linkages within the chosen value chains. An increase in demand for the final product or service, for example, will boost production and employment along supplier industries within the *particular* value chain, and may also have positive spill-over effects on other sectors and industries: employees in these supplier industries, and members of their households, may spend part of their extra incomes on a range of goods and services produced outside the particular supply chain. Apart from the Cape Metro Area, the supply chain itself, and the related spill-over effects, may of course extend to municipalities elsewhere in the Province and beyond. The extent of these additional (direct and indirect) effects will depend on the value of the relevant multipliers, which could be analysed and estimated in a separate study¹⁴.

Before delving into the value chains of each district/metro, a short background description of the sectors analysed will be given, to better understand the potential impact of the value chain in the district/metro.

4.2 Value chain analysis

4.2.1 District value chains

Within the Cape Metro Municipality, the tertiary sector is the largest contributor to employment and GDP, however for the value chain analysis presented in this chapter the textiles & clothing and metals & machinery value chains have been chosen for analysis. This was done on the basis of the large potential contribution of the textiles & clothing value chain to labour and its relative success in increasing value added from 2000 to 2011. The metals & machinery industry in the Cape Metro

¹⁴ Black, PA, 2004. "Economic impact analysis: a methodological note", *South African Journal of Economics*, vol 72, No 4.

also has significant potential for development, even though it is currently a small contributor to the GDP and employment of the Cape Metro.

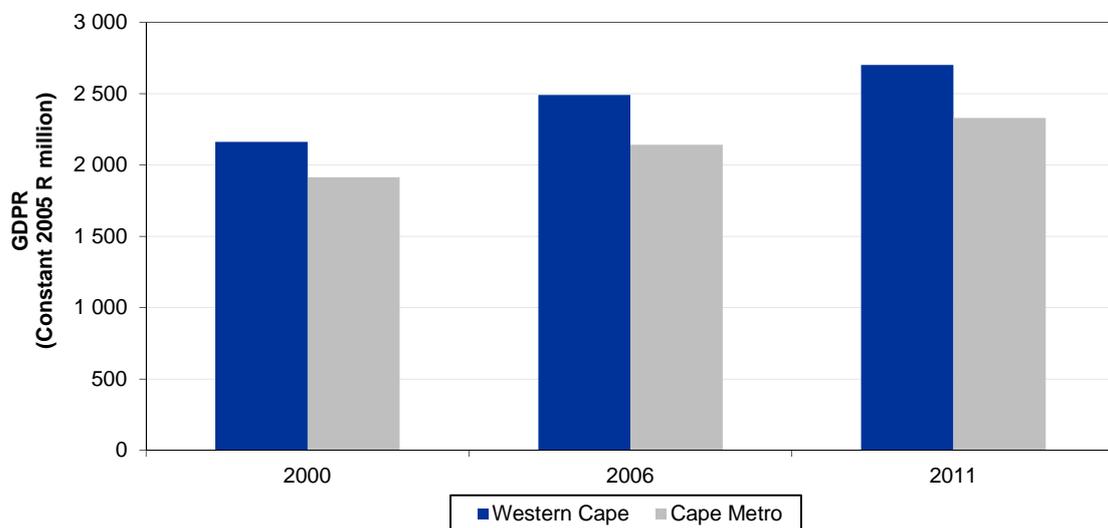
The value chains are analysed according to the backward and forward linkages of the respective industries and through the development of wearing apparel and metals & machinery products. This form of analysis shows the direct inputs as well as the supporting sectors to the manufacturing process in the respective industries.

Textile & clothing value chain

The textile and clothing industry in the Cape Metro has been placed under pressure, especially with job losses and this has been the subject of much debate for the Department of Trade and Industry, as well as the Industrial Development Corporation. This discussion will not delve into the reasons for job losses or analyse the industry in this detail. It will specifically focus on the value chain, the support sectors and the forward and backward linkages.

Figure 4.1 below show that the industry has shown an increase in GDP for the period from 2000 to 2011, with GDP for the Cape Metro growing at 1.8 per cent per year. This growth rate is slower than the average provincial growth rate of 2 per cent per year for the same period. From the chart it is also evident that the industry in the Cape Metro contributes a substantial share of the total industry in the Western Cape, at almost 87 per cent.

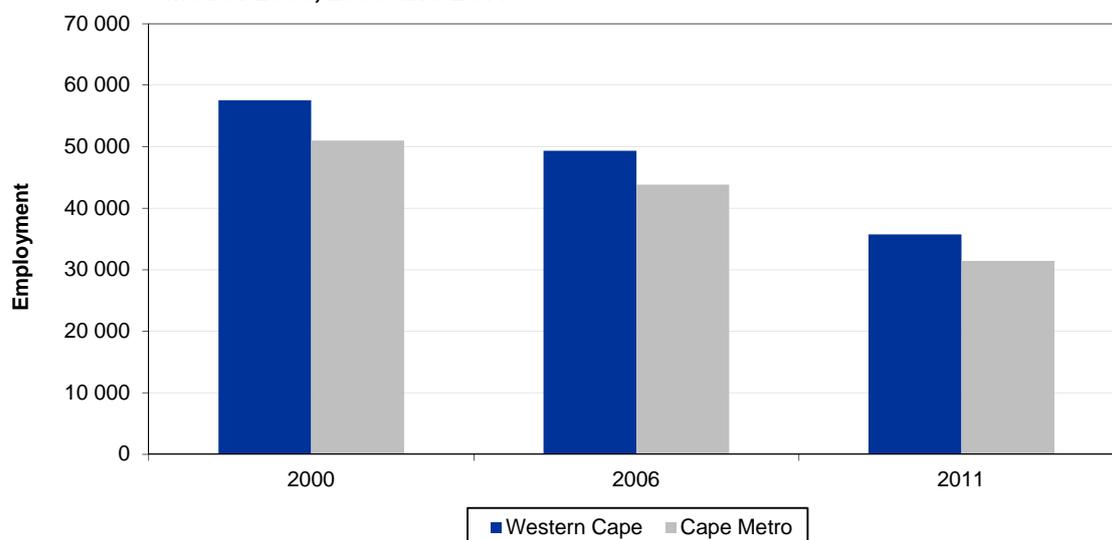
Figure 4.1 GDP of the Textile & clothing value chain for the Western Cape and Cape Metro: 2000, 2005 and 2011



Source: Quantec Research

In Figure 4.2 below the declines in employment are evident for the textiles & clothing industry in the Western Cape and the Cape Metro. Employment levels in the Cape Metro declined by an average of -4.3 per cent per year, from 2000 to 2011 and declined by an average of -4.2 per cent per year in the Western Cape. In the Cape Metro, just over 12 000 jobs were lost in the five-year period from 2006 to 2011. These are large numbers which had significant impacts on the local economy.

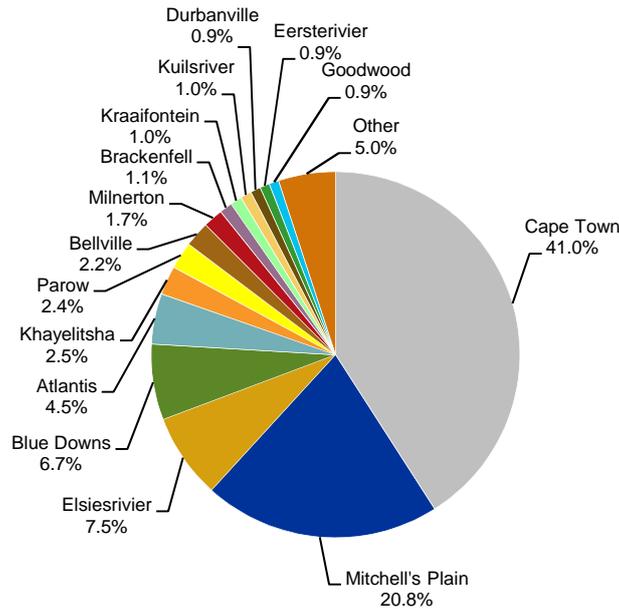
Figure 4.2 Textile & clothing value chain employment for the Western Cape and Cape Metro: 2000, 2006 and 2011



Source: Quantec Research

The largest proportion of manufacturing is based in Cape Town, with a 41 per cent share in GDP for the Cape Metro. Mitchell's Plain accounts for the second-largest share of GDP at 20.8 per cent. The remainder of manufacturing is then shared in much smaller proportions throughout the Cape Metro. The textiles & clothing industry exhibits a strong 'clustering' effect where the manufacturing activity is centred in areas where industrial property is relatively cheap, it is close to a port and close to local sources of labour.

Figure 4.3 Local municipal GDPR shares in the Textile & clothing value chain: 2011 (R million)



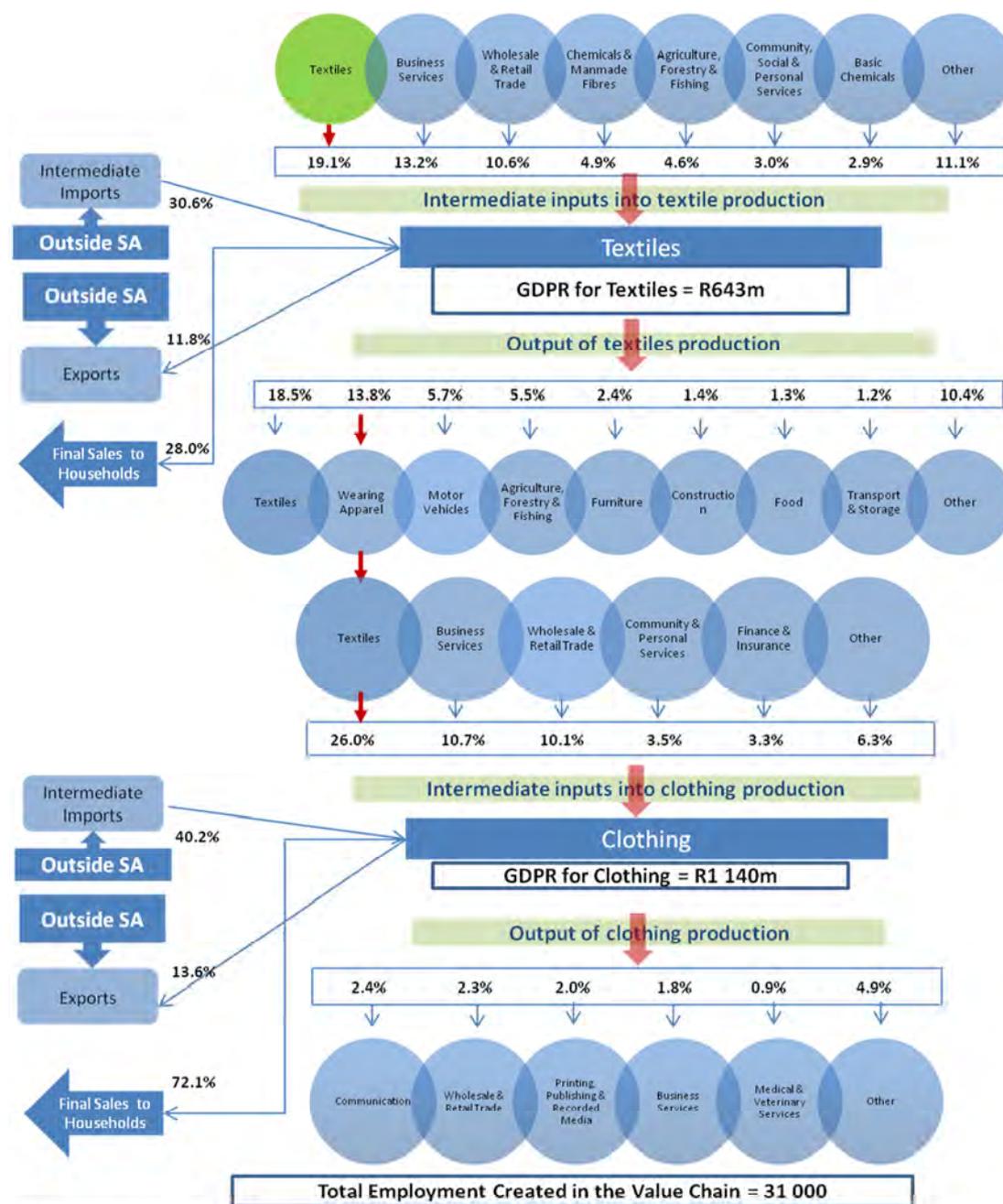
Source: Quantec Research

The value chain for textiles & clothing is depicted in Figure 4.4 below. This shows the progression of the production process of wearing apparel from textiles to clothing. It also depicts the input sectors into the production process and the support sectors to the industry, such as, business services etc.

The value chain is constructed by looking at the backward and forward linkages (as defined by Statistics South Africa) into the various sectors that are involved to constitute a value chain. For this value chain the two major sectors that are combined in the process of the manufacture of wearing apparel are the textiles and clothing sectors.

Inputs into the textiles manufacturing process are made up from intermediate inputs from production and support sectors, as well as, from intermediate imports from outside South Africa into the production process. The level of intermediate imports for textile manufacture is high, at 30.6 per cent, with the textiles industry providing 19.1 per cent of the input to textile manufacture. This is common to many manufacturing processes, where the output from the sector or manufacturing process is used to contribute or is reconstituted as a different product in the same sector during a second-round of production. For example, in the furniture manufacturing industry wooden 'door knobs' are a finished product that are then re-introduced into the same sector in a second-round of manufacturing to form part of a completed desk.

Figure 4.4 Textile & clothing value chain in the Cape Metro



Note: Inputs of sectors and imports add to 100%;
Outputs from production are sold to sectors, households and for export (these add to 100%)

The contribution of business services to the textiles manufacturing industry is significant, at 13.2 per cent.

The output from the textiles manufacturing process is then allocated to various industries, which will use the product in further manufacture of final consumption. Final consumption of the outputs early on in the value chain is usually much smaller than that of finished products in the latter part of the value chain. The largest proportion of output from the textiles manufacturing process is for final sales to households, with 18.5 per cent re-introduced into the textiles manufacturing process and 13.8 per cent

of textiles output moving forward in the value chain to the manufacture of wearing apparel (clothing manufacture).

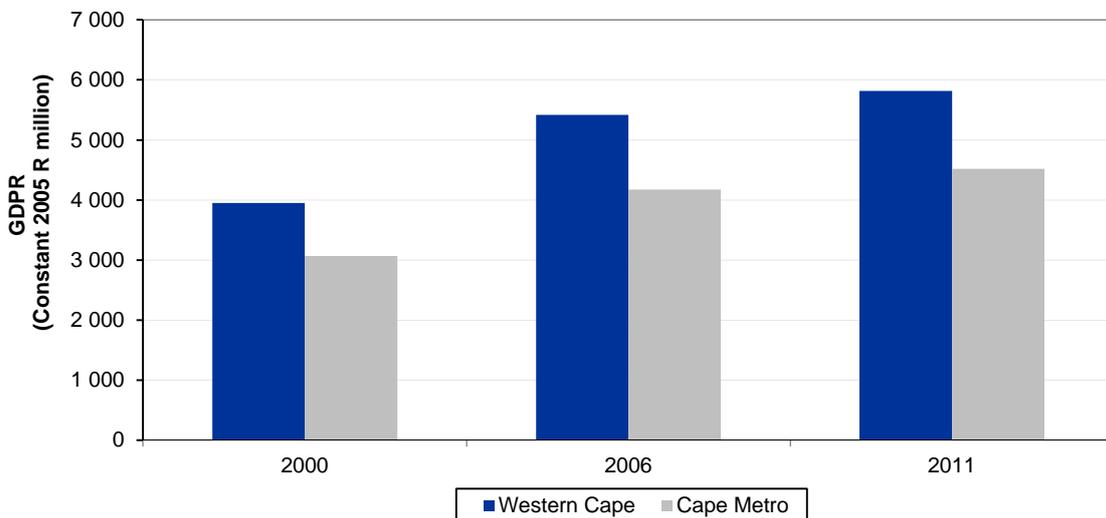
The major proportion of output from clothing manufacturers goes to final sales to households, at 72.1 per cent. The output to other sectors in the economy is relatively small in comparison, with only 13.6 per cent exported. The share of intermediate imports into the clothing sector is high, at 40.2 per cent and this shows that there is definite opportunity to boost the input from the textiles industry into clothing. This, however, does depend on many other factors such as cost, efficiency and quality of the product that could be locally produced.

Metals & machinery manufacturing value chain

The metals & machinery value chain in the Cape Metro is significant in proportion to the total sector in the Western Cape, with a large machinery manufacturing component. The analysis in this section will focus on the value chain responsible for the manufacture of metals and machinery, the major sectors included in the GDP and employment analysis below constitute the entire value chain for metals and includes; basic iron and steel, non-ferrous metals, metals, metal products, machinery and equipment but excluding electrical machinery.

Figure 4.5 below shows that the entire industry in the Cape Metro contributes a significant proportion of GDP to the entire industry in the Western Cape, at almost 78 per cent. Growth in GDP has been at a yearly average of 3.6 per cent per year from 2000 to 2011 for both the Cape Metro and the Western Cape.

Figure 4.5 Metals & machinery manufacturing GDP for the Western Cape and Cape Metro: 2000, 2006 and 2011

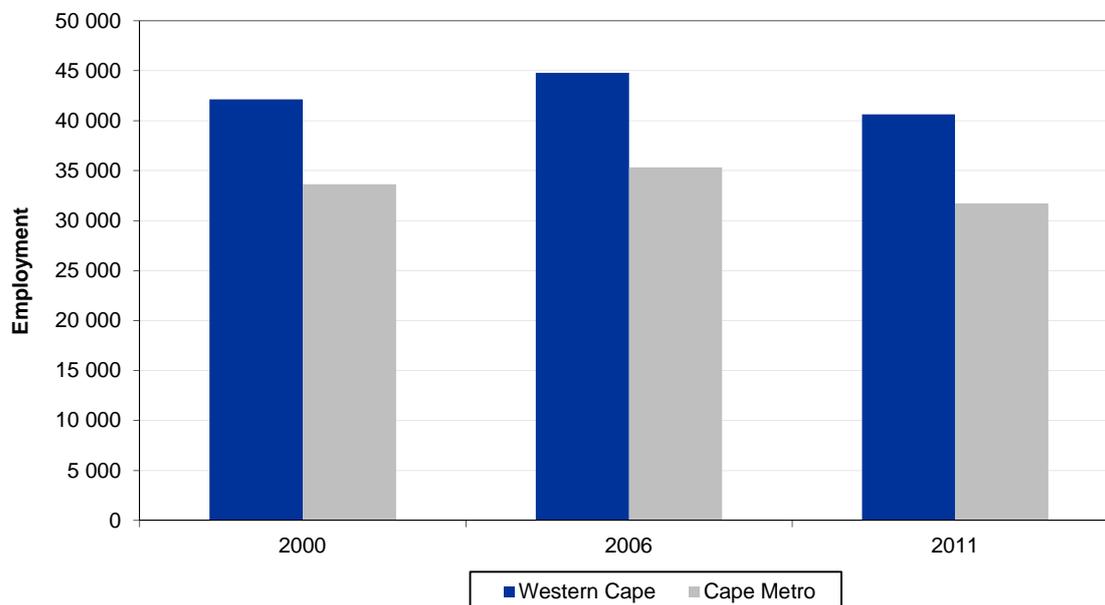


Source: Quantec Research

Employment levels for the industries in the value chain have, however, declined from 2000 to 2011. This is shown in Figure 4.6 below and it is seen that employment levels in the Cape Metro for metals & machinery have declined by -0.5 per cent per year from

2000 to 2011. During the same period the average yearly decline in employment of the sectors in the Western Cape was slightly less at -0.3 per cent.

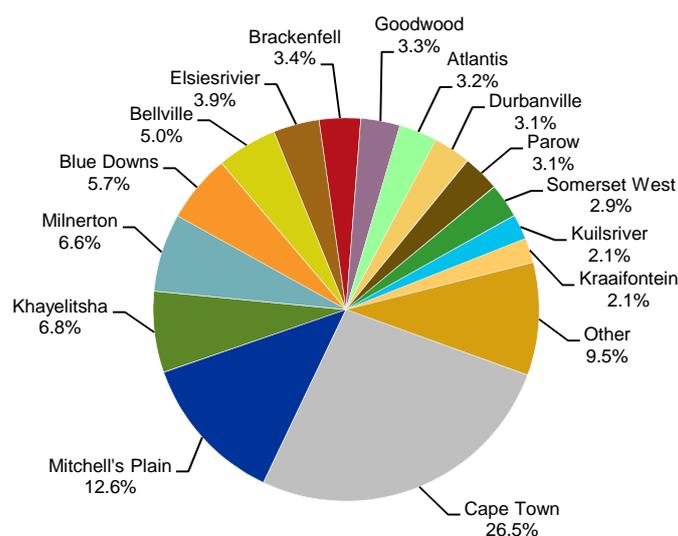
Figure 4.6 Metals & machinery manufacturing employment for the Western Cape and Cape Metro: 2000, 2006 and 2011



Source: Quantec Research

The largest proportion of production according to GDPR takes place in Cape Town, with a 26.5 per cent share. Mitchell’s Plain and Khayelitsha are the second and third largest areas of production, at 12.6 per cent and 6.8 per cent respectively. The production process is highly industrialised and in many instances this requires these industries to be centred in clusters or industrial parks.

Figure 4.7 Local municipal shares in the Metals & machinery manufacturing industry: 2011

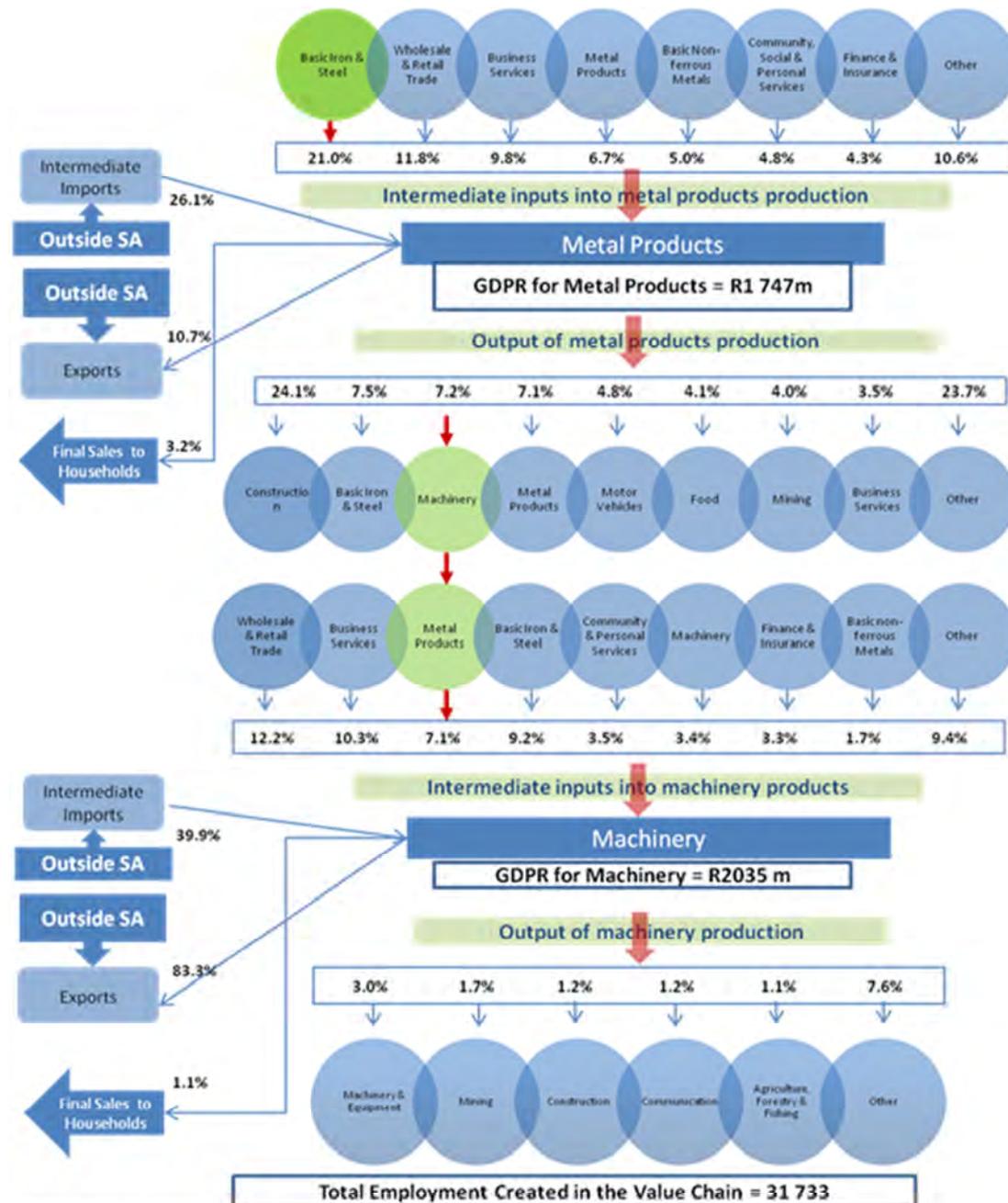


Source: Quantec Research

The value chain for metals & machinery production is represented in the diagram in Figure 4.8 below. There are two major economic sectors (as per Statistics South Africa definition) that are represented in this value chain namely, the metal products and machinery sectors.

The inputs into each sector (intermediate inputs and intermediate imports) add to 100 per cent, the outputs from the sector (intermediate outputs, exports and sales to households) add to 100 per cent. This allows one to track the relative size and contribution of the economic sector in the backward or forward linkage.

Figure 4.8 Metals & machinery production value chain in the Cape Metro



Note: Inputs of sectors and imports add to 100%;
Outputs from production are sold to sectors, households and for export (these add to 100%)

The level of intermediate imports into the metal products manufacturing process is relatively high, at 26.1 per cent, with basic iron and steel contributing the second-highest amount at 21 per cent. The support sectors have a significant contribution, with wholesale & retail trade and business services contributing a collective 21.6 per cent to metal products production.

The value chain progression is then followed through to the machinery sector which uses the output of metal products to take the production process to the next stage. The construction industry is a significant receiver of output from the metal products sector, at 24.1 per cent, with metal products output to machinery only contributing 7.2 per cent to total metal product production output.

The support sectors to the production of machinery are significant as they outweigh metal products as inputs into the machinery production process. Wholesale & retail trade and business services contribute 12.2 and 10.3 per cent inputs into the machinery sector respectively. This is followed by the input from metal products at only 7.1 per cent. The level of intermediate imports into the production process is also high, at 39.98 per cent, and if this is compared to the level of metal product inputs and total intermediate inputs it is clear that the sector is highly dependent on imports.

The output from the machinery sector is mainly for export, at 83.3 per cent, with local industry and sectors receiving relatively insignificant amounts of output. Sales to households from both the metal products and machinery sectors are insignificant as expected for these types of products.

Key recommendations – Cape Metro value chains

The textiles & clothing value chain shows that the sectors involved in the value chain are highly dependent on imports to the production processes. This signifies opportunity to investigate the possibility to identify the nature of these inputs and if it is feasible to produce these locally to form part of local intermediate inputs to the value chain.

The machinery component of the metals & machinery value chain has a large proportion of imports that are used as intermediate inputs. The linkages to other sectors in the economy could potentially be larger if this proportion of intermediate inputs were locally supplied.

4.3 Policy issues

The above value chains are important from an industrial policy perspective. The reason is that a given policy focusing on interlinked industries within a value chain may render a higher return than if the same policy had been divided among unrelated sectors and industries. Although this statement forms the basis of the new Special Economic Zones (SEZs), they only apply when several links within a value chain are in need of state support. SEZs include free trade zones and sector development zones, and are aimed at promoting regional development, local value added, skills and technology transfers.

More generally, the case for policy intervention is back on the proverbial stage and has taken on a range of new dimensions in both industrialised and developing economies. Traditionally, the role of government has been justified in terms of so-called market failures, including the provision of public goods, the reduction (or augmentation) of externalities, elimination of the abuse associated with monopolistic power and, importantly, combating endemic poverty¹⁵. More pertinently, appropriate intervention can contribute to the utilisation of potential competitive advantages via the creation of agglomeration (or internal and external) economies of scale, manifested in the form of cost-reducing production on the part of individual enterprises or value chains – something the free market either cannot do or takes too long to accomplish. Thus policy – including grant transfers, infrastructure provision, investment allowances and skills development – should focus on these enterprises and, in the case of a value chain, investigate its eligibility for SEZ status.

A more recent justification derives from the improper and often illegal anti-trade practices applied by countries to which the CMA and other Western Cape districts export their goods and services. Such practices entail the use of tariffs, subsidies and higher standards aimed at protecting similar and competing industries in the export markets, good examples of which are the tariffs imposed on steel and related imports by the USA, and subsidies conferred on agriculture and other import-competing industries in the EU. There is thus a case for *retribution* in the sense that if these problems cannot be resolved through the World Trade Organisation (WTO), it leaves local exporting industries with little option but to counteract by applying the same – but in this case offsetting – anti-trade measures.

As far as the CMA is concerned, the two value chains considered here – textiles & clothing and metals & machinery manufacturing – may well qualify for SEZ status and it may be worth undertaking an independent study in this regard. Other industries in which the CMA has a (dynamic) revealed comparative advantage include timber and furniture manufacturing, oil and gas, renewable energy, education, tourism and financial & business services.

¹⁵ Black, P, Calitz, E and Steenekamp, T. Public Economics, 6th ed. Oxford University Press, 2013.

5

Informal sector profile

Definition of the informal sector

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 Receiver of Revenue for income tax or value added tax. Statistics SA 2012.

5.1 Introduction

This chapter contributes to the deepening knowledge and understanding of the informal sector in the City of Cape Town (CoCT). Given the difficulty of estimating the size of the informal sector in terms of its contribution to the City GDP and employment, the aim is generally to determine the business climate of informal sector businesses at a 95 per cent confidence level by surveying and analysing 200 informal businesses at the district level. This was done for the 5 non-metro districts in the Western Cape. However given the economic contribution of the City compared to the other municipalities, the analysis of the informal businesses in the Metro region encompasses a sample size of 753 informal businesses which was surveyed by the Department of Economic Development and Tourism. Analyses of the business climate may bring into focus strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some may exist and thrive precisely because they can avoid labour and other regulations applicable to the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered. Others may benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

Importantly though, informal micro-enterprises in the City exist in the various economic sectors and are important in several respects. While they cover a wide range of sectors, mostly in Manufacturing, Agriculture, and Wholesale and Retail Trade, they possess important characteristics. These characteristics are:

- They are more labour intensive relative to the formal industrial sector.
- They are more (less) dependent on low-skilled and unskilled (skilled) labour.

- They tend to process local materials.
- They are more geographically dispersed.
- They are more accessible to indigenous entrepreneurs.

5.2 Analysis of data for the City of Cape Town Region

5.2.1 Profile of the informal micro-enterprise

Geographical concentration

Table 5.1 and Table 5.2 below show demographic data on informal businesses in regions of the City. From the data, the variation in business numbers and density can be noted: the informal enterprises in the City are more concentrated in urban areas than in non-urban areas. Anecdotal evidence indicates that informal economic activities are more prevalent in the large regional towns, whilst small in scope in agricultural service towns and rural localities. This evidence is confirmed by the data contained in Table 5.2 below, which indicates the concentration of informal businesses in urban areas. It is worth noting that informal settlements/townships were the predominant locality for the interviewed informal enterprises, accounting for 64.4 per cent of the total, followed by urban major city (34.9 per cent) and rural areas (0.7 per cent).

Table 5.1 Respondent suburb township by area

Township	Per cent
Athlone	5.3
Delft	11.7
Atlantis	10.4
Mamre	0.5
Elsies River	4.6
Bonteheuwel	9.7
Capricorn	8.8
Khayelitsha	12.0
Bellville	11.3
Heideveld	7.4
Parow	5.7
Athlone industry	3.1
Other ¹⁶	9.6
Total	100.0

Table 5.2 Respondent suburb township by settlement type

Township	Per cent
Urban major city	34.9
Urban township/informal settlement	64.4
Rural	0.7
Total	100.0

Source: DEDAT 2013 and own calculations

¹⁶ Other is a combination of 17 other regions in the Metro which we have grouped as a result of the small quantity of informal businesses interviewed in these areas. It is important to note that the small amounts obtained were to meet the sample size and not an indication that informal businesses are not vibrant in these areas. Also worth noting is that the areas such as Langa, Gugulethu, Mitchells Plain, Nyanga, areas renowned for informal activity, were excluded from the sample in an attempt to secure a better spread and to allow for comparative analysis. Given the ease at obtaining the sample size even while excluding the "big" informal areas indicates that informal businesses are vibrant in the Metro.

Distribution by age and race

The age distribution across the sample ranged from 17 to 94 years, with 39 years being the median age. The data was then disaggregated into four sub-sample age groups (see Table 5.3) to differentiate between young entrepreneurs (16 - 24 years); young adult entrepreneurs (25 - 34), adult entrepreneurs (35 - 60) and pensioners (61 years and above).

Before evaluating the CoCT sample by race group, it is important to note that African (63.9 per cent) and Coloured (32.5 per cent) informal entrepreneurs cumulatively accounted for 96.4 per cent of the respondents surveyed while Asian/Indians (2.8 per cent) and Whites (0.8 per cent) cumulatively accounted for only 3.6 per cent of the respondents surveyed. In numerical terms, this equates to 8 and 5 respondents respectively. Thomas et al (2013) argues that “law-abiding, middle-class citizens view the actions by informal operators as unacceptable if not illegal, and they should thus not be allowed to operate under those conditions”. This argument coupled by the fact that the White and Asian/Indian race groups have the lowest unemployment rate and the most skills in the economy, one can deduce that operating in the informal economy for these race groups may not be a viable option. As a result the remainder of this section is limited to analyses of the Coloured and African groups only.

Table 5.3 Distribution by age and race

Age	Race				Total
	African	Asian/Indian	Coloured	White	
16 to 24 years	8.3%	0%	3.3%	16.7%	6.5%
25 to 34 years	38.3%	33.3%	13.9%	0%	29.9%
35 to 60 years	49.3%	61.9%	70.6%	33.3%	56.4%
61 years or older	4.2%	4.8%	12.2%	50.0%	7.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DEDAT 2013 and own calculations

Within the age group 16 – 24 years, the African race group accounted for 8.3 per cent and Coloureds 3.3 per cent; while the total respondents, which include the Asian/Indian race group, cumulatively account for a total of 6.5 per cent. Entrepreneurial activity appears to be very lacklustre within this age group. This is rather disconcerting given that this is the age group where nationally the unemployment rate is at its peak.

The age group 25 – 34 years, the African race group accounted for 38.3 per cent and Coloureds for 13.9 per cent; cumulatively, including the Asian/Indian and White groups, this cohort accounted for a total of 29.9 per cent. Encouragingly entrepreneurial activity is significantly vibrant within this age group as this is an area where unemployment is also quite high.

The 35 - 60 age group accounts for more than half of the total cumulative percentage share (56.4 per cent) and entrepreneurial activity is at its peak in this age group. Here the African group accounts for 49.3 per cent and the Coloured group accounts for the largest proportion at 70.6 per cent. Anecdotal evidence through

interviews with CIPRO and SEDA suggests that generally, individuals work for a number of years in formal employment before terminating their services, and then using their pension or life savings to become entrepreneurs. The entrepreneur may or may not decide to register the business; however SEDA has found that particularly among the coloured race group, they choose to work informally for a significant period before, if at all, formally registering their business. Tax avoidance and the lack of Government tenders appear to be the main reasons for the apathy to formalise. The data appears to support the anecdotal evidence.

The participation of entrepreneurs aged 61 years and older cumulatively accounts for 7.2 per cent, with Africans (4.2 per cent) and Coloureds (12.2 per cent). Other than the Overberg, the Metro is the only district where this age group has more active informal businesses than the 16 - 24 age group and it may be linked to anecdotal evidence that there are insufficient saving to consider retirement.

The split of respondents by gender was slightly weighted in favour of male respondents who comprised 57.5 per cent of the sample while female respondents accounts for 42.5 per cent as is shown in Table 5.4 below.

Table 5.4 Distribution by gender

Gender	Per cent
Male	57.5
Female	42.5
Total	100.0

Source: DEDAT 2013 and own calculations

Educational attainment

Table 5.5 below shows that South African informal entrepreneurs account for the majority of respondents (68.7 per cent), followed by the Democratic Republic of the Congo (DR Congo) (6 per cent) and then Cameroon (4.9 per cent). When gauging educational attainment among respondents from the different countries, the data reveals no real difference in education level per country. For example for the 3 countries of origin (SA, DR Congo and Cameroon) mentioned, the majority of the respondents either completed or have some form of high school education. It appears that there is not really a positive relationship between educational, schooling levels and informal businesses activity.

Table 5.5 Level of education and country of origin

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed matric Grade 12 A/O levels	
South Africa	41.70%	94.90%	89.10%	77.10%	48.70%	68.70%
	(1.93%)	(14.51%)	(7.93%)	(50.87%)	(24.76%)	(100.00%)
DR Congo	4.20%	0.00%	0.00%	5.60%	9.50%	6.00%
	(2.22%)	(0.00%)	(0.00%)	(42.22%)	(55.56%)	(100.00%)
Mozambique	0.00%	0.00%	0.00%	0.00%	0.40%	0.10%
	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(100.00%)
Somalia	33.30%	2.50%	4.30%	2.60%	2.30%	3.60%
	(29.63%)	(7.41%)	(7.41%)	(33.33%)	(22.22%)	(100.00%)
Angola	4.20%	0.00%	0.00%	0.60%	0.80%	0.70%
	(20.00%)	(0.00%)	(0.00%)	(40.00%)	(40.00%)	(100.00%)
Malawi	0.00%	0.00%	0.00%	1.50%	1.50%	1.20%
	(0.00%)	(0.00%)	(0.00%)	(55.56%)	(44.44%)	(100.00%)
Nigeria	0.00%	0.00%	0.00%	1.80%	3.40%	2.00%
	(0.00%)	(0.00%)	(0.00%)	(40.00%)	(60.00%)	(100.00%)
Zimbabwe	0.00%	0.00%	0.00%	3.80%	5.70%	3.70%
	(0.00%)	(0.00%)	(0.00%)	(46.43%)	(53.57%)	(100.00%)
Senegal	8.30%	0.00%	0.00%	0.00%	0.00%	0.30%
	(100.00%)	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(100.00%)
Kenya	0.00%	0.00%	0.00%	0.30%	0.80%	0.40%
	(0.00%)	(0.00%)	(0.00%)	(33.33%)	(66.67%)	(100.00%)
Tanzania	4.20%	2.50%	0.00%	0.90%	3.40%	2.00%
	(6.67%)	(13.33%)	(0.00%)	(20.00%)	(60.00%)	(100.00%)
Cameroon	0.00%	0.00%	6.50%	1.20%	11.40%	4.90%
	(0.00%)	(0.00%)	(8.11%)	(10.81%)	(81.08%)	(100.00%)
Burundi	0.00%	0.00%	0.00%	0.30%	2.30%	0.90%
	(0.00%)	(0.00%)	(0.00%)	(14.29%)	(85.71%)	(100.00%)
Ghana	0.00%	0.00%	0.00%	2.10%	4.20%	2.40%
	(0.00%)	(0.00%)	(0.00%)	(38.89%)	(61.11%)	(100.00%)
Bangladesh	0.00%	0.00%	0.00%	0.60%	0.80%	0.50%
	(0.00%)	(0.00%)	(0.00%)	(50.00%)	(50.00%)	(100.00%)
Other	0.00%	0.00%	0.00%	0.90%	3.00%	1.50%
	(0.00%)	(0.00%)	(0.00%)	(27.27%)	(72.73%)	(100.00%)
Ethiopia	0.00%	0.00%	0.00%	0.60%	1.50%	0.80%
	(0.00%)	(0.00%)	(0.00%)	(33.33%)	(66.67%)	(100.00%)
Zambia	0.00%	0.00%	0.00%	0.30%	0.00%	0.10%
	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(100.00%)
Pakistan	4.20%	0.00%	0.00%	0.00%	0.40%	0.30%
	(50.00%)	(0.00%)	(0.00%)	(0.00%)	(50.00%)	(100.00%)
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	(3.19)	(10.49)	(6.11)	(45.29)	(34.93)	100.0

Note: Percentages in parenthesis () are calculated only for the specific county's educational level.

Source: DEDAT 2013 and own calculation

However in analysing skill acquisition, the respondents reported a diverse range of acquiring skills (see Table 5.6 below). Importantly, especially in the context of literature which argues that the informal economy provides a means for skills acquisition through informal apprenticeship, over half the sample (49.6 per cent) reported having acquired their skills on the job. A further 17.5 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for skills transfers to employees, whilst transferring entrepreneurial learning to the business owner. Surprisingly, the City in its questionnaire survey response appears to not have a skills strategy even though they have identified more than 30 per cent of their occupants are in the semi-skilled and unskilled group while an additional 12 per cent is in the informal business.

A further 14.9 per cent reported acquiring skills from a former job, a finding that confirms research (including the previous MEDS 2007 informal economy – trade study) which argues that many of the entrepreneurial persons within the informal economy have experience of the formal economy workforce and would be capable of obtaining formal jobs. The role of formal adult education in providing skills to operate informal business is fairly limited with only 5.1 per cent reporting having acquired their business skills through study.

With only 1.9 per cent of respondents indicating that they acquired their skills through college is a further indication that educational levels are not a motivation for being active in the informal businesses as argued in Table 5.5 above.

Table 5.6 Level of skills acquired

Skills acquired	Per cent
Former employment	14.9
On this job	49.6
Adult education	5.1
Family business	17.5
Family and friends	5.7
Did a course	0.7
College	1.9
Self-taught	2.9
Trade school	0.4
Other	1.3
Total	100.0

Source: DEDAT 2013 and own calculations

Registration of informal businesses

Many enterprises may hold some level of formal registration and yet still operate outside of the formal system, whether intentionally or unintentionally. For example many businesses register at CIPRO but never complete their annual returns. As a result these businesses are deregistered by CIPRO but remain “active” in the market place.

Table 5.7 Registration of informal businesses

Business registration	Per cent
None	59.6
CIPRO/the dti	4.1
SARS	3.5
Trader organisations	4.4
Local municipality	26.0
Other government organisations	0.3
Other	2.1
Total	100.0

Source: DEDAT 2013 and own calculations

The data in Table 5.7 indicates that nearly 59.6 per cent of the sample reported that their businesses were not registered in any way (institutionally or organisationally). Of those businesses with some level of registration and formalisation, 26 per cent claimed registration with municipal authorities, 3.5 per cent with SARS, 4.1 per cent with CIPRO/the dti, other government organisation 0.3 per cent and 4.4 per cent with trader organisations.

This finding highlights the significant variance in compliance between municipal and national/provincial requirements for business licensing, with a comparatively higher degree of compliance in municipal regulatory requirements reflecting either that municipalities more effectively enforce compliance or that the benefits of this status outweighs the costs of non-compliance. It is also evident that municipal authorities do not require compliance with national acts, such as employment or immigration legislation, as a precondition for the granting of municipal licences.

A municipal trading licence does not imply enterprise formalisation, but merely minimal compliance. In all other aspects these businesses should be regarded as informal. The low level of enterprise registration with informal trader organisations (4.4 per cent) confirms the limited influence of trader groups within the Metro's informal economy. The findings also show, in converse, that roughly 41 per cent of informal businesses endeavour to comply with state requirements to a certain degree, though compliance is strategic rather than procedural. Therefore literature arguing that informal businesses weigh-up the costs/benefits of compliance in their engagement with regulation appears to hold true.

5.2.2 Organisation of business (Goods and services)

The trade in products and services was separated for analysis, and aggregated into broad categories of best fit. Roughly 70 per cent of the respondents sold products, whereas 30 per cent of the respondents provided a service. The data shows that businesses providing services generally do not sell products, except where natural synergies exist as in the case of hair dressers that sell hair care products, or appliance repair shops that sell electrical goods, or catering businesses that sell take-aways.

Trade in goods

The survey revealed a considerable diversity in the range of products sold through informal trade, within the metro. For practical analysis the trade in products was combined into four categories or sectors; i) retail food and drink, ii) retail attire, iii) household goods, and iv) personal requirements. The results are shown in Table 5.8 below.

Retail food and drink was by far the largest category of overall business activity (34.8 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was retail attire or the selling of clothing (19.4 per cent of all businesses surveyed); while household goods was the third largest category (10.8 per cent) – primarily the trade of non-food household items including furniture, electronics and hardware, alongside household consumables such as cleaning products, and black bags. Up to 5.3 per cent of product focused businesses traded cigarettes (categorised as personal requirements, which also included traders of over the counter pharmaceuticals, perfumes and similar personal care products).

Table 5.8 Product-orientated informal business per sector

Product per sector	Per cent
Retail food and drink	34.8
Retail attire	19.4
Household goods	10.8
Personal requirements	5.3
Total	70.3
Services excluded	29.7
Total	100.0

Source: DEDAT 2013 and own calculations

Trade in services

Service businesses were categorised into four sectors: i) micro-manufacturing, ii) personal services, iii) business services and iv) social services. The division is shown in Table 5.9 below. Business services accounted for 14.6 per cent of service informal micro-enterprise activities. This category includes mechanical repairs, appliance repairs, tradesmen, moneylending, computer and secretarial services. Personal services comprise 6.1 per cent of the services businesses and include primarily hair salons traditional healers, funeral services and sex work (due to its largely clandestine nature, the latter was likely to have been under-represented in this study). Informal micro-manufacturing accounted for 7.4 per cent of all services businesses including furniture making, tailoring and cobbling. The social services sector was the smallest cohort accounting for 1.6 per cent; this sector includes child care and educare services.

Table 5.9 Service-orientated informal business per sector

Services per sector	Per cent
Micro-manufacturing	7.4
Personal services	6.1
Business services	14.6
Social services	1.6
Total	29.7
Products excluded	70.3
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.3 Justifications for starting informal enterprises

An important direct or implied justification for most people establishing and operating informal enterprises was economic survival. This can be clearly seen in Table 5.10: Reasons for starting a business. Although many individuals gave multiple responses to this question, wanting to earn more money along with the inability to find alternative employment were the primary responses (74.2 per cent of responses). Interestingly 10.9 per cent of motivations related to the respondents' claim that they were good at or had expertise in running their particular business.

Table 5.10 Reasons for starting a business

Reasons for starting a business	Per cent
I could not find alternative employment	46.9
I didn't enjoy working for someone else	10.4
I wanted to earn more money/financial hardship	27.3
I am good at running this business	10.9
Opportunity	0.7
Needed more flexibility	0.1
Health reasons	0.1
Have passion for it/It's a calling	1.2
Gap in the market	0.3
Other	0.8
Create employment/help the community	1.2
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.4 Years in operation

The survival, sustainability and longevity of the studied informal economy enterprises are considerably high – especially after an initial year of operations. The results are presented in Table 5.11 below. A relatively small number (13 per cent) of enterprises were less than a year old. The majority of interviewed businesses (45.3 per cent) had been in operation for between one and five years, with a further 24.3 per cent operating between 6 and 10 years and a further 17.3 per cent operating for over 11 years. The data confirms the City's statement in its draft informal policy (May 2013) that "the informal sector is here to stay". Of course, due to the nature of the study one is unable to determine the number of businesses that have failed (appearing

most likely to happen within the first 12 months of operations), although this finding does imply a sense of sustainability of business for operating enterprises.

Table 5.11 Number of years business is in operation

Years in business	Per cent
Less than 1 year	13.0
1 to 5 years	45.3
6 to 10 years	24.3
11 or more years	17.3
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.5 Employment

The contribution of the informal economy to employment creation is further supported by this survey, as the data reveals that the 753 businesses interviewed in this study provided 1537 jobs (including the owners) through employment. This implies a ratio of just over 2 jobs created (including owner) per informal business established for the Metro. Whilst nearly 42 per cent of these enterprises only provided employment for the owner, the remaining 58 per cent in the study employed more than one person (in addition to the owner), most commonly a second individual. Table 5.12 below gives more detail.

Table 5.12 Employment provided by informal businesses

Number of jobs	Frequency	Per cent
1	312	41.5
2	277	36.8
3	86	11.4
4	38	5.0
5	18	2.4
6	9	1.2
7	3	0.4
8	4	0.5
9	1	0.1
11	2	0.3
12	1	0.1
14	1	0.1
19	1	0.1
Total	753	100.0

Source: DEDAT 2013 and own calculations

Employment was more common in businesses providing services such as hair salons and car mechanics, or from home-based business enterprises such as liquor retailers. Businesses that traded from temporary structures in the street were generally the least likely to employ staff.

Informal enterprises represent important family businesses. However, 57.1 per cent of the sample employs no family members in the business (see Table 5.13). Of the sampled enterprises that employed family members beyond the owner, the majority

(32.1 per cent) employ one person. This finding compares favourably with the MEDS informal economy study (2007) where informal business operators commonly work within a 'circle of trust' that primarily includes spouses and direct family members.

Table 5.13 Family members employed

Number of family members employed	Per cent
No family members	57.1
One family member	32.1
Two family members	6.8
Three or more family members	4.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.6 Business location

The street and people's homes provide the most commonplace and important business venue opportunities for the informal economy participants in this study. Within the streets context 35.5 per cent of respondents set up business venues on a daily basis for trade, using a range of semi-permanent stands. A further 16.9 per cent operated from permanent structures on the roadside. 19.8 per cent of enterprises were home based (own or someone else's), generally operating from the household, involving cooking, take-aways in the kitchen or minding children on the property. A further 8.7 per cent of enterprises operated from separate structures attached to people's homes (own or someone else's), such as shipping containers or shacks specifically utilised for the business. Taxi ranks (5.4 per cent) and formal market places (7.6 per cent) were also important areas for business activity and where it was apparent many enterprises were clustered - with 13 per cent of interviewed businesses located in these sites. Only 1.6 per cent of the respondent's place of business included Commercial Buildings (see Table 5.14).

Table 5.14 Where do you operate this business from?

Where do you operate the business from	Per cent
Hawking/mobile	3.1
Road side (structure assembled daily)	35.5
Road side (permanent structure)	16.9
From a moving vehicle	1.5
In my home	16.5
Separate structure on my property	5.6
Separate structure on someone else's property	3.1
Someone else's home	3.3
Formal market place	7.6
Commercial building	1.6
Taxi rank/station	5.4
Other	0.1
Total	100.0

Source: DEDAT 2013 and own calculations

When considering the trade in products, especially the dominant retail of groceries and clothing, the important nature of the street as a trading site becomes apparent. Similar to retail businesses in the formal sector, street based micro-enterprises are reliant on predominant foot traffic and large volumes of passing trade to support sales activity. Positioning such enterprises in close proximity to commuters and pedestrian traffic makes considerable business sense.

Home based businesses are an important feature of the informal economy. Many enterprises including those selling basic food and drink and household goods are operated from residential property, both within the home and from separate structures. Furthermore the commonplace activity of liquor retailing is also reflected in the high number of home based businesses. Unlicensed liquor trading is illegal and heavily policed and it makes little sense for many entrepreneurs to openly conduct activities in the street or from specialised premises. Maintaining this clandestine trade from private homes assists in concealing the enterprise from the public at large and law enforcement officials.

5.2.7 Ownership of assets and micro-enterprise profitability

The research investigated asset ownership, focusing on i) house, ii) container, iii) shack, iv) vehicle, v) cell phone, vi) computer and vii) specialist equipment. Surprisingly, the most widely possessed asset was the respondent's own home (24.7 per cent), followed by own cell phone (23.6 per cent), then own specialised tool and machinery (16.3 per cent), and own Container (9.9 per cent). The results are shown in Table 5.15 below. Only 1.1 per cent of the respondents in the sample owned a computer. Given that the survey did include any businesses providing computer use or internet access, one can firmly conclude that use of computers and internet access is extremely low or non-existent. This would be an area where the City can improve its broadband launching project which they have highlighted in their survey response.

Table 5.15 Ownership in assets

Ownership in assets	Per cent
Own house	24.7
Own container	9.9
Own shack	9.7
Own caravan	0.4
Own specialised machinery/tools	16.3
Own vehicle(s)	7.0
Own computer	1.1
Own cell phone	23.6
Own other assets	3.0
Own stock	4.3
Total	100.0

Source: DEDAT 2013 and own calculations

In most cases, some of these assets form part of the business, and are used in the process of income and profit generation.

The majority of the businesses surveyed were relatively low profit earners, with more than 73 per cent of respondents reporting average monthly profits of less than R2 500 (see Table 5.16). Less than 30 per cent of enterprises reported earnings more than R2 500 per month; therefore their informal business enterprises propel individual earnings over the South African median, making them comparatively financially well off amongst local peers.

Table 5.16 Profit business makes on average in a month

Average monthly profit	Per cent
R1 - R999	44.2
R1 000 - R2 499	29.6
R2 500 - R4 999	15.5
R5 000 - R9 999	7.1
R10 000 and above	3.6
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.8 Money lending and credit

Localised money lending and credit is an important part of the informal economy. More than 22 per cent of all interviewed micro-enterprises reported lending money to individuals as part of their business strategy (see Table 5.17 below).

Table 5.17 Money lending

Money lending	Per cent
Yes	22.0
No	78.0
Total	100.0

Source: DEDAT 2013 and own calculations

This finding confirms that a sizeable portion of informal businesses rely on diverse income strategies beyond the core product or service nature of their business. Furthermore the finding shows how potentially many thousands of informal enterprises in the Metro contravene the National Credit Act in providing financial services without licences to do so. Further although not in the table but related to the activity of money lending, 36.5 per cent of enterprises give out goods and services on credit. This is important because their customers are generally resource poor. In certain sectors (such as clothing and home ware) credit is necessary to compete with formal businesses that offer lay-buys or account purchases.

Interestingly whilst a considerable number of enterprises lend money out as part of their business practice, the micro-entrepreneurs themselves are in general not borrowers of finance – with only 15.8 per cent of enterprises having borrowed money in the past 12 months (see Table 5.18 below).

Table 5.18 Borrowed money in last 12 months

Borrowed money	Per cent
Yes	15.8
No	84.2
Total	100.0

Source: DEDAT 2013 and own calculations

Of those who have borrowed, family and friends are the most prominent lenders of money to the respondents, as shown in Table 5.19. Banks play a considerably smaller role, potentially due to the stringent requirements for proof of income and absence of collateral. Savings clubs and money lending businesses play a negligible role in providing finance to informal economy businesses.

Table 5.19 Sources of loans

Sources of loans	Per cent
Have not borrowed money in the last 12 months	85.1
Family	6.5
Friends	5.4
Bank	1.3
Business that lends money, not a bank	0.1
Individual (loan shark)	1.1
Savings club	0.1
Other	0.3
Total	100.0

Source: DEDAT 2013 and own calculations

Interestingly, for those borrowing money, not only do family and friends provide the important sources of finance, but with respect to interest charged also offer the most reasonable terms. Based on aggregating all borrowed and repaid funds as reportedly borrowed by the respondents, the commercial banks and micro-finance agencies charge commercial (though modest) interest rates, with the median loan size of R10 000 and repayment of R11 250. The data suggest that micro-finance organisations provide the most costly means of finance, although the number of borrowers is too small to make a fair comment.

5.3 Business challenges and prospects

5.3.1 Business challenges

Challenges being faced by businesses were also investigated. A series of questions pertaining to access to the formal economy and state provided services were posed, asking respondents whether the issue represented a i) 'big problem', ii) not a problem or iii) not applicable. The menu of options were: i) access to finance, ii) electricity cost, iii) water cost, iv) cost of business licensing, v) crime, vi) political crime, vii) labour relations, viii) lack of specialist equipment, ix) shortage of business premises, x) transport costs, xi) police corruption, xii) regulations, xiii) competition, xiv) immigration status, xv) other. Multiple responses were optional and therefore only the challenges which received the most responses as "biggest responses" are reported on.

The key finding from this enquiry was that the most frequently mentioned challenges were: first, access to affordable micro-finance (59.2 per cent of respondents), second, Crime (50.5 per cent of respondents) and third, shortage of business premises (49.8 per cent of respondents). The distribution of responses is shown in Table 5.20 below.

Interestingly the major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

As mentioned almost 50 per cent of the respondents highlighted the lack of suitable business premises as a major problem for their enterprise activities. A variety of businesses presented this complaint, including street traders who relied upon temporary structures, through to vehicle panel beaters operating from home and street based sites. The underlying issue around premise suitability extended beyond the physical premises and also included zoning such as businesses operating in residential areas (in contravention of municipal land use regulations). Although not in the table below, no fewer than 10.9 per cent of respondents specifically cited regulation as a major obstacle to their business growth, whilst a further 26.3 per cent cited challenges in obtaining municipal licences as a major obstacle. These findings point towards the need for reducing red-tape.

Other issues that respondents identified were the cost of access to water (17.4 per cent), the access to electricity (34.3 per cent), the lack of specialised equipment (30.7 per cent), competition (39.3 per cent), and transport costs of goods (21.6 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

Table 5.20 Perceived business growth challenge

Challenge for business growth	Number of respondents	Percentage of cases
Access to affordable finance	446	59.2%
Electricity cost access	258	34.3%
Water cost access	236	17.4%
Cost and difficulty of business licensing	198	26.3%
Crime	380	50.5%
Lack of specialised equipment	231	30.7%
Shortage of business premises	375	49.8%
Transport of goods costs	163	21.6%
Competition	296	39.3%

Source: DEDAT 2013 and own calculations

5.3.2 Business prospects

Despite the relatively low incomes for the great majority of participants, almost three quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a “minimum wage” job paying R126.00 per day (see Table 5.21). This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

Table 5.21 Will you take minimum wage of R126 per day

Employment in formal sector with minimum wage	Per cent
Yes	24.8
No	73.7
N/A	1.5
Total	100.0

Source: DEDAT 2013 and own calculations

The desire of the majority to persist with informal self-employment implies that the income earned from informal economy business is sufficient to warrant continued operation in the sector – even if it is lower than a formal economy equivalent, or at least the work conditions, hours of employment and flexibility of operations (in other words non-wage benefits) are considered further benefits that would be lost under full-time employment.

Further to the majority preference to not hold a formal sector position at minimum wage, people tend to share a largely positive outlook about their businesses. This optimistic outlook is borne out in the survey results with 54.6 per cent of enterprises able to report business growth either in profit or volume of sales (in cases of both goods and services trade) since starting the business, and a further 35.3 per cent reporting stable business activity (Table 5.22). Considering the toughening conditions of the broader national economy in recent years, both stability and growth are useful indicators for business sustainability and provide positive future prospects for these business owners.

Table 5.22 Business outlook/Growth prospects

Business outlook/Growth prospects	Per cent
Expanded increased profit more stock greater number of employees	54.6
Contracted decreased profit less stock fewer employees	10.1
Remained the same - no change	35.3
Total	100.0

Source: DEDAT 2013 and own calculations

5.4 Concluding remarks

Given the economic contributions of the informal economy, it is widely believed that governments should be developing policies that recognise the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work in it. This is increasingly seen as responsibility of local government and should be considered in the City's draft Informal Trading Policy (May 2013) particularly given the positive ripple effect it would have in acquiring skills of such a policy as the data suggests.

The obvious benefits for entrepreneurs who operate in the informal economy are to avoid costly and burdensome government regulations as well as high and complex taxes. However, the findings in the chapter show that many informal businesses do in

fact endeavour to comply with state requirements to a certain degree, although compliance is strategic rather than procedural in nature. The reason why the informal sector is growing in the Metro is therefore that the benefits of formality are overshadowed by its costs. Understanding this would be extremely useful to help the City refine and finalise its Informal Trading Policy before submission to Council for finalisation.

Even though the City informal economy incomes appear generally low, the term “survivalist” does not necessarily do justice to the demonstrated sustainability of enterprises; positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their enterprises with a theoretical offer of alternative formal work at minimum wage argue the contrary.

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

Whilst the study findings cannot comment on the economic scale of the City's informal economy (in terms of employment numbers or GDP although the City claims it is around 12 per cent) the micro-enterprises studied – especially the majority operating within the township context - play an important local employment role in their immediate economies. Each business has an employment factor of slightly above 2 and almost 60 per cent of enterprises provide employment opportunities. Employment is predominately family based, though opportunities are also provided for piece-workers. 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. It should not be assumed that the formal sector pays higher wages at the entry and uses lower skills levels than informal work.

Finally, the majority of informal micro-enterprises are non-connected with the information age. This is a direct result of their low levels of education. The use of personal computers is minimal, whilst the typical informal micro-entrepreneur does not use a smart-phone. These businesses thus are still reliant on information exchange through inter-personal networks (word of mouth) and the print media. In addition the informal sector is not a consideration in the City's broadband project and it may be an area which the City should consider in order to achieve economic growth for this sector.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Perhaps the overriding challenges facing the South African government are the elimination of poverty and inequality and a significant reduction in unemployment. One of the mechanisms through which the government aims to address the challenges the country faces is through infrastructure investment, and there has indeed been a significant increase in infrastructure investment in recent years. In the years leading up to the 2010 FIFA World Cup, the increase in investment of up to 6.05 per cent and 7.64 per cent of Gross Domestic Product (GDP) in 2008 and 2009 respectively was preceded by years of very dismal investments averaging about 2.91 per cent annually between 1995 – 2007 (Kumo, 2012:7). The long run trends in infrastructure investment are well explained in Perkins, Fedderke and Luiz (2006).

Many definitions and interpretations of infrastructure can be found in the literature (see Fourie, 2006a for a discussion of these definitions). Economic infrastructure includes transport, communication, energy, water and sanitation facilities, whilst health and education systems as well as cultural and recreational facilities constitute social forms of infrastructure (Fedderke and Garlick, 2008: 2). This chapter focuses on economic infrastructure.

Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect” – as well as in providing a solid foundation for social development (Swilling, 2006). In South Africa the importance of infrastructure has not only been emphasised at national level but also at regional level. In the Western Cape the region needs efficient transport systems, water and sanitation, telecommunications and power supplies in order to influence the standard of living of their populations and regional economic growth. There is thus a pressing need to

determine whether government's strategy on infrastructure investment will yield the desired economic growth benefits at micro (i.e. project or sector level) or at the national or macro level.

The micro level analysis certainly would provide more accurate results on the impact of public economic infrastructure investment on the economy but most empirical work in this area in South Africa has focused on the national level. Over the years much research has been conducted on the relationship between infrastructure and growth¹⁷ and conclude that infrastructure does have an impact on growth – a view strongly supported by municipalities in their response to the Cape Metropolitan Area (CMA) survey. Early reviews of the empirical literature on the South African economy can be found in Fourie (2006).

Investment in economic infrastructure is not only important at the national level but the regional and local levels too. Table 6.1 below illustrates the extent to which households within the Western Cape lack access to basic services (electricity, piped water and sanitation and refuse removal). Provinces with the most urgent need for Municipal water services and sanitation infrastructure requirements are KwaZulu-Natal, Limpopo and the Eastern Cape. As can be seen in comparison to other provinces the Western Cape has performed relatively well. However there is still a need for the maintenance and expansion of key strategic regional infrastructure projects in order to position the Western Cape for sustainable economic growth and poverty reduction.

Table 6.1 Municipal backlogs per province

Municipal backlogs per province	Backlog (% with service below adequate level)			
	Electricity	Piped water	Sanitation	Refuse removal
Western Cape	6	1.1	6.6	8.9
Free State	13.4	2.5	30.6	23.4
Gauteng	16.5	2.1	12.2	13.8
North West	17.7	10.1	18.4	45.2
Mpumalanga	18.3	8.7	46.1	58.5
Limpopo	19	16.4	69.2	81.3
KwaZulu-Natal	28.5	20.6	36.1	48.1
Northern Cape	12.7	5.2	45.5	27.9
Eastern Cape	34.4	29.6	51.1	60
South Africa	20	11.4	32.4	38.4

Source: Ruiters (2011:65)

There have been varying levels of infrastructure investments and development across the 131 towns outside the Cape Town Metropolitan area. Some towns have solid development potential while others are declining. A number of growth factors have contributed to this decline (Donaldson et al 2010). Amongst these factors is a deteriorating infrastructure. Municipal infrastructure consists mainly of bulk treatment plants, pump networks, pump stations treatment works, reservoirs and distribution pipelines, electricity transmission and distribution infrastructure. In some municipalities,

¹⁷ These include Ford and Poret (1991), Aschauer (1989 and 1993), World Development Report (1994) and Holtz-Eakin (1994)

infrastructure remains under threat and requires increasingly more astute management whilst other municipalities have invested significantly in infrastructure provision and experience high growth rates. The following section takes a look at infrastructure investment in the Cape Metropolitan Area and its resulting impact on growth.

6.2 Regional economic growth, infrastructure and the budget link

Empirical evidence at National level has shown that investment in economic infrastructure has a positive impact on National growth. This growth however depends crucially on provincial and municipal performance. All municipalities are tasked with basic service delivery objectives in order to stimulate local economic development. Population growth and deteriorating infrastructure has continued to place strain on infrastructure budgets. The objective of this section is to determine if there is a relationship between infrastructure investment and growth in the Cape Metro and to show the success the region has had in providing infrastructure.

6.2.1 Infrastructure expenditure in Cape Metropolitan Area

With the growing emphasis on infrastructure investments the City of Cape Town has continued in its efforts to improve infrastructure availability. In an effort to address the infrastructure needs of a growing population the City has adopted an infrastructure led growth strategy. The City has made various efforts and commitments to ensure the delivery of sustainable infrastructure services to the citizens of Cape Town. Integral to this commitment is the creation of an Integrated Asset Management Plan (IAMP) that has enabled the City to effectively monitor its assets. The City also adopted an infrastructure asset management project in 2008. The project has enabled the monitoring and capturing of all data pertaining to electricity, water, sanitation and solid waste management infrastructure.

Whilst the City's infrastructure budget for the years 2011/12 was committed to greenfield investments the majority of the budget for the 2012/13 financial year has been allocated to the development of water, electricity, sanitation and solid waste management infrastructure (Annual Report, 2011/12). Although the City has had numerous successes in the provision of utility services the City is still faced with numerous backlogs in the upgrade and maintenance of its existing infrastructure. Table 6.2¹⁸ shows the allocations made towards infrastructure development over the years 2009 to 2012.

Table 6.2 Cape Metro infrastructure expenditure per municipality

Municipality (R'000)	2009	2010	2011	2012
City of Cape Town	R1 625 667	R2 499 811	R1 796 109	R2 130 631
Western Cape Province Total Expenditure	R2 517 779	R3 710 015	R2 946 769	R3 208 034

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

¹⁸ Note these figures have been inflation adjusted.

Table 6.3 Cape Metro infrastructure expenditure percentage change

Municipality	2010	2011	2012
City of Cape Town	53.77%	-28.15%	18.62%

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Despite being the oldest City in the country and experiencing significant population increases the City of Cape Town has had great success in infrastructure delivery over the years. A consumer survey revealed that residents of the City rate the City as being a good, very good and excellent service provider during the 2011/12 financial year (Annual Report 2011/12). In comparison to other districts the Cape Metropolitan Area infrastructure expenditure made up 66 per cent of the total infrastructure expenditure for the whole Province.

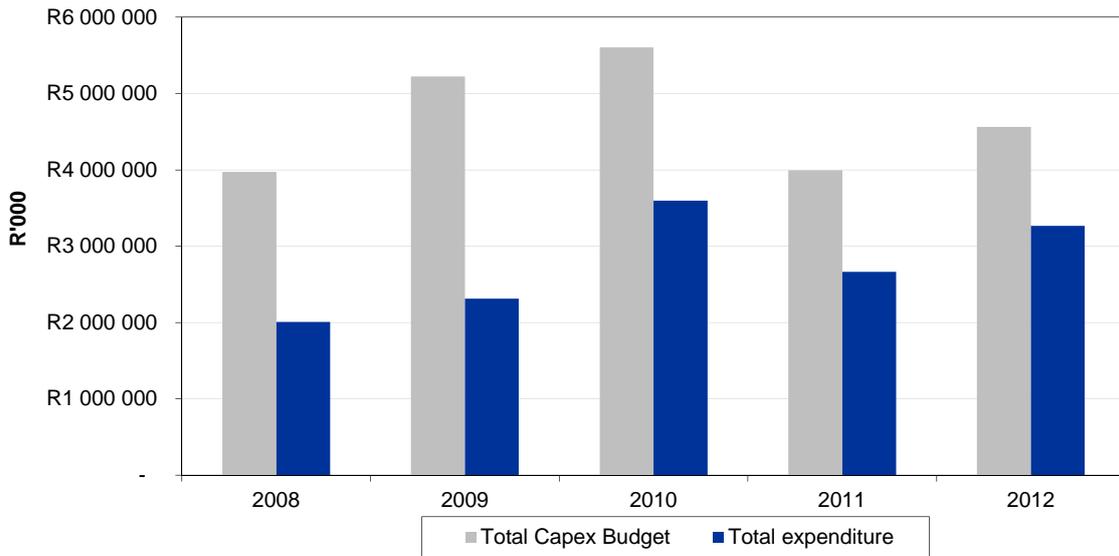
There was an evident reduction in expenditure between the 2009/10 and 2010/11 financial years (see Table 2.3). The 2010 FIFA World Cup invariably involved huge infrastructure projects. The event initiated a variety of public works programmes in the host cities such as Cape Town. These projects involved the upgrading of roads, updating ports and various other transport and logistics systems. These projects had the potential of improving regional, national and international connectivity hence impacting on the Metro's economic performance. The impact this expenditure has is dependent on the types of infrastructure invested in and the available budgets.

6.2.2 Infrastructure budgets

The sources of infrastructure funding at Municipal level are the National government and Provincial Government in the form of grants or from payments made by residents of the municipal area.

The National Government recognises that infrastructure investment is the cornerstone to economic and social upliftment. To this end in 2004 the Government provided local governments with a Municipal Infrastructure Grant (MIG) to complement their capital budgets. Of the capital expenditure budget allocated to the Cape Metro a large percentage of it goes to Economic & Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance & Administration and Community & Public Safety. Figure 6.1 below provides a comparison between the total Capex budget and the amount that is allocated towards infrastructure development from 2008 to 2012. The City has allocated 77.3 per cent of its Capex budget towards the renewal of existing infrastructure and the development of new infrastructure for the 2012/13 financial years. For the 2013/14 and 2014/15 financial years the City has allocated 75.1 per cent and 78.9 per cent respectively to infrastructure development.

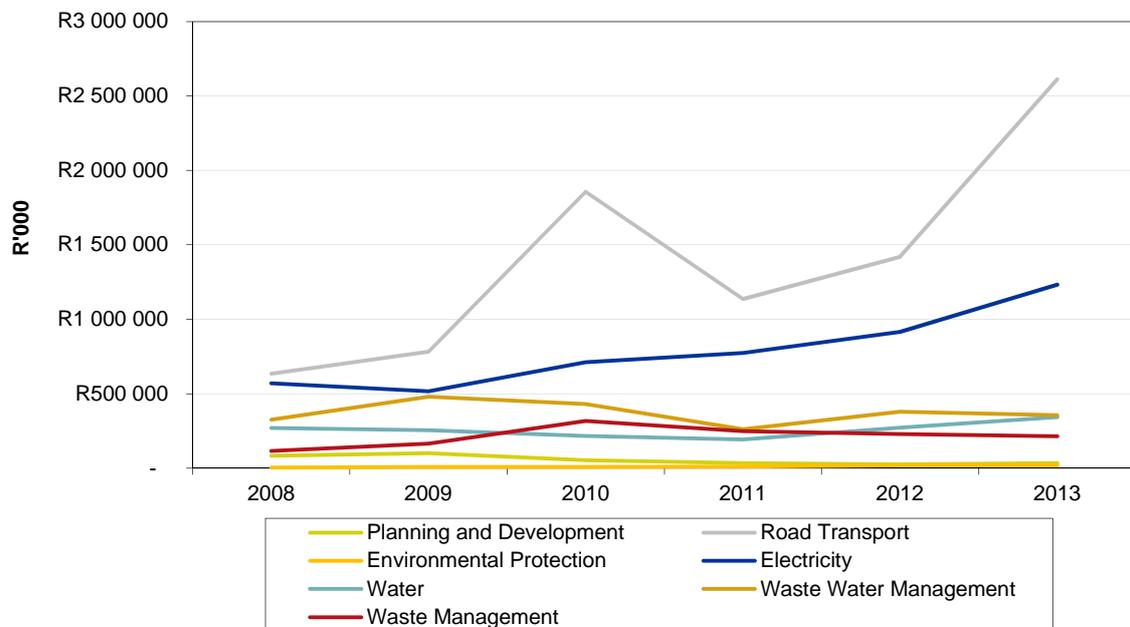
Figure 6.1 Capex vs Total infrastructure expenditure



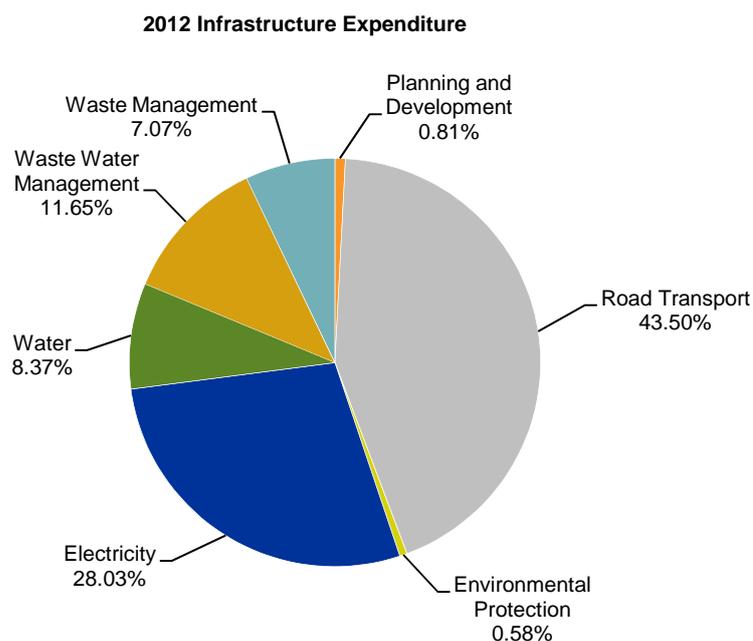
Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

However budgetary constraints call for an investigation into the types of infrastructure that would influence growth within the Cape Metro. “Priority should be given to infrastructure programmes that contribute to regional integration” (NDP, 2012: 159). These include projects such as revising transport links and improving access to energy or water as they form a vital part of the Western Cape economy. Since 2008 expenditure has been high on four forms of infrastructure namely: water provision, waste water management, road transport and electricity (see figure below).

Figure 6.2 Cape Metro economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Figure 6.3 Cape Metro economic infrastructure expenditure breakdown

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Being the oldest city in the country the City of Cape Town's infrastructure has some of the oldest infrastructure. The City is accelerating the repair and building of new infrastructure to meet the growing demands of the metropolis. Since the inception of the Municipal Infrastructure Grant Programme in 2004 a substantial proportion of it has gone to water projects, sanitation and roads. In 2012 the largest amount of funds went towards road transport, electricity, water projects, and waste water management, whilst planning and development and environmental protection take up the smallest portions (see Figure 6.3 above). Both theory and empirical work at National level suggest these expenditures do have an impact on economic growth.

6.2.3 Infrastructure investment and economic growth

The City of Cape Town has adopted an infrastructure led growth strategy that will aid in the creation of an economically stable environment, whilst addressing socio-economic needs and unlock economic opportunities for job creation. As discussed in Chapter 3, the Cape Metro economy accounts for close to three quarters of the regions output. The impact of infrastructure investment on growth depends crucially on the municipalities' infrastructure investment decisions. It depends on their knowledge of the location, characteristics and requirements for infrastructure investment that has the potential to influence economic growth. Investment in infrastructure and the maintenance thereafter requires a complex mix of robust management practices. Differences in infrastructure maintenance and development have led to vast differences in economic performance across municipalities in the Western Cape.

Infrastructure levels and economic growth performance also differs across the ten main municipal areas within the Cape Metro. The region's finance, insurance, real estate & business services, make leading contributions to economic growth. Electricity, gas, water and the transport, storage and communications also contribute to GDP within the region. Table 6.4 below highlights the size of these two sectors within the Metro:

Table 6.4 Cape Metro economy: Sectoral composition by main area: 2011

Sector	Electricity, gas and water	Transport, storage and communication
Cape Town	1.0	9.5
Mitchell's Plain	1.3	11.9
Parow/Goodwood/Elsies River	1.4	13.7
Bellville	1.7	10.5
Milnerton	1.9	13.6
Blue Downs/Kuils River	1.8	12.2
Khayelitsha	1.3	10.8
Durbanville	1.1	9.1
Brackenfell	2.5	15.7
Somerset West	1.0	7.0
Cape Metro	1.5	10.9

Source: Quantec Research

The following are notable features of Table 6.4:

- The electricity, gas and water sector contributes 1.5 per cent of GDP within the region.
- Brackenfell hosts a somewhat larger electricity, gas and water sector.
- Brackenfell hosts a somewhat larger transport and communications sector which has a notable ties to financial & business services in the area.

The different forms of infrastructure expenditure have also made differing contributions to GDP growth within the Metro. As previously mentioned a large portion of the infrastructure budget goes towards water provision, waste water management, road transport and electricity. Table 6.5 below highlights the size of the electricity, gas, water and the transport, storage and communications sectors within the Metro. The table suggests that the transport and storage industry and communication appear to have been a high contributor to GDP within the Metro whilst the average growth rate of the electricity and water industry appears to have been lower in comparison to transport and storage and communication.

Table 6.5 Average growth of industries

Industry	GDP per cent share 2011	Ave growth 2000 – 2011
Transport and Storage	6.0	4.1
Electricity and Water	1.5	3.4
Communication	4.9	6.5

Source: Quantec Research/CER

As previously mentioned in Chapter 3 the following sectors revealed comparative advantage; the transport and storage industry and the communications sector. These sectors expanded at a faster rate compared to the same sectors at National level suggesting that these sectors should be supported.

Due to various data limitations it is not possible to give an empirical presentation of the impact that investment in infrastructure has on economic growth within the Cape Metro.

Whilst data limitations have had tremendous challenges, empirical evidence emphasises that infrastructure investment will have both a direct and an indirect effect on GDP. The direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP. The indirect, longer term effects are a result of multiplier or knock-on effects that have a much longer term macroeconomic impact on the economy.

Various studies have tried to provide an empirical establishment of the typical impact that various forms of infrastructure expenditure would have on the economy. In South Africa, a good account of this literature is available in Fourie (2006). A study by Mabugu, Rakabe and Chitiga (2009) makes use of a static Computable General Equilibrium (CGE) modelling tool to assess the relationship between infrastructure and growth. This modelling technique is however later criticised by Mbanda (2011) as being unable to account for distributional and accumulation effects. Mabugu, Rakabe and Chitiga (2009:17) used this tool to quantify the impact that a 10 per cent increase in water, health, roads, electricity and communications infrastructure above baseline would have on the economy. The authors find that increases in public infrastructure in the different sectors have beneficial yet different macroeconomic effects. Gross Domestic Product increases due to increases in investment and consumption. Imports and exports levels, the Consumer Price Index (CPI), wages and employment levels and a variety of sectors are also affected in differing ways. Sectors with strong forward and backward linkages are affected by the increase in public infrastructure investment. The impacts of the simulations on GDP are shown in Table 6.6 below.

Table 6.6 Effect of 10 per cent increase in infrastructure on GDP

Variable	Variation (%)			
	Water	Electricity	Roads & transport	Communications
GDP	0.02	0.19	0.44	0.34

Source: Adapted from Mabugu, Rakabe and Chitiga (2009)

Their results confirm that an increase in infrastructure investment within these sectors leads to increased economic growth. The impact appears most significant in the case of transport and communications infrastructure spending. For a more detailed presentation of the macroeconomic impacts of the full simulations see Mabugu et al (2009).

The Medium Term Expenditure Framework envisages an increase in infrastructure expenditure to 78.9 per cent of the Capex budget for the 2014/15 financial year. It is projected that GDP growth will accelerate from an estimated 3 per cent in 2012/13 to an average of 3.6 per cent for the year 2014 and 4.1 per cent per annum 2015 - 2017. Coupled with other growth determinants infrastructure expenditure will influence GDP growth for the Metro.

Of course this investment in economic infrastructure would be most effective if focused on the major growth centres for which the region has comparative advantage. Infrastructure investments within these areas are likely to boost the fortunes of the district as a whole as economic linkages will stimulate a variety of other industries in the area. This could potentially benefit the lagging regions and have trickle down effects. Of particular interest is the renewable energy potential that Atlantis has. A feasibility study in the area conducted by Abrahams (2012) presented promising results for a renewable energy manufacturing hub in Atlantis. Infrastructure investment within this area is crucial to enhancing the sectors performance. Abraham (2012) highlighted the importance of infrastructure investment to the success of the project. Infrastructure investments are likely to boost the fortunes of the area as a whole as economic linkages will stimulate a variety of industries in the area.

The City still faces some challenges in the delivery of infrastructure and some areas need more urgent attention than others. The following challenges have been identified:

- Infrastructure upgrades in the older urban areas such as the area stretching from the Cape Town Central Business district to Bellville.
- Poor infrastructure at the Cape Town harbour. Specifically, the sturrok dry dock equipment and facilities, capacity, berth sizes, efficiency, customs controls, dry dock capacity, logistics management and land management plans require upgrades.
- Poor public transport system, and overcrowding on Cape Town's train and bus system.
- Poor broadband internet connectivity, capacity and access.

Challenges are faced in the upgrading, maintenance and development of new infrastructure due to population increases. Despite these challenges the City has made significant strides in ensuring the availability of basic services to its residents. Notable achievements are; indigent support through the provision of free basic services and the roll out of the MyCiTi bus services to the West Coast and airport. Despite achievements like these the bottom line is that in the long term poor infrastructure cannot continue supporting a thriving economy. Leaking water pipes, deteriorating roads, poor communication systems, deteriorating waste water and transport systems will eventually impact on the vibrant economic performance of the Cape Metro. Deteriorating infrastructure will not only have an impact on economic growth but is a risk to public health and safety.

6.3 Infrastructure and inter-industry linkages: The case for sector development

The research and analysis for the Western Cape Infrastructure Framework 2013 (WCIF) has identified five core networked infrastructure systems. They are:

- **Water system infrastructure**

This includes the range of infrastructure related to the water cycle including bulk water resources, bulk and distribution water supply systems, wastewater collection and treatment infrastructure (including recycling) and storm-water systems.
- **Energy system infrastructure**

This includes the range of infrastructure related to electricity generation, transmission and reticulation. It may also include other energy infrastructures that do not involve a conversion of energy into electricity, such as fuel for transport, cooking and heating.
- **Transportation and logistics system infrastructure**

This includes all the different infrastructure elements that contribute to the mobility of people and goods. It includes the road network, the rail network, public transport, pedestrian and bicycle mobility, ports and airports and the freight logistics systems.
- **Settlement system infrastructure**

This encompasses the built environment and includes the range of public and private buildings and facilities that comprise functional settlement. Public facilities such as schools, hospitals and clinics and other government buildings will form part of this. It includes the waste management system servicing settlements.
- **Telecommunications system infrastructure**

This includes the range of landline, cellular and wireless networks that enable the range of electronic communications.

6.3.1 Strategic economic infrastructure and comparative advantage

The strategic intervention in relation to Economic Infrastructure in creating the enabling environment for robust and sustainable economic growth is further explored with the use of the 'revealed comparative advantage' approach explained in Chapter 3 (Table 3.4) of this report. The use of the LQ ratio serves as a 'guiding tool' in the prioritisation of infrastructure investment across the Cape Metro. The Cape Metro economy is a fully fledged services economy, with the finance, insurance, real estate and business services sector being the leading economic sector (contributing 36 per cent of real value added); retail, wholesale, catering & accommodation, incorporating the impact of a vibrant tourism sector, is also important as are transport & communication and the region's higher education sector.

Coupled with the labour absorption potential of the identified sectors, we are able to deduce from the LQ ratio (with a ratio more than 1 indicating comparative advantage) and the demand for service infrastructure linked to the specific sectors, the priorities required for strategic infrastructure investment.

1. Business services (LQ ratio – 1.58)
2. Finance & insurance (LQ ratio – 1.43)
3. Wholesale & retail trade (LQ ratio – 1.07)
4. Transport & storage (LQ ratio – 1.08)

From the above LQ ratios it's clear that the Cape Metro is the 'featherbed' for the region's skilled labourers especially for the Finance, insurance, real estate and business services sector. The Wholesale & retail trade sector also displays a favourable LQ ratio lending further support to the development and harnessing of the Tourism sector. This becomes particularly important when considering the labour absorption characteristics of the Tourism industry.

Furthermore, the Transport & storage sector's positive comparative advantage (coupled with the Wholesale & retail trade sector) suggests the per capita incomes of the Cape Metro are noticeably higher than the rest of the Province with infrastructure and especially economic connectivity to be further enhanced in this regard.

6.3.2 The drivers of change and growth projections

Provincial Economic growth has recovered (3 per cent in 2010/11) and provincial projections (PERO) indicate a modest growth rate of 3.7 per cent in the Western Cape over the coming six years, which is equal to growth projections of the South African economy as a whole.

The growth outlook over the coming five (5) years of each sector of the Cape Metro economy is shown in Table 3.3 of this report.

Based on the Sectoral Forecast/Outlook presented in section 3.2.1 of this report, key sectors expected to make notable gain in terms of Annual Average Economic growth are discussed further with the aim of identifying the key sectors in which infrastructure expenditure should be concentrated to further aid growth and development of these sectors (not forgetting the comparative advantage mentioned above). To this end, growth forecasts coupled with GDP per cent share, Finance and insurance business services (4.3 per cent), Transport, storage and communication (4 per cent), Construction (4.1 per cent), Wholesale & retail trade, catering & accommodation (3.8 per cent) rank as the favourable sectors.

With the aforementioned growth projections (section 3.2.1) at the forefront of the research and analysis pertaining to Infrastructure provision in the Cape Metro region, the demand for services infrastructure becomes more pertinent in the achievement of growth and development targets. According to the WCIF 2013 study, the demand for services (infrastructure) from enterprises is dependent on the nature of the activity

they are engaged with. This is difficult to assess but the scale of production and the sector of the economy provide a reasonable basis for estimation.

The following recommendations are made based on the growth projections provided and the alignment with the relevant Provincial Strategic Objectives. The summary for demand drivers in the Cape Metro have been captured in the WCIF 2013 Report and are 'prioritised' on the aforementioned Growth projections.

- **Construction (3.9 per cent GDP Share)**

Water and power are required on construction sites.

- **Finance, insurance, real estate & business services (36.1 per cent GDP Share)**

This is the conventional office building environment with water and sanitation associated mainly with toilets and electricity required for heating, air-conditioning, lighting and office equipment. Telecommunications infrastructure is most crucial to this sector. Waste streams are dominated by paper.

- **Wholesale & retail trade (13.8 per cent GDP Share)**

Generally the demand for water, sanitation and electricity relates to personal use, heating and lighting. Shops require energy for keeping goods hot or cold, as the case may be. Restaurants have specific waste profiles (kitchen waste).

- **Agriculture, forestry & fishing (1.4 per cent GDP Share)**

The biggest service concern for agriculture is water for irrigation and stock watering. Obviously this does not apply to dryland farming (wheat for example). Farms also need electricity to drive certain types of equipment, specifically if they are processing their products (which pushes them towards manufacturing entities). Road access is also a big issue for farmers as they rely on this to get inputs to their farms and deliver produce. Forestry is an indirect user of water (through diverting what would be runoff). The fishing industry utilises harbours, ports and transport networks.

6.4 Conclusion

The analysis provided in this chapter took a look at infrastructure investment in the Cape Metro and its resulting impact on growth. Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments as well providing a solid foundation for social development. The data presented revealed that there has been varying levels of economic performance and development across the municipal areas within the Cape Metro.

Despite that the Cape Metro spends the largest amount in infrastructure development the region faces various infrastructure challenges due to the growing population and infrastructure funding constraints. Infrastructure upgrades in the older urban areas such as the area stretching from the Cape Town Central Business district to Bellville, infrastructure at the Cape Town harbour, public transport system, and overcrowding on Cape Town's train and bus system and poor broadband internet connectivity, capacity and access. Deteriorating infrastructure and backlogs constrain economic growth. It is envisaged that addressing this challenge, will unlock much economic value and growth in the region.

However the positive relationship between infrastructure investment and economic growth is influenced by the structural challenges, skills shortages, budgetary constraints, human capital and mismanagements issues that the Cape Metro faces. It is also crucial for the region to identify areas in which their growth potential lies and ensure infrastructure provision to those sectors. Of interest are the sectors in which the region has comparative advantage; textiles, clothing & leather goods; business services; catering & accommodation; finance & insurance; wood & paper products; furniture; construction; transport & storage; retail & wholesale; communication and radio, TV & instruments manufacturing. In order for these key growth areas to flourish it is important for them to be supported by the relevant infrastructure.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Cape Metro: GDP at basic, constant 2005 prices, average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	-2.5	10.0	7.3	8.4	8.1	18.7	-0.9
2 Secondary sector [SIC: 3-5]	1.8	3.2	2.3	2.9	4.3	-1.6	2.3
3 Tertiary sector [SIC: 6-9, 0]	3.3	5.0	3.9	4.4	5.3	2.1	3.3
Total: Cape Metro	2.8	4.6	3.6	4.1	5.0	1.5	3.0
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	8.2	12.4	8.6	10.0	9.8	22.0	-1.0
2 Mining and quarrying [SIC: 2]	-17.3	-0.8	-2.4	-0.8	0.3	-7.2	0.9
3 Manufacturing [SIC: 3]	1.6	2.4	1.7	2.3	3.5	-3.0	2.7
4 Electricity, gas and water [SIC: 4]	3.7	6.4	1.0	3.4	5.2	-1.4	1.3
5 Construction [SIC: 5]	2.7	7.6	5.7	6.5	8.4	4.3	1.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	5.3	4.7	2.8	4.1	5.5	-0.6	3.5
7 Transport, storage and communication [SIC: 7]	7.8	6.5	3.2	5.0	6.4	1.9	2.3
8 Finance, insurance, real estate and business services [SIC: 8]	3.5	6.4	5.1	5.5	6.5	3.1	3.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.0	2.8	2.5	2.8	3.5	1.1	1.6
10 General government [SIC: 91, 94]	-2.0	1.4	3.3	1.9	1.2	3.8	3.0
Total: Cape Metro	2.8	4.6	3.6	4.1	5.0	1.5	3.0

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	1.1	1.1	1.5	1.3	1.1	1.6	1.6
2 Secondary sector [SIC: 3-5]	25.0	23.4	22.3	23.0	23.5	22.2	21.6
3 Tertiary sector [SIC: 6-9, 0]	73.9	75.6	76.2	75.8	75.4	76.2	76.8
Total: Cape Metro	100	100	100	100	100	100	100
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	0.7	0.9	1.3	1.1	0.9	1.5	1.5
2 Mining and quarrying [SIC: 2]	0.3	0.2	0.1	0.2	0.2	0.1	0.1
3 Manufacturing [SIC: 3]	20.3	18.5	16.8	17.8	18.5	16.6	16.1
4 Electricity, gas and water [SIC: 4]	1.7	1.7	1.6	1.6	1.7	1.6	1.5
5 Construction [SIC: 5]	3.1	3.2	3.9	3.6	3.3	4.0	4.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	14.8	15.8	15.3	15.5	15.8	15.1	15.1
7 Transport, storage and communication [SIC: 7]	9.3	10.7	10.9	10.8	10.7	10.9	10.9
8 Finance, insurance, real estate and business services [SIC: 8]	30.5	32.9	35.1	33.8	32.9	35.3	35.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.9	5.6	5.2	5.5	5.6	5.3	5.1
10 General government [SIC: 91, 94]	13.5	10.5	9.6	10.2	10.4	9.6	9.8
Total: Cape Metro	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Cape Metro: Employment (Formal & informal), average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	-2.2	0.0	-3.9	-1.9	0.8	-7.9	-8.2
2 Secondary sector [SIC: 3-5]	-3.8	-0.5	-3.1	-2.1	-0.8	-6.1	-2.1
3 Tertiary sector [SIC: 6-9, 0]	3.1	3.4	0.7	2.1	3.1	-0.7	1.0
Total: Cape Metro	0.7	2.3	-0.3	0.9	1.9	-2.1	0.1
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	-1.4	0.3	-5.0	-2.3	0.9	-9.3	-9.7
2 Mining and quarrying [SIC: 2]	-13.3	-8.1	17.3	4.3	-0.2	17.0	11.6
3 Manufacturing [SIC: 3]	-2.9	-1.1	-3.4	-2.5	-1.4	-5.5	-2.8
4 Electricity, gas and water [SIC: 4]	-0.5	5.0	2.2	2.5	4.4	-2.9	4.4
5 Construction [SIC: 5]	-5.8	0.9	-2.5	-1.3	0.6	-7.8	-0.6
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.4	3.9	0.5	1.9	3.2	-1.1	0.8
7 Transport, storage and communication [SIC: 7]	-2.3	1.9	-1.0	0.2	0.3	-0.4	1.1
8 Finance, insurance, real estate and business services [SIC: 8]	7.3	4.8	0.3	2.8	4.8	-2.7	1.1
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.3	2.3	0.4	1.6	2.6	0.1	-1.9
10 General government [SIC: 91, 94]	-0.5	2.7	2.9	2.5	2.0	2.8	4.1
Total: Cape Metro	0.7	2.3	-0.3	0.9	1.9	-2.1	0.1

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	3.8	3.3	3.1	3.2	3.4	3.1	2.7
2 Secondary sector [SIC: 3-5]	31.4	25.2	22.1	23.9	25.2	21.8	20.6
3 Tertiary sector [SIC: 6-9, 0]	64.8	71.5	74.8	72.9	71.4	75.0	76.7
Total: Cape Metro	100	100	100	100	100	100	100
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	3.6	3.2	2.9	3.1	3.3	3.0	2.5
2 Mining and quarrying [SIC: 2]	0.2	0.1	0.2	0.2	0.1	0.2	0.2
3 Manufacturing [SIC: 3]	22.2	17.9	15.3	16.8	17.8	15.2	14.3
4 Electricity, gas and water [SIC: 4]	0.3	0.3	0.4	0.4	0.3	0.4	0.4
5 Construction [SIC: 5]	8.8	7.0	6.4	6.8	7.1	6.2	5.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	19.1	20.4	22.3	21.3	20.8	22.2	22.8
7 Transport, storage and communication [SIC: 7]	4.9	4.6	4.3	4.5	4.5	4.3	4.3
8 Finance, insurance, real estate and business services [SIC: 8]	16.5	21.5	21.5	21.3	21.2	21.5	21.4
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	12.1	13.1	13.7	13.4	13.1	14.0	13.9
10 General government [SIC: 91, 94]	12.2	11.8	13.1	12.4	11.8	13.0	14.2
Total: Cape Metro	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Cape Metro: Goods Exports & Imports, % composition: 1996 - 2011

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods Export (R million)							
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	40.0	34.0	33.5	33.8	32.8	32.9	38.7
2 Mining and quarrying [SIC: 2]	4.7	4.1	6.3	5.1	5.7	5.1	2.6
3 Manufacturing [SIC: 3]	54.2	61.5	60.2	60.7	61.0	61.8	58.6
4 Undefined/other	1.2	0.3	0.1	0.4	0.5	0.2	0.1
Total: Goods exports	100	100	100	100	100	100	100
Manufacturing sector: Cape Metro							
1 Food, beverages and tobacco [SIC: 301-306]	29.7	23.0	20.8	22.2	22.3	20.3	23.3
2 Textiles, clothing and leather goods [SIC: 311-317]	7.6	5.8	2.6	4.2	5.2	2.3	2.3
3 Wood, paper, publishing and printing [SIC: 321-326]	2.5	2.2	1.7	1.9	2.1	1.6	1.6
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	34.7	44.4	37.7	40.4	42.0	40.0	34.2
5 Other non-metal mineral products [SIC: 341-342]	1.0	0.8	0.6	0.7	0.8	0.7	0.6
6 Metals, metal products, machinery and equipment [SIC: 351-359]	7.5	8.0	16.5	12.0	9.7	15.4	17.8
7 Electrical machinery and apparatus [SIC: 361-363]	1.9	0.8	1.0	0.9	0.9	1.0	0.9
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	2.2	3.4	6.1	4.6	3.7	6.7	6.3
9 Transport equipment [SIC: 381-387]	9.7	6.9	6.6	7.5	8.0	6.2	6.7
10 Furniture and other manufacturing [SIC: 391-392]	3.2	4.7	6.4	5.5	5.2	5.9	6.2
Total: Manufacturing exports	100	100	100	100	100	100	100

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods Import (R million)							
Broad sectors: Cape Metro							
Agriculture, forestry and fishing [SIC: 1]	7.2	5.5	6.5	5.9	5.4	6.9	7.1
Mining and quarrying [SIC: 2]	40.9	52.2	49.4	51.4	52.6	54.4	43.5
Manufacturing [SIC: 3]	51.8	42.2	44.1	42.6	41.9	38.7	49.4
Undefined/other	0.1	0.1	0.0	0.1	0.1	0.0	0.0
Total: Goods imports	100	100	100	100	100	100	100
Manufacturing sector: Cape Metro							
1 Food, beverages and tobacco [SIC: 301-306]	10.6	10.5	11.6	11.0	10.2	13.6	11.4
2 Textiles, clothing and leather goods [SIC: 311-317]	13.2	13.2	12.4	12.9	12.9	12.5	13.6
3 Wood, paper, publishing and printing [SIC: 321-326]	7.4	4.8	3.1	4.1	4.6	3.4	2.9
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	23.9	30.4	41.4	35.6	32.8	39.1	43.3
5 Other non-metal mineral products [SIC: 341-342]	1.9	2.7	2.4	2.5	2.6	2.4	2.3
6 Metals, metal products, machinery and equipment [SIC: 351-359]	22.5	17.5	13.8	15.8	17.0	14.1	12.8
7 Electrical machinery and apparatus [SIC: 361-363]	2.4	2.3	1.9	2.1	2.2	2.1	1.8
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	9.8	11.6	6.9	9.1	10.6	6.4	5.5
9 Transport equipment [SIC: 381-387]	3.9	3.3	2.4	3.0	3.3	2.5	2.2
10 Furniture and other manufacturing [SIC: 391-392]	4.4	3.7	4.0	4.0	3.9	4.1	4.2
Total: Manufacturing imports	100	100	100	100	100	100	100

Source: Quantec Research/CER

West Coast District

Executive summary

1. Introduction

The overall objective of the Municipal Economic Review and Outlook (MERO) 2013 is similar to that of its predecessor, MERO 2012, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO).

But MERO 2013 also extends the focus and analyses of its predecessor. In addition to estimating the recent and forecasted GDP growth for each municipality and the major economic sectors and industries (Chapters 2 and 3), the current study also provides extensive analyses of value or supply chains (Chapter 4), the informal sector (Chapter 5), and the economic infrastructure (Chapter 6). Complimentary to the MERO 2013 findings is an Executive Summary detailing the key outcomes/trends related to the Socio-economic profile per District. These Executive Summaries may be located at the following website: www.westerncape.gov.za.

2. Regional growth trends

The global economy hit a recessionary low point in 2009 before turning around and growing at about 5 per cent in 2010 and the first half of 2011, driven largely by the United States of America (USA) and Chinese economies. Since then world growth has dipped to 2.6 per cent (in 2012 and possibly 2013), due partly to debt crises and fiscal restraint policies in the major advanced economies. But the global economy is expected to strengthen again reaching 3.1 per cent in 2014 and beyond, due mainly to expansionary monetary policies coupled with continued fiscal restraint and structural reform.

How did South Africa, the Western Cape (WC) Province and the WC municipalities respond to this hesitant and uneven global turnaround? After growing at 3.5 per cent in 2011, the South African economy followed the world trend growing at 2.5 per cent in 2012 which, according to the latest forecasts, is expected to decelerate further in 2013. The Western Cape economy fared slightly better with real economic growth in

the region decelerating from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. Similar trends were recorded for formal and informal employment in the Province. However, it should be noted that the employment recovery only commenced late in 2010 and some sectors and municipal areas continue to suffer the heavy recessionary impact during calendars 2008/09.

Of all the provincial districts, the West Coast District (WCD) economy suffered the most serious impact from the global recession, with real GDP growth dropping alarmingly to -1.4 per cent in 2009, after which it recovered reasonably well to reach 3 per cent in 2010 and 3.3 per cent in 2011 before following world trends and dipping to just below 3 per cent in 2012. The impact on the 5 constituent municipalities was variable, with Saldanha Bay, Swartland and, to a lesser extent, Bergrivier growing faster than the Cederberg and Matzikama municipalities. The recession also took a heavy toll on employment, the impact of which continued to linger during the initial years of the recovery as net retrenchments were sustained during 2011/12.

The relatively low growth rate of the region can be partly explained by the slow-growing (and in some municipalities, contracting) agriculture & fishing sector, as well as the huge (and lingering) recessionary impact on manufacturing. The EU regional economy – a major trading partner – remains under severe strain with growth lagging behind the USA economy and especially the developing economies which, as a longer term strategy, may call for export diversification on the part of the country, the WC and the WC municipalities.

It is proposed that an independent research study be launched to consider the desirability and efficacy of diversifying WCD exports away from the EU in favour of more attractive markets in East Asia, Africa and Latin America. Such a study should also look at cost-effective practical steps that can be taken to achieve such diversification.

3. West Coast District (WCD): Sectoral growth

The recessionary impact on economic sectors and industries in the WCD mirrored the above trends, with the agricultural and manufacturing sectors being worst affected both experiencing declining growth and shedding labour in 2008/09. During the uncertain aftermath of the recession, however, the financial & business services sector and the manufacturing sector (especially food processing and metals & engineering), present mostly in the Saldanha Bay, Swartland and Bergrivier municipalities, rebounded quite well, though still shedding jobs in the process.

The WCD has a relatively higher concentration of economic activity in the primary and secondary sectors of the



regional economy compared to other districts. The planned development of the IDZ in Saldanha Bay will be a key stimulant to the region and increase the demand for skills across the spectrum of industries, but specifically technical and artisanal skills.

Looking at the future, an attempt was made to determine the growth potential of the 22 main industry groups in the WCD by estimating their so-called “revealed comparative advantage”. Using location quotients the analysis indicated that several industries did indeed have a positive comparative advantage, including the agricultural, forestry & fishing sector; the food & beverage sector (or agro-processing); non-metal minerals; metals & engineering; construction; business services; catering & accommodation; and transport & storage. Several of these industries also formed part of the same value (or supply) chain, as discussed in the next section.

The WCD is forecast to grow at a somewhat disappointing 3.5 per cent per annum between 2013 and 2017, driven mostly by the relatively large financial & related business services sector (6.2 per cent), construction (4.6 per cent) and wholesale & retail trade (3.7 per cent). The relatively pedestrian growth in the region is explained by the dismal forecasts for agriculture, forestry & fishing (0.7 per cent) and manufacturing (2.4 per cent) during the same period. The latter scenario is a cause for concern and may well imply that the growth of the two sectors is being constrained by extraneous factors beyond the control of the industries involved; thus calling for appropriate policy support on the part of local (as well as provincial and national) governments.

4. Value chains

Value or supply chains represent a collection of different industries (in the primary, secondary and tertiary sectors) that are economically interlinked in the sense of supplying inputs to or demanding inputs from one another. These inter-linkages may cut across different sectors, municipalities and districts and are important from a policy perspective as they may assist policy-makers in focussing on a more broadly based and relevant set of target areas aimed at adding local value.

Agriculture and food processing chains are relatively well developed in several of the Western Cape Districts, including the WCD. A typical scenario would be the use of a variety of farming inputs to produce an agricultural product, part of which is domestically consumed, another part is being exported, and yet another part is supplied as inputs to food and beverage processors in the manufacturing sector. The latter food processors may supply to other processors within the value chain, with both groups also acquiring inputs from services and other local industries, and with the final supply either exported or domestically consumed.

As far as the WCD is concerned, two value chains were analysed, i.e. the agriculture and food processing chain and the iron and steel chain, as they were deemed the most important in terms of adding value and employment to the local economy. After allowing for initial inputs (e.g. farm feeds, fuel, seeds and plants), agricultural production, consisting of field crops, horticulture, animals & animal products and

fishing, is partly sold as final demand to local households (13.3 per cent) and partly exported (40.3 per cent), with the rest (46.2 per cent) supplied as inputs to food processing industries in the manufacturing sector (mostly in Swartland and Saldanha Bay), e.g. food, beverages, wood & wood products and catering & accommodation. The food & beverage processing sector in turn acquires 37.4 per cent of its inputs from the agricultural sector, with the remainder of their inputs coming from wholesale & retail (14.3 per cent), food processing (12.6 per cent), etc. Part of the processed food is sold as final demand locally (67.2 per cent) and exported (15.3 per cent), with the rest (17.5 per cent) supplied as inputs to other industries, e.g. leather & leather products and beverages & tobacco.

The iron and steel value chain encompasses the mining, beneficiation and use of steel products in the manufacture of metal products for the construction industry. The steel value chain in the WCD includes a large steel processing industry in the Saldanha Bay Local Municipality, which imports raw iron from Sishen and transforms it into long and flat steel. Other backward linkages – some 280 suppliers – come from the Western Cape, while the WCD itself relies on iron and steel for the production of metal products, machinery and electrical machinery, which is likely to increase as the Saldanha IDC expands. Most of the iron & steel production is exported (71.4 per cent), while a large part of the rest is used for local metals production which supplies the bulk of its output to the construction sector.

From a policy perspective, it is suggested that an independent study be conducted to determine the eligibility of the agriculture and food processing and the iron and steel value chains for attaining Special Economic Zone (SEZ) status. The latter would entail a more broadly based industrial policy focusing on industries within the value chains, and involving all levels of government. The alternative would be a more conventional approach providing state support to selected industries within the value chains.

5. Informal sector

From a jobs, training and survivalist perspective, the informal sector is evidently of critical importance, though very little is known about it. But this information gap is being narrowed by extensive surveys of about 200 informal enterprises conducted by the Department of Economic Development & Tourism (DEDAT) in each of the five districts and the Cape Metropolitan Area. The main purpose of these surveys is to provide a profile of the sector which includes the reasons for starting up informal micro-enterprises, the nature of their businesses, employment created, skills attainment and the challenges and prospects they face.

As far as DEDAT's WCD survey is concerned, retail food and beverages were by far the largest category of business activity, followed by household goods such as (the trading of) cleaning materials, pharmaceuticals, furniture, electronics and hardware. Some 20 per cent of respondents were also engaged in (small) capital investment activities, including mechanical and appliance repairs, computer services and money lending. As such they are closely linked to the formal sector and also form part of value chains within the District.

While the informal sector is relatively labour-intensive, it uses mostly semi-skilled and unskilled workers who, in the process, acquire basic skills “on the job” rather than from formal institutions. More than 80 per cent of respondents acquired basic skills “on the (informal) job”, including family businesses, while only 9 per cent reported acquiring skills from a previous formal job.

The majority of the businesses surveyed were relatively low profit earners, with close to 74 per cent of respondents reporting average monthly profits of just less than R2 500. The remaining 26 per cent of enterprises earned more than R2 500 per month with their informal business enterprises propelling individual earnings over the South African median, making them comparatively financially well off amongst local peers. However, despite the relatively low incomes for the great majority of participants, nearly three quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a formal “minimum wage” job paying R126.00 per day. This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

The main reason for starting up or continuing with an informal micro-enterprise is an inability to find alternative employment coupled with the high regulatory costs involved in starting and running a formal business. The latter included the costs of registration, high taxes and difficulties in securing local government tenders. Nearly 67 per cent of the sample reported that their businesses were not registered in any way, while a further 30 per cent were what one might call “partially registered”, being in possession of a municipal licence. The main reason why informal activities exist and are growing in the District is that the benefits of formalising are overshadowed by the corresponding costs.

Other constraints included a lack of access to affordable micro-financing, a shortage of business premises, a lack of electricity and water, high transportation costs and crime. As most participants in the informal sector are generally poor, though surviving and adding value, policies addressing these constraints may simultaneously help to combat poverty and promote growth.

An independent research study could focus on policies in general and more specifically on provincial strategies aimed at addressing some of the constraints discussed here, including the introduction of a more flexible and affordable registration system; the provision of appropriate infrastructure services at designated business premises; securing the safety of such premises; and assistance with collaterals in respect of micro-financing.

6. Economic infrastructure

Both the national and provincial governments view infrastructure as an important means of promoting sustainable growth and reducing poverty, with the national government having allocated large portions of its budget for this purpose. Economic infrastructure – which is the focus here – includes road building and maintenance, transport, water supply, electricity transmission, pump stations and piped networks, and sanitation facilities; whilst social infrastructure refers to health, education and a range of social grants.

Economic theory and empirical work suggest that public investment in infrastructure will lower production costs and boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect”. In fact, a recent World Bank study found that the contribution of infrastructure investment is substantial and often greater than that of investment in other forms of capital.

The latter proposition is partly borne out by the fact that the Western Cape Province has the lowest incidence of infrastructure backlogs and also grew more rapidly than other provinces and the country as a whole. A similar relationship seems to hold in the WCD where the Swartland and Saldanha Bay municipalities recorded the highest growth and also spent by far the highest proportions of total infrastructure expenditure in the District; while the opposite applies to the poorer municipalities like Cederberg, Matzikama and, to a lesser extent, Bergrivier.

Among the municipalities and towns within the WCD infrastructure backlogs do however vary significantly, with transport, storage and communication featuring relatively prominently and electricity and water actually declining over the period 2000 - 2011.

It is important to note that different economic sectors and communities require a different mix of infrastructure services. In agriculture, for example, the greatest needs are water, electricity and road/rail transport to deliver its outputs to agro-processing industries in the manufacturing sector. Likewise, the needs of manufacturing vary significantly from water and electricity to the removal of hazardous waste. Similar differences also apply to wholesale and retail trade and business services.

It may be worth doing an independent study looking at the different infrastructure needs of different sectors, industries and municipalities. Such a study can be simply based on personal interviews with relevant stakeholders; and also help to prioritise municipal budgets.

A final comment refers to pressing budgetary constraints as revealed in the WCD survey conducted for this report. Respondents to the WCD survey claimed that the levy replacement grant has been incorrectly calculated as it has been increasing by 2 to 3 per cent compared to an inflation rate of between 5 and 6 per cent for the past several years. Thus they have experienced a real income decline year-on-year. Similar problems were experienced in respect of the capital expansion of the bulk water service infrastructure. As far as service delivery is concerned, the WCD survey highlighted the need to revise the funding model for district municipalities, including the assignment of functions to municipalities and other spheres of government, and funding to deal with emergencies on a regular basis.

1

Introduction

1.1 Background and purpose of study

The origin of the Municipal Economic Review and Outlook (MERO) studies can be traced to the earlier microeconomic policy research programme launched and conducted by the Provincial Department of Economic Development and Tourism (DEDAT)¹. The subsequent MERO research reports provide a more focused institutional framework for microeconomic analysis – in the form of the Districts and their constituent municipalities. Internationally too there has been a shift in favour of focusing on microeconomic policy issues at local government level.

MERO 2013 follows on from its predecessor, MERO 2012, and also extends it in several important ways, as discussed below. The overall objective remains the same, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO). Using the district municipalities as our broad demarcation, MERO 2013 will probe and interrogate each and every municipality in the Western Cape Province to provide the economic intelligence needed to propel the municipal economies onto a higher growth plain and ensure sustainability at the same time.

1.2 MERO 2013: What's new?

Using the latest data from Quantec and other secondary sources, the analysis of the district and municipal growth, employment and skills data is extended in MERO 2013 in order to ascertain how the economic recovery (2010/11) has been progressing among different sectors and industries at the municipal level. This prompted an attempt to estimate the *revealed comparative advantages* of sectors and industries

¹ Kaplan, D (ed.) (2008): Micro-Economic Development Strategy for the Western Cape (MEDS) - Synthesis Report.

at the local government level. Location quotients were used to measure the performance of industries in the WCD, relative to the same industries in the reference region, i.e. the province or nation.

Following on from the 2012 feedback, many micro and small enterprises operate within the *informal sector*, and yet there is little or no data available on these enterprises. Although it serves as a means of survival for many unemployed poor persons, certain informal activities may help develop basic skills, create linkages with the formal sector, and ultimately become a source of sustainable growth. Apart from the need for desktop searching, the required data was obtained from the municipal survey and from important work being done at DEDAT.

The DEDAT survey of the informal sector in the WCD brought into focus some of the strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may well benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

The 2012 MERO study found that agro-processing is an important industry that forms part of *value or supply chains*, or clusters, that also contain manufacturing and service industries within and across different districts and municipalities. This issue is taken further here by identifying and quantifying other existing and potential inter-industry linkages that can be clustered together for policy purposes. For this purpose Quantec's input-output model and Stats SA's supply-and-use tables were used to estimate the size and extent of two value chains in the WCD. Having done so, it is recommended that an independent study be conducted to consider the suitability of these value chains as potential Special Economic Zones (SEZs). The latter study would require information about the conditions for SEZ status and the roles played by **the dti**, the provincial government and the national government.

Following on from the 2012 MERO study, there is a need to determine the extent to which *municipal infrastructure spending* (water, electricity, sewerage, refuse, roads) is prioritised and indeed implemented in accordance with pre-determined targets. The present study therefore compares municipal actions with plans, identify problem areas, and suggest policy actions where necessary.

Infrastructure spending is an important prerequisite for poverty relief and economic growth, and it is critical that the actions taken by the provincial government, individual municipalities and electricity suppliers be coordinated in order to maximise the returns to their respective infrastructure investments.

1.3 Outline of report

The rest of this report consists of 5 parts. Chapter 2 provides the broad macroeconomic context within which the WCD operates. Its primary aim is to translate the macroeconomic forces and determine their impact on the dominant sectors in the WCD. Chapter 3 uses and refines the latest Quantec data to estimate recent trends in the growth of GDP per economic sector and employment for each municipality, with special attention being given to the agricultural, manufacturing and services sectors. Using the latest PERO, estimated comparative advantages and relevant municipal data, the chapter provides a forecast of municipal GDP and employment growth for the next 5 years. An attempt is also made to highlight the skills requirements of especially the faster growing sectors and industries within the WCD.

Chapter 4 identifies and quantifies two important value chains within the WCD, i.e. the agricultural and food & beverages processing chain and the metals and engineering value chain. With the former being relatively substantial (and job-intensive) it is flagged as a possible independent study to determine its eligibility for SEZ status. Chapter 5 reports on the results of a survey of 250 informal enterprises, focusing on their size, age, type of business and, importantly, their outlook for the future. As far as the latter is concerned, it would seem that informal entrepreneurs take a positive future view of their own businesses and the WCD, much like their municipal counterparts did in their responses to the WCD municipal survey. Chapter 6 considers and compares infrastructure spending in the WCD, and finds that faster growing municipalities spend more on economic infrastructure than do their slower-growing counterparts. Different sectors, industries and value chains also require different types of infrastructure which may change over time.

2

Economic outlook

2.1 Introduction

This chapter provides a concise macroeconomic overview of the WCD economy. The focus of the chapter is on the district economy being dominated by the manufacturing, finance, insurance & business services and agricultural sectors. The aim of the chapter is to translate the macroeconomic forces and their impact at the district level. To this end, a brief overview is provided on global, national and provincial economic developments and prospects. In the final section, the macroeconomic review & outlook for the WCD economy is considered. In Chapter 3 a more in-depth sectoral analysis follows of the WCD economic growth and employment prospects.

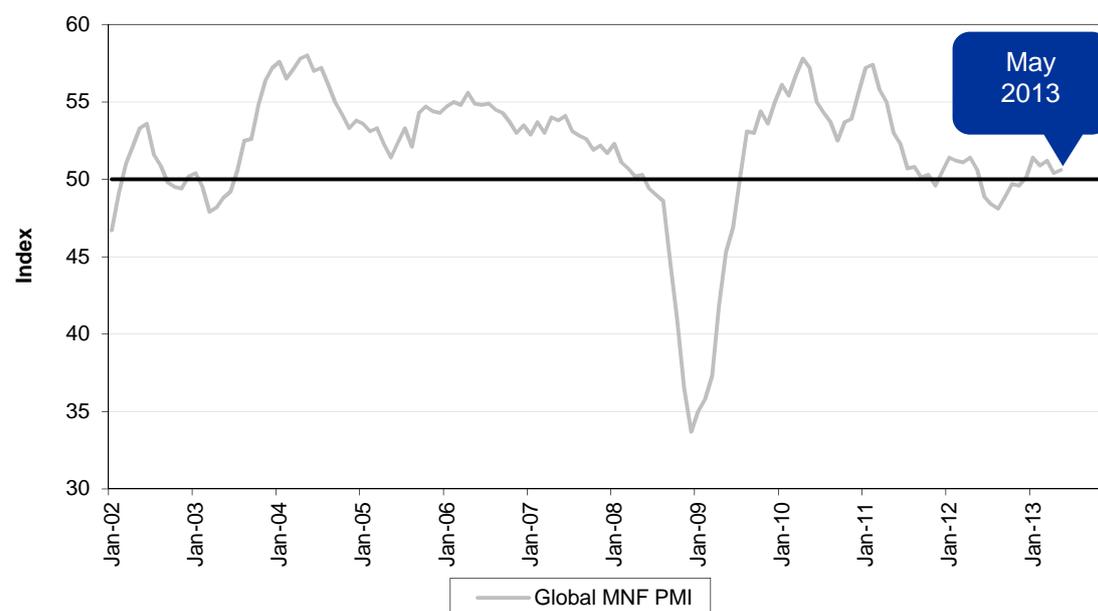
2.2 Global, national & provincial economic developments

The **global economic outlook** remains uncertain and loaded with risk. From a decent rebound since the end of 2009, the world economy recovered strongly during calendar year 2010 (registering real GDP growth of 5.3 per cent) and the first half of 2011; however, since then the growth pattern has been hesitant. Fiscal consolidations and outright austerity in the major advanced economies became a significant drag on global growth and during both the middle quarters of 2011 and 2012 growth dipped. The 2012 slowdown alarmed policy authorities in all the major advanced economies and beyond, and their aggressive policy response to avert a second leg of the Great Recession of 2008 - 2009 has included quantitative easing, forward guidance on interest rates at zero bound levels, and in some parts even fiscal stimulus (e.g. China); in April 2013 Japan embarked on an extensive economic stimulus programme including quantitative easing, in order to rid that economy from deflation.

Figure 2.1 below shows that the policy authorities achieved a measure of success, with the composite global manufacturing Purchasing Managers' Index (PMI) edging

higher, above the critical level of 50 points, from a low point of 48.1 in August 2012 to 52.1 points in March 2013. While the April/May readings came in somewhat lower, including services, the May reading stood at 53.1 points. These readings are consistent with the world economy expanding at a steady pace just below trend. Whilst questions regarding sustainability remains, the outlook is for the current uneven improvement in global economic activity to become better synchronised during the second half of the year and next year. The IMF forecasts global real economic growth to move sideways at 2.6 per cent in 2013 (i.e. at a similar rate compared to 2012) and then to accelerate to 3.4 per cent in 2014².

Figure 2.1 The Global Manufacturing PMI edges above the critical level of 50 index points



Source: JP Morgan, June 2013

The USA economy has managed to progress at a rate around 2 per cent (year-on-year) (see Table 2.1 below) and this remains the outlook even though fiscal tightening is expected to take some toll in 2013. The housing sector appears to be responding well to the stimulatory policies; the unemployment rate is gradually trending lower and payroll employment continues to increase at a moderate pace. The Fed is targeting an unemployment rate of 6.5 per cent (poised at 7.6 per cent in May 2013), and the zero-bound interest rates, aggressive bond buying (quantitative easing) and central bank communications are likely to persist in order to instil confidence in the market and within the corporate sector to step-up fixed investment and employment creation.

The European economy was expected to emerge from recession early in 2013; however, going by the latest economic indicators (with the composite Euro area PMI dipping to 45 points in March 2013), the region is expected to emerge from recession only during the second half of the year. Unemployment rates are at record highs,

² At purchasing power parity exchange rates the corresponding figures are 3.3 per cent and 4 per cent.

particularly in the peripheral southern European countries, and popular resistance against the fiscal austerity measures appears to be growing. The regional economy is forecast to contract by a further 0.3 per cent in 2013 on top of the 0.6 per cent contraction in 2012, while only moderate growth is projected for 2014 (see Table 2.1).

Economic conditions are generally more lively in Asia currently, with China's real GDP growth rate coming in at 7.7 per cent during the first quarter of 2013. However, growth appears to have decelerated somewhat during the second quarter as the Chinese economy rebalances towards a more sustainable (read: lower) trend growth rate. An overheated property sector remains cause for concern and financial volatility emerged during the second quarter as the authorities attempt to rid the economy from excesses, leading to a general scaling down of forecasts in line with the official targeted growth rate of 7.5 per cent.

In Japan, the new political leadership (and Governor of the Bank of Japan) has implemented radical economic stimulus policies to rid the economy from the grip of deflation, including aggressive quantitative easing and fiscal expansion in order to achieve a 2 per cent inflation target. An atypical recovery in household spending attests to the probability that the stimulus measures are having the intended impact; however, analysts remain unsure regarding the sustainability of the turnaround, with forecast for real GDP growth remaining around 1 - 1.5 per cent.

The uneven growth pattern in the global economy is also clear in the emerging market group of countries, with particularly India and Brazil under performing in terms of their recent growth performance. However, real GDP growth is still projected between 5.5 and 6 per cent over the short term, suggesting the emerging economies will continue catching-up with the advanced economies and remain a key source of demand for South Africa's goods. The favourable outlook for economic growth in Sub-Saharan Africa also continues to be an area for closer ties with Southern African producers in terms of expanding trade and investment.

Table 2.1 World economic growth outlook: 2012 – 2014 (%)

Country	2012	2013	2014	Country	2012	2013	2014
Advanced countries				Developing countries			
USA	2.2	1.9	3.0	Developing Asia	6.6	7.1	7.3
Japan	2.0	1.6	1.4	China	7.8	8.0	8.2
Euroland ¹	-0.6	-0.3	1.1	India	4.0	5.7	6.2
Germany	0.9	0.6	1.5	Latin America	3.0	3.4	3.9
UK	0.2	0.7	1.5	Central & East Europe	1.6	2.2	2.8
Canada	1.8	1.5	2.4	Sub-Saharan Africa	4.8	5.6	6.1

¹ The 17 Euro countries

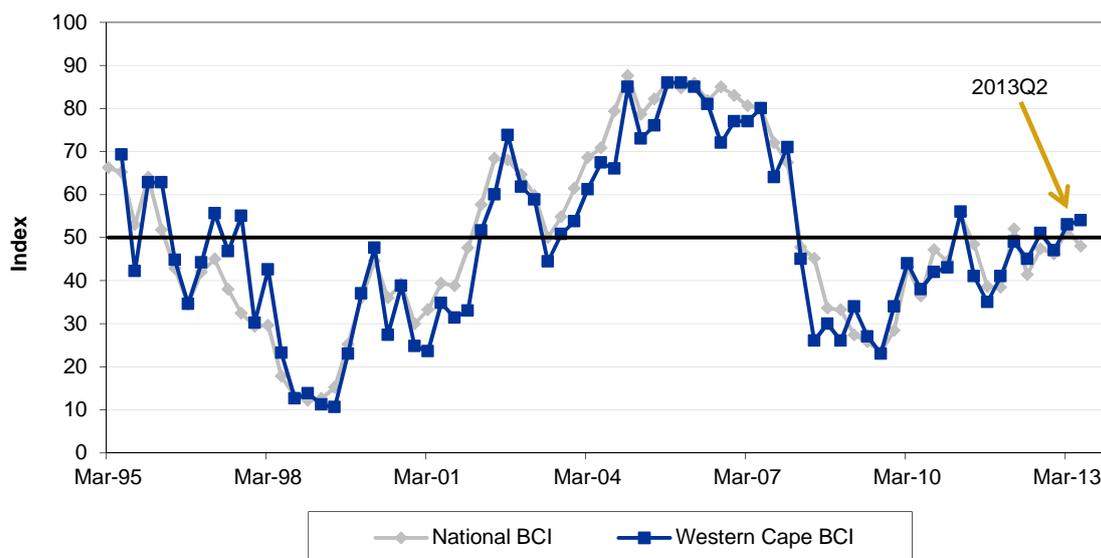
Source: IMF World Economic Outlook, April 2013

In all, the global economy is trapped in a multi-year slow and uneven growth trajectory, with emerging economies growing significantly faster than the advanced economies. The emerging economies are also being affected by the advanced countries' attempts to deleverage from high debt levels. The implication is that general inflation is unlikely to become a problem in the near future and that interest rates could remain low for the foreseeable future (at least until the end of 2014).

Unfortunately, in such an environment the outlook for commodity prices is bleak. Key commodity prices have been trending lower since mid-2011 and could remain under pressure as demand conditions remain lacklustre and new production capacity only comes on stream in coming years (related to the long lead times of mining developments). Regarding food prices, the latest development has been a softening in grain prices on the back of favourable harvests in the USA.

The **South African economy** has been impacted by the hesitant growth in her main trading partner economies and, domestically, the deep-seated labour market instability which broke out during the third quarter of 2012, caused a major drag on business, investor and consumer confidence as well as real economic growth. Real GDP growth slowed to 2.5 per cent in 2012 from 3.5 per cent in 2011 and is likely to slow further in 2013 (the first quarter annualised growth rate amounted to 0.9 per cent). The RMB/BER Business Confidence Index has been slow to recover since the 2009 recession, with the index tending to oscillate around the neutral level of 50 since the end of 2010 (see Figure 2.2). The brittle business confidence levels, combined with less than robust demand conditions in the world economy and domestically, do not bode well for private fixed investment spending and employment creation.

Figure 2.2 Hesitant recovery in business confidence since 2009



Source: BER, June 2013

A key development during the course of 2012 has been the slowdown in the consumer sector, which has been the mainstay of the economic recovery witnessed since the end of 2009. The consumption-led recovery lost momentum due to the lack of employment creation, lower wage increases, the impact of higher electricity, petrol and food prices on household budgets, and a general decline in consumer confidence – the FNB/BER Consumer Confidence Index declined from 11 to 7 points in the second quarter of 2011 to the first quarter of 2013, respectively.

In a typical business cycle, private fixed investment spending tends to replace consumer spending as the main driver of growth two to three years into the recovery. However, private fixed investment intentions were dealt a severe blow during the

third quarter of 2012 due to the deep-seated labour market instability in the national mining and Western Cape agricultural sectors. A real danger exists that the 52 per cent increase in the minimum wage in the agricultural sector, as well as current wage settlements in the mining sector, coupled with mechanisation, will lead to employment losses in the coming months, adding to the woes in the consumer sector.

Table 2.2 South Africa: BER forecast for selected economic variables: 2013 – 2014 (%)

	Estimate	Projections	
	2012	2013	2014
Final household consumption expenditure	3.5	3.0	3.9
Government consumption expenditure	4.2	3.5	3.6
Gross fixed capital formation	5.7	3.5	5.1
Real GDE	4.1	3.1	4.2
Total exports	0.1	3.5	6.4
Total imports	6.3	4.9	8
Real GDP growth	2.5	2.6	3.5
Total employment growth (formal & informal)	1.2	1.0	1.6
Inflation (annual averages)			
CPI (Headline)	5.6	5.9	5.4
PPI (All items)	6.9	5.5	4.8
Exchange rates (annual averages)			
R/US\$	8.5	8.5	8.5
R/Euro	8.69	8.9	8.5

Source: BER Economic Prospects, April 2013

The rand exchange rate has depreciated sharply since the middle of 2012 and came under additional pressure recently following the Federal Reserve's announcement regarding the likely tapering of its bond purchase programme later in the year, which caused financial market uncertainty and capital flight from emerging market currencies.

The expectation is that a sustained recovery in the world economy, combined with the more competitive levels of the rand exchange rate will stimulate exports – South Africa's exposure to the faster-growing Asian region in terms of primary commodity exports has grown in recent years and its manufacturing exports are increasingly penetrating rapidly-growing African markets. Furthermore, the government's infrastructure investment drive remains a key growth support and should crowd-in private fixed investment spending. Core inflation is also expected to remain contained (bar an unexpected further sharp currency depreciation), which should keep interest rates at a low level for the foreseeable future (end-2014). Fiscal policy is finely balanced in terms of its counter-cyclical stance necessary to support the lacklustre growth in the economy and the imperative to narrow the budget deficit (measuring 5.7 per cent of GDP in fiscal 2013) over the medium term. In this context the deceleration in real GDP growth is expected to be contained around 2 per cent in 2013 and to recover closer to a trend growth rate next year – see Table 2.2 above.

The **Western Cape economy** grew at a rate of 3 per cent during calendar year 2012, compared to the 2.5 per cent real GDP growth rate of the national economy, partly because the region did not experience the impact of the sharp decline in mining output experienced in other regions. However, economic activity was impacted adversely by the labour unrest in the agricultural sector, which erupted towards the end of the year. Real economic growth in the region decelerated from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. The slowdown was mainly driven by the impact of weaker global economic growth and the fact that the recovery in the national consumer sector was running out of steam.

Table 2.3 Western Cape economy sectoral growth & employment: 2000 - 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	2.0	8.2	-0.8	-186 297	-48 263	-5 874
Mining and quarrying	-1.4	-7.5	1.1	1 138	872	871
Manufacturing	2.7	-3.3	4.3	-63 932	-27 506	-1 828
Electricity, gas and water	2.8	-1.6	1.2	1 487	-1 370	764
Construction	7.1	5.5	0.7	-14 843	-17 160	735
Wholesale and retail trade, catering and accommodation	4.4	-0.6	4.3	70 280	-4 115	16 461
Transport, storage and communication	5.1	2.0	2.5	6 858	479	6 778
Finance, insurance, real estate & business services	5.8	3.9	2.9	105 169	-18 699	10 452
Community, social and personal services	3.0	1.4	1.3	46 831	9 333	-5 016
General government	2.4	4.2	3.9	71 647	12 189	23 763
Total Western Cape economy	4.1	1.7	3.0	38 338	-94 241	47 107

Source: BER/JP Morgan, June 2013

Table 2.3 shows the sectoral growth and employment trends in the Western Cape economy. Whereas growth trended at 4.1 per cent per annum (compared to 3.6 per cent per annum nationally), it slowed sharply during the recession years (i.e. 2008 - 2009) to 1.7 per cent per annum. The sharp contraction in the manufacturing sector (3.3 per cent per annum), coupled with its contribution of around 17 per cent to GDP, is notable as are, albeit to a lesser extent, that of mining, electricity & water and wholesale & retail. Sustained growth in the agriculture, forestry & fishing sector, construction, transport & communication, finance & business services, CSP services and – importantly – the general government in its attempt at national counter-cyclical fiscal policy ensured the continued expansion of the regional economy.

Achieving inclusive economic growth

The WCG remains committed towards achieving labour-absorbing economic growth in the Province. The following initiatives were, amongst other, announced in the 2013 Provincial Budget aimed at sustaining and expanding the 250 000-plus job opportunities in infrastructure development in the social, economic and environmental sectors in the very successful Expanded Public Works Programme (EPWP):

- R140 million towards road building, education & health infrastructure, neighbourhood security services, Cape Nature, sports training, home-based care for the elderly and the infirm and fire fighters.

- R112 million towards skills training for the unemployed youth, e.g. the creation of 3 000 on-the-job training opportunities with the Work & Skills programme; the training of 200 artisans in the Artisan programme and the employment of 100 unemployed post-graduate students in the CAPACITI 1000 programme.
- Finally, the WCG also accommodates paid internships training skilled public servants and runs the Masakh'iSizwe programme offering bursaries to student engineers in the engineering and built environment fields.

As one would expect, the rate of employment creation deteriorated during the recession years – from trending at 0.6 per cent per annum (i.e. 38 000 net additional jobs, 2000 - 2011), net retrenchments amounted to 2.7 per cent per annum (i.e. around 94 000 net job losses, 2008 - 2009) during the recession. During the economic recovery the rate of employment creation was restored to 1.4 per cent per annum (i.e. around 47 000 net new jobs).

A notable feature of the recovery years is the strong performance of the manufacturing sector (4.3 per cent per annum, actually rising above trend growth of 2.7 per cent per annum). However, this was in large, part of a rebound from the sharp contraction in 2008 - 2009, and it could not stem the employment losses in the sector – both agriculture and manufacturing reported sustained net job losses during the economic recovery, as well as the CSP services sector. The strongest job growth during the economic recovery occurred in the tertiary sectors, with the general government leading the way and followed by retail, wholesale, catering & accommodation, finance & business services.

Table 2.4 Western Cape Province: Real GDP Growth forecast: 2013 – 2017 (%)

Sector	2012e	2013f	2014f	2015f	2016f	2017f	Average annual growth, 2013 - 2017
Agriculture, forestry and fishing	1.7	0.8	2.0	1.7	1.8	2.0	1.7
Mining and quarrying	-5.1	1.3	1.0	0.6	1.0	1.2	1.0
Manufacturing	2.0	2.5	2.7	3.0	3.6	3.3	3.0
Electricity, gas and water	-1.4	2.6	2.9	2.7	3.0	2.8	2.8
Construction	2.6	4.1	4.6	4.6	5.0	5.3	4.7
Wholesale and retail trade, catering and accommodation	4.3	3.3	3.7	3.9	3.8	4.0	3.8
Transport, storage and communication	2.5	3.2	4.1	4.5	4.5	4.8	4.2
Finance, insurance, real estate and business services	3.5	3.5	4.5	4.8	5.1	5.3	4.6
Community, social and personal services	2.0	2.6	2.8	3.0	3.0	3.2	2.9
General government	3.5	2.5	3.0	3.0	3.2	3.0	2.9
Total Western Cape	3.0	3.0	3.7	3.9	4.1	4.2	3.8
Primary sector	1.4	0.8	2.0	1.7	1.8	2.0	1.6
Secondary sector	1.9	2.8	3.1	3.3	3.8	3.7	3.3
Tertiary sector	3.4	3.2	3.9	4.2	4.3	4.5	4.0

Source: Western Cape Government: Provincial Budget Review, February 2013 (e = estimate; f = forecast)

Regarding the outlook for real economic growth in the region (see Table 2.4) the weakness in the global economy, the second-quarter financial volatility, brittle business and consumer confidence and the slowdown in the (national) consumer

sector are likely to continue to weigh on the provincial economic performance during calendar 2013. Real GDP growth is forecast at a similar rate compared to 2012 (i.e. 3 per cent per annum) and expected to accelerate thereafter, with an average real growth rate of 3.8 per cent over the medium term³. During both calendar year 2013 and the remainder of the forecast period (2013 - 2017), the tertiary sector is expected to drive real economic growth in the region, with growth averaging 4 per cent per annum. However, the slowdown in the consumer sector will likely drive somewhat slower growth in the tertiary sector in 2013 compared to 2012, whereas the secondary sector recovery is projected to strengthen from 1.9 per cent average growth in 2012 to 2.8 per cent in 2013, and projected at 3.3 per cent over the forecasting period.

2.3 The West Coast District (WCD) economy

In the 2012 MERO report, the structure of the WCD economy was discussed in detail. In essence the district economy consists of a good mix of primary, secondary and tertiary activities – a well-balanced regional economy with a comparatively larger primary and secondary sector compared to that of the Province. The district also possesses a vibrant tertiary sector, with finance & business services, transport & communication and the retail & wholesale sectors contributing strongly to growth and employment creation.

The WCD economy was heavily impacted by the 2009 recession, with real GDP growth slumping by close to 3 per cent in calendar year 2009 from 5.1 per cent growth during 2007 - 2008 at the peak of the previous business cycle. The adverse employment impact was cushioned by the sustained growth of the services sector being less exposed to the contraction in global demand.

Table 2.5 West Coast District sectoral contribution to GDP growth recovery and employment creation: 2010 - 2011

Sector	Ave real GDP growth 2010 - 2011	% point contribution	% share	Net employment creation 2010 - 2011
Agriculture, forestry & fishing	-1.4	-0.2	-6.1%	-2 553
Mining & quarrying	-0.5	0.0	-0.1%	227
Manufacturing	5.0	0.9	26.1%	-597
Electricity, gas & water	-0.1	0.0	0.0%	13
Construction	1.0	0.0	1.3%	-64
Wholesale & retail trade, catering & accommodation	3.7	0.5	13.8%	236
Transport, storage & communication	3.2	0.3	8.0%	99
Finance, insurance, real estate & business services	5.9	1.4	43.2%	1 153
Community, social & personal services	2.1	0.1	2.5%	-394
General government	3.6	0.4	11.4%	1 096
Total District economy	3.3	3.3	100%	-784

Source: Quantec Research/CER

³ The forecast was compiled with information known up to and including the middle of June 2013; it is possible that growth may be slower during 2012/13 than forecast here.

Table 2.5 shows the sector spread of the recovery growth in the district economy during calendar years 2010 - 2011, including the net employment creation over this period. The real GDP growth rate averaged 3.3 per cent over this period, slightly faster than that for the provincial economy (coming in at 3 per cent per annum), with net retrenchments more or less stabilising.

A notable feature of the economic recovery in the region is the relatively strong rebound in the manufacturing sector, with real value added growth averaging 5 per cent per annum. This accounted for close to one per cent of the 3.3 per cent (more than a quarter) region-wide recovery growth. Seen in context though, much of the strong growth may have been the sector bouncing back from the deep recession impact. This seems to be the case in the agro-processing sector, as well as the metals & machinery sector and non-metal minerals. These three sub-sectors made the strongest relative contribution to the recovery in the manufacturing sector in 2010 - 2011, from experiencing deep contractions during 2008 - 2009. The fact that no net employment creation occurred over the recovery period also suggests the recovery has merely been a bounce back from the recession impact.

The sectors which contributed strongest to the recovery growth and employment creation are finance & business services (particularly the latter mentioned sub-sector), retail & wholesale, the general government and transport & communication – in all, these tertiary sectors accounted for more than 75 per cent of the recovery growth. Furthermore, whereas the primary and secondary sectors shed jobs on balance (around 2 200 per annum), the tertiary sector created close to 3 000 net jobs per annum over the corresponding period (2010 - 2011).

2.3.1 Current profile – growth and employment trends in a provincial context

Table 2.6 shows the composition of the WCD economy in the context of the five other districts of the Western Cape Province. From the table it is clear that the finance, insurance, real estate & business services sector is the largest, contributing more than one quarter to GDP. In this respect the relative size of the finance & business services sector is very similar compared to the other non-metro districts.

The second largest sector is manufacturing, contributing close to 18 per cent of real GDP; WCD has the second largest manufacturing share of GDP, surpassed by the Cape Winelands at 24 per cent of GDP. However, when combined with the food & beverage sub-sector of manufacturing, the size of the agricultural, fishing & forestry and agro-processing sector accounts for an equivalent amount of WCD GDP than finance & business services, i.e. 24 per cent. It follows that agriculture & agro-processing, finance & business services and manufacturing are the dominant sectors in the WCD economy. The two other sizable sectors are retail, wholesale, catering & accommodation (13 per cent) and the general government (11 per cent). The relative shares of these two broad sectors are similar compared to the other districts, except for Eden's and – to a lesser extent – the Cape Metro's relatively larger retail & wholesale sector tied to tourism.

Table 2.6 West Coast District sectoral composition in provincial perspective: 2011 (%)

Sector	West Coast	Cape Metro	Cape Winelands	Eden	Overberg	Central Karoo
Agriculture, forestry & fishing	14.6	1.4	11.1	5.5	11.6	9.0
Mining & quarrying	0.7	0.1	0.2	0.2	0.1	0.1
Manufacturing	17.7	15.9	24.2	16.5	16.2	11.1
Electricity, gas & water	0.9	1.5	0.9	1.5	1.2	1.1
Construction	4.3	3.9	3.5	8.7	7.7	5.6
Wholesale & retail trade, catering & accommodation	12.8	15.2	13.8	17.9	13.9	13.9
Transport, storage & communication	8.5	10.9	7.3	7.7	7.9	12.2
Finance, insurance, real estate & business services	25.6	36.1	22.9	24.3	27.1	27.4
Community, social & personal services	4.1	5.1	5.8	5.3	4.2	6.5
General government	10.7	9.8	10.2	12.4	10.2	13.1
Total District economy	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research/CER

Regarding the growth of the district economy over the 2000s (Table 2.7), it is evident that the West Coast lagged the other district economies. This was mainly due to the contraction in the sizeable agricultural sector, as well as very pedestrian growth in the manufacturing sector. The West Coast hosted the slowest growing manufacturing sector in the Province when compared to the other districts; its agricultural sector also contracted the third fastest (0.4 per cent per annum) following the Overberg (0.7 per cent) and the Central Karoo (1.2 per cent).

Table 2.7 West Coast District real GDP growth in provincial perspective: 2000 – 2011 (%)

Sector	West Coast	Cape Metro	Cape Winelands	Eden	Overberg	Central Karoo
Agriculture, forestry & fishing	-0.4	10.0	0.3	1.1	-0.7	-1.2
Mining & quarrying	-4.0	-0.8	2.1	-4.1	0.1	15.8
Manufacturing	1.2	2.3	2.4	4.1	6.7	9.7
Electricity, gas & water	-2.2	3.4	2.1	0.6	1.1	-0.3
Construction	6.6	6.5	7.2	10.3	9.0	9.3
Wholesale & retail trade, catering & accommodation	3.8	4.1	5.4	5.5	3.6	3.1
Transport, storage & communication	4.5	5.0	6.8	5.5	6.3	2.0
Finance, insurance, real estate & business services	10.6	5.5	7.1	7.1	11.0	7.9
Community, social & personal services	2.9	2.8	3.8	5.0	3.6	2.6
General government	2.4	1.9	3.3	4.5	3.3	2.4
Total District economy	3.3	4.1	3.9	5.2	5.2	4.0

Source: Quantec Research/CER

The fastest growing sector was finance & business services (growing 10.6 per cent per annum, 2000 - 2011), followed by the construction sector (6.6 per cent per annum). The West Coast hosted the second fastest growing finance & business services sector

across all district economies. While the construction sector boomed during the expansion phase of the business cycle, growth has collapsed following the impact of the recession in 2008 - 2009 – see Table 2.7.

As indicated in Table 2.8, the WCD economy recovered to its trend growth rate of 3.3 per cent per annum during calendar years 2010 - 2011. Real growth slowed to 1.4 per cent per annum, 2008 - 2009 (including a close to 3 per cent contraction in calendar year 2009). The district economy witnessed significant job losses throughout the period 2000 - 2011, at a net rate of 36 500 per annum. The rate of retrenchment receded during the periods 2008 - 2009 and 2010 - 2011 to 13 300 and 785 per annum, respectively, with some net job growth reported in calendar year 2011. Over the period 2000 - 2011, the WCD economy shed more than 50 000 jobs per annum in the primary and secondary sectors, whereas close to 16 000 jobs were created in the tertiary sector on a net basis⁴.

Table 2.8 West Coast District GDP and employment trends: 2000 - 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	-0.4	2.6	-1.4	-44 879	-10 910	-2 553
Mining and quarrying	-4.0	-10.3	-0.5	94	213	227
Manufacturing	1.2	-8.4	5.0	-6 392	-1 935	-597
Electricity, gas and water	-2.2	-7.7	-0.1	-97	-61	13
Construction	6.6	5.6	1.0	-949	-1 010	-64
Wholesale and retail trade, catering and accommodation	3.8	-1.1	3.7	2 404	-776	236
Transport, storage and communication	4.5	1.4	3.2	156	12	99
Finance, insurance, real estate & business services	10.6	11.2	5.9	8 970	827	1 153
Community, social and personal services	2.9	0.3	2.1	965	-21	-394
General government	2.4	3.2	3.6	3 263	359	1 096
Total West Coast District	3.3	1.4	3.3	-36 465	-13 302	-784

Source: Quantec Research/CER

2.3.2 Macro implications and district economic outlook

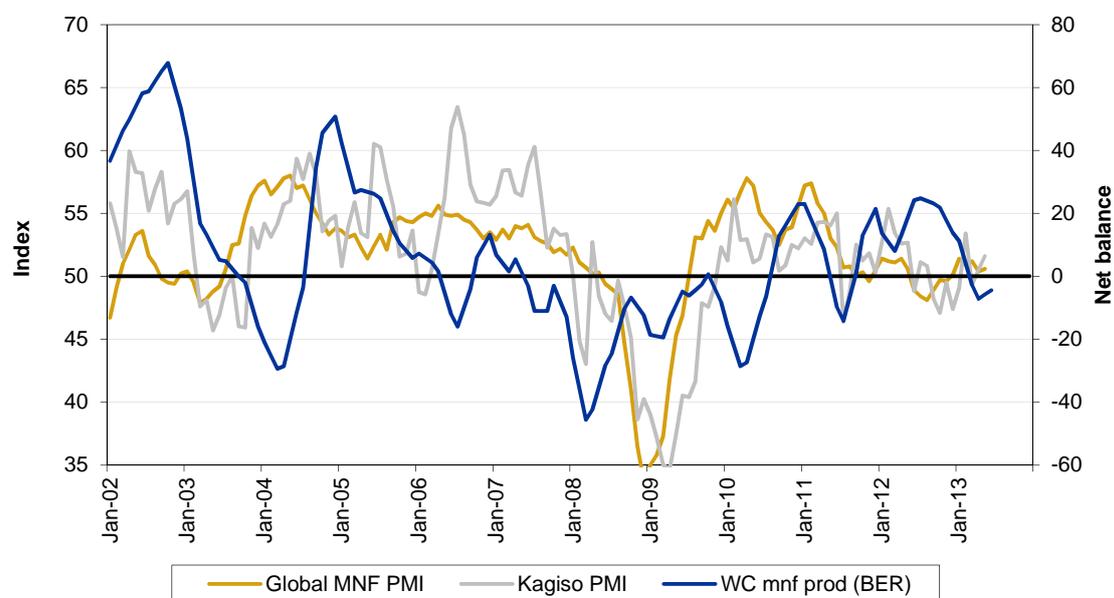
The WCD economy is estimated to have slowed down from real GDP growth of 4 per cent in 2011 to just below 3 per cent in 2012, in line with the slowdown in the provincial (from 3.5 to 3 per cent) and the national economies (from 3.1 to 2.5 per cent). The drivers of the slowdown include the adverse impact on exports from weaker global demand, as well as the local consumer recovery running out of steam, due to sluggish employment growth, lower wage growth, higher energy and food costs, declining consumer confidence and stricter credit standards limiting credit spending. Furthermore, private fixed investment spending has been weak due to the

⁴ It is possible that some of the net job losses reported in the primary & secondary sectors reflect a statistical error on the part of Statistics SA that classify employment via labour brokers as employment in the 'other business services' sector, which then overstates the actual employment creation in the broader finance & business services sector.

impact of uncertainty at both the global and domestic level, regarding economic policy and the general political climate. The weak tendency in private fixed investment spending is countered by the public sector infrastructure investment drive.

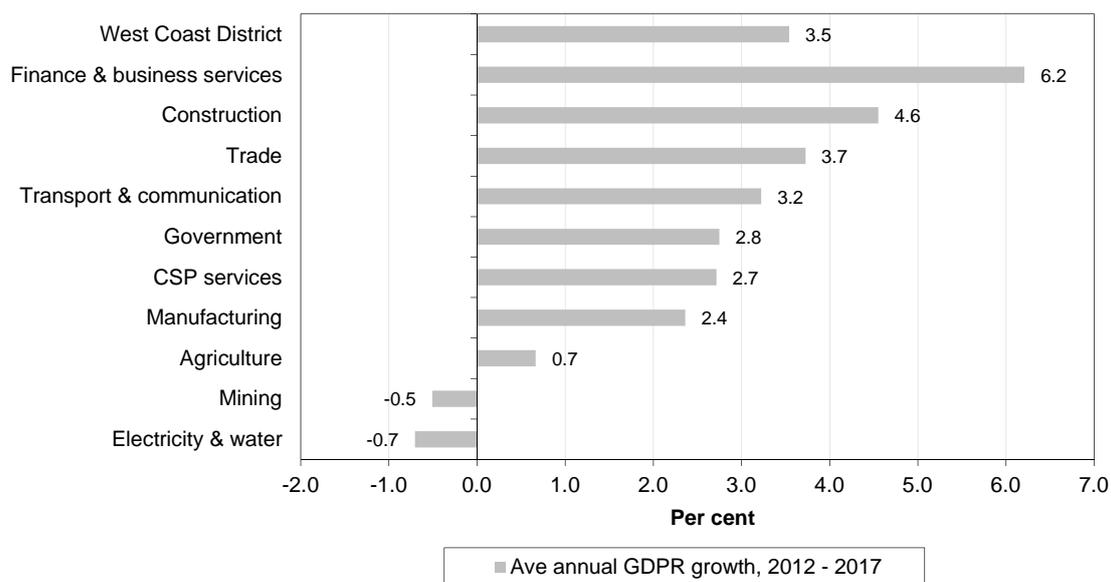
The West Coast District is currently benefiting from the government’s Strategic Integrated Project 5 (SIP 5), i.e. the Saldanha-Northern Cape development corridor. This involves the expansion of the rail and port infrastructure in the Saldanha Bay area; the construction of industrial space linked to the (incumbent) development of the industrial development zone (IDZ); the infrastructure tied to the maritime support of the oil & gas developments along the West Coast; and the expansion of iron ore mining production in the Northern Cape. Construction activities tied to this project will be a major economic injection into the WCD. The construction industry has gone into a slump after the 2008 - 2009 recession, with real value added growth averaging a mere 1 per cent per annum (2010 - 2011, from trending at 6.6 per cent over the 2000s and growing at double digit rates over the period 2004 - 2008).

Figure 2.3 Global PMI vs Kagiso PMI vs Western Cape manufacturing production (BER survey)



Source: BER/JP Morgan, June 2013

The recovery growth in the district since 2010 has been somewhat faster compared to that of the Province and it would appear the region is recovering in line with the provincial and national economies – see Figure 2.3 tracking the composite global PMI, the Kagiso PMI (revealing manufacturing business conditions domestically) and the trajectory of manufacturing production in the wider province. There is a broad correspondence between the global, the national and the regional business cycle as depicted in Figure 2.1. The recovery in local manufacturing activity has been hesitant following the deep 2008 - 2009 recession; however, it held up well during the middle quarters of 2012, when the national manufacturing sector slowed down.

Figure 2.4 WCD real GDP growth forecast by broad sector: 2012 - 2017

Source: CER/Quantec Research

WCD real GDP growth is projected at 2.9 per cent for calendar year 2013, i.e. unchanged from the 2012 growth momentum, and then to accelerate to 3.6 per cent in 2014. Over the calendar years 2015 - 2017, real GDP growth is projected to average 4 per cent per annum (see footnote 3). Figure 2.4 shows the projected sectoral growth pattern over 2012 - 2017. The finance & business services sector is forecast to grow at 6.2 per cent per annum and the construction sector at 4.6 per cent per annum. Both these sectors are likely to benefit from the infrastructure development tied to the IDZ and the investment spending tied to the Saldanha-Northern Cape development corridor. The other broad sector expected to grow faster than average over the forecast horizon is the retail, wholesale, catering & accommodation sector (at 3.7 per cent per annum).

While the consumer sector is likely to remain under pressure during 2013 the sector is not expected to go into recession. The manufacturing outlook is also projected to improve to 2.4 per cent annual growth compared to the trend 1.2 per cent over the 2000s; however, this remains a moderate growth performance. The weaker rand exchange rate should compensate for lower metal prices over the short term and assist export and import-competing manufacturing firms. The contraction in the agricultural sector is projected to stabilise and may even show some positive growth. Overall *real GDP growth is projected to average 3.5 per cent per annum (2012 - 2017)*, which is slightly lower than the *3.7 per cent per annum projected for the Western Cape Province*.

2.4 Concluding remarks

The WCD economy suffered a serious recessionary decline in 2009 and is currently exposed to the uncertain global and national economic outlooks. While the region's exporters will benefit from the more competitive level of the rand exchange rate, *inter alia*, compensating for lower metals and wheat prices, demand conditions are forecast to remain tight during 2013. Metal exporters may benefit from livelier economic conditions in Asia; however, the large and fast-growing Chinese economy has also been cooling down. For the region's agro-processing and fishing industries, the search is on for faster growing non-traditional markets given the dire economic conditions in Europe, which are only projected to recover slowly.

Producers selling in the domestic market will also find the going continuing to be tough this year as the national consumer sector is under pressure due to sluggish economic growth and employment creation, deteriorating confidence and the impact of energy and food prices on consumer budgets. The national government also has to tighten the growth of real expenditure in order to generate a better budget balance, which may impact on local government (particularly the Saldanha Bay Municipality given its sizeable contribution to the regional GDP). However, a key countervailing force is (hopefully soon) the infrastructure development tied to the proposed IDZ as well as the Northern Cape/Saldanha development corridor.

This outlook is for a stabilisation of the global economic slowdown experienced last year and a gradual re-acceleration towards the end of 2013 and during next year. The domestic consumer slowdown is also expected to be of a temporary nature, with interest rates remaining low, the stimulus from infrastructure investment (crowding-in private fixed investment) adding to income growth and exporters and import-competing producers benefiting from the more competitive level of the exchange rate. While significant risks prevail (both on the global and domestic economic front), the WCD economy is projected to remain embarked on a recovery road.

3

Sectoral growth, employment and skills

This chapter deepens the analysis presented in Chapter 2 of the sectoral economic growth and employment performance of the West Coast District (WCD) economy. The current chapter is divided into two sections: *in the first main section*, the focus is historical:

- *Firstly*, the real GDP and employment creation performances over the period 2000 to 2011 are analysed. An overview is provided of the municipal growth record by way of background. As a sector's output expands one would expect a commensurate increase in the number of employees active in the sector. However, due to various reasons this may not happen (e.g. due to mechanisation trends in the underlying production technologies; distortions in relative factor prices; or due to the skills intensity of production, etc.). An attempt is made to classify all of the 22 sub-sectors in the WCD economy into four groups in order to determine which sectors have grown the strongest and are the leading employment generators.
- *Secondly*, a standard analysis follows of the recovery growth experienced across sectors since the onset of the business cycle upswing after the deep 2009 recession. The analysis is conducted for the agricultural sector, manufacturing and services sectors.
- *Thirdly*, the international trade performance of the district is investigated.

In the *second main section* the focus turns forward-looking: *first* a brief sectoral outlook and forecast is presented (linking with the outlook outlined in Chapter 2). Thereafter a number of local issues come under the spotlight, e.g. an analysis of the comparative advantage of sub-sectors in the WCD economy; a look at key constraints and bottlenecks facing the district; what is known regarding skills shortages in the region and, *finally*, some tentative remarks regarding policy options aimed at the further development of the region.

3.1 Sector growth and employment: Historical

In Chapter 2 it was seen that the WCD real economic growth disappointed somewhat over the 2000s, i.e. when compared to economic growth in the Cape Metro and the other Western Cape districts – the average real GDP growth rate of 3.3 per cent per annum (2000 to 2011) was dragged down by a gradual contraction in the agricultural, forestry & fishing sector (-0.4 per cent per annum) and pedestrian growth in the manufacturing sector (growing by a meager 1.2 per cent per annum over the corresponding period, including a heavy impact from the 2008/09 global recession). The growth of these sectors has also been accompanied by net job losses. The poor growth and employment creation track record of the agricultural and manufacturing sectors was noted as a key concern in the 2012 MERO study. Table 3.1 shows the average real GDP growth rates across the five municipalities in the West Coast District.

Table 3.1 West Coast District economy: Municipal growth across sectors: 2000 – 2011 (%)

Industry	Bergrivier	Cederberg	Matzikama	Saldanha Bay	Swartland	West Coast District
Agriculture, forestry & fishing	-2.7	-1.6	-0.6	4.7	-0.1	-0.4
Mining & quarrying	-8.3	8.1	-10.7	7.5	-22.6	-4.0
Manufacturing	5.1	1.5	1.0	-2.0	2.5	1.2
Electricity, gas & water	-2.4	-20.0	-8.4	-1.5	2.6	-2.2
Construction	10.6	10.9	8.8	3.3	5.8	6.6
Wholesale & retail trade, catering & accommodation	8.0	4.5	0.6	3.1	2.8	3.8
Transport, storage and communication	4.3	5.8	9.1	3.3	1.3	4.5
Finance, insurance, real estate & business services	8.3	5.1	2.7	13.6	13.4	10.6
Community, social & personal services	0.5	4.9	2.9	5.4	-0.9	2.9
General government	-1.2	4.3	2.3	5.7	-2.4	2.4
Total	2.8	2.2	1.5	4.6	3.7	3.3

Source: Quantec Research/CER

Table 3.2 West Coast District economy: Sectoral composition by municipality: 2011 (%)

Industry	Bergrivier	Cederberg	Matzikama	Saldanha Bay	Swartland	West Coast District
Agriculture, forestry & fishing	18.4	25.7	18.9	7.9	14.3	14.9
Mining & quarrying	0.2	0.8	1.0	1.2	0.0	0.7
Manufacturing	20.6	12.8	19.9	13.3	21.1	17.8
Electricity, gas & water	0.6	0.0	1.0	0.5	1.9	1.0
Construction	5.4	5.1	3.8	3.3	4.8	4.3
Wholesale & retail trade, catering & accommodation	22.5	17.3	10.5	10.1	11.0	12.8
Transport, storage and communication	6.5	6.9	16.2	9.3	4.9	8.5
Finance, insurance, real estate & business services	14.6	15.3	15.2	31.7	33.7	25.1
Community, social & personal services	1.4	6.2	5.7	5.1	2.8	4.1
General government	9.6	9.8	7.7	17.7	5.5	10.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research/CER

As noted in the 2012 MERO study, the Saldanha Bay and Swartland municipalities are the leading two municipalities in the West Coast. Between them they contribute more than 60 per cent of the WCD real GDP and both sub-regions are growing above average, i.e. 4.6 per cent and 3.7 per cent respectively (compared to the WCD average growth rate of 3.3 per cent, 2000 - 2011). The finance & business services sector account for a third in each of these municipalities' value added and expanded strongly over the 2000s.

In the Swartland, the financial & business services are supporting a large agricultural sector and a relatively large manufacturing sector; in Saldanha Bay, the financial & business services appear to be more closely linked to a relatively large government sector and – to a lesser extent – manufacturing. The stagnant agricultural sector (contracting 0.1 per cent per annum) and poor manufacturing growth (2.5 per cent per annum) in the Swartland Municipality suggest the buoyancy in the finance & business services sector may not be sustainable.

In the other three municipalities, i.e. Bergrivier (2.8 per cent per annum), Cederberg (2.2 per cent) and Matzikama (1.5 per cent), the contraction of the agricultural sector is a key feature. This is particularly true regarding Bergrivier, albeit evident that economic activity is shifting in favour of manufacturing, construction, retail & wholesale and other services. The growth in these sectors may, however, have been stronger in the event of a more stable/or growing agricultural sector. The Cederberg and Matzikama municipalities have large agricultural sectors (by far the largest contributors to growth); however, this sector is gradually contracting in both regions. Both regions also possess a reasonably large manufacturing base (probably linked to agriculture) and the Cederberg hosts a buoyant retail, wholesale, catering & accommodation sector (probably linked to the region's spectacular and vibrant tourism industry).

This is by way of background regarding the WCD's municipal growth performance over the 2000s tracked over the nine broad sectors. The missing variable is employment creation. While data reliability tends to be a challenge, the employment creation track record across 22 sub-sectors is investigated below in an attempt to identify the leading employment-creating sectors in the WCD.

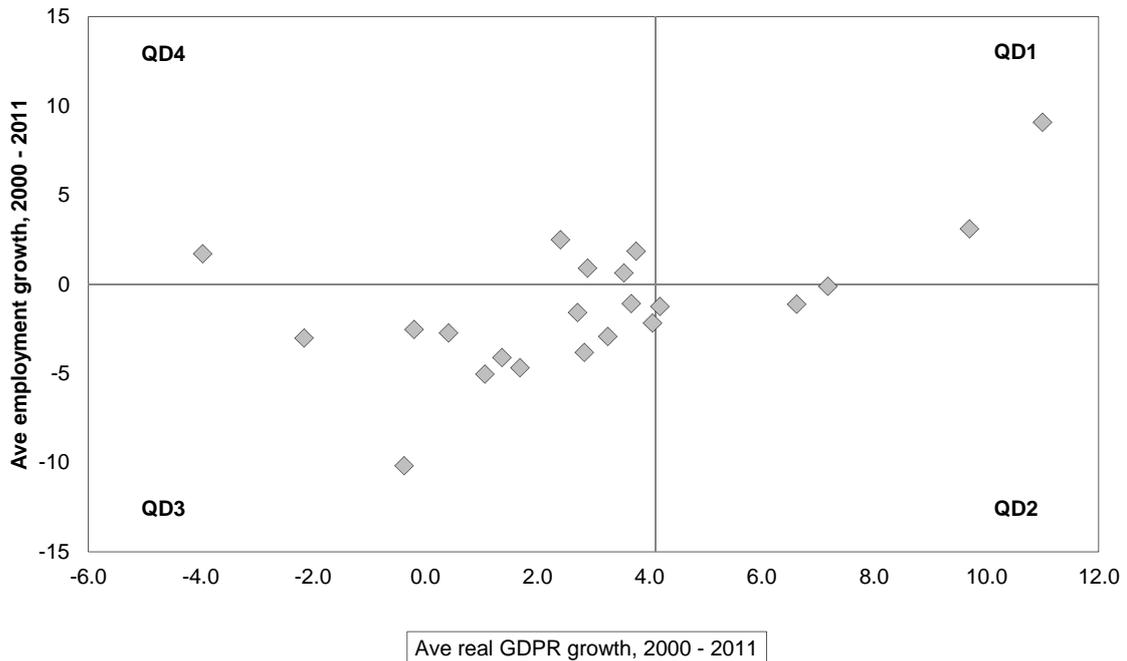
3.1.1 Leading employment - creating growth sectors

The Western Cape Government (WCG) is committed to achieve inclusive economic growth in the Province as embodied in PSO1 (Provincial Strategic Objective 1). With inclusive economic growth is meant economic growth on the basis of employment generation, i.e. inclusivity should be strived for by maximising opportunities for employment in the economic growth process. The 2012 MERO study highlighted the fact that the growth path deviated from the employment creation path over the period 2000 to 2010, particularly in the primary and secondary sectors, not only in the WCD, but also in the other districts. In fact, this tends to be a national and a global phenomenon.

In the current section, some cursory investigation is made of the real economic growth and employment creation trends in the WCD over the period 2000 to 2011. In Figure 3.1 a scatter plot is made of the combination of each (of the 22) sectors' growth and employment performance over the said period: the 11-year average real value added growth rate is plotted on the horizontal axis and the 11-year average employment growth rate on the vertical axis. On this basis, Figure 3.1 and the accompanying table, show four quadrants/groups of sub-sectors:

1. QD1 depicts the sub-sectors that *grew above the provincial average (i.e. more than 4.1 per cent per annum, 2000 - 2011) and created jobs on balance*. Included are only two sub-sectors, i.e. business services (with net job creation expanding at a rate of 9 per cent per annum, 2000 - 2011) and finance (3.1 per cent); communication actually also belongs to this group having grown at a high rate (7.2 per cent per annum) and not shedding jobs, albeit also not creating jobs on a net basis.
2. QD2 depicts the sub-sectors that *grew above average but shed jobs on balance* over the corresponding period. Sub-sectors included here are construction and catering & accommodation.
3. QD3 depicts the sub-sectors that *grew below average and shed jobs on balance* over the period 2000 to 2011. This is the largest group reflecting the fact that a range of mainly manufacturing sub-sectors exhibited sub-par growth and also shedding jobs on a net basis over the business cycle. Included is a list of manufacturing sub-sectors, ranging from petro-chemicals (-1.1 per cent per annum) to food & beverages (-5.1 per cent). Agriculture is also included in this group and witnessed the sharpest rate of retrenchments, i.e. exceeding 10 per cent per annum. The other non-manufacturing sub-sector included here is electricity & water.
4. QD4 depicts the sub-sectors that *grew below average; however, succeeded in creating jobs* over the period. Included are only a few sectors, namely, the government and community, social & personal services, , retail & wholesale (1.8 per cent) and transport & storage (0.6 per cent); as well as mining. Mining only contributes a fraction of the district's economic output (i.e. 0.7 per cent). Apart from mining, therefore the sub-sectors included in this group reside mainly in the public sector.

Figure 3.1 West Coast District: Classification of sub-sectors: Growth & employment creation: 2000 - 2011



QD1: Above ave growth/ job creation	QD2: Above ave growth/ job losses	QD3: Below ave growth/ job losses	QD4: Below ave growth/ job creation
Business services (9.1)	Communication (-0.1)	Petroleum & chemicals (-1.1)	Government (2.5)
Finance (3.1)	Construction (-1.1)	Furniture & other (-1.6)	Retail & wholesale (1.8)
	Catering & accommodation (-1.2)	Electrical machinery (-2.2)	Mining (1.7)
		Wood & paper (-2.5)	CSP services (0.9)
		Metals & machinery (-2.7)	Transport & storage (0.6)
		Radio & TV (-2.9)	
		Electricity & water (-3.0)	
		Auto (-3.8)	
		NMM (-4.1)	
		Clothing & textiles (-4.7)	
		Food & beverages (-5.1)	
		Agriculture (-10.2)	

Note: Average annual growth in employment, 2000 - 2011, indicated in parenthesis

Source: Quantec Research/CER

From the above it is evident that the job growth occurred mainly in the services sub-sectors, ranging from finance & business services in quadrant one to the government and community, social & personal services in quadrant four. On the other hand, the job losses were concentrated in the primary and secondary sectors of the regional economy. On face value the evidence tend to suggest that the services sub-sectors need support as they contain the growing and job-creating industries, whilst the agriculture and manufacturing sub-sectors appear to be the sunset industries responsible for job losses and should be allowed to languish. This would be an incorrect conclusion – the reality is much more nuanced.

In striving for inclusive economic growth, it is not only necessary to establish which sectors are growing fastest and creating the most jobs, in economics it is also an issue of supply. It is a well-known fact that the supply of labour is predominantly semi- and unskilled, i.e. workers absorbed much easier in the primary and secondary sectors of

the economy. It is therefore necessary to unpack the sub-par growth in the manufacturing sub-sectors and the reasons behind the high rates of retrenchment; also of course in the agricultural sector. Economic development typically progresses from the primary to the secondary sector of the economy, with services being a 'derived' sector supporting the growth in the former. The ultimate objective of economic development is to move up the value chain in production, e.g. the productivity of manufacturing production, which typically reaps the economies of scale production, are much higher than for other industries. It follows that, in terms of policy intervention, an economy needs to be structured in a way that maximises the growth (and employment creation) of the productive sectors of the economy.

In the West Coast District, the primary and secondary sectors contribute a relatively larger share of economic output compared to the Province, for instance (see Table 3.2) and they tend to be semi- and unskilled labour intensive where the surplus labour supply resides; however, these sectors are under pressure in terms of growth and employment creation. Should this tendency not be kerbed the vibrant growth in the services industries will also become compromised in time. The expansion and employment creation in the public sector is, for instance, not sustainable in the absence of a flourishing private sector economy.

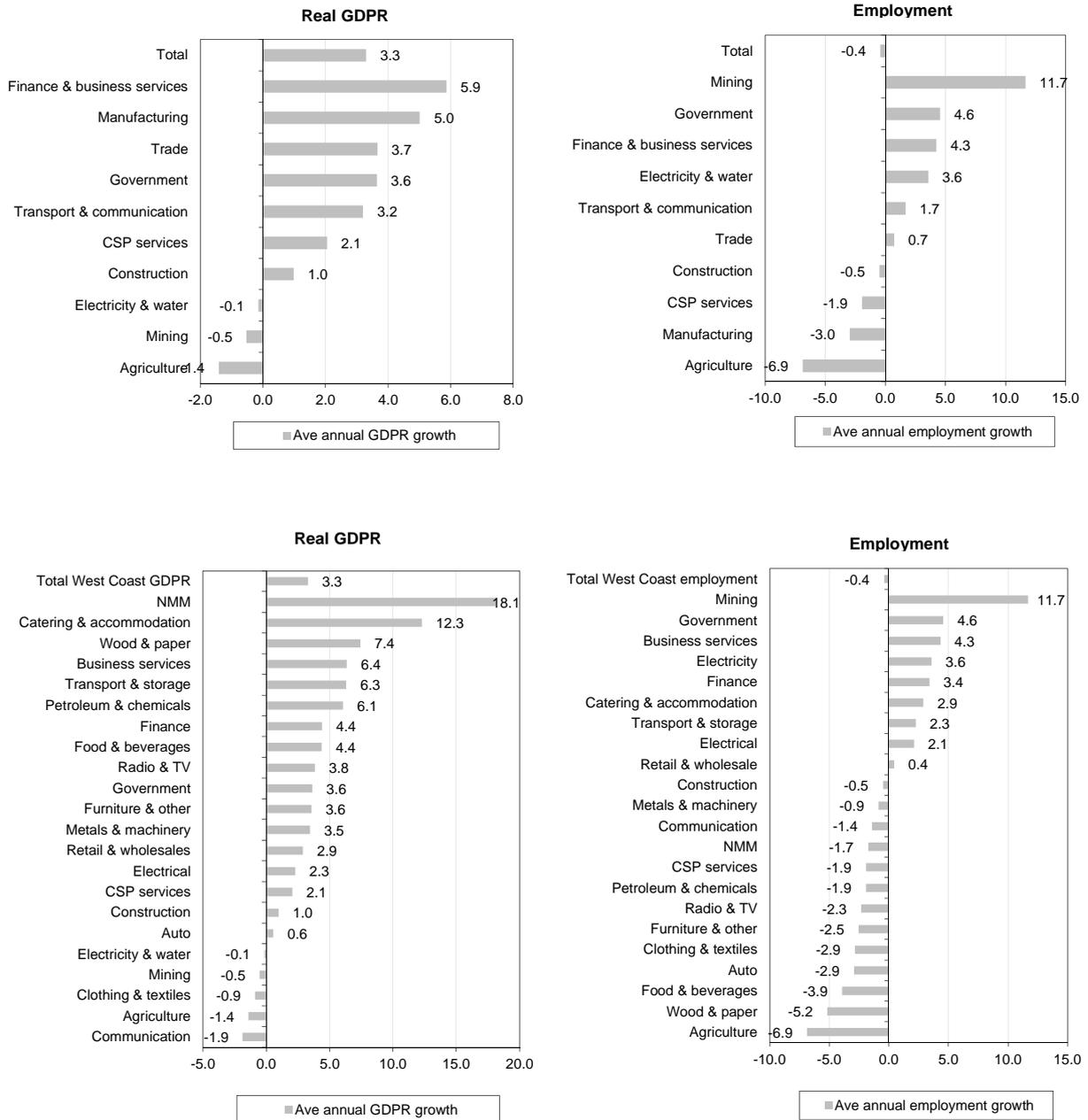
In the *second main section* of this chapter of the report a cursory analysis is made of the comparative advantage of the regional economy and in chapter five the food value chain and the metals & machinery value chain, both key manufacturing areas of the regional economy, come under the spotlight. The results from these analyses should be combined with the above in order to arrive at some assessment of which sub-sectors/industries warrant official support with the objective of inclusive economic growth in mind.

Before we turn to these analyses, a brief overview is provided of the sectoral growth performances during the economy recovery (2010/11) as well as a re-cap of the agriculture, manufacturing and services broad sectoral growth trend by municipality in the West Coast District.

3.1.2 Agriculture, manufacturing & services

In calendar 2011, the WCD agriculture, forestry & fishing sector contributed 15 per cent of GDP, manufacturing 18 per cent and services slightly more than 60 per cent. In terms of employment, the agriculture, forestry & fishing sector employed 19 per cent of the workforce, manufacturing 11 per cent and the services sector 63 per cent.

Figure 3.2 West Coast: Sectoral real GDP growth and employment growth: 2010 – 2011 (% per annum)



Source: Quantec Research

As discussed in Chapter 2, the regional economy suffered a serious recessionary impact in 2009, with overall GDP contracting by close to 3 per cent. Close to 13 300 workers representing 13 per cent of the workforce employed at the end of 2007 lost their jobs during calendar 2008 and 2009. Part of these job losses was related to a structural trend (the average annual decline in the workforce since 1995, and up to 2007, measures 1.3 per cent); however, the bulk of the decline was a direct result from the recession impact. It is therefore now a key question how the region as responded to the general economic recovery in 2010/11. Figure 3.2 depicts the

sectoral growth and employment performances over this period, both at a broad sector level and a more disaggregated sector level.

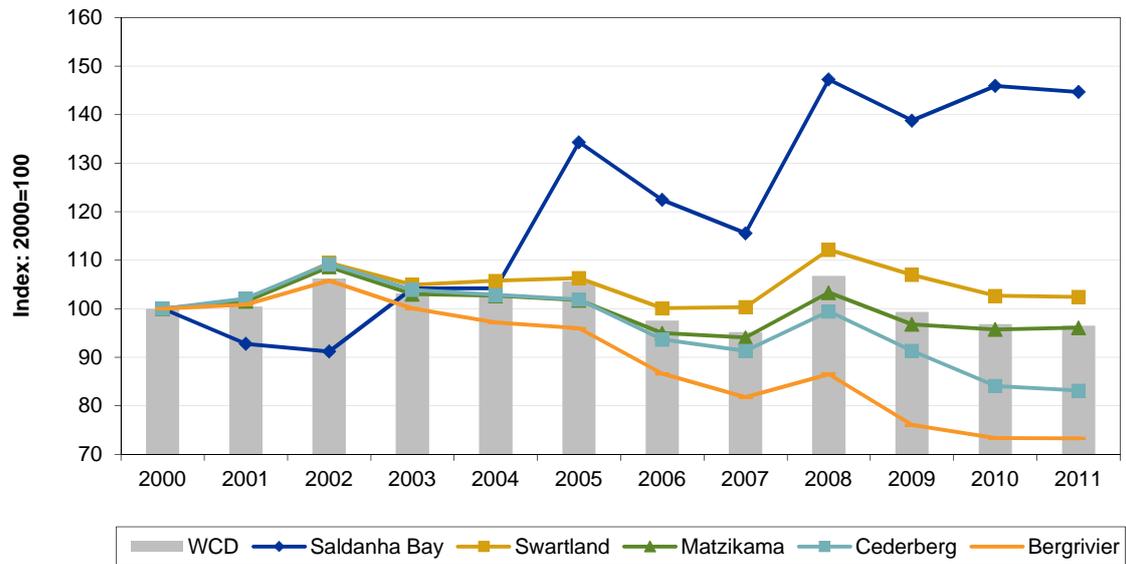
The first observation is that the regional economy managed to restore trend growth at 3.3 per cent per annum over the recovery period (and the estimated growth rate in respect of calendar 2012 is 2.9 per cent in line with the general economic slowdown registered last year) and that the rate of job losses has more or less stabilised, with the rate of decline reduced to 0.4 per cent per annum, 2010/11. While job growth continues to lag the growth in the region, it is somewhat heartening that the rate of retrenchments appears to have stabilised; however, it also suggests that most of the jobs lost during the recession have not been restored.

The second observation to be noted is the relatively strong rebound in the manufacturing sector, with real value added growth averaging no less than 5 per cent per annum, 2010 - 2011. The leading sub-sectors of manufacturing in this regard appear to be non-metal minerals (growing by an estimated 18 per cent per annum; this sector is, inter alia, linked to the construction and property development sectors), wood & paper products (7.4 per cent), petro-chemicals (6.1 per cent) and food & beverages (4.4 per cent). The radio & TV equipment, furniture and metals & machinery sectors also put in above average growth performances. However, the worrying fact is that the manufacturing sector as whole continued to shed jobs at a rate of 3 per cent per annum. This suggests manufacturing firms in the region continued to find it necessary to reduce their workforces in an attempt to manage their cost bases during the first two calendar years of the economic recovery and that any investment that took place was of a labour saving kind.

A third observation is the sustained contribution to growth and employment creation in the services industries. Catering & accommodation (growing by 12 per cent per annum) led the way, being well-supported by business services and transport & storage (both expanding around 6.5 per cent per annum) and – to a lesser extent – finance & insurance (4.4 per cent). Apart from the government, the finance, insurance, real estate & business services and transport, storage & communication sectors contributed the strongest to employment creation and compensating for the job losses in the primary (excluding mining) and secondary sectors.

In all, the recovery growth in the region (3.3 per cent) is encouraging also coming in slightly faster than for the Province (3 per cent) and nationally (2.9 per cent). However, the continued steep job losses in the agriculture and manufacturing sectors remain a cause for concern. While it is evident that much of the decent recovery growth in the manufacturing sector is related to a rebound from the heavy recessionary impact, the conditions for faster job growth remain absent. It is to be assumed that the workers becoming redundant in the agriculture and manufacturing sectors somehow find their way to services industries such as tourism, retail & wholesale, transport & storage sectors for instance. It is some consolation that the (steeper) erstwhile rate of retrenchments appears to have stabilised at least.

Figure 3.3 West Coast: Growth in agriculture, forestry & fishing by municipality: 2000 - 2011

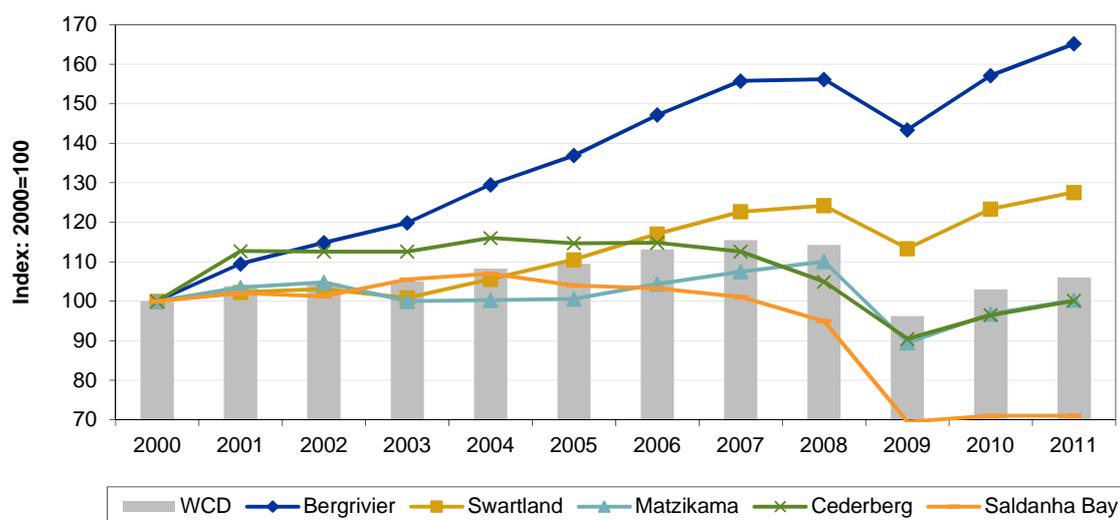


Source: Quantec Research

Figure 3.3 shows the growth trends of the WCD agriculture, forestry & fishing sector by municipality. Without discussing too much detail (see Chapter 4 for a more detailed analysis of the WCD food value chain), the key trends in the sector are briefly re-capped in this section. As noted above the overall growth trend in the sector is somewhat worrying – real value added is moving sideways and is actually contracting in three of the five municipalities: the largest contributor, i.e. the Swartland's, agricultural output (mainly wheat) is stable; however, that of Matzikama, Cederberg and Bergrivier is contracting. Saldanha Bay's agricultural value added expanded strongly between 2004 and 2008 after which it has been moving sideways.

In the 2012 MERO study a number of towns were identified where the developmental potential has come under pressure due to a shrinking agricultural sector. The Growth Potential of Towns in the Western Cape study lists the following *agricultural service centres* with *low* developmental potential in the Matzikama, Bergrivier, Cederberg and Swartland municipalities: Citrusdal, Clanwilliam, Graafwater, Klawer, Porterville and Redelinghuys and those with *very low* developmental potential, Bitterfontein, Eendekuil, Lutzville and Nuwerus.

In the Bergrivier municipal economy the decline of the agricultural sector and the associated employment seems to be countered by keen growth in the construction, manufacturing and some services industries. However, this is less apparent in the Matzikama and Cederberg municipalities (except to point out that the retail, wholesale, catering & accommodation sectors perform relatively well in the latter-mentioned municipality presumably due to its linkages with a flourishing tourism industry).

Figure 3.4 West Coast: Growth in manufacturing by municipality: 2000 - 2011

Source: Quantec Research

The WCD manufacturing sector witnessed a serious recessionary slump in 2009 and even though the rebound has been encouraging Figure 3.4 shows that the sector is yet to reach the level of activity that prevailed in 2007 at the peak of the business cycle. As noted above the relatively pedestrian growth rate in WCD manufacturing and the associated job losses are a concern. The two largest manufacturing sub-sectors are agro-processing and metals & engineering – these two sub-sectors account for two-thirds of the regional manufacturing sector (both in terms of GDP and employment), i.e. agro-processing for 50 per cent and metals & engineering for 17 per cent. Petro-chemicals and non-metal minerals contribute 8 per cent each and then there is furniture (5 per cent) and wood products (4 per cent) that are sizeable contributors to the WCD manufacturing GDP.

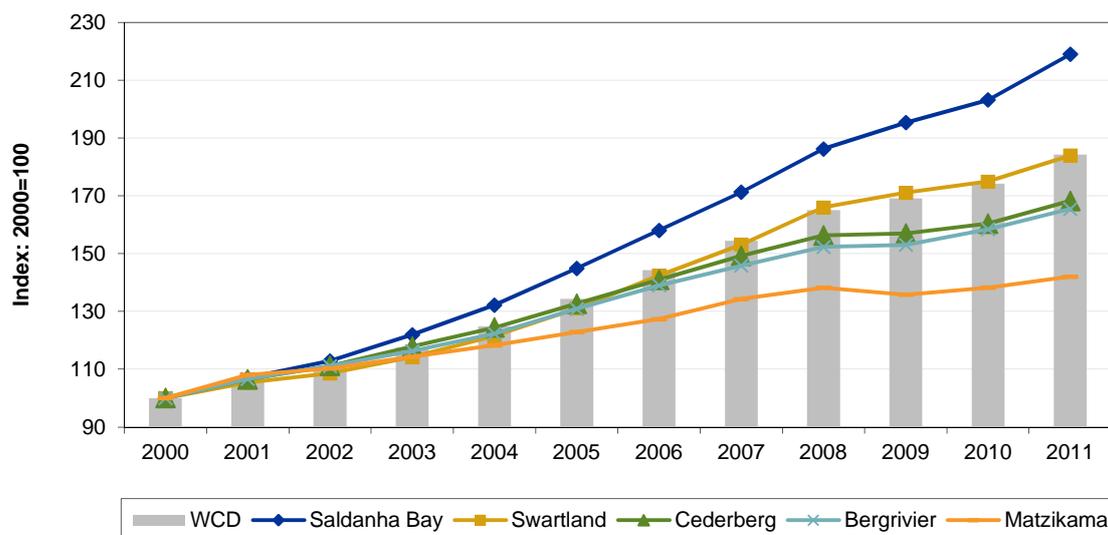
Figure 3.4 shows that the Saldanha Bay municipal manufacturing sector real value added slumped in 2009 and has not really recovered from the recession impact; this slump is related to the recession impact on the metals industry in the region, which contracted by more than 30 per cent in 2009. The non-metal minerals industry also slumped seriously (by close to 25 per cent); however, has recovered fully by 2011. Furthermore, the food & beverages and wood product sub-sectors also contracted during the recession (by 15 per cent and more than 20 per cent respectively) whilst their recoveries have only been partial by 2011, with the level of real value added still below the peak levels achieved by these two sub-sectors in 2007.

The pedestrian growth of the WCD manufacturing sector is explained to a large extent by the recessionary slump and only partial recoveries in key industries (metals & engineering, non-metal minerals, food & beverages and wood products) and the Saldanha Bay Municipality seems to be at the centre of the impact and – to a lesser extent – the Matzikama and Cederberg municipalities. Of the entire net job losses that occurred in the WCD manufacturing sector over the period 2000 to 2011 (at a rate exceeding 10 per cent per annum) no less than 65 per cent of them happened in the Saldanha Bay municipal economy.

The encouraging part of the evidence is the sustained growth and out-performance of the Swartland and Bergrivier manufacturing sectors. Both these regional manufacturing sectors performed well during the expansion phase of the business cycle (2000 to 2007), declined during the recession (2008/09) and recovered strongly in 2010/11 (the combined contribution of these two regions' manufacturing value add to that of the WCD is 50 per cent and explains 65 per cent of the 5 per cent recovery growth in the wider West Coast manufacturing sector during 2010/11). In fact, the growth of the Swartland and Bergrivier manufacturing sectors explains more than 100 per cent of the expansion of the WCD manufacturing sector over the period 2000 to 2011. The Bergrivier manufacturing sector also account for only six per cent of cumulative net job losses in the WCD over the 2000 - 2011 period; the Swartland manufacturing sector accounted for a more sizable 21 per cent of manufacturing net job losses throughout the WCD.

The development of the IDZ in Saldanha Bay is likely to boost the fortunes of the local manufacturing sector, which could give rise to interesting linkages with the more buoyant Swartland and Bergrivier manufacturing sectors, in turn, stimulating supporting services activity as well. This is a factor that needs to be borne in mind with the development of the Saldanha Bay IDZ – see Chapter 4.

Figure 3.5 West Coast: Growth in the tertiary sector by municipality: 2000 - 2011



Source: Quantec Research

While the WCD municipal economy is characterised by a relatively larger primary and secondary sector, it is the services sector which appears to be driving the growth in the region. The WCD services sector (growing by 5.7 per cent per annum, 2000 - 2011) expanded stronger than that of the whole Province (4.6 per cent per annum). The outstanding feature of the WCD services sector is the strong contribution of the Saldanha Bay Municipality (see Figure 3.5). Within the Saldanha Bay municipal economy, the services sector accounts for close to three quarters of the real value added of the municipal economy and this sector expanded by 7.2 per cent per annum over the period 2000 to 2011, more than doubling in size. The fact that the

WCD services sector expanded stronger than that of the whole Province is in large part explained by the growth of the Saldanha Bay services sector.

Within the Saldanha Bay municipal economy the finance, insurance, real estate and business services sector account for close to a third of services activity and the sector expanded at double digit rates. The other important service sub-sector within the Saldanha Bay municipal economy is the government, accounting for close to 18 per cent of value added and expanding at a rate of 5.7 per cent per annum, 2000 - 2011. More than half of the WCD government value add originates in the Saldanha Bay municipal economy. Combined, the finance, insurance, real estate & business services and government sub-sectors account for close to 50 per cent of the Saldanha Bay municipal real value add.

Apart from Saldanha Bay, the Swartland Municipality also contributed strongly to the growth of the WCD services sector expanding in line with it (see Figure 3.5). However, the services sector contribution to the Swartland municipal economy is similar to that of the other municipalities around 55 per cent. All the WCD municipal services sectors expanded noticeably over the 2000 - 2011 period, with the Matzikama services sector expanding the slowest, i.e. by around 3.1 per cent per annum.

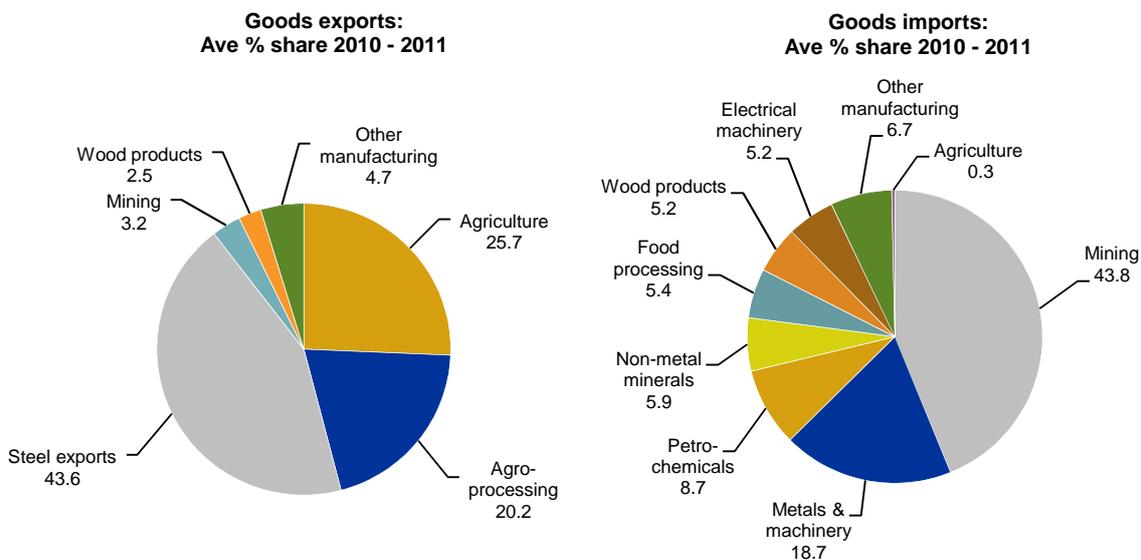
In terms of employment creation, the relatively large and strong growing Saldanha Bay services sector accounts for the largest part of the net employment creation in the region-wide services sector (2000 - 2011), namely 55 per cent. The Bergrivier and Swartland municipalities contributed 13 per cent each to the WCD services employment creation over the corresponding period.

In all, the WCD hosts a relatively larger agricultural and manufacturing sector compared to the other districts; however, the services sector is driving the growth and employment creation in the region. The Saldanha Bay municipal economy plays a key role in the services growth, particularly the finance & business services sector and the government. The Municipality accounts for 55 per cent of the net job losses that occurred in the primary and secondary sectors (mainly agriculture and manufacturing) of the regional economy and – on the other hand – for no less than 65 per cent of the net employment *creation* in the services sector of the municipal economy. While manufacturing growth lags in the Saldanha Bay municipal economy, the Bergrivier and Swartland manufacturing sectors put in a relatively strong growth performance (2000 - 2011) and with limited employment losses. The manufacturing growth potential (servicing the agricultural sector) in the Bergrivier and Swartland municipalities has to be noted in view of the prospective development of the IDZ in Saldanha Bay.

3.1.3 International trade

Trade promotion remains a cornerstone of the WCG's economic strategy. In order to grow the regional economy external markets have to be explored and when we engage in exports we also have to import. While the definition of exports and imports are problematic at the municipal level, the current section briefly focuses on two aspects of the WCD international trade: *firstly*, the composition of goods exports and imports to the rest of the world (basically re-capping the analysis conducted in the 2012 MERO study); and *secondly*, the composition and trend in the regional 'trade balance'⁵.

Figure 3.6 West Coast District composition of goods trade: 2010 – 2011



Source: Quantec Research

As noted in the 2012 MERO study, the WCD export basket is relatively concentrated, lacking diversity. Close to ninety per cent of the region's export basket consists of agriculture & agro-processing exports (46 per cent) and steel exports (44 per cent). The other significant export products include mining products (3.2 per cent), wood products (2.5 per cent) and some other manufactured products (4.7 per cent) – see Figure 3.6.

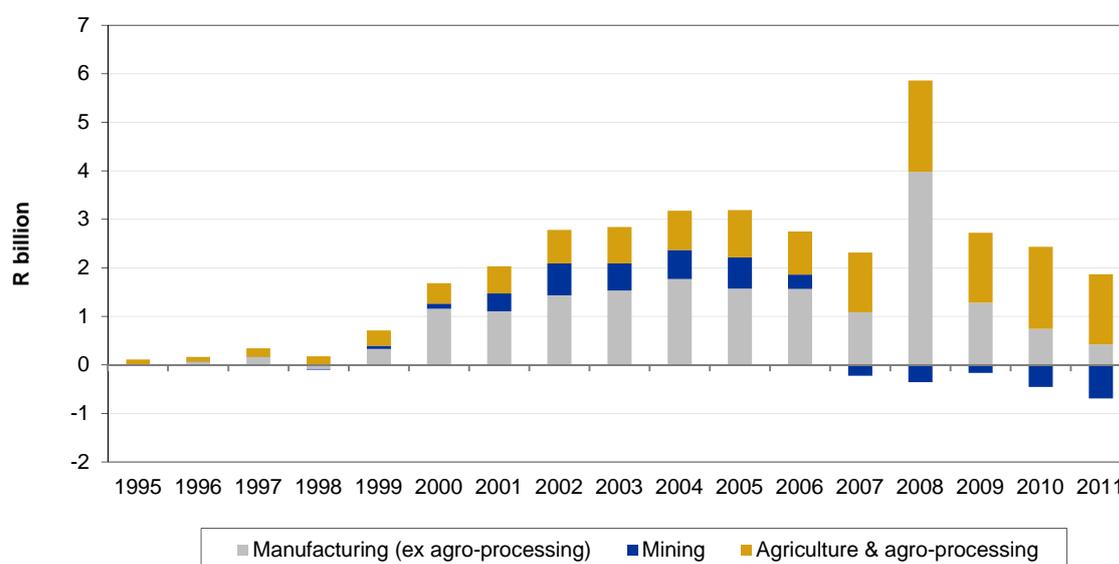
What is noteworthy is the fact that the share of agriculture and agro-processing exports are rising indicating growth potential. Within agro-processing the share of food products tend to fluctuate, while that of beverages is on a clear upward trajectory – the beverages share of total regional exports increased from 4 per cent to 14 per cent between 2005 and 2011. The share of steel exports has remained relatively stable over the 2000s, except for dipping quite sharply in 2011.

⁵ It needs to be emphasised that a sub-regional 'trade balance' is conceptually somewhat misleading. Sales by any firm in the region to buyers outside the region should be regarded as exports, i.e. including sales to other districts in the Province and other provinces in the country. However, due to data limitations these 'exports' are ignored in the current analysis – only the sale of goods in foreign markets are accounted for; and on the import side, only purchases from foreign countries. The derived 'trade balance' therefore gives some indication of the balance of forex earnings generated in the region.

On the import side, energy is clearly an important product – the importation of coal, mineral fuels (or oil) and petroleum products. Classified under mining, the WCD’s coal and oil imports comprise 44 per cent of the import basket; adding the region’s petroleum product imports, energy-related imports account for more than half of the region’s goods import basket.

Regarding the region’s manufactured goods imports, metals & machinery is the largest import category, i.e. 24 per cent of the goods import basket (including electrical machinery). Other key manufactured goods imports include non-metal minerals, food processing and wood products (each accounting for between 5 - 6 per cent of the goods import basket) – see Figure 3.6.

Figure 3.7 West Coast District: Goods trade balance (Rbn)



Source: Quantec Research

In Figure 3.7 the WCD goods trade balance is depicted, including its composition. In order to link with other analyses contained in the current report, the agriculture and agro-processing exports and imports were combined (i.e. providing some indication of the food value chain exports), whilst obviously at the same time excluding the food & beverage processed exports from the manufacturing category. A number of remarks are in order:

- *Firstly*, the current regional trade balance is in surplus, measuring R1.2 billion in 2011; however, it has been trending lower, even from the depth of the recession in 2009 when it measured R2.6 billion. The trade balance peaked at R5.5 billion in 2008 at the peak of the global commodity price cycle and following a bumper agricultural crop. The reason for the declining goods trade balance is a rising mining (or oil) import bill and a deteriorating manufacturing trade balance (when agro-processing exports are excluded).
- *Secondly*, the agriculture & agro-processing trade balance has been relatively stable in recent years despite the recession impact and is noticeably higher compared to the early-2000s.

- *Thirdly*, the deteriorating manufacturing trade balance is in large measure related to a reduced export contribution from the steel industry (with the export value dipping to R948 billion in 2011 from R1.65 billion in 2009), but also a worrying deterioration in other manufactured export items, such as metal products & machinery, wood products and other industries during calendars 2010/11.

The analysis now turns to the sectoral economic outlook for the WCD.

3.2 Sectoral economic prospects, 2013 - 2017

In this section of the report, the focus moves to the economic outlook for the WCD. Chapter 2 provided the macroeconomic backdrop, which may just briefly be restated here. While the improvement in the global economy remains uneven and loaded with risk, the domestic economic recovery (from the end of 2009) appears to be well-established, albeit exposed to global developments and domestic socio-political headwinds. The recovery growth in the district since 2010 has been faster compared to that of the Province.

In the first section of Chapter 3 an analysis was made of the growth and employment performance of the district across the various sectors and municipal sub-regions, including a brief assessment of the international trade position of the district. This information was applied together with a comprehensive macro-econometric/input-output model forecast of sectoral GDP growth for the Province⁶ and other information pertaining to the district (and discussed below), as well as a comparative advantage analysis in order to derive sector forecasts for the district. The resultant WCD economic outlook is briefly discussed below.

3.2.1 Sectoral outlook/forecast

Table 3.3 summarises the average forecast growth rates across the nine broad sectors of the WCD⁷. Regarding the outlook for the WCD economic recovery, the following remarks are in order:

- Demand conditions (external and domestic demand) are likely to remain under pressure during 2013 following the slowdown witnessed in calendar 2012, with a more meaningful recovery only expected next year.
- Regarding export markets, economic conditions appear to be livelier in the Asian region, which is conducive to the WCD exports to the East. More than 60 per cent of WCD goods exports are produced in the metals & machinery sector. Agro-processing exports comprise close to 30 per cent of WCD goods exports and are likely to experience limited opportunities for growth given the protracted recession in the Euro area. The weaker exchange rate will compensate for the (short-term) decline in metals prices. Furthermore, the search is on for faster-

⁶ See WCG: Provincial Economic Review & Outlook (PERO) 2012 and the Provincial Budget Review, 2013.

⁷ It has to be noted that economic information up to the middle of June were incorporated into the forecast; it is possible that growth come in weaker during 2013/14 compared to those presented in Table 3.3.

growing export markets (e.g. Africa, Latin America and East Asia) for the region's agro-processing exports. In this regard, the rand's depreciation vis-à-vis other emerging market currencies (which have tended to appreciate against the US dollar) renders the search more lucrative.

- While it is difficult to project agricultural growth in view of the climatic influences, the projected provincial-wide growth rate (1.7 per cent per annum, 2012 - 2017), the WCD trend growth rate (-0.4 per cent per annum) and the recession/recovery growth rate (0.6 per cent, 2008 - 2011) informed the assumption of 0.7 per cent real growth per annum. According to the municipal survey response received there is reason to believe that the agricultural performance can improve over a 3 - 5 year time horizon.
- While the recovery in the manufacturing sector has been encouraging, producers will find tight selling conditions in the local consumer market over the near term, even in the relatively livelier durable goods market (benefiting from low interest rates and competitive pricing in a more lucrative consumer segment). The non-durable goods market is under substantial pressure due to sluggish growth in wage income (in turn, a function of lower nominal wage increases and sluggish employment growth), the impact of higher food, electricity and petrol prices on household budgets and generally lower consumer confidence and therefore willingness to commit income to credit spending. In the unsecured lending market (the main driver of consumer credit growth since the onset of the economic recovery) credit standards are also being tightened, which should impact adversely on the semi-durable goods and furniture & appliances market.
- Manufacturers may, however, be better able to respond to local demand given the increased opportunities to replace imports afforded by the depreciated rand exchange rate. It is also not expected that the bottom will fall out under the consumer market. Interest rates are expected to remain low at least until the end of next year, with inflation remaining more or less within the target range. Employment growth is also expected to pick up somewhat as fixed investment activity accelerates from the second half of 2013. Combined with reduced uncertainties this should in time boost consumer confidence and spending. Retail, wholesale, catering & accommodation real value added is projected to grow by 3.7 per cent per annum over the forecast period and manufacturing real value added to increase by 2.4 per cent per annum (compared to the 2000 - 2011 trend growth rate of 1.2 per cent per annum).
- The construction sector should also perform relatively well given the planned infrastructure investment in the region tied to the national government's SIP5 and the incumbent development of the Saldanha Bay IDZ. Real value added in this sector is projected to increase by 4.6 per cent per annum, 2012 - 2017.
- Linked to these performances, the growth in finance & business services and transport & communication is projected to continue out-performing other sector, albeit with a narrower margin already evident during the economic recovery years, i.e. 2010/11. The growth rate of financial & business services real value add is projected to exceed the 6 per cent mark; however, this is significantly below the double-digit growth rates registered over the 2000s.

- While the government and community, social & personal services sectors will continue to underpin growth and employment creation, the public sector is under tremendous pressure to trim spending in order to drive a narrower overall budget deficit over the medium term. Moderate, albeit firm, growth is expected in these sub-sectors over the medium term

Table 3.3 West Coast District: Real GDP growth outlook: 2012 – 2017 (%)

Sector	Trend	Recession	Recovery	WCD	Western Cape
	2000 – 2011	2008 - 2009	2010 - 2011	2012 - 2017	2012 - 2017
Agriculture, forestry and fishing	-0.4	2.6	-1.4	0.7	1.7
Mining and quarrying	-4.0	-10.3	-0.5	-0.5	0.0
Manufacturing	1.2	-8.4	5.0	2.4	2.8
Electricity, gas and water	-2.2	-7.7	-0.1	-0.7	2.1
Construction	6.6	5.6	1.0	4.6	4.4
Wholesale and retail trade, catering and accommodation	3.8	-1.1	3.7	3.7	3.9
Transport, storage and communication	4.5	1.4	3.2	3.2	3.9
Finance, insurance, real estate & business services	10.6	11.2	5.9	6.2	4.5
Community, social and personal services	2.9	0.3	2.1	2.7	2.7
General government	2.4	3.2	3.6	2.8	3.0
Total West Coast District	3.3	1.4	3.3	3.5	3.7

Source: Quantec Research/CER

Regarding the anticipated re-acceleration of economic activity in the region, a number of factors suggest that recovery growth is likely to be somewhat constrained: *firstly*, the slow growth in the advanced economies is likely to be a multi-year affair; *secondly*, domestic business and consumer confidence may be slow to recover more convincingly given the likely uncertainty in the run-up to general elections next year – we may have to get beyond the election next year only before attention can fully shift to the economy again. *Overall WCD real GDP growth is projected to accelerate from an estimated 2.9 per cent per annum (2012/13) to 3.6 per cent next year and 4 per cent per annum (2015 - 2017).*

3.2.2 Local issues – West Coast District

Judging by the responses to the WCD survey, it would seem that the municipalities themselves expect GDP growth over the next 3 to 5 years to be similar to or higher than it was during the past 5 years. Reasons include an expected turnaround of the agricultural sector, as mentioned above; increased exports due to greater cooperation between the provincial government, Wesgro and private businesses; and the fact that key WCD sectors are being targeted through the new partnership between WCD municipalities and the private sector.

In the section below, a brief analysis is made of revealed comparative advantage in the WCD.

Comparative advantage

The next step is to disaggregate some of the above forecasts by estimating the revealed comparative advantages of sectors and industries in the WCD. The theory of comparative advantage has its origins in the classical economist, David Ricardo's, work in which he tried to explain why it is beneficial for a country to trade and in what goods and services any country should be trading in order to maximise economic welfare gains. Over the years his theory of comparative advantage has evolved and various analytic techniques designed in order to determine revealed comparative advantage, not only at the national level (and in relation to trade), but also at the local/regional level in order to gain some understanding of the sectors of economic activity which should be promoted by way of (industrial) policy intervention.

One such technique involves the calculation of so-called 'location quotients' (LQ), which simply tracks to growth of a sector in relation to that of the region relative to the growth of the same sector at a broader level (e.g. nationally) in relation to the growth of the wider economy (e.g. nationally). Expressed in symbols, the location quotient (LQ) is defined as:

$$LQ = \frac{g_i/g}{G_i/G}$$

Where:

g_i = value added in sector or industry i

g = total value added (i.e. for the region/country)

G_i = reference area value added in sector/region i

G = total value added in the reference area

Relative to some common base year therefore, the location quotient measures the performance of the sector or industry investigated in relation to that of the sector/industry in the reference area. As we currently investigate the sectoral growth performance of the sector at the regional level compared to that of the same sector at the broader (reference) area, the reference area can either be the province or the national economy.

If we assume that the growth of a particular sector/industry at the regional level is a function of the growth of the national economy, then the national economy magnitudes should be the denominator in the above equation. However, it may also be appropriate to include the Province value added as the reference magnitude. In order to respect the capacity constraints in adopting such an approach, the national economy magnitudes are used in the current exercise also assuming that the growth of the industry at the regional level is an integral function of the national growth performance.

Using the relative shares of sectors for the country as reference areas, the LQ's in Table 3.4 (rightmost column) provide some indication of the sectors with a revealed comparative advantage being those sectors in respect of which the $LQ > 1$; in other words, should the regional industry reveal a higher proportion of the regional economic activity compared to the same sector share at the national level, it can be concluded that the region expanded at a faster rate with reference to some base

year compared to the same sector at national level, suggesting 'revealed comparative advantage'⁸.

Applying this method to the 22 main industry groups of the WCD, the results contained in Table 3.4 suggest the following sectors (in order of strength of revealed comparative advantage) should be supported: the agricultural, forestry & fishing sector; the food & beverage sector (or agro-processing); non-metal minerals; construction; business services; catering & accommodation; and transport & storage.

When the analysis is conducted in relation to the Province, it is interesting to note that the metals & machinery sector and mining also reveal comparative advantage, in other words within the context of the Province, these two industries also justify special attention (the other is the government, which expanded strongly in the WCD; however, typically is not the target for policy intervention).

Table 3.4 Revealed comparative advantage of the West Coast District economy

	West Coast District		South Africa		LQ ratio 2011
	GDP % share	Ave growth	GDP % share	Ave growth	
	2011	2000 - 2011	2011	2000 - 2011	
Agriculture, forestry and fishing	14.6	-0.4	2.4	2.0	5.95
Mining	0.7	-4.0	5.9	0.0	0.12
Food, beverages and tobacco	8.9	1.1	2.9	2.4	3.03
Textiles, clothing and leather goods	0.4	1.7	0.8	2.8	0.48
Wood and paper; publishing and printing	0.7	-0.2	1.5	1.4	0.45
Petroleum products, chemicals, rubber and plastic	1.4	3.7	4.3	3.7	0.33
Other non-metal mineral products	1.4	1.4	0.6	1.6	2.46
Metals, metal products, machinery and equipment	3.0	0.4	3.3	3.5	0.91
Electrical machinery and apparatus	0.3	4.1	0.5	3.5	0.67
Radio, TV, instruments, watches and clocks	0.1	3.3	0.3	4.6	0.38
Transport equipment	0.7	2.8	1.7	5.5	0.40
Furniture; other manufacturing	0.8	2.7	1.4	2.4	0.59
Electricity & water	0.9	-2.2	2.0	2.0	0.46
Construction	4.3	6.6	3.4	7.3	1.26
Wholesale & retail trade	11.6	3.8	12.9	3.9	0.90
Catering and accommodation	1.2	4.2	1.0	3.5	1.25
Transport & storage	5.8	3.5	5.5	3.7	1.04
Communication	2.8	7.2	4.6	7.4	0.60
Finance and insurance	6.3	9.7	8.4	6.4	0.75
Business services	19.4	11.0	15.3	5.2	1.26
Community, social and personal services	4.1	2.9	6.1	3.1	0.67
General government	10.7	2.4	15.2	2.5	0.70
Total	100.0	3.3	100.0	3.6	1.00

Source: Quantec Research/CER

⁸ This is a very basic technique for guidance on revealed comparative advantage and is derived from *economic base analysis*; other techniques investigating comparative advantage include so-called 'shift-share analysis', i.e. a procedure that decomposes the growth of a region into three comprehensive sources: i.e. (i) growth related to the growth of the reference area; (ii) growth related to the changing mix of regional sectors; and (iii) growth related to economic activities shifting to the region.

What is interesting in the sectors that present themselves as competitive industries is that a measure of *value chains* can be identified:

- Agriculture and agro-processing – the food value chain (see Chapter 4);
- Construction and non-metal minerals – (part of the) building value chain; and
- Catering & accommodation, business services and transport & storage can all be linked to the tourism industry, albeit likely that non-tourism related activities are also included here which have comparative advantage (such as road haulage, for instance).

Both the food value chain and the metals & machinery (or steel industry) value chains are investigated further in Chapter 4 in view of (i) the importance of food security; and (ii) the size and importance of these sectors in the WCD manufacturing sector.

Skills considerations

Having identified the potentially fast growing industries within the WCD, this section briefly considers the relevant skills requirements.

The economic outlook presented in this report is based on the existing structure of the district economy and as such make implicit assumptions on the availability of the required skills in the production process. While the required skills cover the whole spectrum from the most menial tasks to more technical requirements and management, the key concern tends to be artisanal/technical and engineering skills hence the emphasis on mathematics and science pass rates at the school level. In this section of the report, a brief overview is provided of, *firstly*, skills supply issues in this field and, *secondly*, based on the economic outlook presented above, areas in the district economy where demand for artisanal/technical/engineering skills may be keen. This could assist the authorities and the private sector in their planning to match the supply of and demand for these scarce skills going forward.

In a recent study by the Department of Economic Development & Tourism (DEDAT) of the Western Cape⁹, a number of key weaknesses, but also encouraging aspects, were identified regarding the supply of artisans in the Province. Incomplete data, key bottlenecks linked to college completion, pass rates and work experience requirements, confusion regarding the various routes to the artisan trade test, etc. are all supply issues that need to be addressed.

However, what became clear, both international best practice and the literature suggest that public-private sector partnerships are critical, i.e. some form of collaboration between the training institutions and the employers. The matching of the supply of artisanal skills with the demand in the private and public sectors is best approached via the building of the necessary institutional mechanisms aimed at meeting the requirements of industry, again, collaboration between the public and private sectors. In this regard there are a number of encouraging initiatives, which

⁹ UWC FET Institute (March 2013): *Supply and Demand for Artisans in the Western Cape*, A Study conducted for the Department of Economic Development and Tourism (DEDAT).

can be used to replicate (e.g. the SSACI AATP and the DEDAT artisan training & development projects). Practical experience during training is critical. Municipalities should bear this in mind when designing and implanting skills training initiatives.

While the current economic review does not provide the scope to entertain the greater detail on the supply side, it may suffice to consider the question: given the economic outlook for the WCD economy, in which areas may skills demand tend to grow stronger than average over the coming three to five years?

- The incumbent development of the Saldanha Bay IDZ is likely to present key challenges in terms of obtaining the required skills. The oil & gas industry is amongst the largest employers of engineering artisans and will be a key tenant in the IDZ. In terms of oil & gas exploration activity, the artisan requirements for downstream activity are much stronger once the value chain reaches the onshore production platform stage. The demand for welders (including specialised coded welders), fitters, boiler makers, pipe fitters and rigging technicians are likely to increase strongly; as well as the demand for lesser skilled maintenance work. Engineers and plumbers will also be in high demand.
- While the development of the downstream metal products industry around Saldanha Bay remains in prospect, the required skills in the metals industry will also be key (e.g. tool makers, specialist welders, boilermakers, fitters and turners). In Chapter 4, the steel industry value chain is discussed in more detail.
- Construction workers and related skills will also be in high demand given the West Coast/Northern Cape SIP 5 development. According to DEDAT all the trades in the construction, mining and manufacturing sectors will be required to supply the labour demand tied to the 21 proposed projects (part of SIP 5).
- An area of large vacancies appears to be the automotive sector, where welders, automotive engineers, qualified exhaust fitters (not in trade), petrol & diesel mechanics, diagnostic technicians, automotive machinists and auto electricians are required.
- Given the importance of the agriculture and agro-processing industry in the WCD, technicians in the agricultural machinery field will also remain in high demand.

3.3 Conclusion: Options and policy pointers

A distinct feature of the WCD economy is the fact that it hosts a comparatively larger primary and secondary sector compared to the other Western Cape district economies. The WCD's agriculture and agro-processing industries, well dispersed throughout the district, form the backbone of the district economy.

Manufacturing activity linked to agriculture & fishing (Saldanha Bay, Swartland and Bergrivier), and linked to government services (Saldanha Bay) also account for a large share of economic activity. However, the *growth* of the WCD's agriculture and manufacturing industries have been sub-par, albeit that closer inspection reveals a huge recession impact in 2008 - 2009 of which the sector has not fully recovered.

The growth of the WCD services industries – mainly financial & business services and government (where Saldanha Bay is the centre of activity) – was somehow much faster over the 2000 to 2011 period, also being less impacted by the recession.

Overall GDP growth (3.3 per cent per annum, 2000 - 2011) lags that in the wider province as well as the national economy. This is mainly due to a slow-growing (and in some municipal areas, contracting) agriculture & fishing sector and the manufacturing sector taking a huge recessionary hit. As a result, employment losses have been heavy in these sectors – the overall rate of employment losses amounted to 2.8 per cent per annum, i.e. a cumulative 36 500 jobs lost on a net basis, 2000 - 2011.

The first implication is that the region continues to stagger under the impact of the recession and the slow world economic recovery in its wake. Policies need to be attuned to this fact, e.g. the likelihood of high/rising municipal bad debt. Furthermore, the social consequences of increased unemployment require attention.

The WCD economy will also be boosted by the planned infrastructure spending associated with the development of the IDZ at Saldanha Bay and the Saldanha/Northern Cape development corridor (as identified by national government).

Regarding the IDZ, policies should also take note of the comparatively more vibrant manufacturing industries in the Swartland and Bergrivier municipalities. Although manufacturing here is linked to the agricultural sector, infrastructure spending may be fruitfully directed to unlock developmental potential across municipal boundaries.

Key value chains in the region justifying industrial policy support (in order of importance) include the food value chain, metals & engineering, tourism and the building value chain (property development, construction and building materials manufacturing).

Regarding the economic outlook for the WCD, the metals & engineering sector (accounting for 60 per cent of goods exports) may benefit from comparatively more buoyant demand in Asian countries over the short to medium term. Furthermore, there is a need to assist agro-processing firms (accounting for a further 30 per cent of goods exports) to find faster-growing non-traditional markets. Producers selling in the domestic market are likely to experience persisting tough conditions, which are forecast to only lift gradually next year and beyond.

4

Value chains

4.1 Introduction to value chain analysis

An analysis of value chains can focus on the intra-firm relationships or the activities and inter-relationships amongst productive agents in the economy. The analysis presented in this chapter will focus on the inter-relationships between various participants in the selected sectors/identified clusters of industrial activity at various points along the supply chain. This will essentially entail an examination of the backward and forward linkages of the selected industries, including an assessment of the growth and employment potential of the selected industries if possible.

The concept of the value chain was first used by Porter (1980) who identified it as a representation of the firm's value-adding activities, based on its pricing strategy and cost structure. This analysis was primarily based on the internal assessment of the firm's competitive advantage, but in the 1990's the concept of the value chain was extended to include the global commodity chain by Gereffi and Korzeniewicz (1994). This approach focused on the linkages between firms. The concept was further clarified and 'codified' by Kaplinsky and Morris (2001). They distinguish between value chains and supply chains by emphasising the linkages and relationships both between and within actors at each stage of production.

The value chain concept can be extended to a number of different forms of analysis; however it is necessary to limit this analysis to present 'real value' to policy makers and those seeking to improve the general welfare of the regional economy. Value chain analysis can be extended to include policy interventions, governance and legal issues related to the value chain, as well as the distribution of benefits in the value chain.

At the outset it is important to clarify the intention of this analysis, the limitations, the advantages and the assumptions that are necessary.

4.1.1 Methodology and assumptions

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 and the metro municipality have been assessed and the most important selected value chain(s) within each district and the metro economy have been analysed. It must be noted that this analysis will not focus on the quantitative specification of each value chain in the specified district, but will rather focus on identifying and mapping the value chain, the actors involved, and the value-added and job-creating potential.

Two major considerations are applicable to the analysis at hand. Firstly it must be determined how far to follow the forward and backward linkages along the supply chain and secondly, the level at which these linkages must be determined.

The analysis below captures most of the forward/backward linkages within the chosen value chains. An increase in demand for the final product or service, for example, will boost production and employment along supplier industries within the *particular* value chain, and may also have positive spill-over effects on other sectors and industries: employees in these supplier industries, and members of their households, may spend part of their extra incomes on a range of goods and services produced outside the particular supply chain. Apart from the WCD, the supply chain itself, and the related spill-over effects, may of course extend to municipalities elsewhere in the Province and beyond. The extent of these additional (direct and indirect) effects will depend on the value of the relevant multipliers, which could be analysed and estimated in a separate study¹⁰.

Before delving into the value chains of the West Coast District, a short background description of the sectors analysed will be given in a national and provincial context, to better understand the potential impact of the value chain in the specific district.

4.2 Value chain analysis

4.2.1 West Coast District value chains

For the West Coast District two value chains are analysed, i.e. the food value chain and the iron and steel value chain. These are the major economic value chains in the district and are important to both value creation and employment in the district.

¹⁰ Black, PA, 2004. "Economic impact analysis: a methodological note", *South African Journal of Economics*, vol 72, No 4.

Agro-processing value chain

The food value chain encompasses the agricultural and agro-processing sectors. The supply chain from the agricultural production of goods will be traced through to the manufacture of processed foods & beverages where possible. The approach to mapping this value chain will be to identify the key backward and forward linkages into and from these sectors in the regional economy and identify and map the key supporting sectors in the district.

The number of farming units in the WCD is estimated to comprise 28 per cent of the farming units of the Western Cape and account for approximately 27 per cent of farming income in the Western Cape.¹¹

The major contributors to gross agricultural income in the WCD are described in Table 4.1 below.

Table 4.1 Contributors to agricultural gross income (WCD): 2007

Type of Agricultural production	% Contribution (2007)
Horticulture	43.0%
Deciduous fruit & viticulture	19.4%
Potatoes	7.9%
Citrus	8.8%
Other	6.9%
Field crops	25.0%
Wheat	22.6%
Other	2.4%
Animal products	16.0%
Milk	10.7%
Other	5.3%
Other	16.0%

Note: Does not include income from sales of livestock.

Source: *West Coast District Regional Economic Development Strategy, 2007*

The agricultural sector in the WCD has experienced a decline in job losses. These job losses are also attributed to mechanisation in the sector. Other challenges exist for the sector and are listed below:

- Water supply and price constraints;
- Exports are subjected to global market restrictions and European farming subsidies; and
- No local government subsidies.

The fishing industry is centred along the West Coast between Simons Town and Saldanha Bay. The fishing industry is a large contributor to employment in the WCD. It is estimated that there are approximately 40 000 employed in the national fishing industry and that the Western Cape employs approximately 70 per cent of these

¹¹ Quantec Research

workers. The WCD's estimated share of earnings of the Western Cape fishing industry is 73 per cent¹².

Expenditures in the agricultural sector are highest for farm feeds (20.2 per cent), fuel (13.7 per cent) and maintenance of equipment, machinery and implements (12.9 per cent) – as shown in Table 4.2. The sector is therefore highly dependent on the wholesale and retail trade, transport and chemicals sectors as classified by Statistics South Africa.

Table 4.2 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%
Fertilizer	6.4%
Building and fencing	4.3%
Electricity	1.6%
Insurance	1.6%
Water tax	1.0%
Other	0.2%

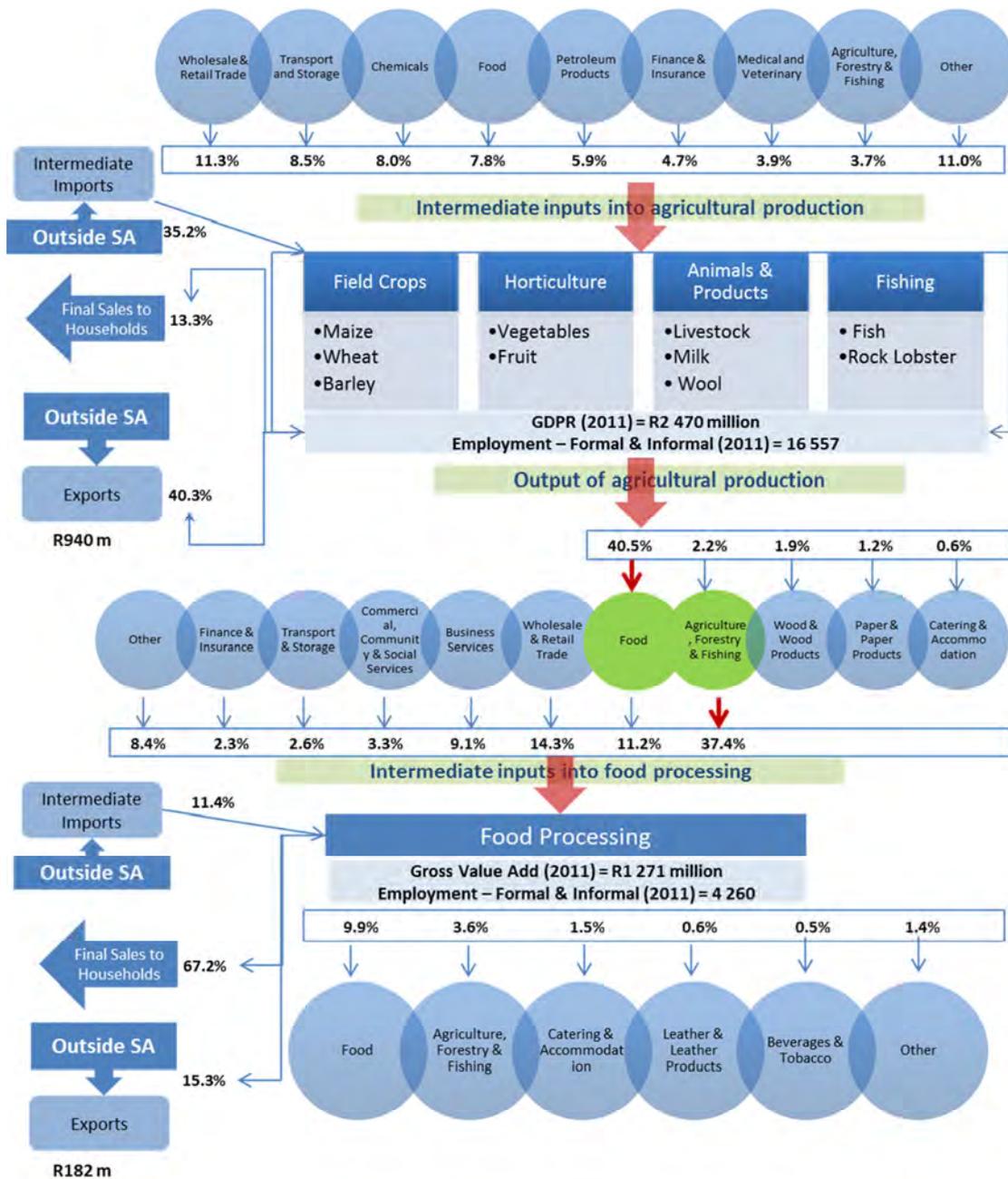
Source: *Quarterly Economic Overview of Agriculture, Forestry and Fisheries Sector: January – March 2012*

For the purposes of this study and value chain analysis the definitions as used by Statistics South Africa will be utilised. This is done to ensure conformity in definitions across sectors as well as districts.

Using Stats SA's classification, the industries shown at the top (see Figure 4.1) are backwardly linked to agriculture in the sense that they supply inputs to the agricultural sector (e.g. chemicals supply 8 per cent of the inputs to agriculture with the remainder of inputs coming from other sectors such as transport & storage (8.5 per cent); food processing (7.8 per cent), etc.). Agricultural production, consisting of field crops, horticulture, animals & animal products and fishing, is partly sold as final demand to local households (13.3 per cent) and partly exported (40.3 per cent), with the rest (46.2 per cent) supplied as inputs to the food processing sector, e.g. food, wood & wood products and catering and accommodation. The agricultural sector supplies 37.4 per cent of the inputs to the food & beverage processing sector with the remainder of inputs coming from wholesale & retail (14.3 per cent), food processing (12.6 per cent), etc. Part of the processed food is sold as final demand locally (67.2 per cent) and exported (15.3 per cent), with the rest (17.5 per cent) supplied as inputs to other industries, e.g. leather & leather products and beverages & tobacco (see Figure 4.1).

¹² West Coast District Regional Economic Development Strategy (2007)

Figure 4.1 Agriculture and agro-processing value chain, WCD: 2011



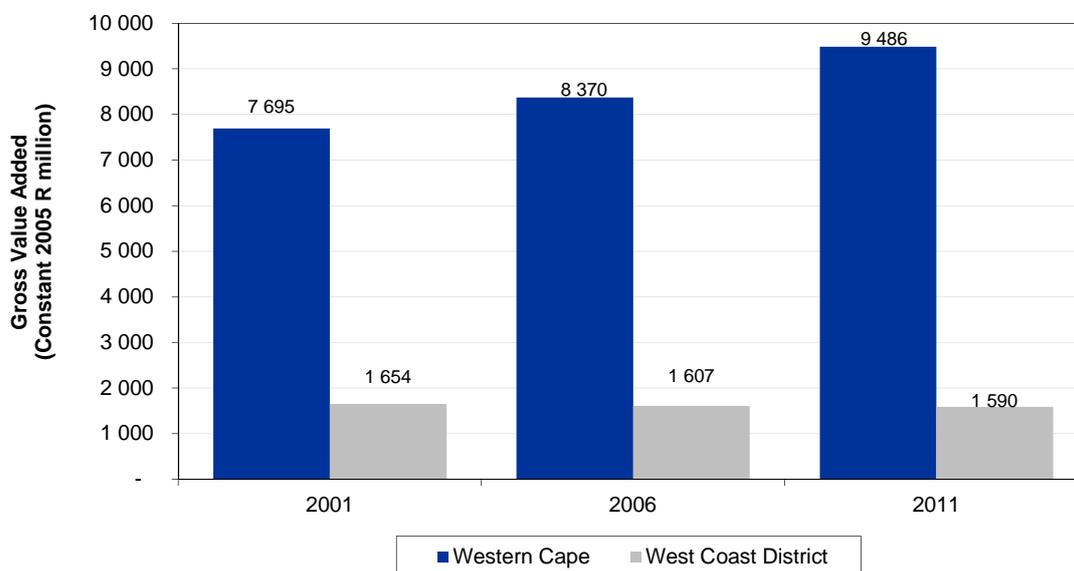
Source: Stats SA

More specifically, the food value chain in the WCD is highly dependent on the wheat value chain and the fishing sector along the West Coast. Much of the produce farmed in the WCD is exported¹³ (40.3 per cent), while a further 46.4 per cent enters the value chain as intermediate inputs into the food & beverage processing sector. This output (wheat or fish, for example) is purchased or used as an input by the sectors shown in Figure 4.1. The major user of produce from the agricultural sector is the food processing industry, and in the WCD value chain it is noted that 40.5 per

¹³ Exports refers to foreign exports and not exports to the rest of South Africa

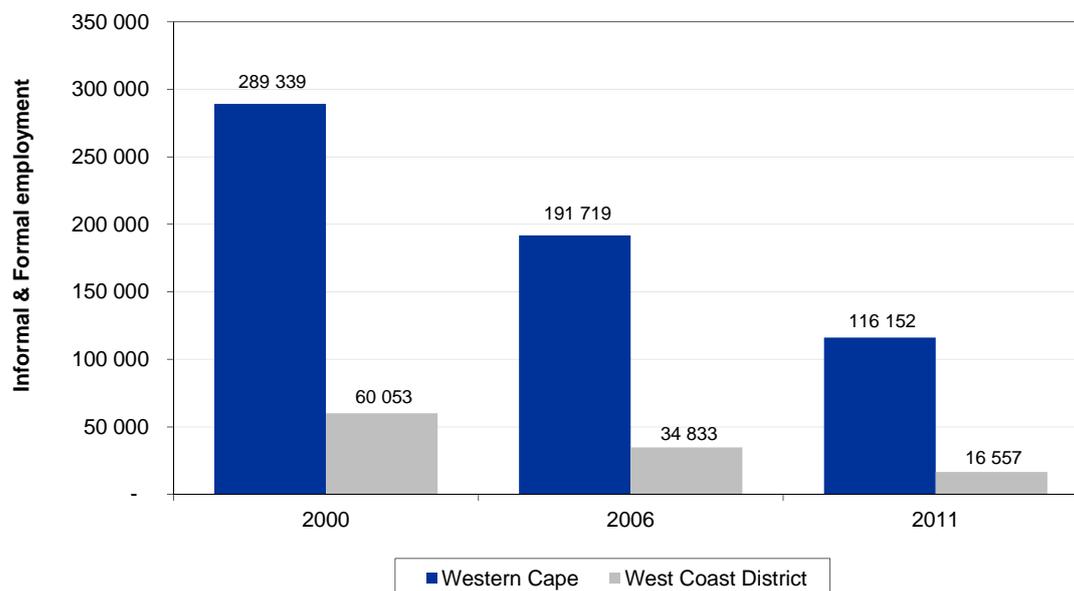
cent of the output from the agricultural sector is utilised by the food processing industry.

Figure 4.2 Western Cape and WCD agricultural value added: 2001, 2006 and 2011



Source: Quantec Research

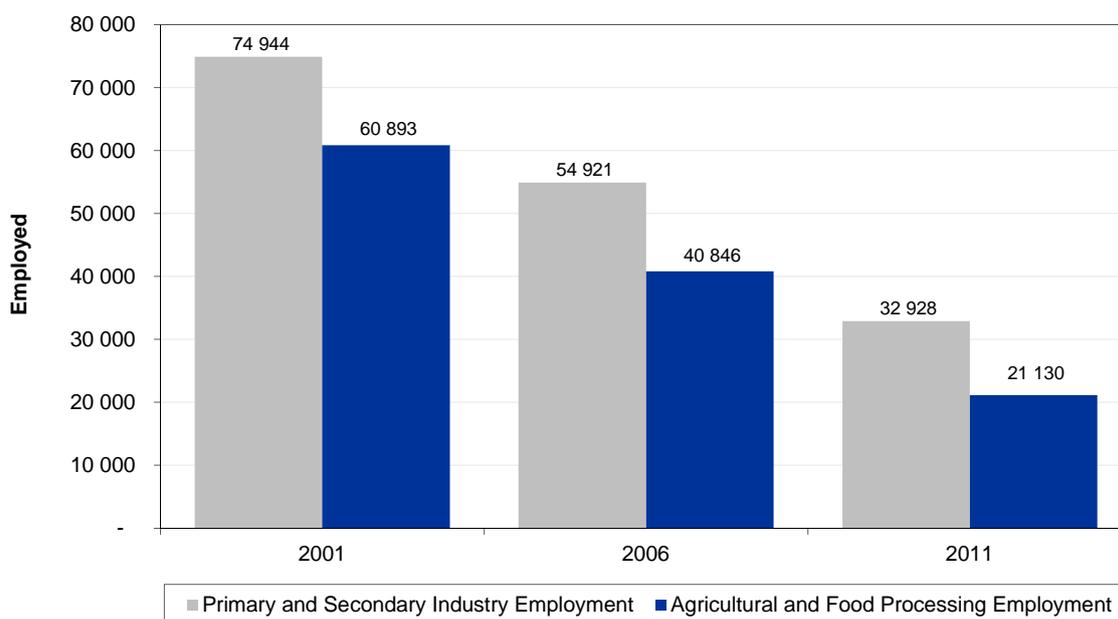
Figure 4.3 Western Cape and WCD agricultural employment



Source: Quantec Research

Figure 4.2 and Figure 4.3 depict the value added and employment shares of the agricultural sector in the Western Cape and WCD respectively. The trends depicted in the charts are more disturbing for the WCD than for the Province. The GDP of the agricultural sector in the WCD declined by 3.9 per cent, whereas the GDP of the Western Cape increased by 23.3 per cent in the period from 2001 to 2011. In the corresponding period the level of employment in the WCD declined by a massive 72.4 per cent (and in the Province by 60 per cent).

Figure 4.4 Primary and secondary sector employment vs Agricultural and Food & beverage processing employment, WCD: 2001, 2006 and 2011



Source: Quantec Research

The dominance of the food & beverage processing sector is evident when comparing the total employment in the primary (agricultural and mining) and secondary (manufacturing, construction and electricity, gas and water) sectors. This shows that employment in the primary and secondary industries decreased by 56.1 per cent from 2001 to 2011 and employment in the agricultural and food & beverage processing industries decreased even more, by 65.3 per cent over the corresponding period. The tertiary sector was the only sector that recorded growth over the same period, but at a relatively lower rate at only 29.3 per cent, bringing the overall level of employment down by 24.5 per cent between 2001 to 2011, with the agricultural sector accounting for a major share of this decline in WCD employment (see Figure 4.4).

Key takeaways – WCD Agricultural and Food processing value chain

The agricultural and food & beverage processing value chain forms a major component of the value added of the entire WCD, with an estimated 23 per cent GDP contribution.

The agricultural and food & beverage processing value chain contributes 23.6 per cent to total employment in WCD.

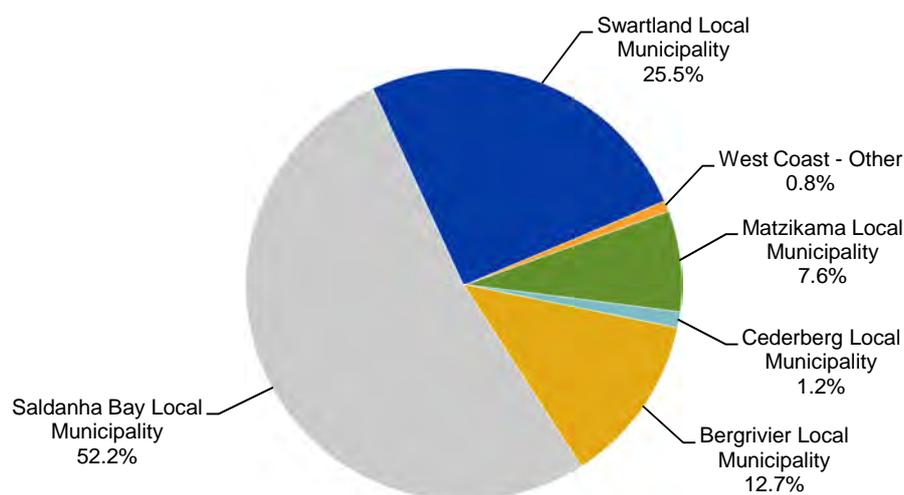
The estimated GDP contribution of the agricultural and food & beverage processing value chain in the WCD was R3.74 billion in 2011.

Employment in the value chain has declined substantially in the past decade.

Iron and steel value chain

The iron and steel value chain encompasses the mining, beneficiation and use of the steel products in the manufacture of metal products or in the construction industry. The steel value chain in the WCD consists of a large industry in the Saldanha Bay Local Municipality as indicated in Figure 4.5.

Figure 4.5 Metals, metal products and machinery production, WCD: 2011



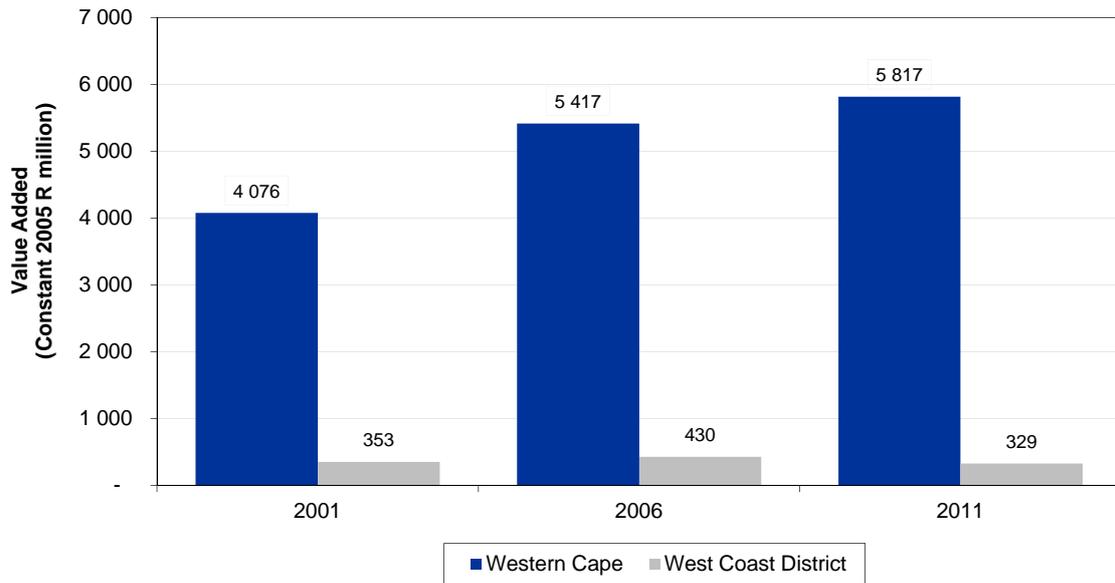
Source: Quantec Research

Much of the steel produced is for export from the local port, but approximately half of the output in the WCD is used locally in value added activities in South Africa. The iron and steel sector is not a large employment creating sector in the country or in the WCD. The Saldanha Works plant employs approximately 580 staff with another 500 contract workers.

The backward linkages of this plant, to companies in the Western Cape, are significant, with an estimated 280 suppliers serving the operation of the plant. The WCD has various industries that rely on the iron and steel industry directly. This includes the production of metal products, machinery and electrical machinery. There is great potential for the development of downstream activities related to the iron and steel sector through the establishment of the proposed IDZ.

The value added for the iron & steel, metals, machinery and electrical machinery sectors was estimated at R429.1 million in 2011, with approximately 67 per cent of production being exported.

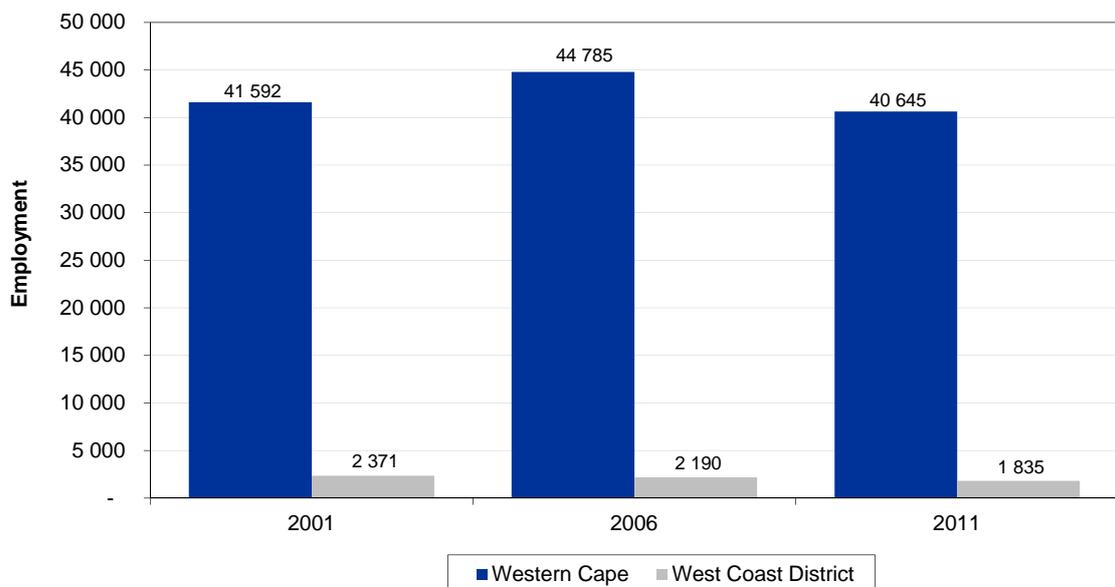
Figure 4.6 Iron & steel, metals and machinery value added, WCD and Western Cape: 2001, 2006, 2011



Source: Quantec Research

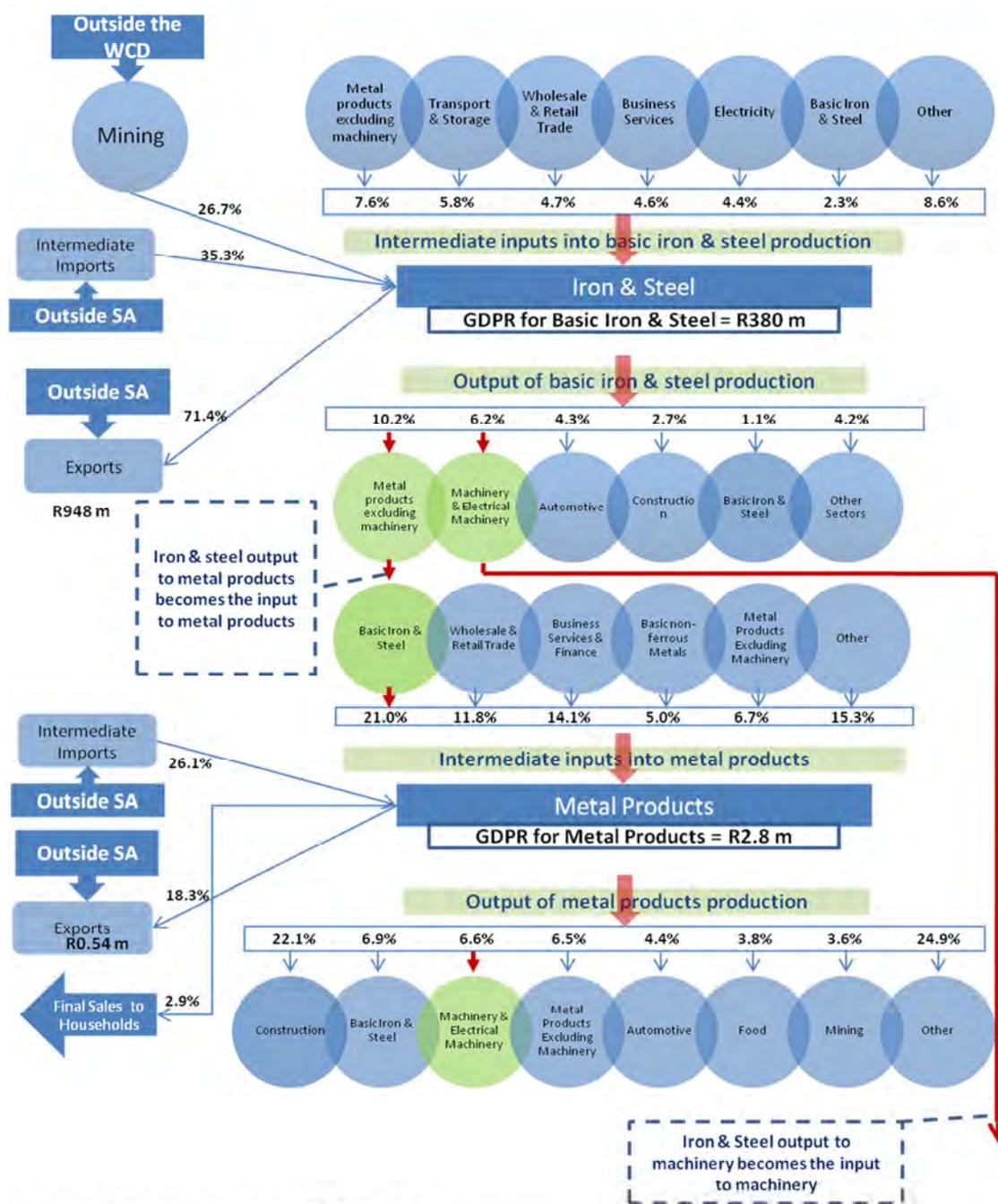
As Figure 4.6 shows, the GDP of the iron & steel, metals and machinery sectors in the WCD has declined from 2001 to 2011 in real terms. This decline is also evidenced by the decline in employment in the sector during the same period, by 22.6 per cent (Figure 4.7). The decline in employment in the WCD in this sector comprised more than half of the job losses for the entire Province.

Figure 4.7 Iron & steel, metals and machinery employment, WCD and Western Cape: 2001, 2006, 2011



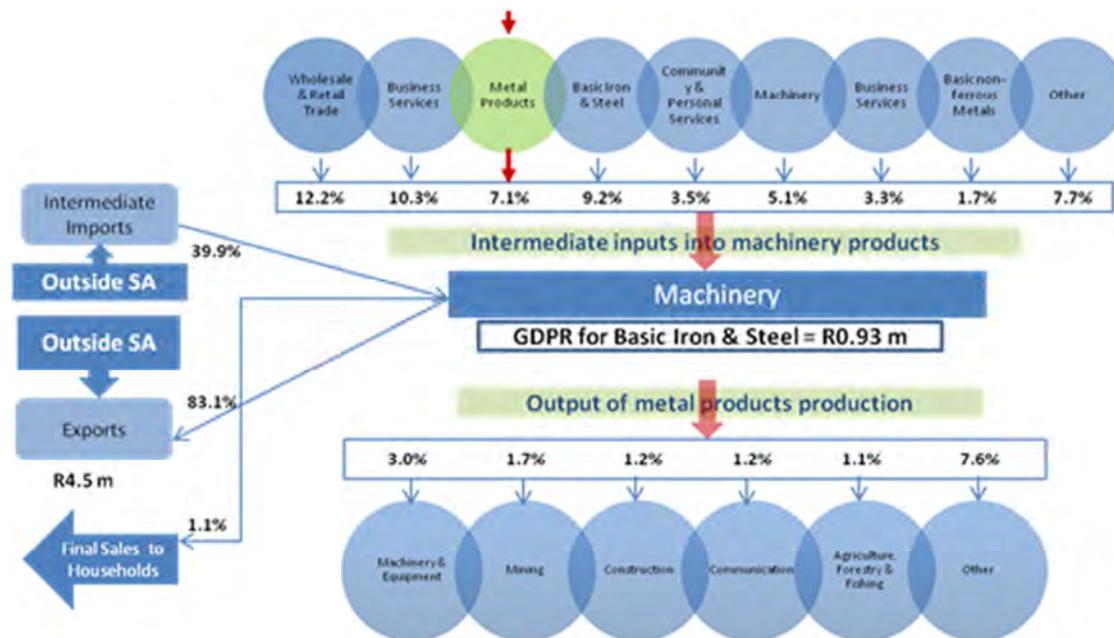
Source: Quantec Research

Figure 4.8 WCD Iron and steel value chain, WCD: 2011



Note: Inputs of sectors and imports add to 100%;
Outputs from the production are sold to sectors, households and to for exports (these add to 100%)

Figure 4.8 WCD Iron and steel value chain, WCD, 2011 (continued)



Source: Stats SA

The iron & steel, metals and machinery sector of the WCD contributes only 5.5 per cent of total GDP for the Province. The greatest contributor to this sector grouping in the WCD is from the iron & steel sector. Most of the raw iron is imported from Sishen and manufactured into long and flat steel at the steel plant in Saldanha Bay. More than half of the iron & steel production in the district is exported, at 71.4 per cent. The bulk of the product that is not exported inputs into the metal production sector at 10.2 per cent. A further 6.2 per cent of output is allocated to the machinery and electrical machinery sector (Figure 4.8).

The greatest value added output is from the metals production sector, which supplies the bulk of its output (22.1 per cent) to the construction sector. It is noted that exports form a large part of the output for all sectors in this value chain and that final sales to households is almost insignificant (Figure 4.8).

Key recommendations – WCD

The agricultural and food & beverage processing value chain has significant potential to create additional employment in the WCD.

The agricultural sector is a large contributor to employment; however, the food processing sector has the potential to be developed as almost half of the produce farmed in the district is exported. This is a large part of production that could be utilised in close proximity to the farming communities in the manufacturing process.

The GDP and value created by the metals and machinery sectors is low in the WCD, considering the large export market for basic iron and steel. The Saldanha Bay IDZ will significantly improve the value added of these sectors in the WCD.

4.3 Policy issues

The above value chains are important from an industrial policy perspective. The reason is that a given policy focusing on interlinked industries within a value chain may render a higher return than if the same policy had been divided among unrelated sectors and industries. Although this statement forms the basis of the new Special Economic Zones (SEZs), they only apply when several links within a value chain are in need of state support. SEZs include free trade zones and sector development zones, and are aimed at promoting regional development, local value added, skills and technology transfers.

More generally, the case for policy intervention is back on the proverbial stage and has taken on a range of new dimensions in both industrialised and developing economies. Traditionally, the role of government has been justified in terms of so-called market failures, including the provision of public goods, the reduction (or augmentation) of externalities, elimination of the abuse associated with monopolistic power and, importantly, combating endemic poverty¹⁴. More pertinently, appropriate intervention can contribute to the utilisation of potential competitive advantages via the creation of agglomeration (or internal and external) economies of scale, manifested in the form of cost-reducing production on the part of individual enterprises or value chains – something the free market either cannot do or takes too long to accomplish. Thus policy – including grant transfers, infrastructure provision, investment allowances and skills development – should focus on these enterprises and, in the case of a value chain, investigate its eligibility for SEZ status.

A more recent justification derives from the improper and often illegal anti-trade practices applied by countries to which the WCD and other Western Cape districts export their goods and services. Such practices entail the use of tariffs, subsidies and higher standards aimed at protecting similar and competing industries in the export markets, good examples of which are the tariffs imposed on steel and related imports by the USA, and subsidies conferred on agriculture and other import-competing industries in the EU. There is thus a case for *retribution* in the sense that if these problems cannot be resolved through the World Trade Organisation (WTO), it leaves local exporting industries with little option but to counteract by applying the same – but in this case offsetting – anti-trade measures.

As far as the West Coast is concerned, the agro-processing value chain includes manufacturing and service industries within WCD itself and beyond. It may therefore be worth investigating – through an independent study – its eligibility for SEZ status.

Other potential candidates for state support are the metals and engineering, building and tourism value chains. They may be viewed as clusters of economic activity justifying support for the reasons mentioned above; whilst tourism could also be developed as a West Coast equivalent to the 'Route 62' initiative in the Cape Winelands and Eden districts.

¹⁴ Black, P, Calitz, E and Steenekamp, T. Public Economics, 6th ed. Oxford University Press, 2013.

5

Informal sector profile

Definition of the informal sector

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 Receiver of Revenue for income tax or value added tax. Statistics SA 2012.

5.1 Introduction

This chapter contributes to the deepening knowledge and understanding of the informal sector in the West Coast District (WCD). Given the difficulty of estimating the size of the informal sector in terms of its contribution to the WCD GDP and employment, the aim is therefore to determine the investment climate of informal sector businesses at a 95 per cent confidence level by analysing roughly 200 informal businesses at the district level surveyed by the Department of Economic Development and Tourism. Analyses of the investment climate may bring into focus strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some may exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

Importantly though, informal micro-enterprises in the WCD exist in the various economic sectors and are important in several respects. While they cover a wide range of sectors, mostly in Manufacturing, Agriculture, and Wholesale and Retail Trade, they possess important characteristics. These characteristics are:

- They are more labour intensive relative to the formal industrial sector;
- They are more (less) dependent on low-skilled and unskilled (skilled) labour;
- They tend to process local materials;
- They are more geographically dispersed; and
- They are more accessible to indigenous entrepreneurs.

5.2 Analysis of data for the West Coast Region

5.2.1 Profile of the informal micro-enterprise

Geographical concentration

Table 5.1 and Table 5.2 below show demographic data on informal businesses in the townships of the WCD. From the data, the variation in business numbers and density can be noted: the informal enterprises in the WCD are more concentrated in urban regions than in rural areas. Anecdotal evidence indicates that informal economic activities are more prevalent in the large regional towns, whilst small in scope in agricultural service towns and rural localities. This evidence is confirmed by the data below, which indicates the concentration of informal businesses in Malmesbury (22.1 per cent) and Mamre¹⁵ (26.1 per cent), in comparison to Darling (4.0 per cent). It is worth noting that informal settlements/townships were the predominant locality for the interviewed informal enterprises, accounting for 79.9 per cent of the total, followed by urban major city (19.6 per cent) and rural areas (0.5 per cent) (see Table 5.2).

Table 5.1 Respondent suburb township by area

Township	Per cent
Malmesbury	22.1
Vredenburg	14.6
Mamre	26.1
Darling	4.0
Saldanha Bay	18.6
Langebaan	4.0
Other	10.6
Total	100.0

Table 5.2 Respondent suburb township by settlement type

Township	Per cent
Urban major city	19.6
Urban township/informal settlement	79.9
Rural	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

¹⁵ Mamre is included in the West Coast survey due to its proximity and similar characteristics to that of the West Coast District.

Distribution by age and race

The age distribution across the sample ranged from 17 to 94 years, with 37 years being the median age. The data was then disaggregated into four sub-sample age groups (see Table 5.3) to differentiate between young entrepreneurs (16 - 24 years); young adult entrepreneurs (25 - 34), adult entrepreneurs (35 - 60) and pensioners (61 years and above).

When evaluating the WCD sample by race group, we found that more than 22 per cent of Asian/Indian informal entrepreneurs were aged between 16 and 24 years¹⁶, which are significantly higher than African and Coloured entrepreneurs of the same age. According to Statistics South Africa's (2013) first quarter Labour Force Survey, the rate of unemployment among the Asian/Indian race group in the Western Cape lies at roughly 12 per cent, while the Coloured and African race groups are recorded at more than 23 and 28 per cent, respectively. From this data, it can be deduced that the Asian/Indian race group appears to be more skilled than their African and Coloured counterparts, with the younger Asian/Indian also being more entrepreneurial.

Table 5.3 Distribution by age and race

Age	Race				Total
	African	Asian/Indian	Coloured	White	
16 to 24 years	6.5%	22.2%	3.7%	0.0%	6.0%
25 to 34 years	48.1%	55.6%	21.0%	0.0%	37.2%
35 to 60 years	42.6%	22.2%	71.6%	0.0%	53.3%
61 years or older	2.8%	0.0%	3.7%	100.0%	3.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DEDAT 2013 and own calculations

Within the age group 25 - 34 years, the Asian/Indian race group accounted for 55.6 per cent, African 48.1 per cent and Coloureds 21.1 per cent; cumulatively accounting for a total of 37.2 per cent. Entrepreneurial activity is very vibrant within this age group.

The 35 - 60 age group accounts for more than half of the total cumulative percentage share (53.3 per cent). Here the African group accounts for 42.6 per cent, Asian/Indian for 22.2 per cent, and the Coloured group accounts for the largest proportion at 71.6 per cent. Anecdotal evidence through interviews with CIPRO and SEDA suggests that generally, individuals work for a number of years in formal employment before terminating their services, and then using their pension or life savings to become entrepreneurs. The entrepreneur may or may not decide to register the business; however SEDA has found that particularly among the coloured race group, they choose to work informally for a significant period before, if at all, formally registering their business. Tax avoidance and the lack of Government tenders appear to be the main reasons for the apathy to formalise. Our data appears to support the anecdotal evidence.

¹⁶ Nationally, this is the age group (16 - 24 years), where the unemployment rate is at its peak.

The participation of entrepreneurs aged 61 years and above is insignificant; it would appear that retired citizens do not view the option of informal entrepreneurship as a viable one. Even though the data indicates that whites have a 100 per cent response rate in this group, there was only a single white respondent to the survey. Thomas et al (2013) state that “law-abiding, middle-class citizens view the actions by informal operators as unacceptable if not illegal, and they should thus not be allowed to operate under those conditions”. Compounded by the fact that the white race group have the lowest unemployment rate and the most skills in the economy, it can be concluded that operating in the informal economy for the white race may not be a viable option.

The split of respondents by gender was slightly weighted in favour of male respondents who comprised 62.8 per cent of the sample as is shown in Table 5.4 below.

Table 5.4 Distribution by gender

Gender	Per cent
Male	62.8
Female	37.2
Total	100.0

Source: DEDAT 2013 and own calculations

Educational attainment

Table 5.5 below shows that South African informal entrepreneurs account for the majority of respondents (76.9 per cent), followed by Somalia (8.5 per cent) and then Zimbabwe (3.5 per cent). When gauging educational attainment among respondents from the different countries, the data reveals no real difference in education level per country. For example for the 3 countries of origin (SA, Somalia and Zimbabwe) mentioned, the majority of the respondents either completed or have some form of high school education. Furthermore, three countries of origin, SA, China and Somalia, renowned for their informal businesses, had respondents reporting no schooling level with Chinese respondents recording a 100 per cent response rate on this educational level.

Table 5.5 Level of education and country of origin

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed Matric Grade 12 A/O levels	
South Africa	40.0%	76.9%	73.7%	82.0%	70.6%	76.9%
	(1.3)	(6.5)	(9.2)	(59.5)	(23.5)	100.0
DR Congo	0.0%	0.0%	0.0%	0.0%	2.0%	0.5%
	(0.0)	(0.0)	(0.0)	(0.0)	(100.0)	100.0
Mozambique	0.0%	0.0%	21.1%	0.0%	0.0%	2.0%
	(0.0)	(0.0)	(100.0)	(0.0)	(0.0)	100.0

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed Matric Grade 12 A/O levels	
Somalia	40.0%	15.4%	0.0%	8.1%	7.8%	8.5%
	(11.8)	(11.8)	(0.0)	(52.9)	(23.5)	100.0
Angola	0.0%	0.0%	0.0%	0.0%	2.0%	0.5%
	(0.0)	(0.0)	(0.0)	(0.0)	(100.0)	100.0
Malawi	0.0%	0.0%	0.0%	0.0%	2.0%	0.5%
	(0.0)	(0.0)	(0.0)	(0.0)	(100.0)	100.0
Zimbabwe	0.0%	0.0%	0.0%	1.8%	9.8%	3.5%
	(0.0)	(0.0)	(0.0)	(28.6)	(71.4)	100.0
China	20.0%	0.0%	0.0%	0.0%	0.0%	0.5%
	(100.0)	(0.0)	(0.0)	(0.0)	(0.0)	100.0
Senegal	0.0%	0.0%	5.3%	0.9%	2.0%	1.5%
	(0.0)	(0.0)	(33.3)	(33.3)	(33.3)	100.0
Tanzania	0.0%	7.7%	0.0%	1.8%	0.0%	1.5%
	(0.0)	(33.3)	(0.0)	(66.7)	(0.0)	100.0
Cameroon	0.0%	0.0%	0.0%	0.9%	0.0%	0.5%
	(0.0)	(0.0)	(0.0)	(100.0)	(0.0)	100.0
Ghana	0.0%	0.0%	0.0%	0.9%	2.0%	1.0%
	(0.0)	(0.0)	(0.0)	(50.0)	(50.0)	100.0
Bangladesh	0.0%	0.0%	0.0%	0.0%	2.0%	0.5%
	(0.0)	(0.0)	(0.0)	(0.0)	(100.0)	100.0
Ethiopia	0.0%	0.0%	0.0%	3.6%	0.0%	2.0%
	(0.0)	(0.0)	(0.0)	(100.0)	(0.0)	100.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	(2.5)	(6.5)	(9.5)	(55.8)	(25.6)	100.0

Note: Percentages in parenthesis () are calculated only for the specific county's educational level.

Source: DEDAT 2013 and own calculation

The respondents reported a diverse range of acquiring skills (see Table 5.6 below). Importantly, especially in the context of literature which argues that the informal economy provides a means for skills acquisition through informal apprenticeship, over half the sample (56.8 per cent) reported having acquired their skills on the job. A further 30.7 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for skills transfers to employees, whilst transferring entrepreneurial learning to the business owner. This was also confirmed by the aforementioned questionnaire survey, with district respondents indicating that human capital or skills were the "single most critical input in the value chain and cuts across sectors". A further 9 per cent reported acquiring skills from a former job, a finding that confirms research (including the previous MEDS 2007 informal economy – trade study) which argues that many of the entrepreneurial persons within the informal economy have experience of the formal economy workforce and would be capable of obtaining formal jobs. The role of formal adult education in providing skills to operate informal business is fairly limited with only 2 per cent reporting having acquired their business skills through study.

Table 5.6 Level of skills acquired

Skills acquired	Per cent
Former employment	9.0
On this job	56.8
Adult education	2.0
Family business	30.7
Family and friends	0.5
Did a course	0.5
Self-taught	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

Registration of informal businesses

Many enterprises may hold some level of formal registration and yet still operate outside of the formal system, whether intentionally or unintentionally. For example many businesses register at CIPRO but never complete their annual returns. As a result these businesses are deregistered by CIPRO but remain “active” in the market place.

Table 5.7 Registration of informal businesses

Business registration	Per cent
None	66.8
CIPRO/the dti	5.5
SARS	5.5
Trader organisations	2.0
Local municipality	19.6
Other	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

The data in Table 5.7 indicates that nearly 67 per cent of the sample reported that their businesses were not registered in any way (institutionally or organisationally). Of those businesses with some level of registration and formalisation, 19.6 per cent claimed registration with municipal authorities, 5.5 per cent with SARS, 5.5 per cent with CIPRO, and 2 per cent with trader organisations.

This finding highlights a comparatively even spread in compliance between municipal and national/provincial requirements for business licensing, and municipal regulatory requirements reflecting that either municipalities are somewhat effective in enforcing compliance or that the benefits of this status does not outweigh the costs of non-compliance. This is somewhat surprising given that municipal authorities generally do not require compliance with national acts, such as employment or immigration legislation, as a precondition for the granting of municipal licences.

A municipal trading licence does not imply enterprise formalisation, but merely minimal compliance. In all other aspects these businesses should be regarded as informal. The low level of enterprise registration with informal trader organisations (2 per cent) confirms the limited influence of trader groups within the WCD informal economy. The findings also show, in converse, that roughly 33 per cent of informal

businesses endeavour to comply with state requirements to a certain degree, though compliance is strategic rather than procedural. Therefore literature arguing that informal businesses weigh-up the costs/benefits of compliance in their engagement with regulation appears to hold true.

5.2.2 Organisation of business (Goods and services)

The trade in products and services was separated for analysis, and aggregated into broad categories of best fit. Roughly 70 per cent of the respondents sold products, whereas 30 per cent of the respondents provided a service. The data shows that businesses providing services generally do not sell products, except where natural synergies exist as in the case of hair dressers that sell hair care products, or appliance repair shops that sell electrical goods, or catering businesses that sell take-aways. Disaggregated data on the kind of products and services traders are offering is also discussed within separate “products” and “services” sections.

Trade in goods

The survey revealed a considerable diversity in the range of products sold through informal trade, within the district. For practical analysis the trade in products was combined into four categories or sectors: i) retail food and drink, ii) retail attire, iii) household goods, and iv) personal requirements. The results are shown in Table 5.8 below.

Retail food and drink was by far the largest category of overall business activity (50.3 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was household goods – primarily the trade of non-food household items including furniture, electronics and hardware, alongside household consumables such as cleaning products, and black bags. Up to 6.4 per cent of product focused businesses traded cigarettes (categorised as personal requirements, which also included traders of over the counter pharmaceuticals, perfumes and similar personal care products).

Table 5.8 Product orientated informal business per sector

Product per sector	Per cent
Retail food and drink	50.3
Retail attire	5.5
Household goods	10.1
Personal requirements	4.5
Total	70.4
Services excluded	29.6
Total	100.0

Source: DEDAT 2013 and own calculations

Trade in services

Service businesses were categorised into four sectors: i) micro-manufacturing, ii) personal services, iii) business services and iv) social services. The division is shown in Table 5.9 below. Business services accounted for 21.1 per cent of service informal micro-enterprise activities. This category includes mechanical repairs, appliance repairs, tradesmen, moneylending, computer and secretarial services. Personal services comprise 6.5 per cent of the services businesses and include primarily hair salons, traditional healers, funeral services and sex work (due to its largely clandestine nature, the latter was likely to have been under-represented in this study). Informal micro-manufacturing accounted for 4.5 per cent of all services businesses including furniture making, tailoring and cobbling. The social services sector was the smallest cohort accounting for 2 per cent; this sector includes child care and educare services.

Table 5.9 Service orientated informal business per sector

Services per sector	Per cent
Micro-manufacturing	4.5
Personal services	6.5
Business services	21.1
Social services	2.0
Total	34.2
Products excluded	65.8
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.3 Justifications for starting informal enterprises

An important direct or implied justification for most people establishing and operating informal enterprises was economic survival. This can be clearly seen in Table 5.10: Reasons for starting a business. Although many individuals gave multiple responses to this question, wanting to earn more money along with the inability to find alternative employment were the primary responses (66 per cent of responses). Interestingly 17.3 per cent of motivations related to the respondent's claim that they were good at or had expertise in running their particular business.

Table 5.10 Reasons for starting a business

Reasons for starting a business	Per cent
I could not find alternative employment	25.4
I didn't enjoy working for someone else	10.2
I wanted to earn more money/financial hardship	40.6
I am good at running this business	17.3
Opportunity	1.0
Health reasons	1.0
Have passion for it/It's a calling	1.5
Gap in the market	1.0
Other	1.0
Create employment/help the community	1.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.4 Years in operation

The survival, sustainability and longevity of the studied informal economy enterprises are considerably high – especially after an initial year of operations. The results are presented in Table 5.11 below. A relatively small number (8.5 per cent) of enterprises were less than a year old. The majority of interviewed businesses (50.3 per cent) had been in operation for between one and five years, with a further 20.6 per cent operating between 6 and 10 years and a further 20.6 per cent operating for over 11 years. Of course, due to the nature of the study one is unable to determine the number of businesses that have failed (appearing most likely to happen within the first 12 months of operations), although this finding does imply a sense of sustainability of business for operating enterprises.

Table 5.11 Number of years business is in operation

Years in business	Per cent
Less than 1 year	8.5
1 to 5 years	50.3
6 to 10 years	20.6
11 or more years	20.6
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.5 Employment

The contribution of the informal economy to employment creation is further supported by this survey, as the data reveals that the 199 businesses interviewed in this study provided 398 jobs (including the owners) through employment. This implies a ratio of about 2 jobs created (including owner) per informal business established for the WCD. Whilst 40.7 per cent of these enterprises only provided employment for the owner, the remaining 60.3 per cent in the study employed more than one person (in addition to the owner), most commonly a second individual. Table 5.12 below gives more detail.

Table 5.12 Employment provided by informal businesses

Number of jobs	Frequency	Per cent
1	81	40.7
2	78	39.2
3	17	8.5
4	15	7.5
5	3	1.5
6	4	2.0
11	1	0.5
Total	199	100.0

Source: DEDAT 2013 and own calculations

Employment was more common in businesses providing services such as hair salons and car mechanics, or from home-based business enterprises such as liquor retailers. Businesses that traded from temporary structures in the street were generally the least likely to employ staff.

Informal enterprises represent important family businesses. However, 52.3 per cent of the sample employs no family members in the business (see Table 5.13). Of the sampled enterprises that employed family members beyond the owner, the majority (36.7 per cent) employ one person. This finding compares favourably with the MEDS informal economy study (2007) where informal business operators commonly work within a 'circle of trust' that primarily includes spouses and direct family members.

Table 5.13 Family members employed

Number of family members employed	Per cent
No family members	52.3
One family member	36.7
Two family members	8.0
Three or more family members	3.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.6 Business location

The street and people's homes provide the most commonplace and important business venue opportunities for the informal economy participants in this study. Within the streetscape context 14.1 per cent of respondents set up business venues on a daily basis for trade, using a range of semi-permanent stands. A further 8.5 per cent operated from permanent structures on the roadside. Approximately 40.7 per cent of enterprises were home based, generally operating from the household, involving cooking, take-aways in the kitchen or minding children on the property. A further 5 per cent of enterprises operated from separate structures attached to people's homes, such as shipping containers or shacks specifically utilised for the business. Taxi ranks and formal market places were also important areas for business activity (though less represented in the sample) and where it was apparent many enterprises were clustered - with 2 per cent of interviewed businesses located in these sites. Only 1.5 per cent of the respondent's place of business included formal market places (see Table 5.14).

Table 5.14 Where do you operate this business from?

Where do you operate the business from	Per cent
Hawking/mobile	3.5
Road side (structure assembled daily)	14.1
Road side (permanent structure)	8.5
From a moving vehicle	1.0
In my home	40.7
Separate structure on my property	5.0
Separate structure on someone else's property	16.6
Someone else's home	5.0
Formal market place	1.5
Taxi rank/station	2.0
Other	2.0
Total	100.0

Source: DEDAT 2013 and own calculations

When considering the trade in products, especially the dominant retail of groceries and clothing, the important nature of the street as a trading site becomes apparent. Similar to retail businesses in the formal sector, street based micro-enterprises are reliant on predominant foot traffic and large volumes of passing trade to support sales activity. Positioning such enterprises in close proximity to commuters and pedestrian traffic makes considerable business sense.

Home based businesses are an important feature of the informal economy. Many enterprises including those selling basic food and drink and household goods are operated from residential property, both within the home and from separate structures. Furthermore the commonplace activity of liquor retailing is also reflected in the high number of home based businesses. Unlicensed liquor trading is illegal and heavily policed and it makes little sense for many entrepreneurs to openly conduct activities in the street or from specialised premises. Maintaining this clandestine trade from private homes assists in concealing the enterprise from the public at large and law enforcement officials.

5.2.7 Ownership of assets and micro-enterprise profitability

The research investigated asset ownership, focusing on i) house, ii) container, iii) shack, iv) vehicle, v) cell phone, vi) computer and vii) specialist equipment. Surprisingly, the most widely possessed asset was the respondent's own home (34.7 per cent), followed by own cell phone (19.6 per cent), then own shack (17.6 per cent), and own specialised tool and machinery (13.1 per cent) and vehicles. The results are shown in Table 5.15 below. None of the respondents in the sample owned a computer. Given that the survey did include any businesses providing computer use or internet access, one can firmly conclude that use of computers and internet access is extremely low or non-existent.

Table 5.15 Ownership in assets

Ownership in assets	Per cent
Own house	34.7
Own container	4.5
Own shack	17.6
Own caravan	1.0
Own specialised machinery/tools	13.1
Own vehicle(s)	4.0
Own cellphone	19.6
Own other assets	3.0
Own stock	2.5
Total	100.0

Source: DEDAT 2013 and own calculations

In most cases, some of these assets form part of the business, and are used in the process of income and profit generation.

The majority of the businesses surveyed were relatively low profit earners, with close to 74 per cent of respondents reporting average monthly profits of less than R2 500 (see Table 5.16). The remaining 26 per cent of enterprises reported earnings more than R2 500 per month; therefore their informal business enterprises propel individual earnings over the South African median, making them comparatively financially well off amongst local peers.

Table 5.16 Profit business makes on average in a month

Average monthly profit	Per cent
R1 - R999	44.7
R1 000 - R2 499	29.1
R2 500 - R4 999	14.6
R5 000 - R9 999	8.5
R10 000 and above	3.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.8 Money lending and credit

Localised money lending and credit are an important part of the informal economy. More than 12 per cent of all interviewed micro-enterprises reported lending money to individuals as part of their business strategy (see Table 5.17 below).

Table 5.17: Money lending

Money lending	Per cent
Yes	12.1
No	87.4
Total	99.5
System	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

This finding confirms that a sizeable portion of informal businesses rely on diverse income strategies beyond the core product or service nature of their business. Furthermore the finding shows how potentially many thousands of informal enterprises in the District and Province contravene the National Credit Act in providing financial services without licences to do so. Further to the activity of money lending, 28 per cent of enterprises give out goods and services on credit. This is important because their customers are generally resource poor. In certain sectors (such as clothing and home ware) credit is necessary to compete with formal businesses that offer lay-buys or account purchases.

Interestingly whilst a considerable number of enterprises lend money out as part of their business practice, the micro-entrepreneurs themselves are in general not borrowers of finance – with only 12 per cent of enterprises having borrowed money in the past 12 months (see Table 5.18 below).

Table 5.18 Borrowed money in last 12 months

Borrowed money	Per cent
Yes	12.1
No	87.9
Total	100.0

Source: DEDAT 2013 and own calculations

Of those who have borrowed, family and friends are the most prominent lenders of money to the respondents, as shown in Table 5.19. Banks play a considerably smaller role, potentially due to the stringent requirements for proof of income and absence of collateral. Savings clubs and money lending businesses play a negligible role in providing finance to informal economy businesses.

Table 5.19 Sources of loans

Sources of loans	Per cent
Have not borrowed money in the last 12 months	88.9
Family	2.5
Friends	6.0
Bank	2.0
Other	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

Interestingly, for those borrowing money, not only do family and friends provide the important sources of finance, but with respect to interest charged also offer the most reasonable terms. Based on aggregating all borrowed and repaid funds as reportedly borrowed by the respondents, the commercial banks and micro-finance agencies charge commercial (though modest) interest rates, with the median loan size of R10 000 and repayment of R11 250. The data suggest that micro-finance organisations provide the most costly means of finance, although the number of borrowers is too small to make a fair comment.

5.3 Business challenges and prospects

5.3.1 Business challenges

Challenges being faced by businesses were also investigated. A series of questions pertaining to access to the formal economy and state provided services were posed, asking respondents whether the issue represented a i) 'big problem', ii) not a problem or iii) not applicable. The menu of options were: i) access to finance, ii) electricity cost, iii) water cost, iv) cost of business licensing, v) crime, vi) political crime, vii) labour relations, viii) lack of specialist equipment, ix) shortage of business premises, x) transport costs, xi) police corruption, xii) regulations, xiii) competition, xiv) immigration status, xv) other. Multiple responses were optional and therefore only the challenges which received the most responses as "biggest responses" are reported on.

The key finding from this enquiry was that the most frequently mentioned challenges were: first, access to affordable micro-finance (63.6 per cent of respondents), second, a shortage of business premises (56 per cent of respondents) and third, electricity cost and access (47.3 per cent of respondents). The distribution of responses is shown in Table 5.20 below.

Interestingly the major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

More than 50 per cent of the respondents highlighted the lack of suitable business premises as a major problem for their enterprise activities. A variety of businesses presented this complaint, including street traders who relied upon temporary structures, through to vehicle panel beaters operating from home and street based sites. The underlying issue around premise suitability extended beyond the physical premises and also included zoning such as businesses operating in residential areas (in contravention of municipal land use regulations). Although not in the table below, fewer than 10 per cent of respondents specifically cited regulation as a major obstacle to their business growth, whilst a further 33.2 per cent cited challenges in obtaining municipal licences as a major obstacle. These findings point towards the need for reducing red-tape.

Other issues that respondents identified were the cost of access to water (41.3 per cent), the lack of specialised equipment (38.6 per cent), crime (32.1 per cent), competition (31 per cent), and transport costs of goods (28.3 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

Table 5.20 Perceived business growth challenge

Challenge for business growth	Number of respondents	Cumulative percentage of cases
Access to affordable finance	117	63.6%
Electricity cost access	87	47.3%
Water cost access	76	41.3%
Cost and difficulty of business licensing	61	33.2%
Crime	59	32.1%
Lack of specialised equipment	71	38.6%
Shortage of business premises	103	56.0%
Transport of goods costs	52	28.3%
Competition	57	31.0%

Source: DEDAT 2013 and own calculations

5.3.2 Business prospects

Despite the relatively low incomes for the great majority of participants, three quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a “minimum wage” job paying R126.00 per day (see Table 5.21). This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

Table 5.21 Will you take minimum wage of R126 per day

Employment in formal sector with minimum wage	Per cent
Yes	17.6
No	79.4
N/A	3.0
Total	100.0

Source: DEDAT 2013 and own calculations

The desire of the majority to persist with informal self-employment implies that the income earned from informal economy business is sufficient to warrant continued operation in the sector – even if it is lower than a formal economy equivalent, or at least the work conditions, hours of employment and flexibility of operations (in other words non-wage benefits) are considered further benefits that would be lost under full-time employment.

Further to the majority preference to not hold a formal sector position at minimum wage, people tend to share a largely positive outlook about their businesses. This optimistic outlook is borne out in the survey results with 56.3 per cent of enterprises able to report business growth either in profit or volume of sales (in cases of both goods and services trade) since starting the business, and a further 35.2 per cent reporting stable business activity (Table 5.22). Considering the toughening conditions of the broader national economy in recent years, both stability and growth are useful indicators for business sustainability and provide positive future prospects for these business owners.

Table 5.22 Business outlook/Growth prospects

Business outlook/Growth prospects	Per cent
Expanded increased profit more stock greater number of employees	56.3
Contracted decreased profit less stock fewer employees	8.5
Remained the same - no change	35.2
Total	100.0

Source: DEDAT 2013 and own calculations

5.4 Concluding remarks

Given the economic contributions of the informal economy, it is widely believed that governments should be developing policies that recognise the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work in it. This is increasingly seen as a responsibility of local government.

In addition, the promotion of the informal sector by the WCD would significantly contribute to meeting the policy objectives of growth, employment and poverty alleviation; and improved regional and vertical distribution of income. For these reasons, the informal sector should form an integral part of any viable WCD district strategy.

The obvious benefits for entrepreneurs who operate in the informal economy are to avoid costly and burdensome government regulations as well as high and complex taxes. However, the findings in the chapter show that many informal businesses do in fact endeavour to comply with state requirements to a certain degree, although compliance is strategic rather than procedural in nature. The reason why the informal sector is growing in the District is therefore that the benefits of formality are overshadowed by its costs.

Even though the WCD informal economy incomes appear generally low, the term "survivalist" does not necessarily do justice to the demonstrated sustainability of enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their enterprises with a theoretical offer of alternative formal work at minimum wage.

Whilst the study findings cannot 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 local employment role in their immediate economies. Each business has an employment factor of 2 and over 60 per cent of enterprises provide employment opportunities. Employment is predominately family based, though opportunities are also provided for piece-workers. 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. It should not be assumed that the formal sector pays higher wages at the entry and uses lower skills levels than informal work.

However, the majority of informal micro-enterprises are non-connected with the information age. This is a direct result of their low levels of education. The use of personal computers is minimal, whilst the typical informal micro-entrepreneur does not use a smart-phone. These businesses thus are still reliant on information exchange through inter-personal networks (word of mouth) and the print media.

With most informal enterprises operating in retail trade and other services, and increasingly in the major urban centres, they are bound to be closely linked to the formal sector, often forming part of the supply or value chains discussed in Chapter 3 and Chapter 4. Informal suppliers of food, beverages, clothing and household consumables, for example, may well benefit from policies aimed at developing supply chains, and it may be worth – in a separate study – to consider ways of strengthening these potentially important linkages.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Perhaps the overriding challenges facing the South African government are the elimination of poverty and inequality and a significant reduction in unemployment. One of the mechanisms through which the government aims to address the challenges the country faces is through infrastructure investment, and there has indeed been a significant increase in infrastructure investment in recent years. In the years leading up to the 2010 FIFA World Cup, the increase in investment of up to 6.05 per cent and 7.64 per cent of Gross Domestic Product (GDP) in 2008 and 2009 respectively was preceded by years of very dismal investments averaging about 2.91 per cent annually between 1995 – 2007 (Kumo, 2012:7). The long run trends in infrastructure investment are well explained in Perkins, Fedderke and Luiz (2006).

Many definitions and interpretations of infrastructure can be found in the literature (see Fourie, 2006a for a discussion of these definitions). Economic infrastructure includes transport, communication, energy, water and sanitation facilities, whilst health and education systems as well as cultural and recreational facilities constitute social forms of infrastructure (Fedderke and Garlick, 2008: 2). This chapter focuses on economic infrastructure.

Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect” – as well providing a solid foundation for social development (Swilling, 2006). In South Africa the importance of infrastructure has not only been emphasised at national level but also at regional level. In the Western Cape the region needs efficient transport systems, water and sanitation, telecommunications and power supplies in order to influence the standard of living of their populations and regional economic growth. There is, thus, a pressing need to

determine whether government's strategy on infrastructure investment will yield the desired economic growth benefits at micro (i.e. project or sector level) or at national or macro level.

The micro level analysis certainly would provide more accurate results on the impact of public economic infrastructure investment on the economy but most empirical work in this area in South Africa has focused on the national level. Over the years a lot of research has been conducted on the relationship between infrastructure and growth and conclude that infrastructure does have an impact on growth – a view strongly supported by municipalities in their response to the WCD survey. Early reviews of the empirical literature on the South African economy can be found in Fourie (2006).

Investment in economic infrastructure is not only important at national level but regional and local level too. Table 6.1 below illustrates the extent to which households within the Western Cape lack access to basic services (electricity, piped water and sanitation and refuse removal). Provinces with the most urgent need for Municipal water services and sanitation infrastructure requirements are KwaZulu-Natal, Limpopo and the Eastern Cape. As can be seen in comparison to other provinces the Western Cape has performed relatively well. However there is still a need for maintenance and expansion of key strategic regional infrastructure projects in order to position the Western Cape for sustainable economic growth and poverty reductions.

Table 6.1 Municipal backlogs per province

Municipal backlogs per province	Backlog (% with service below adequate level)			
	Electricity	Piped water	Sanitation	Refuse removal
Western Cape	6	1.1	6.6	8.9
Free State	13.4	2.5	30.6	23.4
Gauteng	16.5	2.1	12.2	13.8
North West	17.7	10.1	18.4	45.2
Mpumalanga	18.3	8.7	46.1	58.5
Limpopo	19	16.4	69.2	81.3
KwaZulu-Natal	28.5	20.6	36.1	48.1
Northern Cape	12.7	5.2	45.5	27.9
Eastern Cape	34.4	29.6	51.1	60
South Africa	20	11.4	32.4	38.4

Source: Ruiters (2011:65)

There have been varying levels of infrastructure investments and development across the 131 towns outside the Cape Town Metropolitan areas. Some towns have solid development potential while others are declining. A number of growth factors have contributed to this decline (Donaldson et al 2010). Amongst these factors is a deteriorating infrastructure. Municipal infrastructure consists mainly of bulk treatment plants, pump networks, pump stations treatment works, reservoirs and distribution pipelines, electricity transmission and distribution infrastructure. In some municipalities infrastructure remains under threat and requires increasingly more astute management whilst other municipalities have invested significantly in infrastructure provision and experience high growth rates. The following section takes a look at infrastructure investment in the West Coast District and its resulting impact on growth.

6.2 Regional economic growth, infrastructure and the budget link

Empirical evidence at National level has shown that investment in economic infrastructure has a positive impact on National growth. This growth however depends crucially on provincial and municipal performance. All municipalities are tasked with basic service delivery objectives in order to stimulate local economic development. Population growth and deteriorating infrastructure has continued to place strain on infrastructure budgets. The objective of this section is to determine if there is a relationship between infrastructure investment and growth in the WCD and to show the success the region has had in providing infrastructure.

6.2.1 Infrastructure expenditure in the WCD

With the growing emphasis on infrastructure investments municipalities within the WCD have continued in their efforts to improve infrastructure availability. Some municipalities have had relatively more success in addressing backlogs within their jurisdictions than others. The results of the 2010 Growth Potential of Towns study conducted by Donaldson et al (2010) revealed that the best performing municipalities in the WCD using the Infrastructure index¹⁷ are Saldanha Bay and Swartland Municipality. Bergrivier Municipality was rated as a medium performer whilst Cederberg and Matzikama were rated low according to the infrastructure index. This difference in performance may be a result of the differences in real infrastructure expenditure that have been recorded across the municipalities (see Table 6.2 below¹⁸) or differing management practices. As can be seen over the period under analysis infrastructure investment was higher in Swartland and Saldanha Bay municipalities. Overall in 2012 the WCD infrastructure expenditure made up 6 per cent of the total infrastructure expenditure for the whole Province.

Table 6.2 West Coast infrastructure expenditure per municipality

Municipality (R'000)	2009	2010	2011	2012
West Coast District	R28 947	R32 539	R35 210	R18 532
Matzikama	R18 943	R20 850	R17 148	R14 670
Cederberg	R18 701	R16 969	R14 380	R26 186
Bergrivier	R14 297	R20 869	R3 859	R20 013
Saldanha Bay	R36 380	R31 272	R40 502	R53 430
Swartland	R33 995	R25 171	R45 610	R60 445
West Coast District Total Expenditure	R151 263	R147 670	R156 709	R193 276
Western Cape Province Total Expenditure	R2 536 722	R3 730 865	R2 946 877	R3 203 291

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

¹⁷ 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) (Donaldson 2010:66).

¹⁸ Note these figures have been inflation adjusted.

Table 6.3 West Coast infrastructure expenditure percentage change

Municipality	2010	2011	2012
West Coast District	12.41%	8.21%	-47.37%
Matzikama	10.07%	-17.76%	-14.45%
Cederberg	-9.26%	-15.26%	82.10%
Bergrivier	45.97%	-81.51%	418.61%
Saldanha Bay	-14.04%	29.52%	31.92%
Swartland	-25.96%	81.20%	32.53%
Total: % Change	-2.38%	6.12%	23.33%

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

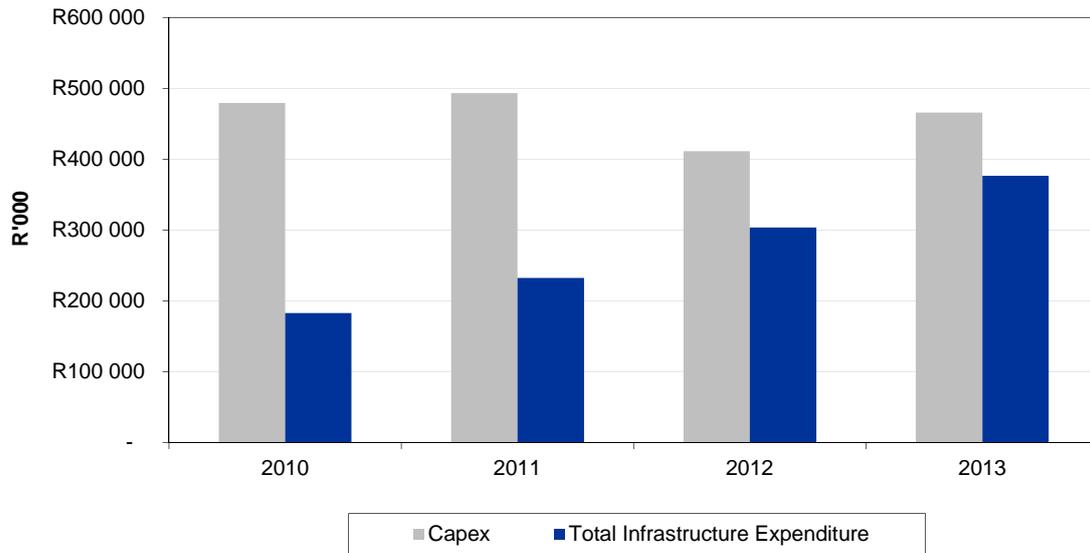
Table 6.3 presents the year on year percentage changes in infrastructure expenditure per municipality. Cederberg and Bergrivier Municipality recorded the highest percentage changes in infrastructure expenditure from 2011 to 2012 however these municipalities contributed 14 per cent and 10 per cent to the total infrastructure expenditure in the WCD. Swartland Municipality contributed 31 per cent to the total infrastructure expenditure, Saldanha Bay accounted for 27 per cent, Matzikama contributed 10 per cent, whilst the West Coast's infrastructure expenditure accounted for 9 per cent of the regions infrastructure spend. The differences in expenditure across the other 5 local municipalities are largely related to the various budgetary constraints faced by each municipality.

6.2.2 Infrastructure budgets

The sources of infrastructure funding at Municipal level come from National government and Provincial Government in the form of grants or from payments made by residents of the municipal area.

The National Government recognises that infrastructure investment is the cornerstone to economic and social upliftment. To this end in 2004 the Government provided them with a Municipal Infrastructure Grant to complement their capital budgets. Of the capital expenditure budget allocated to municipalities within the West Coast District a large percentage of it goes to Economic & Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance & Administration and Community & Public Safety. As can be seen from the graph below the proportion of the budget that has been used on infrastructure has continued to increase over the years. In 2012 infrastructure expenditure took up approximately 74 per cent of the entire capital expenditure budget for the whole district. This was a 27 per cent increase from 47 per cent in 2011 (see Figure 6.1).

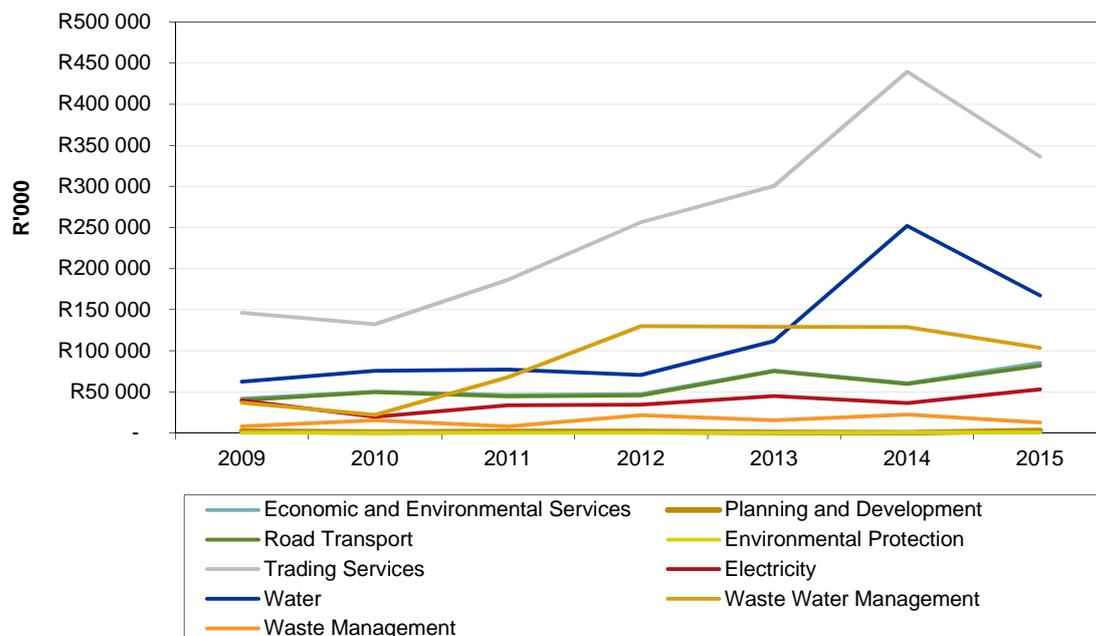
Figure 6.1 Capex vs Total infrastructure expenditure



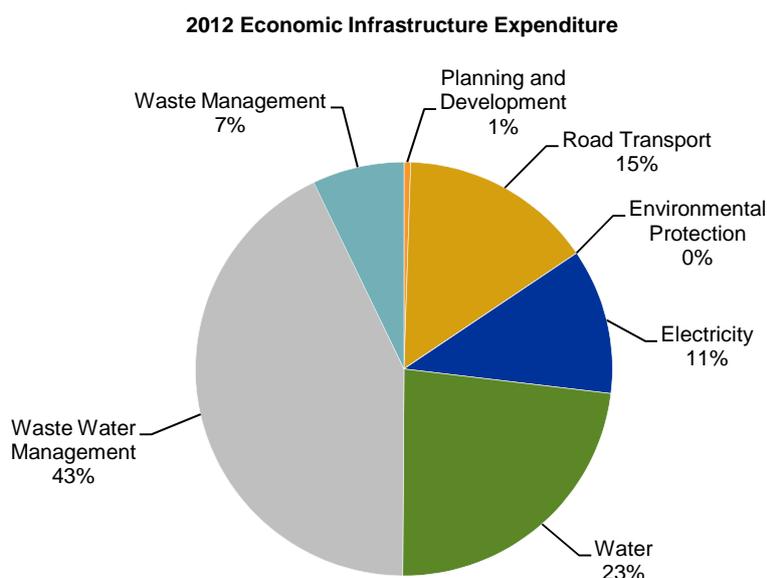
Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

However budgetary constraints call for an investigation into the types of infrastructure that would influence growth within the WCD. "Priority should be given to infrastructure programmes that contribute to regional integration" (NDP, 2012: 159). These include projects such as revising transport links and improving access to energy or water as they form a vital part of the Western Cape economy. Since 2009 expenditure has been high on four forms of infrastructure namely: water provision, waste water management, road transport and electricity (see Figure 6.2 below).

Figure 6.2 West Coast economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Figure 6.3 West Coast economic infrastructure expenditure breakdown

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Road transport, water and energy availability continue to take up the highest portions of the Districts' 2012 infrastructure expenditure, whilst planning and development and environmental protection take up the smallest portions (see Figure 6.3 above). Both theory and empirical work at National level suggest these expenditures do have an impact on economic growth.

6.2.3 Infrastructure investment and economic growth

The impact of infrastructure investment on growth depends crucially on the individual municipalities' infrastructure investment decisions. It depends on their knowledge of the location, characteristics and requirements for infrastructure investment that has the potential to influence economic growth. Investment in infrastructure and the maintenance thereafter requires a complex mix of robust management practices. Differences in infrastructure maintenance and development have led to vast differences in economic performance across the WCD towns.

The Growth Potential of Towns study lists the following categorisation of towns in the WCD in terms of the infrastructure index (see Table 6.4 below). As can be seen the 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 category. It appears that Saldanha Bay, Langebaan and Vredenburg perform very well according to the infrastructure index. The reasons for this include their locational advantage i.e. close proximity to the Cape Metro, other towns and a small harbour.

On the other hand most towns in the Matzikama Municipality are characterised by high unemployment and poverty and tend to perform poorly on the infrastructure index.

At municipal level the municipalities in the District with lower infrastructure investment exhibit slower economic growth whilst those with higher infrastructure expenditure have higher economic growth. Average GDP growth for the local municipalities over the period 2000 - 2011 is displayed in the table below. We compare it to the level of infrastructure within that municipality as determined by the 2010 study on municipalities done by Donaldson et al (2010) (see Table 6.5 below). As can be seen municipalities that ranked high on the infrastructure index also displayed high growth rates, whilst those that ranked low on the infrastructure index contributed the least to GDP growth within the District.

For Matzikama Municipality the high population growth rate has placed infrastructure provision under strain as huge backlogs exist. In addition the insufficient capacity of the waste water treatment works and bulk sanitation infrastructure and sewer backlogs in the town of Lutzville has impacted significantly on the Municipality's growth potential.

Table 6.4 Town categorisation using the infrastructure index

Municipality	Town	Infrastructure index
Bergrivier Local Municipality	Aurora	High
	Dwarskersbos	High
	Eendekuil	Low
	Goedverwacht	Medium
	Piketberg	Medium
	Porterville	Medium
	Redelinghuys	High
	Velddrif	High
Cederberg Local Municipality	Citrusdal	Medium
	Clanwilliam	Low
	Elands Bay	Low
	Graafwater	Medium
	Lamberts Bay	Medium
Matzikama Local Municipality	Bitterfontein	Low
	Doringbaai	Medium
	Ebenhaeser	Medium
	Klawer	Low
	Kliprand	Very low
	Koekenaap	Very low
	Lutzville	Low
	Nuwerus	Low
	Rietpoort	Very low
	Strandfontein	Medium
	Vanrhynsdorp	Low
	Vredendal	Medium

Municipality	Town	Infrastructure index
Saldanha Bay Local Municipality	Hopefield	High
	Jacobsbaai	Low
	Langebaan	High
	Paternoster	High
	Saldanha Bay	High
	St Helena Bay	Medium
	Vredenburg	Very high
Swartland Local Municipality	Darling	Very high
	Kalbaskraal	High
	Koringberg	Medium
	Malmesbury	High
	Moorreesburg	High
	Riebeek West	High
	Riebeek-Kasteel	Low
	Yzerfontein	Very high

Source: Donaldson et al (2010)

The most critical infrastructure need has been identified as the building of or upgrading of existing waste water treatment works. Saldanha Bay and Swartland municipalities continued to display their dominance in infrastructure investment; as such the municipalities continue to rank high in terms of economic growth within the district. These two municipalities contribute more than 60 per cent of the WCDs' real GDP (as discussed in Chapter 3).

Table 6.5 GDP vs Infrastructure levels at municipal level

Municipality	GDP growth	Infrastructure level
Swartland	3.7%	High
Saldanha Bay	4.6%	High
Bergrivier	2.8%	Medium
Matzikama	1.5%	Low
Cederberg	2.2%	Low

Source: Donaldson et al (2010) and Quantec Research

In both municipalities the finance and business sectors account for a large portion of their value added and are generally sectors that require the support of a good infrastructure system.

In addition, the different forms of infrastructure expenditure have made differing contributions to GDP growth within the District (see Table 6.6 below). The table suggests that the transport and storage industry and communication appear to have been a high contributor to GDP within the District whilst the average growth rate of the electricity and water industry was negative over the period 2000 - 2011.

As previously mentioned in Chapter 3 the transport and storage industry expanded at a faster rate compared to the same sector at National level suggesting that the WCD has revealed comparative advantage. The performance of Transport and Storage can be linked to the performance of a variety of other sectors such as agriculture,

forestry, fishing, the food and beverage sector, construction and catering and accommodation.

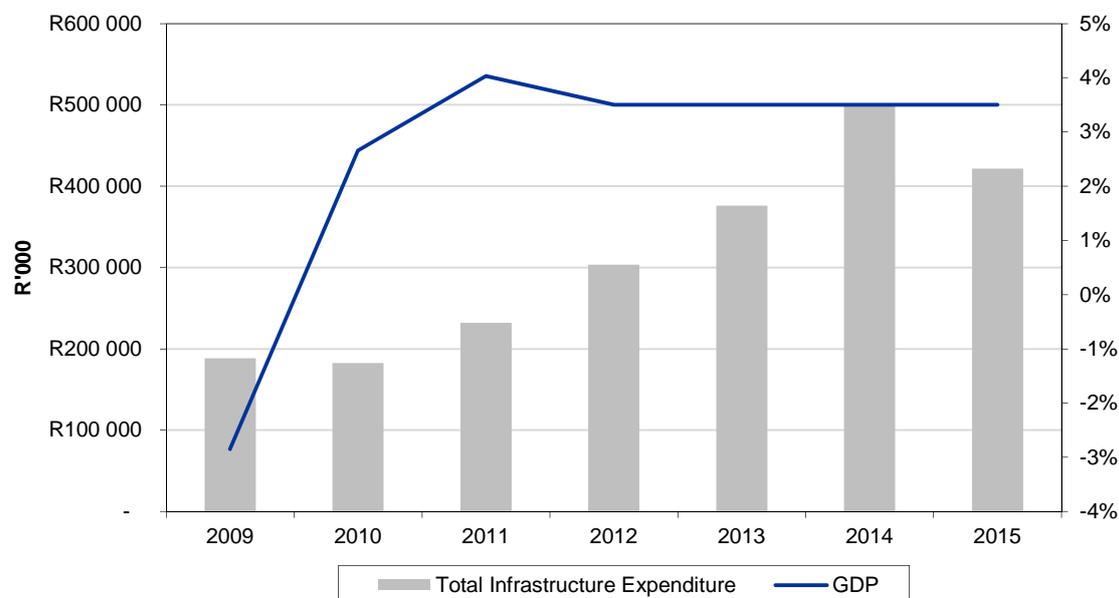
Table 6.6 Average growth of industries

Industry	GDPR % share 2011	Ave growth 2000 - 2011
Electricity and water	0.9	-2.2
Transport and storage	5.8	3.5
Communication	2.8	7.2

Source: Quantec Research/CER

Due to various data limitations it is not possible to give an empirical presentation of the impact that an investment in infrastructure has on economic growth. Whilst data limitations have been a tremendous challenge the graph below provides an approximation of what both theory and empirical work have established, i.e. there is a positive relationship between infrastructure investment and GDP.

Figure 6.4 GDP vs Total economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Empirical evidence emphasises that infrastructure investment will have both a direct and an indirect effects on GDP. The direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP. The indirect, longer term effects are a result of multiplier or knock-on effects that have a much longer term macroeconomic impact on the economy.

Various studies have tried to provide an empirical establishment of the typical impact that various forms of infrastructure expenditure would have on the economy. In South Africa, a good account of this literature is available in Fourie (2006). A study by Mabugu, Rakabe and Chitiga (2009) makes use of a static Computable General Equilibrium (CGE) modelling tool to assess the relationship between infrastructure and growth. This modelling technique is however later criticised by Mbanda (2011) as

being unable to account for distributional and accumulation effects. Mabugu, Rakabe and Chitiga (2009:17) used this tool to quantify the impact that a 10 per cent increase in water, health, roads, electricity and communications infrastructure above baseline would have on the economy. The authors find that increases in public infrastructure in the different sectors have beneficial yet different macroeconomic effects. Gross Domestic Product increases due to increases in investment and consumption. Imports and exports levels, the Consumer Price Index (CPI), wages and employment levels and a variety of sectors are also affected in differing ways. Sectors with strong forward and backward linkages are affected by the increase in public infrastructure investment. The impacts of the simulations on GDP are shown in Table 6.7 below.

Table 6.7 Effect of 10 per cent increase in infrastructure on GDP

Variable	Variation (%)			
	Water	Electricity	Roads & transport	Communications
GDP	0.02	0.19	0.44	0.34

Source: Adapted from Mabugu, Rakabe and Chitiga (2009)

Their results confirm that an increase in infrastructure investment within these sectors leads to increased economic growth. For a more detailed presentation of the macroeconomic impacts of the full simulations see Mabugu et al (2009).

The Medium Term Expenditure Frameworks envisage a steep increase in infrastructure expenditure (as shown in Figure 6.4). It is projected that GDP growth will accelerate to an average of 3.5 per cent for the year 2012 - 2017. Coupled with other growth determinants expenditure will influence GDP growth for the District. Of course this investment in economic infrastructure would be most effective if focused on the major growth centres in the Saldanha Bay area. With the development of the IDZ in Saldanha Bay infrastructure investment within this area is crucial to enhancing its performance. The success of the project depends significantly on a complex interplay of factors. Studies done in the West Coast region, particularly feasibility studies on establishing Saldanha Bay as an IDZ, have highlighted the importance of infrastructure investment to the success of the projects. Infrastructure investments within this area are likely to boost the fortunes of the area as a whole as economic linkages will stimulate a variety of industries in the area. Of particular interest is the opportunity that is presented by the Saldanha Bay IDZ and infrastructure linkages with the relatively more vibrant manufacturing sectors in Bergvliet and Swartland. This could potentially benefit the agricultural sector in Swartland and Bergvliet which is linked to the Manufacturing sector. Hence the infrastructure development potential of the Saldanha Bay IDZ could have trickle down effects and is certainly an area for further research.

Should the district take advantage of the unexploited wine industry and minerals in the towns of Lutzville and Eendekuil, it could result in much needed infrastructure improvement in the Bergvliet and Matzikama municipalities. Hence all investments of public funds in economic infrastructure should be done in accordance with development and economic needs within the district and help unlock the

development potential of the Industrial Development Zone whilst also addressing backlogs.

6.3 Infrastructure and inter-industry linkages: The case for sector development

The research and analysis for the Western Cape Infrastructure Framework 2013 (WCIF) has identified five core networked infrastructure systems. They are:

- Water system infrastructure
This includes the range of infrastructure related to the water cycle including bulk water *resources*, bulk and distribution water supply systems, wastewater collection and treatment infrastructure (including recycling) and storm water systems.
- Energy system infrastructure
This includes the range of infrastructure related to electricity generation, transmission and reticulation. It may also include other energy infrastructures that do not involve a conversion of energy into electricity, such as fuel for transport, cooking and heating.
- Transportation and logistics system infrastructure
This includes all the different infrastructure elements that contribute to the mobility of people and goods. It includes the road network, the rail network, public transport, pedestrian and bicycle mobility, ports and airports and the freight logistics systems.
- Settlement system infrastructure
This encompasses the built environment and includes the range of public and private buildings and facilities that comprise functional settlement. Public facilities such as schools, hospitals and clinics and other government buildings will form part of this. It includes the waste management system servicing settlements.
- Telecommunications system infrastructure
This includes the range of landline, cellular and wireless networks that enable the range of electronic communications.

6.3.1 Strategic economic infrastructure and comparative advantage

The strategic intervention in relation to Economic Infrastructure in creating the enabling environment for robust and sustainable economic growth is further explored with the use of the 'revealed comparative advantage' approach explained in Chapter 3 (Table 3.4) of this report. The use of the LQ ratio serves as a 'guiding tool' in the prioritisation of infrastructure investment across the West Coast District. Coupled with the labour absorption potential of the identified sectors, we are able to deduce from the LQ ratio (with a ratio more than 1 indicating comparative advantage) and the demand for service infrastructure linked to the specific sectors, the priorities required for strategic infrastructure investment.

1. Agriculture, Forestry and Fishing (LQ ratio – 5.95)
2. Other non-metal mineral products (LQ ratio – 2.46)
3. Catering and accommodation (LQ ratio - 1.25)
4. Business Services (LQ ratio – 1.26)

An important observation is that both Catering & Accommodation and Business Services sectors are linked to tourism – a tourist SEZ for instance, or just motivation for infrastructure spend (e.g. Route 62 in Cape Winelands/Eden) in this regard may be warranted.

Business services may also reflect real estate/property development and be linked to the construction/building value chain in the region (including building material manufacturing).

The specific infrastructure interventions are discussed below coupled with the Economic Growth prospects for each sector.

6.3.2 The drivers of change and growth projections

Economic growth has recovered (3.3 per cent in 2010/11) and provincial projections (PERO) indicate a modest growth rate of 3.9 per cent in the Western Cape over the coming six years, which is equal to growth projections of the South African economy as a whole.

The relative contribution of each sector of the West Coast District economy is shown in Chapter 3 (Table 3.3) of this report, with growth projections over the coming five (5) years.

While relatively high growth is predicted for the construction (4.6 per cent) and transport sectors (3.2 per cent), these are relatively small. The relatively modest growth for the agriculture (0.7 per cent) and manufacturing sectors (2.4 per cent) is a concern (though manufacturing sector growth in Swartland & Bergrivier is more optimistic) as these are large sectors with high employment potential, particularly for unskilled workers. Commercial activity, represented by the finance, real estate and business (6.2 per cent), is the biggest sector of the economy and is expected to have the highest growth potential. However, this is also a sector which requires the highest skill level and therefore, its impact on employment generation for unskilled people will be relatively modest. This emphasises the key role of education in a long-term framework. The high skilled nature of the Western Cape economy is illustrated by the statistics in Chapter 3 (Figure 3.2) which show that the growth in employment is currently in the skilled and semi-skilled categories.

With the aforementioned growth projections at the forefront of the research and analysis pertaining to Infrastructure provision in the West Coast District region, the demand for services infrastructure becomes more pertinent in the achievement of growth and development targets. According to the WCIF 2013 study, the demand for services (infrastructure) from enterprises is dependent on the nature of the activity

they are engaged with. This is difficult to assess but the scale of production and the sector of the economy provide a reasonable basis for estimation.

The following recommendations are made based on the growth projections provided and the alignment with the relevant PSO's. The summary for demand drivers in the West Coast District have been captured in the WCIF 2013 Report and are 'prioritised' on the aforementioned Growth projections.

- **Agriculture, forestry & fishing (14.9 per cent GDP Share)**

The biggest service concern for agriculture is water for irrigation and stock watering. Obviously this does not apply to dryland farming (wheat for example). Farms also need electricity to drive certain types of equipment, specifically if they are processing their products (which pushes them towards manufacturing entities). Road access is also a big issue for farmers as they rely on this to get inputs to their farms and deliver produce. Forestry is an indirect user of water (through diverting what would be runoff). The fishing industry utilises harbours, ports and transport networks.

- **Manufacturing (17.8 per cent GDP Share)**

The demand for energy and water varies considerably by industry, with indicative figures available for most industries. Wet industries produce wastewater which is typically discharged into a municipal wastewater system. Some industries also generate a high mass or hazardous solid waste. As most industries are located in urban areas they benefit from the road system in the area.

- **Wholesale and retail trade, catering & accommodation (12.8 per cent GDP Share)**

Generally the demand for water, sanitation and electricity relates to personal use, heating and lighting. Shops require energy for keeping goods hot or cold, as the case may be. Restaurants have specific waste profiles (kitchen waste). The transport of Goods and Services is also highlighted by the need for transport infrastructure.

- **Finance, insurance, real estate & business services (25.1 per cent GDP Share)**

This is the conventional office building environment with water and sanitation associated mainly with toilets and electricity required for heating, air-conditioning, lighting and office equipment. Telecommunications infrastructure is most crucial to this sector. Waste streams are dominated by paper.

Furthermore, the Growth Potential of Towns study has identified Saldanha Bay, Langebaan and Vredenburg as 'High Potential Growth Nodes'. Reasons for this conclusion have been stated in Chapter 3 of this report. Of particular interest for this particular chapter are infrastructure requirements based on the economic potential/needs of the region and its influence on the growth potential of the key growth sectors. In contrast, Matzikama and Cederberg are generally considered to have 'low growth' potential and devoid of notable economic opportunity. The economic landscape of Matzikama and Cederberg remains unflattering with

limited opportunities, characterised by high levels of unemployment and poverty, while Eendekuil suffers from unexploited minerals and Lutzville has a struggling wine industry. Economic linkages through strategic infrastructure interventions to the 'High Potential Growth Nodes' areas of the West Coast District are vital for the growth and development of these impoverished areas. The potentially high growth inducing Saldanha Bay IDZ project coupled with linkages to Bergrivier/Swartland could unlock the immense manufacturing sector potential which has displayed encouraging signs of growth across the assessed period to date.

6.4 Conclusion

The analysis provided in this chapter focused on infrastructure investment in the West Coast District and its resulting impact on growth. Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments as well providing a solid foundation for social development. The data presented revealed that there has been varying levels of infrastructure investments and development across the towns and municipalities within the WCD. The differences in expenditure across the local municipalities are largely related to the various budgetary constraints faced by each municipality. Our data revealed the following:

- Saldanha Bay Municipality recorded significant investment in infrastructure taking up 27 per cent of the total recorded for the entire District in 2012. These high investments are matched by a relatively high real economic growth rate.
- Swartland Municipality recorded the highest investment in infrastructure taking up 31 per cent of the total recorded for the entire District in 2012. As before, this high level of investment was also matched by a high municipal real economic growth rate.
- Bergrivier Municipality's infrastructure investment took up 10 per cent of the total recorded for the entire District in 2012. According to the infrastructure index this Municipality outperforms Cederberg and Matzikama municipalities and also recorded a higher growth rate than the two municipalities.
- The Cederberg and Matzikama municipalities recorded relatively low investments in infrastructure taking up 14 per cent and 10 per cent respectively of the total recorded for the entire District in 2012. These investments do not appear to have boosted growth given the disappointing growth rates of the two municipalities.

Budgetary constraints call for an investigation into the types of infrastructure that would influence growth within the WCD. Of course investment in the economic infrastructure would be most effective if it focused on the major growth opportunities presented in the area. Of particular interest is the opportunity that is presented by the Saldanha Bay IDZ and the need for infrastructure linkages between the latter and food processing manufacturers in Swartland and Bergrivier as well as the agricultural sector in general.

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 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	1.6	0.9	-1.6	-0.6	-1.0	1.9	-1.4
2 Secondary sector [SIC: 3-5]	2.0	2.2	0.5	1.7	3.0	-6.1	4.0
3 Tertiary sector [SIC: 6-9, 0]	4.4	6.1	5.4	5.7	6.2	4.7	4.4
Total: West Coast District	3.0	3.9	2.9	3.3	3.8	1.4	3.3
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	4.5	1.1	-1.3	-0.4	-0.9	2.6	-1.4
2 Mining and quarrying [SIC: 2]	-15.9	-2.1	-6.5	-4.0	-3.2	-10.3	-0.5
3 Manufacturing [SIC: 3]	2.2	1.8	-0.2	1.2	2.6	-8.4	5.0
4 Electricity, gas and water [SIC: 4]	3.4	-0.6	-4.0	-2.2	-1.3	-7.7	-0.1
5 Construction [SIC: 5]	0.3	7.7	6.5	6.6	8.3	5.6	1.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	5.3	4.5	2.3	3.8	5.0	-1.1	3.7
7 Transport, storage and communication [SIC: 7]	2.8	6.0	3.2	4.5	5.6	1.4	3.2
8 Finance, insurance, real estate and business services [SIC: 8]	5.6	11.6	10.6	10.6	11.7	11.2	5.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	6.3	3.5	1.8	2.9	3.7	0.3	2.1
10 General government [SIC: 91, 94]	2.7	2.3	2.9	2.4	1.9	3.2	3.6
Total: West Coast District	3.0	3.9	2.9	3.3	3.8	1.4	3.3
Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	24.3	21.5	16.7	19.2	20.6	17.1	15.6
2 Secondary sector [SIC: 3-5]	29.0	27.4	24.5	26.1	27.4	23.8	23.1
3 Tertiary sector [SIC: 6-9, 0]	46.7	51.1	58.9	54.7	52.0	59.1	61.3
Total: West Coast District	100	100	100	100	100	100	100
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	21.9	20.1	15.8	18.1	19.3	16.3	14.9
2 Mining and quarrying [SIC: 2]	2.4	1.4	0.8	1.1	1.3	0.8	0.7
3 Manufacturing [SIC: 3]	24.1	22.8	19.2	21.1	22.6	18.5	17.8
4 Electricity, gas and water [SIC: 4]	1.8	1.5	1.1	1.3	1.5	1.0	1.0
5 Construction [SIC: 5]	3.1	3.1	4.2	3.7	3.3	4.3	4.3
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	11.9	13.0	13.0	13.0	13.1	12.7	12.8
7 Transport, storage and communication [SIC: 7]	7.5	8.0	8.5	8.2	8.1	8.4	8.5
8 Finance, insurance, real estate and business services [SIC: 8]	11.1	14.7	22.7	18.4	15.5	23.3	25.1
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.2	4.5	4.2	4.4	4.5	4.2	4.1
10 General government [SIC: 91, 94]	12.0	11.0	10.5	10.8	10.9	10.4	10.7
Total: West Coast District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 West Coast District: Employment (Formal & Informal) – average annual growth/composition, 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	-0.9	-9.0	-11.8	-9.8	-8.4	-19.2	-5.9
2 Secondary sector [SIC: 3-5]	-3.0	-1.8	-4.0	-3.2	-2.2	-8.3	-2.0
3 Tertiary sector [SIC: 6-9, 0]	5.1	3.9	1.7	2.8	3.5	0.4	2.0
Total: West Coast District	0.5	-2.7	-3.2	-2.8	-2.4	-6.6	-0.4
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	-0.7	-8.9	-12.6	-10.2	-8.5	-20.2	-6.9
2 Mining and quarrying [SIC: 2]	-9.1	-12.1	14.6	1.7	-3.8	13.8	11.7
3 Manufacturing [SIC: 3]	-1.2	-2.9	-5.1	-4.1	-3.4	-8.3	-3.0
4 Electricity, gas and water [SIC: 4]	0.0	-2.0	-2.9	-3.0	-2.1	-13.1	3.6
5 Construction [SIC: 5]	-6.8	0.8	-1.8	-1.1	0.5	-8.1	-0.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	4.1	3.3	0.0	1.4	2.5	-2.3	0.7
7 Transport, storage and communication [SIC: 7]	-4.3	2.1	-0.2	0.5	0.2	0.3	1.7
8 Finance, insurance, real estate and business services [SIC: 8]	10.8	10.7	5.9	8.3	10.6	3.3	4.3
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.6	1.3	-0.7	0.9	1.8	-0.1	-1.9
10 General government [SIC: 91, 94]	4.9	2.9	2.3	2.5	2.2	1.6	4.6
Total: West Coast District	0.5	-2.7	-3.2	-2.8	-2.4	-6.6	-0.4

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	50.7	43.0	27.6	35.8	41.5	24.4	0.0
2 Secondary sector [SIC: 3-5]	19.7	17.4	17.8	17.7	17.6	17.7	0.0
3 Tertiary sector [SIC: 6-9, 0]	29.6	39.6	54.6	46.5	40.8	57.8	0.0
Total: West Coast District	100	100	100	100	100	100	0
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	49.6	42.3	26.8	35.1	40.9	23.5	1.0
2 Mining and quarrying [SIC: 2]	1.1	0.6	0.8	0.7	0.6	1.0	2.0
3 Manufacturing [SIC: 3]	13.3	12.2	11.6	11.9	12.2	11.4	3.0
4 Electricity, gas and water [SIC: 4]	0.2	0.2	0.2	0.2	0.2	0.2	4.0
5 Construction [SIC: 5]	6.2	5.0	6.0	5.5	5.2	6.1	5.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	10.1	12.4	16.7	14.5	13.0	17.4	6.0
7 Transport, storage and communication [SIC: 7]	2.5	2.4	3.0	2.7	2.5	3.1	7.0
8 Finance, insurance, real estate and business services [SIC: 8]	3.8	7.2	12.8	9.8	7.6	14.1	8.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	6.2	8.6	10.4	9.3	8.6	10.8	9.0
10 General government [SIC: 91, 94]	7.0	8.9	11.7	10.2	9.1	12.4	10.0
Total: West Coast District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 West Coast District: Goods Exports & Imports – % composition, 1996 - 2011

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods Exports (R million)							
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	41.4	24.8	42.1	33.3	27.0	35.7	56.1
2 Mining and quarrying [SIC: 2]	4.7	18.7	5.6	11.1	15.1	3.2	0.1
3 Manufacturing [SIC: 3]	53.9	56.5	52.3	55.6	57.9	50.9	43.8
4 Undefined/other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total: Goods exports	100	100	100	100	100	100	100
Manufacturing sector: West Coast District							
1 Food, beverages and tobacco [SIC: 301-306]	37.0	18.6	26.8	22.7	19.6	28.8	35.4
2 Textiles, clothing and leather goods [SIC: 311-317]	0.2	0.3	0.0	0.2	0.3	0.0	0.0
3 Wood, paper, publishing and printing [SIC: 321-326]	6.8	7.8	4.2	5.7	6.7	3.6	4.4
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	2.2	0.2	1.4	1.1	1.5	0.3	0.3
5 Other non-metal mineral products [SIC: 341-342]	0.2	1.5	0.0	0.7	1.1	0.0	0.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	50.2	57.7	59.0	59.1	57.8	61.7	59.1
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.0	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	0.0	0.1
9 Transport equipment [SIC: 381-387]	0.2	0.2	0.4	0.3	0.3	0.4	0.6
10 Furniture and other manufacturing [SIC: 391-392]	3.1	13.7	8.1	10.2	12.8	5.1	0.0
Total: Manufacturing exports	100	100	100	100	100	100	100
Goods Imports (R million)							
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	18.8	9.4	7.4	8.1	9.2	9.1	2.5
2 Mining and quarrying [SIC: 2]	7.0	8.5	40.1	24.4	14.6	43.8	44.1
3 Manufacturing [SIC: 3]	74.0	82.0	52.4	67.5	76.1	50.3	53.4
4 Undefined/other	0.2	0.1	0.0	0.1	0.1	0.0	0.0
Total: Goods imports	100	100	100	100	100	100	100
Manufacturing sector: West Coast District							
1 Food, beverages and tobacco [SIC: 301-306]	19.6	9.1	11.3	9.8	10.0	9.3	3.7
2 Textiles, clothing and leather goods [SIC: 311-317]	1.3	1.1	1.4	1.2	0.9	1.7	1.8
3 Wood, paper, publishing and printing [SIC: 321-326]	4.9	6.1	7.3	6.5	4.6	10.2	10.9
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	4.4	11.3	23.3	16.7	13.3	23.5	27.3
5 Other non-metal mineral products [SIC: 341-342]	27.3	26.6	10.3	20.1	24.9	10.4	11.3
6 Metals, metal products, machinery and equipment [SIC: 351-359]	35.7	41.9	35.5	38.2	40.9	32.7	34.3
7 Electrical machinery and apparatus [SIC: 361-363]	1.1	1.5	8.2	5.1	2.8	9.6	7.5
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	5.1	0.6	1.1	0.9	0.8	1.2	1.4
9 Transport equipment [SIC: 381-387]	0.2	0.8	0.7	0.7	0.8	0.4	0.5
10 Furniture and other manufacturing [SIC: 391-392]	0.4	1.0	1.0	1.0	1.0	1.0	1.2
Total: Manufacturing imports	100	100	100	100	100	100	100

Source: Quantec Research/CER

Cape Winelands District

Executive summary

1. Introduction

The overall objective of the Municipal Economic Review and Outlook (MERO) 2013 is similar to that of its predecessor, MERO 2012, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO).

But MERO 2013 also extends the focus and analyses of its predecessor. In addition to estimating the recent and forecasted GDP growth for each municipality and the major economic sectors and industries (Chapters 2 and 3), the current study also provides extensive analyses of value or supply chains (Chapter 4), the informal sector (Chapter 5), and the economic infrastructure (Chapter 6). Complimentary to the MERO 2013 findings is an Executive Summary detailing the key outcomes/trends related to the Socio-economic profile per District. These Executive Summaries may be located at the following website: www.westerncape.gov.za.

2. Regional growth trends

The global economy hit a recessionary low point in 2009 before turning around and growing at about 5 per cent in 2010 and the first half of 2011, driven largely by the United States of America (USA) and Chinese economies. Since then world growth has dipped to 2.6 per cent (in 2012 and possibly 2013), due partly to debt crises and fiscal restraint policies in the major advanced economies. But the global economy is expected to strengthen again reaching 3.1 per cent in 2014 and beyond, due mainly to expansionary monetary policies coupled with continued fiscal restraint and structural reform.

How did South Africa, the Western Cape (WC) Province and the WC municipalities respond to this hesitant and uneven global turnaround? After growing at 3.5 per cent in 2011, the South African economy followed the world trend growing at 2.5 per cent in 2012 which, according to the latest forecasts, is expected to decelerate further in 2013. The Western Cape economy fared slightly better with real economic growth in the region decelerating from 3.5 per cent in 2011 to an estimated 3 per cent in 2012.

Similar trends were recorded for formal and informal employment in the Province. However, it should be noted that the employment recovery only commenced late in 2010 and some sectors and municipal areas continue to suffer the heavy recessionary impact during calendars 2008/09.

The Cape Winelands District economy also did not escape the global recession, with real GDP growth dropping sharply to 1.7 per cent in 2009, after which it recovered reasonably well to 3.4 per cent during calendars 2010/11 approaching the trend growth rate over the 2000s. The unsustainable growth rate of 4.1 per cent in 2011 dropped to 3.1 per cent in 2012. The impact on the 5 constituent municipalities' was variable, with Stellenbosch, Langeberg and, to a lesser extent, Witzenberg and Drakenstein growing faster than the Breede Valley Municipality. Two thirds of all the net job losses in the region over the 2000 - 2011 period occurred during the recessionary years and all being in the primary and secondary sectors, mainly agriculture and manufacturing.

These relatively low rates can be partly explained by the hesitant recovery among industrially advanced economies generally, and the sustained contractions in the EU in particular, when compared to the higher growth rates recorded in emerging and other developing economies. The EU regional economy – a major trading partner – remains under severe strain due to fiscal austerity and structural reform, with growth lagging behind the USA economy and especially the developing economies which, as a longer term strategy, may call for export diversification on the part of the country, the WC and the WC municipalities.

It is proposed that an independent research study be launched to consider the desirability and efficacy of diversifying CWD exports away from the EU in favour of more attractive markets in East Asia, Africa and Latin America. Such a study should also look at cost-effective practical steps that can be taken to achieve such diversification.

3. Cape Winelands District (CWD): Sectoral growth

The recessionary impact on economic sectors and industries in the CWD was felt most in the manufacturing sector, experiencing declining growth and shedding labour in 2008/09. This can be ascribed to the fact that the sector is dominated by the food & beverage processing industries which are mature and which took a heavy knock in the recession across all municipalities. The agriculture, forestry & fishing sector experienced strong anti-cyclical growth in calendar 2008/09, particularly in the Witzenberg and Drakenstein municipalities whilst the district's services sector experienced



a mild recessionary impact. During the uncertain aftermath of the recession, retail, wholesale, catering & accommodation sector (linked to tourism), the manufacturing sector (especially the non-metal mineral industry), transport, storage & communication, business services and the government rebounded quite well. It is evident that economic recovery in the region is built around a better mix of primary, secondary and tertiary sectors compared to the other districts.

Close to 40 per cent of economic output in the CWD economy is generated in the agriculture, manufacturing and construction sectors, which are semi- and unskilled intensive. There is a need to support these industries (e.g. skills training) to ameliorate the impact of the recession and expand them and make the vibrant growth in the services industries sustainable.

Looking at the future, an attempt was made to determine the growth potential of the 22 main industry groups in the CWD by estimating their so-called "revealed comparative advantage". Using location quotients the analysis indicated that several industries did indeed have a positive comparative advantage, including the food, beverages & tobacco, or the agro-processing industries, agriculture, forestry & fishing; catering & accommodation; non-metal minerals, construction, finance & insurance and transport & storage. Several of these industries also formed part of the same value (or supply) chain, as discussed in the next section.

The CWD is forecast to grow at a somewhat disappointing 3.7 per cent per annum between 2013 and 2017, driven mostly by the relatively large financial & related business services sector (4.9 per cent), transport storage and communication (4.8 per cent), construction (4.4 per cent) and wholesale & retail trade (4.4 per cent). The agriculture, forestry & fishing sector prospects (1.5 per cent) are in line with that projected for the Province and will be a positive outcome should it materialise. Agriculture is the backbone of the regional economy and has strong forward linkages with the manufacturing (mainly agro-processing) and the financial & business services sectors, with exports being the driver of economic growth.

4. Value chains

Value or supply chains represent a collection of different industries (in the primary, secondary and tertiary sectors) that are economically interlinked in the sense of supplying inputs to or demanding inputs from one another. These inter-linkages may cut across different sectors, municipalities and districts and are important from a policy perspective as they may assist policy-makers in focussing on a more broadly based and relevant set of target areas aimed at adding local value.

Agriculture and food processing chains are relatively well developed in several of the Western Cape districts, including the CWD. A typical scenario would be the use of a variety of farming inputs to produce an agricultural product, part of which is domestically consumed, another part which is exported, and yet another part being supplied as inputs to food and beverage processors in the manufacturing sector. The latter food processors may supply to other processors within the value chain, with

both groups also acquiring inputs from services and other local industries, and with the final supply either exported or domestically consumed.

The value chains analysed in this chapter for the CWD are the agro-processing and metals and machinery value chains. The agro and beverage processing value chain is a significant contributor to employment in the CWD and has many backward and forward linkages in the economy. The metals and machinery production value chain in the CWD is a significant contributor to GDP and employment within the manufacturing sector in the district.

Agricultural production uses a range of local and imported inputs, including chemicals, petroleum products, finance & insurance and transport. Agricultural production thus produced is then exported (58.1 per cent), sold locally for consumption purposes (17.9 per cent), and supplied as inputs (24 per cent) to agro and (especially) beverage processors in the manufacturing sector. A large part of the latter products are exported and sold to local consumers, with only a small amount being supplied to other local producers in the district.

The agricultural sector is the largest contributor to intermediate inputs into food and beverages production, while the business services and wholesale & retail trade sectors are also major inputs at 11.8 per cent and 10.7 per cent respectively. The majority of output from the production process for food and beverages is sold to households, at 54.1 per cent, with only small amounts going back into the food and beverages sector which are used in the production processes.

The metals and manufacturing industry in the CWD is the second-largest contributor to employment in the manufacturing sector after the agro and beverage sector. Analysis of the metals manufacturing value chain in the CWD consists of two major sectors. The metal products and machinery sectors form the most significant proportion of the metals manufacturing value chain in the CWD.

Metals manufacturing in the CWD uses several imported and (mostly) local inputs, including basic iron & steel, basic non-ferrous metals, finance & insurance and wholesale & retail trade. Small parts of the metals thus produced are then exported and sold to local households, with the vast majority being supplied as inputs to the production of machinery. Almost half of the machinery is exported.

From a policy perspective, it is suggested that an independent study be conducted to determine the eligibility, as well as the desirability and feasibility of the agriculture and food processing and the iron and steel value chains for attaining Special Economic Zone (SEZ) status. The latter would entail a more broadly based industrial policy focusing on industries within the value chains, and involving all levels of government. The alternative would be a more conventional approach providing state support to selected industries within the value chains.

5. Informal sector

From a jobs, training and survivalist perspective, the informal sector is evidently of critical importance, though very little is known about it. But this information gap is being narrowed by extensive surveys of about 200 informal enterprises conducted by the Department of Economic Development & Tourism (DEDAT) in each of the five districts and the Cape Metropolitan Area. The main purpose of these surveys is to provide a profile of the sector which includes the reasons for starting up informal micro-enterprises, the nature of their businesses, employment created, skills attainment and the challenges and prospects they face.

As far as DEDAT's CWD survey is concerned, retail food and beverages were by far the largest category of overall business activity (43.3 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was retail attire or the selling of clothing (14.4 per cent of all businesses surveyed); while household goods were the third largest category (12.9 per cent) – primarily the trading of non-food household items including furniture, electronics and hardware, alongside household consumables such as cleaning products, and black bags. More than 20 per cent of respondents were also engaged in investment activities, including mechanical and appliance repairs, computer services and money lending. As such they are closely linked to the formal sector and also form part of value chains within the District.

While the informal sector is relatively labour-intensive, it uses mostly semi-skilled and unskilled workers who, in the process, acquire basic skills "on the job" rather than from formal institutions. Over half of the respondents (53.2 per cent) acquired basic skills "on the (informal) job", whilst a further 28.9 per cent developed skills through family businesses. Only 2.5 per cent reported acquiring skills from formal study.

The majority of the businesses surveyed were relatively low profit earners, with more than 77.6 per cent of respondents reporting average monthly profits of less than R2 500. For the remaining 23 per cent of enterprises that earn more than R2 500 per month their informal business enterprises propel individual earnings over the South African median, making them comparatively financially well off amongst local peers.

The main reason for starting up or continuing with an informal micro-enterprise is an inability to find alternative employment coupled with the high regulatory costs involved in starting and running a formal business. The latter included the costs of registration, high taxes and difficulties in securing local government tenders. Some 71.7 per cent of the sample reported that their businesses were not registered in any way, while the remaining 30 per cent were what one might call "partially registered", being in possession of a municipal licence. The main reason why informal activities exist and are growing in the District is that the benefits of formalising are overshadowed by the corresponding costs. Interestingly 15.2 per cent of motivations related to the respondent's claim that they were good at or had expertise in running their particular business.

Other constraints included inaccessibility to affordable micro-finance, a lack of space available to facilitate any expansion, and increased competition from immigrants and major businesses.

It is worth noting that the major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

An independent research study could focus on policies in general and more specifically on provincial strategies aimed at addressing some of the constraints discussed here, including the introduction of a more flexible and affordable registration system; the provision of appropriate infrastructure services at designated business premises; securing the safety of such premises; and assistance with collaterals in respect of micro-financing.

6. Economic infrastructure

Both the national and provincial governments view infrastructure as an important means of promoting sustainable growth and reducing poverty, with the national government having allocated large portions of its budget for this purpose. Economic infrastructure – which is the focus here – includes road building and maintenance, transport, water supply, electricity transmission, pump stations and piped networks, and sanitation facilities; whilst social infrastructure refers to health, education and a range of social grants.

Economic theory and empirical work suggest that public investment in infrastructure will lower production costs and boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect”. In fact, a recent World Bank study found that the contribution of infrastructure investment is substantial and often greater than that of investment in other forms of capital.

The latter proposition is partly borne out by the fact that the Western Cape Province has the lowest incidence of infrastructure backlogs and also grew more rapidly than other provinces and the country as a whole. A similar relationship seems to hold in the CWD where the Langeberg, Stellenbosch and, to a lesser extent, Drakenstein and Witzenberg municipalities recorded the highest growth and also spent by far the highest proportions of total infrastructure spend in the District; while the opposite applies to the poorer municipalities.

Among the municipalities and towns within the CWD infrastructure backlogs do however vary significantly, with water and waste water management featuring relatively prominently and road transport, electricity and environmental protection actually declining.

It is important to note that different economic sectors and communities require a different mix of infrastructure services. In agriculture, for example, the greatest needs are energy, water and wastewater and hazardous solid waste management. Likewise, wholesale and retail trade requires water, electricity and sanitation; while poorer municipalities need local roads, pavements and sanitation.

It may be worth doing an independent study looking at the different infrastructure needs of different sectors, industries and municipalities. Such a study can be simply based on personal interviews with relevant stakeholders; and also help to prioritise municipal budgets.

A final comment refers to pressing budgetary constraints as revealed in the CWD survey conducted for this report. Respondents to the CWD survey claimed that the levy replacement grant has been incorrectly calculated as it has been increasing by 2 to 3 per cent compared to an inflation rate of between 5 and 6 per cent for the past several years. Thus they have experienced a real income decline year-on-year. Similar problems were experienced in respect of the capital expansion of the bulk water service infrastructure. As far as service delivery is concerned, the CWD survey highlighted the need to revise the funding model for district municipalities, including the assignment of functions to municipalities and other spheres of government, and funding to deal with emergencies on a regular basis.

1

Introduction

1.1 Background and purpose of study

The origin of the Municipal Economic Review and Outlook (MERO) studies can be traced to the earlier microeconomic policy research programme launched and conducted by the Provincial Department of Economic Development and Tourism (DEDAT)¹. The subsequent MERO research reports provide a more focused institutional framework for microeconomic analysis – in the form of the Districts and their constituent municipalities. Internationally too there has been a shift in favour of focusing on microeconomic policy issues at local government level.

MERO 2013 follows on from its predecessor, MERO 2012, and also extends it in several important ways, as discussed below. The overall objective remains the same, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO). Using the district municipalities as our broad demarcation, MERO 2013 will probe and interrogate each and every municipality in the Western Cape Province to provide the economic intelligence needed to propel the municipal economies onto a higher growth plain and ensure sustainability at the same time.

1.2 MERO 2013: What's new?

Using the latest data from Quantec and other secondary sources, the analysis of the district and municipal growth, employment and skills data is extended in MERO 2013 in order to ascertain how the economic recovery (2010/11) has been progressing among different sectors and industries at the municipal level. This prompted an attempt to estimate the *revealed comparative advantages* of sectors and industries

¹ Kaplan, D (ed.) (2008): Micro-Economic Development Strategy for the Western Cape (MEDS) - Synthesis Report.

at the local government level. Location quotients were used to measure the performance of industries in the Cape Winelands District relative to the same industries in the reference region, i.e. the province or nation.

Following on from the 2012 feedback, many micro and small enterprises operate within the *informal sector*, and yet there is little or no data available on these enterprises. Although it serves as a means of survival for many unemployed poor persons, certain informal activities may help develop basic skills, create linkages with the formal sector, and ultimately become a source of sustainable growth. Apart from the need for desktop searching, the required data was obtained from the municipal survey and from important work being done at DEDAT.

The DEDAT survey of the informal sector in the Cape Winelands District brought into focus some of the strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may well benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

The 2012 MERO study found that agro-processing is an important industry that forms part of *value or supply chains*, or clusters, that also contain manufacturing and service industries within and across different districts and municipalities. This issue is taken further here by identifying and quantifying other existing and potential inter-industry linkages that can be clustered together for policy purposes. For this purpose Quantec's input-output model and Stats SA's supply-and-use tables were used to estimate the size and extent of two value chains in the Cape Winelands District. Having done so, it is recommended that an independent study be conducted to consider the suitability of these value chains as potential Special Economic Zones (SEZs). The latter study would require information about the conditions for SEZ status and the roles played by **the dti**, the provincial government and the national government.

Following on from the 2012 MERO study, there is a need to determine the extent to which *municipal infrastructure spending* (water, electricity, sewerage, refuse, roads) is prioritised and indeed implemented in accordance with pre-determined targets. The present study therefore compares municipal actions with plans, identify problem areas, and suggest policy actions where necessary.

Infrastructure spending is an important prerequisite for poverty relief and economic growth, and it is critical that the actions taken by the provincial government, individual municipalities and electricity suppliers be coordinated in order to maximise the returns to their respective infrastructure investments.

1.3 Outline of report

The rest of this report consists of 5 parts. Chapter 2 provides the broad macroeconomic context within which the Cape Winelands District operates. Its primary aim is to translate the macroeconomic forces and determine their impact on the dominant sectors in the District. Chapter 3 uses and refines the latest Quantec data to estimate recent trends in the growth of GDP per economic sector and employment for each municipality, with special attention being given to the agricultural, manufacturing and services sectors. Using the latest PERO, estimated comparative advantages and relevant municipal data the chapter provides a forecast of municipal GDP and employment growth for the next 5 years. An attempt is also made to highlight the skills requirements of especially the faster growing sectors and industries within the Cape Winelands District.

Chapter 4 identifies and quantifies two important value chains within Cape Winelands District, i.e. the agricultural and food & beverages processing chain and the metals manufacturing value chain. With both being relatively substantial (and job-intensive) they may be flagged as possible independent studies to determine their eligibility for SEZ status. Chapter 5 reports on the results of a survey of 250 informal enterprises, focusing on their size, age, type of business and, importantly, their outlook for the future. As far as the latter is concerned, it would seem that informal entrepreneurs take a positive future view of their own businesses and of the Cape Winelands District, much like their municipal counterparts did in their responses to the Cape Winelands municipal survey. Chapter 6 considers and compares infrastructure spending in the Cape Winelands District, and finds that faster growing municipalities spend more on economic infrastructure than do their slower-growing counterparts. Different sectors, industries and value chains also require different types of infrastructure which may change over time.

2

Economic outlook

2.1 Introduction

This chapter provides a concise macroeconomic overview of the Cape Winelands District (CWD) economy. The focus of the chapter is on the district economy. The regional economy is a well-diversified economy, with a strong manufacturing base dominated by its agro-processing industries (and linked to its famous wine industry) and well-developed finance, insurance, real estate & business services, retail, wholesale, catering & accommodation sectors. The region is also known for its vibrant tourism industry. The aim of the chapter is to translate the macroeconomic forces and its impact at the district level. To this end, a brief overview is first provided of the global, national and provincial economic developments and prospects. In the final section, the macroeconomic review & outlook for the CWD economy is considered. In Chapter 3 a more in-depth sectoral analysis follows of the CWD economic growth and employment prospects.

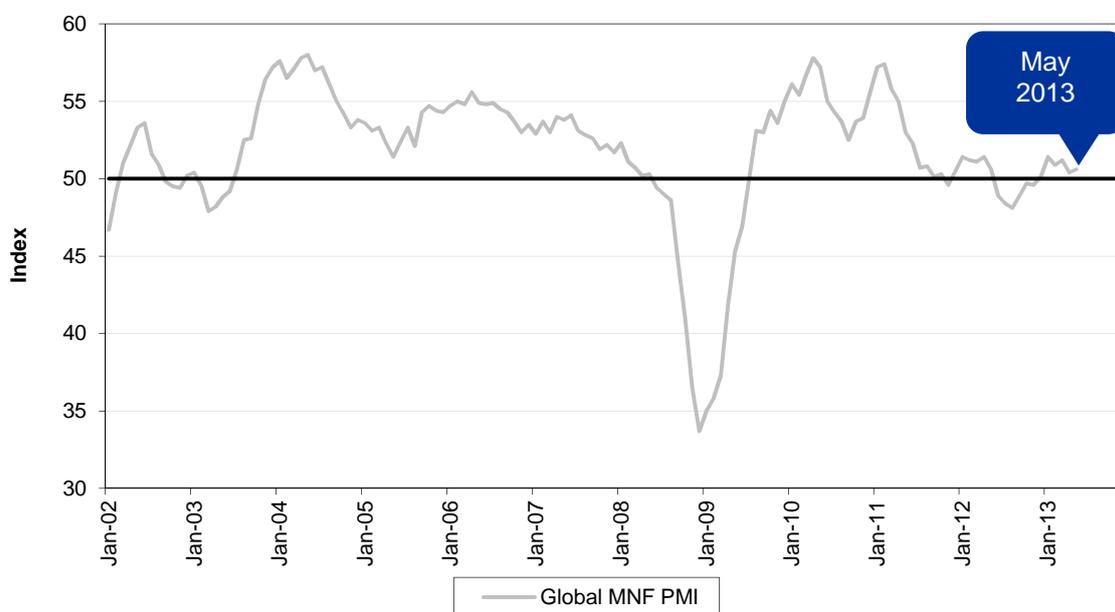
2.2 Global, national & provincial economic developments

The **global economic outlook** remains uncertain and loaded with risk. From a decent rebound since the end of 2009 the world economy recovered strongly during calendar year 2010 (registering real GDP growth of 5.3 per cent) and the first half of 2011; however, since then the growth pattern has been hesitant. The fiscal consolidation and outright austerity in the major advanced economies became a significant drag on global growth and during both the middle quarters of 2011 and 2012 growth dipped. The 2012 slowdown alarmed the policy authorities in all the major advanced economies and beyond, who responded with forceful policy action – quantitative easing, forward guidance on interest rates at zero bound levels and in some parts even fiscal stimulus (e.g. China) – in order to avert a second leg of the Great Recession of 2008/09. In April 2013 Japan embarked on an extensive

economic stimulus programme including quantitative easing, in order to rid that economy from deflation.

The accompanying chart shows that the policy authorities achieved a measure of success, with the composite global manufacturing PMI edging higher from a low point of 48.1 index points in August 2012 to 52.1 points in March 2013. While the April/May readings came in somewhat lower, including services, the May reading stood at 53.1 index points. These readings are consistent with the world economy expanding at a steady pace just below trend. Whilst questions regarding sustainability remains, the outlook is for the current uneven improvement in global economic activity to become better synchronised during the second half of the year and next year. The IMF forecasts global real economic growth to move sideways at 2.6 per cent in 2013 (i.e. at a similar rate compared to 2012) and then to accelerate to 3.4 per cent in 2014².

Figure 2.1 The Global Manufacturing PMI edges above the critical level of 50 index points



Source: JP Morgan, June 2013

The USA economy has managed to progress at a rate around 2 per cent (year-on-year) and this remains the outlook even though fiscal tightening is expected to take some toll in 2013. The housing sector appears to be responding well to the stimulatory policies; the unemployment rate is trending lower gradually and payroll employment continues to increase at a moderate pace. The Fed is targeting an unemployment rate of 6.5 per cent (poised at 7.6 per cent in May 2013) and the zero-bound interest rates, aggressive bond buying (quantitative easing) and central bank communications are likely to persist in order to instil confidence in the market and within the corporate sector to step-up fixed investment and employment creation.

² At purchasing power parity exchange rates the corresponding figures are 3.3 per cent and 4 per cent.

The European economy was expected to emerge from recession early in 2013; however, going by the latest economic indicators (with the composite Euro area PMI dipping to 45 index points in March), the region is only expected to emerge from recession during the second half of the year. Unemployment rates are at record highs, particularly in the peripheral southern European countries and popular resistance against the fiscal austerity measures appears to be growing. The region is forecast to contract by a further 0.3 per cent in 2013 on top of the 0.6 per cent contraction in 2012; only moderate growth is projected for 2014.

Economic conditions are generally more lively in Asia currently, with China's real GDP growth rate coming in at 7.7 per cent during the first quarter of 2013. However, growth appears to have decelerated further during the second quarter as the Chinese economy rebalances towards a more sustainable (read: lower) trend growth rate. An overheated property sector remains cause for concern and financial volatility emerged during the second quarter as the authorities attempt to rid the economy from excesses, leading to a general scaling down of forecasts in line with the official targeted growth rate of 7.5 per cent.

In Japan, the new political leadership (and Governor of the Bank of Japan) has implemented radical economic stimulus policies to rid the economy from the grip of deflation, including aggressive quantitative easing and fiscal expansion in order to achieve a 2 per cent inflation target. An atypical recovery in household spending attests to the probability that the stimulus measures are having the intended impact; however, analysts remain unsure regarding the sustainability of the turnaround, with forecast for real GDP growth remaining around 1 - 1.5 per cent.

The uneven growth pattern in the global economy is also clear in the emerging market group of countries, with particularly India and Brazil under performing in terms of their recent growth performance. However, real GDP growth is still projected between 5.5 and 6 per cent over the short term, suggesting the emerging economies will continue catching-up with the advanced economies and remain a key source of demand for South Africa's goods. The favourable outlook for economic growth in Sub-Saharan Africa also continues to be an area for closer ties with Southern African producers in terms of expanding trade and investment.

Table 2.1 World economic growth outlook: 2012 – 2014 (%)

Country	2012	2013	2014	Country	2012	2013	2014
Advanced countries				Developing countries			
USA	2.2	1.9	3.0	Developing Asia	6.6	7.1	7.3
Japan	2.0	1.6	1.4	China	7.8	8.0	8.2
Euroland ¹	-0.6	-0.3	1.1	India	4.0	5.7	6.2
Germany	0.9	0.6	1.5	Latin America	3.0	3.4	3.9
UK	0.2	0.7	1.5	Central & East Europe	1.6	2.2	2.8
Canada	1.8	1.5	2.4	Sub-Saharan Africa	4.8	5.6	6.1

¹ The 17 Euro countries

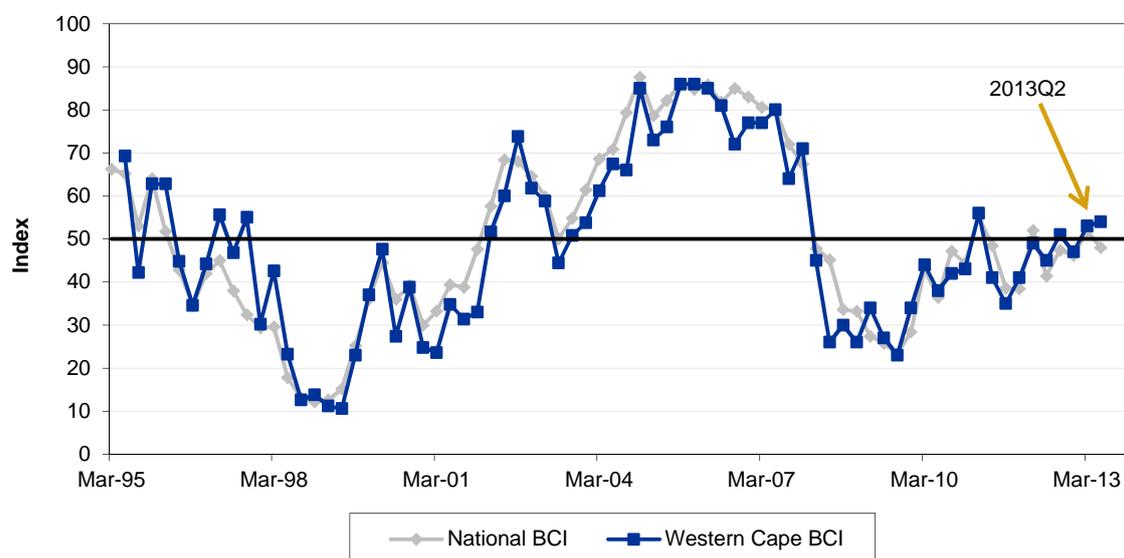
Source: *IMF World Economic Outlook, April 2013*

In all, the global economy is trapped in a multi-year slow and uneven growth trajectory, with emerging economies growing significantly faster than the advanced

economies. The emerging economies are being affected by the advanced countries' attempts to deleverage from high debt levels. The implication is that general inflation is unlikely to become a problem anytime soon and that interest rates could remain low for the foreseeable future (at least until the end of 2014). Unfortunately, in this environment the outlook is not positive for commodity prices. Key commodity prices have been trending lower since mid-2011 and could remain under pressure as demand conditions remain lacklustre and new production capacity comes on stream in coming years (related to the long lead times of mining developments). Regarding food prices, the latest development has been a softening in grain prices on the back of favourable harvests in the USA.

The **South African economy** has been impacted by the hesitant growth in her main trading partner economies and, domestically, the deep-seated labour market instability which broke out during the third quarter of 2012 causing a major drag on business, investor and consumer confidence as well as real economic growth. Real GDP growth slowed to 2.5 per cent in 2012 from 3.5 per cent in 2011 and is likely to slow further in 2013 (the first quarter annualised growth rate amounted to 0.9 per cent). The RMB/BER Business Confidence Index has been slow to recover since the 2009 recession, with the index tending to oscillate around the neutral level of 50 since the end of 2010. The brittle business confidence levels, combined with less than robust demand conditions in the world economy and domestically, do not bode well for private fixed investment spending and employment creation.

Figure 2.2 Hesitant recovery in business confidence since 2009



Source: BER, June 2013

A key development during the course of 2012 has been the slowdown in the consumer sector, which has been the mainstay of the economic recovery witnessed since the end of 2009. The consumption-led recovery lost momentum due to the lack of employment creation, lower wage increases, the impact on household budgets of higher electricity, petrol and food prices and a general decline in consumer confidence – the FNB/BER Consumer Confidence Index declined from 11 index points in 11Q2 to -7 in 13Q1.

In a typical business cycle private fixed investment spending replaces consumer spending as the main driver of growth two to three years into the recovery. However, private fixed investment intentions were dealt a severe blow during the third quarter of 2012 due to the deep-seated labour market instability in the mining and Western Cape agricultural sectors. A real danger exists that the 52 per cent increase in the minimum wage in the agricultural sector, as well as the wage settlements in the mining sector will lead to mechanisation and employment losses in the coming months, adding to the woes in the consumer sector.

The rand exchange rate has depreciated sharply since the middle of 2012 and came under additional pressure recently following the Federal Reserve's announcement regarding the likely tapering of its bond purchase programme later in the year, which caused financial market uncertainty and capital flight from emerging market currencies.

Table 2.2 South Africa: BER forecast for selected economic variables: 2013 – 2014 (%)

	Estimate	Projections	
	2012	2013	2014
Final household consumption expenditure	3.5	3.0	3.9
Government consumption expenditure	4.2	3.5	3.6
Gross fixed capital formation	5.7	3.5	5.1
Real GDE	4.1	3.1	4.2
Total exports	0.1	3.5	6.4
Total imports	6.3	4.9	8
Real GDP	2.5	2.6	3.5
Total employment (formal & informal)	1.2	1.0	1.6
Inflation (annual averages)			
CPI (Headline)	5.6	5.9	5.4
PPI (All items)	6.9	5.5	4.8
Exchange rates (annual averages)			
R/US\$	8.5	8.5	8.5
R/Euro	8.69	8.9	8.5

Source: BER Economic Prospects, April 2013

The expectation is that a sustained recovery in the world economy, combined with the more competitive levels of the rand exchange rate will stimulate exports – South Africa's exposure to the faster-growing Asian region in terms of primary commodity exports has grown in recent years and its manufacturing exports are increasingly penetrating rapidly-growing African markets. Furthermore, the government's infrastructure investment drive remains a key growth support and should crowd-in private fixed investment spending. Core inflation is also expected to remain contained (bar an unexpected further sharp currency depreciation), which should keep interest rates at a low level for the foreseeable future (end-2014). Fiscal policy is finely balanced in terms of its counter-cyclical stance necessary to support the lacklustre growth in the economy and the imperative to narrow the budget deficit (measuring 5.7 per cent of GDP in fiscal 2013) over the medium term. In this context the deceleration in real GDP growth is not expected to be contained around 2 per cent in 2013 and to recover closer to a trend growth rate next year – see Table 2.2.

The **Western Cape economy** grew at a rate of three per cent during calendar 2012 compared to the 2.5 per cent real GDP growth rate of the national economy as the region did not experience the impact of the sharp decline in mining output experienced in other regions. However, economic activity was impacted adversely by the unrest in the agricultural sector, which erupted towards the end of the year. Real economic growth in the region decelerated from 3.5 per cent in 2011 to an estimated three per cent in 2012. The slowdown was mainly driven by the impact of weaker global economic growth and the recovery in the national consumer sector running out of steam.

Table 2.3 Western Cape economy sectoral growth and employment: 2000 – 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	2.0	8.2	-0.8	-186 297	-48 263	-5 874
Mining and quarrying	-1.4	-7.5	1.1	1 138	872	8 71
Manufacturing	2.7	-3.3	4.3	-63 932	-27 506	-1 828
Electricity, gas and water	2.8	-1.6	1.2	1 487	-1 370	764
Construction	7.1	5.5	0.7	-14 843	-17 160	735
Wholesale and retail trade, catering and accommodation	4.4	-0.6	4.3	70 280	-4 115	16 461
Transport, storage and communication	5.1	2.0	2.5	6 858	479	6 778
Finance, insurance, real estate & business services	5.8	3.9	2.9	105 169	-18 699	10 452
Community, social and personal services	3.0	1.4	1.3	46 831	9 333	-5 016
General government	2.4	4.2	3.9	71 647	12 189	23 763
Total Western Cape economy	4.1	1.7	3.0	38 338	-94 241	47 107

Source: Quantec Research/CER

Table 2.3 shows the sectoral growth and employment trends in the Western Cape economy. Whereas growth trended at 4.1 per cent per annum (this compares to 3.6 per cent per annum nationally), it slowed sharply during the recession years (i.e. 2008/09) to 1.7 per cent per annum. The sharp contraction in the manufacturing sector (3.3 per cent per annum and with this sector contributing around 17 per cent of GDP) is notable and – to a lesser extent – that of mining, electricity & water and wholesale & retail. Sustained growth in the agriculture, forestry & fishing sector, construction, transport & communication, finance & business services, CSP services and – importantly – the general government in an attempt at (national) counter-cyclical fiscal policy ensured the continued expansion of the regional economy.

Achieving inclusive economic growth

The WCG remains committed towards achieving labour-absorbing economic growth in the Province. The following initiatives were, amongst other, announced in the 2013 Provincial Budget aimed at sustaining and expanding the 250 000-plus job opportunities in infrastructure development in the social, economic and environmental sectors in the very successful Expanded Public Works Programme (EPWP):

- R140 million towards road building, education & health infrastructure, neighbourhood security services, Cape Nature, sports training, home-based care for the elderly and the infirm and fire fighters.

- R112 million towards skills training for the unemployed youth, e.g. the creation of 3 000 on-the-job training opportunities with the Work & Skills programme; the training of 200 artisans in the Artisan programme and the employment of 100 unemployed post-graduate students in the CAPACITI 1000 programme.
- Finally, the WCG also accommodates paid internships training skilled public servants and runs the Masakh'iSizwe programme offering bursaries to student engineers in the engineering and built environment fields.

As one would expect, the rate of employment creation deteriorated during the recession years – from trending at 0.6 per cent per annum (i.e. around 38 000 net additional jobs, 2000 - 2011), net retrenchments amounted to 2.7 per cent per annum (i.e. around 94 000 net job losses, 2008 - 2009) during the recession. During the economic recovery the rate of employment creation was restored to 1.4 per cent per annum (i.e. around 47 000 jobs per annum).

A notable feature of the recovery years (2010/11) is the strong performance of the manufacturing sector (4.3 per cent per annum, actually rising above trend growth at 2.7 per cent per annum). However, this was in large part a rebound from the sharp contraction in 2008/09 and it could not stem the employment losses in the sector – both agriculture and manufacturing reported sustained net job losses during the economic recovery, as well as the CSP services sector. The strongest job growth during the economic recovery occurred in the tertiary sectors, with the general government leading the way and followed by retail, wholesale, catering & accommodation, finance & business services.

Table 2.4 Western Cape: Growth forecast for real GDP: 2013 – 2017 (%)

Sector	2012e	2013f	2014f	2015f	2016f	2017f	Average annual growth, 2013 - 2017
Agriculture, forestry and fishing	1.7	0.8	2.0	1.7	1.8	2.0	1.7
Mining and quarrying	-5.1	1.3	1.0	0.6	1.0	1.2	1.0
Manufacturing	2.0	2.5	2.7	3.0	3.6	3.3	3.0
Electricity, gas and water	-1.4	2.6	2.9	2.7	3.0	2.8	2.8
Construction	2.6	4.1	4.6	4.6	5.0	5.3	4.7
Wholesale and retail trade, catering and accommodation	4.3	3.3	3.7	3.9	3.8	4.0	3.8
Transport, storage and communication	2.5	3.2	4.1	4.5	4.5	4.8	4.2
Finance, insurance, real estate and business services	3.5	3.5	4.5	4.8	5.1	5.3	4.6
Community, social and personal services	2.0	2.6	2.8	3.0	3.0	3.2	2.9
General government	3.5	2.5	3.0	3.0	3.2	3.0	2.9
Total Western Cape	3.0	3.0	3.7	3.9	4.1	4.2	3.8
Primary sector	1.4	0.8	2.0	1.7	1.8	2.0	1.6
Secondary sector	1.9	2.8	3.1	3.3	3.8	3.7	3.3
Tertiary sector	3.4	3.2	3.9	4.2	4.3	4.5	4.0

Source: Western Cape Government: Provincial Budget Review, February 2013 (e = estimate; f = forecast)

Regarding the outlook for real economic growth in the region (see Table 2.4), the weakness in the global economy, the second quarter financial volatility, brittle business and consumer confidence and the slowdown in the (national) consumer

sector are likely to continue to weigh on the provincial economic performance during calendar 2013. Real GDP growth is forecast at a similar rate compared to 2012 (i.e. three per cent per annum) and projected to accelerate thereafter, with an average real growth rate of 3.8 per cent over the medium term³. During both calendar 2013 and the remainder of the forecast period, the tertiary sector is expected to drive real economic growth in the region, with growth averaging 4 per cent per annum, 2013 - 2017. However, the slowdown in the consumer sector will likely drive somewhat slower growth in the tertiary sector in 2013 compared to 2012, whereas the secondary sector recovery is projected to strengthen from 1.9 per cent average growth in 2012 to 2.8 per cent in 2013 and projected at 3.3 per cent over the medium term.

2.3 The Cape Winelands District (CWD) economy

In the 2012 report the structure of the CWD economy was discussed in detail. The regional economy grew marginally slower (3.9 per cent per annum, 2000 - 2011) than the wider province (4.1 per cent) over the 2000s. However, the superior growth of its strong services sector (5.6 per cent) was counterbalanced by modest growth in its large manufacturing sector (2.4 per cent) dominated by mature agro-processing industries. The manufacturing sector contributes the largest share of GDP according to the Standard Industrial Classification (24 per cent – see Table 2.6), but growth was driven by the finance, insurance, real estate & business services sector, transport & communication and retail, wholesale, catering & accommodation, with tourism contributing as well. The Cape Winelands also hosts a large agriculture & forestry sector, albeit that real value added only grew marginally over the 2000 to 2011 period and the sector suffered serious net job losses.

Given the large share of manufacturing in the region's GDP, the CWD economy took a huge hit in calendar 2009, with real value added growth contracting by 3 per cent following growth of 6.5 per cent in 2008 at the peak of the business cycle. Real GDP growth averaged 1.7 per cent, 2008/09 compared to average growth of 5.7 per cent per annum over the 2004 to 2007 period, suggesting a huge recessionary adjustment in the regional economy due to the impact of the recession. Two thirds of all the net job losses in the region over the 2000 - 2011 period occurred during the recessionary years and all being in the primary and secondary sectors, mainly agriculture & manufacturing. Real GDP growth recovered during 2010/11, averaging 3.4 per cent per annum, with some of the job losses in agriculture being reversed, that in manufacturing stabilising and net job growth re-accelerating in the services sectors. Close to a third of the recessionary net job losses were reversed during the economic recovery, 2010/11. Real GDP growth is estimated to have slowed to 3.1 per cent in 2012 compared to the 3½ per cent growth momentum during calendar years 2010/11.

³ The forecast was compiled with information known up to and including the middle of June 2013; it is possible that growth may be slower during 2012/13 than forecast here.

Table 2.5 Cape Winelands District: Sectoral contribution to recovery growth, 2010/11 and employment creation

Sector	Ave real GDPR growth 2010 - 2011	% point contribution	% share	Net employment creation 2010 - 2011
Agriculture, forestry & fishing	-4.4	-0.5	-14.3%	2 756
Mining & quarrying	-1.1	0.0	-0.1%	164
Manufacturing	5.5	1.3	38.1%	117
Electricity, gas & water	0.7	0.0	0.2%	-10
Construction	1.1	0.0	1.1%	-130
Wholesale & retail trade, catering & accommodation	5.6	0.7	21.9%	1 812
Transport, storage & communication	5.1	0.3	10.3%	255
Finance, insurance, real estate & business services	4.0	0.9	25.9%	1 034
Community, social & personal services	2.1	0.1	3.4%	-1 192
General government	4.7	0.5	13.5%	3 361
Total District economy	3.4	3.4	100%	8 168

Source: Quantec Research/CER

Table 2.5 shows the sector spread of the recovery growth in the district economy during calendars 2010/11, including net employment creation over the corresponding period. A most encouraging aspect of the recovery, is the strong rebound in the local manufacturing sector, which grew by 5.5 per cent, 2010/11, accounting for close to 40 per cent of the overall real recovery growth of the region (3.4 per cent per annum). Furthermore, the net job losses stabilised in this sector.

Whilst the manufacturing recovery is to be welcomed, it is only a rebound from the deep contraction in 2009; by 2012 the level of real value add was not restored and net job losses merely stabilised. Furthermore, the estimated growth rate for 2012 is 2.2 per cent, i.e. slightly below the 2000s trend growth rate for the sector. A whole range of manufacturing sub-sectors contributed to the contraction in 2009, namely non-metal minerals (linked to the residential and non-residential building and construction sectors), agro-processing, wood & paper products, automotive and – to a lesser extent – metals & machinery. All these sub-sectors recovered during 2010/11.

The remaining large sectors contributing to the economic recovery were finance, insurance, real estate and business services (accounting for 26 per cent of the overall real GDPR growth), retail, wholesale, catering & accommodation (22 per cent), the government (13.5 per cent) and transport & communication (10 per cent). These services sectors therefore account for more than 70 per cent of the recovery growth in the region and a large share of the net employment creation over the corresponding period (i.e. close to 80 per cent – see Table 2.5).

The sectoral prospects are considered in more detail below and in Chapter 3.

2.3.1 Current profile – growth and employment trends in a provincial context

Table 2.6 shows the composition of the CWD economy in the context of the five other districts of the Province. The manufacturing sector is the largest in the CWD (contributing close to one quarter of GDP, 2011). This relative share is also by far the largest compared to the situation in all the other districts – see Table 2.6 and is mainly due to the strong backward linkages with the agricultural industries (wine, fruit & dairy, etc.). Agro-processing accounts for 65 per cent of all manufacturing activity in the region; it also accounts for 27 per cent of the overall CWD real GDP.

The finance, insurance, real estate & services sector is the second largest broad sector and of similar relative size compared to the other non-metro districts. Likewise the retail, wholesale, catering & accommodation sector is of similar relative size compared to the other districts – only Eden and the Cape Metro has relatively larger retail & wholesale sectors where tourism arguably plays a relatively bigger role.

Table 2.6 Cape Winelands District economy in provincial perspective: Sectoral composition: 2011 (%)

Sector	Cape Winelands	Cape Metro	Eden	West Coast	Overberg	Central Karoo
Agriculture, forestry & fishing	11.1	1.4	5.5	14.6	11.6	9.0
Mining & quarrying	0.2	0.1	0.2	0.7	0.1	0.1
Manufacturing	24.2	15.9	16.5	17.7	16.2	11.1
Electricity, gas & water	0.9	1.5	1.5	0.9	1.2	1.1
Construction	3.5	3.9	8.7	4.3	7.7	5.6
Wholesale & retail trade, catering & accommodation	13.8	15.2	17.9	12.8	13.9	13.9
Transport, storage & communication	7.3	10.9	7.7	8.5	7.9	12.2
Finance, insurance, real estate & business services	22.9	36.1	24.3	25.6	27.1	27.4
Community, social & personal services	5.8	5.1	5.3	4.1	4.2	6.5
General government	10.2	9.8	12.4	10.7	10.2	13.1
Total District economy	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research/CER

Table 2.7 Cape Winelands economy in provincial perspective: Real GDP growth: 2000 – 2011 (%)

Sector	Cape Winelands	Cape Metro	Eden	West Coast	Overberg	Central Karoo
Agriculture, forestry & fishing	0.3	10.0	1.1	-0.4	-0.7	-1.2
Mining & quarrying	2.1	-0.8	-4.1	-4.0	0.1	15.8
Manufacturing	2.4	2.3	4.1	1.2	6.7	9.7
Electricity, gas & water	2.1	3.4	0.6	-2.2	1.1	-0.3
Construction	7.2	6.5	10.3	6.6	9.0	9.3
Wholesale & retail trade, catering & accommodation	5.4	4.1	5.5	3.8	3.6	3.1
Transport, storage & communication	6.8	5.0	5.5	4.5	6.3	2.0
Finance, insurance, real estate & business services	7.1	5.5	7.1	10.6	11.0	7.9
Community, social & personal services	3.8	2.8	5.0	2.9	3.6	2.6
General government	3.3	1.9	4.5	2.4	3.3	2.4
Total District economy	3.9	4.1	5.2	3.3	5.2	4.0

Source: Quantec Research/CER

While the CWD has a well-developed services economy, with a strong manufacturing base, including mature agro-processing industries, agriculture continues to play a big part given the importance of the wine industry. The region's agricultural contribution (11 per cent) is similar to that of the Overberg but smaller than that of the West Coast (14.6 per cent); however, it is the largest in the Western Cape Province accounting for more than a third of the Province's agricultural real value add. The agriculture and agro-processing industries are also responsible for the bulk of the region's exports – see Chapter 3.

Regarding the growth of the CWD economy over the 2000s (Table 2.7), the regional economy expanded in line with that of the Province, the Cape Metro and the Central Karoo, slower than Eden and the Overberg and faster than the West Coast district. Its agricultural sector expanded marginally rather than to contract as happened in some other districts, its manufacturing sector growth was average and its services industries all grew more or less in line with the other districts, albeit evident that the financial & business services sector, transport & communication and retail, wholesale, catering & accommodation sectors expanded slightly faster compared to the remaining districts. The role of the CWD tourism sector (linked to retail, catering & accommodation, transport & business services) is also evident from the growth statistics.

Table 2.8 Cape Winelands District GDP and employment trends: 2000 - 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	0.3	4.8	-4.4	-70 408	-19 553	2 756
Mining and quarrying	2.1	-7.1	-1.1	436	182	164
Manufacturing	2.4	-4.7	5.5	-2 417	-2 143	117
Electricity, gas and water	2.1	2.7	0.7	64	-60	-10
Construction	7.2	6.3	1.1	-1 588	-1 936	-130
Wholesale and retail trade, catering and accommodation	5.4	0.2	5.6	11 739	-975	1 812
Transport, storage and communication	6.8	3.5	5.1	1 462	293	255
Finance, insurance, real estate & business services	7.1	6.1	4.0	10 350	-1 068	1 034
Community, social and personal services	3.8	2.3	2.1	7 756	1 588	-1 192
General government	3.3	5.0	4.7	10 211	1 745	3 361
Total Cape Winelands District	3.9	1.7	3.4	-32 393	-21 928	8 168

Source: Quantec Research/CER

Table 2.8 shows that the CWD economy recovered nicely during calendars 2010/11, with real GDP growth accelerating to 3.4 per cent per annum approaching the trend growth rate over the 2000s. However, the growth rate registered in 2011, i.e. 4.1 per cent, was not sustainable and – in line with the provincial and national economies – slowed down to an estimated 3.1 per cent in 2012. The exposure of the region's manufacturing sector (mainly agro-processing exports) to the deteriorating economic conditions abroad (particularly in Europe) and the domestic consumer sector slowdown explain the slower growth rate in 2012. The region has a strong export sector and 95 per cent of all exports originate in the agricultural and agro-processing sectors of the region – see Chapter 3.

Regarding the employment trends shown in Table 2.8 it is necessary to consider the non-agricultural sectors. These sectors created around 38 000 jobs on a net basis over the 2000 to 2011 period and shed only 2 400 during the recession (2008/09) whilst recovering more than double these employment opportunities during 2010/11. Contrastingly the agricultural sector shed more than 70 000 jobs (2000 - 2011) and a further 19 600 (2008/09) before recovering some jobs during 2010/11, i.e. 2 750.⁴

⁴ It is possible that some of the net job losses reported in the primary & secondary sectors reflect a statistical error on the part of Statistics SA that classify employment via labour brokers as employment in the 'other business services' sector, which then overstates the actual employment creation in the broader finance & business services sector.

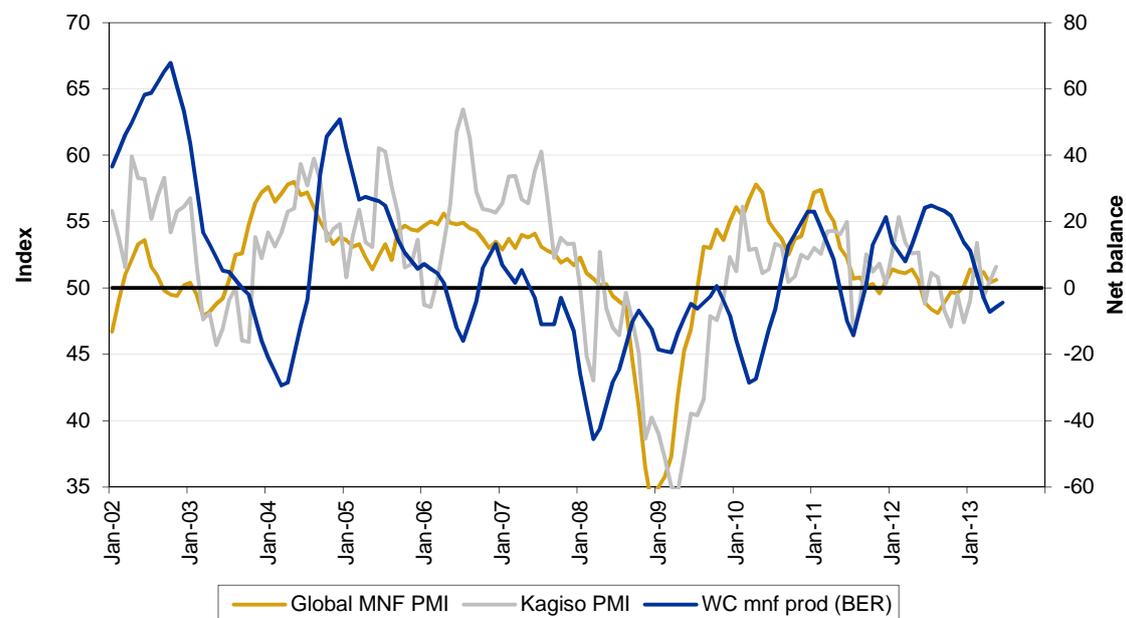
2.3.2 Macro implications and district economic outlook

The CWD economy is estimated to have slowed down from real GDP growth of 4.1 per cent in 2011 to 3.1 per cent in 2012 in line with the slowdown in the provincial (from 3.5 to 3 per cent) and the national economies (from 3.1 to 2.5 per cent). The drivers of the slowdown has been the local consumer recovery running out of steam (due to sluggish employment growth, lower wage growth, higher energy and food costs, declining consumer confidence and stricter credit standards limiting credit spending) as well as some adverse impact on exports related to the global slowdown in economic activity.

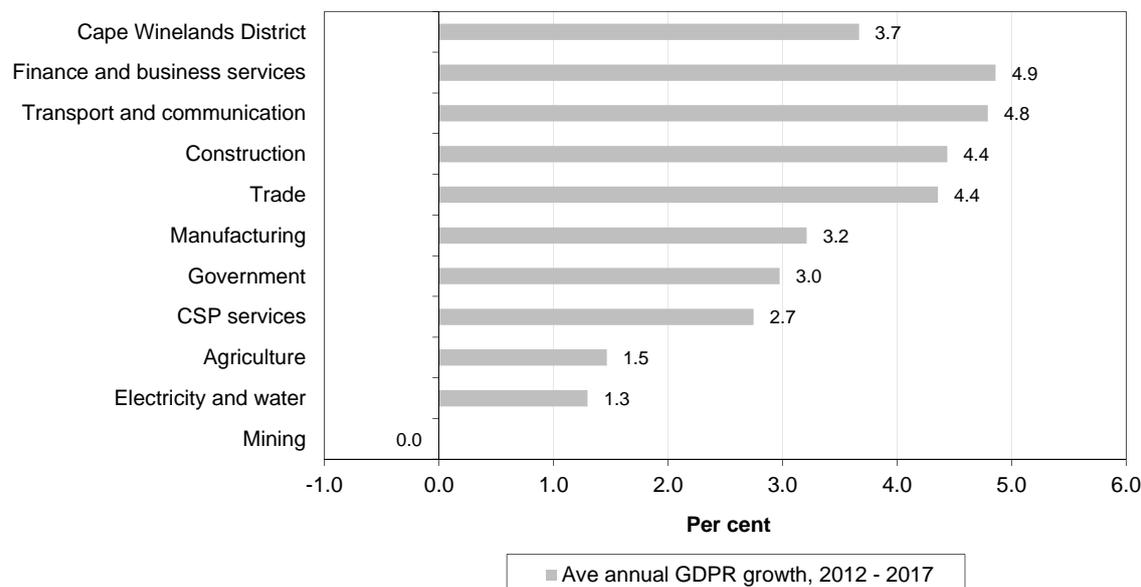
Furthermore, private fixed investment spending has been weak due to the impact of uncertainty (at the global level and, domestically, regarding economic policy and the general political climate) and slowing domestic demand. The weak tendency in private fixed investment spending is countered by the public sector infrastructure investment drive.

The recovery growth in the district since 2010 has been faster compared to that of the Province and it would appear that the region has embarked on an upswing phase of the business cycle in synch with the provincial and national economies – see Figure 2.1 tracking the composite global PMI, the Kagiso PMI (revealing manufacturing business conditions domestically) and the trajectory of manufacturing production in the wider province. There is a broad correspondence between the global, the national and the regional business cycle as depicted in Figure 2.1, albeit evident that the improvement in economic activity has followed a hesitant pattern since the end of 2010.

Figure 2.3 Global PMI vs Kagiso PMI vs Western Cape manufacturing production (BER survey)



Source: BER/JP Morgan, June 2013

Figure 2.4 Cape Winelands economy: forecast real GDP growth by broad sector: 2012 - 2017

Source: Quantec Research/CER

CWD real GDP growth is projected to come in at 3 per cent this year (in line with the growth performance estimated for 2012). Next year, growth is forecast to accelerate to 3.6 per cent and to average 4.1 per cent per annum, 2015 - 2017 (see footnote 3). The projected sectoral growth pattern is shown in Figure 2.4. The finance, insurance, real estate & business services sector and transport & communication sectors are projected to grow the fastest, i.e. close to 5 per cent per annum (2012 - 2017), followed by construction and retail, wholesale, catering & accommodation (4.4 per cent per annum). These sectors have been the leading growth sectors in the region, also in terms of job creation (see Chapter 3). The manufacturing sector performance is also projected to improve (3.2 per cent per annum compared to 2.4 per cent per annum over the 2000s); however, this will require an improvement in the region's mature agro-processing industries – the food value chain comes under the spotlight in Chapter 5. The agricultural sector growth performance is also forecast to improve, more or less in line with the real growth projected for the provincial-wide sector (1.7 per cent per annum). *Overall CWD real GDP growth is forecast to average 3.7 per cent per annum, in line with the provincial average.* The sectoral forecast is motivated in more detail in Chapter 3.

2.4 Concluding remarks

The Cape Winelands District economy is the second largest in the Province and well-known for its flourishing table grape and wine industry. The region hosts mature agro-processing industries and manufacturing activity comprises the largest share of region-wide real value added. Unfortunately the growth of the region has been dampened by less-than-robust growth in agriculture and the agro-processing industries. From a growth perspective, the region's services industries are the drivers,

e.g. financial & business services, transport & communication and retail, catering & accommodation linked to tourism.

The CWD suffered a serious recessionary impact given its export exposure and the size of its manufacturing sector. Furthermore, the region's agricultural sector shed many jobs over the 2000 to 2009 period. However, a most encouraging aspect of the recent economic performance has been the rebound in manufacturing activity, including a stabilisation of the recessionary job losses and even a reversal in the agricultural sector job losses.

From an export perspective, the region is exposed to the uncertain global economic conditions, with close to a third of economic output destined for foreign markets. Facing a relatively price and income inelastic demand for its wine & fruit exports, the rand exchange rate's depreciation will boost export revenues in local currency terms in the agricultural sector. Furthermore, the search is on for faster-growing alternative markets. The agro-processing and other manufacturing industries will be more susceptible to the global economic weakness with the rand only providing some reprieve to import and export competing firms.

However, the bulk of the regional output is sold into the domestic market, which is likely to remain under pressure over the short term given the consumer sector slowdown nationally and the weak private investment prospects. The consumer sector is under pressure due to sluggish economic growth and employment creation, deteriorating confidence and the impact of higher energy and food prices on consumer budgets. The national government also has to tighten the growth of real expenditure in order to generate a better budget balance, which may impact on local government. Public sector infrastructure spending could in the interim be a key countervailing source of economic growth and employment creation.

This outlook is for a stabilisation of the global economic slowdown experienced last year and a gradual re-acceleration towards the end of 2013 and during next year. The domestic consumer slowdown is also expected to be of a temporary nature, with interest rates remaining low, the stimulus from infrastructure investment (crowding-in private fixed investment) adding to income growth, and exporters and import-competing producers benefiting from the more competitive level of the exchange rate. While significant risks prevail (both on the global and domestic economic front), the CWD economy is projected to remain embarked on a recovery road.

3

Sectoral growth, employment and skills

This chapter deepens the analysis presented in Chapter 2 of the sectoral economic growth and employment performance of the Cape Winelands District (CWD) economy. The current chapter is divided into two sections: *in the first main section*, the focus is historical:

- *Firstly*, the real GDP and employment creation performances over the period 2000 to 2011 are analysed. An overview is provided of the municipal growth record by way of background. As a sector's output expands one would expect a commensurate increase in the number of employees active in the sector. However, due to various reasons this may not happen (e.g. due to mechanisation trends in the underlying production technologies; distortions in relative factor prices; or due to the skills intensity of production, etc.). An attempt is made to classify all of the 22 sub-sectors in the CWD economy into four groups in order to determine which sectors have grown the strongest and are the leading employment generators.
- *Secondly*, a standard analysis follows of the recovery growth experienced across sectors since the onset of the business cycle upswing after the 2009 recession. The analysis is conducted for the agricultural sector, manufacturing and services sectors.
- *Thirdly*, the international trade performance of the district is investigated.

In the *second main section* the focus turns forward-looking: *first* a brief sectoral outlook and forecast is presented (linking with the outlook outlined in Chapter 2). Thereafter a number of local issues come under the spotlight, e.g. an analysis of the comparative advantage of sub-sectors in the CWD economy; a look at key constraints and bottlenecks facing the district; what is known regarding skills shortages in the region and, *finally*, some tentative remarks regarding policy options aimed at the further development of the region.

3.1 Sector growth and employment: Historical

In Chapter 2, it was seen that the CWD real economic growth came in at 3.9 per cent per annum over the period 2000 to 2011, i.e. slightly slower compared to the wider province (4.1 per cent), but faster than the national economy (3.6 per cent). As the region's name indicates, the CWD is well-known for its wine lands and the associated processing industries as well as tourism. The agro-processing industries dominate the region's large manufacturing sector accounting for close to a quarter of GDP. The CWD also hosts the Province's largest agricultural sector and is the largest non-metro district accounting for 43 per cent of non-metro provincial GDP; this translates to 11.4 per cent of the Western Cape GDP. While the agriculture and associated processing industries have developed a strong export focus (delivering 95 per cent of district-wide goods exports), the region has a well-developed services sector, with financial & business services and retail, wholesale, catering & accommodation playing key roles, particularly in the leading Stellenbosch and Drakenstein municipalities. These two municipal economies each account for close to a third of economic activity in the CWD.

Unfortunately the CWD does not have a good employment track record, with the overall workforce shrinking by 32 000 workers over the 2000 to 2011 period mainly due to heavy retrenchments in the agricultural sector; excluding agriculture, 38 000 jobs were created on a net basis over the corresponding period. The non-agricultural job losses mainly occurred during the recession and it would appear that job growth recovered well during the recovery years of 2010/11 (even in agriculture). The recession did not only take a toll on the manufacturing sector, but growth also slowed sharply in the region's retail, wholesale, catering & accommodation sector (from 7.1 per cent per annum on average, 2004 - 2007, to 0.2 per cent per annum during the recession). Growth was sustained in the construction sector during 2008/09; however, has subsequently slumped to around 1 per cent per annum (2010/11) much in line with events in the other Western Cape districts as the construction boom ended and currently being embarked on a very slow recovery. This section of the report explores the geographical spread of the growth and employment creation performance of the CWD economy, 2000 to 2011.

Table 3.1 Cape Winelands District economy: Municipal growth across sectors: 2000 – 2011 (%)

Sector	Witzenberg	Drakenstein	Stellenbosch	Breede Valley	Langeberg	Cape Winelands
Agriculture, forestry & fishing	0.8	0.6	0.1	-0.3	-0.1	0.3
Mining & quarrying	-10.0	3.3	3.1	1.2	6.7	2.1
Manufacturing	3.3	0.2	3.2	2.8	6.0	2.4
Electricity, gas & water	3.2	6.5	4.9	-7.4	-0.8	2.1
Construction	0.2	4.2	11.0	7.8	8.7	7.2
Wholesale & retail trade, catering & accommodation	-0.6	4.0	8.9	3.6	7.2	5.4
Transport, storage and communication	7.3	5.3	6.6	6.1	15.5	6.8
Finance, insurance, real estate & business services	10.8	7.6	7.3	2.6	9.0	7.1
Community, social & personal services	3.4	2.3	6.1	2.3	5.0	3.8
General government	2.9	1.8	5.9	1.5	4.3	3.3
Total	3.0	3.0	5.5	2.4	5.1	3.9

Source: Quantec Research

Table 3.2 Cape Winelands District economy: Sectoral composition by municipality: 2011 (%)

Sector	Witzenberg	Drakenstein	Stellenbosch	Breede Valley	Langeberg	Cape Winelands
Agriculture, forestry and fishing	29.1	8.4	4.9	13.5	17.8	11.1
Mining and quarrying	0.0	0.3	0.1	0.2	0.3	0.2
Manufacturing	16.2	23.8	25.5	19.6	34.2	24.2
Electricity, gas and water	1.1	1.3	0.7	0.6	0.4	0.9
Construction	1.7	3.2	4.6	3.2	3.0	3.5
Wholesale and retail trade, catering and accommodation	10.0	11.9	16.4	15.9	12.3	13.8
Transport, storage and communication	8.0	7.8	4.5	10.8	9.2	7.3
Finance, insurance, real estate and business services	22.0	28.7	25.8	14.5	11.6	22.9
Community, social and personal services	3.5	4.9	6.5	9.1	3.2	5.8
General government	8.4	9.7	10.9	12.6	7.9	10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research

Table 3.1 shows the average real GDP growth rates across the five municipalities in the Cape Winelands District over the 2000 to 2011 period. The Stellenbosch municipal economy is the largest and also fastest-growing (5.5 per cent per annum), with Langeberg catching-up the most rapid (5.1 per cent per annum). While Drakenstein is of similar size compared to Stellenbosch it only grew at 3 per cent per annum equivalent to the growth rate registered in Witzenberg.

In the Stellenbosch municipal economy, the manufacturing and financial & business services sectors accounted for more than half of GDP. Real manufacturing value added growth was also higher than average in the region (and the wider Western Cape); however, that of the financial & business services sector was in line with the (high) average growth in the wider district and the Province. The almost unique aspect of the Stellenbosch manufacturing sector is the fact that net employment creation occurred over the 2000 to 2011 period, with only marginal retrenchments during the recession. However, the neighbouring Drakenstein manufacturing sector did shed jobs on a large scale. The Stellenbosch construction sector expanded strongly, as did the Breede Valley and Langeberg construction sectors.

Regarding the CWD services sector, the comparatively strong growth in the Stellenbosch and Langeberg municipalities' retail, wholesale, catering & accommodation sectors is probably a reflection of the vibrant tourism industry in these regions. The latter-mentioned municipality also hosts a rapidly growing transport, storage & communication sector. The growth in the financial & business services sectors is more uniform across the municipalities. In the community, social & personal services and government sectors, the stronger growth in the Stellenbosch and Langeberg municipalities stand out again. From a growth perspective it is evident that the Stellenbosch and Langeberg municipal economies are the leaders; these sub-regional economies are also well-balanced and the Stellenbosch municipal economy the largest in the district. The overall growth in the second

largest municipal economy, i.e. Drakenstein, is being held back by a disappointing manufacturing performance.

This is by way of background regarding the CWD's municipal growth performance over the 2000s tracked over the nine broad sectors. The missing variable is employment creation. While data reliability tends to be a challenge, the employment creation track record across 22 sub-sectors is investigated below in an attempt to identify the leading employment-creating sectors in the CWD.

3.1.1 Leading employment - creating growth sectors

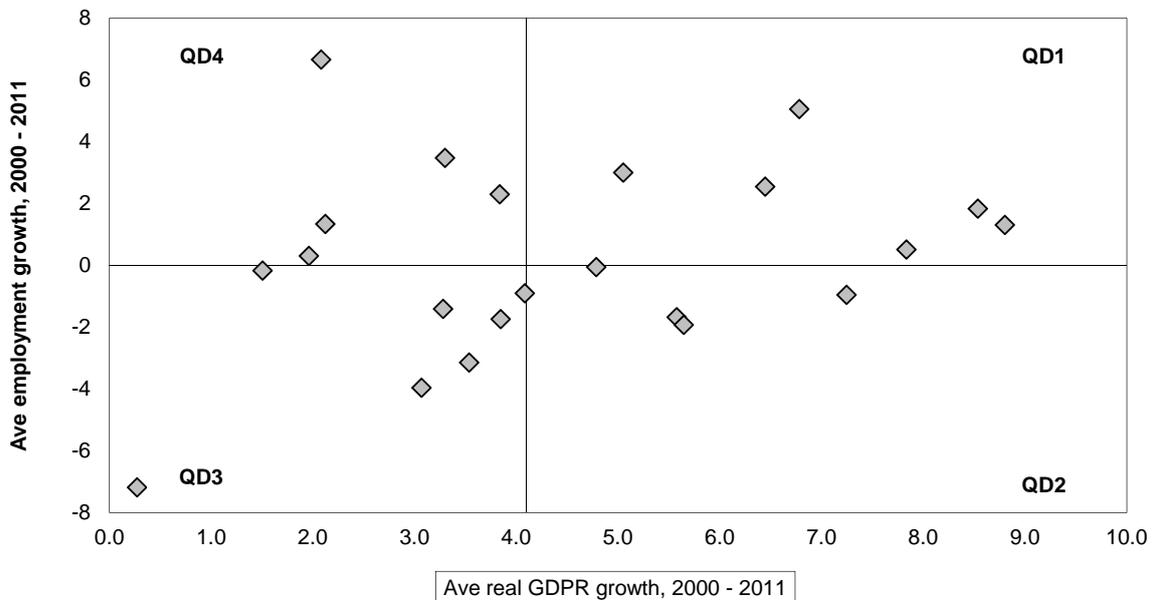
The Western Cape Government (WCG) is committed to achieve inclusive economic growth in the Province as embodied in PSO1 (Provincial Strategic Objective 1). With inclusive economic growth is meant economic growth on the basis of employment generation, i.e. inclusivity should be strived for by maximising opportunities for employment in the economic growth process. In this way, economic growth can be 'broadened' (i.e. the benefits of growth be spread wider) in a way that the productive contributions of each and every one are also broadened (rather than simply redistributing the benefits of growth via transfer schemes). The 2012 MERO study highlighted the fact that the growth path deviated from the employment creation path over the period 2000 to 2010, particularly in the primary and secondary sectors, not only in the CWD, but also in the other districts. In fact, this tends to be a national and a global phenomenon.

In the current section, some cursory investigation is made of the real economic growth and employment creation trends in the CWD over the period 2000 to 2011. In Figure 3.1 a scatter plot is made of the combination of each (of the 22) sectors' growth and employment performance over the said period: the 11-year average real value added growth rate is plotted on the horizontal axis and the 11-year average employment growth rate on the vertical axis. On this basis, Figure 3.1 and the accompanying table, show four quadrants/groups of sub-sectors:

1. QD1 depicts the sub-sectors that *grew above the provincial average (i.e. more than 4.1 per cent per annum, 2000 - 2011) and created jobs on balance*. Included a range of services sub-sectors, i.e. business services (growing net jobs by 5.1 per cent per annum); retail & wholesale (3 per cent); transport & storage (2.5 per cent); catering & accommodation (1.8 per cent); communication (1.3 per cent) and finance (0.5 per cent). Employment creation in the region's services sectors is a key feature and given the sub-sectors involved it is evident that tourism plays a central role.
2. QD2 depicts the sub-sectors that *grew above average but shed jobs on balance* over the corresponding period. Sub-sectors included here are metals & machinery (-0.1 per cent per annum); construction (1 per cent); radio & TV (-1.7 per cent) and automotive (-1.9 per cent). These are all secondary industries where a degree of mechanisation may explain the unexpected trend.

3. QD3 depicts the sub-sectors that *grew below average and shed jobs on balance* over the period 2000 to 2011. Included in this group are more manufacturing sub-sectors such as wood & paper products (-0.2 per cent); furniture (-0.9 per cent); petro-chemicals (-1.4 per cent); electrical machinery (-1.7 per cent); non-metal minerals (-3.1 per cent); clothing & textiles (-4 per cent) and agriculture (-7.2 per cent).
4. QD4 depicts the sub-sectors that *grew below average; however, succeeded in creating jobs* over the period. Included here are mining (6.7 per cent; however growth being off a small base); government (3.5 per cent); community, social & personal services (2.3 per cent); electricity & water (1.3 per cent) and food & beverage processing (0.3 per cent). The positive growth of employment in the agro-processing sector is in sharp contrast to the case in the other districts, particularly as these industries tend to be mature industries in the CWD region.

Figure 3.1 Cape Winelands District: Classification of sub-sectors: growth and employment creation, 2000 - 2011



QD1: Above ave growth/ job creation	QD2: Above ave growth/ job losses	QD3: Below ave growth/ job losses	QD4: Below ave growth/ job creation
Business services (5.1)	Metals & machinery (-0.1)	Wood & paper (-0.2)	Mining (6.7)
Retail & wholesale (3.0)	Construction (-1.0)	Furniture & other (-0.9)	Government (3.5)
Transport & storage (2.5)	Radio & TV (-1.7)	Petroleum & chemicals (-1.4)	CSP services (2.3)
Catering & accommodation (1.8)	Auto (-1.9)	Electrical machinery (-1.7)	Electricity & water (1.3)
Communication (1.3)		NMM (-3.1)	Food & beverages (0.3)
Finance (0.5)		Clothing & textiles (-4.0)	
		Agriculture (-7.2)	

Note: Average annual growth in employment, 2000 - 2011, indicated in parenthesis

Source: Quantec Research/CER

On face value the evidence tend to suggest that the services sub-sectors need support as they contain the growing and job-creating industries, whilst the agriculture and manufacturing sub-sectors appear to be the sunset industries responsible for job losses and should be allowed to languish. This would be an incorrect conclusion – the reality is much more nuanced.

In striving for inclusive economic growth, it is not only necessary to establish which sectors are growing fastest and creating the most jobs, in economics it is also an issue of supply. It is a well-known fact that the supply of labour is predominantly semi- and unskilled, i.e. workers absorbed much easier in the primary and secondary sectors of the economy. It is therefore necessary to unpack the sub-par growth in the manufacturing sub-sectors (e.g. the clothing & textile and wood products sub-sectors) and the reasons behind the high rates of retrenchment; also of course in the agricultural sector.

Economic development typically progresses from the primary to the secondary sector of the economy, with services being a 'derived' sector supporting the growth in the former. The ultimate objective of economic development is to move up the value chain in production, e.g. the productivity of manufacturing production, which typically reaps the economies of scale production, are much higher than for other industries. It follows that, in terms of policy intervention, an economy needs to be structured in a way that maximises the growth (and employment creation) of the productive sectors of the economy.

In the Cape Winelands District, the agriculture, manufacturing & construction sectors contribute close to 40 per cent of economic output, for instance (see Table 3.2), and they tend to be semi- and unskilled labour intensive where the surplus labour supply resides. However, some of these sub-sectors are under pressure in terms of growth and employment creation. Should this tendency not be kerbed the vibrant growth in the services industries will also become compromised in time. On the basis of the current evidence, the growth of the agro-processing sectors need to be supported as this is the most important employment generating secondary sector in the region. Other manufacturing activity, which may justify support include the wood products & furniture industries where only limited job losses occurred; however, with both industries being employment intensive.

In the *second main section* of this chapter of the report a cursory analysis is made of the comparative advantage of the regional economy and in Chapter 5 the food and the wood products/furniture value chains, both key manufacturing areas of the regional economy, come under the spotlight. The results from these analyses should be combined with the above in order to arrive at some assessment of which sub-sectors/industries warrant official support with the objective of inclusive economic growth in mind.

Before we turn to these analyses, a brief overview is provided of the sectoral growth performances during the economic recovery (2010/11) as well as a re-cap of the agriculture, manufacturing and services broad sectoral growth trends by municipality in the Cape Winelands District.

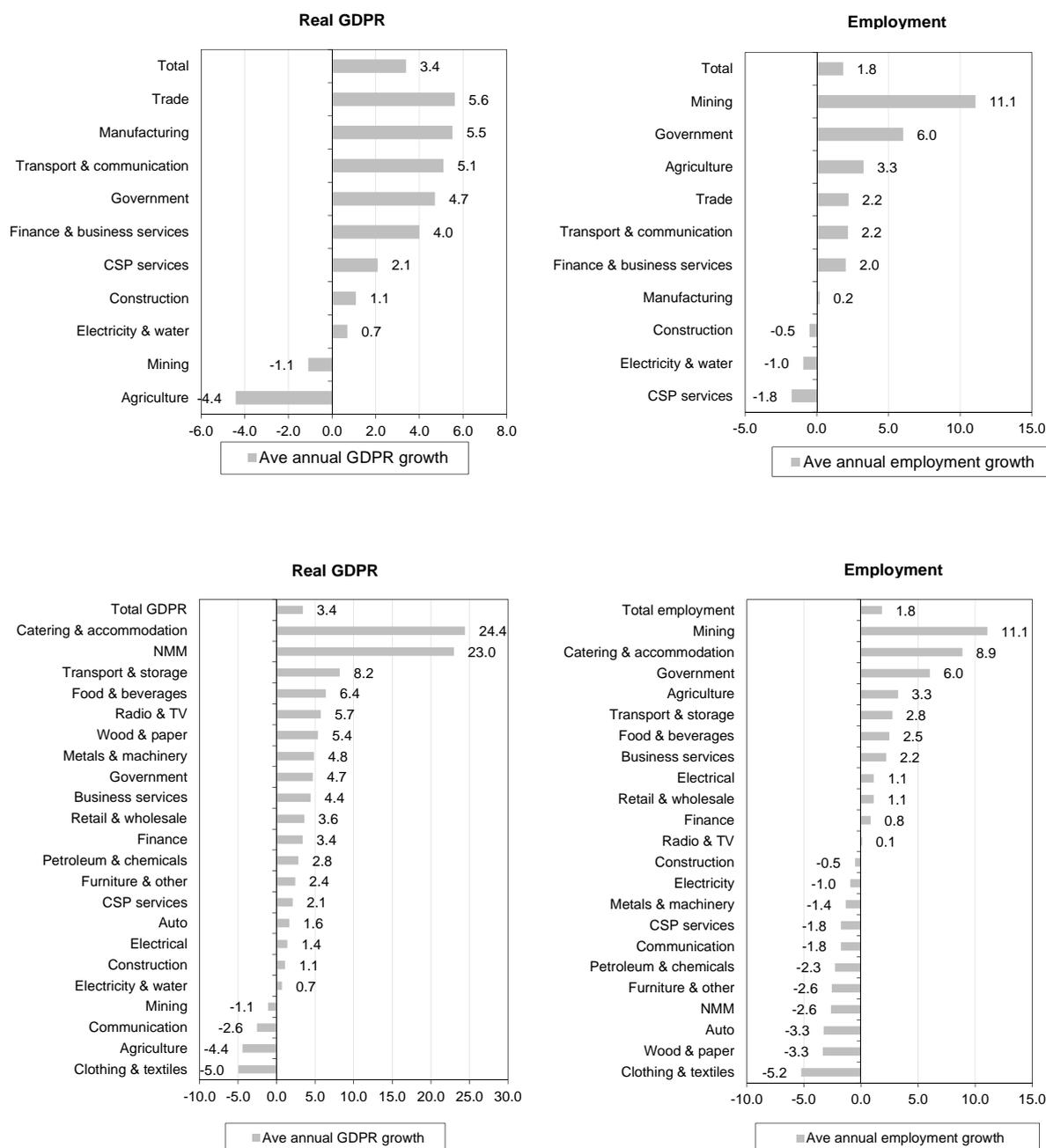
3.1.2 Agriculture, manufacturing & services

In calendar 2011, the CWD agriculture, forestry & fishing sector contributed 11 per cent of GDP, manufacturing 24 per cent and services 60 per cent. In terms of employment, the agriculture, forestry & fishing sector employed 23 per cent of the workforce, manufacturing 14 per cent and the services sector 58 per cent.

As discussed in Chapter 2, the regional economy witnessed a relatively serious recession impact in 2009 (with real GDP contracting by 3 per cent from positive growth of 6.5 per cent the year before). The bulk of the net job losses which occurred over the 2000 - 2011 period (32 000) was due to the recessionary impact – close to 11 per cent of the regional workforce employed in 2006 lost their jobs over the subsequent three calendar years (i.e. 26 400). Close to a third of these jobs were recovered by 2011. As noted non-agricultural employment remained surprisingly stable during the recession; most jobs lost occurred in the agriculture, forestry & fishing sector. Figure 3.2 depicts the growth and employment performance of the CWD during the first two calendar years of the economic recovery, both at a broad sector level and a more disaggregated sub-sector level.

The regional economy has embarked on a recovery, with real GDP growth accelerating from -3 per cent in 2009 to 2.6 per cent in 2010 and 4.1 per cent in 2011 (averaging 3.4 per cent). The job growth momentum was also restored to 1.8 per cent per annum. In line with the general global and national economic slowdown, growth decelerated in 2012 to an estimated 3.1 per cent and is likely to remain under pressure in 2013 due to the sustained weakness in the global economy and the domestic consumer sector slowdown.

Figure 3.2 Cape Winelands District: Sectoral real GDP growth and employment growth: 2010 – 2011 (% per annum)



Source: Quantec Research

As noted above the broad sectors leading the recovery in the region are the retail, wholesale, catering & accommodation sector (linked to tourism), the manufacturing sector, transport, storage & communication and the government (the latter linked to anti-cyclical fiscal policy). At a sub-sector level the strong recovery in the catering & accommodation industry is evident and within manufacturing a rebound of the non-metal minerals industry⁵ and healthy growth in the food & beverage, radio & TV,

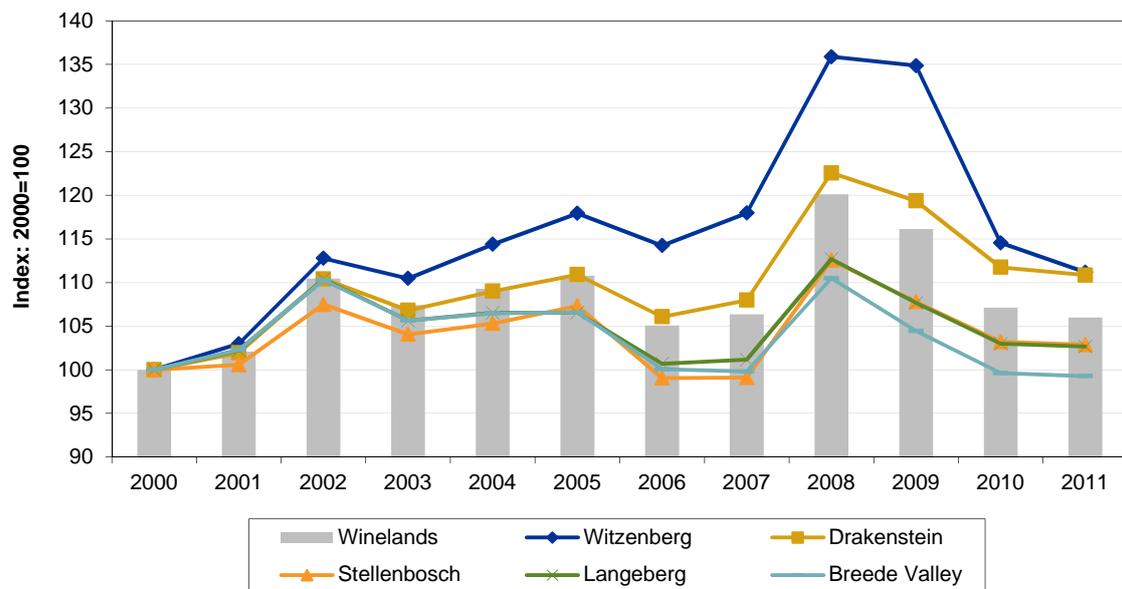
⁵ The high annual growth may be misleading in view of the sharp contraction experienced by this sub-sector in 2009. The level of real value added in 2011 was only 11 per cent higher compared to the peak established in 2008.

wood products and metals & machinery sub-sectors. Apart from these sub-sectors, the business services sector also posted above average growth during the economic recovery.

The employment response was greatest in the catering & accommodation sub-sector, as well as the public sector; furthermore, of the leading growth sectors, transport & storage, food & beverages, business services and retail & wholesale added strongest to employment growth. Other sectors, where employment creation recovered include agriculture, electrical machinery and financial services (mining also added to employment but from a very tiny base).

What is therefore evident is the fact that the economic recovery in the region is built around a better mix of primary, secondary and tertiary sectors compared to the other districts, which bode well for the future. In the sections below the spotlight moves to a closer inspection of the growth in the agriculture, manufacturing and services sectors of the CWD across the five municipalities.

Figure 3.3 Cape Winelands District: Growth in Agriculture, forestry & fishing by municipality: 2000 - 2011



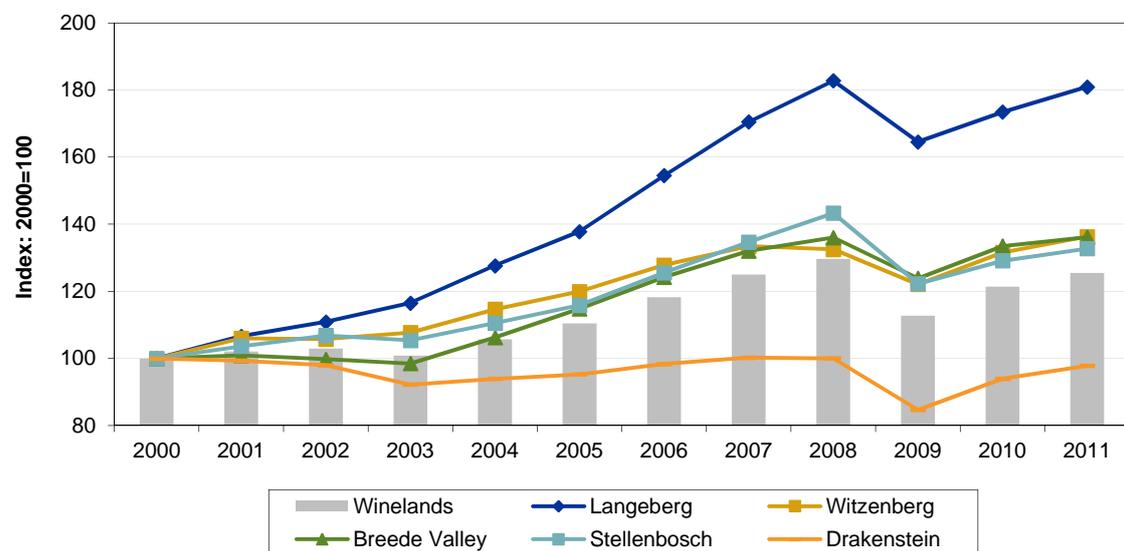
Source: Quantec Research

Figure 3.3 shows the growth trends of the CWD agriculture, forestry & fishing sector by municipality. Whilst the level of real value added in this sector fluctuated over the 2000 to 2011 period the trend is marginally positive. The sector experienced strong anti-cyclical growth in calendar 2008/09, particularly in the Witzenberg and Drakenstein municipalities. Both these municipal agricultural sectors expanded by around 10 per cent over the 2000 to 2011 period compared to a flat trend in Stellenbosch and Breede Valley and only marginal growth in Langeberg. Key agricultural products produced in the CWD include table grapes (Stellenbosch & Drakenstein), deciduous fruit (raw & dried), potatoes & onions (Witzenberg) and other vegetables, as well as animal products (poultry in Drakenstein). The Growth Potential

of Towns in the Western Cape study notes the following agricultural potential in the CWD:

- Wellington (Drakenstein) is identified as an *agricultural service centre* with very *high* growth potential.
- A number of towns in the CWD, identified as *agricultural services centres with medium growth potential*, include Ceres and Wolseley (Witzenberg), Ashton, Bonnievale & Robertson (Langeberg), Gouda (Drakenstein) and Rawsonville (Breede Valley).
- Franschhoek and Tulbagh are listed as *agricultural service centres with tourism links with medium* developmental potential.
- A town noted as one with very low growth potential as an *agricultural service centre* is De Doorns in the Breede Valley Municipality.

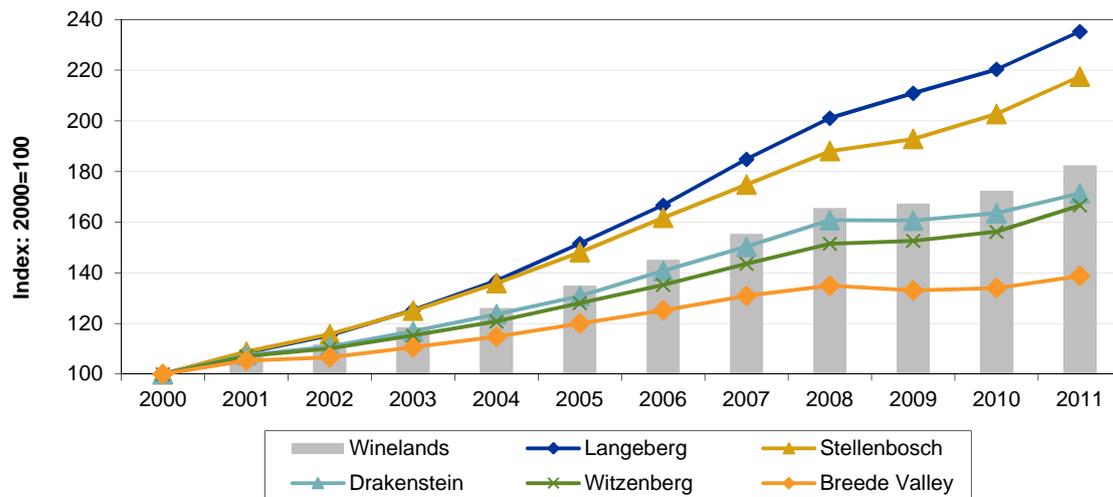
Figure 3.4 Cape Winelands District: Growth in manufacturing by municipality: 2000 - 2011



Source: Quantec Research

The CWD manufacturing sector's overall growth performance over the period 2000 to 2011 (i.e. 2.4 per cent per annum) is slightly below the wider provincial average (2.7 per cent). The comparatively weaker growth in the sector can be ascribed to the fact that it is dominated by the food & beverage processing industries which are mature and which took a heavy knock in the recession across all municipalities (see Figure 3.4). Regarding the municipal growth trends, real value added expanded strongest in the Langeberg Municipality (accounting for 16.4 per cent of the CWD manufacturing output) and weakest in the Drakenstein Municipality (accounting for close to a third of CWD manufacturing output). The other municipal manufacturing sectors, i.e. Witzenberg, Breede Valley, and Stellenbosch, all expanded around 3 per cent per annum. The biggest net job losses occurred in the Drakenstein Municipality (4 500 jobs on a net basis), whereas the Stellenbosch (2 000) and Langeberg (1 500) municipalities created manufacturing jobs on a net basis.

Figure 3.5 Cape Winelands District: Growth in the tertiary sector by municipality: 2000 - 2011



Source: Quantec Research

The CWD services sector expanded strongly over the 2000 to 2011 period, growing by 5.6 per cent per annum (compared to the provincial average of 4.6 per cent per annum) and the two leading municipalities in this regard have been Langeberg (9 per cent) and Stellenbosch (8 per cent); the Drakenstein and Witzenberg Municipality services sectors expanded slightly below average and the Breede Valley services sector lagged the rest (3.3 per cent per annum).

As shown by Figure 3.5, the region's services sector experienced a mild recessionary impact and the recovery growth (4.4 per cent per annum) exceeded that of the Province (3.2 per cent per annum) by a wide margin. The Stellenbosch services sector accounted for more than half of all the net employment created in the CWD's services sector over the 2000 to 2011 period and this also held up in the economic recovery period; the Drakenstein Municipality account for around a fifth of the net employment growth and Langeberg for close to 15 per cent, these being the leading services sectors from a geographical perspective in the CWD economy.

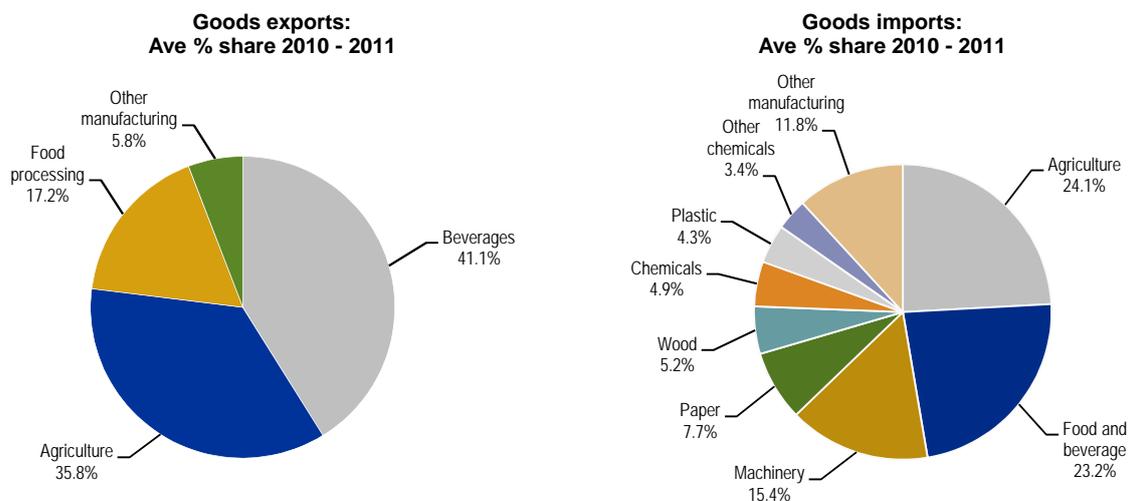
In all, the CWD economy is blessed with a stable to expanding and diverse agricultural sector, which experienced strong anti-cyclical growth in 2008/09 and is led by the Witzenberg and Drakenstein municipalities in terms of the level of growth. However, in terms of size the Stellenbosch wine lands tower above the other municipal regions and linked to this sector is the mature agro-processing industries of the region; this linkage also exists in the other municipal areas and accounts for the bulk of the CWD manufacturing sector (65 per cent). This sector took a huge recession hit in 2009 across all municipalities; however, surprisingly (and excluding Drakenstein) net job losses were limited. The CWD has strong growing services industries also being well-dispersed in a geographical perspective, albeit that some concentration occurs in the Stellenbosch and Drakenstein municipal areas. *Finally*, the current economic recovery appears to be built around a better mix of primary, secondary and tertiary economic activities which bode well for the future.

3.1.3 International trade

Trade promotion remains a cornerstone of the WCG's economic strategy. In order to grow the regional economy external markets have to be explored and when we engage in exports we also have to import. While the definition of exports and imports are problematic at the municipal level, the current section briefly focuses on two aspects of the CWD international trade: *firstly*, the composition of goods exports and imports to the rest of the world (basically re-capping the analysis conducted in the 2012); and *secondly*, the composition and trend in the regional 'trade balance'⁶.

As noted in the 2012 MERO study, CWD goods exports grew strongly over the 2000s – it increased from 11.4 per cent of GDP in 2000 (R1.5 billion) to 28 per cent of GDP by 2011 (R12.2 billion); in real terms this translates to growth in the order of 20 per cent per annum. However, the region's export basket is concentrated – 94 per cent of the basket consist of agriculture and associated processing exports, i.e. beverages (mainly wine & fruit juices) 41 per cent; agriculture (table grapes & fruit) 36 per cent and food processing, 17 per cent. Significant other manufactured exports include radio & TV equipment and petro-chemicals (each category worth around R200 million in 2011), as well as wood & paper products (R98 million) and metals & machinery (R80 million).

Figure 3.6 Cape Winelands district composition of goods trade: 2008 - 2011



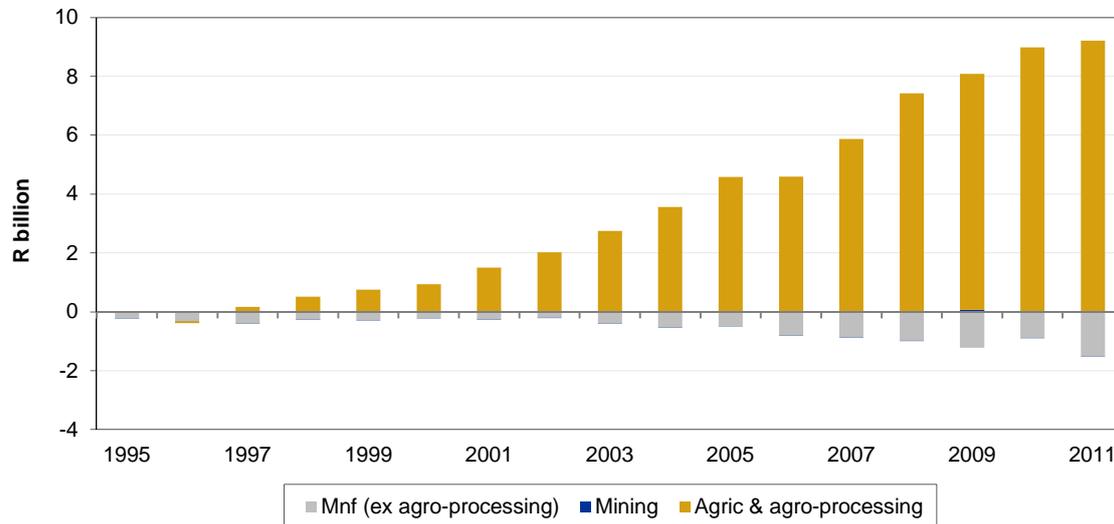
Source: Quantec Research

The region's import basket is more diversified, consisting of a range of manufactured products; however, agriculture & processing imports account for slightly less than half the basket given the region's bilateral trade. It is also likely that most of the third largest import category, i.e. metals & machinery (15.4 per cent) represent imports for the agriculture and processing industries. Apart from agriculture & agro-processing

⁶ It needs to be emphasised that a sub-regional 'trade balance' is conceptually somewhat misleading. Sales by any firm in the region to buyers outside the region should be regarded as exports, i.e. including sales to other districts in the Province and other provinces in the country. However, due to data limitations these 'exports' are ignored in the current analysis – only the sale of goods in foreign markets are accounted for; and on the import side, only purchases from foreign countries. The derived 'trade balance' therefore gives some indication of the balance of forex earnings generated in the region.

and machinery imports, other important manufactured goods imports are wood & paper products, basic & other chemicals and plastics. The value of CWD imports increased from R800 million in 2000 to R4.5 billion in 2011, i.e. an annual growth rate of 19.5 per cent (or more or less 17.5 per cent in real terms).

Figure 3.7 Cape Winelands District: Goods trade balance (R billion)



Source: Quantec Research

In Figure 3.7 the CWD goods trade balance is depicted, including its composition. In order to link with other analyses contained in the current report, the agriculture and agro-processing exports and imports were combined (i.e. providing some indication of the food value chain exports), whilst obviously at the same time excluding the food & beverage processed exports from the manufacturing category. A number of remarks are in order:

- *Firstly*, both agriculture & agro-processing exports and other manufactured exports have grown substantially over the past decade – the former by an estimated 23 per cent per annum and the latter by 20 per cent per annum. However, manufacturing exports (excluding food & beverages) stagnated following the 2009 recession; in fact, the 2011 level (R739 million) is lower compared to the 2008 level (R668 million).
- *Secondly*, the strong growth in exports ensured that the CWD registered a healthy and rising goods trade surplus over the past 11 years; in 2011 the trade balance dipped somewhat due to the decline of manufacturing exports. The trade surplus amounted to R7.7 billion in 2011.

The analysis now turns to the sectoral economic outlook for the Cape Winelands.

3.2 Sectoral economic prospects, 2013 - 2017

In this section of the report, the focus moves to the economic outlook for the CWD. Chapter 2 provided the macroeconomic backdrop, which may just briefly be restated here. While the improvement in the global economy remains uneven and loaded with risk, the domestic economic recovery (from the end of 2009) appears to be well-established, albeit exposed to global developments and domestic socio-political headwinds. The recovery growth in the district since 2010 has been faster compared to that of the Province.

In the first section of Chapter 3 an analysis was made of the growth and employment performance of the district across the various sectors and municipal sub-regions, including a brief assessment of the international trade position of the district. This information was applied together with a comprehensive macro-econometric/input-output model forecast of sectoral GDP growth for the Province⁷ and other information pertaining to the district (and discussed below), as well as a comparative advantage analysis in order to derive sector forecasts for the district. The resultant CWD economic outlook is briefly discussed below.

3.2.1 Sectoral outlook/forecast

Table 3.3 summarises the average forecast growth rates across the nine broad sectors of the CWD economy⁸; regarding the outlook for the CWD economy, the following remarks may be in order:

- The region is exposed to global economic developments, particularly those in its key European trading partner economies and those impacting on the wine, table grape and fruit & processing industries, as well as the remainder of the region's manufacturing sector. Exports have been a key driver of growth in the district. Agriculture & processing exports have managed to continue growing during the recession and beyond, suggesting captive overseas markets in Europe (where economic conditions have been dire, but less so in Germany, Holland and the UK where most CWD exports are headed) and possibly new (faster growing) export destinations where inroads are being made (e.g. East-Asia).
- The weaker rand exchange rate should be an important stimulus to the CWD region; exports stand to benefit compared to the import cost-raising effect (which can be managed). While the region's agriculture & processing exports may not be very price elastic, revenues will be boosted compensating for the loss in demand growth given the poor European economic conditions. However, with the rand exchange rate having depreciated more sharply since 2012Q3, the price competitiveness of local exports vis-à-vis other developing countries (whose currencies have tended to appreciate against the US dollar) has improved

⁷ See WCG: Provincial Economic Review & Outlook (PERO) 2012 and the Provincial Budget Review, 2013.

⁸ It has to be noted that economic information up to the middle of June were incorporated into the forecast; it is possible that growth come in weaker during 2013/14 compared to those presented in Table 3.3.

noticeably and should render the search for alternative growth markets (e.g. African, Latin American and East Asian) a better proposition.

- While it is difficult to project agricultural growth in view of the climatic influences, the projected provincial-wide growth rate (1.7 per cent per annum, 2012 - 2017) and the Cape Winelands trend growth rate (0.3 per cent per annum) informed the assumption of 1.5 per cent real growth per annum over the medium term. This may be on the optimistic side; however, assume that some success results in the search for alternative markets.
- Manufacturing real value added is projected to grow by 3.2 per cent per annum compared to the 2000 - 2011 trend growth rate of 2.4 per cent per annum. The rebound in the sector during the recovery in 2010/11 (5.5 per cent per annum) bodes well and provided local manufacturers respond to export and import replacement opportunities given the more competitive level of the rand exchange rate.
- The construction sector appears to have finally turned the corner, following an unusually slow recovery from the 2009 recession. Both residential and non-residential property development are expected to improve going forward. Furthermore, the CWD Municipality has a bulk Infrastructure Master Plan in place specifying development over the next 15 years. The national government's Strategic Integrated Projects (SIPs) 11-15 public infrastructure investment initiatives, ranging from agri-logistics and rural infrastructure, the revitalisation of public hospitals and health facilities, the national school build programme and the expansion of communication technology are all potential sources of construction demand. Construction real value added is projected to increase by 4.4 per cent per annum (in line with the provincial average projected growth rate).
- The regional economy is also dependent on sales conditions in the rest of the Province and the country. Producers will, however, find tight selling conditions in the local consumer market over the near term. Even the relatively livelier durable goods market (benefiting from low interest rates and competitive pricing in a more lucrative consumer segment) is slowing down. The non-durable goods market is under substantial pressure due to sluggish growth in wage income (in turn, a function of lower nominal wage increases and sluggish employment growth), the impact of higher food, electricity and petrol prices on household budgets and generally lower consumer confidence and therefore willingness to commit income to credit spending. In the unsecured lending market (the main driver of consumer credit growth since the onset of the economic recovery) credit standards are also being tightened, which should impact adversely on the semi-durable goods and furniture & appliances market.
- While the consumer market is slowing down it is not expected to descend into recession, it is rather a temporary easing of the growth momentum (assuming the global economic recovery endures). Interest rates are expected to remain low at least until the end of next year, with inflation remaining more or less within the target range. With the rand exchange rate at levels above R9/\$ import competitors should also receive some relief. Inward tourism will also be stimulated by the cheaper rand.

- Employment growth is also expected to pick up somewhat as fixed investment activity accelerates towards the end of 2013. Combined with reduced uncertainties this should in time boost consumer confidence and spending (end-2013/14).
- Retail, wholesale, catering & accommodation real value added is projected to grow by 4.4 per cent per annum, up from an estimated 3.8 per cent in 2013 and faster than the provincial average of 3.9 per cent per annum; however, slower compared to the previous expansion (6.6 per cent per annum, 2000 - 2007).
- Linked to these performances, the growth in finance & business services and transport & communication is projected to continue out-performing other sectors, albeit with a narrower margin already evident during the economic recovery years, i.e. 2010/11. The growth rate of financial & business services real value add is projected at 4.9 per cent per annum, which is significantly below the 7 per cent average annual growth rate registered over the 2000s.
- While the government and community, social & personal services sectors will continue to underpin growth and employment creation, the public sector is under tremendous pressure to trim spending in order to drive a narrower overall budget deficit over the medium term. Moderate, albeit firm, growth is expected in these sub-sectors over the medium term. The reduction in the pace of real government expenditure may impact particularly on the Stellenbosch and Drakenstein municipalities which host a proportionately large public sector.

Table 3.3 Cape Winelands District: Real GDP growth outlook, 2012 - 2017

Sector	Trend	Recession	Recovery	Cape Winelands District	Western Cape
	2000 - 2011	2008 - 2009	2010 - 2011	2012 - 2017	2012 - 2017
Agriculture, forestry and fishing	0.3	4.8	-4.4	1.5	1.7
Mining and quarrying	2.1	-7.1	-1.1	0.0	0.0
Manufacturing	2.4	-4.7	5.5	3.2	2.8
Electricity, gas and water	2.1	2.7	0.7	1.3	2.1
Construction	7.2	6.3	1.1	4.4	4.4
Wholesale and retail trade, catering and accommodation	5.4	0.2	5.6	4.4	3.9
Transport, storage and communication	6.8	3.5	5.1	4.8	3.9
Finance, insurance, real estate & business services	7.1	6.1	4.0	4.9	4.5
Community, social and personal services	3.8	2.3	2.1	2.7	2.7
General government	3.3	5.0	4.7	3.0	3.0
Total Cape Winelands District	3.9	1.7	3.4	3.7	3.7

Source: Quantec Research/CER

From the analysis above it is apparent that 2013 will be another constrained year. Even a more meaningful recovery anticipated next year and beyond is likely to be constrained. *Firstly*, the slow growth in the advanced economies is likely to be a multi-year affair (also impacting negatively on inward tourism); *secondly*, domestic business and consumer confidence may be slow to recover more convincingly given the likely uncertainty in the run-up to general elections next year – we may have to get

beyond the election next year only before attention can fully shift to the economy again. Overall *CWD real GDP growth is projected to accelerate from an estimated 3 per cent per annum (2012/13) to 3.6 per cent next year and 4.1 per cent per annum (2015 - 2017).*

3.2.2 Local issues – Cape Winelands District

Following modest real economic growth rates since the 2009 recession impact, the CWD Municipality believes the region has embarked on an economic recovery and is positive that economic conditions will improve over the next 3 to 5 years. Agriculture is the backbone of the regional economy and has strong forward linkages with the manufacturing (mainly agro-processing) and the financial & business services sectors, with exports being the driver of economic growth.

The Municipality believes, in terms of its mandate, it is necessary to create an enabling environment conducive to local economic development. The district possesses key competitive advantages including a well-maintained road infrastructure, a strong domestic tourism market linked to the wine industry, a well-organised and globally competitive wine & deciduous fruit sector, including a strong food & beverage processing sector; strong linkages with the Cape Metro economy; a strong brand (i.e. Cape Winelands); research and development capacities (inter alia, linked to the agricultural sector).

The location, climate and attractiveness of the regions make it a favourable destination for tourists and businesses to locate; in the financial & business services and health sectors, for instance, Stellenbosch and Drakenstein municipal areas are favourite locations for corporate and institutional head offices (e.g. Remgro, Medi-Clinic corporation, Distillers corporation, KWV holdings). The Stellenbosch Techno park facility and its close relations with the Stellenbosch University also make the region a key contributor to the Province's science and technology sector. The development of the ICT sector is also key and Stellenbosch has embarked on an infrastructure project to install Wi-Fi in the CBD in order to facilitate free broadband internet access, which is hoped will improve the competitiveness of the region.

Challenges facing the district include a fluctuating exchange rate (given the export-led nature of the regional economy) and the impact of external shocks; the seasonality of employment in the region's agricultural sector; the high cost of land; high farming debt levels; a poor public transport network and lack of access to health facilities by farm workers. The Stellenbosch Municipality also faces a constraint in terms of the availability of industrial land. Furthermore, the district faces formidable challenges due to the low levels of education amongst its labour force, high levels of unemployment and the associated youth problems. The decreased demand for low-skilled labour on farms is a key concern.

In terms of (regulatory) constraints, the top four issues constraining businesses are electricity cost, the local road infrastructure, municipal procurement issues and the public transport system. The top five red tape issues impacting on municipal performance include the public's lack of access to the officials involved, the time it

takes to approve re-zonings, the time it takes to issue rates clearance certificates, the time it takes to respond to queries and the time to approve building plans. Of all these constraints, the cost of electricity is rated as the most important limiting factor on production activities.

In view of these local issues, including the region's strengths and challenges, an analysis is made below of the revealed comparative advantage across the various sectors/industries in the CWD.

Comparative advantage

It is necessary to gain a good understanding of any region's/country's revealed comparative advantages in order to guide policy intervention aimed at maximising economic growth and development. The theory of comparative advantage has its origins in the classical economist, David Ricardo's, work in which he tried to explain why it is beneficial for a country to trade and in what goods and services any country should be trading in order to maximise economic welfare gains. Over the years his theory of comparative advantage has evolved and various analytic techniques designed in order to determine revealed comparative advantage, not only at the national level (and in relation to trade), but also at the local/regional level in order to gain some understanding of the sectors of economic activity which should be promoted by way of (industrial) policy intervention.

One such technique involves the calculation of so-called 'location quotients' (LQ), which simply tracks to growth of a sector in relation to that of the region relative to the growth of the same sector at a broader level (e.g. nationally) in relation to the growth of the wider economy (e.g. nationally). Expressed in symbols, the location quotient (LQ) is defined as:

$$LQ = \frac{g_i/g}{G_i/G}$$

Where:

g_i = value added in sector or industry i

g = total value added (i.e. for the region/country)

G_i = reference area value added in sector/region i

G = total value added in the reference area

Relative to some common base year therefore, the location quotient measures the performance of the sector or industry investigated in relation to that of the sector/industry in the reference area. As we currently investigate the sectoral growth performance of the sector at the regional level compared to that of the same sector at the broader (reference) area, the reference area can either be the Province or the national economy.

Table 3.4 Revealed comparative advantage of the Cape Winelands District economy

	Cape Winelands District		South Africa		LQ ratio 2011
	GDP % share	Ave growth	GDP % share	Ave growth	
	2011	2000 - 2011	2011	2000 - 2011	
Agriculture, forestry and fishing	11.1	0.3	2.4	2.0	4.55
Mining	0.2	2.1	5.9	0.0	0.03
Food, beverages and tobacco	15.9	2.0	2.9	2.4	5.43
Textiles, clothing and leather goods	0.6	3.1	0.8	2.8	0.80
Wood and paper; publishing and printing	1.1	1.5	1.5	1.4	0.76
Petroleum products, chemicals, rubber and plastic	2.2	3.3	4.3	3.7	0.52
Other non-metal mineral products	0.7	3.5	0.6	1.6	1.11
Metals, metal products, machinery and equipment	1.8	4.8	3.3	3.5	0.54
Electrical machinery and apparatus	0.3	3.8	0.5	3.5	0.55
Radio, TV, instruments, watches and clocks	0.1	5.6	0.3	4.6	0.48
Transport equipment	0.5	5.6	1.7	5.5	0.31
Furniture; other manufacturing	1.0	4.1	1.4	2.4	0.74
Electricity & water	0.9	2.1	2.0	2.0	0.44
Construction	3.5	7.2	3.4	7.3	1.03
Wholesale & retail trade	12.1	5.1	12.9	3.9	0.94
Catering and accommodation	1.7	8.5	1.0	3.5	1.82
Transport & storage	5.6	6.4	5.5	3.7	1.01
Communication	1.7	8.8	4.6	7.4	0.36
Finance and insurance	8.8	7.8	8.4	6.4	1.05
Business services	14.1	6.8	15.3	5.2	0.92
Community, social and personal services	5.8	3.8	6.1	3.1	0.95
General government	10.2	3.3	15.2	2.5	0.67
Total	100.0	3.9	100.0	3.6	1.00

Source: Quantec Research/CER

If we assume that the growth of a particular sector/industry at the regional level is a function of the growth of the national economy, then the national economy magnitudes should be the denominator in the above equation. However, it may also be appropriate to include the Province value added as the reference magnitude. In order to respect the capacity constraints in adopting such an approach, the national economy magnitudes are used in the current exercise also assuming that the growth of the industry at the regional level is an integral function of the national growth performance.

Using the relative shares of sectors for the country as reference areas, the LQ's in Table 3.4 (rightmost column) provide some indication of the sectors with a revealed comparative advantage being those sectors in respect of which the LQ > 1; in other words, should the regional industry reveal a higher proportion of the regional economic activity compared to the same sector share at the national level, it can be concluded that the region expanded at a faster rate with reference to some base

year compared to the same sector at national level, suggesting 'revealed comparative advantage'⁹.

Applying this method to the 22 main industry groups of the CWD, the results contained in Table 3.4 suggest the following sectors (in order of strength of revealed comparative advantage) should be supported: *food, beverages & tobacco, or the agro-processing industries, agriculture, forestry & fishing; catering & accommodation; non-metal minerals, construction, finance & insurance and transport & storage*. In view of this list of sub-sectors/industries revealing comparative advantage and the leading employment generating sectors identified in the first section of the chapter above, the following *value chains* or clusters of economic activity and sectors can be identified for being key growth areas in the Cape Winelands economy:

- Agriculture and agro processing – the food value chain (see Chapter 5).
- Catering & accommodation is linked to tourism; so are transport, retail & wholesale and business services all with LQ's close to/or above unity. The linkages with the agricultural sector need to be considered. Tourism is a key industry in most municipalities in the CWD.
- Construction & property development is another sector presenting itself, also linked to the building materials industry. The unblocking of regulatory constraints could possibly unlock inherent growth potential in the *building value chain*.
- Communications/ICT being a strong growing sector also generating employment could be a candidate (even though it's LQ < 1, suggesting competitive disadvantage vis-à-vis its peers elsewhere in the country). The Stellenbosch Municipality, for instance, hosts a vibrant ICT industry (Techno park).

The *food and the metals & machinery value chains* are investigated further in Chapter 5 in view of (i) the importance of food security and the importance of agriculture in the region; and (ii) the size and importance of these sectors in the CWD manufacturing sector.

Skills considerations

The economic outlook presented in this report is based on the existing structure of the district economy and as such make implicit assumptions on the availability of the required skills in the production process. While the required skills cover the whole spectrum from the most menial tasks to more technical requirements and management, the key concern tends to be artisanal/technical and engineering skills hence the emphasis on mathematics and science pass rates at the school level. In this section of the report, a brief overview is provided of, *firstly*, skills supply issues in this field and, *secondly*, based on the economic outlook presented above, areas in the

⁹ This is a very basic technique for guidance on revealed comparative advantage and is derived from economic base analysis; other techniques investigating comparative advantage include so-called 'shift-share analysis', i.e. a procedure that decomposes the growth of a region into three comprehensive sources: i.e. (i) growth related to the growth of the reference area; (ii) growth related to the changing mix of regional sectors; and (iii) growth related to economic activities shifting to the region.

district economy where demand for artisanal/technical/engineering skills may be keen. This could assist the authorities and the private sector in their planning to match the supply of and demand for these scarce skills going forward.

In a recent study by the Department of Economic Development & Tourism (DEDAT) of the Western Cape¹⁰, a number of key weaknesses, but also encouraging aspects, were identified regarding the supply of artisans in the Province. Incomplete data, key bottlenecks linked to college completion, pass rates and work experience requirements, confusion regarding the various routes to the artisan trade test, etc. are all supply issues that need to be addressed.

However, what became clear, both international best practice and the literature suggest that public-private sector partnerships are critical, i.e. some form of collaboration between the training institutions and the employers. The matching of the supply of artisanal skills with the demand in the private and public sectors is best approached via the building of the necessary institutional mechanisms aimed at meeting the requirements of industry, again, collaboration between the public and private sectors. In this regard there are a number of encouraging initiatives, which can be used to replicate (e.g. the SSACI AATP and the DEDAT artisan training & development projects). Practical experience during training is critical. Municipalities should bear this in mind when designing and implanting skills training initiatives.

While the current economic review does not provide the scope to entertain the greater detail on the supply side, it may suffice to consider the question: given the economic outlook for the CWD economy, in which areas may skills demand tend to grow stronger than average over the coming three to five years?

- Given the importance of the agriculture and agro-processing industry in the CWD, technicians in the agricultural machinery field will remain in high demand.
- The same goes for carpenters and technicians in the wood products and furniture industries. The metals & machinery sector is also significant in the region and demand for tool makers, specialist welders, boilermakers, fitters and turners should be keen. These skills should also supply the sizable chemicals & plastics industry as far as machinery & equipment is concerned and, of course, chemical engineers.
- Construction workers and related skills will also be in higher demand once the anticipated revival in the construction sector acquires critical momentum.
- An area of large vacancies appears to be the automotive sector, where welders, automotive engineers, qualified exhaust fitters (not in trade), petrol & diesel mechanics, diagnostic technicians, automotive machinists and auto electricians are required. CWD does have a significant, albeit not large, transport equipment industry.
- The higher education institutions in the region (particularly Stellenbosch) will require a steady flow of academics and experienced training personnel.

¹⁰ UWC FET Institute (March 2013): *Supply and Demand for Artisans in the Western Cape*, A Study conducted for the Department of Economic Development and Tourism (DEDAT).

3.3 Conclusion: Options and policy pointers

The Cape Winelands – as its name indicates – is well-known for its deep-rooted wine lands and associated processing industries as well as tourism. Food & beverage processing comprises close to two thirds of the CWD manufacturing sector, which, in turn, accounts for one quarter of district-wide GDP. While real economic growth exceeded that of the national economy, it came in slightly lower (3.9 per cent per annum, 2000 - 2011) compared to the Province (4.1 per cent), mainly held back by low growth in the large agriculture & mature processing industries.

Stellenbosch is the largest and fastest growing municipality, is well-balanced and managed to create employment on a net basis over the 2000 - 2011 period. Drakenstein is the second largest municipality; however, it suffered serious manufacturing job losses. The Langeberg Municipality hosts a strong-growing manufacturing sector and has been the second fastest growing region in the district.

It is evident that the economic slowdown and the subdued outlook are creating exceptional financial pressures for municipalities – on the one hand consumer arrears accumulate and on the other hand municipalities are for more than 90 per cent of income dependent on inter-governmental grants, which are only growing below the inflation rate, while salaries & wages increase well-above inflation. This state of affairs is not financially sustainable and need to be addressed.

While the region's manufacturing sector was heavily impacted by the recession, causing heavy job losses particularly in the large Drakenstein Municipality, the sector rebounded during 2010 - 2011. The bulk of job losses occurred in the agricultural sector (also over the pre-recession period), albeit that the economic recovery brought signs of renewed job growth in this sector. There also appears to be a better mix of primary, secondary and tertiary activities in the economic recovery. In view of these favourable tendencies, the labour market unrest witnessed towards the end of last year in the agricultural sector is very disheartening and any future recurrence should be avoided at all cost.

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. Exporters require assistance in seeking alternative faster-growing markets in emerging economies given the economic troubles of the European Union, a key traditional destination for the Cape Winelands' exports.

In terms of directing infrastructure investment, efforts to upgrade skills and reducing business constraints in general, the following value chains exhibit comparative advantage: food & beverages, tourism, building & construction and communications/ICT. The Stellenbosch Techno Park hosts a vibrant ICT industry and initiatives are afloat to implement freely accessible broadband internet.

Considering the uncertain economic outlook, it may be advisable for the sake of sustained financial viability that a measure of consolidation be adopted rather than aggressive expansionary plans, which may be considered toward the outer years of the forecast period.

4

Value Chains

4.1 Introduction to value chain analysis

An analysis of value chains can focus on the intra-firm relationships or the activities and inter-relationships amongst productive agents in the economy. The analysis presented in this chapter will focus on the inter-relationships between various participants in the selected sectors/identified clusters of industrial activity at various points along the supply chain. This will essentially entail an examination of the backward and forward linkages of the selected industries, including an assessment of the growth and employment potential of the selected industries if possible.

The concept of the value chain was first used by Porter (1980) who identified it as a representation of the firm's value-adding activities, based on its pricing strategy and cost structure. This analysis was primarily based on the internal assessment of the firm's competitive advantage, but in the 1990's the concept of the value chain was extended to include the global commodity chain by Gereffi and Korzeniewicz (1994). This approach focused on the linkages between firms. The concept was further clarified and 'codified' by Kaplinsky and Morris (2001). They distinguish between value chains and supply chains by emphasising the linkages and relationships both between and within actors at each stage of production.

The value chain concept can be extended to a number of different forms of analysis; however it is necessary to limit this analysis to present 'real value' to policy makers and those seeking to improve the general welfare of the regional economy. Value chain analysis can be extended to include policy interventions, governance and legal issues related to the value chain, as well as the distribution of benefits in the value chain.

At the outset it is important to clarify the intention of this analysis, the limitations, the advantages and the assumptions that are necessary.

4.1.1 Methodology and assumptions

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 and the metro municipality have been assessed and the most important selected value chain(s) within each district and the metro economy have been analysed. It must be noted that this analysis will not focus on the quantitative specification of each value chain in the specified district, but will rather focus on identifying and mapping the value chain, the actors involved, and the value-added and job-creating potential.

Two major considerations are applicable to the analysis at hand. Firstly it must be determined how far to follow the forward and backward linkages along the supply chain and secondly, the level at which these linkages must be determined.

The analysis below captures most of the forward/backward linkages within the chosen value chains. An increase in demand for the final product or service, for example, will boost production and employment along supplier industries within the *particular* value chain, and may also have positive spill-over effects on other sectors and industries: employees in these supplier industries, and members of their households, may spend part of their extra incomes on a range of goods and services produced outside the particular supply chain. Apart from the CWD, the supply chain itself, and the related spill-over effects, may of course extend to municipalities elsewhere in the Province and beyond. The extent of these additional (direct and indirect) effects will depend on the value of the relevant multipliers, which could be analysed and estimated in a separate study¹¹.

Before delving into the value chains of each district, a short background description of the sectors analysed will be given, to better understand the potential impact of the value chain in the district.

4.2 Value chain analysis

4.2.1 District value chains

Within the Cape Winelands District (CWD) Municipality the tertiary sector is the greatest contributor to GDP and employment for the local economy. The agricultural sector is the greatest employer of unskilled labour. The value chains analysed in this chapter for the CWD are the agro-processing and metals and machinery value chains.

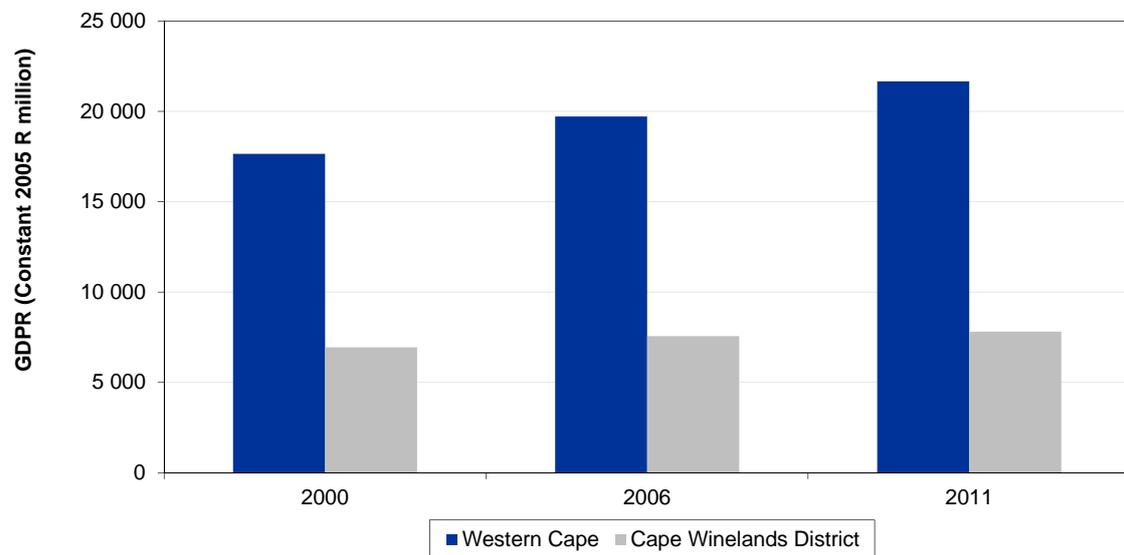
¹¹ Black, PA, 2004. "Economic impact analysis: a methodological note", *South African Journal of Economics*, vol 72, No 4.

The agro-processing value chain is a significant contributor to employment in the CWD and has many backward and forward linkages in the economy. The metals and machinery production value chain in the CWD is a significant contributor to GDP and employment within the manufacturing sector in the district.

Agro-processing value chain

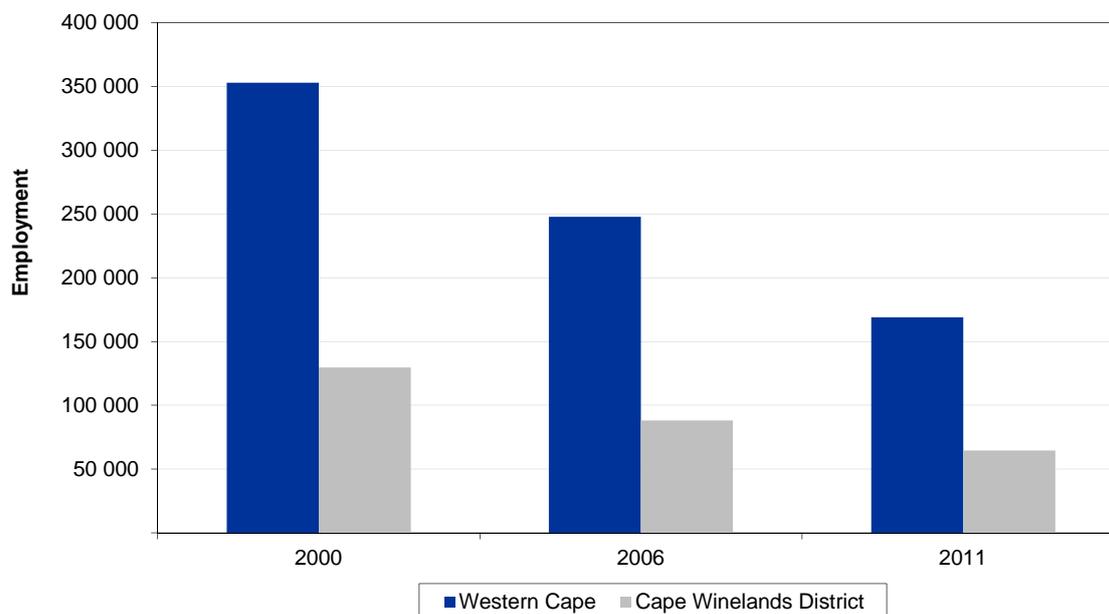
The agro-processing value chain in the CWD is dominated by the wine industry. Food and beverage production activities in the district are dominated by the beverage component, contributing to approximately 71 per cent of production. The value chain consists of the agricultural production sector in the CWD which then provides inputs to the food and beverage production process. The following discussion considers the agricultural and food and beverage sectors in the Western Cape and CWD.

Figure 4.1 GDP of the Agro-processing value chain for the Western Cape and CWD: 2000, 2005 and 2011



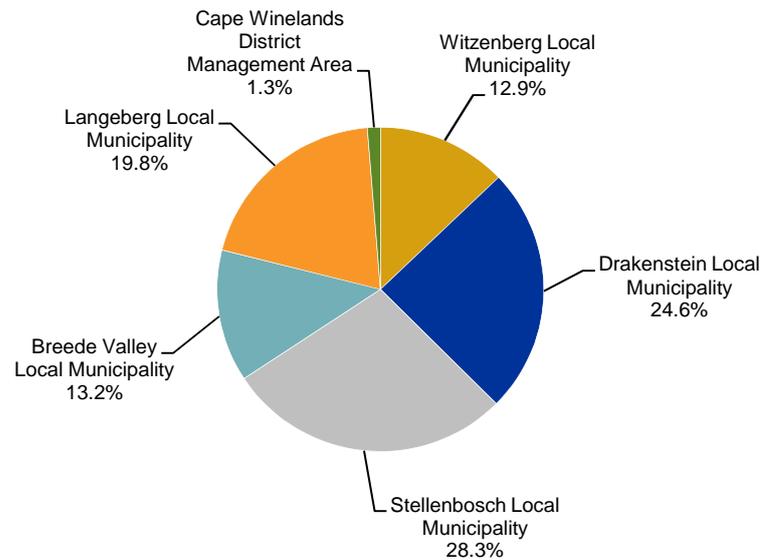
Source: Quantec Research

Figure 4.1 above shows that the CWD is a significant contributor to the GDP of the agricultural and food and beverage sectors in the Western Cape. The values in the figure are depicted in constant rand value and show that growth in the agro-processing value chain in the CWD has been smaller than that in the Western Cape, at 12.6 per cent growth from 2000 to 2011. The GDP of the agro-processing value chain of the Western Cape, in comparison, has grown by 22.7 per cent from 2000 to 2011. The annual growth of GDP for the agro-processing value chain in the CWD has performed poorly in comparison to the average annual GDP growth rate of South Africa. From 2000 to 2011 the CWD agro-processing value chain only grew by 1.1 per cent per year.

Figure 4.2 Agro-processing value chain employment for the Western Cape and CWD: 2000, 2006 and 2011

Source: Quantec Research

Employment in the agricultural sector in the CWD follows a familiar trend for the agricultural sector as a whole at a national and provincial level, with declining employment numbers from 2000 to 2011. Employment levels for the Western Cape in the agricultural sector declined by 59.8 per cent from 2000 to 2011 and by 59.1 per cent in the CWD. Figure 4.2 above depicts employment in the agro-processing value chain for the Western Cape and the CWD. Employment levels have declined drastically from 2000 to 2011 and have declined by 6.1 per cent per year in the CWD. The agro-processing sector consists of the agricultural and food and beverages sectors. The food and beverage sector recorded a 10.3 per cent increase in employment from 2000 to 2011 and the agricultural sector was responsible for the most job losses in this value chain in the CWD.

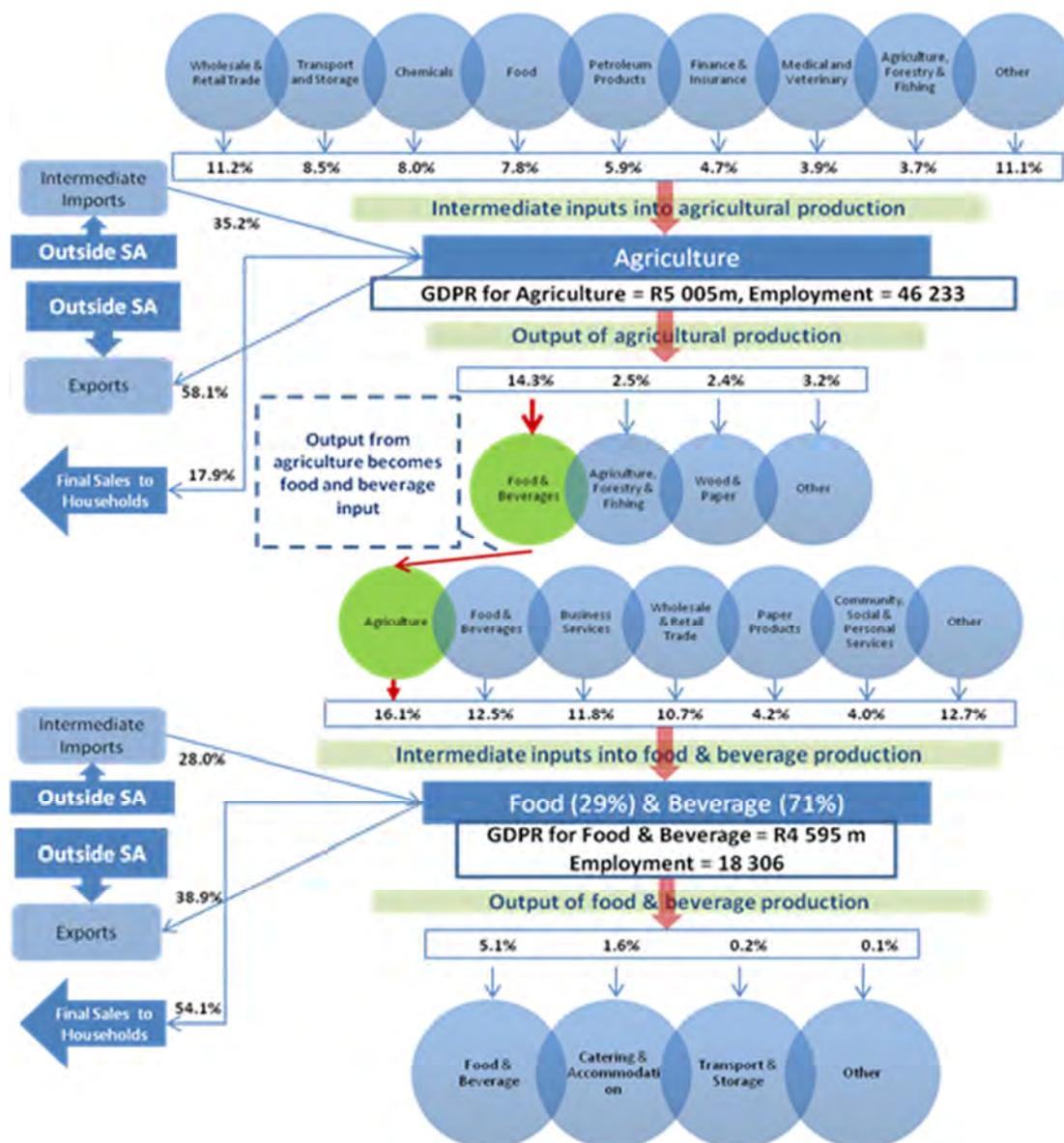
Figure 4.3 Local municipal shares in the Agro-processing value chain: 2011 (R million)

Source: Quantec Research

The agro-processing value chain for the CWD is depicted in Figure 4.4 below. The agricultural sector in the CWD is a major contributor to employment and contributes 71.6 per cent to employment in the agro-processing value chain. GDPR created in the agricultural sector is high compared to the inputs into the sector. Production activities in the agricultural sector have a high value added factor, converting inputs into agricultural production into GDPR of more than five times the intermediate input. This can be compared to food and beverage production which converts intermediate input by only 1.2 times to GDPR. This emphasises the importance of the agricultural sector in the CWD as a significant contributor to employment and value added activities.

Intermediate imports into the agro-processing value chain are high, at 35.2 per cent for agricultural production and 28.9 per cent for food and beverage production. Exports from the production process in the value chain is also significant and a large contributor to the GDP of the Province of the Western Cape. In the agricultural sector in the CWD, 41.9 per cent of production is exported, with only 12.9 per cent of output sold directly to households. This is normal for agricultural production as households are usually consumers of the final product coming from the complete production process of the value chain.

Figure 4.4 Agro-processing value chain in the CWD



The majority of agricultural output to be used as intermediate inputs into other sectors in the local economy is to the food and beverage production process. The agricultural sector contributes 16.1 per cent to intermediate inputs into the food and beverage production process. It must be noted that approximately 71 per cent of the production in the food and beverage sector, in the CWD, is for beverage production. The CWD has a significant wine sector, which is a major contributor to the agro-processing value chain.

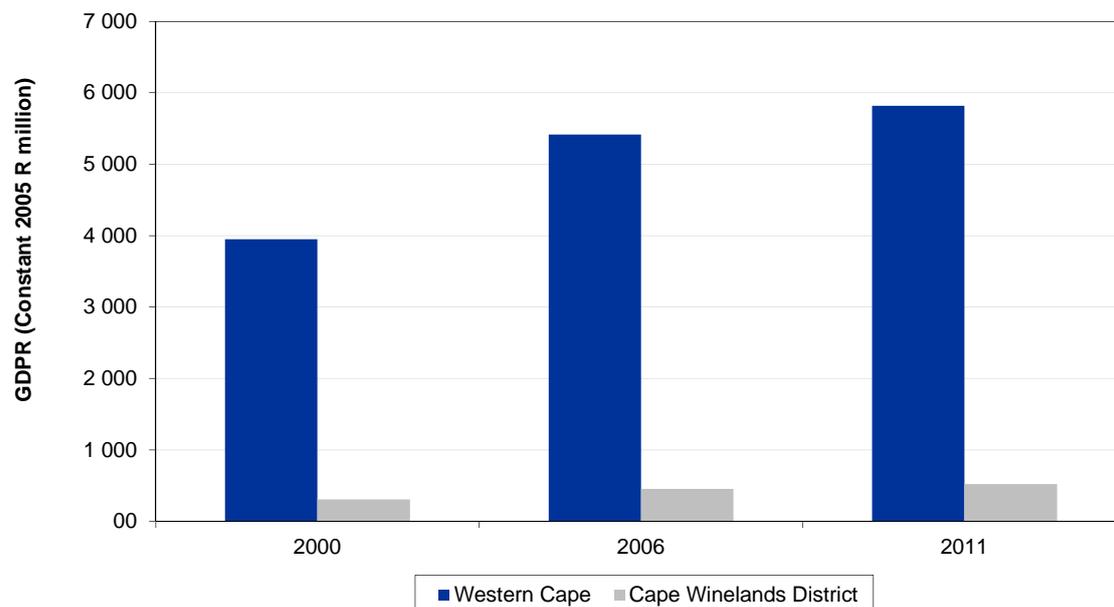
The agricultural sector is the largest contributor to intermediate inputs into food and beverages production, while the business services and wholesale & retail trade sectors are also major inputs at 11.8 and 10.7 per cent respectively. The majority of output from the production process for food and beverages is sold to households, at 54.1 per cent, with only small amounts going back into the food and beverages sector which are used in the production process.

Metals manufacturing value chain

The metals manufacturing industry in the CWD is the second-largest contributor to employment in the manufacturing sector after the food and beverage sector. Analysis of the metals manufacturing value chain in the CWD consists of two major sectors. The metal products and machinery sectors form the most significant proportion of the metals manufacturing value chain in the CWD.

Figure 4.5 shows that GDP for the metals and machinery sectors has risen by 5 per cent per year from 2000 to 2011. This level is significant and has risen above average GDP for the region for this period. The metals manufacturing sector in the CWD is relatively small in comparison to the entire industry in the Western Cape.

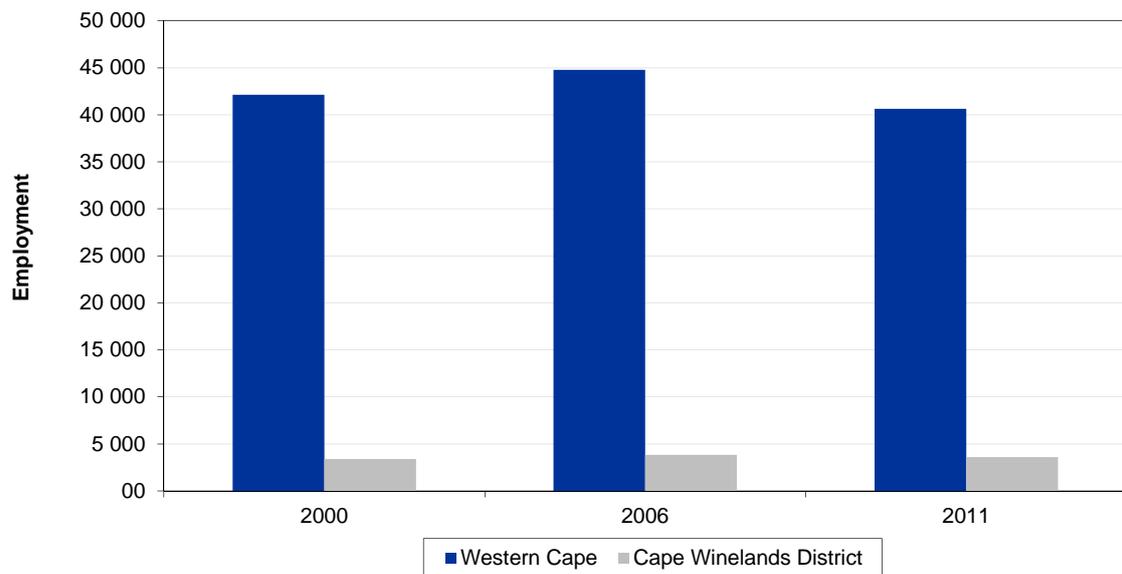
Figure 4.5 Metals Manufacturing GDP for the Western Cape and CWD: 2000, 2006 and 2011



Source: Quantec Research

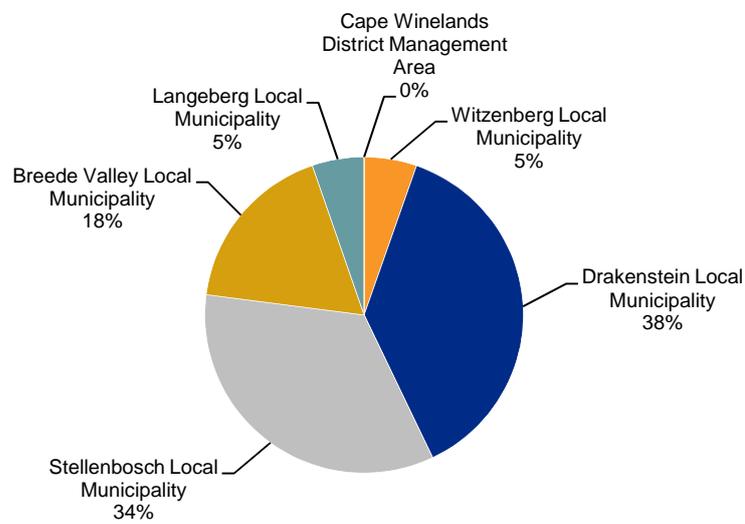
Employment levels in the metals manufacturing industry in the CWD has fluctuated from 2000 to 2011, however, it increased on average by 0.5 per cent per year in the same period. This is above the provincial average employment growth rate of -0.3 per cent yearly average from 2000 to 2011. The growth in value added of this sector with a relatively smaller increase in employment indicates efficiency gains or technological advancement in the manufacturing process in this value chain.

Figure 4.6 Metals Manufacturing Employment for the Western Cape and CWD: 2000, 2006 and 2011



Source: Quantec Research

Figure 4.7 Local Municipal Shares in the Metals Manufacturing Value Chain: 2011 (R million)



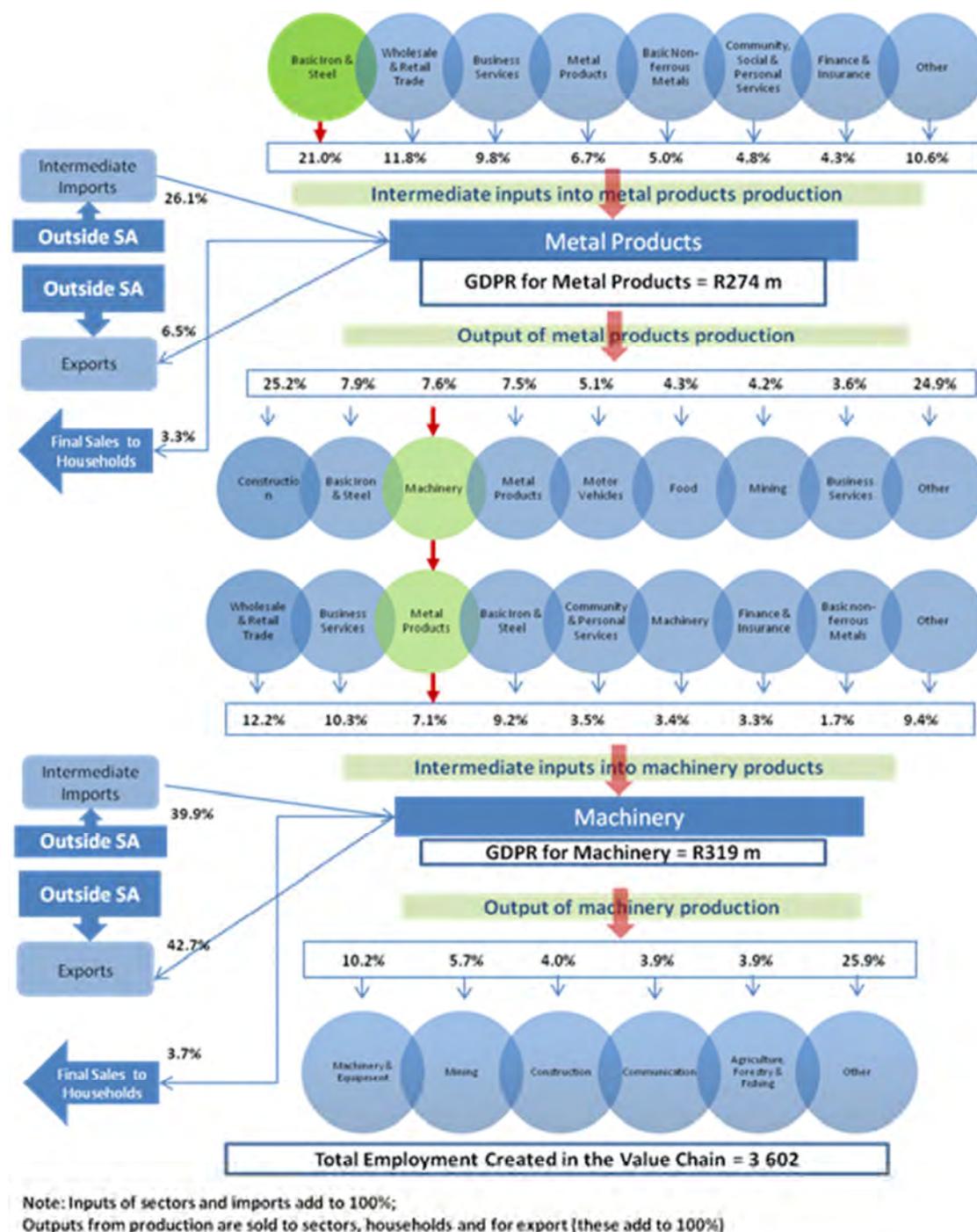
Source: Quantec Research

The Drakenstein Local Municipality is the largest contributor to GDP in the metals manufacturing value chain in the CWD at 38 per cent. This is followed by the Stellenbosch Local Municipality with 34 per cent share. The Drakenstein Local Municipality also has the greatest share of employment with 1 448 employed in this municipal region in the metals production sector.

The metals production value chain in the CWD is mainly focused on the production of metal products and machinery. The production of basic iron and steel and non-ferrous metals is limited. Figure 4.8 depicts the value chain of metals manufacturing in the CWD. It shows the inputs into the value chain, which include intermediate imports into the production process and intermediate inputs into the production process at various points in the value chain. The value chain linkages are outlined by the sectors involved in the production process as defined by Statistics South Africa. Outputs from each of the steps in the production process are for outputs into other sectors in the economy, exports to foreign markets and for final sales to households. The final sales to households usually become more significant as products are processed through the value chain.

Inputs into the production of metal products are dominated by the basic iron and steel sector at 21 per cent. Intermediate imports into the production process comprise 26.1 per cent of inputs. Inputs from within the economy of South Africa approximately total R456 million. Value added for this sector is calculated at R247 million with the largest proportion of output produced in this sector going to the construction sector. Exports and final sales to households at this point in the value chain are limited at only 6.5 per cent and 3.3 per cent respectively.

Figure 4.8 Metals production value chain



The machinery manufacturing process in the value chain requires a significant amount of input from the tertiary sector with inputs from the wholesale & retail trade sector (12.2 per cent) and the business services sector (10.3 per cent). Inputs from metal products production only comprise 7.1 per cent of intermediate inputs into the production of machinery. Final sales to households are minimal in this value chain, with output from machinery production sold to households at only 3.7 per cent.

Key recommendations – CWD value chains

The agricultural and food & beverage processing value chain has significant potential to create additional employment in the CWD as the value added proportion is high in comparison to other labour intensive industries.

The agricultural sector is a large contributor to employment and the linkages are strong, with a large proportion of inputs from the local agricultural sector going toward food processing in the district.

The metals production value chain has a large proportion of imports that are used as intermediate inputs. The linkages to other sectors in the economy could potentially be larger if this proportion of intermediate inputs were locally supplied.

4.3 Policy issues

The above value chains are important from an industrial policy perspective. The reason is that a given policy focusing on interlinked industries within a value chain may render a higher return than if the same policy had been divided among unrelated sectors and industries. Although this statement forms the basis of the new Special Economic Zones (SEZs), they only apply when several links within a value chain are in need of state support. SEZs include free trade zones and sector development zones, and are aimed at promoting regional development, local value added, skills and technology transfers.

More generally, the case for policy intervention is back on the proverbial stage and has taken on a range of new dimensions in both industrialised and developing economies. Traditionally, the role of government has been justified in terms of so-called market failures, including the provision of public goods, the reduction (or augmentation) of externalities, elimination of the abuse associated with monopolistic power and, importantly, combating endemic poverty¹². More pertinently, appropriate intervention can contribute to the utilisation of potential competitive advantages via the creation of agglomeration (or internal and external) economies of scale, manifested in the form of cost-reducing production on the part of individual enterprises or value chains – something the free market either cannot do or takes too long to accomplish. Thus policy – including grant transfers, infrastructure provision, investment allowances and skills development – should focus on these enterprises and, in the case of a value chain, investigate its eligibility for SEZ status.

A more recent justification derives from the improper and often illegal anti-trade practices applied by countries to which Cape Winelands District and other Western Cape districts export their goods and services. Such practices entail the use of tariffs, subsidies and higher standards aimed at protecting similar and competing industries in the export markets, good examples of which are the tariffs imposed on steel and related imports by the USA, and subsidies conferred on agriculture and other import-competing industries in the EU. There is thus a case for *retribution* in the sense that if these problems cannot be resolved through the World Trade Organisation (WTO), it leaves local exporting industries with little option but to counteract by applying the same – but in this case offsetting – anti-trade measures.

¹² Black, P, Calitz, E and Steenekamp, T. Public Economics, 6th ed. Oxford University Press, 2013.

As far as the CWD is concerned, both the agro-processing and metals manufacturing value chains appear to be candidates for SEZ status, with related manufacturing and services industries being prominent in several of the municipalities and agriculture being spread throughout the district. As Figure 4.4 and Chapter 3 indicated, manufacturing in the Cape Winelands District largely consists of agro-processing industry, while metals-based industries are also well-represented, which acquire inputs from the local agricultural and (largely imported) mining sectors respectively and export most of their products to the rest of the country and beyond.

Other potential candidates for policy intervention are the catering & accommodation, communications/ICT and building value chains. They may be viewed as clusters of economic activity justifying support for the reasons mentioned above.

5

Informal sector profile

Definition of the informal sector

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 Receiver of Revenue for income tax or value added tax. Statistics SA 2012.

5.1 Introduction

This chapter contributes to the deepening knowledge and understanding of the informal sector in the Cape Winelands District (CWD). Given the difficulty of estimating the size of the informal sector in terms of its contribution to the CWD GDP and employment, the aim of this report is therefore to determine the investment climate of informal sector businesses at a 95 per cent confidence level by analysing roughly 200 informal businesses at the district level surveyed by the Department of Economic Development and Tourism. Analyses of the investment climate may bring into focus strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some may exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

Importantly though, informal micro-enterprises in the CWD exist in the various economic sectors and are important in several respects. While they cover a wide range of sectors, mostly in Manufacturing, Agriculture, and Wholesale and Retail Trade, they possess important characteristics. These characteristics are:

- They are more labour intensive relative to the formal industrial sector;
- They are more (less) dependent on low-skilled and unskilled (skilled) labour;
- They tend to process local materials;
- They are more geographically dispersed; and
- They are more accessible to indigenous entrepreneurs.

5.2 Analysis of data for the Cape Winelands Region

5.2.1 Profile of the informal micro-enterprise

Geographical concentration

Table 5.1 and Table 5.2 below show demographic data on informal businesses in the townships of the CWD. From the data, the variation in business numbers and density can be noted: the informal enterprises in the CWD are more concentrated in urban regions than in rural areas. Anecdotal evidence indicates that informal economic activities are more prevalent in the large regional towns, whilst small in scope in agricultural service towns and rural localities. This evidence is confirmed by the data below, however it is worth noting that even though informal settlements/townships were the predominant locality for the interviewed informal enterprises; the gap between informal settlements/townships (59.2 per cent) and urban major city (40.3 per cent) was much narrower as compared to the other districts. Rural areas (0.5 per cent) are similar in comparison to other districts. (See Table 5.2.)

Table 5.1 Respondent suburb township by area

Township	Per cent
Stellenbosch	10.9
Khayamandi	14.9
Paarl	10.9
Mbwekweni	12.9
Ceres	13.9
Worcester	12.4
Zweletemba	10.4
Wellington	10.4
Khayelitsha	3.0
Total	100.0

Table 5.2 Respondent suburb township by settlement type

Township	Per cent
Urban major city	40.3
Urban township/informal settlement	59.2
Rural	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

Distribution by age and race

The age distribution across the sample ranged from 17 to 94 years, with 37 years being the median age. The data was then disaggregated into four sub-sample age groups (see Table 5.3) to differentiate between young entrepreneurs (16 - 24 years); young adult entrepreneurs (25 - 34), adult entrepreneurs (35 - 60) and pensioners (61 years and above).

Before evaluating the CWD sample by race group, it is important to note that African (76.6 per cent) and Coloured (16.9 per cent) informal entrepreneurs cumulatively accounted for 93.5 per cent of the respondents surveyed while Asian/Indians (4 per cent) and Whites (2.5 per cent) cumulatively accounted for only 6.3 per cent of the respondents surveyed. In numerical terms, this equates to 8 and 5 respondents respectively. Thomas et al (2013) argue that “law-abiding, middle-class citizens view the actions by informal operators as unacceptable if not illegal, and they should thus not be allowed to operate under those conditions”. From this argument coupled by the fact that the White and Asian/Indian race groups have the lowest unemployment rate and the most skills in the economy, one can deduce that operating in the informal economy for these race groups may not be a viable option. As a result the remainder of this section is limited to analyses of the Coloured and African groups only.

Table 5.3 Distribution by age and race

Age	Race				Total
	African	Asian/Indian	Coloured	White	
16 to 24 years	7.8%	12.5%	8.8%	0.0%	8.0%
25 to 34 years	33.1%	25.0%	14.7%	20.0%	29.4%
35 to 60 years	53.2%	62.5%	73.5%	80.0%	57.7%
61 years or older	5.9%	0.0%	3.0%	0.0%	4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DEDAT 2013 and own calculations

Within the age group 16 – 24 years, the African race group accounted for 7.8 per cent and Coloureds 8.8 per cent; while the total respondents, which include the Asian/Indian race group, cumulatively account for a total of 8 per cent. Entrepreneurial activity appears to be very lacklustre within this age group. This is rather disconcerting given that this is the age group where nationally the unemployment rate is at its peak.

Within the age group 25 – 34 years, the African race group accounted for 33.1 per cent and Coloureds 14.7 per cent; cumulatively, which include the Asian/Indian and white groups, accounting for a total of 29.4 per cent. Entrepreneurial activity is significantly vibrant within this age group.

The 35 - 60 age group accounts for more than half of the total cumulative percentage share (57.7 per cent) and entrepreneurial activity is at its peak in this age group. Here the African group accounts for 53.2 per cent and the Coloured group accounts for the largest proportion at 73.5 per cent. Anecdotal evidence through interviews with CIPRO and SEDA suggests that generally, individuals work for a number of years in formal employment before terminating their services, and then using their pension or life savings to become entrepreneurs. The entrepreneur may or may not decide to register the business; however SEDA has found that particularly among the coloured race group, they choose to work informally for a significant period before, if at all, formally registering their business. Tax avoidance and the lack of Government tenders appear to be the main reasons for the apathy to formalise. The data appears to support the anecdotal evidence.

The participation of entrepreneurs aged 61 years and above is insignificant; it would appear that retired citizens similar to the Asian/Indian groups do not view the option of informal entrepreneurship as a viable one.

The split of respondents by gender was slightly weighted in favour of male respondents who comprised 61.7 per cent of the sample while female respondents accounts for 38.3 per cent as is shown in Table 5.4 below.

Table 5.4 Distribution by gender

Gender	Per cent
Male	61.7
Female	38.3
Total	100.0

Source: DEDAT 2013 and own calculations

Educational attainment

Table 5.5 below shows that South African informal entrepreneurs account for the majority of respondents (63.7 per cent), followed by Zimbabwe (8 per cent) and then Somalia (6 per cent). When gauging educational attainment among respondents from the different countries, the data reveals no real difference in education level per country. For example for the 3 countries of origin (SA, Somalia and Zimbabwe) mentioned, the majority of the respondents either completed or have some form of high school education. Based on the municipal survey questionnaire, low educational levels in the labour force have been identified as a significant constraint in the District Municipality.

Based on the data, however, it would appear that there is no correlation between the schooling system and informal activity.

Table 5.5 Level of education and country of origin

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed Matric Grade 12 A/O levels	
South Africa	50.00% (3.91%)	79.30% (17.97%)	66.70% (4.69%)	80.80% (49.22%)	41.30% (24.22%)	63.70% (100.00%)
DR Congo	0.00% (0.00%)	3.40% (20.00%)	0.00% (0.00%)	1.30% (20.00%)	4.00% (60.00%)	2.50% (100.00%)
Somalia	40.00% (33.33%)	3.40% (8.33%)	22.20% (16.67%)	1.30% (8.33%)	5.30% (33.33%)	6.00% (100.00%)
Angola	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	1.30% (100.00%)	0.00% (0.00%)	0.50% (100.00%)
Malawi	0.00% (0.00%)	3.40% (14.29%)	0.00% (0.00%)	1.30% (14.29%)	6.70% (71.43%)	3.50% (100.00%)
Nigeria	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	2.70% (100.00%)	1.00% (100.00%)
Zimbabwe	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	9.00% (43.75%)	12.00% (56.25%)	8.00% (100.00%)

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed Matric Grade 12 A/O levels	
Senegal	0.00%	3.40%	0.00%	0.00%	4.00%	2.00%
	(0.00%)	(25.00%)	(0.00%)	(0.00%)	(75.00%)	(100.00%)
Kenya	0.00%	0.00%	0.00%	1.30%	2.70%	1.50%
	(0.00%)	(0.00%)	(0.00%)	(33.33%)	(66.67%)	(100.00%)
Tanzania	0.00%	0.00%	11.10%	0.00%	0.00%	0.50%
	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(0.00%)	(100.00%)
Cameroon	0.00%	0.00%	0.00%	0.00%	2.70%	1.00%
	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(100.00%)
Burundi	0.00%	0.00%	0.00%	1.30%	0.00%	0.50%
	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(100.00%)
Ghana	0.00%	3.40%	0.00%	1.30%	6.70%	3.50%
	(0.00%)	(14.29%)	(0.00%)	(14.29%)	(71.43%)	(100.00%)
Bangladesh	0.00%	0.00%	0.00%	0.00%	8.00%	3.00%
	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(100.00%)
Other	0.00%	3.40%	0.00%	0.00%	1.30%	1.00%
	(0.00%)	(50.00%)	(0.00%)	(0.00%)	(50.00%)	(100.00%)
Ethiopia	0.00%	0.00%	0.00%	0.00%	2.70%	1.00%
	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(100.00%)
Zambia	10.00%	0.00%	0.00%	0.00%	0.00%	0.50%
	(100.00%)	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(100.00%)
Pakistan	0.00%	0.00%	0.00%	1.30%	0.00%	0.50%
	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(100.00%)
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	(4.98%)	(14.43%)	(4.48%)	(38.81%)	(37.31%)	(100.00%)

Note: Percentages in parenthesis () are calculated only for the specific county's educational level.

Source: DEDAT 2013 and own calculation

The respondents reported a diverse range of acquiring skills (see Table 5.6 below). Importantly, especially in the context of literature which argues that the informal economy provides a means for skills acquisition through informal apprenticeship, over half the sample (53.2 per cent) reported having acquired their skills on the job. A further 28.9 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for skills transfers to employees, whilst transferring entrepreneurial learning to the business owner. A further 11.9 per cent reported acquiring skills from a former job, a finding that confirms research (including the previous MEDS 2007 informal economy – trade study) which argues that many of the entrepreneurial persons within the informal economy have experience of the formal economy workforce and would be capable of obtaining formal jobs. The role of formal adult education in providing skills to operate informal business is fairly limited with only 2.5 per cent reporting having acquired their business skills through study.

Table 5.6 Level of skills acquired

Skills acquired	Per cent
Former employment	11.9
On this job	53.2
Adult education	2.5
Family business	28.9
Family and friends	1.0
Did a course	1.0
Self-taught	0.5
Other	1.0
Total	100.0

Source: DEDAT 2013 and own calculations

Registration of informal businesses

Many enterprises may hold some level of formal registration and yet still operate outside of the formal system, whether intentionally or unintentionally. For example many businesses register at CIPRO but never complete their annual returns. As a result these businesses are deregistered by CIPRO but remain “active” in the market place.

Table 5.7 Registration of informal businesses

Business registration	Per cent
None	51.2
CIPRO/the dti	2.0
SARS	5.5
Trader organisations	3.5
Local municipality	37.3
Other	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

The data in Table 5.7 indicates that nearly 51.2 per cent of the sample reported that their businesses were not registered in any way (institutionally or organisationally). Of those businesses with some level of registration and formalisation, 37.3 per cent claimed registration with municipal authorities, 5.5 per cent with SARS, 2 per cent with CIPRO, and 3.5 per cent with trader organisations.

This finding highlights the significant variance in compliance between municipal and national/provincial requirements for business licensing, with a comparatively higher degree of compliance in municipal regulatory requirements reflecting either that municipalities more effectively enforce compliance or that the benefits of this status outweigh the costs of non-compliance. It is also evident that municipal authorities do not require compliance with national acts, such as employment or immigration legislation, as a precondition for the granting of municipal licences.

A municipal trading licence does not imply enterprise formalisation, but merely minimal compliance. In all other aspects these businesses should be regarded as informal. The low level of enterprise registration with informal trader organisations (3.5 per cent) confirms the limited influence of trader groups within the CWD informal

economy. The findings also show, in converse, that roughly 49 per cent of informal businesses endeavour to comply with state requirements to a certain degree, though compliance is strategic rather than procedural. Therefore literature arguing that informal businesses weigh-up the costs/benefits of compliance in their engagement with regulation appears to hold true.

Interestingly in the municipal survey questionnaire the District found in a survey of informal businesses a few years back that "some informal traders have said that given the opportunity to formalise they would still want to stay within the informal sector because they believed that there was more profit to be made within the informal sector for them than the formal sector". This could link into the reason for starting a business as indicated in Table 5.10 below.

5.2.2 Organisation of business (Goods and services)

The trade in products and services was separated for analysis, and aggregated into broad categories of best fit. Roughly 78 per cent of the respondents sold products, whereas 22 per cent of the respondents provided a service. The data shows that businesses providing services generally do not sell products, except where natural synergies exist as in the case of hair dressers that sell hair care products, or appliance repair shops that sell electrical goods, or catering businesses that sell take-aways. Disaggregated data on the kind of products and services traders are proffering is also discussed within separate "products" and "services" sections.

Trade in goods

The survey revealed a considerable diversity in the range of products sold through informal trade, within the district. For practical analysis the trade in products was combined into four categories or sectors; i) retail food and drink, ii) retail attire, iii) household goods, and iv) personal requirements. The results are shown in Table 5.8 below.

Retail food and beverages were by far the largest category of overall business activity (43.3 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was retail attire or the selling of clothing (14.4 per cent of all businesses surveyed); while household goods were the third largest category (12.9 per cent) – primarily the trade of non-food household items including furniture, electronics and hardware, alongside household consumables such as cleaning products, and black bags. Up to 7 per cent of product focused businesses traded cigarettes (categorised as personal requirements, which also included traders of over the counter pharmaceuticals, perfumes and similar personal care products).

Table 5.8 Product-orientated informal business per sector

Product per sector	Per cent
Retail food and drink	43.3
Retail attire	14.4
Household goods	12.9
Personal requirements	7.0
Total	77.6
Services excluded	22.4
Total	100.0

Source: DEDAT 2013 and own calculations

Trade in services

Service businesses were categorised into four sectors: i) micro-manufacturing, ii) personal services, iii) business services and iv) social services. The division is shown in Table 5.9 below. Business services accounted for 10.4 per cent of service informal micro-enterprise activities. This category includes mechanical repairs, appliance repairs, tradesmen, money lending, computer and secretarial services. Personal services comprise 8.5 per cent of the services businesses and include primarily hair salons, traditional healers, funeral services and sex work (due to its largely clandestine nature, the latter was likely to have been under-represented in this study). Informal micro manufacturing accounted for 2.5 per cent of all services businesses including furniture making, tailoring and cobbling. The social services sector was the smallest cohort accounting for 1 per cent; this sector includes child care and educare services.

Table 5.9 Service-orientated informal business per sector

Services per sector	Per cent
Micro-manufacturing	2.5
Personal services	8.5
Business services	10.4
Social services	1.0
Total	22.4
Products excluded	77.6
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.3 Justifications for starting informal enterprises

An important direct or implied justification for most people establishing and operating informal enterprises was economic survival. This can be clearly seen in Table 5.10: Reasons for starting a business. Although many individuals gave multiple responses to this question, wanting to earn more money along with the inability to find alternative employment were the primary responses (33.8 per cent and 37.9 per cent of responses respectively). Interestingly 15.2 per cent of motivations related to the respondent's claim that they were good at or had expertise in running their particular business.

Table 5.10 Reasons for starting a business

Reasons for starting a business	Per cent
I could not find alternative employment	37.9
I didn't enjoy working for someone else	10.1
I wanted to earn more money/financial hardship	33.8
I am good at running this business	15.2
Opportunity	0.5
Have passion for it/It's a calling	0.5
Other	1.0
Create employment/help the community	1.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.4 Years in operation

The survival, sustainability and longevity of the studied informal economy enterprises are considerably high – especially after an initial year of operations. The results are presented in Table 5.11 below. A significantly high number (18.9 per cent) of enterprises compared to other district municipalities were less than a year old. Based on the municipal survey questionnaires where the district identified “Agriculture as the backbone of the Cape Winelands economy because not only is it the largest employer...” coupled to “decreased demand for low skilled labourers on farms” may be a significant reason why there appears to be an increase in new, informal businesses in the district.

The majority of interviewed businesses (50.7 per cent) had been in operation for between one and five years, with a further 13.4 per cent operating between 6 and 10 years and a further 16.9 per cent operating for over 11 years. Of course, due to the nature of the study one is unable to determine the number of businesses that have failed (appearing most likely to happen within the first 12 months of operations), although this finding does imply a sense of sustainability of business for operating enterprises.

Table 5.11 Number of years business is in operation

Years in business	Per cent
Less than 1 year	18.9
1 to 5 years	50.7
6 to 10 years	13.4
11 or more years	16.9
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.5 Employment

The contribution of the informal economy to employment creation is further supported by this survey, as the data reveals that the 201 businesses interviewed in this study provided 375 jobs (including the owners) through employment. This implies a ratio of roughly about 1.9 jobs created (including owner) per informal business

established for the CWD. Whilst 48.3 per cent of these enterprises only provided employment for the owner, the remaining 51.7 per cent in the study employed more than one person (in addition to the owner), most commonly a second individual. Table 5.12 below gives more detail.

Table 5.12 Employment provided by informal businesses

Number of jobs	Frequency	Per cent
1	97	48.3
2	54	26.9
3	29	14.4
4	10	5.0
5	5	2.5
6	3	1.5
9	2	1.0
12	1	0.5
Total	201	100.0

Source: DEDAT 2013 and own calculations

Employment was more common in businesses providing services such as hair salons and car mechanics, or from home-based business enterprises such as liquor retailers. Businesses that traded from temporary structures in the street were generally the least likely to employ staff.

Informal enterprises represent important family businesses. However, 61.7 per cent of the sample employs no family members in the business (see Table 5.13). Of the sampled enterprises that employed family members beyond the owner, the majority (25.9 per cent) employ one person. This finding compares favourably with the MEDS informal economy study (2007) where informal business operators commonly work within a 'circle of trust' that primarily includes spouses and direct family members.

Table 5.13 Family members employed

Number of family members employed	Per cent
No family members	61.7
One family member	25.9
Two family members	8.0
Three or more family members	4.5
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.6 Business location

The street and people's homes provide the most commonplace and important business venue opportunities for the informal economy participants in this study. Within the streets context 42.3 per cent of respondents set up business venues on a daily basis for trade, using a range of semi-permanent stands. A further 11.4 per cent operated from permanent structures on the roadside. 16.9 per cent of enterprises were home based with a further 1 per cent operating on someone else's property; generally the household, involving cooking, take-aways in the kitchen or minding

children on the property. A further 9.5 per cent of enterprises operated from separate structures attached to people's homes and 3.5 per cent from a separate structure attached to their own homes, such as shipping containers or shacks specifically utilised for the business. Taxi ranks were also important areas for business activity and where it was apparent many enterprises were clustered - with 2 per cent of interviewed businesses located in these sites. Only 4.5 per cent of the respondent's place of business included commercial buildings and 3 per cent formal market places. Moving vehicles only accounted for 1 per cent of respondents' place of business (see Table 5.14).

Table 5.14 Where do you operate this business from?

Where do you operate the business from	Per cent
Hawking/mobile	4.0
Road side (structure assembled daily)	42.3
Road side (permanent structure)	11.4
From a moving vehicle	1.0
In my home	16.9
Separate structure on my property	3.5
Separate structure on someone else's property	9.5
Someone else's home	1.0
Formal market place	3.0
Commercial building	4.5
Taxi rank/station	2.0
Other	1.0
Total	100.0

Source: DEDAT 2013 and own calculations

When considering the trade in products, especially the dominant retail of groceries and clothing, the important nature of the street as a trading site becomes apparent. Similar to retail businesses in the formal sector, street based micro-enterprises are reliant on predominant foot traffic and large volumes of passing trade to support sales activity. Positioning such enterprises in close proximity to commuters and pedestrian traffic makes considerable business sense.

Home based businesses are an important feature of the informal economy. Many enterprises including those selling basic food and drink and household goods are operated from residential property, both within the home and from separate structures. Furthermore the commonplace activity of liquor retailing is also reflected in the high number of home based businesses. Unlicensed liquor trading is illegal and heavily policed and it makes little sense for many entrepreneurs to openly conduct activities in the street or from specialised premises. Maintaining this clandestine trade from private homes assists in concealing the enterprise from the public at large and law enforcement officials. However, given the low level of home based operation and the rather high level of municipal compliance, one is almost drawn to believe that this is not a significant problem in the CWD.

5.2.7 Ownership of assets and micro-enterprise profitability

The research investigated asset ownership, focusing on i) house, ii) container, iii) shack, iv) vehicle, v) cell phone, vi) computer and vii) specialist equipment. The most widely possessed asset was the respondent's cell phone (38.9 per cent), followed by own shack (17.2 per cent), then own house (12.6 per cent), own specialised tool and machinery (11.1 per cent), own container (8.6 per cent) and own vehicles (4 per cent). The results are shown in Table 5.15 below. Only 1 per cent of the respondents in the sample owned a computer. Given that the survey did include any businesses providing computer use or internet access, one can firmly conclude that use of computers and internet access is extremely low or non-existent. The price of computers, coupled with crime (see Table 5.15 below) and low education levels may inhibit investment in information and communication technologies.

Table 5.15 Ownership in assets

Ownership in assets	Per cent
Own house	12.6
Own container	8.6
Own shack	17.2
Own caravan	1.5
Own specialised machinery/tools	11.1
Own vehicle(s)	4.0
Own computer	1.0
Own cellphone	38.9
Own other assets	2.5
Own stock	2.5
Total	100.0

Source: DEDAT 2013 and own calculations

Worth noting is that in most cases, some of these assets form part of the business, and are used in the process of income and profit generation.

The majority of the businesses surveyed were relatively low profit earners, with more than 77.6 per cent of respondents reporting average monthly profits of less than R2 500 (see Table 5.16). Just over 20 per cent of enterprises reported earnings more than R2 500 per month; therefore their informal business enterprises propel individual earnings over the South African median, making them comparatively financially well off amongst local peers.

Table 5.16 Profit business makes on average in a month

Average monthly profit	Per cent
R1 - R999	47.8
R1 000 - R2 499	29.9
R2 500 - R4 999	15.4
R5 000 - R9 999	5.5
R10 000 and above	1.5
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.8 Money lending and credit

Localised money lending and credit are an important part of the informal economy. More than 16.4 per cent of all interviewed micro-enterprises reported lending money to individuals as part of their business strategy (see Table 5.17 below).

Table 5.17 Money lending

Money lending	Per cent
Yes	16.4
No	82.6
Total	99.0
System	1.0
Total	100.0

Source: DEDAT 2013 and own calculations

This finding confirms that a significant portion of informal businesses rely on diverse income strategies beyond the core product or service nature of their business. Furthermore the finding shows how potentially many thousands of informal enterprises in the District contravene the National Credit Act in providing financial services without licences to do so. Further to the activity of money lending, almost 40 per cent of enterprises give out goods and services on credit. This is important because their customers are generally resource poor. In certain sectors (such as clothing and home ware) credit is necessary to compete with formal businesses that offer lay-buys or account purchases.

Interestingly whilst a considerable number of enterprises lend money out as part of their business practice, the micro-entrepreneurs themselves are in general not borrowers of finance – with only 13.4 per cent of enterprises having borrowed money in the past 12 months (see Table 5.18 below).

Table 5.18 Borrowed money in last 12 months

Borrowed money	Per cent
Yes	13.4
No	86.6
Total	100.0

Source: DEDAT 2013 and own calculations

Of those who have borrowed, family and friends are the most prominent lenders of money to the respondents, as shown in Table 5.19. Banks play a considerably smaller role, potentially due to the stringent requirements for proof of income and absence of collateral. Savings clubs and money lending businesses play a negligible role in providing finance to informal economy businesses.

Table 5.19 Sources of loans

Sources of loans	Per cent
Have not borrowed money in the last 12 months	88.6
Family	5.5
Friends	3.5
Bank	1.0
Business that lend money (not a bank)	0.5
Individual (loan shark)	0.5
Savings club	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

Interestingly, for those borrowing money, not only do family and friends provide the important sources of finance, but with respect to interest charged also offer the most reasonable terms. Based on aggregating all borrowed and repaid funds as reportedly borrowed by the respondents, the commercial banks and micro-finance agencies charge commercial (though modest) interest rates, with the median loan size of R10 000 and repayment of R11 250. The data suggest that micro-finance organisations provide the most costly means of finance, although the number of borrowers is too small to make a fair comment.

5.3 Business challenges and prospects

5.3.1 Business challenges

Challenges being faced by businesses were also investigated. A series of questions pertaining to access to the formal economy and state provided services were posed, asking respondents whether the issue represented a i) 'big problem', ii) not a problem or iii) not applicable. The menu of options were: i) access to finance, ii) electricity cost, iii) water cost, iv) cost of business licensing, v) crime, vi) political crime, vii) labour relations, viii) lack of specialist equipment, ix) shortage of business premises, x) transport costs, xi) police corruption, xii) regulations, xiii) competition, xiv) immigration status, xv) other. Multiple responses were optional and therefore only the challenges which received the most responses as "biggest responses" are reported on.

The key finding from this enquiry was that the most frequently mentioned challenges were: first, a shortage of business premises (55.7 per cent of respondents), second, access to affordable micro-finance (47.8 per cent of respondents) and third, crime (38.8 per cent). The distribution of responses is shown in Table 5.20 below. The District Municipality in their survey response stated that their informal sector was surveyed a number of years back when businesses identified the following as their main business challenges: (1) access to affordable micro-finance (2) the lack of space available to facilitate any expansion (3) increased competition (4) high input costs. A number of years later and CWD informal business continue to highlight access to affordable micro-finance, the lack of space available to facilitate any expansion and increased competition as major business constraints today.

It is worth noting that the major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

More than 55.7 per cent of the respondents highlighted the lack of suitable business premises as a major problem for their enterprise activities. A variety of businesses presented this complaint, including street traders who relied upon temporary structures, through to vehicle panel beaters operating from home and street based sites. The underlying issue around premise suitability extended beyond the physical premises and also included zoning such as businesses operating in residential areas (in contravention of municipal land use regulations). The District has identified a number of regulatory constraints, which includes the time delays in approving re-zoning applications.

Other issues that respondents identified were the lack of specialised equipment (34.3 per cent), access cost to electricity (34.8 per cent), water access (29.4 per cent), the cost and difficulty of business licensing (20.9 per cent), competition (26.4 per cent), and transport costs of goods (19.9 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

Table 5.20 Perceived business growth challenge

Challenge for business growth	Number of respondents	Cumulative percentage of cases
Access to affordable finance	96	47.8%
Electricity cost access	70	34.8%
Water cost access	59	29.4%
Cost and difficulty of business licensing	42	20.9%
Crime	78	38.8%
Shortage of business premises	102	55.7%
Lack of specialised equipment	45	22.4%
Transport of goods costs	40	19.9%
Competition	53	26.4%

Source: DEDAT 2013 and own calculations

5.3.2 Business Prospects

Despite the relatively low incomes for the great majority of participants, more than three quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a “minimum wage” job paying R126.00 per day (see Table 5.21). This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

Table 5.21 Will you take minimum wage of R126 per day

Employment in formal sector with minimum wage	Per cent
Yes	19.4
No	79.1
N/A	1.5
Total	100.0

Source: DEDAT 2013 and own calculations

The desire of the majority to persist with informal self-employment implies that the income earned from informal economy business is sufficient to warrant continued operation in the sector – even if it is lower than a formal economy equivalent, or at least the work conditions, hours of employment and flexibility of operations (in other words non-wage benefits) are considered further benefits that would be lost under full-time employment.

Further to the majority preference to not hold a formal sector position at minimum wage, people tend to share a largely positive outlook about their businesses. This optimistic outlook is borne out in the survey results with 59.7 per cent of enterprises able to report business growth either in profit or volume of sales (in cases of both goods and services trade) since starting the business, and a further 30.8 per cent reporting stable business activity (Table 5.22). Considering the toughening conditions of the broader national economy in recent years, both stability and growth are useful indicators for business sustainability and provide positive future prospects for these business owners. The District's response to the questionnaire survey seemed to confirm these findings.

Table 5.22 Business outlook/Growth prospects

Business outlook/Growth prospects	Per cent
Expanded increased profit more stock greater number of employees	59.7
Contracted decreased profit less stock fewer employees	9.5
Remained the same - no change	30.8
Total	100.0

Source: DEDAT 2013 and own calculations

5.4 Concluding remarks

Given the economic contributions of the informal economy, it is widely believed that governments should be developing policies that recognise the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work in it. This is increasingly seen as a responsibility of local government.

In addition, the promotion of the informal sector by the CWD would significantly contribute to meeting the policy objectives of growth, employment and poverty alleviation; and improved regional and vertical distribution of income. For these reasons, the informal sector should form an integral part of any viable CWD district strategy.

The obvious benefits for entrepreneurs who operate in the informal economy are to avoid costly and burdensome government regulations as well as high and complex taxes. However, the findings in the chapter show that many informal businesses do in fact endeavour to comply with state requirements to a certain degree, although compliance is strategic rather than procedural in nature. The reason why the informal sector is growing in the District is therefore that the benefits of formality are overshadowed by its costs and that the businesses believe it is more profitable to do so.

Even though the CWD informal economy incomes appear generally low, the term “survivalist” does not necessarily do justice to the demonstrated sustainability of enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their enterprises with a theoretical offer of alternative formal work at minimum wage. The District Municipality, based on its survey response, confirmed these findings.

Whilst the study findings cannot 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 local employment role in their immediate economies. Each business has an employment factor of nearly 1.9 and nearly 52 per cent of enterprises provide more employment opportunities. Employment is predominately family based, though opportunities are also provided for piece-workers. 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. It should not be assumed that the formal sector pays higher wages at the entry and uses lower skills levels than informal work.

However, the majority of informal micro-enterprises are non-connected with the information age. This is a direct result of their low levels of education. The use of personal computers is minimal, whilst the typical informal micro-entrepreneur does not use a smart-phone. These businesses thus are still reliant on information exchange through inter-personal networks (word of mouth) and the print media.

With most informal enterprises operating in retail trade and other services, and increasingly in the major urban centres, they are bound to be closely linked to the formal sector, often forming part of the supply or value chains discussed in Chapter 3 and Chapter 5. Informal suppliers of food, beverages, clothing and household consumables, for example, may well benefit from policies aimed at developing supply chains, and it may be worth – in a separate study – to consider ways of strengthening these potentially important linkages.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Perhaps the overriding challenges facing the South African government are the elimination of poverty and inequality and a significant reduction in unemployment. One of the mechanisms through which the government aims to address the challenges the country faces is through infrastructure investment, and there has indeed been a significant increase in infrastructure investment in recent years. In the years leading up to the 2010 FIFA World Cup, the increase in investment of up to 6.05 per cent and 7.64 per cent of Gross Domestic Product (GDP) in 2008 and 2009 respectively was preceded by years of very dismal investments averaging about 2.91 per cent annually between 1995 – 2007 (Kumo, 2012:7). The long run trends in infrastructure investment are well explained in Perkins, Fedderke and Luiz (2006).

Many definitions and interpretations of infrastructure can be found in the literature (see Fourie, 2006a for a discussion of these definitions). Economic infrastructure includes transport, communication, energy, water and sanitation facilities, whilst health and education systems as well as cultural and recreational facilities constitute social forms of infrastructure (Fedderke and Garlick, 2008: 2). This chapter focuses on economic infrastructure.

Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect” – as well as in providing a solid foundation for social development (Swilling, 2006). In South Africa the importance of infrastructure has not only been emphasised at national level but also at regional level. In the Western Cape the region needs efficient transport systems, water and sanitation, telecommunications and power supplies in order to influence the standard of living of their populations and regional economic growth. There is, thus, a pressing need to

determine whether government's strategy on infrastructure investment will yield the desired economic growth benefits at micro (i.e. project or sector level) or at the national or macro level.

The micro level analysis certainly would provide more accurate results on the impact of public economic infrastructure investment on the economy but most empirical work in this area in South Africa has focused on the national level. Over the years much research has been conducted on the relationship between infrastructure and growth¹³ and conclude that infrastructure does have an impact on growth – a view strongly supported by municipalities in their response to the Cape Winelands survey. Early reviews of the empirical literature on the South African economy can be found in Fourie (2006).

Investment in economic infrastructure is not only important at the national level but the regional and local levels too. Table 6.1 below illustrates the extent to which households within the Western Cape lack access to basic services (electricity, piped water and sanitation and refuse removal). Provinces with the most urgent need for Municipal water services and sanitation infrastructure requirements are KwaZulu-Natal, Limpopo and the Eastern Cape. As can be seen in comparison to other provinces the Western Cape has performed relatively well. However there is still a need for the maintenance and expansion of key strategic regional infrastructure projects in order to position the Western Cape for sustainable economic growth and poverty reduction.

Table 6.1 Municipal backlogs per province

Municipal backlogs per province	Backlog (% with service below adequate level)			
	Electricity	Piped water	Sanitation	Refuse removal
Western Cape	6	1.1	6.6	8.9
Free State	13.4	2.5	30.6	23.4
Gauteng	16.5	2.1	12.2	13.8
North West	17.7	10.1	18.4	45.2
Mpumalanga	18.3	8.7	46.1	58.5
Limpopo	19	16.4	69.2	81.3
KwaZulu-Natal	28.5	20.6	36.1	48.1
Northern Cape	12.7	5.2	45.5	27.9
Eastern Cape	34.4	29.6	51.1	60
South Africa	20	11.4	32.4	38.4

Source: Ruiters (2011:65)

There have been varying levels of infrastructure investments and development across the 131 towns outside the Cape Town Metropolitan area. Some towns have solid development potential while others are declining. A number of growth factors have contributed to this decline (Donaldson et al 2010). Amongst these factors is a deteriorating infrastructure. Municipal infrastructure consists mainly of bulk treatment plants, pump networks, pump stations treatment works, reservoirs and distribution pipelines, electricity transmission and distribution infrastructure. In some municipalities

¹³ These include Ford and Poret (1991), Aschauer (1989 and 1993), World Development Report (1994) and Holtz-Eakin (1994)

infrastructure remains under threat and requires increasingly more astute management whilst other municipalities have invested significantly in infrastructure provision and experience high growth rates. The following section takes a look at infrastructure investment in the Cape Winelands and its resulting impact on growth.

6.2 Regional economic growth, infrastructure and the budget link

Empirical evidence at National level has shown that investment in economic infrastructure has a positive impact on National growth. This growth however depends crucially on provincial and municipal performance. All municipalities are tasked with basic service delivery objectives in order to stimulate local economic development. Population growth and deteriorating infrastructure has continued to place strain on infrastructure budgets. The objective of this section is to determine if there is a relationship between infrastructure investment and growth in the Cape Winelands and to show the success the region has had in providing infrastructure.

6.2.1 Infrastructure expenditure in Cape Winelands District

With the growing emphasis on infrastructure investments municipalities within the Cape Winelands District have continued in their efforts to improve infrastructure availability. Some municipalities have had relatively more success in addressing backlogs within their jurisdictions than others. The results of the 2010 Growth Potential of Towns study conducted by Donaldson et al (2010) revealed that the best performing municipality in the Cape Winelands District using the Infrastructure index¹⁴ is Stellenbosch Municipality. Langeberg, Drakenstein and Breede Valley municipalities were rated as medium performers whilst Witzenberg was rated low according to the infrastructure index. This difference in performance may be a result of the differences in real infrastructure expenditure that have been recorded across the municipalities (see Table 6.2 below¹⁵) or differing management practices. As can be seen over the period under analysis infrastructure investment was higher in Drakenstein followed by Stellenbosch, Breede Valley, Witzenberg and then Langeberg Municipality. Overall in 2012 the Cape Winelands District infrastructure expenditure made up 13 per cent of the total infrastructure expenditure for the whole Province.

¹⁴ 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) (Donaldson 2010:66).

¹⁵ Note these figures have been inflation adjusted.

Table 6.2 Cape Winelands infrastructure expenditure per municipality

Municipality (R'000)	2009	2010	2011	2012
Cape Winelands District	R4 163	R3 964	R3 228	R2 183
Witzenberg	-	R19 006	R38 437	R43 546
Drakenstein	R78 124	R113 463	R123 036	R165 912
Stellenbosch	R73 113	R76 803	R86 738	R106 586
Breede Valley	R55 437	R86 405	R92 955	R86 665
Langeberg	-	R31 162	R23 102	R19 849
Cape Winelands District Total Expenditure	R210 836	R330 804	R367 496	R424 740
Western Cape Province Total Expenditure	R2 517 779	R3 710 015	R2 946 769	R3 208 034

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Table 6.3 Cape Winelands infrastructure expenditure percentage change

Municipality	2010	2011	2012
Witzenberg		102.23%	13.29%
Drakenstein	45.24%	8.44%	34.85%
Stellenbosch	5.05%	12.93%	22.88%
Breede Valley	55.86%	7.58%	-6.77%
Langeberg		-25.87%	-14.08%
Total Expenditure	56.90%	11.09%	15.58%

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Table 6.3 presents the year-on-year percentage changes in infrastructure expenditure per municipality. As can be seen from the table there has been a steady increase in expenditure across the district municipalities except for the decrease recorded in Langeberg for the years 2011 and 2012.

Drakenstein and Stellenbosch Municipality recorded the highest percentage changes in infrastructure expenditure from 2011 to 2012 and these municipalities accounted for 39 per cent and 25 per cent of the total infrastructure expenditure in the Cape Winelands District respectively. Breede Valley Municipality accounted for 20 per cent of the total infrastructure expenditure, Witzenberg accounted for 10 per cent, whilst Langeberg's infrastructure expenditure accounted for 5 per cent of the region's infrastructure spend in 2012. The differences in expenditure across the remaining local municipalities are largely related to the various budgetary constraints faced by each municipality.

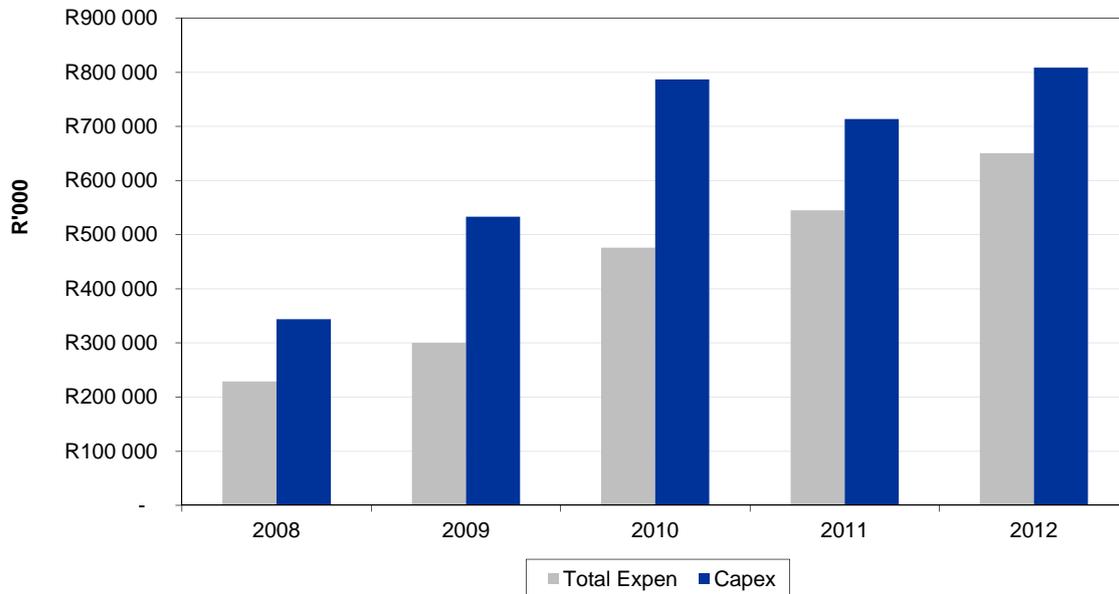
6.2.2 Infrastructure budgets

The sources of infrastructure funding at Municipal level are the National government and Provincial Government in the form of grants or from payments made by residents of the municipal area.

The National Government recognises that infrastructure investment is the cornerstone to economic and social upliftment. To this end in 2004 the Government provided local governments with a Municipal Infrastructure Grant (MIG) to complement their capital budgets. Of the capital expenditure budget allocated to municipalities within the Cape Winelands District a large percentage of it goes to Economic & Environmental Services and Trading Services (economic infrastructure) whilst the

remainder goes to Governance & Administration and Community & Public Safety. As can be seen from the graph below the proportion of the budget that has been used on infrastructure has continued to increase over the years. In 2012 infrastructure expenditure took up approximately 80 per cent of the entire capital expenditure budget for the whole district.

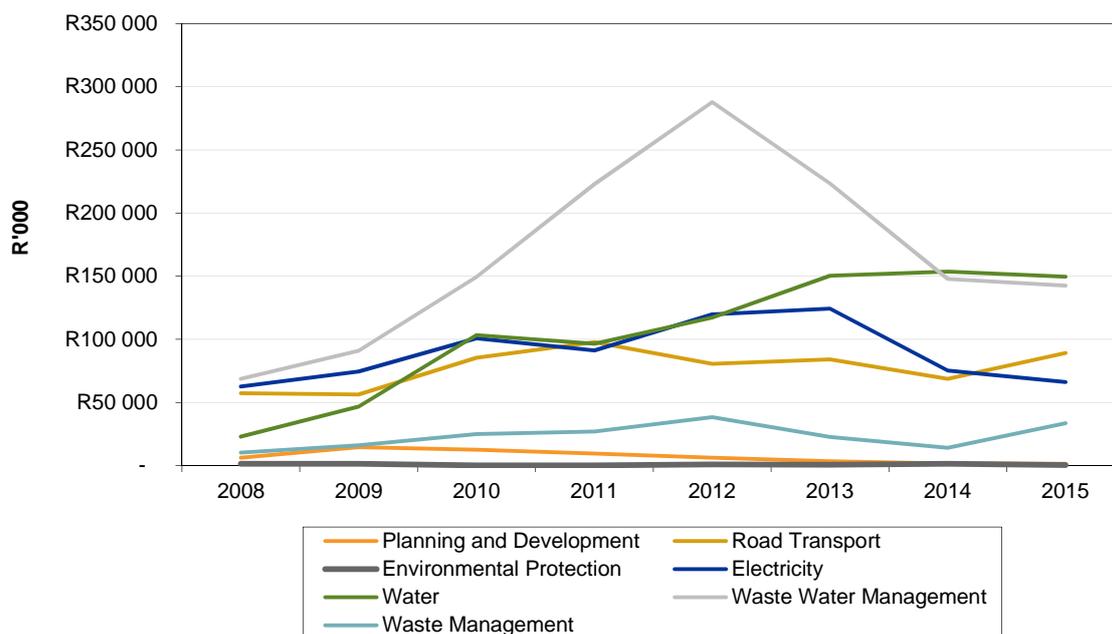
Figure 6.1 Capex vs Total infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

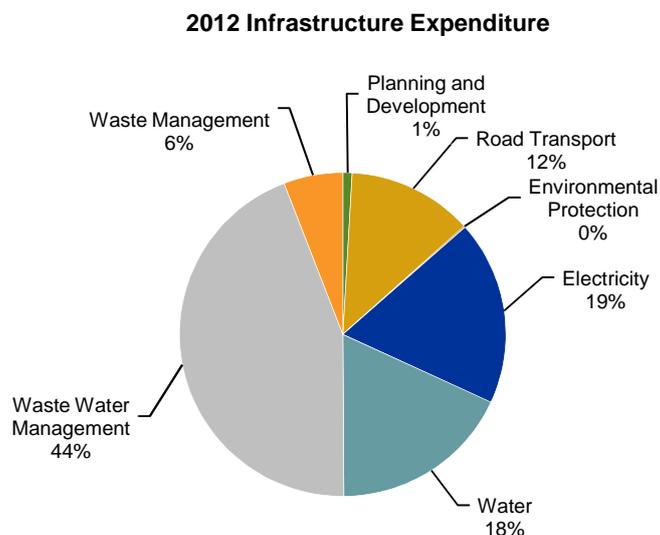
However budgetary constraints call for an investigation into the types of infrastructure that would influence growth within the Cape Winelands District. "Priority should be given to infrastructure programmes that contribute to regional integration" (NDP, 2012: 159). These include projects such as revising transport links and improving access to energy or water as they form a vital part of the Western Cape economy. Since 2009 expenditure has been high on four forms of infrastructure namely: water provision, waste water management, road transport and electricity (see figure below). The region is blessed with a well maintained road infrastructure although it does face severe challenges in the provision of a public transport network.

Figure 6.2 Cape Winelands economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Figure 6.3 Cape Winelands economic infrastructure expenditure breakdown



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

In 2012 the largest amount of funds went towards water projects, sanitation, electricity and roads, whilst planning and development and environmental protection take up the smallest portions (see Figure 6.3 above). Both theory and empirical work at National level suggest these expenditures do have an impact on economic growth.

6.2.3 Infrastructure investment and economic growth

The impact of infrastructure investment on growth depends crucially on the individual municipalities' infrastructure investment decisions. It depends on their knowledge of the location, characteristics and requirements for infrastructure investment that has the potential to influence economic growth. Investment in infrastructure and the maintenance thereafter requires a complex mix of robust management practices. Differences in infrastructure maintenance and development may lead to vast differences in economic performance across the Cape Winelands towns.

The Growth Potential of Towns study presents a categorisation of towns in the Cape Winelands in terms of the infrastructure index as shown in Table 6.4. As can be seen the town with the most severe infrastructural challenges is De Doorns. In addition towns like Touws River, Ashton, McGregor, Robertson, Franschhoek and Klappmuts are generally rated low according to the infrastructure index. Towns that are rated very high according to the infrastructure index are Paarl in Drakenstein and Pniel in Stellenbosch.

Table 6.4 Town categorisation using the infrastructure index

Municipality	Town	Infrastructure index
Breede Valley	De Doorns	Very low
	Rawsonville	Medium
	Touws River	Low
	Worcester	High
Drakenstein	Gouda	Medium
	Paarl	Very high
	Saron	Medium
	Wellington	High
Langeberg	Ashton	Low
	Bonnievale	Medium
	McGregor	Low
	Montagu	Medium
	Robertson	Low
Stellenbosch	Franschhoek	Low
	Jamestown	High
	Klappmuts	Low
	Kylemore	High
	Pniel	Very high
	Stellenbosch	High
Witzenberg	Ceres	Medium
	Op-die-Berg	Medium
	Prince Alfred Hamlet	Medium
	Tulbagh	Medium
	Wolseley	Medium

Source: Donaldson et al (2010)

The average GDP growth for the local municipalities over the period 2000 - 2011 is displayed in Table 6.5 below. We compare it to the level of infrastructure within that municipality as determined by the 2010 study on municipalities done by Donaldson et al (2010) (see Table 6.5 below).

Langeberg Municipality recorded an average growth rate of 5.5 per cent over the period 2000 – 2011. The Municipality is rated medium according to the infrastructure index. The region hosts a very vibrant tourism industry and the fastest growing transport, storage and communication sector.

Drakenstein Municipality and Stellenbosch Municipality have location advantages by being close to the Cape Metropolitan Municipality. The municipalities each account for close to a third of the economic activity in the CWD (as discussed in Chapter 3) and are rated medium and high respectively according to the infrastructure index. The region has a well-developed agricultural sector, with a very strong services sector in these two municipalities. Both sectors generally require good infrastructure in order to flourish.

Despite making the highest contributions to infrastructure investment within the district over the period 2009 - 2012 Drakenstein Municipality only grew at 3 per cent equivalent to the growth rate of Witzenberg, a municipality with low infrastructure levels. Although Drakenstein Municipality is of similar in size to Stellenbosch and is rated medium according to the infrastructure index its much slower growth rate is underpinned by a disappointing manufacturing performance.

Table 6.5 GDP vs Infrastructure levels at municipal level

Municipality	GDP growth	Infrastructure level
Witzenberg	3%	Low
Drakenstein	3%	Medium
Stellenbosch	5.5%	High
Breede Valley	2.4%	Medium
Langeberg	5.1%	Medium

Source: Donaldson et al (2010) and Quantec Research

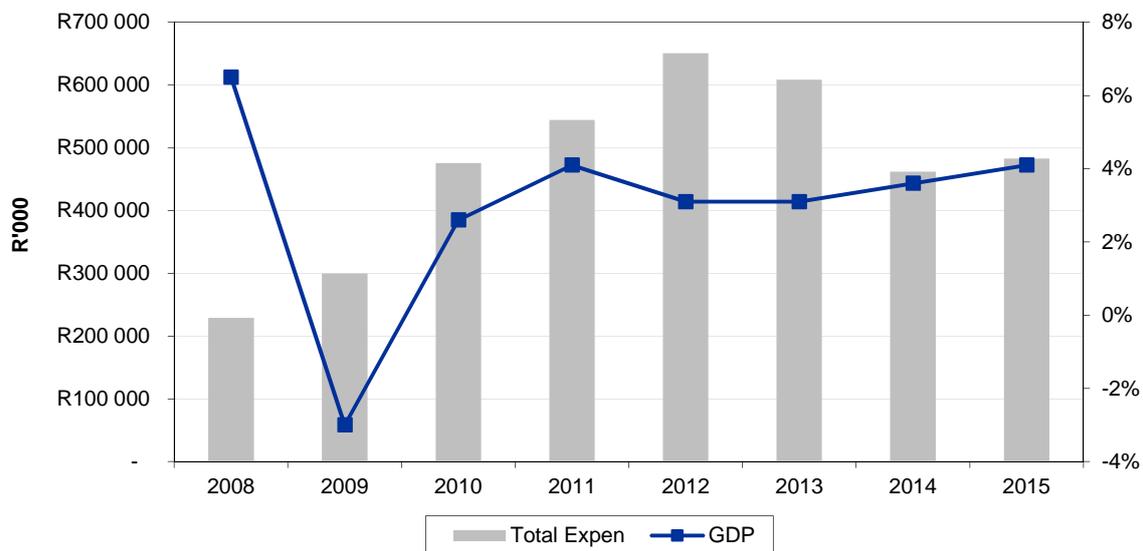
Witzenberg Municipality recorded a growth rate of 3 per cent per annum which was below the entire district's average, over the 2000 to 2011 period. The Municipality is the smallest within the District. Research by Donaldson et al (2010) revealed that according to the infrastructure index the Municipality performs poorly. This is matched by its relatively low investments in infrastructure which accounted for 10 per cent of the total infrastructure expenditure in the Cape Winelands District in 2012. The Municipality has severe challenges in meeting the infrastructure needs of its jurisdiction. This challenge is compounded by the rural dominance of the area, development challenges, its low revenue base, resource constraints and segregation in settlements (Witzenberg IDP, 2012). The Municipality remains a divided municipality between higher and lower quality services and infrastructure. The provision of infrastructure has been influenced by the towns' historic development patterns.

Breede Valley Municipality recorded a growth rate of 2.4 per cent per annum which was below the entire district's average, over the 2000 to 2011 period. The Municipality is rated medium according to the infrastructure index and contributes 20 per cent to the total infrastructure expenditure in the Cape Winelands District in 2012, a contribution that is greater than that by Witzenberg and Langeberg municipalities.

Despite these varying levels of performance and infrastructure investment these municipalities all face infrastructure backlogs of a variety of forms. These investments will have varying impacts on the municipalities' performance and should be guided by the principle: areas with the greatest economic potential should be given priority.

Due to various data limitations it is not possible to give an empirical presentation of the impact that an investment in infrastructure has on economic growth. Whilst data limitations have been a tremendous challenge the graph below provides an approximation of what both theory and empirical work have established, i.e. there is a positive relationship between infrastructure investment and GDP.

Figure 6.4 Cape Winelands GDP vs Total economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Empirical evidence emphasises that infrastructure investment will have both a direct and an indirect effect on GDP. The direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP. The indirect, longer term effects are a result of multiplier or knock-on effects that have a much longer term macroeconomic impact on the economy.

Various studies have tried to provide an empirical establishment of the typical impact that various forms of infrastructure expenditure would have on the economy. In South Africa, a good account of this literature is available in Fourie (2006). A study by Mabugu, Rakabe and Chitiga (2009) makes use of a static Computable General Equilibrium (CGE) modelling tool to assess the relationship between infrastructure and growth. This modelling technique is however later criticised by Mbanda (2011) as being unable to account for distributional and accumulation effects. Mabugu,

Rakabe and Chitiga (2009:17) used this tool to quantify the impact that a 10 per cent increase in water, health, roads, electricity and communications infrastructure above baseline would have on the economy. The authors find that increases in public infrastructure in the different sectors have beneficial yet different macroeconomic effects. Gross Domestic Product increases due to increases in investment and consumption. Imports and exports levels, the Consumer Price Index (CPI), wages and employment levels and a variety of sectors are also affected in differing ways. Sectors with strong forward and backward linkages are affected by the increase in public infrastructure investment. The impacts of the simulations on GDP are shown in Table 6.6 below.

Table 6.6 Effect of 10 per cent increase in infrastructure on GDP

Variable	Variation (%)			
	Water	Electricity	Roads and transport	Communications
GDP	0.02	0.19	0.44	0.34

Source: Adapted from Mabugu, Rakabe and Chitiga (2009)

Their results confirm that an increase in infrastructure investment within these sectors leads to increased economic growth. The impact appears most significant in the case of transport and communications infrastructure spending. For a more detailed presentation of the macroeconomic impacts of the full simulations see Mabugu et al (2009).

The Medium Term Expenditure Frameworks envisages a steep increase in infrastructure expenditure (as shown in Figure 6.4). It is projected that GDP growth in the CWD will accelerate to an average of 3 per cent for the year 2012 - 2013 3.6 per cent in 2014 and 4.1 per cent per annum in 2015 - 2017. Coupled with other growth determinants expenditure will influence GDP growth for the District.

Of course this investment in economic infrastructure would be most effective if focused on the major growth centres for which the region has comparative advantage. Infrastructure investments within these areas are likely to boost the fortunes of the district as a whole as economic linkages will stimulate a variety of other industries in the area. This could potentially benefit the lagging regions and have trickle down effects and is certainly an area for further research.

6.3 Infrastructure and inter-industry linkages: The case for sector development

The research and analysis for the Western Cape Infrastructure Framework 2013 (WCIF) has identified five core networked infrastructure systems. They are:

- Water system infrastructure

This includes the range of infrastructure related to the water cycle including bulk water resources, bulk and distribution water supply systems, wastewater collection and treatment infrastructure (including recycling) and storm-water systems.

- **Energy system infrastructure**
This includes the range of infrastructure related to electricity generation, transmission and reticulation. It may also include other energy infrastructures that do not involve a conversion of energy into electricity, such as fuel for transport, cooking and heating.
- **Transportation and logistics system infrastructure**
This includes all the different infrastructure elements that contribute to the mobility of people and goods. It includes the road network, the rail network, public transport, pedestrian and bicycle mobility, ports and airports and the freight logistics systems.
- **Settlement system infrastructure**
This encompasses the built environment and includes the range of public and private buildings and facilities that comprise functional settlement. Public facilities such as schools, hospitals and clinics and other government buildings will form part of this. It includes the waste management system servicing settlements.
- **Telecommunications system infrastructure**
This includes the range of landline, cellular and wireless networks that enable the range of electronic communications.

6.3.1 Strategic economic infrastructure and comparative advantage

The strategic intervention in relation to Economic Infrastructure in creating the enabling environment for robust and sustainable economic growth is further explored with the use of the 'revealed comparative advantage' approach explained in Chapter 3 (Table 3.4) of this report. The use of the LQ ratio serves as a 'guiding tool' in the prioritisation of infrastructure investment across the Overberg District. Coupled with the labour absorption potential of the identified sectors, we are able to deduce from the LQ ratio (with a ratio more than 1 indicating comparative advantage) and the demand for service infrastructure linked to the specific sectors, the priorities required for strategic infrastructure investment.

1. Agriculture, Forestry and Fishing (LQ ratio – 4.55)
2. Food, beverages and tobacco (LQ ratio – 5.43)
3. Catering & Accommodation (LQ ratio – 1.82)
4. Finance & insurance (LQ ratio – 1.05)

Agriculture, Forestry & Fishing feature prominently with a sizeable LQ ratio of 4.55. This further highlight the importance of the industry to the Cape Winelands region coupled with strong 'downstream' agro-processing activity which has been well documented in research and analysis to date for the Cape Winelands District. Furthermore, the notable comparative advantages displayed by Catering & Accommodation (1.82) give more evidence towards the strong tourism potential that exists across the region.

Consistent with Provincial trends, Business Services is again a flourishing sector with impressive growth rates of 6.8 per cent (2000 - 2011) given its market share of 14.1 per cent.

6.3.2 Drivers of change and infrastructure priorities

Provincial Economic growth has recovered (3 per cent in 2010/11) and provincial projections (PERO) indicate a modest growth rate of 3.7 per cent in the Western Cape over the coming six years, which is equivalent to growth projections of the South African economy as a whole.

The growth outlook over the coming five (5) years of each sector of the Cape Winelands District economy is shown in Table 3.3 of this report.

Based on the Sectoral Forecast/Outlook presented in section 3.2.1 of this report, key sectors expected to make notable gain in terms of Annual Average Economic growth are discussed further with the aim of identifying the key sectors in which Infrastructure expenditure should be concentrated to further aid growth and development of these sectors (not forgetting the comparative advantage mentioned above). To this end, growth forecasts coupled with GDPR % share, Finance, insurance and business services (4.9 per cent), Construction (4.4 per cent), Wholesale & retail trade, catering & accommodation (4.4 per cent) and Transport, storage and communication (4.8 per cent) rank as the favourable sectors. Importantly, the locational quotients (LQs) of all the aforementioned sectors rank near the level of 1 which is a benchmark for measuring Comparative Advantage of each sector in the Cape Winelands District.

Furthermore, Agriculture is a major role-player within the region and ranks with an LQ ratio of 4.55 while its GDPR share in 2011 was 11.1 per cent. The well documented plight of the sector both provincially and nationally translates to careful consideration when prioritising infrastructure in this regard, but the implications to labour and overall economic policy remain of relative importance with regards to future policy and planning.

With the aforementioned growth projections (section 3.2.1) at the forefront of the research and analysis pertaining to Infrastructure provision in the Cape Winelands District region, the demand for services infrastructure becomes more pertinent in the achievement of growth and development targets. According to the WCIF 2013 study, the demand for services (infrastructure) from enterprises is dependent on the nature of the activity they are engaged with. This is difficult to assess but the scale of production and the sector of the economy provide a reasonable basis for estimation.

The following recommendations are made based on the growth projections provided and the alignment with the relevant Provincial Strategic Objectives. The summary for demand drivers in the Cape Winelands District have been captured in the WCIF 2013 Report and are 'prioritised' on the aforementioned Growth projections.

- **Construction (3.5 per cent GDP Share)**

Water and power are required on construction sites.

- **Finance, insurance, real estate & business services (8.8 per cent GDP Share)**

This is the conventional office building environment with water and sanitation associated mainly with toilets and electricity required for heating, air-conditioning, lighting and office equipment. Telecommunications infrastructure is most crucial to this sector. Waste streams are dominated by paper.

- **Agriculture (11.1 per cent GDP Share)**

The demand for energy and water vary considerably by industry, with indicative figures available for most industries. Wet industries produce wastewater which is typically discharged into a municipal wastewater system. Some industries also generate high mass or hazardous solid waste. As most industries are located in urban areas they benefit from the road system in the area.

- **Wholesale & retail trade, catering & accommodation (12.1 per cent GDP Share)**

Generally the demand for water, sanitation and electricity relates to personal use, heating and lighting. Shops require energy for keeping goods hot or cold, as the case may be. Restaurants have specific waste profiles (kitchen waste).

6.4 Conclusion

The analysis provided in this chapter took a look at infrastructure investment in the Cape Winelands and its resulting impact on growth. Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments as well as providing a solid foundation for social development. The data presented revealed that there has been varying levels of infrastructure investments and development across the towns and municipalities within the Cape Winelands. The differences in expenditure across the local municipalities are largely related to the various budgetary constraints faced by each municipality. Our data revealed the following:

- Stellenbosch and Witzenberg municipalities were rated as the best and the worst performing municipalities within the district according to the infrastructure index. The high infrastructure investments in Stellenbosch were matched by an outstanding growth performance. In Witzenberg the bottom line is that long term poor infrastructure (water pipes, deteriorating roads, poor communication systems, deteriorating waste water and transport systems) cannot continue supporting a growing regional economy.
- Drakenstein, Breede Valley and Langeberg municipalities were rated medium according to the infrastructure index and had varying levels of growth. Structural challenges, skills shortages, budgetary constraints, resource capacity, human capital and mismanagements issues are amongst the few issues that influence this varying economic performance.

Due to budgetary constraints it is important for the focus to be placed on demand side management in order to ensure sustainable resource use whilst meeting infrastructure provision requirements. In addition there is need to investigate the types of infrastructure that would influence growth within the CWD. With agriculture being the backbone of this region it is important to strengthen the infrastructure that is available to the agricultural sector. This will help strengthen the resilience of the sector in the face of the uncertainties associated with climate change whilst promoting sustainable agricultural and economic growth. The strong forward linkages this sector has with the manufacturing and the financial and business sector will help drive further economic growth.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Cape Winelands District: GDP at basic, constant 2005 prices, average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	1.5	2.1	-0.6	0.3	0.4	4.6	-4.4
2 Secondary sector [SIC: 3-5]	-0.5	2.5	2.8	2.8	3.8	-3.2	4.8
3 Tertiary sector [SIC: 6-9, 0]	3.6	6.2	5.2	5.6	6.3	3.8	4.4
Total Cape Winelands District	1.8	4.4	3.7	3.9	4.6	1.7	3.4
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	1.9	2.1	-0.5	0.3	0.3	4.8	-4.4
2 Mining and quarrying [SIC: 2]	-8.7	2.8	-2.8	2.1	5.2	-7.1	-1.1
3 Manufacturing [SIC: 3]	-0.8	2.0	2.4	2.4	3.4	-4.7	5.5
4 Electricity, gas and water [SIC: 4]	5.5	3.0	1.4	2.1	2.3	2.7	0.7
5 Construction [SIC: 5]	1.3	8.4	6.9	7.2	9.0	6.3	1.1
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.7	6.1	3.9	5.4	6.6	0.2	5.6
7 Transport, storage and communication [SIC: 7]	4.2	8.5	5.4	6.8	8.1	3.5	5.1
8 Finance, insurance, real estate and business services [SIC: 8]	4.3	8.0	6.9	7.1	8.2	6.1	4.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.7	4.4	3.2	3.8	4.7	2.3	2.1
10 General government [SIC: 91, 94]	-0.7	3.1	4.5	3.3	2.5	5.0	4.7
Total: Cape Winelands District	1.8	4.4	3.7	3.9	4.6	1.7	3.4
Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	16.9	15.7	12.6	14.2	15.1	13.3	11.6
2 Secondary sector [SIC: 3-5]	34.4	31.0	29.6	30.5	31.3	29.1	28.8
3 Tertiary sector [SIC: 6-9, 0]	48.7	53.3	57.8	55.3	53.7	57.7	59.6
Total Cape Winelands District	100	100	100	100	100	100	100
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	16.6	15.4	12.4	13.9	14.8	13.0	11.4
2 Mining and quarrying [SIC: 2]	0.3	0.3	0.2	0.2	0.3	0.2	0.2
3 Manufacturing [SIC: 3]	30.8	27.4	25.2	26.5	27.5	24.6	24.3
4 Electricity, gas and water [SIC: 4]	1.1	1.0	0.9	1.0	1.0	0.9	0.9
5 Construction [SIC: 5]	2.5	2.6	3.4	3.0	2.7	3.5	3.6
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	11.1	13.1	13.5	13.3	13.2	13.1	13.7
7 Transport, storage and communication [SIC: 7]	5.1	6.0	6.9	6.4	6.1	6.9	7.1
8 Finance, insurance, real estate and business services [SIC: 8]	15.5	18.5	21.8	19.9	18.7	22.2	22.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.7	5.9	5.9	5.9	5.9	5.9	5.8
10 General government [SIC: 91, 94]	11.3	9.8	9.7	9.8	9.8	9.6	10.1
Total: Cape Winelands District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Cape Winelands District: Employment (Formal & informal), average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	-2.4	-7.7	-7.3	-7.1	-7.3	-16.6	3.4
2 Secondary sector [SIC: 3-5]	-5.3	0.5	-0.8	-0.7	0.1	-4.5	0.0
3 Tertiary sector [SIC: 6-9, 0]	3.5	4.4	1.8	3.0	3.9	0.6	2.0
Total Cape Winelands District	-0.9	-1.0	-1.2	-1.1	-0.9	-4.6	1.8
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	-2.4	-7.7	-7.5	-7.2	-7.4	-16.9	3.3
2 Mining and quarrying [SIC: 2]	-6.9	-4.4	17.6	6.7	3.2	15.8	11.1
3 Manufacturing [SIC: 3]	-4.7	0.3	-0.5	-0.6	-0.1	-3.2	0.2
4 Electricity, gas and water [SIC: 4]	1.8	4.7	-0.1	1.3	3.6	-5.2	-1.0
5 Construction [SIC: 5]	-7.1	1.1	-1.8	-1.0	0.7	-8.1	-0.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	4.7	4.8	1.3	2.8	3.9	-1.2	2.2
7 Transport, storage and communication [SIC: 7]	-4.2	4.3	1.6	2.4	2.3	2.7	2.2
8 Finance, insurance, real estate and business services [SIC: 8]	8.2	6.6	1.5	4.3	6.4	-1.9	2.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.6	3.0	1.1	2.3	3.3	2.4	-1.8
10 General government [SIC: 91, 94]	0.5	3.7	4.0	3.5	2.9	3.4	6.0
Total: Cape Winelands District	-0.9	-1.0	-1.2	-1.1	-0.9	-4.6	1.8

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	45.5	35.6	23.3	30.2	34.7	21.4	21.0
2 Secondary sector [SIC: 3-5]	19.0	17.6	19.1	18.3	17.9	19.4	18.7
3 Tertiary sector [SIC: 6-9, 0]	35.4	46.8	57.6	51.5	47.4	59.2	60.3
Total Cape Winelands District	100	100	100	100	100	100	100
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	45.4	35.5	23.0	30.0	34.5	21.1	20.6
2 Mining and quarrying [SIC: 2]	0.2	0.1	0.3	0.2	0.2	0.3	0.4
3 Manufacturing [SIC: 3]	13.7	12.8	14.0	13.3	13.0	14.3	14.0
4 Electricity, gas and water [SIC: 4]	0.2	0.2	0.2	0.2	0.2	0.2	0.2
5 Construction [SIC: 5]	5.1	4.6	4.9	4.7	4.7	4.9	4.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	10.9	14.2	17.8	15.9	14.6	18.1	18.5
7 Transport, storage and communication [SIC: 7]	1.9	2.1	2.5	2.3	2.1	2.6	2.6
8 Finance, insurance, real estate and business services [SIC: 8]	5.9	9.5	11.4	10.2	9.5	11.7	11.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	9.1	11.8	14.2	12.9	11.9	15.0	14.6
10 General government [SIC: 91, 94]	7.7	9.1	11.7	10.3	9.2	11.8	13.0
Total: Cape Winelands District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Cape Winelands District: Goods Exports & Imports, % composition: 1996 – 2011

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods exports (R million)							
Broad sectors:							
Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	88.1	89.0	93.5	91.0	89.8	92.3	94.2
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.1	0.1	0.0	0.4	0.0
3 Manufacturing [SIC: 3]	11.7	10.9	6.3	8.9	10.0	7.2	5.7
4 Undefined/other	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Total: Goods exports	100	100	100	100	100	100	100
Manufacturing sector:							
Cape Winelands District							
1 Food, beverages and tobacco [SIC: 301-306]	88.4	90.8	91.1	90.8	90.9	89.8	91.1
2 Textiles, clothing and leather goods [SIC: 311-317]	2.0	1.3	0.4	1.0	1.3	0.2	0.3
3 Wood, paper, publishing and printing [SIC: 321-326]	0.2	0.2	0.6	0.4	0.3	0.1	1.4
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	2.8	2.3	2.1	2.3	2.4	1.9	2.3
5 Other non-metal mineral products [SIC: 341-342]	0.2	0.4	0.4	0.4	0.4	0.4	0.3
6 Metals, metal products, machinery and equipment [SIC: 351-359]	5.6	3.3	2.1	2.8	3.0	3.4	1.4
7 Electrical machinery and apparatus [SIC: 361-363]	0.4	0.1	0.1	0.1	0.1	0.1	0.1
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.2	0.9	2.1	1.4	1.0	2.2	2.3
9 Transport equipment [SIC: 381-387]	0.1	0.4	1.1	0.7	0.4	1.8	0.8
10 Furniture and other manufacturing [SIC: 391-392]	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Total: Manufacturing exports	100	100	100	100	100	100	100
Goods Imports (R million)							
Broad sectors:							
Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	42.2	40.0	38.9	39.9	37.9	40.5	47.3
2 Mining and quarrying [SIC: 2]	0.5	0.3	0.1	0.3	0.3	0.2	0.1
3 Manufacturing [SIC: 3]	57.1	59.6	60.1	59.3	61.6	58.3	51.3
4 Undefined/other	0.2	0.1	0.9	0.5	0.2	1.0	1.3
Total: Goods imports	100	100	100	100	100	100	100
Manufacturing sector:							
Cape Winelands District							
1 Food, beverages and tobacco [SIC: 301-306]	17.5	15.2	23.2	19.4	15.5	23.2	31.2
2 Textiles, clothing and leather goods [SIC: 311-317]	2.4	2.1	1.0	1.6	2.1	0.8	0.5
3 Wood, paper, publishing and printing [SIC: 321-326]	26.0	26.5	23.1	24.8	27.3	21.5	17.9
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	18.9	18.3	15.0	17.0	18.0	12.8	17.2
5 Other non-metal mineral products [SIC: 341-342]	1.8	2.2	2.0	2.1	2.3	1.7	1.7
6 Metals, metal products, machinery and equipment [SIC: 351-359]	28.9	29.5	25.2	26.9	27.5	26.7	24.3
7 Electrical machinery and apparatus [SIC: 361-363]	1.0	1.0	0.9	1.0	1.0	0.9	0.9
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	1.9	2.2	3.2	2.6	2.4	3.3	2.8
9 Transport equipment [SIC: 381-387]	1.0	2.4	5.0	3.6	2.8	8.2	2.3
10 Furniture and other manufacturing [SIC: 391-392]	0.6	0.6	1.4	1.0	0.9	0.9	1.2
Total: Manufacturing imports	100	100	100	100	100	100	100

Source: Quantec Research/CER

Overberg District

Executive summary

1. Introduction

The overall objective of the Municipal Economic Review and Outlook (MERO) 2013 is similar to that of its predecessor, MERO 2012, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO).

But MERO 2013 also extends the focus and analyses of its predecessor. In addition to estimating the recent and forecasted GDP growth for each municipality and the major economic sectors and industries (Chapters 2 and 3), the current study also provides extensive analyses of value or supply chains (Chapter 4), the informal sector (Chapter 5), and the economic infrastructure (Chapter 6). Complimentary to the MERO 2013 findings is an Executive Summary detailing the key outcomes/trends related to the Socio-economic profile per District. These Executive Summaries may be located at the following website: www.westerncape.gov.za.

2. Regional growth trends

The global economy hit a recessionary low point in 2009 before turning around and growing at about 5 per cent in 2010 and the first half of 2011, driven largely by the United States of America (USA) and Chinese economies. Since then world growth has dipped to 2.6 per cent (in 2012 and possibly 2013), due partly to debt crises and fiscal restraint policies in the major advanced economies. But the global economy is expected to strengthen again reaching 3.1 per cent in 2014 and beyond, due mainly to expansionary monetary policies coupled with continued fiscal restraint and structural reform.

How did South Africa, the Western Cape (WC) Province and the WC municipalities respond to this hesitant and uneven global turnaround? After growing at 3.5 per cent in 2011, the South African economy followed the world trend growing at 2.5 per cent in 2012 which, according to the latest forecasts, is expected to decelerate further in 2013. The Western Cape economy fared slightly better with real economic growth in the region decelerating from 3.5 per cent in 2011 to an estimated 3 per cent in 2012.

Similar trends were recorded for formal and informal employment in the Province. However, it should be noted that the employment recovery only commenced late in 2010 and some sectors and municipal areas continue to suffer the heavy recessionary impact during calendars 2008/09.

The Overberg District economy witnessed a relatively mild recessionary impact in 2008-09 (with real GDP growth remaining positive in 2009 at 0.7 per cent). However real GDP growth accelerated from 0.7 per cent in 2009 to 3 per cent in 2010 and 4.6 per cent in 2011 (averaging 3.8 per cent) before slowing down again in calendar 2012 (to 3.6 per cent), in line with the global and national economic slowdowns. The impact on the 4 constituent municipalities was variable, with Overstrand, Cape Agulhas and, to a lesser extent, Swellendam growing faster than Theewaterskloof Municipality.

While the region does not export a large share of GDP, some municipalities do (e.g. Theewaterskloof) and given the dominance of agricultural products in the export basket, the economic troubles in the EU are cause for concern. The EU – a major trading partner – remains under severe strain due to fiscal austerity and structural reforms with growth lagging behind the USA economy and especially the developing economies which, as a longer term strategy, may call for export diversification on the part of the country, the WC and the WC municipalities.

It is proposed that an independent research study be launched to consider the desirability and efficacy of diversifying OBD exports away from the EU in favour of more attractive markets in East Asia, Africa and Latin America. Such a study should also look at cost-effective practical steps that can be taken to achieve such diversification.

3. Overberg District (OBD): Sectoral growth

The recessionary impact on economic sectors and industries in the OBD mirrored the above trends, with the agricultural and manufacturing sectors being worst affected, both experiencing declining growth and shedding labour in 2008/09. During the uncertain aftermath of the recession, however, the financial & business services sector, present mostly in the Theewaterskloof and Overstrand municipalities, rebounded quite well from the earlier recession. Manufacturing and retail, wholesale, catering & accommodation were the other two broad sectors that led growth during the economic recovery. However in a number of manufacturing industries (such as non-metal minerals, clothing & textiles, wood products, petro-chemicals and automotive) significant retrenchments continued.



In the Overberg economy 37 per cent of economic output is generated in the agriculture, manufacturing and construction sectors, which are semi- and unskilled intensive. There is a need to support these industries (e.g. skills training) to ameliorate the impact of the recession and expand them and make the vibrant growth in the services industries sustainable.

Looking at the future, an attempt was made to determine the growth potential of the 22 main industry groups in the OBD by estimating their so-called "revealed comparative advantage". Using location quotients the analysis indicated that several industries did indeed have a positive comparative advantage, agriculture, forestry & fishing and the associated agro-processing industries, construction, non-metal minerals, catering & accommodation; furniture, business services and radio, TV & professional equipment manufacturing. Value chains or clusters of economic activity that revealed both comparative advantage and were also leading employment generating sectors were; agriculture and agro processing, building & construction, tourism sector and timber/furniture manufacturing value chains.

The OBD economy is forecast to accelerate to 4.3 per cent per annum between 2013 and 2017, driven mostly by the relatively large financial & related business services sector (6.7 per cent), construction (4.7 per cent) and manufacturing (4.4 per cent). While significant risks prevail (both on the global and domestic economic fronts), the OBD economy is projected to remain embarked on a recovery road.

4. Value chains

Value or supply chains represent a collection of different industries (in the primary, secondary and tertiary sectors) that are economically interlinked in the sense of supplying inputs to or demanding inputs from one another. These inter-linkages may cut across different sectors, municipalities and districts and are important from a policy perspective as they may assist policy-makers in focussing on a more broadly based and relevant set of target areas aimed at adding local value.

Agriculture and food processing chains are relatively well developed in several of the Western Cape Districts, including the Overberg District. A typical scenario would be the use of a variety of farming inputs to produce an agricultural product, part of which is domestically consumed, another part which is exported, and yet another part being supplied as inputs to food and beverage processors in the manufacturing sector. The latter food processors may in turn supply to other processors within the value chain, with both groups also acquiring inputs from services and other local industries, and with the final supply either exported or domestically consumed. A similar chain analysis is also done for the furniture manufacturing sector in the OBD.

The agro-processing value chain in the Overberg District (OBD) consists of two major economic sectors, the agricultural sector that is mostly in Theewaterskloof and the food & beverages sector in the Overstrand Municipality. Together these sectors contribute to the establishment of the agro-processing value chain. The most important inputs used in the agricultural sector are intermediate imports, wholesale & retail trade, transport & storage and chemicals. The agricultural products thus

produced are exported (23.6 per cent of the total) and locally consumed (17 per cent), with more than half being supplied as inputs to food and beverage processors in the manufacturing sector.

The food & beverage processing sector in turn acquires 33.6 per cent of its inputs from the agricultural sector, 14.3 per cent as intermediate imports, with the remainder of their inputs coming from a host of local producers and service suppliers. Most of the output from processed food and beverages are sold as final demand locally and exported.

The furniture production value chain in the Overberg District is fairly small but growing rapidly in especially the Cape Agulhas and Overstrand municipalities, with wood and furniture manufacturing constituting the major components. Intermediate imports to wood & wood product production accounts for 11.4 per cent of all inputs. The majority of the output from the wood & wood products manufacturing process is re-introduced to the same industry as intermediate inputs to be utilised in additional manufacturing processes. A further 16.9 per cent of output is supplied as inputs to furniture production and 19 per cent to the construction sector.

Wood & wood products are supplied as inputs into the furniture sector, accounting for 24.8 per cent of intermediate inputs and imports. Support services inputs are also high, with business services and wholesale & retail trade contributing 11.3 and 10.3 per cent to inputs respectively. Intermediate imports' contribution to inputs into furniture manufacturing is relatively high, at 21.3 per cent. Output from the furniture production sector is primarily consumed by households at 60.5 per cent.

From a policy perspective, it is suggested that an independent study be conducted to determine the eligibility of the agriculture and food processing and the wood products and furniture value chains for attaining Special Economic Zone (SEZ) status. The latter would entail a more broadly based industrial policy focusing on industries within the value chains, and involving all levels of government. The alternative would be a more conventional approach providing state support to selected industries within the value chains.

5. Informal sector

From a jobs, training and survivalist perspective, the informal sector is evidently of critical importance, though very little is known about it. But this information gap is being narrowed by extensive surveys of about 250 informal enterprises conducted by the Department of Economic Development & Tourism (DEDAT) in each of the five districts and the Cape Metropolitan Area. The main purpose of these surveys is to provide a profile of the sector which includes the reasons for starting up informal micro-enterprises, the nature of their businesses, employment created, skills attainment and the challenges and prospects they face.

As far as DEDAT's OBD survey is concerned, retail food and beverages were by far the largest category of overall business activity (39.9 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was retail clothing (20.7 per cent), while household goods were the third largest category (6.3 per cent). Some 5 per cent of respondents were also engaged in (small) capital investment activities,

including mechanical and appliance repairs, computer services and money lending. As such they are closely linked to the formal sector and also form part of value chains within the District.

The informal economy provides a means for skills acquisition through informal apprenticeship, with over half the sample (55.3 per cent) reporting having acquired their skills "on the (informal) job", rather than from formal institutions. A further 27.4 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for basic skills transfers to employees. A further 8.7 per cent reported acquiring skills from a former job in the formal sector. The role of adult education in providing skills to operate informal business appeared very limited with only about 1.42 per cent reporting having acquired their business skills through formal study.

The majority of the businesses surveyed were relatively low profit earners, with 77.9 per cent of respondents reporting average monthly profits of just less than R2 500. The remaining 22 per cent of enterprises earned more than R2 500 per month with their informal business enterprises propelling individual earnings over the South African median, making them comparatively financially well off amongst local peers. However, despite the relatively low incomes for the great majority of participants, nearly three-quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a formal "minimum wage" job paying R126.00 per day. This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

The vast majority of respondents indicated that the main reason for starting up or continuing with an informal micro-enterprise is an inability to find alternative employment coupled with the high regulatory costs involved in starting and running a formal business. The latter included the costs of registration, high taxes and difficulties in securing local government tenders. Nearly 55 per cent of the sample reported that their businesses were not registered in any way, while a further 37.5 per cent were what one might call "partially registered", being in possession of a municipal licence. The main reason why informal activities exist and are growing in the District is that the benefits of formalising are overshadowed by the corresponding costs.

The most frequently mentioned problems or challenges were a lack of access to affordable micro-finance (60 per cent of respondents), a shortage of suitable business premises (47 per cent) and high electricity costs (38.9 per cent). Other issues that respondents identified were the cost of access to water (36.8 per cent), a lack of specialised equipment (31.4 per cent), crime (36.8 per cent), increased competition (36.2 per cent), and the high costs of transporting goods and services (27 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

A major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable or simply not

possible due to a lack of collateral. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

As most participants in the informal sector are generally poor, though surviving and adding local value, policies addressing these constraints may simultaneously help to combat poverty and promote growth.

An independent research study could focus on policies in general and more specifically on provincial strategies aimed at addressing some of the constraints discussed here, including the introduction of a more flexible and affordable registration system; the provision of appropriate infrastructure services at designated business premises; securing the safety of such premises; and providing assistance with collaterals in respect of micro-financing.

6. Economic infrastructure

Both the national and provincial governments view infrastructure as an important means of promoting sustainable growth and reducing poverty, with the national government having allocated large portions of its budget for this purpose. Economic infrastructure – which is the focus here – includes road building and maintenance, transport, water supply, electricity transmission, pump stations and piped networks, and sanitation facilities; whilst social infrastructure refers to health, education and a range of social grants.

Economic theory and empirical work suggest that public investment in infrastructure will lower production costs and boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect”. In fact, a recent World Bank study found that the contribution of infrastructure investment to GDP growth is substantial and often greater than that of investment in other forms of capital.

The latter proposition is partly borne out by the fact that the Western Cape Province has the lowest incidence of infrastructure backlogs and also grew more rapidly than other provinces and the country as a whole. A similar relationship seems to hold in the OBD where the Overstrand and, to a lesser extent, the Theewaterskloof municipalities have grown in proportion to the corresponding levels of investment in economic infrastructure. The most important of these investments were water provision, waste water management, road transport and electricity transmission.

However, this proposition does not always hold. Cape Agulhas recorded a GDP growth rate above the average growth rate for the entire District, but spent very little on economic infrastructure. Similarly, several of the smaller towns grew very slowly but, according to the infrastructure index, had adequate levels of infrastructure.

It is clear from the above that the provision of economic infrastructure is only a necessary condition for economic growth. There are several structural constraints at work here which, apart from the high costs of electricity and water, include skills shortages, mismanagement and budgetary constraints. It is evidently crucial for municipalities to identify areas in which their growth potential lies and to ensure that appropriate infrastructure services are provided there.

It is important to note that different economic sectors and communities require a different mix of infrastructure services. In terms of the earlier LQ analysis, higher growth industries like financial and related services, wholesale & retail and construction require relatively large amounts of water and electricity together with the removal of hazardous waste; whilst poorer industries and communities (e.g. Elim and Zuurbraak) may need relatively more sanitation and municipal roads and pavements.

It may be worth doing an independent study looking at the different infrastructure needs of different sectors, industries and municipalities. Such a study can be simply based on personal interviews with relevant stakeholders; and also help to prioritise municipal budgets.

Infrastructure spending is generally constrained by inadequate levels of municipalities' own income and grants from the central government; the high costs of electricity, water and wastewater management; and a lack of technical skills and managerial oversight. In addition, the mass migration of people to the towns of Grabouw and Villiersdorp has placed infrastructure provision under strain in the Theewaterskloof Municipality; and similar to towns in the Cape Winelands, violent politically driven public protests have damaged infrastructure and impacted significantly on Theewaterskloof's growth potential.

A final comment refers to pressing budgetary constraints as revealed in the OBD survey conducted for this report. Respondents to the survey claimed that the levy replacement grant has been incorrectly calculated as it has been increasing by 2 to 3 per cent compared to an inflation rate of between 5 and 6 per cent for the past several years. Thus they have experienced a real income decline year-on-year. Similar problems were experienced in respect of the capital expansion of the bulk water service infrastructure. As far as service delivery is concerned, the OBD survey highlighted the need to revise the funding model for district municipalities, including the assignment of functions to municipalities and other spheres of government, and funding to deal with emergencies on a regular basis.

1

Introduction

1.1 Background and purpose of study

The origin of the Municipal Economic Review and Outlook (MERO) studies can be traced to the earlier microeconomic policy research programme launched and conducted by the Provincial Department of Economic Development and Tourism (DEDAT)¹. The subsequent MERO research reports provide a more focused institutional framework for microeconomic analysis – in the form of the Districts and their constituent municipalities. Internationally too there has been a shift in favour of focusing on microeconomic policy issues at local government level.

MERO 2013 follows on from its predecessor, MERO 2012, and also extends it in several important ways, as discussed below. The overall objective remains the same, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at district/municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO). Using the district municipalities as our broad demarcation, MERO 2013 will probe and interrogate each and every municipality in the Western Cape Province to provide the economic intelligence needed to propel the municipal economies onto a higher growth plain and ensure sustainability at the same time.

1.2 MERO 2013: What's new?

Using the latest data from Quantec and other secondary sources, the analysis of the district and municipal growth, employment and skills data is extended in MERO 2013 in order to ascertain how the economic recovery (2010/11) has been progressing among different sectors and industries at the municipal level. This prompted an attempt to estimate the *revealed comparative advantages* of sectors and industries

¹ Kaplan, D (ed.) (2008): Micro-Economic Development Strategy for the Western Cape (MEDS) - Synthesis Report.

at the local government level. Location quotients were used to measure the performance of industries in the Overberg District (OBD) relative to the same industries in the reference region, i.e. the province or nation.

Following on from the 2012 feedback, many micro and small enterprises operate within the *informal sector*, and yet there is little or no data available on these enterprises. Although it serves as a means of survival for many unemployed poor persons, certain informal activities may help develop basic skills, create linkages with the formal sector, and ultimately become a source of sustainable growth. Apart from the need for desktop searching, the required data was obtained from the municipal survey and from important work being done at DEDAT.

The DEDAT survey of the informal sector in the OBD brought into focus some of the strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may well benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

The 2012 MERO study found that agro-processing is an important industry that forms part of *value or supply chains*, or clusters, that also contain manufacturing and service industries within and across different districts and municipalities. This issue is taken further here by identifying and quantifying other existing and potential inter-industry linkages that can be clustered together for policy purposes. For this purpose Quantec's input-output model and Stats SA's supply-and-use tables were used to estimate the size and extent of two value chains in the Overberg District. Having done so, it is recommended that an independent study be conducted to consider the suitability of these value chains as potential Special Economic Zones (SEZs). The latter study would require information about the conditions for SEZ status and the roles played by **the dti**, the provincial government and the national government.

Following on from the 2012 MERO study, there is a need to determine the extent to which *municipal infrastructure spending* (water, electricity, sewerage, refuse, roads) is prioritised and indeed implemented in accordance with pre-determined targets. The present study therefore compares municipal actions with plans, identify problem areas, and suggest policy actions where necessary.

Infrastructure spending is an important prerequisite for poverty relief and economic growth, and it is critical that the actions taken by the provincial government, individual municipalities and electricity suppliers be coordinated in order to maximise the returns to their respective infrastructure investments.

1.3 Outline of report

The rest of this report consists of 5 parts. Chapter 2 provides the broad macroeconomic context within which the Overberg District operates. Its primary aim is to translate the macroeconomic forces and determine their impact on the dominant sectors in the District. Chapter 3 uses and refines the latest Quantec data to estimate recent trends in the growth of GDP per economic sector and employment for each municipality, with special attention being given to the agricultural, manufacturing and services sectors. Using the latest PERO, the estimated comparative advantages and relevant municipal data the chapter provides a forecast of municipal GDP and employment growth for the next 5 years. An attempt is also made to highlight the skills requirements of especially the faster growing sectors and industries within the OBD.

Chapter 4 identifies and quantifies two important value chains within the OBD, i.e. the agricultural and food & beverages processing chain and the furniture manufacturing value chain. With both being relatively substantial (and job-intensive) they may be flagged as possible independent studies to determine their eligibility for SEZ status. Chapter 5 reports on the results of a survey of 250 informal enterprises, focusing on their size, age, type of business and, importantly, their outlook for the future. As far as the latter is concerned, it would seem that informal entrepreneurs take a positive future view of their own businesses and of the Overberg District, much like their municipal counterparts did in their responses to the Overberg municipal survey. Chapter 6 considers and compares infrastructure spending in the Overberg District, and finds that faster growing municipalities spend more on economic infrastructure than do their slower-growing counterparts. Different sectors, industries and value chains also require different types of infrastructure which may change over time.

2

Economic outlook

2.1 Introduction

This chapter provides a concise macroeconomic overview of the Overberg District (OBD) economy. The focus of the chapter is on the district economy. The regional economy is a well-diversified economy, with a vibrant (light) manufacturing sector dominated by its agro-processing industries; it also hosts a rapidly expanding finance, insurance, real estate & business services, retail, wholesale, catering & accommodation sectors. Tourism is a key catalyst for the retail, catering & accommodation and home-based industries in the region. The aim of the chapter is to translate the macroeconomic forces and its impact at the district level. To this end, a brief overview is first provided of the global, national and provincial economic developments and prospects. In the final section, the macroeconomic review & outlook for the OBD economy is considered. In Chapter 3 a more in-depth sectoral analysis follows of the OBD economic growth and employment prospects.

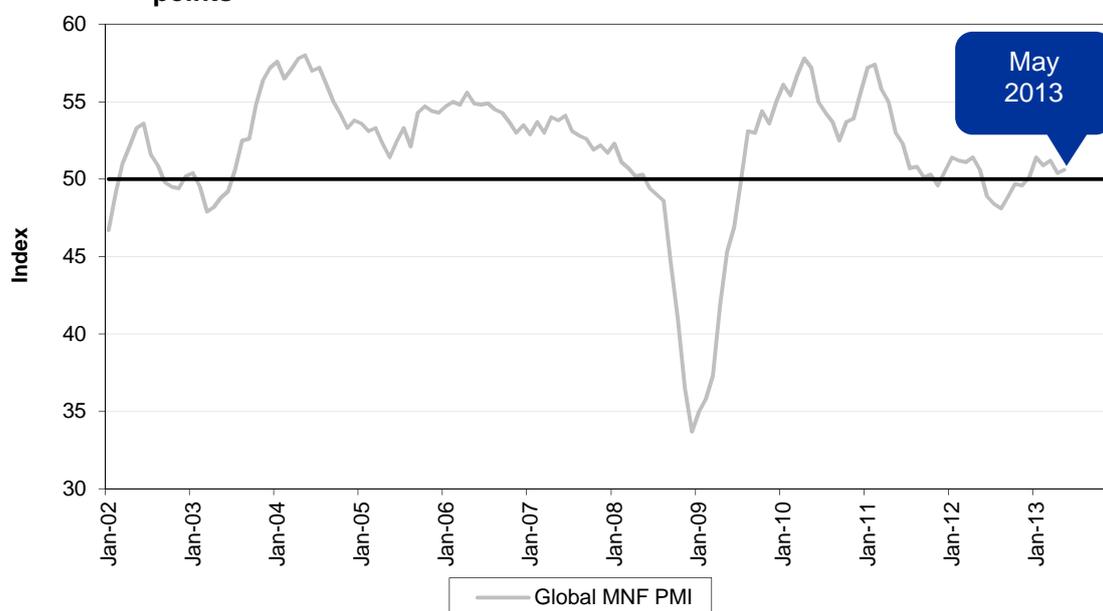
2.2 Global, national & provincial economic developments

The **global economic outlook** remains uncertain and loaded with risk. From a decent rebound since the end of 2009 the world economy recovered strongly during calendar year 2010 (registering real GDP growth of 5.3 per cent) and the first half of 2011; however, since then the growth pattern has been hesitant. The fiscal consolidation and outright austerity in the major advanced economies became a significant drag on global growth and during both the middle quarters of 2011 and 2012 growth dipped. The 2012 slowdown alarmed the policy authorities in all the major advanced economies and beyond, who responded with forceful policy action – quantitative easing, forward guidance on interest rates at zero bound levels and in some parts even fiscal stimulus (e.g. China) – in order to avert a second leg of the Great Recession of 2008/09. In April 2013 Japan embarked on an extensive

economic stimulus programme including quantitative easing, in order to rid that economy from deflation.

The accompanying chart shows that the policy authorities achieved a measure of success, with the composite global manufacturing PMI edging higher from a low point of 48.1 index points in August 2012 to 52.1 points in March 2013. While the April/May readings came in somewhat lower, including services, the May reading stood at 53.1 index points. These readings are consistent with the world economy expanding at a steady pace just below trend. Whilst questions regarding sustainability remains, the outlook is for the current uneven improvement in global economic activity to become better synchronised during the second half of the year and next year. The IMF forecasts global real economic growth to move sideways at 2.6 per cent in 2013 (i.e. at a similar rate compared to 2012) and then to accelerate to 3.4 per cent in 2014².

Figure 2.1 The Global Manufacturing PMI edges above the critical level of 50 index points



Source: JP Morgan, June 2013

The USA economy has managed to progress at a rate around 2 per cent (year-on-year) and this remains the outlook even though fiscal tightening is expected to take some toll in 2013. The housing sector appears to be responding well to the stimulatory policies; the unemployment rate is trending lower gradually and payroll employment continues to increase at a moderate pace. The Fed is targeting an unemployment rate of 6.5 per cent (poised at 7.6 per cent in May 2013) and the zero-bound interest rates, aggressive bond buying (quantitative easing) and central bank communications are likely to persist on order to instil confidence in the market and within the corporate sector to step-up fixed investment and employment creation.

² At purchasing power parity exchange rates the corresponding figures are 3.3 per cent and 4 per cent.

The European economy was expected to emerge from recession early in 2013; however, going by the latest economic indicators (with the composite Euro area PMI dipping to 45 index points in March), the region is only expected to emerge from recession during the second half of the year. Unemployment rates are at record highs, particularly in the peripheral southern European countries and popular resistance against the fiscal austerity measures appears to be growing. The region is forecast to contract by a further 0.3 per cent in 2013 on top of the 0.6 per cent contraction in 2012; only moderate growth is projected for 2014.

Economic conditions are generally more lively in Asia currently, with China's real GDP growth rate coming in at 7.7 per cent during the first quarter of 2013. However, growth appears to have decelerated further during the second quarter as the Chinese economy rebalances towards a more sustainable (read: lower) trend growth rate. An overheated property sector remains cause for concern and financial volatility emerged during the second quarter as the authorities attempt to rid the economy from excesses, leading to a general scaling down of forecasts in line with the official targeted growth rate of 7.5 per cent.

In Japan, the new political leadership (and Governor of the Bank of Japan) has implemented radical economic stimulus policies to rid the economy from the grip of deflation, including aggressive quantitative easing and fiscal expansion in order to achieve a 2 per cent inflation target. An atypical recovery in household spending attests to the probability that the stimulus measures are having the intended impact; however, analysts remain unsure regarding the sustainability of the turnaround, with forecast for real GDP growth remaining around 1 - 1.5 per cent.

The uneven growth pattern in the global economy is also clear in the emerging market group of countries, with particularly India and Brazil under performing in terms of their recent growth performance. However, real GDP growth is still projected between 5.5 and 6 per cent over the short term, suggesting the emerging economies will continue catching-up with the advanced economies and remain a key source of demand for South Africa's goods. The favourable outlook for economic growth in Sub-Saharan Africa also continues to be an area for closer ties with Southern African producers in terms of expanding trade and investment.

Table 2.1 World economic growth outlook: 2012 – 2014 (%)

Country	2012	2013	2014	Country	2012	2013	2014
Advanced countries				Developing countries			
USA	2.2	1.9	3.0	Developing Asia	6.6	7.1	7.3
Japan	2.0	1.6	1.4	China	7.8	8.0	8.2
Euroland ¹	-0.6	-0.3	1.1	India	4.0	5.7	6.2
Germany	0.9	0.6	1.5	Latin America	3.0	3.4	3.9
UK	0.2	0.7	1.5	Central & East Europe	1.6	2.2	2.8
Canada	1.8	1.5	2.4	Sub-Saharan Africa	4.8	5.6	6.1

¹ The 17 Euro countries

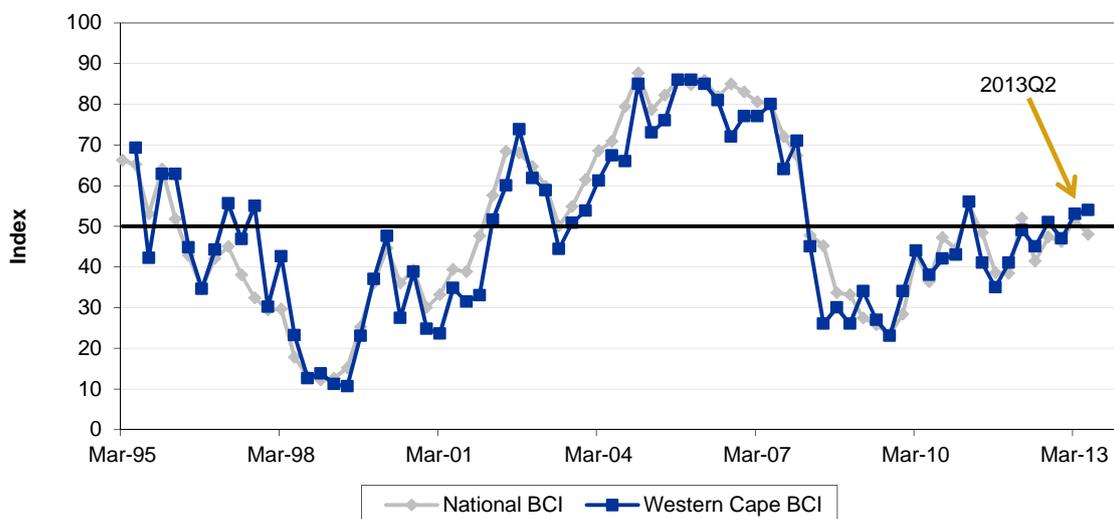
Source: IMF World Economic Outlook, April 2013

In all, the global economy is trapped in a multi-year slow and uneven growth trajectory, with emerging economies growing significantly faster than the advanced

economies. The emerging economies are being affected by the advanced countries' attempts to deleverage from high debt levels. The implication is that general inflation is unlikely to become a problem anytime soon and that interest rates could remain low for the foreseeable future (at least until the end of 2014). Unfortunately, in this environment the outlook is not positive for commodity prices. Key commodity prices have been trending lower since mid-2011 and could remain under pressure as demand conditions remain lacklustre and new production capacity comes on stream in coming years (related to the long lead times of mining developments). Regarding food prices, the latest development has been a softening in grain prices on the back of favourable harvests in the USA.

The **South African economy** has been impacted by the hesitant growth in her main trading partner economies and, domestically, the deep-seated labour market instability which broke out during the third quarter of 2012 causing a major drag on business, investor and consumer confidence as well as real economic growth. Real GDP growth slowed to 2.5 per cent in 2012 from 3.5 per cent in 2011 and is likely to slow further in 2013 (the first quarter annualised growth rate amounted to 0.9 per cent). The RMB/BER Business Confidence Index has been slow to recover since the 2009 recession, with the index tending to oscillate around the neutral level of 50 since the end of 2010. The brittle business confidence levels, combined with less than robust demand conditions in the world economy and domestically, do not bode well for private fixed investment spending and employment creation.

Figure 2.2 Hesitant recovery in business confidence since 2009



Source: BER, June 2013

A key development during the course of 2012 has been the slowdown in the consumer sector, which has been the mainstay of the economic recovery witnessed since the end of 2009. The consumption-led recovery lost momentum due to the lack of employment creation, lower wage increases, the impact on household budgets of higher electricity, petrol and food prices and a general decline in consumer confidence – the FNB/BER Consumer Confidence Index declined from 11 index points in 11Q2 to -7 in 13Q1.

In a typical business cycle private fixed investment spending replaces consumer spending as the main driver of growth two to three years into the recovery. However, private fixed investment intentions were dealt a severe blow during the third quarter of 2012 due to the deep-seated labour market instability in the mining and Western Cape agricultural sectors. A real danger exists that the 52 per cent increase in the minimum wage in the agricultural sector, as well as the wage settlements in the mining sector will lead to mechanisation and employment losses in the coming months, adding to the woes in the consumer sector.

The rand exchange rate has depreciated sharply since the middle of 2012 and came under additional pressure recently following the Federal Reserve's announcement regarding the likely tapering of its bond purchase programme later in the year, which caused financial market uncertainty and capital flight from emerging market currencies.

Table 2.2 South Africa: BER forecast for selected economic variables: 2013 – 2014 (%)

	Estimate	Projections	
	2012	2013	2014
Final household consumption expenditure	3.5	3.0	3.9
Government consumption expenditure	4.2	3.5	3.6
Gross fixed capital formation	5.7	3.5	5.1
Real GDE	4.1	3.1	4.2
Total exports	0.1	3.5	6.4
Total imports	6.3	4.9	8
Real GDP growth	2.5	2.6	3.5
Total employment growth (formal & informal)	1.2	1.0	1.6
Inflation (annual averages)			
CPI (Headline)	5.6	5.9	5.4
PPI (All items)	6.9	5.5	4.8
Exchange rates (annual averages)			
R/US\$	8.5	8.5	8.5
R/Euro	8.69	8.9	8.5

Source: BER Economic Prospects, April 2013

The expectation is that a sustained recovery in the world economy, combined with the more competitive levels of the rand exchange rate will stimulate exports – South Africa's exposure to the faster-growing Asian region in terms of primary commodity exports has grown in recent years and its manufacturing exports are increasingly penetrating rapidly-growing African markets. Furthermore, the government's infrastructure investment drive remains a key growth support and should crowd-in private fixed investment spending. Core inflation is also expected to remain contained (bar an unexpected further sharp currency depreciation), which should keep interest rates at a low level for the foreseeable future (end-2014). Fiscal policy is finely balanced in terms of its counter-cyclical stance necessary to support the lacklustre growth in the economy and the imperative to narrow the budget deficit (measuring 5.7 per cent of GDP in fiscal 2013) over the medium term. In this context the deceleration in real GDP growth is expected to be contained around 2 per cent

decelerate further in 2013 and to recover closer to a trend growth rate next year – see Table 2.2.

The **Western Cape economy** grew at a rate of three per cent during calendar 2012 compared to the 2.5 per cent real GDP growth rate of the national economy as the region did not experience the impact of the sharp decline in mining output experienced in other regions. However, economic activity was impacted adversely by the unrest in the agricultural sector, which erupted towards the end of the year. Real economic growth in the region decelerated from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. The slowdown was mainly driven by the impact of weaker global economic growth and the recovery in the national consumer sector running out of steam.

Table 2.3 Western Cape economy sectoral growth & employment: 2000 – 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	2.0	8.2	-0.8	-186 297	-48 263	-5 874
Mining and quarrying	-1.4	-7.5	1.1	1 138	872	871
Manufacturing	2.7	-3.3	4.3	-63 932	-27 506	-1 828
Electricity, gas and water	2.8	-1.6	1.2	1 487	-1 370	764
Construction	7.1	5.5	0.7	-14 843	-17 160	735
Wholesale and retail trade, catering and accommodation	4.4	-0.6	4.3	70 280	-4 115	16 461
Transport, storage and communication	5.1	2.0	2.5	6 858	479	6 778
Finance, insurance, real estate & business services	5.8	3.9	2.9	105 169	-18 699	10 452
Community, social and personal services	3.0	1.4	1.3	46 831	9 333	-5 016
General government	2.4	4.2	3.9	71 647	12 189	23 763
Total Western Cape economy	4.1	1.7	3.0	38 338	-94 241	47 107

Source: BER/JP Morgan, June 2013

Table 2.3 shows the sectoral growth and employment trends in the Western Cape economy. Whereas growth trended at 4.1 per cent per annum (this compares to 3.6 per cent per annum nationally), it slowed sharply during the recession years (i.e. 2008/09) to 1.7 per cent per annum. The sharp contraction in the manufacturing sector (3.3 per cent per annum and with this sector contributing around 17 per cent of GDP) is notable and – to a lesser extent – that of mining, electricity & water and wholesale & retail. Sustained growth in the agriculture, forestry & fishing sector, construction, transport & communication, finance & business services, CSP services and – importantly – the general government in an attempt at (national) counter-cyclical fiscal policy ensured the continued expansion of the regional economy.

Achieving inclusive economic growth

The WCG remains committed towards achieving labour-absorbing economic growth in the Province. The following initiatives were, amongst other, announced in the 2013 Provincial Budget aimed at sustaining and expanding the 250 000-plus job opportunities in infrastructure development in the social, economic and environmental sectors in the very successful Expanded Public Works Programme (EPWP):

- R140 million towards road building, education & health infrastructure, neighbourhood security services, Cape Nature, sports training, home-based care for the elderly and the infirm and fire fighters.

- R112 million towards skills training for the unemployed youth, e.g. the creation of 3 000 on-the-job training opportunities with the Work & Skills programme; the training of 200 artisans in the Artisan programme and the employment of 100 unemployed post-graduate students in the CAPACITI 1000 programme.
- Finally, the WCG also accommodates paid internships training skilled public servants and runs the Masakh'iSizwe programme offering bursaries to student engineers in the engineering and built environment fields.

As one would expect, the rate of employment creation deteriorated during the recession years – from trending at 0.6 per cent per annum (i.e. 38 000 net additional jobs, 2000 - 2011), net retrenchments amounted to 2.7 per cent per annum (i.e. around 94 000 net job losses per annum, 2008 - 2009) during the recession. During the economic recovery the rate of employment creation was restored to 1.4 per cent per annum (i.e. around 47 000 net new jobs).

A notable feature of the recovery years (2010 - 2011) is the strong performance of the manufacturing sector (4.3 per cent per annum, actually rising above trend growth at 2.7 per cent per annum). However, this was in large part a rebound from the sharp contraction in 2008/09 and it could not stem the employment losses in the sector – both agriculture and manufacturing reported sustained net job losses during the economic recovery, as well as the CSP services sector. The strongest job growth during the economic recovery occurred in the tertiary sectors, with the general government leading the way and followed by retail, wholesale, catering & accommodation, finance & business services.

Table 2.4 Western Cape: Growth forecast for real GDP: 2013 – 2017 (%)

Sector	2012e	2013f	2014f	2015f	2016f	2017f	Average annual growth, 2013 - 2017
Agriculture, forestry and fishing	1.7	0.8	2.0	1.7	1.8	2.0	1.7
Mining and quarrying	-5.1	1.3	1.0	0.6	1.0	1.2	1.0
Manufacturing	2.0	2.5	2.7	3.0	3.6	3.3	3.0
Electricity, gas and water	-1.4	2.6	2.9	2.7	3.0	2.8	2.8
Construction	2.6	4.1	4.6	4.6	5.0	5.3	4.7
Wholesale and retail trade, catering and accommodation	4.3	3.3	3.7	3.9	3.8	4.0	3.8
Transport, storage and communication	2.5	3.2	4.1	4.5	4.5	4.8	4.2
Finance, insurance, real estate and business services	3.5	3.5	4.5	4.8	5.1	5.3	4.6
Community, social and personal services	2.0	2.6	2.8	3.0	3.0	3.2	2.9
General government	3.5	2.5	3.0	3.0	3.2	3.0	2.9
Total Western Cape	3.0	3.0	3.7	3.9	4.1	4.2	3.8
Primary sector	1.4	0.8	2.0	1.7	1.8	2.0	1.6
Secondary sector	1.9	2.8	3.1	3.3	3.8	3.7	3.3
Tertiary sector	3.4	3.2	3.9	4.2	4.3	4.5	4.0

Source: Western Cape Government: Provincial Budget Review, February 2013 (e = estimate; f = forecast)

Regarding the outlook for real economic growth in the region (see Table 2.4), the weakness in the global economy, the second quarter financial volatility, brittle business and consumer confidence and the slowdown in the (national) consumer sector are likely to continue to weigh on the provincial economic performance during calendar 2013. Real GDP growth is forecast at a similar rate compared to

2012 (i.e. 3 per cent per annum) and projected to accelerate thereafter, with an average real growth rate of 3.8 per cent over the medium term³. During both calendar 2013 and the remainder of the forecast period, the tertiary sector is expected to drive real economic growth in the region, with growth averaging 4 per cent per annum, 2013 - 2017. However, the slowdown in the consumer sector will likely drive somewhat slower growth in the tertiary sector in 2013 compared to 2012, whereas the secondary sector recovery is projected to strengthen from 1.9 per cent average growth in 2012 to 2.8 per cent in 2013 and projected at 3.3 per cent over the medium term.

2.3 The Overberg District (OBD) Economy

In the 2012 MERO report the structure of the OBD economy was discussed in detail. While the OBD economy is small, contributing close to 3 per cent of the Western Cape GDP, it has been – together with Eden – one of the fastest expanding regions growing at 5.2 per cent per annum, from 2000 to 2011. Agriculture and agro-processing play a key role in the region's economy; however, it's not been the source of growth. Light industry, construction and vibrant financial & business services and retail, catering & accommodation activities have been driving the growth in the region.

The finance, insurance, real estate & business services sector accounts for 27 per cent of GDP and grew at double-digit rates over the 2000 to 2011 period, even during the recession period of 2008 - 2009. This is therefore the dominant sector in the region; however, a defining characteristic of the region's economy is the increasing contribution by the manufacturing sector, rising from 14.2 per cent in 2000 to 16.2 per cent in 2011; annual real GDP growth averaged 6.7 per cent over this period. Agro-processing, petro-chemicals, furniture and metals & engineering are the dominant manufacturing industries. However, it has to be noted that these are small industries growing off a low base.

The regional economy slowed sharply during 2009 due to the impact of the recession; however, real economic activity did not contract, mainly due to sustained strong services growth, as well as a relatively shallow contraction in manufacturing activity. Real GDP growth slowed from 7.6 per cent in 2008 to 0.7 per cent in 2009 and averaged close to 4 per cent during the initial two calendar years of economic recovery, i.e. 2010 - 2011 – see Table 2.5. While the recovery in manufacturing played a key role, the economic recovery of the region was again driven by the financial & business services sector, explaining close to 40 per cent of the recovery growth and being well-supported by retail, wholesale, catering & accommodation and – to a lesser extent – the government (linked to counter-cyclical fiscal policies). One quarter of the net jobs lost during the recession were recovered during the first two years of the economic recovery. Real GDP growth is estimated to have slowed down from 4.6 per cent in 2011 to 3.6 per cent in 2012 in line with the slowdowns in the global and national economies.

³ The forecast was compiled with information known up to and including the middle of June 2013; it is possible that growth may be slower during 2012/13 than forecast here.

Table 2.5 Overberg District: Sectoral contribution to recovery growth: 2010 - 2011 and employment creation

Sector	Ave real GDPR growth 2010 - 2011	% point contribution	% share	Net employment creation 2010 - 2011
Agriculture, forestry & fishing	-0.3	0.0	-1.0%	301
Mining & quarrying	0.8	0.0	0.0%	19
Manufacturing	5.4	0.9	22.4%	-384
Electricity, gas & water	0.0	0.0	0.0%	6
Construction	1.2	0.1	2.5%	-73
Wholesale & retail trade, catering & accommodation	5.3	0.7	18.9%	394
Transport, storage & communication	2.3	0.2	4.8%	60
Finance, insurance, real estate & business services	5.7	1.5	39.0%	1 032
Community, social & personal services	2.4	0.1	2.6%	-294
General government	4.1	0.4	10.8%	853
Total District economy	3.8	3.8	100%	1 916

Source: Quantec Research/CER

Table 2.5 shows the sector spread of the recovery growth in the district economy during calendars 2010 - 2011, including net employment creation over the corresponding period. The recovery growth occurred over the whole spectrum of the region's manufacturing industries, except in the clothing & textile sector some contraction occurred. Furthermore, catering & accommodation rebounded sharply, with business services also making a strong contribution. The agricultural sector continued to contract in line with the trend over the 2000 - 2011 period; however, the worker retrenchments reversed and the sector reported net job gains during 2010 - 2011. The sectoral prospects are considered in more detail below and in Chapter 3.

2.3.1 Current profile – growth and employment trends in a provincial context

Table 2.6 shows the composition of the OBD economy in the context of the five other districts of the Province. As noted, the largest sector in the region is the finance, insurance, real estate & business services sector, a similar pattern across the Province. In the Cape Metro this sector accounts for 36 per cent of GDPR and in the central Karoo for 27 per cent, in line with the OBD economy. The region's manufacturing sector is also equivalent in relative size compared with the other districts, except the Cape Winelands, which hosts a proportionately bigger sector. There are close similarities in the respective structures of the Overberg and Cape Winelands regional economies. The only real difference (apart from size) is the proportionately larger share of manufacturing (mainly agro-processing) in the Cape Winelands while the Overberg has a proportionately (not in absolute terms) bigger financial & business services sector. Agro-processing accounts for 35 per cent of the Overberg manufacturing sector. While smaller than the mature agro-processing industries of the Cape Winelands (accounting for 65 per cent of manufacturing in the region), the Overberg industries appear to be expanding faster – see the more rapid manufacturing growth in Table 2.7.

Table 2.6 Overberg District economy in provincial perspective: Sectoral composition: 2011 (%)

	Overberg	Cape Metro	Cape Winelands	Eden	West Coast	Central Karoo
Agriculture, forestry & fishing	11.6	1.4	11.1	5.5	14.6	9.0
Mining & quarrying	0.1	0.1	0.2	0.2	0.7	0.1
Manufacturing	16.2	15.9	24.2	16.5	17.7	11.1
Electricity, gas & water	1.2	1.5	0.9	1.5	0.9	1.1
Construction	7.7	3.9	3.5	8.7	4.3	5.6
Wholesale & retail trade, catering & accommodation	13.9	15.2	13.8	17.9	12.8	13.9
Transport, storage & communication	7.9	10.9	7.3	7.7	8.5	12.2
Finance, insurance, real estate & business services	27.1	36.1	22.9	24.3	25.6	27.4
Community, social & personal services	4.2	5.1	5.8	5.3	4.1	6.5
General government	10.2	9.8	10.2	12.4	10.7	13.1
Total District economy	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research/CER

Table 2.7 Overberg District economy in provincial perspective: Real GDP growth: 2000 – 2011 (%)

	Overberg	Cape Metro	Cape Winelands	Eden	West Coast	Central Karoo
Agriculture, forestry & fishing	-0.7	10.0	0.3	1.1	-0.4	-1.2
Mining & quarrying	0.1	-0.8	2.1	-4.1	-4.0	15.8
Manufacturing	6.7	2.3	2.4	4.1	1.2	9.7
Electricity, gas & water	1.1	3.4	2.1	0.6	-2.2	-0.3
Construction	9.0	6.5	7.2	10.3	6.6	9.3
Wholesale & retail trade, catering & accommodation	3.6	4.1	5.4	5.5	3.8	3.1
Transport, storage & communication	6.3	5.0	6.8	5.5	4.5	2.0
Finance, insurance, real estate & business services	11.0	5.5	7.1	7.1	10.6	7.9
Community, social & personal services	3.6	2.8	3.8	5.0	2.9	2.6
General government	3.3	1.9	3.3	4.5	2.4	2.4
Total District economy	5.2	4.1	3.9	5.2	3.3	4.0

Source: Quantec Research/CER

Regarding the growth of the OBD economy during the 2000s, an outstanding feature is the rapid growth of the financial & business services sector, growing even faster than the rapid expansion of this sector in the West Coast district. Apart from manufacturing, construction (9 per cent per annum) also appears to be a comparatively strong growing sector in the OBD economy. On the downside, the retail, catering & accommodation sector's growth (3.6 per cent) has been below par.

This may reveal under-utilised or under-reported tourism potential in the region. The Theewaterskloof Municipality recently launched the Cape Country Meander Brand, which is seeing a steady growth of visitors⁴.

⁴ It is possible that the data does not fully capture this growth as the municipal survey regarding the region's economy report bigger vibrancy in the tourism value chain.

Table 2.8 Overberg District GDP and employment trends, 2000 – 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	-0.7	2.6	-0.3	-26 291	-6 225	301
Mining and quarrying	0.1	-2.8	0.8	37	21	19
Manufacturing	6.7	2.0	5.4	994	-148	-384
Electricity, gas and water	1.1	-2.4	0.0	-2	-41	6
Construction	9.0	8.2	1.2	497	-1 001	-73
Wholesale and retail trade, catering and accommodation	3.6	-3.1	5.3	904	-1 128	394
Transport, storage and communication	6.3	4.0	2.3	239	38	60
Finance, insurance, real estate & business services	11.0	11.2	5.7	7 588	486	1 032
Community, social and personal services	3.6	0.8	2.4	1 630	121	-294
General government	3.3	3.9	4.1	2 788	325	853
Total Overberg District	5.2	4.1	3.8	-11 615	-7 551	1 916

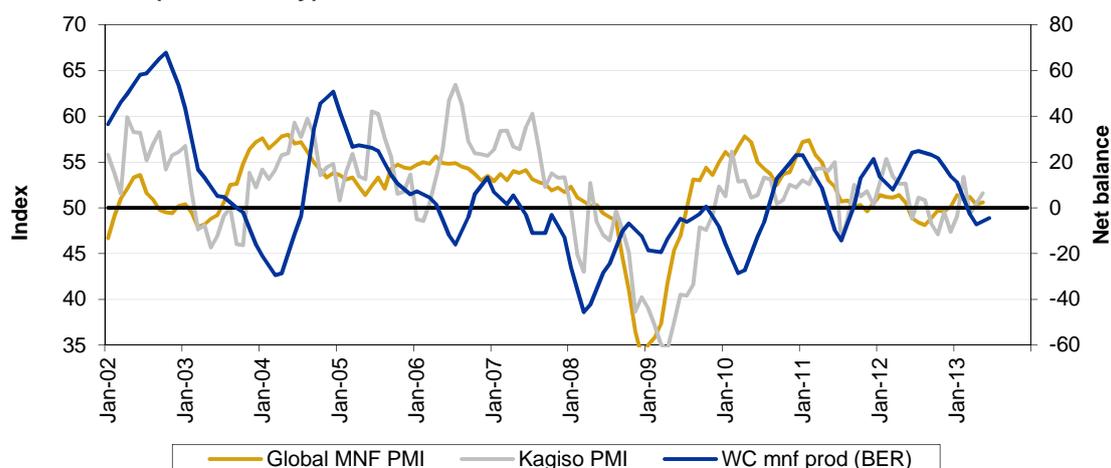
Source: Quantec Research/CER

Table 2.8 shows that the OBD economy recovered nicely during calendars 2010 - 2011, with real GDP growth accelerating to 3.8 per cent per annum over this period. Furthermore, the steep job losses during the recessionary period (i.e. explaining no less than 65 per cent of all net job losses over the 2000 - 2011 period) were (at least partly) reversed in 2010 - 2011. As noted the region did not experience a big contraction during the recession, only relatively sharp slowdown in real economic growth, which is currently tracking around 3.6 per cent per annum (2012 – 2013). The poor economic conditions in key trading partner economies (e.g. Europe) and the domestic consumer sector slowdown assist in explaining the lower growth in 2012 - 2013.

2.3.2 Macro implications and district economic outlook

The OBD economy is estimated to have slowed down from real GDP growth of 4.6 per cent in 2011 to 3.6 per cent in 2012 in line with the slowdown in the provincial (from 3.5 to 3 per cent) and the national economies (from 3.1 to 2.5 per cent). The drivers of the slowdown have been the local consumer recovery running out of steam (due to sluggish employment growth, lower wage growth, higher energy and food costs, declining consumer confidence and stricter credit standards limiting credit spending) as well as some adverse impact on exports related to the global slowdown in economic activity.

Figure 2.3 Global PMI vs Kagiso PMI vs Western Cape manufacturing production (BER survey)

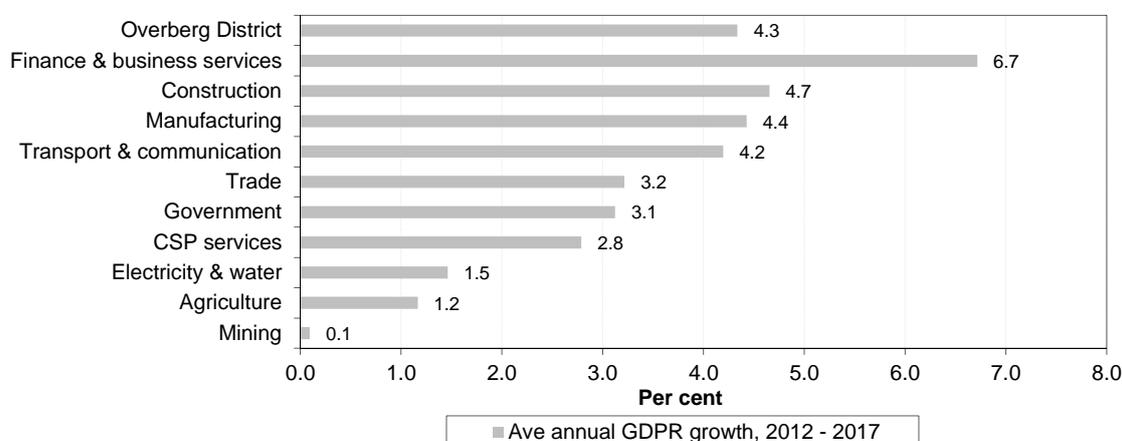


Source: BER/JP Morgan, June 2013

Furthermore, private fixed investment spending has been weak due to the impact of uncertainty (at the global level and, domestically, regarding economic policy and the general political climate) and slowing domestic demand. The weak tendency in private fixed investment spending is countered by the public sector infrastructure investment drive.

The recovery growth in the district since 2010 has been faster compared to that of the Province and it would appear that the region has embarked on an upswing phase of the business cycle in synch with the provincial and national economies – see Figure 2.1 tracking the composite global PMI, the Kagiso PMI (revealing manufacturing business conditions domestically) and the trajectory of manufacturing production in the wider province. There is a broad correspondence between the global, the national and the regional business cycle as depicted in Figure 2.1, albeit evident that the improvement in economic activity has followed a hesitant pattern since the end of 2010.

Figure 2.4 Overberg District economy: Forecast real GDP growth by broad sector: 2012 - 2017



Source: Quantec Research/CER

OBD real GDP growth is projected to come in at 3.7 per cent during 2013, remaining under pressure due to the factors noted above. Thereafter growth is projected to accelerate on the assumption of a sustained global economic recovery. The finance, insurance, real estate & business services sector is still expected to lead growth in the regional economy (expanding by 6.7 per cent per annum); construction activity is also projected to accelerate significantly (4.7 per cent per annum) and manufacturing and transport, storage & communication to grow above/in line with the average for the region. The retail, catering & accommodation, government and community, social & personal services sectors are all projected to expand around 3 per cent per annum, while the slight contraction of the agricultural sector is projected to reverse. *Overall OBD real GDP growth is forecast to average 4.3 per cent per annum over the forecast period 2012 - 2017 (see footnote 3), well above the average growth rate forecast for the Province (3.7 per cent per annum).* The sectoral forecast is motivated in more detail in Chapter 3.

2.4 Concluding remarks

The OBD economy is small in the provincial context, with agriculture, forestry & fishing forming the backbone of the region and the associated processing industries (fruits and fruit juices, aquaculture, wine, etc.) and other light industry increasingly contributing to the economic output of the region. A distinguishing feature of the regional economy is the vibrancy of its manufacturing sector and linked to manufacturing and agriculture are rapidly expanding services industries, e.g. finance, insurance, real estate & business services leading growth in the region. Tourism also plays a key role in the growth of the retail, wholesale, catering & accommodation sector, as well as in business services; however, it would appear that this potential is under-developed in view of the sub-par growth of the retail, catering and accommodation sector.

The region did not experience a sharp contraction during the 2009 recession and is currently better placed to navigate the uncertain global and national economic outlooks. Almost all exports are produced in the agriculture & fishing and associated processing industries, with the apples & pears, wine and fruit juice exports destined mainly for the European market and therefore constrained in terms of growth opportunities. Hence the search is on for alternative faster-growing markets in developing economies. While the rand's volatility is undesirable, its more competitive level will support this search, will compensate for the easing international wheat prices, and will induce increased price-sensitive inward tourism. In all, the rand exchange rate's depreciation over the past year should be an important stimulus for the region compensating for other economic pressures.

However, the bulk of the regional output is sold into the domestic market, which is likely to remain under pressure over the short term given the consumer sector slowdown nationally and the weak private investment prospects. The consumer sector is under pressure due to sluggish economic growth and employment creation, deteriorating confidence and the impact of higher energy and food prices on consumer budgets. The national government also has to tighten the growth of real

expenditure in order to generate a better budget balance, which may impact on local government. Public sector infrastructure spending could in the interim be a key countervailing source of economic growth and employment creation.

The outlook is for a stabilisation of the global economic slowdown experienced last year and a gradual re-acceleration towards the end of 2013 and during next year. The domestic consumer slowdown is also expected to be of a temporary nature, with interest rates remaining low, the stimulus from infrastructure investment (crowding-in private fixed investment) adding to income growth, and exporters and import-competing producers benefiting from the more competitive level of the exchange rate. While significant risks prevail (both on the global and domestic economic fronts), the OBD economy is projected to remain embarked on a recovery road.

3

Sectoral growth, employment and skills

This chapter deepens the analysis presented in Chapter 2 of the sectoral economic growth and employment performance of the Overberg District (OBD) economy. The current chapter is divided into two sections: *in the first main section*, the focus is historical:

- *Firstly*, the real GDP and employment creation performances over the period 2000 to 2011 are analysed. An overview is provided of the municipal growth record by way of background. As a sector's output expands one would expect a commensurate increase in the number of employees active in the sector. However, due to various reasons this may not happen (e.g. due to mechanisation trends in the underlying production technologies; distortions in relative factor prices; or due to the skills intensity of production, etc.). An attempt is made to classify all of the 22 sub-sectors in the OBD economy into four groups in order to determine which sectors have grown the strongest and are the leading employment generators.
- *Secondly*, a standard analysis follows of the recovery growth experienced across sectors since the onset of the business cycle upswing after the 2009 recession. The analysis is conducted for the agricultural sector, manufacturing and services sectors.
- *Thirdly*, the international trade performance of the district is investigated.

In the *second main section* the focus turns forward-looking: *first* a brief sectoral outlook and forecast is presented (linking with the outlook outlined in Chapter 2). Thereafter a number of local issues come under the spotlight, e.g. an analysis of the comparative advantage of sub-sectors in the OBD economy; a look at key constraints and bottlenecks facing the district; what is known regarding skills shortages in the region and, *finally*, some tentative remarks regarding policy options aimed at the further development of the region.

3.1 Sector growth and employment: Historical

In Chapter 2 it was seen that the OBD real economic growth came in at 5.2 per cent per annum over the period 2000 to 2011, i.e. – together with Eden – the fastest growing region in the Province. While agriculture, forestry & fishing is an important sector in the region, particularly in the largest Theewaterskloof Municipality, this sector has tended to shrink over the 2000 to 2011 period. The vibrant growth of the OBD economy has been driven by strong growth in light manufacturing industry, across all municipal sub-regions, lively construction activity, also well-dispersed throughout the wider region and, finally, a very bullish finance, insurance, real estate & business services sector (growing by 11 per cent per annum). The transport & storage sector also expanded strongly with it being linked to the extensive agriculture & processing activities. While the retail, catering & accommodation sector is relatively large (accounting for 15 per cent of GDP), with clear linkages to the tourism industry, the growth of this sector has been somewhat below average⁵.

A notable feature of the OBD economic performance has been a limited impact from the 2009 recession – real GDP growth only slowed to 4.1 per cent on average during 2008 - 2009, with even the manufacturing sector continuing to expand at 2 per cent per annum on average. Furthermore, the finance, insurance, real estate & insurance sector sustained growth at a high rate, as well as the construction sector and agriculture experienced contra-cyclical growth.

Whilst the resilience of the regional economy during the recession is noteworthy, another feature is the steep job losses witnessed in the agricultural sector – 26 300 net jobs were lost in this sector over the 2000 - 2011 period. This resulted in overall net job losses of 11 600 in the region over the corresponding period. In fact, excluding agriculture a net 14 700 jobs were created. Job losses were also limited in the non-agricultural sectors during the recession and fully reversed during the first two calendar years of economic recovery (2010 - 2011).

Table 3.1 shows the real GDP growth rates of the OBD municipalities across the nine broad sectors. The fastest growing municipality was Overstrand (growing by 6.8 per cent per annum, 2000 - 2011), followed by Cape Agulhas (5.7 per cent), Swellendam (4.8 per cent) and Theewaterskloof (3.7 per cent). Theewaterskloof and Overstrand have the largest municipal economies and combined accounted for close to 70 per cent of the region-wide GDP in 2011. In Theewaterskloof, slow-growing agriculture is more dominant, which explains the relatively lower overall growth rate. Two thirds of the OBD agriculture sector is located in Theewaterskloof and this sub-region accounted for more than 60 per cent of the job losses in the sector over the 2000 - 2011 period. The manufacturing and services sector are equivalent in relative size and also expanded strongly across all municipalities.

⁵ It should be noted that the municipal survey responses obtained from this district are more optimistic regarding the growth of this sector compared to what the data suggests, particularly in the Theewaterskloof & Cape Agulhas municipalities. This is an area for further research.

Table 3.1 Overberg District economy: Municipal growth across sectors: 2000 – 2011 (%)

Sector	Theewaterskloof	Overstrand	Cape Agulhas	Swellendam	Overberg
Agriculture, forestry and fishing	-0.4	-0.3	1.0	-3.3	-0.7
Mining and quarrying	-5.4	-7.2	7.1	-8.5	0.1
Manufacturing	5.1	7.5	6.9	9.8	6.7
Electricity, gas and water	-0.4	-4.3	2.6	6.1	1.1
Construction	9.8	8.1	10.0	9.2	9.0
Wholesale and retail trade, catering and accommodation	1.0	4.8	0.6	7.3	3.6
Transport, storage and communication	2.8	9.5	0.5	11.1	6.3
Finance, insurance, real estate and business services	13.0	10.8	10.6	4.5	11.0
Community, social and personal services	1.3	4.6	6.1	3.7	3.6
General government	0.0	4.3	6.2	3.2	3.3
Total	3.7	6.8	5.7	4.8	5.2

Source: Quantec Research

A notable feature is the relative size of the Overstrand and Swellendam retail, wholesale, catering & accommodation sectors (Table 3.2), suggesting that tourism plays a key role in these regional economies. It was noted in Chapter 2 that there may be under-utilised potential here, however, this applies specifically to the Theewaterskloof and Cape Agulhas municipalities, considering the relatively small size and below average real value added growth rates in this sector in these localities (see Table 3.1 and refer to footnote 5).

Table 3.2 Overberg District economy: Sectoral composition by municipality: 2011 (%)

Sector	Theewaterskloof	Overstrand	Cape Agulhas	Swellendam	Overberg
Agriculture, forestry and fishing	21.3	3.9	7.0	11.3	13.6
Mining and quarrying	0.0	0.0	0.3	0.0	0.1
Manufacturing	15.4	16.4	17.0	17.1	16.0
Electricity, gas and water	1.4	0.3	1.5	2.8	1.4
Construction	6.0	9.4	9.6	5.3	7.4
Wholesale and retail trade, catering and accommodation	8.8	17.1	9.8	25.4	15.0
Transport, storage and communication	5.8	9.3	4.1	14.4	8.0
Finance, insurance, real estate and business services	30.1	30.5	26.0	11.0	23.6
Community, social and personal services	3.4	4.2	5.6	4.6	4.5
General government	7.7	9.0	19.1	8.1	10.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research

In the Swellendam municipal economy the shrinkage of the agricultural, forestry & fishing sector (at an average annual rate of 3.3 per cent, 2000 - 2011) is juxtaposed with vibrant growth in secondary and tertiary industries, notably manufacturing

(9.8 per cent per annum), construction (9.2 per cent), transport, storage & communication (11.1 per cent) and retail, catering & accommodation (7.3 per cent). The healthy growth of secondary and tertiary economic activity in the region bodes well for the job losses in the agricultural & fishing sector. Plans are also in place to develop the flourishing Overstrand aquaculture industry along the southern coastal belt up to and including Cape Agulhas.

This is by way of background regarding the OBD's municipal growth performance over the 2000s tracked over the nine broad sectors. The missing variable is employment creation. While data reliability tends to be a challenge, the employment creation track record across 22 sub-sectors is investigated below in an attempt to identify the leading employment-creating sectors in the OBD.

3.1.1 Leading employment - creating growth sectors

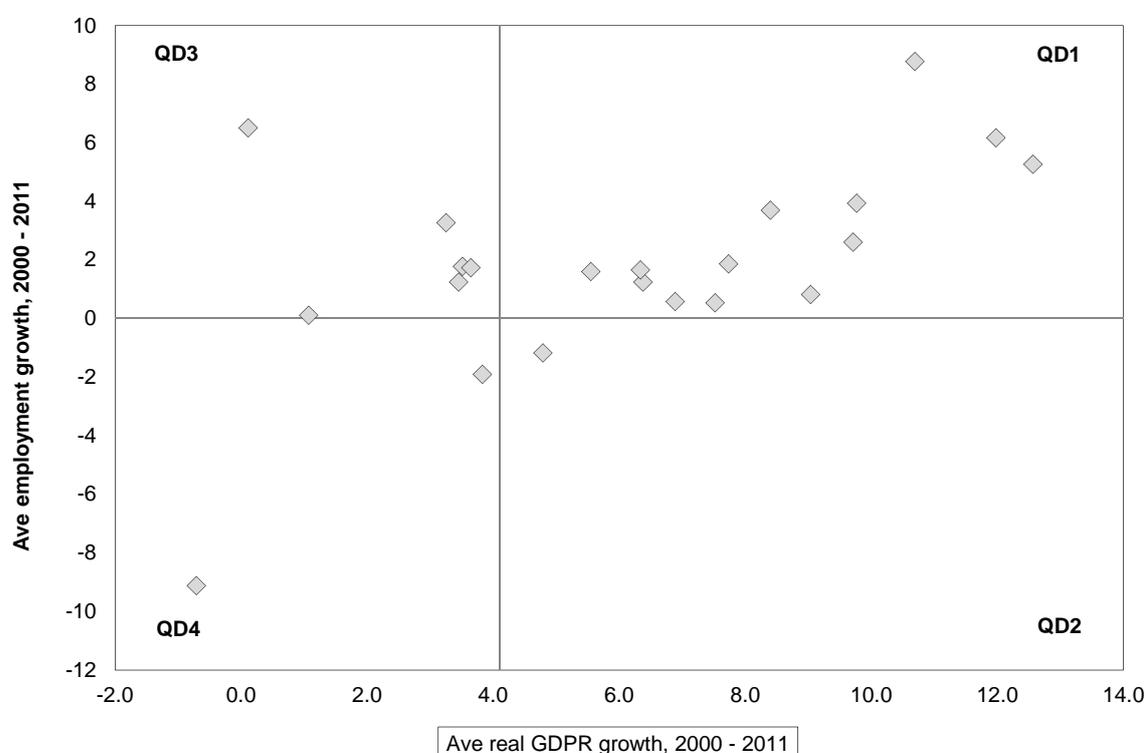
The Western Cape Government (WCG) is committed to achieve inclusive economic growth in the Province as embodied in PSO1 (Provincial Strategic Objective 1). With inclusive economic growth is meant economic growth on the basis of employment generation, i.e. inclusivity should be strived for by maximising opportunities for employment in the economic growth process. In this way, economic growth can be 'broadened' (i.e. the benefits of growth be spread wider) in a way that the productive contributions of each and every one are also broadened (rather than simply redistributing the benefits of growth via transfer schemes). The 2012 MERO study highlighted the fact that the growth path deviated from the employment creation path over the period 2000 to 2010, particularly in the primary and secondary sectors, not only in the OBD, but also in the other districts. In fact, this tends to be a national and a global phenomenon.

In the current section, some cursory investigation is made of the real economic growth and employment creation trends in the OBD over the period 2000 to 2011. In Figure 3.1 a scatter plot is made of the combination of each (of the 22) sectors' growth and employment performance over the said period: the 11-year average real value added growth rate is plotted on the horizontal axis and the 11-year average employment growth rate on the vertical axis. On this basis Figure 3.1 and the accompanying table, show four quadrants/groups of sub-sectors:

1. QD1 depicts the sub-sectors that grew above the provincial average (i.e. more than 4.1 per cent per annum, 2000 - 2011) and created jobs on balance. Included is a number of services sectors, e.g. business services (creating jobs at a rate of 8.8 per cent per annum), finance (5.3 per cent), transport & storage (1.6 per cent) and communication (0.5 per cent), and a long list of manufacturing industries ranging from radio & TV (6.2 per cent) to furniture (1.7 per cent) and clothing & textiles (0.6 per cent). It should be noted that the employment growth in these industries are from a low base; however, bode well for the economic growth potential in the region.

2. QD2 depicts the sub-sectors that grew above average but shed jobs on balance over the corresponding period. The only sub-sector included here is the catering & accommodation sector (shedding jobs on a net basis at a rate of 1.2 per cent per annum).
3. QD3 depicts the sub-sectors that grew below average and shed jobs on balance over the period 2000 to 2011. Included in this group are non-metal minerals (-1.9 per cent) and agriculture, forestry & fishing (-9.1 per cent).
4. QD4 depicts the sub-sectors that grew below average; however, succeeded in creating jobs over the period. Included here are the government (3.3 per cent), wood products (1.8 per cent), community, social & personal services (1.7 per cent) and retail & wholesale (1.2 per cent). Mining (6.5 per cent) is also included; however, accounts for only 0.1 per cent of OBD real GDP.

Figure 3.1 Overberg District: Classification of sub-sectors: growth and employment creation: 2000 – 2011



QD1: Above ave growth/ job creation	QD2: Above ave growth/ job losses	QD3: Below ave growth/ job losses	QD4: Below ave growth/ job creation
Business services (8.8)	Catering & accommodation (-1.2)	NMM (-1.9)	Mining (6.5)
Radio & TV (6.2)		Agriculture (-9.1)	Government (3.3)
Finance (5.3)			Wood & paper (1.8)
Metals & machinery (3.9)			CSP services (1.7)
Petroleum & chemicals (3.7)			Retail & wholesale (1.2)
Automotive (2.6)			
Electrical machinery (1.9)			
Furniture & other (1.7)			
Transport & storage (1.6)			
Food & beverages (1.2)			
Construction (0.8)			
Clothing & textiles (0.6)			
Communication (0.5)			

Note: Average annual growth in employment, 2000 - 2011, indicated in parenthesis.

Source: Quantec Research/CER

While the OBD economy is small this regional economy presents a very interesting case study of an economy that is bucking the trend of slow-growing secondary industry associated with steep labour retrenchment versus high-growing services industry associated with net job growth. The bulk of the net job losses in the region over the 2000 - 2011 period occurred in the agricultural sector.

Including the adverse impact of the recession, the manufacturing sector generated jobs on balance, adding to the net job growth in the services sectors. In view of the manufacturing sector's potential to absorb displaced workers in agriculture, the key growing light industries in the OBD economy may warrant support (be it in the form of skills training, infrastructure provision, business red-tape reduction, etc.).

In striving for inclusive economic growth, it is not only necessary to establish which sectors are growing fastest and creating the most jobs, in economics it is also an issue of supply. It is a well-known fact that the domestic supply of labour is predominantly semi- and unskilled, i.e. workers absorbed much easier in the primary and secondary sectors of the economy.

Economic development typically progresses from the primary to the secondary sector of the economy, with services being a 'derived' sector supporting the growth in the former. The ultimate objective of economic development is to move up the value chain in production, e.g. the productivity of manufacturing production, which typically reaps the economies of scale production, is much higher than for other industries. It follows that, in terms of policy intervention, an economy needs to be structured in a way that maximises the growth (and employment creation) of the productive sectors of the economy.

In the OBD, the agriculture, manufacturing & construction sectors contribute close to 37 per cent of economic output, for instance (see Table 3.2), and they tend to be semi- and unskilled labour intensive where the surplus labour supply resides. However, the agricultural sector is under pressure in terms of growth and employment creation. The agricultural potential of the region needs to be assessed – either the contraction of the sector continues and plans are made to accommodate the displaced workers in the more rapidly expanding manufacturing and services industries and at the same time furthering the developmental progression of the region and/or plans are made to arrest the contracting tendency in agriculture in support of the growth in the wider region.

On the basis of the current evidence, the growth of a range of light manufacturing industries and some key services industries need to be supported as these are the most important employment generating sectors in the region.

In the *second main section* of this chapter of the report a cursory analysis is made of the comparative advantage of the regional economy and in Chapter 5 the food and the wood products/furniture value chains, both key manufacturing areas of the regional economy, come under the spotlight. The results from these analyses should be combined with the above in order to arrive at some assessment of which sub-sectors/industries warrant official support with the objective of inclusive economic growth in mind.

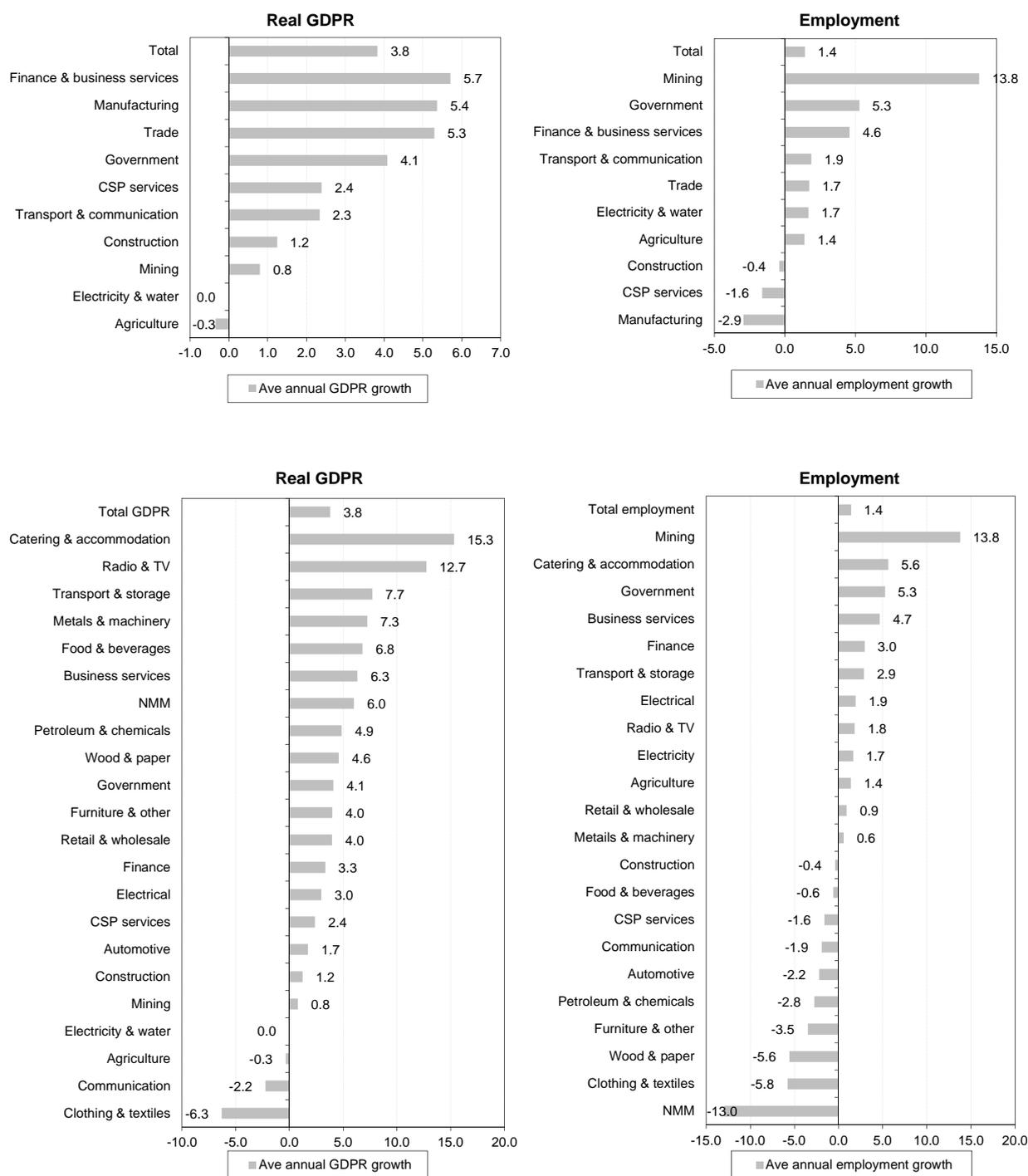
Before we turn to these analyses, a brief overview is provided of the sectoral growth performances during the economic recovery (2010/11) as well as a re-cap of the agriculture, manufacturing and services broad sectoral growth trends by municipality in the Overberg District.

3.1.2 Agriculture, manufacturing & services

In calendar 2011, the OBD agriculture, forestry & fishing sector contributed 11 per cent of GDP, manufacturing 16 per cent and services 63 per cent. In terms of employment, the agriculture, forestry & fishing sector employed 17 per cent of the workforce, manufacturing 9 per cent and the services sector 63 per cent.

As discussed in Chapter 2, the regional economy witnessed a relatively mild recessionary impact in 2008 - 2009 (with real GDP growth remaining positive in 2009 at 0.7 per cent slowing down from 7.6 per cent from 2008 at the height of the previous business cycle). The net job losses in the non-agricultural sectors of the region were also less than 10 per cent of the workforce; the bulk of the job losses occurred in the agricultural sector, which shed many jobs over the period before the recession. In fact, due to a bumper crop in 2008 net job losses even in the agricultural sector were limited and it would appear that the net retrenchments stabilised during the first two years of economic recovery (2010 - 2011). Figure 3.2 depicts the growth and employment performance of the OBD economy during the first two calendar years of the economic recovery, both at the broad sector level and the more disaggregated sub-sector level.

Figure 3.2 Overberg District: Sectoral real GDP growth and employment growth: 2010 – 2011 (% per annum)



Source: Quantec Research

It is evident that the regional economy has embarked on a recovery, with real GDP growth accelerating from 0.7 per cent in 2009 to 3 per cent in 2010 and 4.6 per cent in 2011 (averaging 3.8 per cent). An encouraging aspect is the fact that the stabilisation of the agricultural job losses and renewed job growth in the non-agricultural sectors reversed the adverse employment trend over the 2000s, with net job growth coming in at 1.4 per cent per annum during calendars 2010 - 2011.

However, real GDP growth is estimated to have slowed down again in calendar 2012 to 3.6 per cent in line with the global and national economic slowdowns. In Chapter 2 it was also noted that growth is likely to remain under pressure during 2013 due to the sustained weakness in the global economy and the domestic consumer sector slowdown.

In Chapter 2 it was seen that the finance, insurance, real estate & business services sector is the largest and fastest growing sector in the OBD economy, with a particular strong presence in the Theewaterskloof and Overstrand municipalities. From Figure 3.2 it is evident that this broad sector also led the growth during the economic recovery, expanding by 5.7 per cent per annum (2010 - 2011).

Manufacturing and retail, wholesale, catering & accommodation were the other two broad sectors exhibiting above average growth, i.e. 5.4 per cent and 5.3 per cent respectively. Closer inspection at a more disaggregated level reveals that especially the catering & accommodation sector and a list of light manufacturing industries (ranging from radio & TV to metals & machinery, food & beverages and non-metal minerals) grew strongly (above 6 per cent per annum). The large business services sub-sector and transport & storage also grew above 6 per cent per annum.

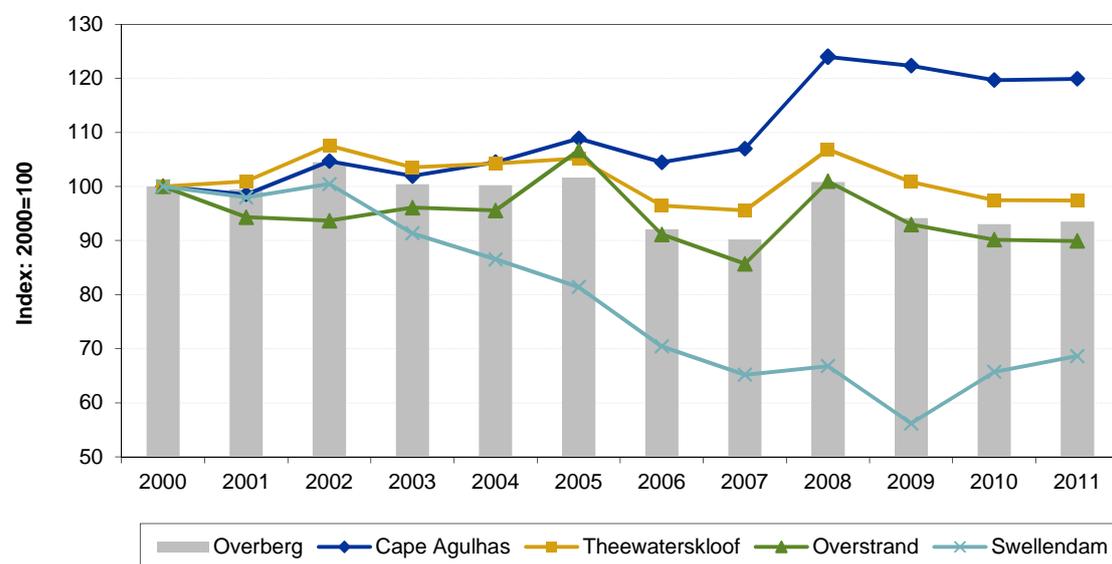
It is also evident that the recovery in employment growth was driven by the financial & business services sector, transport & storage, catering & accommodation, as well as the government (which implemented counter-cyclical fiscal policies at the national level). It is notable that in a number of manufacturing industries, such as non-metal minerals, clothing & textiles, wood products, petro-chemicals and automotive significant retrenchments continued (albeit that the numbers involved were relatively small).

Apart from this adverse development in employment creation, a favourable recovery tendency is observable in that the net retrenchments in the agricultural sector stabilised while a more balanced spread of secondary and tertiary economic activity led the growth and employment creation in the region, at least over the first two calendar years of the economic recovery. A similar tendency was observable in the Cape Winelands district. Unfortunately the labour relations in the agricultural sector became unstuck during the fourth quarter of 2012 and it is unclear what impact the sharp increase in the nationally instituted minimum wage level in the sector (March 2013) will have on growth and employment creation in the region.

Figure 3.3 shows the growth trends of the OBD agriculture, forestry & fishing sector by municipality. The Theewaterskloof Municipality is the largest contributor to the agricultural sector, accounting for close to two thirds of real value added in the sector. The growth of agricultural output peaked in 2008, however, the broader tendency in the Theewaterskloof Municipality has been sideways; in Overstrand it is slightly less positive and in the smaller coastal region of Cape Agulhas significantly more positive (presumably aided by the growth in the fishing and aquaculture industry). The sub-region where agricultural activity contracted the sharpest is Swellendam, with real value added in this sector contracting at a rate in excess of 3 per cent per annum over the period 2000 - 2011. The Growth Potential of Towns in the Western Cape study identifies the following developmental aspects in the OBD:

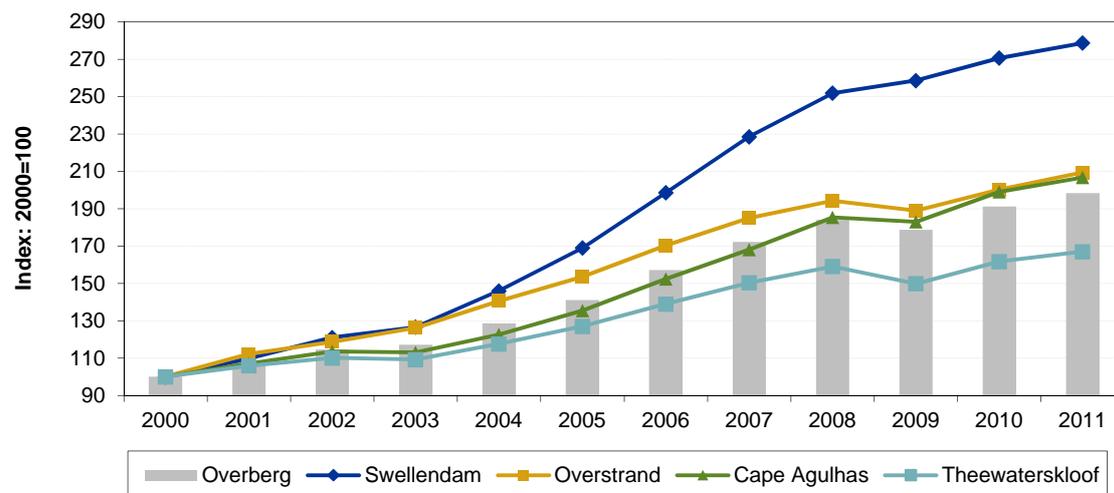
- A number of towns in the OBD are noted as *agricultural service centres*, e.g. in the Theewaterskloof Municipality, Grabouw has been identified as a town with *high* developmental potential while others (such as Botrivier, Caledon and Villiersdorp) were classified as towns with *medium* developmental potential.
- Towns regarded as *agricultural services centres* with *low* developmental potential, include Barrydale, Swellendam and Riviersonderend.
- 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. Overstrand hosts a large part of the Province’s blossoming aquaculture industry.

Figure 3.3 Overberg District: Growth in Agriculture, forestry & fishing by municipality: 2000 – 2011



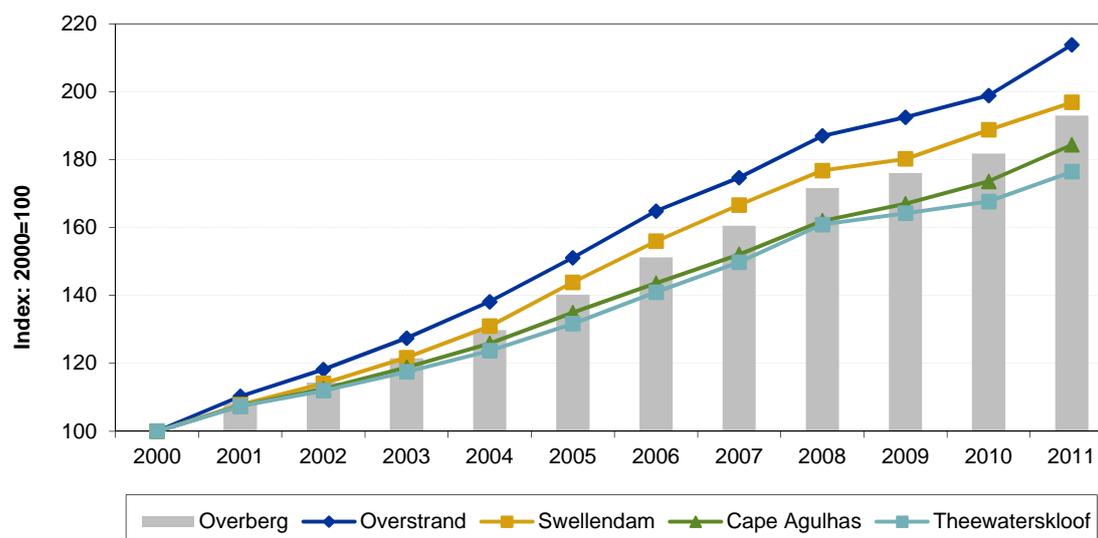
Source: Quantec Research

The OBD manufacturing sector’s overall growth performance over the period 2000 to 2011 (i.e. 6.7 per cent per annum) is a notable feature of the region’s growth. From Figure 3.4 it is evident that all the municipal manufacturing industries contributed to this positive growth trend and – even more notable – is the relatively shallow recession impact in 2009. The strong-growing Swellendam manufacturing sector (expanding at close to double-digit rates over the 2000 - 2011 period) did not even contract in 2009, whilst manufacturing real value added only contracted mildly in the other OBD municipalities.

Figure 3.4 Overberg District: Growth in manufacturing by municipality: 2000 - 2011

Source: Quantec Research

Close to 70 per cent of manufacturing activity is located in the Theewaterskloof and Overstrand municipalities and the main industries are agro-processing (accounting for more than a third of manufacturing real value added), petro-chemicals, wood products & furniture, metals & machinery and automotive components. While the real value added contribution to region-wide GDP (11 per cent) is bigger than the employment contribution (9 per cent), indicating a measure of high capital intensity in the sector in the region, its vibrant recession-defying growth bodes well considering prospects. The strongest employment creation occurred in the Overstrand and Swellendam manufacturing sectors.

Figure 3.5 Overberg District: Growth in the tertiary sector by municipality: 2000 - 2011

Source: Quantec Research

The OBD services sector (accounting for more than 60 per cent of real value added) expanded just as strong as the much smaller manufacturing sector and therefore continues to drive the growth and employment creation in the region. From Figure 3.5 it is evident that all the municipalities in the OBD share in this trend, with growth being strongest in the Overstrand. This Municipality accounts for 46 per cent of the employment creation in the OBD services sector over the 2000 - 2011 period. At a sub-sector level, financial & business services is the leading growth and job creating sector.

In all, the OBD economy is well diversified, possesses vibrant industries, navigated the 2008 - 2009 recession in good shape and the economic recovery in the region during 2010 - 2011 revealed a better mix of secondary and tertiary activities, with net retrenchments in the agricultural sector being stabilised. This characterisation of the regional economy is impressive and explains why it was one of the leading growth areas in the Western Cape Province over the 2000 - 2011 period. The OBD economy is relatively small, but well-diversified both from a geographical and sector perspective. Overstrand seems to be the most vibrant sub-regional economy, albeit only marginally so compared to the other municipalities. Only an oversized and marginally contracting agricultural sector in the large Theewaterskloof Municipality dampened growth there. In Swellendam a sharp contraction (and steep job losses) in agriculture is somewhat concerning; however, being counter-balanced by vibrant growth in manufacturing and services activities.

3.1.3 International trade

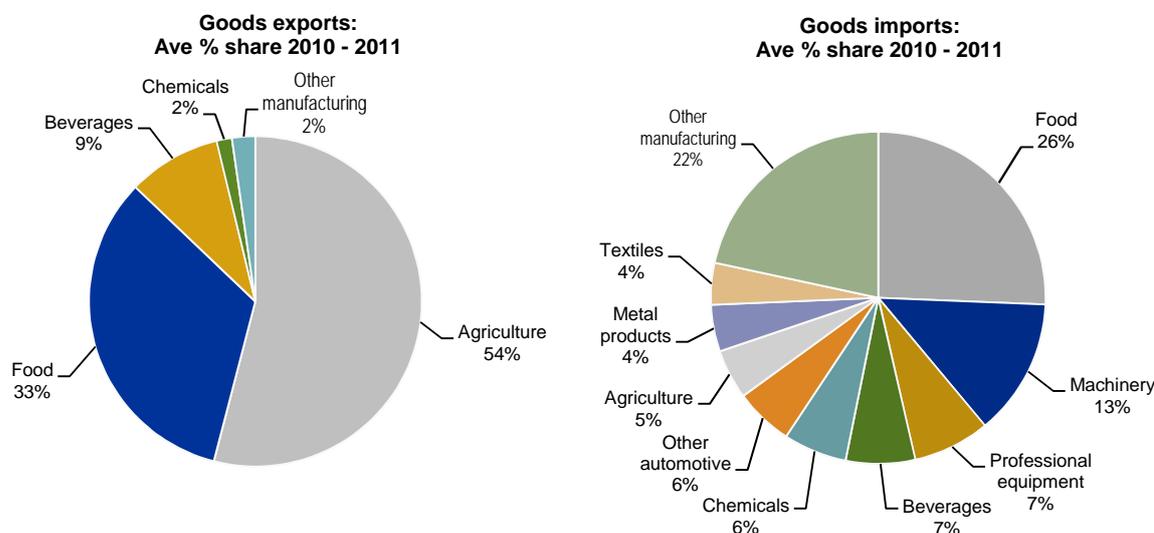
Trade promotion remains a cornerstone of the WCG's economic strategy. In order to grow the regional economy external markets have to be explored and when we engage in exports we also have to import. While the definition of exports and imports are problematic at the municipal level, the current section briefly focuses on two aspects of the OBD international trade: *firstly*, the composition of goods exports and imports to the rest of the world (basically re-capping the analysis conducted in the 2012); and *secondly*, the composition and trend in the regional 'trade balance'⁶.

The OBD economy's export basket is highly concentrated – 95 per cent of all goods exports to foreign countries are produced in the agriculture (54 per cent) and agro-processing sectors (32 per cent food stuffs and 9 per cent beverages). The bulk of these exports are apples, pears, table grapes, fruit juices and wine to the European market, albeit that export destinations are being diversified to include faster growing developing country markets in the East. The most significant manufacturing export product is chemicals (1.5 per cent of goods exports). While export growth was resilient during the recession (mainly due to a bumper agricultural crop in 2008), it slumped in the subsequent period. The value of goods exports declined from

⁶ It needs to be emphasised that a sub-regional 'trade balance' is conceptually somewhat misleading. Sales by any firm in the region to buyers outside the region should be regarded as exports, i.e. including sales to other districts in the Province and other provinces in the country. However, due to data limitations these 'exports' are ignored in the current analysis – only the sale of goods in foreign markets are accounted for; and on the import side, only purchases from foreign countries. The derived 'trade balance' therefore gives some indication of the balance of forex earnings generated in the region.

R1.2 billion in 2008 to R900 million in 2011. This contraction must have impacted disproportionately on the Theewaterskloof Municipality.

Figure 3.6 Overberg District composition of goods trade: 2010 – 2011

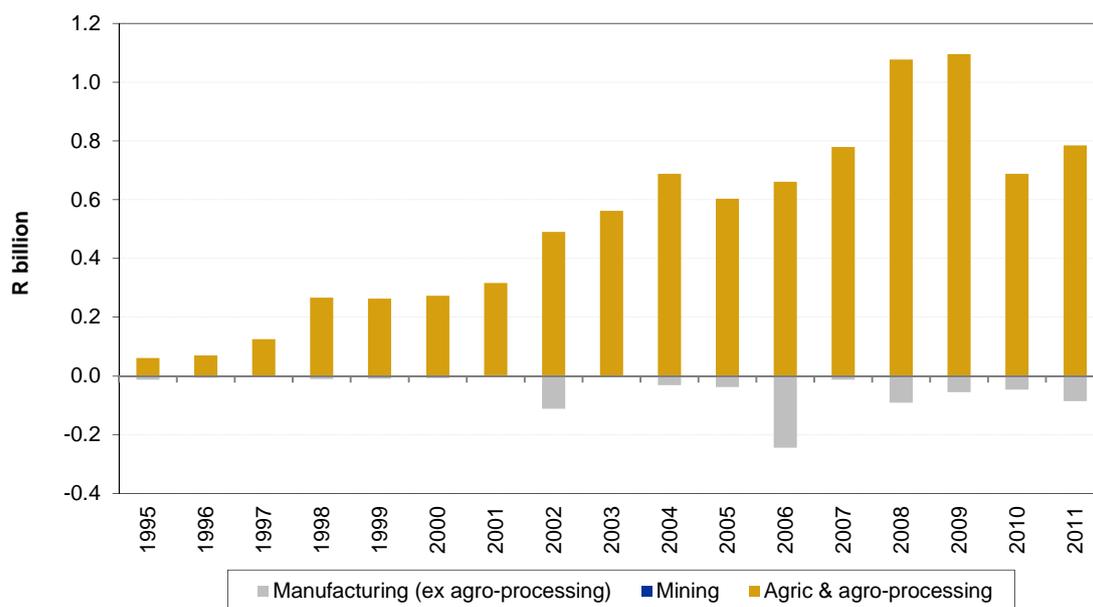


Source: Quantec Research

The region's import basket is more diversified, with food imports accounting for a quarter and machinery for 13 per cent. Beyond these two main sectors, Figure 3.6 shows a list of other important imports, ranging from professional equipment (7.5 per cent), beverages (6.7 per cent), chemicals and (6.1 per cent) to textiles (4.5 per cent). The value of goods imports jumped sharply in 2011 to its pre-recession levels around R200 million.

In Figure 3.7 the OBD goods trade balance is depicted, including its composition. In order to link with other analyses contained in the current report, the agriculture and agro-processing exports and imports were combined (i.e. providing some indication of the food value chain exports), whilst obviously at the same time excluding the food & beverage processed exports from the manufacturing category. A number of remarks are in order:

- *Firstly*, the region produces a sizeable trade surplus, measuring R700 million in 2011 and mainly produced in the agriculture & processing industries; however, the trade surplus declined sharply during the economic recovery of 2010 - 2011 due to the sharp fall in the value of goods exports over this period. It is possible that the decline is part of an adjustment back to the trend as agro-processing exports almost doubled in calendars 2008 - 2009 (and including the impact of the sharp exchange rate depreciation at the time).
- *Secondly*, the decline in the trade balance is also linked to the marginal deterioration in the manufacturing (excluding agro-processing) trade balance.

Figure 3.7 Overberg District: Goods trade balance (Rbn)

Source: Quantec Research

The analysis now turns to the sectoral economic outlook for the Overberg.

3.2 Sectoral economic prospects, 2013 - 2017

In this section of the report, the focus moves to the economic outlook for the OBD. Chapter 2 provided the macroeconomic backdrop, which may just briefly be restated here. While the improvement in the global economy remains uneven and loaded with risk, the domestic economic recovery (from the end of 2009) appears to be well-established, albeit exposed to global developments and domestic socio-political headwinds. The recovery growth in the district since 2010 has been faster compared to that of the Province.

In the first section of Chapter 3 an analysis was made of the growth and employment performance of the district across the various sectors and municipal sub-regions, including a brief assessment of the international trade position of the district. This information was applied together with a comprehensive macro-econometric/input-output model forecast of sectoral GDP growth for the Province⁷ and other information pertaining to the district (and discussed below), as well as a comparative advantage analysis in order to derive sector forecasts for the district. The resultant OBD economic outlook is briefly discussed below.

⁷ See WCG: Provincial Economic Review & Outlook (PERO) 2012 and the Provincial Budget Review, 2013.

3.2.1 Sectoral outlook/forecast

Table 3.3 summarises the average forecast growth rates across the nine broad sectors of the OBD economy⁸; regarding the outlook for the OBD economy, the following remarks may be in order:

- While agriculture and agro-processing exports form an integral part of the OBD economy, overall exports only measured 7.7 per cent of GDP in 2011. While it is difficult to project agricultural growth given the impact of climatic influences, the forecast provincial-wide growth rate (1.7 per cent per annum, 2012 - 2017) and the average growth rate over the 2008 - 2011 period informed the assumption of 1.2 per cent per annum over the medium term. This suggests that the small annual contraction in agricultural real value add over the 2000s may be reversed over the forecast period.
- The weaker rand exchange rate should be positive to the OBD regional exporters as rand export revenues are boosted and the search for alternative faster-growing markets (outside of the troubled European Union) made more lucrative. The rand depreciated substantially vis-à-vis third emerging market currencies since August/September 2012, which tended to appreciate against the US dollar in response to the US liquidity injection programmes (QE).
- However, the bulk of producers and service providers' sales are destined for the local and domestic markets, which are projected to remain under pressure during 2013. Selling conditions will be tight over the short term due to the consumer sector slowdown. Even the livelier durable goods market (benefiting from low interest rates and competitive pricing in a more lucrative consumer segment) is slowing down. The non-durable goods market is under substantial pressure due to sluggish growth in wage incomes (in turn, a function of lower nominal wage increases and sluggish employment growth), the impact of higher food, electricity and petrol prices on household budgets and generally lower consumer confidence and therefore willingness to commit income to credit spending. In the unsecured lending market (the main driver of consumer credit growth since the onset of the economic recovery) credit standards are also being tightened, which should impact adversely on the semi-durable goods and furniture & appliances market.
- The consumer sector slowdown is expected to be temporary (on the assumption that the global economic recovery endures). Interest rates are expected to remain low at least until the end of next year, with inflation remaining more or less in the target range and the weaker level of the rand exchange rate providing a competitive edge to import competing producers. Inward tourism will also be stimulated by the weaker rand, which will be supportive of initiatives such as the Cape Country Meander Brand building exercise in the Theewaterskloof Municipality.

⁸ It has to be noted that economic information up to the middle of June were incorporated into the forecast; it is possible that growth come in weaker during 2013/14 compared to those presented in Table 3.3.

- Manufacturing real value added is projected to grow by 4.4 per cent per annum compared to trend growth of 6.7 per cent over the 2000 - 2011 period. While this projected growth rate may be conservative in view of the 5.4 per cent per annum recovery growth rate (2010 - 2011), the latter includes an element of a rebound which may not repeat itself over the forecast period. The OBD manufacturing sector is still projected to grow significantly faster compared to the wider province, albeit from a low base. Provided that the competitive gain of the weaker rand can be locked in by containing inflation, import replacement opportunities should present itself over the medium term.
- With growth having slumped from the pre-recession levels, the construction sector appears to have turned the corner following an unusually slow recovery. Both residential and non-residential property development are expected to improve going forward. The national government's Strategic Integrated Projects (SIPs) 11-15 public infrastructure investment initiatives, ranging from agri-logistics and rural infrastructure, the revitalisation of public hospitals and health facilities, the national school build programme and the expansion of communication technology are all potential sources of construction demand. Construction real value added is projected to increase by 4.7 per cent per annum over the forecast period (i.e. slightly faster than the provincial average).
- Employment growth is also expected to pick up somewhat as fixed investment activity accelerates from the second half of 2013. Combined with reduced uncertainties this should in time boost consumer confidence and spending (end-2013/14).
- Retail, wholesale, catering & accommodation real value added is projected to grow by 3.2 per cent per annum, up from an estimated 2.7 per cent in 2013 and below the provincial average of 3.9 per cent per annum as well as the growth rate achieved during the previous expansion (4.9 per cent per annum, 2000 - 2007) (refer to footnote 5).
- Linked to these performances, the growth in finance & business services and transport & communication is projected to continue out-performing other sectors, albeit with a narrower margin already evident during the economic recovery years, i.e. 2010 - 2011. The growth rate of financial & business services real value add is projected at 6.7 per cent per annum, which is significantly below the 11 per cent average annual growth rate registered over the 2000s. The transport, storage & communication sector is projected to grow by 4.2 per cent per annum.
- While the government and community, social & personal services sectors will continue to underpin growth and employment creation, the public sector is under tremendous pressure to trim spending in order to drive a narrower overall budget deficit over the medium term. Moderate, albeit firm, growth is expected in these sub-sectors over the medium term. The reduction in the pace of real government expenditure may impact particularly on the Cape Agulhas Municipality which hosts a proportionately large public sector.

Table 3.3 Overberg District: Real GDP growth outlook: 2012 – 2017 (%)

Sector	Trend	Recession	Recovery	Overberg District	Western Cape
	2000 – 2011	2008 - 2009	2010 - 2011	2012 - 2017	2012 - 2017
Agriculture, forestry and fishing	-0.7	2.6	-0.3	1.2	1.7
Mining and quarrying	0.1	-2.8	0.8	0.1	0.0
Manufacturing	6.7	2.0	5.4	4.4	2.8
Electricity, gas and water	1.1	-2.4	0.0	1.5	2.1
Construction	9.0	8.2	1.2	4.7	4.4
Wholesale and retail trade, catering and accommodation	3.6	-3.1	5.3	3.2	3.9
Transport, storage and communication	6.3	4.0	2.3	4.2	3.9
Finance, insurance, real estate & business services	11.0	11.2	5.7	6.7	4.5
Community, social and personal services	3.6	0.8	2.4	2.8	2.7
General government	3.3	3.9	4.1	3.1	3.0
Total Overberg District	5.2	4.1	3.8	4.3	3.7

Source: Quantec Research/CER

From the analysis above it is apparent that 2013 will be another constrained year. Even a more meaningful recovery anticipated next year and beyond is likely to be constrained. *Firstly*, the slow growth in the advanced economies is likely to be a multi-year affair (also impacting negatively on inward tourism); *secondly*, domestic business and consumer confidence may be slow to recover more convincingly given the likely uncertainty in the run-up to general elections next year – we may have to get beyond the election next year only before attention can fully shift to the economy again. Overall *OBDR real GDP growth is projected to accelerate from an estimated 3.6 per cent per annum (2012/13) to 4.4 per cent next year and 4.8 per cent per annum (2015 - 2017).*

3.2.2 Local issues – Overberg District

The Overberg district hosts a strong agricultural sector (e.g. maize and dairy farming in Caledon, Bredasdorp and Napier; apples, pears and wine in Grabouw and fishing in the Cape Agulhas and Overstrand municipalities) and is endowed with adequate surface and ground water. The region also has thriving (light) manufacturing industries and rapidly growing financial & business services sectors. Furthermore, the growth in tourism (e.g. the location of Cape Agulhas and whale watching in Hermanus) has acted as a key stimulant to retail, catering & accommodation activities, which is also leading to the development of additional shopping space (e.g. witness the building of the Caledon shopping mall). Finally, exports of fresh and dried flowers, wool, wine, fruit, candles and ceramics have grown well. While growth has slowed down in line with the national and international economies, the region has been the fastest growing in the Province over the 2000 - 2011 period.

However, it is evident from the responses received in the municipal survey that the current sluggishness in the domestic economy and the weak global growth are impacting adversely at the local level. The respondents are not optimistic that the general economic prospects will improve meaningfully and that the financial viability

of municipalities may remain under pressure necessitating the need to consolidate and retain development efforts rather than to consider expanding efforts.

Furthermore, while the region has witnessed significant growth in retail, wholesale, catering & accommodation activities linked to tourism, the sustained influx of migrants are putting additional pressure on infrastructure provision and service delivery.

It is also evident that public sector capital spending (mainly directed at water and sewerage bulk services) is constrained by the scope of the Municipal Infrastructure Grant (MIG). The municipalities' financial positions also do not allow them to incur debt and these funding constraints are compromising service delivery in many areas, ranging from the maintenance and upgrade of waste water treatment plants, the rehabilitation of roads and environmental spending. In short, the funding constraints restrict the local authorities in expanding the current infrastructure in line with the growth rate and also inhibits the replacement, maintenance and upgrading of ageing infrastructure.

A number of additional constraints and challenges are listed. The lack of broad band and fast internet connectivity is noted as one of the key constraints to growth and development. Furthermore, municipalities find it difficult to fill artisan positions due to skills shortages in this regard, albeit that initiatives are being implemented to bridge the gap between the demand for and supply of technical skills (see the section below).

In all, the high growth of the region creates migration-pull effects while funding constraints (given the inter-governmental fiscal relations) constrain the various local authorities' ability to maintain, upgrade and expand the infrastructure in the region. The subdued short-term general economic prospects also do not allow and expansionary approach at this stage. As noted in the 2012 MERO report, the municipal challenge is not an easy one: infrastructure needs to be maintained and extended in established towns and at the same time be rolled out to poor communities in Swellendam, Riviersonderend, Elim, Napier and many other towns in the district.

In view of these local issues, including the region's strengths and challenges, an analysis is made below of the revealed comparative advantage across the various sectors/industries in the OBD.

Comparative advantage

It is necessary to gain a good understanding of any region's/country's revealed comparative advantages in order to guide policy intervention aimed at maximising economic growth and development. The theory of comparative advantage has its origins in the classical economist, David Ricardo's, work in which he tried to explain why it is beneficial for a country to trade and in what goods and services any country should be trading in order to maximise economic welfare gains. Over the years his theory of comparative advantage has evolved and various analytic techniques designed in order to determine revealed comparative advantage, not only at the

national level (and in relation to trade), but also at the local/regional level in order to gain some understanding of the sectors of economic activity which should be promoted by way of (industrial) policy intervention.

One such technique involves the calculation of so-called 'location quotients' (LQ), which simply tracks the growth of a sector in relation to that of the region relative to the growth of the same sector at a broader level (e.g. nationally) in relation to the growth of the wider economy (e.g. nationally). Expressed in symbols, the location quotient (LQ) is defined as:

$$LQ = \frac{g_i/g}{G_i/G}$$

Where:

g_i = value added in sector or industry i

g = total value added (i.e. for the region/country)

G_i = reference area value added in sector/region i

G = total value added in the reference area

Relative to some common base year therefore, the location quotient measures the performance of the sector or industry investigated in relation to that of the sector/industry in the reference area. As we currently investigate the sectoral growth performance of the sector at the regional level compared to that of the same sector at the broader (reference) area, the reference area can either be the Province or the national economy.

Table 3.4 Revealed comparative advantage of the Overberg District economy

	Overberg District		South Africa		LQ ratio 2011
	GDP % share 2011	Ave growth 2000 - 2011	GDP % share 2011	Ave growth 2000 - 2011	
Agriculture, forestry and fishing	11.6	-0.7	2.4	2.0	4.73
Mining	0.1	0.1	5.9	0.0	0.01
Food, beverages and tobacco	5.6	6.4	2.9	2.4	1.93
Textiles, clothing and leather goods	0.2	6.9	0.8	2.8	0.28
Wood and paper; publishing and printing	1.0	3.5	1.5	1.4	0.66
Petroleum products, chemicals, rubber and plastic	2.5	8.4	4.3	3.7	0.59
Other non-metal mineral products	1.1	3.8	0.6	1.6	1.93
Metals, metal products, machinery and equipment	1.8	9.8	3.3	3.5	0.54
Electrical machinery and apparatus	0.2	7.7	0.5	3.5	0.45
Radio, TV, instruments, watches and clocks	0.3	12.0	0.3	4.6	1.17
Transport equipment	0.9	9.7	1.7	5.5	0.54
Furniture; other manufacturing	2.5	6.3	1.4	2.4	1.77
Electricity & water	1.2	1.1	2.0	2.0	0.59
Construction	7.7	9.0	3.4	7.3	2.25
Wholesale & retail trade	12.0	3.5	12.9	3.9	0.93
Catering and accommodation	1.9	4.8	1.0	3.5	1.98
Transport & storage	4.2	5.6	5.5	3.7	0.76
Communication	3.7	7.5	4.6	7.4	0.80
Finance and insurance	5.3	12.6	8.4	6.4	0.63
Business services	21.8	10.7	15.3	5.2	1.42
Community, social and personal services	4.2	3.6	6.1	3.1	0.68
General government	10.2	3.3	15.2	2.5	0.67
Total	100.0	5.2	100.0	3.6	1.00

Source: Quantec Research/CER

If we assume that the growth of a particular sector/industry at the regional level is a function of the growth of the national economy, then the national economy magnitudes should be the denominator in the above equation. However, it may also be appropriate to include the Province's value added as the reference magnitude. In order to respect the capacity constraints in adopting such an approach, the national economy magnitudes are used in the current exercise also assuming that the growth of the industry at the regional level is an integral function of the national growth performance.

Using the relative shares of sectors for the country as reference areas, the LQ's in Table 3.4 (far right column) provide some indication of the sectors with a revealed comparative advantage being those sectors in respect of which the $LQ > 1$; in other words, should the regional industry reveal a higher proportion of the regional economic activity compared to the same sector share at the national level, it can be concluded that the region expanded at a faster rate with reference to some base year compared to the same sector at national level, suggesting '*revealed comparative advantage*'⁹.

Applying this method to the 22 main industry groups of the OBD, the results contained in Table 3.4 suggest the following sectors (in order of strength of revealed comparative advantage) should be supported: *agriculture, forestry & fishing and the associated agro-processing industries, construction, non-metal minerals, catering & accommodation; furniture, business services and radio, TV & professional equipment manufacturing*. In view of this list of sub-sectors/industries revealing comparative advantage and the leading employment generating sectors identified in the first section of the chapter above, the following *value chains* or clusters of economic activity and sectors can be identified for being key growth areas in the Overberg economy:

- Agriculture and agro processing – the food value chain (see Chapter 5).
- The building & construction value chain (including building material manufacturing).
- The tourism sector, cutting across the catering & accommodation, retail & wholesale (with a LQ close to one) and business services sectors.
- The timber/furniture manufacturing value chain; while the wood products industry's $LQ < 1$, it has created employment on balance over the 2000 - 2011 period; furthermore, the furniture sector in the region has been growing above the provincial average (see Figure 3.1).

⁹ This is a very basic technique for guidance on revealed comparative advantage and is derived from *economic base analysis*; other techniques investigating comparative advantage include so-called '*shift-share analysis*', i.e. a procedure that decomposes the growth of a region into three comprehensive sources: i.e. (i) growth related to the growth of the reference area; (ii) growth related to the changing mix of regional sectors; and (iii) growth related to economic activities shifting to the region.

The *food and the timber/furniture value chains* are investigated further in Chapter 5 in view of (i) the importance of food security and the importance of agriculture in the region; and (ii) the size and importance of these sectors in the OBD manufacturing sector.

Skills considerations

The economic outlook presented in this report is based on the existing structure of the district economy and as such make implicit assumptions on the availability of the required skills in the production process. While the required skills cover the whole spectrum from the most menial tasks to more technical requirements and management, the key concern tends to be artisanal/technical and engineering skills hence the emphasis on mathematics and science pass rates at the school level. In this section of the report, a brief overview is provided of, *firstly*, skills supply issues in this field and, *secondly*, based on the economic outlook presented above, areas in the district economy where demand for artisanal/technical/engineering skills may be keen. This could assist the authorities and the private sector in their planning to match the supply of and demand for these scarce skills going forward.

In a recent study by the Department of Economic Development & Tourism (DEDAT) of the Western Cape¹⁰, a number of key weaknesses, but also encouraging aspects, were identified regarding the supply of artisans in the Province. Incomplete data, key bottlenecks linked to college completion, pass rates and work experience requirements, confusion regarding the various routes to the artisan trade test, etc. are all supply issues that need to be addressed.

However, what became clear, both international best practice and the literature suggest that public-private sector partnerships are critical, i.e. some form of collaboration between the training institutions and the employers. The matching of the supply of artisanal skills with the demand in the private and public sectors is best approached via the building of the necessary institutional mechanisms aimed at meeting the requirements of industry, again, collaboration between the public and private sectors. In this regard there are a number of encouraging initiatives, which can be used to replicate (e.g. the SSACI AATP and the DEDAT artisan training & development projects). Practical experience during training is critical. Municipalities should bear this in mind when designing and implanting skills training initiatives.

While the current economic review does not provide the scope to entertain the greater detail on the supply side, it may suffice to consider the question: given the economic outlook for the OBD economy, in which areas may skills demand tend to grow stronger than average over the coming three to five years?

- Given the importance of the agriculture and agro-processing industry in the OBD, technicians in the agricultural machinery field will remain in high demand.

¹⁰ UWC FET Institute (March 2013): *Supply and Demand for Artisans in the Western Cape*, A Study conducted for the Department of Economic Development and Tourism (DEDAT).

- The same goes for carpenters and technicians in the wood products and furniture industries. The metals & machinery sector is also significant in the region and demand for tool makers, specialist welders, boilermakers, fitters and turners should be keen.
- Construction workers and related skills will also be in higher demand once the anticipated revival in the building & construction sector acquires critical momentum.
- An area of large vacancies appears to be the automotive sector, where welders, automotive engineers, qualified exhaust fitters (not in trade), petrol & diesel mechanics, diagnostic technicians, automotive machinists and auto electricians are required. OBD does have a significant, albeit not large, transport equipment industry.
- Finally, to the extent that semi-and unskilled labour is lost in the agricultural sector there is a need for retraining/up-skilling of these workers for potential employment in the growing services industry such as tourism, retail & wholesale, transport & storage for instance.

3.3 Conclusion: Options and policy pointers

The OBD economy has been one of the fastest growing regions in the Western Cape albeit that the economy is small. Agriculture and the associated processing industries form the backbone of the economy; however, the growth of the region has been driven by what appears to be vibrant light industrial activity (well dispersed throughout the district) and a range of service industries, notably finance & business services. The Theewaterskloof and Overstrand municipalities are the largest accounting for close to 70 per cent of GDP.

An immediate policy issue which becomes apparent is that the OBD cannot keep up with the infrastructure expansion required for the rapidly growing region. The MIG is to fund infrastructure and the economic conditions do not allow the local authorities to incur debt as their financial viability is at stake. In this regard serious intervention is required in order to prevent deteriorating infrastructure.

The infrastructure pressures are exacerbated by in-migration and are particularly acute in the migrant settlements; the economic vibrancy of the region tends to attract many migrants from the Eastern Cape. Hence, municipalities express the need to revise the infrastructure grant formulae.

The region has been characterised by steep farmworker retrenchments over the 2000s while net jobs were created in the non-agricultural sectors, including manufacturing. While the farmworker retrenchments stabilised during the first two calendar years of the economic recovery there may be a need to retrain and up-skill unemployed farmworkers. The OBD economy is quite unique in exhibiting capacity to absorb labour in rapidly expanding light industry in all the sub-regions of the district. It is also imperative that labour relations be restored on the farms in the absence of

which a return to retrenchment is likely to happen, as well as persisting mechanisation on the farms.

While the region does not export a large share of GDP, in some municipalities (e.g. Theewaterskloof) this is the case and given the dominance of agricultural products in the export basket, the economic troubles in the EU are a serious concern. Producers require support in seeking faster-growing alternative markets in emerging economies (including the rest of Africa).

Assuming the competitive gains of the weaker rand exchange rate can be consolidated, through prudent macroeconomic policies at the national level, opportunities for import replacement are likely to present themselves and need to be supported from the provincial government's side (witness the planned textile plant in the Theewaterskloof Municipality).

The weaker rand will also be an important stimulant to inward tourism. In this regard the opportunity should be grasped to develop tourism initiatives such as the Cape Country Meander Brand in the Theewaterskloof Municipality; and can possibly be replicated in the other municipal regions, if not already in place (the district's tourism potential stretches across all municipal areas).

In terms of directing much-needed infrastructure spending, the rapidly-growing Overstrand, Cape Agulhas and (non-agricultural) Theewaterskloof municipal areas, as well as Swellendam are likely to witness more acute infrastructure bottlenecks and shortages. Key industry value chains identified in this study include food & beverages, building, tourism and timber/furniture.

Considering the outlook, the uncertain economic environment combined with the infrastructure 'growth pains' suggest a conservative approach and some consolidation may be advisable over the short term. In the outer years of the forecast period real GDP growth is projected to accelerate close to 5 per cent per annum during which expansion plans can be implemented.

4

Value chains

4.1 Introduction to value chain analysis

An analysis of value chains can focus on the intra-firm relationships or the activities and inter-relationships amongst productive agents in the economy. The analysis presented in this chapter will focus on the inter-relationships between various participants in the selected sectors/identified clusters of industrial activity at various points along the supply chain. This will essentially entail an examination of the backward and forward linkages of the selected industries, including an assessment of the growth and employment potential of the selected industries if possible.

The concept of the value chain was first used by Porter (1980) who identified it as a representation of the firm's value-adding activities, based on its pricing strategy and cost structure. This analysis was primarily based on the internal assessment of the firm's competitive advantage, but in the 1990's the concept of the value chain was extended to include the global commodity chain by Gereffi and Korzeniewicz (1994). This approach focused on the linkages between firms. The concept was further clarified and 'codified' by Kaplinsky and Morris (2001). They distinguish between value chains and supply chains by emphasising the linkages and relationships both between and within actors at each stage of production.

The value chain concept can be extended to a number of different forms of analysis; however it is necessary to limit this analysis to present 'real value' to policy makers and those seeking to improve the general welfare of the regional economy. Value chain analysis can be extended to include policy interventions, governance and legal issues related to the value chain, as well as the distribution of benefits in the value chain.

At the outset it is important to clarify the intention of this analysis, the limitations, the advantages and the assumptions that are necessary.

4.1.1 Methodology and assumptions

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 and the metro municipality have been assessed and the most important selected value chain(s) within each district and the metro economy have been analysed. It must be noted that this analysis will not focus on the quantitative specification of each value chain in the specified district, but will rather focus on identifying and mapping the value chain, the actors involved, and the value-added and job-creating potential.

Two major considerations are applicable to the analysis at hand. Firstly it must be determined how far to follow the forward and backward linkages along the supply chain and secondly, the level at which these linkages must be determined.

The analysis below captures most of the forward/backward linkages within the chosen value chains. An increase in demand for the final product or service, for example, will boost production and employment along supplier industries within the *particular* value chain, and may also have positive spill-over effects on other sectors and industries: employees in these supplier industries, and members of their households, may spend part of their extra incomes on a range of goods and services produced outside the particular supply chain. Apart from the Overberg District, the supply chain itself, and the related spill-over effects, may of course extend to municipalities elsewhere in the Province and beyond. The extent of these additional (direct and indirect) effects will depend on the value of the relevant multipliers, which could be analysed and estimated in a separate study¹¹.

Before delving into the value chains of each district, a short background description of the sectors analysed will be given, to better understand the potential impact of the value chain in the district.

4.2 Value chain analysis

4.2.1 Overberg District value chains

Within the Overberg District (OBD) Municipality, the tertiary sector is the largest contributor to employment and GDP, however for the value chain analysis presented in this chapter the food and furniture value chains have been chosen for analysis. This was done on the basis of the large contribution of the agricultural and food processing sector to semi-skilled and unskilled labour. The timber and furniture

¹¹ Black, PA, 2004. "Economic impact analysis: a methodological note", *South African Journal of Economics*, vol 72, No 4.

industry in the OBD also has significant potential for development, even though it is currently a small contributor to the GDP and employment of the OBD.

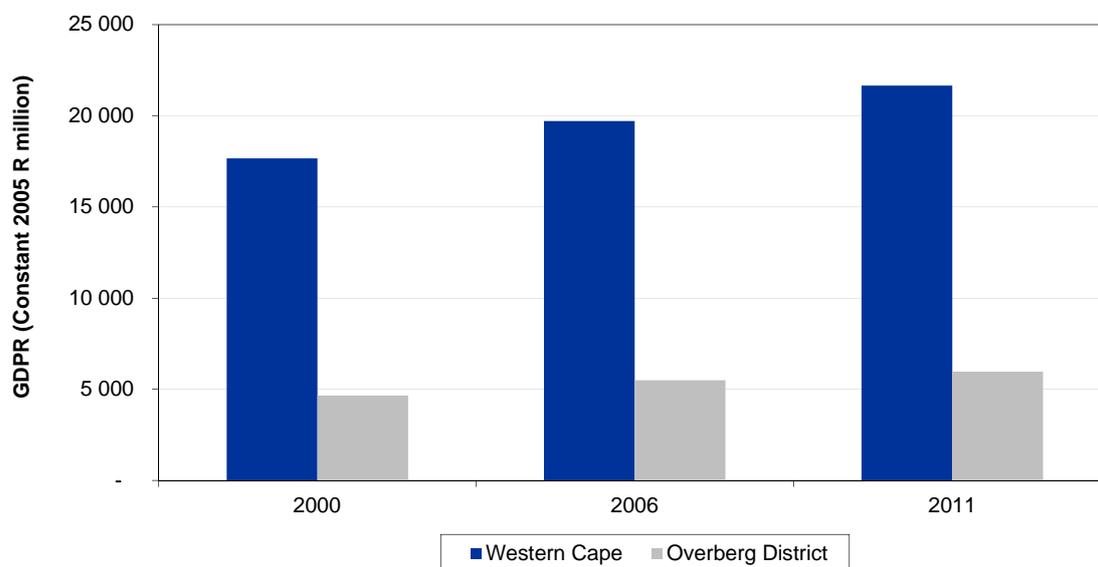
The value chains are analysed according to the backward and forward linkages of the respective industries and through the development of food and furniture products. This form of analysis shows the direct inputs as well as the supporting sectors to the manufacturing process in the respective industries.

Agro-processing value chain

The agro-processing value chain consists of two major economic sectors, the agricultural and food & beverages sectors. Together these sectors contribute to the establishment of the agro-processing value chain. Agricultural products are used as the input to the manufacturing process of the food & beverages sector. The agricultural sector in the OBD is the major contributor to the food value chain in terms of employment and GDP.

The major destination for fruit production in the agricultural sector of the OBD is exports via the Cape Metropolitan area. Grain produce is stored in Caledon or transported to the mills in the Swartland and then mainly north to Johannesburg. The beverage sector produce is mainly transported to Johannesburg or exported from Cape Town. The OBD is home to two of the largest packing houses in the country, Kromco and Two-a-Day are both situated near Grabouw. The agricultural sector has the largest apple producer in the country. Other important farming activities relate to wine farming, grain, barley and canola farming, as well as merino sheep farming.

Figure 4.1 GDP of the Agro-processing value chain for the Western Cape and OBD: 2000, 2005 and 2011

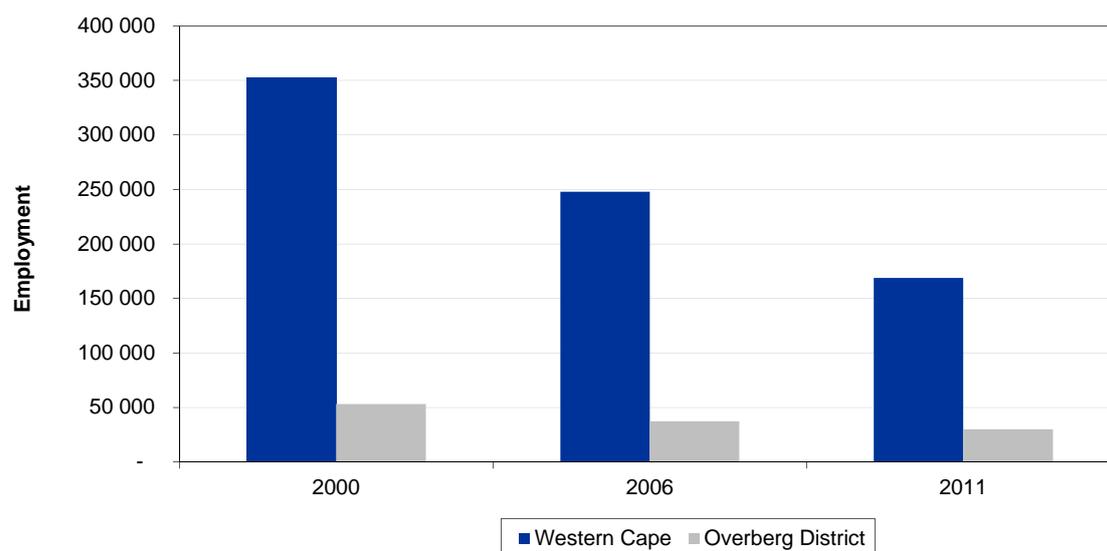


Source: Quantec Research

Figure 4.1 above depicts the GDP for the agro-processing value chain in the OBD and the Western Cape. These employment figures include employment in the agricultural and food processing industries. The agro-processing value chain in the OBD has performed better than that of the Western Cape overall, but has performed well below the GDP average of the Province and South Africa in the period from 2000 to 2011. The yearly average growth of agro-processing GDP in the OBD was 2.3 per cent in comparison to 1.9 per cent for the Western Cape from 2000 to 2011.

Figure 4.2 below shows that employment levels have remained similar to those at a national and provincial level, and have declined substantially from 2000 to 2011. Employment levels have declined by a yearly average of 5.1 per cent in the OBD and by 6.5 per cent at a provincial level. The declines seen in agricultural employment are greater than those in the food processing industry. With the difficulties farmers are experiencing with labour action and increased competition for produce, it is most likely that employment levels will continue to decline as farming becomes more mechanised in the future.

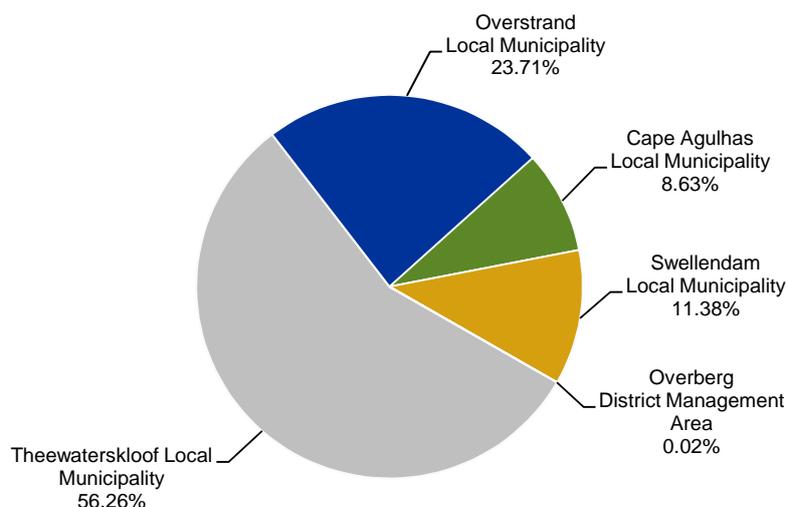
Figure 4.2 Agro-processing value chain employment for the Western Cape and OBD: 2000, 2006 and 2011



Source: Quantec Research

The largest proportion of agricultural activity takes place in the Theewaterskloof Local Municipality. This area has the largest agricultural sector, with 65.9 per cent share and the second-largest food processing industry, with a 34.6 per cent share. The Overstrand Local Municipality has the largest food & beverage processing sector of the OBD, at 51.6 per cent share, and a relatively small agricultural industry in comparison, with a larger food & beverage component to its value chain than agriculture, which only has an 11.3 per cent share of total OBD agricultural production.

Figure 4.3 Local municipal shares in the Agro-processing value chain: 2011 (R million)

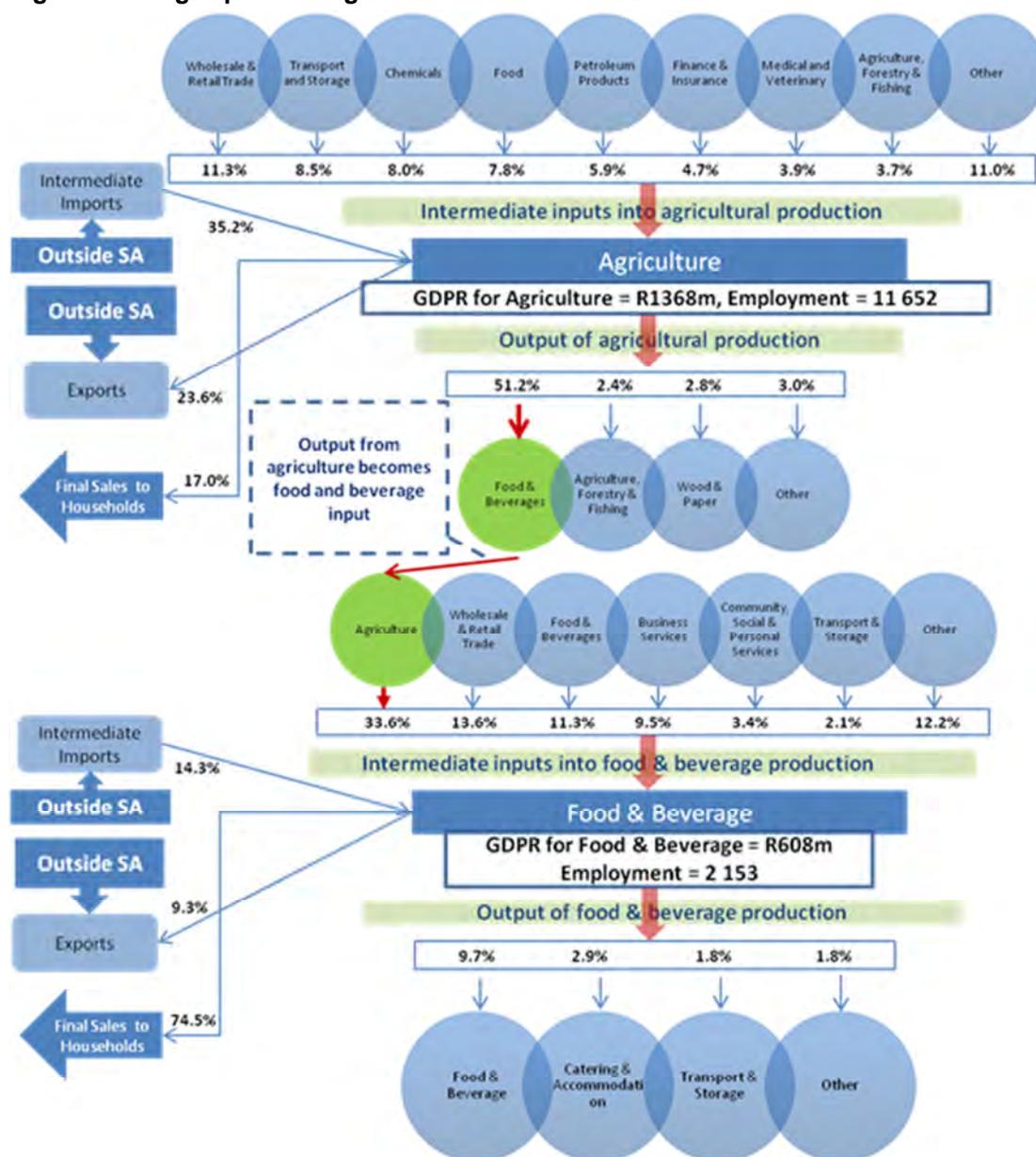


Source: Quantec Research

Figure 4.4 below depicts the agro-processing value chain in the OBD. The value chain consists of two major economic sectors, the agricultural and the food & beverages sectors. The value chain also indicates the support industries and services sectors that provide input into the production process and shows the forward linkages of where production is allocated in the economy. The agricultural sector is a primary sector but still requires inputs in order to produce its output. The largest input sector from the economy of South Africa into the agricultural sector in the OBD is the wholesale, retail & trade sector at 11.2 per cent of inputs.¹² Transport & storage and chemicals are also significant inputs to agricultural production at 8.5 and 8 per cent respectively. The level of intermediate imports into the production process for agriculture in the OBD is relatively high at 35.2 per cent.

¹² Please note that all inputs add to 100 per cent. This includes intermediate inputs from sectors and intermediate imports.

Figure 4.4 Agro-processing Value Chain in the OBD



Note: Inputs of sectors and imports add to 100%;
Outputs from production are sold to sectors, households and for export (these add to 100%)

The majority of output from agricultural production is supplied to the food & beverages sector, which is the second major sector in the agro-processing value chain. Output to other sectors is relatively limited, but a significant proportion, 23.6 per cent, is exported outside South Africa. Sales to households are also from agricultural production are also relatively significant, at 17 per cent.

The food & beverages sector received input from the agricultural sector and the share of input from the agricultural sector as a total of intermediate inputs into the food & beverages sector is 33.6 per cent. Food & beverages production also utilises a significant amount of input from the wholesale & retail trade sector. Output from the food & beverages sector is also received as an input to the same sector as this output is used in the processing of foods. For example, spices or syrups produced in the food

& beverages sector will be used in the same sector for the production of biltong or fruit juice. The output from the sector is then transformed or utilised in the production process of an entirely new product. A significant proportion of the output from the value chain is sold to households, at 74.5 per cent, with a relatively smaller proportion of output going to exports, at only 9.3 per cent in comparison to agricultural exports for the region.

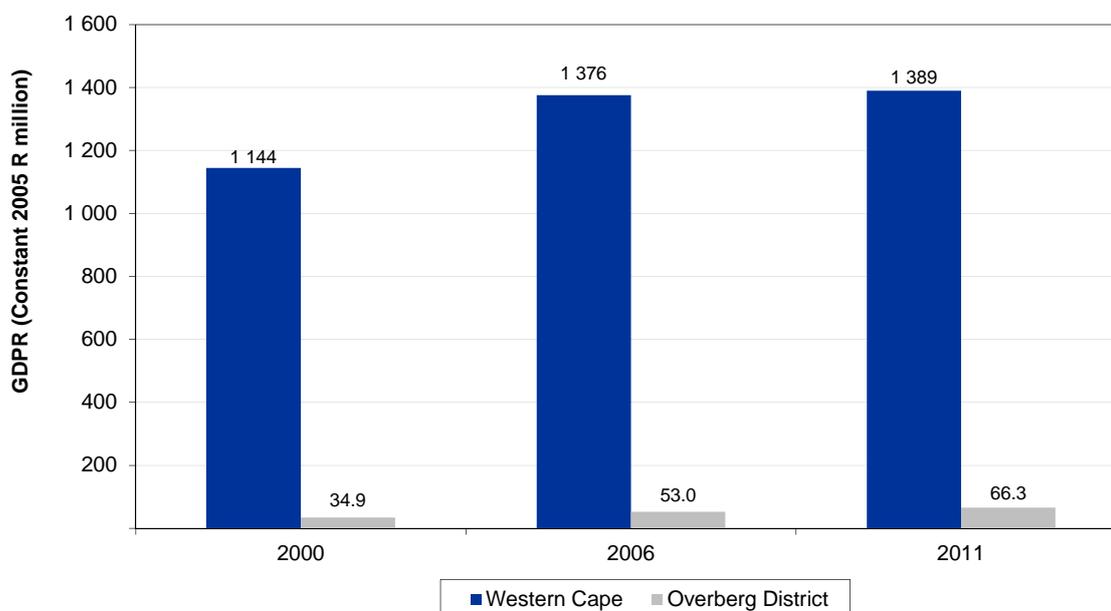
Furniture manufacturing value chain

The furniture manufacturing value chain is relatively small in comparison to the agro-processing value chain in the OBD and also small in comparison to the sector in the Western Cape.

In the analysis below, only the furniture manufacturing sector is analysed and not the entire furniture production value chain, which includes the forestry industry. Figure 4.5 below depicts the GDP for the furniture manufacturing sector in the OBD and in the Western Cape. The furniture manufacturing sector in the OBD has shown substantial growth in comparison to that of the Province from 2000 to 2011. The furniture manufacturing sector grew by a yearly average of 6 per cent in the OBD and only by 1.8 per cent per year in the Western Cape.

It is also noted that the furniture manufacturing industry in the OBD is relatively small in comparison to the Western Cape, considering that the timber and forestry industry in the OBD is a significant contributor to the agriculture, forestry and fishing sector as measured by Statistics South Africa.

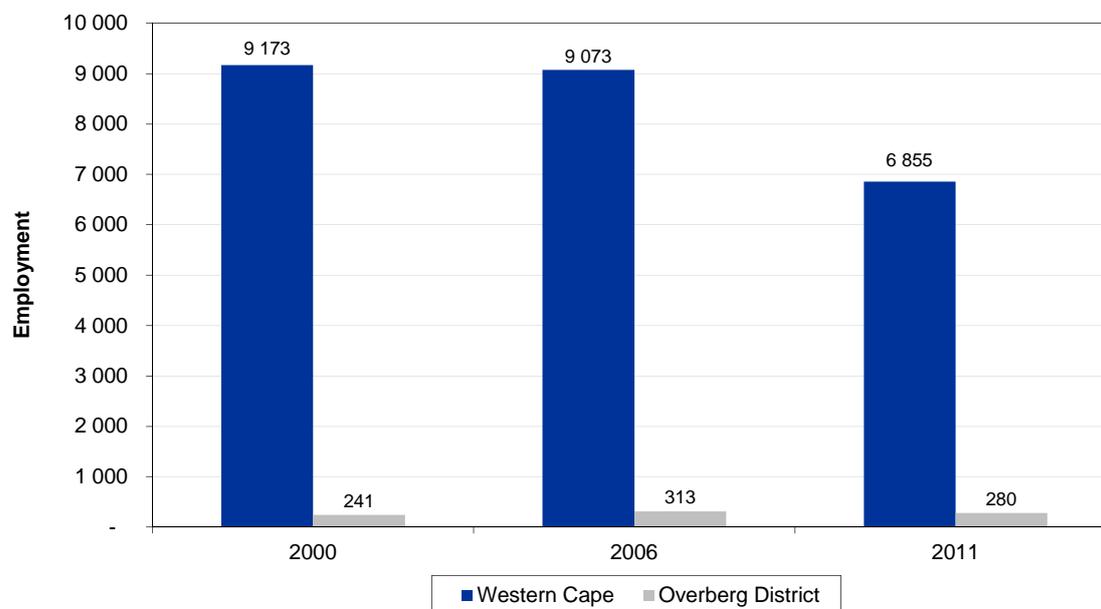
Figure 4.5 Furniture manufacturing GDP for the Western Cape and OBD: 2000, 2006 and 2011



Source: Quantec Research

Employment levels in the furniture manufacturing industry in the OBD are relatively small.¹³ These levels have been increasing from 2000 to 2011 at 1.4 per cent per year from 2000 to 2011. This is in contrast to the falling employment levels in the furniture industry in the Western Cape, which has declined by -2.6 per cent per year in the same period.

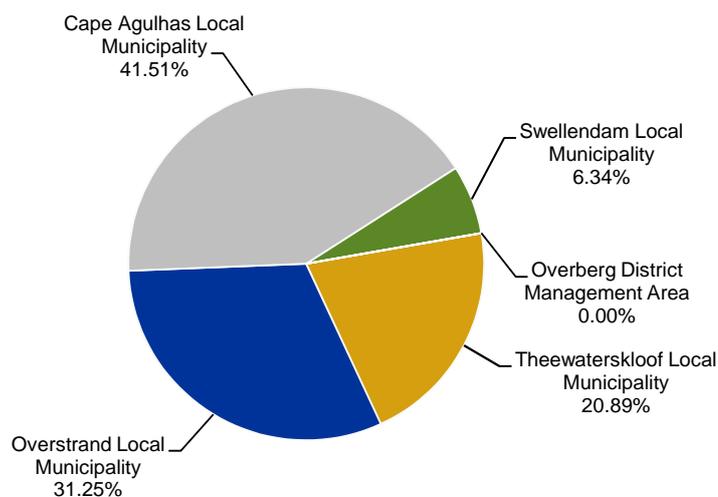
Figure 4.6 Furniture manufacturing employment for the Western Cape and OBD: 2000, 2006 and 2011



Source: Quantec Research

The Cape Agulhas Local Municipality has the largest furniture manufacturing sector, at 41.5 per cent, with the Overstrand Local Municipality with the second-largest, at 31.3 per cent. This only represents the GDPR share of the furniture manufacturing industry and therefore, does not take into account the forestry and timber industries which may be larger in the Theewaterskloof Local Municipality.

¹³ Please note that this number only reflects the furniture manufacturing industry and not that for the timber industry and wood products, which are also reflected in the value chain.

Figure 4.7 Local municipal shares in the furniture manufacturing industry: 2011

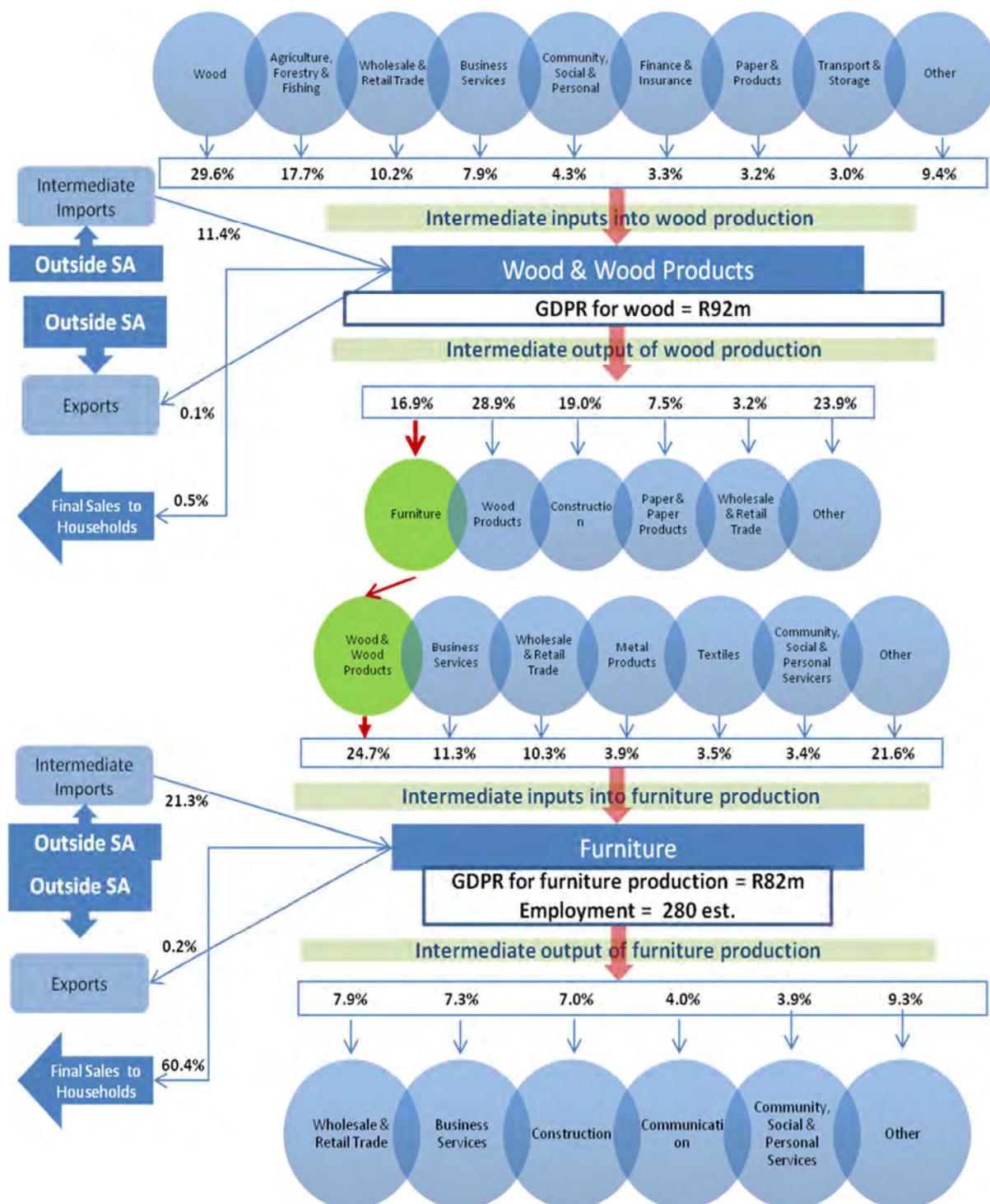
Source: Quantec Research

The value chain for the furniture manufacturing industry is depicted in Figure 4.8 below. This value chain includes the wood and furniture manufacturing sectors as the major components of the value chain. The input and output sectors are depicted as with the agro-processing value chain above.

The greatest contributor to the wood and wood products sector is from forestry, which is depicted by the agriculture, forestry & fishing input under intermediate inputs to wood & wood products. There are also significant backward linkages with support sectors, such as business services and wholesale & retail trade. Intermediate imports to wood & wood product production accounts for 11.4 per cent of all inputs. The majority of the output from the wood & wood products manufacturing process is re-introduced to the same industry as intermediate inputs to be utilised in additional manufacturing processes. 16.9 per cent of output is to furniture production and 19 per cent of output is to the construction sector.

The output from wood & wood products to furniture is depicted as wood & wood products input to the furniture sector. Wood & wood product input into the furniture sector accounts for 24.8 per cent of intermediate inputs and imports. Support services' inputs are also high, with business services and wholesale & retail trade contributing 11.3 and 10.3 per cent to inputs respectively. Intermediate imports' contribution to inputs into furniture manufacturing is high, at 21.3 per cent. Output from the furniture production sector is primarily consumed by households at 60.5 per cent.

Figure 4.8 Furniture production value chain



Note: Inputs of sectors and imports add to 100%;
Outputs from production are sold to sectors, households and for export (these add to 100%)

Key recommendations – OBD value chains

The agricultural and food & beverage processing value chain has significant potential to create additional employment in the OBD as the value added proportion is high in comparison to other labour intensive industries.

The agricultural sector is a large contributor to employment and the linkages are strong with support industries and services, with a large proportion of outputs from the local agricultural sector going toward food processing in the district.

The level of intermediate imports to be used in agricultural production is high, at 35.2 per cent of inputs. It may be possible to identify the primary source and type of inputs that are currently imported and identify whether alternatives for lower cost local production are possible. This will depend on a number of factors, e.g. price, local production competitiveness and the quality of local production.

The furniture production value chain has a large proportion of imports that are used as intermediate inputs. The linkages to other sectors in the economy could potentially be larger if this proportion of intermediate inputs were locally supplied.

The furniture industry in the OBD is not focussed on exports. It may be possible to establish a high-quality niche market for exports.

4.3 Policy issues

The above value chains are important from an industrial policy perspective. The reason is that a given policy focusing on interlinked industries within a value chain may render a higher return than if the same policy had been divided among unrelated sectors and industries. Although this statement forms the basis of the new Special Economic Zones (SEZs), they only apply when several links within a value chain are in need of state support. SEZs include free trade zones and sector development zones, and are aimed at promoting regional development, local value added, skills and technology transfers.

More generally, the case for policy intervention is back on the proverbial stage and has taken on a range of new dimensions in both industrialised and developing economies. Traditionally, the role of government has been justified in terms of so-called market failures, including the provision of public goods, the reduction (or augmentation) of externalities, elimination of the abuse associated with monopolistic power and, importantly, combating endemic poverty¹⁴. More pertinently, appropriate intervention can contribute to the utilisation of potential competitive advantages via the creation of agglomeration (or internal and external) economies of scale, manifested in the form of cost-reducing production on the part of individual enterprises or value chains – something the free market either cannot do or takes too long to accomplish. Thus policy – including grant transfers, infrastructure provision, investment allowances and skills development – should focus on these enterprises and, in the case of a value chain, investigate its eligibility for SEZ status.

A more recent justification derives from the improper and often illegal anti-trade practices applied by countries to which Overberg and other Western Cape districts export their goods and services. Such practices entail the use of tariffs, subsidies and higher standards aimed at protecting similar and competing industries in the export markets, good examples of which are the tariffs imposed on steel and related imports

¹⁴ Black, P, Calitz, E and Steenekamp, T. Public Economics, 6th ed. Oxford University Press, 2013.

by the USA, and subsidies conferred on agriculture and other import-competing industries in the EU. There is thus a case for retribution in the sense that if these problems cannot be resolved through the World Trade Organisation (WTO), it leaves local exporting industries with little option but to counteract by applying the same – but in this case offsetting – anti-trade measures.

As far as the OBD is concerned, both the agro-processing and furniture manufacturing value chains appear to be candidates for SEZ status, with related manufacturing and services industries being prominent in several of the municipalities and agriculture being spread throughout the district. As Figure 4.4 and Chapter 3 indicated, manufacturing in OBD largely consists of processed agro-processing industries, while furniture industry is also well-represented, which acquire inputs from the local agricultural and forestry sector respectively and export some of their products to the rest of the country and beyond.

Another potential candidate for policy support is tourism which includes (part of) the catering and accommodation, retail and wholesale and the business services sectors.

5

Informal sector profile

Definition of the informal sector

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 Receiver of Revenue for income tax or value added tax. Statistics SA 2012.

5.1 Introduction

This chapter contributes to the deepening knowledge and understanding of the informal sector in the Overberg District. Given the difficulty of estimating the size of the informal sector in terms of its contribution to the Overberg GDP and employment, the aim of this report is therefore to determine the investment climate of informal sector businesses at a 95 per cent confidence level by analysing roughly 200 informal businesses at the district level surveyed by the Department of Economic Development and Tourism. Analyses of the investment climate may bring into focus strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some may exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

Importantly though, informal micro-enterprises in the Overberg exist in the various economic sectors and are important in several respects. While they cover a wide range of sectors, mostly in Manufacturing, Agriculture, and Wholesale and Retail Trade, they possess important characteristics. These characteristics are:

- They are more labour intensive relative to the formal industrial sector;
- They are more (less) dependent on low-skilled and unskilled (skilled) labour;
- They tend to process local materials;

- They are more geographically dispersed; and
- They are more accessible to indigenous entrepreneurs.

5.2 Analysis of data for the Overberg Region

5.2.1 Profile of the informal micro-enterprise

Geographical concentration

Table 5.1 and Table 5.2 below show demographic data on informal businesses in the townships of the Overberg. From the data, the variation in business numbers and density can be noted: the informal enterprises in the Overberg are mostly concentrated in urban rather than rural regions. Anecdotal evidence indicates that informal economic activities are more prevalent in the large regional towns, whilst small in scope in agricultural service towns and rural localities. This evidence is confirmed by the data below. It is worth noting that informal settlements/townships were the predominant locality for the interviewed informal enterprises, accounting for 76.9 per cent of the total, followed by urban towns (23.1 per cent). Interestingly there were no businesses in the rural areas (0 per cent) (see Table 5.2).

Table 5.1 Respondent suburb township by area

Township	Per cent
Grabouw	25.0
Swellendam	26.0
Hermanus	27.9
Bredasdorp	4.3
Zwelihle	10.1
Caledon	1.4
Hawston	1.0
Herbery	0.5
Kwasa Kwasa	2.4
Uitsig	1.4
Total	100

Source: DEDAT 2013 and own calculations

Table 5.2 Respondent suburb township by settlement type

Township	Per cent
Urban major city	23.1
Urban township/informal settlement	76.9
Rural	0.0
Total	100.0

Source: DEDAT 2013 and own calculations

Distribution by age and race

The age distribution across the sample ranged from 17 to 94 years, with 36 years being the median age. The data was then disaggregated into four sub-sample age groups (see Table 5.3) to differentiate between young entrepreneurs (16 - 24 years); young adult entrepreneurs (25 - 34), adult entrepreneurs (35 - 60) and pensioners (61 years and above).

Before evaluating the Overberg sample by race group, it is worth noting that African (71 per cent) and Coloured (28 per cent) informal entrepreneurs cumulatively accounted for 99 per cent of the respondents surveyed while Asian/Indians (0.5 per cent) and Whites (0.5 per cent) cumulatively accounted for only 1 per cent of the respondents surveyed. Thomas et al (2013) argue that “law-abiding, middle-class citizens view the actions by informal operators as unacceptable if not illegal, and they should thus not be allowed to operate under those conditions”. From this argument coupled by the fact that the White and Asian/Indian race groups have the lowest unemployment rate and the most skills in the economy, one can deduce that operating in the informal economy for these race groups may not be a viable option. As a result the remainder of this section is limited to analyses of the Coloured and African groups only.

Table 5.3 Distribution by age and race

Age	Race				Total
	African	Asian/Indian	Coloured	White	
16 to 24 years	5.4%	0.0%	0.0%	0.0%	3.8%
25 to 34 years	48.0%	100.0%	15.8%	0.0%	38.9%
35 to 60 years	44.6%	0.0%	70.2%	50.0%	51.4%
61 years or older	2.0%	0.0%	14.0%	50.0%	5.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DEDAT 2013 and own calculations

Within the age group 16 – 24 years, business activity was only prevalent in the African (5.4 per cent) race group. As a result this age group cumulatively only accounted for a very small number (3.8 per cent) of the total respondents. Entrepreneurial activity appears to be non-existent within this age group. This is rather disconcerting given that this is the age group where nationally the unemployment rate is at its peak.

Within the age group 25 – 34 years, the African race group accounted for 48 per cent and Coloureds 15.8 per cent; cumulatively, which include the Asian/Indian and white groups, accounting for a total of 38.9 per cent. Entrepreneurial activity is significantly vibrant within this age group.

The 35 - 60 age group accounts for more than half of the total cumulative percentage share (51.4 per cent) and entrepreneurial activity is at its peak in this age group. Here the African group accounts for 44.6 per cent and the Coloured group accounts for the largest proportion at 70.2 per cent. Anecdotal evidence through interviews with CIPRO and SEDA suggests that generally, individuals work for a number of years in formal employment before terminating their services, and then using their pension or life savings to become entrepreneurs. The entrepreneur may or may not

decide to register the business; however SEDA has found that particularly among the Coloured race group, they choose to work informally for a significant period before, if at all, formally registering their business. Tax avoidance and the lack of Government tenders appear to be the main reasons for the apathy to formalise. Our data appears to support the anecdotal evidence.

The participation of entrepreneurs aged 61 years and above is insignificant; it would appear that retired citizens similar to the Asian/Indian groups do not view the option of informal entrepreneurship as a viable one.

The split of respondents by gender was surprisingly nearly evenly split with male respondents comprising 50.5 per cent and females (49.5 per cent) of the sample as is shown in Table 5.4 below. This is different to the other districts, which are generally significantly weighted in favour of male respondents.

Table 5.4 Distribution by gender

Gender	Per cent
Male	50.5
Female	49.5
Total	100.0

Source: DEDAT 2013 and own calculations

Educational attainment

Table 5.5 below shows that South African informal entrepreneurs account for the majority of respondents (78.8 per cent), followed by Somalia (10.6 per cent) and then Zimbabwe (2.9 per cent). When gauging educational attainment among respondents from the different countries, the data reveals no real difference in education level per country. For example for the 3 countries of origin (SA, Somalia and Zimbabwe) mentioned, the majority of the respondents either completed or have some form of high school education.

As a result it would appear that there is no correlation between the schooling system and informal activity.

Table 5.5 Level of education and country of origin

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed Matric Grade 12 A/O levels	
South Africa	60.00% (3.66%)	100.00% (14.02%)	58.30% (4.27%)	87.90% (62.20%)	55.30% (15.85%)	78.80% (100.00%)
Mozambique	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.90% (100.00%)	0.00% (0.00%)	0.50% (100.00%)
Somalia	40.00% (18.18%)	0.00% (0.00%)	41.70% (22.73%)	6.00% (31.82%)	12.80% (27.27%)	10.60% (100.00%)
Nigeria	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	4.30% (100.00%)	1.00% (100.00%)

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed Matric Grade 12 A/O levels	
Zimbabwe	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.90% (16.67%)	10.60% (83.33%)	2.90% (100.00%)
Senegal	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.90% (50.00%)	2.10% (50.00%)	1.00% (100.00%)
Tanzania	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	1.70% (50.00%)	4.30% (50.00%)	1.90% (100.00%)
Ghana	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.90% (33.33%)	4.30% (66.67%)	1.40% (100.00%)
Bangladesh	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	2.10% (100.00%)	0.50% (100.00%)
Ethiopia	0.00% (0.00%)	0.00% (0.00%)	0.00% (0.00%)	0.90% (33.33%)	4.30% (66.67%)	1.40% (100.00%)
Total	100.00% (4.81%)	100.00% (11.06%)	100.00% (5.77%)	100.00% (55.77%)	100.00% (22.60%)	100.00% (100.00%)

Note: Percentages in parenthesis () are calculated only for the specific county's educational level

Source: DEDAT 2013 and own calculation

The respondents reported a diverse range of acquiring skills (see Table 5.6 below). Importantly, especially in the context of literature which argues that the informal economy provides a means for skills acquisition through informal apprenticeship, over half the sample (55.3 per cent) reported having acquired their skills on the job. A further 27.4 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for skills transfers to employees, whilst transferring entrepreneurial learning to the business owner. A further 8.7 per cent reported acquiring skills from a former job, a finding that confirms research (including the previous MEDS 2007 informal economy trade study) which argues that many of the entrepreneurial persons within the informal economy have experience of the formal economy workforce and would be capable of obtaining formal jobs. The role of formal adult education in providing skills to operate informal business is fairly limited with only 1.4 per cent reporting having acquired their business skills through study.

Table 5.6 Level of skills acquired

Skills acquired	Per cent
Former employment	8.7
On this job	55.3
Adult education	1.4
Family business	27.4
Family and friends	1.0
Did a course	1.4
Self-taught	4.3
Other	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

Registration of informal businesses

Many enterprises may hold some level of formal registration and yet still operate outside of the formal system, whether intentionally or unintentionally. For example many businesses register at CIPRO but never complete their annual returns. As a result these businesses are deregistered by CIPRO but remain “active” in the market place.

Table 5.7 Registration of informal businesses

Business registration	Per cent
None	53.4
CIPRO/the dti	3.4
SARS	3.8
Trader organisations	0.5
Local municipality	37.5
Other government departments	1.0
Other	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

The data in Table 5.7 indicates that nearly 54 per cent of the sample reported that their businesses were not registered in any way (institutionally or organisationally). Of those businesses with some level of registration and formalisation, 37.5 per cent claimed registration with municipal authorities, 3.8 per cent with SARS, 3.4 per cent with CIPRO, 1 per cent with other government departments and 0.5 per cent with trader organisations.

This finding highlights the significant variance in compliance between municipal and national/provincial requirements for business licensing, with a comparatively higher degree of compliance in municipal regulatory requirements reflecting either that municipalities more effectively enforce compliance or that the benefits of this status outweighs the costs of non-compliance. It is also evident that municipal authorities do not require compliance with national acts, such as employment or immigration legislation, as a precondition for the granting of municipal licences.

A municipal trading licence does not imply enterprise formalisation, but merely minimal compliance. In all other aspects these businesses should be regarded as informal. The low level of enterprise registration with informal trader organisations (0.5 per cent) confirms the limited influence of trader groups within the Overberg informal economy. The findings also show, in converse, that roughly 47 per cent of informal businesses endeavour to comply with state requirements to a certain degree, though compliance is strategic rather than procedural. Therefore literature arguing that informal businesses weigh up the costs/benefits of compliance in their engagement with regulation appears to hold true.

5.2.2 Organisation of business (Goods and services)

The trade in products and services were separated for analysis, and aggregated into broad categories of best fit. Roughly 74 per cent of the respondents sold products, whereas 26 per cent of the respondents provided a service. The data shows that businesses providing services generally do not sell products, except where natural synergies exist as in the case of hair dressers that sell hair care products, or appliance repair shops that sell electrical goods, or catering businesses that sell take-aways. Disaggregated data on the kind of products and services traders are proffering is also discussed within separate “products” and “services” sections.

Trade in goods

The survey revealed a considerable diversity in the range of products sold through informal trade, within the district. For practical analysis the trade in products was combined into four categories or sectors; i) retail food and drink, ii) retail attire, iii) household goods, and iv) personal requirements. The results are shown in Table 5.8 below.

Retail food and beverages were by far the largest category of overall business activity (39.9 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was retail attire or the selling of clothing (20.7 per cent of all businesses surveyed); while household goods were the third largest category (6.3 per cent) – primarily the trade of non-food household items including furniture, electronics and hardware, alongside household consumables such as cleaning products, and black bags. Up to 3.5 per cent of product focused businesses traded cigarettes (categorised as personal requirements, which also included traders of over the counter pharmaceuticals, perfumes and similar personal care products).

Table 5.8 Product orientated informal business per sector

Product per sector	Per cent
Retail food and drink	39.9
Retail attire	20.7
Household goods	6.3
Personal requirements	3.8
Total	70.7
Services excluded	29.3
Total	100.0

Source: DEDAT 2013 and own calculations

Trade in services

Service businesses were categorised into four sectors: i) micro-manufacturing, ii) personal services, iii) business services and iv) social services. The division is shown in Table 5.9 below. Business services accounted for 15.4 per cent of service informal micro-enterprise activities. This category includes mechanical repairs, appliance repairs, tradesmen, moneylending, computer and secretarial services. Personal

services comprise 9.6 per cent of the services businesses and include primarily hair salons, traditional healers, funeral services and sex work (due to its largely clandestine nature, the latter was likely to have been under-represented in this study). Informal micro manufacturing accounted for 3.4 per cent of all services businesses including furniture making, tailoring and cobbling. The social services sector was the smallest cohort accounting for 1 per cent; this sector includes child care and educare services.

Table 5.9 Service-orientated informal business per sector

Services per sector	Per cent
Micro-Manufacturing	3.4
Personal Services	9.6
Business Services	15.4
Social Services	1.0
Total	29.3
Products excluded	70.7
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.3 Justifications for starting informal enterprises

An important direct or implied justification for most people establishing and operating informal enterprises was economic survival. This can be clearly seen in Table 5.10: Reasons for starting a business. Although many individuals gave multiple responses to this question, wanting to earn more money along with the inability to find alternative employment were the primary responses (67.9 per cent of responses). Interestingly 13.2 per cent of motivations related to the respondent's claim that they were good at or had expertise in running their particular business.

Table 5.10 Reasons for starting a business

Reasons for starting a business	Per cent
I could not find alternative employment	42.0
I didn't enjoy working for someone else	15.6
I wanted to earn more money/financial hardship	25.9
I am good at running this business	13.2
Opportunity	2.0
Have passion for it/It's a calling	0.5
Other	1.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.4 Years in operation

The survival, sustainability and longevity of the studied informal economy enterprises are considerably high – especially after an initial year of operations. The results are presented in Table 5.11 below. A relatively small number (10.6 per cent) of enterprises were less than a year old. The majority of interviewed businesses (51.4 per cent) had been in operation for between one and five years, with a further 19.2 per cent operating between 6 and 10 years and a further 18.8 per cent operating for over

11 years. Of course, due to the nature of the study one is unable to determine the number of businesses that have failed (appearing most likely to happen within the first 12 months of operations), although this finding does imply a sense of sustainability of business for operating enterprises.

Table 5.11 Number of years business is in operation

Years in Business	Per cent
Less than 1 year	10.6
1 to 5 years	51.4
6 to 10 years	19.2
11 or more years	18.8
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.5 Employment

The contribution of the informal economy to employment creation is further supported by this survey, as the data reveals that the 208 businesses interviewed in this study provided 415 jobs (including the owners) through employment. This implies a ratio of roughly 2 jobs created (including owner) per informal business established for the Overberg. Whilst 41.8 per cent of these enterprises only provided employment for the owner, the remaining 58.2 per cent in the study employed more than one person (in addition to the owner), most commonly a second individual. Table 5.12 below gives more detail.

Table 5.12 Employment provided by informal businesses

Number of jobs	Frequency	Per cent
1	87	41.8
2	67	74.0
3	29	88.0
4	12	93.8
5	6	96.6
6	3	98.1
7	1	98.6
11	2	99.5
12	1	100.0
Total	208	100.0

Source: DEDAT 2013 and own calculations

Employment was more common in businesses providing services such as hair salons and car mechanics, or from home-based business enterprises such as liquor retailers. Businesses that traded from temporary structures in the street were generally the least likely to employ staff.

Informal enterprises represent important family businesses. However, 61.5 per cent of the sample employs no family members in the business (see Table 5.13). Of the sampled enterprises that employed family members beyond the owner, the majority (28.8 per cent) employ one person. This finding compares favourably with the MEDS

informal economy study (2007) where informal business operators commonly work within a 'circle of trust' that primarily includes spouses and direct family members.

Table 5.13 Family members employed

Number of family members employed	Per cent
No family members	61.5
One family member	28.8
Two family members	7.7
Three or more family members	1.9
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.6 Business location

The street and people's homes provide the most commonplace and important business venue opportunities for the informal economy participants in this study. Within the street context 19.2 per cent of respondents set up business venues on a daily basis for trade, using a range of semi-permanent stands. A further 10.1 per cent operated from permanent structures on the roadside. 26 per cent of enterprises were home based with a further 4.8 per cent operating on someone else's property; generally the household, involving cooking, take-aways in the kitchen or minding children on the property. A further 9.1 per cent of enterprises operated from separate structures attached to people's homes and 7.7 per cent from a separate structure attached to their own homes, such as shipping containers or shacks specifically utilised for the business. Taxi ranks, commercial buildings and formal market places were also important areas for business activity and where it was apparent many enterprises were clustered - with 7.2 per cent of interviewed businesses located in these sites. Only 1 per cent of the respondent's place of business included commercial buildings and 8.2 per cent formal market places (see Table 5.14).

Table 5.14 Where do you operate this business from?

Where do you operate the business from	Per cent
Hawking/mobile	3.8
Road side (structure assembled daily)	19.2
Road side (permanent structure)	10.1
In my home	26.0
Separate structure on my property	7.7
Separate structure on someone else's property	9.1
Someone else's home	4.8
Formal market place	8.2
Commercial building	1.0
Taxi rank/station	7.2
Other	2.9
Total	100.0

Source: DEDAT 2013 and own calculations

When considering the trade in products, especially the dominant retail of groceries and clothing, the important nature of the street as a trading site becomes apparent. Similar to retail businesses in the formal sector, street based micro-enterprises are reliant on predominant foot traffic and large volumes of passing trade to support sales activity. Positioning such enterprises in close proximity to commuters and pedestrian traffic makes considerable business sense.

Home based businesses are an important feature of the informal economy. Many enterprises including those selling basic food, beverages and household goods are operated from residential property, both within the home and from separate structures. Furthermore the commonplace activity of liquor retailing is also reflected in the high number of home based businesses. Unlicensed liquor trading is illegal and heavily policed and it makes little sense for many entrepreneurs to openly conduct activities in the street or from specialised premises. Maintaining this clandestine trade from private homes assists in concealing the enterprise from the public at large and law enforcement officials.

5.2.7 Ownership of assets and micro-enterprise profitability

The research investigated asset ownership, focusing on i) house, ii) container, iii) shack, iv) vehicle, v) cell phone, vi) computer and vii) specialist equipment. Surprisingly, the most widely possessed asset was the respondent's own computer (28.1 per cent), followed by house (25.6 per cent), then own shack (15.8 per cent), and specialised tools and machinery (12.8 per cent). The results are shown in Table 5.15 below. The relatively high percentage of respondents in the sample who owned a computer is very surprising and in contrast to the findings in the other municipalities other than the Central Karoo. This finding highlights that even low educational levels among the micro-enterprises in Overberg do not inhibit investment in information and communication technologies.

Table 5.15 Ownership in assets

Ownership in assets	Per cent
Own house	25.6
Own container	6.4
Own shack	15.8
Own caravan	.5
Own specialised machinery/tools	12.8
Own vehicle(s)	6.9
Own computer	28.1
Own cellphone	3.9
Own stock	25.6
Total	100.0

Source: DEDAT 2013 and own calculations

In most cases, some of these assets form part of the business, and are used in the process of income and profit generation.

The majority of the businesses surveyed were relatively low profit earners, with more than 77.9 per cent of respondents reporting average monthly profits of less than

R2 500 (see Table 5.16). More than 20 per cent of enterprises reported earnings more than R2 500 per month; therefore their informal business enterprises propel individual earnings above the South African median, making them comparatively financially well off amongst local peers.

Table 5.16 Profit business makes on average in a month

Average monthly profit	Per cent
R1 - R999	48.0
R1 000 - R2 499	29.9
R2 500 - R4 999	14.2
R5 000 - R9 999	5.4
R10 000 and above	2.5
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.8 Money lending and credit

Localised money lending and credit are an important part of the informal economy. More than 25 per cent of all interviewed micro-enterprises reported lending money to individuals as part of their business strategy (see Table 5.17 below).

Table 5.17 Money lending

Money lending	Per cent
Yes	25.0
No	75.0
Total	100.0

Source: DEDAT 2013 and own calculations

This finding confirms that a sizeable portion of informal businesses rely on diverse income strategies beyond the core product or service nature of their business. Furthermore the finding shows how potentially many thousands of informal enterprises in the District and Province contravene the National Credit Act in providing financial services without licences to do so. Further to the activity of money lending, 46.6 per cent of enterprises give out goods and services on credit. This is important because their customers are generally resource poor. In certain sectors (such as clothing and home ware) credit is necessary to compete with formal businesses that offer lay-buys or account purchases.

Interestingly whilst a considerable number of enterprises lend money out as part of their business practice, the micro-entrepreneurs themselves are in general not borrowers of finance – with only 13.9 per cent of enterprises having borrowed money in the past 12 months (see Table 5.18 below).

Table 5.18 Borrowed money in last 12 months

Borrowed money	Per cent
Yes	13.9
No	86.1
Total	100.0

Source: DEDAT 2013 and own calculations

Of those who have borrowed, family and friends are the most prominent lenders of money to the respondents, as shown in Table 5.19. Banks play a considerably smaller role, potentially due to the stringent requirements for proof of income and the absence of collateral. Money lending businesses and individuals play a negligible role in providing finance to informal economy businesses.

Table 5.19 Sources of loans

Sources of loans	Per cent
Have not borrowed money in the last 12 months	86.5
Family	7.2
Friends	1.9
Bank	2.9
Business that lend money (not a bank)	0.5
Individual (loan shark)	1.0
Total	100.0

Source: DEDAT 2013 and own calculations

Interestingly, for those borrowing money, not only do family and friends provide the important sources of finance, but with respect to interest charged also offer the most reasonable terms. Based on aggregating all borrowed and repaid funds as reportedly borrowed by the respondents, the commercial banks and micro-finance agencies charge commercial (though modest) interest rates, with the median loan size of R10 000 and repayment of R11 250. The data suggest that micro-finance organisations provide the most costly means of finance, although the number of borrowers is too small to make a fair comment.

5.3 Business challenges and prospects

5.3.1 Business challenges

Challenges being faced by businesses were also investigated. A series of questions pertaining to access to the formal economy and state provided services were posed, asking respondents whether the issue represented i) a 'big problem', ii) not a problem or iii) not applicable. The menu of options were: i) access to finance, ii) electricity cost, iii) water cost, iv) the cost of business licensing, v) crime, vi) political crime, vii) labour relations, viii) a lack of specialist equipment, ix) a shortage of business premises, x) transport costs, xi) police corruption, xii) regulations, xiii) competition, xiv) immigration status, xv) other. Multiple responses were optional and therefore only the challenges which received the most responses as "biggest responses" are reported on.

The key finding from this enquiry was that the most frequently mentioned challenges were: first, access to affordable micro-finance (60 per cent of respondents), second, a shortage of business premises (47 per cent of respondents) and third, electricity cost and access (38.9 per cent of respondents). The distribution of responses is shown in Table 5.20 below.

Interestingly the major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

A sum of 47 per cent of the respondents highlighted the lack of suitable business premises as a major problem for their enterprise activities. A variety of businesses presented this complaint, including street traders who relied upon temporary structures, through to vehicle panel beaters operating from home and street based sites. The underlying issue around premise suitability extended beyond the physical premises and also included zoning such as businesses operating in residential areas (in contravention of municipal land use regulations). Although not in the table below, fewer than 9.7 per cent of respondents specifically cited regulation as a major obstacle to their business growth, whilst a further 9.2 per cent cited challenges in obtaining municipal licences as a major obstacle. These findings point towards the need for reducing red-tape.

Other issues that respondents identified were the cost of access to water (36.8 per cent), the lack of specialised equipment (31.4 per cent), crime (36.8 per cent), competition (36.2 per cent), and transport costs of goods (27 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

Table 5.20 Perceived business growth challenge

Challenge for business growth	Number of respondents	Cumulative percentage of cases
Access to affordable finance	111	60.0%
Electricity cost access	72	38.9%
Water cost access	68	36.8%
Cost and difficulty of business licensing	58	31.4%
Crime	68	36.8%
Lack of specialised equipment	58	31.4%
Shortage of business premises	87	47.0%
Transport of goods costs	50	27.0%
Competition	67	36.2%

Source: DEDAT 2013 and own calculations

5.3.2 Business prospects

Despite the relatively low incomes for the great majority of participants, more than three quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a "minimum wage" job paying R126.00 per day (see Table 5.21). This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

Table 5.21 Will you take minimum wage of R126 per day

Employment in formal sector with minimum wage	Per cent
Yes	19.2
No	77.9
N/A	2.9
Total	100.0

Source: DEDAT 2013 and own calculations

The desire of the majority to persist with informal self-employment implies that the income earned from informal economy business is sufficient to warrant continued operation in the sector – even if it is lower than a formal economy equivalent, or at least the work conditions, hours of employment and flexibility of operations (in other words non-wage benefits) are considered further benefits that would be lost under full-time employment.

Further to the majority preference to not hold a formal sector position at minimum wage, people tend to share a largely positive outlook about their businesses. This optimistic outlook is borne out in the survey results with 55.3 per cent of enterprises able to report business growth either in profit or volume of sales (in cases of both goods and services trade) since starting the business, and a further 29.8 per cent reporting stable business activity (Table 5.22). Considering the toughening conditions of the broader national economy in recent years, both stability and growth are useful indicators for business sustainability and provide positive future prospects for these business owners.

Table 5.22 Business outlook/Growth prospects

Business outlook/Growth prospects	Per cent
Expanded increased profit more stock greater number of employees	55.3
Contracted decreased profit less stock fewer employees	14.9
Remained the same - no change	29.8
Total	100.0

Source: DEDAT 2013 and own calculations

5.4 Concluding remarks

Given the economic contributions of the informal economy, it is widely believed that governments should be developing policies that recognise the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work in it. This is increasingly seen as a responsibility of local government.

In addition, the promotion of the informal sector by the Overberg District Municipality would significantly contribute to meeting the policy objectives of growth, employment and poverty alleviation; as well as improve the regional and vertical distribution of income. For these reasons, the informal sector should form an integral part of any viable Overberg district strategy.

The obvious benefits for entrepreneurs who operate in the informal economy are to avoid costly and burdensome government regulations as well as high and complex taxes. However, the findings in the chapter show that many informal businesses do in fact endeavour to comply with state requirements to a certain degree, although compliance is strategic rather than procedural in nature. The reason why the informal sector is growing in the District is therefore that the benefits of formality are overshadowed by its costs.

Even though the Overberg informal economy incomes appear generally low, the term “survivalist” does not necessarily do justice to the demonstrated sustainability of enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their enterprises with a theoretical offer of alternative formal work at minimum wage.

Whilst the study findings cannot comment on the economic scale of the Overberg informal economy (in terms of employment numbers or GDP) the micro-enterprises studied – especially the majority operating within the township context – play an important local employment role in their immediate economies. Each business has an employment factor of 2 and over 58 per cent of enterprises provide more employment opportunities. Employment is predominately family based, though opportunities are also provided for piece-workers. 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-enterprises. It should not be assumed that the formal sector pays higher wages at the entry and uses lower skills levels than informal work.

Unlike most other districts, the majority of informal micro-enterprises appear to be well connected electronically and telephonically. The use of personal computers was reported by nearly 29 per cent of respondents. These businesses are therefore less reliant on information exchange through inter-personal networks (word of mouth) and the print media.

With most informal enterprises operating in retail trade and other services, and increasingly in the major urban centres, they are bound to be closely linked to the formal sector, often forming part of the supply or value chains discussed in Chapters 3 and 5. Informal suppliers of food, beverages, clothing and household consumables, for example, may well benefit from policies aimed at developing supply chains, and it may be worth – in a separate study – to consider ways of strengthening these potentially important linkages.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Perhaps the overriding challenges facing the South African government are the elimination of poverty and inequality and a significant reduction in unemployment. One of the mechanisms through which the government aims to address the challenges the country faces is through infrastructure investment, and there has indeed been a significant increase in infrastructure investment in recent years. In the years leading up to the 2010 FIFA World Cup, the increase in investment of up to 6.05 per cent and 7.64 per cent of Gross Domestic Product (GDP) in 2008 and 2009 respectively was preceded by years of very dismal investments averaging about 2.91 per cent annually between 1995 – 2007 (Kumo, 2012:7). The long run trends in infrastructure investment are well explained in Perkins, Fedderke and Luiz (2006).

Many definitions and interpretations of infrastructure can be found in the literature (see Fourie, 2006a for a discussion of these definitions). Economic infrastructure includes transport, communication, energy, water and sanitation facilities, whilst health and education systems as well as cultural and recreational facilities constitute social forms of infrastructure (Fedderke and Garlick, 2008: 2). This chapter focuses on economic infrastructure.

Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect” – as well as in providing a solid foundation for social development (Swilling, 2006). In South Africa the importance of infrastructure has not only been emphasised at national level but also at regional level. In the Western Cape the region needs efficient transport systems, water and sanitation, telecommunications and power supplies in order to influence the standard of living of their populations and regional economic growth. There is thus a pressing need to

determine whether government's strategy on infrastructure investment will yield the desired economic growth benefits at micro (i.e. project or sector level) or at the national or macro level.

The micro level analysis certainly would provide more accurate results on the impact of public economic infrastructure investment on the economy but most empirical work in this area in South Africa has focused on the national level. Over the years much research has been conducted on the relationship between infrastructure and growth¹⁵ and conclude that infrastructure does have an impact on growth – a view strongly supported by municipalities in their response to the Overberg survey. Early reviews of the empirical literature on the South African economy can be found in Fourie (2006).

Investment in economic infrastructure is not only important at the national level but the regional and local level too. Table 6.1 below illustrates the extent to which households within the Western Cape lack access to basic services (electricity, piped water and sanitation and refuse removal). Provinces with the most urgent need for Municipal water services and sanitation infrastructure requirements are KwaZulu-Natal, Limpopo and the Eastern Cape. As can be seen in comparison to other provinces the Western Cape has performed relatively well. However there is still a need for the maintenance and expansion of key strategic regional infrastructure projects in order to position the Western Cape for sustainable economic growth and poverty reduction.

Table 6.1 Municipal backlogs per province

Municipal backlogs per province	Backlog (% with service below adequate level)			
	Electricity	Piped water	Sanitation	Refuse removal
Western Cape	6	1.1	6.6	8.9
Free State	13.4	2.5	30.6	23.4
Gauteng	16.5	2.1	12.2	13.8
North West	17.7	10.1	18.4	45.2
Mpumalanga	18.3	8.7	46.1	58.5
Limpopo	19	16.4	69.2	81.3
KwaZulu-Natal	28.5	20.6	36.1	48.1
Northern Cape	12.7	5.2	45.5	27.9
Eastern Cape	34.4	29.6	51.1	60
South Africa	20	11.4	32.4	38.4

Source: *Ruiters (2011:65)*

There have been varying levels of infrastructure investments and development across the 131 towns outside the Cape Town Metropolitan area. Some towns have solid development potential while others are declining. A number of growth factors have contributed to this decline (Donaldson et al 2010). Amongst these factors is a deteriorating infrastructure. Municipal infrastructure consists mainly of bulk treatment plants, pump networks, pump stations treatment works, reservoirs and distribution pipelines, electricity transmission and distribution infrastructure. In some municipalities

¹⁵ These include Ford and Poret (1991), Aschauer (1989 and 1993), World Development Report (1994) and Holtz-Eakin (1994)

infrastructure remains under threat and requires increasingly more astute management whilst other municipalities have invested significantly in infrastructure provision and experience high growth rates. The following section takes a look at infrastructure investment in the Overberg District and its resulting impact on growth.

6.2 Regional economic growth, infrastructure and the budget link

Empirical evidence at National level has shown that investment in economic infrastructure has a positive impact on National growth. This growth however depends crucially on provincial and municipal performance. All municipalities are tasked with basic service delivery objectives in order to stimulate local economic development. Population growth and deteriorating infrastructure has continued to place strain on infrastructure budgets. The objective of this section is to determine if there is a relationship between infrastructure investment and growth in the Overberg and to show the success the region has had in providing infrastructure.

6.2.1 Infrastructure expenditure in the Overberg

With the growing emphasis on infrastructure investments municipalities within the Overberg District have continued in their efforts to improve infrastructure availability. Some municipalities have had relatively more success in addressing backlogs within their jurisdictions than others. The results of the 2010 Growth Potential of Towns study conducted by Donaldson et al (2010) revealed that the best performing municipalities in the Overberg using the Infrastructure index¹⁶ are Overstrand and Cape Agulhas municipalities. Theewaterskloof and Swellendam municipalities were rated as medium performers. This difference in performance may be a result of the differences in real infrastructure expenditure that has been recorded across the municipalities (see Table 6.2 below¹⁷) or differing management practices. As can be seen over the period under analysis infrastructure expenditure was higher in Overstrand Municipality. Cape Agulhas Municipality made the lowest contributions to infrastructure expenditure within the District. In 2012 Overberg District infrastructure expenditure made up 6 per cent of the total infrastructure expenditure for the whole Province.

¹⁶ 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) (Donaldson 2010:66).

¹⁷ Note these figures have been inflation adjusted.

Table 6.2 Overberg infrastructure expenditure per municipality

Municipality (R'000)	2009	2010	2011	2012
Overberg District	R236	R69	R6 835	R5 581
Theewaterskloof	R27 355	R42 949	R32 211	R34 346
Overstrand	R96 762	R83 012	R99 950	R93 871
Cape Agulhas	R15 149	R13 359	R16 966	R14 136
Swellendam	R17 525	R18 336	R48 636	R33 626
Overberg District Total Expenditure	R157 026	R157 725	R204 598	R181 560
Western Cape Province Total Expenditure	R251 7779	R3 710 015	R2 946 769	R3 208 034

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Table 6.3 Overberg infrastructure expenditure percentage change

Municipality	2010	2011	2012
Theewaterskloof	57%	-25%	7%
Overstrand	-14%	20%	-6%
Cape Agulhas	-12%	27%	-17%
Swellendam	5%	165%	-31%

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

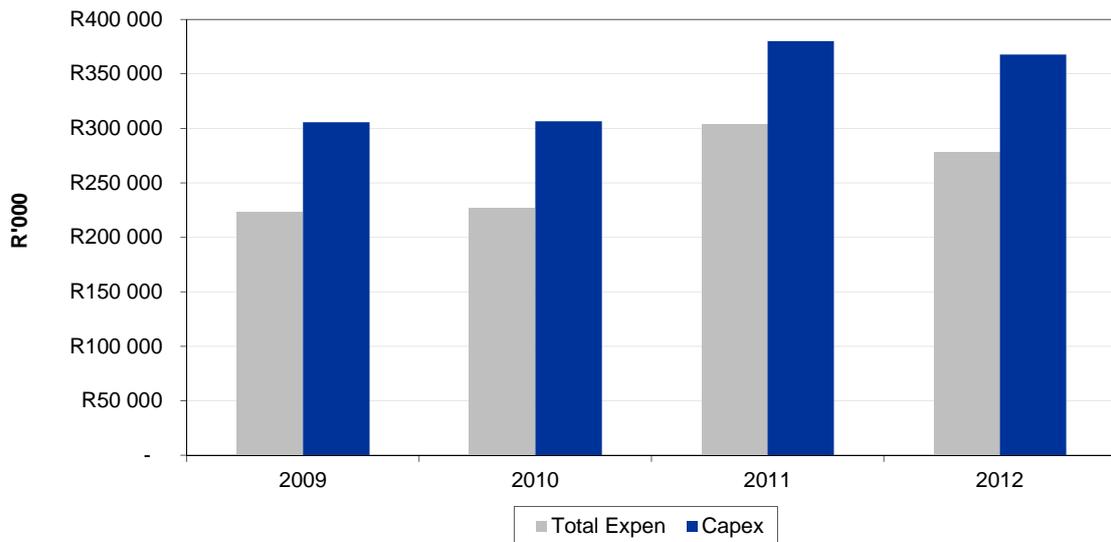
Table 6.3 presents the year on year percentage changes in infrastructure expenditure per municipality. With the exception of Theewaterskloof there has been a decrease in infrastructure expenditure across all local municipalities from 2011 to 2012. Overstrand Municipality spent the most on infrastructure in 2012. The Municipality's infrastructure expenditure accounted for 52 per cent of the total infrastructure expenditure within the District. Theewaterskloof and Swellendam municipalities each contributed 19 per cent to the total infrastructure expenditure of the district whilst Cape Agulhas' infrastructure expenditure accounted for 8 per cent of the region's infrastructure spend. The differences in expenditure across the other 4 local municipalities are largely related to the various budgetary constraints faced by each municipality.

6.2.2 Infrastructure budgets

The sources of infrastructure funding at Municipal level are the National government and Provincial Government in the form of grants or from payments made by residents of the municipal area.

The National Government recognises that infrastructure investment is the cornerstone to economic and social upliftment. To this end in 2004 the Government provided local governments with a Municipal Infrastructure Grant (MIG) to complement their capital budgets. Of the capital expenditure budget allocated to municipalities within the Overberg District a large percentage of it goes to Economic & Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance & Administration and Community & Public Safety. In 2012 infrastructure expenditure took up approximately 76 per cent of the entire capital expenditure budget for the whole district (see Figure 6.1).

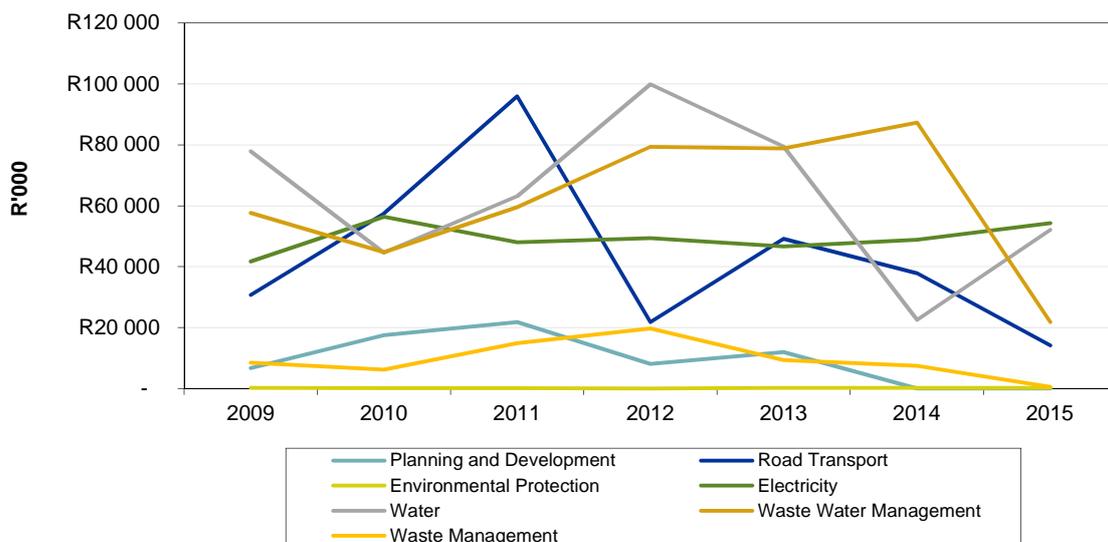
Figure 6.1 Capex vs Total infrastructure expenditure



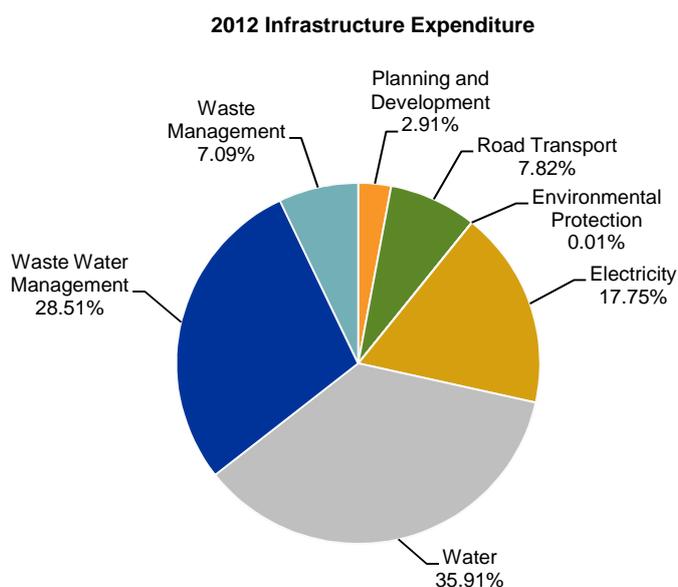
Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

However budgetary constraints call for an investigation into the types of infrastructure that would influence growth within the Overberg. "Priority should be given to infrastructure programmes that contribute to regional integration" (NDP, 2012: 159). These include projects such as revising transport links and improving access to energy or water as they form a vital part of the Western Cape economy. Since 2009 expenditure has been high on four forms of infrastructure namely: water provision, waste water management, road transport and electricity (see Figure 6.2). Infrastructure expenditure is however constrained by the scope of the infrastructure grant and municipalities' financial positions. These constraints compromise service delivery such as the maintenance and upgrade of roads, waste water treatment plants and water provision.

Figure 6.2 Overberg economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Figure 6.3 Overberg economic infrastructure expenditure breakdown

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

In 2012 the largest amount of funds went towards water, electricity, waste water management, and road transport, whilst planning and development and environmental protection take up the smallest portions (see Figure 6.3). Both theory and empirical work at National level suggest these expenditures do have an impact on economic growth.

6.2.3 Infrastructure investment and economic growth

The impact of infrastructure investment on growth depends crucially on the individual municipalities' infrastructure investment decisions. It depends on their knowledge of the location, characteristics and requirements for infrastructure investment that has the potential to influence economic growth. Investment in infrastructure and the maintenance thereafter requires a complex mix of robust management practices. Differences in infrastructure maintenance and development may lead to vast differences in economic performance across the Overberg towns.

The Growth Potential of Towns study provides a categorisation of towns in the Overberg District according to the infrastructure index (see Table 6.4 below). As can be seen the towns with infrastructural challenges are Elim, Suurbraak, Grabouw and Villiersdorp. Towns that fall under Overstrand Municipality tend to range between medium and very high infrastructure categories.

Table 6.4 Town categorisation using the infrastructure index

Municipality	Town	Infrastructure index
Cape Agulhas Local Municipality	Arniston	High
	Bredasdorp	High
	Elim	Low
	Napier	Medium
	Pearly Beach	Medium
	Struisbaai	High
Overstrand Local Municipality	Betty's Bay	Very high
	Franskraalstrand	Very high
	Gansbaai	Medium
	Hawston	Very high
	Hermanus	Medium
	Kleinmond	High
	Onrus	Very high
	Pringle Bay	High
Swellendam Local Municipality	Stanford	High
	Barrydale	Medium
	Suurbraak	Low
Theewaterskloof Local Municipality	Swellendam	Medium
	Botrivier	Medium
	Caledon	High
Theewaterskloof Local Municipality	Genadendal	Medium
	Grabouw	Low
	Greyton	High
	Riviersonderend	Medium
	Villiersdorp	Low

Source: Donaldson et al (2010)

Municipalities within the Overberg District are blessed with extensive agriculture and processing activities that can be linked to a rapidly expanding transport and storage sector. However, infrastructure delivery in the Overberg District has been significantly constrained by an influx of migrants who put additional pressure on service delivery. The most critical challenge has been identified as the lack of broad band and internet connectivity. The lack of fast internet connectivity was noted as one of the key constraints to growth and development within the region.

Municipalities in the Overberg District that were rated high according to the infrastructure index had higher economic growth when compared to those rated medium according to the infrastructure index. Average GDP growth for the local municipalities over the period 2000 - 2011 is displayed in the table below. We compare it to the level of infrastructure within that Municipality as determined by the 2010 study on municipalities done by Donaldson et al (2010) (see Table 6.5 below).

The Overstrand and Cape Agulhas municipalities are rated high according to the infrastructure index; the two municipalities also had higher economic growth when compared to other municipalities in the district. The challenge Cape Agulhas Municipality faces is the provision of access to rail transport by passengers. This service is non-existent within the area. In addition there is a pressing need to improve basic service delivery in Elim and the upgrading of streets in Napier.

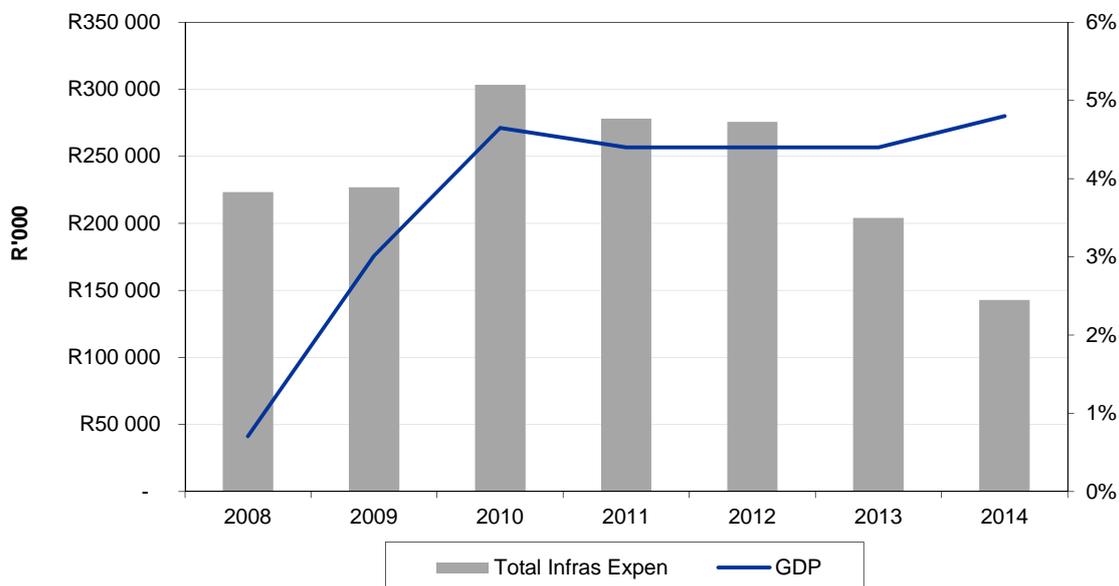
Table 6.5 GDP vs Infrastructure levels at municipal level

Municipality	GDP growth	Infrastructure level
Overstrand	6.8	High
Cape Agulhas	5.7	High
Swellendam	4.8	Medium
Theewaterskloof	3.7	Medium

Source: Donaldson et al (2010) and Quantec Research

Theewaterskloof and Swellendam Municipality were rated medium according to the infrastructure index growing at 3.7 per cent and 4.8 per cent respectively over the period 2000 - 2011. The high population growth rate due to mass migration of people to the towns of Grabouw and Villiersdorp has placed infrastructure provision under strain in the Theewaterskloof Municipality. This challenge is compounded by the low tariff, impoverished tax base and resource constraints. In addition violent politically driven public protests have damaged infrastructure and impacted significantly on the Municipality's growth potential.

Due to various data limitations it is not possible to give an empirical presentation of the impact that an investment in infrastructure has on economic growth. Whilst data limitations have been a tremendous challenge the graph below provides an approximation of what both theory and empirical work have established, i.e. there is a positive relationship between infrastructure investment and GDP.

Figure 6.4 GDP vs Total Economic infrastructure expenditure

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Empirical evidence emphasises that infrastructure investment will have both a direct and an indirect effects on GDP. The direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP. The indirect, longer term effects are a result of multiplier or knock-on effects that have a much longer term macroeconomic impact on the economy.

Various studies have tried to provide an empirical establishment of the typical impact that various forms of infrastructure expenditure would have on the economy. In South Africa, a good account of this literature is available in Fourie (2006). A study by Mabugu, Rakabe and Chitiga (2009) makes use of a static Computable General Equilibrium (CGE) modelling tool to assess the relationship between infrastructure and growth. This modelling technique is however later criticised by Mbanda (2011) as being unable to account for distributional and accumulation effects. Mabugu, Rakabe and Chitiga (2009:17) used this tool to quantify the impact that a 10 per cent increase in water, health, roads, electricity and communications infrastructure above baseline would have on the economy. The authors find that increases in public infrastructure in the different sectors have beneficial yet different macroeconomic effects. Gross Domestic Product increases due to increases in investment and consumption. Imports and exports levels, the Consumer Price Index (CPI), wages and employment levels and a variety of sectors are also affected in differing ways. Sectors with strong forward and backward linkages are affected by the increase in public infrastructure investment. The impacts of the simulations on GDP are shown in Table 6.6 below.

Table 6.6 Effect of 10 per cent increase in infrastructure on GDP

Variable	Variation (%)			
	Water	Electricity	Roads & transport	Communications
GDP	0.02	0.19	0.44	0.34

Source: Adapted from Mabugu, Rakabe and Chitiga (2009)

Their results confirm that an increase in infrastructure investment within these sectors leads to increased economic growth. The impact appears most significant in the case of transport and communications infrastructure spending. For a more detailed presentation of the macroeconomic impacts of the full simulations see Mabugu et al (2009).

It is projected that GDP growth will accelerate to an average of 4.3 per cent per annum for the period 2012 - 2017. Coupled with other growth determinants expenditure will influence GDP growth for the District. Of course this investment in economic infrastructure would be most effective if focused on the major growth centres along the Southern Coastal belt. With the development of an Aquaculture industry within the district infrastructure investment within this area is crucial to enhancing its performance. Overstrand hosts a large part of the Western Cape Province's flourishing aquaculture industry. The success of the project depends significantly on a complex interplay of factors. Infrastructure investment in Overstrand and Cape Agulhas should be directed to supporting this sector.

Hermanus in Overstrand Municipality boasts two of the Province's largest abalone farms. The Western Cape Government is in the process of investigating special economic zones for the Western Cape's aquaculture sector within the area from Hermanus to Gansbaai (DEDAT, 2013). The sector is quite capital intensive with strict sanitary requirements and various other health compliance criteria that have to be met. Currently rising electricity costs have been cited as the biggest drawback to growth within this area. Infrastructure investments within this area are likely to boost

the fortunes of the area as a whole as economic linkages will stimulate a variety of industries in the area. Hence the infrastructure development potential of the aquaculture sector could have trickle down effects and is certainly an area for further research.

6.3 Infrastructure and inter-industry linkages: The case for sector development

The research and analysis for the Western Cape Infrastructure Framework 2013 (WCIF) has identified five core networked infrastructure systems. They are:

- Water system infrastructure
This includes the range of infrastructure related to the water cycle including bulk water resources, bulk and distribution water supply systems, wastewater collection and treatment infrastructure (including recycling) and storm-water systems.
- Energy system infrastructure.
This includes the range of infrastructure related to electricity generation, transmission and reticulation. It may also include other energy infrastructures that do not involve a conversion of energy into electricity, such as fuel for transport, cooking and heating.
- Transportation and logistics system infrastructure.
This includes all the different infrastructure elements that contribute to the mobility of people and goods. It includes the road network, the rail network, public transport, pedestrian and bicycle mobility, ports and airports and the freight logistics systems.
- Settlement system infrastructure.
This encompasses the built environment and includes the range of public and private buildings and facilities that comprise functional settlement. Public facilities such as schools, hospitals and clinics and other government buildings will form part of this. It includes the waste management system servicing settlements.
- Telecommunications system infrastructure.
This includes the range of landline, cellular and wireless networks that enable the range of electronic communications.

6.3.1 Strategic economic infrastructure and comparative advantage

The strategic intervention in relation to Economic Infrastructure in creating the enabling environment for robust and sustainable economic growth is further explored with the use of the 'revealed comparative advantage' approach explained in Chapter 3 (Table 3.4) of this report. Agriculture and the associated processing industries form the backbone of the economy; however, the growth of the region has been driven by what appears to be vibrant light industrial activity (well dispersed

throughout the district) and a range of service industries, notably finance & business services. The use of the LQ ratio serves as a 'guiding tool' in the prioritisation of infrastructure investment across the Overberg District. Coupled with the labour absorption potential of the identified sectors, we are able to deduce from the LQ ratio (with a ratio more than 1 indicating comparative advantage) and the demand for service infrastructure linked to the specific sectors, the priorities required for strategic infrastructure investment.

1. Agriculture, Forestry and Fishing (LQ ratio – 4.73)
2. Construction (LQ ratio – 2.25)
3. Business Services (LQ ratio – 1.42)
4. Food, beverages and tobacco (LQ ratio – 1.93)

Labour absorbing industries Construction and Agriculture, Forestry & Fishing feature prominently with Construction in particular showing robust average growth of 9 per cent per annum for the period under review (2000 - 2011). Open for debate is the importance of Agriculture, Forestry & Fishing to the Overberg District Economy given its share of GDP. However, the poor growth performance over the last decade coupled with the dire projections going forward remains a point of contention. The key point to be made about the Overberg District Economy is the fact that the region is growing fast (mainly food processing and light industry & services) and is experiencing an influx of migrants with infrastructure buckling under the impact. The insufficient infrastructure and MIG cannot sustain the high growth of the region.

Consistent with Provincial trends, Business Services is again a burgeoning sector with impressive growth rates of 10.7 per cent given its market share of 21.8 per cent. Food, beverages and tobacco is another priority sector in terms of the data presented in Table 3.4 of this report (Chapter 3) displaying notable growth of 6.4 per cent for the period 2000 - 2011 coupled with a LQ ratio of 1.93, thereby displaying a considerable Comparative Advantage.

6.3.2 Drivers of change and infrastructure priorities

Provincial Economic growth has recovered (3 per cent in 2010/11) and provincial projections (PERO) indicate a modest growth rate of 3.7 per cent in the Western Cape over the coming six years, which is equal to growth projections of the South African economy as a whole.

The growth outlook over the coming five (5) years of each sector of the Overberg District economy is shown in Table 3.3 of this report.

Based on the Sectoral Forecast/Outlook presented in section 3.2.1 of this report, key sectors expected to make notable gain in terms of Annual Average Economic growth are discussed further with the aim of identifying the key sectors in which Infrastructure expenditure should be concentrated to further aid growth and development of these sectors (not forgetting the comparative advantage mentioned above). To this end, growth forecasts coupled with GDP per cent share, Finance and insurance business services (6.7 per cent), Construction (4.7 per cent), Manufacturing (4.4 per cent) and Transport, storage and communication rank as the favourable sectors. However, the Transport, storage and communication sector might display favourable growth projections going forward but has an LQ ratio of 0.76 which is below the threshold of 1 to vindicate Infrastructure prioritisation from a notable Comparative Advantage point of view.

With the aforementioned growth projections (section 3.2.1) at the forefront of the research and analysis pertaining to Infrastructure provision in the Overberg District region, the demand for services infrastructure becomes more pertinent in the achievement of growth and development targets. According to the WCIF 2013 study, the demand for services (infrastructure) from enterprises is dependent on the nature of the activity they are engaged with. This is difficult to assess but the scale of production and the sector of the economy provide a reasonable basis for estimation.

The following recommendations are made based on the growth projections provided and the alignment with the relevant Provincial Strategic Objectives. The summary for demand drivers in the Overberg District have been captured in the WCIF 2013 Report and are 'prioritised' on the aforementioned Growth projections.

- **Construction (7.7 per cent GDP Share)**

Water and power are required on construction sites.

- **Finance, insurance, real estate & business services (21.8 per cent GDP Share)**

This is the conventional office building environment with water and sanitation associated mainly with toilets and electricity required for heating, air-conditioning, lighting and office equipment. Telecommunications infrastructure is most crucial to this sector. Waste streams are dominated by paper.

- **Manufacturing (16.2 per cent GDP Share)**

The demand for energy and water vary considerably by industry, with indicative figures available for most industries. Wet industries produce wastewater which is typically discharged into a municipal wastewater system. Some industries also generate high mass or hazardous solid waste. As most industries are located in urban areas they benefit from the road system in the area.

- **Transport, storage & communication (7.9 per cent GDP Share)**

Water and power for vehicles, trains included, may be substantial. Obviously road and rail infrastructure is fundamental.

6.4 Conclusion

The analysis provided in this chapter took a look at infrastructure investment in the Overberg District and its resulting impact on growth. Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments as well providing a solid foundation for social development. The data presented revealed that there has been varying levels of infrastructure investments and development across the towns and municipalities within the Overberg. The differences in expenditure across the local municipalities are largely related to the various budgetary constraints faced by each municipality.

Overstrand and Cape Agulhas accounted for the highest and lowest infrastructure expenditure for the District. The high infrastructure investments in Overstrand Municipality are matched by high growth rates. On the other hand despite the low economic infrastructure expenditure by Cape Agulhas Municipality in comparison to the other local municipalities, the Municipality is rated high according to the infrastructure index. Theewaterskloof and Swellendam municipalities were rated medium according to the infrastructure index and had lower growth when compared to Overstrand and Cape Agulhas municipalities.

Acute infrastructure bottlenecks are likely to be experienced as the economic vibrancy of the region continues to attract in-migration which places pressure on infrastructure delivery across all municipalities in the region. It is crucial for municipalities to continue to invest in the upgrade and construction of new infrastructure; deteriorating infrastructure cannot support thriving economies.

In summation the positive relationship between infrastructure investment and economic growth is influenced by the structural challenges, skills shortages, budgetary constraints, human capital and mismanagement issues that each individual municipality faces. It is also crucial for municipalities to identify areas in which their growth potential lies and ensure infrastructure provision to those sectors. Of particular interest is the opportunity that is presented by the aquaculture industry and infrastructure linkages that could result with other municipalities.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Overberg District: GDPR at basic, constant 2005 prices, average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	0.8	0.4	-1.2	-0.7	-1.6	2.5	-0.3
2 Secondary sector [SIC: 3-5]	3.5	7.5	6.2	6.8	8.4	3.6	3.8
3 Tertiary sector [SIC: 6-9, 0]	7.2	7.0	5.5	6.3	7.1	4.8	4.7
Total: Overberg District	4.8	5.8	4.6	5.2	5.7	4.1	3.8
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	1.2	0.4	-1.2	-0.7	-1.6	2.6	-0.3
2 Mining and quarrying [SIC: 2]	-26.3	1.6	0.5	0.1	0.7	-2.8	0.8
3 Manufacturing [SIC: 3]	4.1	7.2	5.9	6.7	8.3	2.0	5.4
4 Electricity, gas and water [SIC: 4]	4.5	3.3	-1.1	1.1	2.2	-2.4	0.0
5 Construction [SIC: 5]	1.7	10.7	8.4	9.0	11.2	8.2	1.2
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	8.6	4.4	1.5	3.6	4.9	-3.1	5.3
7 Transport, storage and communication [SIC: 7]	7.1	8.2	4.4	6.3	7.9	4.0	2.3
8 Finance, insurance, real estate and business services [SIC: 8]	8.8	12.6	10.2	11.0	12.3	11.2	5.7
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.4	4.5	2.3	3.6	4.7	0.8	2.4
10 General government [SIC: 91, 94]	3.7	3.4	3.5	3.3	2.9	3.9	4.1
Total: Overberg District	4.8	5.8	4.6	5.2	5.7	4.1	3.8

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	23.9	18.7	12.9	16.0	17.8	13.1	11.9
2 Secondary sector [SIC: 3-5]	21.4	21.9	25.1	23.5	22.6	25.2	25.3
3 Tertiary sector [SIC: 6-9, 0]	54.7	59.4	62.0	60.5	59.6	61.7	62.8
Total: Overberg District	100	100	100	100	100	100	100
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	23.6	18.6	12.8	15.9	17.7	13.0	11.8
2 Mining and quarrying [SIC: 2]	0.3	0.1	0.1	0.1	0.1	0.1	0.1
3 Manufacturing [SIC: 3]	14.1	14.7	16.1	15.4	15.0	16.0	16.3
4 Electricity, gas and water [SIC: 4]	2.0	1.8	1.4	1.6	1.7	1.3	1.2
5 Construction [SIC: 5]	5.3	5.5	7.6	6.5	5.9	7.9	7.8
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	16.2	17.4	14.6	16.0	17.1	13.9	13.9
7 Transport, storage and communication [SIC: 7]	6.8	7.6	8.0	7.8	7.6	8.0	8.0
8 Finance, insurance, real estate and business services [SIC: 8]	13.8	17.9	24.8	21.1	18.6	25.4	26.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.8	5.0	4.4	4.7	4.9	4.4	4.2
10 General government [SIC: 91, 94]	13.0	11.5	10.2	10.9	11.3	10.1	10.2
Total: Overberg District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Overberg District: Employment (Formal & informal), average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	-2.9	-9.5	-9.6	-9.1	-9.1	-19.5	1.5
2 Secondary sector [SIC: 3-5]	-3.3	3.5	-0.3	1.1	3.0	-4.0	-1.6
3 Tertiary sector [SIC: 6-9, 0]	7.4	4.4	1.5	3.1	4.0	-0.2	2.5
Total: Overberg District	0.4	-1.1	-1.5	-1.3	-0.9	-5.2	1.4
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	-2.9	-9.5	-9.7	-9.1	-9.1	-19.6	1.4
2 Mining and quarrying [SIC: 2]	-19.9	-7.4	22.2	6.5	1.0	21.2	13.8
3 Manufacturing [SIC: 3]	0.8	3.8	0.0	1.5	3.3	-1.1	-2.9
4 Electricity, gas and water [SIC: 4]	2.2	2.8	-1.0	0.1	2.0	-9.1	1.7
5 Construction [SIC: 5]	-6.0	3.4	-0.4	0.8	2.9	-6.2	-0.4
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	7.2	2.6	-1.1	0.7	1.8	-4.6	1.7
7 Transport, storage and communication [SIC: 7]	-2.8	3.0	0.5	1.4	1.2	1.3	1.9
8 Finance, insurance, real estate and business services [SIC: 8]	13.8	11.2	5.4	8.5	11.1	2.3	4.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	8.3	2.4	0.0	1.7	2.8	0.7	-1.6
10 General government [SIC: 91, 94]	5.5	3.9	2.9	3.3	3.0	2.1	5.3
Total: Overberg District	0.4	-1.1	-1.5	-1.3	-0.9	-5.2	1.4

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	48.9	35.0	21.1	28.6	33.9	18.5	17.5
2 Secondary sector [SIC: 3-5]	16.2	16.7	20.5	18.4	17.3	21.0	20.0
3 Tertiary sector [SIC: 6-9, 0]	34.9	48.3	58.4	53.0	48.8	60.5	62.5
Total: Overberg District	100	100	100	100	100	100	100
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	48.8	35.0	21.0	28.5	33.8	18.4	17.4
2 Mining and quarrying [SIC: 2]	0.1	0.0	0.1	0.1	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	6.6	7.4	9.3	8.3	7.7	9.8	9.3
4 Electricity, gas and water [SIC: 4]	0.2	0.3	0.3	0.3	0.3	0.3	0.3
5 Construction [SIC: 5]	9.3	9.0	10.9	9.8	9.4	11.0	10.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	12.4	15.6	16.9	16.2	15.7	17.0	17.1
7 Transport, storage and communication [SIC: 7]	1.8	2.0	2.2	2.1	2.0	2.3	2.4
8 Finance, insurance, real estate and business services [SIC: 8]	5.3	10.3	15.4	12.8	10.7	16.4	17.3
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	8.4	11.3	12.8	12.0	11.3	13.4	13.2
10 General government [SIC: 91, 94]	7.1	9.1	11.0	10.0	9.1	11.3	12.5
Total: Overberg District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Overberg District: Goods Exports & Imports, % composition: 1996 - 2011

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods Export (R million)							
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	94.5	93.9	94.5	94.3	93.1	97.0	96.3
2 Mining and quarrying [SIC: 2]	0.1	0.3	0.1	0.2	0.2	0.1	0.1
3 Manufacturing [SIC: 3]	5.2	5.7	5.4	5.5	6.7	2.9	3.5
4 Undefined/other	0.2	0.1	0.1	0.1	0.1	0.0	0.1
Total: Goods exports	100	100	100	100	100	100	100
Manufacturing sector: Overberg District							
1 Food, beverages and tobacco [SIC: 301-306]	87.7	86.9	89.4	88.4	85.6	95.4	92.3
2 Textiles, clothing and leather goods [SIC: 311-317]	0.1	2.1	0.8	1.3	1.7	0.4	0.3
3 Wood, paper, publishing and printing [SIC: 321-326]	0.0	0.0	0.1	0.1	0.1	0.1	0.1
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	2.9	4.0	2.8	3.5	3.9	1.6	3.5
5 Other non-metal mineral products [SIC: 341-342]	0.1	0.2	0.3	0.2	0.1	0.2	0.4
6 Metals, metal products, machinery and equipment [SIC: 351-359]	1.0	0.8	3.3	2.0	2.7	0.5	0.6
7 Electrical machinery and apparatus [SIC: 361-363]	0.4	0.2	0.3	0.2	0.3	0.1	0.2
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.1	0.4	0.5	0.4	0.4	0.1	1.0
9 Transport equipment [SIC: 381-387]	0.1	0.6	1.4	1.0	1.1	0.9	0.4
10 Furniture and other manufacturing [SIC: 391-392]	7.6	4.8	1.2	3.0	4.1	0.6	1.1
Total: Manufacturing exports	100	100	100	100	100	100	100
Goods Import (R million)							
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	42.9	18.8	35.5	28.9	24.6	37.6	37.2
2 Mining and quarrying [SIC: 2]	0.2	0.3	0.1	0.2	0.2	0.1	0.0
3 Manufacturing [SIC: 3]	56.8	79.2	64.0	70.1	74.2	61.5	62.5
4 Undefined/other	0.1	1.6	0.4	0.9	1.0	0.8	0.4
Total: Goods imports	100	100	100	100	100	100	100
Manufacturing sector: Overberg District							
1 Food, beverages and tobacco [SIC: 301-306]	33.4	15.7	33.4	25.9	21.6	35.0	34.1
2 Textiles, clothing and leather goods [SIC: 311-317]	1.8	3.1	9.7	6.3	6.3	6.3	6.3
3 Wood, paper, publishing and printing [SIC: 321-326]	7.3	11.1	5.7	8.0	8.1	10.1	5.5
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	16.8	22.1	12.6	17.7	19.2	16.1	13.2
5 Other non-metal mineral products [SIC: 341-342]	0.9	0.9	1.6	1.2	1.1	1.3	1.6
6 Metals, metal products, machinery and equipment [SIC: 351-359]	26.6	33.9	16.8	24.7	26.7	22.0	19.3
7 Electrical machinery and apparatus [SIC: 361-363]	4.5	1.4	2.1	2.0	2.0	0.6	3.3
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	2.0	4.6	5.1	4.6	3.8	3.7	8.5
9 Transport equipment [SIC: 381-387]	5.0	5.3	11.5	8.1	9.6	3.7	6.5
10 Furniture and other manufacturing [SIC: 391-392]	1.8	1.8	1.6	1.6	1.6	1.3	1.8
Total: Manufacturing imports	100	100	100	100	100	100	100

Source: Quantec Research/CER

Eden District

Executive summary

1. Introduction

The overall objective of the Municipal Economic Review and Outlook (MERO) 2013 is similar to that of its predecessor, MERO 2012, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO).

But MERO 2013 also extends the focus and analyses of its predecessor. In addition to estimating the recent and forecasted GDP growth for each municipality and the major economic sectors and industries (Chapters 2 and 3), the current study also provides extensive analyses of the informal sector (Chapter 4), value or supply chains (Chapter 5) and the economic infrastructure (Chapter 6). Complimentary to the MERO 2013 findings is an Executive Summary detailing the key outcomes/trends related to the Socio-economic profile per District. These Executive Summaries may be located at the following website: www.westerncape.gov.za.

2. Regional growth trends

The global economy hit a recessionary low point in 2009 before turning around and growing at about 5 per cent in 2010 and the first half of 2011, driven largely by the United States of America (USA) and Chinese economies. Since then world growth has dipped to 2.6 per cent (in 2012 and possibly 2013), due partly to debt crises and fiscal restraint policies in the major advanced economies. But the global economy is expected to strengthen again reaching 3.1 per cent in 2014 and beyond, due mainly to expansionary monetary policies coupled with continued fiscal restraint and structural reform.

How did South Africa, the Western Cape (WC) Province and the WC municipalities respond to this hesitant and uneven global turnaround? After growing at 3.5 per cent in 2011, the South African economy followed the world trend growing at 2.5 per cent in 2012 which, according to the latest forecasts, is expected to decelerate further in 2013. The Western Cape economy fared slightly better with real economic growth in

the region decelerating from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. Similar trends were recorded for formal and informal employment in the Province. However, it should be noted that the employment recovery only commenced late in 2010 and some sectors and municipal areas continue to suffer the heavy recessionary impact during calendars 2008/09.

The Eden District (ED) economy survived the recession in relatively good shape, real GDP did not even contract in 2009, coming in at 0.2 per cent, after which it recovered reasonably well to 4 per cent during calendars 2010/11 approaching the trend growth rate during the 2000s and dropped to 3.7 per cent in 2012. Over the period 2000 - 2011 the Eden and the Overberg districts were the fastest growing regions of the Western Cape. The impact on the 7 constituent municipalities was variable, with Bitou, Mossel Bay, Knysna, and to a lesser extent, Kannaland growing faster than the George and Oudtshoorn municipalities, whilst Hessequa experienced the lowest growth in the region. Over the period 2000 to 2011 the district economy managed to create jobs on a net basis (13 200 jobs cumulatively, or 0.7 per cent per annum), the recovery in job growth has been tepid during calendars 2010/11 (4 100 jobs cumulatively, or 1.3 per cent per annum).

While the Eden District economy is a relatively closed economy (with a low trade to GDP ratio), the region's export potential should be developed. In considering potential export markets, it should be borne in mind that the EU regional economy – a major trading partner – remains under severe strain and growth is lagging behind the USA economy and especially the developing economies. As a longer term strategy, this may call for export diversification on the part of the country, the WC and the WC municipalities.

While the Eden District economy is a relatively closed economy it is proposed that an independent research study be launched to consider the desirability and efficacy of promoting exports as a future source of growth. Such a study should not only focus on the EU but also look at cost-effective practical steps that can be taken to diversifying ED exports away from the EU in favour of more attractive markets in East Asia, Africa and Latin America.

3. Eden District (ED): Sectoral growth

The recessionary impact on economic sectors and industries in the ED was felt most in the manufacturing sector, which contracted by no less than 5.5 per cent in calendar 2009. The sector has had a disappointing less than proportionate recovery and continued to shed jobs after the recession, particularly in the larger George Municipality. During the uncertain aftermath of the recession, the revival of the region's economic activity



appears to be led by the retail, wholesale, catering & accommodation sector, with particularly the catering & accommodation sector putting in a healthy growth performance in 2010/11. The services industries in the region, i.e. finance, insurance, real estate & business services, transport, storage & communication and community, social and personal services also contributed to the recovery with these sectors registering decent growth rates.

One third of economic output in the Eden economy is generated in the agriculture, manufacturing and construction sectors, which are semi- and unskilled intensive. While the Eden regional economy is well-balanced, there is a need to support these industries (e.g. skills training) to ameliorate the impact of the recession and expand them and make the vibrant growth in the services industries sustainable.

Looking at the future, an attempt was made to determine the growth potential of the 22 main industry groups in the ED by estimating their so-called "revealed comparative advantage". Using location quotients the analysis indicated that several industries did indeed have a positive comparative advantage, including the catering & accommodation; construction; agriculture, forestry & fishing; agro-processing; non-metal minerals; business services; retail & wholesale; furniture and wood products sectors. Several of these industries also formed part of the same value (or supply) chain, as discussed in the next section.

The Eden District is forecast to grow at a 4.3 per cent per annum between 2013 and 2017, driven mostly by the relatively large financial & related business services sector (5.7 per cent), construction (5.6 per cent) and wholesale & retail trade (4.2 per cent). Manufacturing growth of 3.8 per cent per annum is relatively vibrant compared to the projected provincial average of 2.8 per cent, albeit that it remains too low. The 1.1 per cent growth in agriculture is also relatively positive – at least expanding and not contracting as other districts have tended to do. Mining and electricity contributions to GDP are minor. The loss of vibrancy in manufacturing, particularly with regard to employment, is a cause for concern. Before the recession manufacturing contributed close to 19 per cent of GDP – this is down to 16.5 per cent in 2011. This may well imply that the growth of the sector is being constrained by extraneous factors beyond the control of the industries involved; thus calling for appropriate policy support on the part of the local (as well as provincial and national) governments.

4. Value chains

Value or supply chains represent a collection of different industries (in the primary, secondary and tertiary sectors) that are economically interlinked in the sense of supplying inputs to or demanding inputs from one another. These inter-linkages may cut across different sectors, municipalities and districts and are important from a policy perspective as they may assist policy-makers in focussing on a more broadly based and relevant set of target areas aimed at adding local value.

Agriculture and food processing chains are relatively well developed in several of the Western Cape Districts, including the ED. A typical scenario would be the use of a

variety of farming inputs to produce an agricultural product, part of which is domestically consumed, another part which is exported, and yet another part being supplied as inputs to food and beverage processors in the manufacturing sector. The latter food processors may in turn supply to other processors within the value chain, with both groups also acquiring inputs from services and other local industries, and with the final supply either exported or domestically consumed.

As far as the ED is concerned, two value chains were analysed, i.e. the agriculture and food processing chain and the furniture chain, as they were deemed the most important in terms of adding value and employment to the local economy. After allowing for initial inputs (e.g. farm feeds, fuel, seeds and plants), agricultural production, consisting of field crops, horticulture, animals & animal products and fishing, is largely supplied as inputs to food and beverage processing industries in the manufacturing sector (64.2 per cent) mostly in Mossel Bay, George and Kannaland, e.g. food, beverages, ostrich products, deciduous fruit, wood & wood products and catering & accommodation; a further portion (21.3 per cent) is sold as final demand to local households with the rest being exported. The food & beverage processing sector in turn acquires 38.4 per cent of its inputs from the agricultural sector, with the remainder of their inputs coming from wholesale & retail, other local food processors and a small portion from imports. Most of the output from processed food and beverages are sold as final demand locally and exported.

As far as the furniture production value chain in the Eden District is concerned, the forestry sector is the largest contributor to inputs into the wood and wood products manufacturing processes, contributing 28.7 per cent to inputs. The majority of the output of this sector is reabsorbed into other sectors in the economy with exports and final sales to households being minimal, collectively valued at only 1.1 per cent. The largest output is to the wood products sector and then to the furniture sector with 24.4 per cent of the output. The construction industry also receives a large share of the output from the wood and wood products manufacturing process at 18.9 per cent.

Input into the furniture production process is dominated by inputs from the wood and wood products manufacturing process, at 26.1 per cent. The majority of the output from furniture production is sold to households (54.8 per cent), with a significant proportion going to the food sector, at 11.1 per cent. This output is mainly used in the food sector for storage and transport applications.

From a policy perspective, it is suggested that an independent study be conducted to determine the eligibility, as well as the desirability and feasibility of the agriculture and food processing and the iron and steel value chains for attaining Special Economic Zone (SEZ) status. The latter would entail a more broadly based industrial policy focusing on industries within the value chains, and involving all levels of government. The alternative would be a more conventional approach providing state support to selected industries within the value chains.

5. Informal sector

From a jobs, training and survivalist perspective, the informal sector is evidently of critical importance, though very little is known about it. But this information gap is being narrowed by extensive surveys of about 200 informal enterprises conducted by

the Department of Economic Development & Tourism (DEDAT) in each of the five districts and the Cape Metropolitan Area. The main purpose of these surveys is to provide a profile of the sector which includes the reasons for starting up informal micro-enterprises, the nature of their businesses, employment created, skills attainment and the challenges and prospects they face.

As far as DEDAT's ED survey is concerned, retail food and beverages were the largest category of business activity (38.5 per cent of respondents), followed by household goods such as (the trading of) catering, cleaning materials, pharmaceuticals, furniture, electronics and hardware. More than 20 per cent of the latter respondents were also engaged in (small) capital investment activities, including mechanical and appliance repairs, computer services and money lending. As such they are closely linked to the formal sector and also form part of value chains within the District.

The informal economy provides a means for skills acquisition through informal apprenticeship, with over half the sample (60.3 per cent) reporting having acquired their skills "on the (informal) job", rather than from formal institutions. A further 19.9 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for skills transfers to employees, whilst transferring entrepreneurial learning to the business owner. A further 11.6 per cent reported acquiring skills from a former job in the formal sector, and would be capable of obtaining formal jobs. The role of adult education in providing skills to operate informal business is fairly limited with only 2.5 per cent reporting having acquired their business skills through study.

The majority of the businesses surveyed were relatively low profit earners, with some 75 per cent of respondents reporting average monthly profits of just less than R2 500. A further 25 per cent of enterprises earned more than R2 500 per month with their informal business enterprises propelling individual earnings over the South African median, making them comparatively financially well off amongst local peers. However, despite the relatively low incomes for the great majority of participants, nearly three quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a formal "minimum wage" job paying R126.00 per day. This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

The main reason for starting up or continuing with an informal micro-enterprise is an inability to find alternative employment coupled with the high regulatory costs involved in starting and running a formal business. The latter included the costs of registration, high taxes and difficulties in securing local government tenders. Nearly 65 per cent of the sample reported that their businesses were not registered in any way, while a further 30 per cent were what one might call "partially registered", being in possession of a municipal licence. The main reason why informal activities exist and are growing in the District is that the benefits of formalising are overshadowed by the corresponding costs.

Other constraints included a lack of access to affordable micro-financing, a shortage of business premises, a lack of electricity and water, high transportation costs, regulations, police corruption and immigration status.

A major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable or simply not possible due to a lack of collateral. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

As most participants in the informal sector are generally poor, though surviving and adding local value, policies addressing these constraints may simultaneously help to combat poverty and promote growth.

An independent research study could focus on policies in general and more specifically on provincial strategies aimed at addressing some of the constraints discussed here, including the introduction of a more flexible and affordable registration system; the provision of appropriate infrastructure services at designated business premises; securing the safety of such premises; and providing assistance with collaterals in respect of micro-financing.

6. Economic infrastructure

Both the national and provincial governments view infrastructure as an important means of promoting sustainable growth and reducing poverty, with the national government having allocated large portions of its budget for this purpose. Economic infrastructure – which is the focus here – includes road building and maintenance, transport, water supply, electricity transmission, pump stations and piped networks, and sanitation facilities; whilst social infrastructure refers to health, education and a range of social grants.

Economic theory and empirical work suggest that public investment in infrastructure will lower production costs and boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect”. In fact, a recent World Bank study found that the contribution of infrastructure investment to GDP growth is substantial and often greater than that of investment in other forms of capital.

The latter proposition is partly borne out by the fact that the Western Cape Province has the lowest incidence of infrastructure backlogs and also grew more rapidly than other provinces and the country as a whole. A similar relationship seems to hold in the ED where the George and Mossel Bay municipalities recorded the highest investment in infrastructure taking up 28 per cent and 24 per cent of the total recorded for the entire District in 2012 respectively. These high investments are also matched by high growth rates.

However, this proposition does not always hold. Bitou and Kannaland both recorded growth rates above the average growth rates of the entire District. But according to the infrastructure index, infrastructure spending in these two municipalities has been low in comparison to other municipalities in the District. The bottom line is that in the long run poor infrastructure in the Kannaland and Bitou municipalities cannot continue supporting thriving economies. Similarly, Hessequa Municipality’s investment in infrastructure was relatively high at 17 per cent of the total recorded, and also performed well according to the infrastructure index. However this Municipality

appears to be struggling and lagging in comparison to other municipalities within the District mainly as a result of a shrinking agricultural sector.

It is clear from the above that the provision of economic infrastructure is only a necessary condition for economic growth. There are several structural constraints at work here, including the high costs of electricity, water, transport and storage; as well as skills shortages, mismanagement and budgetary constraints. It is evidently crucial for municipalities to identify areas in which their growth potential lies and to ensure that appropriate infrastructure services are provided there.

It is important to note that different economic sectors and communities require a different mix of infrastructure services. In terms of the earlier LQ analysis, higher growth industries like financial and related services, wholesale & retail and construction require relatively large amounts of water and electricity together with the removal of hazardous waste; whilst poorer industries and communities may need relatively more sanitation and municipal roads and pavements.

It may be worth doing an independent study looking at the different infrastructure needs of different sectors, industries and municipalities. Such a study can be simply based on personal interviews with relevant stakeholders; and also help to prioritise municipal budgets

A final comment refers to pressing budgetary constraints as revealed in the ED survey conducted for this report. Respondents to the ED survey claimed that the levy replacement grant has been incorrectly calculated as it has been increasing by 2 to 3 per cent compared to an inflation rate of between 5 and 6 per cent for the past several years. Thus they have experienced a real income decline year-on-year. Similar problems were experienced in respect of the capital expansion of the bulk water service infrastructure. As far as service delivery is concerned, the ED survey highlighted the need to revise the funding model for district municipalities, including the assignment of functions to municipalities and other spheres of government, and funding to deal with emergencies on a regular basis.

1

Introduction

1.1 Background and purpose of study

The origin of the Municipal Economic Review and Outlook (MERO) studies can be traced to the earlier microeconomic policy research programme launched and conducted by the Provincial Department of Economic Development and Tourism (DEDAT)¹. The subsequent MERO research reports provide a more focused institutional framework for microeconomic analysis – in the form of the Districts and their constituent municipalities. Internationally too there has been a shift in favour of focusing on microeconomic policy issues at local government level.

MERO 2013 follows on from its predecessor, MERO 2012, and also extends it in several important ways, as discussed below. The overall objective remains the same, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO). Using the district municipalities as our broad demarcation, MERO 2013 will probe and interrogate each and every municipality in the Western Cape Province to provide the economic intelligence needed to propel the municipal economies onto a higher growth plain and ensure sustainability at the same time.

1.2 MERO 2013: What's new?

Using the latest data from Quantec and other secondary sources, the analysis of the district and municipal growth, employment and skills data is extended in MERO 2013 in order to ascertain how the economic recovery (2010/11) has been progressing among different sectors and industries at the municipal level. This prompted an attempt to estimate the *revealed comparative advantages* of sectors and industries

¹ Kaplan, D (ed.) (2008): *Micro-Economic Development Strategy for the Western Cape (MEDS) - Synthesis Report*.

at the local government level. Location quotients were used to measure the performance of industries in the Eden District relative to the same industries in the reference region, i.e. the province or nation.

Following on from the 2012 feedback, many micro and small enterprises operate within the *informal sector*, and yet there is little or no data available on these enterprises. Although it serves as a means of survival for many unemployed poor persons, certain informal activities may help develop basic skills, create linkages with the formal sector, and ultimately become a source of sustainable growth. Apart from the need for desktop searching, the required data was obtained from the municipal survey and from important work being done at DEDAT.

The DEDAT survey of the informal sector in Eden brought into focus some of the strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may well benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

The 2012 MERO study found that agro-processing is an important industry that forms part of *value or supply chains*, or clusters, that also contain manufacturing and service industries within and across different districts and municipalities. This issue is taken further here by identifying and quantifying other existing and potential inter-industry linkages that can be clustered together for policy purposes. For this purpose Quantec's input-output model and Stats SA's supply-and-use tables were used to estimate the size and extent of two value chains in the Eden District. Having done so, it is recommended that an independent study be conducted to consider the suitability of these value chains as potential Special Economic Zones (SEZs). The latter study would require information about the conditions for SEZ status and the roles played by **the dti**, the provincial government and the national government.

Following on from the 2012 MERO study, there is a need to determine the extent to which *municipal infrastructure spending* (water, electricity, sewerage, refuse, roads) is prioritised and indeed implemented in accordance with pre-determined targets. The present study therefore compares municipal actions with plans, identify problem areas, and suggest policy actions where necessary.

Infrastructure spending is an important prerequisite for poverty relief and economic growth, and it is critical that the actions taken by the provincial government, individual municipalities and electricity suppliers be coordinated in order to maximise the returns to their respective infrastructure investments.

1.3 Outline of report

The rest of this report consists of 5 parts. Chapter 2 provides the broad macroeconomic context within which the Eden District operates. Its primary aim is to translate the macroeconomic forces and determine their impact on the dominant sectors in the District. Chapter 3 uses and refines the latest Quantec data to estimate recent trends in the growth of GDP per economic sector and employment for each municipality, with special attention being given to the agricultural, manufacturing and services sectors. Using the latest PERO, estimated comparative advantages and relevant municipal data the chapter provides a forecast of municipal GDP and employment growth for the next 5 years. An attempt is also made to highlight the skills requirements of especially the faster growing sectors and industries within Eden.

Chapter 4 identifies and quantifies two important value chains within Eden, i.e. the agricultural and food & beverages processing chain and the furniture production value chain. With both being relatively substantial (and job-intensive) they may be flagged as possible independent studies to determine their eligibility for SEZ status. Chapter 5 reports on the results of a survey of 250 informal enterprises, focusing on their size, age, type of business and, importantly, their outlook for the future. As far as the latter is concerned, it would seem that informal entrepreneurs take a positive future view of their own businesses and of the Eden District, much like their municipal counterparts did in their responses to the Eden municipal survey. Chapter 6 considers and compares infrastructure spending in the Eden District, and finds that faster growing municipalities spend more on economic infrastructure than do their slower-growing counterparts. Different sectors, industries and value chains also require different types of infrastructure which may change over time.

2

Economic outlook

2.1 Introduction

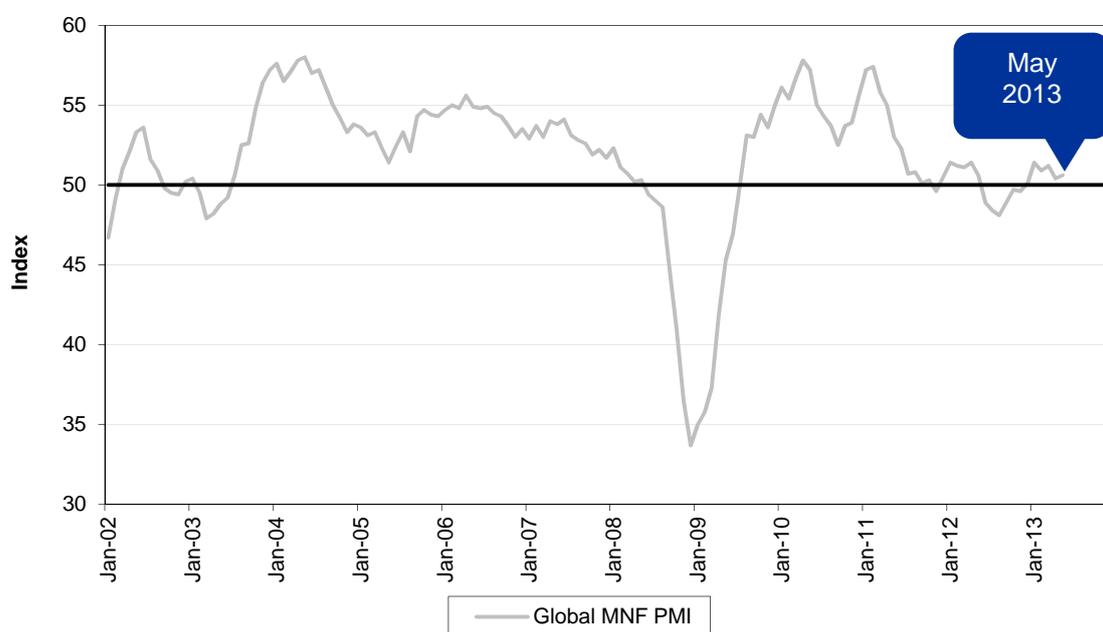
This chapter provides a concise macroeconomic overview of the Eden District (ED) economy. The focus of the chapter is on the district economy. The regional economy is a well-diversified economy, with the finance, insurance, real estate & business services, manufacturing and retail, wholesale, catering & accommodation sectors being the leading sectors and accounting for close to 60 per cent of GDP. The aim of the chapter is to translate the macroeconomic forces and their impact at the district level. To this end, a brief overview is first provided of the global, national and provincial economic developments and prospects. In the final section, the macroeconomic review & outlook for the ED economy is considered. In Chapter 3 a more in-depth sectoral analysis follows of the ED economic growth and employment prospects.

2.2 Global, national & provincial economic developments

The **global economic outlook** remains uncertain and loaded with risk. From a decent rebound since the end of 2009, the world economy recovered strongly during calendar year 2010 (registering real GDP growth of 5.3 per cent) and the first half of 2011; however, since then the growth pattern has been hesitant. Fiscal consolidations and outright austerity in the major advanced economies became a significant drag on global growth and during both the middle quarters of 2011 and 2012 growth dipped. The 2012 slowdown alarmed policy authorities in all the major advanced economies and beyond, and their aggressive policy response to avert a second leg of the Great Recession of 2008 - 2009 has included quantitative easing, forward guidance on interest rates at zero bound levels, and in some parts even fiscal stimulus (e.g. China); in April 2013 Japan embarked on an extensive economic stimulus programme including quantitative easing, in order to rid that economy from deflation.

Figure 2.1 below shows that the policy authorities achieved a measure of success, with the composite global manufacturing Purchasing Managers' Index (PMI) edging higher, above the critical level of 50 points, from a low point of 48.1 in August 2012 to 52.1 points in March 2013. While the April/May readings came in somewhat lower, including services, the May reading stood at 53.1 points. These readings are consistent with the world economy expanding at a steady pace just below trend. Whilst questions regarding sustainability remains, the outlook is for the current uneven improvement in global economic activity to become better synchronised during the second half of the year and next year. The IMF forecasts global real economic growth to move sideways at 2.6 per cent in 2013 (i.e. at a similar rate compared to 2012) and then to accelerate to 3.4 per cent in 2014².

Figure 2.1 The Global Manufacturing PMI edges above the critical level of 50 index points



Source: JP Morgan, June 2013

The USA economy has managed to progress at a rate around 2 per cent (year-on-year) (see Table 2.1 below) and this remains the outlook even though fiscal tightening is expected to take some toll in 2013. The housing sector appears to be responding well to the stimulatory policies; the unemployment rate is gradually trending lower and payroll employment continues to increase at a moderate pace. The Fed is targeting an unemployment rate of 6.5 per cent (poised at 7.6 per cent in May 2013), and the zero-bound interest rates, aggressive bond buying (quantitative easing) and central bank communications are likely to persist in order to instil confidence in the market and within the corporate sector to step-up fixed investment and employment creation.

The European economy was expected to emerge from recession early in 2013; however, going by the latest economic indicators (with the composite Euro area PMI dipping to 45 points in March 2013), the region is expected to emerge from recession

² At purchasing power parity exchange rates the corresponding figures are 3.3 per cent and 4 per cent.

only during the second half of the year. Unemployment rates are at record highs, particularly in the peripheral southern European countries, and popular resistance against the fiscal austerity measures appears to be growing. The regional economy is forecast to contract by a further 0.3 per cent in 2013 on top of the 0.6 per cent contraction in 2012, while only moderate growth is projected for 2014 (see Table 2.1).

Economic conditions are generally more lively in Asia currently, with China's real GDP growth rate coming in at 7.7 per cent during the first quarter of 2013. However, growth appears to have decelerated somewhat during the second quarter as the Chinese economy rebalances towards a more sustainable (read: lower) trend growth rate. An overheated property sector remains cause for concern and financial volatility emerged during the second quarter as the authorities attempt to rid the economy from excesses, leading to a general scaling down of forecasts in line with the official targeted growth rate of 7.5 per cent.

In Japan, the new political leadership (and Governor of the Bank of Japan) has implemented radical economic stimulus policies to rid the economy from the grip of deflation, including aggressive quantitative easing and fiscal expansion in order to achieve a 2 per cent inflation target. An atypical recovery in household spending attests to the probability that the stimulus measures are having the intended impact; however, analysts remain unsure regarding the sustainability of the turnaround, with forecast for real GDP growth remaining around 1 - 1.5 per cent.

The uneven growth pattern in the global economy is also clear in the emerging market group of countries, with particularly India and Brazil under performing in terms of their recent growth performance. However, real GDP growth is still projected between 5.5 and 6 per cent over the short term, suggesting the emerging economies will continue catching-up with the advanced economies and remain a key source of demand for South Africa's goods. The favourable outlook for economic growth in Sub-Saharan Africa also continues to be an area for closer ties with Southern African producers in terms of expanding trade and investment.

Table 2.1 World economic growth outlook: 2012 – 2014 (%)

Country	2012	2013	2014	Country	2012	2013	2014
Advanced countries				Developing countries			
USA	2.2	1.9	3.0	Developing Asia	6.6	7.1	7.3
Japan	2.0	1.6	1.4	China	7.8	8.0	8.2
Euroland ¹	-0.6	-0.3	1.1	India	4.0	5.7	6.2
Germany	0.9	0.6	1.5	Latin America	3.0	3.4	3.9
UK	0.2	0.7	1.5	Central & East Europe	1.6	2.2	2.8
Canada	1.8	1.5	2.4	Sub-Saharan Africa	4.8	5.6	6.1

¹ The 17 Euro countries

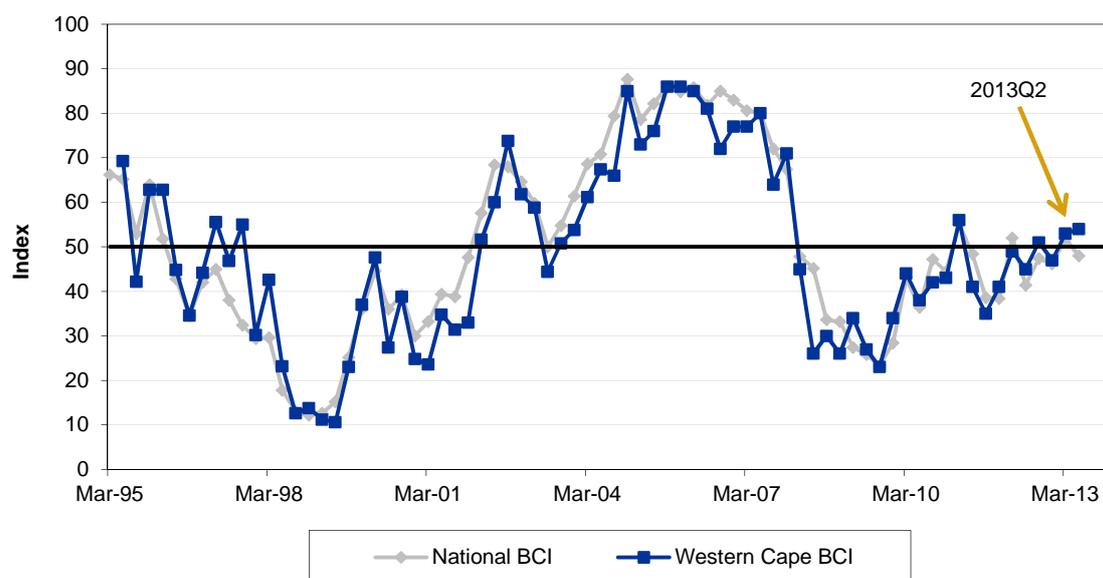
Source: IMF World Economic Outlook, April 2013

In all, the global economy is trapped in a multi-year slow and uneven growth trajectory, with emerging economies growing significantly faster than the advanced economies. The emerging economies are being affected by the advanced countries' attempts to deleverage from high debt levels. The implication is that general inflation is unlikely to become a problem anytime soon and that interest rates

could remain low for the foreseeable future (at least until the end of 2014). Unfortunately, in this environment the outlook is not positive for commodity prices. Key commodity prices have been trending lower since mid-2011 and could remain under pressure as demand conditions remain lacklustre and new production capacity comes on stream in coming years (related to the long lead times of mining developments). Regarding food prices, the latest development has been a softening in grain prices on the back of favourable harvests in the USA.

The **South African economy** has been impacted by the hesitant growth in her main trading partner economies and, domestically, the deep-seated labour market instability which broke out during the third quarter of 2012, caused a major drag on business, investor and consumer confidence as well as real economic growth. Real GDP growth slowed to 2.5 per cent in 2012 from 3.5 per cent in 2011 and is likely to slow further in 2013 (the first quarter annualised growth rate amounted to 0.9 per cent). The RMB/BER Business Confidence Index has been slow to recover since the 2009 recession, with the index tending to oscillate around the neutral level of 50 since the end of 2010. The brittle business confidence levels, combined with less than robust demand conditions in the world economy and domestically, do not bode well for private fixed investment spending and employment creation.

Figure 2.2 Hesitant recovery in business confidence since 2009



Source: BER, June 2013

A key development during the course of 2012 has been the slowdown in the consumer sector, which has been the mainstay of the economic recovery witnessed since the end of 2009. The consumption-led recovery lost momentum due to the lack of employment creation, lower wage increases, the impact on household budgets of higher electricity, petrol and food prices and a general decline in consumer confidence – the FNB/BER Consumer Confidence Index declined from 11 index points in 11Q2 to -7 in 13Q1.

In a typical business cycle private fixed investment spending replaces consumer spending as the main driver of growth two to three years into the recovery. However, private fixed investment intentions were dealt a severe blow during the third quarter of 2012 due to the deep-seated labour market instability in the mining and Western Cape agricultural sectors. A real danger exists that the 52 per cent increase in the minimum wage in the agricultural sector, as well as the wage settlements in the mining sector, will lead to mechanisation and employment losses in the coming months, adding to the woes in the consumer sector.

The rand exchange rate has depreciated sharply since the middle of 2012 and came under additional pressure recently following the Federal Reserve's announcement regarding the likely tapering of its bond purchase programme later in the year, which caused financial market uncertainty and capital flight from emerging market currencies.

The expectation is that a sustained recovery in the world economy, combined with the more competitive levels of the rand exchange rate will stimulate exports – South Africa's exposure to the faster-growing Asian region in terms of primary commodity exports has grown in recent years and its manufacturing exports are increasingly penetrating rapidly-growing African markets. Furthermore, the government's infrastructure investment drive remains a key growth support and should crowd-in private fixed investment spending. Core inflation is also expected to remain contained (bar an unexpected further sharp currency depreciation), which should keep interest rates at a low level for the foreseeable future (end-2014). Fiscal policy is finely balanced in terms of its counter-cyclical stance necessary to support the lacklustre growth in the economy and the imperative to narrow the budget deficit (measuring 5.7 per cent of GDP in fiscal 2013) over the medium term. In this context the deceleration in real GDP growth is expected to be contained around 2 per cent in 2013 and to recover closer to a trend growth rate next year – see Table 2.2.

Table 2.2 South Africa: BER forecast for selected economic variables: 2013 – 2014 (%)

	Estimate	Projections	
	2012	2013	2014
Final household consumption expenditure	3.5	3.0	3.9
Government consumption expenditure	4.2	3.5	3.6
Gross fixed capital formation	5.7	3.5	5.1
Real GDE	4.1	3.1	4.2
Total exports	0.1	3.5	6.4
Total imports	6.3	4.9	8
Real GDP growth	2.5	2.6	3.5
Total employment growth (formal & informal)	1.2	1.0	1.6
Inflation (annual averages)			
CPI (Headline)	5.6	5.9	5.4
PPI (All items)	6.9	5.5	4.8
Exchange rates (annual averages)			
R/US\$	8.5	8.5	8.5
R/Euro	8.69	8.9	8.5

Source: BER Economic Prospects, April 2013

The **Western Cape economy** grew at a rate of 3 per cent during calendar 2012 compared to the 2.5 per cent real GDP growth rate of the national economy as the region did not experience the impact of the sharp decline in mining output experienced in other regions. However, economic activity was impacted adversely by the unrest in the agricultural sector, which erupted towards the end of the year. Real economic growth in the region decelerated from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. The slowdown was mainly driven by the impact of weaker global economic growth and the recovery in the national consumer sector running out of steam.

Table 2.3 Western Cape economy sectoral growth and employment: 2000 - 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	2.0	8.2	-0.8	-186 297	-48 263	-5 874
Mining and quarrying	-1.4	-7.5	1.1	1 138	872	871
Manufacturing	2.7	-3.3	4.3	-63 932	-27 506	-1 828
Electricity, gas and water	2.8	-1.6	1.2	1 487	-1 370	764
Construction	7.1	5.5	0.7	-14 843	-17 160	735
Wholesale and retail trade, catering and accommodation	4.4	-0.6	4.3	70 280	-4 115	16 461
Transport, storage and communication	5.1	2.0	2.5	6 858	479	6 778
Finance, insurance, real estate & business services	5.8	3.9	2.9	105 169	-18 699	10 452
Community, social and personal services	3.0	1.4	1.3	46 831	9 333	-5 016
General government	2.4	4.2	3.9	71 647	12 189	23 763
Total Western Cape economy	4.1	1.7	3.0	38 338	-94 241	47 107

Source: BER/JP Morgan, June 2013

Achieving inclusive economic growth

The WCG remains committed towards achieving labour-absorbing economic growth in the Province. The following initiatives were, amongst other, announced in the 2013 Provincial Budget aimed at sustaining and expanding the 250 000-plus job opportunities in infrastructure development in the social, economic and environmental sectors in the very successful Expanded Public Works Programme (EPWP):

- R140 million towards road building, education & health infrastructure, neighbourhood security services, Cape Nature, sports training, home-based care for the elderly and the infirm and fire fighters.
- R112 million towards skills training for the unemployed youth, e.g. the creation of 3 000 on-the-job training opportunities with the Work & Skills programme; the training of 200 artisans in the Artisan programme and the employment of 100 unemployed post-graduate students in the CAPACITI 1000 programme.
- Finally, the WCG also accommodates paid internships training skilled public servants and runs the Masakh'iSizwe programme offering bursaries to student engineers in the engineering and built environment fields.

Table 2.3 shows the sectoral growth and employment trends in the Western Cape economy. Whereas growth hovered at 4.1 per cent per annum (this compares to 3.6 per cent per annum nationally), it slowed sharply during the recession years (i.e. 2008/09) to 1.7 per cent per annum. The sharp contraction in the manufacturing sector (3.3 per cent per annum and with this sector contributing around 17 per cent of GDP) is notable and – to a lesser extent – that of mining, electricity & water and wholesale & retail. Sustained growth in the agriculture, forestry & fishing sector, construction, transport & communication, finance & business services, CSP services and – importantly – the general government in an attempt at (national) counter-cyclical fiscal policy ensured the continued expansion of the regional economy.

As one would expect, the rate of employment creation deteriorated during the recession years – from trending at 0.6 per cent per annum (i.e. 38 000 net additional jobs, 2000 - 2011), net retrenchments amounted to 2.7 per cent per annum (i.e. around 94 000 net job losses, 2008 - 2009) during the recession. During the economic recovery the rate of employment creation was restored to 1.4 per cent per annum (i.e. around 47 000 net new jobs).

A notable feature of the recovery years (2010/11) is the strong performance of the manufacturing sector (4.3 per cent per annum, actually rising above trend growth at 2.7 per cent per annum). However, this was in large part a rebound from the sharp contraction in 2008/09 and it could not stem the employment losses in the sector – both agriculture and manufacturing reported sustained net job losses during the economic recovery, as well as the CSP services sector. The strongest job growth during the economic recovery occurred in the tertiary sectors, with the general government leading the way and followed by retail, wholesale, catering & accommodation, and finance & business services.

Table 2.4 Western Cape: Growth forecast for real GDP: 2013 – 2017 (%)

Sector	2012e	2013f	2014f	2015f	2016f	2017f	Average annual growth, 2013 - 2017
Agriculture, forestry and fishing	1.7	0.8	2.0	1.7	1.8	2.0	1.7
Mining and quarrying	-5.1	1.3	1.0	0.6	1.0	1.2	1.0
Manufacturing	2.0	2.5	2.7	3.0	3.6	3.3	3.0
Electricity, gas and water	-1.4	2.6	2.9	2.7	3.0	2.8	2.8
Construction	2.6	4.1	4.6	4.6	5.0	5.3	4.7
Wholesale and retail trade, catering and accommodation	4.3	3.3	3.7	3.9	3.8	4.0	3.8
Transport, storage and communication	2.5	3.2	4.1	4.5	4.5	4.8	4.2
Finance, insurance, real estate and business services	3.5	3.5	4.5	4.8	5.1	5.3	4.6
Community, social and personal services	2.0	2.6	2.8	3.0	3.0	3.2	2.9
General government	3.5	2.5	3.0	3.0	3.2	3.0	2.9
Total Western Cape	3.0	3.0	3.7	3.9	4.1	4.2	3.8
Primary sector	1.4	0.8	2.0	1.7	1.8	2.0	1.6
Secondary sector	1.9	2.8	3.1	3.3	3.8	3.7	3.3
Tertiary sector	3.4	3.2	3.9	4.2	4.3	4.5	4.0

Source: Western Cape Government: Provincial Budget Review, February 2013 (e = estimate; f = forecast)

Regarding the outlook for real economic growth in the region (see Table 2.4), the weakness in the global economy, the second-quarter financial volatility, brittle business and consumer confidence and the slowdown in the (national) consumer sector are likely to continue to weigh on the provincial economic performance during calendar 2013. Real GDP growth is forecast at a similar rate compared to 2012 (i.e. 3 per cent per annum) and projected to accelerate thereafter, with an average real growth rate of 3.8 per cent over the medium term³. During both calendar 2013 and the remainder of the forecast period, the tertiary sector is expected to drive real economic growth in the region, with growth averaging 4 per cent per annum, 2013 - 2017. However, the slowdown in the consumer sector will likely drive somewhat slower growth in the tertiary sector in 2013 compared to 2012, whereas the secondary sector recovery is projected to strengthen from 1.9 per cent average growth in 2012 to 2.8 per cent in 2013 and projected at 3.3 per cent over the medium term.

2.3 The Eden District (ED) economy

In the 2012 MERO report the structure of the ED economy was discussed in detail. The regional economy posted the fastest rate of real economic growth in the Province over the 2000 to 2011 period (5.2 per cent per annum) and is arguably the better balanced regional economy given its diversified nature, with finance, insurance, real estate & business services, manufacturing and retail, wholesale, catering & accommodation contributing close to 60 per cent of real value added. The disproportional large size of the retail, wholesale, catering & accommodation sector (close to 18 per cent) reveals the importance of the tourism sector in the region. The region also has a relatively large government sector and strong construction and transport, storage & communication sectors.

While the region escaped the recession in relatively good shape – according to the revised statistics the real GDP did not even contract in 2009, coming in at 0.2 per cent – one should not under-estimate the relative impact: real GDP growth receded from close to 7 per cent over the 2004 to 2007 period. Furthermore, a concerning aspect is the huge impact on the manufacturing sector, which contracted by no less than 5.5 per cent in calendar 2009. The region shed more than 9 000 jobs (2008/09) across a whole range of sectors and has only managed to restore close to half of these jobs during the ensuing recovery (2010/11). Overall real GDP growth re-accelerated from 0.2 per cent in 2009 to average close to 4 per cent (2010/11); it is estimated to have slowed to 3.7 per cent in 2012.

³ The forecast was compiled with information known up to and including the middle of June 2013; it is possible that growth may be slower during 2012/13 than forecast here.

Table 2.5 Eden District: Sectoral contribution to recovery growth, 2010/11 and employment creation

Sector	Ave real GDPR growth 2010 - 2011	% point contribution	% share	Net employment creation 2010 - 2011
Agriculture, forestry & fishing	1.1	0.1	1.6%	-873
Mining & quarrying	0.2	0.0	0.0%	79
Manufacturing	2.5	0.4	10.5%	-1 142
Electricity, gas & water	0.5	0.0	0.2%	22
Construction	1.6	0.1	3.4%	-74
Wholesale & retail trade, catering & accommodation	6.6	1.1	29.6%	1 827
Transport, storage & communication	3.1	0.2	5.9%	186
Finance, insurance, real estate & business services	4.3	1.0	26.4%	1074
Community, social & personal services	2.7	0.1	3.6%	-667
General government	6.1	0.7	18.8%	3 684
Total District economy	3.9	3.9	100%	4 116

Source: Quantec Research/CER

Table 2.5 shows the sector spread of the recovery growth in the district economy during calendars 2010/11, including net employment creation over the corresponding period. The recovery in the retail, wholesale, catering & accommodation sector (6.6 per cent per annum) explain close to a third of the region-wide growth over this period and hints at a healthy revival in the region's tourism industry. Another supportive factor may have been the government's counter-cyclical fiscal policy as the government accounted for close to 19 per cent of the recovery growth; there are obviously strong linkages between these two sectors. The finance, insurance, real estate & business services sector also made a strong contribution to the recovery, albeit closer in line with its relative size in the regional economy.

Somewhat disappointing is the less than proportionate recovery in the region's manufacturing sector. Before the recession, manufacturing contributed close to 19 per cent of GDPR – this is down to 16.5 per cent in 2011. Within the manufacturing sector, the sharp slowdown in the agro-processing sector (to zero growth in 2008/09) and sharp contractions in the timber and non-metal minerals industries (linked to construction) and – to a lesser extent, the metals and automotive industries – explain the bulk of the contraction.

While some of these sub-sectors rebounded in 2010/11, the overall manufacturing sector only contributed 10.5 per cent to the region-wide recovery growth and net job losses persisted. Contractions in the clothing & textile, the comparatively large petro-chemicals sector and the furniture industry dampened the recovery growth of the manufacturing sector. The relatively weak recovery in the Eden manufacturing sector is also contrary to the provincial tendency where the recovery growth in manufacturing (4.3 per cent) exceeded that for the Province (3 per cent). The manufacturing growth performance is investigated further below.

The region's services sectors – retail, wholesale, catering & accommodation, finance, insurance, real estate & business services and the government – dominated recovery growth and employment creation during 2010/11, accounting for close to three quarters of real economic growth and creating more than 6 000 jobs on a net basis (see Table 2.5). However, given the fiscal constraints and the slowing national consumer sector during the course of 2012 sustainability of the strong growth can become an issue. It is also clear that the erstwhile vibrant construction sector is slow to recover. The sectoral prospects are considered in more detail below and in Chapter 3.

2.3.1 Current profile – growth and employment trends in a provincial context

Table 2.6 shows the composition of the ED economy in the context of the five other districts of the Province. The finance, insurance, real estate & business services sector is the largest in the Eden District (contributing close to one quarter of GDP, 2011); however, it shares this relative size with the other four non-metro districts. Only the Cape Metro financial & business services sector is substantially larger in relative terms (accounting for 36 per cent of the Metro GDP).

The sector, which does stand out, is the tourism-related retail, wholesale, catering & accommodation sector contributing 18 per cent of GDP compared to the average contribution of this sector in the other districts of 13.9 per cent. The vibrant tourism industry also has important linkages with the transport and business services sector.

Table 2.6 Eden District economy in provincial perspective: Sectoral composition: 2011 (%)

Sector	Eden	Cape Metro	Cape Winelands	West Coast	Overberg	Central Karoo
Agriculture, forestry & fishing	5.5	1.4	11.1	14.6	11.6	9.0
Mining & quarrying	0.2	0.1	0.2	0.7	0.1	0.1
Manufacturing	16.5	15.9	24.2	17.7	16.2	11.1
Electricity, gas & water	1.5	1.5	0.9	0.9	1.2	1.1
Construction	8.7	3.9	3.5	4.3	7.7	5.6
Wholesale & retail trade, catering & accommodation	17.9	15.2	13.8	12.8	13.9	13.9
Transport, storage & communication	7.7	10.9	7.3	8.5	7.9	12.2
Finance, insurance, real estate & business services	24.3	36.1	22.9	25.6	27.1	27.4
Community, social & personal services	5.3	5.1	5.8	4.1	4.2	6.5
General government	12.4	9.8	10.2	10.7	10.2	13.1
Total District economy	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research/CER

The receding share of the manufacturing sector was noted; however, even at 16.5 per cent of GDP it is of similar relative size compared to that in the other districts, excluding the Cape Winelands manufacturing sector, which contributes more than 24 per cent of GDP. It should also be pointed out that the agro-processing sector is a large manufacturing sub-sector and combined with agriculture, forestry & fishing

contributes more than 10 per cent of GDP. The region is also known for its large timber industry (part of the former-mentioned broad sector).

Table 2.7 Eden District economy in provincial perspective: Real GDP growth: 2000 – 2011 (%)

Sector	Eden	Cape Metro	Cape Winelands	West Coast	Overberg	Central Karoo
Agriculture, forestry & fishing	1.1	10.0	0.3	-0.4	-0.7	-1.2
Mining & quarrying	-4.1	-0.8	2.1	-4.0	0.1	15.8
Manufacturing	4.1	2.3	2.4	1.2	6.7	9.7
Electricity, gas & water	0.6	3.4	2.1	-2.2	1.1	-0.3
Construction	10.3	6.5	7.2	6.6	9.0	9.3
Wholesale & retail trade, catering & accommodation	5.5	4.1	5.4	3.8	3.6	3.1
Transport, storage & communication	5.5	5.0	6.8	4.5	6.3	2.0
Finance, insurance, real estate & business services	7.1	5.5	7.1	10.6	11.0	7.9
Community, social & personal services	5.0	2.8	3.8	2.9	3.6	2.6
General government	4.5	1.9	3.3	2.4	3.3	2.4
Total District economy	5.2	4.1	3.9	3.3	5.2	4.0

Source: Quantec Research/CER

Other sizeable sectors include the government (slightly larger in relative terms compared to the other districts) and construction, which is noticeably larger in relative terms compared to the other districts (accounting for 8.7 per cent of GDP). In all, these sectoral contributions attest to the fact that the Eden regional economy is a well-diversified economy. The shrinkage of the manufacturing sector is a concern though and this aspect is highlighted in the region's trade performance under review in Chapter 3.

Regarding the growth of the district economy during the 2000s (Table 2.7) it is clear that the Eden and Overberg districts were the fastest growing regions of the Western Cape. The fastest growing sector was construction (10.3 per cent per annum); however, it is likely that some over-investment occurred given the slump in growth after 2009. This sector has been slow to recover, but there appears to be encouraging signs of a recovery shaping up (see George Municipal survey, April 2013).

The second fastest growing sector was financial & business services (7.1 per cent per annum) mirroring the sectoral pattern throughout the Western Cape Province. Apart from the agricultural, forestry & fishing sector, the (very small) mining sector and electricity & water, all the other sectors posted robust real growth of between 4 and 5.5 per cent per annum, again revealing the well-balanced nature of the regional economy. While the agriculture, forestry & fishing sector posted modest average growth, it was the fastest expanding regional agricultural sector (excluding the Cape Metro).

Table 2.8 shows that the ED economy recovered nicely during calendars 2010/11, with real growth accelerating to a 4 per cent pace approaching the trend growth rate over the 2000s. However, this growth was not sustainable as it slowed again in 2012. The region does not have a strong export sector, which shielded it against the

global recession impact in 2009 (bar manufacturing); however, it also does not have a good counter currently in the weak exchange rate environment and the slowing domestic market.

Table 2.8 Eden District GDPR and employment trends: 2000 – 2011

Sector	Real GDPR growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	1.1	6.8	1.1	-25 430	-6 314	-873
Mining and quarrying	-4.1	-4.2	0.2	-27	108	79
Manufacturing	4.1	-1.9	2.5	-3 113	-1 878	-1 142
Electricity, gas and water	0.6	-3.6	0.5	33	-93	22
Construction	10.3	9.2	1.6	3 589	-2 332	-74
Wholesale and retail trade, catering and accommodation	5.5	0.0	6.6	9 645	-1 106	1 827
Transport, storage and communication	5.5	1.8	3.1	558	-61	186
Finance, insurance, real estate & business services	7.1	5.5	4.3	9 202	-1 055	1 074
Community, social and personal services	5.0	3.4	2.7	7 422	1 548	-667
General government	4.5	6.1	6.1	11 311	1 993	3 684
Total Eden District	5.2	3.0	3.9	13 190	-9 189	4 116

Source: Quantec Research/CER

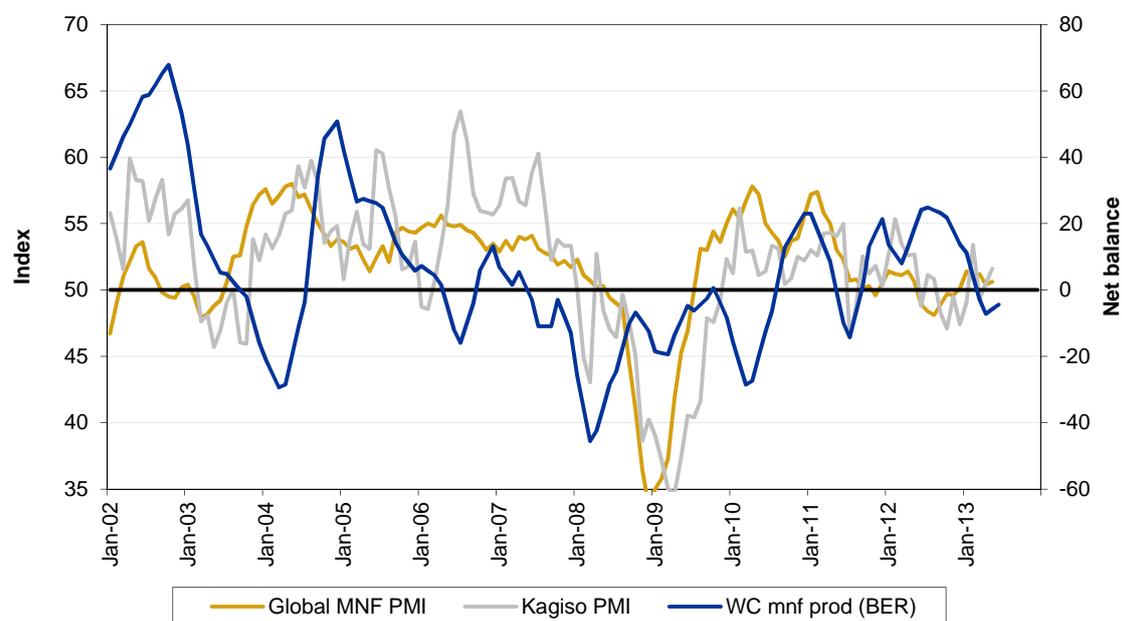
While the Eden District economy managed to create jobs on a net basis over the period 2000 to 2011 (13 200 jobs, or 0.7 per cent per annum), the recovery in job growth has been lukewarm during calendars 2010/11 (4 100 jobs). The net job growth in the region's services industries was stronger and accounted almost exclusively for all net employment creation in the district over this period⁴.

2.3.2 Macro implications and district economic outlook

The ED economy is estimated to have slowed down from real GDPR growth of 4.2 per cent in 2011 to 3.7 per cent in 2012 in line with the slowdown in the provincial (from 3.5 to 3 per cent) and the national economies (from 3.1 to 2.5 per cent). The drivers of the slowdown has been the local consumer recovery running out of steam (due to sluggish employment growth, lower wage growth, higher energy and food costs, declining consumer confidence and stricter credit standards limiting credit spending) as well as some adverse impact on exports related to the global slowdown in economic activity. Furthermore, private fixed investment spending has been weak due to the impact of uncertainty (at the global level and, domestically, regarding economic policy and the general political climate) and slowing domestic demand. The weak tendency in private fixed investment spending is countered by the public sector infrastructure investment drive.

⁴ It is possible that some of the net job losses reported in the primary & secondary sectors reflect a statistical error on the part of Statistics SA that classify employment via labour brokers as employment in the 'other business services' sector, which then overstates the actual employment creation in the broader finance & business services sector.

Figure 2.3 Global PMI vs Kagiso PMI vs Western Cape manufacturing production (BER survey)



Source: BER/JP Morgan, June 2013

Unfortunately, the Eden District does currently not benefit much from the public sector fixed investment drive. The construction industry has gone into a slump after the 2009 recession, with real value added growth averaging a mere 1.6 per cent per annum (2010/11, from trending at double digit rates over the period 2000 to 2008).

The recovery growth in the district since 2010 has been faster compared to that of the Province and it would appear that the region has embarked on an upswing phase of the business cycle in synch with the provincial and national economies – see Figure 2.1 tracking the composite global PMI, the Kagiso PMI (revealing manufacturing business conditions domestically) and the trajectory of manufacturing production in the wider province. There is a broad correspondence between the global, the national and the regional business cycle as depicted in Figure 2.1, albeit evident that the improvement in economic activity has followed a hesitant pattern since the end of 2010.

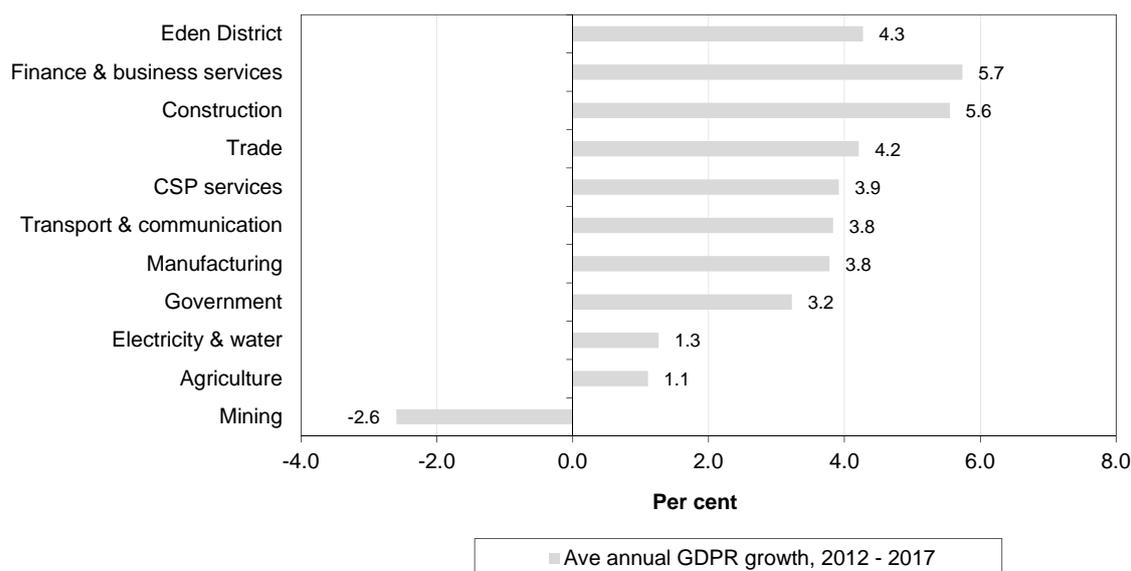
ED real GDP growth is projected to come in at 3.7 per cent this year (in line with the growth performance estimated for 2012). Next year, growth is forecast to accelerate to 4.3 per cent and to average 4.7 per cent per annum, 2015 - 2017 (see footnote 3). The projected sectoral growth pattern is shown in Figure 2.4. The domestic market is likely to be under continued pressure in 2013 in view of the consumer sector slowdown. The Eden economy is almost exclusively exposed to domestic market developments, apart from its agriculture, forestry & fishing, agro-processing and other manufacturing exports and tourism-related services exports.

The finance, insurance, real estate & business services sector is forecast to grow by 5.7 per cent per annum on average over the forecast period, i.e. up from the 4.3 per cent per annum registered during 2010/11 but substantially slower compared to the 8.3 per cent per annum during the previous expansion phase of the business cycle.

Construction is also projected to revive in the outer years of the forecast horizon given the known vibrancy of this sector in the region and the planned infrastructure developments (see Chapter 3). Furthermore, the retail, wholesale, real estate, catering & accommodation sector is forecast to maintain its strong position in the region once conditions recover in the domestic market.

The manufacturing sector is also projected to improve from its current rather tepid growth rate; however, may not reach the trend growth rate over the 2000s. Special policy efforts may be required to remove the constraints and blockages facing this sector in the region; the focus also needs to shift to rapidly growing export markets. The weaker rand exchange rate, particularly versus other emerging market economies makes the search for alternative markets more lucrative; it also provides some relief to import-competing manufacturers. The agricultural sector is projected to sustain its 1 per cent odd growth tempo. *Overall ED real GDP growth is forecast to average 4.3 per cent per annum, well ahead of the provincial average of 3.7 per cent per annum.* The sectoral forecast is motivated in more detail in Chapter 3.

Figure 2.4 Eden District economy: Forecast real GDP growth by broad sector: 2012 - 2017



Source: Quantec Research/CER

2.4 Concluding remarks

Eden possesses a well-balanced regional economy also being – together with the Overberg – the fastest growing region in the wider province. More than 60 per cent of economic output is generated in the finance, insurance, real estate & business services, manufacturing and retail, wholesale, catering & accommodation sectors, with the disproportional size of the latter reflecting the importance of tourism in the region. Construction, the general government and transport & communication are also well-represented in the region's economy, which is almost exclusively directed at the local market (apart from tourism and some agro-processing and other manufacturing exports).

Therefore producers in the region are likely to remain under pressure over the short term given the consumer sector slowdown nationally and the weak private investment prospects. The consumer sector is under pressure due to sluggish economic growth and employment creation, deteriorating confidence and the impact of higher energy and food prices on consumer budgets. The national government also has to tighten the growth of real expenditure in order to generate a better budget balance, which may impact on local government. Public sector infrastructure spending could in the interim be a key countervailing source of economic growth and employment creation. Inward price-sensitive international tourism will also benefit from the weaker level of the rand exchange rate.

This outlook is for a stabilisation of the global economic slowdown experienced last year and a gradual re-acceleration towards the end of 2013 and during next year. The domestic consumer slowdown is also expected to be of a temporary nature, with interest rates remaining low, the stimulus from infrastructure investment (crowding-in private fixed investment) adding to income growth and exporters and import-competing producers benefiting from the more competitive level of the exchange rate. While significant risks prevail (both on the global and domestic economic front), the Eden economy is projected to remain embarked on a recovery road.

3

Sectoral growth, employment and skills

This chapter deepens the analysis presented in Chapter 2 of the sectoral economic growth and employment performance of the Eden District (ED) economy. The current chapter is divided into two sections: in the first main section, the focus is historical:

- *Firstly*, the real GDP and employment creation performances over the period 2000 to 2011 are analysed. An overview is provided of the municipal growth record by way of background. As a sector's output expands one would expect a commensurate increase in the number of employees active in the sector. However, due to various reasons this may not happen (e.g. due to mechanisation trends in the underlying production technologies; distortions in relative factor prices; or due to the skills intensity of production, etc.). An attempt is made to classify all of the 22 sub-sectors in the ED economy into four groups in order to determine which sectors have grown the strongest and are the leading employment generators.
- *Secondly*, a standard analysis follows of the recovery growth experienced across sectors since the onset of the business cycle upswing after the 2009 recession. The analysis is conducted for the agricultural sector, manufacturing and services sectors.
- *Thirdly*, the international trade performance of the district is investigated.

In the second main section the focus turns forward-looking: first a brief sectoral outlook and forecast is presented (linking with the outlook outlined in Chapter 2). Thereafter a number of local issues come under the spotlight, e.g. an analysis of the comparative advantage of sub-sectors in the ED economy; a look at key constraints and bottlenecks facing the district; what is known regarding skills shortages in the region and, finally, some tentative remarks regarding policy options aimed at the further development of the region.

3.1 Sector growth and employment: historical

In Chapter 2 it was seen that the ED real economic growth came in the most rapid in the Province over the 2000 to 2011 period (5.2 per cent per annum) whilst also creating jobs on balance (at a rate of 0.7 per cent per annum). The ED economy has a balanced sectoral make-up (a growing agricultural sector; a strong manufacturing base and a strong all-round and leading services sector, including a vibrant tourism industry) and with a healthy geographical distribution of economic activity (with Mossel Bay leading the growth charge, and with George, Knysna, Bitou and – to a lesser extent Kannaland and Oudtshoorn – all putting in strong growth performances).

The region's vibrant services sector shielded it from the impact of the 2009 recession (GDP did not contract); however, the relative impact was substantial, employment losses occurred and the region's manufacturing sector did take a huge hit of which it appears not to have recovered fully. The construction sector is also beginning to recover again following the slump in its growth rate after 2008. The recession caused a serious impact on employment, with annual job losses amounting to an estimated 9 000 during 2008/09, and the ensuing economic recovery in the region has not restored these employment opportunities. The revival of the manufacturing sector has been somewhat disappointing. This section of the report explores the geographical spread of the growth and employment creation performance of the ED economy, 2000 to 2011.

Table 3.1 Eden District economy: Municipal growth across sectors: 2000 – 2011 (%)

Sector	Kannaland	Hessequa	Mossel Bay	George	Oudtshoorn	Bitou	Knysna	Eden
Agriculture, forestry and fishing	0.8	-2.0	4.8	0.6	0.3	5.9	6.9	1.1
Mining and quarrying	-	-6.2	-15.2	6.6	4.9	-0.2	12.0	-4.1
Manufacturing	7.2	3.1	5.3	2.4	3.7	8.0	3.1	4.1
Electricity, gas and water	2.4	-2.4	8.5	-3.5	-0.4	2.3	6.7	0.6
Construction	14.8	3.1	13.9	9.8	9.2	10.8	9.8	10.3
Wholesale and retail trade, catering and accommodation	5.3	-1.3	9.3	3.2	2.2	11.7	7.2	5.5
Transport, storage and communication	5.9	2.2	3.8	7.5	5.9	2.3	3.0	5.5
Finance, insurance, real estate and business services	10.4	5.7	8.9	5.4	6.5	8.8	7.3	7.1
Community, social and personal services	5.0	2.7	8.4	4.1	3.5	5.1	5.1	5.0
General government	4.2	2.5	8.6	3.7	3.1	4.3	4.7	4.5
Total	5.5	1.3	7.6	4.2	3.8	8.4	6.1	5.2

Source: Quantec Research

Table 3.2 Eden District economy: Sectoral composition by municipality: 2011 (%)

Sector	Kannaland	Hessequa	Mossel Bay	George	Oudtshoorn	Bitou	Knysna	Eden
Agriculture, forestry and fishing	19.8	15.7	3.2	3.0	6.2	4.5	4.2	6.0
Mining and quarrying	0.0	0.2	0.1	0.2	0.1	0.1	0.2	0.2
Manufacturing	21.3	16.5	22.1	13.9	16.0	13.6	13.0	18.0
Electricity, gas and water	1.5	1.4	1.9	1.6	1.0	0.9	1.4	1.8
Construction	6.2	7.9	9.3	8.2	5.7	11.3	11.8	8.1
Wholesale and retail trade, catering and accommodation	9.9	14.2	16.6	16.4	13.9	32.8	23.0	17.7
Transport, storage and communication	2.0	7.8	4.2	12.9	7.9	4.3	6.6	7.9
Finance, insurance, real estate and business services	24.7	19.0	26.6	25.1	19.1	23.6	25.2	23.4
Community, social and personal services	3.8	5.7	5.0	5.4	6.0	4.5	6.5	5.4
General government	10.8	11.6	11.0	13.3	24.2	4.6	8.1	11.5
Total	100.0							

Source: Quantec Research

Table 3.1 shows the average real GDP growth rates across the seven municipalities in the Eden District over the 2000 to 2011 period. While the George Municipality is the largest in the region (accounting for 30 per cent of GDP), the Mossel Bay, Knysna and Bitou municipalities are rapidly catching up posting real growth rates of 7.6 per cent, 6.1 per cent and 8.4 per cent per annum respectively (compared to 4.2 per cent in George).

In fact, considering both the size and the rate of growth, the Mossel Bay municipal economy delivered the leading contribution. Its services sector was more successful in creating employment and its manufacturing sector more successful in retaining jobs – the Mossel Bay economy accounted for close to 40 per cent of the services employment creation in the region (George for 19 per cent), whilst the George municipal economy accounted for more than 60 per cent of the net job losses in manufacturing (Mossel Bay for only 12 per cent) over the 2000 to 2011 period. The Mossel Bay municipal economy hosts the largest manufacturing sector, accounting for 35 per cent of manufacturing in the Eden District. Manufacturing activity also accounts for 22 per cent of Mossel Bay's real GDP, i.e. the largest relative contribution by manufacturing compared to the other district economies in the Eden region.

Therefore, the star performing municipal economy appears to be Mossel Bay; however, it is well supported by the steady expansion of the large George municipal economy (also described as the 'services hub' of the Eden District) and the vibrant all-round growth performances of the Knysna and Bitou economies, as well as the Oudtshoorn and Kannaland economies. The growth of the latter two mentioned municipal economies is somewhat constrained by their slow expanding agricultural sectors. This is also true for the lagging Hessequa region, albeit that most sub-sectors in this region appear to be struggling – overall real GDP growth came in at 1.3 per cent per annum, 2000 - 2011.

This is by way of background regarding the ED's municipal growth performance over the 2000s tracked over the nine broad sectors. The missing variable is employment creation. While data reliability tends to be a challenge, the employment creation track record across 22 sub-sectors is investigated below in an attempt to identify the leading employment-creating sectors in the ED.

3.1.1 Leading employment - creating growth sectors

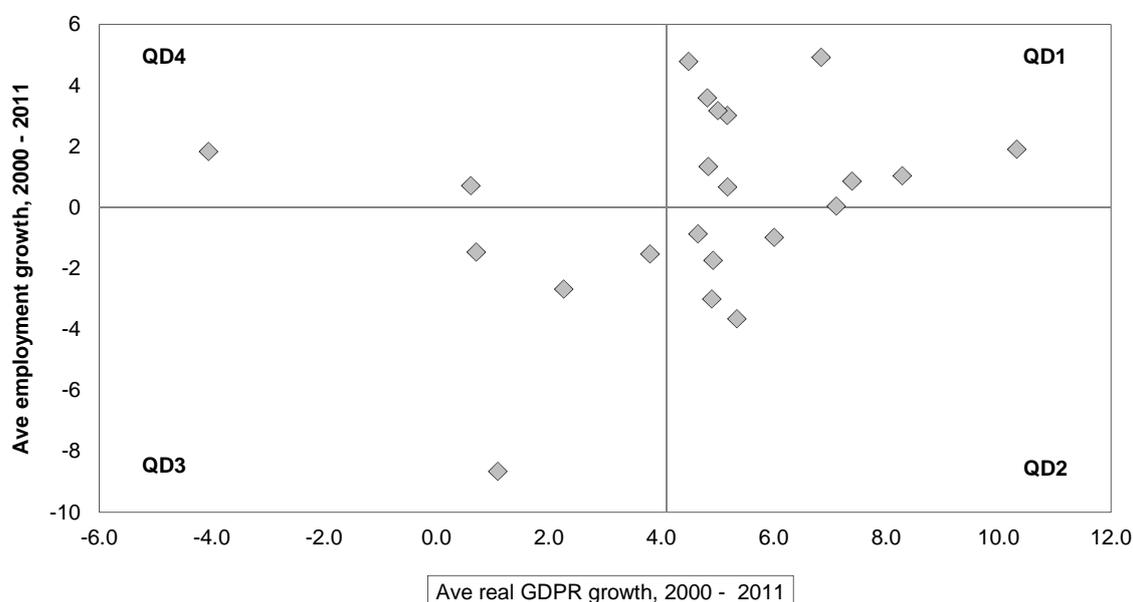
The Western Cape Government (WCG) is committed to achieve inclusive economic growth in the Province as embodied in PSO1 (Provincial Strategic Objective 1). With inclusive economic growth is meant economic growth on the basis of employment generation, i.e. inclusivity should be strived for by maximising opportunities for employment in the economic growth process. In this way, economic growth can be 'broadened' (i.e. the benefits of growth be spread wider) in a way that the productive contributions of each and every one are also broadened (rather than simply redistributing the benefits of growth via transfer schemes). The 2012 MERO study highlighted the fact that the growth path deviated from the employment creation path over the period 2000 to 2010, particularly in the primary and secondary sectors, not only in the ED, but also in the other districts. In fact, this tends to be a national and a global phenomenon.

In the current section, some cursory investigation is made of the real economic growth and employment creation trends in the ED over the period 2000 to 2011. In Figure 3.1 a scatter plot is made of the combination of each (of the 22) sectors' growth and employment performance over the said period: the 11-year average real value added growth rate is plotted on the horizontal axis and the 11-year average employment growth rate on the vertical axis. On this basis, Figure 3.1 and the accompanying table, show four quadrants/groups of sub-sectors:

1. QD1 depicts the sub-sectors that *grew above the provincial average (i.e. more than 4.1 per cent per annum, 2000 - 2011) and created jobs on balance*. Included is an impressive list of eleven sub-sectors demonstrating the well-balanced growth in the Eden District, ranging from sub-sectors doing well on the employment creation front, e.g. business services (growing net jobs by 4.9 per cent per annum), the government (4.8 per cent), petrochemicals (3.6 per cent), community, social & personal services (3.2 per cent) and retail, wholesale, catering & accommodation (3 per cent) to those that more or less managed to simply maintain their workforces over the 2000 to 2011 period, e.g. catering & accommodation (0.9 per cent per annum), metals & machinery (0.7 per cent) and communication (zero per cent).
2. QD2 depicts the sub-sectors that *grew above average but shed jobs on balance* over the corresponding period. This is an unexpected growth pattern and needs to be unpacked. Sub-sectors included here are clothing & textiles (shedding jobs at an annual rate of 3.6 per cent); radio & TV equipment (3 per cent); food & beverages (1.7 per cent); automotive (1 per cent) and electrical machinery (0.9 per cent).

3. QD3 depicts the sub-sectors that *grew below average and shed jobs on balance* over the period 2000 to 2011. The leading job-shedder has been the agricultural sector (8.7 per cent per annum), with the sector also expanding at a low rate of 1.1 per cent per annum. However, it should be borne in mind that this expansion is positive in a provincial context. Of greater concern, may be, are the net job losses and poor growth of the key timber and furniture industries (both shedding jobs at a rate of 1.5 per cent per annum) in the region. The non-metal minerals industry also shed jobs on balance despite the notable boom in the construction sector over the 2000 to 2008 period⁵.
4. QD4 depicts the sub-sectors that *grew below average; however, succeeded in creating jobs* over the period. Included here are mining (1.8 per cent per annum) and electricity & water (0.7 per cent).

Figure 3.1 Eden District: Classification of sub-sectors: Growth and employment creation: 2000 – 2011



QD1: Above ave growth/ job creation	QD2: Above ave growth/ job losses	QD3: Below ave growth/ job losses	QD4: Below ave growth/ job creation
Business services (4.9)	Electrical machinery (-0.9)	Furniture & other (-1.5)	Mining (1.8)
Government (4.8)	Automotive (-1.0)	Wood & paper (-1.5)	Electricity & water (0.7)
Petroleum & chemicals (3.6)	Food & beverages (-1.7)	NMM (-2.7)	
CSP services (3.2)	Radio & TV (-3.0)	Agriculture (-8.7)	
Retail & wholesale (3.0)	Clothing & textiles (-3.6)		
Construction (1.9)			
Transport & storage (1.3)			
Finance (1.0)			
Catering & accommodation (0.9)			
Metals & machinery (0.7)			
Communication (0.0)			

Note: Average annual growth in employment, 2000 - 2011, indicated in parenthesis.

Source: Quantec Research/CER

⁵ The sub-par growth of the building materials industry and the accompanying heavy job losses is very surprising given the boom experienced in the Eden district construction sector. Closer inspection reveals a heavy recession impact; however, the construction demand in the region was probably not well-supplied by local producers.

An interesting aspect of the Eden economic performance is that a number of secondary industries are included in the fast-growing/employment-creating group of sub-sectors, e.g. petro-chemicals, construction and metals & machinery. Beyond these sectors, the whole range of services sub-sectors, ranging from finance & business services and the government to community, social & personal services, retail, wholesale, catering & accommodation and communication, is included in this group. The job losses were concentrated in the agricultural and remaining secondary sectors of the regional economy.

On face value the evidence tends to suggest that the services sub-sectors need support as they contain the growing and job-creating industries, whilst the agriculture and manufacturing sub-sectors appear to be the sunset industries responsible for job losses and should be allowed to languish. This would be an incorrect conclusion – the reality is much more nuanced.

In striving for inclusive economic growth, it is not only necessary to establish which sectors are growing fastest and creating the most jobs, because in economics it is also an issue of supply. It is a well-known fact that the supply of labour is predominantly semi- and unskilled, i.e. workers absorbed much easier in the primary and secondary sectors of the economy. It is therefore necessary to unpack the sub-par growth in the manufacturing sub-sectors (e.g. the timber and furniture) and the reasons behind the high rates of retrenchment; also of course in the agricultural sector.

Economic development typically progresses from the primary to the secondary sector of the economy, with services being a 'derived' sector supporting the growth in the former. The ultimate objective of economic development is to move up the value chain in production, e.g. the productivity of manufacturing production, which typically reaps the economies of scale production, are much higher than for other industries. It follows that, in terms of policy intervention, an economy needs to be structured in a way that maximises the growth (and employment creation) of the productive sectors of the economy.

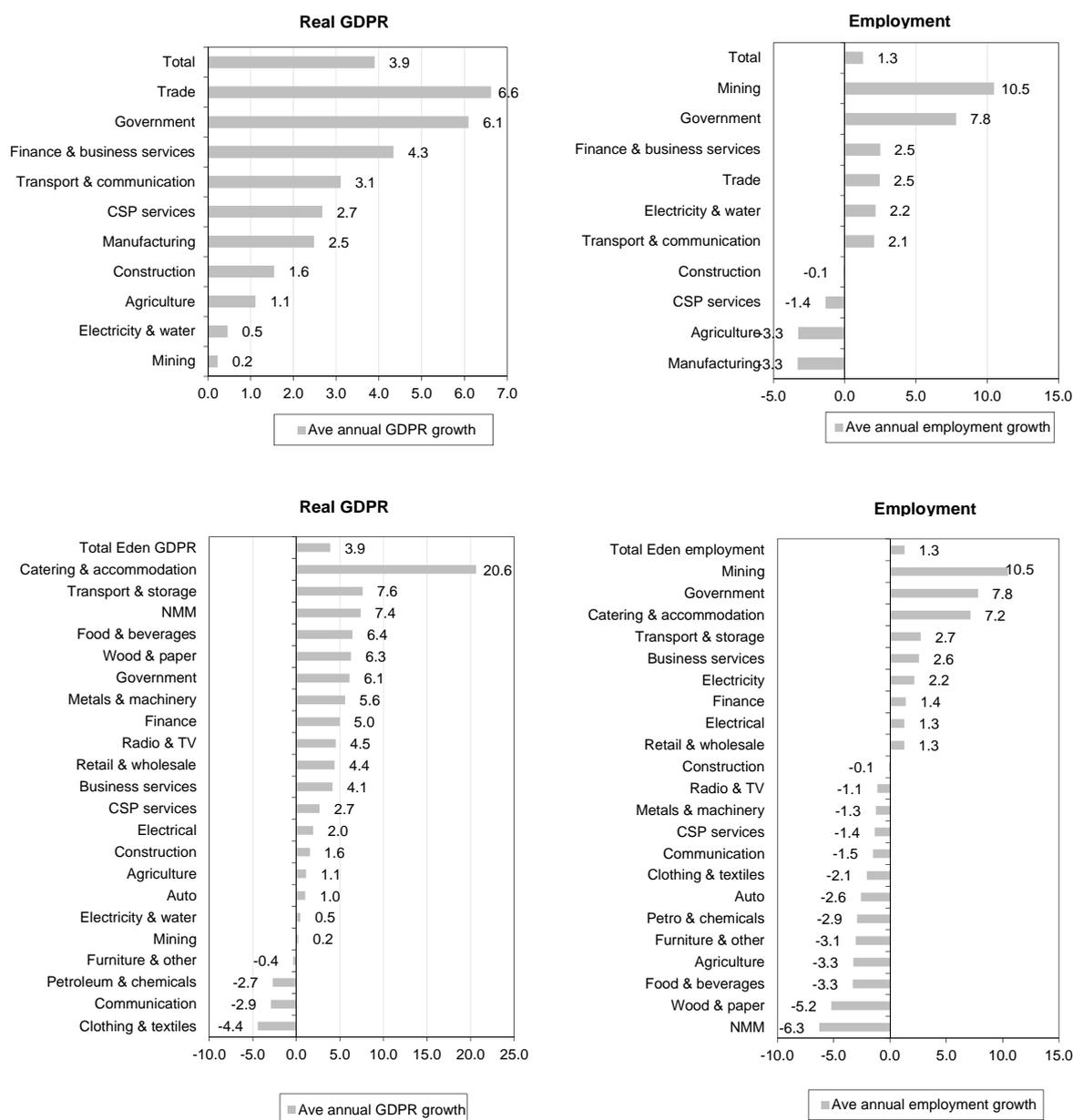
In the Eden District, the agriculture, manufacturing & construction sectors contribute around one third of economic output, for instance (see Table 3.2), and they tend to be semi- and unskilled labour intensive where the surplus labour supply resides. However, some of these sub-sectors are under pressure in terms of growth and employment creation. Should this tendency not be kerbed the vibrant growth in the services industries will also become compromised in time. On the basis of the current evidence, the growth of the petro-chemicals, metals & machinery and construction sectors need to be supported as these are important employment generating secondary sectors.

In the second main section of this chapter of the report a cursory analysis is made of the comparative advantage of the regional economy and in chapter five the food and the petro-chemical value chains, both key manufacturing areas of the regional economy, come under the spotlight. The results from these analyses should be combined with the above in order to arrive at some assessment of which sub-

sectors/industries warrant official support with the objective of inclusive economic growth in mind.

Before we turn to these analyses, a brief overview is provided of the sectoral growth performances during the economic recovery (2010/11) as well as a re-cap of the agriculture, manufacturing and services broad sectoral growth trends by municipality in the Eden District.

Figure 3.2 Eden District: Sectoral real GDP growth and employment growth: 2010 - 2011 (% per annum)



Source: Quantec Research

3.1.2 Agriculture, manufacturing and services

In calendar 2011, the ED agriculture, forestry & fishing sector contributed 5.5 per cent of GDP, manufacturing 16.5 per cent and services slightly more than 67 per cent. In terms of employment, the agriculture, forestry & fishing sector employed 7.6 per cent of the workforce, manufacturing close to 10 per cent and the services sector 70 per cent.

As discussed in Chapter 2, the regional economy suffered a relatively serious recessionary impact in 2009 (with growth decelerating from above seven per cent to 0.2 per cent in 2009); however, stopped short of contracting due to the sustained growth of the leading and less cyclical services sector. Close to six per cent (or 10 000) of the Eden workforce employed in 2007 lost their jobs during the recession and only half of these jobs were restored by 2011, i.e. two years into the economic recovery. Figure 3.2 depicts the sectoral growth and employment performances during the first two calendar years of the general economic recovery, both at broad sector level and a more disaggregated sector level.

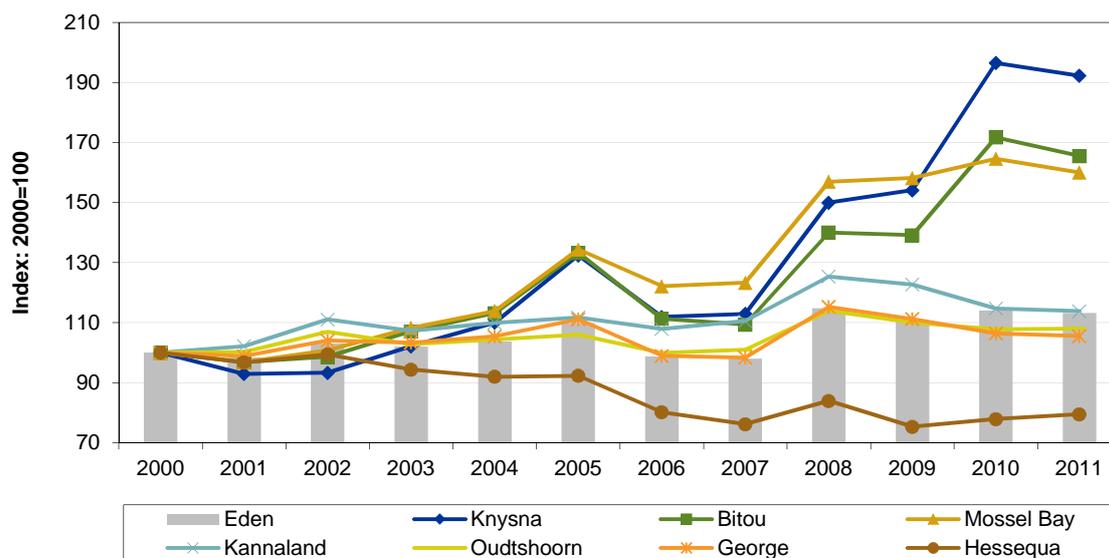
A first observation is that the regional economy re-accelerated nicely in the wake of the recessionary impact, with real GDP growth picking up from 0.2 per cent in 2009 to 3.6 per cent in 2010 and 4.2 per cent in 2011, i.e. averaging close to 4 per cent per annum, 2010/11. While net job losses continued to occur in 2010, this adverse trend was reversed in 2011 and by the end of that year almost half of the net job losses were recovered. Economic growth did slow down during 2012 in line with the provincial and national economies but is still estimated at 3.7 per cent. The regional economy is embarked on a general economic recovery, which may continue to experience obstacles in calendar 2013 (slow world economy and domestic consumer sector slowdown), however, will hopefully strengthen beyond (see the economic outlook below).

A second observation is that the revival of the region's economic activity appears to be led by the retail, wholesale, catering & accommodation sector, with particularly the catering & accommodation sector putting in a healthy growth performance in 2010/11. This suggests a strong contribution by the tourism industry to the economic recovery in the region. Real growth of the broader sector averaged 6.6 per cent, i.e. the strongest performance across the nine main sectors in the ED economy. Linked to the recovery in this sector is an equally strong growth performance by the government sector (6.1 per cent, including strong growth in public sector employment) tied to counter-cyclical fiscal policy.

A third observation is that the other leading services industries in the region, i.e. finance, insurance, real estate & business services, transport, storage & communication and community, social & personal services all contributed to the recovery with these sectors registering decent growth rates. (Only the communications sub-sector contracted). Therefore, including the recovery in the internal trade sectors and the injection from government, the regional recovery is driven by the services sector.

This leads to a fourth observation - the manufacturing sector did rebound somewhat; however, its overall recovery growth (2.5 per cent per annum, 2010/11) is somewhat disappointing particularly in view of the fact that net job losses continued to intensify in the sector. In fact, it is quite concerning that the three leading manufacturing sub-sectors in the recovery, i.e. non-metal minerals, food & beverages and wood products were also the three leading job shedders during calendars 2010/11 (see Figure 3.2 and the manufacturing performance across the municipalities below).

Figure 3.3 Eden District: Growth in agriculture, forestry & fishing by municipality: 2000 - 2011



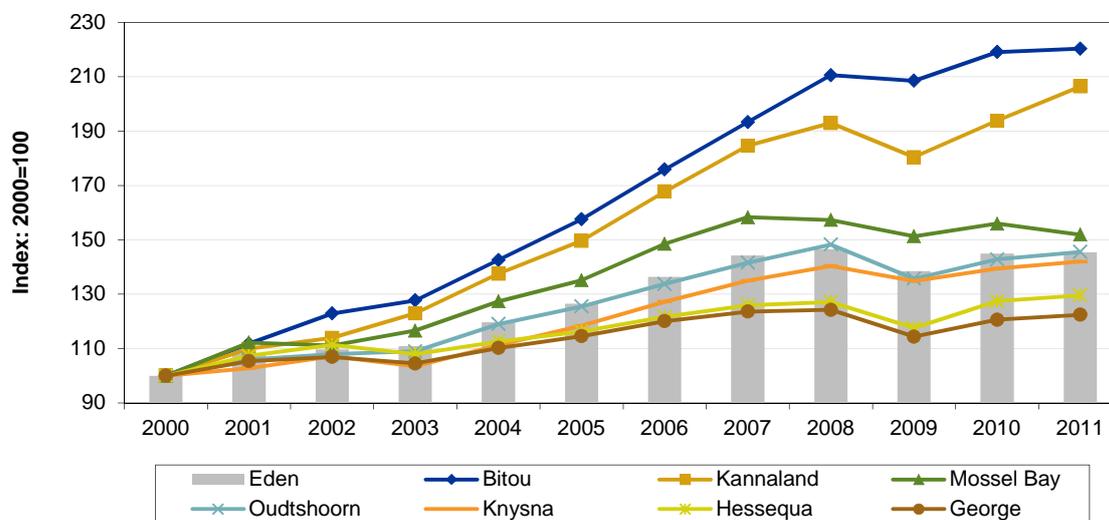
Source: Quantec Research

Figure 3.3 shows the growth trends of the ED agriculture, forestry & fishing sector by municipality. As noted the sustained growth of the broad sector is positive in view of the contractions experienced by a number of other agricultural districts in the Province. An interesting aspect of the sub-regional growth patterns depicted in Figure 3.3 is the fact that strong counter-cyclical growth emanated from the coastal municipal economies, i.e. Knysna, Bitou and Mossel Bay; both the fishing and forestry components of these regional economies' broad agricultural sectors arguably boosted growth. The comparatively larger agricultural regions in the district, i.e. Kannaland and Oudtshoorn grew marginally over the 2000 to 2011 period and Hessequa contracted, albeit that some recovery to positive growth occurred during 2010/11.

In the 2012 MERO study (and the Growth Potential of Towns in the Western Cape study) a number of towns hosting agricultural centres with low developmental potential were identified. Included are Heidelberg and Riversdale (Hessequa); Calitzdorp and Ladismith (Kannaland); Herbertsdale (Mossel Bay); Uniondale (George) and Volmoed (Oudtshoorn). On the other hand, towns with high developmental potential include George, Oudtshoorn and Mossel Bay, as well as Knysna and Plettenberg Bay. While these towns are all regarded as regional centres

which have diversified away from agriculture, they continue to contribute positively to the agriculture, forestry & fishing sector.

Figure 3.4 Eden District: Growth in manufacturing by municipality: 2000 - 2011



Source: Quantec Research

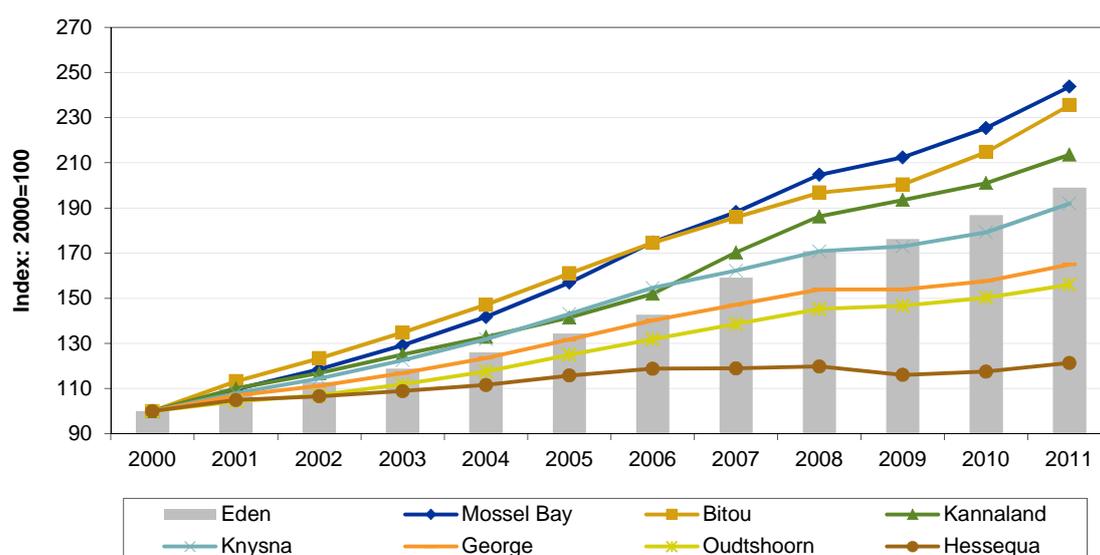
The ED manufacturing sector's overall growth performance over the period 2000 to 2011 (i.e. 4.1 per cent per annum) has been above the provincial average and positive in all the municipal areas (as depicted in Figure 3.4). However, the concerning aspect about the region's manufacturing growth is the largest municipal economy, George's, rather pedestrian growth (2.4 per cent per annum) and – more worryingly – the net job losses occurring in this region's manufacturing sector. More than 60 per cent of all manufacturing jobs lost in the Eden District over the 2000 to 2011 period occurred in the George municipal economy. While this may partly reflect the natural evolution to a services economy, the socio-economic implications of the job losses need to be considered. There is some evidence that displaced workers find employment in the services industries; however, further research is required in this regard.

The strongest manufacturing growth has come from the smallest sub-regional centres, i.e. Bitou and Kannaland, whose manufacturing sectors more than doubled in size over the 2000 to 2011 period (however, still only account for a combined 11.4 per cent of Eden's manufacturing sector). Mossel Bay hosts the largest manufacturing sector (accounting for more 35 per cent of the Eden manufacturing sector); however, its flat growth performance since the onset of the recession is concerning – real value added actually contracted by one per cent per annum, 2008 - 2011 and net job losses occurred over this period. The Oudtshoorn municipal economy also account for a relatively large share of manufacturing job losses over the 2000 to 2011 period (i.e. close to 20 per cent).

Most of the Eden manufacturing job losses over this period occurred during the recession as manufacturing employment remained stable during the years of economic expansion (i.e. 2000 to 2007). The net retrenchments also continued during 2010/11 as the leading sectors in the recovery continued to shed jobs at relatively

high rates (e.g. food & beverages, wood products and non-metal minerals – see above and Figure 3.2). The fact is that while the Eden District economy hosted a vibrant manufacturing industry before the recession (with real value added growth well above the provincial average), the recession had a major impact on the sector, which is also struggling to recover (its recovery growth of 2.5 per cent per annum, 2010/11, compares to 4.3 per cent for the provincial sector). The closure of the McCain food processing plant in George is obviously a major blow to the region (not only in terms of direct job losses, but also due to important backward linkages into vegetable production).

Figure 3.5 Eden District: Growth in the tertiary sector by municipality: 2000 - 2011



Source: Quantec Research

The positive aspect regarding the Eden manufacturing performance is the evidence of sustained vibrancy in smaller industries growing off a lower base. This is countering the haemorrhage taking place in the George manufacturing sector and the failure to recover in the large Mossel Bay manufacturing sector (mainly tied to the PetroSA petro-chemicals plant situated there). Further analysis is done regarding the food value chain and the petro-chemicals value chain in the Eden District in Chapter 5.

The ED economy is characterised by a strong services sector. The services sector real value added growth averaged 3.5 per cent during the years of recession, 2008/09 and re-accelerated to 5 per cent annual growth during the general economic recovery (2010/11). This is significantly faster than the provincial-wide recovery in the services sector (which came in at 3.2 per cent per annum). Over the period 2000 to 2011 services growth averaged 5.8 per cent per annum in the Eden District compared to 4.6 per cent in the Province. The relatively large services sector in the Mossel Bay municipal economy expanded the fastest, with similar strong growth performances in the smaller Bitou and Kannaland services sectors. In Knysna the services sector expanded close to the average for the sector district-wide, while in George and Oudtshoorn it expanded between 4 - 5 per cent per annum (see Figure 3.5).

The Mossel Bay services sector accounted for the strongest employment creation, accounting for no less than 39 per cent of all services sector jobs created in the Eden District over the period 2000 - 2011; the George municipal economy (19 per cent), Knysna (16 per cent) and Bitou (14.4 per cent) accounted for the bulk of the remaining jobs that were created over the corresponding period.

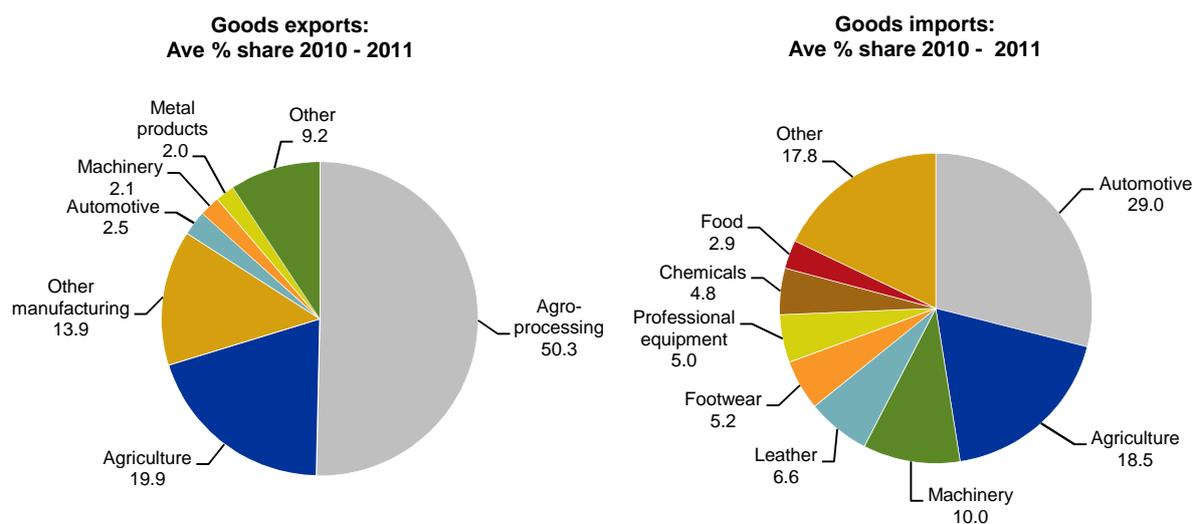
In all, the Eden economy is blessed with sustained growth in its agricultural sector (including strong growth in the coastal sub-regions of Mossel Bay, Knysna and Bitou), a relatively large manufacturing base and more than two third of real value added and employment created in the services sector over the 2000 to 2011 period. The wider economy staged a decent recovery in 2010/11 being driven by the services sector and in particular the retail & catering sub-sectors (reflecting the impact of tourism spending) and also to an important extent responding to the fiscal injection of counter-cyclical public sector spending and employment creation.

On the downside, the manufacturing sector is less than robust, with the larger Mossel Bay manufacturing sector failing to recover in 2010/11 and the equally large George manufacturing sector growing below par and shedding jobs on a significant scale. Furthermore, the leading manufacturing sub-sectors in the general economic recovery, namely food & beverages, wood products and non-metal minerals, continued to shed jobs at a high rate during calendars 2010/11. The Eden construction sector is also recovering very slowly from the impact of the recession following explosive growth over the 2000 to 2008 period.

3.1.3 International trade

Trade promotion remains a cornerstone of the WCG's economic strategy. In order to grow the regional economy external markets have to be explored and when we engage in exports we also have to import. While the definition of exports and imports are problematic at the municipal level, the current section briefly focuses on two aspects of the ED international trade: *firstly*, the composition of goods exports and imports to the rest of the world (basically re-capping the analysis conducted in the 2012 MERO study); and *secondly*, the composition and trend in the regional 'trade balance'⁶.

⁶ It needs to be emphasised that a sub-regional 'trade balance' is conceptually somewhat misleading. Sales by any firm in the region to buyers outside the region should be regarded as exports, i.e. including sales to other districts in the province and other provinces in the country. However, due to data limitations these 'exports' are ignored in the current analysis – only the sale of goods in foreign markets are accounted for; and on the import side, only purchases from foreign countries. The derived 'trade balance' therefore gives some indication of the balance of forex earnings generated in the region.

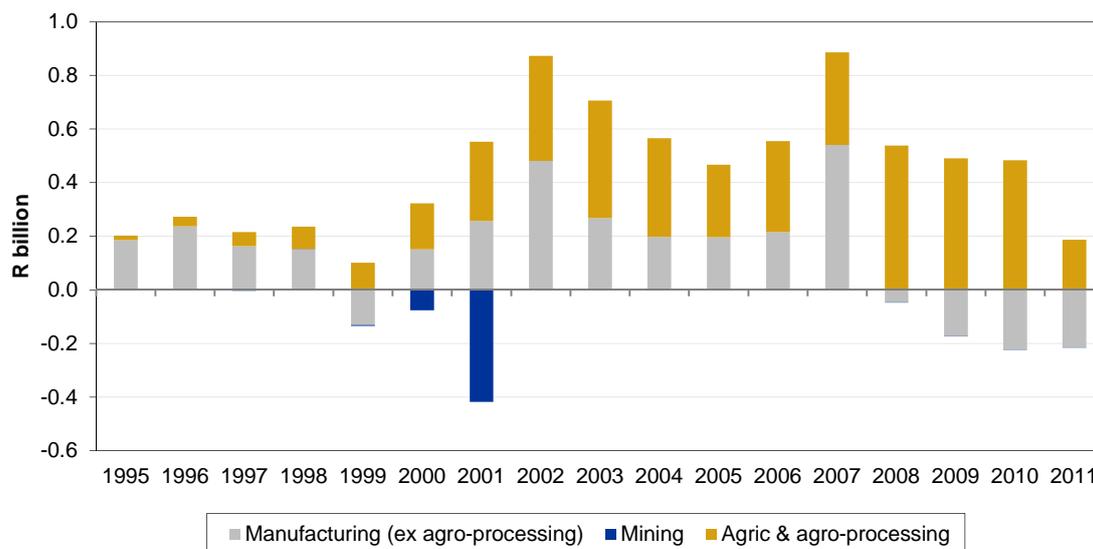
Figure 3.6 Eden District composition of goods trade: 2010 – 2011

Source: Quantec Research

As noted in the 2012 MERO study, the Eden regional economy does not host a strong goods export sector – the value of goods exports (R543 million) measured only 2 per cent of nominal GDP in 2011 (down from 7.1 per cent in 2000). While the Eden economy has strong credentials in terms of being the fastest-growing economy, being well balanced both in terms of geographical spread and sectoral contributions and being a region creating jobs on a net basis over the 2000 to 2011 period, its poor trade contribution should be noted as a weakness. In fact, a worrying tendency is the deteriorating goods trade balance (see below). However, before this aspect comes under the spotlight, a brief recap of the region's import and export baskets is provided (Figure 3.6).

Regarding the region's export basket, more than half of goods exported are produced in the food & beverage agro-processing sectors; a further 20 per cent is produced in the agriculture, forestry & fishing sector and 14 per cent in manufacturing industries not being classified. The only significant manufacturing exports (excluding agro-processing) are produced in the metals & machinery sector, automotive, clothing & textiles and petro-chemical sectors.

On the import side it can be stated that the region also imports a small share of GDP, rarely exceeding 2 per cent during any particular calendar year; goods imports measured R571 million in 2011. The most important item in the import basket is transport equipment (29 per cent) and the second in line agricultural imports (18.5 per cent). Metals & machinery (10 per cent) and – to a lesser extent – leather goods, footwear, professional & scientific equipment, chemicals and processed food are also important imports.

Figure 3.7 Eden District: Goods trade balance (Rbn)

Source: Quantec Research

In Figure 3.7 the ED goods trade balance is depicted, including its composition. In order to link with other analyses contained in the current report, the agriculture and agro-processing exports and imports were combined (i.e. providing some indication of the food value chain exports), whilst obviously at the same time excluding the food & beverage processed exports from the manufacturing category. A number of remarks are in order:

- *Firstly*, calendar 2011 witnessed the first goods trade deficit in a decade in the Eden District economy. The value of Eden exports contracted from R1.2 billion in 2007 to R542 million in 2011. Both food processing exports and other manufactured goods exports contributed to the decline; agricultural exports increased between 2007 and 2011 whilst the import bill remained relatively stable in relation to GDP. The deterioration in the non-food & beverage manufacturing export trade balance between 2007 and 2011 is quite precipitous, i.e. from a surplus of R541 million to a deficit of R215 million in 2011.
- *Secondly*, it would appear as if the agriculture & agro-processing trade balance is also shrinking due to lower export values and increasing import values. The value of exports in the food value chain declined from R627 million in 2008 to R310 million in 2011 while import values increased from R89 million to R124 million over the corresponding period.

The analysis now turns to the sectoral economic outlook for Eden.

3.2 Sectoral economic prospects, 2013 - 2017

In this section of the report, the focus moves to the economic outlook for Eden. Chapter 2 provided the macroeconomic backdrop, which may just briefly be restated here. While the improvement in the global economy remains uneven and loaded with risk, the domestic economic recovery (from the end of 2009) appears to be well-established, albeit exposed to global developments and domestic socio-political headwinds. The recovery growth in the district since 2010 has been faster compared to that of the Province.

In the first section of Chapter 3 an analysis was made of the growth and employment performance of the district across the various sectors and municipal sub-regions, including a brief assessment of the international trade position of the district. This information was applied together with a comprehensive macro-econometric/input-output model forecast of sectoral GDP growth for the Province⁷ and other information pertaining to the district (as discussed below), as well as a comparative advantage analysis in order to derive sector forecasts for the district. The resultant Eden economic outlook is briefly discussed below.

3.2.1 Sectoral outlook/forecast

Table 3.3 summarises the average forecast growth rates across the nine broad sectors of the ED economy⁸; regarding the outlook for the ED economy, the following remarks may be in order:

- The regional economy is very dependent on sales conditions in the rest of the Province and the country as it only exports a small and declining share of goods production to the rest of the world. Producers will, however, find tight selling conditions in the local consumer market over the near term.
- Even the relatively livelier durable goods market (benefiting from low interest rates and competitive pricing in a more lucrative consumer segment) is slowing down. The non-durable goods market is under substantial pressure due to sluggish growth in wage income (in turn, a function of lower nominal wage increases and sluggish employment growth), the impact of higher food, electricity and petrol prices on household budgets and generally lower consumer confidence and therefore willingness to commit income to credit spending. In the unsecured lending market (the main driver of consumer credit growth since the onset of the economic recovery) credit standards are also being tightened, which should impact adversely on the semi-durable goods and furniture & appliances market.
- While the consumer market is slowing down it is not expected to descend into recession, it is rather a temporary easing of the growth momentum (assuming the global economic recovery endures). Interest rates are expected to remain low at

⁷ See WCG: Provincial Economic Review & Outlook (PERO) 2012 and the Provincial Budget Review, 2013.

⁸ It has to be noted that economic information up to the middle of June were incorporated into the forecast; it is possible that growth come in weaker during 2013/14 compared to those presented in Table 3.3.

least until the end of next year, with inflation remaining more or less within the target range. With the rand exchange rate at levels above R9/\$ import competitors should also receive some relieve.

- Employment growth is also expected to pick up somewhat as fixed investment activity accelerates towards the end of 2013. Combined with reduced uncertainties this should in time boost consumer confidence and spending (end-2013/14).
- Retail, wholesale, catering & accommodation real value added is projected to grow by 4.2 per cent per annum, up from an estimated 3.7 per cent in 2013 and faster than the provincial average (3.9 per cent per annum); however, slower compared to the previous expansion (6.6 per cent per annum, 2000 - 2007).
- Regarding export markets, economic conditions are very bad in the region's key trading partner, i.e. the EU. More than 70 per cent of goods exports consist of agriculture and agro-processing exports, which, if exported, are mainly destined for Europe. It should be noted that existing trading links are stable; however, in terms of higher growth new markets in faster growing developing regions need to be explored. With the rand exchange rate having depreciated over the past 12 to 18 months (and more sharply since 2012Q3), the price competitiveness of local exports vis-à-vis other developing countries (whose currencies have tended to appreciate against the US dollar) has improved noticeably and should render the search for alternative growth markets (e.g. African, Latin American and East Asian) a better proposition.
- While it is difficult to project agricultural growth in view of the climatic influences, the projected provincial-wide growth rate (1.7 per cent per annum, 2012 - 2017), the Eden trend growth rate (1.1 per cent per annum) and the (2010/11) recovery growth rate (1.1 per cent per annum) informed the assumption of 1.1 per cent real growth per annum over the medium term. A large-scale agricultural expansion (creating a potential 1 500 new primary employment opportunities) is planned in the George municipal area.
- Manufacturing real value added is projected to grow by 3.8 per cent per annum compared to the 2000 - 2011 trend growth rate of 4.1 per cent per annum, which assumes some acceleration from the rather subdued recovery during 2010/11 (2.5 per cent per annum). George Municipality has identified the need to focus on developing manufacturing competitiveness as a means to absorb more semi- and unskilled labour. The vibrancy detected in some smaller industries in the Bitou and Kannaland municipalities provide reason for optimism in this regard.
- The construction sector appears to have finally turned the corner, following an unusually slow recovery from the 2009 recession. George Municipality reports new private sector (mainly retail shopping space) developments; however, this is combined with large scale municipal projects (mainly housing and public transport related). The national government's Strategic Integrated Projects (SIPs) 11-15 public infrastructure investment initiatives, ranging from agri-logistics and rural infrastructure, the revitalisation of public hospitals and health facilities, the national school build programme and the expansion of communication

technology are all potential sources of construction demand. Construction real value added is projected to increase by 5.6 per cent per annum (compared to the provincial average projected growth rate of 4.4 per cent per annum).

- Linked to these performances, the growth in finance & business services and transport & communication is projected to continue out-performing other sectors, albeit with a narrower margin already evident during the economic recovery years, i.e. 2010/11. The growth rate of financial & business services real value add is projected at 5.7 per cent per annum, which is significantly below the 7 per cent average annual growth rate registered over the 2000s.
- While the government and community, social & personal services sectors will continue to underpin growth and employment creation, the public sector is under tremendous pressure to trim spending in order to drive a narrower overall budget deficit over the medium term. Moderate, albeit firm, growth is expected in these sub-sectors over the medium term. The reduction in the pace of real government expenditure may impact particularly on George Municipality which hosts a proportionately large public sector.

Table 3.3 Eden District: Real GDP growth outlook: 2012 – 2017 (%)

Sector	Trend	Recession	Recovery	Eden District	Western Cape
	2000 – 2011	2008 - 2009	2010 - 2011	2012 - 2017	2012 - 2017
Agriculture, forestry and fishing	1.1	6.8	1.1	1.1	1.7
Mining and quarrying	-4.1	-4.2	0.2	-2.6	0.0
Manufacturing	4.1	-1.9	2.5	3.8	2.8
Electricity, gas and water	0.6	-3.6	0.5	1.3	2.1
Construction	10.3	9.2	1.6	5.6	4.4
Wholesale and retail trade, catering and accommodation	5.5	0.0	6.6	4.2	3.9
Transport, storage and communication	5.5	1.8	3.1	3.8	3.9
Finance, insurance, real estate & business services	7.1	5.5	4.3	5.7	4.5
Community, social and personal services	5.0	3.4	2.7	3.9	2.7
General government	4.5	6.1	6.1	3.2	3.0
Total Eden District	5.2	3.0	3.9	4.3	3.7

Source: Quantec Research/CER

From the analysis above it is apparent that 2013 will be another constrained year. Even a more meaningful recovery anticipated next year and beyond is likely to be constrained. *Firstly*, the slow growth in the advanced economies is likely to be a multi-year affair (also impacting negatively on inward tourism); *secondly*, domestic business and consumer confidence may be slow to recover more convincingly given the likely uncertainty in the run-up to general elections next year – we may have to get beyond the election next year only before attention can fully shift to the economy again. *Overall ED real GDP growth is projected to accelerate from an estimated 3.7 per cent per annum (2012/13) to 4.3 per cent next year and 4.7 per cent per annum (2015 - 2017).*

3.2.2 Local issues – Eden District

The municipalities within the Eden District believe that their economic performance over the next few years will be “better” than before. The reasons include a nascent recovery evident in the construction sector (led by new retail shopping developments and assisted by municipal infrastructure investments as noted in the previous section); planned investments in green energy generation projects; the expansion of agricultural production capacity, etc. Other sources of future growth include, the continued expansion of the timber industries (including potential in the milling sector), wholesale and retail trade, transport, finance & business services, call centres, and increased exports of agricultural and processed goods, including vegetables, berries, dairy products, beverages, spirits and vinegars. The closure of the McCain food processing plant is unfortunately a key setback as this also impacts vegetable producers.

According to the GPTWC (2010) study, Mossel Bay has a “very high” development potential while George, Knysna and Oudtshoorn all have a “high” potential. These municipalities and towns have thriving business and financial services sectors, a high tourist potential, and locational advantages in terms of distances from other leader towns and a scheduled airport.

According to the municipal survey conducted in the district, a number of constraining issues come to the fore:

- It is clear that the more trying consumer environment is also taking its toll on municipal finances as consumer arrears are accumulating. This may continue to be the case over the short term until the broader economy gains more meaningful momentum. The exemplary George Municipality reports that even its high standards of service delivery may come under pressure due to the cycle of declining consumer payments.
- Following the large infrastructure developments which commenced in the late 2000 and the subsequent economic recession, this surplus capacity is holding prices down which makes private investment slow to respond to the current improvement in economic activity.
- The region struggles with serious shortages of skilled technicians (in engineering services and maintenance). Even though training initiatives are launched, it remains difficult to build a skills pool as trainees move to financially more lucrative opportunities outside the region. George Municipality has, however, identified the need to facilitate closer collaboration between skills training providers and employers in the area. This is a very promising initiative which may be replicated in the other municipalities (*see section on skills below*).
- While the need for bulk and other infrastructure development over the coming years is huge, the Public-Private-Partnership process – being regulated by national government – proves to be cumbersome and not working properly.

- Electricity cost is a key constraint on production, however, is a national issue. The development of green energy options is required in order to reduce the dependence on Eskom coal-fired energy in short supply.
- Key initiatives are also underway (and privately-led) to address the communications constraints in the broadband internet access field – the Garden Route IT Consortium.
- Regarding regulatory constraints, efforts are underway (in terms of an evidenced-based approach) to revise informal trading licensing and by-laws in order to streamline informal sector development and support. Evidence shows that the informal economy act as an important safety net and could also provide future stepping stones into the formal economy for individuals and small & micro firms operational in this sector.

Comparative advantage

The next step is to disaggregate some of the above forecasts by estimating the revealed comparative advantages of sectors and industries in the Eden District. The theory of comparative advantage has its origins in the classical economist, David Ricardo's, work in which he tried to explain why it is beneficial for a country to trade and in what goods and services any country should be trading in order to maximise economic welfare gains. Over the years his theory of comparative advantage has evolved and various analytic techniques designed in order to determine revealed comparative advantage, not only at the national level (and in relation to trade), but also at the local/regional level in order to gain some understanding of the sectors of economic activity which should be promoted by way of (industrial) policy intervention.

One such technique involves the calculation of so-called 'location quotients' (LQ), which simply tracks to growth of a sector in relation to that of the region relative to the growth of the same sector at a broader level (e.g. nationally) in relation to the growth of the wider economy (e.g. nationally). Expressed in symbols, the location quotient (LQ) is defined as:

$$LQ = \frac{g_i/g}{G_i/G}$$

Where:

g_i = value added in sector or industry i

g = total value added (i.e. for the region/country)

G_i = reference area value added in sector/region i

G = total value added in the reference area

Relative to some common base year therefore, the location quotient measures the performance of the sector or industry investigated in relation to that of the sector/industry in the reference area. As we currently investigate the sectoral growth performance of the sector at the regional level compared to that of the same sector at the broader (reference) area, the reference area can either be the province or the national economy.

Table 3.4 Revealed comparative advantage of the Eden District economy

	Eden District		South Africa		LQ ratio 2011
	GDPR % share	Ave growth	GDP % share	Ave growth	
	2011	2000 - 2011	2011	2000 - 2011	
Agriculture, forestry and fishing	5.5	1.1	2.4	2.0	2.25
Mining	0.2	-4.1	5.9	0.0	0.03
Food, beverages and tobacco	5.2	4.9	2.9	2.4	1.78
Textiles, clothing and leather goods	0.7	5.3	0.8	2.8	0.92
Wood and paper; publishing and printing	1.5	0.7	1.5	1.4	1.02
Petroleum products, chemicals, rubber and plastic	3.8	4.8	4.3	3.7	0.88
Other non-metal mineral products	0.9	2.3	0.6	1.6	1.53
Metals, metal products, machinery and equipment	1.5	5.2	3.3	3.5	0.46
Electrical machinery and apparatus	0.3	4.7	0.5	3.5	0.63
Radio, TV, instruments, watches and clocks	0.1	4.9	0.3	4.6	0.39
Transport equipment	0.8	6.0	1.7	5.5	0.50
Furniture; other manufacturing	1.6	3.8	1.4	2.4	1.14
Electricity & water	1.5	0.6	2.0	2.0	0.74
Construction	8.7	10.3	3.4	7.3	2.56
Wholesale & retail trade	15.0	5.2	12.9	3.9	1.16
Catering and accommodation	3.0	7.4	1.0	3.5	3.10
Transport & storage	4.9	4.8	5.5	3.7	0.88
Communication	2.8	7.1	4.6	7.4	0.60
Finance and insurance	5.8	8.3	8.4	6.4	0.69
Business services	18.5	6.8	15.3	5.2	1.21
Community, social and personal services	5.3	5.0	6.1	3.1	0.87
General government	12.4	4.5	15.2	2.5	0.81
Total	100.0	5.2	100.0	3.6	1.00

Source: Quantec Research/CER

If we assume that the growth of a particular sector/industry at the regional level is a function of the growth of the national economy, then the national economy magnitudes should be the denominator in the above equation. However, it may also be appropriate to include the Province value added as the reference magnitude. In order to respect the capacity constraints in adopting such an approach, the national economy magnitudes are used in the current exercise also assuming that the growth of the industry at the regional level is an integral function of the national growth performance.

Using the relative shares of sectors for the country as reference areas, the LQ's in Table 3.4 (far right column) provide some indication of the sectors with a revealed comparative advantage being those sectors in respect of which the LQ > 1; in other words, should the regional industry reveal a higher proportion of the regional economic activity compared to the same sector share at the national level, it can be concluded that the region expanded at a faster rate with reference to some base

year compared to the same sector at national level, suggesting '*revealed comparative advantage*'⁹.

Applying this method to the 22 main industry groups of the ED, the results contained in Table 3.4 suggest the following sectors (in order of strength of revealed comparative advantage) should be supported: catering & accommodation; construction; agriculture, forestry & fishing; agro-processing; non-metal minerals; business services; retail & wholesale; furniture and wood products. In view of this list of sub-sectors/industries revealing comparative advantage, the following *value chains* or clusters of economic activity and sectors can be identified for being key growth areas in the Eden economy:

- Agriculture and agro-processing – the food value chain (see Chapter 5).
- Catering & accommodation, business services and retail & wholesale can all be linked to the tourism industry. Eden's flourishing tourism industry is arguably the main reason for the proportionately larger retail, wholesale, catering & accommodation sector in the region compared to the other Western Cape districts.
- Construction & property development is another sector presenting itself. This may be a key area where regulatory constraints and bottlenecks need to be addressed in order to unlock the inherent growth potential. In fact, combined with building material manufacturing, a (partial) *building value chain* can be identified.
- The region's timber and furniture industries are well-known and reveal comparative advantage; it also links backwards to the forestry industry. This cluster of economic activity is, inter alia, an important employer of semi-and unskilled labour and in decline, which needs to be arrested urgently. The *wood products value chain* is also investigated in Chapter 5.

The *food value chain*, the *petro-chemical industry value chain* and the *wood products value chain* are investigated further in Chapter 5 in view of (i) the importance of food security; and (ii) the size and importance of these sectors in the ED manufacturing sector.

Skills considerations

Having identified the potentially fast growing industries within Eden, this section briefly considers the relevant skills requirements.

The economic outlook presented in this report is based on the existing structure of the district economy and as such make implicit assumptions on the availability of the required skills in the production process. While the required skills cover the whole

⁹ This is a very basic technique for guidance on revealed comparative advantage and is derived from *economic base analysis*; other techniques investigating comparative advantage include so-called '*shift-share analysis*', i.e. a procedure that decomposes the growth of a region into three comprehensive sources: i.e. (i) growth related to the growth of the reference area; (ii) growth related to the changing mix of regional sectors; and (iii) growth related to economic activities shifting to the region.

spectrum from the most menial tasks to more technical requirements and management, the key concern tends to be artisanal/technical and engineering skills hence the emphasis on mathematics and science pass rates at the school level. In this section of the report, a brief overview is provided of, *firstly*, skills supply issues in this field and, *secondly*, based on the economic outlook presented above, areas in the district economy where demand for artisanal/technical/engineering skills may be keen. This could assist the authorities and the private sector in their planning to match the supply of and demand for these scarce skills going forward.

In a recent study by the Department of Economic Development & Tourism (DEDAT) of the Western Cape¹⁰, a number of key weaknesses, but also encouraging aspects, were identified regarding the supply of artisans in the Province. Incomplete data, key bottlenecks linked to college completion, pass rates and work experience requirements, confusion regarding the various routes to the artisan trade test, etc. are all supply issues that need to be addressed.

However, what became clear, both international best practice and the literature suggest that public-private sector partnerships are critical, i.e. some form of collaboration between the training institutions and the employers. The matching of the supply of artisanal skills with the demand in the private and public sectors is best approached via the building of the necessary institutional mechanisms aimed at meeting the requirements of industry, again, collaboration between the public and private sectors. In this regard there are a number of encouraging initiatives, which can be used to replicate (e.g. the SSACI AATP and the DEDAT artisan training & development projects). Practical experience during training is critical. Municipalities should bear this in mind when designing and implementing skills training initiatives.

While the current economic review does not provide the scope to entertain the greater detail on the supply side, it may suffice to consider the question: given the economic outlook for the Eden economy, in which areas may skills demand tend to grow stronger than average over the coming three to five years?

- The vibrant onshore petro-chemicals industry in Mossel Bay and related exploration activity and potential new developments suggest the demand for welders (including specialised coded welders), fitters, boiler makers, pipe fitters and rigging technicians are likely to remain keen; as well as the demand for lesser skilled maintenance work. Engineers and plumbers will also remain in high demand.
- Construction workers and related skills will also be in higher demand once the anticipated revival in the construction sector acquires critical momentum.
- An area of large vacancies appears to be the automotive sector, where welders, automotive engineers, qualified exhaust fitters (not in trade), petrol & diesel mechanics, diagnostic technicians, automotive machinists and auto electricians are required. Eden does have a sizeable transport equipment industry.

¹⁰ UWC FET Institute (March 2013): *Supply and Demand for Artisans in the Western Cape*, A Study conducted for the Department of Economic Development and Tourism (DEDAT).

- The metals & machinery sector is also significant in the region and demand for tool makers, specialist welders, boilermakers, fitters and turners should be keen.
- Given the importance of the agriculture and agro-processing industry in the ED, technicians in the agricultural machinery field will also remain in high demand. The same goes for carpenters and technicians in the wood products industries.

3.3 Conclusion: Options and policy pointers

The Eden economy is well-balanced, both from a sectoral and a geographical perspective and it has been one of the fastest growing regions in the Western Cape. The region's agricultural, forestry & fishing sector is expanding and the region has a broad manufacturing base and the full complement of growing services industries, including a vibrant tourism sector.

The Mossel Bay Municipality is leading the growth charge while George, Knysna, Bitou and – to a lesser extent – Kannaland and Oudtshoorn – have all put in strong growth performances over the 2000 - 2011 period. In the latter-mentioned two sub-regions slow-growing agricultural sectors are dampening growth.

The region was shielded by the recession impact due to sustained growth in services, as well as pockets of strength in manufacturing. The Mossel Bay manufacturing sector (i.e. the largest in the region accounting for 35 per cent of manufacturing real value added) performed better in retaining employment opportunities during the recession, compared to the George Municipality where heavy retrenchments occurred (accounting for 60 per cent of job losses in manufacturing). George – and for that matter – wider manufacturing in the region has not fully recovered from the recession impact. The retrenchments and the general subdued consumer sector since the middle of last year are weighing on municipal finances, which render the maintenance of service delivery standards challenging, even in the large George Municipality. The Province's social policies need to be attuned to this fact.

While tourism plays a key role in the economy, with foreign inward tourism earning important foreign exchange, there is scope to enhance the goods trade deficit of the region. Assuming the recent weaker level of the rand does not translate to wage-price spirals (or exchange rate-price spirals), the improved competitiveness of the currency should be seen as an opportunity to promote manufacturing exports and replacing imports. The closure of the McCain food processing plant in George is most unfortunate and no effort should be spared to prevent such developments in future. Producers also require support in seeking export markets in the faster-growing emerging countries of the world.

Efforts to bring employers in the region together with skills training providers (such as in the George Municipality) need to be supported and replicated in the other municipalities. Specific skills that maybe required in the faster-growing industries range from welders, fitters, boiler makers, pipe fitters and rigging technicians in the petro-chemicals/oil & gas sector to similar artisanal skills in the metals & engineering and agro-processing sectors. Known skills shortages also exist in the automotive sector.

The development of green energy options is required in order to reduce the dependence on Eskom coal-fired energy which is in short supply.

Private initiatives underway to establish broadband internet access, for instance, need to be supported. This is a key business constraint.

There is a need to improve the functioning of the Public-Private Partnership (PPP) process in view of the region's bulk and other infrastructure needs in the coming years. The MIG appears to be insufficient while the local authorities are not in a position to raise finance. In terms of directing the infrastructure spend, the needs are high in both the established and fast-growing towns and some neglected areas impacted by poverty. Key industry value chains identified in the study include food & beverages, timber/furniture, building & construction and tourism.

Considering the outlook, and despite the urgency regarding infrastructure investment, some measure of consolidation maybe advisable over the short term; during the outer years of the forecast period when growth is projected closer to 5 per cent per annum a more aggressive approach may be adopted without compromising financial sustainability.

4

Value chains

4.1 Introduction to value chain analysis

An analysis of value chains can focus on the intra-firm relationships or the activities and inter-relationships amongst productive agents in the economy. The analysis presented in this chapter will focus on the inter-relationships between various participants in the selected sectors/identified clusters of industrial activity at various points along the supply chain. This will essentially entail an examination of the backward and forward linkages of the selected industries, including an assessment of the growth and employment potential of the selected industries if possible.

The concept of the value chain was first used by Porter (1980) who identified it as a representation of the firm's value-adding activities, based on its pricing strategy and cost structure. This analysis was primarily based on the internal assessment of the firm's competitive advantage, but in the 1990's the concept of the value chain was extended to include the global commodity chain by Gereffi and Korzeniewicz (1994). This approach focused on the linkages between firms. The concept was further clarified and 'codified' by Kaplinsky and Morris (2001). They distinguish between value chains and supply chains by emphasising the linkages and relationships both between and within actors at each stage of production.

The value chain concept can be extended to a number of different forms of analysis; however it is necessary to limit this analysis to present 'real value' to policy makers and those seeking to improve the general welfare of the regional economy. Value chain analysis can be extended to include policy interventions, governance and legal issues related to the value chain, and the distribution of benefits in the value chain.

At the outset it is important to clarify the intention of this analysis, the limitations, the advantages and the assumptions that are necessary.

4.1.1 Methodology and assumptions

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 and the metro municipality have been assessed and the most important selected value chain(s) within each district and the metro economy have been analysed. It must be noted that this analysis will not focus on the quantitative specification of each value chain in the specified district, but will rather focus on identifying and mapping the value chain, the actors involved, and the value-added and job-creating potential.

Two major considerations are applicable to the analysis at hand. Firstly, it must be determined how far to follow the forward and backward linkages along the supply chain and secondly, the level at which these linkages must be determined.

The analysis below captures most of the forward/backward linkages within the chosen value chains. An increase in demand for the final product or service, for example, will boost production and employment along supplier industries within the particular value chain, and may also have positive spill-over effects on other sectors and industries: employees in these supplier industries, and members of their households, may spend part of their extra incomes on a range of goods and services produced outside the particular supply chain. Apart from the Eden District, the supply chain itself, and the related spill-over effects, may of course extend to municipalities elsewhere in the Province and beyond. The extent of these additional (direct and indirect) effects will depend on the value of the relevant multipliers, which could be analysed and estimated in a separate study¹¹.

Before delving into the value chains of each district, a short background description of the sectors analysed will be given in a national and provincial context, to better understand the potential impact of the value chain in the specific district.

4.2 Value chain analysis

4.2.1 Eden District value chains

Within the Eden District the petrochemicals value chain is the largest contributor to GDP, however, the agricultural and furniture value chains are potential drivers of future employment. In this regard it is more beneficial to the local district municipality to focus on the value chain they potentially have the most influence over. In this regard the food processing and furniture value chains are of key importance, as with

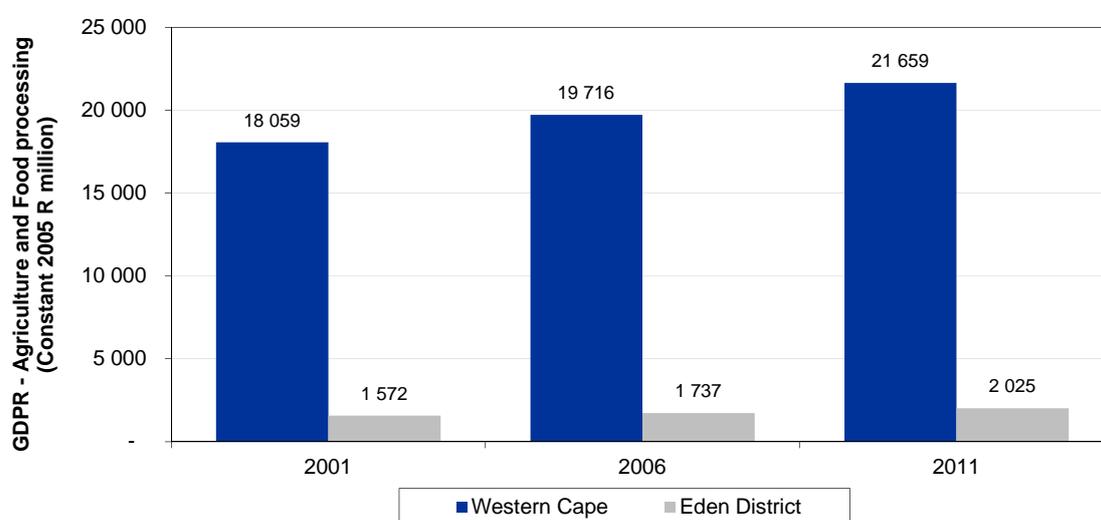
¹¹ Black, PA, 2004. "Economic impact analysis: a methodological note", *South African Journal of Economics*, vol 72, No 4.

relatively less expenditure it is possible to influence employment within these value chains.

Agro-processing value chain

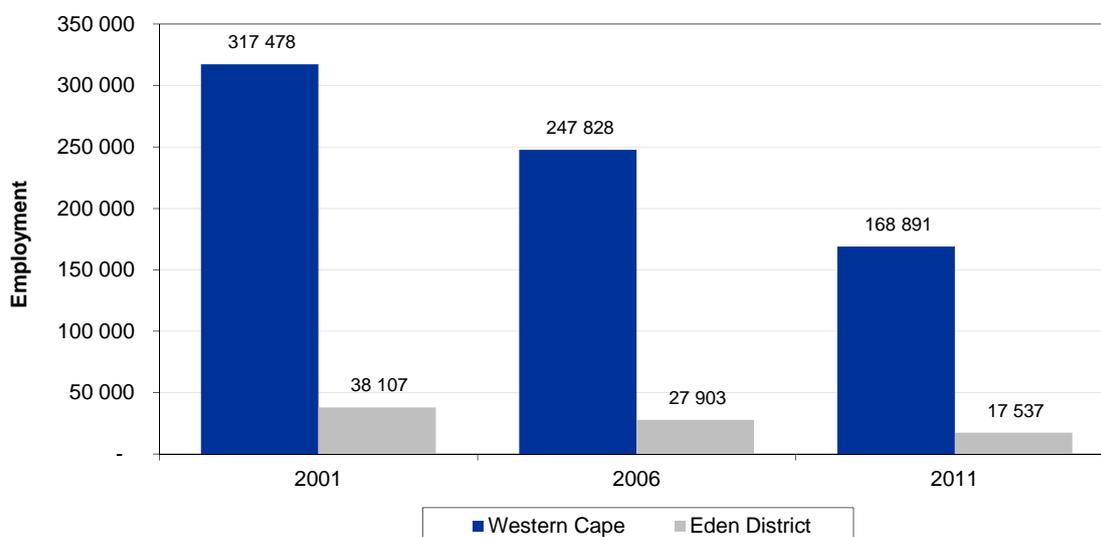
The agricultural and food & beverage sectors in the Eden District, is relatively small in comparison to the rest of the sector in the Western Cape. In Figure 4.1 it is evident that the level of GDPR, measured in constant value, for the Eden District, has risen by 28.9 per cent from 2001 to 2011, in comparison to the 19.9 per cent growth in GDPR of the entire agricultural and food & beverage sectors of the Western Cape over the same period.

Figure 4.1 Agricultural and Food & beverage GDPR, Eden and WC: 2001, 2006 and 2011



Source: Quantec Research

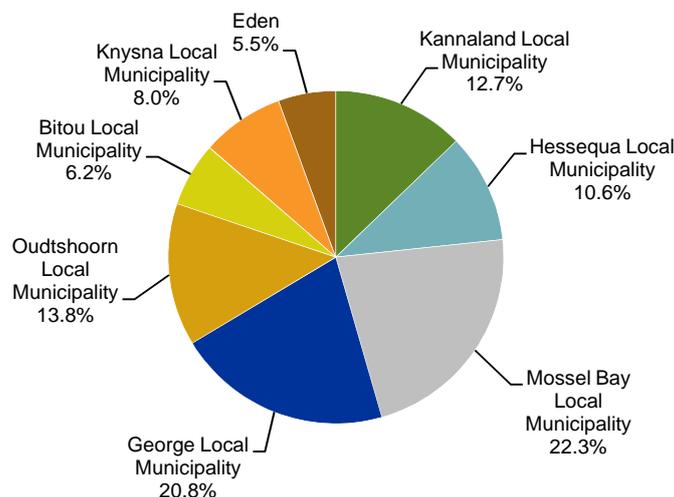
Figure 4.2 Agricultural and Food & beverage employment, Eden and WC: 2001, 2006 and 2011



Source: Quantec Research

Figure 4.2 shows a familiar decline in agricultural and food & beverage employment in the Western Cape, as well as in the Eden District for the period 2001 to 2011. Employment numbers declined by 46.8 per cent in the Western Cape and by 54 per cent in the Eden District.

Figure 4.3 Agricultural and Food & beverage GDPR local municipal split, Eden District: 2011



Source: Quantec Research

The largest local municipal contribution to the agricultural and food processing value chain is the Mossel Bay Local Municipal region with 22.3 per cent, closely followed by the George Local Municipal region at 20.8 per cent. The smaller municipal regions, by GDPR, such as the Kannaland Local Municipality, are highly reliant on the agricultural and food processing sectors for GDPR and for employment. These regions face significant challenges with the seasonality of employment in the agricultural industry. The Regional Economic Development Strategy for the Eden District identified the high development potential of the Kannaland region for agriculture.

The agricultural and food processing value chain is a large contributor to exports in the region, currently comprising 76 per cent of the total export from the Eden District. This signifies a significant contribution of the agricultural and food processing value chain to regional exports and is a key focus of the local economic development strategy of the Eden District.

The major agricultural activities in the region relate to ostrich farming, deciduous fruit farming, forestry and fishing. Key niche export markets also exist for vegetable seed, honey bush herbal tea and aloe. Agro-processing in the district is primarily for the ostrich industry.

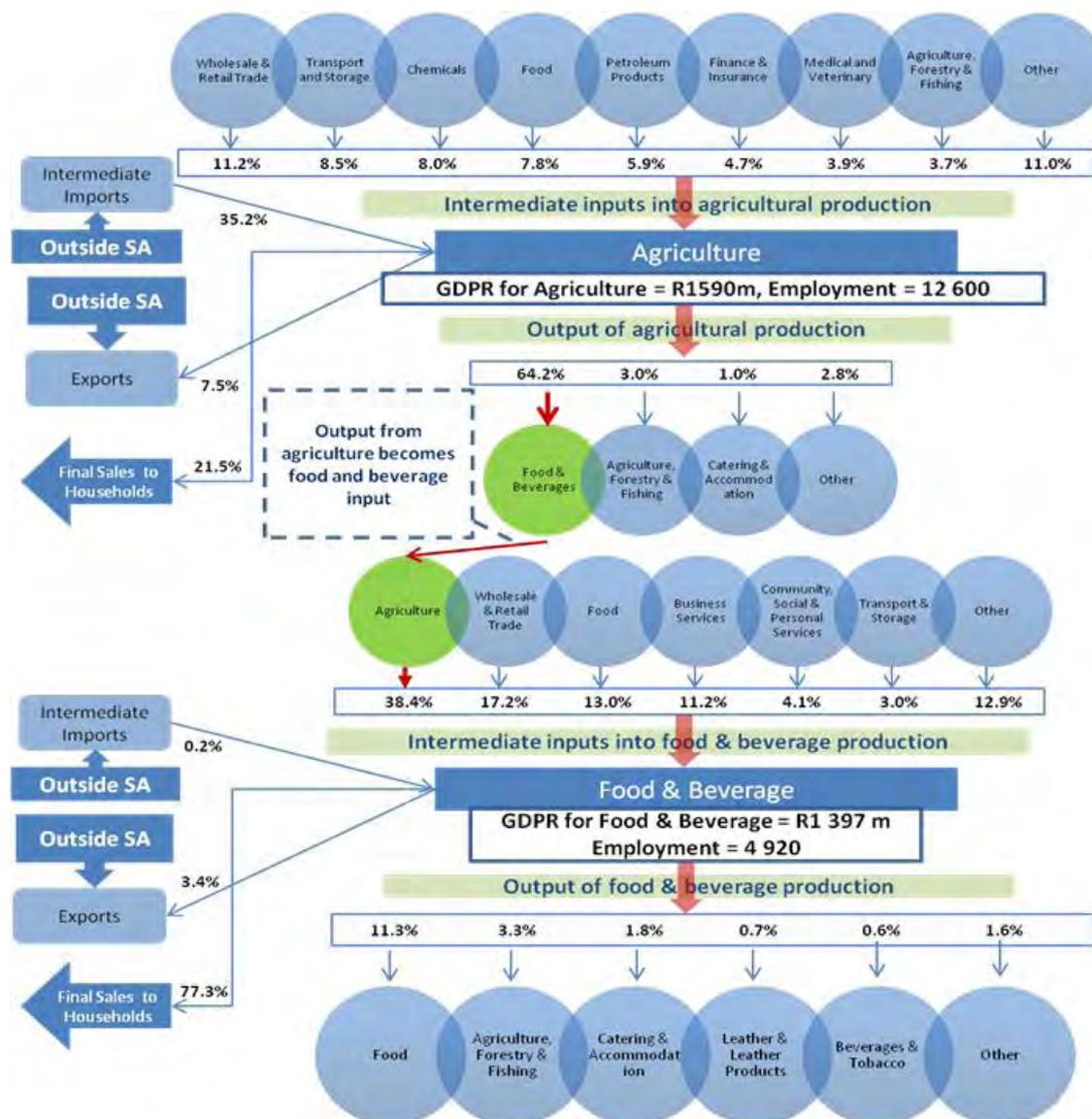
Figure 4.4 introduces the value chain for the agricultural and food processing industries in Eden and estimates the approximate backward and forward linkages of these sectors. Table 4.1 below identifies the major export and local products within the agricultural and food processing value chains.

Table 4.1 Major agricultural products exported and sold, EDM

Agricultural and Food processing export products	Major local product sales
Ostrich products (meat, leather, feathers)	Dairy products (fresh milk, cheese, yogurt, processed milk)
Deciduous fruit (apples, pears, plums, apricots, peaches and grapes)	Fresh meat (ostrich, beef, mutton, chicken and pork)
Port and wine	Processed meats
Vegetable seed	Wine
Honey Bush tea	Fruit (apples, pears, plums, apricots, peaches, figs, grapes and melons)
Aloe products	Soft fruit (strawberries and blueberries)
Wool	Pre-packaged vegetables
Packaged fresh vegetables	

Source: Eden District Regional Economic Development Strategy, 2011

Figure 4.4 Agricultural and Food processing value chain, Eden District



Note: Inputs of sectors and imports add to 100%;
Outputs from production are sold to sectors, households and for export (these add to 100%)

Figure 4.4 depicts the agricultural and food processing value chain for the entire Eden District. The wholesale & retail trade, transport and chemicals sectors contribute 27.7 per cent to inputs into agricultural production in the Eden District. The greatest proportion of output (64.2 per cent) from the agricultural sector is sold to the food & beverage processing sector. Approximately 21.3 per cent of agricultural production is sold directly to households in South Africa. The output from the agricultural sector is used as input to the food & beverage processing sector. The share or input that the agricultural sector contributes to the food & beverage sector is 38.4 per cent. The major proportion (77.3 per cent) of the production from the food & beverages sector is sold directly to households in South Africa.

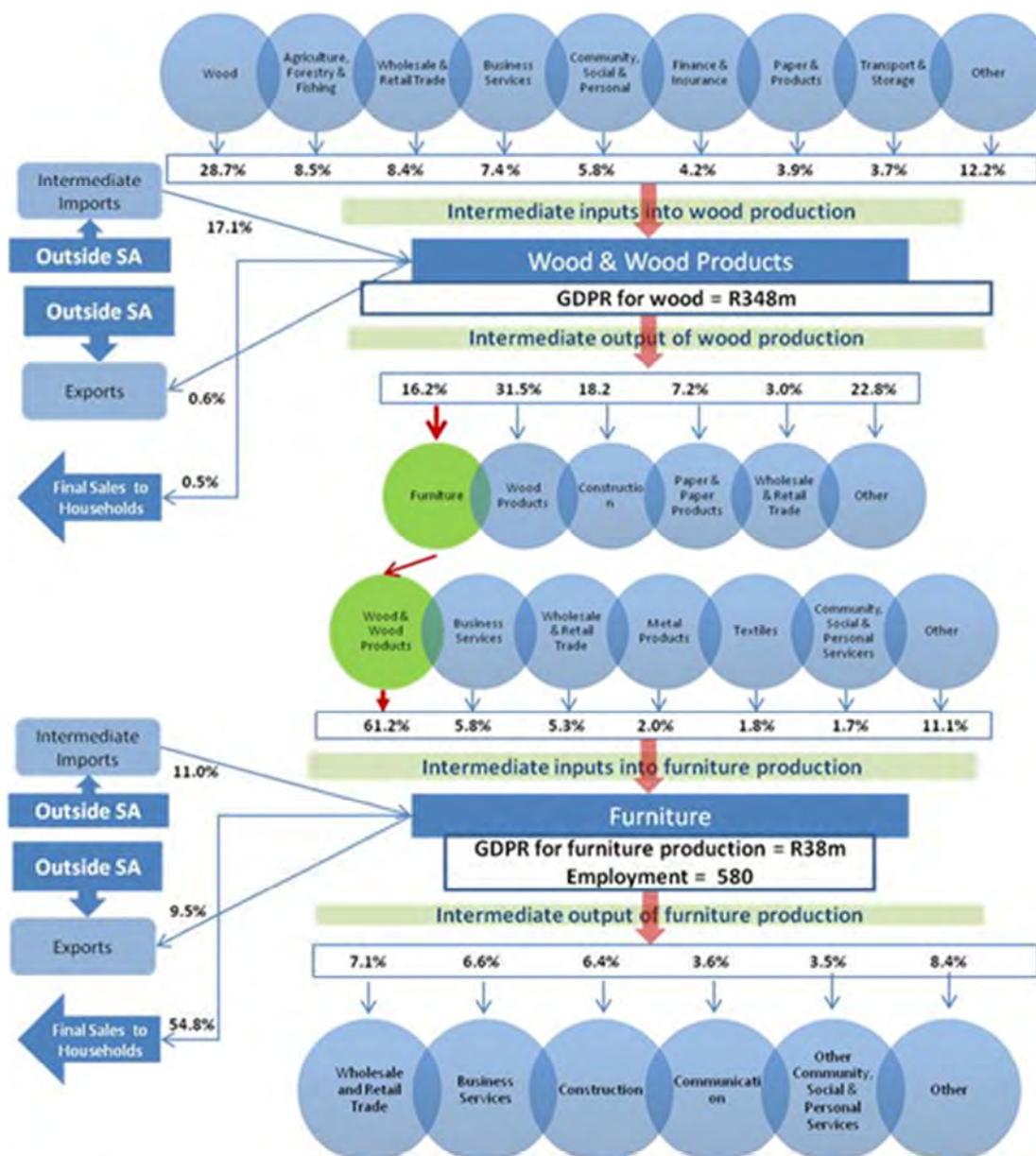
Intermediate inputs from sectors are considered as sales into the production process of the value chain and outputs to sectors are considered as sales to those sectors. The production process adds value and employment which is indicated in the figure. The total employment created in the agricultural and food & beverage value chain is estimated at 17 520. The food & beverage processing sector in the Eden District is highly dependent on the local agricultural sector as few inputs are imported from outside the region and South Africa. Only 0.2 per cent of input into food & beverage processing comes from outside South Africa.

Furniture production value chain

Figure 4.5 below depicts the furniture production value chain in the Eden District. The forestry sector is the largest contributor to inputs into the wood and wood products manufacturing process, contributing 28.7 per cent to inputs. The majority of the output of this sector is reabsorbed into other sectors in the economy as exports and final sales to households are minimal, collectively valued at only 1.1 per cent. The largest output is to the wood products sector and then to the furniture sector with 24.4 per cent of the output. The construction industry also receives a large share of the output from the wood and wood products manufacturing process at 18.9 per cent.

Input into the furniture production process is dominated by inputs from the wood and wood products manufacturing process, at 26.1 per cent. The majority of the output from furniture production is sold to households (54.8 per cent), with a significant proportion going to the food sector, at 11.1 per cent. This output is mainly used in the food sector for storage and transport applications.

Figure 4.5 Furniture production value chain, Eden District



Note: Inputs of sectors and imports add to 100%;
Outputs from production are sold to sectors, households and for export (these add to 100%)

Key recommendations – Eden District value chains

The agricultural and food & beverage processing value chain has significant potential to create additional employment in the Eden District as the value added proportion is high in comparison to other labour intensive industries.

The agricultural sector is a large contributor to employment and the linkages are strong, with a large proportion of inputs from the local agricultural sector going toward food processing in the district.

The GPPR of the furniture production process in the district is low in comparison to the wood and wood products sector and this sector has the potential for extensive development.

4.3 Policy issues

The above value chains are important from an industrial policy perspective. The reason is that a given policy focusing on interlinked industries within a value chain may render a higher return than if the same policy had been divided among unrelated sectors and industries. Although this statement forms the basis of the new Special Economic Zones (SEZs), they only apply when several links within a value chain are in need of state support. SEZs include free trade zones and sector development zones, and are aimed at promoting regional development, local value added, skills and technology transfers.

More generally, the case for policy intervention is back on the proverbial stage and has taken on a range of new dimensions in both industrialised and developing economies. Traditionally, the role of government has been justified in terms of so-called market failures, including the provision of public goods, the reduction (or augmentation) of externalities, elimination of the abuse associated with monopolistic power and, importantly, combating endemic poverty¹². More pertinently, appropriate intervention can contribute to the utilisation of potential competitive advantages via the creation of agglomeration (or internal and external) economies of scale, manifested in the form of cost-reducing production on the part of individual enterprises or value chains – something the free market either cannot do or takes too long to accomplish. Thus policy – including grant transfers, infrastructure provision, investment allowances and skills development – should focus on these enterprises and, in the case of a value chain, investigate its eligibility for SEZ status.

A more recent justification derives from the improper and often illegal anti-trade practices applied by countries to which Eden and other Western Cape districts export their goods and services. Such practices entail the use of tariffs, subsidies and higher standards aimed at protecting similar and competing industries in the export markets, good examples of which are the tariffs imposed on steel and related imports by the USA, and subsidies conferred on agriculture and other import-competing industries in the EU. There is thus a case for *retribution* in the sense that if these problems cannot be resolved through the World Trade Organisation (WTO), it leaves local exporting industries with little option but to counteract by applying the same – but in this case offsetting – anti-trade measures.

As far as Eden is concerned, the agro-processing value chain includes manufacturing and service industries within Eden itself and beyond. It may therefore be worth investigating – through an independent study – its eligibility for SEZ status. Other potential candidates for policy support are the petro-chemicals, metals & engineering, building, and tourism value chains. They may be viewed as clusters of economic activity justifying support for the reasons mentioned above.

¹² Black, P, Calitz, E and Steenekamp, T. Public Economics, 6th ed. Oxford University Press, 2013.

5

Informal sector profile

Definition of the informal sector

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 Receiver of Revenue for income tax or value added tax. Statistics SA 2012.

5.1 Introduction

This chapter contributes to the deepening knowledge and understanding of the informal sector in the Eden District. Given the difficulty of estimating the size of the informal sector in terms of its contribution to the Eden's GDP and employment, the aim is therefore to determine the investment climate of informal sector businesses at a 95 per cent confidence level by analysing roughly 200 informal businesses at the district level surveyed by the Department of Economic Development and Tourism (DEDAT). Analyses of the investment climate may bring into focus strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some may exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

Importantly though, informal micro-enterprises in the Eden District exist in various economic sectors and are important in several respects. While they cover a wide range of sectors, mostly in Manufacturing, Agriculture, and Wholesale and Retail Trade, they possess important characteristics. These characteristics are:

- They are more labour intensive relative to the formal industrial sector;
- They are more (less) dependent on low-skilled and unskilled (skilled) labour;
- They tend to process local materials;
- They are more geographically dispersed; and
- They are more accessible to indigenous entrepreneurs.

5.2 Analysis of data for the Eden Region

5.2.1 Profile of the informal micro-enterprise

Geographical concentration

The demographic data collected about informal businesses in the Eden District is shown in Table 5.1 and Table 5.2 below. Of all the districts other than the Metro, the Eden District has the largest amount of informal businesses active in their region. As a result the targeted survey sample was exceeded in the 4 township regions as indicated in Table 5.1 and therefore other regions were not considered. It is therefore important not to assume that informal businesses are more predominant in these 4 township areas and not in the other townships in the district.

More importantly to consider is the township variation in business numbers and density as outlined in Table 5.2. Here informal enterprises were more numerous in urban than in rural areas. Anecdotal evidence indicates that informal economic activities were most evident in the large regional towns, whilst small in scope in agricultural service towns and rural localities. Also worth noting is that informal settlements/townships were the predominant locality for interviewed informal enterprises accounting for 76.6 per cent of the total; followed by urban major city (23 per cent) and rural areas (0.4 per cent) (see Table 5.2 below).

Table 5.1 Respondent suburb township by area

Township	Per cent
George	37.4
Plettenberg Bay	20.1
Knysna	14.7
Oudtshoorn	27.7
Total	100

Table 5.2 Respondent suburb township by settlement type

Township	Per cent
Urban major city	23.0
Urban township/informal settlement	76.6
Rural	0.4
Total	100

Source: DEDAT 2013 and own calculations

Distribution by age and race

The age distribution across the sample ranged from 17 to 94 years, with the median age being 38 years. The data was then disaggregated into four sample age groups (see Table 5.3) to differentiate between young entrepreneurs (16 - 24 years); young adult entrepreneurs (25 - 34), adult entrepreneurs (35 - 60) and pensioners (61 years and above).

Table 5.3 Distribution by age and race

Age	Race				Total
	African	Asian/Indian	Coloured	White	
16 to 24 years	6.7%	20%	11.5%	.0%	7.9%
25 to 34 years	40.7%	60%	13.1%	.0%	34.5%
35 to 60 years	46.9%	20%	68.9%	.66.7%	51.4%
61 years or older	5.7%	.0%	6.6%	33.7%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DEDAT 2013 and own calculations

By evaluating the race groups in Eden District it is noted that 20 per cent of Asian/Indian informal entrepreneurs were aged between 16 and 24 years while the Coloured race group accounts for 11.5 per cent. This is an interesting observation as there is a large amount of literature arguing that the unemployment rate is particularly high in this age group given that the majority of job seekers are generally "first time job seekers".

Within the age group 25 - 34 years, the Asian/Indian race group accounted for 60 per cent, African 40.7 per cent and Coloureds 13.1 per cent with a cumulative total of 34.5 per cent. These figures clearly indicate that the informal sector, with the proper support, can significantly alleviate the unemployment problem within the latter age group, an area which all spheres of government are extremely keen to address. Entrepreneurial activity is very vibrant at this level and as the data will later indicate, informal entrepreneurs within this age group are entering business as they believe their income opportunities are more lucrative than working in the formal economy (see Table 5.12 below).

The 35 - 60 age group accounts for more than half of the total cumulative percentage share (51.4 per cent). Here the African group accounts for 46.9 per cent, Asian/Indian for 20 per cent while the Coloured group has the largest proportion at 68.9 per cent. Anecdotal evidence through interviews with CIPRO and SEDA for example, suggests that individuals tend to work for a number of years in formal employment before terminating their services, and then using their pension or life savings to set up entrepreneurial ventures. The entrepreneur may or may not decide to register the business; however SEDA has found that particularly in the coloured race group, they choose to work informally for a significant period before, if at all, formally registering their business. Tax avoidance and the lack of Government tenders appear to be the main reasons for the apathy to formalize. The data appear to support the anecdotal evidence. Even though the white group accounted for roughly 67 per cent in this age group there were only 2 respondents and an overall total of 3 white respondents in the Eden District. Thomas et al (2013) state that "law-abiding, middle-class citizens view the actions by informal operators as unacceptable if not illegal, and they should thus not be allowed to operate under those conditions". Compounded by the fact that the white race group have the lowest unemployment rate and the most skills in the economy, one can deduce that operating in the informal economy for the white race may not be a viable option.

The 61 years and over group is rather insignificant with very few respondents in this category and it would appear that retired citizens do not view the option of informal entrepreneurship as a viable one.

Table 5.4 Distribution by gender

Gender	Per cent
Male	65.5
Female	34.5
Total	100.0

Source: DEDAT 2013 and own calculations

The split of respondents by gender was strongly weighted in favour of male respondents who comprised 65.5 per cent of the sample while females accounted for 34.5 as shown in Table 5.4 above.

Educational attainment

Table 5.5 below, shows that South African informal entrepreneurs account for the majority of respondents (67.6 per cent), followed by Zimbabwe (5 per cent) and then Ghana (4 per cent). When gauging educational attainment among respondents from the different countries, the data reveals no real difference in education level per country. For example for the 3 countries of origin (SA, Zimbabwe and Ghana) mentioned, the majority of the respondents either completed or have some form of high school education. This is further emphasised by the total column which includes all the countries of origin, 76 per cent of all respondents have either completed or have some form of high school education.

Table 5.5 Level of education and country of origin

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed matric Grade 12 A/O levels	
South Africa	71.4% (5%)	87.5% (15%)	85.7% (6%)	73.4% (50%)	48.9% (23%)	67.6% 100.0
DR Congo	7.1% (13%)	0.0% (0.0%)	0.0% (0.0%)	0.8% (13%)	6.7% (75%)	2.9% 100.0
Mozambique	0.0% (0.0%)	3.1% (100%)	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	0.4% 100.0
Somalia	7.1% (10%)	0.0% (0.0%)	0.0% (0.0%)	3.9% (50%)	4.4% (40%)	3.6% 100.0
Malawi	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	1.6% (50%)	2.2% (50%)	1.4% 100.0
Nigeria	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	5.6% (100.0%)	1.8% 100.0
Zimbabwe	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	5.5% (50%)	7.8% (50%)	5.0% 100.0
Senegal	7.1% (20%)	3.1% (20%)	0.0% (0.0%)	2.3% (60%)	0.0% (0.0%)	1.8% 100.0
Kenya	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	1.1% 100%	.4% 100.0
Tanzania	0.0% (0.0%)	0.0% (0.0%)	7.1% (10%)	6.3% (80%)	1.1% (10%)	3.6% 100.0

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed matric Grade 12 A/O levels	
Cameroon	0.0% (0.0%)	0.0% (0.0%)	0.0% (10%)	0.0% (80%)	3.3% (10%)	1.1% 100.0
Burundi	0.0% (0.0%)	6.3% (67%)	0.0% (0.0%)	0.0% (0.0%)	1.1% (33%)	1.1% 100.0
Ghana	0.0% (0.0%)	0.0% (0.0%)	7.1% (8%)	2.3% (25%)	8.9% (67%)	4.3% 100.0
Bangladesh	0.0% (0.0%)	0.0% (0.0%)	0.0% (0.0%)	0.8% (20%)	4.4% (80%)	1.8% 100.0
Ethiopia	7.1% (13%)	0.0% (0.0%)	0.0% (0.0%)	3.1% (50%)	3.3% (38%)	2.9% 100.0
Total	100.0% (5%)	100.0% (12%)	100.0% (5%)	100.0% (46%)	100.0% (32%)	100.0% 100.0

Note: Percentages in parenthesis () are calculated only for the specific county's educational level.

Source: DEDAT 2013 and own calculation

The respondents reported a diverse range of means for skills acquisition. Importantly, especially in the context of literature which argues that the informal economy provides a means for skills acquisition through informal apprenticeship, over half the sample (60.3 per cent) reported having acquired their skills on the job. A further 19.9 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for skills transfers to employees, whilst transferring entrepreneurial learning to the business owner. A further 11.6 per cent reported acquiring skills from a former job, a finding that confirms research (including the previous MEDS 2007 informal economy – trade study) which argues that many of the entrepreneurial persons within the informal economy have experience of the formal economy workforce and would be capable of obtaining formal jobs. The role of adult education in providing skills to operate informal business is fairly limited with only 2.5 per cent reporting having acquired their business skills through study.

Table 5.6 Level of skills acquired

Skills acquired	Per cent
Former employment	11.6
On this job	60.3
Adult education	2.5
Family business	19.9
Family and friends	2.2
Did a course	1.1
Self-taught	2.5
Total	100.0

Source: DEDAT 2013 and own calculations

Registration of informal businesses

Many enterprises may hold some level of formal registration yet operate outside of the formal system whether intentionally or unintentionally. For example many businesses register at CIPRO but never complete their annual returns. As a result these businesses are deregistered by CIPRO but remain “active” in the market place.

Table 5.7 Registration of informal businesses

Business registration	Per cent
None	64.0
CIPRO/the dti	1.4
SARS	7.6
Trader organisations	1.8
Local municipality	24.5
Other	0.7
Total	100.0

Source: DEDAT 2013 and own calculations

The data in Table 5.8 below indicates that 64 per cent of the sample reported that their businesses were not registered in any way (institutionally or organisationally). Of those businesses with some level of registration and formalisation, 24.5 per cent claimed registration with municipal authorities, 7.6 per cent with SARS, 1.4 per cent with CIPRO, and 1.8 per cent with trader organisations.

This finding highlights a bias in compliance for municipal licensing as opposed to national/provincial requirements for business licensing. This is not surprising because extrapolating from the municipal questionnaire responses it appears that this district is very effective in enforcing compliance particularly in trading licence and house shops. Furthermore, the district’s only focus is its local mandate and therefore does not require compliance with national acts, such as employment or immigration legislation, as a precondition for the granting of municipal licences. However the District is reviewing this legislation in an attempt to make it more enabling which should see an increase in municipal compliance as it should be more beneficial for the informal business to do so.

A municipal trading licence however does not imply enterprise formalisation, but merely minimal compliance. In all other aspects these businesses should be regarded as informal. The low level of enterprise registration with informal trader organisations (1.8 per cent) highlights the limited influence of trader groups within the Eden informal economy. The findings also show, in converse, that roughly 34 per cent of informal businesses endeavour to comply with state requirements to a certain degree, though compliance is strategic rather than procedural. Therefore the literature that argues that informal businesses weigh-up the costs/benefits of compliance in their engagement with regulation appears to hold true.

5.2.2 Organisation of business (Goods and services)

The trade in products and services was separated for analysis, and aggregated into broad categories of best fit. Roughly 63 per cent of the respondents sold products, whereas 38 per cent of the respondents provided a service. The data shows that businesses providing services generally do not sell products, except where natural synergies exist as in the case of hair dressers that sell hair care products, or appliance repair shops that sell electrical goods or catering businesses that sell take-aways. Disaggregated data on the kind of products and services traders are proffering is also discussed within separate “products” and “services” sections. In the following section these trades are linked to demography and gender of the business owner.

Trade in goods

The survey revealed a considerable diversity in the range of products sold through informal trade, both across the total sample and within the district. For practical analysis the trade in products was combined into four categories (sectors); i) retail food and drink, ii) retail attire, iii) household goods, and iv) personal requirements. The results are shown in Table 5.8 below.

Retail food and beverages were the largest category of overall business activity (38.5 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was household goods (10.1 per cent) – primarily the trade of non-food household items including furniture, electronics and hardware, alongside household consumables such as cleaning products, and black bags. Up to 6.1 per cent of product focused businesses traded cigarettes (categorised as personal requirements, which also included traders of over the counter pharmaceuticals, perfumes and similar personal care products). Approximately 7.9 per cent of the interviewed goods trading businesses sold clothing (attire).

Table 5.8 Product-orientated informal business per sector

Product per sector	Per cent
Retail food and drink	38.5
Retail attire	7.9
Household goods	10.1
Personal requirements	6.1
Total	62.6
Services excluded	37.4
Total	100.0

Source: DEDAT 2013 and own calculations

Trade in services

Service businesses were categorised into four sectors: i) micro-manufacturing, ii) personal services, iii) business services and iv) social services. Business services accounted for 21.6 per cent of service informal micro-enterprise activities. This category includes mechanical repairs, appliance repairs, tradesmen, moneylending,

computer and secretarial services. Personal services comprise 12.2 per cent of the services businesses and includes primarily hair salons, traditional healers, funeral services and sex work (due to its largely clandestine nature, the latter was likely to have been under-represented in this study). Informal micro manufacturing accounted for 5.4 per cent of all services businesses including furniture making, tailoring and cobbling. The social services sector was the smallest cohort accounting for 1.1 per cent; this sector includes child care and educare services.

Table 5.9 Service-orientated informal business per sector

Services per sector	Per cent
Micro-manufacturing	5.4
Personal services	12.2
Business services	21.6
Social services	1.1
Total	40.3
Products excluded	59.7
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.3 Justifications for starting informal enterprises

An important direct or implied justification for most people establishing and operating informal enterprises was economic survival. This can be clearly seen in Table 5.10: Reasons for starting a business. Although many individuals gave multiple responses to this question, wanting to earn more money along with the inability to find alternative employment were the primary responses (75.9 per cent of responses). Interestingly 7.7 per cent of motivations related to the respondent's claim that they were good at, or had expertise in running their particular business.

Table 5.10 Reasons for starting a business

Reasons for starting a business	Per cent
I could not find alternative employment	54.0
I didn't enjoy working for someone else	9.9
I wanted to earn more money/financial hardship	21.9
I am good at running this business	7.7
Opportunity	1.1
Health reasons	1.1
Have passion for it/It's a calling	1.8
Gap in the market	1.1
Other	1.1
Create employment/help the community	0.4
Total	100.0

Source: DEDAT 2013 and own calculations

The data shows that economic and entrepreneurial factors are the main drivers for the establishment of informal micro-enterprises. Only 9.9 per cent of respondents reported that they started the business as a result of their dissatisfaction with a previous job. Yet only 26.7 per cent of these respondents said that they were willing to work for R126 per day so it may be assumed that the remainder set up businesses for

entrepreneurial reasons. Non-wage influences (such as the need for more flexibility, callings or health reasons) were cited by approximately 100 informants, though these influences are likely to be significant (as the literature suggests) for people with domestic responsibilities (such as child/elderly care).

5.2.4 Years in operation

The survival, sustainability and longevity of the studied informal economy enterprises are considerably high – especially after an initial year of operations. The results are presented in Table 5.11 below. A relatively small number (9.4 per cent) of enterprises were less than a year old. The majority of interviewed businesses (49.6 per cent) had been in operation for between one and five years, with a further 23 per cent operating between 6 and 10 years and a further 18 per cent operating for over 11 years. Of course, due to the nature of the study one is unable to determine the number of businesses that have failed (appearing most likely to happen within the first 12 months of operations), although this finding does imply a sense of sustainability of business for operating enterprises.

Table 5.11 Number of years business is in operation

Years in business	Per cent
Less than 1 year	9.4
1 to 5 years	49.6
6 to 10 years	23.0
11 or more years	18.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.5 Employment

The 278 businesses interviewed in this study provided 505 jobs (including the owners) through employment. Whilst 55.8 per cent of these enterprises only provided employment for the owner, the remaining 44.2 per cent in the study employed more than one person (in addition to the owner), most commonly a second individual. The details of business employment (owner plus workers) are shown in Table 5.12 below.

Table 5.12 Employment provided by informal businesses

Number of jobs	Frequency	Per cent
1	155	55.8
2	69	24.8
3	32	11.5
4	9	3.2
5	6	2.2
6	4	1.4
7	1	0.4
9	1	0.4
10	1	0.4
Total	278	100.0

Source: DEDAT 2013 and own calculations

Employment was more common in businesses providing services such as hair salons and car mechanics, or from home-based business enterprises such as liquor retailers. Businesses that traded from temporary structures in the street were generally the least likely to employ staff. Some employment was generated in the retail grocery trade.

Informal enterprises represent important family businesses. However, 55.8 per cent of the sample employs no family members in the business (see Table 5.13). Of the sampled enterprises that employed family members beyond the owner, the majority (24.8 per cent) employ one person. This finding compares favourably with the MEDS informal economy study (2007) where informal business operators commonly work within a 'circle of trust' that primarily includes spouses and direct family members.

Table 5.13 Family members employed

Number of family members employed	Per cent
No family members	55.8
One family member	24.8
Two family members	11.5
Three or more family members	7.9
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.6 Business location

The street and people's homes provide the most commonplace and important business venue opportunities for the informal economy participants in this study. Within the streets context 14 per cent of respondents set up business venues on a daily basis for trade, using a range of semi-permanent stands. A further 12.2 per cent operated from permanent structures on the roadside. 25.2 per cent of enterprises were home based, generally operating from the household, involving cooking take-aways in the kitchen or minding children on the property. A further 4 per cent of enterprises operated from separate structures attached to people's homes, such as shipping containers or shacks specifically utilised for the business. Taxi ranks and formal market places were also important areas for business activity (though less represented in the sample) and where it was apparent many enterprises were clustered - with 0.7 per cent of interviewed businesses located in these sites. 8.3 per cent of the respondent's place of business included formal market places.

Table 5.14 Where do you operate this business from?

Where do you operate the business from	Per cent
Hawking/mobile	7.9
Road side (structure assembled daily)	14.0
Road side (permanent structure)	12.2
From a moving vehicle	0.4
In my home	25.2
Separate structure on my property	4.0
Separate structure on someone else's property	16.9
Someone else's home	4.0
Formal market place	8.3
Taxi rank/station	0.7
Other	3.6
Total	100.0

Source: DEDAT 2013 and own calculations

When considering the trade in products, especially the dominant retail of groceries and clothing, the important nature of the street as a trading site becomes apparent. Similar to retail businesses in the formal sector, street based micro-enterprises are reliant on predominant foot traffic and large volumes of passing trade to support sales activity. Positioning such enterprises in close proximity to commuters and pedestrian traffic makes considerable business sense.

Home based businesses are an important feature of the informal economy. Many enterprises including those selling basic food and drink, and household goods are operated from residential property, both within the home and from separate structures. Furthermore the commonplace activity of liquor retailing is also reflected in the high number of home based businesses. Unlicensed liquor trading is illegal and heavily policed and it makes little sense for many entrepreneurs to openly conduct activities in the street or from specialised premises. Maintaining this clandestine trade from private homes assists in concealing the enterprise from the public at large and law enforcement officials.

5.2.7 Ownership of assets and micro-enterprise profitability

The research investigated asset ownership, focusing on i) house, ii) container, iii) shack, iv) vehicle, v) cell phone, vi) computer and vii) specialist equipment). Surprisingly, the most widely possessed asset was the respondent's own home (38.7 per cent), followed by own specialised tool and machinery (21.8 per cent), then own cell phone (20.7 per cent), then own shack (8.1 per cent), and own container (5.2 per cent). The results are shown in Table 5.15. None of the respondents in the surveyed sample owned a computer. Given that the survey did include any businesses providing computer use or internet access, one can firmly conclude that use of computers and internet access is extremely low or non-existent.

Table 5.15 Ownership in assets

Ownership in assets	Per cent
Own house	38.7
Own container	5.2
Own shack	8.1
Own caravan	0.4
Own specialised machinery/tools	21.8
Own vehicle(s)	2.2
Own cellphone	20.7
Own stock	3.0
Total	100.0

Source: DEDAT 2013 and own calculations

In most cases, some of these assets form part of the business, and are used in the process of income and profit generation.

The majority of businesses surveyed were relatively low income earners – with more than 69.5 per cent of respondents reporting monthly income of less than R2 500 (see Table 5.16). For the 30.5 per cent of enterprises that earn more than R2 500 per month their informal business enterprises propel individual earnings over the South African median, making them comparatively financially well off amongst local peers.

Table 5.16 Profit business makes on average in a month

Average monthly profit	Per cent
R1 - R999	43.3
R1 000 - R2 499	26.2
R2 500 - R4 999	17.8
R5 000 - R9 999	9.1
R10 000 and above	3.6
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.8 Money lending and credit

Localised money lending and credit are an important part of the informal economy. In total 21.6 per cent of all interviewed micro-enterprises reported lending money to individuals as part of their business strategy (see Table 5.17 below).

Table 5.17 Money lending

Money lending	Per cent
Yes	21.6
No	78.4
Total	100.0

Source: DEDAT 2013 and own calculations

This finding confirms that a sizeable portion of informal businesses rely on diverse income strategies beyond the core product or service nature of their business. Furthermore the finding shows how potentially many thousands of informal enterprises in the District and Province contravene the National Credit Act in providing financial

services without licences to do so. Further to the activity of money lending, 33 per cent of enterprises give out goods and services on credit. This is important because their customers are generally resource poor. In certain sectors (such as clothing and home ware) credit is necessary to compete with formal businesses that offer lay-buys or account purchases.

Interestingly whilst a considerable number of enterprises lend money out as part of their business practice, the micro-entrepreneurs themselves are in general not borrowers of finance – with only 7.9 per cent of enterprises having borrowed money in the past 12 months (see Table 5.18 below).

Table 5.18 Borrowed money in last 12 months

Borrowed money	Per cent
Yes	7.9
No	92.1
Total	100.0

Source: DEDAT 2013 and own calculations

Of those who have borrowed, family and friends are the most prominent lenders of money to the respondents at (2.5) and (2.9) respectively, as shown in Table 5.19 below. Banks play a considerably smaller role, potentially due to the stringent requirements for proof of income and absence of collateral. Savings clubs and money lending businesses play a negligible role in providing finance to informal economy businesses.

Table 5.19 Sources of loans

Sources of loans	Per cent
Have not borrowed money in the last 12 months	92.8
Family	2.5
Friends	2.9
Bank	0.7
Loan Shark	0.7
Other	0.4
Total	100.0

Source: DEDAT 2013 and own calculations

Interestingly, for those borrowing money, not only do family and friends provide the important sources of finance, but with respect to interest charged also offer the most reasonable terms. Based on aggregating all borrowed and repaid funds as reportedly borrowed by the respondents, the commercial banks and micro-finance agencies charge commercial (though modest) interest rates, with the median loan size of R10 000 and repayment of R11 250. The data suggest that micro-finance organisations provide the most costly means of finance, although the number of borrowers is too small to make a fair comment.

5.3 Business challenges and prospects

5.3.1 Business challenges

Challenges being faced by businesses were also investigated. A series of questions pertaining to access to the formal economy and state provided services were posed, asking respondents whether the issue represented a i) 'big problem', ii) not a problem or iii) not applicable. The menu of options were: i) access to finance, ii) electricity cost, iii) water cost, iv) cost of business licensing, v) crime, vi) political crime, vii) labour relations, viii) lack of specialist equipment, ix) shortage of business premises, x) transport costs, xi) police corruption, xii) regulations, xiii) competition, xiv) immigration status, xv) other. Multiple responses were optional and therefore only the challenges which received the most responses as "biggest responses" are reported on.

The key finding from this enquiry was that the most frequently mentioned challenges were: first, access to affordable micro-finance (82.2 per cent of respondents), second, a shortage of business premises (61 per cent of respondents) and third, a lack of specialised equipment and competition (47.3 per cent of respondents). The distribution of responses is shown in Table 5.20 below.

Interestingly the major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

More than 60 per cent of the respondents highlighted the lack of suitable business premises as a major problem for their enterprise activities. A variety of businesses presented this complaint, including street traders who relied upon temporary structures, through to vehicle panel beaters operating from home and street based sites. The underlying issue around premise suitability extended beyond the physical premises and also included zoning such as businesses operating in residential areas (in contravention of municipal land use regulations). Although not in table below, fewer than 10 per cent of respondents specifically cited regulation as a major obstacle to their business growth, whilst a further 28.8 per cent cited cost and difficulty of obtaining municipal licences as a major obstacle. These findings point towards the need for reducing red-tape, which the District Municipality and in particular the George Municipality has identified for review.

Other issues that respondents identified were the cost of access to water (36.9 per cent), water cost access (36 per cent), Crime (39 per cent), electricity cost access (43.9 per cent), and transport costs of goods (28.8 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

Table 5.20 Perceived business growth challenge

Challenge for business growth	Number of respondents	Cumulative percentage of cases
Access to affordable finance	217	82.2%
Electricity cost access	116	43.9%
Water cost access	95	36.0%
Cost and difficulty of business licensing	76	28.8%
Crime	103	39.0%
Lack of specialised equipment	125	47.3%
Shortage of business premises	161	61.0%
Transport of goods costs	76	28.8%
Competition	125	47.3%
Police harassments	29	11.0%

Source: DEDAT 2013 and own calculations

5.3.2 Business prospects

Despite the relatively low incomes for the great majority of participants, nearly three quarters of the survey participants (both men and women) indicated that they would not give up their businesses in preference to a “minimum wage” job paying R126.00 per day (see Table 5.21). This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

Table 5.21 Will you take minimum wage of R126 per day

Employment in formal sector with minimum wage	Per cent
Yes	26.7
No	71.8
N/A	1.4
Total	100.0

Source: DEDAT 2013 and own calculations

The desire of the majority to persist with informal self-employment implies that the income earned from informal economy business is sufficient to warrant continued operation in the sector – even if it is lower than a formal economy equivalent, or at least the work conditions, hours of employment and flexibility of operations (in other words non-wage benefits) are considered further benefits that would be lost under full-time employment.

Further to the majority preference to not hold a formal sector position at minimum wage, people tend to a largely positive outlook about their businesses. This optimistic outlook is borne out in the survey results with 56 per cent of enterprises able to report business growth either in profit or volume of sales (in cases of both goods and services trade) since starting the business, and a further 31 per cent reporting stable business activity. Considering the toughening conditions of the broader national economy in recent years both stability and growth are useful indicators for business sustainability and justify positive future prospects for these business owners.

Table 5.22 Business outlook/Growth prospects

Business outlook/Growth prospects	Per cent
Expanded increased profit more stock greater number of employees	56.0
Contracted decreased profit less stock fewer employees	13.0
Remained the same - no change	31.0
Total	100.0

Source: DEDAT 2013 and own calculations

5.4 Concluding remarks

Given the economic contributions of the informal economy, it is widely believed that governments should be developing policies that recognise the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work in it. This is increasingly seen as a responsibility of local government.

In addition, the promotion of the informal sector by Eden District would significantly contribute to meeting the policy objectives of growth, employment and poverty alleviation; and improved regional and vertical distribution of income. For these reasons, the informal sector should form an integral part of any viable Eden District strategy.

The obvious benefits for entrepreneurs who operate in the informal economy are to avoid costly and burdensome government regulations as well as high and complex taxes. However, the findings in the chapter show that many informal businesses do in fact endeavour to comply with state requirements to a certain degree, although compliance is strategic rather than procedural in nature. The reason why the informal sector is growing in the District is therefore that the benefits of formality are overshadowed by its costs.

Even though the Eden informal economy incomes appear generally low, the term "survivalist" does not necessarily do justice to the demonstrated sustainability of enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their enterprises with a theoretical offer of alternative formal work at minimum wage.

Whilst the study findings cannot comment on the economic scale of the Eden informal economy (in terms of employment numbers or GDP) the micro-enterprises studied – especially the majority operating within the township context - play an

important local employment role in their immediate economies. Each business has an employment factor of 1.8 and over 44 per cent of enterprises provide employment opportunities. Employment is predominately family based, though opportunities are also provided for piece-workers. 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. It should not be assumed that the formal sector pays higher wages at the entry and uses lower skills levels than informal work.

However, the majority of informal micro-enterprises are non-connected with the information age. This is a direct result of their low levels of education. The use of personal computers is minimal, whilst the typical informal micro-entrepreneur does not use a smart-phone. These businesses thus are still reliant on information exchange through inter-personal networks (word of mouth) and the print media.

With most informal enterprises operating in retail trade and other services, and increasingly in the major urban centres, they are bound to be closely linked to the formal sector, often forming part of the supply or value chains discussed in Chapters 3 and 5. Informal suppliers of food, beverages, clothing and household consumables, for example, may well benefit from policies aimed at developing supply chains, and it may be worth – in a separate study – to consider ways of strengthening these potentially important linkages.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Perhaps the overriding challenges facing the South African government are the elimination of poverty and inequality and a significant reduction in unemployment. One of the mechanisms through which the government aims to address the challenges the country faces is through infrastructure investment, and there has indeed been a significant increase in infrastructure investment in recent years. In the years leading up to the 2010 FIFA World Cup, the increase in investment of up to 6.05 per cent and 7.64 per cent of Gross Domestic Product (GDP) in 2008 and 2009 respectively was preceded by years of very dismal investments averaging about 2.91 per cent annually between 1995 – 2007 (Kumo, 2012:7). The long run trends in infrastructure investment are well explained in Perkins, Fedderke and Luiz (2006).

Many definitions and interpretations of infrastructure can be found in the literature (see Fourie, 2006a for a discussion of these definitions). Economic infrastructure includes transport, communication, energy, water and sanitation facilities, whilst health and education systems as well as cultural and recreational facilities constitute social forms of infrastructure (Fedderke and Garlick, 2008: 2). This chapter focuses on economic infrastructure.

Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect” – as well as in providing a solid foundation for social development (Swilling, 2006). In South Africa the importance of infrastructure has not only been emphasised at national level but also at regional level. In the Western Cape the region needs efficient transport systems, water and sanitation, telecommunications and power supplies in order to influence the standard of living of their populations and regional economic growth. There is, thus, a pressing need to

determine whether government's strategy on infrastructure investment will yield the desired economic growth benefits at micro (i.e. project or sector level) or at the national or macro level.

The micro level analysis certainly would provide more accurate results on the impact of public economic infrastructure investment on the economy but most empirical work in this area in South Africa has focused on the national level. Over the years much research has been conducted on the relationship between infrastructure and growth and conclude that infrastructure does have an impact on growth – a view strongly supported by municipalities in their response to the Eden District survey. Early reviews of the empirical literature on the South African economy can be found in Fourie (2006).

Investment in economic infrastructure is not only important at the national level but the regional and local levels too. Table 6.1 below illustrates the extent to which households within the Western Cape lack access to basic services (electricity, piped water and sanitation and refuse removal). Provinces with the most urgent need for Municipal water services and sanitation infrastructure requirements are KwaZulu-Natal, Limpopo and the Eastern Cape. As can be seen in comparison to other provinces the Western Cape has performed relatively well. However there is still a need for the maintenance and expansion of key strategic regional infrastructure projects in order to position the Western Cape for sustainable economic growth and poverty reduction.

Table 6.1 Municipal backlogs per province

Municipal backlogs per province	Backlog (% with service below adequate level)			
	Electricity	Piped water	Sanitation	Refuse removal
Western Cape	6	1.1	6.6	8.9
Free State	13.4	2.5	30.6	23.4
Gauteng	16.5	2.1	12.2	13.8
North West	17.7	10.1	18.4	45.2
Mpumalanga	18.3	8.7	46.1	58.5
Limpopo	19	16.4	69.2	81.3
KwaZulu-Natal	28.5	20.6	36.1	48.1
Northern Cape	12.7	5.2	45.5	27.9
Eastern Cape	34.4	29.6	51.1	60
South Africa	20	11.4	32.4	38.4

Source: Ruiters (2011:65)

There have been varying levels of infrastructure investments and development across the 131 towns outside the Cape Town Metropolitan area. Some towns have solid development potential while others are declining. A number of growth factors have contributed to this decline (Donaldson et al 2010). Amongst these factors is a deteriorating infrastructure. Municipal infrastructure consists mainly of bulk treatment plants, pump networks, pump stations treatment works, reservoirs and distribution pipelines, electricity transmission and distribution infrastructure. In some municipalities, infrastructure remains under threat and requires increasingly more astute management whilst other municipalities have invested significantly in infrastructure

provision and experience high growth rates. The following section takes a look at infrastructure investment in the Eden District and its resulting impact on growth.

6.2 Regional economic growth, infrastructure and the budget link

Empirical evidence at National level has shown that investment in economic infrastructure has a positive impact on National growth. This growth however depends crucially on provincial and municipal performance. All municipalities are tasked with basic service delivery objectives in order to stimulate local economic development. Population growth and deteriorating infrastructure has continued to place strain on infrastructure budgets. The objective of this section is to determine if there is a relationship between infrastructure investment and growth in the Eden District and to show the success the region has had in providing infrastructure.

6.2.1 Infrastructure expenditure in Eden

With the growing emphasis on infrastructure investments municipalities within the Eden District have continued in their efforts to improve infrastructure availability. Some municipalities have had relatively more success in addressing backlogs within their jurisdictions than others. The results of the 2010 Growth Potential of Towns study conducted by Donaldson et al (2010) revealed that the best performing municipalities in the Eden District using the Infrastructure index are Mossel Bay, Hessequa and George municipalities. Oudtshoorn and Knysna Municipality were rated as medium performers whilst Kannaland and Bitou were rated low according to the infrastructure index. This difference in performance may be a result of the differences in real infrastructure expenditure that have been recorded across the municipalities (see Table 6.2 below) or differing management practices. As can be seen over the period under analysis infrastructure investment was higher in Mossel Bay, Hessequa and George municipalities. Kannaland and Bitou municipalities have made the lowest contributions to infrastructure expenditure within the District. Overall in 2012 the Eden District infrastructure expenditure made up 7 per cent of the total infrastructure expenditure for the whole Province.

Table 6.2 Eden infrastructure expenditure per municipality

Municipality (R'000)	2009	2010	2011	2012
Eden District Municipality	R6 461	R25 267	R7 694	R8 087
Kannaland Municipality	R29	R10 749	R4 294	R9 470
Hessequa Municipality	R38 863	R41 529	R25 244	R39 572
Mossel Bay Municipality	R62 923	R103 189	R159 519	R56 073
George Municipality	R181 780	R180 519	R85 952	R66 180
Oudtshoorn Municipality	R11 718	R24 543	R24 190	R22 808
Bitou Municipality	R34 021	R49 984	R42 398	R10 110
Knysna Municipality	R3 0041	R59 791	R26 909	R25 776
Eden District Total Expenditure	R365 835	R495 570	R376 200	R238 076
Western Cape Province Total Expenditure	R2 517 779	R3 710 015	R2 946 769	R3 208 034

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Table 6.3 Eden infrastructure expenditure percentage change

Municipality	2010	2011	2012
Eden District	291.10%	-69.55%	5.10%
Kannaland	37 389.48%	-60.05%	120.55%
Hessequa	6.86%	-39.21%	56.76%
Mossel Bay	63.99%	54.59%	-64.85%
George	-0.69%	-52.39%	-23.00%
Oudtshoorn	109.45%	-1.44%	-5.72%
Bitou	46.92%	-15.18%	-76.15%
Knysna	99.03%	-55.00%	-4.21%
Total	35.46%	-24.09%	-36.72%

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

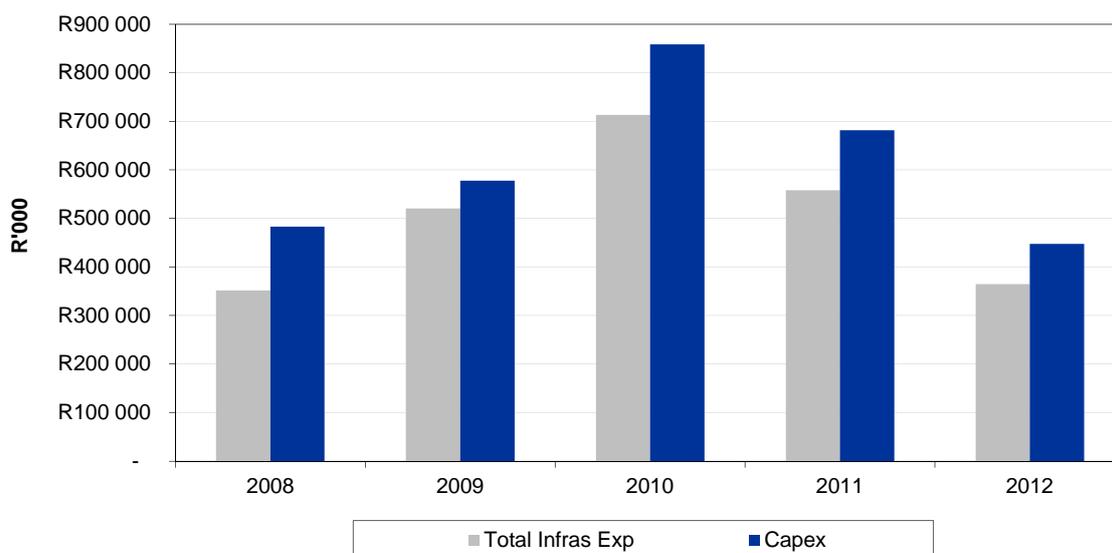
Table 6.3 presents the year on year percentage changes in infrastructure expenditure per municipality. As can be seen from the table there has been significant drops in infrastructure expenditure across most municipalities within the District in 2011. The 2009 - 2011 drought emergencies within the region generated a huge financial assistance response from National, Provincial and Local Government. Their work secured funding for a wide range of activities such as improving urban water supply infrastructure hence the drop in expenditure in subsequent years.

Kannaland and Hessequa Municipality recorded the highest percentage changes in infrastructure expenditure from 2011 to 2012 however these municipalities contributed 4 per cent and 17 per cent respectively to the total infrastructure expenditure in the Eden District. George Municipality contributed 28 per cent to the total infrastructure expenditure, Mossel Bay contributed 24 per cent, Knysna's accounted for 11 per cent, Oudtshoorn accounted for 10 per cent, whilst Bitou's infrastructure expenditure accounted for 4 per cent of the region's infrastructure spend. The differences in expenditure across the remaining local municipalities are largely related to the various budgetary constraints faced by each municipality.

6.2.2 Infrastructure budgets

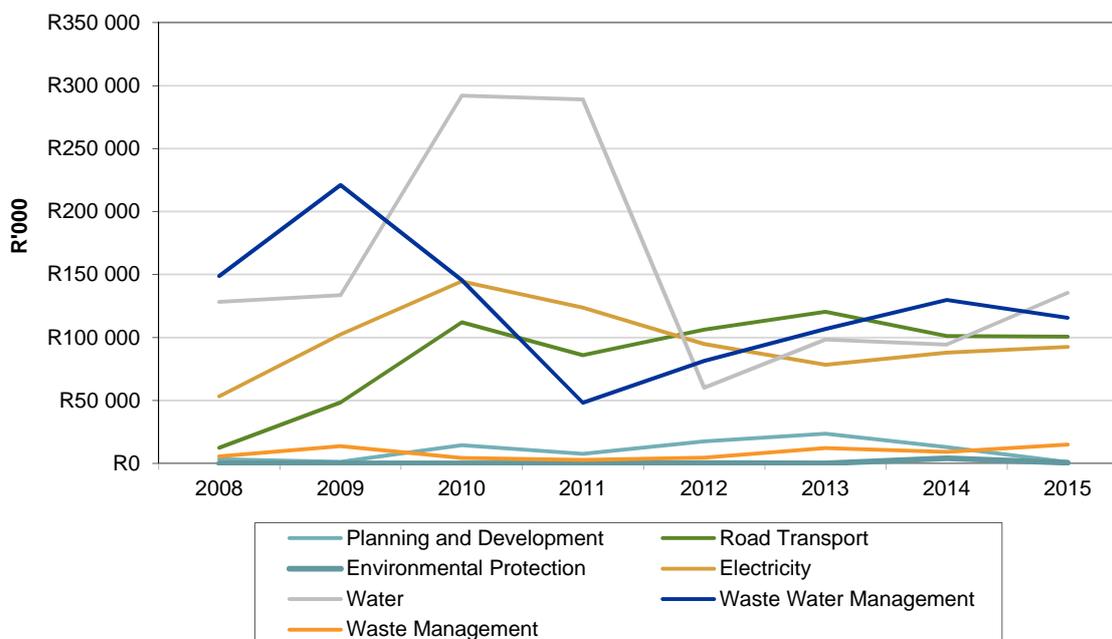
The sources of infrastructure funding at Municipal level are the National government and Provincial Government in the form of grants or from payments made by residents of the municipal area.

The National Government recognises that infrastructure investment is the cornerstone to economic and social upliftment. To this end in 2004 the Government provided local governments with a Municipal Infrastructure Grant (MIG) to complement their capital budgets. Of the capital expenditure budget allocated to municipalities within the Eden District a large percentage of it goes to Economic & Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance & Administration and Community & Public Safety. In 2012 infrastructure expenditure took up approximately 82 per cent of the entire capital expenditure budget for the whole district.

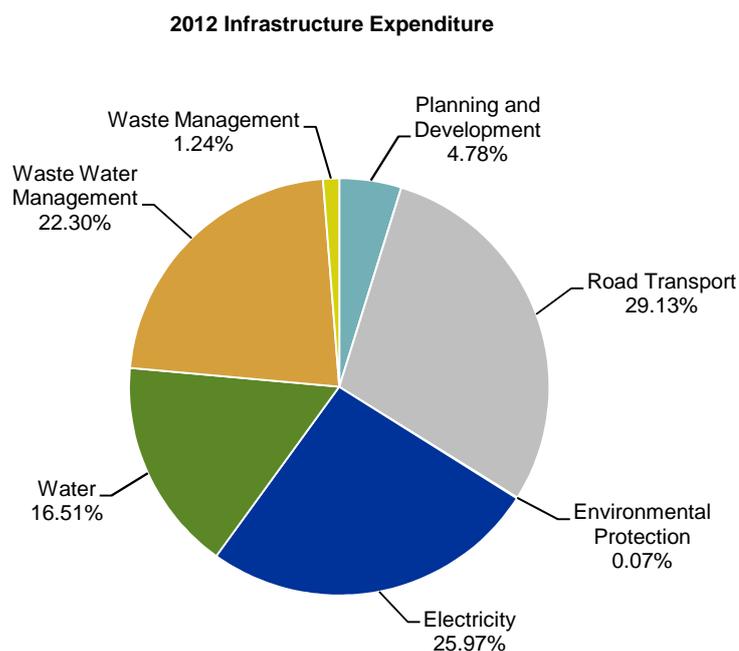
Figure 6.1 Capex vs Total infrastructure expenditure

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

However budgetary constraints call for an investigation into the types of infrastructure that would influence growth within the Eden District. "Priority should be given to infrastructure programmes that contribute to regional integration" (NDP, 2012: 159). These include projects such as revising transport links and improving access to energy or water as they form a vital part of the Western Cape economy. Since 2009 expenditure has been high on four forms of infrastructure namely: water provision, waste water management, road transport and electricity (see figure below).

Figure 6.2 Eden economic infrastructure expenditure

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Figure 6.3 Eden economic infrastructure expenditure breakdown

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Since the inception of the Municipal Infrastructure Grant Programme in 2004 a substantial proportion of it has gone to water projects, sanitation and roads. In 2012 the largest amount of funds went towards roads, electricity, sanitation and water projects, whilst planning and development and environmental protection take up the smallest portions (see Figure 6.3 above).

Both theory and empirical work at National level suggest these expenditures do have an impact on economic growth.

6.2.3 Infrastructure investment and economic growth

The impact of infrastructure investment on growth depends crucially on the individual municipalities' infrastructure investment decisions. It depends on their knowledge of the location, characteristics and requirements for infrastructure investment that has the potential to influence economic growth. Investment in infrastructure and the maintenance thereafter requires a complex mix of robust management practices. Differences in infrastructure maintenance and development may lead to vast differences in economic performance across the Eden District municipalities.

Table 6.4 Town categorisation using the infrastructure index

Municipality	Town	Infrastructure index
Bitou Local Municipality	Keurboomsrivier	Very high
	Kranshoek	High
	Kurland	Low
	Nature's Valley	High
	Plettenberg Bay	High
	Wittedrift	High
George Local Municipality	George	Very high
	Haarlem	Low
	Herolds Bay	High
	Uniondale	Medium
	Wilderness	High
Hessequa Local Municipality	Albertinia	High
	Gouritsmond	Very high
	Heidelberg	High
	Jongensfontein	High
	Riversdale	High
	Slangrivier	Low
	Stilbaai	High
	Witsand	High
Kannaland Local Municipality	Calitzdorp	High
	Ladismith	Medium
	Zoar	Low
Knysna Local Municipality	Brenton-on-Sea	Very high
	Buffelsbaai	High
	Knysna	Medium
	Rheenendal	Low
	Sedgefield	Medium
Mossel Bay Local Municipality	Friemersheim	Low
	Groot Brak Rivier	High
	Herbertsdale	Medium
	Mossel Bay	Very high
Oudtshoorn Local Municipality	De Rust	Low
	Dysselsdorp	Medium
	Oudtshoorn	Medium
	Volmoed	Very low

Source: Donaldson et al (2010)

The Growth Potential of Towns study presents a categorisation of towns in the Eden District in terms of the infrastructure index as shown in Table 6.4. As can be seen the towns with infrastructural challenges are Kurland, Haarlem, Slangrivier, Zoar, Rheenendal, Friemersheim, De Rust and Volmoed. Towns along the southern coast of the district are generally rated high and medium according to the infrastructure index.

At municipal level the George and Mossel Bay Municipality display their dominance in infrastructure investment; the municipalities also rank high in terms of economic growth within the district. George Municipality accounts for 30 per cent of the Eden Districts' real GDP (as discussed in Chapter 3) and is rated high according to the infrastructure index. It appears the largest municipalities in the district spend the largest relative amounts on infrastructure. Oudtshoorn and Knysna Municipality perform relatively well according to the infrastructure index. These municipalities have location advantages in terms of being closer to other leader towns and airport.

Average GDP growth for the local municipalities over the period 2000 - 2011 is displayed in the table below. We compare it to the level of infrastructure within that municipality as determined by the 2010 study on municipalities done by Donaldson et al (2010) (see Table 6.5 below).

Table 6.5 GDP vs Infrastructure levels at municipal level

Municipality	GDP growth	Infrastructure level
Hessequa	1.3%	High
Mossel Bay	7.6%	High
George	4.2%	High
Oudtshoorn	3.8%	Medium
Knysna	6.1%	Medium
Bitou	8.4%	Low
Kannaland	5.5%	Low

Source: Donaldson et al (2010) and Quantec Research

Interestingly the performance of Bitou, Kannaland and Hessequa Municipality contradicts economic theory. Our focus turns to these municipalities:

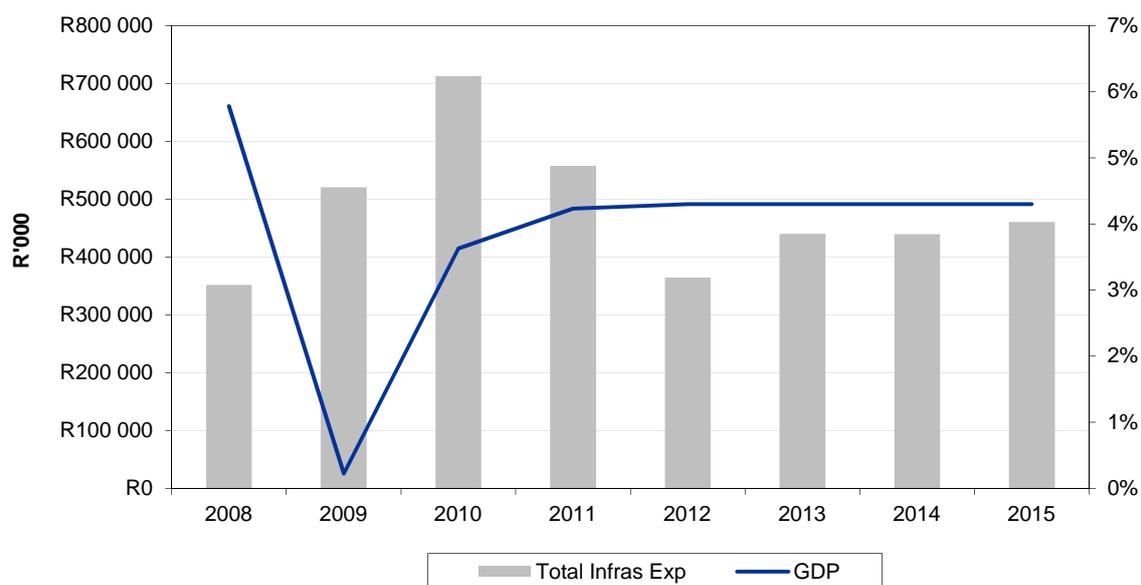
- Hessequa Municipality appears to be the lagging municipality within the region overall real GDP growth came in at 1.3 per cent per annum, 2000 - 2011. Research conducted by Donaldson et al (2010) revealed that according to the infrastructure index the Municipality performs well. This is matched by its relatively high investments in infrastructure which accounted for 17 per cent to the total infrastructure expenditure in the Eden District.

However Hessequa Municipality appears to be struggling and lagging in comparison to other municipalities within the district. The mismatch between infrastructure and growth could rest on various economic challenges the Municipality faces. A first observation is that the district hosts 3 agricultural services centres, from which two with low developmental potential were identified (Heidelberg and Riversdale). The agricultural sector and the mining and quarrying sector did not perform well over the years 2000 - 2011 contributing to the Municipality's dismal performance. The shrinking agricultural sector has impacted adversely on the retail and wholesale sector. The problem appears to be declining agriculture with insufficient growth in secondary economic activity. Nonetheless, the Municipality has the advantage of a strong infrastructure base that certainly can support its economic activity once the challenges faced by the different sectors are addressed.

- Kannaland Municipality also performed relatively well, albeit from a low base, recording a growth rate of 5.5 per cent per annum which was above the entire district's average, over the 2000 to 2011 period. Research by Donaldson et al (2010) revealed that according to the infrastructure index the Municipality performs poorly. This is matched by its relatively low investments in infrastructure which accounted for 4 per cent to the total infrastructure expenditure in the Eden District. The Municipality has severe challenges in meeting the infrastructure needs of its jurisdiction. This challenge is compounded by the rural dominance of the area, development challenges, its low revenue base, impoverished tax base and resource constraints (Kannaland IDP). The low population density, distance from large markets and arid climate put further strain on infrastructure provision. The Municipality needs to address the challenges it faces in order to move forward and become financially viable. It is important that the Municipality addresses its infrastructure backlogs in order to support its agriculture, manufacturing and business services sector that already make the largest contribution to the Municipality's GDP and continue to be the backbone of the Municipality.
- Bitou Municipality posted an impressive growth rate of 8.4 per cent per annum over the 2000 to 2011 period. However according to research by Donaldson et al (2010) revealed that according to the infrastructure index the Municipality performs below par. This is matched by its relatively low investments in infrastructure which accounted for 4 per cent to the total infrastructure expenditure in the Eden District. The low income and indigent population in the Municipality places strain on infrastructure funding.

The bottom line is that in the long term poor infrastructure in Kannaland and Bitou municipalities cannot continue supporting a thriving economy. Leaking water pipes, deteriorating roads, poor communication systems, deteriorating waste water and transport systems will eventually impact on the vibrant economic performance of these municipalities. Deteriorating infrastructure will not only have an impact on economic growth but is a risk to public health and safety.

Due to various data limitations it is not possible to give an empirical presentation of the impact that an investment in infrastructure has on economic growth. Whilst data limitations have been a tremendous challenge the graph below provides an approximation of what both theory and empirical work have established, i.e. there is a positive relationship between infrastructure investment and GDP.

Figure 6.4 Eden GDP vs Total economic infrastructure expenditure

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Empirical evidence emphasises that infrastructure investment will have both a direct and an indirect effects on GDP. The direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP. The indirect, longer term effects are a result of multiplier or knock-on effects that have a much longer term macroeconomic impact on the economy.

Various studies have tried to provide an empirical establishment of the typical impact that various forms of infrastructure expenditure would have on the economy. In South Africa, a good account of this literature is available in Fourie (2006). A study by Mabugu, Rakabe and Chitiga (2009) makes use of a static Computable General Equilibrium (CGE) modelling tool to assess the relationship between infrastructure and growth. This modelling technique is however later criticised by Mbanda (2011) as being unable to account for distributional and accumulation effects. Mabugu, Rakabe and Chitiga (2009:17) used this tool to quantify the impact that a 10 per cent increase in water, health, roads, electricity and communications infrastructure above baseline would have on the economy. The authors find that increases in public infrastructure in the different sectors have beneficial yet different macroeconomic effects. Gross Domestic Product increases due to increases in investment and consumption. Imports and exports levels, the Consumer Price Index (CPI), wages and employment levels and a variety of sectors are also affected in differing ways. Sectors with strong forward and backward linkages are affected by the increase in public infrastructure investment. The impacts of the simulations on GDP are shown in Table 6.6 below.

Table 6.6 Effect of 10 per cent increase in infrastructure on GDP

Variable	Variation (%)			
	Water	Electricity	Roads & transport	Communications
GDP	0.02	0.19	0.44	0.34

Source: Adapted from Mabugu, Rakabe and Chitiga (2009)

Their results confirm that an increase in infrastructure investment within these sectors leads to increased economic growth. The impact appears most significant in the case of transport and communications infrastructure spending. For a more detailed presentation of the macroeconomic impacts of the full simulations see Mabugu et al (2009).

The Medium Term Expenditure Frameworks envisages a notable increase in infrastructure expenditure (as shown in Figure 6.4). It is projected that GDP growth will accelerate to an average of 4.3 per cent for the year 2012 - 2017. Coupled with other growth determinants expenditure will influence GDP growth for the District.

Of course this investment in economic infrastructure would be most effective if focused on the major growth centres for which the region has comparative advantage. Infrastructure investments within these areas are likely to boost the fortunes of the district as a whole as economic linkages will stimulate a variety of other industries in the area. This could potentially benefit the lagging regions and have trickle down effects and is certainly an area for further research.

6.3 Infrastructure and inter-industry linkages: The case for sector development

The research and analysis for the Western Cape Infrastructure Framework 2013 (WCIF) has identified five core networked infrastructure systems, namely:

- Water system infrastructure
This includes the range of infrastructure related to the water cycle including bulk water resources, bulk and distribution water supply systems, wastewater collection and treatment infrastructure (including recycling) and storm-water systems.
- Energy system infrastructure
This includes the range of infrastructure related to electricity generation, transmission and reticulation. It may also include other energy infrastructures that do not involve a conversion of energy into electricity, such as fuel for transport, cooking and heating.
- Transportation and logistics system infrastructure
This includes all the different infrastructure elements that contribute to the mobility of people and goods. It includes the road network, the rail network, public transport, pedestrian and bicycle mobility, ports and airports and the freight logistics systems.

- Settlement system infrastructure
This encompasses the built environment and includes the range of public and private buildings and facilities that comprise functional settlement. Public facilities such as schools, hospitals and clinics and other government buildings will form part of this. It includes the waste management system servicing settlements.
- Telecommunications system infrastructure
This includes the range of landline, cellular and wireless networks that enable the range of electronic communications.

6.3.1 Strategic economic infrastructure and comparative advantage

The strategic intervention in relation to Economic Infrastructure in creating the enabling environment for robust and sustainable economic growth is further explored with the use of the 'revealed comparative advantage' approach explained in Chapter 3 (Table 3.4) of this report. The use of the LQ ratio serves as a 'guiding tool' in the prioritisation of infrastructure investment across the Eden District. From the analysis in Chapter 3, agriculture and agro-processing, tourism and the furniture sector (also linking to agriculture) were identified as growth industries. The construction sector is the infrastructure investment sector and has also been a strongly growing sector. Coupled with the labour absorption potential of the identified sectors, it can be deduced from the LQ ratio (with a ratio more than 1 indicating comparative advantage) and the demand for services infrastructure linked to the specific sectors, the priorities required for strategic infrastructure investment.

1. Catering and accommodation (LQ ratio – 3.10)
2. Construction (LQ ratio – 2.56)
3. Agriculture, Forestry and Fishing (LQ ratio – 2.25)
4. Food, beverages and tobacco (LQ ratio – 1.78)

Labour absorbing industries like Construction and Agriculture, Forestry & Fishing also feature prominently with Construction in particular showing robust average growth of 10.3 per cent for the period under review (2000 - 2011).

6.3.2 Drivers of change and infrastructure priorities

Provincial Economic growth has recovered (3 per cent in 2010/11) and provincial projections (PERO) indicate a modest growth rate of 3.9 per cent in the Western Cape over the coming six years, which is equivalent to growth projections for the South African economy.

The growth outlook over the coming five (5) years of each sector of the Eden District economy is shown in Chapter 3 (Table 3.3) of this report.

Based on the Sectoral Forecast/Outlook presented in section 3.2.1 of this report, key sectors expected to make notable gain in terms of Annual Average Economic

growth are discussed further with the aim of identifying the key sectors in which Infrastructure expenditure should be concentrated to further aid growth and development of these sectors (not forgetting the comparative advantage mentioned above). To this end, growth forecasts coupled with GDP per cent share, finance and insurance business services (5.7 per cent), construction (5.6 per cent), wholesale & retail trade, catering & accommodation (4.2 per cent) rank as the favourable sectors.

With the aforementioned growth projections (section 3.2.1) at the forefront of the research and analysis pertaining to Infrastructure provision in the Eden District region, the demand for services infrastructure becomes more pertinent in the achievement of robust and sustainable real economic growth and development targets. According to the WCIF 2013 study, the demand for services (infrastructure) from enterprises is dependent on the nature of the activity they are engaged with. This is difficult to assess but the scale of production and the sector of the economy provide a reasonable basis for estimation.

The following recommendations are made based on the growth projections provided and the alignment with the relevant Provincial Strategic Objective's. The summary for demand drivers in the Eden District have been captured in the WCIF 2013 Report and are 'prioritised' on the aforementioned Growth projections.

- **Construction (8.7 per cent GDP Share)**

Water and power are required on construction sites.

- **Finance, insurance, real estate & business services (18.5 per cent GDP Share)**

This is the conventional office building environment with water and sanitation associated mainly with toilets and electricity required for heating, air-conditioning, lighting and office equipment. Telecommunications infrastructure is most crucial to this sector. Waste streams are dominated by paper.

- **Wholesale & retail trade (15 per cent GDP Share)**

Generally the demand for water, sanitation and electricity relates to personal use, heating and lighting. Shops require energy for keeping goods hot or cold, as the case may be. Restaurants have specific waste profiles (kitchen waste).

- **Agriculture, forestry & fishing (5.5 per cent GDP Share)**

The biggest service concern for agriculture is water for irrigation and stock watering. Obviously this does not apply to dryland farming (wheat for example). Farms also need electricity to drive certain types of equipment, specifically if they are processing their products (which pushes them towards manufacturing entities). Road access is also a big issue for farmers as they rely on it to get inputs to their farms and deliver produce. Forestry is an indirect user of water (through diverting what would be runoff). The fishing industry utilises harbours, ports and transport networks.

6.4 Conclusion

The analysis provided in this chapter took a look at infrastructure investment in the Eden District and its resulting impact on growth. Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments as well providing a solid foundation for social development. The data presented revealed that there has been varying levels of infrastructure investments and development across the towns and municipalities within the Eden District. The differences in expenditure across the local municipalities are largely related to the various budgetary constraints faced by each municipality. Our data revealed the following:

- Hessequa Municipality's investment in infrastructure was 17 per cent of the total recorded for the entire District in 2012. The Municipality also performs well according to the infrastructure index. However Hessequa Municipality appears to be struggling and lagging in comparison to other municipalities within the district mainly as a result of a shrinking agricultural sector. The mismatch between infrastructure and growth could rest on various economic challenges the Municipality faces - most sub-sectors within this Municipality appear to be struggling. It is also important for any further investments in infrastructure to focus on the areas in which the Municipality's growth potential rests.
- George and Mossel Bay municipalities recorded the highest investment in infrastructure taking up 28 per cent and 24 per cent of the total recorded for the entire District in 2012 respectively. These high investments are also matched by high growth rates.
- Bitou and Kannaland both recorded growth rates above the average growth rates of the entire District. However according to the infrastructure index the infrastructure in these two municipalities is poor and infrastructure expenditure has been low in comparison to other municipalities in the District. The bottom line is that in the long run poor infrastructure in Kannaland and Bitou municipalities cannot continue supporting thriving economies.

In summation the positive relationship between infrastructure investment and economic growth is influenced by the structural challenges, skills shortages, budgetary constraints, human capital and mismanagements issues that each individual municipality faces. It is also crucial for municipalities to identify areas in which their growth potential lies and ensure infrastructure provision to those sectors.

As pointed out in Chapter 3, Eden District has comparative advantage in the following industries; catering and accommodation, construction, agriculture, forestry and fishing, agro-processing, non-metal minerals, business services, retail and wholesale, furniture and wood products. In order for these key growth areas to flourish it is important for them to be supported by the relevant infrastructure. In light of the drought that affected the region it is important for municipalities to be proactive and invest in drought minimising interventions. This will help protect the economy as a whole and support poor rural household whose livelihood depends crucially on agriculture.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Eden District: GDP at basic, constant 2005 prices, average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	-1.9	1.4	0.8	0.9	-0.6	6.4	1.1
2 Secondary sector [SIC: 3-5]	4.6	6.0	4.0	5.3	7.1	1.3	2.1
3 Tertiary sector [SIC: 6-9, 0]	4.9	6.6	5.0	5.8	6.5	3.5	5.0
Total: Eden District	4.1	6.0	4.4	5.2	6.1	3.0	3.9
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	2.1	1.9	0.8	1.1	-0.3	6.8	1.1
2 Mining and quarrying [SIC: 2]	-25.5	-9.2	-0.1	-4.1	-5.1	-4.2	0.2
3 Manufacturing [SIC: 3]	4.4	4.9	2.4	4.1	6.0	-1.9	2.5
4 Electricity, gas and water [SIC: 4]	5.8	2.7	-1.6	0.6	1.7	-3.6	0.5
5 Construction [SIC: 5]	4.8	12.3	9.1	10.3	12.8	9.2	1.6
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.2	6.1	4.1	5.5	6.6	0.0	6.6
7 Transport, storage and communication [SIC: 7]	9.4	7.3	3.1	5.5	7.0	1.8	3.1
8 Finance, insurance, real estate and business services [SIC: 8]	6.3	8.5	6.3	7.1	8.3	5.5	4.3
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.6	5.7	4.3	5.0	6.0	3.4	2.7
10 General government [SIC: 91, 94]	-0.5	4.2	5.8	4.5	3.7	6.1	6.1
Total: Eden District	4.1	6.0	4.4	5.2	6.1	3.0	3.9
Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	10.0	7.6	5.9	6.9	7.3	6.1	5.8
2 Secondary sector [SIC: 3-5]	27.0	27.3	27.8	27.6	27.6	28.0	27.2
3 Tertiary sector [SIC: 6-9, 0]	63.1	65.1	66.3	65.6	65.1	66.0	67.0
Total: Eden District	100	100	100	100	100	100	100
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	9.1	7.4	5.7	6.6	7.1	5.9	5.6
2 Mining and quarrying [SIC: 2]	0.9	0.2	0.2	0.2	0.2	0.2	0.2
3 Manufacturing [SIC: 3]	19.3	19.1	17.7	18.4	19.1	17.5	16.8
4 Electricity, gas and water [SIC: 4]	2.6	2.3	1.7	2.0	2.2	1.6	1.5
5 Construction [SIC: 5]	5.1	5.8	8.5	7.1	6.2	8.9	8.8
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	17.0	18.3	17.7	18.0	18.2	17.2	17.7
7 Transport, storage and communication [SIC: 7]	7.1	8.2	7.8	7.9	8.1	7.7	7.6
8 Finance, insurance, real estate and business services [SIC: 8]	19.3	21.5	23.7	22.5	21.6	24.0	24.1
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.4	5.4	5.4	5.4	5.4	5.5	5.3
10 General government [SIC: 91, 94]	14.3	11.7	11.7	11.8	11.7	11.6	12.2
Total: Eden District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Eden District: Employment (Formal & Informal), average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	-4.5	-8.3	-9.4	-8.5	-7.8	-16.9	-2.9
2 Secondary sector [SIC: 3-5]	-2.4	2.4	-1.3	0.2	2.0	-5.2	-1.6
3 Tertiary sector [SIC: 6-9, 0]	3.9	4.7	2.2	3.4	4.2	0.6	2.7
Total: Eden District	0.0	1.6	0.0	0.7	1.4	-2.7	1.3
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	-4.1	-8.2	-9.9	-8.7	-7.8	-17.5	-3.3
2 Mining and quarrying [SIC: 2]	-24.8	-13.8	19.6	1.8	-4.6	19.0	10.5
3 Manufacturing [SIC: 3]	-1.2	0.5	-2.8	-1.4	0.0	-4.9	-3.3
4 Electricity, gas and water [SIC: 4]	1.8	3.1	-0.1	0.7	2.5	-7.9	2.2
5 Construction [SIC: 5]	-3.8	4.7	0.2	1.9	4.2	-5.4	-0.1
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.7	4.3	1.2	2.5	3.5	-1.5	2.5
7 Transport, storage and communication [SIC: 7]	-0.1	3.1	-0.6	1.1	1.3	-0.6	2.1
8 Finance, insurance, real estate and business services [SIC: 8]	10.3	7.0	1.5	4.6	6.8	-2.3	2.5
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.1	4.0	1.9	3.2	4.3	3.3	-1.4
10 General government [SIC: 91, 94]	0.5	4.9	5.5	4.8	4.1	4.7	7.8
Total: Eden District	0.0	1.6	0.0	0.7	1.4	-2.7	1.3

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	26.3	17.7	9.9	14.3	17.2	9.2	8.0
2 Secondary sector [SIC: 3-5]	24.8	23.3	23.5	23.4	23.6	23.7	22.3
3 Tertiary sector [SIC: 6-9, 0]	48.9	59.0	66.6	62.3	59.2	67.1	69.7
Total: Eden District	100	100	100	100	100	100	100
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	25.9	17.6	9.7	14.2	17.0	9.0	7.8
2 Mining and quarrying [SIC: 2]	0.5	0.1	0.2	0.2	0.1	0.2	0.3
3 Manufacturing [SIC: 3]	13.1	11.9	10.8	11.4	11.8	11.0	10.1
4 Electricity, gas and water [SIC: 4]	0.3	0.3	0.3	0.3	0.3	0.3	0.3
5 Construction [SIC: 5]	11.4	11.1	12.4	11.7	11.5	12.4	11.8
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	17.8	20.3	22.6	21.3	20.6	22.5	23.2
7 Transport, storage and communication [SIC: 7]	2.7	2.9	2.8	2.8	2.9	2.8	2.8
8 Finance, insurance, real estate and business services [SIC: 8]	8.2	12.5	13.4	12.7	12.3	13.6	13.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	10.3	12.4	14.2	13.2	12.5	14.7	14.7
10 General government [SIC: 91, 94]	9.8	10.9	13.6	12.1	11.0	13.5	15.4
Total: Eden District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Eden District: Goods Exports & Imports, % composition: 1996 - 2011

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods Export (R million)							
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	20.5	47.4	61.0	52.9	44.2	72.8	67.7
2 Mining and quarrying [SIC: 2]	0.1	0.0	0.0	0.0	0.0	0.0	0.0
3 Manufacturing [SIC: 3]	79.3	52.5	38.9	47.0	55.7	29.6	32.2
4 Undefined/other	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total: Goods exports	100	100	100	100	100	100	100
Manufacturing sector: Eden District							
1 Food, beverages and tobacco [SIC: 301-306]	15.7	28.2	52.1	39.7	28.5	62.0	56.8
2 Textiles, clothing and leather goods [SIC: 311-317]	57.1	45.2	13.7	30.4	44.1	3.0	2.6
3 Wood, paper, publishing and printing [SIC: 321-326]	1.1	2.9	1.9	2.2	2.5	1.6	1.3
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	0.6	6.2	7.6	6.5	9.0	1.6	2.0
5 Other non-metal mineral products [SIC: 341-342]	0.3	0.3	0.5	0.4	0.2	0.7	1.1
6 Metals, metal products, machinery and equipment [SIC: 351-359]	1.7	1.8	4.9	3.5	2.0	6.6	5.9
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.1	0.5	0.3	0.1	0.6	1.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.1	0.1	0.2	0.2	0.1	0.3	0.4
9 Transport equipment [SIC: 381-387]	8.1	1.3	3.5	2.3	1.3	4.4	4.1
10 Furniture and other manufacturing [SIC: 391-392]	15.2	13.9	15.1	14.4	12.1	19.1	24.8
Total: Manufacturing exports	100	100	100	100	100	100	100

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods Import (R million)							
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	3.1	13.2	22.3	16.9	14.6	21.3	21.7
2 Mining and quarrying [SIC: 2]	6.1	12.8	0.2	7.4	11.1	0.1	0.1
3 Manufacturing [SIC: 3]	90.7	73.7	77.3	75.4	74.0	78.3	78.2
4 Undefined/other	0.1	0.2	0.3	0.2	0.3	0.2	0.0
Total: Goods imports	100	100	100	100	100	100	100
Manufacturing sector: Eden District							
1 Food, beverages and tobacco [SIC: 301-306]	0.6	1.6	4.8	3.1	2.8	3.7	3.0
2 Textiles, clothing and leather goods [SIC: 311-317]	6.0	20.9	17.7	17.9	18.7	16.2	17.3
3 Wood, paper, publishing and printing [SIC: 321-326]	2.8	2.9	2.5	2.7	3.0	2.3	1.5
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	14.0	22.0	11.9	17.9	22.0	9.7	10.7
5 Other non-metal mineral products [SIC: 341-342]	0.8	3.4	2.6	2.7	3.3	1.6	1.4
6 Metals, metal products, machinery and equipment [SIC: 351-359]	65.3	28.3	18.4	24.3	28.6	15.7	16.7
7 Electrical machinery and apparatus [SIC: 361-363]	2.6	3.1	2.8	3.3	3.9	2.3	1.3
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	5.2	13.2	7.7	10.2	11.7	7.1	5.5
9 Transport equipment [SIC: 381-387]	1.5	1.2	26.4	13.8	2.0	37.2	39.5
10 Furniture and other manufacturing [SIC: 391-392]	1.2	3.4	5.1	4.1	4.0	4.2	3.1
Total: Manufacturing imports	100	100	100	100	100	100	100

Source: Quantec Research/CER

Central Karoo District

Executive summary

1. Introduction

The overall objective of the Municipal Economic Review and Outlook (MERO) 2013 is similar to that of its predecessor, MERO 2012, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO).

But MERO 2013 also extends the focus and analyses of its predecessor. In addition to estimating the recent and forecasted GDP growth for each municipality and the major economic sectors and industries (Chapters 2 and 3), the current study also provides extensive analyses of the informal sector (Chapter 4), value or supply chains (Chapter 5) and the economic infrastructure (Chapter 6). Complimentary to the MERO 2013 findings is an Executive Summary detailing the key outcomes/trends related to the Socio-economic profile per District. These Executive Summaries may be located at the following website: www.westerncape.gov.za.

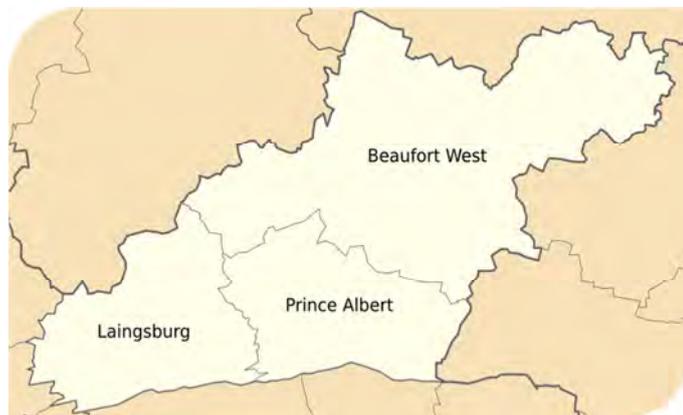
2. Regional growth trends

The global economy hit a recessionary low point in 2009 before turning around and growing at about 5 per cent in 2010 and the first half of 2011, driven largely by the United States of America (USA) and Chinese economies. Since then world growth has dipped to 2.6 per cent (in 2012 and possibly 2013), due partly to debt crises and fiscal restraint policies in the major advanced economies. But the global economy is expected to strengthen again reaching 3.1 per cent in 2014 and beyond, due mainly to expansionary monetary policies coupled with continued fiscal restraint and structural reform.

How did South Africa, the Western Cape (WC) Province and the WC municipalities respond to this hesitant and uneven global turnaround? After growing at 3.5 per cent in 2011, the South African economy followed the world trend growing at 2.5 per cent in 2012 which, according to the latest forecasts, is expected to decelerate further in 2013. The Western Cape economy fared slightly better with real economic growth in

the region decelerating from 3.5 per cent in 2011 to an estimated 3 per cent in 2012. Similar trends were recorded for formal and informal employment in the Province. However, it should be noted that the employment recovery only commenced late in 2010 and some sectors and municipal areas continue to suffer the heavy recessionary impact during calendars 2008/09.

CKD experienced a relatively mild recession in that real economic activity did not contract but only came in flat during 2009. After slowing to zero growth in 2009, the CKD economy re-accelerated again to 2.6 per cent in 2010 and further to 4.1 per cent in 2011 before dropping to 3 per cent in 2012. The impact on constituent municipalities was variable, with Prince Albert and Beaufort West (and Central Karoo DMA) growing faster than the Laingsburg Municipality.



Economic activity in the CKD is highly concentrated around Beaufort West, with vibrant light industry and financial and business services being almost the exclusive source of growth. Economic activity is sparsely dispersed in the surrounding areas where the agricultural sector is under pressure.

3. Central Karoo District (CKD): Sectoral growth

The recessionary impact on economic sectors and industries in the CKD mirrored the above trends, with the agricultural sector being worst affected. Agricultural real value added declined by 10 per cent between 2000 and 2011, however, both the manufacturing and services sectors acted as countervailing forces, limiting the net job losses. During the uncertain aftermath of the recession, however, the manufacturing (non-metal minerals, radio & TV, food & beverages, metals & machinery and electrical machinery sectors), transport, storage & communication sector and the government, rebounded quite well.

In the CKD economy 26 per cent of economic output is generated in the agriculture, manufacturing and construction sectors, which are semi- and unskilled intensive. There is a need to support these industries (e.g. skills training); combined with services, the region's light industry can absorb labour displaced in the contracting agricultural sector.

Looking at the future, an attempt was made to determine the growth potential of the 14 main industry groups in the CKD by estimating their so-called "revealed comparative advantage". Using location quotients the analysis indicated that several industries did indeed have a positive comparative advantage, including the agriculture, forestry and fishing, food, beverages and tobacco, other non-metal mineral products, construction, electrical machinery and apparatus, catering and

accommodation, transport & storage, finance and insurance, business services and community, social and personal services. Value chains or clusters of economic activity that revealed both comparative advantage and were also leading employment generating sectors were; agriculture and agro-processing, the building & construction value chain, the tourism sector, electrical machinery and the finance & insurance sector.

The CKD is forecast to grow at 3.6 per cent per annum between 2013 and 2017, driven mostly by the relatively large manufacturing (6.1 per cent), mining and quarrying (5.7 per cent) financial & related business sector (5.2 per cent) and construction (4.4 per cent). This projected growth is to some extent offset by the dismal forecasts for electricity, gas and water (-0.2 per cent) agriculture, forestry & fishing (0.5 per cent) and transport, storage and communication (2 per cent) during the same period. The transport, storage and communication forecast is linked to the projected improvement in the agricultural sector.

4. Value chains

Value or supply chains represent a collection of different industries (in the primary, secondary and tertiary sectors) that are economically interlinked in the sense of supplying inputs to or demanding inputs from one another. These inter-linkages may cut across different sectors, municipalities and districts and are important from a policy perspective as they may assist policy-makers in focussing on a more broadly based and relevant set of target areas aimed at adding local value.

Agriculture and food processing chains are relatively well developed in several of the Western Cape Districts, including the CKD. A typical scenario would be the use of a variety of farming inputs to produce an agricultural product, part of which is domestically consumed, another part being exported, and yet another part being supplied as inputs to food and beverage processors in the manufacturing sector. The latter food processors may supply to other processors within the value chain, with both groups also acquiring inputs from services and other local industries, and with the final supply either exported or domestically consumed.

The value chains chosen for analysis in the Central Karoo District are the agro-processing value chain and the building value chain. The tertiary sector is the greatest contributor to employment in the district, but the agricultural sector is a major contributor to employment of unskilled and semi-skilled labour, especially in the Beaufort West Municipality. The building or construction industry is also a major contributor to employment and GDP in the regional economy. This sector has shown significant growth and there are ample opportunities for expanding the backward and forward linkages of this sector in the Beaufort West and Prince Albert local economies.

The agricultural sector uses intermediate imports (35.2 per cent of the total) and a range of other local inputs, including wholesale & retail trade, transport & storage and chemicals. The output thus produced is locally consumed (48.3 per cent) with the rest being supplied as inputs to food, beverage and other local processors in both the manufacturing and agricultural sectors.

Food and beverage producers in turn acquire most of their inputs from the agricultural sector, and also from business services and wholesale & retail trade. Most of the food and beverage output (88 per cent) are sold to local households.

The building value chain is not, strictly speaking, a traditional value chain, in which value adding production occurs at various points along the chain. In the chain considered here, we focus on the construction sector and the supporting sectors that provide inputs to construction activities.

The largest inputs into the construction sector come from the construction sector itself, at 30.3 per cent of the total. Outside the construction sector, the largest inputs come from the non-metallic minerals sector, at 21.1 per cent, followed by intermediate imports at 19.5 per cent, with the business services sector and wholesale & retail trade sectors contributing a further 9.5 per cent and 3.8 per cent respectively. There are also many second-round backward linkages among and between these supplier industries.

From a policy perspective, it is suggested that an independent study be conducted to determine the eligibility, as well as the desirability and feasibility of the agriculture and food processing and the construction value chains for attaining Special Economic Zone (SEZ) status. The latter would entail a more broadly based industrial policy focusing on industries within the value chains, and involving all levels of government. The alternative would be a more conventional approach providing state support to selected industries within the value chains.

5. Informal sector

From a jobs, training and survivalist perspective, the informal sector is evidently of critical importance, though very little is known about it. But this information gap is being narrowed by extensive surveys of about 200 informal enterprises conducted by the Department of Economic Development & Tourism (DEDAT) in each of the five districts and the Cape Metropolitan Area. The main purpose of these surveys is to provide a profile of the sector which includes the reasons for starting up informal micro-enterprises, the nature of their businesses, employment created, skills attainment and the challenges and prospects they face.

As far as DEDAT's CKD survey is concerned, retail food and beverages were by far the largest category of business activity (51.1 per cent), followed by personal and household goods such as (the trading of) pharmaceuticals, perfumes, furniture, hardware and cleaning materials (10.7 per cent). Some 3 per cent of respondents were involved in small-scale manufacturing, including furniture making, tailoring and cobbling, while a further 4 per cent of respondents were engaged in small investment activities, including mechanical and appliance repairs, computer services and money lending. As such they are closely linked to the formal sector and also form part of value chains within the District.

The informal economy provides a means for basic skills acquisition through informal apprenticeship, with over half the sample (56.7 per cent) having acquired their skills on the (informal) job. A further 20.3 per cent reported acquiring skills through having worked in a family business. Together these results indicate that informal micro-enterprises provide an important medium for basic skills transfers to employees. Only 10.7 per cent reported acquiring skills from a former job in the formal sector. The role of formal adult education in providing skills to operate informal business is fairly limited with only 1.1 per cent reporting having acquired their business skills through formal study.

The majority of the businesses surveyed were relatively low profit earners, with 78 per cent of respondents reporting average monthly profits of just less than R2 500. For the remaining 22 per cent of enterprises that earn more than R2 500 per month their informal business enterprises propel individual earnings over the South African median, making them comparatively financially well off amongst local peers. Despite the relatively low incomes for the great majority of participants, more than 60 per cent of the survey respondents (both men and women) indicated that they would not give up their businesses in preference to a “minimum wage” job paying R126.00 per day. This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

The main reason for starting up or continuing with an informal micro-enterprise is an inability to find alternative employment coupled with the high regulatory costs involved in starting and running a formal business. The latter included the costs of registration, high taxes and difficulties in securing local government tenders. 72.3 per cent of the sample reported that their businesses were not registered in any way, while most of the remaining respondents were what one might call “partially registered”, being in possession of a municipal licence. The main reason why informal activities exist and are growing in the District is that the benefits of formalising are overshadowed by the corresponding costs.

Other constraints included a lack of access to affordable micro-financing, a shortage of business premises, a lack of electricity and water, high transportation costs and crime. As most participants in the informal sector are generally poor, though surviving and adding value, policies addressing these constraints may simultaneously help to combat poverty and promote growth.

An independent research study could focus on policies in general and more specifically on provincial strategies aimed at addressing some of the constraints discussed here, including the introduction of a more flexible and affordable registration system; the provision of appropriate infrastructure services at designated business premises; securing the safety of such premises; and assistance with collaterals in respect of micro-financing.

6. Economic infrastructure

Both the national and provincial governments view infrastructure as an important means of promoting sustainable growth and reducing poverty, with the national government having allocated large portions of its budget for this purpose. Economic infrastructure – which is the focus here – includes road building and maintenance, transport, water supply, electricity transmission, pump stations and piped networks, and sanitation facilities; whilst social infrastructure refers to health, education and a range of social grants.

Economic theory and empirical work suggest that public investment in infrastructure will lower production costs and boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect”. In fact, a recent World Bank study found that the contribution of infrastructure investment is substantial and often greater than that of investment in other forms of capital.

The latter proposition is partly borne out by the fact that the Western Cape Province has the lowest incidence of infrastructure backlogs and also grew more rapidly than other provinces and the country as a whole. A similar relationship seems to hold in the CKD where the Beaufort West Municipality recorded the highest growth and also spent by far the highest proportion of total infrastructure spend in the District; while the opposite applies to the poorer municipalities, Laingsburg and Prince Albert.

Among municipalities and towns within the CKD infrastructure backlogs do however vary significantly, with several towns, including Murraysburg, Matjiesfontein, Leeu-Gamka and Prince Albert, experiencing backlogs in respect of road transport, water provision, wastewater management and electricity transmission.

It is important to note that different economic sectors and communities require a different mix of infrastructure services. In agriculture, for example, the greatest needs are water, electricity and road/rail transport to deliver its outputs to agro-processing industries in the manufacturing sector. Likewise, the needs of manufacturing vary significantly from water and electricity to the removal of hazardous waste. Among poor communities infrastructural needs include sewage removal, electricity and municipal roads and pavements.

It may be worth doing an independent study looking at the different infrastructure needs of different sectors, industries and municipalities. Such a study can be simply based on personal interviews with relevant stakeholders; and also help to prioritise municipal budgets.

A final comment refers to pressing budgetary constraints as revealed in the CKD survey conducted for this report. Respondents to the CKD survey claimed that the levy replacement grant has been incorrectly calculated as it has been increasing by 2 to 3 per cent compared to an inflation rate of between 5 and 6 per cent for the past several years. Thus they have experienced a real income decline year-on-year. Similar problems were experienced in respect of the capital expansion of the bulk water service infrastructure. As far as service delivery is concerned, the CKD survey highlighted the need to revise the funding model for district municipalities, including the assignment of functions to municipalities and other spheres of government, and funding to deal with emergencies on a regular basis.

1

Introduction

1.1 Background and purpose of study

The origin of the Municipal Economic Review and Outlook (MERO) studies can be traced to the earlier microeconomic policy research programme launched and conducted by the Provincial Department of Economic Development and Tourism (DEDAT)¹. The subsequent MERO research reports provide a more focused institutional framework for microeconomic analysis – in the form of the Districts and their constituent municipalities. Internationally too there has been a shift in favour of focusing on microeconomic policy issues at local government level.

MERO 2013 follows on from its predecessor, MERO 2012, and also extends it in several important ways, as discussed below. The overall objective remains the same, i.e. to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at District/Municipal level, and serving as a companion study to its provincial counterpart, the Provincial Economic Review and Outlook (PERO). Using the district municipalities as our broad demarcation, MERO 2013 will probe and interrogate each and every municipality in the Western Cape Province to provide the economic intelligence needed to propel the municipal economies onto a higher growth plain and ensure sustainability at the same time.

1.2 MERO 2013: What's new?

Using the latest data from Quantec and other secondary sources, the analysis of the district and municipal growth, employment and skills data is extended in MERO 2013 in order to ascertain how the economic recovery (2010/11) has been progressing among different sectors and industries at the municipal level. This prompted an attempt to estimate the *revealed comparative advantages* of sectors and industries

¹ Kaplan, D (ed.) (2008): Micro-Economic Development Strategy for the Western Cape (MEDS) - Synthesis Report.

at the local government level. Location quotients were used to measure the performance of industries in the Central Karoo District relative to the same industries in the reference region, i.e. the province or nation.

Following on from the 2012 feedback, many micro and small enterprises operate within the *informal sector*, and yet there is little or no data available on these enterprises. Although it serves as a means of survival for many unemployed poor persons, certain informal activities may help develop basic skills, create linkages with the formal sector, and ultimately become a source of sustainable growth. Apart from the need for desktop searching, the required data was obtained from the municipal survey and from important work being done at DEDAT.

The DEDAT survey of the informal sector in Central Karoo brought into focus some of the strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may well benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

The 2012 MERO study found that agro-processing is an important industry that forms part of *value or supply chains*, or clusters, that also contain manufacturing and service industries within and across different districts and municipalities. This issue is taken further here by identifying and quantifying other existing and potential inter-industry linkages that can be clustered together for policy purposes. For this purpose Quantec's input-output model and Stats SA's supply-and-use tables were used to estimate the size and extent of two value chains in the Central Karoo District. Having done so, it is recommended that an independent study be conducted to consider the suitability of these value chains as potential Special Economic Zones (SEZs). The latter study would require information about the conditions for SEZ status and the roles played by **the dti**, the provincial government and the national government.

Following on from the 2012 MERO study, there is a need to determine the extent to which *municipal infrastructure spending* (water, electricity, sewerage, refuse, roads) is prioritised and indeed implemented in accordance with pre-determined targets. The present study therefore compares municipal actions with plans, identify problem areas, and suggest policy actions where necessary.

Infrastructure spending is an important prerequisite for poverty relief and economic growth, and it is critical that the actions taken by the provincial government, individual municipalities and electricity suppliers be coordinated in order to maximise the returns to their respective infrastructure investments.

1.3 Outline of report

The rest of this report consists of 5 parts. Chapter 2 provides the broad macroeconomic context within which the Central Karoo District operates. Its primary aim is to translate the macroeconomic forces and determine their impact on the dominant sectors in the District. Chapter 3 uses and refines the latest Quantec data to estimate recent trends in the growth of GDP per economic sector and employment for each municipality, with special attention being given to the agricultural, manufacturing and services sectors. Using the latest PERO, estimated comparative advantages and relevant municipal data the chapter provides a forecast of municipal GDP and employment growth for the next 5 years. An attempt is also made to highlight the skills requirements of especially the faster growing sectors and industries within Central Karoo.

Chapter 4 identifies and quantifies two important value chains within Central Karoo, i.e. the agro-processing chain and the building chain. With both being relatively substantial (and job-intensive) they may be flagged as possible independent studies to determine their eligibility for SEZ status. Chapter 5 reports on the results of a survey of 200 informal enterprises, focusing on their size, age, type of business and, importantly, their outlook for the future. As far as the latter is concerned, it would seem that informal entrepreneurs take a positive future view of their own businesses and of the Central Karoo District, much like their municipal counterparts did in their responses to the Central Karoo municipal survey. Chapter 6 considers and compares infrastructure spending in the Central Karoo District, and finds that faster growing municipalities spend more on economic infrastructure than do their slower-growing counterparts. Different sectors, industries and value chains also require different types of infrastructure which may change over time.

2

Economic outlook

2.1 Introduction

This chapter provides a concise macroeconomic overview of the Central Karoo District (CKD) economy. The focus of the chapter is on the district economy. The regional economy is the smallest in the Province (accounting for less than one per cent of GDP and employment). While agriculture is a cornerstone of the region, the sector has been declining causing other sectors to under-perform, e.g. retail, catering & accommodation and transport & storage. However, a notable feature of the regional economy is the vibrancy of its light industries and construction, while other services such as finance & business services are expanding rapidly. The aim of the chapter is to translate the macroeconomic forces and its impact at the district level. To this end, a brief overview is first provided of the global, national and provincial economic developments and prospects. In the final section, the macroeconomic review & outlook for the CKD economy is considered. In Chapter 3 a more in-depth sectoral analysis is conducted of the CKD economic growth and employment prospects.

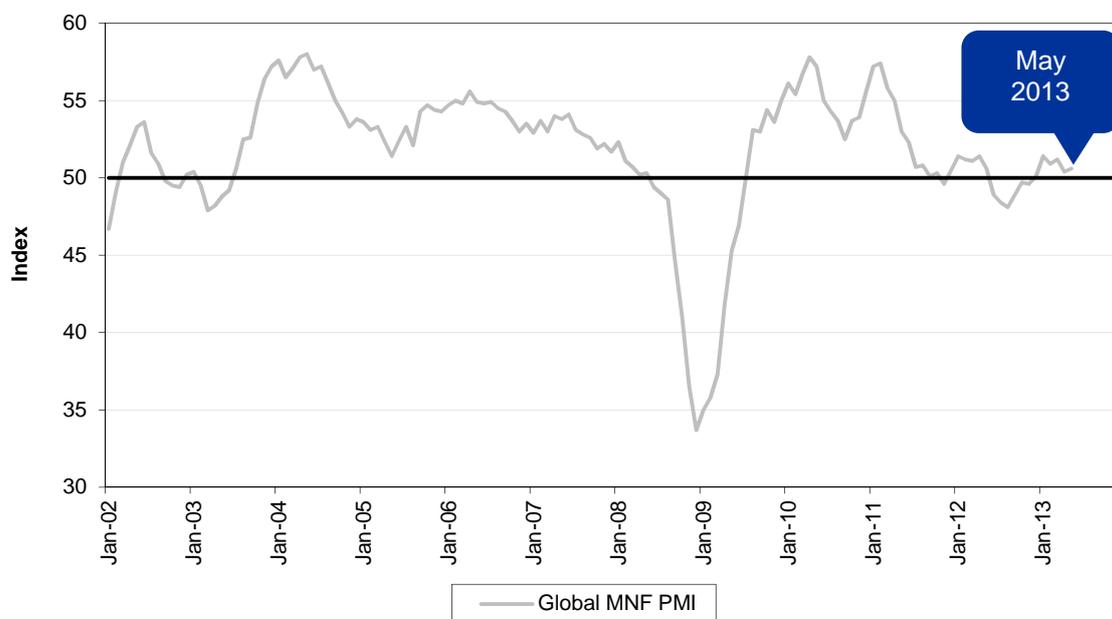
2.2 Global, national & provincial economic developments

The **global economic outlook** remains uncertain and loaded with risk. From a decent rebound since the end of 2009 the world economy recovered strongly during calendar year 2010 (registering real GDP growth of 5.3 per cent) and the first half of 2011; however, since then the growth pattern has been hesitant. The fiscal consolidation and outright austerity in the major advanced economies became a significant drag on global growth and during both the middle quarters of 2011 and 2012 growth dipped. The 2012 slowdown alarmed the policy authorities in all the major advanced economies and beyond, who responded with forceful policy action – quantitative easing, forward guidance on interest rates at zero bound levels and in some parts even fiscal stimulus (e.g. China) – in order to avert a second leg of the

Great Recession of 2008/09. In April 2013 Japan embarked on an extensive economic stimulus programme including quantitative easing, in order to rid that economy from deflation.

The accompanying chart shows that the policy authorities achieved a measure of success, with the composite global manufacturing PMI edging higher from a low point of 48.1 index points in August 2012 to 52.1 points in March 2013. While the April/May readings came in somewhat lower including services, the May reading stood at 53.1 index points. These readings are consistent with the world economy expanding at a steady pace just below trend. Whilst questions regarding sustainability remains, the outlook is for the current uneven improvement in global economic activity to become better synchronised during the second half of the year and next year. The IMF forecasts global real economic growth to move sideways at 2.6 per cent in 2013 (i.e. at a similar rate compared to 2012) and then to accelerate to 3.4 per cent in 2014².

Figure 2.1 The Global Manufacturing PMI edges above the critical level of 50 index points



Source: JP Morgan, June 2013

The USA economy has managed to progress at a rate around 2 per cent (year-on-year) and this remains the outlook even though fiscal tightening is expected to take some toll in 2013. The housing sector appears to be responding well to the stimulatory policies; the unemployment rate is trending lower gradually and payroll employment continues to increase at a moderate pace. The Fed is targeting an unemployment rate of 6.5 per cent (poised at 7.6 per cent in May 2013) and the zero-bound interest rates, aggressive bond buying (quantitative easing) and central bank communications are likely to persist in order to instil confidence in the market and within the corporate sector to step-up fixed investment and employment creation.

² At purchasing power parity exchange rates the corresponding figures are 3.3 per cent and 4 per cent.

The European economy was expected to emerge from recession early in 2013; however, going by the latest economic indicators (with the composite Euro area PMI dipping to 45 index points in March), the region is only expected to emerge from recession during the second half of the year. Unemployment rates are at record highs, particularly in the peripheral southern European countries and popular resistance against the fiscal austerity measures appears to be growing. The region is forecast to contract by a further 0.3 per cent in 2013 on top of the 0.6 per cent contraction in 2012; only moderate growth is projected for 2014.

Economic conditions are generally more lively in Asia currently, with China's real GDP growth rate coming in at 7.7 per cent during the first quarter of 2013. However, growth appears to have decelerated further during the second quarter as the Chinese economy rebalances towards a more sustainable (read: lower) trend growth rate. An overheated property sector remains cause for concern and financial volatility emerged during the second quarter as the authorities attempt to rid the economy from excesses, leading to a general scaling down of forecasts in line with the official targeted growth rate of 7.5 per cent.

In Japan, the new political leadership (and Governor of the Bank of Japan) has implemented radical economic stimulus policies to rid the economy from the grip of deflation, including aggressive quantitative easing and fiscal expansion in order to achieve a 2 per cent inflation target. An atypical recovery in household spending attests to the probability that the stimulus measures are having the intended impact; however, analysts remain unsure regarding the sustainability of the turnaround, with forecast for real GDP growth remaining around 1 - 1.5 per cent.

The uneven growth pattern in the global economy is also clear in the emerging market group of countries, with particularly India and Brazil under performing in terms of their recent growth performance. However, real GDP growth is still projected between 5.5 and 6 per cent over the short term, suggesting the emerging economies will continue catching-up with the advanced economies and remain a key source of demand for South Africa's goods. The favourable outlook for economic growth in Sub-Saharan Africa also continues to be an area for closer ties with Southern African producers in terms of expanding trade and investment.

Table 2.1 World economic growth outlook: 2012 – 2014 (%)

Country	2012	2013	2014	Country	2012	2013	2014
Advanced countries				Developing countries			
USA	2.2	1.9	3.0	Developing Asia	6.6	7.1	7.3
Japan	2.0	1.6	1.4	China	7.8	8.0	8.2
Euroland ¹	-0.6	-0.3	1.1	India	4.0	5.7	6.2
Germany	0.9	0.6	1.5	Latin America	3.0	3.4	3.9
UK	0.2	0.7	1.5	Central & East Europe	1.6	2.2	2.8
Canada	1.8	1.5	2.4	Sub-Saharan Africa	4.8	5.6	6.1

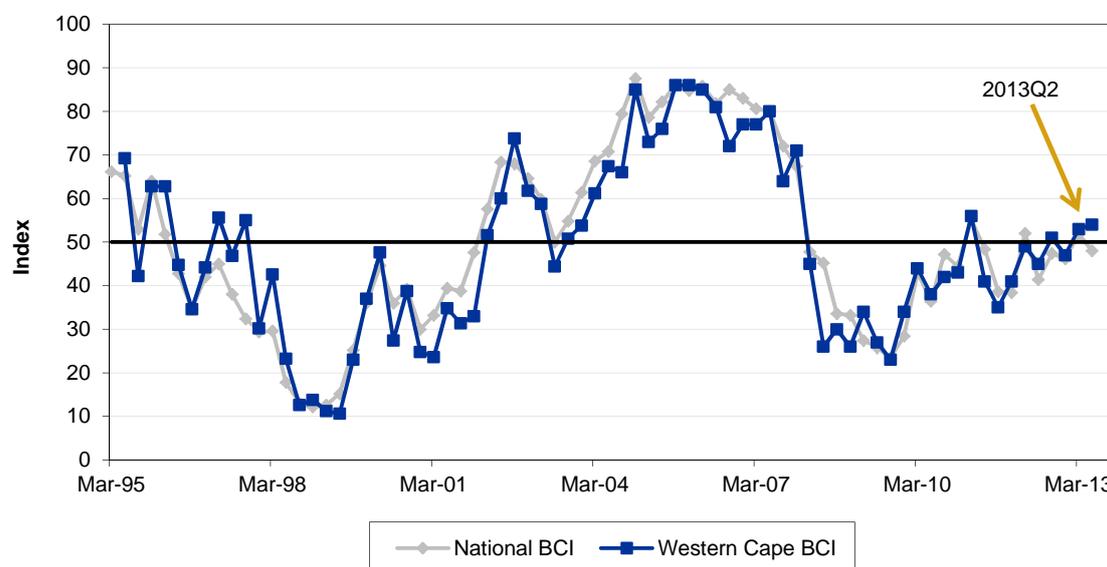
¹ The 17 Euro countries

Source: IMF World Economic Outlook, April 2013

In all, the global economy is trapped in a multi-year slow and uneven growth trajectory, with emerging economies growing significantly faster than the advanced economies. The emerging economies are being affected by the advanced countries' attempts to deleverage from high debt levels. The implication is that general inflation is unlikely to become a problem anytime soon and that interest rates could remain low for the foreseeable future (at least until the end of 2014). Unfortunately, in this environment the outlook is not positive for commodity prices. Key commodity prices have been trending lower since mid-2011 and could remain under pressure as demand conditions remain lacklustre and new production capacity comes on stream in coming years (related to the long lead times of mining developments). Regarding food prices, the latest development has been a softening in grain prices on the back of favourable harvests in the USA.

The **South African economy** has been impacted by the hesitant growth in her main trading partner economies and, domestically, the deep-seated labour market instability which broke out during the third quarter of 2012 causing a major drag on business, investor and consumer confidence as well as real economic growth. Real GDP growth slowed to 2.5 per cent in 2012 from 3.5 per cent in 2011 and is likely to slow further in 2013 (the first quarter annualised growth rate amounted to 0.9 per cent). The RMB/BER Business Confidence Index has been slow to recover since the 2009 recession, with the index tending to oscillate around the neutral level of 50 since the end of 2010. The brittle business confidence levels, combined with less than robust demand conditions in the world economy and domestically, do not bode well for private fixed investment spending and employment creation.

Figure 2.2 Hesitant recovery in business confidence since 2009



Source: BER, June 2013

A key development during the course of 2012 has been the slowdown in the consumer sector, which has been the mainstay of the economic recovery witnessed since the end of 2009. The consumption-led recovery lost momentum due to the lack of employment creation, lower wage increases, the impact on household budgets of higher electricity, petrol and food prices and a general decline in consumer

confidence – the FNB/BER Consumer Confidence Index declined from 11 index points in 11Q2 to -7 in 13Q1.

In a typical business cycle private fixed investment spending replaces consumer spending as the main driver of growth two to three years into the recovery. However, private fixed investment intentions were dealt a severe blow during the third quarter of 2012 due to the deep-seated labour market instability in the mining and Western Cape agricultural sectors. A real danger exists that the 52 per cent increase in the minimum wage in the agricultural sector, as well as the wage settlements in the mining sector will lead to mechanisation and employment losses in the coming months, adding to the woes in the consumer sector.

Table 2.2 South Africa: BER forecast for selected economic variables: 2013 – 2014 (%)

	Estimate	Projections	
	2012	2013	2014
Final household consumption expenditure	3.5	3.0	3.9
Government consumption expenditure	4.2	3.5	3.6
Gross fixed capital formation	5.7	3.5	5.1
Real GDE	4.1	3.1	4.2
Total exports	0.1	3.5	6.4
Total imports	6.3	4.9	8
Real GDP	2.5	2.6	3.5
Total employment (formal & informal)	1.2	1.0	1.6
Inflation (annual averages)			
CPI (Headline)	5.6	5.9	5.4
PPI (All items)	6.9	5.5	4.8
Exchange rates (annual averages)			
R/US\$	8.5	8.5	8.5
R/Euro	8.69	8.9	8.5

Source: BER Economic Prospects, April 2013

The rand exchange rate has depreciated sharply since the middle of 2012 and came under additional pressure recently following the Federal Reserve's announcement regarding the likely tapering of its bond purchase programme later in the year, which caused financial market uncertainty and capital flight from emerging market currencies.

The expectation is that a sustained recovery in the world economy, combined with the more competitive levels of the rand exchange rate will stimulate exports – South Africa's exposure to the faster-growing Asian region in terms of primary commodity exports has grown in recent years and its manufacturing exports are increasingly penetrating rapidly-growing African markets. Furthermore, the government's infrastructure investment drive remains a key growth support and should crowd-in private fixed investment spending. Core inflation is also expected to remain contained (bar an unexpected further sharp currency depreciation), which should keep interest rates at a low level for the foreseeable future (end-2014). Fiscal policy is finely balanced in terms of its counter-cyclical stance necessary to support the lacklustre growth in the economy and the imperative to narrow the budget deficit

(measuring 5.7 per cent of GDP in fiscal 2013) over the medium term. In this context the deceleration in real GDP growth is not expected to be contained around 2 per cent in 2013 and to recover closer to a trend growth rate next year – see Table 2.2.

The **Western Cape economy** grew at a rate of three per cent during calendar 2012 compared to the 2.5 per cent real GDP growth rate of the national economy as the region did not experience the impact of the sharp decline in mining output experienced in other regions. However, economic activity was impacted adversely by the unrest in the agricultural sector, which erupted towards the end of the year. Real economic growth in the region decelerated from 3.5 per cent in 2011 to an estimated three per cent in 2012. The slowdown was mainly driven by the impact of weaker global economic growth and the recovery in the national consumer sector running out of steam.

Table 2.3 Western Cape economy sectoral growth and employment: 2000 - 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend 2000 - 2011	Recession 2008 - 2009	Recovery 2010 - 2011	Trend 2000 - 2011	Recession 2008 - 2009	Recovery 2010 - 2011
Agriculture, forestry and fishing	2.0	8.2	-0.8	-186 297	-48 263	-5 874
Mining and quarrying	-1.4	-7.5	1.1	1 138	872	871
Manufacturing	2.7	-3.3	4.3	-63 932	-27 506	-1 828
Electricity, gas and water	2.8	-1.6	1.2	1 487	-1 370	764
Construction	7.1	5.5	0.7	-14 843	-17 160	735
Wholesale and retail trade, catering and accommodation	4.4	-0.6	4.3	70 280	-4 115	16 461
Transport, storage and communication	5.1	2.0	2.5	6 858	479	6 778
Finance, insurance, real estate & business services	5.8	3.9	2.9	105 169	-18 699	10 452
Community, social and personal services	3.0	1.4	1.3	46 831	9 333	-5 016
General government	2.4	4.2	3.9	71 647	12 189	23 763
Total Western Cape economy	4.1	1.7	3.0	38 338	-94 241	47 107

Source: Quantec Research/CER

Achieving inclusive economic growth

The WCG remains committed towards achieving labour-absorbing economic growth in the Province. The following initiatives were, amongst other, announced in the 2013 Provincial Budget aimed at sustaining and expanding the 250 000-plus job opportunities in infrastructure development in the social, economic and environmental sectors in the very successful Expanded Public Works Programme (EPWP):

- R140 million towards road building, education & health infrastructure, neighbourhood security services, Cape Nature, sports training, home-based care for the elderly and the infirm and fire fighters.
- R112 million towards skills training for the unemployed youth, e.g. the creation of 3 000 on-the-job training opportunities with the Work & Skills programme; the training of 200 artisans in the Artisan programme and the employment of 100 unemployed post-graduate students in the CAPACITI 1000 programme.
- Finally, the WCG also accommodates paid internships training skilled public servants and runs the Masakh'iSizwe programme offering bursaries to student engineers in the engineering and built environment fields.

Table 2.3 shows the sectoral growth and employment trends in the Western Cape economy. Whereas growth trended at 4.1 per cent per annum (this compares to 3.6 per cent per annum nationally), it slowed sharply during the recession years (i.e. 2008/09) to 1.7 per cent per annum. The sharp contraction in the manufacturing sector (3.3 per cent per annum and with this sector contributing around 17 per cent of GDP) is notable and – to a lesser extent – that of mining, electricity & water and wholesale & retail. Sustained growth in the agriculture, forestry & fishing sector, construction, transport & communication, finance & business services, CSP services and – importantly – the general government in an attempt at (national) counter-cyclical fiscal policy ensured the continued expansion of the regional economy.

As one would expect, the rate of employment creation deteriorated during the recession years – from trending at 0.6 per cent per annum (i.e. around 38 000 net additional jobs, 2000 - 2011), net retrenchments amounted to 2.7 per cent per annum (i.e. around 94 000 net job losses per annum, 2008 - 2009) during the recession. During the economic recovery the rate of employment creation was restored to 1.4 per cent per annum (i.e. around 47 000 net new jobs).

A notable feature of the recovery years (2010 - 2011) is the strong performance of the manufacturing sector at 4.3 per cent per annum, actually rising above trend growth at 2.7 per cent per annum. However, this was in large part a rebound from the sharp contraction in 2008/09 and it could not stem the employment losses in the sector – both agriculture and manufacturing reported sustained net job losses during the economic recovery, as well as the CSP services sector. The strongest job growth during the economic recovery occurred in the tertiary sectors, with the general government leading the way and followed by retail, wholesale, catering & accommodation, finance & business services.

Table 2.4 Western Cape: Growth forecast for real GDP: 2013 – 2017 (%)

Sector	2012e	2013f	2014f	2015f	2016f	2017f	Average annual growth, 2013 - 2017
Agriculture, forestry and fishing	1.7	0.8	2.0	1.7	1.8	2.0	1.7
Mining and quarrying	-5.1	1.3	1.0	0.6	1.0	1.2	1.0
Manufacturing	2.0	2.5	2.7	3.0	3.6	3.3	3.0
Electricity, gas and water	-1.4	2.6	2.9	2.7	3.0	2.8	2.8
Construction	2.6	4.1	4.6	4.6	5.0	5.3	4.7
Wholesale and retail trade, catering and accommodation	4.3	3.3	3.7	3.9	3.8	4.0	3.8
Transport, storage and communication	2.5	3.2	4.1	4.5	4.5	4.8	4.2
Finance, insurance, real estate and business services	3.5	3.5	4.5	4.8	5.1	5.3	4.6
Community, social and personal services	2.0	2.6	2.8	3.0	3.0	3.2	2.9
General government	3.5	2.5	3.0	3.0	3.2	3.0	2.9
Total Western Cape	3.0	3.0	3.7	3.9	4.1	4.2	3.8
Primary sector	1.4	0.8	2.0	1.7	1.8	2.0	1.6
Secondary sector	1.9	2.8	3.1	3.3	3.8	3.7	3.3
Tertiary sector	3.4	3.2	3.9	4.2	4.3	4.5	4.0

Source: Western Cape Government: Provincial Budget Review, February 2013 (e = estimate; f = forecast)

Regarding the outlook for real economic growth in the region (see Table 2.4), the weakness in the global economy, the second quarter financial volatility, brittle business and consumer confidence and the slowdown in the (national) consumer sector are likely to continue to weigh on the provincial economic performance during calendar 2013. Real GDP growth is forecast at a similar rate compared to 2012 (i.e. three per cent per annum) and projected to accelerate thereafter, with an average real growth rate of 3.8 per cent over the medium term³.

During both calendar 2013 and the remainder of the forecast period, the tertiary sector is expected to drive real economic growth in the region, with growth averaging 4 per cent per annum, 2013 - 2017. However, the slowdown in the consumer sector will likely drive somewhat slower growth in the tertiary sector in 2013 compared to 2012, whereas the secondary sector recovery is projected to strengthen from 1.9 per cent average growth in 2012 to 2.8 per cent in 2013 and projected at 3.3 per cent over the medium term.

2.3 The Central Karoo District (CKD) economy

In the 2012 MERO report the structure of the CKD economy was discussed in detail. While the CKD economy is small, contributing close to one per cent of the Western Cape GDP and employment, its growth has been mixed and characterised by pockets of strength amidst some under-performing sectors. A key challenge for the region is its shrinking agricultural sector, impacting adversely on the retail & wholesale trade as well as transport & storage, with each being important services sub-sectors in the region. This challenge is being met with the rapid expansion of light industries (growing off a low base) while financial & business services also grow strongly. Three quarters of the regional economy consist services. It has been light manufacturing, construction and financial & business services driving the growth in the region, which came in close to the provincial average of 4.1 per cent per annum.

The finance, insurance, real estate & business services sector accounts for 27 per cent of GDP and grew by close to 8 per cent per annum over the period 2000 to 2011. Furthermore, the share of manufacturing in GDP almost doubled from 6 to 11 per cent over the corresponding period, while construction activities grew close to double digit rates. Apart from agro-processing activities which account for more than a third of manufacturing real value add, building materials fabrication, metals & engineering and electrical machinery are the key contributors to the region's manufacturing sector (with the value of GDP amounting to R220 million in 2011).

The CKD experienced a relatively serious recession impact in 2009, with growth stalling that year following very rapid expansion in the preceding years (real GDP growth averaged 5.7 per cent per annum, 2004 - 2008). However, while the recession did impact on manufacturing (with growth receding from double digit rates to 1.9 per cent in 2009), the main contraction occurred in agriculture (close to 8 per cent), which spilled over the retail & wholesale and transport & storage given the strong

³ The forecast was compiled with information known up to and including the middle of June 2013; it is possible that growth may be slower during 2012/13 than forecast here.

linkages between these sectors. Somewhat inexplicably the community, social & personal services sector also contracted. While only 7.4 per cent of the regional workforce lost their jobs in 2008 - 2009 during the recession, this accounted for close to half of all net job losses over the complete 2000 - 2011 period. The job losses stabilised and recovered somewhat during the first two years of economic recovery, 2010 - 2011. Real GDP growth is estimated to have slowed down from 4.1 per cent in 2011 to 3 per cent in 2012 in line with the slowdowns in the global and national economies.

Table 2.5 Central Karoo District: Sectoral contribution to recovery growth: 2010 - 2011 and employment creation

Sector	Ave real GDP growth 2010 - 2011	% point contribution	% share	Net employment creation 2010 - 2011
Agriculture, forestry & fishing	2.1	0.2	5.7%	90
Mining & quarrying	0.8	0.0	0.0%	1
Manufacturing	5.8	0.6	19.1%	-37
Electricity, gas & water	-0.3	0.0	-0.1%	3
Construction	1.3	0.1	2.2%	-8
Wholesale & retail trade, catering & accommodation	2.6	0.4	10.8%	-30
Transport, storage & communication	3.2	0.4	11.6%	13
Finance, insurance, real estate & business services	4.0	1.1	32.6%	89
Community, social & personal services	1.1	0.1	2.2%	-143
General government	4.1	0.5	16.0%	178
Total District economy	3.3	3.3	100.0%	156

Source: Quantec Research/CER

Table 2.5 shows the sector spread of the recovery growth in the district economy during calendars 2010 - 2011, including net employment creation over the corresponding period. From the table it is clear that the growth in the finance, insurance, real estate & business services sector contributed strongest to the economic recovery in the region, followed by manufacturing and the general government's counter cyclical fiscal policy. A welcome recovery in the agricultural sector also restored some growth in the region's relatively large retail & wholesale and transport & storage sectors, assisting the general economic recovery. Unfortunately, small job losses persisted in manufacturing, construction and the retail & wholesale trade during the first two years of economic recovery. The community, social & personal services sector also continued to shed jobs; however, this was more than compensated for by the new jobs in the public sector.

The sectoral prospects are considered in more detail below and in Chapter 3.

2.3.1 Current profile – growth and employment trends in a provincial context

Table 2.6 and Table 2.7 show the composition of the CKD economy in the context of the five other districts of the Province. Similar to all the other Western Cape districts, the finance, insurance, real estate & business services sector is the largest in the region. In the CKD this sector accounts for 27 per cent of GDP, which is the same as for the Overberg, the second smallest regional economy in the Province. The relative share of this sector in Eden and the West Coast is slightly less, but of the same order; only in the Cape Metro this sector is much more prominent, both in relative and absolute terms. Where the CKD's economic structure deviates somewhat, is the relatively small size of its manufacturing sector (contributing only 11 per cent of GDP); however, as noted, this sector is expanding rapidly from a low base and also played an important part in the region's recovery from the recession. The other notable feature of the CKD's economic structure is the relative large contribution of the transport, storage & communication sector. This region sells most of its produce in the rest of the country and given the geographical remoteness transport & storage is a key economic function. Finally, the relative contribution of the government sector at 13 per cent is the largest compared to the other Western Cape regions, albeit only moderately so.

Table 2.6 Central Karoo District economy in provincial perspective: Sectoral composition: 2011 (%)

Sector	Central Karoo	Cape Metro	Cape Winelands	Eden	West Coast	Overberg
Agriculture, forestry & fishing	9.0	1.4	11.1	5.5	14.6	11.6
Mining & quarrying	0.1	0.1	0.2	0.2	0.7	0.1
Manufacturing	11.1	15.9	24.2	16.5	17.7	16.2
Electricity, gas & water	1.1	1.5	0.9	1.5	0.9	1.2
Construction	5.6	3.9	3.5	8.7	4.3	7.7
Wholesale & retail trade, catering & accommodation	13.9	15.2	13.8	17.9	12.8	13.9
Transport, storage & communication	12.2	10.9	7.3	7.7	8.5	7.9
Finance, insurance, real estate & business services	27.4	36.1	22.9	24.3	25.6	27.1
Community, social & personal services	6.5	5.1	5.8	5.3	4.1	4.2
General government	13.1	9.8	10.2	12.4	10.7	10.2
Total District economy	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research/CER

Regarding the growth of the CKD economy over the 2000s, the relatively strong growth of the region's largest sector, i.e. financial & business services, stand out. Only in the West Coast and Overberg did this sector expand faster over the period 2000 - 2011. Furthermore, as noted, the region's manufacturing sector is catching up and posted close to double digit real growth over the corresponding period; however, this is from a very low base. Construction activity also expanded strongly over the 2000s, i.e. a characteristic shared by all the other Western Cape regions. The tendencies noted here are positive elements of the CKD economy.

On the downside, the comparatively sharper contraction of the agricultural sector is notable and this probably explains why both the retail, wholesale, catering & accommodation sector and the transport, storage & communication sector's growth has been below the average in the Province. The sluggish growth in these sectors also possibly point to untapped tourism potential in the region.

Table 2.7 Central Karoo District economy in provincial perspective: Real GDP growth: 2000 – 2011 (%)

Sector	Central Karoo	Cape Metro	Cape Winelands	Eden	West Coast	Overberg
Agriculture, forestry & fishing	-1.2	10.0	0.3	1.1	-0.4	-0.7
Mining & quarrying	15.8	-0.8	2.1	-4.1	-4.0	0.1
Manufacturing	9.7	2.3	2.4	4.1	1.2	6.7
Electricity, gas & water	-0.3	3.4	2.1	0.6	-2.2	1.1
Construction	9.3	6.5	7.2	10.3	6.6	9.0
Wholesale & retail trade, catering & accommodation	3.1	4.1	5.4	5.5	3.8	3.6
Transport, storage & communication	2.0	5.0	6.8	5.5	4.5	6.3
Finance, insurance, real estate & business services	7.9	5.5	7.1	7.1	10.6	11.0
Community, social & personal services	2.6	2.8	3.8	5.0	2.9	3.6
General government	2.4	1.9	3.3	4.5	2.4	3.3
Total District economy	4.0	4.1	3.9	5.2	3.3	5.2

Source: Quantec Research/CER

Table 2.8 Central Karoo District GDP and employment trends: 2000 - 2011

Sector	Real GDP growth (yoy %)			Net employment creation		
	Trend	Recession	Recovery	Trend	Recession	Recovery
	2000 - 2011	2008 - 2009	2010 - 2011	2000 - 2011	2008 - 2009	2010 - 2011
Agriculture, forestry and fishing	-1.2	0.3	2.1	-4 318	-980	90
Mining and quarrying	15.8	16.5	0.8	10	4	1
Manufacturing	9.7	7.3	5.8	390	84	-37
Electricity, gas and water	-0.3	-3.2	-0.3	-10	-7	3
Construction	9.3	9.3	1.3	100	-124	-8
Wholesale and retail trade, catering and accommodation	3.1	-1.6	2.6	140	-171	-30
Transport, storage and communication	2.0	-2.3	3.2	-161	-43	13
Finance, insurance, real estate & business services	7.9	7.8	4.0	841	-14	89
Community, social and personal services	2.6	1.7	1.1	175	72	-143
General government	2.4	4.6	4.1	529	120	178
Total Central Karoo District	4.0	3.3	3.3	-2 303	-1 059	156

Source: Quantec Research/CER

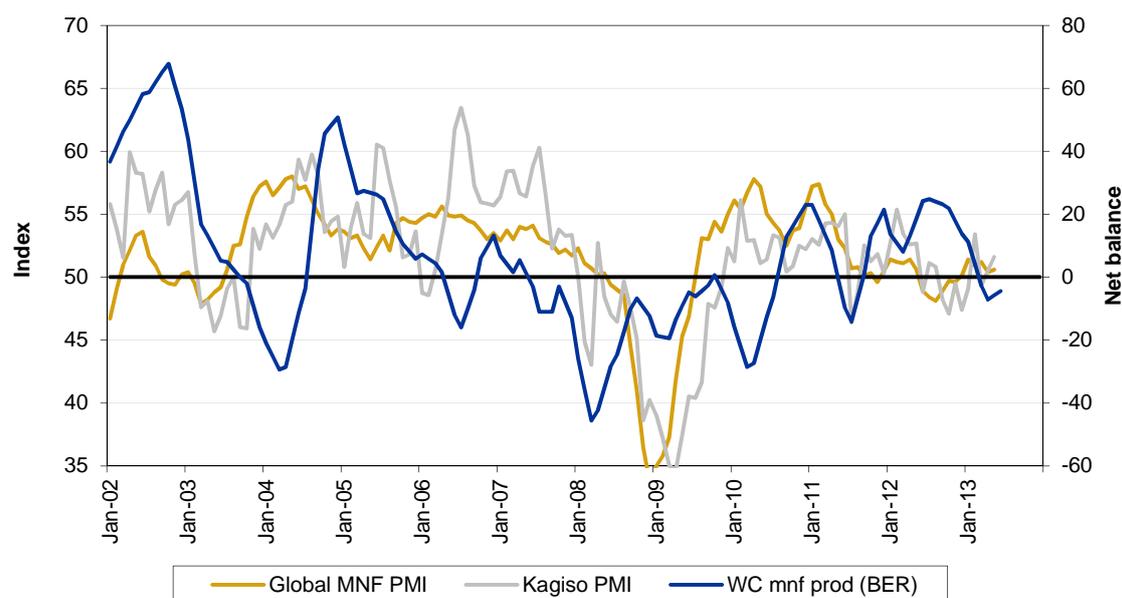
Table 2.8 shows that the CKD economy witnessed a mild recession impact, with real GDP averaging 3.3 per cent during 2008 - 2009. However, this is mainly due to still strong growth in calendar 2008 as growth did stall in 2009 before the recovery kicked in again at the end of 2009. Real GDP growth accelerated from zero in 2009 to 2.6 per cent in 2010 and 4.1 per cent in 2011, averaging 3.3 per cent over this period.

It would appear for the retrenchment of agricultural workers subsided during the recession and actual net job growth took place over the 2010 - 2011 period in line with some recovery growth in the agricultural sector (averaging 2.1 per cent, 2010 - 2011). Overall net retrenchments also stabilised during 2010 - 2011. Real economic growth in the region has tapered down to around 3 per cent (2012 - 2013) – in line with the slowdowns in the rest of the country and the world.

2.3.2 Macro implications and district economic outlook

The CKD economy is estimated to have slowed down from real GDP growth of 4.1 per cent in 2011 to 3 per cent in 2012 in line with the slowdown in the provincial (from 3.5 to 3 per cent) and the national economies (from 3.1 to 2.5 per cent). The drivers of the slowdown have been the local consumer recovery running out of steam (due to sluggish employment growth, lower wage growth, higher energy and food costs, declining consumer confidence and stricter credit standards limiting credit spending) as well as some adverse impact on exports related to the global slowdown in economic activity.

Figure 2.3 Global PMI vs Kagiso PMI vs Western Cape manufacturing production (BER survey)



Source: BER/JP Morgan, June 2013

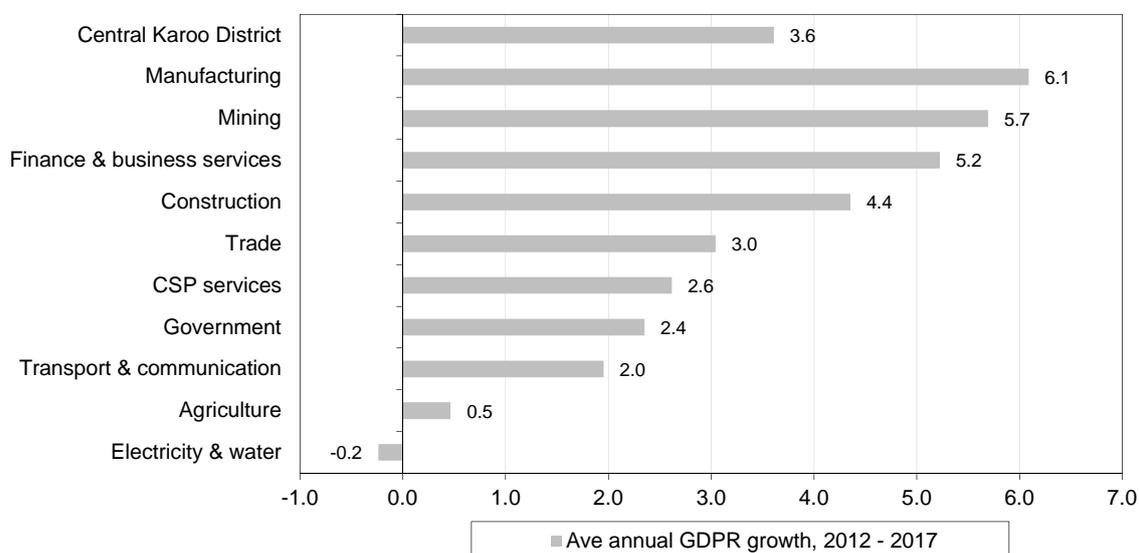
Furthermore, private fixed investment spending has been weak due to the impact of uncertainty (at the global level and, domestically, regarding economic policy and the general political climate) and slowing domestic demand. The weak tendency in private fixed investment spending is countered by the public sector infrastructure investment drive.

The recovery growth in the district since 2010 has been in line with that of the Province and it would appear that the region has embarked on an upswing phase of the business cycle in synch with the provincial and national economies – see Figure 2.1 tracking the composite global PMI, the Kagiso PMI (revealing manufacturing business

conditions domestically) and the trajectory of manufacturing production in the wider province. There is a broad correspondence between the global, the national and the regional business cycle as depicted in Figure 2.1, albeit evident that the improvement in economic activity has followed a hesitant pattern since the end of 2010.

CKD real GDP growth is projected to come in at 3 per cent during 2013, remaining under pressure due to the factors noted above. Thereafter growth is projected to accelerate on the assumption of a sustained global economic recovery (see footnote 2). The rapid expansion (and catch-up) of the manufacturing sector is projected to continue, with the average growth in this sector being the fastest over the forecast period (i.e. 6.1 per cent per annum). While no allowance was made regarding the potential shale gas exploration activities over the forecast period, this is obviously a potential source of future growth in the mining sector of the region (see Chapter 3). The above-average growth of the finance, insurance, real estate & business services sector (5.2 per cent per annum) and the construction sector (4.4 per cent) is projected to continue. The forecast growth rates in the 'lagging' retail, wholesale, catering & accommodation and transport, storage & communication sectors are in line with the 2000s' trend growth rates, which assume some positive impact from increased tourism activity in the region.

Figure 2.4 Central Karoo District economy: Forecast real GDP growth by broad sector: 2012 - 2017



Source: Quantec Research/CER

Overall CKD real GDP growth is projected to average 3.6 per cent per annum over the forecast period (2012 - 2017), more or less in line with the average growth rate forecast for the Province (3.7 per cent per annum). The sectoral forecast is motivated in more detail in Chapter 3.

2.4 Concluding remarks

The CKD economy is small in a provincial context and its economy exhibits mixed tendencies. Whereas the agricultural sector is important from a historical perspective, it is shrinking which is impacting negatively on other sectors in the region. On the positive side, light industrial activity has been flourishing in sectors such as building material fabrication, metals & engineering and electrical machinery and combined with lively building & construction activities are compensating for the fading of agriculture. A relatively large financial & business services sector is also characteristic of the region's economy similar to the case in the rest of the Province.

The regional output is almost exclusively sold into the domestic market (goods exports fluctuated between zero and two per cent of GDP over the 2000 - 2011 period). The domestic market is likely to remain under pressure over the short term given the consumer sector slowdown nationally and the weak private investment prospects. The consumer sector is under pressure due to sluggish economic growth and employment creation, deteriorating confidence and the impact of higher energy and food prices on consumer budgets. The national government also has to tighten the growth of real expenditure in order to generate a better budget balance, which may impact on local government. The CKD may be particularly exposed to this impact given the relative size of the public sector in the region's economy. Public sector infrastructure spending could in the interim be a key countervailing source of economic growth and employment creation.

This outlook is for a stabilisation of the global economic slowdown experienced last year and a gradual re-acceleration towards the end of 2013 and during next year. The domestic consumer slowdown is also expected to be of a temporary nature, with interest rates remaining low and with the stimulus from infrastructure investment adding to income growth. The weaker exchange rate should also act as some stimulus to the exporters in the region, as well as presenting import competing opportunities; however, given the domestic market orientation of the CKD economy, the rand's depreciation is likely to have an overall negative impact due to higher inflation and the erosion of real household incomes. While significant risks prevail (both on the global and domestic economic front), the CKD economy is projected to remain embarked on a recovery road.

3

Sectoral growth, employment and skills

This chapter deepens the analysis presented in Chapter 2 of the sectoral economic growth and employment performance of the Central Karoo District (CKD) economy. The current chapter is divided into two sections: *in the first main section*, the focus is historical:

- *Firstly*, the real GDP and employment creation performances over the period 2000 to 2011 are analysed. An overview is provided of the municipal growth record by way of background. As a sector's output expands one would expect a commensurate increase in the number of employees active in the sector. However, due to various reasons this may not happen (e.g. due to mechanisation trends in the underlying production technologies; distortions in relative factor prices; or due to the skills intensity of production, etc.). An attempt is made to classify all of the 22 sub-sectors in the CKD economy into four groups in order to determine which sectors have grown the strongest and are the leading employment generators.
- *Secondly*, a standard analysis follows of the recovery growth experienced across sectors since the onset of the business cycle upswing after the 2009 recession. The analysis is conducted for the agricultural sector, manufacturing and services sectors.
- *Thirdly*, the international trade performance of the district is investigated.

In the *second main section* the focus turns forward-looking: *first* a brief sectoral outlook and forecast are presented (linking with the outlook outlined in Chapter 2). Thereafter a number of local issues come under the spotlight, e.g. an analysis of the comparative advantage of sub-sectors in the CKD economy; a look at key constraints and bottlenecks facing the district; what is known regarding skills shortages in the region and, *finally*, some tentative remarks regarding policy options aimed at the further development of the region.

3.1 Sector growth and employment: Historical

In Chapter 2 it was seen that the CKD real economic growth came in at 4 per cent per annum over the period 2000 to 2011, i.e. slightly lower compared to the Province (4.1 per cent). The region is dominated by Beaufort West Municipality which accounts for close to 70 per cent of GDP and grew by 4.1 per cent per annum. As noted in Chapter 2, the agricultural sector is relatively important in the district (directly contributing close to 10 per cent of GDP), however, has been shrinking also impacting negatively on the retail, wholesale, catering & accommodation and transport & storage sectors.

The growth in the district is led by light industry, construction and the largest sub-sector, i.e. financial & business services. These sectors are well-represented in the Beaufort West municipal economy, accounting for 63 per cent of district-wide manufacturing, 53 per cent of construction activities and close to 70 per cent of rapidly expanding financial & business services. Agricultural activity is better dispersed throughout the district with only 40 per cent of value added generated in Beaufort West. However, in all municipal regions (except the Central Karoo DMA, where agriculture expanded marginally) the sector is in decline. Table 3.1 shows the real GDP growth rates of the CKD municipalities across the nine broad sectors.

Table 3.1 Central Karoo District economy: Municipal growth across sectors: 2000 – 2011 (%)

Sector	Laingsburg	Prince Albert	Beaufort West	DMA	Central Karoo
Agriculture, forestry and fishing	-0.8	-1.8	-1.8	0.8	-1.2
Mining and quarrying	-	-	15.8	-	15.8
Manufacturing	11.3	3.9	9.5	19.1	9.7
Electricity, gas and water	7.0	-	-4.2	-	-0.3
Construction	10.3	13.3	8.0	1.6	9.3
Wholesale and retail trade, catering and accommodation	0.8	3.7	3.7	-0.7	3.1
Transport, storage and communication	-6.8	-3.0	2.6	6.7	2.0
Finance, insurance, real estate and business services	9.2	13.8	6.5	13.9	7.9
Community, social and personal services	1.6	1.2	3.4	-3.2	2.6
General government	0.8	1.0	3.2	-4.1	2.4
Total	2.5	4.2	4.1	4.9	4.0

Source: Quantec Research

Table 3.2 Central Karoo District economy: Sectoral composition by municipality: 2011 (%)

Sector	Laingsburg	Prince Albert	Beaufort West	DMA	Central Karoo
Agriculture, forestry and fishing	18.9	13.5	5.3	21.9	9.1
Mining and quarrying	0.0	0.0	0.1	0.0	0.1
Manufacturing	13.6	8.1	10.1	21.6	11.0
Electricity, gas and water	6.0	0.0	0.7	0.0	1.1
Construction	4.7	14.0	4.4	2.4	5.7
Wholesale and retail trade, catering and accommodation	15.4	12.3	14.7	7.9	14.0
Transport, storage and communication	3.9	3.7	14.8	14.6	12.1
Finance, insurance, real estate and business services	21.2	31.7	27.6	24.6	27.2
Community, social and personal services	4.6	5.1	7.4	3.8	6.6
General government	11.7	11.6	14.8	3.2	13.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research

Financial & business services – the largest sector in the district – grew close to 8 per cent per annum and this vibrancy is also well-dispersed throughout the region. The retail, wholesale, catering & accommodation sector performed better in Prince Albert and Beaufort West suggesting a stronger influence from tourism in these areas. Construction activity was particularly strong in the Prince Albert Municipality and – to a lesser extent – in Laingsburg.

It is evident that the services activity in the region is closely linked to the fortunes of the agricultural sector. This is reflected in the impact of the recession in 2009, which caused a strong contraction in agricultural output (also in the leading Beaufort West Municipality), in turn, leading to contractions in almost all the services industries in 2009. On the other hand, manufacturing offered some countervailing influence by not shrinking. The resilience of manufacturing also limited the job losses during the recession and in the years preceding the recession.

The number of job losses in the agricultural sector was almost double those generated in the non-agricultural sectors of the district (2000 - 2011) and during the recession more than 90 per cent of the job losses occurred in agriculture. This is a major concern for the region (see below). The heartening aspect is the fact that the job losses stabilised during calendars 2010 - 2011. It is therefore of concern what impact the sharp increase in labour cost (i.e. the 52 per cent increase in the national minimum wage for farm workers, March 2013) may have on employment in the sector.

This is by way of background regarding the CKD's municipal growth performance over the 2000s tracked over the nine broad sectors. The missing variable is employment creation. While data reliability tends to be a challenge, the employment creation track record across 14 sub-sectors is investigated below in an attempt to identify the leading employment-creating sectors in the CKD⁴.

3.1.1 Leading employment - creating growth sectors

The Western Cape Government (WCG) is committed to achieve inclusive economic growth in the Province as embodied in PSO1 (Provincial Strategic Objective 1). With inclusive economic growth is meant economic growth on the basis of employment generation, i.e. inclusivity should be strived for by maximising opportunities for employment in the economic growth process. In this way, economic growth can be 'broadened' (i.e. the benefits of growth be spread wider) in a way that the productive contributions of each and every one are also broadened (rather than simply redistributing the benefits of growth via transfer schemes). The 2012 MERO study highlighted the fact that the growth path deviated from the employment creation path over the period 2000 to 2010, particularly in the primary and secondary sectors, not only in the CKD, but also in the other districts. In fact, this tends to be a national and a global phenomenon.

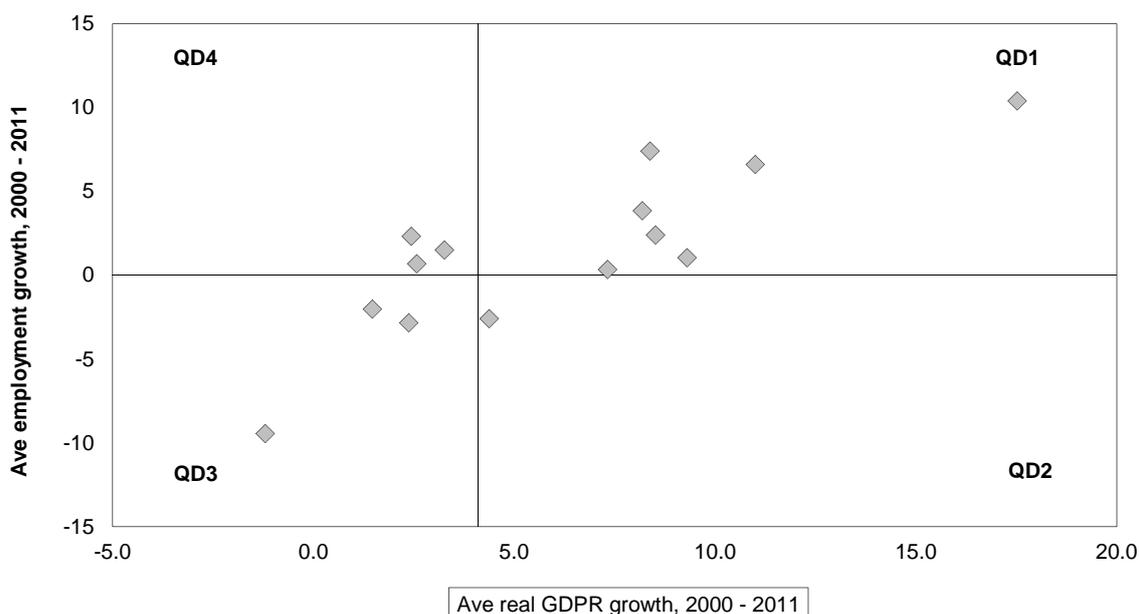
In the current section, some cursory investigation is made of the real economic growth and employment creation trends in the CKD over the period 2000 to 2011. In Figure 3.1 a scatter plot is made of the combination of each (of the 14) sectors' growth and employment performance over the said period: the 11-year average real value added growth rate is plotted on the horizontal axis and the 11-year average employment growth rate on the vertical axis. On this basis, Figure 3.1 and the accompanying table, show four quadrants/groups of sub-sectors.

1. QD1 depicts the sub-sectors that *grew above the provincial average (i.e. more than 4.1 per cent per annum, 2000 - 2011) and created jobs on balance*. Included is a list of manufacturing sub-sectors, ranging from electrical machinery (with employment growing from a low base at an average annual rate of 10 per cent, 2000 - 2011) to metals & engineering (6.6 per cent), food & beverages (3.9 per cent) and non-metal minerals (2.4 per cent). Finance (0.4 per cent) and business services (7.4 per cent) and construction (1 per cent) are also included in this category.
2. QD2 depicts the sub-sectors that *grew above average but shed jobs on balance* over the corresponding period. The only sub-sector included here is communication (-2.6 per cent per annum).

⁴ Whilst the Standard Industrial Classification identifies 22 sub-sectors only 14 are included in the analysis. Those sub-sectors with a real value added contribution below R20 million (2005 prices) were excluded.

3. QD3 depicts the sub-sectors that *grew below average and shed jobs on balance* over the period 2000 to 2011. Included here are transport & storage (-2 per cent); catering & accommodation (-2.8 per cent) and agriculture (-9.4 per cent).
4. QD4 depicts the sub-sectors that *grew below average; however, succeeded in creating jobs* over the period. Included here are the government (2.3 per cent); retail & wholesale (1.5 per cent) and community, social & personal services (0.7 per cent).

Figure 3.1 Central Karoo District: Classification of sub-sectors: Growth and employment creation: 2000 - 2011



QD1: Above ave growth/ job creation	QD2: Above ave growth/ job losses	QD3: Below ave growth/ job losses	QD4: Below ave growth/ job creation
Electrical (10.4)	Communication (-2.6)	Transport & storage (-2.0)	Government (2.3)
Business services (7.4)		Catering & accommodation (-2.8)	Retail & wholesale (1.5)
Metals & machinery (6.6)		Agriculture (-9.4)	CSP services (0.7)
Food & beverages (3.9)			
NMM (2.4)			
Construction (1.0)			
Finance (0.4)			

Note: Average annual growth in employment, 2000 - 2011, indicated in parenthesis

Source: Quantec Research/CER

While the CKD economy is small it possesses light industries which are expanding rapidly off a low base and creating employment, e.g. food & beverage processing; metals & engineering; electrical machinery and the fabrication of building materials. These industries also tended to retain their workers, even during the recession.

To the extent that these industries can absorb displaced labour (from other industries, e.g. agriculture) they may warrant official support (e.g. reducing business red tape, skills training, investment allowances, etc.).

In striving for inclusive economic growth, it is not only necessary to establish which sectors are growing fastest and creating the most jobs, in economics it is also an issue of supply. It is a well-known fact that the domestic supply of labour is predominantly semi- and unskilled, i.e. workers absorbed much easier in the primary and secondary sectors of the economy.

Economic development typically progresses from the primary to the secondary sector of the economy, with services being a 'derived' sector supporting the growth in the former. The ultimate objective of economic development is to move up the value chain in production, e.g. the productivity of manufacturing production, which typically reaps the economies of scale production, is much higher than for other industries. It follows that, in terms of policy intervention, an economy needs to be structured in a way that maximises the growth (and employment creation) of the productive sectors of the economy.

In CKD the agriculture, manufacturing & construction sectors contribute close to 26 per cent of economic output, for instance (see Table 3.2), and they tend to be semi- and unskilled labour intensive where the surplus labour supply resides. Combined with services, the region's light industries can absorb some of the labour displaced in the shrinking agricultural sector; alternatively intervention is required to arrest the contraction of and the retrenchments in the agricultural sector. Suffice to suggest that the employment-generating services and light industries in the region warrant policy support, including measures to stem the net job losses in agriculture.

In the *second main section* of this chapter of the report a cursory analysis is made of the comparative advantage of the regional economy and in Chapter 5 the food and the building & construction value chains come under the spotlight. The results from these analyses should be combined with the above in order to arrive at some assessment of which sub-sectors/industries warrant official support with the objective of inclusive economic growth in mind.

Before we turn to these analyses, a brief overview is provided of the sectoral growth performances during the economic recovery (2010/11) as well as a re-cap of the agriculture, manufacturing and services broad sectoral growth trends by municipality in the Central Karoo District.

3.1.2 Agriculture, manufacturing & services

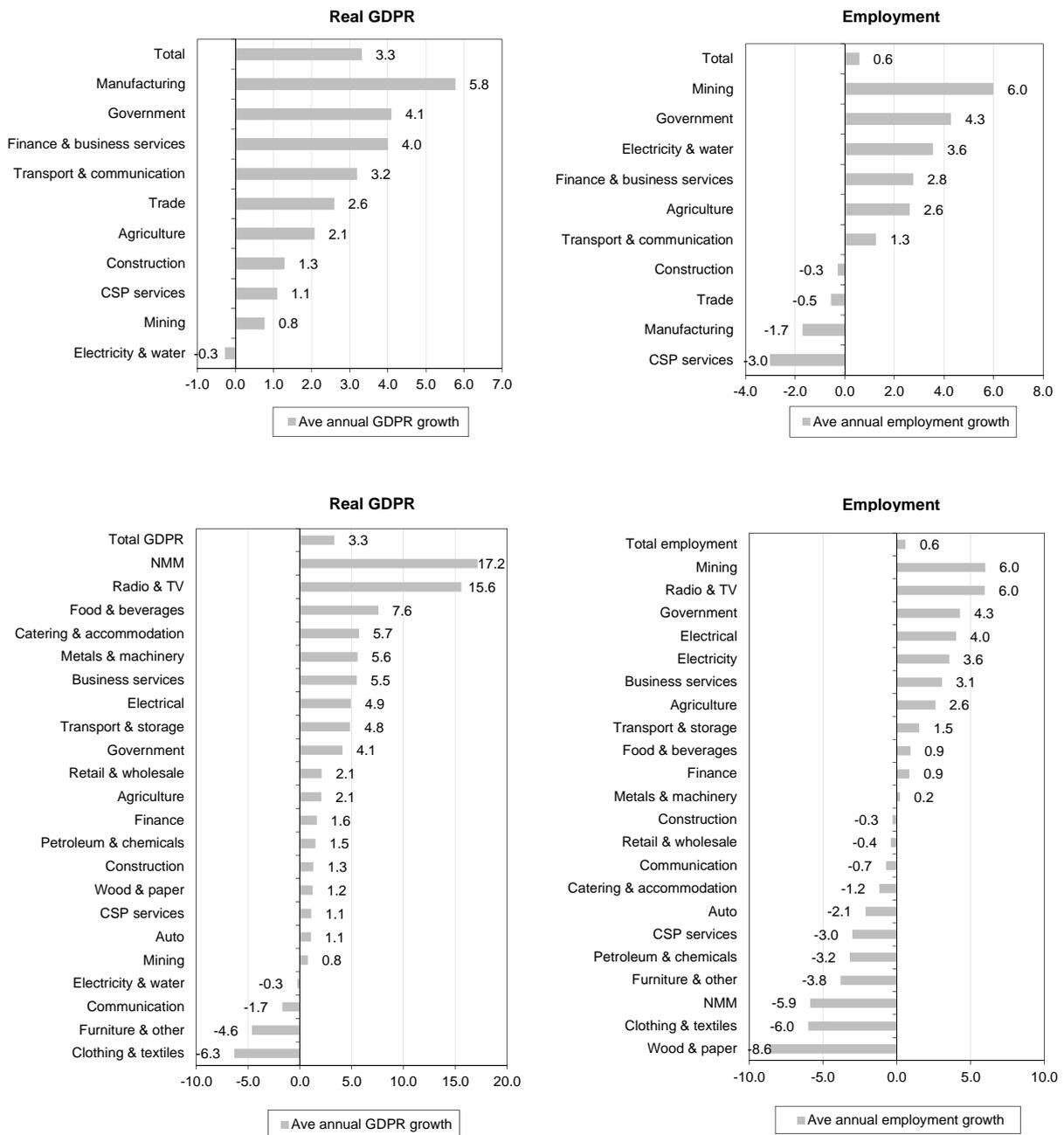
In calendar 2011, the CKD agriculture, forestry & fishing sector contributed 9 per cent of GDP, manufacturing 11 per cent and services 73 per cent. In terms of employment, the agriculture, forestry & fishing sector employed 13 per cent of the workforce, manufacturing 8 per cent and the services sector 70 per cent.

As discussed in Chapter 2, the CKD experience a relatively mild recession in that real economic activity did not contract but only came in flat during 2009, down from 6.6 per cent in 2008. The agricultural sector contracted sharply; however, both the manufacturing and services sectors acted as countervailing forces, also limiting the net job losses. There were only marginal job losses in the non-agricultural sectors

during 2008/09. Figure 3.2 shows the sectoral growth pattern, both at a broad sector level and a disaggregated level, during the first two years of the economic recovery.

After slowing to zero growth in 2009, the CKD economy re-accelerated again to 2.6 per cent in 2010 and further to 4.1 per cent in 2011. However, due to the impact of the global economic slowdown, which spilled over to the national economy and the Western Cape, real economic growth in the CKD slowed to 3 per cent in 2012 (also projected to remain there during 2013).

Figure 3.2 Central Karoo District: Sectoral real GDP growth and employment growth: 2010 – 2011 (% per annum)



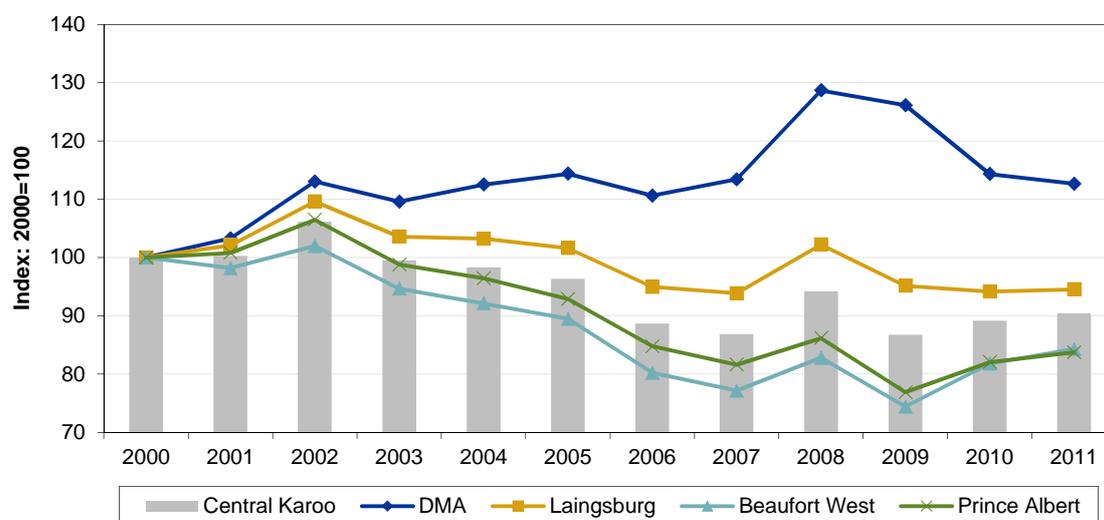
Source: Quantec Research

The question is how is the economic recovery in the CKD economy composed of in respect of sectors? Interestingly, it is manufacturing that grew the strongest (5.8 per cent per annum, 2010 – 2011). Within manufacturing, the non-metal minerals, radio & TV, food & beverages, metals & machinery and electrical machinery sectors grew above average. However, the manufacturing sector is small and one must bear in mind that the 4 per cent growth in the much larger financial & business services sector is probably more significant in terms of adding value and creating employment in the district. The other sector, which played a key role as in all the other districts, is the government (related to counter-cyclical fiscal policies by the national government). The government was also one of the key employment creating sectors after the recession in 2009 (see Figure 3.2). The transport, storage & communication sector also posted firm growth, in line with the district average growth.

Allowing for the size of the sectors, it is evident from Figure 3.2 that the government and business services and – to a lesser extent – transport & storage, agriculture & processing played the leading role in the recovery of employment in the district.

Figure 3.3 shows the growth trends of the CKD agriculture, forestry & fishing sector by municipality. The CKD hosts a small and contracting agricultural sector; it accounted for 1.4 per cent of Western Cape agricultural GDP in 2011. Agricultural activity is well spread throughout the District, with the Beaufort West Municipality making the leading contribution (i.e. 40 per cent) and all the other sub-regions around 20 per cent each. From the figure it is clear that agricultural real value added declined by 10 per cent between 2000 and 2011. The absolute contraction in the Beaufort West and Prince Albert municipal areas were slightly deeper, with that in Laingsburg slightly less. However, the trend in all three these municipal areas' agricultural sectors are downwards. Only in the former DMA agricultural activity has expanded (with the 2011 level 10 per cent above that of 2000).

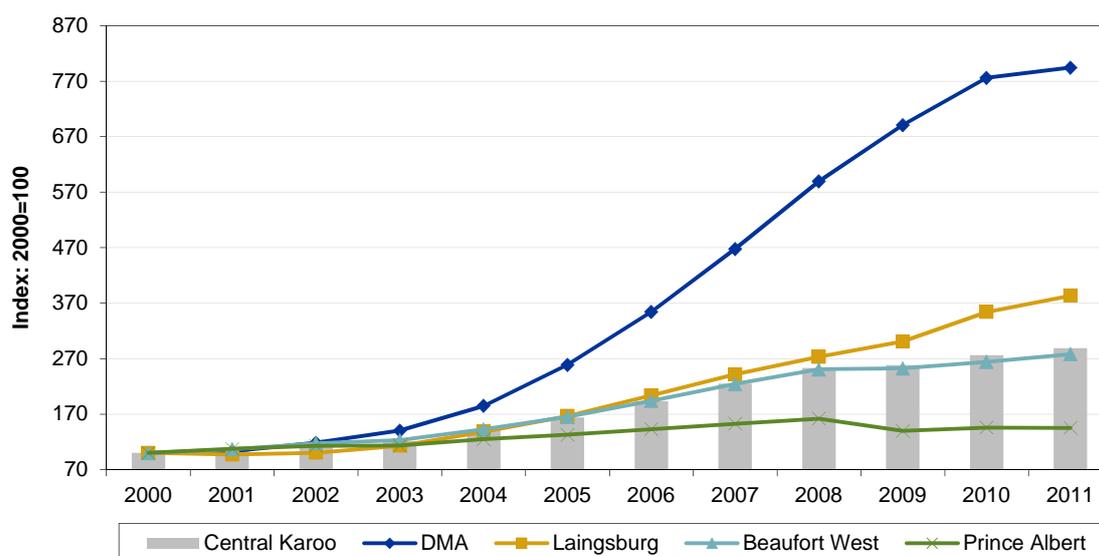
Figure 3.3 Central Karoo District: Growth in Agriculture, forestry & fishing by municipality: 2000 - 2011



Source: Quantec Research

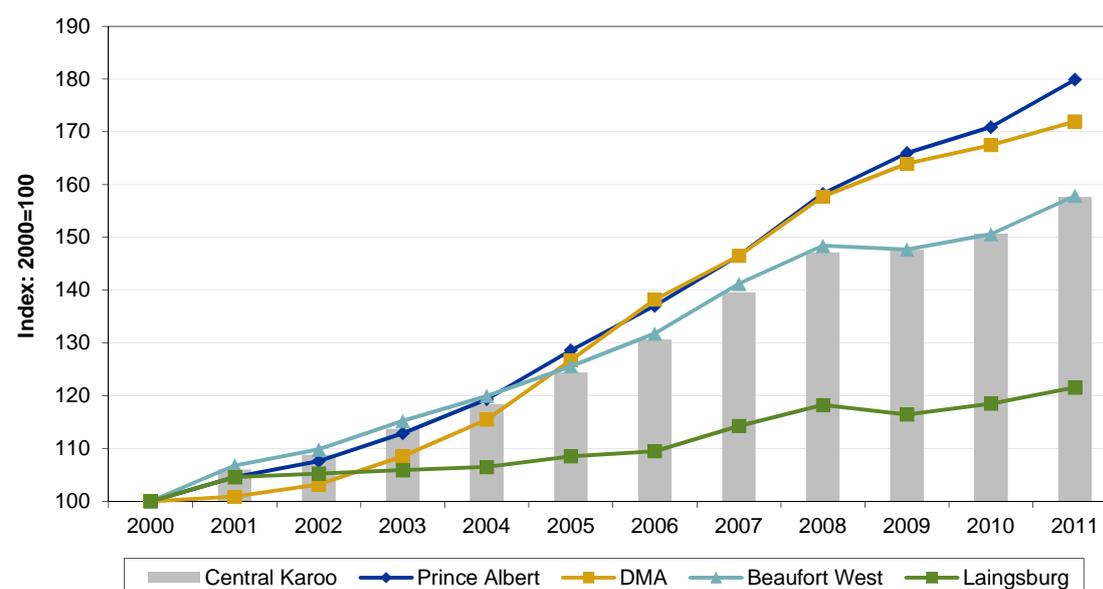
Figure 3.4 shows the real value added trends in the CKD manufacturing sector. The CKD's light industries are mostly located in the Beaufort West Municipality, which accounts for 63 per cent of the district's manufacturing activity. This Municipality's manufacturing real value added expanded by 9.5 per cent per annum between 2000 and 2011, i.e. more than doubling over this period. The growth was even sharper in the former DMA (19 per cent per annum) as well as in Laingsburg (11 per cent per annum). It has to be emphasised that the growth is off a low base, e.g. the Beaufort West manufacturing value added amounted to around R130 million in 2011.

Figure 3.4 Central Karoo District: Growth in manufacturing by municipality: 2000 - 2011



Source: Quantec Research

A notable feature of the growth of the CKD's manufacturing sector is the limited impact of the 2009 recession – only the Prince Albert manufacturing sector contracted somewhat in 2009; in the remaining municipal areas growth continued even though somewhat slower compared to pre-recession levels. The favourable climatic conditions in the agricultural sector during the 2008 - 2009 season acted as a stimulus to the sector in the region and presumably explain the resilience of manufacturing activity during the recession. The region has limited export exposure to the rest of the world.

Figure 3.5 Central Karoo District: Growth in the tertiary sector by municipality: 2000 - 2011

Source: Quantec Research

Figure 3.5 depicts the growth of the CKD's services sector by municipality. The region's services sector grew in line with region-wide GDP, i.e. 4.1 per cent per annum (or by close to 60 per cent between 2000 and 2011). The bulk of all services activities – between 70 - 80 per cent – are located in the largest municipality, i.e. Beaufort West. However, the fastest growth in services real GDP occurred in the Prince Albert and former DMA regions; in Laingsburg services value added grew appreciably slower.

In all, the CKD economy is relatively concentrated in the Beaufort West Municipality, particularly its light industries and services activities. Whilst agriculture remains an important sector in the region and is better dispersed throughout the district, it is in decline (only in the DMA sub-region it is expanding). This is impacting negatively on key services activities such as retail, catering & accommodation and transport & storage. On the other hand, the growth of manufacturing activity (in industries such as building materials fabrication; electrical machinery and metals & engineering) has been vibrant off a low base. A notable feature of the CKD's economic performance has been the limited impact of the 2009 recession.

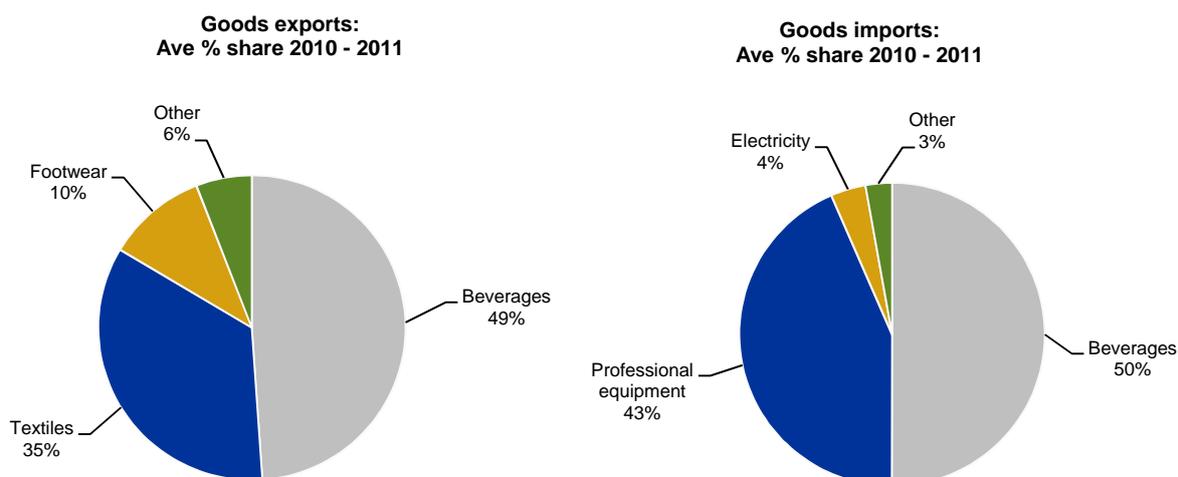
3.1.3 International trade

Trade promotion remains a cornerstone of the WCG's economic strategy. In order to grow the regional economy external markets have to be explored and when we engage in exports we also have to import. While the definition of exports and imports are problematic at the municipal level, the current section briefly focuses on two aspects of the CKD international trade: *firstly*, the composition of goods exports and

imports to the rest of the world; and *secondly*, the composition and trend in the regional 'trade balance'⁵.

The inland economy of the CKD does not conduct much international trade – the value of goods exports (i.e. R413 000) as a ratio of regional GDP measured 0.2 per cent in 2011. The economy is therefore shielded from the impact of global economic developments except through the impact it has via national economic conditions. This assist in explaining the relatively subdued impact of the global recession on regional economic activity in 2009.

Figure 3.6 Central Karoo District composition of goods trade: 2010 - 2011



Source: Quantec Research

On the export side, the CKD mainly exports beverages (close to half of regional exports) and textiles (mainly wool, 35 per cent of the basket); footwear (10 per cent) is another significant export item. On the import side there appears to be new developments as a number of import categories picked up sharply in recent years. In fact, the value of CKD imports has ratcheted up from R268 000 in 2008 to more than R2 million in 2011. The import categories registering sharp increases include beverages, radio, TV & communication equipment and professional & scientific equipment. Half of the import basket consisted of beverages in 2011 and 44 per cent of professional & scientific equipment. As the values involved are relatively small and tend to be erratic it is difficult to discern trends; however, it seems the increasing beverage imports has been a new trend from 2008.

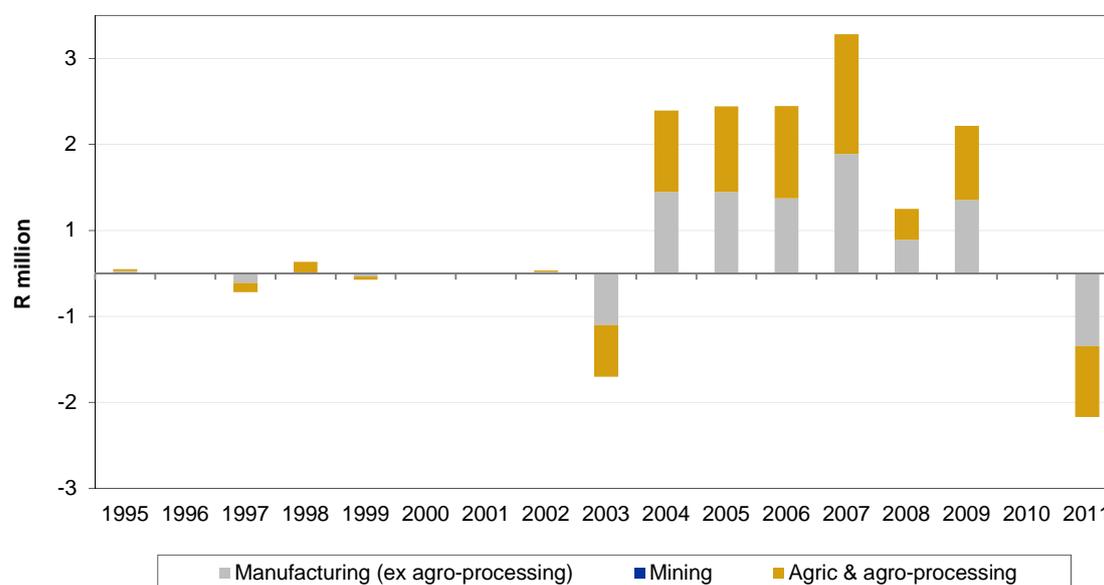
In Figure 3.7 the CKD goods trade balance is depicted, including its composition. In order to link with other analyses contained in the current report, the agriculture and agro-processing exports and imports were combined (i.e. providing some indication

⁵ It needs to be emphasised that a sub-regional 'trade balance' is conceptually somewhat misleading. Sales by any firm in the region to buyers outside the region should be regarded as exports, i.e. including sales to other districts in the province and other provinces in the country. However, due to data limitations these 'exports' are ignored in the current analysis – only the sale of goods in foreign markets are accounted for; and on the import side, only purchases from foreign countries. The derived 'trade balance' therefore gives some indication of the balance of forex earnings generated in the region.

of the food value chain exports), whilst obviously at the same time excluding the food & beverage processed exports from the manufacturing category. A number of remarks are in order:

- From registering a surplus since calendar 2004, the acceleration of some import categories (beverages and equipment), particularly in 2011 (which can be a once-off development), a relatively large trade deficit developed, measuring R1.7 million, i.e. a full reversal of the trade surplus still registered in calendar 2009.
- It needs to be emphasised that the values involved are relatively small in the wider context.

Figure 3.7 Central Karoo District: Goods trade balance (R million)



Source: Quantec Research

The analysis now turns to the sectoral economic outlook for the Central Karoo.

3.2 Sectoral economic prospects, 2013 - 2017

In this section of the report, the focus moves to the economic outlook for the CKD. Chapter 2 provided the macroeconomic backdrop, which may just briefly be restated here. While the improvement in the global economy remains uneven and loaded with risk, the domestic economic recovery (from the end of 2009) appears to be well-established, albeit exposed to global developments and domestic socio-political headwinds. The recovery growth in the district since 2010 has been slightly faster compared to that of the Province.

In the first section of Chapter 3 an analysis was made of the growth and employment performance of the district across the various sectors and municipal sub-regions, including a brief assessment of the international trade position of the district. This information was applied together with a comprehensive macro-econometric/input-

output model forecast of sectoral GDP growth for the Province⁶ and other information pertaining to the district (and discussed below), as well as a comparative advantage analysis in order to derive sector forecasts for the district. The resultant CKD economic outlook is briefly discussed below.

3.2.1 Sectoral outlook/forecast

Table 3.3 summarises the average forecast growth rates across the nine broad sectors of the CKD economy⁷; regarding the outlook for the CKD economy, the following remarks may be in order:

- The CKD economy is a small relatively 'closed' economy from an international trade perspective. With minimal exports, the region's economic fortunes are mainly dependent on domestic market developments. As the local market (i.e. within the CKD) is relatively small one has to assume most of the produce is sold in adjacent regions and the rest of the country.
- The local and domestic markets are projected to remain under pressure during 2013. Selling conditions will be tight over the short term due to the consumer sector slowdown. Even the livelier durable goods market (benefiting from low interest rates and competitive pricing in a more lucrative consumer segment) is slowing down. The non-durable goods market is under substantial pressure due to sluggish growth in wage incomes (in turn, a function of lower nominal wage increases and sluggish employment growth), the impact of higher food, electricity and petrol prices on household budgets and generally lower consumer confidence and therefore willingness to commit income to credit spending. In the unsecured lending market (the main driver of consumer credit growth since the onset of the economic recovery) credit standards are also being tightened, which should impact adversely on the semi-durable goods and furniture & appliances market.
- The consumer sector slowdown is expected to be temporary (on the assumption that the global economic recovery endures). Interest rates are expected to remain low at least until the end of next year, with inflation remaining more or less in the target range and the weaker level of the rand exchange rate providing a competitive edge to import competing producers.
- While it is difficult to project agricultural growth given the impact of climatic influences, the forecast provincial-wide growth rate (1.7 per cent per annum, 2012 - 2017) and the average growth rate over the 2008 - 2011 period informed the assumption of 0.5 per cent per annum over the medium term. This should be seen as an optimistic assumption in view of the developments in the three main municipal areas.

⁶ See WCG: Provincial Economic Review & Outlook (PERO) 2012 and the Provincial Budget Review, 2013.

⁷ It has to be noted that economic information up to the middle of June were incorporated into the forecast; it is possible that growth come in weaker during 2013/14 compared to those presented in Table 3.3.

- The catch-up in light industrial activity is projected to continue; manufacturing real value added is projected to grow by 6.1 per cent per annum compared to trend growth of 9.7 per cent over the 2000 - 2011 period. Should this growth tempo materialise, the share of manufacturing in district-wide GDP is projected to increase to 13 per cent in 2017 (i.e. up from 11 per cent in 2011 and 6 per cent in 2000). The CKD manufacturing sector is therefore projected to grow significantly faster compared to the wider province, albeit from a low base. Provided that the competitive gain of the weaker rand can be locked in by containing inflation, import replacement opportunities should present itself over the medium term.
- With growth having slumped from the pre-recession levels, the construction sector appears to have turned the corner following an unusually slow recovery. Construction real value added is projected to increase by 4.4 per cent per annum over the forecast period (i.e. in line with the provincial average).
- Retail, wholesale, catering & accommodation real value added is projected to grow by 3 per cent per annum, i.e. slightly faster than during 2010 - 2011 (2.6 per cent per annum) and in line with the trend growth rate, 2000 - 2011. However, this forecast is linked to the projected improvement in the agricultural sector. Should agriculture continue to contract, the real growth in retail, wholesale, catering & accommodation GDP is likely to come in below the 2000 - 2011 trend growth rate of 3.1 per cent per annum.
- Similar comments apply to the forecast growth rate of the transport, storage & communication sector (i.e. 2 per cent per annum), which is also linked to developments in agriculture. The finance & business services sector, in turn, is projected to continue out-performing other sectors, albeit with a narrower margin already evident during the economic recovery years, i.e. 2010 - 2011. The growth rate of financial & business services real value added is projected at 5.2 per cent per annum, which is significantly below the 8 per cent average annual growth rate registered over the 2000s.
- While the government and community, social & personal services sectors will continue to underpin growth and employment creation, the public sector is under tremendous pressure to trim spending in order to drive a narrower overall budget deficit over the medium term. Around 2.5 per cent growth per annum is expected in these sub-sectors over the medium term. The reduction in the pace of real government expenditure may impact particularly on the large Beaufort West Municipality in particular, which hosts close to 80 per cent of the public sector in the district.

From the analysis above it is apparent that 2013 will be another constrained year. Even a more meaningful recovery anticipated next year and beyond is likely to be constrained. *Firstly*, the slow growth in the advanced economies is likely to be a multi-year affair (also impacting negatively on inward tourism); *secondly*, domestic business and consumer confidence may be slow to recover more convincingly given the likely uncertainty in the run-up to general elections next year – we may have to get beyond the election next year only before attention can fully shift to the economy

again. Overall CKD real GDP growth is projected to accelerate from an estimated 3 per cent per annum (2012/13) to 3.6 per cent next year and 4 per cent per annum (2015 - 2017).

Table 3.3 Central Karoo District: Real GDP growth outlook: 2012 – 2017 (%)

Sector	Trend	Recession	Recovery	Central Karoo District	Western Cape
	2000 – 2011	2008 - 2009	2010 - 2011	2012 - 2017	2012 - 2017
Agriculture, forestry and fishing	-1.2	0.3	2.1	0.5	1.7
Mining and quarrying	15.8	16.5	0.8	5.7	0.0
Manufacturing	9.7	7.3	5.8	6.1	2.8
Electricity, gas and water	-0.3	-3.2	-0.3	-0.2	2.1
Construction	9.3	9.3	1.3	4.4	4.4
Wholesale and retail trade, catering and accommodation	3.1	-1.6	2.6	3.0	3.9
Transport, storage and communication	2.0	-2.3	3.2	2.0	3.9
Finance, insurance, real estate & business services	7.9	7.8	4.0	5.2	4.5
Community, social and personal services	2.6	1.7	1.1	2.6	2.7
General government	2.4	4.6	4.1	2.4	3.0
Total Central Karoo District	4.0	3.3	3.3	3.6	3.7

Source: Quantec Research/CER

3.2.2 Local issues – Central Karoo District

The CKD economic prospects remain somewhat unbalanced. The district is dominated by the Beaufort West Municipality with its “high development potential index” (GPTWC, 2010) while the other three municipal areas appear to have less potential and are generally regarded as poor communities.

In terms of the municipal survey, the CKD municipalities’ finances are under tremendous pressure due to the sluggish economic conditions. The constrained municipal finances compromise the replacement of office equipment, the training/hiring of the required skills and general service delivery. The Municipality is not optimistic that general economic conditions will improve during the next 3 - 5 years.

According to the GPTWC study, Beaufort West has export potential in respect of meat and olives, an untapped tourist potential, adequate public service amenities and unexploited minerals and possibly underground gas reserves. But it has a scarcity of surface and underground water, inadequate crops, underdeveloped industrial stands, high transport costs, and a lack of skills caused partly by an “on-going brain drain”.

Both Matjiesfontein and Prince Albert have proven tourist potential and, with Leeu-Gamka, also have relatively low levels of poverty (as measured by the percentage houses that have in-house water and electricity), as well as relatively low levels of crime. But as is the case with Murraysburg and most other towns and farms in the district, they have a severe lack of water and water-based crops, inadequate industrial infrastructure, skills shortages and high transportation costs.

In view of these local issues, including the region's strengths and challenges, an analysis is made below of the revealed comparative advantage across the various sectors/industries in the CKD.

Comparative advantage

It is necessary to gain a good understanding of any region's/country's revealed comparative advantages in order to guide policy intervention aimed at maximising economic growth and development. The theory of comparative advantage has its origins in the classical economist, David Ricardo's, work in which he tried to explain why it is beneficial for a country to trade and in what goods and services any country should be trading in order to maximise economic welfare gains. Over the years his theory of comparative advantage has evolved and various analytic techniques designed in order to determine revealed comparative advantage, not only at the national level (and in relation to trade), but also at the local/regional level in order to gain some understanding of the sectors of economic activity which should be promoted by way of (industrial) policy intervention.

One such technique involves the calculation of so-called 'location quotients' (LQ), which simply tracks the growth of a sector in relation to that of the region relative to the growth of the same sector at a broader level (e.g. nationally) in relation to the growth of the wider economy (e.g. nationally). Expressed in symbols, the location quotient (LQ) is defined as:

$$LQ = \frac{g_i/g}{G_i/G}$$

Where:

g_i = value added in sector or industry i

g = total value added (i.e. for the region/country)

G_i = reference area value added in sector/region i

G = total value added in the reference area

Relative to some common base year therefore, the location quotient measures the performance of the sector or industry investigated in relation to that of the sector/industry in the reference area. As we currently investigate the sectoral growth performance of the sector at the regional level compared to that of the same sector at the broader (reference) area, the reference area can either be the province or the national economy.

Table 3.4 Revealed comparative advantage of the Central Karoo District economy

	Central Karoo District		South Africa		LQ ratio 2011
	GDPR % share	Ave growth	GDP % share	Ave growth	
	2011	2000 - 2011	2011	2000 - 2011	
Agriculture, forestry and fishing	9.0	-1.2	2.4	2.0	3.68
Food, beverages and tobacco	4.0	8.2	2.9	2.4	1.35
Other non-metal mineral products	1.6	8.5	0.6	1.6	2.77
Metals, metal products, machinery and equipment	1.4	11.0	3.3	3.5	0.44
Electrical machinery and apparatus	1.3	17.5	0.5	3.5	2.53
Construction	5.6	9.3	3.4	7.3	1.65
Wholesale & retail trade	11.9	3.3	12.9	3.9	0.92
Catering and accommodation	2.0	2.4	1.0	3.5	2.11
Transport & storage	9.5	1.5	5.5	3.7	1.72
Communication	2.7	4.4	4.6	7.4	0.58
Finance and insurance	10.0	7.3	8.4	6.4	1.19
Business services	17.4	8.4	15.3	5.2	1.14
Community, social and personal services	6.5	2.6	6.1	3.1	1.07
General government	13.1	2.4	15.2	2.5	0.86
Total	96.1	4.0	82.2	3.6	1.00

Source: Quantec Research/CER

If we assume that the growth of a particular sector/industry at the regional level is a function of the growth of the national economy, then the national economy magnitudes should be the denominator in the above equation. However, it may also be appropriate to include the Province's value added as the reference magnitude. In order to respect the capacity constraints in adopting such an approach, the national economy magnitudes are used in the current exercise also assuming that the growth of the industry at the regional level is an integral function of the national growth performance.

Using the relative shares of sectors for the country as reference areas, the LQ's in Table 3.4 (rightmost column) provide some indication of the sectors with a revealed comparative advantage being those sectors in respect of which the LQ > 1; in other words, should the regional industry reveal a higher proportion of the regional economic activity compared to the same sector share at the national level, it can be concluded that the region expanded at a faster rate with reference to some base year compared to the same sector at national level, suggesting '*revealed comparative advantage*'⁸.

⁸ This is a very basic technique for guidance on revealed comparative advantage and is derived from *economic base analysis*; other techniques investigating comparative advantage include so-called '*shift-share analysis*', i.e. a procedure that decomposes the growth of a region into three comprehensive sources: i.e. (i) growth related to the growth of the reference area; (ii) growth related to the changing mix of regional sectors; and (iii) growth related to economic activities shifting to the region.

Applying this method to the 14 main industry groups of the CKD⁹, the results contained in Table 3.4 suggest almost all the sectors included revealed comparative advantage and should be supported: the only sectors with a LQ < 1 were metals & machinery, retail & wholesale trade, communication and the government. In view of the list of sub-sectors/industries revealing comparative advantage in Table 3.4 and the leading employment generating sectors identified in the first section of the chapter above, the following *value chains* or clusters of economic activity and sectors can be identified for being key growth areas in the Central Karoo economy:

- Agriculture and agro-processing – the food value chain (see Chapter 5).
- The building & construction value chain (including building material manufacturing).
- The tourism sector, cutting across the catering & accommodation, retail & wholesale (with a LQ close to one), transport and business services sectors.
- Electrical machinery (including radio, TV, instruments & watches); this is a small sector, but it created significant jobs (see Figure 3.1).
- The finance & insurance sector also created jobs on balance and reveal comparative advantage, growing faster than in the rest of the Province.

The *food and the building value chains* are investigated further in Chapter 5 in view of (i) the importance of food security and the importance of agriculture in the region; and (ii) the size and importance of these sectors in the CKD manufacturing sector.

Skills considerations

The economic outlook presented in this report is based on the existing structure of the district economy and as such make implicit assumptions on the availability of the required skills in the production process. While the required skills cover the whole spectrum from the most menial tasks to more technical requirements and management, the key concern tends to be artisanal/technical and engineering skills hence the emphasis on mathematics and science pass rates at the school level. In this section of the report, a brief overview is provided of, *firstly*, skills supply issues in this field and, *secondly*, based on the economic outlook presented above, areas in the district economy where demand for artisanal/technical/engineering skills may be keen. This could assist the authorities and the private sector in their planning to match the supply of and demand for these scarce skills going forward.

⁹ See footnote 4. Remaining consistent with the approach adopted in the first section of the report, the smaller sectors were not included in the analysis given the small numbers involved. Only one sector so eliminated with '*revealed comparative advantage*', i.e. with its LQ>1, was radio, TV, instruments & watches (LQ=1.06).

In a recent study by the Department of Economic Development & Tourism (DEDAT) of the Western Cape¹⁰, a number of key weaknesses, but also encouraging aspects, were identified regarding the supply of artisans in the Province. Incomplete data, key bottlenecks linked to college completion, pass rates and work experience requirements, confusion regarding the various routes to the artisan trade test, etc. are all supply issues that need to be addressed.

However, what became clear, both international best practice and the literature suggest that public-private sector partnerships are critical, i.e. some form of collaboration between the training institutions and the employers. The matching of the supply of artisanal skills with the demand in the private and public sectors is best approached via the building of the necessary institutional mechanisms aimed at meeting the requirements of industry, again, collaboration between the public and private sectors. In this regard there are a number of encouraging initiatives, which can be used to replicate (e.g. the SSACI AATP and the DEDAT artisan training & development projects). Practical experience during training is critical. Municipalities should bear this in mind when designing and implanting skills training initiatives.

While the current economic review does not provide the scope to entertain the greater detail on the supply side, it may suffice to consider the question: given the economic outlook for the CKD economy, in which areas may skills demand tend to grow stronger than average over the coming three to five years?

- Given the importance of the agriculture and agro-processing industry in the CKD, technicians in the agricultural machinery field will remain in high demand.
- Administrative and engineering skills are also required at the municipality in order to ensure service delivery.
- Construction workers and related skills will also be in higher demand once the anticipated revival in the building & construction sector acquires critical momentum.
- All types of artisanal skills required in the light industries growing rapidly, ranging from tool makers, specialist welders, boilermakers, fitters and turners (in metals & engineering) to electrical engineers and artisans required in the electrical, radio, TV & instruments sector.
- Finally, to the extent that semi-and unskilled labour is lost in the agricultural sector there is a need for retraining/up-skilling of these workers for potential employment in the growing manufacturing and services industries (including tourism).

¹⁰ UWC FET Institute (March 2013): *Supply and Demand for Artisans in the Western Cape*, A Study conducted for the Department of Economic Development and Tourism (DEDAT).

3.3 Conclusion: Options and policy pointers

The CKD economy is small in the provincial context and reveals somewhat of a dichotomous growth pattern. Economic activity is highly concentrated in the Beaufort West Municipality, which seems to provide the almost exclusive source of growth – both in rapidly expanding light industries such as electrical machinery, metals & engineering and building materials manufacturing, and financial & business services. In the surrounding municipalities economic activity is sparse, communities regarded as poor, industrial infrastructure lacking and underground water resources scarce, whilst the tourism potential remains untapped. The sector binding the municipalities together, however, remains agriculture, which is better dispersed throughout the district. Unfortunately, the sector is under pressure and in this regard the positive growth registered in recent years is most encouraging.

The generally strained economic environment is evidently putting substantial pressure on municipal finances. The MIG may be in need of revision and/or more serious efforts are required from the higher levels of government to ensure the region's infrastructure needs are met. Light industry appears to have a comparative advantage and there is scope for substantial catch-up.

Key value chains identified with comparative advantage and employment creating potential include the food value chain, building & construction (Beaufort West and Prince Albert), electrical machinery, finance & business services. The region's tourism potential also appears to be untapped and may be a means to compensate for the agricultural sector's tendency to decline. In this regard training and re-training of the required skills are a priority; however, the local authorities require assistance in this regard, both in terms of finances and capacity.

Considering the outlook, special efforts to address the infrastructural shortages may be a welcome injection into the district economic performance. Facilitating the vibrancy in light manufacturing (and associated services) and unlocking the inherent tourism potential in view of the natural beauty of the region seem two strategic directions for pulling the region from poverty and hardship.

4

Value chains

4.1 Introduction to value chain analysis

An analysis of value chains can focus on the intra-firm relationships or the activities and inter-relationships amongst productive agents in the economy. The analysis presented in this chapter will focus on the inter-relationships between various participants in the selected sectors/identified clusters of industrial activity at various points along the supply chain. This will essentially entail an examination of the backward and forward linkages of the selected industries, including an assessment of the growth and employment potential of the selected industries if possible.

The concept of the value chain was first used by Porter (1980) who identified it as a representation of the firm's value-adding activities, based on its pricing strategy and cost structure. This analysis was primarily based on the internal assessment of the firm's competitive advantage, but in the 1990's the concept of the value chain was extended to include the global commodity chain by Gereffi and Korzeniewicz (1994). This approach focused on the linkages between firms. The concept was further clarified and 'codified' by Kaplinsky and Morris (2001). They distinguish between value chains and supply chains by emphasising the linkages and relationships both between and within actors at each stage of production.

The value chain concept can be extended to a number of different forms of analysis; however it is necessary to limit this analysis to present 'real value' to policy makers and those seeking to improve the general welfare of the regional economy. Value chain analysis can be extended to include policy interventions, governance and legal issues related to the value chain, as well as the distribution of benefits in the value chain.

At the outset it is important to clarify the intention of this analysis, the limitations, the advantages and the assumptions that are necessary.

4.1.1 Methodology and assumptions

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 and the metro municipality have been assessed and the most important selected value chain(s) within each district and the metro economy have been analysed. It must be noted that this analysis will not focus on the quantitative specification of each value chain in the specified district, but will rather focus on identifying and mapping the value chain, the actors involved, and the value-added and job-creating potential.

Two major considerations are applicable to the analysis at hand. Firstly it must be determined how far to follow the forward and backward linkages along the supply chain and secondly, the level at which these linkages must be determined.

The analysis below captures most of the forward/backward linkages within the chosen value chains. An increase in demand for the final product or service, for example, will boost production and employment along supplier industries within the particular value chain, and may also have positive spill-over effects on other sectors and industries: employees in these supplier industries, and members of their households, may spend part of their extra incomes on a range of goods and services produced outside the particular supply chain. Apart from the Central Karoo District, the supply chain itself, and the related spill-over effects, may of course extend to municipalities elsewhere in the Province and beyond. The extent of these additional (direct and indirect) effects will depend on the value of the relevant multipliers, which could be analysed and estimated in a separate study¹¹.

Before delving into the value chains of each district, a short background description of the sectors analysed will be given, to better understand the potential impact of the value chain in the district.

4.2 Value chain analysis

4.2.1 District value chains

The value chains chosen for analysis in the Central Karoo District (CKD) municipality are the agro-processing value chain and the building and construction value chain. The tertiary sector is the greatest contributor to employment in the district, but the agricultural sector is a major contributor to employment of unskilled and semi-skilled labour. The construction industry is also a major contributor to employment and GDP in the regional economy. This sector has shown significant growth in the sector and

¹¹ Black, PA, 2004. "Economic impact analysis: a methodological note", South African Journal of Economics, vol 72, No 4.

there are significant opportunities for expanding the backward and forward linkages of this sector in the local economy.

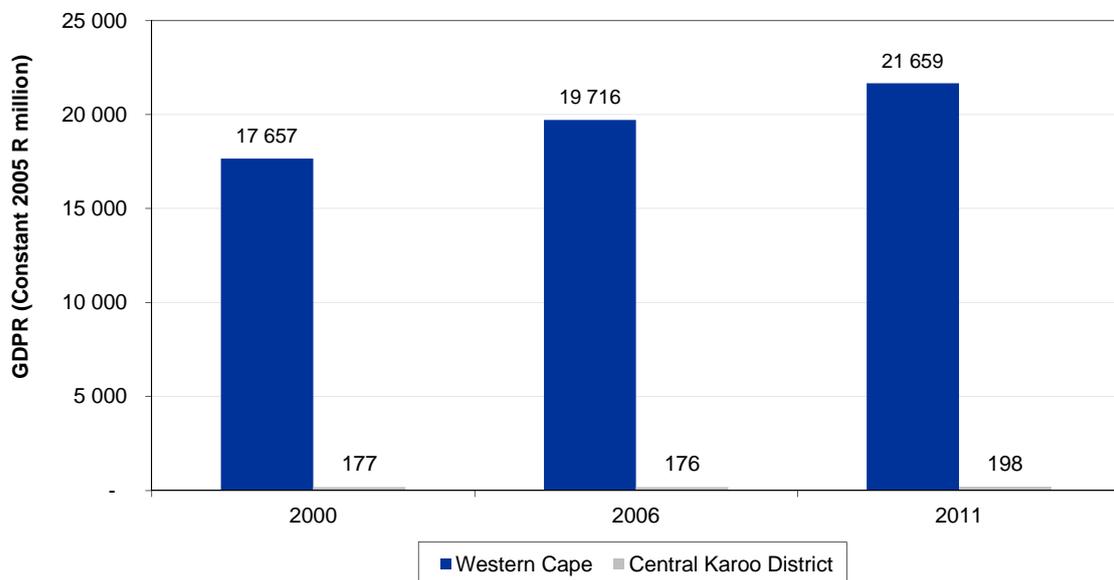
Agro-processing value chain

The agro-processing value chain is mainly comprised of the agricultural sector in the CKD. Sheep and cattle farming are the dominant agricultural activities in the region, with small stock farming the major agricultural activity. Mutton and mohair production are the major outputs for the region and there is relatively very little value added activities that take place. The CKD is the largest wool producer in South Africa. There are also small-scale farming activities in the region which contribute relatively small amounts to GDP, such as eggs, broilers, olive production and ostrich farming.

The major threats to expanding farming in the region is the limited supply of water and the expanding game farm development in the area, which has elevated property prices, preventing new farmers entering the area.

Figure 4.1 depicts the GDP for the regions agro-processing value chain. The major contributor to GDP is the agricultural sector, with a small contribution from the food and beverages sector. The value chain will therefore, follow the backward and forward linkages through the agricultural sector and the food and beverages processing sector.

Figure 4.1 GDP of the Agro-processing value chain for the Western Cape and CKD: 2000, 2005 and 2011

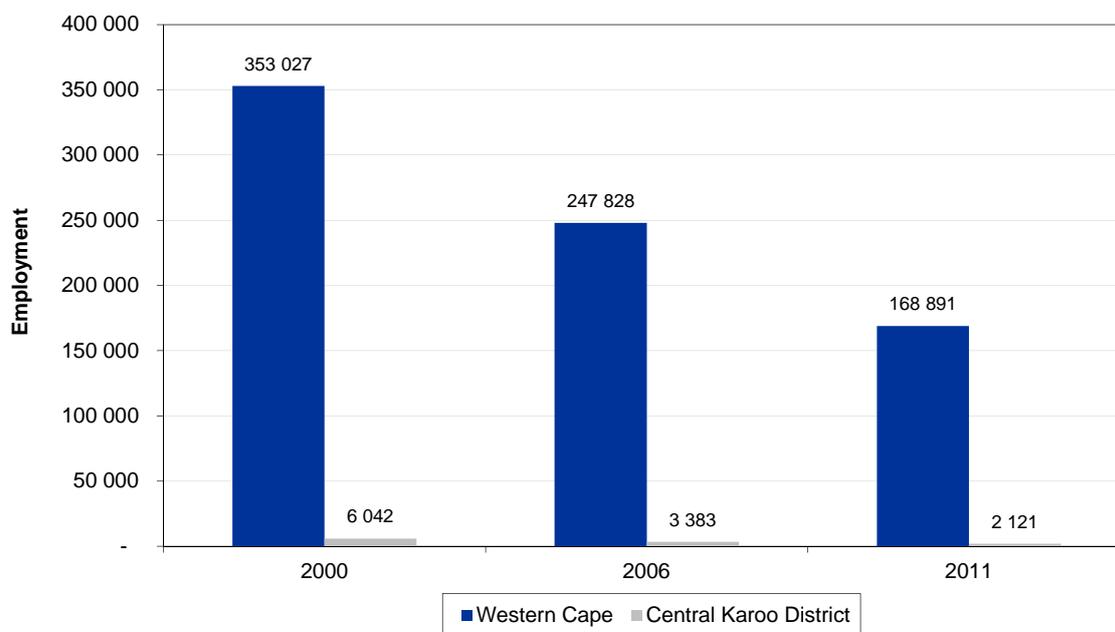


Source: Quantec Research

GDPR shares of the agro-processing industry in the CKD are relatively small compared to that of the Western Cape. GDPR has shown 1 per cent growth per year from 2000 to 2011 in the CKD, compared to 1.9 per cent average yearly growth during the same period. Although there was growth in the agro-processing value chain, this was well below the average yearly GDP growth for all sectors in the economy for South Africa.

Figure 4.2 depicts employment in the agro-processing value chain and shows that employment has steadily declined in both the Western Cape and in the CKD. Employment declined by a yearly average of -9.1 per cent in the CKD and by -6.5 per cent in the Western Cape. This sector has shown great job losses, but has the potential to provide large amounts of unskilled and semi-skilled job opportunities. In the agro-processing value chain the largest production sector is the agricultural sector, but this sector is also responsible for all the job losses. Employment declined by an annual average -10.2 per cent in the agricultural sector and rose by an annual average of 4.9 per cent from 2001 to 2011.

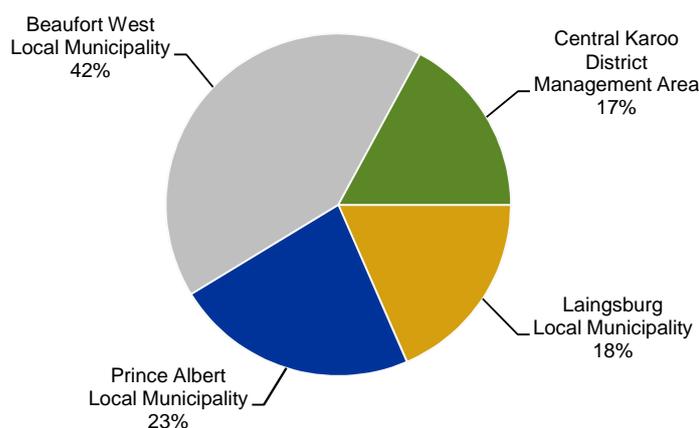
Figure 4.2 Agro-processing value chain employment for the Western Cape and CKD: 2000, 2006 and 2011



Source: Quantec Research

Figure 4.3 below depicts the share of agro-processing GDP in the various local municipal districts in the CKD. Beaufort West Local Municipality is the largest contributor to production activity in the agro-processing value chain, at 42 per cent, with Prince Albert Local Municipality the second-largest contributor to the value chain at 23 per cent. Laingsburg and the Central Karoo District Management area have very small forward linkages from the agricultural sector, with minimal processing activities taking place. Prince Albert Local Municipal area has the highest relative forward linkages to the processing sector.

Figure 4.3 Local municipal shares in the Agro-processing value chain for the CKD: 2011 (R million)

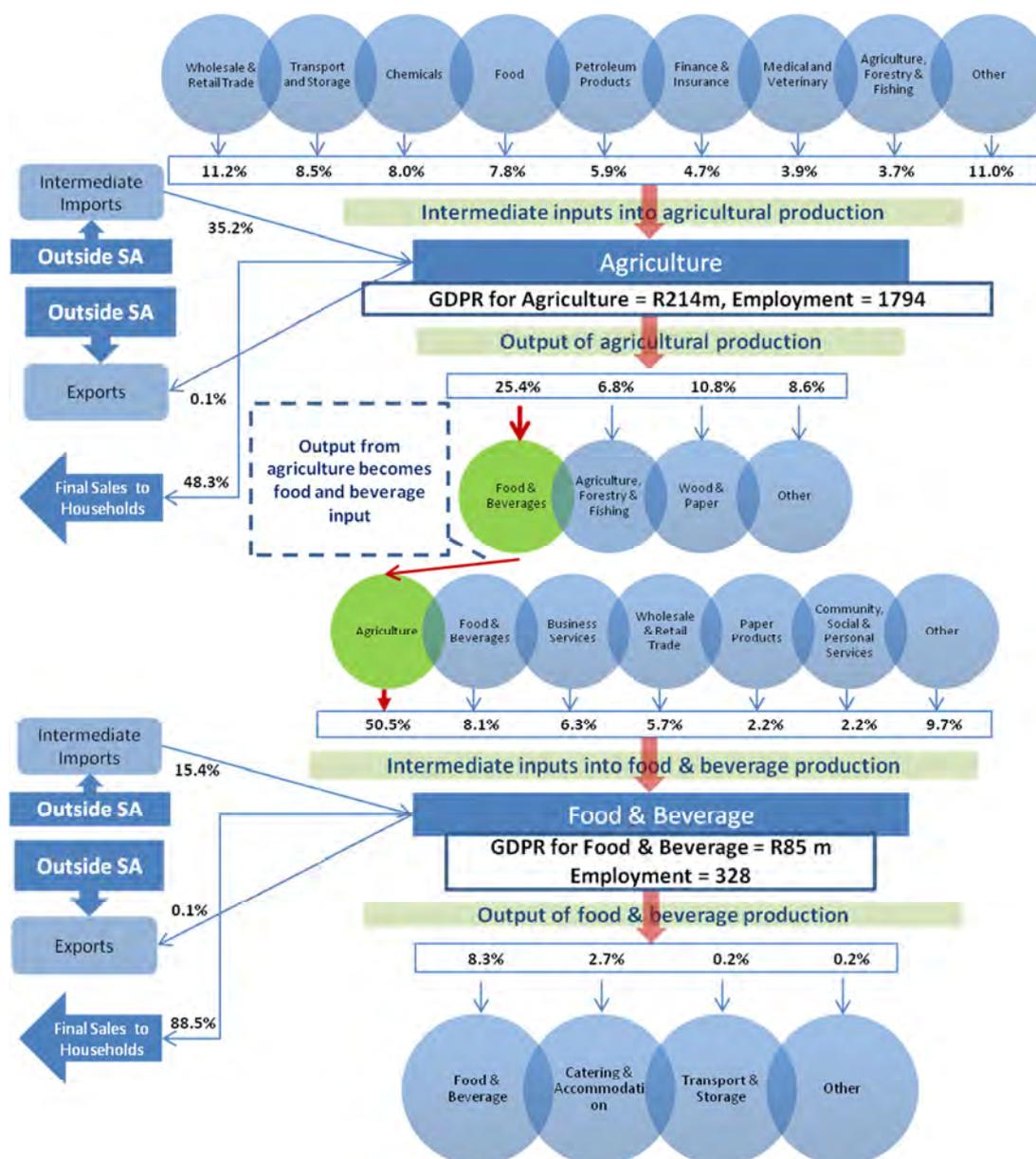


Source: Quantec Research

The agro-processing value chain for the CKD is depicted in Figure 4.4 below. The agricultural sector in the CKD is a major contributor to employment and contributes 84.5 per cent to employment in the agro-processing value chain. GDP created in the agricultural sector is high compared to the inputs into the sector. Production activities in the agricultural sector have a high value added factor, converting inputs into agricultural production into GDP of more than five times the intermediate input. This can be compared to food and beverage production which converts intermediate input by only 1.2 times to GDP. This emphasises the importance of the agricultural sector in the CKD as a significant contributor to employment and value added activities.

Intermediate imports into the agro-processing value chain are high, at 35.2 per cent for agricultural production and 15.4 per cent for food and beverage production. Exports from the production process in the value chain are also significant and a large contributor to the GDP of the Province of the Western Cape. In the agricultural sector in the CKD, only 0.1 per cent of production is exported, with only 48.3 per cent of agricultural output sold directly to households. Direct sales to households from agricultural production are high, as most of the agricultural output is from meat.

Figure 4.4 Agro-processing value chain in the CKD



Note: Inputs of sectors and imports add to 100%;
Outputs from production are sold to sectors, households and for export (these add to 100%)

The agricultural sector is the largest contributor to intermediate inputs into food and beverages production, however, the business services and wholesale & retail trade sectors are also major inputs at 6.3 and 5.7 per cent respectively. The majority of output from the production process for food and beverages is sold to households, at 88.5 per cent, with only small amounts going back into the food and beverages sector which are used in the production process.

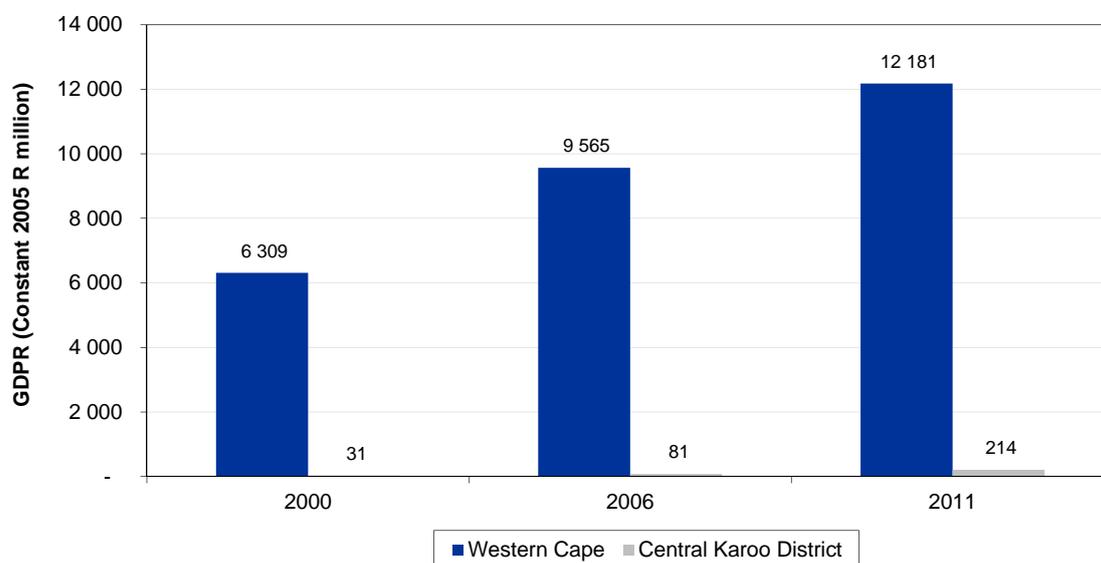
The building and construction value chain

The major contributor to the building value chain is the construction sector; however, there are other contributing sectors to the value chain that support the construction sector. The building value chain is not, 'strictly speaking', a traditional value chain, in which, value adding production occurs at various points along the chain. In this value chain, we will rather consider the construction sector and the supporting sectors that provide input to construction activities.

The major input sectors and their relative inputs generate GDP that can be attributed to the building value chain. This is the same for employment created by construction activities followed through the linkages in the value chain. Figure 4.5 and Figure 4.6 below depict the GDP and employment generated in the building value chain.

The GDP in the building value chain for the CKD is relatively small in comparison to the total GDP for the Western Cape. Building activities have increased significantly from 2000 to 2011 in the CKD and the Western Cape. The value of GDP in the CKD for construction activities has grown by 19.1 per cent, on average, per annum, from 2000 to 2011. GDP for the Western Cape in construction activities has grown by 6.2 per cent, on average, per annum in the same period.

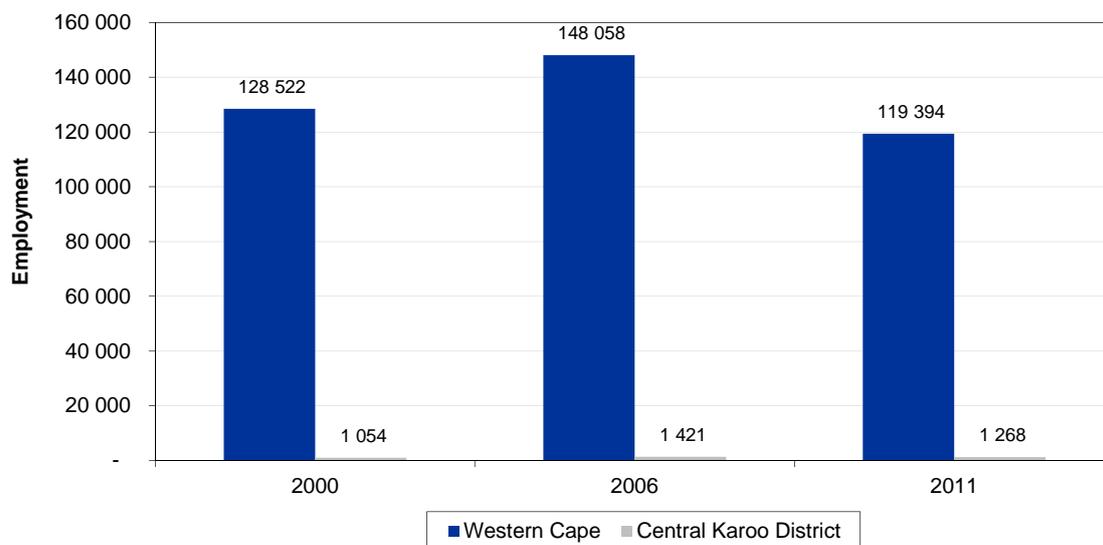
Figure 4.5 Building value chain GDP for the Western Cape and CKD: 2000, 2006 and 2011



Source: Quantec Research

The construction industry in the CKD has performed well in comparison to the provincial average over the period from 2000 to 2011. GDP growth has outperformed the provincial average and in Figure 4.6 below, it shows that, whereas employment has declined in the Province in the construction industry and associated value chain, employment has increased in the CKD from 2000 to 2011. On average, employment in the construction industry value chain in the CKD has grown by 1.9 per cent, on average, per annum from 2000 to 2011.

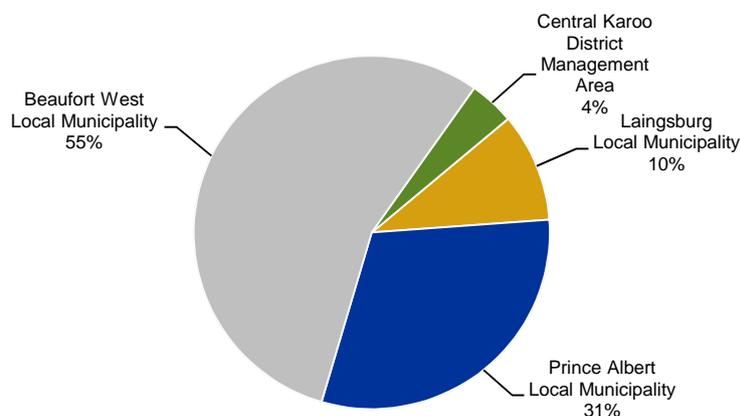
Figure 4.6 Building value chain employment for the Western Cape and CKD: 2000, 2006 and 2011



Source: Quantec Research

Figure 4.7 below depicts the local municipal shares in the building industry value chain for the CKD. The splits shown are for GDP and indicate that construction activity is greatest in Beaufort West Local Municipality, at a 55 per cent share for the CKD. Construction activity in Laingsburg Local Municipality and the former DMA are the smallest, at 10 and 4 per cent respectively.

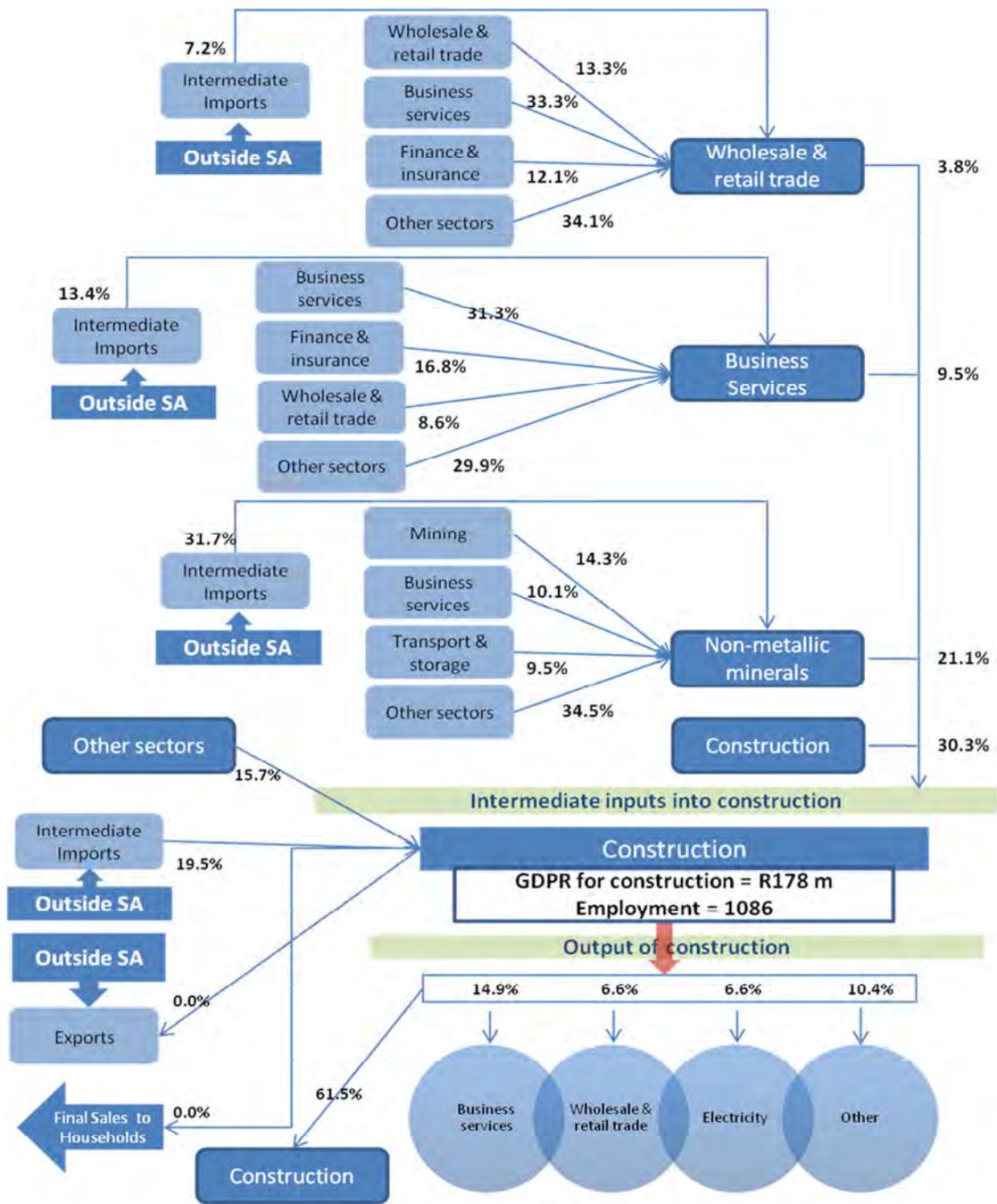
Figure 4.7 Local municipal shares in the building industry value chain for the CKD: 2011 (R million)



Source: Quantec Research

Figure 4.8 below depicts the building and construction value chain for the CKD. The largest input into the construction sector is from the construction sector itself at 30.3 per cent. Outside the construction sector, the largest input into construction activities is from the non-metallic minerals sector, at 21.1 per cent. This includes products such as cement, mortar and bricks. The business services sector and wholesale & retail trade sectors contribute a further 9.5 and 3.8 per cent to inputs respectively.

Figure 4.8 Building value chain for the CKD



Note: Inputs of sectors and imports add to 100%;
 Outputs from production are sold to sectors, households and for export (these add to 100%)

The linkages between the construction and the business services and wholesale & retail trade sectors are significant as second-round backward linkages to construction, and show that these two sectors contribute a considerable amount of input to this value chain. Non-metallic minerals have a significant input contribution from the business services sector, at 10.1 per cent of inputs. The wholesale & retail trade sector input into construction is also highly reliant on the business services sector for inputs, at 33.3 per cent. The second-round backward linkages of the wholesale & retail trade sector is also highly significant in the value chain.

The building value chain consists of strong backward linkages to the non-metallic minerals, business services and wholesale & retail trade sectors in the economy. Output from the construction sector is greatest to the construction sector itself, at 61.5 per cent, with the business services and wholesale & retail trade sectors receiving the greatest outputs outside the construction industry, at 14.9 and 6.6 per cent respectively.

Key recommendations – CKD value chains

The agricultural and food & beverage processing value chain has significant potential to create additional employment in the CWD as the value added proportion is high in comparison to other labour intensive industries.

The agricultural sector is a large contributor to employment, however the linkage to the food processing sector could be examined further and expanded as almost half of agricultural production is exported directly and no beneficiation of the primary product takes place in the district to add further value or create employment.

The building value chain consists of the construction sector and its support sectors, which provide input. The business services and wholesale and retail trade sectors have strong backward linkages to the construction sector and through expanding the construction sector additional direct employment is created in the tertiary sector. Employees in the tertiary sector also create additional induced employment and value added through expenditure in the local economy.

The construction industry and the building value chain will benefit greatly through encouraging joint venture partnerships when larger construction companies entering the district, to partner with local companies and to utilise the local backward linkages.

4.3 Policy issues

The above value chains are important from an industrial policy perspective. The reason is that a given policy focusing on interlinked industries within a value chain may render a higher return than if the same policy had been divided among unrelated sectors and industries. Although this statement forms the basis of the new Special Economic Zones (SEZs), they only apply when several links within a value chain are in need of state support. SEZs include free trade zones and sector development zones, and are aimed at promoting regional development, local value added, skills and technology transfers.

More generally, the case for policy intervention is back on the proverbial stage and has taken on a range of new dimensions in both industrialised and developing economies. Traditionally, the role of government has been justified in terms of so-called market failures, including the provision of public goods, the reduction (or augmentation) of externalities, elimination of the abuse associated with monopolistic power and, importantly, combating endemic poverty¹². More pertinently, appropriate intervention can contribute to the utilisation of potential competitive advantages via the creation of agglomeration (or internal and external) economies of scale, manifested in the form of cost-reducing production on the part of individual enterprises or value chains – something the free market either cannot do or takes too long to accomplish. Thus policy – including grant transfers, infrastructure provision, investment allowances and skills development – should focus on these enterprises and, in the case of a value chain, investigate its eligibility for SEZ status.

¹² Black, P, Calitz, E and Steenekamp, T. Public Economics, 6th ed. Oxford University Press, 2013.

A more recent justification derives from the improper and often illegal anti-trade practices applied by countries to which the CKD and other Western Cape districts export their goods and services. Such practices entail the use of tariffs, subsidies and higher standards aimed at protecting similar and competing industries in the export markets, good examples of which are the tariffs imposed on steel and related imports by the USA, and subsidies conferred on agriculture and other import-competing industries in the EU. There is thus a case for *retribution* in the sense that if these problems cannot be resolved through the World Trade Organisation (WTO), it leaves local exporting industries with little option but to counteract by applying the same – but in this case offsetting – anti-trade measures.

As far as the CKD is concerned, both the agro-processing and building value chains appear to be candidates for SEZ status, with related light manufacturing and services industries being prominent in particularly the Beaufort West and Prince Albert municipalities and agriculture being spread throughout the district. As Figure 4.4 and Chapter 3 indicated, manufacturing in CKD largely consists of processed food, which acquires inputs from the local agricultural sector and export some of their products to the rest of the country and beyond; building materials is another relatively important manufacturing sub-sector.

Other potential candidates for policy support are the tourism, finance & insurance and the electrical machinery value chains. They may be viewed as clusters of economic activity justifying support for the reasons mentioned above.

5

Informal sector profile

Definition of the Informal Sector

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 Receiver of Revenue for income tax or value added tax. Statistics SA 2012.

5.1 Introduction

This chapter contributes to the deepening knowledge and understanding of the informal sector in the Central Karoo District (CK). Given the difficulty of estimating the size of the informal sector in terms of its contribution to the CK GDP and employment, the aim of this report is therefore to determine the investment climate of informal sector businesses at a 95 per cent confidence level by analysing roughly 200 informal businesses at the district level surveyed by the Department of Economic Development and Tourism. Analyses of the investment climate may bring into focus strengths and weaknesses that vary among informal enterprises in terms of their size and the nature of their business. Some may exist and thrive precisely because they can avoid labour and other regulations characterising the formal sector; and for these a differentiated approach may be called for, allowing them to remain unregistered or partially registered. Others may benefit by registering as formal entities and developing new or strengthening existing linkages with formal sector enterprises. In such cases they could become part of a supply or value chain.

Importantly though, informal micro-enterprises in the CK exist in the various economic sectors and are important in several respects. While they cover a wide range of sectors, mostly in Manufacturing, Agriculture, and Wholesale and Retail Trade, they possess important characteristics. These characteristics are:

- They are more labour intensive relative to the formal industrial sector;
- They are more (less) dependent on low-skilled and unskilled (skilled) labour;
- They tend to process local materials;
- They are more geographically dispersed; and
- They are more accessible to indigenous entrepreneurs.

5.2 Analysis of data for the Central Karoo Region

5.2.1 Profile of the informal micro-enterprise

Geographical concentration

Table 5.1 and Table 5.2 below show demographic data on informal businesses in the townships of the CKD. From the data¹³, the variation in business numbers and density can be noted: the informal enterprises in the CKD, as in the other districts, are more concentrated in urban regions than in rural areas. Anecdotal evidence indicates that informal economic activities are more prevalent in the large regional towns, whilst small in scope in agricultural service towns and rural localities. It is worth noting that informal settlements/townships were the predominant locality for the interviewed informal enterprises, accounting for 82.4 per cent of the total, followed by urban major towns (17 per cent) and rural areas (0.5 per cent) (see Table 5.2).

Table 5.1 Respondent suburb township by area

Township	Per cent
Beaufort West	74.5
Laingsburg	13.3
Prince Albert	12.2
Total	100

Table 5.2 Respondent suburb township by settlement type

Township	Per cent
Urban major city	17.0
Urban township/informal settlement	82.4
Rural	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

Distribution by age and race

The age distribution across the sample ranged from 17 to 94 years, with 40 years being the median age. The data was then disaggregated into four sub-sample age groups (see Table 5.3) to differentiate between young entrepreneurs (16 - 24 years); young adult entrepreneurs (25 - 34), adult entrepreneurs (35 - 60) and pensioners (61 years and above).

Before evaluating the CKD sample by race group, it is worth noting that African (38.8 per cent) and Coloured (55.9 per cent) informal entrepreneurs cumulatively accounted for 94.7 per cent of the respondents surveyed while Asian/Indians (4.8 per cent) and Whites (0.5 per cent) cumulatively accounted for only 5.3 per cent of the respondents surveyed. Interestingly this is the only district where the split between the Coloured and the African race group is weighted towards the Coloured group. The almost insignificant response rate among the White and Asian/Indian race groups implies that operating in the informal economy for these race groups may not be a

¹³ Even though every effort was made to obtain a 200 sample-size, DEDAT only manage to find 188 businesses in the Central Karoo District.

viable option. As a result the remainder of this section is limited to analyses of the Coloured and African groups only.

Table 5.3 Distribution by Age and Race

Age	Race				Total
	African	Asian/Indian	Coloured	White	
16 to 24 years	15.1%	11.1%	6.7%	0.0%	10.1%
25 to 34 years	20.5%	44.4%	21.9%	100.0%	22.9%
35 to 60 years	63.0%	44.4%	62.9%	0.0%	61.7%
61 years or older	1.4%	0.0%	8.6%	0.0%	5.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DEDAT 2013 and own calculations

Within the age group 16 – 24 years, the African race group accounted for 15.1 per cent and Coloureds 6.7 per cent; while the total respondents, which include the Asian/Indian race group, cumulatively accounting for a total of 10.1 per cent. Entrepreneurial activity appears to be very mundane within this age group. This is rather disconcerting given that this is the age group where nationally the unemployment rate is at its peak.

Within the age group 25 – 34 years, the African race group accounted for 20.5 per cent and Coloureds 21.9 per cent; cumulatively, which include the Asian/Indian and white groups, accounting for a total of 22.9 per cent. Entrepreneurial activity is significantly vibrant within this age group.

The 35 - 60 age group accounts for more than half of the total cumulative percentage share (61.7 per cent) and entrepreneurial activity is at its peak in this age group. Here the African group accounts for 63 per cent and the Coloured group accounts for 62.9 per cent. Anecdotal evidence through interviews with CIPRO and SEDA suggests that generally, individuals work for a number of years in formal employment before terminating their services, and then using their pension or life savings to become entrepreneurs. The entrepreneur may or may not decide to register the business; however SEDA has found that particularly among the Coloured race group, they choose to work informally for a significant period before, if at all, formally registering their business. Tax avoidance and the lack of Government tenders appear to be the main reasons for the apathy to formalise. The data appears to support the anecdotal evidence.

The participation of entrepreneurs aged 61 years and above is insignificant; it would appear that retired citizens similar to the Asian/Indian and white groups do not view the option of informal entrepreneurship as a viable one.

The split of respondents by gender was slightly weighted in favour of male respondents who comprised 54.8 per cent while the female respondents comprised 45.2 per cent of the sample as is shown in Table 5.4 below.

Table 5.4 Distribution by gender

Gender	Per cent
Male	54.8
Female	45.2
Total	100.0

Source: DEDAT 2013 and own calculations

Educational attainment

Table 5.5 below shows that South African informal entrepreneurs account for the majority of respondents (76.9 per cent), followed by Bangladesh (4.3 per cent) and then Somalia (2.7 per cent). When gauging educational attainment among respondents from the different countries, the data reveals no real difference in education level per country. For example for the 3 countries of origin (SA, Bangladesh and Somalia) mentioned, the majority of the respondents either completed or have some form of high school education.

Based on the data, however, it would appear that there is no correlation between the schooling system and informal activity.

Table 5.5 Level of Education and Country of Origin

Country of origin	What is your highest level of schooling completed?					Total of respondents per country (black) and inter-country (blue)
	No schooling	Primary school incomplete	Primary school complete	Secondary high school incomplete	Completed matric Grade 12 A/O levels	
South Africa	100.00%	90.90%	80.00%	89.70%	81.70%	86.70%
	(3.07%)	(6.13%)	(7.36%)	(53.37%)	(30.06%)	(100.00%)
DR Congo	0.00%	0.00%	0.00%	1.00%	1.70%	1.10%
	(0.00%)	(0.00%)	(0.00%)	(50.00%)	(50.00%)	(100.00%)
Somalia	0.00%	0.00%	6.70%	2.10%	1.70%	2.10%
	(0.00%)	(0.00%)	(25.00%)	(50.00%)	(25.00%)	(100.00%)
Malawi	0.00%	0.00%	0.00%	1.00%	0.00%	0.50%
	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(100.00%)
Zimbabwe	0.00%	0.00%	0.00%	1.00%	0.00%	0.50%
	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(100.00%)
Senegal	0.00%	0.00%	0.00%	1.00%	0.00%	0.50%
	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(100.00%)
Tanzania	0.00%	0.00%	6.70%	0.00%	0.00%	0.50%
	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(0.00%)	(100.00%)
Bangladesh	0.00%	0.00%	0.00%	2.10%	10.00%	4.30%
	(0.00%)	(0.00%)	(0.00%)	(25.00%)	(75.00%)	(100.00%)
Other	0.00%	0.00%	6.70%	0.00%	0.00%	0.50%
	(0.00%)	(0.00%)	(100.00%)	(0.00%)	(0.00%)	(100.00%)
Ethiopia	0.00%	9.10%	0.00%	2.10%	3.30%	2.70%
	(0.00%)	(20.00%)	(0.00%)	(40.00%)	(40.00%)	(100.00%)
Pakistan	0.00%	0.00%	0.00%	0.00%	1.70%	0.50%
	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(100.00%)	(100.00%)
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	(2.66%)	(5.85%)	(7.98%)	(51.60%)	(31.91%)	(100.00%)

Note: Percentages in parenthesis () are calculated only for the specific county's educational level

Source: DEDAT 2013 and own calculation

The respondents reported a diverse range of acquiring skills (see Table 5.6 below). Importantly, especially in the context of literature which argues that the informal economy provides a means for skills acquisition through informal apprenticeship, over half the sample (56.7 per cent) reported having acquired their skills on the job. A further 20.3 per cent reported acquiring skills through having worked in a family

business. Together these results indicate that informal micro-enterprises provide an important medium for skills transfers to employees, whilst transferring entrepreneurial learning to the business owner. A further 10.7 per cent reported acquiring skills from a former job, a finding that confirms research (including the previous MEDS 2007 informal economy trade study) which argues that many of the entrepreneurial persons within the informal economy have experience of the formal economy workforce and would be capable of obtaining formal jobs. The role of formal adult education in providing skills to operate informal business is fairly limited with only 1.1 per cent reporting having acquired their business skills through study. Interestingly though, is that 4.8 per cent of respondents claim to have been self-taught.

Table 5.6 Level of skills acquired

Skills acquired	Per cent
Former employment	10.7
On this job	56.7
Adult education	1.1
Family business	20.3
Family and friends	1.1
Did a course	2.1
Self-taught	4.8
Other	3.2
Total	100.0

Source: DEDAT 2013 and own calculations

Registration of informal businesses

Many enterprises may hold some level of formal registration and yet still operate outside of the formal system, whether intentionally or unintentionally. For example many businesses register at CIPRO but never complete their annual returns. As a result these businesses are deregistered by CIPRO but remain "active" in the market place.

Table 5.7 Registration of informal businesses

Business registration	Per cent
None	72.3
CIPRO/the dti	6.9
SARS	12.2
Trader organisations	1.1
Local municipality	7.4
Total	100.0

Source: DEDAT 2013 and own calculations

The data in Table 5.7 indicates that nearly 72.3 per cent of the sample reported that their businesses were not registered in any way (institutionally or organisationally). Of those businesses with some level of registration and formalisation, 7.4 per cent claimed registration with municipal authorities, 12.5 per cent with SARS, 6.9 per cent with CIPRO, and 1.1 per cent with trader organisations.

The split in compliance between municipal and national requirements for business licensing is slightly weighted in favour of national requirements reflecting that the municipalities are somewhat ineffective in enforcing compliance or the cost of municipal compliance outweighs the benefits of this status. This finding is contrary to the findings in the other districts.

The low level of enterprise registration with informal trader organisations (1.1 per cent) confirms the limited influence of trader groups within the CK informal economy. The findings also show, in converse, that roughly 28 per cent of informal businesses endeavour to comply with state requirements to a certain degree, though compliance is strategic rather than procedural. Therefore literature arguing that informal businesses weigh-up the costs/benefits of compliance in their engagement with regulation appears to hold true.

5.2.2 Organisation of business (Goods and services)

The trade in products and services was separated for analysis, and aggregated into broad categories of best fit. Roughly 65.4 per cent of the respondents sold products, whereas 34.6 per cent of the respondents provided a service. The data shows that businesses providing services generally do not sell products, except where natural synergies exist as in the case of hair dressers that sell hair care products, or appliance repair shops that sell electrical goods, or catering businesses that sell take-aways. Disaggregated data on the kind of products and services traders are proffering is also discussed within separate “products” and “services” sections.

Trade in goods

The survey revealed a considerable diversity in the range of products sold through informal trade, within the district. For practical analysis the trade in products was combined into four categories or sectors; i) retail food and beverages, ii) retail attire, iii) household goods, and iv) personal requirements. The results are shown in Table 5.8 below.

Retail food and beverages were by far the largest category of overall business activity (51.1 per cent of all businesses surveyed), occurring in a variety of shop premises (including spaza and house shops) and also on the street. The second largest category was personal requirements (6.4 per cent) – primarily the trade of cigarettes but also including traders of over the counter pharmaceuticals, perfumes and similar personal care products. Up to 4.3 per cent of products focused on household goods, which consist of trade of non-food household items including furniture, electronics and hardware, alongside household consumables such as cleaning products, and black bags. Retail attire or the selling of clothing accounted for 3.7 per cent of the total.

Table 5.8 Product orientated informal business per sector

Product per sector	Per cent
Retail food and drink	51.1
Retail attire	3.7
Household goods	4.3
Personal requirements	6.4
Total	65.4
Services excluded	34.6
Total	100.0

Source: DEDAT 2013 and own calculations

Trade in services

Service businesses were categorised into four sectors: i) micro-manufacturing, ii) personal services, iii) business services and iv) social services. The division is shown in Table 5.9 below. Business services accounted for 23.5 per cent of service informal micro-enterprise activities. This category includes mechanical repairs, appliance repairs, tradesmen, moneylending, computer and secretarial services. Personal services comprise 7.4 per cent of the services businesses and include primarily hair salons, traditional healers, funeral services and sex work (due to its largely clandestine nature, the latter was likely to have been under-represented in this study). Informal micro manufacturing accounted for 3.2 per cent of all services businesses including furniture making, tailoring and cobbling. The social services sector was the smallest cohort accounting for 0.5 per cent; this sector includes child care and educare services.

Table 5.9 Service orientated informal business per sector

Services per sector	Per cent
Micro-manufacturing	3.2
Personal services	7.4
Business services	23.5
Social services	0.5
Total	34.6
Products excluded	65.4
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.3 Justifications for starting informal enterprises

An important direct or implied justification for most people establishing and operating informal enterprises was economic survival. This can be clearly seen in Table 5.10: Reasons for starting a business. Although many individuals gave multiple responses to this question, wanting to earn more money along with the inability to find alternative employment were the primary responses (76.3 per cent of responses). Interestingly 9.1 per cent of motivations related to the respondent's claim that they were good at or had expertise in running their particular business.

Table 5.10 Reasons for starting a business

Reasons for starting a business	Per cent
I could not find alternative employment	47.3
I didn't enjoy working for someone else	8.6
I wanted to earn more money/financial hardship	29.0
I am good at running this business	9.1
Opportunity	1.6
Health reasons	0.5
Have passion for it/It's a calling	1.1
Gap in the market	1.1
Other	1.6
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.4 Years in operation

The survival, sustainability and longevity of the studied informal economy enterprises are considerably high – especially after an initial year of operations. The results are presented in Table 5.11 below. A relatively small number (7.4 per cent) of enterprises were less than a year old. The majority of interviewed businesses (41.5 per cent) had been in operation for between one and five years, with a further 27.7 per cent operating between 6 and 10 years and a further 23.4 per cent operating for over 11 years. Of course, due to the nature of the study one is unable to determine the number of businesses that have failed (appearing most likely to happen within the first 12 months of operations), although this finding does imply a sense of sustainability of business for operating enterprises.

Table 5.11 Number of years business is in operation

Years in business	Per cent
Less than 1 year	7.4
1 to 5 years	41.5
6 to 10 years	27.7
11 or more years	23.4
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.5 Employment

The contribution of the informal economy to employment creation is further supported by this survey, as the data reveals that the 188 businesses interviewed in this study provided 317 jobs (including the owners) through employment. This implies a ratio of roughly 1.7 jobs created (including owner) per informal business established for the CKD. Whilst 60.6 per cent of these enterprises only provided employment for the owner, the remaining 39.4 per cent in the study employed more than one person (in addition to the owner), most commonly a second individual. Table 5.12 below gives more detail.

Table 5.12 Employment provided by informal businesses

Number of jobs	Frequency	Per cent
1	114	60.6
2	45	84.6
3	14	92.0
4	11	97.9
5	3	99.5
12	1	100.0
Total	188	100.0

Source: DEDAT 2013 and own calculations

Informal enterprises represent important family businesses. However, 72.9 per cent of the sample employs no family members in the business (see Table 5.13). Of the sampled enterprises that employed family members beyond the owner, the majority (19.7 per cent) employ one person.

Table 5.13 Family members employed

Number of family members employed	Per cent
No family members	72.9
One family member	19.7
Two family members	4.3
Three or more family members	3.2
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.6 Business Location

The street and people's homes provide the most commonplace and important business venue opportunities for the informal economy participants in this study. Within the street context 10.6 per cent of respondents set up business venues on a daily basis for trade, using a range of semi-permanent stands. A further 3.7 per cent operated from permanent structures on the roadside. 53.7 per cent of enterprises were home based, generally operating from the household, involving cooking, take-aways in the kitchen or minding children on the property. A further 7.4 per cent of enterprises operated from separate structures attached to people's homes, such as shipping containers or shacks specifically utilised for the business. Hawking/mobile were also important areas for business activity - with 2 per cent of interviewed businesses located in these sites. Up to 3.2 per cent of the respondent's place of business included commercial buildings and 0.5 per cent formal market places. Moving vehicles only accounted for 1.6 per cent of respondents' place of business (see Table 5.14).

Table 5.14 Where do you operate this business from?

Where do you operate the business from	Per cent
Hawking/mobile	5.9
Road side (structure assembled daily)	10.6
Road side (permanent structure)	3.7
From a moving vehicle	1.6
In my home	53.7
Separate structure on my property	1.1
Separate structure on someone else's property	7.4
Someone else's home	10.6
Formal market place	0.5
Commercial building	3.2
Other	1.6
Total	100.0

Source: DEDAT 2013 and own calculations

When considering the trade in products, especially the dominant retail of groceries and clothing, the important nature of the street as a trading site becomes apparent. Similar to retail businesses in the formal sector, street based micro-enterprises are reliant on predominant foot traffic and large volumes of passing trade to support sales activity. Positioning such enterprises in close proximity to commuters and pedestrian traffic makes considerable business sense.

Home based businesses are an important feature of the informal economy. Many enterprises including those selling basic food, beverages and household goods are operated from residential property, both within the home and from separate structures. Furthermore the commonplace activity of liquor retailing is also reflected in the high number of home based businesses. Unlicensed liquor trading is illegal and heavily policed and it makes little sense for many entrepreneurs to openly conduct activities in the street or from specialised premises. Maintaining this clandestine trade from private homes assists in concealing the enterprise from the public at large and law enforcement officials.

5.2.7 Ownership of assets and micro-enterprise profitability

The research investigated asset ownership, focusing on i) a house, ii) container, iii) shack, iv) vehicle, v) cell phone, vi) computer and vii) specialist equipment. Surprisingly, the most widely possessed asset was the respondent's own home (57.3 per cent), jointly followed by own caravan and own computer (16.8 per cent), then own specialised tools and machinery (5.4 per cent) and vehicles. The results are shown in Table 5.15 below. The relatively high percentage of the respondents in the sample who owned a computer is very surprising and in contrast to the findings in most of the other municipalities. This finding highlights that even low educational levels among the micro-enterprises in CK do not inhibit investment in information and communication technologies as is the case most other districts.

Table 5.15 Ownership in assets

Ownership in assets	Per cent
Own house	57.3
Own shack	1.1
Own container	0.5
Own caravan	16.8
Own specialised machinery/tools	5.4
Own vehicle(s)	0.5
Own computer	16.8
Own cellphone	1.6
Total	100.0

Source: DEDAT 2013 and own calculations

In most cases, some of these assets form part of the business, and are used in the process of income and profit generation.

The majority of the businesses surveyed were relatively low profit earners, with more than 78 per cent of respondents reporting average monthly profits of less than R2 500 (see Table 5.16). Close to 22 per cent of enterprises reported earnings of more than R2 500 per month; therefore their informal business enterprises propel individual earnings above the South African median, making them comparatively financially well off amongst local peers.

Table 5.16 Profit business makes on average in a month

Average monthly profit	Per cent
R1 - R999	51.1
R1 000 - R2 499	27.1
R2 500 - R4 999	13.3
R5 000 - R9 999	6.4
R10 000 and above	2.1
Total	100.0

Source: DEDAT 2013 and own calculations

5.2.8 Money lending and credit

Localised money lending and credit are an important part of the informal economy. More than 14 per cent of all interviewed CK micro-enterprises reported lending money to individuals as part of their business strategy (see Table 5.17 below).

Table 5.17 Money lending

Money lending	Per cent
Yes	14.4
No	85.6
Total	100.0

Source: DEDAT 2013 and own calculations

This finding confirms that a sizeable portion of informal businesses rely on diverse income strategies beyond the core product or service nature of their business. Furthermore the finding shows how potentially many thousands of informal enterprises

in the District contravene the National Credit Act in providing financial services without licences to do so. Further to the activity of money lending, 41 per cent of enterprises provide goods and services on credit. This is important because their customers are generally resource poor. In certain sectors (such as clothing and home ware) credit is necessary to compete with formal businesses that offer lay-buys or account purchases.

Interestingly whilst a considerable number of enterprises lend money out as part of their business practice, the micro-entrepreneurs themselves are in general not borrowers of finance – with only 9.6 per cent of enterprises having borrowed money in the past 12 months (see Table 5.18 below).

Table 5.18 Borrowed money in last 12 months

Borrowed money	Per cent
Yes	9.6
No	90.4
Total	100.0

Source: DEDAT 2013 and own calculations

Of those who have borrowed, family and friends are the most prominent lenders of money to the respondents, as shown in Table 5.19. Banks play a considerably smaller role, potentially due to the stringent requirements for proof of income and the absence of collateral. Savings clubs and money lending businesses play a negligible role in providing finance to informal economy businesses.

Table 5.19 Sources of loans

Sources of loans	Per cent
Have not borrowed money in the last 12 months	91.0
Family	2.1
Friends	2.7
Bank	1.1
Business that lend money (not a bank)	1.1
Individual (loan shark)	1.6
Other	0.5
Total	100.0

Source: DEDAT 2013 and own calculations

Interestingly, for those borrowing money, not only do family and friends provide the important sources of finance, but with respect to interest charged also offer the most reasonable terms. Based on aggregating all borrowed and repaid funds as reportedly borrowed by the respondents, the commercial banks and micro-finance agencies charge commercial (though modest) interest rates, with the median loan size of R10 000 and repayment of R11 250. The data suggest that micro-finance organisations provide the most costly means of finance, although the number of borrowers is too small to make a fair comment.

5.3 Business challenges and prospects

5.3.1 Business challenges

Challenges being faced by businesses were also investigated. A series of questions pertaining to access to the formal economy and state provided services were posed, asking respondents whether the issue represented i) a 'big problem', ii) not a problem or iii) not applicable. The menu of options were: i) access to finance, ii) electricity cost, iii) water cost, iv) the cost of business licensing, v) crime, vi) political crime, vii) labour relations, viii) a lack of specialist equipment, ix) a shortage of business premises, x) transport costs, xi) police corruption, xii) regulations, xiii) competition, xiv) immigration status, xv) other. Multiple responses were optional and therefore only the challenges which received the most responses as "biggest responses" are reported on.

The key finding from this enquiry was that the most frequently mentioned challenges were: first, access to affordable micro-finance (74.3 per cent of respondents), second, a shortage of business premises (43.1 per cent of respondents) and third, competition (37.7 per cent of respondents). The distribution of responses is shown in Table 5.20 below.

Interestingly the major concern lies with the affordability of finance, as opposed to finance availability. Many respondents highlighted that money can be borrowed from within their communities, but the terms upon which money can be borrowed from formal institutions were, in many cases, considered to be non-affordable. Respondents highlighted finance as a useful tool for a variety of reasons including expanding business premises and purchasing stock.

As mentioned, 43.1 per cent of the total respondents highlighted the lack of suitable business premises as a major problem for their enterprise activities. A variety of businesses presented this complaint, including street traders who relied upon temporary structures, through to vehicle panel beaters operating from home and street based sites. The underlying issue around premise suitability extended beyond the physical premises and also included zoning such as businesses operating in residential areas (in contravention of municipal land use regulations).

More than 25 per cent of respondents specifically cited the cost and difficulty of business licensing as a major obstacle to their business growth, whilst a further 2.4 per cent cited challenges in obtaining municipal licences as a major obstacle. This finding points toward the need for reducing red-tape.

Other issues that respondents identified were the cost of access to water (16.8 per cent), the lack of specialised equipment (34.1 per cent), crime (25.7 per cent), electricity cost and access (34.1 per cent), and transport costs of goods (28.7 per cent). The emergence of these issues highlights the need for further public sector (municipal) investment in the development of trader infrastructure.

Table 5.20 Perceived business growth challenge

Challenge for business growth	Number of respondents	Cumulative percentage of cases
Access to affordable finance	124	74.3%
Electricity cost access	57	34.1%
Water cost access	28	16.8%
Cost and difficulty of business licensing	42	25.1%
Crime	43	25.7%
Lack of specialised equipment	61	36.5%
Shortage of business premises	72	43.1%
Transport of goods costs	48	28.7%
Competition	63	37.7%

Source: DEDAT 2013 and own calculations

5.3.2 Business prospects

Despite the relatively low incomes for the great majority of participants, more than 60 per cent of the survey respondents (both men and women) indicated that they would not give up their businesses in preference to a “minimum wage” job paying R126.00 per day (see Table 5.21). This wage level was chosen as it reflects the minimum wage for persons working in the retail sector at the entry level.

Table 5.21 Will you take minimum wage of R126 per day

Employment in formal sector with minimum wage	Per cent
Yes	31.4
No	62.2
N/A	6.4
Total	100.0

Source: DEDAT 2013 and own calculations

The desire of the majority to persist with informal self-employment implies that the income earned from informal economy business is sufficient to warrant continued operation in the sector – even if it is lower than a formal economy equivalent, or at least that the work conditions, hours of employment and flexibility of operations (in other words non-wage benefits) are considered further benefits that would be lost under full-time employment.

Further to the majority preference to not hold a formal sector position at minimum wage, people tend to share a largely positive outlook about their businesses. This optimistic outlook is borne out in the survey results with 54.8 per cent of enterprises able to report business growth either in profit or volume of sales (in cases of both goods and services trade) since starting the business, and a further 37.2 per cent reporting stable business activity (Table 5.22). Considering the toughening conditions of the broader national economy in recent years, both stability and growth are useful indicators for business sustainability and provide positive future prospects for these business owners.

Table 5.22 Business outlook/Growth prospects

Business outlook/Growth prospects	Per cent
Expanded increased profit more stock greater number of employees	54.8
Contracted decreased profit less stock fewer employees	8.0
Remained the same - no change	37.2
Total	100.0

Source: DEDAT 2013 and own calculations

5.4 Concluding remarks

Given the economic contributions of the informal economy, it is widely believed that governments should be developing policies that recognise the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work in it. This is increasingly seen as the responsibility of local government.

In addition, the promotion of the informal sector by the CKD would significantly contribute to meeting the policy objectives of growth, employment and poverty alleviation; as well as an improved regional and vertical distribution of income. For these reasons, the informal sector should form an integral part of any viable CK district strategy.

The obvious benefits for entrepreneurs who operate in the informal economy are to avoid costly and burdensome government regulations as well as high and complex taxes. However, the findings in the chapter show that many informal businesses do in fact endeavour to comply with state requirements to a certain degree, although compliance is strategic rather than procedural in nature. The reason why the informal sector is growing in the District is therefore that the benefits of formality are overshadowed by its costs.

Even though the CKD informal economy incomes appear generally low, the term "survivalist" does not necessarily do justice to the demonstrated sustainability of enterprises, the positive outlook of many of the entrepreneurs in these businesses, and their stated unwillingness to abandon their enterprises with a theoretical offer of alternative formal work at minimum wage.

Whilst the study findings cannot comment on the economic scale of the CKD informal economy (in terms of employment numbers or GDP) the micro-enterprises studied – especially the majority operating within the township context – play an important local employment role in their immediate economies. Each business has an employment factor of 1:7 and nearly 40 per cent of enterprises provide more employment opportunities. Employment is predominately family based, though opportunities are also provided for piece-workers. 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. It should not be assumed that the formal sector pays higher wages at the entry level and uses lower skills levels than informal work.

Unlike most other districts, the majority of informal micro-enterprises appear to be well-connected electronically and otherwise. The use of personal computers was reported by nearly 20 per cent of respondents. These businesses are therefore less reliant on information exchange through inter-personal networks (word of mouth) and the print media.

With most informal enterprises operating in retail trade and other services, and increasingly in the major urban centres, they are bound to be closely linked to the formal sector, often forming part of the supply or value chains discussed in Chapters 3 and 5. Informal suppliers of food, beverages, clothing and household consumables, for example, may well benefit from policies aimed at developing supply chains, and it may be worth – in a separate study – to consider ways of strengthening these potentially important linkages.

6

Infrastructure spending: Review and analysis

6.1 Introduction

Perhaps the overriding challenges facing the South African government are the elimination of poverty and inequality and a significant reduction in unemployment. One of the mechanisms through which the government aims to address the challenges the country faces is through infrastructure investment, and there has indeed been a significant increase in infrastructure investment in recent years. In the years leading up to the 2010 FIFA World Cup, the increase in investment of up to 6.05 per cent and 7.64 per cent of Gross Domestic Product (GDP) in 2008 and 2009 respectively was preceded by years of very dismal investments averaging about 2.91 per cent annually between 1995 – 2007 (Kumo, 2012:7). The long run trends in infrastructure investment are well explained in Perkins, Fedderke and Luiz (2006).

Many definitions and interpretations of infrastructure can be found in the literature (See Fourie, 2006a for a discussion of these definitions). Economic infrastructure includes transport, communication, energy, water and sanitation facilities, whilst health and education systems as well as cultural and recreational facilities constitute social forms of infrastructure (Fedderke and Garlick, 2008: 2). This chapter focuses on economic infrastructure.

Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments – the so-called “crowding-in effect” – as well as in providing a solid foundation for social development (Swilling, 2006). In South Africa the importance of infrastructure has not only been emphasised at national level but also at regional level. In the Western Cape the region needs efficient transport systems, water and sanitation, telecommunications and power supplies in order to influence the standard of living of their populations and regional economic growth. There is, thus, a pressing need to determine whether government’s strategy on infrastructure investment will yield the

desired economic growth benefits at micro (i.e. project or sector level) or at the national or macro level.

The micro level analysis certainly would provide more accurate results on the impact of public economic infrastructure investment on the economy but most empirical work in this area in South Africa has focused on the national level. Over the years much research has been conducted on the relationship between infrastructure and growth¹⁴ and conclude that infrastructure does have an impact on growth – a view strongly supported by municipalities in their response to the Central Karoo District survey. Early reviews of the empirical literature on the South African economy can be found in Fourie (2006).

Investment in economic infrastructure is not only important at the national level but the regional and local levels too. Table 6.1 below illustrates the extent to which households within the Western Cape lack access to basic services (electricity, piped water and sanitation and refuse removal). Provinces with the most urgent need for Municipal water services and sanitation infrastructure requirements are KwaZulu-Natal, Limpopo and the Eastern Cape. As can be seen in comparison to other provinces the Western Cape has performed relatively well. However there is still a need for the maintenance and expansion of key strategic regional infrastructure projects in order to position the Western Cape for sustainable economic growth and poverty reduction.

Table 6.1 Municipal backlogs per province

Municipal backlogs per province	Backlog (% with service below adequate level)			
	Electricity	Piped water	Sanitation	Refuse removal
Western Cape	6	1.1	6.6	8.9
Free State	13.4	2.5	30.6	23.4
Gauteng	16.5	2.1	12.2	13.8
North West	17.7	10.1	18.4	45.2
Mpumalanga	18.3	8.7	46.1	58.5
Limpopo	19	16.4	69.2	81.3
KwaZulu-Natal	28.5	20.6	36.1	48.1
Northern Cape	12.7	5.2	45.5	27.9
Eastern Cape	34.4	29.6	51.1	60
South Africa	20	11.4	32.4	38.4

Source: Ruiters (2011:65)

There have been varying levels of infrastructure investments and development across the 131 towns outside the Cape Town Metropolitan area. Some towns have solid development potential while others are declining. A number of growth factors have contributed to this decline (Donaldson et al 2010). Amongst these factors is a deteriorating infrastructure. Municipal infrastructure consists mainly of bulk treatment plants, pump networks, pump stations treatment works, reservoirs and distribution pipelines, electricity transmission and distribution infrastructure. In some municipalities infrastructure remains under threat and requires increasingly more astute management whilst other municipalities have invested significantly in infrastructure provision and experience high growth rates. The following section takes a look at

¹⁴ These include Ford and Poret (1991), Aschauer (1989 and 1993), World Development Report (1994) and Holtz-Eakin (1994)

infrastructure investment in the Central Karoo District and its resulting impact on growth.

6.2 Regional economic growth, infrastructure and the budget link

Empirical evidence at National level has shown that investment in economic infrastructure has a positive impact on National growth. This growth however depends crucially on provincial and municipal performance. All municipalities are tasked with basic service delivery objectives in order to stimulate local economic development. Population growth and deteriorating infrastructure has continued to place strain on infrastructure budgets. The objective of this section is to determine if there is a relationship between infrastructure investment and growth in the Central Karoo District and to show the success the region has had in providing infrastructure.

6.2.1 Infrastructure expenditure in the Central Karoo

With the growing emphasis on infrastructure investments municipalities within the Central Karoo District have continued in their efforts to improve infrastructure availability. Some municipalities have had relatively more success in addressing backlogs within their jurisdictions than others. The results of the 2010 Growth Potential of Towns study conducted by Donaldson et al (2010) revealed that the best performing municipalities in the Central Karoo District using the Infrastructure index¹⁵ are Beaufort West Municipality and Central Karoo District Municipality. Laingsburg and Prince Albert Municipality were rated low according to the infrastructure index. This difference in performance may be a result of the differences in real infrastructure expenditure that have been recorded across the municipalities (see Table 6.2 below¹⁶) or differing management practices. As can be seen over the period under analysis infrastructure investment was higher in Beaufort West Municipality. Prince Albert Municipality appears to have made the lowest contributions to infrastructure expenditure within the District. Overall in 2012 the Central Karoo District infrastructure expenditure made up 1 per cent of the total infrastructure expenditure for the whole Province.

Table 6.2 Central Karoo infrastructure expenditure per municipality

Municipality (R'000)	2009	2010	2011	2012
Central Karoo District	R3 338	R6 115	R5 105	-
Laingsburg	R3 102	R12 978	R6 326	R6 499
Prince Albert	R3 410	R7 079	R6 001	R3 395
Beaufort West	R16 087	R18 044	R35 022	R30 641
Central Karoo District Total Expenditure	R25 937	R99 243	R52 455	R40 536
Western Cape Province Total Expenditure	R2 517 779	R3 710 015	R2 946 769	R3 208 034

Source: Western Cape Provincial Treasury Budget Schedules 2007-2013

¹⁵ 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) (Donaldson 2010:66).

¹⁶ Note these figures have been inflation adjusted.

Table 6.3 Central Karoo infrastructure expenditure percentage change

Municipality	2010	2011	2012
Central Karoo District	83%	-17%	-100%
Laingsburg	318%	-51%	3%
Prince Albert	108%	-15%	-43%
Beaufort West	12%	94%	-13%

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Table 6.3 presents the year on year percentage changes in infrastructure expenditure per municipality. As can be seen from the table there has been significant drops in infrastructure expenditure across most municipalities within the District in 2011. Due to its geographical location, semi-arid nature and the high costs of doing business the Central Karoo attracts limited investments. For three consecutive years, 2005 - 2007 there was a notable absence of investment within the region (Western Cape Provincial Treasury, 2007). The absence of investment affected the levels of infrastructure within the region. As such the Central Karoo is highly dependent on Government assistance for infrastructure funding. The 2009 - 2011 drought emergencies within the region generated a financial assistance response from National, Provincial and Local Government. Their work secured funding for a wide range of activities such as improving urban water supply infrastructure and urban infrastructure.

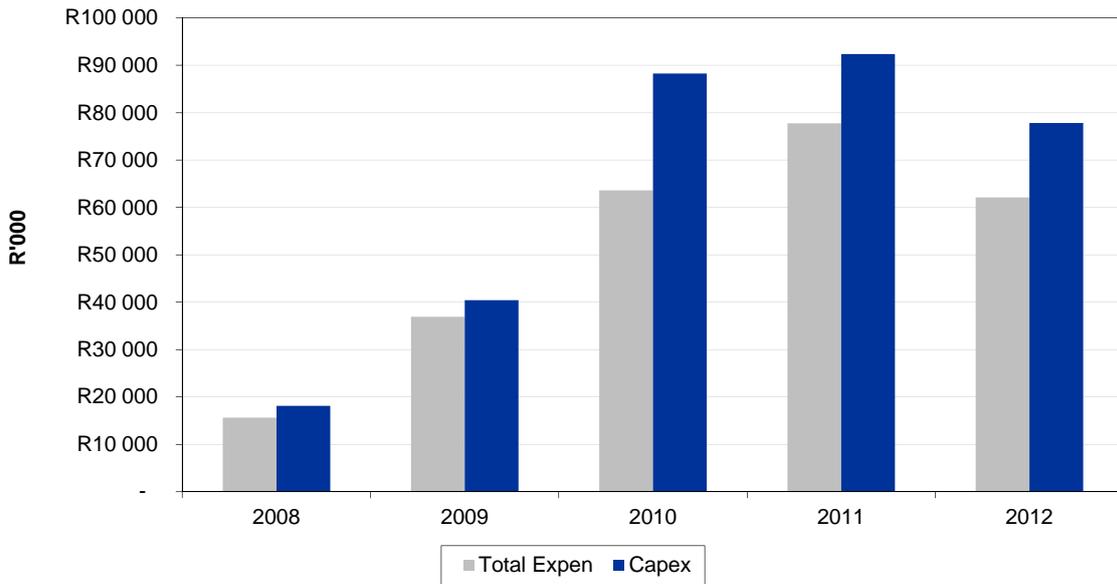
Laingsburg Municipality was the only municipality to record an increase in infrastructure expenditure from 2011 to 2012. Laingsburg Municipality contributed 16 per cent to the total infrastructure expenditure in the Central Karoo District. Beaufort West Municipality contributed 76 per cent to the total infrastructure expenditure; whilst Prince Albert's infrastructure expenditure accounted for 8 per cent of the regions infrastructure spend in 2012. The differences in expenditure across the three local municipalities are largely related to the various budgetary constraints faced by each municipality.

6.2.2 Infrastructure budgets

The sources of infrastructure funding at Municipal level are the National government and Provincial Government in the form of grants or from payments made by residents of the municipal area.

The National Government recognises that infrastructure investment is the cornerstone to economic and social upliftment. To this end in 2004 the Government provided local governments with a Municipal Infrastructure Grant (MIG) to complement their capital budgets. Of the capital expenditure budget allocated to municipalities within the Central Karoo District a large percentage of it goes to Economic & Environmental Services and Trading Services (economic infrastructure) whilst the remainder goes to Governance & Administration and Community & Public Safety. As can be seen from the graph below the proportion of the budget that has been used on infrastructure has continued to increase over the period 2008 to 2011. In 2012 infrastructure expenditure took up approximately 80 per cent of the entire capital expenditure budget for the whole district.

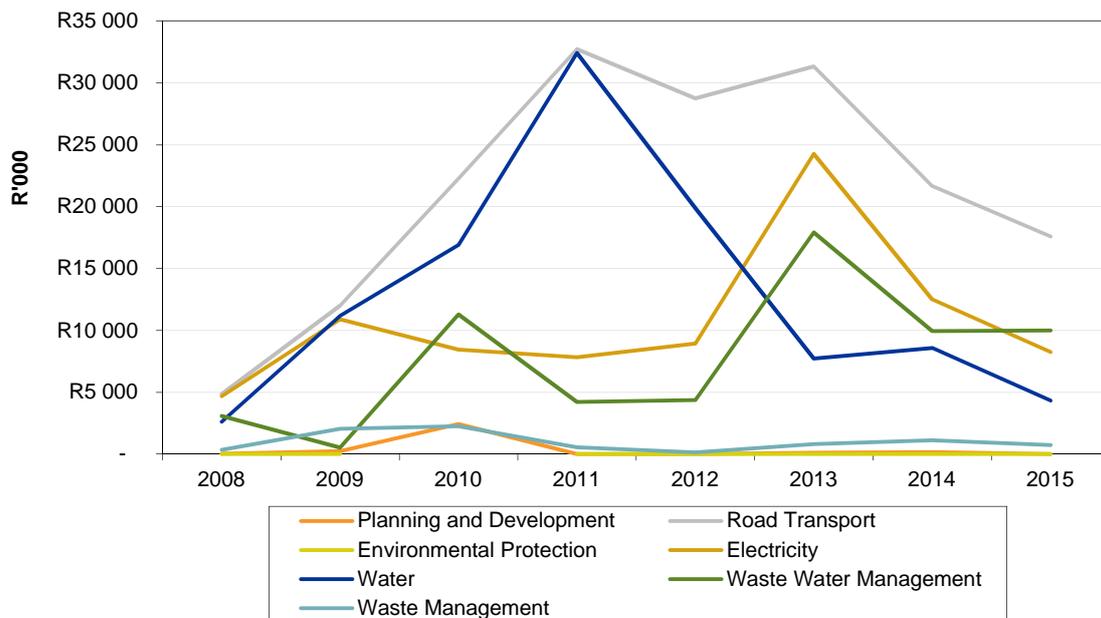
Figure 6.1 Capex vs Total infrastructure expenditure



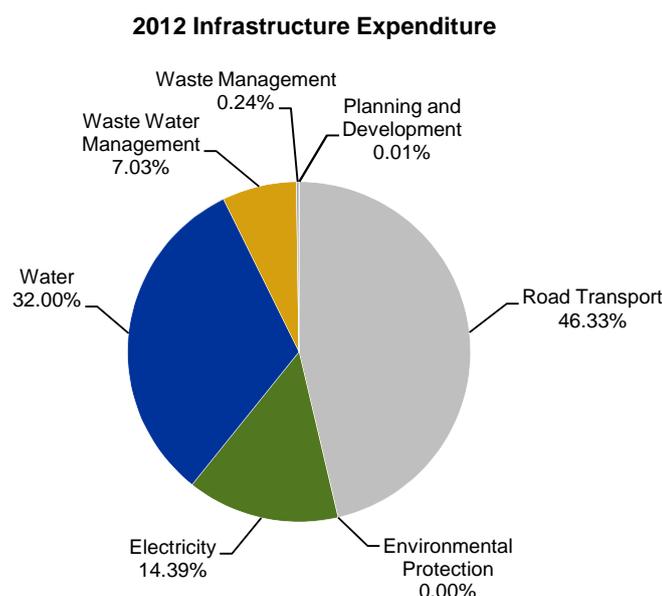
Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

However budgetary constraints call for an investigation into the types of infrastructure that would influence growth within the Central Karoo District. "Priority should be given to infrastructure programmes that contribute to regional integration" (NDP, 2012: 159). These include projects such as revising transport links and improving access to energy or water as they form a vital part of the Western Cape economy. Since 2009 expenditure has been high on four forms of infrastructure namely: water provision, waste water management, road transport and electricity (see Figure 6.2).

Figure 6.2 Central Karoo economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Figure 6.3 Central Karoo economic infrastructure expenditure breakdown

Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Since the inception of the Municipal Infrastructure Grant Programme in 2004 a substantial proportion of it has gone to roads, water projects, electricity and waste water management. In 2012 the largest amount of funds went towards roads, water projects and electricity whilst planning and development and environmental protection take up the smallest portions (see Figure 6.3 above). Both theory and empirical work at National level suggest these expenditures do have an impact on economic growth.

6.2.3 Infrastructure investment and economic growth

The impact of infrastructure investment on growth depends crucially on the individual municipalities' infrastructure investment decisions. It depends on their knowledge of the location, characteristics and requirements for infrastructure investment that has the potential to influence economic growth. Investment in infrastructure and the maintenance thereafter requires a complex mix of robust management practices. Differences in infrastructure maintenance and development may lead to vast differences in economic performance across the Central Karoo District municipalities.

Table 6.4 Town categorisation using the infrastructure index

Municipality	Town	Infrastructure index
Beaufort West Local Municipality	Beaufort West	Low
	Merweville	Low
	Murraysburg	Very low
Laingsburg Local Municipality	Laingsburg	Low
	Matjiesfontein	Very low
Prince Albert Local Municipality	Leeu-Gamka	Low
	Prince Albert	Low

Source: Donaldson et al (2010)

The Growth Potential of Towns in the Western Cape study presents a categorisation of towns in the Central Karoo District in terms of the infrastructure index as shown in Table 6.4. As can be seen the towns with infrastructural challenges are Murraysburg and Matjiesfontein towns. The major challenge faced in Matjiesfontein is the provision of a sewer master plan and storm water management system. An improvement in the provision of basic services is crucial across all towns as the capacity of existing infrastructure depends on the future development plans within the region. According to the Growth Potential of Towns study in the Western Cape, Murraysburg and Matjiesfontein towns are amongst the towns with the lowest development potential. Most towns within the District have a severe lack of water, high transportation costs and inadequate industrial infrastructure.

At Municipal level Laingsburg and Prince Albert Municipality were rated low according to the infrastructure index whilst the Central Karoo District Municipality and Beaufort West Municipality were rated medium. Average GDP growth for the local municipalities over the period 2000 - 2011 is displayed in the table below. We compare it to the level of infrastructure within that municipality as determined by the 2010 study on municipalities done by Donaldson et al (2010) (see Table 6.5 below).

Laingsburg Municipality had the lowest GDP growth over the period 2000 - 2011 compared to other municipalities within the District. The Municipality also has very low infrastructure levels. Beaufort West Municipality performs relatively well according to the infrastructure index and had a growth rate of 4.1 per cent over the period 2000 - 2011. The Municipality accounts for 70 per cent of the Central Karoo Districts' real GDP (as discussed in Chapter 3). The Municipality hosts the towns of Beaufort West, Merweville and Nelspoort. Beaufort West is the Districts' administrative centre and the largest town in the District being strategically located along the N1. The districts' transport potential lie within the town of Beaufort West.

Table 6.5 GDP vs Infrastructure levels at municipal level

Municipality	GDP growth	Infrastructure level
Central Karoo District	4.9%	Medium
Laingsburg	2.5%	Low
Prince Albert	4.2%	Low
Beaufort West	4.1%	Medium

Source: Donaldson et al (2010) and Quantec Research

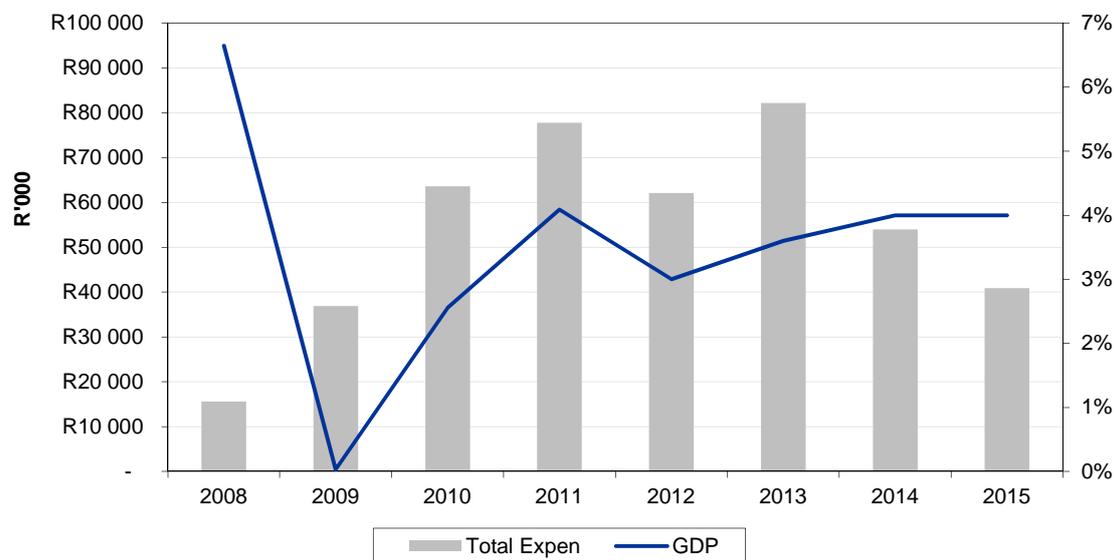
Prince Albert Municipality hosts the towns of Leeu-Gamka and Prince Albert. The Municipality was rated low according to the infrastructure and recorded a growth of 4.2 per cent over the period 2000 - 2011. The Municipality is well-known for its historic architecture and attracts a lot of tourists. However, the long term poor infrastructure in Prince Albert Municipality cannot continue supporting a thriving economy. Leaking water pipes, deteriorating roads, poor communication systems, deteriorating waste water and transport systems will eventually impact on the economic performance of this Municipality. Deteriorating infrastructure will not only have an impact on economic growth but is a risk to public health and safety.

The agricultural sector is relatively important within the district. Unfortunately the sector has been shrinking and impacted negatively on the transport and storage sector, making it difficult for the farmers to take advantage of their strategically positioned road network.

Municipalities other than Beaufort West are regarded as poor with poor industrial infrastructure, lacking underground water resources. The economic performance of the region has put dire strain on the financial positions of the municipalities within the district making it difficult for them to invest in the maintenance and upgrading of infrastructure.

Due to various data limitations we are not able to give an empirical presentation of the impact that an investment in infrastructure has on economic growth. Whilst data limitations have been a tremendous challenge the graph below provides an approximation of what both theory and empirical work have established, i.e. there is a positive relationship between infrastructure investment and GDP.

Figure 6.4 GDP vs Total economic infrastructure expenditure



Source: Western Cape Provincial Treasury Budget Schedules 2007 - 2013

Empirical evidence emphasises that infrastructure investment will have both a direct and an indirect effects on GDP. The direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP. The indirect, longer term effects are a result of multiplier or knock-on effects that have a much longer term macroeconomic impact on the economy.

Various studies have tried to provide an empirical establishment of the typical impact that various forms of infrastructure expenditure would have on the economy. In South Africa, a good account of this literature is available in Fourie (2006). A study by Mabugu, Rakabe and Chitiga (2009) makes use of a static Computable General Equilibrium (CGE) modelling tool to assess the relationship between infrastructure and growth. This modelling technique is however later criticised by Mbanda (2011) as being unable to account for distributional and accumulation effects. Mabugu,

Rakabe and Chitiga (2009:17) used this tool to quantify the impact that a 10 per cent increase in water, health, roads, electricity and communications infrastructure above baseline would have on the economy. The authors find that increases in public infrastructure in the different sectors have beneficial yet different macroeconomic effects. Gross Domestic Product increases due to increases in investment and consumption. Imports and exports levels, the Consumer Price Index (CPI), wages and employment levels and a variety of sectors are also affected in differing ways. Sectors with strong forward and backward linkages are affected by the increase in public infrastructure investment. The impacts of the simulations on GDP are shown in Table 6.6 below.

Table 6.6 Effect of 10 per cent increase in infrastructure on GDP

Variable	Variation (%)			
	Water	Electricity	Roads & transport	Communications
GDP	0.02	0.19	0.44	0.34

Source: Adapted from Mabugu, Rakabe and Chitiga (2009)

Their results confirm that an increase in infrastructure investment within these sectors leads to increased economic growth. The impact appears most significant in the case of transport and communications infrastructure spending. For a more detailed presentation of the macroeconomic impacts of the full simulations see Mabugu et al (2009).

The Medium Term Expenditure Frameworks envisage a steep increase in infrastructure expenditure (as shown in Figure 6.4). It is projected that GDP growth will accelerate to an estimated 3.6 per cent for the year 2013 and 4 per cent per annum from 2015 - 2017. Coupled with other growth determinants expenditure will influence GDP growth for the District.

Of course this investment in economic infrastructure would be most effective if focused on the major growth centres for which the region has comparative advantage. Infrastructure investments within these areas are likely to boost the fortunes of the district as a whole as economic linkages will stimulate a variety of other industries in the area. This could potentially benefit the lagging regions and have trickle down effects and is certainly an area for further research.

6.3 Infrastructure and inter-industry linkages: The case for sector development

The research and analysis for the Western Cape Infrastructure Framework 2013 (WCIF) has identified five core networked infrastructure systems. They are:

- Water system infrastructure

This includes the range of infrastructure related to the water cycle including bulk water resources, bulk and distribution water supply systems, wastewater collection and treatment infrastructure (including recycling) and storm-water systems.

- Energy system infrastructure

This includes the range of infrastructure related to electricity generation, transmission and reticulation. It may also include other energy infrastructures that do not involve a conversion of energy into electricity, such as fuel for transport, cooking and heating.

- Transportation and logistics system infrastructure

This includes all the different infrastructure elements that contribute to the mobility of people and goods. It includes the road network, the rail network, public transport, pedestrian and bicycle mobility, ports and airports and the freight logistics systems.

- Settlement system infrastructure

This encompasses the built environment and includes the range of public and private buildings and facilities that comprise functional settlement. Public facilities such as schools, hospitals and clinics and other government buildings will form part of this. It includes the waste management system servicing settlements.

- Telecommunications system infrastructure

This includes the range of landline, cellular and wireless networks that enable the range of electronic communications.

6.3.1 Strategic economic infrastructure and comparative advantage

The strategic intervention in relation to Economic Infrastructure in creating the enabling environment for robust and sustainable economic growth is further explored with the use of the 'revealed comparative advantage' approach explained in Chapter 3 (Table 3.4) of this report. Key value chains identified with comparative advantage and employment creating potential include the food value chain, building & construction (Beaufort West and Prince Albert), electrical machinery, finance & business services. The region's tourism potential also appears to be untapped and may be a means to compensate for the agricultural sectors tendency to decline. The use of the LQ ratio serves as a 'guiding tool' in the prioritisation of infrastructure investment across the Central Karoo District. Coupled with the labour absorption potential of the identified sectors, we are able to deduce from the LQ ratio (with a ratio more than 1 indicating comparative advantage) and the demand for service infrastructure linked to the specific sectors, the priorities required for strategic infrastructure investment.

1. Business Services (LQ ratio – 1.14)
2. Finance & Insurance (LQ ratio – 1.19)
3. Agriculture, forestry & fishing (LQ ratio – 3.68)
4. Transport & Storage (LQ ratio – 1.72)

From the above LQ ratio's, Agriculture stands out as the most likely sector for prioritisation given the notable LQ ratio of 3.68. Again, given the labour profile of the Central Karoo District, the Agriculture sector and its development and growth become pertinent in absorbing the large pockets of unemployed and lowly skilled labour. The downstream activities linked to agro-processing, coupled with the economic connectivity to surrounding regions in the form of corridors are necessary to address the large pockets of poverty and socio-economic challenges. To this end, Transport and Storage with an LQ ratio of 1.72 and a GDP share of 9.5 per cent in 2011 provides enough 'evidence' to suggest economic infrastructure prioritisation in this regard.

6.3.2 Drivers of change and infrastructure priorities

Provincial Economic growth has recovered (3 per cent in 2010/11) and provincial projections (PERO) indicate a modest growth rate of 3.7 per cent in the Western Cape over the coming six years, which is equivalent to growth projections of the South African economy as a whole.

The growth outlook over the coming five (5) years of each sector of the Central Karoo District economy is shown in Table 3.3 of this report.

Based on the Sectoral Forecast/Outlook presented in section 3.2.1 of this report, key sectors expected to make notable gain in terms of Annual Average Economic growth are discussed further with the aim of identifying the key sectors in which Infrastructure expenditure should be concentrated to further aid growth and development of these sectors (not forgetting the comparative advantage mentioned above). To this end, growth forecasts coupled with GDP share, Finance and insurance business services (5.2 per cent), Manufacturing (6.1 per cent), Construction (4.4 per cent), Wholesale & retail trade, catering & accommodation (3 per cent) rank as the favourable sectors.

With the aforementioned growth projections (section 3.2.1) at the forefront of the research and analysis pertaining to Infrastructure provision in the Central Karoo District region, the demand for services infrastructure becomes more pertinent in the achievement of growth and development targets. Manufacturing in particular has shown steady growth for the past decade when much of the sector across the Western Cape Province has come under immense pressure with growth rates unflattering.

According to the WCIF 2013 study, the demand for services (infrastructure) from enterprises is dependent on the nature of the activity they are engaged with. This is difficult to assess but the scale of production and the sector of the economy provide a reasonable basis for estimation.

The following recommendations are made based on the growth projections provided and the alignment with the relevant Provincial Strategic Objectives. The summary for demand drivers in the Central Karoo District have been captured in the WCIF 2013 Report and are 'prioritised' on the aforementioned growth projections.

- **Construction (5.7 per cent GDP Share)**

Water and power are required on construction sites.

- **Finance, insurance, real estate & business services (27.2 per cent GDP Share)**

This is the conventional office building environment with water and sanitation associated mainly with toilets and electricity required for heating, air-conditioning, lighting and office equipment. Telecommunications infrastructure is most crucial to this sector. Waste streams are dominated by paper.

- **Wholesale & retail trade (11.9 per cent GDP Share)**

Generally the demand for water, sanitation and electricity relates to personal use, heating and lighting. Shops require energy for keeping goods hot or cold, as the case may be. Restaurants have specific waste profiles (kitchen waste).

- **Manufacturing (11 per cent GDP Share)**

The demand for energy and water vary considerably by industry, with indicative figures available for most industries. Wet industries produce wastewater which is typically discharged into a municipal wastewater system. Some industries also generate high mass or hazardous solid waste. As most industries are located in urban areas they benefit from the road system in the area.

6.4 Conclusion

The analysis provided in this chapter took a look at infrastructure investment in the Central Karoo District and its resulting impact on growth. Economic theory and empirical work suggest that public investment in infrastructure will boost economic growth by stimulating related private sector investments as well providing a solid foundation for social development. The data presented revealed that there has been varying levels of infrastructure investments and development across the towns and municipalities within the Central Karoo District. The differences in expenditure across the local municipalities are largely related to the various budgetary constraints faced by each municipality.

The positive relationship between infrastructure investment and economic growth is influenced by the structural challenges, skills shortages, budgetary constraints, human capital and mismanagement issues that each individual municipality faces. It is also crucial for municipalities to identify areas in which their growth potential lies and ensure infrastructure provision to those sectors.

The Central Karoo is geographically disadvantaged with limited infrastructure. The region is mostly semi-arid and contributes the least to Provincial output. The region's development and growth depends significantly on Government investment. Since investment follows infrastructure the sustainability of any investments by Government depends highly on the state of infrastructure within the District.

As pointed out in Chapter 3 Central Karoo District has comparative advantage in the following industries; construction, agriculture, tourism sector, electrical machinery and the finance and insurance sectors. In order for these key growth areas to flourish it is important for them to be supported by the relevant infrastructure. In light of the drought that affected the region it is important for municipalities to be proactive and invest in drought minimising interventions. This will help protect the economy as a whole and support poor rural households whose livelihood depends crucially on agriculture. The region is strategically poised to be a distribution centre for road freight.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Central Karoo District: GDP at basic, constant 2005 prices, average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	-0.4	-0.6	-0.8	-1.1	-2.3	0.4	2.1
2 Secondary sector [SIC: 3-5]	-2.9	9.2	8.9	8.4	9.8	7.1	3.9
3 Tertiary sector [SIC: 6-9, 0]	0.9	4.5	4.1	4.1	4.6	2.9	3.3
Total: Central Karoo District	0.2	4.3	4.2	4.0	4.3	3.3	3.3
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-0.4	-0.7	-0.9	-1.2	-2.4	0.3	2.1
2 Mining and quarrying [SIC: 2]	-13.5	14.3	16.3	15.8	19.4	16.5	0.8
3 Manufacturing [SIC: 3]	-2.8	10.5	10.1	9.7	11.2	7.3	5.8
4 Electricity, gas and water [SIC: 4]	-7.5	1.5	-0.6	-0.3	0.4	-3.2	-0.3
5 Construction [SIC: 5]	-0.2	10.8	9.1	9.3	11.3	9.3	1.3
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	2.3	4.1	1.6	3.1	4.4	-1.6	2.6
7 Transport, storage and communication [SIC: 7]	2.1	3.1	0.7	2.0	2.7	-2.3	3.2
8 Finance, insurance, real estate and business services [SIC: 8]	5.4	8.3	8.0	7.9	8.9	7.8	4.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	-0.9	2.9	2.5	2.6	3.2	1.7	1.1
10 General government [SIC: 91, 94]	-4.5	2.1	4.1	2.4	1.5	4.6	4.1
Total: Central Karoo District	0.2	4.3	4.2	4.0	4.3	3.3	3.3

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	16.4	14.0	9.8	12.0	13.3	9.7	9.2
2 Secondary sector [SIC: 3-5]	11.5	11.9	16.9	14.3	12.8	17.3	17.8
3 Tertiary sector [SIC: 6-9, 0]	72.0	74.1	73.3	73.6	73.9	73.0	73.0
Total: Central Karoo District	100	100	100	100	100	100	100
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	16.4	14.0	9.7	12.0	13.3	9.6	9.1
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.1	0.1	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	6.3	6.9	10.3	8.5	7.4	10.5	11.0
4 Electricity, gas and water [SIC: 4]	2.0	1.4	1.2	1.3	1.4	1.1	1.1
5 Construction [SIC: 5]	3.3	3.6	5.4	4.5	3.9	5.7	5.7
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	15.1	16.1	14.7	15.4	16.0	14.3	14.0
7 Transport, storage and communication [SIC: 7]	15.3	15.4	12.9	14.2	15.1	12.5	12.1
8 Finance, insurance, real estate and business services [SIC: 8]	17.0	21.8	26.0	23.6	22.0	26.6	27.2
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.8	7.3	6.9	7.1	7.3	6.9	6.6
10 General government [SIC: 91, 94]	16.9	13.5	12.9	13.3	13.5	12.7	13.1
Total: Central Karoo District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.2 Central Karoo District: Employment (Formal & informal), average annual growth/composition: 1996 – 2011

Sector	Average yoy% growth			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	-4.2	-10.0	-9.7	-9.4	-9.7	-20.2	2.6
2 Secondary sector [SIC: 3-5]	-8.3	4.5	1.9	2.3	3.9	-1.0	-0.9
3 Tertiary sector [SIC: 6-9, 0]	-0.6	2.7	0.7	1.5	2.1	-0.2	0.6
Total: Central Karoo District	-3.0	-1.2	-1.2	-1.3	-1.1	-3.8	0.6
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-4.2	-10.1	-9.8	-9.4	-9.7	-20.3	2.6
2 Mining and quarrying [SIC: 2]	-14.6	10.7	24.7	15.5	15.7	24.2	6.0
3 Manufacturing [SIC: 3]	-8.2	6.4	4.1	4.1	5.6	4.1	-1.7
4 Electricity, gas and water [SIC: 4]	-11.3	-0.8	0.6	-1.5	-0.9	-8.8	3.6
5 Construction [SIC: 5]	-8.3	3.4	0.3	1.0	2.9	-5.2	-0.3
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	0.2	2.5	-0.8	0.5	1.6	-2.9	-0.5
7 Transport, storage and communication [SIC: 7]	-4.9	-0.7	-3.0	-2.1	-2.5	-3.8	1.3
8 Finance, insurance, real estate and business services [SIC: 8]	11.7	8.7	2.8	6.1	8.5	-0.3	2.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	-1.2	1.2	0.1	0.7	1.4	1.5	-3.0
10 General government [SIC: 91, 94]	-3.8	2.6	3.2	2.3	1.6	3.1	4.3
Total: Central Karoo District	-3.0	-1.2	-1.2	-1.3	-1.1	-3.8	0.6

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	39.3	29.1	15.9	23.3	28.0	14.2	13.4
2 Secondary sector [SIC: 3-5]	11.8	11.8	16.0	13.8	12.5	16.5	16.2
3 Tertiary sector [SIC: 6-9, 0]	48.9	59.1	68.1	63.0	59.5	69.3	70.4
Total: Central Karoo District	100	100	100	100	100	100	100
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	39.3	29.1	15.8	23.2	28.0	14.1	13.3
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.1	0.0	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	4.6	4.8	7.5	6.1	5.2	8.0	7.9
4 Electricity, gas and water [SIC: 4]	0.3	0.2	0.3	0.3	0.3	0.3	0.3
5 Construction [SIC: 5]	6.9	6.7	8.2	7.4	7.1	8.3	8.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	15.6	18.3	20.6	19.3	18.6	20.8	20.6
7 Transport, storage and communication [SIC: 7]	4.6	4.6	4.0	4.3	4.5	4.0	4.0
8 Finance, insurance, real estate and business services [SIC: 8]	4.8	9.2	11.8	10.2	9.3	12.0	12.4
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	13.0	15.0	17.0	15.9	15.1	17.7	17.3
10 General government [SIC: 91, 94]	10.8	11.9	14.7	13.2	12.0	14.8	16.2
Total: Central Karoo District	100	100	100	100	100	100	100

Source: Quantec Research/CER

Annexure 1.3 Central Karoo District: Goods Exports & Imports, % composition: 1996 - 2011

Sector	Average % share			Trend 2000 - 2011	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2011
	1996 - 2000	2001 - 2005	2006 - 2011				
Goods Export (R million)							
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-	-	50.4	-	-	50.1	51.1
2 Mining and quarrying [SIC: 2]	-	-	0.0	-	-	0.0	0.0
3 Manufacturing [SIC: 3]	-	-	47.2	-	-	49.9	45.7
4 Undefined/other	-	-	2.4	-	-	0.0	3.2
Total: Goods exports	-	-	100	-	-	100	100
Manufacturing sector:							
Central Karoo District							
1 Food, beverages and tobacco [SIC: 301-306]	-	-	51.3	-	-	50.0	51.7
2 Textiles, clothing and leather goods [SIC: 311-317]	-	-	48.6	-	-	50.0	48.3
3 Wood, paper, publishing and printing [SIC: 321-326]	-	-	0.0	-	-	0.0	0.0
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	-	-	0.0	-	-	0.0	0.0
5 Other non-metal mineral products [SIC: 341-342]	-	-	0.0	-	-	0.0	0.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	-	-	0.0	-	-	0.0	0.0
7 Electrical machinery and apparatus [SIC: 361-363]	-	-	0.0	-	-	0.0	0.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	-	-	0.0	-	-	0.0	0.0
9 Transport equipment [SIC: 381-387]	-	-	0.0	-	-	0.0	0.0
10 Furniture and other manufacturing [SIC: 391-392]	-	-	0.0	-	-	0.0	0.0
Total: Manufacturing exports	-	-	100	-	-	100	100
Goods Import (R million)							
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-	-	-	-	-	50.0	50.0
2 Mining and quarrying [SIC: 2]	-	-	-	-	-	0.0	0.0
3 Manufacturing [SIC: 3]	-	-	-	-	-	44.2	48.0
4 Undefined/other	-	-	-	-	-	5.8	2.0
Total: Goods imports	-	-	-	-	-	100	100
Manufacturing sector:							
Central Karoo District							
1 Food, beverages and tobacco [SIC: 301-306]	-	-	-	-	-	53.3	51.0
2 Textiles, clothing and leather goods [SIC: 311-317]	-	-	-	-	-	0.0	0.0
3 Wood, paper, publishing and printing [SIC: 321-326]	-	-	-	-	-	21.7	0.0
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	-	-	-	-	-	0.0	1.3
5 Other non-metal mineral products [SIC: 341-342]	-	-	-	-	-	0.0	0.2
6 Metals, metal products, machinery and equipment [SIC: 351-359]	-	-	-	-	-	0.0	0.1
7 Electrical machinery and apparatus [SIC: 361-363]	-	-	-	-	-	0.0	0.1
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	-	-	-	-	-	25.0	45.9
9 Transport equipment [SIC: 381-387]	-	-	-	-	-	0.0	1.4
10 Furniture and other manufacturing [SIC: 391-392]	-	-	-	-	-	0.0	0.0
Total: Manufacturing imports	-	-	-	-	-	100	100

Source: Quantec Research/CER

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