

**Western Cape Government
Provincial Treasury**

**Municipal Economic Review
and Outlook
2015**

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Foreword

This is the fourth edition of the Municipal Economic Review and Outlook (MERO) since its momentous introduction in 2012. The MERO continues to provide valuable economic intelligence to municipalities within the Western Cape in support of enhanced planning for economic growth, job creation and socio-economic upliftment.

The MERO compliments the Provincial Economic Review and Outlook. As a toolkit it facilitates decision making for municipalities, government departments, public entities, businesses as well as national and international organisations interested in investing in the Western Cape. Both these publications aim to improve our understanding of, and insight into, the Western Cape economy at a sub-regional level as part of an evidence-based approach towards provincial and municipal policy formulation, planning and budgeting.

The current global and domestic economic environment is particularly weak amidst a less than desirable economic growth outlook. Persistent unemployment, coupled with increasing population pressures and dynamics linked to youth, gender and race remain key challenges in the Western Cape. Other domestic constraints impacting on the economic outlook relate to energy, infrastructure and skills shortages; while outcomes related to education, health and broader social ills continue to impact on and are affected by the levels of economic development.

These economic pressures highlight the fundamental need for thorough integrated development planning, considered decision making, active economic transformation and appropriate policy responses which will in turn stimulate economic and human development. The MERO's research findings therefore compliment and inform the Integrated Development Plans of the respective municipalities to ensure the effective use of resources, improved service delivery, attract additional funding, strengthen democratic values and to promote inter-governmental cooperation.

More importantly, the MERO provides a detailed analysis and overview of the unique comparative advantages and opposing challenges faced by municipalities which are each differently influenced by external economic pressures.

The publication of a document of this magnitude and relevance would not have been possible without the hard work and dedication of several individuals. I therefore wish to express a sincere word of appreciation to my colleagues and officials from the various provincial government sector departments, municipal officials and the research team for their valuable contributions and inputs. We will continue working with our partners and key stakeholders particularly those working on planning and budgeting in the municipal space to support evidence-based decision making in the building of an environment conducive to economic growth and employment creation.

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

Dr Ivan Meyer
Minister of Finance
Western Cape Government
15 October 2015

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Acronyms

ART	Anti-retroviral treatment
AsgiSA	Accelerated and Shared Growth Initiative – South Africa
BER	Bureau for Economic Research
BPO	Business Process Outsourcing
CAPS	Curriculum and Assessment Policy Statement
CCA	Customs Control Area
CCDI	Cape Craft & Design Institute
CCID	Central City Improvement District
CHTP	Cape Health Technology Park
CKD	Central Karoo District
CoCT	City of Cape Town
CTICC	Cape Town International Convention Center
CTRU	Cape Town Routes Unlimited
CWD	Cape Winelands District
DEDAT	Department of Economic Development and Tourism
DHET	Department of Higher Education and Training
Dti	Department of Trade and Industry
ECB	European Central Bank
ED	Eden District
EU	European Union
FET	Future Education and Training
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GDPR	Gross Domestic Product Regional
GEAR	Growth, Employment and Redistribution
GPS	Growth Potential Study
GTL	Gas-to-Liquids
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome

ICT	Information & Communications Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IDZ	Industrial Development Zone
IMF	International Monetary Fund
IPAP	Industrial Policy Action Plan
LED	Local Economic Development
LNG	Liquefied Natural Gas
LQ	Location Quotient
MTREF	Medium Term Revenue and Expenditure Framework
NDP	National Development Plan
NIP	National Infrastructure Plan
NYDA	National Youth Development Agency
OBD	Overberg District
PERO	Provincial Economic Review and Outlook
PMI	Purchasing Managers Index
PSG1	Provincial Strategic Goal 1
QE	Quantitative Easing
R&D	Research and Development
RCA	Revealed Comparative Advantage
RDP	Reconstruction and Development Programme
RMB	Rand Merchant Bank
RSA	Republic of South Africa
SA	South Africa
SACU	South African Customs Union
SADC	Southern African Development Community
SAOGA	South African Oil & Gas Alliance
SARB	South African Reserve Bank
SARS	South African Revenue Services
SAWIS	South African Wine Industry Information & Systems
SBIDZ	Saldanha Bay Industrial Development Zone
SEDA	Small Enterprise Development Association
SEZ	Special Economic Zone

SIC	Standard Industrial Classification
SIPs	Strategic Infrastructure Projects
SMME	Small Medium and Micro Enterprise
SPV	Special Purpose Vehicle
Stats SA	Statistics South Africa
TB	Tuberculosis
the dti	Department of Trade and Industry
TSA	Tourism Satellite Account
UNDP	United Nations Development Programme
USA	United States of America
WC	Western Cape
WC EDP	Western Cape Economic Development Partnership
WCD	West Coast District
WCG	Western Cape Government
WCIF	Western Cape Infrastructure Framework
WCP	Western Cape Province
WEO	World Economic Outlook
WTO	World Trade Organisation

SECTION A: BACKGROUND

1. Introduction and background

1.1 Introduction

The 2015 Municipal Economic Review and Outlook (MERO) study will be the fourth consecutive year that the report will be produced. The previous years' studies have succeeded in establishing a fruitful platform and framework for economic analysis at the regional, i.e. metro, district and municipal, levels. The main objective of the MERO remains the provision of economic intelligence at the regional and municipal levels in the Western Cape Province.

The 2015 study is being undertaken in a climate of constrained general economic growth and development. The global environment is substantially more challenging and uncertain in the wake of the Great Recession, notwithstanding the fact that we have progressed six years from the onset of recovery during the third quarter of 2009. Domestically, the economy is characterised by sluggish growth, increasing unemployment, a weakening currency and higher inflation invoking the specter of higher interest rates, not to mention the electricity and other structural supply constraints. The escalating frequency of social delivery protests is most disconcerting.

The MERO study seeks to translate the implications of the anticipated macro-economic environment to the local level and to provide economic intelligence for the Western Cape municipalities in identifying socio-economic constraints, to assist in creating an environment conducive to higher growth and job creation, amongst other important objectives. The 2015 report has been restructured and shortened. It is hoped that the local and provincial authorities will benefit from the information. Furthermore, it should assist the private sector in identifying growth opportunities and in reacting upon them in the challenging macro-economic environment.

1.2 Objective of the research

It is important to note the *continuity* in the successive MERO studies. Each year, a key aim is to refine the results obtained during the previous studies and to expand and deepen the analysis where appropriate in order to build economic intelligence at the municipal level. In this regard, the theme throughout the 2013 and 2014 reports was *employment-creating economic growth, i.e. inclusive economic growth*. This theme remains important for the 2015 report for obvious reasons and also forms the backbone of the Western Cape Government's (WCG's) first of five *Provincial*

Strategic Goals (PSG), i.e. to "Create opportunities for Growth and Jobs"¹. Central in this regard is Project Khulisa (with *Khulisa* meaning "Growth"), which consolidates the provincial sector support programme in favour of three key sectors for the Western Cape, i.e. agri-processing, tourism and oil and gas; other key sectors include green energy (renewables) and aquaculture.

The MERO is an economic review and outlook document rather than a policy research document. The report may provide *pointers* for policy intervention; however, the objective is not to provide rigorous policy advice. The main objective of the study is to generate economic intelligence at the municipal level, which can feed into municipal integrated development plans (IDPs) and local economic development strategies (LEDs). While it is accepted that public policy intervention has a constructive role to play, the focus is on the identification of the bottlenecks and constraints which are hampering private sector growth and employment creation.

1.3 Outline of the report

As noted, the 2015 MERO report has been restructured. In the first section of the report, Section A, the study is introduced and the macro-economic outlook considered. The macro-economic outlook focuses on the recent developments and forecast for the world economy, the SA economy and the Western Cape economy. This information applies across all Western Cape regions and is intended to providing the context for the main part of the report, i.e. Section B, which discusses the economic review and outlook of the Cape Metro and five non-metro regions inclusive of the twenty four local municipalities. Section C summarises the main findings and round the analysis off with some concluding remarks.

As noted, Section B is therefore the main part of the report and discusses each Western Cape region in five generic chapters, namely:

- A dedicated regional economic outlook (Chapter 1);
- An analysis of municipal sectoral growth and employment trends, as well as the skills composition of the municipal work forces (Chapter 2);
- An analysis of specifically identified industry value chains in the region, including a case study (Chapter 3);
- A consideration of basic socio-economic infrastructure spending and revenue trends at the municipal level (Chapter 4); and
- A synopsis of the socio-economic profile of the region (Chapter 5).

¹ The other PSGs cover youth unemployment, social welfare, human settlements and infrastructure. This is the WCG's attempt to achieve the objectives and goals of the NDP (Vision 2030), OneCape 2040 and the government's 5-year Medium term Strategic Framework (MTSF, 2015 - 2020).

Throughout the report, an attempt is made to link the various chapters together in order to derive the required economic intelligence. Chapter 1 translates the macro-economic outlook to the district level, spelling out the implications and discussing the trends (2005 - 2014) and outlook (2015 - 2020) for the regional district economy. Projections of real GDP by main sector are provided, based on the macro-economic outlook adopted in the accompanying PERO publication.

Chapter 2 deepens the regional economic analysis by considering the trends in sector growth and employment per municipality. The focus on the municipal level is a new element in this chapter of the report. Secondary and other data sources – e.g. Quantec's regional database, results from municipal surveys and the analysis of comparative advantages among industries conducted in the 2013 MERO and updated this year – are utilised in conducting the analysis and in compiling a forecast of broad sector real GDP growth over the 2015 - 2020 period. The skills composition of the municipal labour forces are also analysed in order to identify labour market mismatches and constraints.

In Chapter 3 a value chain analysis is conducted, with the aim being to identify opportunities for growth and employment creation, as well as possible weaknesses. The analysis focuses on a specific growth industry in the region, on how Special Economic Zones (SEZs) can be integrated in regional and global value chains.

Chapter 4 analyses the trends in municipal revenues and infrastructure spending and the relationship with regional economic growth. The consideration of social infrastructure spending like housing is a new element in this chapter. The chapter also links with Chapter 2 and the final chapter, i.e. Chapter 5, in outlining the linkages between (social) infrastructure spending and regional economic growth. Apart from providing a socio-economic profile of the region, Chapter 5 also highlights the linkages between the sector growth profile of the region (Chapter 2) and the socio-economic outcome.

The final section of the report, Section C, summarises the main findings with a brief discussion of the Western Cape economy's spatial dynamics; the regional economic growth trends and the sectoral economic outlook; value chains and the integration of SEZs in regional economies; infrastructure spending, municipal revenues and economic growth; and, finally, the regional socio-economic profile. An attempt is made to draw all the threads of the analysis together and spell-out the implications.

2. Macro-economic outlook

2.1 Introduction

The Western Cape regional economies are all closely linked with the national economy and both the regional and national economies have close linkages with the global economy. Even if international trade linkages are not so deep (such as in the case of the Central Karoo and – to a lesser extent – Eden), all Western Cape districts are impacted by fluctuations in the national economy, in turn, being very open to global influences via both the trade and financial channels. South Africa's (SA's) sensitivity to global business cycle developments is best illustrated by the following factors:

- *Firstly*, regarding international trade, during 2014, the sum total of SA's exports and imports measured 64 per cent of its GDP. Swings in the economic activity of SA's main trading partner economies are therefore transmitted to the country via the export channel.
- *Secondly*, regarding the financial linkages, the deficit on the current account of the SA balance of payments amounted to 5.5 per cent of GDP, i.e. an indication of the level of foreign savings required (circa R200 billion) to finance the shortfall between domestic aggregate expenditure and aggregate production (or between domestic investment and savings). This shortfall makes SA vulnerable to shifts in international capital flows. Furthermore, SA's stock of foreign financial assets and liabilities has increased dramatically following the political change in 1994 to a full democracy and SA's financial re-integration with the world economy. Despite this development, SA remains well-known for its shallow net foreign exchange reserve position juxtaposed with its deep and well-developed capital markets, both factors impacting a recipient economy's sensitivity to fluctuations in international capital flows and financial stress in developed economies.

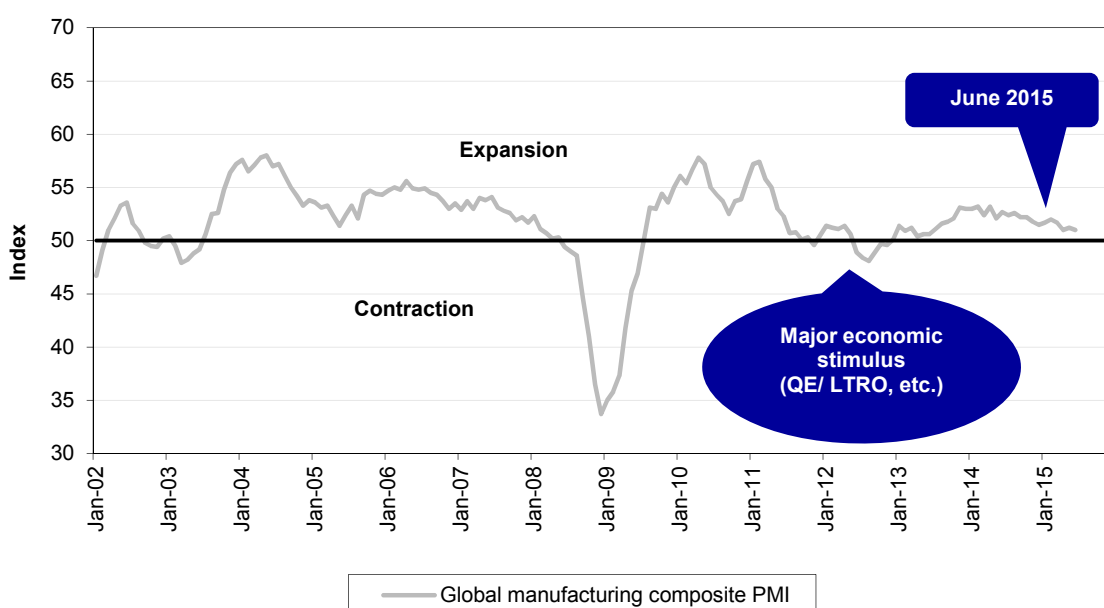
In the Western Cape Province, the Cape Metro, the Cape Winelands, Overberg and – to a lesser extent – the West Coast districts are all known for their openness to international trade (Eden's tourism sector is exposed), while all districts are subject to the financial developments impacting on the domestic economy. In this section of the report, the current state and short-to medium term outlook for the global and SA economies are first assessed and thereafter the outlook for the Western Cape Provincial economy. This assessment seeks to outline the macro-economic backdrop for the Western Cape district economies, which are analysed individually and in more detail in the second part of the report.

2.2 Global and SA economic outlook

2.2.1 Global economy

Six years into the world economic recovery from the Great Recession and economic growth does not appear to be on a solid footing (Figure 1). Regional growth remains uneven and the overall growth momentum is not great – it was measured at 1.5 per cent and 2.2 per cent during the first and second quarters of 2015 respectively. The recent Greek fiscal crisis and the Chinese stock market plunge and currency devaluation have also intensified risk perceptions.

Figure 1 Global manufacturing is expanding, but the growth tempo is slow



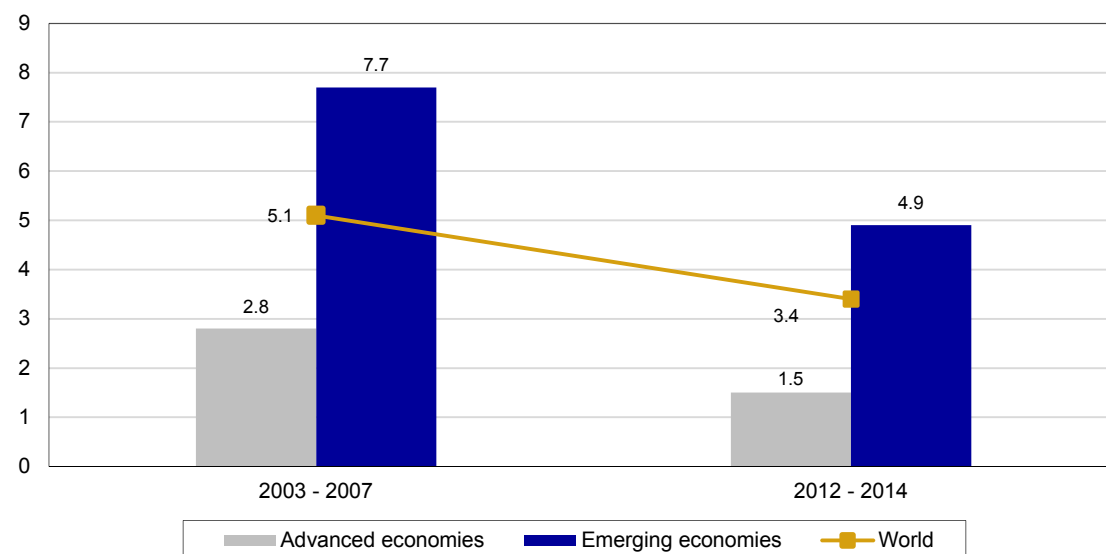
Source: Markit Economics

Global growth: the implications of 'secular stagnation'. According to the IMF, world real GDP growth has tapered down to 3.4 per cent per annum over the period 2012 to 2014, which compares to growth of 5.1 per cent per annum during the 2003 - 2007 period, i.e. the five years before the Great Recession (Figure 2). In the advanced economies of the world, the slowdown was from 2.8 to 1.5 per cent per annum respectively over the corresponding periods and in the emerging and developing economies from 7.7 to 4.9 per cent per annum (see Figure 2).

While the recessions in the USA and Euro Area already commenced at the end of 2007, the bankruptcy of the USA investment bank, Lehman Brothers, during 2008 caused the recessions to deepen and spread wider in the world economy – in 2009 half the economies of the world were in recession and those in recession accounted for three quarters of world GDP (ICMB, 2014: 1). The USA recession ended during the third quarter of 2009, while the Euro Area experienced a double-dip recession in 2011 only emerging from it mid-2013. The emerging economies performed better during the crisis period; however, as Figure 3 shows, the growth of the leading Chinese

economy has also tapered off. Emerging economies' real GDP growth is expected to bottom at 4.2 per cent in 2015 according to the IMF (see Table 1).

Figure 2 World real GDP growth before and after the Great Recession



Source: IMF World Economic Outlook July 2015

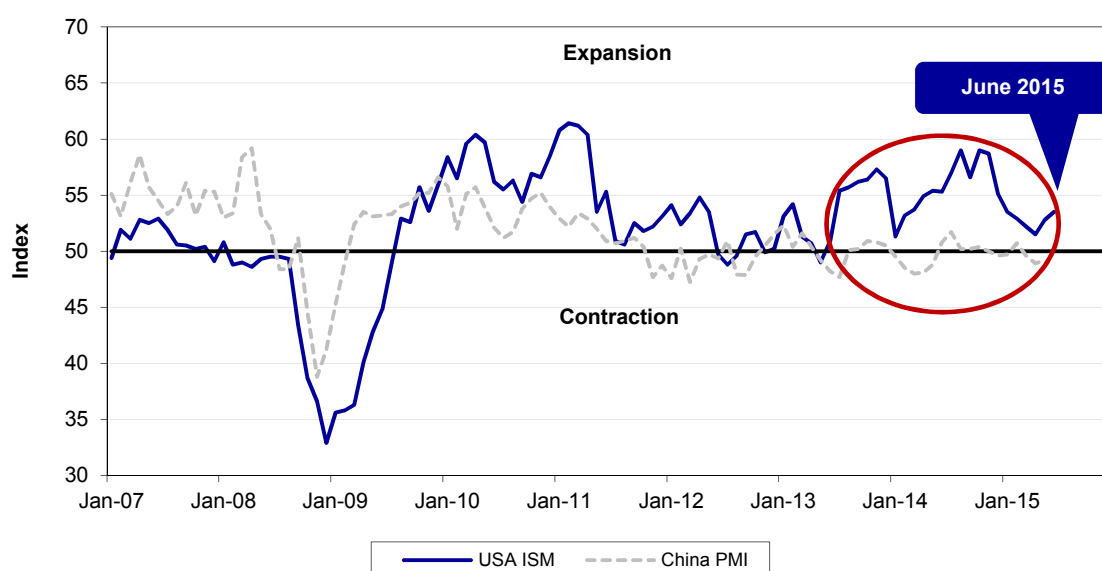
These recent global economic growth performances are decidedly weak in a historical context and it has been suggested that the world has entered a period of 'secular stagnation' (see McGregor, 2015: 3). During previous centuries the world economy expanded in cyclical fashion around an ever rising (secular) growth trend. Currently, the expectation is that this long-term growth trend has turned sideways, similar to what has happened to the Japanese economy since the late 1990s. Informed analysts suggest that this is the 'new normal' for the world economy rather than being the exception or merely temporary (McGregor, 2015). Two major forces are driving the lower trend growth:

- The populations of Europe and Japan, and increasingly China, are ageing, with population growth rates projected to slow materially (and even turn negative). Without vibrant youth populations these economies are destined to grow at slower rates.
- Furthermore, just as the productivity impact of the internal combustion engine revolution during the first part of the 20th century brought the so-called Golden Era of global growth during the 1950s and 1960s to an end, coinciding with the end of European and Japanese reconstruction after the Second World War, analyses show that the productivity stimulus embodied in the computer revolution is maturing today (McGregor, 2015: 3)

Both demographic factors and reasons related to lower productivity growth are rendering global growth weaker than we have become accustomed to during the previous century. The slowdown of economic growth is also occurring at the backdrop of climatic concerns and food, energy and water supply constraints. These risks associated with this longer term outlook need to be borne in mind considering the cyclical outlook over the next five years.

Considering the recent growth performance of the world economy, there is closer convergence across the Atlantic, with Euro Area growth steadily approaching that of the USA. This convergence and strengthening of the growth momentum is the positive news on the global front. On the other hand, the divergence between the advanced and developing economies has widened, with the mighty Chinese economy continuing to slow down – see Figure 3.

Figure 3 USA and China manufacturing PMI's diverge



Source: ISM/Markit Economics

Table 1 contains the short-term outlook for global economic growth according to the latest IMF projections. **USA** real economic growth disappointed during the first half of 2015, contracting slightly during the first quarter and coming in at 2.3 per cent during the second quarter. However, the lower oil price and renewed wage growth underpin the recovery in consumer spending, i.e. the mainstay of the US economy. Fixed investment spending and employment are also picking up some momentum. The economy is seen gradually strengthening to 3 per cent growth next year.

In the **Euro Area** it seems that both the financial ripple effects and adverse real economic impacts of the Greek fiscal crisis have been contained. From the depths of the sovereign debt crisis at the end of 2010, the regional economy currently appears to be in the best shape over the past four years. The economic momentum remained close to a 1.6 per cent pace going into the third quarter of 2015 and is expected to average 1.7 per cent next year. This outlook may even turn out to be too pessimistic.

While **Japanese** real economic growth came in stronger than expected during the first quarter of 2015, this was mainly due to a stronger acceleration of capital spending; real wage growth and consumer spending continued at a sluggish pace, which is likely to undermine overall GDP growth. The economy actually contracted slightly during the second quarter. Forecasts have been scaled down to below 1 per cent in 2015 and only slightly better at 1.2 per cent next year.

China's Shanghai and Shenzhen stock exchanges plunged 30 - 40 per cent in the 4 - 6 week period ending July 2015 (following a surge of 150 per cent during the preceding 12-month period). Near-term economic prospects have been compromised by the accompanying uncertainty. The government intervened aggressively to stabilise the stock market fall and in stimulating the real economy. The devaluation of the yuan should also improve growth down the line². The forecast real GDP growth rate for the Chinese economy remains around 6 - 7 per cent per annum, albeit that the risks are decidedly on the downside.

Table 1 World economic outlook: 2015 - 2016

Country	2012	2013	2014	2015f	2016f
World Output	3.5	3.4	3.4	3.3	3.8
Advanced Economies	1.4	1.4	1.8	2.1	2.4
United States	2.8	2.2	2.4	2.5	3.0
Euro Area	-0.7	-0.4	0.8	1.5	1.7
Japan	1.4	1.6	-0.1	0.8	1.2
Developing Economies	5.1	5.0	4.6	4.2	4.7
Emerging and Developing Asia	6.7	7.0	6.8	6.6	6.4
China	7.7	7.7	7.4	6.8	6.3
India	4.7	6.9	7.3	7.5	7.5
Latin America and the Caribbean	2.9	2.9	1.3	0.5	1.7
Middle East, North Africa, Afghanistan, and Pakistan	4.9	2.4	2.7	2.6	3.8
Sub-Saharan Africa	5.1	5.2	5.0	4.4	5.1
South Africa	2.5	2.2	1.5	2.0	2.1

Source: IMF World Economic Outlook July 2015 (f denotes forecast)

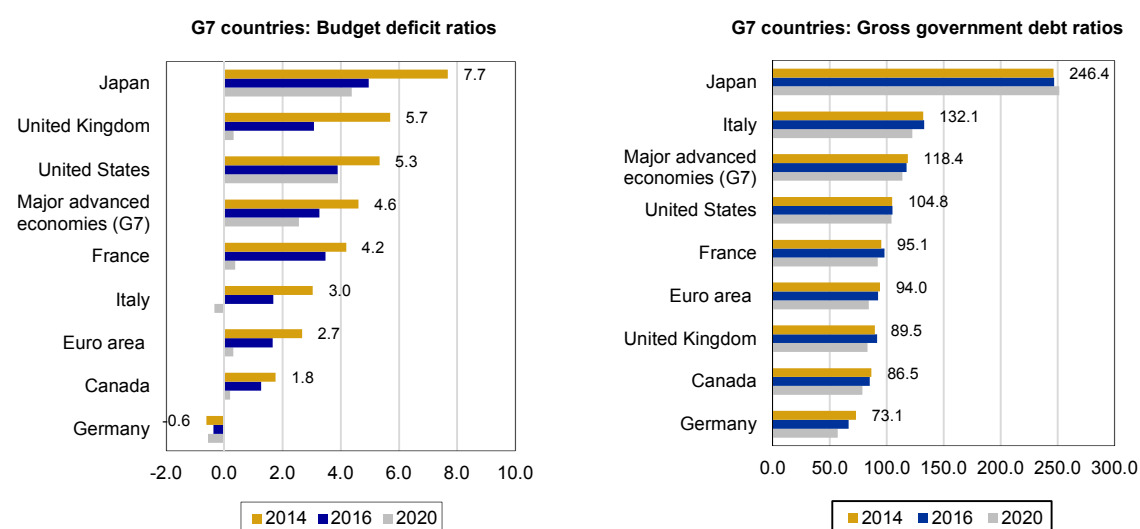
Short-term growth forecasts for other **emerging market economies** have been scaled down (e.g. in respect of Brazil, Russia and some African economies, including the oil-producing Angolan and Nigerian economies). Tighter financial conditions (due to capital flight associated with expectations of higher interest rates in the USA) and lower commodity prices (including that of oil compared to year-ago levels) and structural impediments in some economies (e.g. in Latin America), as well as geopolitical upheaval (CIS, Middle East and Africa) are factors inhibiting growth. Some emerging economies are performing better, for instance, countries like India, Mexico and those in the Pacific Basin. India's new government has implemented confidence-boosting economic policies; Mexico and the Pacific Basin benefit from increased import demand in the USA and Europe, while not being as exposed to the plunge in commodity prices. The IMF also remains bullish regarding the growth

² In three consecutive days ending on the 13th of August 2015, the central parity of the yuan's exchange rate versus the basket of currencies against which the yuan is pegged, was adjusted downwards by 1.9 per cent, 1.6 per cent and 1.1 per cent respectively.

prospects in Sub-Sahara African countries in general, with a projected real economic growth rate of 5.1 per cent in 2016. Overall, emerging market real GDP growth is projected to bottom at 4.2 per cent in 2015, re-accelerating to 4.7 per cent in 2016.

The fiscal outlook is an additional drag on growth. One of the key reasons why global growth has been under pressure (apart from the long-term factors noted above) has been the high debt levels and the impact of so-called deleveraging in the wake of the global financial crisis. Fiscal deficits accumulated as governments (mainly in the USA and Euro Area) responded by bailing out failing banks and in applying counter-cyclical fiscal policies. The USA budget deficit ratcheted up to 13.5 per cent of GDP in 2009 and in the Euro Area to 6.2 per cent; some of the peripheral Euro Area countries registered double digit deficit ratios (e.g. Greece, 15.2 per cent; Spain, 11 per cent and Portugal 10 per cent). The result was that already high gross national debt to GDP ratios began to increase sharply – for the G7 countries combined this ratio stood at 118.4 per cent last year (USA at 105 per cent, the Euro Area at 94 per cent, ranging from 73 per cent in Germany to 132 per cent in Italy and 177 per cent in Greece, and Japan at 246 per cent)³ (see Figure 4).

Figure 4 Advanced economy fiscal ratios: 2014 and projected for 2016 and 2020



Source: IMF WEO April 2015

These high government deficit and debt-to-GDP ratios in the major advanced economies need to be brought under control. The implication is higher taxes and reduced government spending, which will constrain growth for as long as the fiscal consolidation process continues. Figure 4 shows how the budget deficit-to-GDP ratios are projected to narrow amongst the major seven advanced economies. The USA is following a more dovish approach, whilst across the Atlantic the Euro Area governments almost erred on the side of extreme austerity. The Euro Area combined budget deficit came in at 2.7 per cent last year, with all the member countries

³ A recent study of world debt levels actually found that little deleveraging has occurred since 2009; overall debt levels were in fact higher in 2013 compared to 2009 (ICMB, 2014: 2). Only the composition of debt has changed, with private debt being exchanged for public debt (particularly in the USA) and with China and other key emerging economies having ratcheted up private and public debt levels in countering the impact of the recession.

expected to comply with the 3 per cent Maastricht criteria by 2016 (projected Euro Area wide budget deficit, 1.7 per cent of GDP). The USA is adopting a more expansive approach – while its budget deficit has declined to 5.3 per cent last year (from close to 14 per cent in 2009), current plans only make provision for the deficit to moderate further to around 4 per cent of GDP (next year and by 2020, according to IMF projections).

Currently both the USA and Euro Area governments are allowed some scope to ease fiscal austerity measures. The USA economy has moved beyond the sequester impact and in the Euro Area fiscal consolidation has delivered some results. This will allow the incipient economic recoveries to continue building momentum. However, over the medium term fiscal consolidation will remain and national debt-to-GDP ratios are projected to only ease modestly if at all (see Figure 4). The Euro Area is aiming for a balanced budget by 2020, the USA to stabilise its debt-to-GDP ratio (around 104 per cent) and Japan is likely to witness an increase (projected at 251 per cent). The implication is that the advanced economies will need to learn to live with high debt levels. The Europeans are paying a price in terms of lower economic growth in order to effect its (relatively austere) fiscal consolidation plans; the Americans are giving growth more scope, but at the price of worse fiscal ratios over the medium term.

Bearish commodity outlook. South Africa's key export commodity prices have fallen sharply since the boom in commodity prices over the 2002 to 2011 period came to an end. An US dollar-based metals index declined by close to 50 per cent from early 2011 to July this year; the decline in platinum prices was worse at 67 per cent and iron ore prices 63 per cent over the corresponding period. Gold prices held up slightly better, declining by only 36 per cent.

While the market conditions explaining each individual commodity's movements are different, the general commodity cycle has come under pressure as mining companies invested heavily in new production capacity during the commodity boom. With the long lead-times involved in opening a new mine, much of this new production capacity is only now coming on stream (and expected to come on the market over the next 2 to 3 years). The growth on the supply side of commodity markets are therefore tending to exceed the growth on the demand side. The latter is weak in view of the problems in the commodity-intensive Chinese economy and the general weak global economic growth conditions. While this situation prevails, the outlook for commodity prices will remain decidedly bearish. The prospective normalisation of interest rate levels in the advanced economies also does not bode well for investor demand for commodities (particularly gold). The strength of the US dollar is an additional adverse factor in this regard.

Low inflation and interest rates. The bearish outlook for commodity prices, including that of crude oil, will keep a lid on industrial input costs across the globe. Furthermore, the general weak global demand conditions is currently ensuring low inflation in the advanced economies being sustained, while disinflation is occurring in a range of developing economies (e.g. in Latin America and India). In the advanced economies, faced with high debt levels, the economic policy objective will be to

engineer non-inflationary growth, which can generate the required tax revenues (without undue increases in tax rates) and preventing sharply higher bond yields (and therefore higher debt service burdens for the government). Non-inflationary growth will require that the Federal Reserve (and other central banks) reverse (or unwind) their QE programmes as soon as the private sector economy gains a self-sustaining momentum. The Federal Reserve has already terminated its QE3 asset-purchase programme, the ECB is planning to do so during the next 12 to 15 months and the Bank of Japan also over the short term. In this environment, the money creation that has occurred is not expected to spill over into higher inflation, which is projected to remain low over the forecast horizon. Prospective interest rate increases are therefore expected to remain contained.

A strong US dollar. The prospect of higher interest rates in the USA as that economy's recovery gains a stronger footing has boosted the international value of the US dollar. International investors are withdrawing investment funds from higher-yielding emerging market economies, re-investing into dollar assets. The US dollar has appreciated by 16 per cent on a trade-weighted basis over the past twelve months. The devaluation of the Chinese currency was in a direct response to the strength of the dollar, part of the basket of currencies against which the yuan is pegged. The dollar is expected to remain strong due to a favourable interest rate differential, albeit likely that most of the actual appreciation of the currency may be behind us.

In all, world economic growth is expected to remain constrained. Long-term factors related to demographics and productivity growth and medium-term factors related to high debt levels, fiscal consolidation and prudent monetary policies are expected to limit real economic growth in the advanced economies. Emerging economies, led by China, are also expected to grow at lower levels. The implication is that the commodity outlook is bearish, with inflation and interest rates likely to remain contained, while the US dollar strength is expected to persist.

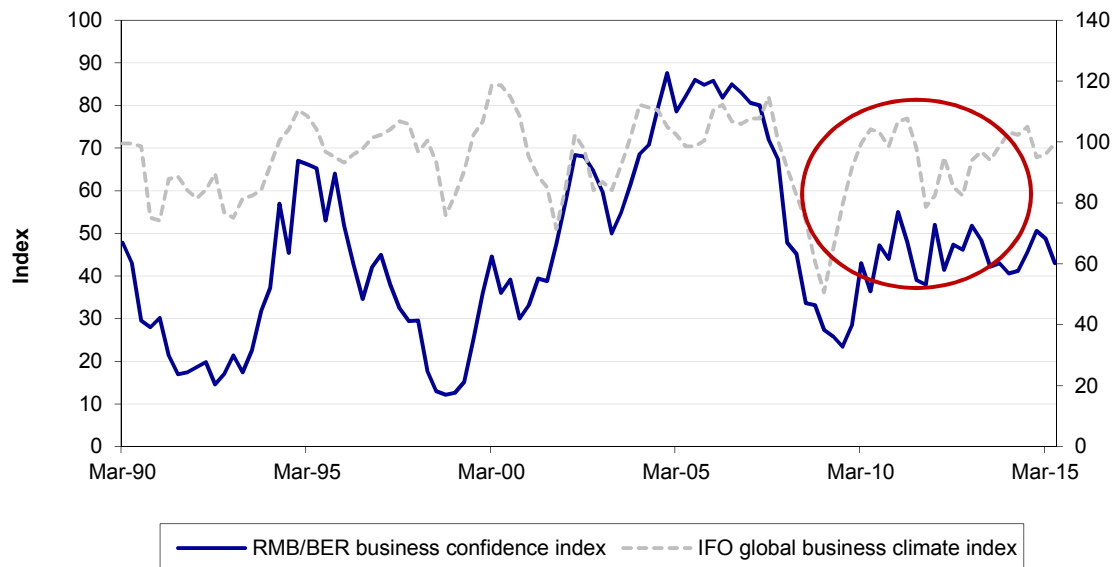
2.2.2 The SA economy

The SA economy is closely linked with the global economy, both via the trade and financial channels. The economy experienced a sharp recessionary decline in 2009 in response to the global recession sparked by the financial crisis at the time. The impact on the economy was greater in the labour market, where 1.1 million formal and informal jobs disappeared (between December 2008 and September 2010) compared to the negative impact on GDP, i.e. a peak-to-trough decline of 2.5 per cent in real GDP. Anti-cyclical fiscal policy assisted to ameliorate the adverse impact on real economic growth.

Subsequently economic growth has been poor. Apart from accelerating to a trend pace during calendars 2010 - 2011, from 2012 - 2014 real GDP growth has averaged 2 per cent per annum. It took the labour market until end 2013 to fully recover from the 2009 recession. The poor post-global financial crisis growth of the SA economy is not unique on the global scene. In fact, as discussed above, '*secular stagnation*' amongst the developed nations of the world (related to reasons of demography, productivity growth and indebtedness) may indeed be the new norm. This is a

challenge to SA industry, which has to adjust to this reality. It would be fair to conclude that part of this global reality explains the poor growth performance of the SA economy. However, that is not the full story.

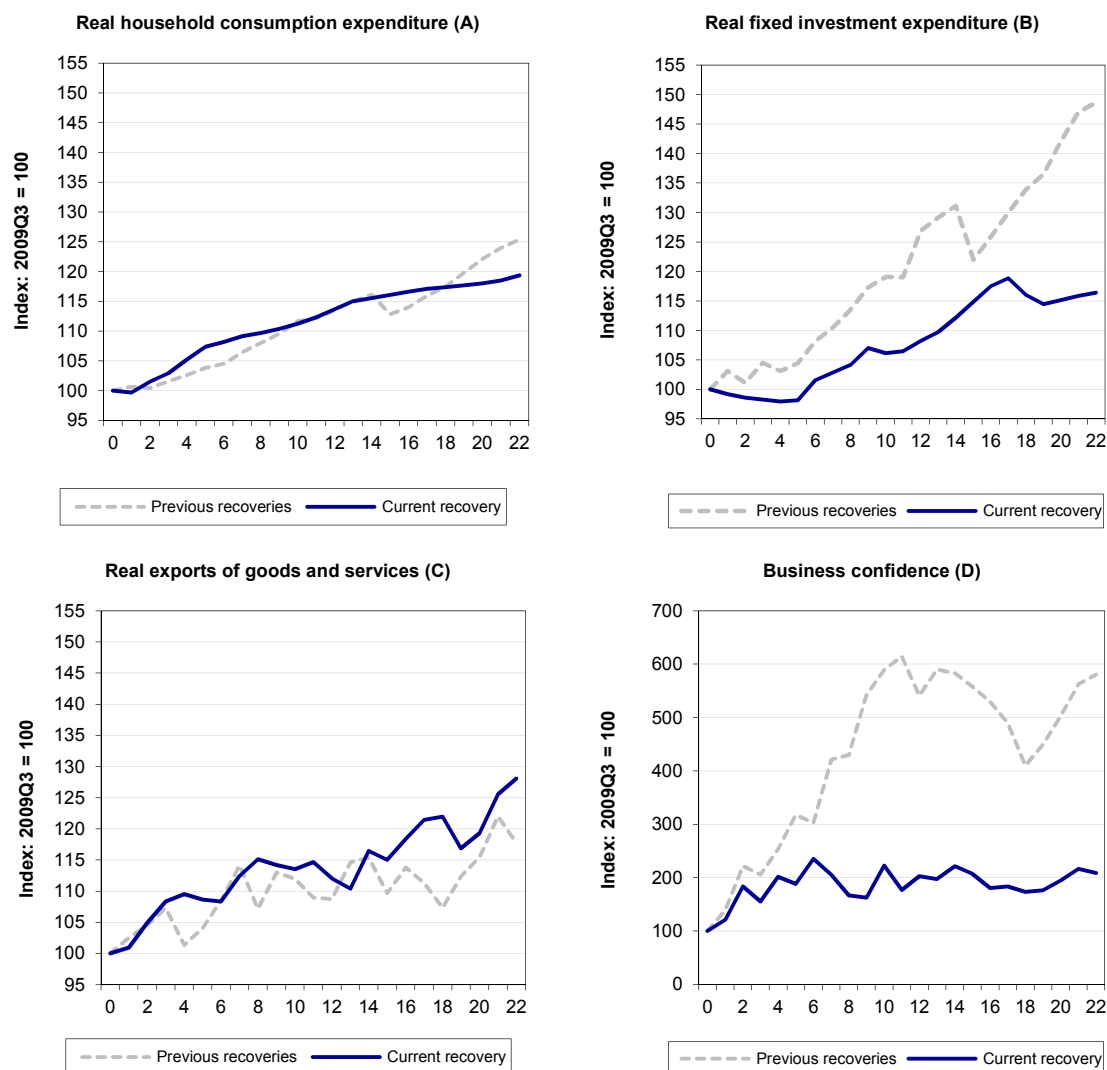
Figure 5 Gap opening up between business confidence levels in SA and rest of the world



Source: BER/IFO Institute

Figure 5 shows weaker trending business confidence levels in SA in recent years compared to that in the rest of the world economy. Such gaps have opened up twice before since the onset of the 1990s. The first occurred during the early 1990s with heavy domestic socio-political turmoil, the longest post-war economic recession in SA, exacerbated by a serious drought in agriculture. The second occurred during the aftermath of the East-Asian financial and economic crisis (when domestic prime overdraft interest rates increased to above 25 per cent).

While the uncertain world economic climate in the wake of the Great Recession has been transmitted to the SA economy, domestic factors also explain the weaker trending business confidence levels. Considering Figure 6 (D) a most unusual trend in business confidence is displayed; it basically moved sideways over the past five years compared to previous business cycles' positive trending business confidence levels. Poor business confidence largely explains the weaker fixed investment performance compared to previous business cycles. Sluggish fixed investment spending – and not household consumption or exports – has been at the bottom of the poor overall economic growth performance; see Figure 6 (A, C and B).

Figure 6 The current economic recovery in historical perspective

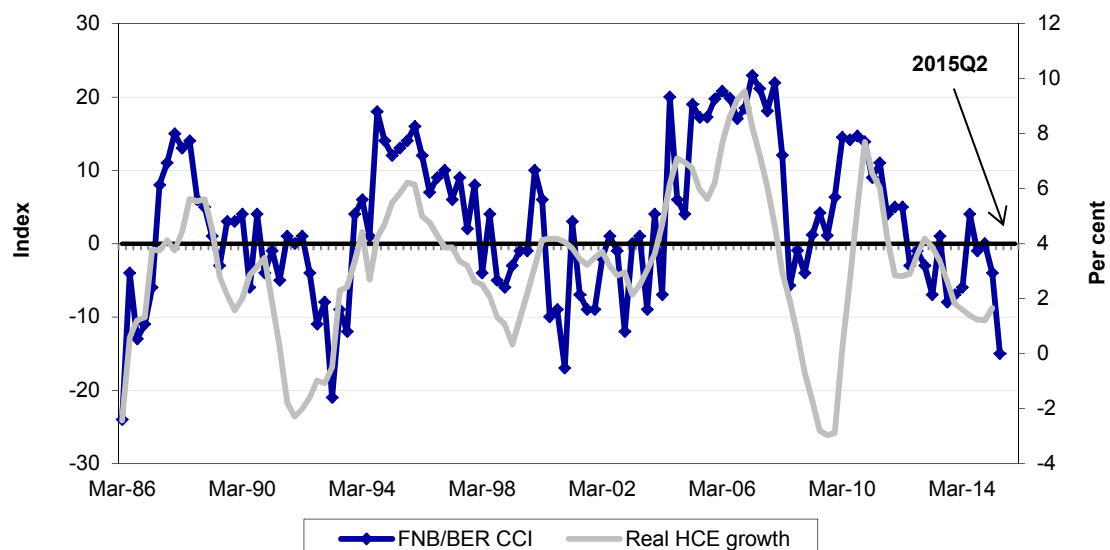
Source: SA Reserve Bank/BER

Poor business sentiment and sluggish fixed investment spending and associated employment creation goes hand-in-hand. A number of factors may have impacted adversely on business confidence, e.g. the decline in commodity prices, with its effects being transmitted throughout the economy, the adversarial labour relations environment and outright labour market instability and violence (reflected in a sharp increase in man-days lost due to strike action in recent years), economic policy uncertainty, infrastructure constraints of which the electricity blackouts are foremost in their damaging impact, etc.

The lack of employment creation has eventually rendered the consumption-led domestic economic recovery from the 2009 recession unsustainable – witness the dramatic collapse of consumer confidence during the first half of 2015, being a reliable leading indicator for where household consumption expenditure is headed. The year-on-year growth in real consumer spending has already slowed down to 1.4 per cent during 2014. The supply-side weaknesses in the domestic economy, being reflected in the struggling mining, manufacturing and electricity sectors, have

caught up with the demand side of the economy. SA is perilously close to a full-blown recession. The slowdown in the consumer sector currently having to shoulder a tightening of fiscal policy and monetary policy, not to mention higher import prices due to the weak currency, has the potential to spread the economic weakness to the services sectors of the economy. The BER macro-economic projections over the short term are shown in Table 2.

Figure 7 SA consumer sector – both spending and confidence – slows down sharply



Source: SA Reserve Bank/BER

In all, the macro-economic context for the provincial economy is challenging. Poor domestic demand conditions (particularly during the remainder of 2015 and 2016), a temporary spike in inflation (with headline CPI going above 7 per cent early next year), moderately higher interest rates and a volatile currency. Externally, demand for exports is likely to be less than robust and the sharp decline in SA's key commodity prices since 2011 is unlikely to reverse soon, impacting negatively on growth. While the outlook is positive for a sustained global economic recovery, general demand conditions are likely to remain less than robust for the foreseeable future.

The Northern provinces of SA (and the West Coast in the Western Cape) are impacted directly by the weakness in commodities and the Western Cape indirectly given the mining sector's wide economic linkages. Western Cape exporters have to secure their markets in the expanding developed economies and continue to seek higher growing markets in faster growing developing regions (e.g. Africa, East and southern Asia and even some Latin American countries, e.g. Mexico). While one can accept that global interest rates and inflation are likely to remain low over the forecast horizon, this will rather be a reflection of sluggish economic growth. The prospect of interest rate increases in the USA is likely to continue triggering financial volatility as SA experienced recently. The volatility of the rand exchange rate is likely to remain and it is expected the currency will maintain its competitiveness. However, we do not expect a rand blow-out as yield-seeking international investors will be back, with the European and Japanese quantitative easing monetary policy

programmes continuing (at least over the short term) and USA interest rates remaining relatively low.

Table 2 South Africa – forecast of key macro-economic variables: 2015 - 2020

	2013	2014	2015f	2016f	2015 - 2020f	2005 - 2014
Household consumption	2.9	1.4	1.9	1.6	2.5	3.7
Government consumption	3.3	1.9	1.4	0.9	1.7	3.8
Fixed investment	7.6	-0.4	1.7	2.1	3.2	5.6
Gross domestic expenditure (GDE)	1.4	0.6	1.9	1.6	2.6	3.7
Exports	4.6	2.6	5.2	3.9	4.5	2.8
Imports	1.8	-0.5	5.5	3.4	4.7	5.2
Gross domestic product (GDP)	2.2	1.5	1.7	1.7	2.5	3.0
Employment	1.2	1.5	1.7	0.7	1.3	0.7
CPI inflation	5.7	6.1	4.9	6.1	5.5	6.1
Prime overdraft interest rate	8.50	9.07	9.42	10.00	10.43	10.71
R/\$ exchange rate	9.65	10.84	12.12	12.63	12.73	8.02
Current account balance (% of GDP)	-5.8	-5.5	-5.3	-5.3	-5.2	-4.1

Source: BER (*f* denotes forecast)

2.3 Western Cape economy

The Western Cape economy accounts for a large share of national GDP (close to 14 per cent in 2013) and the regional economy has close linkages with those in the rest of the country. Figure 9 (A) shows how closely business confidence levels in the region tracks that of the national economy. It follows that the regional business cycle corresponds closely with that of the national economy, albeit evident that business confidence has been trending at higher levels over the past 18 months (from the end of 2013)⁴. Estimates of the Western Cape's GDPR show that the regional economy did expand slightly faster than national during 2014, i.e. a real growth rate of 1.7 per cent compared to 1.5 per cent. Business tendency survey indicators do suggest some sectoral outperformance may be present in the Western Cape region – see Figure 9.

While the 1.7 per cent real GDPR growth rate for the Western Cape in 2014 may be an under estimation, it is likely that the adverse global and national factors discussed above are also impacting the Western Cape. A closer inspection of recent developments in the regional economy, may reveal more of what may be behind the more elevated business sentiment levels.

⁴ This difference is significant and suggests higher economic growth in the Western Cape during 2014 and the early part of 2015. Whereas the national business confidence index averaged 45 index points over the period 2014Q1 to 2015Q2, in the Western Cape it averaged 58 index points.

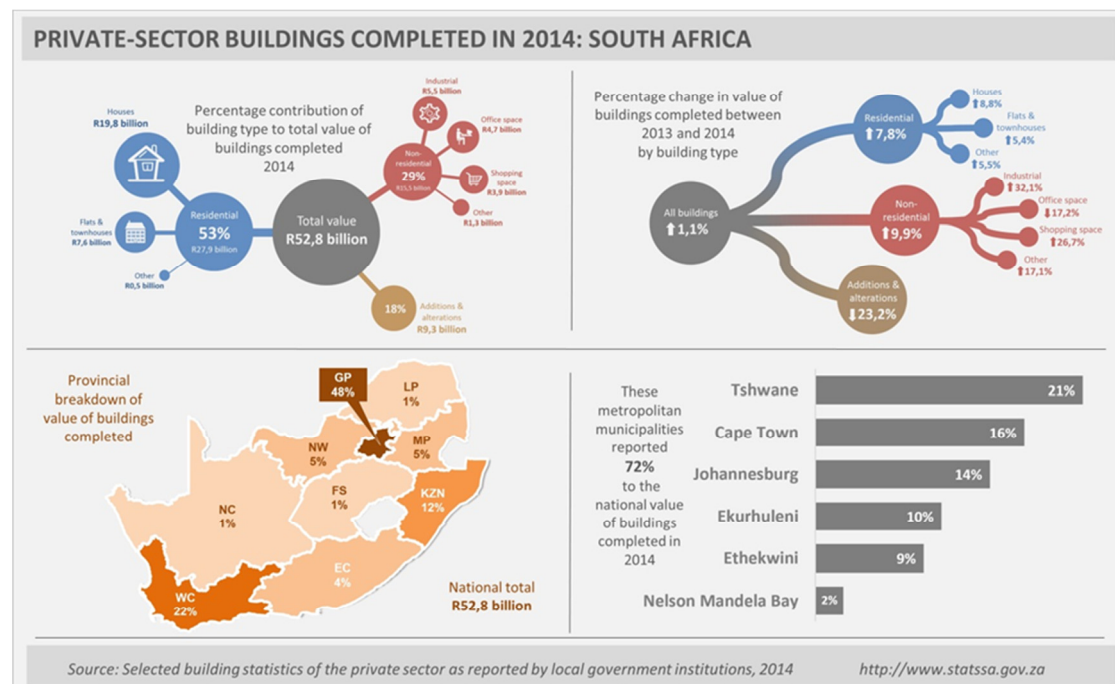
2.3.1 Recent developments

An important recent development in the SA economy has been the slowdown of real household expenditure. This is happening on top of the supply-side problems in the mining and manufacturing sectors. Not only is consumer incomes being eroded by higher prices, but fiscal policy is being tightened and the SA Reserve Bank implemented another 25 basis points increase in interest rates in July 2015. Tighter fiscal policy implies higher personal tax and in the public sector less job and salary and wage growth, as well as a slowdown in the roll-out of social transfer payments⁵. Consumer spending accounts for two thirds of national GDP.

From Figure 9 (D) it would appear as if retailing conditions in the Western Cape have been more lively compared to national over the past 18 months. While the retail sector is closely linked with tourism activity, which may explain the outperformance, the linkages between the retail and the building sectors can also be a factor. The retail end of the building value chain has performed well in recent years, reflected in high hardware store retail sales growth. Stronger building activity, including alterations and renovations to homes, may be a factor in the Western Cape. Building contractors report significantly higher trending building activity in the region compared to national (Figure 9 (C)). This is corroborated by building statistics which show that building plans passed in the Western Cape is currently growing by 22.5 per cent and 15.5 per cent year-on-year in the residential and non-residential sectors respectively, compared to 9.2 per cent (residential) and minus 1.7 per cent (non-residential) respectively in the national economy.

Figure 8 puts the national building sector in context. The various metro regions account for 72 per cent of building completions in the country, with the Cape Metro's contribution being the second largest at 16 per cent in 2014.

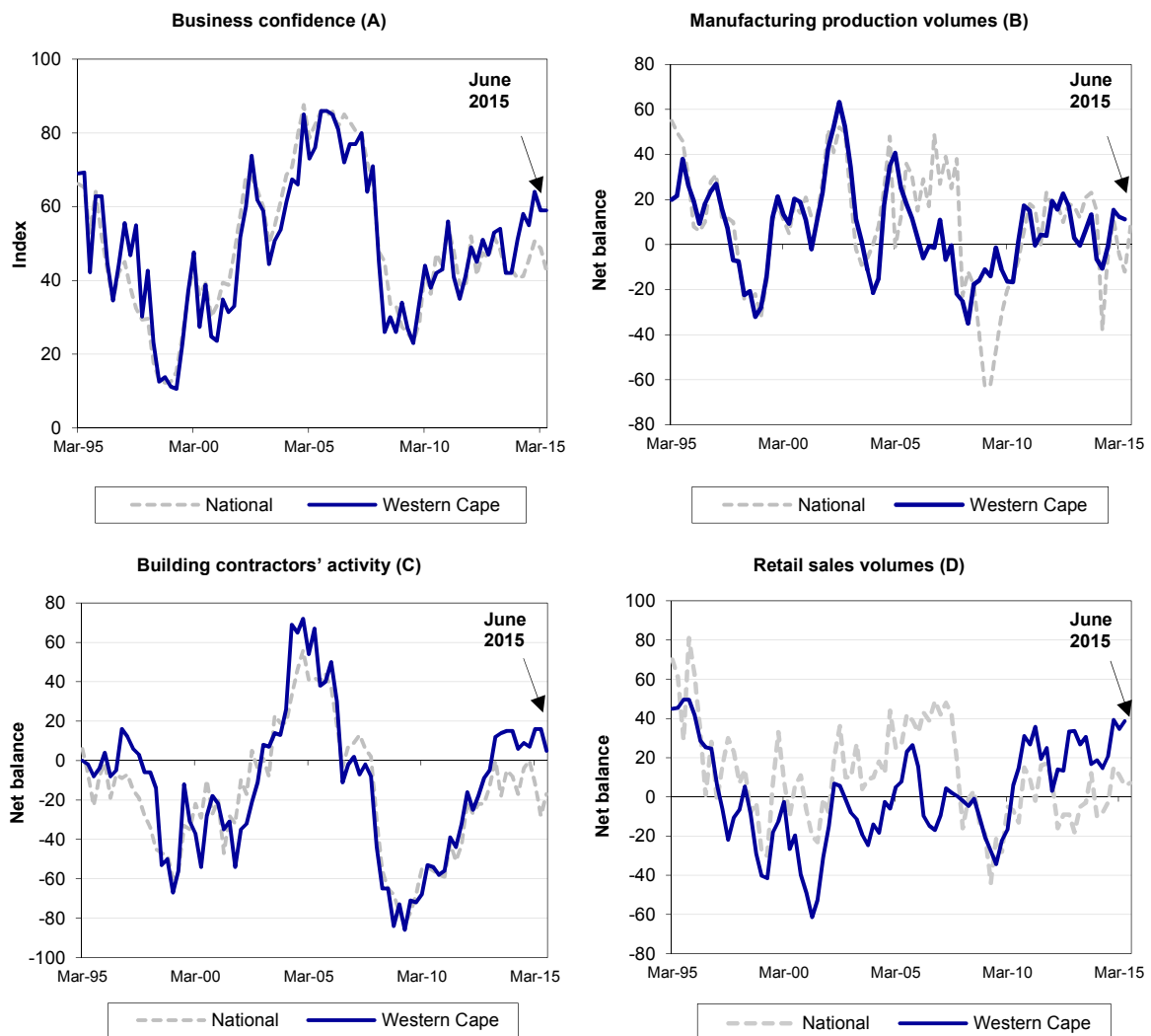
⁵ It should be noted that the wages and salaries earned by civil servants in the public sector, combined with the social transfer payments (including old-age pensions, disability and child grants), account for 28 per cent of personal disposable income. This component of consumer income is likely to grow substantially slower in real terms over the coming years compared to the past ten years if the government sticks to its 2015 Budget.

Figure 8 Private sector building completions in South Africa in context, 2014

Source: Statistics SA

It is not clear how long the Province's comparatively better economic growth performance will last. It may be that the slowdown in the consumer sector nationally, has not caught up with the Western Cape. Consumer confidence did plunge more dramatically in the Western Cape during the second quarter compared to nationally (coming in at a reading of -44 versus -15). An analysis of the first quarter GDP supply-side estimates shows that sharp contractions in agriculture (16.4 per cent), manufacturing (2.5 per cent) and – to a lesser extent – the general government (-0.8 per cent) account for the slowdown in overall growth. The wholesale and retail trade, catering and accommodation sector has also slowed down, but remains the second fastest growing sector (1.3 per cent) in the region following finance, real estate and business services (3.8 per cent) (*Economic Performance Indicators for Cape Town, Q1 2015: 24*).

From Figure 9 (B) it would appear the Western Cape shares the poor manufacturing performance, albeit not being as negatively affected by the 2009 recession and the labour strike-induced plunge during the third quarter last year. The revival in building and construction activity continues, albeit evident that this has levelled off over the past 18 months mainly due to a reversal of fortunes in the non-residential sector. As noted, Western Cape building contractors report livelier business conditions compared to national. Furthermore, the infrastructure fixed investment activity associated with the development of the Saldanha Bay IDZ, as well as the expansion plans for the Cape Town harbour and the smaller Western Cape harbours (e.g. Gansbaai, Struisbaai, Gordons Bay and Lamberts Bay) will boost the building and construction sectors. Infrastructure initiatives also extend to the social domain and are discussed in more detail in the second part of the report.

Figure 9 Business activity in the Western Cape versus National: BER surveys, 2015Q2

Source: BER

In all, the Western Cape economy shows some pockets of strength in the general national economic slowdown. Retailing and building conditions are livelier while the local manufacturing sector growth performance has been less volatile compared to national. Unfortunately, a sharp contraction in agriculture during the first quarter of 2015 has impacted negatively. The Western Cape consumer sector may also fare worse going forward given the linkages this sector has with the rest of the country. Nonetheless higher business confidence levels – with 6 out of every 10 business executives in the region being satisfied with business conditions – are some consolation.

2.3.2 Sectoral economic outlook, 2015 - 2020

Table 3 shows that the Western Cape and Gauteng economies have been the fastest growing regional economies over a 10-year period, with both expanding by an annual average 3.8 per cent between 2004 and 2013. KwaZulu-Natal came in at a close second with 3.6 per cent real GDP growth per annum over the corresponding period. These three provincial economies are the largest in SA, combined, accounting for no less than 64 per cent of national GDP in 2013 (Stats SA, 2014). Their growth rates compare with a national average real GDP growth rate of 3.3 per cent over the corresponding period.

Table 3 Western Cape sector growth rates in regional perspective: 2004 - 2013

Industry	Western Cape	Eastern Cape	KwaZulu-Natal	Gauteng
Agriculture, forestry and fishing	2.2	3.1	3.1	1.6
Mining and quarrying	1.9	0.8	-0.2	-1.6
Manufacturing	2.6	2.5	2.6	2.6
Electricity, gas and water	1.7	0.9	1.5	1.9
Construction	6.9	6.2	7.4	8.0
Wholesale and retail trade, catering and accommodation	3.9	3.0	4.0	4.6
Transport, storage and communication	3.7	2.9	3.8	3.9
Finance, insurance, real estate and business services	4.8	3.9	5.1	5.0
Personal services	2.5	2.4	2.7	2.8
General government services	4.0	2.7	3.7	4.0
All industries at basic prices (GDPR)	3.8	3.0	3.6	3.8

Source: Statistics SA

The fastest growing sectors in the Western Cape – construction (6.9 per annum, 2004 to 2013) and finance, real estate and business services (4.8 per cent) – were also the fastest growth sectors in Gauteng and KwaZulu-Natal. The sectors ranked third and fourth varies, however, the wholesale and retail trade, catering and accommodation (3.9 per cent per annum in the Western Cape), the general government (4.0 per cent) and transport, storage and communication (3.7 per cent) rank amongst the top five in all three provinces. This also goes for the Eastern Cape, albeit that the growth rates lagged in this region; agriculture also put in a relatively stronger growth performance in the Eastern Cape. The overall growth performance of the Gauteng region was adversely impacted by the contracting mining sector (mainly gold production), which accounts for 2.7 per cent of the region's economy and 13 per cent of the national mining industry (Stats SA, 2014). The growth of manufacturing was below average around 2.6 per cent per annum, implying a reduced economic contribution by this sector in all four of the big provinces listed in Table 3.

Manufacturing's decline is cause for concern

The poor performance of the manufacturing sector is a cause for concern. This sector has been in structural decline since the early 1980s, when it accounted for 24 per cent of national GDP; in 2014 it accounted for less than 13 per cent of GDP. Manufacturing employment was reduced by 25 per cent over this period (Raubenheimer, 2015: 6). In KwaZulu-Natal the sector still accounts for close to 16 per cent of GDP; in the other two leading provinces, i.e. Gauteng and the Western Cape, for close to 14 per cent of GDP (Stats SA, 2014).

In most countries' economic histories an expanding manufacturing sector formed the backbone of modernisation and economic growth (see Raubenheimer, 2015: 6). The reasons for SA manufacturing's structural decline (i.e. de-industrialisation) are vexed and deep-rooted. Suffice to say that without the manufacturing sector's wide economic linkages across a whole range of industries absorbing low-and unskilled labour to those that demand professional and highly skilled workers, the economic development process will be harder.

While the manufacturing growth performances are similar between the four large provinces, it is evident from Table 3 that the Western Cape's outperformance in the financial and business services sector, as well as the other tertiary sectors, has disappeared when compared to the Gauteng and KwaZulu-Natal. It is true that these three leading provinces outperform the rest of the country. SA's mining provinces, i.e. Mpumalanga, North West, Northern Provinces and the Free State have been affected by the difficult production conditions in the mining sector, partly as a result of the falling commodity prices since 2011. The poor growth of the well-represented mining sector in these provinces spill over to the other sectors, including manufacturing and services. The outlook is for manufacturing activity to continue expanding at a significantly lower rate than aggregate economic activity in the Western Cape.

Table 4 Western Cape sectoral outlook: 2015 - 2020

Sector (GDPR real per cent change per annum)	2005 - 2014	2013	2014	2015f	2016f	2015 - 2020f	2014 - 2019f
						New	Old
Agriculture, forestry and fishing	2.4	0.9	4.8	1.8	2.0	2.3	1.8
Mining and quarrying	1.7	2.8	-1.0	2.1	1.8	2.0	1.4
Manufacturing	2.1	0.6	0.4	0.9	2.0	2.2	2.4
Electricity, gas and water	0.8	-0.6	-1.8	-0.7	1.9	1.8	2.1
Construction	6.3	3.0	4.1	2.8	2.2	3.7	4.1
Wholesale, retail, motor trade; catering and accommodation	3.5	2.5	1.7	1.5	2.0	2.7	2.8
Transport, storage and communication	3.3	1.7	0.9	2.2	2.1	3.2	3.6
Finance, real estate and business services	4.2	3.3	2.3	3.1	2.6	3.4	3.5
Community, social and personal services	2.5	1.9	1.3	0.9	1.2	1.7	2.2
General government	4.0	4.3	2.8	1.0	0.8	1.3	2.1
All industries at basic prices (GDPR)	3.4	2.4	1.8	1.9	2.0	2.7	3.0

Source: BER (f denotes forecast)

Considering the outlook for sectoral growth in the Western Cape economy, the two rightmost columns of Table 4 show the downward revision of the five-year forecast. Whereas the Western Cape was projected to grow by 3.0 per cent per annum over the 2014 - 2019 period (MERO, 2014), the current five-year outlook is for only 2.7 per cent growth over the 2015 - 2020 period.

Much of this downward revision derives from the poor short-term outlook, with the regional economy projected to grow at 2 per cent per annum during 2015 - 2016. As noted in the section on national economic prospects, the consumer is under pressure and hence the large wholesale, retail, catering and accommodation sector. Furthermore, the problems in the manufacturing and electricity sectors are well-known. These sectors, which account for 17 per cent of regional GDP, the forecast real value-added growth rate is between 1.5 and 2.0 per cent per annum during 2015 - 2016. The poor expected growth performance of the community, social and personal services sector (around 1.0 per cent per annum) and the government (slightly below 1.0 per cent per annum) is also notable.

Regarding the medium-term and apart from the primary sectors, i.e. agriculture and mining, the five-year forecast has been downscaled for most sectors. In the leading financial and business services and wholesale, retail, catering and accommodation services sectors the downward revision was marginal. Regarding the anticipated growth in respect of the secondary sectors, i.e. manufacturing, electricity and water and construction, the downward revisions have been more significant. The forecast growth rate for construction, i.e. 3.7 per cent per annum, may be on the conservative side given the volume of infrastructure investments anticipated over the medium term and the evident outperformance of this sector over the past 18 months in the Province. However, poor cyclical conditions in the non-residential building sector are behind this bearish outlook. The lower growth of the general government sector is a direct result of tighter fiscal policies at the national level aiming to contain the growth on real non-interest state expenditure. The 2.3 per cent per annum projection for the agriculture, forestry and fishing sector is premised on a rising contribution of fishing (including aquaculture) and favourable assumptions regarding climatic conditions, as well as improved export demand.

Overall, the Western Cape is projected to grow by 2.7 per cent per annum over the 2015 - 2020 period, which compares with a projected national real GDP growth rate of 2.5 per cent per annum. In Section B of the report, the sectoral growth performances of the Province are further unpacked in chapters one and two in respect of each Western Cape sub-region.

SECTION B: WESTERN CAPE REGIONS

- **City of Cape Town Metropolitan Municipality**
- **West Coast District**
- **Cape Winelands District**
- **Overberg District**
- **Eden District**
- **Central Karoo District**

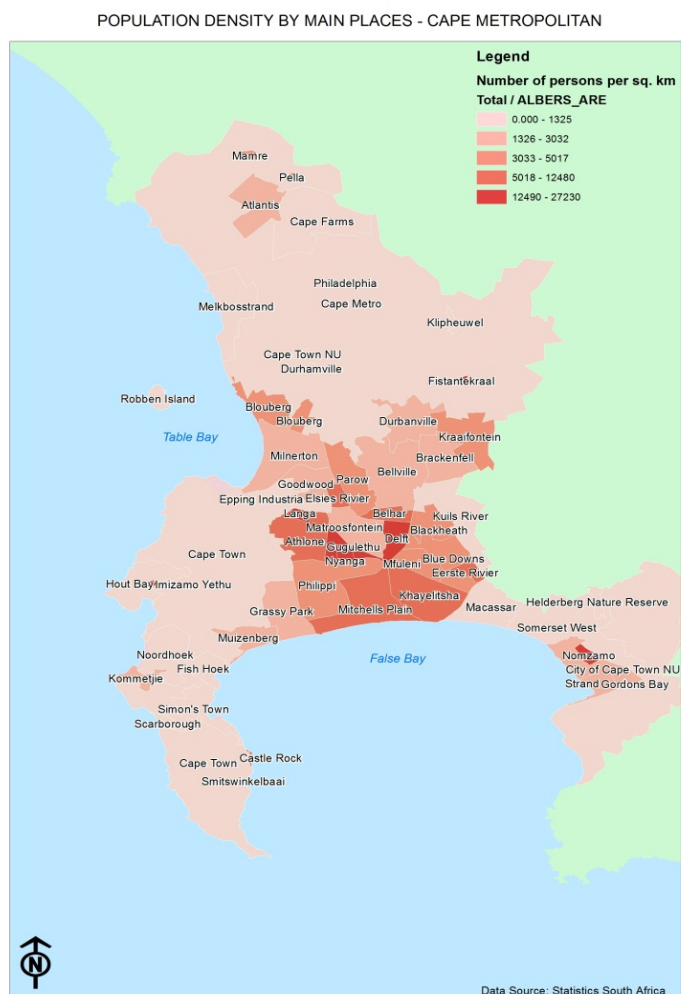
City of Cape Town Metropolitan Municipality

Executive summary

Introduction

The 2015 Municipal Economic Review and Outlook (MERO) report is presented in a generally constrained macro-economic environment. Whilst more challenging, this ups the imperative of unlocking opportunities for growth and jobs. The MERO's objective is to provide economic intelligence at the local level in the Western Cape Province, which can assist with evidence-based decision making and in building an environment conducive to private sector growth and employment creation.

The reality is that six years from the onset of the recovery from the 2009 Great Recession, world economic growth is as yet not on a solid footing. Growth projections



have been scaled down at the global, national and provincial levels. 'Secular stagnation' is the term being used to describe a 'new normal' in respect of the world economy.

The macro-economic context was discussed in Section A of the report. In this section of the report, five chapters are devoted to the economic review and outlook for the Cape Metro economy. The first chapter provides a dedicated regional economic outlook. Thereafter, the focus is on sectoral growth, employment and skills demand trends in seven selected economic areas in the Metro; a sectoral forecast over the 2015 - 2020 period at the metro level is also motivated. The third chapter focuses on the topic of integration into global value chains, Special Economic Zones (SEZs), as well as two small case studies on, firstly, The Atlantis Green Technology Industrial Park and, secondly, the Cape Health Technology Park (CHTP). In the fourth chapter, an analysis of the Cape Metro's revenue and infrastructure spending trends and access to basic services is made, including an indication of the Western Cape Government's (WCG) infrastructure projects underway in the Metro. The fifth chapter concludes with a consideration of the Cape Metro's socio-economic profile and the linkages with economic growth.

1. Regional economic outlook

The Cape Metro's economy is sensitive to global and national economic developments, with more than three quarters of its GDP traded internationally. This does not include its growing Business Process Outsourcing (BPO) and tourism services trade, which has become a large earner of foreign exchange. While the Metro has been impacted by the slowing external economic conditions, it has proved to be robust. The region has received sustained support from its mainstay tertiary sector, notably financial and business services, which has added to both GDP and employment.

Going forward, growth is likely to remain under pressure in view of the 4 - 5 per cent average real GDP growth that was achieved during the previous expansion phase of the business cycle (i.e. 2000 - 2007). The trend growth rate over the past ten years has already tapered down to 3.4 per cent per annum (2005 - 2013). The Cape Metro is clearly impacted by the weakness in global and national growth, which are expected to come in at 3.5 per cent and 1.7 per cent, respectively in 2015 - 2016. These growth outlook figures are the result of consistent downgrades, which have come on the back of deteriorating economic conditions. Consequently, the Metro's outlook has also been revised from 3.0 per cent per annum (2014 - 2019) to 2.6 per cent (2015 - 2020).

External factors, such as the imminent interest rate hikes in the USA and the Chinese economic slowdown, have had unfavourable consequences for emerging markets such as South Africa. Apart from the adverse indirect impact, the Cape Metro economy is not exposed to the sharp decline in commodity prices and there is an opportunity in the depreciation of the rand exchange rate. This creates space for import replacement and increase the competitiveness of manufacturing exports, being supportive of initiatives to reverse this sector's structural decline. International

tourism and BPO services exports are also in line to benefit, compensating for the adverse impact that capital outflows may exert on the financial services industry.

The more challenging macro-economic outlook makes efforts to create an environment conducive for private business growth more urgent. Future growth in the Cape Metro will benefit from the infrastructure development initiatives by the Western Cape Government, ranging from education and health infrastructure development to that of transport and public works. Big-ticket private sector property developments are also in the pipeline, including the Project Khulisa initiatives to grow the tourism, oils and gas and agri-processing industries. While the infrastructure development initiatives are initially expected to create work and increase activity within the construction sector, positive spillover effects only arrive over time. The real GDP growth forecast allows for higher growth rates from 2017 onwards, but may be too conservative to the extent that these initiatives drive growth higher.

2. Sectoral growth, employment and skills

The Cape Town harbour and international airport, linking the City to the rest of the world via trade, investment and tourism, must be rated as two of the Metro's prime growth assets. The scenic beauty of the Table Mountain National Park and the surrounding areas, the vast array of other tourist attractions and the economic links the City has with the non-metro districts are other growth factors. The City is also well-known for a range of niche industries, such as the crafts and design industry, the film industry, oil and gas, boat building, etc.

The dominance of commercial services in the regional economy is likely to persist and remain a key driver of growth and employment creation. While the margin of outperformance vis-à-vis the rest of the country has shrunk after the 2009 recession, this remains the mainstay of economic activity, particularly, in the outer areas of Durbanville, Bellville and Milnerton. The CBD hosts a relatively bigger manufacturing sector, where a number of sub-sectors (such as clothing and textiles) reveal locational advantages. The Parow/Goodwood/Elsies River area, and Blue Downs/Kuils River and Mitchell's Plain in particular, also host relatively larger industrial sectors. Growth is under pressure in the Bellville and Parow/Goodwood/Elsies River areas, whilst showing potential in the Blue Downs/Kuils River area. Important initiatives are afoot to reverse the fortunes of the former-mentioned areas.

Unfortunately the manufacturing industries across the whole spectrum of economic areas have retrenched workers. This even seems to be the case where manufacturing is expanding. These retrenchments are in the semi- and unskilled market segment, while the growth in demand is in the skilled and highly-skilled segments, pointing to the likelihood of mechanisation. The construction sector also shed substantial employment after 2009 and, in some areas (e.g. Bellville), the general government and community, social and personal services sector. From a geographic perspective the net outflow of semi- and unskilled labour was softer in the Milnerton and Blue Downs/Kuils River economic areas. Whilst the Metro's tertiary sector compensated for the net job losses in the manufacturing and construction sectors in the past, the

current economic recovery has been different – the overall pre-recession employment levels were not restored by the end of 2013.

As noted, the anticipated macro-economic growth environment has forced a downward revision of the forecast five-year real GDP growth rate for the Cape Metro. Large infrastructure investment projects and higher export growth has the potential to up the Metro's growth performance.

3. Value chains and SEZs

In today's world, value chains reach beyond regional and national boundaries and the key is integration. Globalisation, interconnectedness, technology, logistics, offshoring and deregulation are all elements of the drivers of value chains. Special Economic Zones (SEZs) fit in with the contemporary trend to tap into global value chains and unlock opportunities for growth and jobs.

Municipalities generally do not have the mandate to provide incentives and policy initiatives to establish and ensure the success of a SEZ. However, there are various ways in which a municipality can provide support and ensure that the economic benefits are localised. Municipalities can assist along the whole value chain by the provision of supplier databases, for instance; they can expedite zoning and the provision of land; ensure the standard basic services and associated infrastructure are delivered effectively; they can combat captive market relations, e.g. by the facilitation of relationships directly between the producers, local logistics companies, and the firms in the SEZ. This could limit losses outside the local value chain and ensure greater profits for the local producers and service suppliers to create additional jobs. There is also the trendy issue of geographical identification, i.e. the branding of products from the region; assisting with trade fairs and the marketing of local products, etc.

Significant opportunity exists in the Cape Metro for the establishment of SEZs and to strengthen local value chains. The Metro has been impacted heavily by the economic recession in 2009 and its aftermath. Particular economic areas such as Durbanville, Bellville and Cape Town should not be overlooked for incentives and support. Local manufacturing value chains need to be integrated into larger global and African value chains to promote sustainable industry and take advantage of the fast-growing African market.

Two SEZ case studies were investigated in the current report, i.e. in the health and the renewable energy sectors. Cape Town is ideally suited to medical tourism and incentives provided to tour operators to cater for medical tourists could potentially increase tourism spend in Cape Town. Catering for medical tourists may require specialised training, facilities and transport. Local support for such training and incentives could be provided to upgrade existing infrastructure for tour operators and in terms of accommodation. Furthermore, sustainable development of the Atlantis SEZ will require successful integration of local manufacturers into the global and African regional value chain. Social upliftment programmes should accompany economic upgrading of the SEZ. Significant potential exists for skills development as a

spin-off to the upstream activities into the green economy and the technology value chains.

4. Infrastructure expenditure and revenue analysis

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihoods but also aids in the creation of jobs during development and maintenance and by improving the competitiveness of firms. This chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the Cape Metro.

Despite being the oldest City in the country, the Cape Metro has made significant progress in basic services delivery. Over the period 2008/09 to 2013/14 basic services infrastructure investment has grown at an average rate of 12 per cent per annum. However, the region still faces challenges in basic services delivery due to high population increases and ageing overburdened infrastructure. Since 2010, the Cape Metro has evidently been accelerating investment in housing and electricity infrastructure. In comparison to other non-metro districts in the Western Cape the Metro's electricity and water sector have recorded remarkable growth. The decrease in the growth rate of the electricity sector over the period 2010 - 2013 is a reflection of the current infrastructure challenges in the sector and the impact these infrastructure challenges have on economic growth.

The bottom line is that ageing infrastructure cannot continue supporting a growing economy. It is important that municipal budgets prioritise basic services infrastructure investments. Municipalities must do more to exploit the potential of these revenue sources. Revenue increasing strategies include minimising water and electricity losses, accurate billing, expansion of service delivery and debt collection strategies.

5. Socio-economic profile

The fact that the Cape Metro Human Development Index (HDI) increased between 2001 and 2012 is an indication that economic growth is being translated towards social development within the region. As noted above, the Cape Metro economy has grown by 3.4 per cent on average over the past decade, which exceeded the population growth in the Cape Metro. Increasing real per capita income levels in the region imply that standards of living have improved. However, the high levels of inequality indicate that this is not equally shared among households.

Large discrepancies exist between population growth rates across the Province, implying that population growth does not only stem from natural causes, but is also related to net migration. This may be an area of future research, with the focus being placed on migration patterns and the distinction between local, national and foreign in- or out migrators, and the implications for the non-migratory local labour force.

Despite improvements in the matric pass rate and literacy rate, a large section of the Cape Metro's workforce remains employed within the semi- and unskilled and informal sectors of the economy. Given the trend towards employing skilled to highly skilled individuals – even in the construction and manufacturing sectors – skills development is required in order to further stimulate employment in the region.

In the health department, the prevalence of HIV and TB in the region has contributed toward a reduction in the life expectancy of the inhabitants of the Cape Metro. The deteriorating tendency has stabilised since the country-wide roll-out of anti-retroviral treatment in 2007 - 2008. Unfortunately the social ill of crime has escalated, which constrains economic growth and development in the region. Generally, the access to basic services is high in the Cape Metro; however, further improvement is difficult in view of the challenges of keeping up with demand for access to services in a growing city. The trends nevertheless indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the inhabitants of the Cape Metro, there are challenges that remain. The complex problem of high inequality is one such challenge. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the aforementioned issues may facilitate economic and social development and thus a greater quality of life in the region.

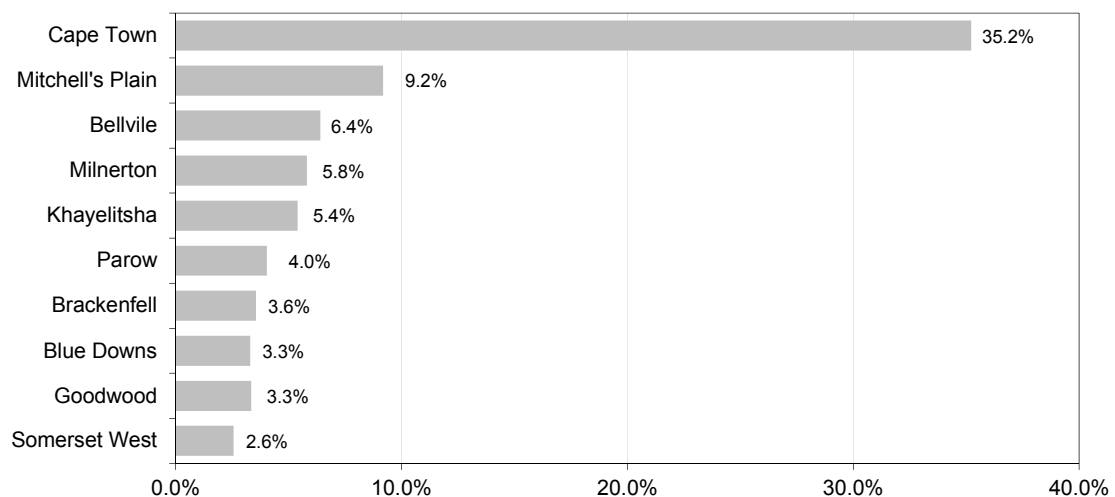
1

Cape Metro regional economic outlook

1.1 Introduction

The City of Cape Town Metropolitan Municipality (Cape Metro) contributed 73 per cent to provincial GDP and 66 per cent to employment (i.e. 1 094 754 workers) in 2013. Of the 46 areas within the Cape Metro¹, only 20 of them account for 95 per cent of the Cape Metro's GDP, with Cape Town CBD adding a disproportionately large 35 per cent to average GDP between 2005 and 2013 (see Figure 1.1).

Figure 1.1 Municipal contributions to Cape Metro GDP: Average 2005 - 2013



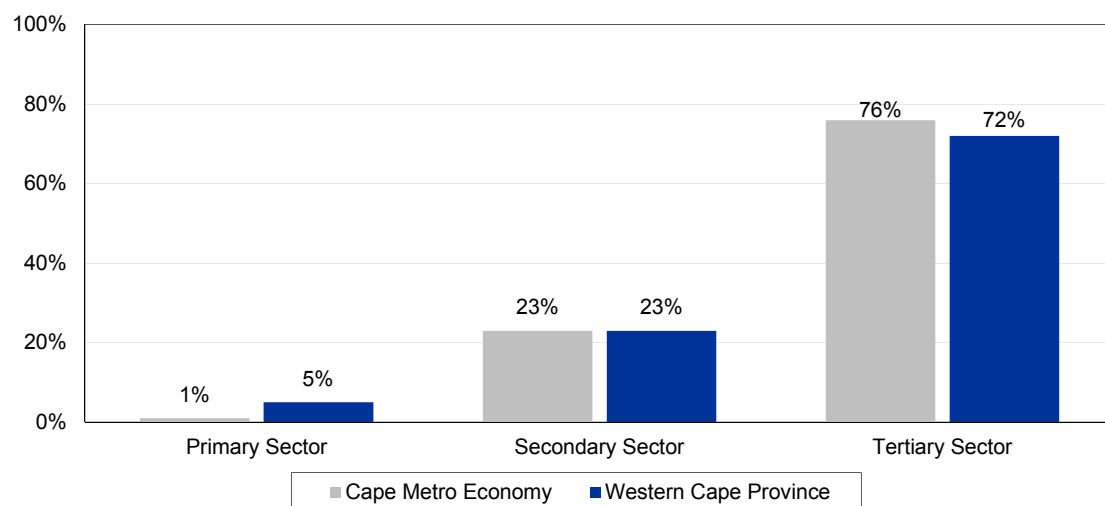
Source: Quantec Research, Own calculations

¹ These 46 areas refer to the previous municipal demarcations applying during the 2006 local government elections. While dated, this is the way in which the regional data is currently classified and available. A new dataset will be available soon.

The Cape Metro's sectoral contributions were found to largely resemble those of the Western Cape Province. Figure 1.2 below shows that the tertiary sector has been the key driver of economic performance within the metropolitan municipality. A similar sectoral composition is found within the 46 areas of the Cape Metro.

Within both the Metro and the Province's tertiary sectors, wholesale and retail trade, catering and accommodation and finance, insurance, real estate and business services accounted for 67 per cent and 62 per cent of GDP in 2013, respectively. These industries also jointly contributed a total of 45 per cent to the Cape Metro's employment. This similarity is found in the Western Cape Province, where employment in the two sectors accounts for 41 per cent of total employment. The Cape Metro's manufacturing sector is also vital to its economy. In 2013, the sector not only accounted for 75 per cent of the secondary sector, but it also made up 16 per cent of the Metro's GDP. Having come down from a high of a 20 per cent contribution in 2000, manufacturing GDP has been sending signals of a shrinking sector. A similar trajectory is also present in the sector's contribution to labour, which declined from 19 per cent in 2000 to 13 per cent in 2013.

Figure 1.2 Cape Metro and Western Cape Province GDP sectoral contribution: Average 2000 - 2014



Source: Quantec Research, Own calculations

The next section of this chapter assesses historical and current performance from a GDP and net employment creation perspective. The bulk of the analysis will be biased towards the Cape Town area, as it contributes the most to the Metro.

1.2 Historical and current growth and employment trends

1.2.1 Cape Metro GDP performance and employment

Since 2000, provincial economic growth has exhibited similar patterns in both the Cape Metro and the Cape Town area (i.e. the CBD). That being said, the Western Cape Province and the Cape Metro have consistently outperformed the Cape Town CBD.

Table 1.1 indicates that during the economic expansion phase (2000 - 2007), the recession (2008 - 2009), and the recovery period (2010 - 2013), the Cape Town CBD underperformed the broader Cape Metro and the Province by an average of about 0.7 percentage points. While the Cape Town CBD grew by an average rate of 4.2 per cent during the expansion phase, the Cape Metro did so by a more aggressive 5 per cent per annum, coming in slightly above the Province's 4.9 per cent. As can be expected, growth in these three areas was damped by the 2008 - 2009 global recession. Although growth remained positive during this time, it deteriorated notably, with Cape Town CBD edging up by a weak 0.8 per cent while Cape Metro and provincial growth came in at 1.5 per cent and 1.4 per cent, respectively. During the 2010 - 2013 recovery period, the Cape Metro advanced at an average pace of 2.7 per cent, with the Province following closely behind with a 2.6 per cent average growth. Cape Town CBD recorded a corresponding 2 per cent per annum rebound. Discouragingly, these growth rates remain well below their respective GDPR trend growth rates, which emphasises the slow economic recovery.

Table 1.1 Cape Metro and Western Cape Province GDPR sectoral contribution: Average 2000 - 2013

Region	Real GDPR growth (ave yoy %)				Employment (net change)			
	Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Cape Town Area	2.8	4.2	0.8	2.0	-18 054	1 505	-7 484	-16 744
Cape Metro	3.4	5.0	1.5	2.7	51 306	107 122	-1 964	-970
Western Cape Province	3.4	4.9	1.4	2.6	25 152	128 301	-11 841	-10 468

Source: Quantec Research

From the period of economic expansion up to the recovery, the Cape Metro's labour market showed resilience and followed a pattern similar to that of the broader province. Table 1.1 shows that during the expansion period, the Metro created 107 122 jobs, i.e. 21 179 less jobs on a net basis than those created by the Province. During the 2008 - 2009 recession and the recovery period, both the Metro and the Province shed jobs on a net basis. Jobs lost in the Metro were significantly less than those lost at the broader provincial level.

1.2.2 GDPR performance and employment per sector

The Cape Metro's agriculture, forestry and fishing sector grew at the fastest average pace relative to the other sectors. Table 1.2 shows that the sector expanded by an average of 9 per cent between 2005 and 2013. The sector, however, accounts for a negligible 1.6 per cent of the Metro's GDPR. Looking at the sector's employment behaviour, a declining trend is identified since 2000, with the recovery period recording a net loss in jobs. Encouragingly, the sector created jobs on a net basis between 2005 and 2013. Going forward, however, higher employment costs have incentivised farmers to ramp up on mechanising their farming, which is likely to keep agricultural employment creation under pressure.

Table 1.2 Cape Metro: Broad sectoral growth and employment creation

Sector	Real GDP growth (ave yoy %)				Net employment (number)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	9.0	9.8	21.9	2.2	3 654	16 146	1 923	-1 451
Mining and quarrying	-0.2	0.4	-7.2	1.5	1 112	-503	48	-48
Manufacturing	2.3	3.6	-3.0	2.7	-40 465	-41 009	-20 229	-7 105
Electricity, gas and water	1.7	5.2	-1.4	1.0	1 048	2 521	-1 462	440
Construction	5.1	8.4	4.3	1.5	-21 983	-13 996	-6 752	-18 075
Wholesale and retail trade, catering and accommodation	3.4	5.5	-0.7	3.4	50 278	22 366	3 948	3 255
Transport, storage and communication	3.5	6.5	1.9	2.3	11 436	-1 167	5 517	6 888
Finance, insurance, real estate and business services	4.0	6.5	3.1	3.0	9 681	71 707	-7 005	17 042
Community, social and personal services	2.3	3.4	1.1	1.4	19 207	29 034	15 197	-4 462
General government	3.0	1.2	4.0	2.7	17 337	22 023	6 852	2 546
Total	3.4	5.0	1.5	2.7	51 306	107 122	-1 964	-970
Western Cape Province	3.4	4.9	1.4	2.6	25 152	128 301	-11 841	-10 468

Source: Quantec Research

The construction sector also exhibited higher growth rates relative to the broader Cape Metro during the expansion phase (8.4 per cent per annum) and the recession period (4.3 per cent). The corresponding employment data, however, shows an unexpected declining tendency. Since 2000, the sector has been shedding jobs (see Table 1.2)². Since the sector's impressive growth during the expansion period, growth has been relatively weaker taking employment down with it. A similar pattern was detected in the manufacturing sector, although the manufacturing growth has been consistently below that of the Cape Metro.

As already mentioned in the earlier section of this chapter, the finance, insurance, real estate and business services and wholesale and retail trade, catering and accommodation sectors accounted for 67 per cent of Cape Metro's GDP in 2013. With such influence, the above-average growth rates within these two sectors have managed to prop up the overall Cape Metro economy. During the expansion period, finance, insurance, real estate and business services grew by an average of 6.5 per cent, while wholesale and retail trade, catering and accommodation recorded 5.5 per cent, both surpassing the Metro's 5 per cent. It is worth noting that this expansion phase was also marked with increases in nationwide credit extension and

² The divergent trend between the growth of the construction sector and the decline in employment is problematic. Informed opinion suggests that mechanization is a strong element, albeit unlikely that this is the full explanation. Another issue is the question of labour broking. A construction worker employed via a labour broking agency is registered as 'other business services' employment by Stats SA. This implies that business services employment is being overstated whilst construction employment is being understated.

high business and consumer confidence, which all added to the momentum in finance, insurance, real estate and business services, as well as wholesale and retail trade, catering and accommodation. While finance, insurance, real estate and business services (3.1 per cent) remained ahead of the Metro (1.5 per cent) during the recession, wholesale and retail trade, catering and accommodation contracted by 0.7 per cent – on the back of slower domestic demand.

Encouragingly, the recovery period has seen both sectors coming back above the Cape Metro (see Table 1.2). These two sectors also present an interesting picture on employment. While finance, insurance, real estate and business services added the highest number of jobs during the expansion period (71 707), the wholesale and retail trade, catering and accommodation sector has on a net basis only added positively to the Metro's job market since 2000.

In all, the Cape Metro economy has demonstrated some resilience, both in its GDP growth rates and job market. Since 2000, the Metro's economic growth not only managed to hover above that of the Province, but the Metro also managed to create nearly double the number of jobs created at the provincial level.

1.3 District economic outlook

Having grown by 1.8 per cent in 2013 and by an estimated 1.9 per cent in 2014, the Cape Metro's economy is expected to expand by another 1.8 per cent in 2015. Going forward, growth is expected to continue on a steady upward trajectory. The expected average growth between 2015 and 2020, however, is likely to come in at 2.6 per cent, which remains below the historical 2005 - 2013 trend growth rate of 3.4 per cent. This implies a modest recovery. Worth mentioning, is also the fact that the 2015 - 2020 forecast is a downward revision compared to the 3 per cent expected growth for the 2014 - 2019 period last year. This is in line with the downward revision of the global, national and provincial economic outlooks.

Table 1.3 Cape Metro: Real GDP forecast by broad sector: 2015 - 2020

Sector	Forecast (%)						Forecast (%) 2015 - 2020
	2015	2016	2017	2018	2019	2020	
Agriculture, forestry and fishing	2.3	2.6	3.1	2.9	3.0	3.1	2.8
Mining and quarrying	2.4	2.2	2.2	2.0	2.5	2.7	2.3
Manufacturing	0.7	1.9	2.1	2.2	2.5	2.5	2.0
Electricity, gas and water	-0.7	2.0	2.0	2.1	2.7	3.0	1.8
Construction	2.6	2.1	4.0	4.2	4.1	4.3	3.6
Wholesale and retail trade, catering and accommodation	1.3	1.8	2.7	2.9	3.4	3.3	2.6
Transport, storage and communication	2.0	2.0	3.5	3.6	3.7	3.7	3.1
Finance, insurance, real estate and business services	2.8	2.4	3.3	3.3	3.5	3.8	3.2
Community, social and personal services	0.7	1.1	1.9	2.0	1.9	1.9	1.6
General government	0.8	0.7	1.4	1.3	1.5	1.5	1.2
Total	1.8	1.9	2.8	2.9	3.1	3.2	2.6

Source: Quantec Research

Table 1.3 shows that the tertiary sector is likely to retain its position as the key driver for economic growth. Throughout the forecast period, construction, wholesale and retail trade, catering and accommodation and finance, insurance, real estate and business services are expected to yield growth rates above that of the Cape Metro. While growth in the transport, storage and communication sector will be off to a relatively slower start, it is expected to accelerate from 2017.

The average growth in construction is expected to be 3.6 per cent during the forecast period. This growth is likely to come from provincial government's allocated budget towards infrastructure spending and development. According to its latest Budget, the provincial government has allocated about R3.6 billion and R3.9 billion towards city infrastructure for the 2014 - 2015 and 2015 - 2016 fiscal years, respectively. While these funds are expected to primarily fund repairs and maintenance initiatives within transport and roads as well as utility services, it is expected that they will create jobs within the lives of their associated projects. Regarding other construction statistics, Stats SA reported an increase of 31 per cent in the number of building plans passed during the first six months of 2015, compared to the same period last year. Although this momentum could ease slightly especially in the face of weak consumer and business confidence, the expectation is that it will pick up in the medium to long term. The expected positive spillover effects into the wholesale and retail trade, catering and accommodation and finance, insurance, real estate and business services sectors are likely to add to their expected 2.6 per cent and 3.2 per cent respective forecasted average growth rates.

Over and above repairs and maintenance, the City also aims to continue developing and expanding its roads network through Transport for Cape Town (TCT), which is the official transport authority tasked to facilitate road infrastructure upgrade and maintenance. Through this body, the City aims to ensure that *"... more than 85 per cent of the city's population is within 1 kilometer of a high quality transport system."* It is from this expansion in transport infrastructure that the transport and communications sector will begin to pick up from 2017 onwards, and record average growth of 3.1 per cent during the forecast period.

1.4 Concluding remarks

Although the Cape Metro's economy remains highly sensitive to global and national economic developments, it has proved to be robust. The region has received immense support from its strong tertiary sector, which has added greatly to both GDP and employment.

Going forward, growth will be under greater pressure. Similar to national and provincial growth, recovery in the Metro's economic activity will be tepid at 2.6 per cent (2015 - 2020), particularly when viewed in the context of its 3.4 per cent long term historical growth trend (2005 - 2013). The inability for the Metro to rise higher is largely a result of weakness in global and national growth, which are expected to come in at 3.5 per cent and 1.7 per cent, respectively in 2015. These growth outlook figures are the result of consistent downgrades, which have come on the back of

deteriorating economic conditions. Consequently, the Metro's outlook was also downgraded from 3 per cent (2014 - 2019) to 2.7 per cent (2015 - 2020).

In sum, future growth in the Cape Metro will likely stem mainly from the infrastructure development initiatives by the Western Cape Government, mainly within the transport, storage and accommodation sector. While these initiatives are initially expected to create work and increase activity within the construction sector, positive spillover effects are expected to be enjoyed by the trade and finance sectors. As these projects reach completion stage, the transport storage and accommodation sector is expected to begin growing at higher rates from 2017 onwards.

In the short term, however, broad based weakness in the global and national economies continues to limit sub-national growth. The weakness in the rand, which stems mainly on the back of the pending US monetary policy decision implementation and China's weakening economic growth, can be expected to increase the competitiveness of the district's manufacturing exports. From an import perspective, the relatively more expensive inbound goods and services create an opportunity for some import substitution where domestic producers could step in and serve local demand more economically. These benefits should be supportive to the Metro's growth.

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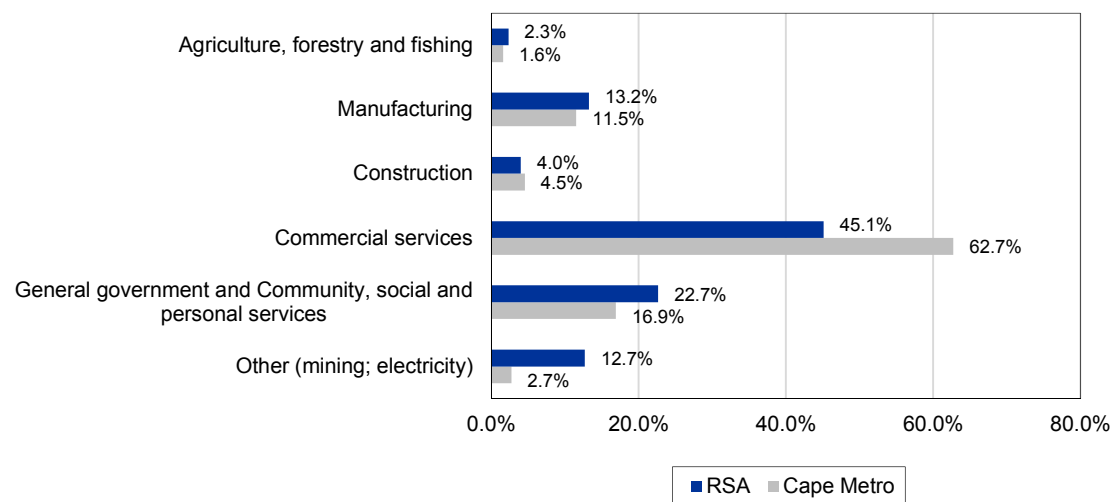
Sectoral growth, employment and skills

2.1 Introduction

The development of industries does not always evolve along the same patterns when compared to the wider economy. An investigation of the sector growth performances at the regional level can therefore be revealing. A combination of industry dynamics (ranging from factor endowments, scale economies to demand patterns, technological developments, etc.) and geographical economics determine the growth path of an industry (Capasso, et al, 2015: 5).

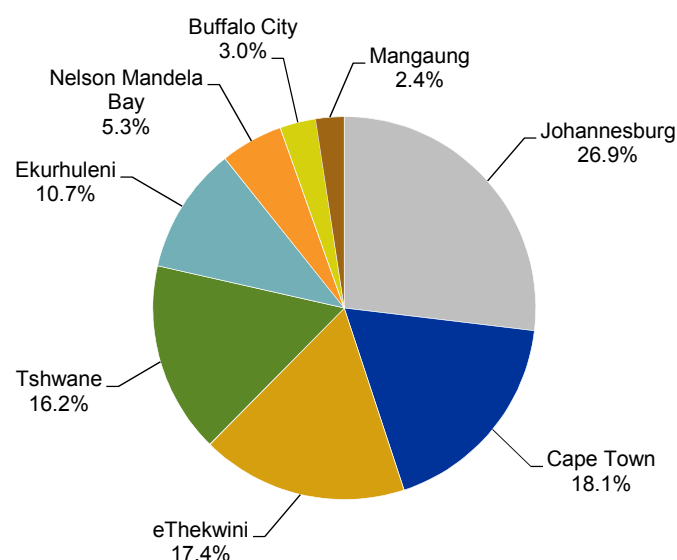
Table 1.1 and Table 1.2 highlight the broad sectoral growth rates of the Cape Metro regional economy, showing the change in employment levels and the real GDP growth rates over the past decade. Figure 2.1 shows the broad structure of the Cape Metropolitan economy in relation to that of the country. As the figure highlights, there appears to be broad correspondence between the structures of the Cape Metro economy and that of South Africa, with two key differences, i.e. the substantially larger relative share of the commercial services sector³ in the Cape Metro and the relatively smaller share of mining.

³ Commercial services are distinguished from the other two main tertiary sectors, i.e. the general government and community, social and personal services. It consists of a diverse range of tertiary economic activities, namely wholesale, retail, catering and accommodation services; transport and communication and the finance, insurance, real estate and business services sector. It needs to be pointed out that the personal services sector also contains some important commercial services; however, the data availability did not allow disaggregation.

Figure 2.1 Composition of the Cape Metro's GDPR compared to that of South Africa, 2013

Source: Quantec Research

The Cape Metro has a large commercial services sector, comprising 63 per cent of overall economic activity. This compares to 45 per cent on average in the country. The largest sub-sector in this aggregate is finance, insurance, real estate and business services, accounting for more than half of the commercial services sector. Finance, insurance, real estate and business services is one of the sectors in which the Cape Metro has a comparative advantage and it is a leading employer in the City.

Figure 2.2 Size distribution of SA's metropolitan economies (GDPR, 2013)

Source: EPIC, 1st Quarter 2015

Figure 2.2 shows the size of the Cape Metro's economy in relation to those of the other seven metropolitan economies in the country. Johannesburg is the largest (accounting for 27 per cent of the SA metros' aggregate GDPR) and Cape Town the second largest (18 per cent), similar in size compared to eThekweni. As the second largest city economy in the country, the Cape Metro accounted for no less than

73 per cent of the Western Cape's GDP in 2014, i.e. R338 billion of R462 billion; the Metro also employed close to two thirds of the Province's workforce, i.e. 1.25 million of the 1.9 million.

Being almost three quarters of the Western Cape economy, developments in the Metro mirror that of the broader Province. The recent and expected economic developments in the Province were discussed in Section A of the report. While the rate of growth of the Cape Metro has been in line with that of the wider Province, a notable feature of growth in the metro economy is an expanding manufacturing sector, which has shed a substantial number of workers over the past decade (and longer). Whereas agriculture, forestry and fishing has shed the most employment in the non-metro districts over the 2005 to 2013 period, in the Cape Metro it has been manufacturing. The construction sector also shed substantial employment after 2009. Furthermore, previous analyses revealed that the outperformance of the Cape Metro's services sectors, notably finance, insurance, real estate and business services, has narrowed significantly in the period after the 2009 recession. The following section investigates the economic growth and employment performances of the key economic areas within the Cape Metro.

2.2 Sectoral growth, employment trends and skills development per economic area

Table 2.1 shows the sector growth rates across seven of the Cape Metro's leading economic areas⁴. These economic areas accounted for 70 per cent of the Cape Metro's GDP and 65 per cent of employment in 2013. The fastest growth areas appears to be Mitchell's Plain (4.3 per cent per annum, 2005 - 2013) and Blue Downs/Kuils River (4.2 per cent), followed by Durbanville (3.8 per cent) and Milnerton (3.5 per cent). The growth of Cape Town, Bellville and the Parow/Goodwood/Elsies River area was significantly below the Metro's average. These areas are well established and there is likely to be less available space for more robust development. It should also be pointed out that Cape Town accounts for a third of the Metro's GDP (see Table 2.3), which implies that Cape Town's weighted contribution to growth is probably the largest by a wide margin⁵.

⁴ Included in the analysis are Cape Town (i.e. the Central Business District, CBD); Mitchell's Plain; Parow/Goodwood/Elsies River (PGE, analysed as one region); Bellville; Milnerton (including the Du Noon and Joe Slovo Park settlements); Blue Downs/Kuils River and Durbanville.

⁵ Of the 3.6 per cent annual growth of Cape Metro GDP (2005 - 2013), Cape Town contributed 1.2 percentage points and the second largest economic area, i.e. Mitchell's Plain, 0.3 percentage points.

Table 2.1 Cape Metro: Sectoral growth across seven economic areas, 2005 - 2013

Industry	Parow/ Goodwood/ Elsies River	Mitchell's Plain	Cape Town	Bellville	Milnerton	Blue Downs/ Kuils River	Durbanville	Cape Metro
Agriculture, forestry and fishing	9.2	11.2	9.2	7.9	11.0	10.7	6.8	9.7
Manufacturing	1.8	2.9	2.3	1.1	2.4	2.6	2.7	2.4
Construction	4.5	5.9	4.6	4.5	5.2	6.0	4.4	5.5
Commercial services	3.5	4.7	3.0	3.8	3.9	4.8	4.3	4.0
General government and Community, social and personal services	2.0	4.0	2.1	1.7	3.0	3.8	2.4	2.9
Other	0.8	2.5	1.1	0.4	1.0	2.0	0.9	1.5
Total	2.9	4.3	2.8	3.1	3.5	4.2	3.8	3.6

Source: Quantec Research, Own calculations

Table 2.2 Cape Metro: Sectoral employment creation across seven economic areas, 2005 - 2013

Industry	Parow/ Goodwood/ Elsies River	Mitchell's Plain	Cape Town	Bellville	Milnerton	Blue Downs/ Kuils River	Durbanville	Cape Metro
Agriculture, forestry and fishing	29	-60	-403	-18	369	277	-81	3 654
Manufacturing	-3 502	-6 120	-15 954	-1 811	-737	-2 819	-945	-40 465
Construction	-926	-3 111	-6 976	-590	-165	-1 292	-390	-21 983
Commercial services	7 296	12 074	6 542	976	3 809	6 546	-781	71 395
General government and Community, social and personal services	2 163	6 416	-1 738	-556	1 766	4 447	-483	36 545
Other	183	227	474	86	-9	137	17	2 161
Total	5 244	9 425	-18 054	-1 912	5 034	7 297	-2 665	51 306

Source: Quantec Research, Own calculations

Table 2.3 Regional GDPR composition of the Cape Metro industries, 2013⁶

Industry	Parow/ Goodwood/ Elsies River	Mitchell's Plain	Cape Town	Bellville	Milnerton	Blue Downs/ Kuils River	Durbanville	Cape Metro
Agriculture, forestry and fishing	4.5	12.7	17.8	3.1	4.4	4.6	1.9	100
Manufacturing	9.4	12.8	31.8	4.1	5.3	6.9	2.5	100
Construction	5.4	12.3	29.7	2.7	4.2	7.0	1.9	100
Commercial services	9.0	8.6	34.3	7.0	6.9	5.1	4.6	100
General government and Community, social and personal services	9.0	8.9	36.5	5.9	5.2	7.0	3.0	100
Other	7.8	8.1	23.1	6.8	8.2	6.4	2.8	100
Total	8.8	9.3	33.6	6.3	6.3	5.8	3.9	100

Source: Quantec Research, Own calculations

⁶ Included here are the seven economic areas being researched; the difference between the sum of the regional shares of each industry/sector (read horizontally) and 100 is the relative contribution of those economic areas not covered in the analysis.

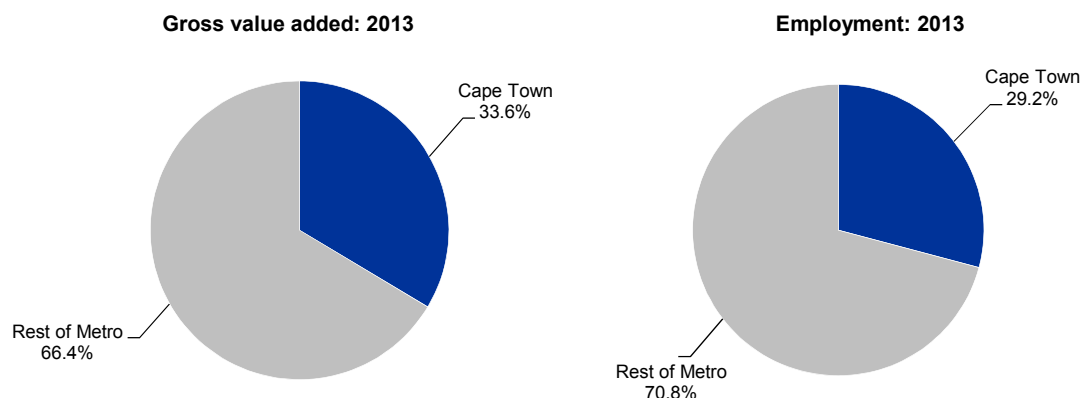
Considering the sectoral patterns of economic growth, Table 2.1 shows that the Mitchell's Plain and Blue Downs/Kuils River areas put in above-average growth in their commercial services, construction and manufacturing sectors, as well as the general government and community, social and personal services sectors⁷. Durbanville also registered above average growth in manufacturing. Unfortunately, the manufacturing sectors of all seven economic areas witnessed steep net job losses over the 2005 - 2013 period. Cape Town CBD accounts for 40 per cent of all the jobs shed on a net basis over this period in the manufacturing sector (Table 2.2). Cape Town (and Durbanville) also shed 'public sector' jobs. The Cape Metro construction sector is the other sector that experienced a high outflow of jobs, whilst the agriculture, forestry and fishing sector created employment on a net basis – this is different to the situation in the non-metro districts. The Metro's mainstay sector in terms of employment creation is commercial services; combined with the 'public sector' the Metro economy's tertiary sector accounts for the bulk of the net employment creation that occurred over the 2005 - 2013 period.

The sector development at the level of the Cape Metro's seven leading economic areas is considered in more detail in the following sections.

2.2.1 Cape Town Area

Figure 2.3 shows what is to be expected, namely that Cape Town CBD accounts for the largest share of the Metro's GDP and employment by a wide margin, i.e. one third; the share of employment is slightly less, namely 29 per cent. Cape Town contributed R105 billion of the R313 billion GDP generated in the Cape Metro during 2013. Cape Town has direct access to the second-busiest airport and container port in the country; it has a strategic positioning on the west coast of Africa and the scenic beauty and natural sights that have elevated Cape Town to one of the top global tourist attractions. The CBD (and wider Metro) also has extensive linkages to the non-metro district economies, particularly in its services industries.

Figure 2.3 Cape Town CBD share of Cape Metro gross value added and employment

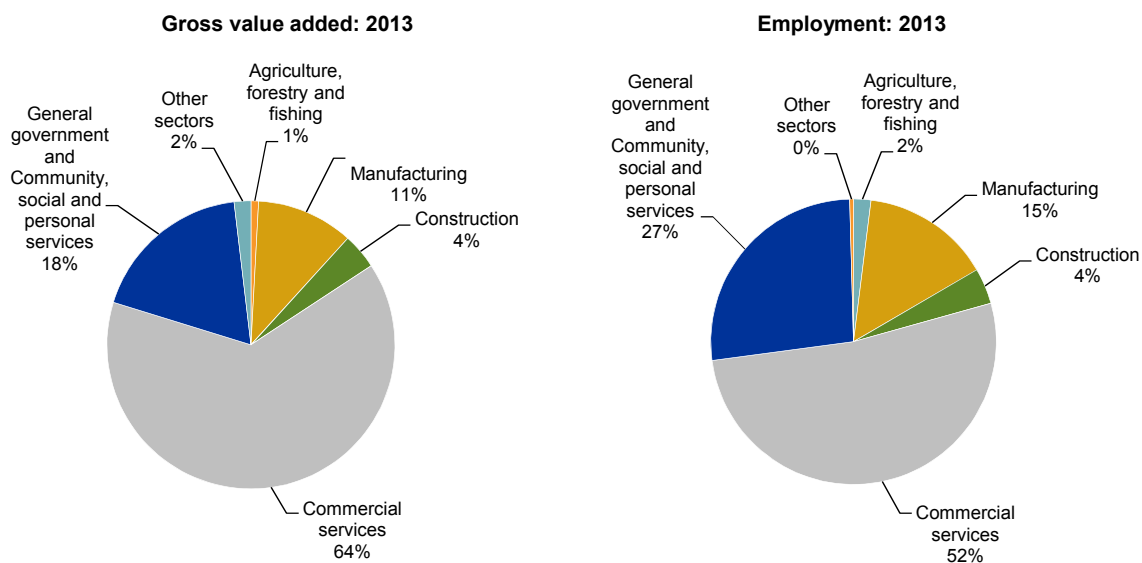


Source: Quantec Research, Own calculations

⁷ The high growth of the agricultural sector comes of a low base (agriculture accounts for 1.6 per cent of the Cape Metro's GDP). There may also be a data issue in the method used in estimating the sector's growth. More research is required.

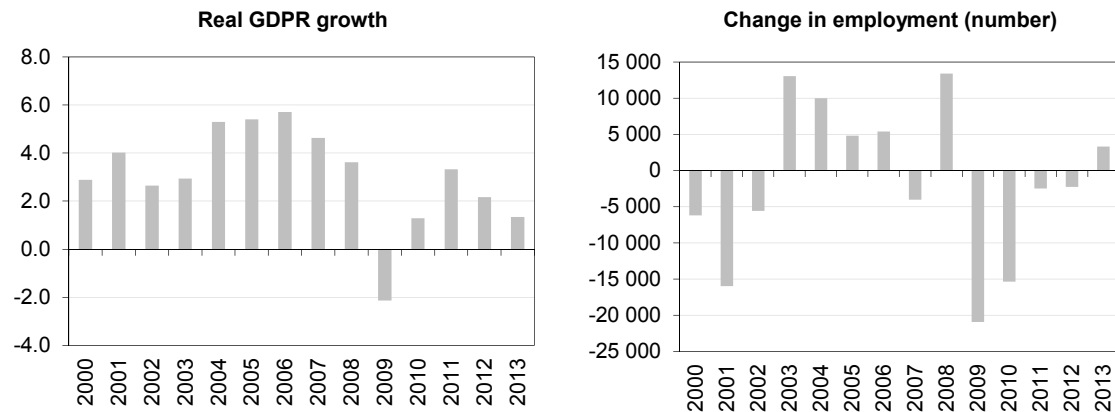
The services orientation of the Cape Town CBD economy is evident from Figure 2.4, with 82 per cent of economic activity comprising tertiary activities, i.e. commercial services (64 per cent) and the general government and community, social and personal services (18 per cent). The latter-mentioned sector is a large employer, accounting for 27 per cent of the CBD's workforce. The CBD has a relatively small manufacturing sector (compared to the other industries active in the City), but as Table 2.3 shows, the CBD hosts close to a third of all manufacturing activities in the wider Metro.

Figure 2.4 Cape Town CBD: Composition of gross value added and employment



Source: Quantec Research, Own calculations

Figure 2.5 and Table 2.4 show the growth and employment creation performances of the CBD. Real economic growth has tapered off noticeably after the 2009 recession and has averaged below that of the wider Cape Metro, coming in at 2.0 per cent per annum (2010 - 2013) versus 2.7 per cent per annum. Furthermore, the rate of retrenchments accelerated after 2009 (from -0.5 per cent per annum, 2005 - 2013, to -1.1 per cent per annum). What actually transpired is a heavy recession adverse impact on employment during 2009 - 2010, which did not recover in the period since - the net job losses slowed down and were marginally reversed in 2013. The general government and community, social and personal services sectors explain the largest part of these net job losses, followed by construction, manufacturing and - to a much lesser extent - agriculture, forestry and fishing. Manufacturing job losses were larger before the recession as a cumulative 13 600 jobs were shed in this sector over the period 2005 - 2009. Therefore, whilst the Metro's workforce remained stable overall after the recession, the fact that the CBD's workforce shrunk, implies the net employment creation occurred outside the CBD. Some of these economic areas are analysed below.

Figure 2.5 Cape Town CBD real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

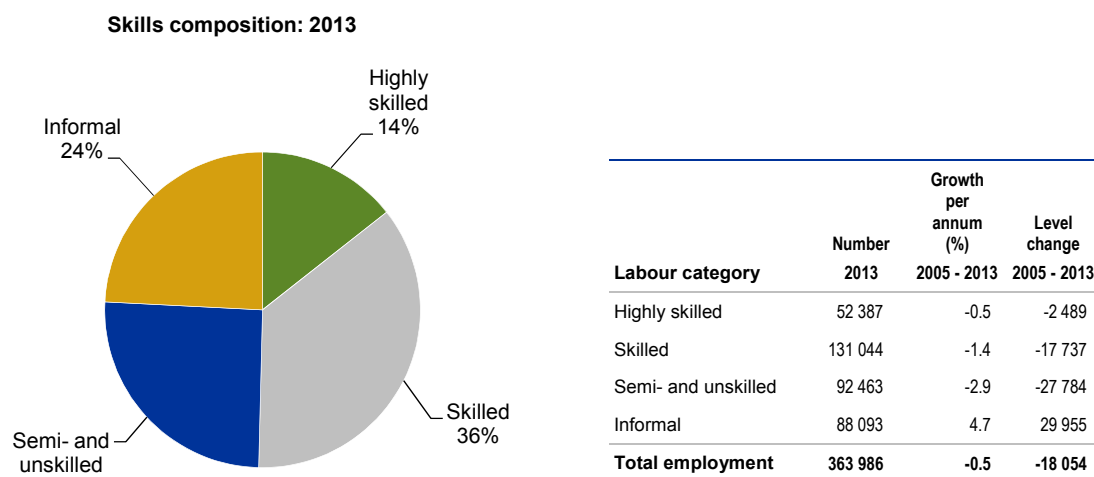
Table 2.4 Cape Town CBD gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	878	9.2	1.6	7 192	-0.1	-403	-1.0	-430
Manufacturing	11 430	2.3	2.9	53 167	-2.8	-15 954	-1.1	-2 343
Construction	4 213	4.6	1.2	14 845	-4.1	-6 976	-6.4	-4 564
Commercial services	67 178	3.0	2.0	190 173	0.4	6 542	0.0	189
General government and Community, social and personal services	19 271	2.1	1.5	97 036	-0.2	-1 738	-2.3	-9 626
Other sectors	1 960	1.1	1.0	1 573	5.1	474	1.3	30
Total City of Cape Town	104 931	2.8	2.0	363 986	-0.5	-18 054	-1.1	-16 744
Cape Metro	312 543	3.6	2.7	1 238 046	0.5	51 306	0	-970

Source: Quantec Research, Own calculations

Regarding skills development in the CBD, Figure 2.6 shows the skills composition of the workforce and the growth in the demand for the various labour skills categories.⁸

⁸ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi- and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Figure 2.6 Cape Town CBD workforce skills: 2013

Source: Quantec Research, Own calculations

The chart shows that the CBD employs a large pool of skilled and highly skilled workers, accounting for half of the workforce. However, a process of 'informalisation' of employment occurred. Across all three labour market segments net retrenchments occurred over the 2005 - 2013 period, with the annual rate of decline increasing from 0.5 per cent in respect of highly skilled labour, to 1.4 per cent in respect of skilled labour and 2.9 per cent in respect of semi- and unskilled labour. Against these retrenchments, informal sector employment grew by close to 5 per cent per year over the corresponding period. It should be noted that not all the labour necessarily shifted from the formal to the informal sector – some of the workers laid off may have remained unemployed and other entrants to the CBD labour market may have been absorbed in the informal sector. These labour demand patterns have major implications for the CBD's informal sector development strategy, as well as the planning of policy support to industry.

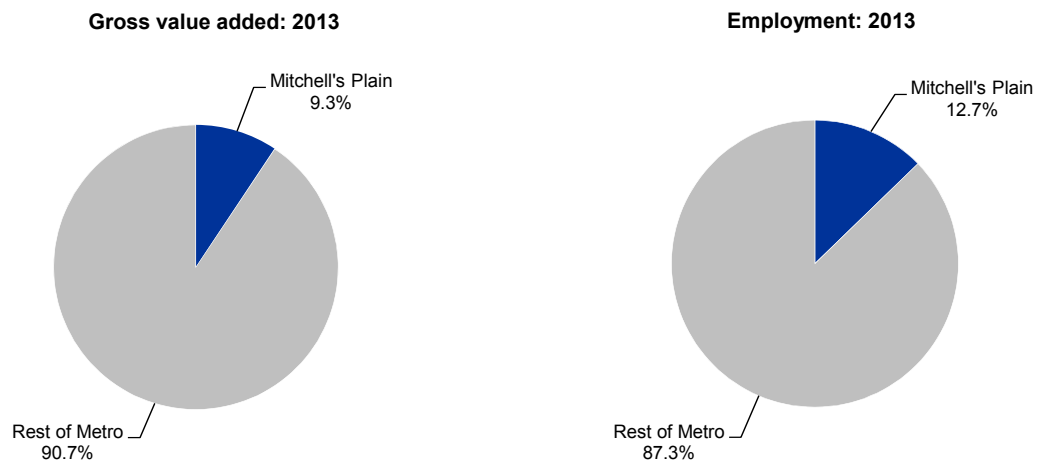
The focus now moves to the main economic areas beyond the CBD borders, but within the Metro.

2.2.2 Mitchell's Plain

Mitchell's Plain is the second largest contributor to the Cape Metro's GDP according to the data, accounting for 9.3 per cent of GDP and 12.7 per cent of employment in 2013. The area generated R29 billion of the R313 billion value added generated in the Metro in 2013.

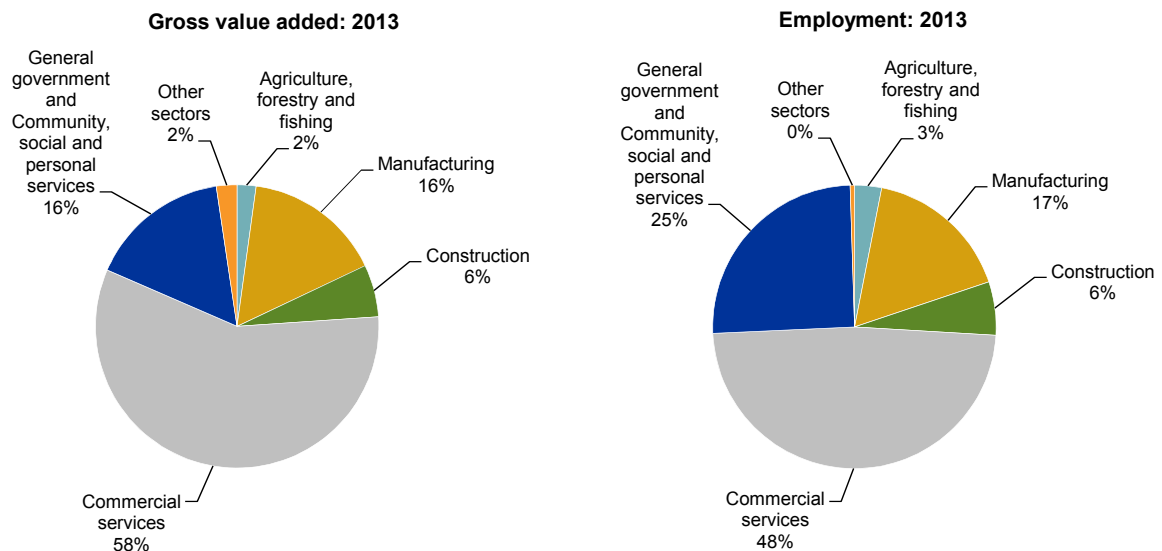
Regarding the industry structure of Mitchell's Plain, its services orientation is immediately evident, with three quarters of economic activity and employment in the tertiary sectors. Commercial services is the largest sector, generating 58 per cent of GDP and employing close to half of the workforce. The general government and community, social and personal services sectors employs one quarter of the workforce. It is also shown in Figure 2.8 that Mitchell's Plain has a relatively larger manufacturing sector as part of its economy, also being relatively labour intensive, with 17 per cent of the workforce being employed in this sector.

Figure 2.7 Mitchell's Plain share of Cape Metro gross value added and employment: 2013

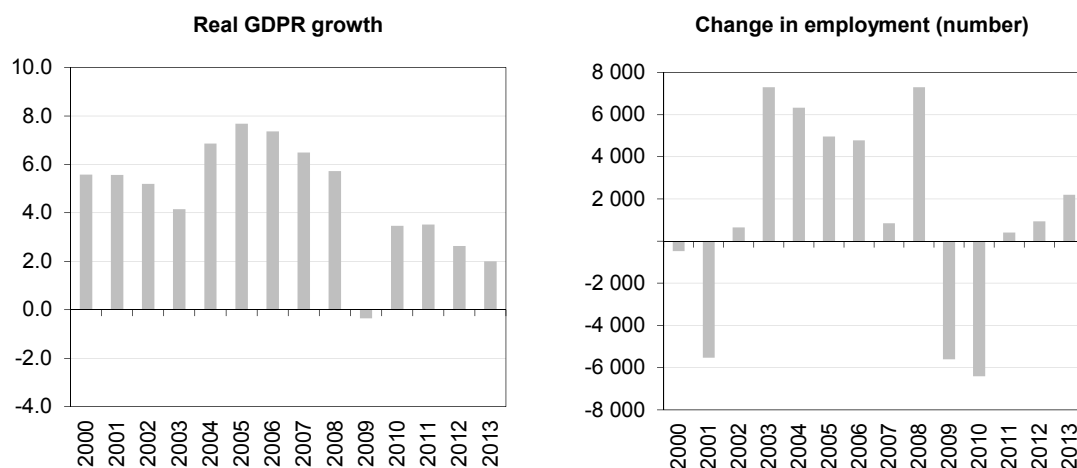


Source: Quantec Research, Own calculations

Figure 2.8 Mitchell's Plain: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.9 Mitchell's Plain real economic and employment growth: 2000 - 2013

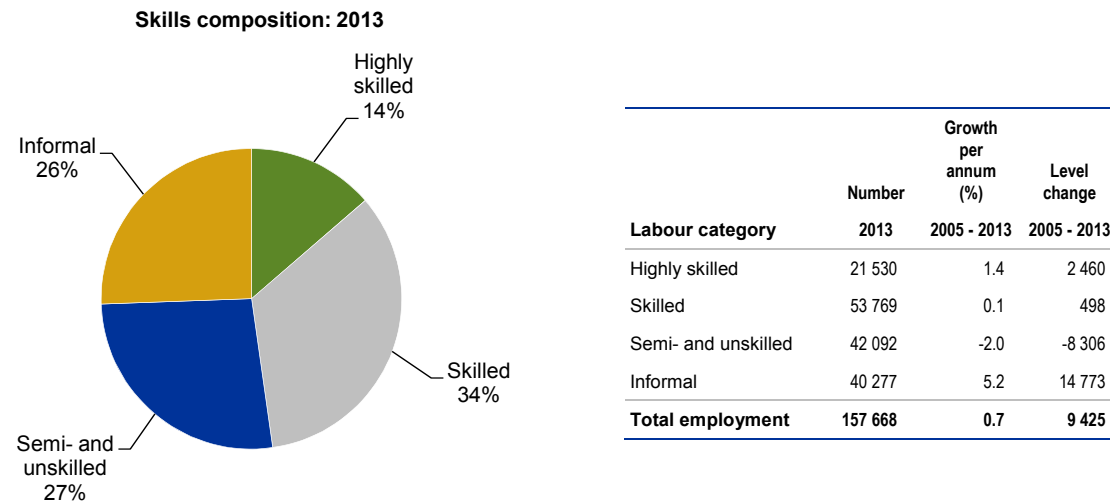
Source: Quantec Research, Own calculations

Considering the real economic growth and employment performance over the 2000s, Figure 2.9 shows how growth has tapered off over the 2010 - 2013 period compared to robust growth, particularly over the years, 2004 to 2008. Over this period employment creation was strong, being interrupted by the recession in 2009 - 2010. A recovery followed; however, by 2013 employment levels were not restored, showing a net loss of 2 869 jobs over the 2010 - 2013 period. Employment creation was positive before the recession, which explains the overall favourable trend, 2005 - 2013. As noted in the first section, being the economic area with the highest growth rate in the Metro (in terms of the areas covered in the analysis), growth was above average in most sectors. Manufacturing, for instance, expanded by 2.9 per cent per annum compared to the 2.4 per cent per annum performance of the wider Metro in this sector. Yet, despite this growth performance, employment in the sector was shed at a rate around 2.0 per cent per annum, both before and after the recession. The construction sector also shed a significant number of jobs. These net job losses were countered by the employment growth occurring in the tertiary sectors, mainly commercial services.

Table 2.5 Mitchell's Plain gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	630	11.2	4.6	4 867	0.5	-60	-2.8	-718
Manufacturing	4 614	2.9	1.8	26 453	-2.2	-6 120	-2.0	-2 226
Construction	1 740	5.9	1.6	9 572	-2.9	-3 111	-6.1	-2 792
Commercial services	16 830	4.7	3.4	76 182	2.0	12 074	0.9	2 577
General government and Community, social and personal services	4 711	4.0	3.3	39 838	2.0	6 416	0.2	280
Other sectors	688	2.5	1.8	755	4.9	227	0.8	11
Total Mitchell's Plain	29 213	4.3	2.9	157 668	0.7	9 425	-0.4	-2 869
Cape Metro	312 543	3.6	2.7	1 238 046	0.5	51 306	0	-970

Source: Quantec Research, Own calculations

Figure 2.10 Mitchell's Plain workforce skills: 2013

Source: Quantec Research, Own calculations

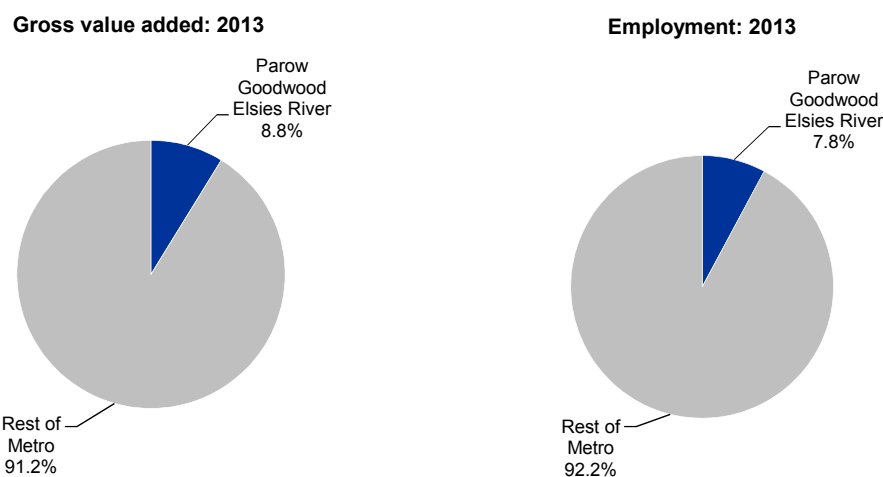
In terms of the demand for labour skills, the picture is more optimistic compared to the CBD experience. The skilled work force remained stable over the 2005 - 2013 period while the demand for highly skilled labour increased by 1.4 per cent per annum. Skilled labour accounted for more than a third of the Mitchell's Plain workforce. The retrenchments which occurred, happened to be in the semi- and unskilled sector, with demand for labour in this segment declining by 2.0 per cent per annum over the corresponding period. On the other hand, employment in the informal sector grew strongly by more than 5.0 per cent per annum, with this sector absorbing both unemployed workers and new entrants to the labour market it seems.

In all, the Mitchell's Plain economy has a slightly better spread of industries compared to the City and growth has been well dispersed across the main sectors. Furthermore, the area fared better in creating employment, albeit still worrying that an expanding manufacturing sector continued to shed jobs at a high rate. Most of these job losses are in the semi- and unskilled category and presumably end up being absorbed in the informal sector. Finally, the growth environment has become more challenging and positive employment growth has reversed into net lay-offs after the recession.

2.2.3 Parow/Goodwood/Elsies River

The Parow/Goodwood/Elsies River (PGE) area contributed close to 9 per cent of Cape Metro GDP and close to 8 per cent of employment in 2013. Its 9 per cent share in value added translates to R27 billion of the Cape Metro's R313 billion GDP in 2013. This is a well-established area in the Cape Metro and expansion possibilities may be limited; however, the analysis in Chapter 3 shows that output/employment ratios are high, reflecting high productivity industrial activity in the area.

Figure 2.11 Parow/Goodwood/Elsies River share of Cape Metro gross value added and employment: 2013

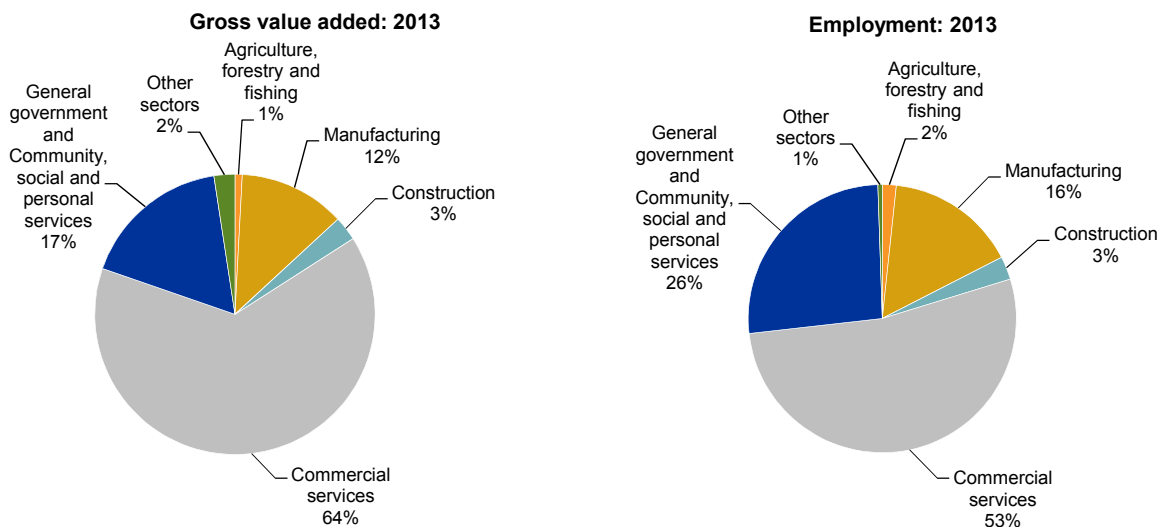


Source: Quantec Research, Own calculations

Regarding the Parow/Goodwood/Elsies River area's industry structure, GDP is also dominated by tertiary economic activities, with commercial services accounting for 64 per cent and employment 53 per cent of the total. The 'public sector' accounts for a further quarter of employment. The relative share of manufacturing is slightly bigger than that for the CBD, but smaller compared to that in Mitchell's Plain.

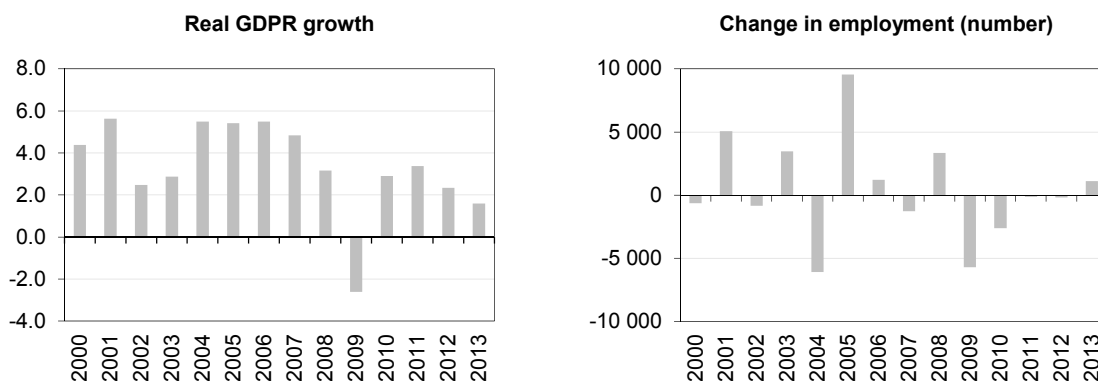
From a growth perspective, the area's expansion has been under pressure, with the average annual growth rate over the 2005 - 2013 period less than 3.0 per cent per annum (which compares with 3.6 per cent per annum in the wider Cape Metro). Whilst net employment creation has occurred over the period under investigation, this was marginal and it deteriorated after the recession in 2009, with employment shrinking by 0.5 per cent per annum, 2010 - 2013. The growth in manufacturing activity is well below average (1.8 per cent per annum) and the sector witnessed significant job losses.

Figure 2.12 Parow/Goodwood/Elsies River: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.13 Parow/Goodwood/Elsies River real economic and employment growth: 2000 - 2013



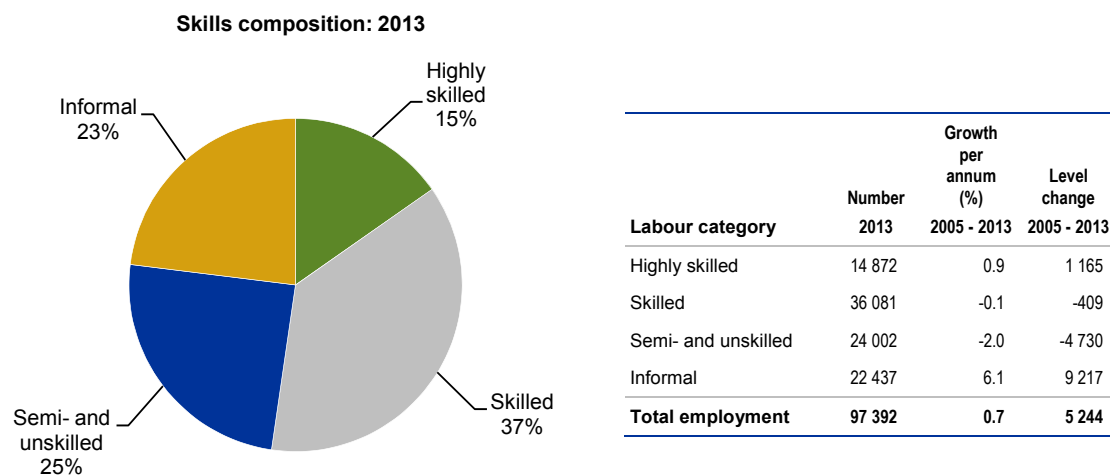
Source: Quantec Research, Own calculations

Table 2.6 Parow/Goodwood/Elsies River gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	224	9.2	1.2	1 657	0.7	29	-0.7	-79
Manufacturing	3 376	1.8	2.5	15 342	-2.2	-3 502	-1.2	-763
Construction	767	4.5	1.4	2 704	-3.0	-926	-6.2	-805
Commercial services	17 653	3.5	2.9	51 608	1.8	7 296	0.6	1 193
General government and Community, social and personal services	4 745	2.0	1.6	25 571	1.0	2163	-1.3	-1 419
Other sectors	658	0.8	0.6	510	6.1	183	1.7	23
Total Parow/Goodwood/Elsies River	27 423	2.9	2.6	97 392	0.7	5 244	-0.5	-1 850
Cape Metro	312 543	3.6	2.7	1 238 046	0.5	51 306	0	-970

Source: Quantec Research, Own calculations

The construction sector also shed jobs on a net basis, despite relatively high growth in GDP. The growth in commercial services was average; however, combined with the 'public sector' i.e. the general government and community, social and personal services activity accounts for the bulk of employment creation in the region. Employment in the 'public sector' did turn negative in the period after the recession.

Figure 2.14 Parow/Goodwood/Elsies River workforce skills: 2013

Source: Quantec Research, Own calculations

Regarding the demand for labour skills, Figure 2.14 shows that employment was being created at the top and the bottom ends of the market, i.e. demand for highly skilled labour increased by close to one per cent per annum, whilst the informal sector swelled substantially, expanding at a rate of 6 per cent per annum as it absorbed (some) semi- and unskilled workers losing their jobs, as well most likely some new entrants to the Parow/Goodwood/Elsies River labour market not able to find formal

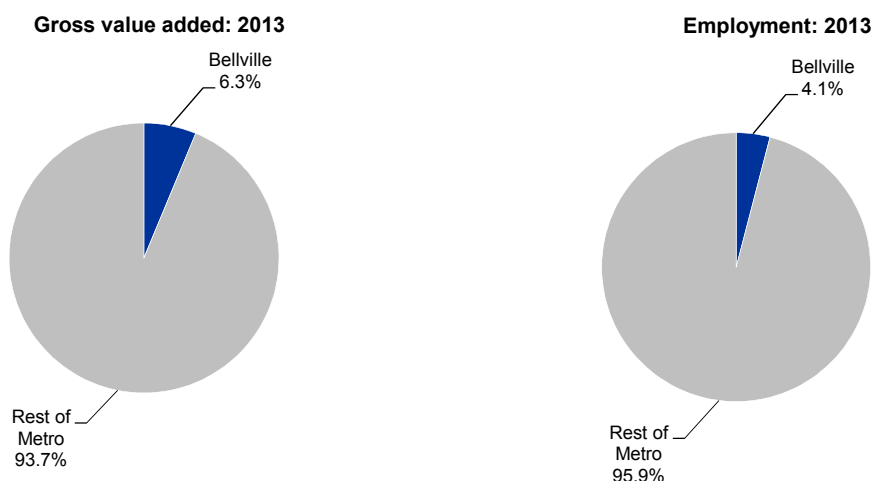
employment. The skilled work force remained stable, but demand for semi- and unskilled labour declined by 2.0 per cent per annum. These two categories are the largest, accounting for 37 per cent and 25 per cent respectively of the Parow/Goodwood/Elsies River workforce.

In all, in terms of structure, the Parow/Goodwood/Elsies River economy fits in between the CBD and Mitchell's Plain economies, with the relative size of commercial services smaller than the CBD but bigger than Mitchell's Plan and the relative size of manufacturing bigger than the CBD, but smaller compared to that of Mitchell's Plain. Growth has been under pressure, i.e. with commercial services expanding in line with the average and manufacturing below average. The manufacturing and construction sectors account for the bulk of employment losses and this was mainly in the semi- and unskilled category. Demand for skilled labour remained stable while that for highly skilled labour grew, which may indicate the presence of mechanisation and greater demand for skilled machine operators, for instance.

2.2.4 Bellville

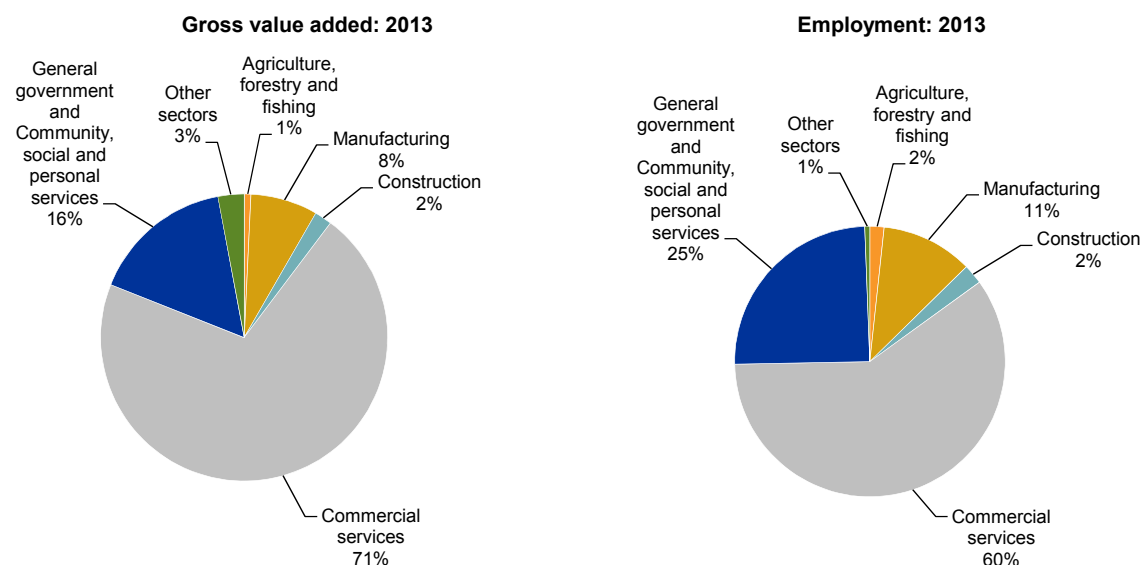
The Bellville economy contributes 6.3 per cent of the Cape Metro GDP and 4.1 per cent to regional employment. In 2013, this contribution amounted to R20 billion of the Cape Metro's R313 billion economy. Located in the northern suburbs, the Bellville economy is also well-established and it would appear that new expansion possibilities have reached a maturation point⁹.

Figure 2.15 Bellville share of Cape Metro gross value added and employment: 2013



Source: Quantec Research, Own calculations

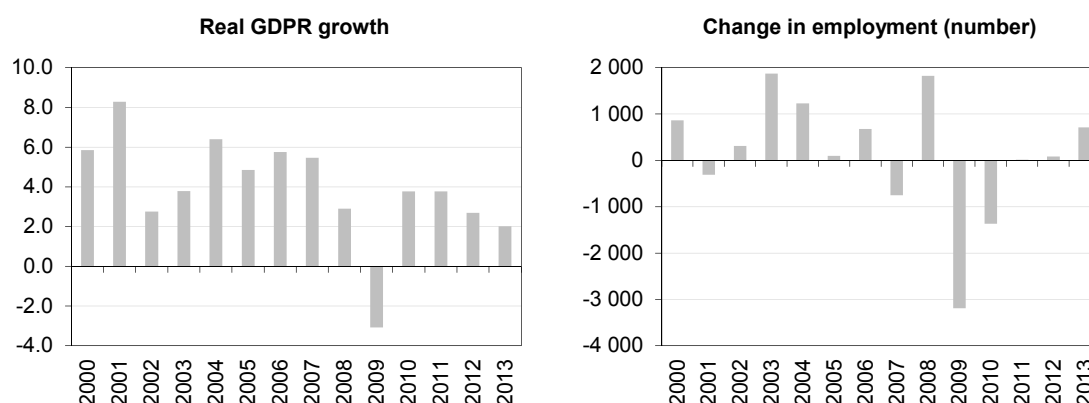
⁹ Ambitious plans are afoot to reverse the fortunes of the Bellville/Parow/Goodwood area. With the formation of the Greater Tygerberg Partnership (GTP) and the Voortrekker Road Corridor Improvement District (VRCID), these organisations plan to jointly do for this area what the Cape Town Partnership and City of Cape Town CID did for the CBD over the next 15 to 20 years – see section 2.4.1, page 36.

Figure 2.16 Bellville: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

The most notable feature regarding the structure of the Bellville economy, is the relative size of its tertiary sectors, accounting for no less than 87 per cent of GDP and 85 per cent of employment. The largest sector is commercial services accounting for 71 per cent and 60 per cent of GDP and employment in the area. The manufacturing sector is small and is being dwarfed by commercial services. Real economic growth averaged 3.1 per cent per annum over the 2005 - 2013 period, which is below-average. However, growth was sustained at this level after the recession.

Employment contracted gradually over the period at a rate of 0.4 per cent per annum (Figure 2.17). The bulk of the employment losses occurred in manufacturing and construction and, after the recession, also in the general government and community, social and personal services sectors. The growth of commercial services (3.8 per cent per annum, 2005 - 2013) was close to the average (4.0 per cent); however, manufacturing growth was under pressure, similar to the situation in the Parow/Goodwood/Elsies River area (Table 2.6 and Table 2.7).

Figure 2.17 Bellville real economic and employment growth: 2000 - 2013

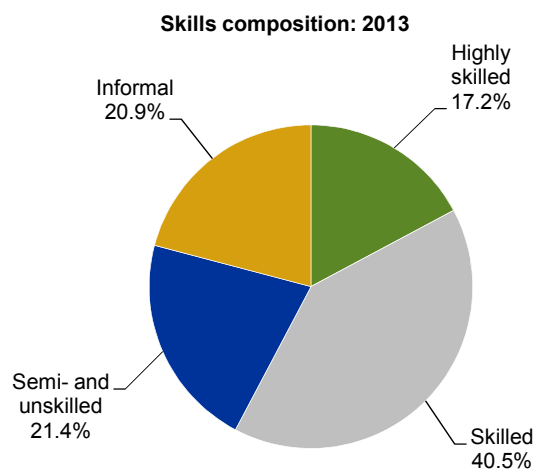
Source: Quantec Research, Own calculations

Table 2.7 Bellville gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	152	7.9	0.3	855	0.2	-18	-2.2	-90
Manufacturing	1 474	1.1	2.5	5 521	-3.0	-1 811	-0.8	-191
Construction	385	4.5	1.5	1 198	-4.2	-590	-6.1	-353
Commercial services	13 821	3.8	3.7	30 079	0.4	976	1.0	1 163
General government and Community, social and personal services	3 139	1.7	1.3	12 442	-0.5	-556	-2.1	-1 105
Other sectors	573	0.4	0.4	310	4.6	86	1.7	13
Total Bellville	19 544	3.1	3.1	50 405	-0.4	-1 912	-0.3	-562
Cape Metro	312 543	3.6	2.7	1 238 046	0.5	51 306	0	-970

Source: Quantec Research, Own calculations

Similar to the CBD, the Bellville economy witnessed employment losses in all three segments of the formal labour market. Demand for highly skilled labour contracted by 0.4 per cent per annum, that for skilled labour at 1.3 per cent per annum and semi- and unskilled labour by 2.8 per cent per annum. The workforce also comprises of a high share of skilled workers, i.e. 41 per cent. Including highly skilled workers, this accounts for 58 per cent of the total workforce. Compensating for the formal sector employment losses has been the growth in informal employment at a rate exceeding 5 per cent per annum over the period under investigation.

Figure 2.18 Bellville workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	8 667	-0.4	-308
Skilled	20 432	-1.3	-2 634
Semi- and unskilled	10 775	-2.8	-3 077
Informal	10 531	5.6	4 106
Total employment	50 405	-0.4	-1 912

Source: Quantec Research, Own calculations

In all, the Bellville economy reveals similar tendencies compared to the Parow/Goodwood/Elsies River area. Growth has also been under pressure and the industry structures correspond, except that Bellville hosts a relatively larger commercial services sector (refer to footnote 3) and a high skilled and skilled workforce.

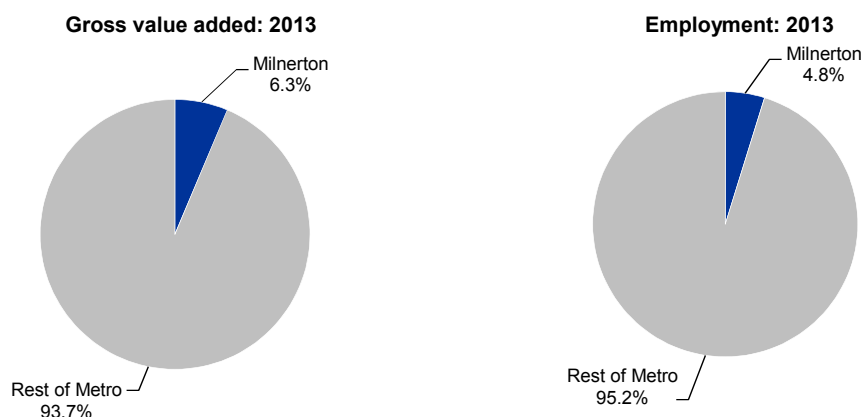
Furthermore, employment is being shed in the manufacturing and construction sectors, the bulk of which are semi- and unskilled employment. There has also been an outflow of skilled and highly skilled labour, which may reflect the pressures of low economic growth.

2.2.5 Milnerton

Milnerton (including the Du Noon and Joe Slovo Park settlements) contribute a similar share of the Cape Metro economy, i.e. 6.3 per cent of GDP and close to 5 per cent of employment. This contribution translates to R20 billion of the Cape Metro R313 billion value added in 2013. This economic area seems to host more expansion possibilities along the Montague Gardens axis.

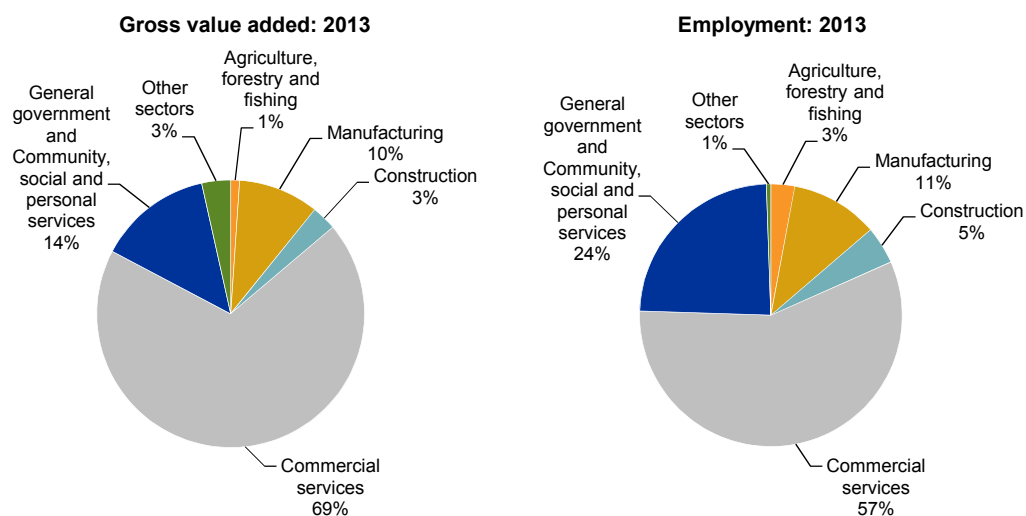
In terms of industry structure, suffice to say that it corresponds with that of the Bellville economy; the commercial services and general government and community, social and personal services sectors are only marginally smaller in relative terms, i.e. accounting for 83 and 81 per cent of GDP and employment respectively in 2013.

Figure 2.19 Milnerton share of Cape Metro gross value added and employment: 2013



Source: Quantec Research, Own calculations

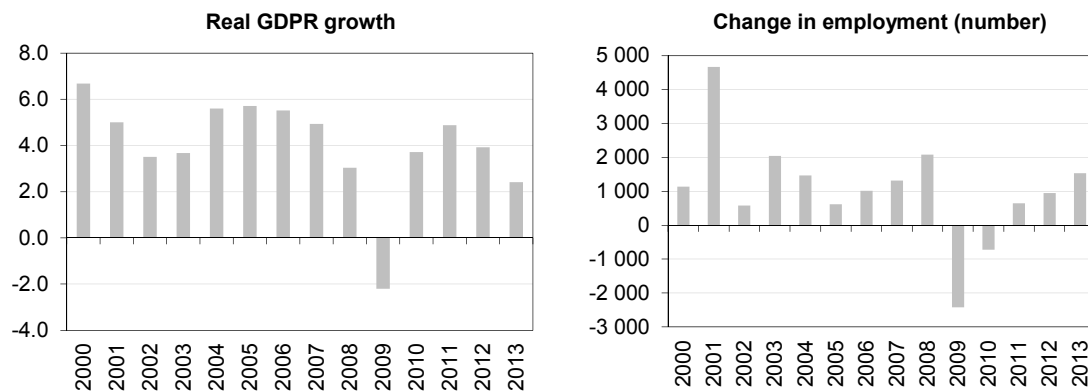
Figure 2.20 Milnerton: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.21 and Table 2.8 show the growth and employment creation performances of the Milnerton area. A refreshing indication is that growth, whilst in line with that of the Cape Metro (2005 - 2013), it actually accelerated after the recession. This area was impacted by the recession (contracting by 2.0 per cent in 2009); however, staged a relatively robust recovery, including a recovery in employment. A cumulative 2 408 net employment opportunities were created over the 2010 - 2013 period; real economic growth averaged 3.7 per cent per annum, well above that of the wider Cape Metro. Real GDP growth was average across most sectors (notably that of manufacturing, construction and commercial services); however, during the economic recovery period, manufacturing made a welcome and relatively robust contribution, expanding by 4.7 per cent per annum, 2010 - 2013. The net retrenchments of workers in this sector was also arrested during the economic recovery period.

Figure 2.21 Milnerton real economic and employment growth: 2000 - 2013

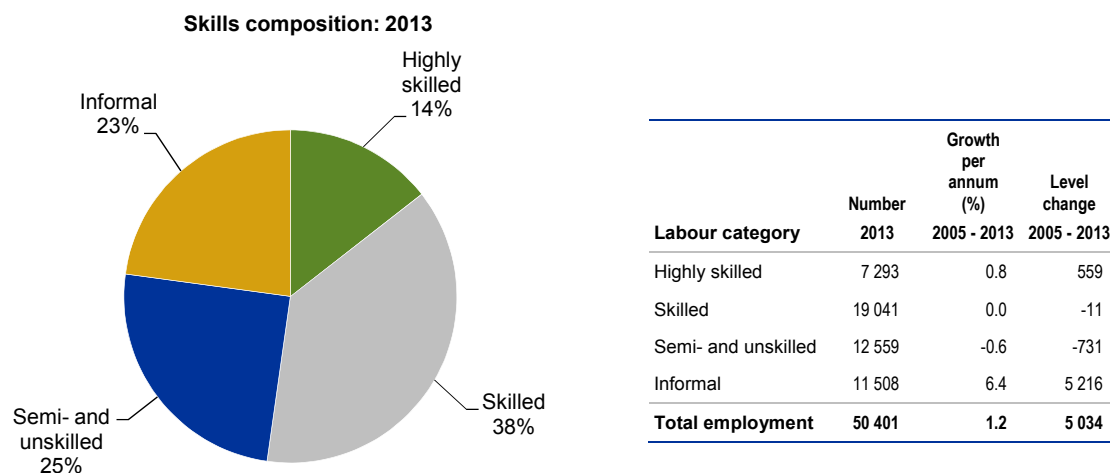


Source: Quantec Research, Own calculations

Table 2.8 Milnerton gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	216	11.0	3.8	1 477	3.8	369	3.6	172
Manufacturing	1 923	2.4	4.7	5 434	-1.3	-737	0.1	24
Construction	592	5.2	2.8	2 346	-0.7	-165	-1.4	-137
Commercial services	13 628	3.9	3.7	28 812	1.6	3 809	1.7	1 890
General government and Community, social and personal services	2 725	3.0	3.6	12 058	1.8	1 766	1.1	493
Other sectors	692	1.0	0.7	275	0.5	-9	-2.1	-33
Total Milnerton	19 775	3.5	3.7	50 401	1.2	5 034	1.2	2 408
Cape Metro	312 543	3.6	2.7	1 238 046	0.5	51 306	0	-970

Source: Quantec Research, Own calculations

Figure 2.22 Milnerton workforce skills: 2013

Source: Quantec Research, Own calculations

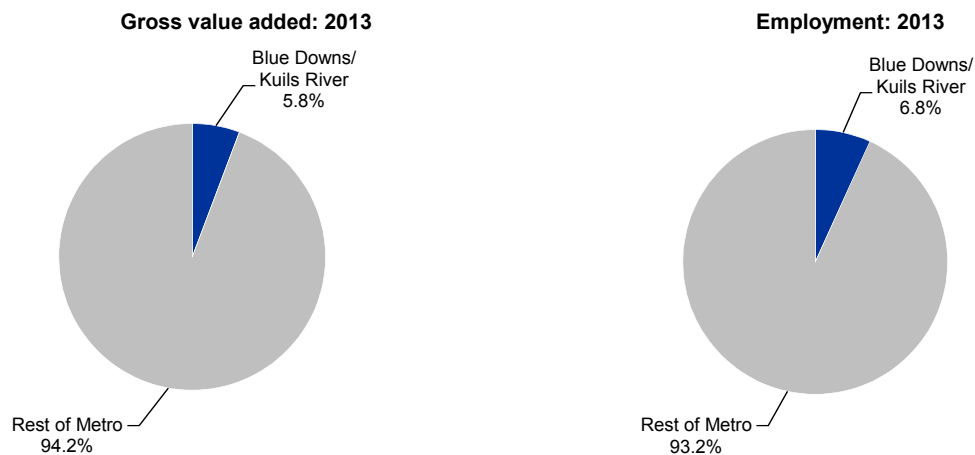
While the Milnerton area also experienced a sharp increase in its informal sector employment, a notable difference is the comparatively smaller net retrenchments of semi- and unskilled labour. This can be linked to the relatively stronger growth of the manufacturing sector. The highly skilled and skilled work forces remained relatively stable, with the former actually expanding by 0.8 per cent per annum, 2005 - 2013. These two labour market segments accounted for 53 per cent of the total work force.

In all, what stands out from the Milnerton economic performance, is relatively stronger growth after the recession, allowing for a full recovery by the end of 2013. The overall net employment tendency is positive and the region did not suffer a huge outflow of semi- and unskilled labour.

2.2.6 Blue Downs/Kuils River

The Blue Downs/Kuils River area (including the Blackheath industrial area) contributed close to 6 per cent of the Cape Metro GDP in 2013 and close to 7 per cent of employment. The economy of the region generated R18 billion of the R313 billion value added in the wider Cape Metro economy.

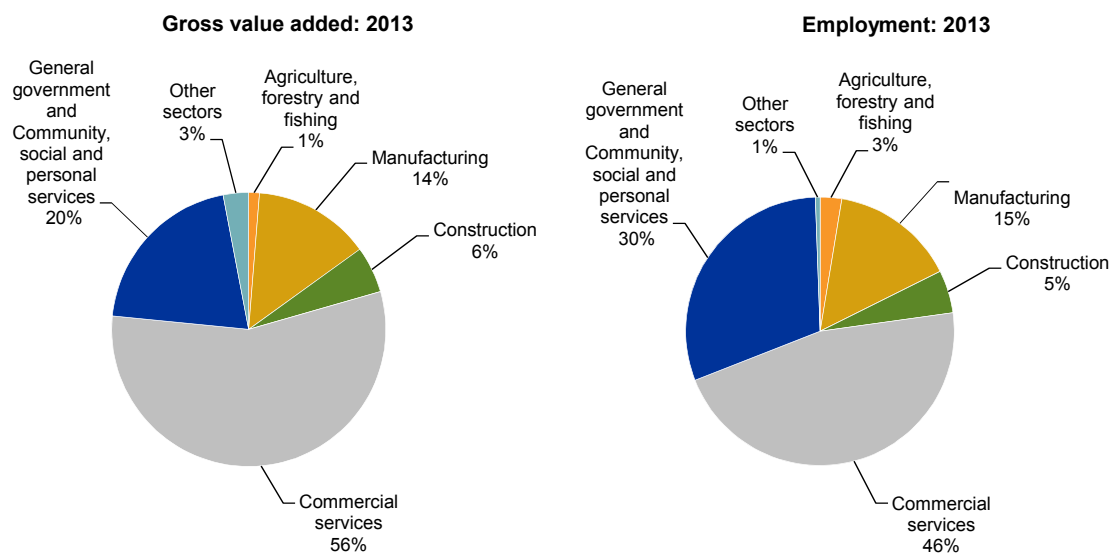
Figure 2.23 Blue Downs/Kuils River share of Cape Metro gross value added and employment: 2013



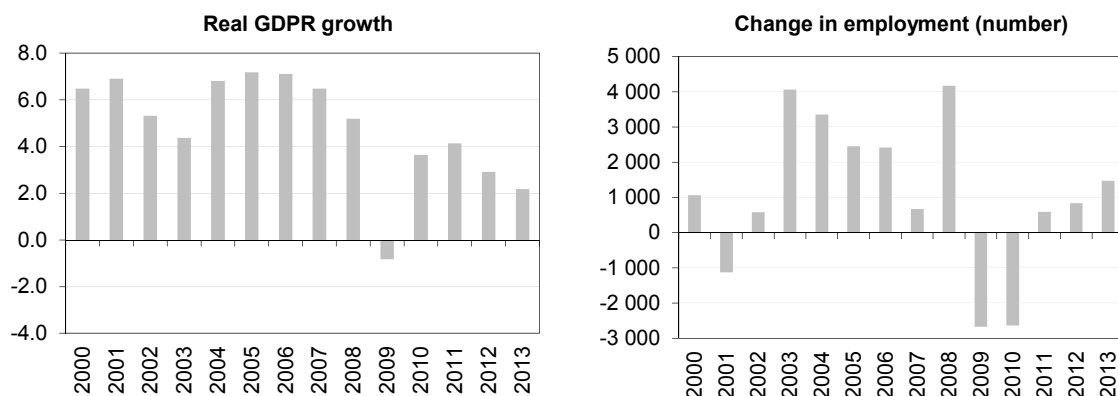
Source: Quantec Research, Own calculations

The structure of the economy differs from that of Bellville, Milnerton and Parow/Goodwood/Elsies River in that it has a larger manufacturing sector, contributing around 15 per cent of GDP and employment. Commercial services account for 56 per cent and 46 per cent of valued added and employment respectively, which is a slightly smaller share compared to the economic areas of Bellville, Milnerton and Parow/Goodwood/Elsies River. The general government and community, social and personal services sector share of employment is 30 per cent, which makes this a large sector in the area.

Figure 2.24 Blue Downs/Kuils River: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.25 Blue Downs/Kuils River real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

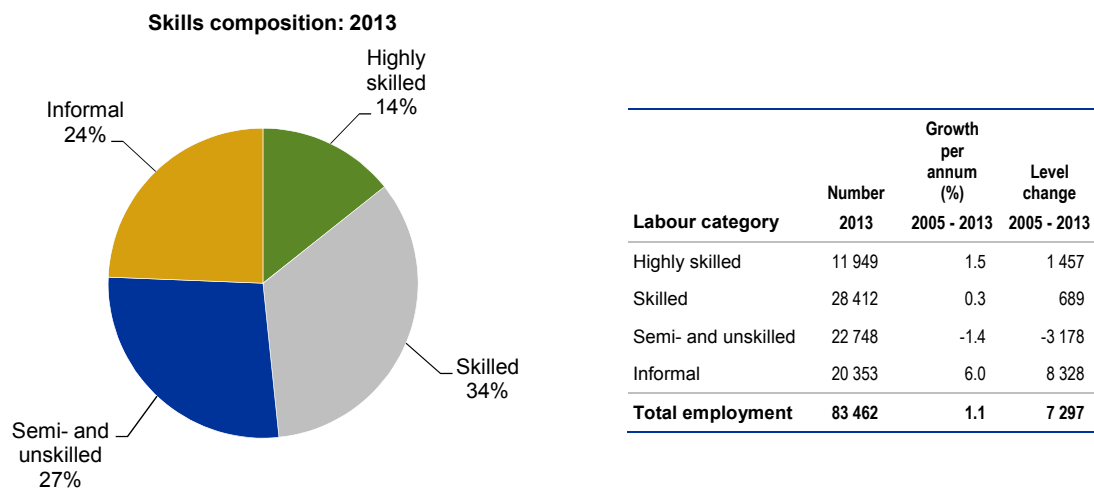
The Blue Downs/Kuils River area has shown phenomenal growth, with the real GDP growth rate averaging above 4.0 per cent over the 2005 - 2013 period. While it did taper down in the post-2009 period (to 3.2 per cent per annum, 2010 - 2013), in line with the rest of the Province, it remained well above the Cape Metro average (2.7 per cent per annum). The sectors contributing to the growth are construction, commercial services, manufacturing and the 'public sector', all growing above average over the 2005 - 2013 period.

The area was impacted by the recession as the economy contracted moderately; however, growth rebounded in 2010. The recovery in the construction sector has been weak and this sector shed substantial employment opportunities after 2009. Manufacturers in the area also continued shedding jobs at a relatively high rate after the recession. However the net job growth in the tertiary sectors was strong enough to counter these outflows and the area registered net employment creation over the 2005 - 2013 period. The recovery was also strong enough to generate net employment over the 2010 - 2013 period.

Table 2.9 Blue Downs/Kuils River gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	226	10.7	2.8	2 187	2.0	277	0.1	-24
Manufacturing	2 480	2.6	2.0	12 536	-2.2	-2 819	-1.9	-1 045
Construction	991	6.0	1.9	4 286	-2.7	-1 292	-5.8	-1 191
Commercial services	10 078	4.8	3.9	38 632	2.1	6 546	1.4	2 056
General government and Community, social and personal services	3 675	3.8	3.2	25 353	2.2	4 447	0.4	441
Other sectors	541	2.0	1.2	468	4.8	137	1.7	26
Total Blue Downs/Kuils River	17 991	4.2	3.2	83 462	1.1	7 297	0.1	263
Cape Metro	312 543	3.6	2.7	1 238 046	0.5	51 306	0	-970

Source: Quantec Research, Own calculations

Figure 2.26 Blue Downs/Kuils River workforce skills: 2013

Source: Quantec Research, Own calculations

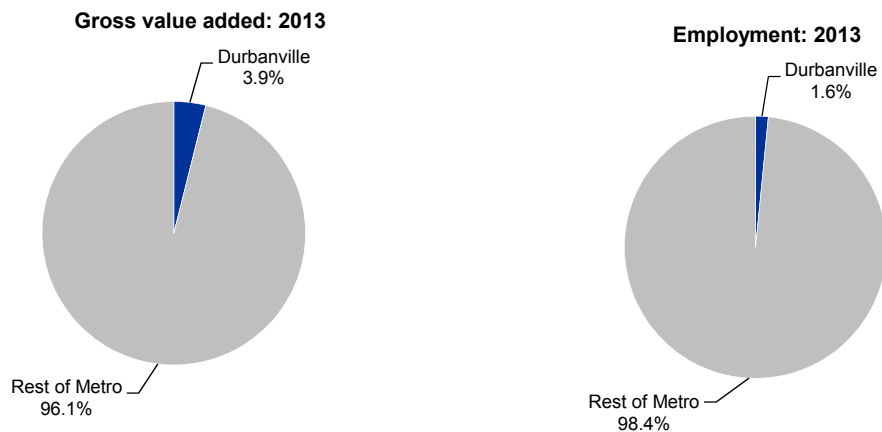
Regarding the demand for labour skills, the pattern is similar to the other economic areas, with this difference, namely that net employment creation was positive and the outflow of semi- and unskilled labour comparatively softer, i.e. at a rate of 1.4 per cent per annum. The demand for skilled (0.3 per cent per annum) and highly skilled labour (1.5 per cent) grew, but was insufficient to counter the net retrenchments in the semi- and unskilled category. This implies that the informal sector grew sharply – employment in this sector expanded at a high rate of 6 per cent per annum. Informal employment has grown to one quarter of the total.

In all, the Blue Downs/Kuils River economic area has shown relatively strong growth, both before and after the recession. Its industry structure is different to that of Bellville, Milnerton and Parow/Goodwood/Elsies River in that it hosts a bigger manufacturing industry and comparatively smaller commercial services sector. The area shares the strong growth in informal sector employment and the negative trend in semi- and unskilled employment, albeit slightly softer. It is evident that higher skilled labour is in greater demand and this is despite the larger presence of manufacturing. These labour demand patterns have important implications for the education and training of the labour force.

2.2.7 Durbanville

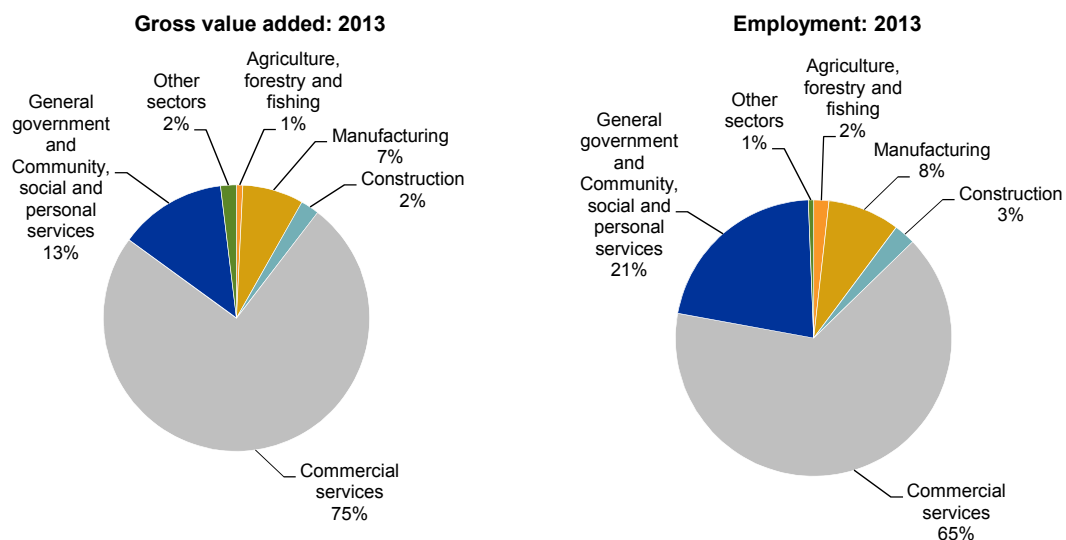
The Durbanville economy is relatively small, accounting for 3.9 per cent of GDP and only 1.6 per cent of employment in the Cape Metro. R12 billion of the Metro's R313 billion GDP was generated in the area in 2013. Located in the northern suburbs, it is a services oriented economic area.

Figure 2.27 Durbanville share of Cape Metro gross value added and employment: 2013



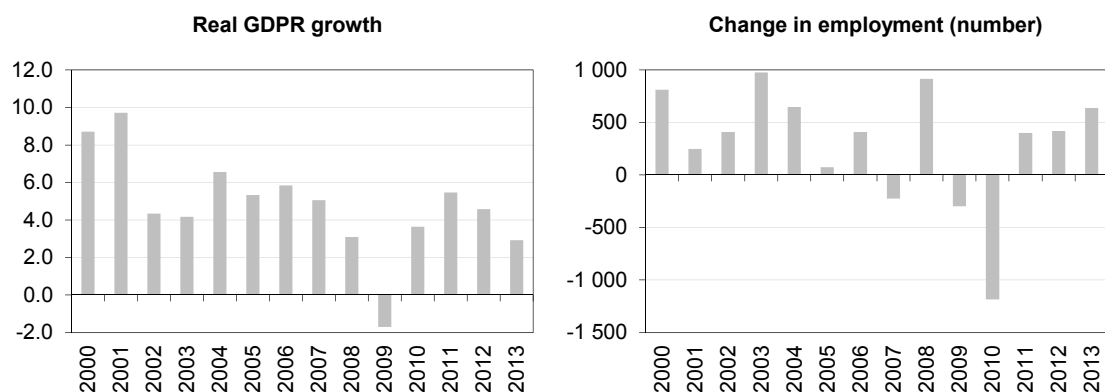
Source: Quantec Research, Own calculations

Figure 2.28 Durbanville: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.29 Durbanville real economic and employment growth: 2000 - 2013



Source: Quantec Research, Own calculations

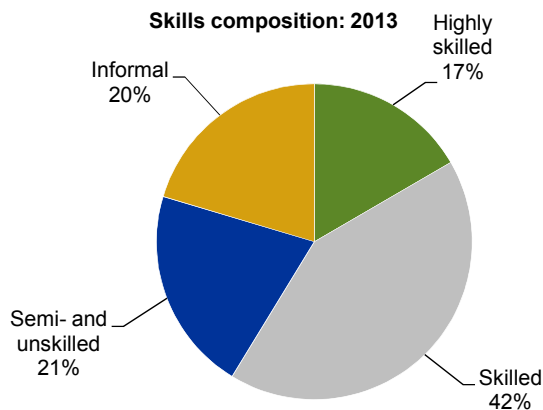
Table 2.10 Durbanville gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	95	6.8	0.6	406	-1.2	-70	-3.4	-70
Manufacturing	901	2.7	3.8	1 941	-2.7	-554	-2.6	-230
Construction	273	4.4	1.7	579	-3.9	-271	-8.2	-248
Commercial services	9 083	4.3	4.6	14 985	1.6	1 907	1.8	992
General government and Community, social and personal services	1 589	2.4	3.0	4 943	0.2	79	-0.8	-171
Other sectors	234	0.9	0.8	147	5.9	53	-0.1	-4
Total Durbanville	12 175	3.8	4.2	23 000	0.6	1 145	0.3	270
Cape Metro	312 543	3.6	2.7	1 238 046	0.5	51 306	0	-970

Source: Quantec Research, Own calculations

As Figure 2.28 shows, close to 90 per cent of the regional economy consists of tertiary economic activities – three quarters of value added is generated in commercial services and 13 per cent in the 'public sector'; in terms of employment these two broad sectors account for 64 per cent and 23 per cent of the total respectively. The manufacturing sector accounts for only 7 per cent of GDP and 8 per cent of employment.

The economic growth of the region has been above average, particularly after the recession in 2009. Growth has been driven by the area's large commercial services sector, expanding by 4.3 per cent per annum, i.e. higher than the average for the wider Metro (4.0 per cent per annum). It is interesting to note that the growth of this sector also accelerated after the recession, which is very different to the experience of the wider Cape Metro. This sector was also the only meaningful job creator over the period under consideration.

Figure 2.30 Durbanville workforce skills: 2013

Labour category	Number 2013	Growth per annum (%)	
		2005 - 2013	Level change 2005 - 2013
Highly skilled	3 823	0.7	239
Skilled	9 687	-0.1	-111
Semi- and unskilled	4 804	-2.0	-973
Informal	4 687	6.1	1 990
Total employment	23 000	0.6	1 145

Source: Quantec Research, Own calculations

Given the structure of the area's economy, it is to be expected that the highly skilled and skilled complements of the workforce will be relatively large. This is the case as these two labour categories account for 58 per cent of the total workforce. The skilled and highly skilled workforces also remained relatively stable over the 2005 - 2013 period. The demand for semi- and unskilled labour contracted at an average annual rate of 2 per cent, while the informal sector labour complement grew by slightly more than 6 per cent. The high growth of the informal sector suggests that many new labour market entrants are not able to find work in the formal sector.

In all, the Durbanville economy is relatively small in the Cape Metro, with commercial services dominating economic activities. The above-average and sustained growth of this sector also explains Durbanville's margin of economic outperformance. The area's industry structure is closer to that of Bellville, Milnerton and Parow/Goodwood/Elsies River; however, its tertiary sector is even larger in relative terms compared to these area economies. All economic areas witnessed a strong expansion of their informal economies though.

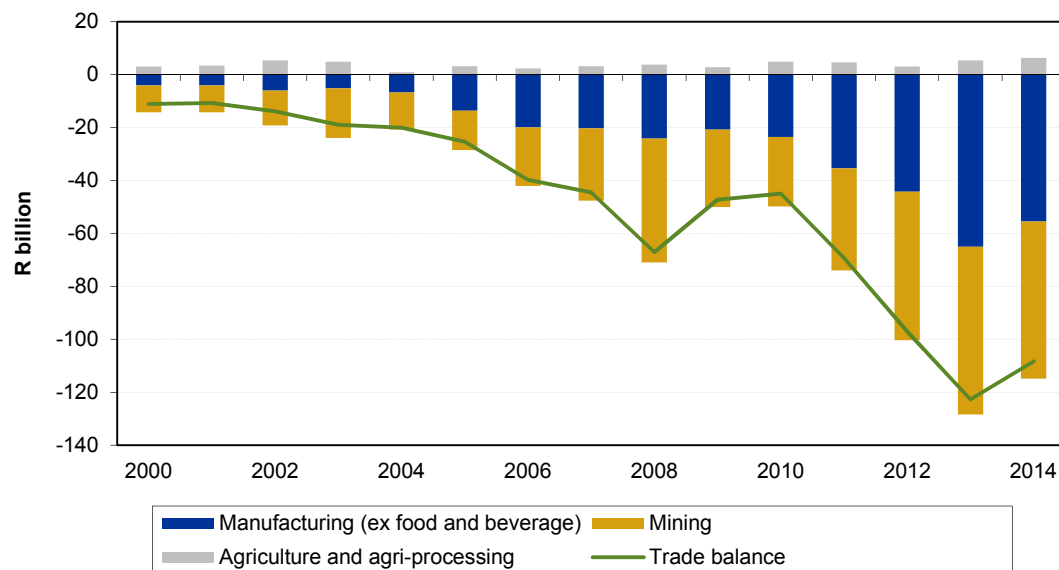
In the following section, the Cape Metro's international trade is briefly discussed.

2.3 International trade

The Cape Metro economy is an open regional economy. Excluding the lucrative trade in services these days, goods trade measured 76 per cent of GDP in 2014, i.e. goods exports 22 per cent and imports 54 per cent. As the oil refineries in the region import crude oil, this is a big ticket item in the region's import bill and also explains the structural deficit on the Cape Metro trade account (see the net mining imports in Figure 2.31).

Considering the latest data trends, it appears that exports are growing strongly, with its value jumping from a revised R47.9 billion in 2013 to R74.5 billion in 2014¹⁰. Individual product categories, which showed strong growth, include clothing and textiles, wood and paper products and non-metallic mineral products (including glass products). The whole spectrum of manufactured products actually showed healthy growth. The agriculture and processing sectors also sustained high growth from last year.

¹⁰ It should be noted that the trade figures are captured at the source of the agent (via postal codes), which can cause goods produced in areas outside the Cape Metro being classified as Cape Metro exports given the location of the Cape Town harbour. It follows that the export number may be overstated.

Figure 2.31 Cape Metro trade balance, 2000 - 2014

Source: Quantec Research

The export statistics show that the Western Cape is not so much exposed to the slowdown in the Chinese economy insofar as the region's mining exports are minimal (5 per cent of total goods exports). The economic recoveries in the USA and Euro area economies are benefiting exports from the Cape Metro and the wider province. Furthermore, exporters seeking new markets in the East may be able to grow by increasing market share, not being so dependent on the growth of the wider market.

On the import side, the most significant development has been the 3.3 per cent decline in mining imports, comprising mainly crude oil and petroleum product imports. The overall import bill continued to increase from R170.6 billion in 2013 to R182.8 billion in 2014 in nominal terms (i.e. by 7.1 per cent year-on-year). However, the decline in the oil import bill (in response to the sharply lower oil price since April 2014), as well as the general slowdown in goods import demand (in response to the slowdown in economic growth), explain a 0.5 per cent decline in overall goods imports in real terms. This is in line with the national experience. The real growth in imports of manufacturing goods tapered off from averaging 15.5 per cent per annum, 2010 - 2013, to 5 per cent in 2014.

In all, the combination of strong export growth in 2014 and the slowdown of imports (in turn, a result of slower economic growth in the region and the decline in the oil import bill) caused the goods trade balance to improve appreciably, from a deficit of R122.8 billion in 2013 to a deficit of R108.3 billion in 2014. The weakening of the rand exchange rate, the weakness in the domestic market and a sustained recovery in the world economy suggest the reversal of the deteriorating trade balance over recent years may be sustained next year.

The following section considers the economic outlook for the Cape Metro.

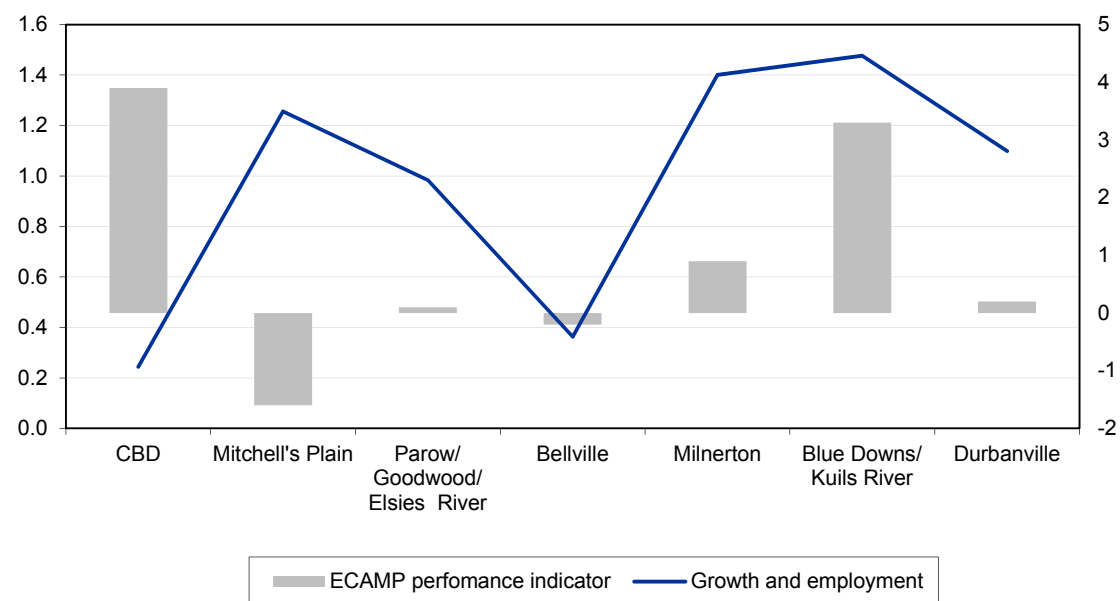
2.4 Sectoral prospects

2.4.1 Local issues

The City of Cape Town recently launched a web-based planning tool, namely the Economic Areas Management Programme (ECAMP). This is a detailed and comprehensive attempt to determine the growth performance and location potential of more than 60 business precincts across the face of the Metro area. More than 70 economic indicators are analysed and used to calculate performance measures making it possible to rate each economic area in terms of market performance and location potential.

Figure 2.32 shows the market performance indicator (i.e. the bars) for the seven economic areas investigated in the current MERO study, i.e. the City CBD; Mitchell's Plain, Parow/Goodwood/Elsies River; Bellville; Milnerton; Blue Downs/Kuils River and Durbanville. Correlated with these regional indicators is a make-shift index tracking the growth and employment creation performance of these areas (see footnote 11).

Figure 2.32 The economic performance of selected economic areas in the Cape Metro¹¹



Source: ECAMP, City of Cape Town/Quantec Research

¹¹ The ECAMP performance indicator is a composite indicator combining various economic performance parameters (such as buildings completed, building plans passed; indicators of rentals and vacancies and retail sales) in one index, its value for a particular area varying between -5 and 5. The higher the value, the higher growth potential for the specific area. On the secondary axis is a make-shift index calculated by weighing the (normalised) real GDP growth rate over the 2005 - 2013 period by a factor of 0.5 and (normalised) employment growth over the same period with the same weight.

The correlation is far from perfect. The first reason is that the boundaries of some of the regions do not necessarily agree between the two datasets (e.g. the ECAMP performance indicator does not track conditions in Elsies River, but is included in the MERO analysis). The following remarks are applicable:

- Whilst the CBD scores the highest in terms of market performance, its real economic growth and employment creation performance is less complementary. Growth may be understated and worker retrenchments (in construction and manufacturing) overstated. There may also be specific issues in the CBD such as the V&A waterfront developments driving the market performance indicator to a larger extent than captured in economic statistics. Suffice to conclude, the CBD is the most important economic area in the Metro, accounting for the largest share of GDP and employment creation by a wide margin. The City has important linkages with the outlying areas in the Metro and in the interior, for instance, acting as a processing, trade and retail hub for agricultural products produced in the non-metro districts.
- Another anomaly is the divergence in the indications of the two indicators regarding Mitchell's Plain and – to a lesser extent – Parow/Goodwood/Elsies River. It is possible that economic growth (and employment creation) is being overstated in these areas. The high growth of the Mitchell's Plain area according to economic statistics may not be a basis to project high growth in future. However, it should be pointed out that this area will benefit in the future as it is part of the Metro South East Corridor 'Integration Zone' identified in the City's Built Environment Performance Plan (BEPP)¹².
- The two regions where we find a good correlation between the two indicators are Blue Downs/Kuils River and – to a lesser extent – Milnerton. Prospects for these two regions may be more optimistic, particularly that of Blue Downs/Kuils River (including the Blackheath industrial area).
- Prospects for Durbanville are also positive, albeit possible that economic growth and employment creation is overstated in respect of this area in view of the level of the ECAMP market performance indicator.
- Finally, while the market performance indicator in respect of Bellville and Parow/Goodwood/Elsies River is uninspiring at the time of writing, ambitious private and public sector plans are afoot to reverse the fortunes of these areas over the next 15 to 20 years. In the public sector domain, the City of Cape Town's BEPP identified two so-called 'Integration Zones', namely the Voortrekker Road Corridor and the Metro South-East Corridor noted above. In the private sector, the Greater Tygerberg Project (GTP) and the Voortrekker Road Corridor Improvement District (VRCID) initiatives have been launched. The emphasis is on urban renewal, social

¹² The BEPP, first approved in 2014 and updated in June 2015, is a City of Cape Town Council approved compliance document, required by the National Treasury in order to access various national infrastructure grants. While the focus of the BEPP is wider, the identification and development of 'Integration Zones' has become an integral element. This is, combined with the City's other strategic plans, in compliance of the national policy objective to achieve more compact cities that are integrated, productive, inclusive, livable and sustainable (BEPP, June 2015: 12-13).

development, security and job creation by attracting businesses to locate here. In the words of the COO, Mr Bock (who cooperates with the GTP): *"The aim is to emulate the Cape Town Partnership's success in the Cape Town CBD: make it safer, improve urban management, attract investment and create jobs. The GTP plans to change Voortrekker Road's reputation, turning it into a 'boomburb' and commercial node of the Cape Town metropolitan area by 2040."*

In all, the Cape Metro's economy is dominated by the tertiary sector, with financial and business services being key. Whilst growth has slowed down, the City aims to attract multi-national head offices to locate in the City and in that way capture South African market share in an industry which has demonstrated international competitiveness. An updated comparative advantage analysis in a provincial context¹³ shows that the Cape Metro is the only Western Cape region with a competitive edge in commercial services, including finance and insurance and business services, transport and communication and trade and accommodation. South Africa is a global leader in financial reporting standards and its finance, insurance, real estate and business services sector is well positioned for future growth and Cape Town is looking to capture a major share of growth in this sector. Other important industries in driving economic growth in the Cape Metro include, Business Process Outsourcing (BPO), ICT, tourism, oil and gas processing, metals and engineering, and creative industries. The location ratio analysis also indicate a competitive edge in clothing and textiles, the automotive sector, the wood products and furniture value chain and petrochemicals. The City is very confident of the growth potential of the BPO and tourism industries over the next five years (Provincial Treasury Municipal Survey, August 2015).

However, the City highlights a serious constraint to growth – even in its mainstay financial and business services industries – namely that a *"gap ... is developing between the demands of a more sophisticated economy and the skills of the labour force"*. There is certainly another side to the economic prospects for the Cape Metro. The City points to the fact that close to half of its inhabitants live with a monthly income below R7 000. The above-inflation increases in municipal services rates is having a negative impact on volumes, which is eroding the revenue base. Increasing unemployment in the more difficult economic conditions and the mismatch in the labour market are exacerbating the financial pressures. The Cape Metro's basic services infrastructure spending and revenue trends are analysed further in Chapter 4.

The following section motivates a sector forecast for the Cape Metro.

¹³ Conducting the location ratio analysis at the provincial level shows which industries at the district level have a competitive edge in the comparative faster growing province in the country. As such the bar is raised somewhat for any specific industry to qualify. This may assist in explaining why the transport and wholesale and retail sectors did not make the grade. These sectors all came in with location ratios exceeding unity only with a small margin in 2011. It may also imply that these industries have lost some of their competitiveness since 2011.

2.4.2 Sector forecast: 2015 - 2020

Table 2.11 contains the Cape Metro sector forecast over the period 2015 - 2020. The five-year average growth rate across the 10 broad sectors in the region is shown and compared with the projected growth of the Western Cape economy. The average five-year real GDP growth rate has been revised downwards from 3.0 per cent per annum (2014 - 2019) to 2.6 per cent per annum (2015 - 2020), mainly due to the relatively more constrained macro-economic environment (as discussed in Section A of the report and Chapter 1).

In the first section of the report, the more constraining outlook for economic growth over the short to medium term was motivated. At the time of writing the national economy was on the verge of a recession and it is expected that general economic conditions will be under pressure over the short term. The medium-term forecast has also been scaled down.

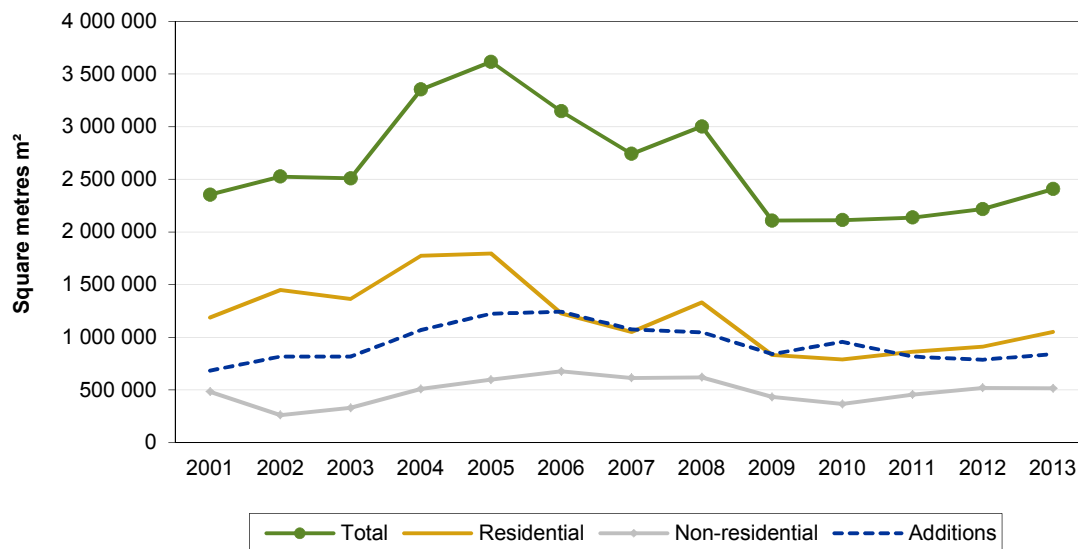
The commercial services sector has been the mainstay of the Cape Metro's economic growth and is also projected to remain the biggest contributor to growth; however, the weak domestic demand conditions are likely to catch up with this sector. The five-year forecast for the leading finance, insurance, real estate and business services sector, which is expected to slow down over the near term, has been trimmed from 3.5 per cent per annum (2014 - 2019) to 3.2 per cent per annum, 2015 - 2020. The export of services, such as BPO and call centre activity, and – most importantly – inward tourism, should remain a countervailing force given the competitive edge generated by the depreciation of the rand exchange rate. The new visa regulations regulating the inward movement of people are likely to exert a negative impact on the regional economy, both in terms of inward tourism and investment; however, it is hoped that the regulations will be revised. The latest tourism statistics already provide a flavour of the anticipated negative impact.

The construction sector is projected to grow above average, with a range of big-ticket construction projects underway and being planned (e.g. the Cape Town harbour expansion; the expansion of the CTICC; the V&A Waterfront investments; some large non-residential buildings in the office sector, etc.). These projects will be an important countervailing force in the sector, which may otherwise experience cyclical pressures over the short term. Figure 2.33 shows the total square meters of building plans completed in the Cape Metro per category, that is, residential, non-residential as well as additions and alterations¹⁴. Building plans completed have been trending upward between 2009 and 2013 although it remained lower than the peak of 3.6 million m² reached in 2005. Building plans completed were measured at 2.4 million m² in 2013. The graph shows that building plans completed for residential properties have been trending upward while a flat trend is observed for non-residential properties and the alterations of properties. It is likely that the tempo

¹⁴ The residential category includes dwelling houses, flats, townhouses and other residential buildings and tourism accommodation. The non-residential buildings include office and banking space and industrial warehouse space, schools, nursery schools, crèches and hospitals, churches, sport and recreation clubs and all other non-residential space. Additions and alterations include both residential and non-residential buildings.

picked up in 2014 in view of the latest information. As motivated in the provincial economic outlook, it appears that building activity is currently expanding at faster rates in the Western Cape than in the rest of the country. Considering building plans passed by the City, the total value stood at R17.9 billion in 2014, up from R8.7 billion in 2010, which reflects a remarkable rise since the 2010 FIFA World Cup. The City of Cape Town aims to improve the statutory timeframes of 30 - 60 days for the approval of building plans submitted.

Figure 2.33 Building plans completed – Cape Metro, 2001 - 2013



Source: Stats SA – Selected building plans passed by municipalities, 2001 - 2013

A number of manufacturing sectors are reporting higher goods exports, which is most encouraging in view of the ongoing efforts to revive this sector. Given the weaker level of the rand exchange rate, opportunities for import replacement are also arising, apart from export growth. This is the basis for the projection of sustained growth in the sector at a rate of 2.0 per cent per annum. This is below trend, but mainly the result of a generally more suppressed domestic market compared to last year's forecast.

The forecast for the agriculture, forestry and fishing sector, which is relatively small in the Cape Metro, has been upgraded as it is expected that the policy focus on agri-processing will generate backward linkage benefits for agricultural production, which otherwise and ultimately remains subject to climatic conditions.

Table 2.11 Cape Metro: Real economic growth outlook, 2015 - 2020

Sector	Real GDP (yoy %)				
	Trend	Recession	Recovery	Cape Metro	Western Cape
	2005 - 2014	2008 - 2009	2010 - 2014	2015 - 2020	2015 - 2020
Agriculture, forestry and fishing	9.0	21.9	2.2	2.8	2.3
Mining and quarrying	-0.2	-7.2	1.5	2.3	2.0
Manufacturing	2.3	-3.0	2.5	2.0	2.2
Electricity, gas and water	1.7	-1.4	1.1	1.8	1.8
Construction	5.1	4.3	1.5	3.6	3.7
Wholesale and retail trade, catering and accommodation	3.4	-0.7	3.1	2.6	2.7
Transport, storage and communication	3.5	1.9	2.2	3.1	3.2
Finance, insurance, real estate and business services	4.0	3.1	2.8	3.2	3.4
Community, social and personal services	2.3	1.1	1.5	1.6	1.7
General government	3.0	4.0	2.6	1.2	1.3
Total	3.4	1.5	2.5	2.6	2.7

Source: Quantec Research

In all, the Cape Metro is projected to expand by 2.6 per cent per annum over the 2015 - 2020 period, i.e. in line with the region's economic recovery experience and a notch below the Provincial projected growth rate of 2.7 per cent per annum.

2.5 Concluding remarks

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The Cape Town harbour and international airport, linking the City to the rest of the world via trade, investment and tourism, must be rated as two of the Metro's prime growth assets. The scenic beauty of the Table Mountain National Park and the surrounding areas and the economic links the City has with the non-metro districts are other growth factors. The City is also well-known for a range of niche industries, such as the crafts and design industry, the film industry and boat building.

The dominance of commercial services in the regional economy is likely to persist and remain a key driver of growth and employment creation. While the margin of outperformance vis-à-vis the rest of the country has shrunk after the 2009 recession, this remains the mainstay of economic activity, particularly, in the outer areas of Durbanville, Bellville and Milnerton. The CBD hosts a relatively bigger manufacturing sector, where a number of sub-sectors (such as clothing and textiles) reveal locational advantages. The Parow/Goodwood/Elsies River area, and Blue Downs/Kuils River and Mitchell's Plain in particular, also host relatively larger industrial sectors. Growth is under pressure in the former area, whilst showing potential in the latter-mentioned areas.

Unfortunately the manufacturing industries across the whole spectrum of economic areas have retrenched workers. This even seems to be the case where manufacturing is expanding. These retrenchments are in the semi- and unskilled market segment, while the growth in demand is in the skilled and highly-skilled segments, pointing to the likelihood of mechanisation. The construction sector also shed substantial employment after 2009 and, in some areas (e.g. Bellville), the general government and community, social and personal services sector. From a geographic perspective the net outflow of semi- and unskilled labour was softer in the Milnerton and Blue Downs/Kuils River economic areas.

The anticipated macro-economic growth environment has forced a downward revision of the forecast five-year real GDP growth rate for the Cape Metro, from 3.0 per cent per annum previously (2014 - 2019) to 2.6 per cent currently (2015 - 2020). Large infrastructure investment projects and higher export growth has the potential to up this projected growth rate for the Cape Metro.

3

Value chains

3.1 Introduction

The value chain includes the activities firms undertake to bring a product or service from production to end use by consumers. Value is added at each step along this chain. It is unlikely, in the modern age that a full value chain exists at a local level, or even a provincial level. Modern value chains are driven by globalisation, interconnectedness, technology, logistics improvements, offshoring and deregulation. This has led to the various tasks associated with traditional value chains becoming increasingly fragmented globally. Value chains are increasingly becoming more efficient, taking advantage of the relative comparative advantage of countries, regions and competitive advantage of different firms.

Transport and communication advancements have allowed a greater division of labour in firms, as well as the broader value chain. For each of the production stages, firms identify their in-house capability to undertake a task, relative to outsourcing this task or even moving this offshore. It is important to identify the target market of the product, as various changes to the value chain may provide significant efficiency gains for firms.

Risk exposure in a value chain is a key concept we will consider in this chapter as it is very important to the sustainable functioning of a value chain. Highly regionally or globally integrated value chains are susceptible to global risks and economic slowdowns. It is unlikely that a value chain can be developed to be entirely isolated from this type of risk, as global and regional markets are lucrative as end-user destinations, due to the large market size.

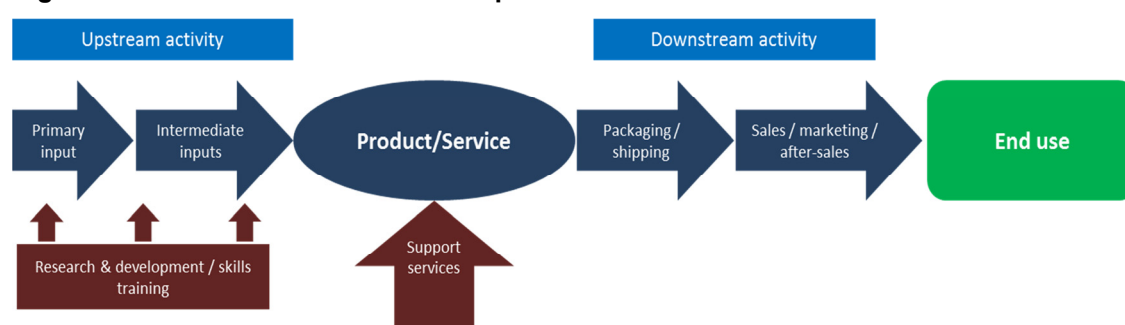
Figure 3.1 Generic value chain example

Figure 3.1 shows the various stages in a generic value chain. The activities leading up to the manufacture of the product are accounted for as upstream activities and the activities involved in getting the product to the market are accounted for as downstream activity. Various support services are also required in upstream and downstream activity, such as, financial services or legal services. Upstream activity also requires research and development and skill building, which have positive spinoffs for the economy.

Risks and opportunities are evident at various stages of the value chain. Commodity prices are significantly more volatile relative to a product higher in the value chain, due to speculation in world markets and slowdowns in major demand markets. Integration with larger value chains can mitigate certain risks if these value chains have diversified their target markets, or if they have started to provide their products to high growth regions.

3.2 Policy and spending-initiative considerations

For municipal districts, targeted spending can strengthen small local value chains and assist in achieving regional or global value chain integration of local manufacturing. Job creation cannot be sustainable unless the industry to sustain these jobs is created. It is also important that skills development and training accompanies new job creation activity to enable sustainable growth. In supporting the development of value chains and integration into regional or global value chains, R&D and skills training will be promoted by the private sector. Although it may be beneficial to provide input at the low-value-added stage of a value chain through primary inputs, this exposes the industry to risks and does not promote sustainable growth and development of the local community. In order for growth to be inclusive it is necessary that economic upgrading must be linked to social upgrading (see Chapter 5). Spending should, therefore not only be targeted at a certain industry or value chain linkage, but social needs impacting value chain development and sustainability should also be targeted at the same time (Barrientos et al, 2011).

As local value chains develop and become integrated into global value chains, the local value added component may decrease. Economies of scale and efficiency gains may result in a certain industry exporting a significant proportion of its production as local markets become too small. In order to accommodate for this, it is essential that upgrading of the local value chain takes place.

Activities such as R&D and skills development add greater value to the production process. Captive relationships between local value chain actors should also be addressed. For example, buyers can reduce the price primary producers receive for their products. Cutting out the 'middle man' could result in less overall revenue, but sustain a greater amount of jobs in the long run.

The key factors for upgrading and development of value chains are: Improving skills and education; improving access to electricity; encouraging R&D and skills development; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain.

Creation of strong entrepreneurial skills also contributes to new businesses taking advantage of existing linkages in value chains at a local level. Provision of enterprise maps and suppliers databases may also induce collaboration and create potential new linkages in the value chain at a regional and local level.

3.3 Integration of special economic zones (SEZs) into global or regional value chains

Various types of SEZs have been developed. Free trade zones and fenced-in, duty-free areas are usually situated near ports or airports. Export processing zones are constructed as industrial complexes and usually concentrate on export-orientated manufacturing. Enterprise zones offer tax incentives or financial grants to operate businesses in certain areas. These zones usually target areas that need economic and social upliftment. Specialised zones are those such as science and technology parks, logistics parks or chemical/pharmaceutical parks.

Establishment of a SEZ can often provide greater value added and employment benefits to a region. Evidence suggests that SEZs are more successful if they are developed privately, rather than initiated by government involvement. Private sector participation is a key success factor in the establishment and sustainable growth of a SEZ (World Bank, 2008).

The challenge to local government is that they will only have the ability to deliver targeted spending initiatives to various stakeholders associated with the value chains of industries in these SEZs. Policy initiatives and incentive offerings are not the mandate of local government. Certain municipal tax reductions could be offered, but will not substantially influence companies in these areas. For this reason targeted expenditure initiatives focusing, not only on the companies in the processing parks or SEZs, but also on the surrounding support services to the entire value chain these industries support in the local community is necessary.

SEZs as defined under the South African SEZ Act No. 6 of 2014

"Industrial Development Zone" means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services.

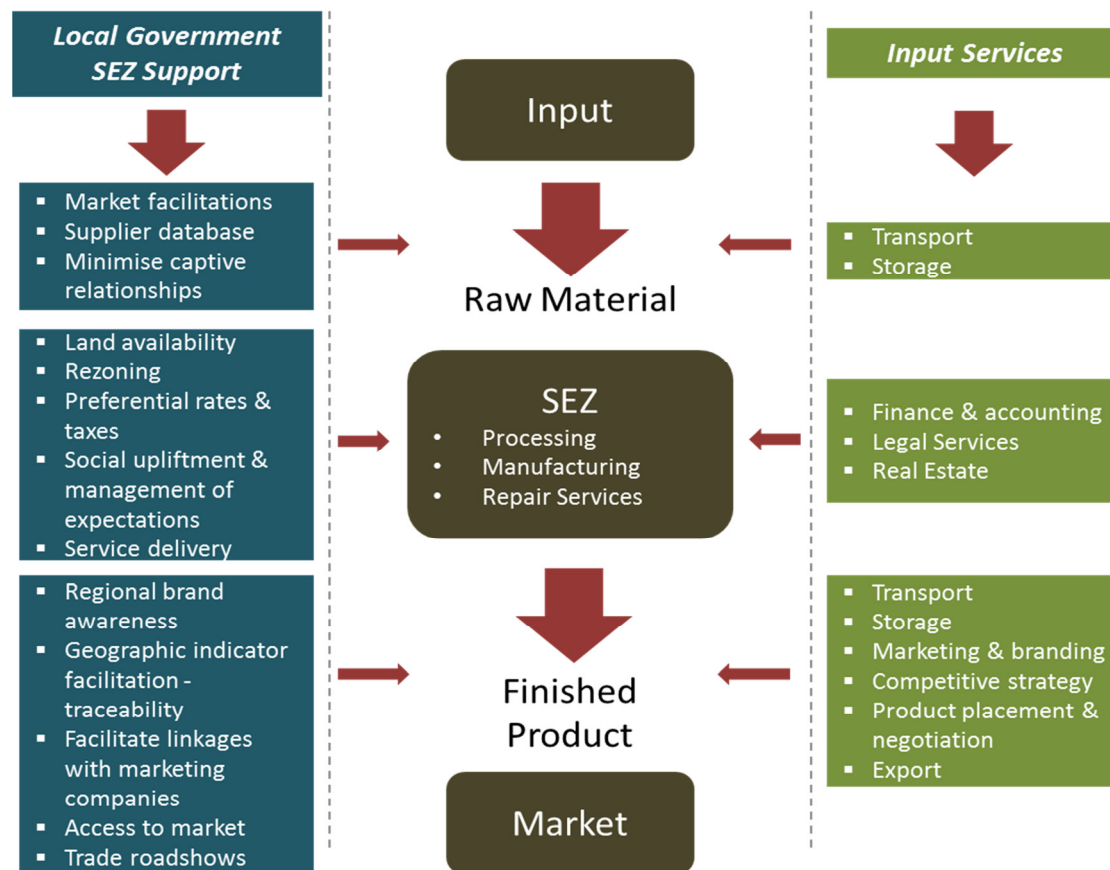
"Free Port" means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures.

"Free Trade Zone" means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.

"Sector Development Zone" means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.

Integration into global or regional value chains is essential for the sustainable growth and development of SEZs. Many of the planned SEZs (especially in the agriculture, forestry and fishing sector) will be in rural areas. This creates challenges for companies in these areas as they are usually a considerable distance from their target market and smaller industries in these rural areas will not be able to take advantage of economies of scale.

Figure 3.2 below depicts a typical value chain for a smaller SEZ or processing park. Local government is limited in their ability to address inefficiencies in the market and also do not have the authority to facilitate substantial incentives or tax breaks. There are, however, means by which the local government can develop targeted spending initiatives to ensure the success of the SEZ in their local area. Inefficiencies could exist in the linkages between the providers of raw materials and manufacturers in the SEZ. For example, middle men, not from the local area, could complicate and erode the value added in a local agricultural supply chain. By facilitating local buyer groups or facilitating relationships directly between the producers, local logistics companies, and the firms in the SEZ, could limit losses outside the local value chain and ensure greater profits for the farmer to create additional jobs. If a number of smaller farmers are brought together through market facilitation by local government, it may give them greater bargaining power and better prices for their products.

Figure 3.2 Simplified SEZ value chain and possible local government support initiatives

End-user markets in local areas are usually quite small and to ensure a competitive and sustainable strategy for a SEZ, it will be necessary to provide these goods to regional or foreign markets. The major challenge in this regard is the competitive advantage larger firms will have as they are able to take advantage of economies of scale and logistics efficiencies. To support local firms in a SEZ the local government should take advantage of niche markets and assist local manufacturers in the marketing of their products. Various possibilities exist for the promotion of local products to regional or international markets. For instance, "Karoo Lamb" has established itself as a significant brand name in regional, as well as, international markets. To enforce these geographic indicators it may be necessary to facilitate international trade roadshows, or to link the local firms with national or international marketing companies. In many cases international markets require certain standards for their products, and this is directly related to the standards maintained at the production facility. Assisting in achieving these requirements at the local manufacturing facility could open an entirely new international market to a local producer.

3.4 CMA value chains: The potential for SEZ integration into regional and global value chains

The creation and support of local SEZs in the CMA has the potential to support local communities and to strengthen local value chains. Successful establishment of SEZs can also provide local firms the needed competitive advantage to integrate into global or regional value chains.

When establishing a SEZ and rolling out initiatives it is important to analyse whether the initiatives may hinder competitive innovation or the upgrading of the local value chain. The support initiatives should be able to be sustained and the outcomes of the initiatives should be understood. Measurements should also be put in place to determine and assess the impact of the support initiatives.

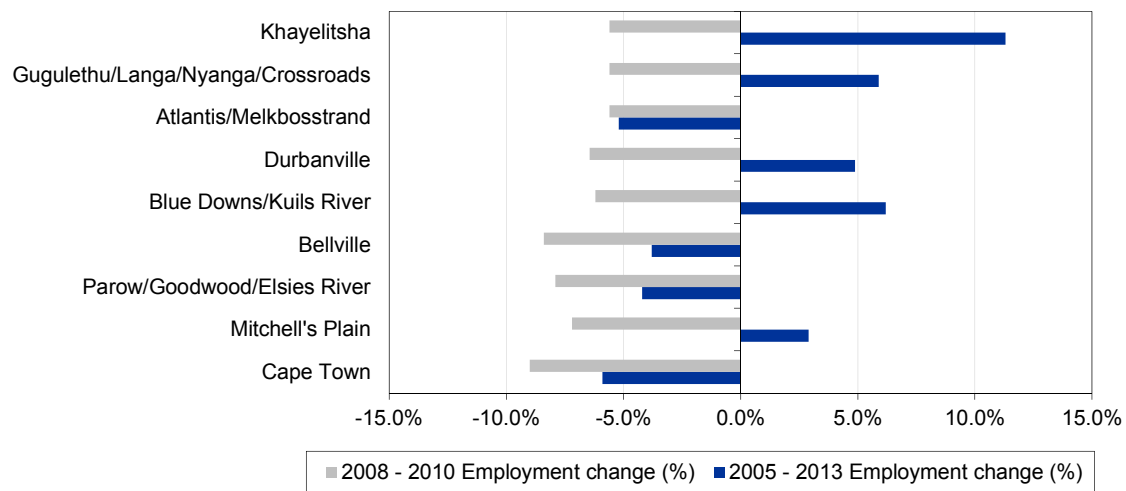
Identifying potential areas of breakdown in the integration or upgrading process of local value chains should be a key focus area for the establishment of a sustainable SEZ. Focus areas should include, but not be limited to the following: Input costs; capital deficits, technology gaps; labour and skills requirements; management initiatives and training; logistics and supply chains; trade barriers and supplier or buyer relationships.

3.4.1 Value added and employment analysis

Analysing the change of employment in the CMA from 2005 to 2013 and comparing that to the change in employment at the start of the 2009 recession in Figure 3.3 shows certain areas have not recovered from the initial employment losses during the 2009 recessionary period. This could indicate that there are certain areas that have underlying socio-economic issues that have prevented them from recovering from 2010 to 2013.

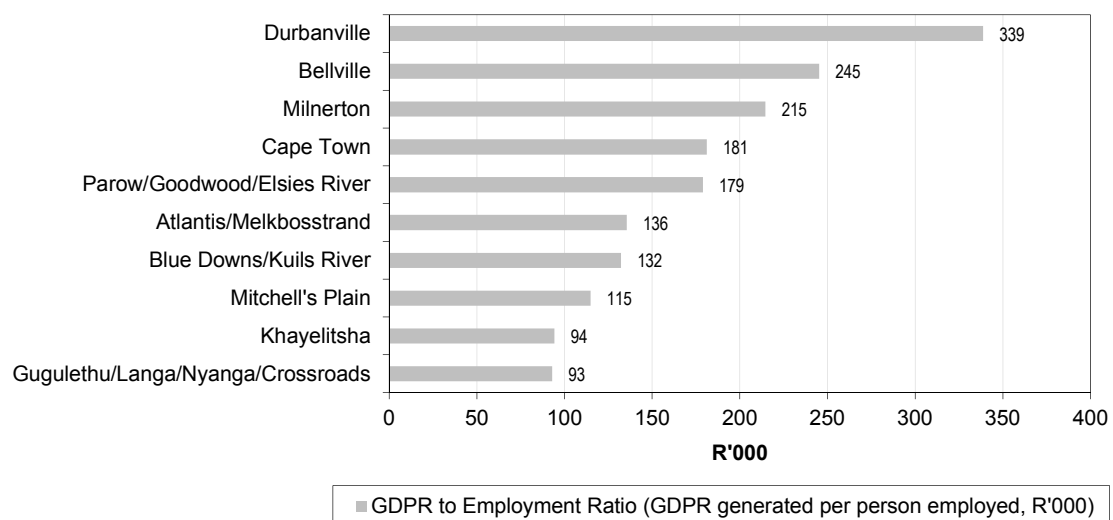
Most notably the suburbs, like Parow and Bellville, Atlantis and Cape Town have not seen a significant recovery from the 2009 recession. Areas such as Khayelitsha, Gugulethu, Nyanga, Langa and Mitchell's Plain have seen significant rebounds in employment since the recession. There is a marked contrast in terms of recovery patterns which may indicate a link to socio-economic support measures. Areas such as Durbanville or Bellville and Cape Town have a high potential for revenue generation for local government. This is very clearly illustrated in Figure 3.4, which shows the GDPR to employment ratios for these areas. Another way to interpret the figures in Figure 3.4 is that it is GDPR generated per person employed. Neglecting support for high value-generating areas results in greater value added loss per person unemployed.

Figure 3.3 Employment change from 2005 to 2013 compared to employment at the start of the recession from 2008 to 2010, CMA



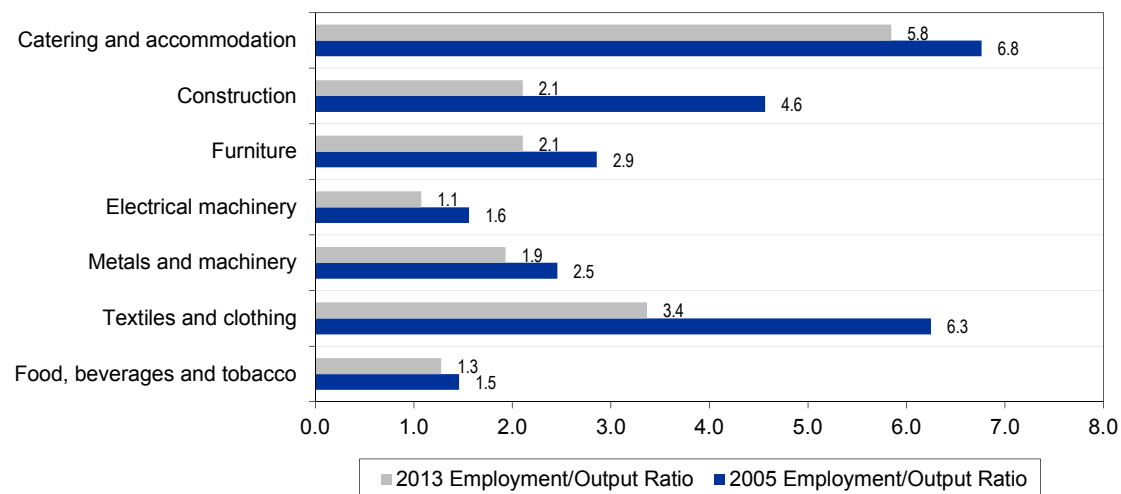
Source: Quantec Research

Figure 3.4 GDPR to employment ratio (GDPR generated per person employed), 2013



Source: Quantec Research

Figure 3.5 shows the number of employed per R1 million output produced in a certain sector. The comparison between 2005 and 2013 shows a marked decline in almost all manufacturing sectors in the CMA. It is inevitable that this ratio will decline due to advances in technology, but in sectors such as construction, there is a marked decline with limited underlying technological advancement in construction techniques from 2005 to 2013. There are a number of reasons firms are increasing mechanisation. These range from increased labour costs and the opportunity costs of labour unrest, to rising input costs of electricity and the opportunity cost of down-time resulting from load shedding. The depreciation of the rand and the increase in the price of fuel has also impacted heavily on many industries. Repayments of loans incurred during the downturn also place additional pressure on companies and SMMEs.

Figure 3.5 Employment to output ratio comparison between 2005 and 2013, CMA

Source: Quantec Research

In the following sections, the Atlantis Green Technology Industrial Park and the Cape Health Technology Park, are briefly considered as two case studies of special economic zones in the CMA.

3.4.2 Atlantis Green Technology Industrial Park

The green technology special economic zone offers certain incentives, such as an electricity tariff subsidy, exemption from land-use application fees and fast-tracking authorisation from the provincial department of environmental affairs and development planning.

In 2014 GRI Renewable Industries, opened a wind turbine manufacturing plant in the park. The 12 000 square metre factory, with an estimated investment cost of R300 million, will produce 150 wind turbines a year when fully operational. It will also create 200 new jobs in the local community.

The green technology park has not attracted a company like SMA Solar, which has a manufacturing facility situated in the Southern Suburbs in Cape Town. Another factory recently established in Cape Town is the R80 million, Jinko Solar manufacturing plant, which opened in August 2014, with a factory covering 5 000 square metres, and is situated in Epping Industrial.

The broader economic climate in Atlantis has been plagued by the declining manufacturing hub situated there in the 1970s. The Chinese firm Hisense has recently established a factory there, which is expected to create 1 000 jobs in the next five years. There is still much unused land in the area and social problems, such as gangsterism, exist in the local community.

It will be informative to CMA to assess why certain green technology firms have not opened manufacturing facilities in the SEZ. It could simply be an issue of timing, but if incentives in the SEZ were such to give a significant advantage, they would attract more investment. Broader issues of the social conditions in Atlantis also need to be addressed in order to attract further investment. Opening an educational facility to upskill local labour may also be beneficial if this is supported by the local international firms such as GRI and Hisense.

The incentives of **the dti** to support the green economy are designed to support the growing demand for renewable energy locally (as formulated in the *Integrated Resource Plan*) and the end-user in the value chain will be South Africa. It must be considered, however, that these manufacturing facilities will have to be integrated into the global downstream value chain in order to upgrade and keep the industry sustainable. The Medupi power plant is expected to come fully on-line in 2019 and even though there is a major drive to integrate more renewable independent power producers on to the grid, this form of electricity generation is significantly more expensive than that offered by coal generation.

Risk: Local demand for renewable energy production may not be enough to sustain and attract significant numbers of international or local companies into the Atlantis SEZ.

Opportunity: The growing renewable energy demand in Sub-Saharan Africa could serve as a potential base for manufacturing operations in South Africa. SADC countries may present the greatest opportunity, but also those countries in West and East Africa.

Implications: The end-demand sustainability should be further assessed for this value chain. It may be possible that these companies could take advantage of the vast potential on the African continent for renewable solutions. Currently there is major competition from international manufacturers, but further support to expanding the end-use market for locally manufactured renewable technologies to Africa should be supported now, in order to gain market traction and presence. Eliminating trade barriers and tariffs for goods manufactured in South Africa in other African countries may give the competitive advantage needed to compete against international bids for renewable infrastructure development.

Risk: Electricity tariff allowances in the park may not be effective if the park becomes self-sufficient off the grid. As a green park it may be possible for the facility to become self-sufficient and this may negate any incentives offered by the City of Cape Town.

Risk: Social conditions in the Atlantis area present a risk to attracting skills and investment to the area.

Implications: Service delivery, policing and community upliftment programmes should form part of the development of the SEZ and should be vigorously promoted in the media.

3.4.3 Cape Health Technology Park (CHTP)

The establishment of the park could allow Cape Town to be seen as a pharmaceutical and medical devices development hub. The land earmarked for development in Pinelands will provide significant socio-economic benefits to the area. By offering collaboration between academic, private and government institutions, the park could attract significant foreign investment.

Opportunity: Medical tourism is steadily increasing in South Africa and Cape Town is ideally placed as a destination that could offer medical tourism and recovery packages in a scenic environment. The average length of stay of medical tourists entering South Africa has increased from 5.5 to 7.7 nights from 2011 to 2013. In 2013, approximately 4 per cent of tourists visiting South Africa were for medical procedures (South Africa Tourism).

Medical 'safaris' are on the rise and increasing numbers of medical tourists are coming from West and East African countries. The annual spending of medical tourists in South Africa was estimated at over R1.5 billion in 2012 (Crush et al, 2012).

Significant opportunity exists for medical tourism in Cape Town which could include 'recovery' packages, increasing the average spend and length of stay of medical tourists.

Implications: Development of the CHTP will give the opportunity to develop medical tourism in Cape Town even further. Establishment of outpatient treatment facilities which is linked to specialised tours for medical patients will induce greater spending in the broader community in Cape Town.

3.5 Concluding remarks

Significant opportunity exists in the CMA for the establishment of SEZs and to strengthen local value chains. The CMA has been impacted heavily by economic recession in 2009 and has not shown significant recovery. Particular economic areas such as Durbanville, Bellville and Cape Town should not be overlooked for incentives and support. Local manufacturing value chains need to be integrated into larger global and African value chains to promote sustainable industry and take advantage of the fast-growing African market.

Cape Town is ideally suited to medical tourism and incentives provided to tour operators to cater for medical tourists could potentially increase tourism spend in Cape Town. Catering for medical tourists may require specialised training, facilities and transport. Local support for such training and incentives could be provided to upgrade existing infrastructure for tour operators and in terms of accommodation.

Sustainable development of the Atlantis SEZ will require successful integration of local manufacturers into the global and African regional value chain. Social upliftment programmes should accompany economic upgrading of the SEZ. Significant potential exists for skills development as a spin-off to the upstream activities into the green economy and the technology value chains.

4

Infrastructure spending: Review and analysis

4.1 Introduction

Basic services are defined as those services necessary to ensure an adequate standard of living for the inhabitants of a municipality. These services include the provision of water, electricity and housing, as well as waste management and waste water management.

Access to public services is a basic right of all South African citizens. As embodied in the White Paper on Local Government, municipalities, in conjunction with the provincial and national spheres of government, have been mandated to provide these services. Given the high levels of inequality and poverty prevalent within the post-apartheid environment, and in conjunction with the introduction of a number of programs aimed at the addressing these issues including the RDP, GEAR, AsgiSA and currently the National Development Plan (NDP), the role of local government in remedying the apartheid legacies and in contributing to an environment conducive to growth and employment has grown substantially. The white paper on local government prioritises the provision of a basic level of household services as one of the key mechanisms through which municipalities will operate in order to affect improvements in the level of inequality and poverty.

Municipalities would not be able to carry out this mandate without the proper systems in place to facilitate the provision of basic services. Sufficient investment in the municipal infrastructure which encompass these systems are thus necessary. In addition to raising the standard of living of those to whom these services are rendered, a number of studies have found that increased basic infrastructure delivery has a positive effect on economic growth; and, conversely, higher economic growth affords more successful infrastructure investment. With health being a determinant of labour productivity, both qualitative and quantitative improvements in sanitation, the

water supply and sewage services would have positive spillover effects on economic growth. It has been shown how increasing basic infrastructure by 1 per cent could lead to a 0.36 per cent increase in GDP per capita in rural municipalities and a 0.33 per cent increase in GDP per capita in urban municipalities in South Africa.¹⁵

Basic service infrastructure thus facilitates the establishment of an environment in which development and growth can be more effectively pursued. It is nevertheless important to note that, for the attainment of robust or continued growth, increased investment in infrastructure of this kind cannot be relied upon in isolation. The economic environment in which the municipality operates is unique to that region, and as such, infrastructure needs vary accordingly. Proper planning, sound project selection and effective implementation of these infrastructure ventures will thus improve both the scale and resilience of the resultant spillovers. It is also essential that the infrastructure (both old and new) is properly maintained (through both effective demand and supply management) if the economic benefits of these investments are to be realised more fully.

Because of the role that basic service infrastructure expenditure plays in attaining local social and economic development, a number of sources (including Quantec and the municipal A-schedules among others) will be used to gauge trends in municipal infrastructure expenditure and expenditure predictions, and the resulting impact on basic service delivery will be assessed.

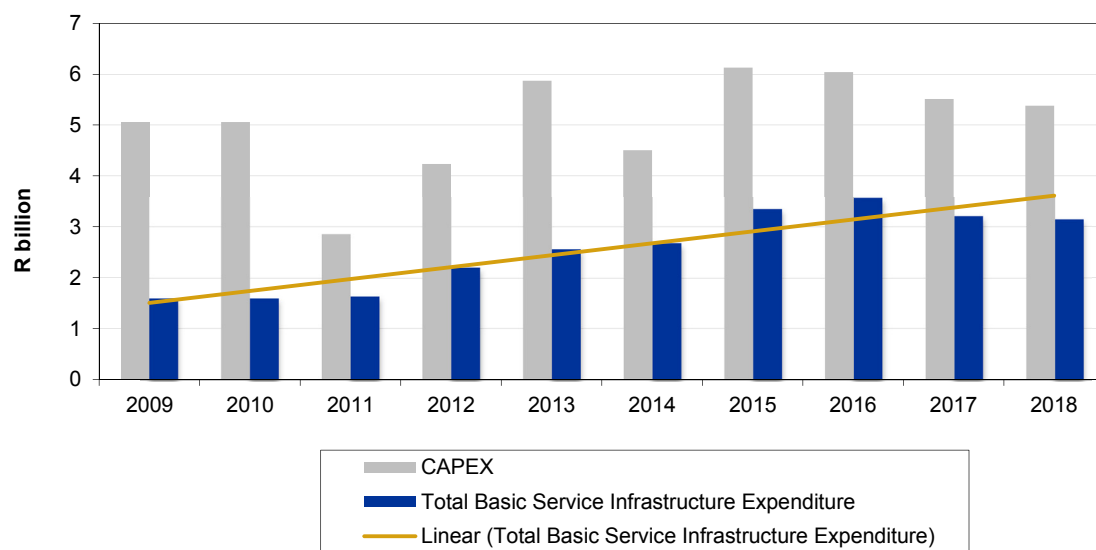
4.2 Infrastructure development

4.2.1 Overview of municipal expenditure trends in the Cape Metro

With the growing emphasis being placed on infrastructure investments as a means of facilitating economic growth, as embodied in the National Infrastructure Development Plan, it is essential that municipalities prioritise their budgets accordingly.

Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly (see Figure 4.1). In 2008/09 and 2009/10 fiscal years basic services infrastructure investment took up 31 per cent of the capital expenditure budget. This increased to 57 per cent in 2010/11 before decreasing to 52 per cent in 2011/12 and 44 per cent in 2012/13. Over the 2013/14 financial years the portion of the budget allocated to basic services infrastructure increased to 60 per cent. However, over 2015/16 MTREF the portion of the capital expenditure budget spent on basic services infrastructure is expected to remain below 60 per cent.

¹⁵ Gnade, H. (2013). *Basic infrastructure delivery and its welfare effect on rural and urban municipalities*. Paper to be presented at the conference of the Economic Society of South Africa, Bloemfontein, September.

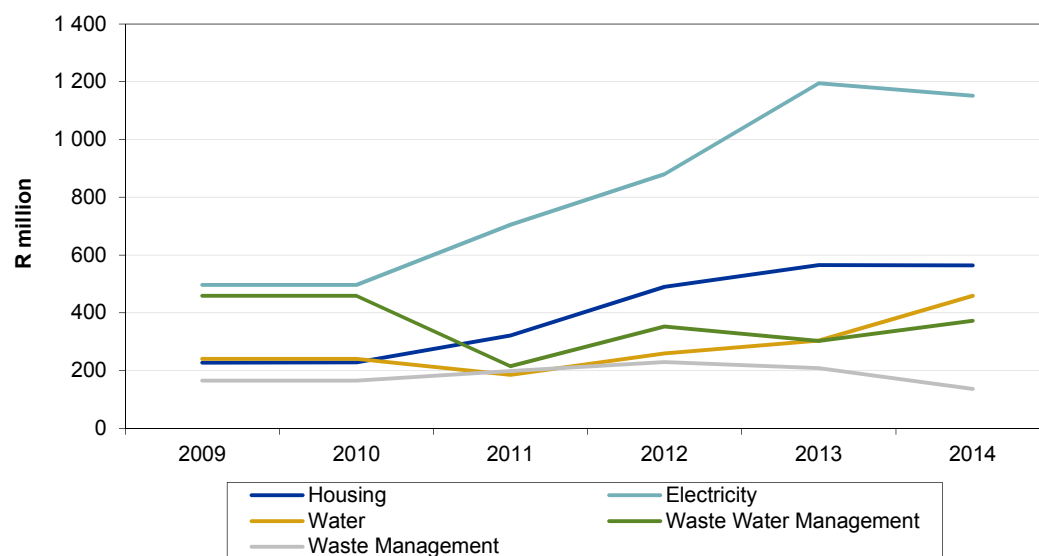
Figure 4.1 Total capital expenditure vs basic service infrastructure expenditure: 2009 - 2018

Source: Western Cape Provincial Treasury

The importance of basic services infrastructure investment as a vehicle for improving local economic development cannot be overemphasised. Despite being the country's oldest city and having a service delivery heritage that dates back more than 300 years the Cape Metro has had great success in basic services infrastructure investment over the years. Over the period 2008/09 to 2013/14 basic services infrastructure investment has grown at an average growth rate of 12 per cent per annum. Over the MTREF the sector is expected to experience a growth rate of 7 per cent in 2015/16 before contracting by 10 per cent in 2016/17 and 2 per cent in 2017/18.

The ratio of basic infrastructure investment to GDP is an important indicator of the regions' performance in basic services infrastructure investment. During the period 2008/09 to 2013/14 the ratio of basic services infrastructure investment to GDP showed a consistent upward trend. The ratio remained at 0.9 per cent in 2008/09 and 2010/11 before rising to 1.2 per cent in 2011/12, 1.3 per cent in 2012/13 and 1.4 per cent in 2013/14.

Due to the significant budgetary constraints facing municipalities, and considering the specific needs of the inhabitants of the respective municipalities, it is essential that funds are allocated toward those projects which would have the most significant effect on economic growth. Since 2008/09 expenditure on electricity has been the highest whilst expenditure on waste management has been the lowest (see Figure 4.2). Since 2009/10 the Cape Metro has accelerated investment in housing and electricity to meet the growing demands of the metropolis. Electricity was the largest basic services infrastructure expenditure item in 2013/14 taking up 43 per cent of the total basic services expenditure within the region. This is followed by housing (21 per cent), water (17 per cent), waste water management (14 per cent) and waste management (5 per cent). Both theory and empirical work suggest that these investments do have an impact on economic growth.

Figure 4.2 Cape Metro basic services infrastructure expenditure

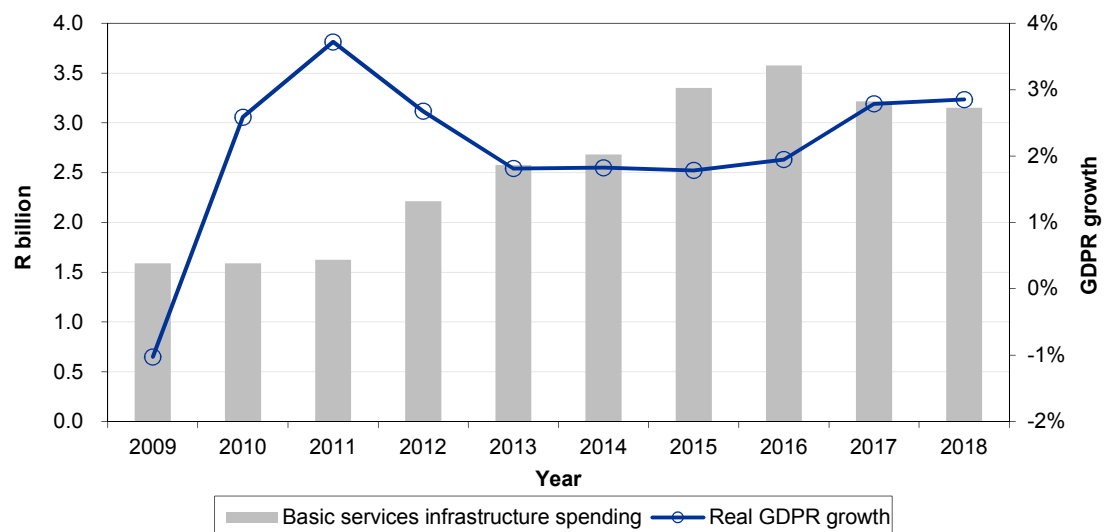
Source: Western Cape Provincial Treasury

4.2.2 Basic service infrastructure investment and economic growth

Economic theory illustrates that investment in economic infrastructure supports economic growth both directly, through capital accumulation, and indirectly through improved factor productivity. The primary mechanism in which the South African Government aims to accelerate economic growth is through infrastructure investment particularly for basic services. Infrastructure is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. Access to basic necessities such as housing, water, sanitation and refuse removal is a prerequisite for economic growth.

Figure 4.3 provides an approximation of the relationship between infrastructure expenditure and economic growth. Over the period 2009 to 2014 the Cape Metro experienced years of high growth in basic services infrastructure expenditure averaging 12 per cent per year.

GDP growth showed signs of recovery after 2009; however, since 2011 it has tapered down markedly to slightly below 2.0 per cent in 2014. It is important to note the role played by time lags in between basic services infrastructure investment and the resulting impact on economic growth. Infrastructure investment will have both a direct and an indirect effect on GDP. Whilst the direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP the indirect effect is a result multiplier or knock-on effects within the economy.

Figure 4.3 Real GDP growth vs total basic service infrastructure expenditure: 2009 - 2015

Source: Western Cape Provincial Treasury

The different basic services infrastructure expenditures have made different contributions to GDP growth within the Cape Metro. Water and electricity also contributed to GDP within the region. From Table 4.1 it is clear that the electricity and water sector expanded by 3 per cent and 4 per cent per annum respectively in real terms over the 2000 to 2013 period. This high growth rate is remarkable in view of the fact that the non-metro districts recorded a growth rate of 0.2 per cent for electricity and 2.3 per cent for water over the corresponding period. Across the economic areas the leading contribution to the electricity sector in 2013 was the City of Cape Town (20 per cent). Mitchell's Plain, Blue Downs/Kuils River and Durbanville recorded the highest GDP growth rates within the electricity sector. The leading contribution to the water sector originates from the City of Cape Town (35 per cent). However the highest growth rate in the water sector over the period 2000 - 2013 was recorded in Blue Downs/Kuils River (6 per cent per annum).

The decrease in the growth rate of the electricity sector from 2 per cent over the period 2005 - 2009, to 0.6 per cent over the period 2010 - 2013 is a reflection of the current infrastructure challenges in the sector and the impact these infrastructure challenges have on economic growth. These infrastructure issues in turn have had ripple effects on the productivity of a variety of industries. Therefore it is important for government to address these issues and accelerate basic services infrastructure. Some of the major infrastructure projects that will help in basic service delivery whilst promoting economic growth within the region include electricity, water and sanitation infrastructure replacement, the rehabilitation of landfill sites and the replacement of solid waste removal vehicles.

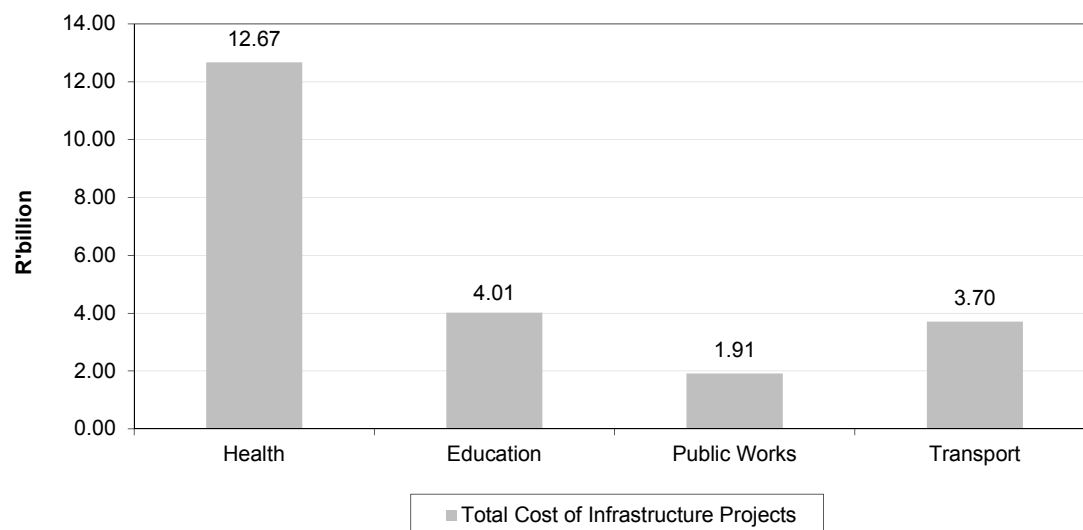
Table 4.1 Cape Metro: Water and electricity GDPR composition by main area, 2013

Region	Electricity		Water	
	% share	Ave growth 2000 - 2013	% share	Ave growth 2000 - 2013
Cape Town	20%	2%	35%	3%
Mitchell's Plain	6%	4%	23%	5%
Parow/Goodwood/Elsies River	8%	2%	4%	4%
Bellville	8%	2%	2%	3%
Milnerton	9%	3%	1%	4%
Blue Downs/Kuils River	7%	4%	6%	6%
Durbanville	3%	4%	2%	5%
Other areas ¹⁶	39%	3%	27%	4%
Total	100%	3%	100%	4%

Source: Quantec Research

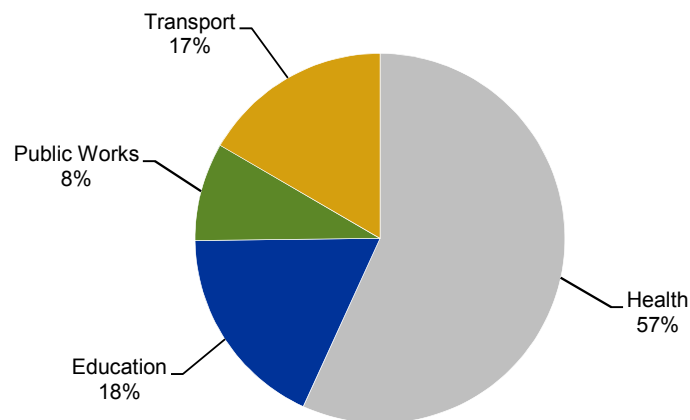
4.2.3 Western Cape Government infrastructure spending in the Cape Metro

Apart from infrastructure expenditure the City of Cape Town Metropolitan Municipality is mandated to do, the Western Cape Government (WCG) has other mandates such as education, health, roads and public works infrastructure spending. The 2015 - 2018 WCG budget shows that the Western Cape Government will be spending on various infrastructure projects across all districts. Figure 4.4 and Figure 4.5 show the total cost of infrastructure projects for education, health, roads and public works respectively within the City of Cape Town.

Figure 4.4 WCG Expenditure on infrastructure – City of Cape Town, 2015 - 2018

Source: Provincial Treasury Infrastructure Unit

¹⁶ Other areas constitute a variety of smaller economic areas that lie within the Cape Metro region.

Figure 4.5 Composition of WCG infrastructure expenditure - City of Cape Town

Source: Provincial Treasury Infrastructure Unit

The charts show that the largest share of the WCG's planned expenditure on infrastructure within the Cape Metro is on health projects, amounting to R12.7 billion or 57 per cent between 2015 and 2018. This includes hospital replacement projects, new clinics, and upgrading of various community health centres and community day centres across the Cape Metro. Expenditure on education infrastructure is the second highest at R4.0 billion or 18 per cent. The projects include new schools and upgrades at 21 primary schools and 13 secondary schools across the Cape Metro. Transport infrastructure projects are also significant, amounting to R3.7 billion or 17 per cent of the WCG infrastructure budget, mainly for road surfacing, and bridge construction. This infrastructure expenditure by the WCG is expected to further unlock-economic potential in the Cape Metro.

4.3 Basic services infrastructure and access

In order to effectively realise the positive spillovers resulting from investment in basic service infrastructure, it is essential that these increased capital expenditures are translated into the delivery of services. Statistics South Africa, through the annual Non-financial Census of Municipalities, tracks the levels of service delivery within municipalities in the country.

Table 4.2 Cape Metro access to basic services trend: 2009 - 2014

Region	Water	Electricity	Sewer and Sanitation	Refuse
City of Cape Town	197 237	8 284	66 941	-58 216
Western Cape Province	233 800	51 985	102 895	-42 615
South Africa	1 797 335	2 177 095	1 255 080	662 690

Source: Stats SA: Non-financial Census of Municipalities

Table 4.2 shows the changes in the number of consumer units with access to basic services from 2009 to 2014. According to the census the highest increases in the country were recorded in the provision of electricity. The Western Cape Province and the Cape Metro recorded the highest increases in the provision of water. The success of the region in water provision is embedded in its adoption of a Water Demand Management Strategy that is aimed at reducing the rate of water demand growth.

The City's strategy includes initiatives such as minimising unaccounted water losses through burst pipes and leaks, installation of water management devices and consumer education and awareness to encourage rainwater harvesting and greywater reuse.

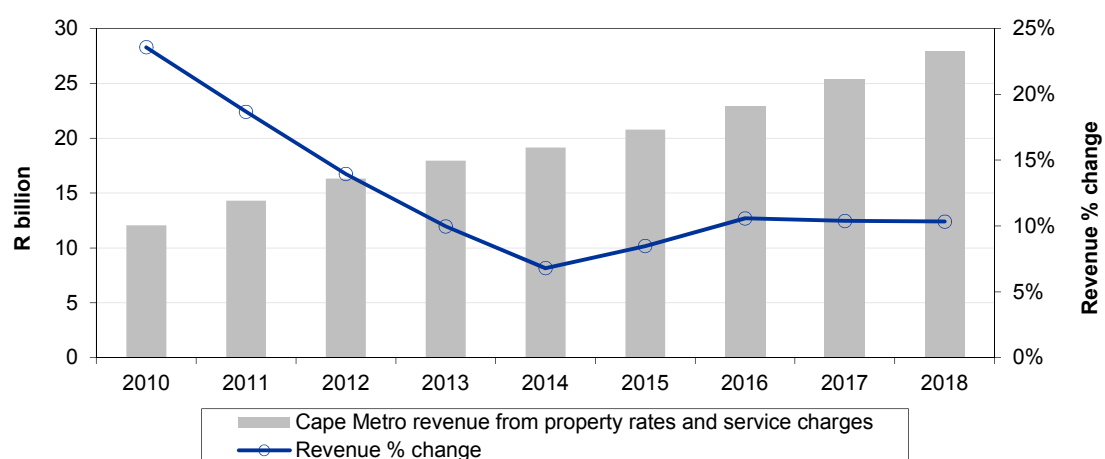
The decrease in the number of consumer units with access to refuse removal services is a cause for concern. The City recognises the need to replace ageing waste collection vehicles, the development of drop-off facilities and improved waste management within the region. The census showed that there has been an increase in the number of consumer units with access to electricity. The City provides electricity to 75 per cent of its residents while Eskom supplies electricity to the remaining 25 per cent. In terms of electricity provision the City's primary future focus will be on informal settlements particularly those serviced by Eskom.

The main obstacle to accelerating basic services delivery in the Cape Metro is rapid urbanisation, rising demand, an overburdened infrastructure and limited finance. Although municipalities potentially have a wide array of financial instruments to use in meeting their service delivery responsibilities, they do rely mostly on revenue from services rendered. As such the next section analyses municipal revenue trends in the Cape Metro.

4.4 Municipal revenue trends in the Cape Metro

In order to sustain economic growth and preserve the standard of living of the inhabitants living within the municipality, both quantitative and qualitative improvements to the stock of basic service infrastructure need to be maintained. It is essential that the infrastructure (both old and new) is properly preserved if the economic benefits of these investments are to be realised more fully. One source through which the maintenance and improvement of basic service infrastructure can be funded is from the charges levied for the basic services rendered by the municipality via this infrastructure. The revenue generated from these sources often makes up a significant portion of the municipality's total revenue, and tends to fluctuate along with the economy.

Figure 4.6 Growth in revenue generated from property rates and trading services, 2010 - 2018

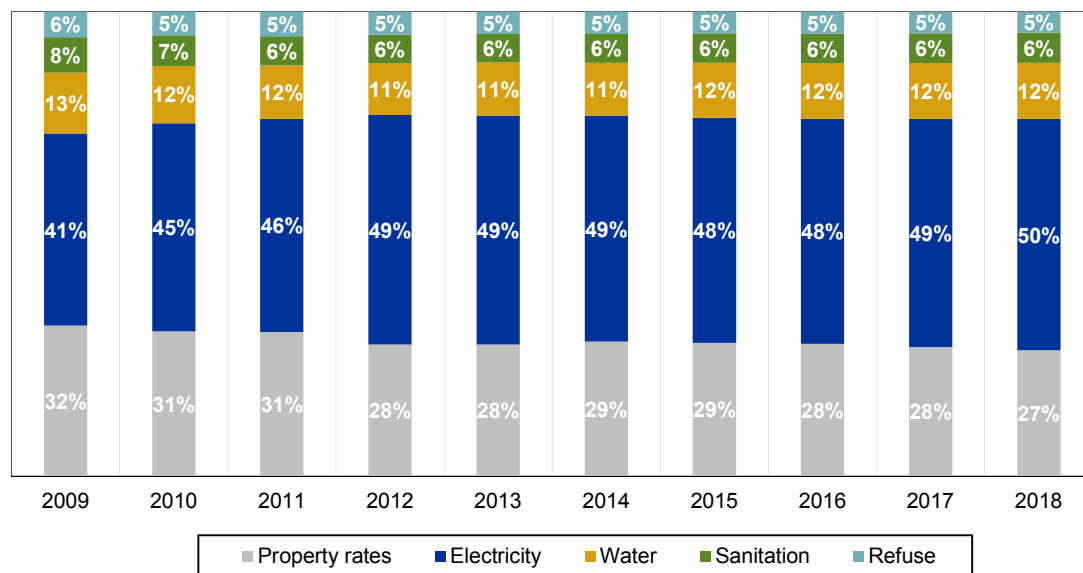


Source: Western Cape Provincial Treasury

Figure 4.6 illustrates total revenue generation from property rates and trading service charges in the Cape Metro. Since 2010 revenue generation has shown a consistent upward trend. The region's revenue grew by an annual average rate of 15 per cent between 2009/10 and 2013/14. The district forecast indicates that revenue collected from property rates and trading services will increase over the 2015/16 MTREF. Revenue collection is generally influenced by tariff prices, the tax base of a municipality, the administrative capabilities of a municipality to collect revenue and economic performance. These increases in revenue collection observed over the MTREF are presumably a result of tariff price increases and service delivery expansion.

Property Rates and Service Charges revenue comprise 74 per cent of the Cape Metro's total operating revenue in 2013/14. It therefore follows that basic services revenue is an important source of revenue and the Cape Metro must do more to exploit the potential of these revenue sources. Figure 4.7 illustrates the contribution of property rates, electricity revenue, water revenue, sanitation revenue and refuse revenue toward total revenue generated from the rendering of basic services in the Cape Metro. The graph shows that over the period 2009 to 2014 electricity revenue contributed the most to total revenue generated within the region whilst refuse revenue contributed the least. The differences in revenue collected from property rates and other trading services may be a result of different tariff price structures for property rates and trading services.

Figure 4.7 Service charges as a % of total revenue generated from basic services rendered



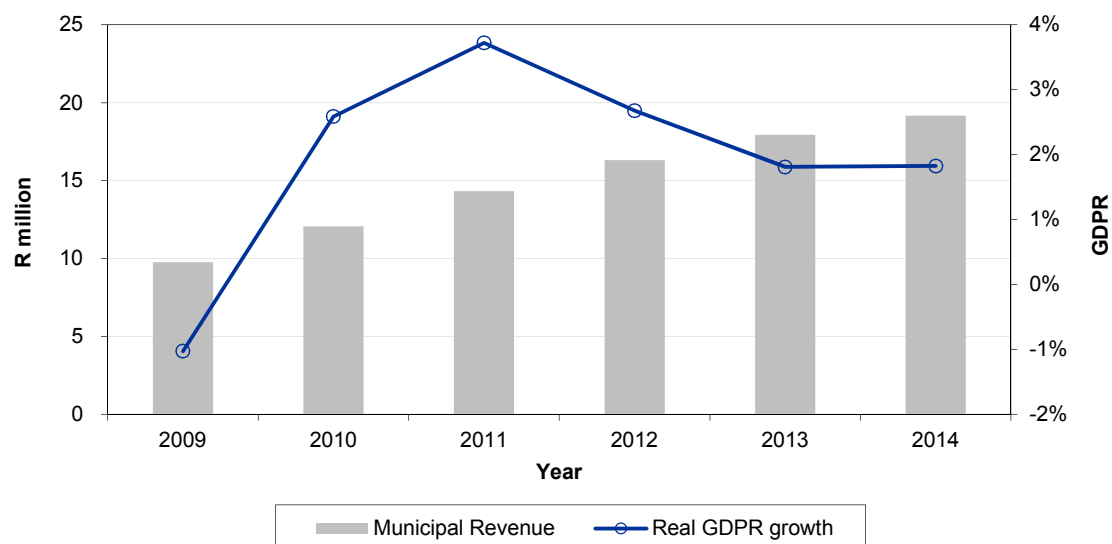
Source: Western Cape Provincial Treasury

Cape Metro property rates charges are dependent on the 2012 General Valuation Roll or any other supplementary valuations issued for properties affected by building alterations and improvements. Property rates tariffs, rebates and concessions are then applied depending on the property usage. The Metro's property rates for the 2015/16 financial year were increased by an average of 10 per cent thus contributing to the forecasted growth in revenue for the 2015/16 financial year. Refuse removal

tariffs went up by an average 8.33 per cent for the 2015/16 financial year. Water and sanitation tariffs for the financial year 2015/16 went up by 11 per cent whilst electricity tariff prices went up by an average of 10.82 per cent. The increases are necessary to address infrastructure maintenance requirements and ensure sustainable service delivery. The Metro forecast indicates that revenue generation from property rates and trading services will follow the same trend with electricity contributing the most to revenue followed by property rates, water and then sanitation and refuse revenue.

Figure 4.8 shows an approximate relationship between revenue generated from basic services rendered and GDP growth in the City of Cape Town. The depressed economic activity in 2009 did not influence basic services revenue collection within the Metro. Whilst GDP growth contracted at 1.0 per cent in 2009 the City recorded a revenue growth rate of 24 per cent over the period 2008/09 to 2009/10. The high revenue collection during the recession period is presumably a result of annual tariff increases or municipal revenue collection improvements. A notable point is that since 2011 there has been a decline in both the revenue growth rate and GDP growth rate for the Cape Metro.

Figure 4.8 Cape Metro revenue vs GDP: 2009 - 2014



Source: Western Cape Provincial Treasury

It is imperative that every effort must be made to ensure the Cape Metro practices accurate billing and revenue collection (revenue management) and also to ensure every parcel within its jurisdiction is accounted for (revenue enhancement). This analysis of revenue trends confirms the need to continuously adapt revenue enhancement and revenue management strategies within the Cape Metro in order to ensure a sustainable revenue stream and provide basic services.

4.5 Concluding remarks

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihoods but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. The data presented in this chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the Cape Metro.

Despite being the oldest City in the country, the Cape Metro has made significant progress in basic services delivery. Over the period 2008/09 to 2013/14 basic services infrastructure investment has grown at an average growth rate of 12 per cent per annum. However the region still faces challenges in basic services delivery due to high population increases and ageing overburdened infrastructure. Since 2010 the Cape Metro has evidently been accelerating investment in housing and electricity infrastructure. In comparison to other non-metro districts in the Western Cape the Cape Metro's electricity and water sector have recorded remarkable growth. The decrease in the growth rate of the electricity sector over the period 2010 - 2013 is a reflection of the current infrastructure challenges in the sector and the impact these infrastructure challenges have on economic growth. The bottom line is that ageing infrastructure cannot continue supporting a growing economy. It is important that municipal budgets continue to prioritise basic services infrastructure investments. Municipalities must do more to exploit the potential of these revenue sources. Revenue increasing strategies include minimising water and electricity losses, accurate billing, expansion of service delivery and debt collection strategies.

5

Socio-economic analysis and economic performance

5.1 Introduction

The 2014 Municipal Economic Review and Outlook (MERO) study provided a socio-economic analysis of each Western Cape region. This is highly important as the analysis showed the relationship between economic growth and social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact the economy has on it. The 2015 MERO study aims to do the same, with a larger focus on the quality of life.

This chapter aims to create a link between the information provided in the Socio-economic Profiles of 2014, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to human development, i.e. income, education and health, as well as crime and access to basic services within the district. Each topic is discussed in relation to the district's economic performance.

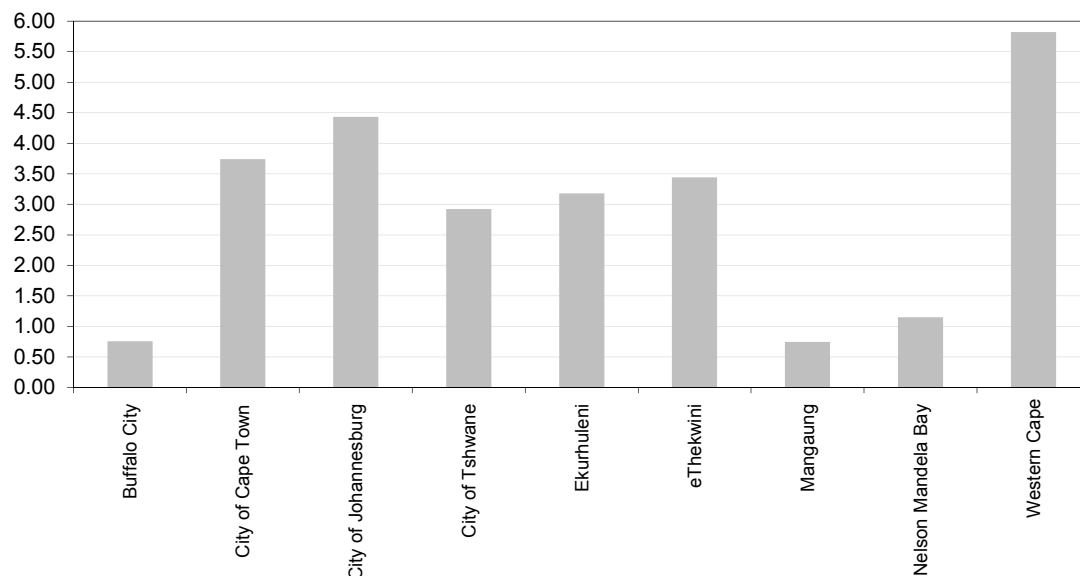
5.2 Population profile

According to the Western Cape Department of Social Development the Western Cape Province had 6.1 million people in 2014, having increased from 5.8 million in 2011. The population growth rate averaged 2.35 per cent per annum over the period 2001 to 2013. Population growth in the Cape Metro mirrored this upward trend, growing at a rate of 2.5 per cent per annum over this period. The Cape Metro accounts for 65 per cent of the Province's population growth.

Using the latest national census (2011) published by Statistics South Africa, an evaluation of the Cape Metro's population relative to that of the 7 other metropolitan municipalities is carried out below.

As per Figure 5.1, the Cape Metro is the second largest of the 8 metropolitan municipalities in South Africa in terms of population size, the largest being the City of Johannesburg with a population of 4.43 million in 2011.

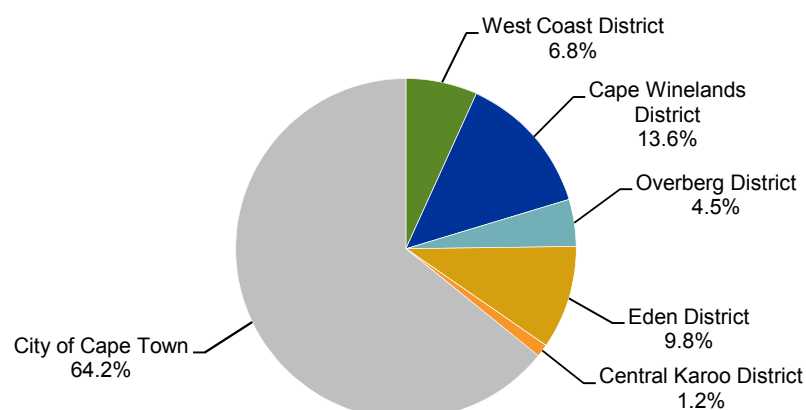
Figure 5.1 Population by metro municipality (millions), 2011



Source: Statistics South Africa, 2011

The Cape Metro comprised 64.2 per cent of the total population in the Province in both 2001 and 2014. The population distribution in the Province as at the end of 2014 is shown in Figure 5.2 below.

Figure 5.2 Western Cape population distribution, 2014



Source: Western Cape Department of Social Development, 2014

It is essential to consider the distribution of the population in order to ensure that funds are apportioned and services are delivered as and where necessary. As population increases exert further strain on municipal resources, it is desirable that population growth be accompanied by at least as fast a rate of real economic growth if standards of living are to be maintained (see section 5.3.1).

5.3 Human development

Human development is described by the *United Nations Development Programme (UNDP)* as widening people's choices and their level of well-being. The UNDP (2010) further indicates that human development is achieved by means of two dimensions namely, enhancing human abilities as well as creating the conditions for human development. Enhancing human abilities is created by means of enabling people to live a long and healthy life, obtain knowledge and possess a decent standard of living. Creating conditions for human development include participation in political and human life, environmental stability, gender equality, and human security and rights.

The Human Development Index (HDI) has been developed to measure human development. The index is a composite statistical index of life expectancy, education indices and income indices. In 2013 it averaged at 0.71 in the Western Cape Province, outperforming the National HDI of 0.66. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2013, largely due to the improving literacy rates and per capita income in the majority of the municipalities.

Table 5.1 Human Development Index, 2001 - 2013

	2001	2011	2012	2013
City of Cape Town	0.68	0.72	0.72	0.73
West Coast District	0.60	0.66	0.67	0.68
Cape Winelands District	0.60	0.66	0.67	0.68
Overberg District	0.61	0.67	0.68	0.68
Eden District	0.62	0.67	0.68	0.69
Central Karoo District	0.54	0.62	0.63	0.64
Western Cape	0.66	0.70	0.71	0.71

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

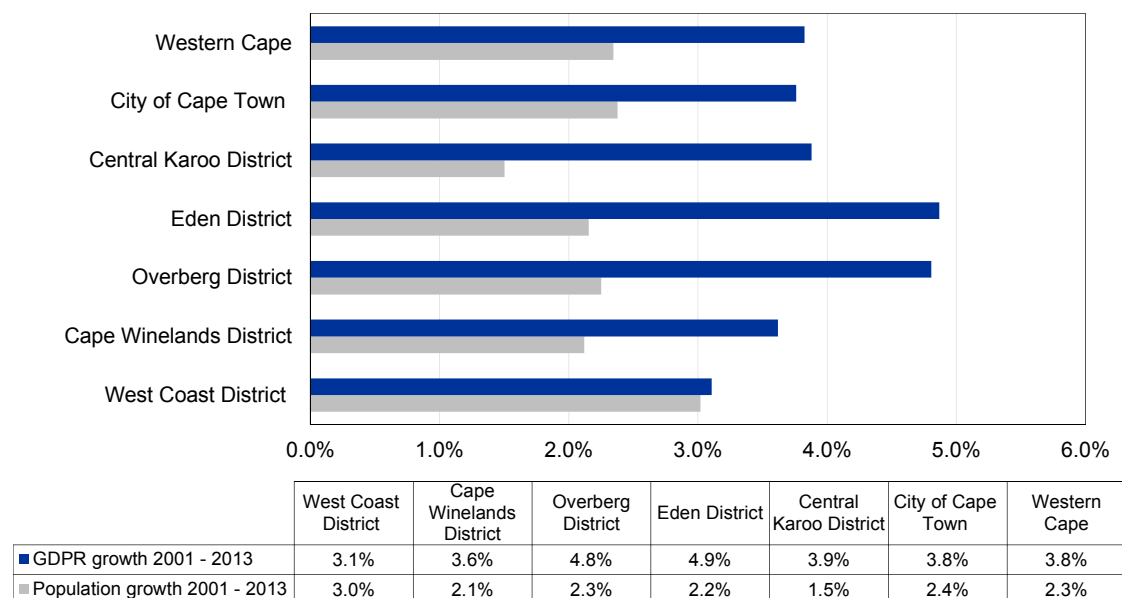
The HDI in the Cape Metro is the highest in the Province (relative to the 5 Districts), and consequently exceeds the Provincial average. The Cape Metro was able to translate economic advances made over the period 2001 - 2013 into social development for its inhabitants. On average, the inhabitants of the Cape Metro enjoy a higher standard of living than those residing elsewhere in the Province. It is nevertheless important to note the divergence in HDI between the difference race categories in the Cape Metro. In 2013, the HDI for those classified as "African" and "Coloured" stood at 0.63 and 0.69 respectively, while the HDI for those classified as "White" and "Asian" stood at 0.90 and 0.82 respectively. Policy makers should take cognisance of these inequalities if equitable development is to be achieved.

The following sections 5.3.1 through 5.3.3 provide an evaluation of three of the elements which reflect human development and embody the HDI, i.e. income, education and health, each in relation to the economy.

5.3.1 Income

The Western Cape's economic growth rate averaged 3.8 per cent per annum over the period 2001 - 2013. Given the Province's population growth rate of 2.3 per cent per annum over the same period, the region's economy grew faster than its population and per capita income subsequently increased, ensuring improving standards of living for the Province's inhabitants. The per capita income (based on 2005 prices) increased from R37 499 in 2001 to R44 546 in 2013.¹⁷

Figure 5.3 Population and real GDP growth rate across the Western Cape, 2001 - 2013



Source: Western Cape Department of Social Development, 2014 and Quantec, 2015

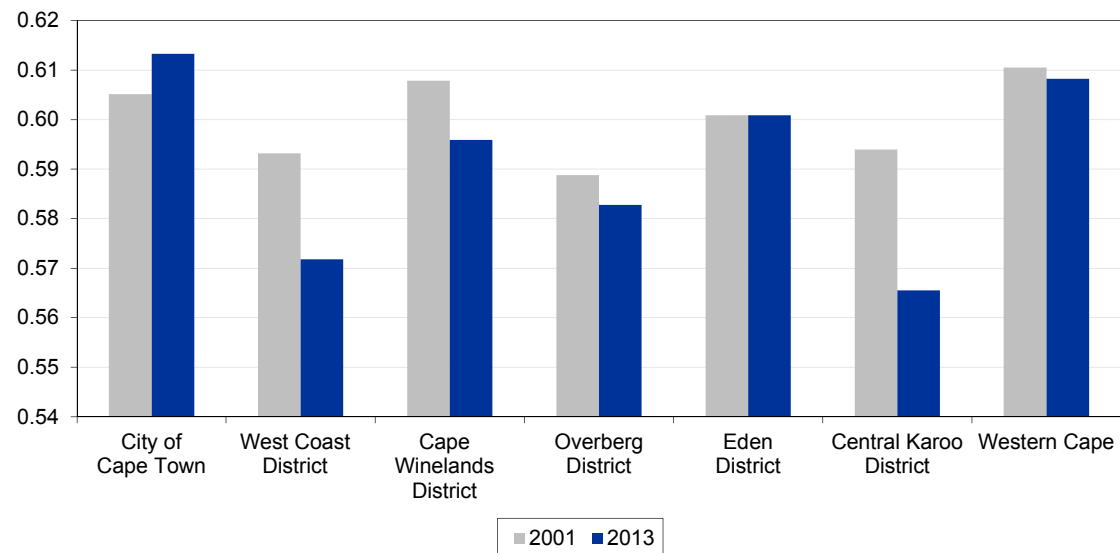
The Cape Metro's population totaled 3.84 million in 2013. As seen in Figure 5.3, its population grew at a rate of 2.4 per cent per annum from 2001 to 2013. The Cape Metro's economic growth rate averaged 3.8 per cent per annum over this period. The real per capita income of the Cape Metro's inhabitants has consequently increased by R7 548, from R43 195 in 2001 to R50 743 in 2013.

A comparison between the Cape Metro and the 5 District municipalities in the Western Cape revealed that the Cape Metro had the fastest growing population in the Province. Population growth rates vary significantly across the Province. This indicates that population growth not only stems from natural causes, but is also largely due to net in-migration in certain areas. While the Cape Metro recorded the highest GDP per capita, it logged the 3rd highest rand increase in per capita income behind the Overberg District (with an increase of R7 793) and the Eden District (with

¹⁷ Own calculations based on Western Cape Department of Social Development population statistics (2014) and Quantec GDP data (2015).

an increase of R9 355). This is indicative of the potentially adverse impact that the Cape Metro's population growth may have on the economic wellbeing of its inhabitants.

Figure 5.4 Gini coefficients in the Cape Metro and Districts in the Western Cape, 2001 - 2013



Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

Per capita income provides a skewed representation of average income per person as incomes are inequitably distributed amongst the inhabitants of a region. The Gini coefficient, which is a measure of statistical dispersion intended to represent the income distribution of a region's residents, provides an indication of the levels of income inequality in the District and varies between 0 (which represents complete equality) and 1 (which represents complete inequality).

Figure 5.4 indicates that income inequality, as measured by the Gini coefficient, increased marginally within the Cape Metro from 0.605 in 2001 to 0.613 in 2013. This suggests that the increases in per capita income may be concentrated amongst the higher income groups. This stands in contrast to the District municipalities, who have lower Gini coefficients in 2013 than they had in 2001. The Cape Metro has the highest Gini coefficient in the Province (relative to the Province's 5 District municipalities), suggesting that the distribution of wealth in the Cape Metro is the most unequal in the Province. The dominance of the skills-intensive finance, insurance, real estate and business services sector in the Cape Metro certainly explain some of the higher levels of income inequality.

5.3.2 Education

The job that an individual is able to obtain (and consequently the income that an individual is able to earn) depends considerably on the level of education they have attained. Higher levels of education generally lead to higher paying jobs and vice versa. South Africa has a large supply of unskilled labour, but also a large demand for skilled labour. This has consequently resulted in high levels of unemployment amongst unskilled individuals. It is important to note that addressing the high levels of unemployment not only depends on improved education and skills training. Alternatively, the latter should be channeled to the training of entrepreneurial skills, which can greatly assist with job creation, apart from the efforts in the education department.

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate of 80.9 per cent for the country as a whole. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the Provinces in the country between 2001 and 2011. This is largely due to the high dropout rates in the Western Cape which are as a result of finance shortages, the prevalence of teenage pregnancy, gangsterism and substance abuse among the youth (Socio-economic profile, 2014). Low literacy rates amongst older persons (45 to 65 years of age) are largely as a result of their lack of access to quality education in the past.

Table 5.2 Literacy rates across the Western Cape, 2001 - 2011

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

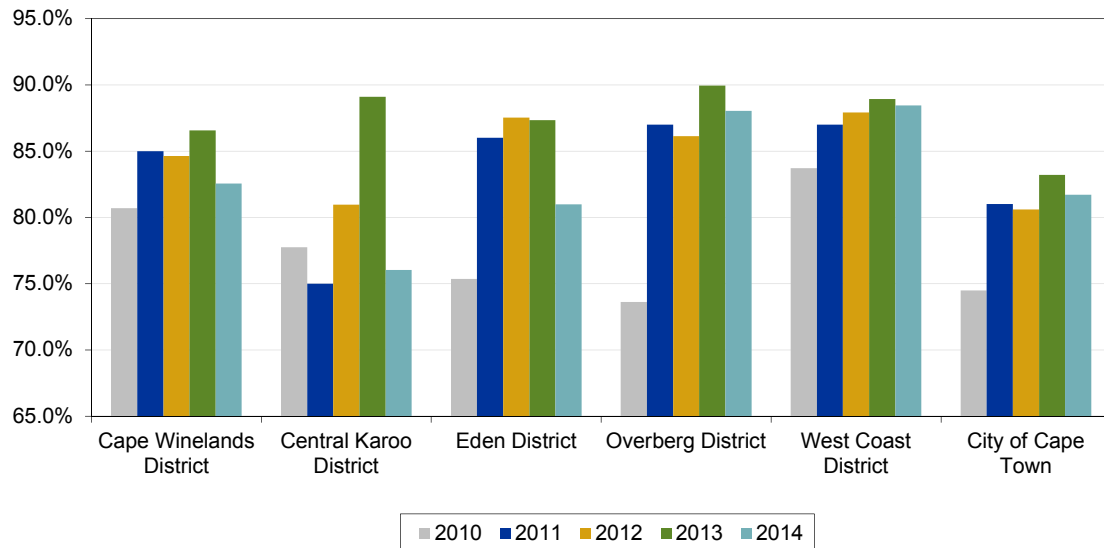
Source: Statistics South Africa, Census 2001 and 2011

When compared to the Districts, the Cape Metro showed the smallest improvement in literacy rates over the 2001 - 2013 period. The 5.5 percentage points improvement achieved by the Cape Metro is nevertheless larger than the improvement achieved by the Province overall. With a literacy rate of 90.5 per cent, the inhabitants in the Cape Metro are more literate (on average) than the inhabitants in the Province's 5 Districts. The literacy rates for Cape Metro and the Districts are listed in Table 5.2.

Consideration of the matric pass rate allows an assessment of the quality of education in a region. The Cape Metro's matric pass rate remained fairly stable during the economic recovery period (2010 to 2014), averaging 80.2 per cent (and growing by 2.3 per cent on average year-on-year). When compared to the Districts, the Cape Metro's matric pass rate of 81.7 per cent in 2014 is among the lowest 3 pass rates in the Province. The growth in per capita income may have facilitated the

improvement in the matric pass rates through improving access to resources (both qualitatively and quantitatively), with further improvement stifled by the Cape Metro's swelling crime rate (with regard to violent crime and substance abuse) and the high rate of teenage pregnancy (Socio-economic Profile, 2014) among other factors. The contraction in 2014 may also have come as a result of the 2014 cohort being subject to stricter standards in the setting and marking of the papers thus affecting the pass rates (Western Cape Education Department 2014/15 Annual Report, 2015).

Figure 5.5 Matric pass rates across the Western Cape, 2010 - 2014



Source: Western Cape Department of Education, 2015

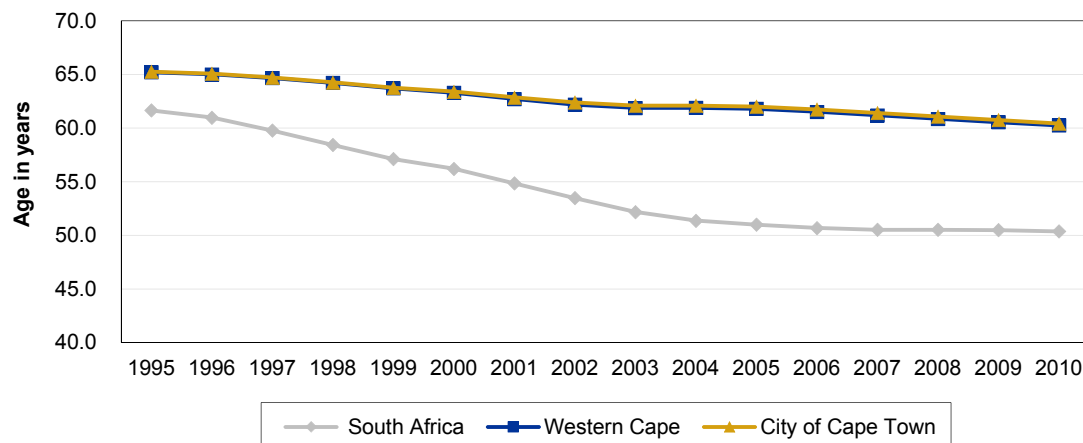
While the Cape Metro managed improvements in its matric pass rate, there have been some net job losses in the Cape Metro over the 2010 - 2013 period. During the economic recession of 2009, net job losses were slightly higher. The majority of the Cape Metro's workforce operates within the informal, semi- and unskilled sector. Employment in the semi- and unskilled sector decreased by 1.3 per cent annually from 2010 to 2013.

Approximately 34 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2015), yet it is clear that significant challenges remain that there is much room for improvement with regard to skills development in the Cape Metro and Western Cape as a whole. It is essential that qualitative improvements be made with regard to the skills of the workforce in the Cape Metro if the unemployment levels are to be reduced materially. Furthermore, as noted, the training of business and entrepreneurial skills should be prioritised as this will assist in employment creation.

5.3.3 Health

Good health has been found to have a positive and sizable effect on aggregate output in the economy largely because healthier workers are mentally and physically more energetic and robust, more productive and less likely to stay absent due to sickness and disability (Bloom et al, 2004). Health also affects the quality of life of the inhabitants of each district.

Figure 5.6 Life expectancy, 1995 - 2010



Source: Quantec Research

Figure 5.6 gives an indication of the life expectancy at birth. South Africa had a life expectancy of 50.4 years in 2010 after a steep decline from 61.7 years in 1995, while life expectancy in the Western Cape declined from 65 to 60 years during this period. Life expectancy stabilised after 2007/08 with the roll-out of anti-retroviral treatment across the country, and more recent data reveals an improvement in life expectancy in the Western Cape over the period 2011 - 2016 (Statistical release P0302, 2015). Life expectancy in the Cape Metro also declined from 65 to 60 years, indicating that the inhabitants of the Cape Metro are expected to live 10 years longer than the average South African. Despite the 5 year decrease, the Cape Metro has the second longest life expectancy in the country when compared to the other Metropolitan municipalities in South Africa, with the highest life expectancy attributable to the Nelson Mandela Bay Metro (with a life expectancy of 62.4 years in 2010).

The decline in life expectancy over the years has been largely attributed to the high prevalence of HIV/AIDS and Tuberculosis (TB) in the country. The HIV and TB patient load in each municipality within the Cape Metro is shown in Table 5.3.

The ART patient load in the Western Cape has increased by 25 369 between 2013 and 2014; 68 per cent of this increase emanated from the Cape Metro. This may be indicative of an increase in HIV infections. The Cape Metro also reported the highest number of TB patients (making up 59 per cent of the total in the Western Cape). The number of TB patients in the Metro nevertheless decreased by 4.4 per cent from 27 510 in 2013 to 26 305 in 2014.

Table 5.3 ART and TB patient loads in the Western Cape, 2013 - 2014

	HIV - Antiretroviral treatment			Tuberculosis		
	ART patient load March 2013	ART patient load March 2014	Number of ART clinics/ treatment sites 2014	Number of TB patients March 2013	Number of TB patients March 2014	Number of TB clinics/ treatment sites 2014
City of Cape Town	99 223	116 421	73	27 510	26 305	208
West Coast District	4 561	5 553	39	3 508	3 573	85
Cape Winelands District	14 170	17 463	41	7 213	7 327	88
Overberg District	4 907	6 182	20	2 175	2 103	48
Eden District	10 402	12 788	63	4 825	4 909	89
Central Karoo District	949	1 174	7	621	590	27
Western Cape	134 212	159 581	243	45 852	44 807	545

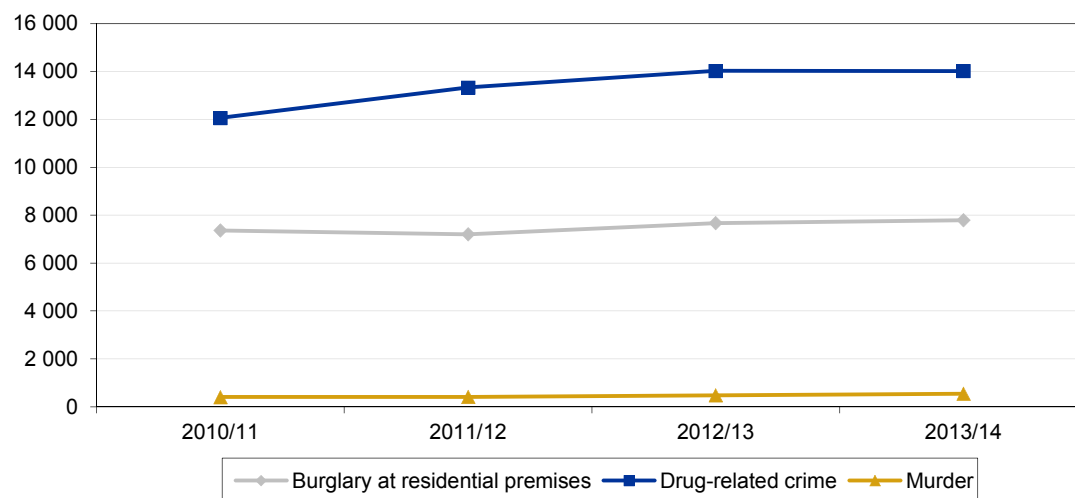
Source: Western Cape Department of Health, 2014

Due to the reduction in life expectancy since 1995 (and the prevalence of HIV and TB) in the Cape Metro, it is possible that these health related factors limited economic growth in the region. It is thus essential that the impact of health on production should not be overlooked as the increasing HIV/AIDS and TB patient loads could adversely affect economic activity within the Cape Metro (and consequently the quality of life overall).

5.3.4 Crime

Crime has a significant impact on the economy. According to the World Bank (2006), it can hamper growth and discourage investment and capital accumulation. It has the potential to derail both social and economic prosperity. It also diverts public resources away from productive uses which can further social development towards the police, justice system and health (for treatment of violence related injuries and traumas). It has been found that crime negatively impacts on the investment climate. Grant Thornton's International Business report indicated that 62 per cent of businesses in the Western Cape have been affected by crime (Smith, 2014). The largest impact on business are increasing security costs, but also through diverting investment, business losses through theft, fraud and lower levels of productivity due to loss of life or injuries, etc. Crime therefore has to be tackled with seriousness. As the safety of the population and property is of vital importance to the physical and emotional well-being of a region's inhabitants, crime has an adverse impact on the human security aspect of human development.

Figure 5.7 shows the crime rate in the Cape Metro in terms of burglaries, drug-related crime and murders per 100 000 population.

Figure 5.7 Crime per 100 000 population in the Cape Metro, 2010 - 2014

Source: South African Police Service and Western Cape Department of Social Development

Overall, crime has been on the rise within the Cape Metro between 2010 and 2014. The data indicates that drug-related crime is the most prevalent, growing consistently year-on-year and rising from 12 065 incidences per 100 000 inhabitants in 2010 to 14 021 incidences per 100 000 inhabitants in 2014. This suggests that a substance abuse problem exists within the Cape Metro. After a slight reduction in burglaries from 2011 - 2012, the incidence of burglaries increased substantially from 7 204 per 100 000 inhabitants in 2012 to 7 790 per 100 000 inhabitants in 2014. The incidence of murder, while significantly lower than burglaries at residential premises and drug-related crimes, has nevertheless also increased substantially from 410 per 100 000 inhabitants in 2011 to 549 per 100 000 inhabitants in 2014.

These statistics suggest that crime may be one of the factors (in addition to those evaluated Chapter 2) restraining economic growth (and thus employment) in the region. The increasing levels of crime are also impacting on human security within the Cape Metro. According to Stats SA (2015), 64.6 per cent of the Western Cape households feel unsafe when it is dark and 27.1 per cent feel unsafe during the day¹⁸. This is the highest in the country. Addressing the high levels of crime is therefore crucial to improving the quality of life of households in the Metro.

5.4 Access to basic services

Access to basic services within South Africa is a basic human right. It is also an indication of the quality of life of the inhabitants in the country. Access to basic services has a wider impact on education and health and therefore also on the economy.

¹⁸ Crime Statistics Series Volume II: Public perceptions about crime prevention and the criminal justice system, 2010-2013/14 Report 03-40-03

The Cape Metro displayed high levels of access in 2013 with respect to water, sanitation, energy and refuse removal as access levels for these services either equal or exceed the provincial averages. However, with respect to housing (78.3 per cent), the Cape Metro ranks significantly below the Provincial average of 80.5 per cent.

Table 5.4 Access to basic services in the Western Cape, 2013

Region	Water 2013	Sanitation 2013	Housing 2013	Energy 2013	Refuse removal 2013
City of Cape Town	96.5%	90.0%	78.3%	93.9%	94.2%
West Coast District	98.3%	87.4%	88.3%	94.4%	76.6%
Cape Winelands District	97.1%	90.8%	82.6%	92.6%	79.9%
Overberg District	97.4%	89.4%	82.9%	91.1%	79.7%
Eden District	95.2%	85.1%	84.1%	89.4%	86.5%
Central Karoo District	98.1%	88.9%	97.3%	89.2%	78.6%
Western Cape	96.6%	89.4%	80.5%	93.3%	89.8%

Source: Quantec Research

Gnade (2013) provided empirical results in support of the broad view that basic infrastructure investment would have a positive influence on poverty and inequality. This positive influence has also been noted for education.

As per section 4.3, the impact of basic services infrastructure spending on the economy is also observed to be positive. Furthermore, as basic service delivery has improved over the years, improvements in literacy rates have followed (as noted above). It can thus be concluded that access to basic services has a positive impact on and also the economy as a whole and therefore on the overall quality of life within the District.

5.5 Concluding remarks

The following inferences may be drawn from the socio-economic analysis above:

- The increasing HDI between 2001 and 2012 is an indication that economic growth is having a positive impact on social development within the Cape Metro. The high levels of inequality indicate that this is not equally experienced among households.
- The real economic growth rate exceeds the population growth in the Cape Metro. Increasing real per capita income levels in the region imply that standards of living have improved.
- Large discrepancies exist between population growth rates across the Province, implying that population growth does not only stem from natural causes, but is also related to net migration. This may be an area of future research, with the focus being placed on migration patterns and the distinction between local, national and foreign in- or out migrators, and the implications for the non-migratory local labour force.

- Despite improvements in the matric pass rate and literacy rate, the majority of the Cape Metro's workforce remains employed within the semi- and unskilled and informal sectors of the economy. Given the trend towards employing skilled to highly skilled individuals, skills development is required in order to further stimulate employment in the region.
- The prevalence of HIV and TB in the region has contributed toward a reduction in the life expectancy of the inhabitants of the Cape Metro. These factors hinder economic growth in the region.
- Crime rates have been increasing within the region, and also constraining economic growth and development within the region.
- While access to basic services is high in the Cape Metro, it remains a challenge to attain even higher levels of access in a growing city. The trends nevertheless indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the inhabitants of the Cape Metro, important challenges remain. The relatively high level of inequality is one of those complex problems, which need to be addressed. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life in the region.

Annexure 1

5-Year annual averages – economic data

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

Average yoy % growth				Trend	Expansion	Recession	Recovery
Sector	1996 - 2000	2001 - 2005	2006 - 2011	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	-2.6	10.0	7.2	8.5	8.1	18.7	2.2
2 Secondary sector [SIC: 3-5]	1.8	3.3	2.7	2.8	4.3	-1.6	2.3
3 Tertiary sector [SIC: 6-9, 0]	3.3	5.0	3.9	3.8	5.3	2.1	2.8
Total: Cape Metro	2.8	4.6	3.6	3.6	5.0	1.5	2.7
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	8.2	12.4	8.5	9.7	9.8	21.9	2.2
2 Mining and quarrying [SIC: 2]	-17.3	-0.7	-2.2	-0.5	0.4	-7.2	1.5
3 Manufacturing [SIC: 3]	1.6	2.4	2.2	2.4	3.6	-3.0	2.7
4 Electricity, gas and water [SIC: 4]	3.7	6.4	1.0	1.6	5.2	-1.4	1.0
5 Construction [SIC: 5]	2.7	7.6	5.6	5.5	8.4	4.3	1.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	5.3	4.7	2.9	3.6	5.5	-0.7	3.4
7 Transport, storage and communication [SIC: 7]	7.8	6.5	3.4	3.7	6.5	1.9	2.3
8 Finance, insurance, real estate and business services [SIC: 8]	3.5	6.4	4.9	4.3	6.5	3.1	3.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.0	2.8	2.3	2.4	3.4	1.1	1.4
10 General government [SIC: 91, 94]	-2.0	1.4	3.5	3.2	1.2	4.0	2.7
Total: Cape Metro	2.8	4.6	3.6	3.6	5.0	1.5	2.7

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

Source: Quantec Research/Western Cape Provincial Treasury

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

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	-2.3	5.9	1.7	1.6	6.0	-1.3	-0.6
2 Secondary sector [SIC: 3-5]	-4.3	-1.5	-3.8	-2.5	-2.0	-5.2	-2.5
3 Tertiary sector [SIC: 6-9, 0]	3.4	2.6	1.0	1.4	2.2	0.7	0.7
Total: Cape Metro	0.7	1.6	-0.1	0.5	1.2	-0.7	0.0
Broad sectors: Cape Metro							
1 Agriculture, forestry and fishing [SIC: 1]	-1.0	7.2	0.8	1.4	6.7	-1.8	-0.5
2 Mining and quarrying [SIC: 2]	-13.2	-15.9	26.2	13.9	1.3	10.4	2.9
3 Manufacturing [SIC: 3]	-2.9	-1.7	-3.5	-2.4	-2.4	-4.5	-1.0
4 Electricity, gas and water [SIC: 4]	-0.8	6.4	4.3	3.4	7.4	-6.8	2.4
5 Construction [SIC: 5]	-7.0	-1.2	-4.8	-3.1	-1.5	-6.6	-5.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.2	1.4	0.6	2.2	1.3	-0.4	0.3
7 Transport, storage and communication [SIC: 7]	-1.9	0.6	3.7	2.3	-0.2	7.4	3.0
8 Finance, insurance, real estate and business services [SIC: 8]	7.4	4.9	0.2	0.5	4.3	-1.2	1.7
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.9	2.2	1.2	1.3	2.5	1.7	-0.6
10 General government [SIC: 91, 94]	0.5	3.6	1.8	1.4	2.1	2.6	0.5
Total: Cape Metro	0.7	1.6	-0.1	0.5	1.2	-0.7	0.0

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

Source: Quantec Research/Western Cape Provincial Treasury

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

Sector	% share				
	1995	2000	2005	2010	2014
Goods Exports					
Broad sectors: Cape Metro					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	53.8	34.7	30.9	33.4	28.3
2 Mining and quarrying [SIC: 2]	0.3	3.6	6.4	3.4	5.1
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	45.8	61.5	62.6	63.0	66.0
4 Undefined/other	0.1	0.2	0.1	0.2	0.6
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Cape Metro					
1 Food, beverages and tobacco [SIC: 301-306]	34.2	22.5	17.6	19.3	18.7
2 Textiles, clothing and leather goods [SIC: 311-317]	9.2	9.0	4.3	2.0	6.2
3 Wood, paper, publishing and printing [SIC: 321-326]	5.1	3.5	2.3	2.0	2.0
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	21.0	36.4	44.3	32.1	40.7
5 Other non-metal mineral products [SIC: 341-342]	2.2	1.0	0.8	0.5	0.6
6 Metals, metal products, machinery and equipment [SIC: 351-359]	11.7	8.0	11.8	23.5	14.3
7 Electrical machinery and apparatus [SIC: 361-363]	6.1	1.5	0.9	1.0	1.3
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	1.7	2.5	5.7	6.4	3.3
9 Transport equipment [SIC: 381-387]	5.7	9.9	6.5	7.6	8.9
10 Furniture and other manufacturing [SIC: 391-392]	3.0	5.7	5.8	5.5	4.1
Total: Manufacturing exports	100	100	100	100	100
Sector	% share				
	1995	2000	2005	2010	2014
Goods Imports					
Broad sectors: Cape Metro					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	11.3	5.9	7.8	8.7	8.1
2 Mining and quarrying [SIC: 2]	10.3	43.9	34.2	34.1	34.6
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	78.4	50.2	57.9	57.0	57.2
4 Undefined/other	0.0	0.0	0.1	0.1	0.1
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Cape Metro					
1 Food, beverages and tobacco [SIC: 301-306]	10.5	9.0	11.0	11.5	11.3
2 Textiles, clothing and leather goods [SIC: 311-317]	12.1	15.5	13.9	14.1	13.0
3 Wood, paper, publishing and printing [SIC: 321-326]	8.6	6.5	4.0	3.4	2.4
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	20.0	25.1	29.5	38.6	43.7
5 Other non-metal mineral products [SIC: 341-342]	1.7	2.0	2.9	2.7	1.9
6 Metals, metal products, machinery and equipment [SIC: 351-359]	24.5	19.6	16.5	14.5	12.8
7 Electrical machinery and apparatus [SIC: 361-363]	2.5	2.4	2.0	1.9	3.5
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	7.2	10.1	12.8	6.3	5.2
9 Transport equipment [SIC: 381-387]	9.4	4.8	3.1	2.6	2.2
10 Furniture and other manufacturing [SIC: 391-392]	3.5	5.0	4.2	4.5	3.9
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

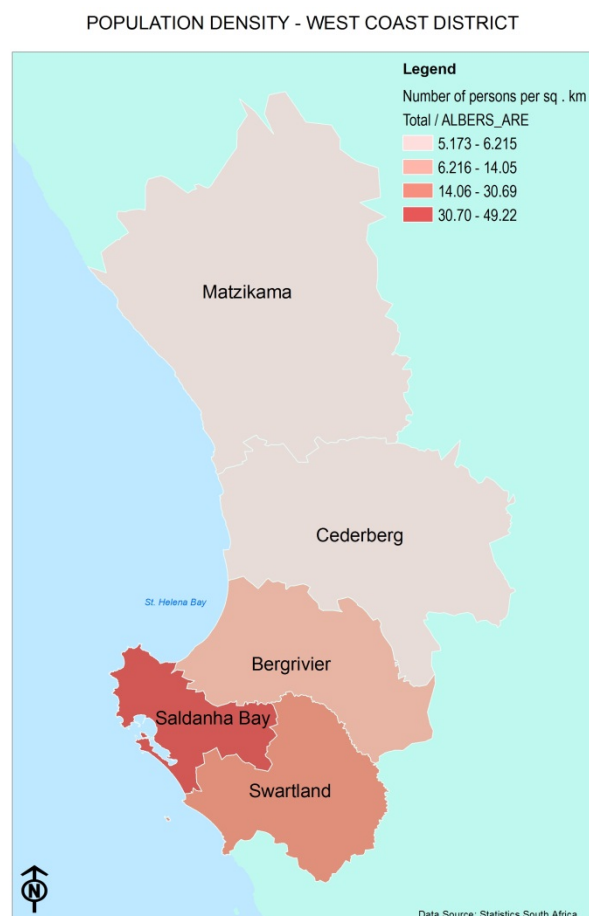
West Coast District

Executive summary

Introduction

The 2015 Municipal Economic Review and Outlook (MERO) report is presented in a generally constrained macro-economic environment. Whilst more challenging, this ups the imperative of unlocking opportunities for growth and jobs. The MERO's objective is to provide economic intelligence at the local level in the Western Cape Province, which can assist with evidence-based decision making and in building an environment conducive to private sector growth and employment creation.

The reality is that six years from the onset of the recovery from the 2009 Great Recession, world economic growth is as yet not on a solid footing. Growth projections have been scaled down at the global, national and provincial levels. 'Secular stagnation' is the term being used to describe a 'new normal' in respect of the world economy.



The macro-economic context was discussed in Section A of the report. In this section of the report, five chapters are devoted to the economic review and outlook for the WCD economy. The first chapter provides a dedicated regional economic outlook. Thereafter, the focus is on sectoral growth, employment and skills demand trends in each of the five WCD municipalities; a sectoral forecast over the 2015 - 2020 period at the District level is also motivated. The third chapter focuses on the topic of integration into global value chains, Special Economic Zones (SEZs) and the oil and gas and agri-processing value chains in the WCD; an update is also provided of the Saldanha Bay Industrial Development Zone (IDZ). In the fourth chapter, an analysis of the municipal revenue and infrastructure spending trends and access to basic services is made, including an indication of the infrastructure projects underway in the WCD. The fifth chapter concludes with a consideration of the WCD's socio-economic profile and the apparent linkages with economic growth.

1. Regional economic outlook

The WCD economy is a relatively open economy, with close to half of its GDP traded internationally and the region being closely integrated with the Cape Metropolitan area, particularly the two leading and southern-most municipalities of Saldanha Bay and the Swartland. Demand conditions in the wider Province, nationally and globally have a direct bearing on the ebbs and flow of the WCD.

Whilst the local manufacturing sector contracted sharply from the impact of the Great Recession, the WCD showed resilience largely supported by exceptional growth in the District's financial and business services industry, which also continued to create employment. Going forward, hopes are pinned on the infrastructure development necessitated by the Saldanha Bay IDZ and the prospective private sector investment, the Saldanha Bay-Northern Cape development corridor and other big-ticket infrastructure projects in boosting economic activity in the region. These projects are immensely important; however, experience has shown that the real benefits only accrue with time.

Excluding the economic impact of these large infrastructure projects, forecasted growth for the District over the coming five years was revised down, in line with provincial, national and global growth projections being adjusted downwards. The Western Cape Province growth forecast was revised down from an average of 3.0 per cent per annum last year (2014 - 2019), to 2.7 per cent per annum (2015 - 2020). The WCD's forecast over the corresponding periods has been revised from 2.9 per cent per annum to 2.6 per cent per annum. A stronger economic momentum is forecast from 2017 onwards.

External factors, such as the imminent interest rate hikes in the USA and the Chinese economic slowdown, have had unfavourable consequences for emerging markets such as South Africa. Financial volatility, currency depreciation and weaker commodity prices have also impacted the WCD economic outlook. WCD goods exports comprise mainly steel and associated metal products and agri-processing goods. The current weakness in the rand exchange rate will compensate for low commodity prices in the short term and create space for import replacement and

increase the competitiveness of exports (especially manufacturing exports) in the longer term. However, weak global and national demand conditions have put a ceiling on these benefits for the time being. Global demand and growth are expected to improve from 2017, which is likely to impact positively on the WCD economy. Domestic electricity supply constraints are also expected to lift. For the remainder, the big-ticket infrastructure projects will brighten the outlook.

2. Sectoral growth, employment and skills

The WCD's coastal location (and its two harbours, Saldanha Bay and Lamberts Bay), its proximity to the vibrant Cape Metro and the natural beauty of both the coastline and the interior are clear regional draw cards. The regional economy's competitive strengths reside in its agro-processing, tourism and building and construction value chains. Two of the top-10 Western Cape municipalities in terms of growth and size, i.e. Saldanha Bay and Swartland, are located in the WCD.

The regional economy is characterised by a vibrant commercial sector, also expected to continue providing the main growth impetus over the forecast period. In this respect the growth and structure of the Saldanha Bay Municipality stand out in the region. The incumbent IDZ development should change the trajectory of the shrinking manufacturing sector and the associated outflow of semi- and unskilled labour. Interesting, albeit challenging, skills development initiatives have been launched in order to meet rising demand tied to the IDZ development. Swartland Municipality hosts a comparatively larger and stable agricultural sector. This, combined with lively construction activity, provides a base for positive manufacturing growth. The commercial services sector also benefits. Unfortunately, similar to Saldanha Bay, the net employment creation in commercial services was insufficient to counter the outflow from all the other sectors. Both municipalities have been characterised by semi- and unskilled net job losses despite high economic growth.

In the wider WCD up north, the municipal economies of Bergrivier, Cederberg and Matzikama are small, with these regions' agricultural bases being under pressure. This impacts on manufacturing and commercial services. The Bergrivier manufacturing sector is more vibrant, benefiting from linkages with the neighbouring Saldanha Bay and Swartland economies. Cederberg has the smallest economy and here the contraction of agriculture and manufacturing and the sharp decline in the demand for semi- and high skilled workers, of which the supply is the highest, is cause for concern. In Matzikama, some construction activity, a relatively stable manufacturing sector and moderate growth in services activities countered the adverse tendencies in agriculture.

The adverse trend in semi- and unskilled employment needs to be addressed. The WCD region faces a growing informal sector. The scope for addressing these challenges has become more trying in the anticipated macro-economic growth environment. The newly commissioned major infrastructure projects are likely to be an important countervailing force and all efforts have to be aimed at avoiding slippage in this regard. This has the potential to brighten the growth performance of

the regional economy significantly and provide opportunities to employ and up-skill workers.

3. Value chains and Special Economic Zones (SEZs)

In today's world, value chains reaches beyond regional and national boundaries and the key is integration. Globalisation, interconnectedness, technology, logistics, offshoring and deregulation are all elements of the drivers of value chains. The Saldanha Bay IDZ is an example of a SEZ, i.e. a deep-sea free port, which aims to tap into the global oil and gas value chain by servicing the upstream sector.

Municipalities generally do not have the mandate to provide incentives and policy initiatives to establish and ensure the success of a SEZ. However, there are various ways in which a municipality can provide support and ensure that the economic benefits are localised. Particularly regarding SEZs in rural areas, the surrounding support services can face considerable informational and logistics challenges and be at a disadvantage to the large companies investing in the SEZ. Municipalities can assist along the whole value chain by the provision of supplier data bases, for instance; they can expedite zoning and the provision of land; ensure the standard basic services and associated infrastructure are delivered effectively; they can combat captive market relations, e.g. by the facilitation of relationships directly between the producers, local logistics companies, and the firms in the SEZ. This could limit losses outside the local value chain and ensure greater profits for the local producers and service suppliers to create additional jobs. Then there is the trendy issue of geographical identification, i.e. the branding of products from the region; assist with trade fairs and the marketing of local products, etc.

The risks associated with the oil and gas industry in the WCD, given its upstream focus, range from the general decline in the oil and gas industry to the relatively low levels of forward integration, which exposes local industry to all the risks of oil and gas activity on the West coast of Africa. The major opportunity is the localising of employment – the greater demand for specialised skills creates a unique opportunity to localise these skills, which will benefit the local construction, services, trade, education and healthcare sectors having to face increased demand. The facilitation of R&D and skill-training workshops or centres is a unique opportunity. An opportunity may also arise in supporting the development of midstream activities, which will expose the region to a greater portion of the entire oil and gas value chain, greatly improving GDP and employment in the region. There is also the opportunity of potential tourism, e.g. by promoting Saldanha Bay as a quality lifestyle destination. All this has important implications for the improvement of municipal support services, focusing on education, health and other social services.

The Saldanha Bay IDZ is close to lift-off, with the essential infrastructure work likely to be on-site soon. The construction phase will have direct economic benefits; however, the more meaningful economic benefits will materialise as soon as critical mass is reached regarding private sector companies establishing in the IDZ. The overriding attraction for prospective companies is the fact that it will be a free deep-sea port, having a prime location along the West African coast. The interest of the prospective

companies goes beyond oil and gas and marine repair business to marine manufacturing, such as small navy vessels exportable to other African markets. There already are non-disclosure agreements in place with 28 private companies, more or less evenly split between local and foreign entities. South African Oil & Gas Alliance (SAOGA) has indicated that eight firms are developing and finalising agreements with the zone operator. One of the key strategic objectives and challenges with the Saldanha Bay IDZ is localised job creation and economic growth. In this regard an 18-month skills training programme has been launched in cooperation with the Department of Labour and the intention is to do enterprise development in association with the IDC business forum.

4. Infrastructure expenditure and revenue analysis

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic services infrastructure investment is not only an essential part to improving livelihoods but also aids in the creation of jobs during development and maintenance and in improving the competitiveness of firms. This chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the WCD.

The 2015 analysis revealed that the year 2014 not only recorded a substantial decrease in basic services infrastructure expenditure but also the lowest GDP growth rate over the 2009/10 to 2013/14 period. Waste water management and water provision were the largest basic services infrastructure expenditure items in the WCD in 2014 whilst waste management was the smallest. Furthermore, basic service delivery varies across municipalities within the WCD, due to various economic inequalities that impact on the municipal tax base and revenue collection of individual municipalities. Whilst results from the annual Non-financial Census of Municipalities show that there has been an increase in households with access to water, sewerage and sanitation services in the WCD, the census also revealed a decrease in the number of consumer units with access to electricity and refuse removal services in Saldanha Bay. Basic services delivery is an important source of revenue for municipalities within the region. Electricity sales make the largest contribution to revenue generated from basic services. This is followed by property rates tax revenue, water revenue, sanitation revenue and then refuse revenue.

As noted, the WCD hosts two of the top-ten municipalities in the Province in terms of size and GDP growth, i.e. the Saldanha Bay and Swartland municipalities. Expenditure on basic services infrastructure and revenue generation from property rates and trading services is higher within these two municipalities vis-à-vis Bergrivier, Matzikama and Cederberg, which trail both in terms of growth, size and infrastructure investment and revenue collection. It is evident that those municipalities that spent a larger share of total expenditure on basic services infrastructure (also in per capita terms) experienced higher growth rates and collected more revenue from basic services delivery. Municipalities must do more to exploit the potential of these revenue sources. Revenue increasing strategies include minimising water and

electricity losses, accurate billing, the expansion of service delivery and debt collection strategies.

5. Socio-economic profile

The fact that the WCD Human Development Index (HDI) increased between 2001 and 2012 is an indication that economic growth is being translated towards social development within the WCD, albeit evident that this is not equally shared among households. A combination of lagging real economic growth rates in a provincial context and relatively high population growth has resulted in overall living standards, as reflected in per capita income levels, having stagnated. This has somewhat perversely contributed to improvements in income inequality. Income inequality has deteriorated somewhat in the leading and services-oriented Saldanha Bay economy, with a keener demand for skilled and highly skilled labour. The other municipalities experienced an improvement in income inequality; however, seemingly due to the lower growth of real incomes impacting the higher income groups. Furthermore, large discrepancies exist between population growth rates within the WCD, which indicates the presence of net migration.

In terms of education, there has been an overall increase in matric pass rates in the District, with the exception of Bergrivier Municipality. Literacy rates in the WCD are however still relatively low. There is a trend towards employing skilled to highly skilled individuals in the region. Skills development and low skilled labour intensive initiatives are therefore required in order to further stimulate employment in the District. Life expectancy has been declining moderately within the WCD, albeit that this tendency has been stabilising since the large scale roll-out of anti-retroviral treatment in 2007 - 2008. Currently it appears that health issues have not had a very large effect on the WCD economy, although increasing HIV/AIDS and TB could pose a concern. Rising crime rates have also been reported within the WCD, which may be having an adverse effect on economic activity. Access to basic services, although high has been fairly stable in the District. Nevertheless, trends indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the inhabitants of the WCD, there is still much room for improvement. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life in the region.

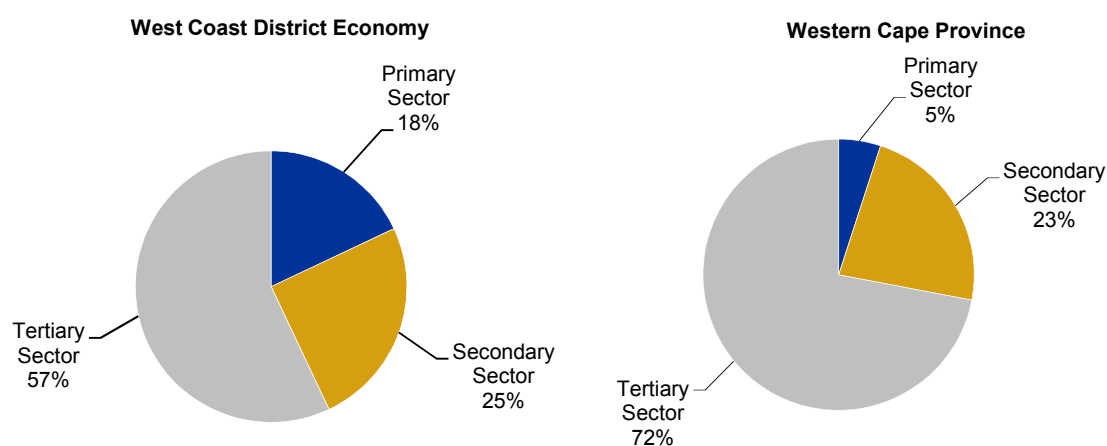
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West Coast regional economic outlook

1.1 Introduction

The WCD economy is the third largest non-metro district within the broader Western Cape Province economy. From a gross value added (GVA) perspective, the District accounts for roughly 4.4 per cent of total provincial GDP, making it a relatively minor contributor. In 2013, the District employed a total of 104 860 people, which was equivalent to 5.6 per cent of total provincial employment. Compared to the Western Cape Province at large, the WCD economy has a relatively more even mix of economic activities among its primary, secondary and tertiary sectors. While secondary sector contributions for both the District and the Province weigh roughly the same, the Province is comparatively more tertiary sector-heavy with a smaller primary sector relative to the WCD. Figure 1.1 gives a graphical comparison of the sectoral distributions within the WCD economy and the Western Cape Province.

Figure 1.1 West Coast District and Western Cape Province GDP sectoral contribution: Average 2000 - 2013

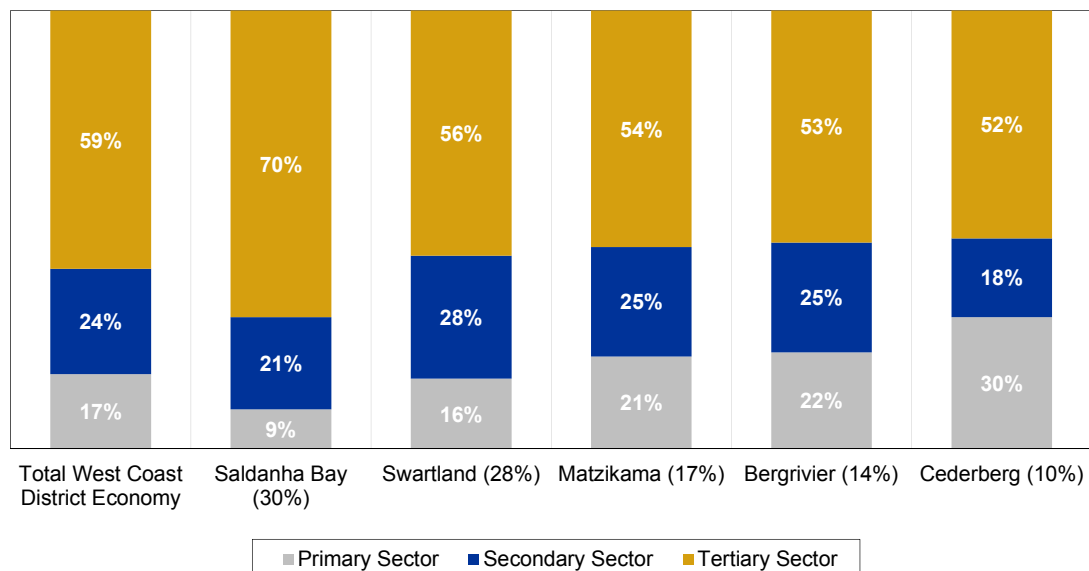


Source: Quantec data, own calculations

The resultant differences in sectoral structure within the District are, of course, a direct result of the structures inherent in the local municipalities. Again using average figures from the year 2000 to 2013, Saldanha Bay is the strongest local municipality within the wider District and accounts for 30 per cent of total WCD GDP. Interestingly, its broad sectoral weighting resembles that of the Western Cape Province more than it does that of the District (see Figure 1.2). The District boasts a relatively more vibrant tertiary sector which accounts for 57 per cent of municipal GDP and is dominated by activities from business services as well as wholesale and retail trade.

In comparison to Saldanha Bay, the sectoral composition of the other local municipalities are predominantly primary sector driven, with agriculture, forestry and fishing being the main driver of economic activity within the WCD region. Figure 1.2 depicts the spread of sectors among the municipalities. Within the District's agricultural activities, animal products have proved to be responsible for about 45 per cent of the sector's income.

Figure 1.2 Sectoral composition of West Coast District compared to local municipalities: 2005 - 2013



Source: Quantec Research, Own calculations

Notwithstanding the more noticeable presence of primary sector activity within the other municipalities, tertiary sector presence also remains relative important as well, given its average weight of 50 per cent and above across the board. On average, economic activities within the District's tertiary sector is dominated by business services and wholesale and retail trade. Matzikama and Swartland municipalities, however, exhibit some different tendencies. While tertiary sector activities within Matzikama are more evenly spread across industries, Swartland seems to be the financial hub for the District, reflecting a relatively robust finance and insurance industry. Although not the strongest sector, the WCD's secondary sector has a manufacturing industry with great potential for growth, which lies mainly in agri-processing. More potential in manufacturing can also be found in non-metallic mineral products and the metal industry. In order for this potential to be unlocked, the District will have to invest in the development of its primary sector. The success of the

Saldanha Bay-Northern Cape development corridor will, therefore, be a great support for manufacturing.

In the next section, we delve deeper into the nuances of municipal sectors, and evaluate GDPR performance as well as changes in employment. This evaluation will cover both historical and current economic developments.

1.2 Historical and current growth and employment trends

1.2.1 GDPR performance and employment per municipality

From 2005 to 2013, the WCD economy's GDPR trend average growth rate has been 3.0 per cent per annum. Table 1.1 below shows that while District growth managed to keep its head above water during the 2008 - 2009 recession – easing to a 1.4 per cent annual growth – it still has not managed to revert back to its trend growth rate during the recovery period of 2010 - 2013. Thus far, GDPR has only grown by an average annual rate of 2.8 per cent from 2010 to 2013. Although economic recovery in the District is in line with provincial recovery, the WCD economy's trend growth rate and rate of expansion leave much to be desired.

Table 1.1 West Coast District municipalities: GDPR growth

Municipality	Contribution to GDPR (%) 2013	Trend 2005 - 2013	Real GDPR growth (ave yoy %)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Saldanha Bay	32	4.1	5.3	2.0	3.8
Swartland	29	3.7	4.0	3.0	2.6
Matzikama	15	1.0	2.0	-1.4	1.6
Bergervier	13	2.2	3.4	0.1	2.7
Cederberg	9	1.6	2.9	0.4	1.8
Total West Coast District¹	100	3.0	3.8	1.4	2.8
Western Cape Province	-	3.6	4.9	1.4	2.8

Source: Quantec Research

From a municipal contribution point of view, Saldanha Bay and Swartland municipalities not only make up just over 60 per cent of the District's GDPR, but also maintained growth rates above the District's since the year 2000. Table 1.1 shows that during the economic expansion and recession phases, growth in Saldanha Bay and Swartland exceeded District growth. Interestingly, the District shed jobs during the expansion phase (see Table 1.2), and only Saldanha Bay and the former West Coast DMA realised some gains. Saldanha Bay continued to add a significant number of jobs during the recovery period. Swartland, however, seems to have been recorded relatively significant net job losses, which is worrying given that it is the second largest contributor to District GDPR and employment. Even more concerning, these job losses have been occurring against the backdrop of above average growth in this municipality.

¹ The former DMA accounts for the remaining 1 per cent contribution to the District's GDPR.

Table 1.2 West Coast District municipalities: employment growth

Municipality	Contribution to Employment 2013 (%)	Trend 2005 - 2013	Employment (net change)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Saldanha Bay	31	681	401	-1 100	1 606
Swartland	25	-4 698	-2 655	-1 526	-1 111
Matzikama	15	-3 316	-2 603	-1 356	86
Bergrivier	15	-4 604	-2 570	-1 781	-192
Cederberg	12	-3 162	-1 504	-1 118	9
Total West Coast District²	100	-14 615	-8 523	-6 639	362
Western Cape Province	-	25 152	128 301	-11 841	-10 468

Source: Quantec Research

1.2.2 GDPR performance and employment per sector

When looking at the private sector performance within the WCD economy, the financial and business services sector as well as trade and accommodation continue to stand out. Not only have these sectors recovered above the District's recovery growth trend of 2.8 per cent, but they have also surpassed its long term trend growth rate of 3 per cent (see Table 1.3). Furthermore, these two sectors account for sizable portions of the WCD economy's GDPR.

Table 1.3 shows that the tertiary sector has also been the engine behind employment creation. Whereas the District as a whole shed jobs even during the 2000 - 2007 expansion phase, the tertiary sector created jobs consistently, even during the 2008 - 2009 recession. Financial and business services has been responsible for about 50 per cent of jobs created growth over the past 10 years. Over time, significant job losses have been sustained in the agriculture and manufacturing sectors. Several reasons can be listed for these losses. Within agriculture, increasing mechanisation in agriculture is diminishing the need for sizable permanent additions to labour. Furthermore, agricultural real value added has tended to contract in all municipal regions, apart from Saldanha Bay (where the fishing sector makes a positive contribution).

² The former DMA accounts for the remaining 2 per cent contribution to the District's employment.

Table 1.3 West Coast District: Broad sectoral growth and employment creation³

Sector	Real GDP growth (ave yoy %)				Employment (net change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Agriculture, forestry and fishing	-0.3	-0.9	2.6	-0.1	-20 804	-11 525	-7 837	-423
Mining and quarrying	-3.1	-3.4	-10.0	3.0	422	-510	18	-16
Manufacturing	-0.3	2.6	-8.5	1.9	-4 108	-5 462	-1 632	-546
Electricity, gas and water	-2.9	-1.3	-7.7	-0.4	-37	7	-100	11
Construction	6.2	8.3	5.6	1.5	-1 395	-1 203	-353	-1471
Wholesale and retail trade, catering and accommodation	3.2	5.1	-1.0	3.4	2 719	366	134	62
Transport, storage and communication	3.1	5.6	1.5	1.7	857	-56	440	365
Finance, insurance, real estate and business services	9.3	11.7	11.2	5.4	5 991	6 720	1 603	2 045
Community, social and personal services	2.0	3.8	0.2	2.0	628	1 336	728	-166
General government	3.1	1.9	3.4	3.4	1 113	1 803	361	501
Total	3.0	3.8	1.4	2.8	-14 615	-8 523	-6 639	362

Source: Quantec Research

The manufacturing sector continues to be disadvantaged by more competitive players in the global industry such as China. Over and above this, slowing global demand threatens any potential for expansion in manufacturing. The manufacturing sector has of late also been affected most by the electricity supply constraints.

1.3 District economic outlook

The WCD's real GDP grew by 2.0 per cent in 2013 and then eased to 1.1 per cent in 2014. While both rates are below the average annual recovery growth rate of 2.6 per cent which occurred between 2010 and 2014, this is expected to be sustained going forward. Estimated average annual growth for the 2015 - 2020 forecast period is projected at 2.6 per cent (see Table 1.4). Encouragingly, this average is a consequence of a progression of upward growth within the forecast years.

³ The primary sector consists of agriculture, forestry and fishing and mining; the secondary sector consists of manufacturing, construction and electricity and water and the tertiary sector consists of a whole range of services economic activity, i.e. wholesale, retail, catering and accommodation; transport and communication; financial, insurance, real estate and business services; community, social and personal services and the government.

Table 1.4 West Coast District: Real GDP growth forecast by broad sector: 2015 - 2020

Sector	2015	2016	Forecast (%)				Forecast (%) 2015 - 2020
			2017	2018	2019	2020	
Agriculture, forestry and fishing	0.3	0.5	1.0	0.8	0.9	1.1	0.8
Mining and quarrying	1.3	1.0	1.0	0.8	1.3	1.6	1.2
Manufacturing	0.6	1.8	2.1	2.1	2.7	2.6	2.0
Electricity, gas and water	-1.3	1.3	1.3	1.4	2.0	2.4	1.2
Construction	3.3	2.7	4.6	4.8	4.7	5.0	4.2
Wholesale and retail trade, catering and accommodation	1.7	2.1	3.0	3.1	3.7	3.7	2.9
Transport, storage and communication	2.5	2.4	3.8	4.0	4.0	4.1	3.5
Finance, insurance, real estate and business services	3.5	2.9	3.8	3.8	3.9	4.4	3.7
Community, social and personal services	1.3	1.6	2.4	2.5	2.4	2.5	2.1
General government	1.2	1.0	1.7	1.6	1.8	1.9	1.5
Total	1.8	1.9	2.7	2.8	3.0	3.2	2.6

Source: Quantec; own calculations

When drilling deeper into the forecast years, growth in 2015 and 2016 is expected to come in below the 2.6 per cent average growth estimated for the forecast period (2015 - 2020). From this point forward, however, GDP growth jumps in 2017 and thereafter, all industries rise steadily above the average. Barring the broad based softness in GDP growth in 2015 and 2016, the subsequent jump in WCD growth from 2017 onwards is expected to garner its support mainly from construction (4.2 per cent), financial and business services (3.7 per cent), transport and communication (3.5 per cent), and trade, catering and accommodation (2.9 per cent).

This expected gain in traction within the District's industries is likely to be fueled by the Saldanha Bay-Northern Cape development corridor. The project can also be expected to benefit the manufacturing industry once it is up and running, especially in the manufacturing of metal products. An important issue worth highlighting is that two of the key objectives of the development corridor project comprise (i) strengthening maritime support capacity for oil and gas, and (ii) expanding iron ore mining production and beneficiation. With the recent environment of suppressed global commodities prices, it is reasonable to expect that the timelines for Saldanha Bay's development project could likely be extended.

1.4 Concluding remarks

The WCD economy remains vulnerable to provincial, national and global economic developments. Since the expansion growth period of 2000 – 2007, WCD has shown resilience. Growth during this phase and during the Great Recession of 2008 – 2009 was largely supported by phenomenal growth in the District's financial and business services industry. During the expansion period, the WCD's average growth was at 3.7 per cent per annum – i.e. above trend. Average growth in the District during 2008 - 2009 also managed to remain in positive territory even during the recession period (1.1 per cent)⁴.

Similar to last year, forecasted growth for the District was revised down, in line with provincial, national and global growth projections. Since the beginning of this year, the IMF has downgraded its global economic outlook, with the South African economy falling among nations which are expected to perform worse than initially thought. As things stand, the Fund expects global growth in 2015 to come in at 3.5 per cent, with SA's expected growth pegged at 1.7 per cent. From a provincial perspective, the Western Cape Province's growth forecast was revised down from an average of 3.0 per cent last year between 2014 and 2019, to 2.7 per cent between 2015 and 2020. While the WCD's forecasted average annual growth between 2014 and 2019 was recorded at 2.9 per cent, it has also been revised down to 2.6 per cent for the 2015 – 2020 forecast period.

The District's hopes are pinned on the infrastructure development necessitated by the proposed Industrial Development Zone (IDZ) and the Saldanha Bay-Northern Cape development corridor. For the remainder, the District remains vulnerable to external developments. The much awaited commencement of the United States monetary policy normalisation has been unfavourable for emerging markets, as markets have seen currencies deteriorate significantly in these economies. China's economic growth is also set to slow down significantly, going forward, which has sent commodity prices into a plunge. This has placed further pressure on commodity currencies, the rand included. With the current weakness in the rand exchange rate, one can expect that this will compensate for low commodity prices in the short term, and increase the competitiveness of exports (especially manufacturing). Weak global demand, however, has put a ceiling on these benefits. All things being equal, it is therefore likely that if global demand and growth stabilise by 2017, these benefits will be enjoyed. Naturally, net employment creation will be expected to follow this growth path.

⁴ The 1.1 per cent is an average growth rate between 2008 and 2009. During 2008 and 2009, the WCD economy grew by 5.7 per cent and -2.8 per cent, respectively.

2

Sectoral growth, employment and skills

2.1 Introduction

The development of industries does not always evolve along the same patterns when compared to the wider economy. An investigation of the sector growth performances at the regional level can therefore be revealing. A combination of industry dynamics (ranging from factor endowments, scale economies to demand patterns, technological developments, etc.) and geographical economics determine the growth path of an industry (Capasso, et al, 2015: 5). Table 1.1 and Table 1.2 highlight the broad sectoral growth rates of the West Coast District (WCD) regional economy, showing the change in employment levels and the real GDP growth rates over the past decade.

The WCD has the third largest non-metro district economy in the Province and possesses a long coast line and is well-known for the industrial hub surrounding the steel plant in Saldanha Bay (also being the location of the IDZ development recently commissioned and being linked to the oil and gas industry), the grain fields of the Swartland and the natural beauty of the whole region, in turn, a drawing card for tourists. During 2014, the WCD employed 106 350 workers (5.6 per cent of Western Cape employment) and generated R20.4 billion (4.4 per cent) of the Western Cape's R462 billion GDP.

From a growth perspective, the region has underperformed in the Western Cape, albeit that the margin of underperformance has disappeared; the trend growth rate in real GDP is 3.0 per cent per annum, compared to 3.6 per cent per annum in the Province. However, over the period of more subdued growth in the aftermath of the Great Recession the WCD managed to register average growth of 2.8 per cent per annum, in line with that in the Province. Relatively lively growth in the region's services industries and a recovery in the mining and manufacturing sectors assist in

explaining the narrowing of the growth differential. The recovery in the construction sector has been lagging; however, this sector is likely to benefit substantially from the construction phase of the Saldanha Bay IDZ in coming years.

The narrowing of the growth differential has also been accompanied by a more positive tendency in employment creation, from a sharp adverse trend between 2005 and 2009 to a marginal positive tendency since then. The net employment creation is occurring exclusively in the services industries of the WCD, notably that of finance, insurance, real estate and business services.

Previous analyses revealed a striking feature of the WCD, namely the growing and employment creating services industries hosted in the various municipalities. Furthermore, the employment creation in services was not sufficient to counter the outflow of jobs from the agricultural sector and – to a lesser extent – manufacturing and construction (see Table 2.2). The shrinkage of agricultural sectors in most of the municipalities, as well as the poor growth performance of the Saldanha Bay manufacturing sector has been characteristic of sector development in the region. It should also be noted that the recession had a major negative impact on most municipalities' manufacturing sectors.

2.2 Sectoral growth, employment trends and skills development per municipality

Table 2.1 shows the sector growth rates across the five WCD municipalities. Saldanha Bay has been the fastest growing in the region (4.1 per cent per annum, 2005 - 2013). The second fastest growing municipality was Swartland (3.7 per cent per annum). Both these municipalities showed exceptional strong growth in their commercial services sectors (i.e. wholesale, retail, catering and accommodation; transport and communication; and finance, insurance, real estate and business services). Table 2.3 shows that close to two thirds of the commercial services industries of the WCD are located in Saldanha Bay and the Swartland. In the other three slower growing municipalities, i.e. Bergrivier, Cederberg and Matzikama, the growth of construction activity was relatively more robust (albeit from a lower base). Agricultural GDP contracted in these three municipalities. Swartland and Bergrivier municipalities' manufacturing sectors expanded contrary to the case for the other three WCD municipalities. However, net manufacturing job losses occurred across all the municipalities, as the case has been in the agricultural sector (Table 2.2). As noted, the net employment creation in the services industries was insufficient to counter these job losses.

Table 2.1 West Coast District: Sectoral growth across the five municipalities, 2005 - 2013

Industry	Bergrivier	Cederberg	Matzikama	Saldanha Bay	Swartland	West Coast District
Agriculture, forestry and fishing	-2.7	-1.5	-0.3	3.7	0.3	-0.3
Manufacturing	2.3	-1.9	-0.2	-4.1	2.1	-0.3
Construction	9.2	10.0	7.5	3.4	5.1	6.2
Commercial services	6.4	4.0	2.6	6.9	7.7	6.1
General government and Community, social and personal services	-1.7	4.3	2.3	6.4	-2.8	2.8
Other	-7.2	-1.1	-10.0	3.0	0.3	-3.0
West Coast District	2.2	1.6	1.0	4.1	3.7	3.0

Source: Quantec Research, Own calculations

Table 2.3 shows that 60 per cent of all economic activity in the WCD is generated in the Saldanha Bay and Swartland municipalities. In most of the broad sectors this appears to be the case. Saldanha Bay is somewhat of an exception, hosting more than half of the WCD's government, community, social and personal services sector. On the other hand, and as noted in Chapter 1, the primary sector is relatively less represented in the Saldanha Bay Municipality.

Table 2.2 West Coast District: Sectoral employment creation across the five municipalities, 2005 - 2013

Industry	Bergrivier	Cederberg	Matzikama	Saldanha Bay	Swartland	West Coast District
Agriculture, forestry and fishing	-5 385	-4 086	-3 325	-3 177	-4 707	-20 804
Manufacturing	-310	-522	-32	-2 566	-773	-4 108
Construction	-26	14	-146	-665	-611	-1 395
Commercial services	1 947	550	-160	3 872	3 047	9 566
General government and Community, social and personal services	-828	824	360	2 925	-1 669	1 741
Other	-2	58	-13	293	16	385
West Coast District	-4 604	-3 162	-3 316	681	-4 698	-14 615

Source: Quantec Research, Own calculations

Table 2.3 West Coast District: Regional GDP composition of the WCD industries, 2013

Industry	Bergrivier	Cederberg	Matzikama	Saldanha Bay	Swartland	West Coast District
Agriculture, forestry and fishing	16.6	16.2	20.3	16.4	28.9	100
Manufacturing	16.3	6.8	17.7	23.8	34.1	100
Construction	17.1	10.8	14.2	23.6	31.9	100
Commercial services	13.4	7.6	13.2	34.3	30.4	100
General government and Community, social and personal services	9.5	9.7	13.2	50.8	15.0	100
Other	6.9	4.8	18.8	34.0	32.4	100
West Coast District	13.6	9.2	15.0	32.5	28.3	100

Source: Quantec Research, Own calculations

Table 2.4 West Coast District: Sectoral composition of GDP across the WCD municipalities, 2013

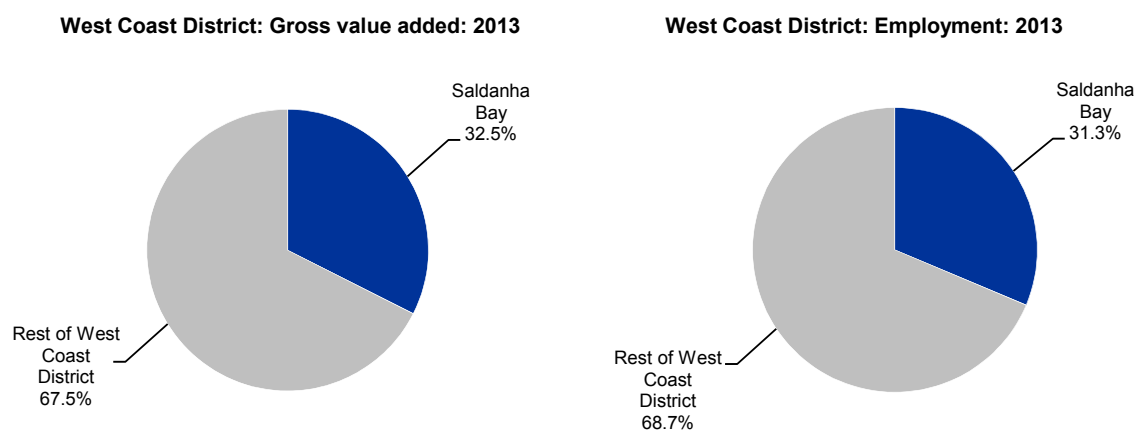
Industry	Bergrivier	Cederberg	Matzikama	Saldanha Bay	Swartland	West Coast District
Agriculture, forestry and fishing	18.1	26.2	19.2	7.0	14.3	14.3
Manufacturing	18.9	11.8	18.9	12.6	20.1	16.6
Construction	5.5	5.2	4.0	3.1	4.7	4.3
Commercial services	46.1	39.6	42.7	52.2	51.3	48.4
General government and Community, social and personal services	10.5	16.4	13.1	23.3	7.7	14.9
Other	0.8	0.8	2.0	1.7	1.8	1.6
West Coast District	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research, Own calculations

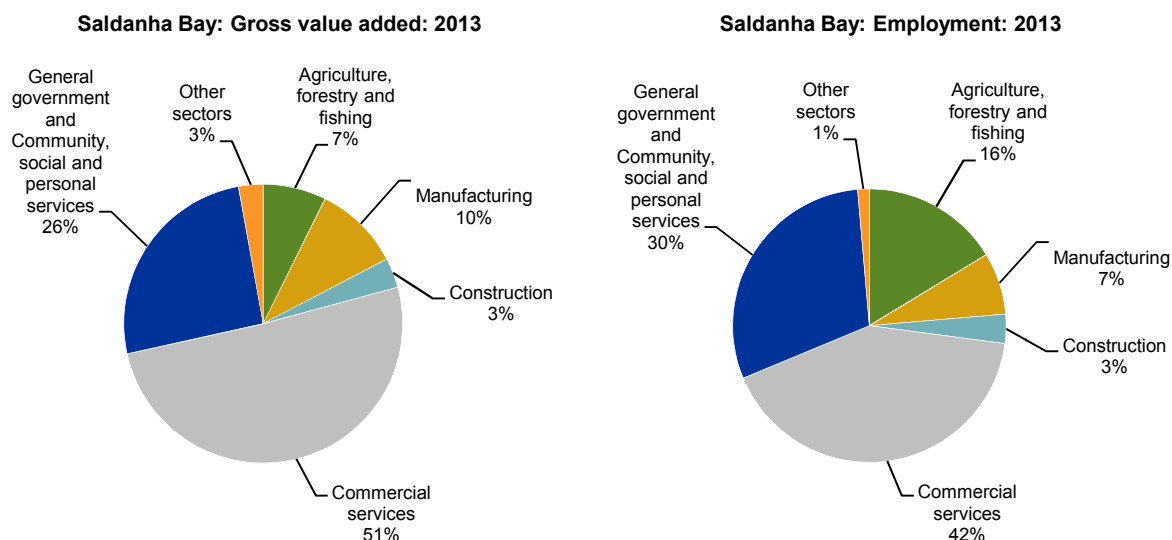
The sector development at the level of the WCD's five municipalities is considered in more detail in the following sections.

2.2.1 Saldanha Bay

Figure 2.1 shows that Saldanha Bay contributes close to one third of the WCD's GDP and employment, making it the largest municipality in the region. R6.2 billion (i.e. 32.5 per cent) of the WCD's R19 billion value added is generated in Saldanha Bay Municipality (see Table 2.3).

Figure 2.1 Saldanha Bay share of WCD gross value added and employment

Source: Quantec Research, Own calculations

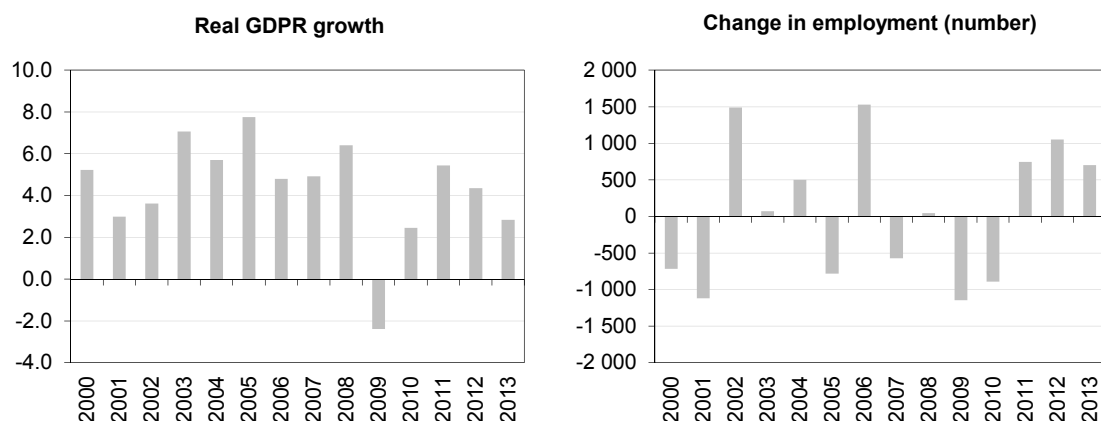
Figure 2.2 Saldanha Bay: Composition of gross value added and employment

Source: Quantec Research, Own calculations

The services orientation of Saldanha Bay Municipality is evident from Figure 2.2. More than half of the region's value added is generated in the commercial services sector; adding in the share of value added generated in the government and community, social and personal services sectors, the overall service sector accounts for more than three quarters of economic activity in the region. The other sizable sector is manufacturing, accounting for 10 per cent of GDP and 7 per cent of employment. The government and community, social and personal services sector account of no less than 30 per cent of district-wide employment.

Figure 2.3 and Table 2.5 show the growth and employment creation performances of Saldanha Bay. It is clear after a period of robust growth (2003 - 2008), the region suffered a sharp recessionary contraction in 2009 where after growth rebounded. It then tapered off again from 2011. Real GDP growth averaged 4.1 per cent per annum, 2005 - 2013 and 3.8 per cent per annum, 2010 - 2013.

Net employment creation became more consistently positive after the recession, with employment increasing by 1 600 jobs. Both the employment and growth performances of the Municipality exceeded that of the wider WCD by a wide margin. In the wider district, real GDP growth averaged 3.0 per cent per annum (2005 - 2013) and 2.8 per cent per annum (2010 - 2013), while a cumulative 14 615 jobs were shed over the 2005 - 2013 period (at an annual rate of 1.4 per cent per annum), which includes the marginal net job creation of 362 during the economic recovery phase (2010 - 2013).

Figure 2.3 Saldanha Bay real economic and employment growth: 2000 - 2013

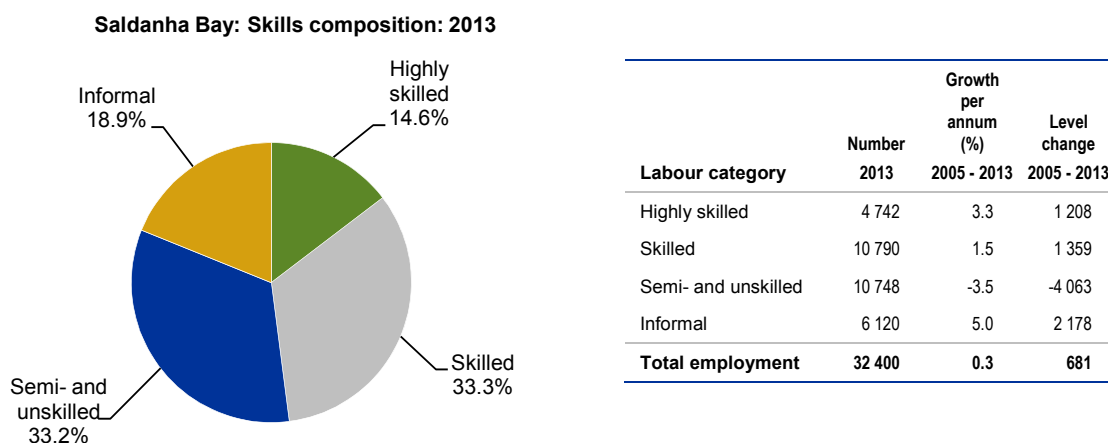
Source: Quantec Research, Own calculations

Table 2.5 Saldanha Bay gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	452	3.7	-0.7	5 287	-4.3	-3 177	2.1	329
Manufacturing	619	-4.1	0.6	2 374	-7.7	-2 566	-3.4	-358
Construction	214	3.4	0.4	1 120	-4.9	-665	-6.3	-337
Commercial services	3 130	6.9	4.8	13 479	3.9	3 872	2.5	1 251
General government and Community, social and personal services	1 583	6.4	5.6	9 693	4.1	2 925	2.0	740
Other sectors	175	3.0	2.8	446	15.6	293	1.1	-19
Total Saldanha Bay	6 173	4.1	3.8	32 400	0.3	681	1.3	1 606
West Coast District	19 018	3.0	2.8	104 859	-1.4	-14 615	0.1	362

Source: Quantec Research, Own calculations

It is clear from Table 2.5 that the commercial services sectors and the government and community, social and personal services (CSP) sectors accounted for the highest growth (above 6.0 per cent per annum, 2005 - 2013) and net jobs being created over this period, i.e. 6 800. The net job growth in the services sector more than counterbalanced the net lay-offs in the agricultural, manufacturing and construction sectors (measuring slightly more than 6 400) over the 2005 - 2013 period. The sharp contraction of manufacturing activity and the subdued growth performance of the construction sector are worrying tendencies and should reverse with the establishment of the IDZ in the coming years. The status and impact of the latter development is discussed in greater detail in Chapter 3.

Figure 2.4 Saldanha Bay workforce skills: 2013

Source: Quantec Research, Own calculations

Regarding skills development in the Saldanha Bay Municipality, Figure 2.4 shows the composition and growth of employment in the various skills categories. The municipality is blessed with a large skills base, with close to half of the workforce being highly skilled (14.6 per cent) or skilled (33.3 per cent). Over the 2005 - 2013 period, demand for highly skilled labour grew by 3.3 per cent per annum and that for skilled labour by 1.5 per cent per annum. This contrasts with the sharp negative trend in the demand of semi- and unskilled labour (accounting for a third of the workforce), i.e. -3.5 per cent per annum, or a loss of more than 4 000 jobs in this skills category (Figure 2.4)⁵. It seems the outflow of labour from the formal semi- and unskilled category entered the informal sector, which expanded by 5.0 per cent annum. Apart from job losses feeding the informal sector, it is likely that new labour market entrants unable to find employment, enter the informal sector.

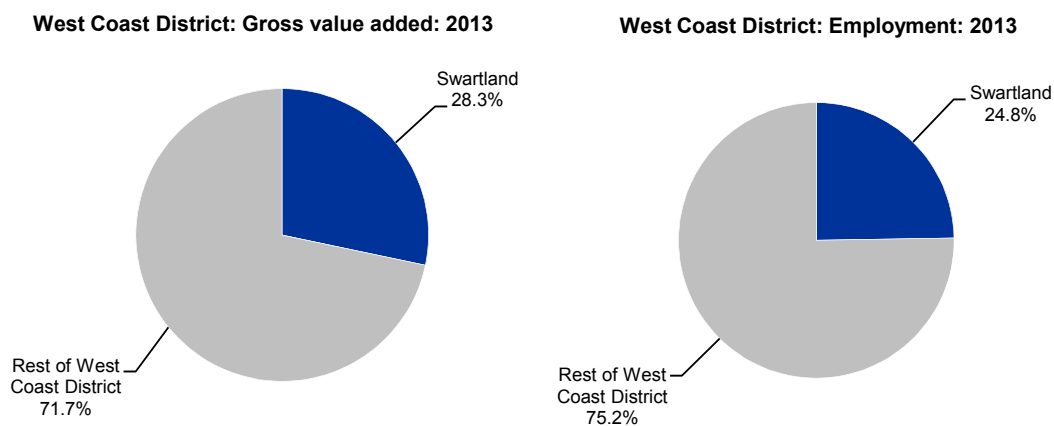
In all, Saldanha Bay has been outperforming its peers in the WCD, both in terms of economic growth and employment creation. Led by the financial and business services sector, the whole range of services industries, from internal trade to the government and community services, account for this outperformance. Unfortunately, the employment creation in these sectors were insufficient to counter the net cumulative job losses in the agricultural, manufacturing and construction sectors. The latter also explains the sharp adverse trend in semi- and unskilled employment. It is also evident that too little overall job creation, is spilling over to swelling the informal sector.

⁵ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi- and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

2.2.2 Swartland

The Swartland municipal economy is slightly smaller compared to Saldanha Bay, contributing 28 per cent to GDP and one quarter of employment in the WCD region in 2013 (Figure 2.5). Swartland accounts for R5.4 billion of the WCD economy's R19 billion value added in production (Table 2.6).

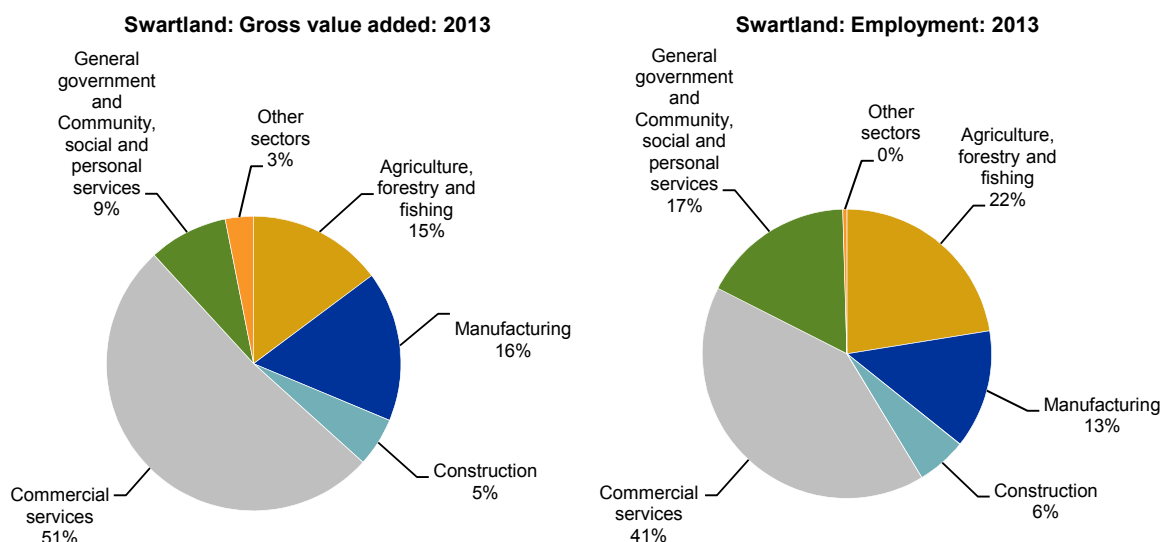
Figure 2.5 Swartland share of WCD gross value added and employment: 2013



Source: Quantec Research, Own calculations

The Municipality (Figure 2.6) also has a large commercial services sector (accounting for slightly more than half of GDP in 2013). Its agricultural sector is clearly more prominent, contributing 15 per cent of GDP and 22 per cent of employment. In fact, this municipality hosts 29 per cent of the WCD's agricultural sector, i.e. the largest in the District (Table 2.3). The agricultural sector arguably also creates substantial demand for manufactured products as the Municipality's manufacturing sector seems to be more prosperous in the WCD, being relatively larger and expanding. More than a third of the WCD's manufacturing activity is located in the Swartland Municipality.

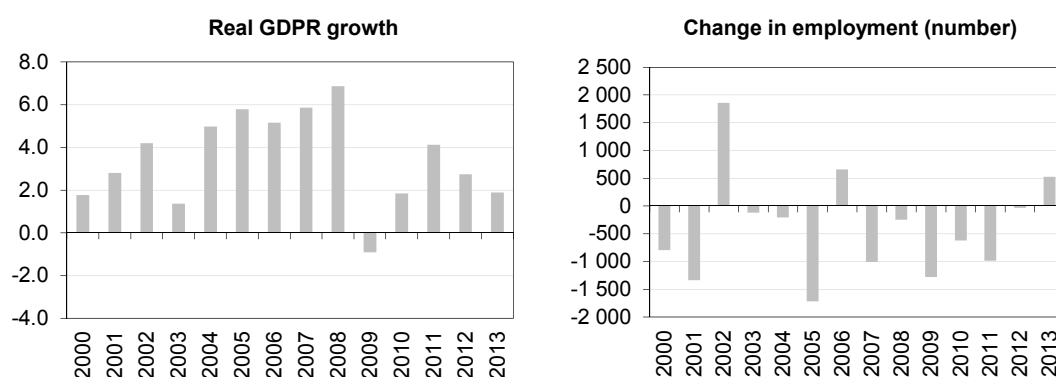
Figure 2.6 Swartland: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.7 and Table 2.6 reveal the economic growth and employment creation performance of Swartland Municipality. Growth was only marginally slower compared to Saldanha Bay over the 2005 - 2013 period and also performed well within the WCD. Growth was particularly strong over the 2004 - 2008 period and the Municipality suffered a milder recession impact, albeit that the growth slowdown in 2009 was substantial. Given the larger presence of agriculture and manufacturing, the employment track records of the municipal economy is weak – total employment contracted at a rate of 1.8 per cent per annum (2005 - 2013) and the net job losses continued during the economic recovery phase.

Figure 2.7 Swartland's real economic and employment growth: 2000 - 2013



Source: Quantec Research, Own calculations

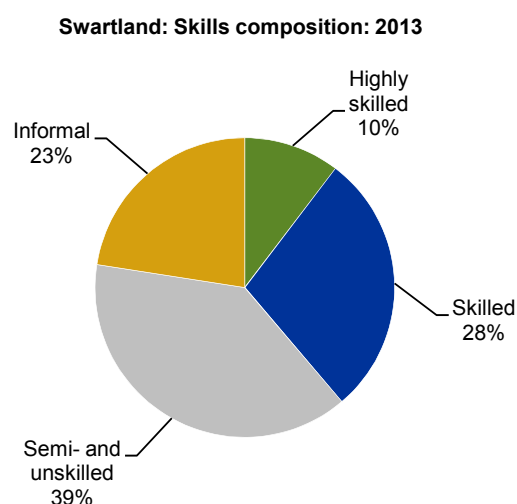
The commercial services industries expanded strongly in the region, posting real growth averaging close to 8 per cent per annum over the 2005 - 2013 period. Growth did taper off after the recession (4.4 per cent per annum, 2010 - 2013) but net employment creation remained positive. Unfortunately the net employment growth in this sector (3 047) could not counter the net job losses in all the other sectors shown in Table 2.6. The small size of the government, community, social and personal services sector in this municipality (9 per cent) is notable, including the contraction and net retrenchments that occurred. This is despite the fact that the headquarters of the District Municipality is located here.

Table 2.6 Swartland gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	797	0.3	0.1	5 850	-5.9	-4 707	-2.4	-676
Manufacturing	888	2.1	2.8	3 465	-2.2	-773	-1.2	-175
Construction	290	5.1	1.2	1 465	-3.7	-611	-6.4	-450
Commercial services	2 771	7.7	4.4	10 720	3.9	3 047	1.6	630
General government and Community, social and personal services	468	-2.8	-1.7	4 447	-3.5	-1 669	-2.4	-451
Other sectors	167	0.3	0.5	120	2.4	16	2.3	10
Total Swartland	5 381	3.7	2.6	26 068	-1.8	-4 698	-1.0	-1 111
West Coast District	19 018	3.0	2.8	104 859	-1.4	-14 615	0.1	362

Source: Quantec Research, Own calculations

It seems that the Swartland's relatively large agricultural sector is stable in terms of output, which is supportive to the region's growing manufacturing sector. Despite robust construction activity for the period 2005 - 2013 (5.1 per cent) and the subsequent increased demand for locally manufactured products, the construction industry recovered slowly following the recession period, only posting real growth per annum of 1.2 per cent during 2010 - 2013. This slowdown was emphasised by net retrenchment of workers in both the manufacturing and construction sectors following the recession in 2009. The overall employment trend is therefore substantially worse compared to that in the wider District, particularly after the recession.

Figure 2.8 Swartland workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	2 698	0.1	35
Skilled	7 410	0.1	70
Semi- and unskilled	10 087	-5.3	-6 373
Informal	5 873	3.5	1 571
Total employment	26 068	-1.8	-4 698

Source: Quantec Research, Own calculations

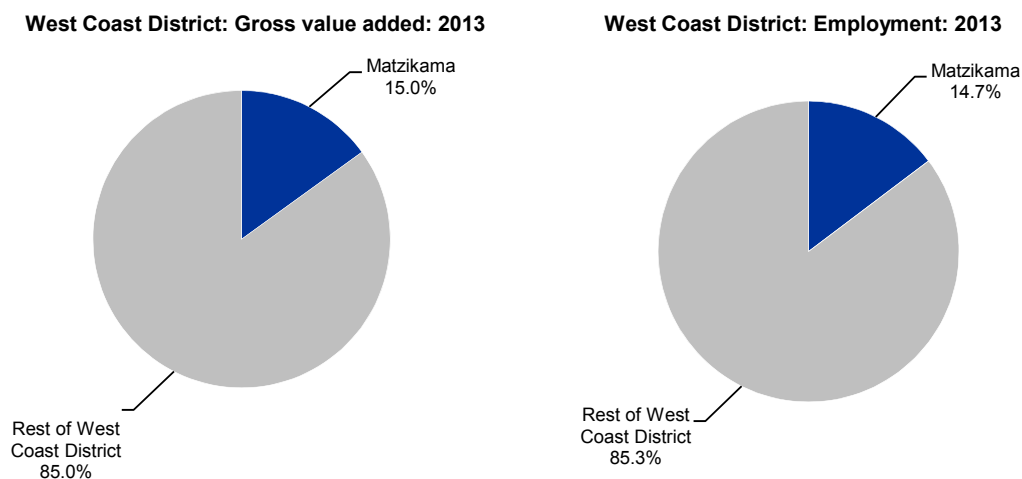
Considering the labour skills demand patterns, the most obvious trend is the stable demand for skilled and highly skilled labour (2005 - 2013) period juxtaposed with heavy retrenchments of semi- and unskilled workers; employment in this category contracted by no less than 5.3 per cent per annum, yet accounted for close to 40 per cent of total employment in 2013. It seems that part of the lay-offs in this segment of the workforce is absorbed in the informal sector, which has expanded by 3.5 per cent per annum. However, this growth, combined with the stability in the highly skilled and skilled segments (accounting for 38 per cent of total employment) could not counter the adverse trend in semi- and unskilled employment, leading to relatively heavy overall net lay-offs.

In all, the Swartland Municipality hosts a comparatively larger and stable agricultural sector in the WCD and locally this, combined with lively construction activity, provides a base for positive manufacturing growth. The lagging construction sector recovery from the 2009 recession and the associated job losses are, however, of concern. The commercial services sector also benefits from the stability in the primary sector and growth in the secondary sectors as its growth was exceptional in the WCD. Unfortunately, the net employment creation in commercial services was insufficient to counter the outflow from all the other sectors, including in the government, community, social and personal services sector. The contraction of the latter-mentioned sector also stands out. Overall, the region is characterised by heavy retrenchments of semi- and unskilled labour, which contrasts with the relatively high growth experienced by the Swartland Municipality.

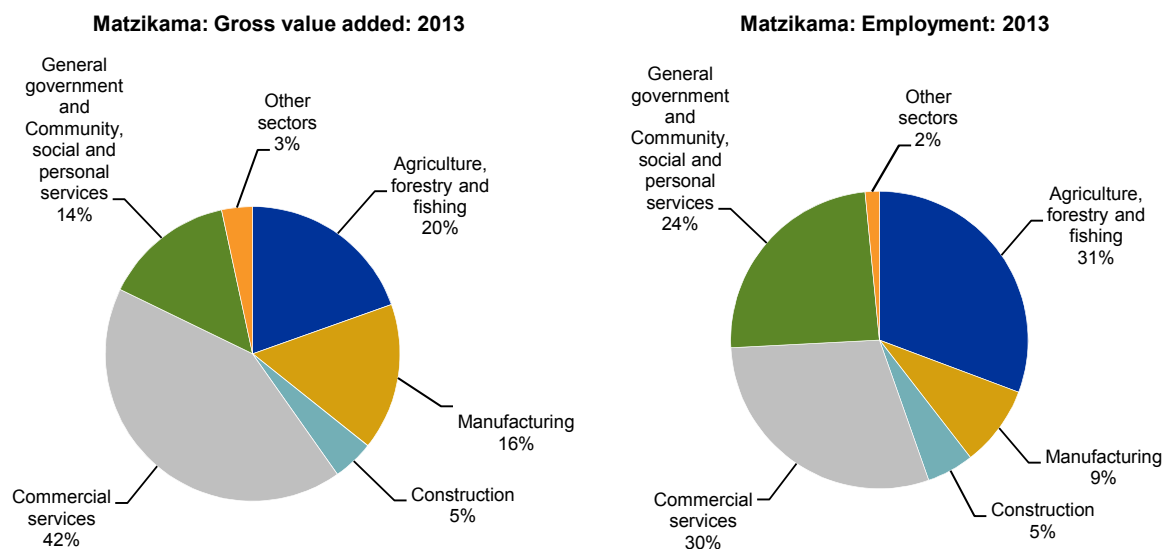
2.2.3 Matzikama

Matzikama hosts the third largest municipal economy in the WCD, accounting for around 15 per cent of GDP and employment in 2013. The municipal economy is relatively small and contributed only R2.9 billion to the R19 billion value added generated in the WCD. The region is northernmost in the WCD and is known for its vast tracks of land, some cultivated and the remainder attractive to incoming tourists.

Figure 2.9 Matzikama's share of WCD gross value added and employment: 2013



Source: Quantec Research, Own calculations

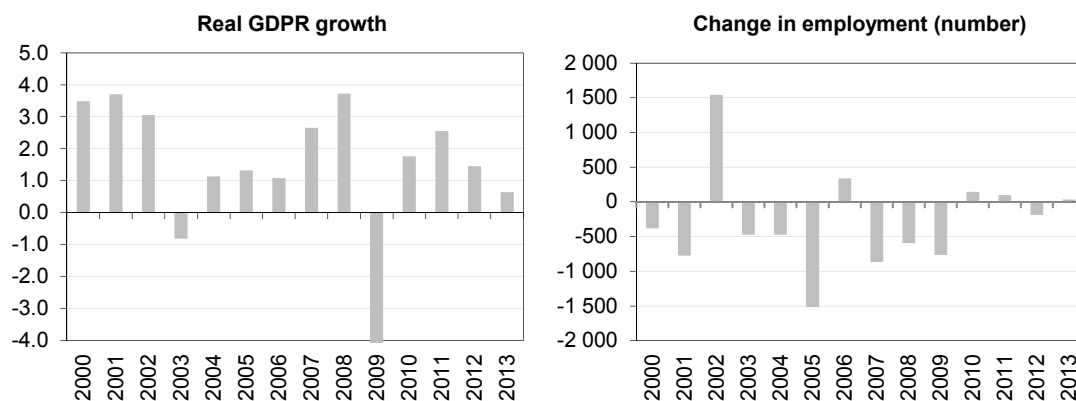
Figure 2.10 Matzikama: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

The agricultural base of the municipal economy is evident from the fact that it is the largest employer in the region, accounting for 31 per cent total employment in 2013. In terms of value added, the agricultural sector of Matzikama hosts more than a fifth of that in the WCD, making it the second largest agricultural region after Swartland (Table 2.3). The other main employer is commercial services (30 per cent), which accounts for the largest share of GDP, i.e. 42 per cent. Manufacturing accounts for 16 per cent of GDP and the government, community, social and personal services sector for 14 per cent.

From a growth perspective, the municipal economy performed poorly over the 2000 - 2013 period. Real GDP growth averaged only 1.0 per cent per annum between 2005 and 2013. While the growth momentum improved during the 2007 - 2008, the region suffered a heavy recession impact in 2009, with real GDP contracting by no less than 4 per cent. The subsequent recovery was also relatively subdued. Employment creation was largely absent from 2003, albeit that overall employment remained stable after 2009 during the economic recovery.

While the commercial services sector is also the largest from a value-added perspective, growth has not been as strong in this sector compared to the other municipalities, growing at 2.6 per cent per annum; the sector also shed jobs on a net basis, 2005 - 2013. The other relatively larger sector in the municipal economy, i.e. the government, community, social and personal services sector, grew by 2.3 per cent and was the only sector creating employment on a net basis. The fastest growing sector has been construction (7.5 per cent per annum); however, this growth is from a relatively low base. More worrying is the slight annual contraction in the agricultural sector and heavy worker retrenchments – it accounts for almost all the worker lay-offs in the region over the 2005 - 2013 period. This impacted the manufacturing sector, which also contracted marginally over the corresponding period. However, manufacturing employment was relatively stable over this period.

Figure 2.11 Matzikama's real economic and employment growth: 2000 - 2013

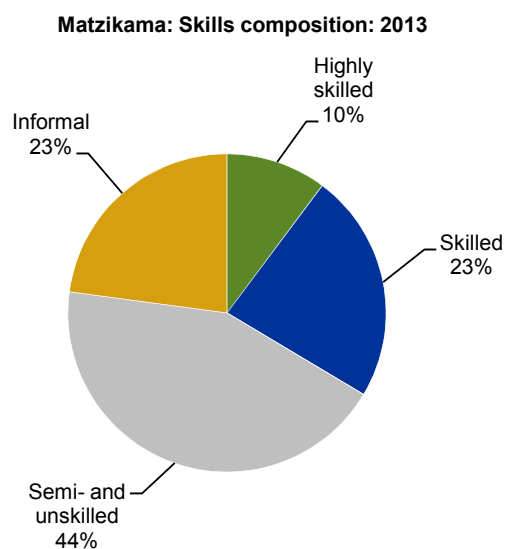
Source: Quantec Research, Own calculations

Table 2.7 Matzikama gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%)	
		2005 - 2013	2010 - 2013				2010 - 2013	Level change 2010 - 2013
Agriculture, forestry and fishing	560	-0.3	0.5	4 824	-5.3	-3 325	0.6	106
Manufacturing	461	-0.2	2.0	1 385	-0.2	-32	1.8	92
Construction	129	7.5	2.0	804	-1.6	-146	-5.9	-226
Commercial services	1 200	2.6	1.8	4 642	-0.3	-160	0.1	18
General government and Community, social and personal services	412	2.3	2.3	3 819	1.1	360	0.6	89
Other sectors	97	-10.0	-0.6	241	1.7	-13	4.3	7
Total Matzikama	2 860	1.0	1.6	15 714	-2.1	-3 316	0.1	86
West Coast District	19 018	3.0	2.8	104 859	-1.4	-14 615	0.1	362

Source: Quantec Research, Own calculations

In terms of skills development in the region, all three categories of employment witnessed net lay-offs in Matzikama Municipality, albeit that the demand for highly skilled labour was relatively stable. The pattern of lay-offs corresponds to that in Swartland, showing heavy net job losses in the semi- and unskilled segment of the labour market; however, the skilled segment also shed jobs at a high rate (1.7 per cent per annum). Despite the heavy job losses in the semi- and unskilled segment, this category of labour accounted for 44 per cent of the workforce in the region in 2013. The informal sector is also sizable (23 per cent) after presumably absorbing some of the workers losing employment in the formal sectors (Figure 2.12).

Figure 2.12 Matzikama workforce skills: 2013

Labour category	Number		Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013	2005 - 2013
Highly skilled	1 606	-0.2	-34	
Skilled	3 669	-1.7	-614	
Semi- and unskilled	6 845	-4.7	-3 691	
Informal	3 595	3.8	1 023	
Total employment	15 714	-2.1	-3 316	

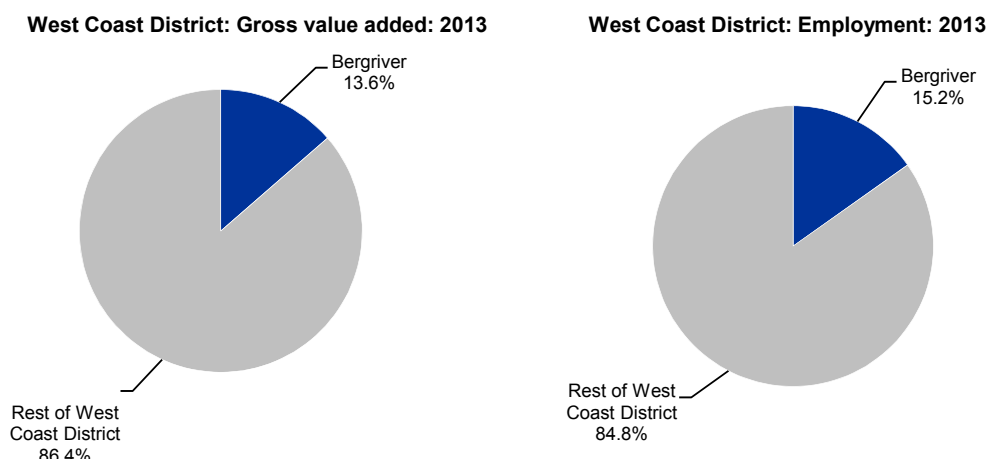
Source: Quantec Research, Own calculations

In all, Matzikama's economy is relatively small in terms of its contribution to WCD value added and employment. Low growth and negligible employment creation also characterise the economic landscape; in fact, heavy retrenchments occurred in the agricultural sector, explaining the negative trend in semi- and unskilled employment. Some construction activity, a relatively stable manufacturing sector and moderate growth in commercial services and the public sector countered the adverse tendencies in the municipal economy.

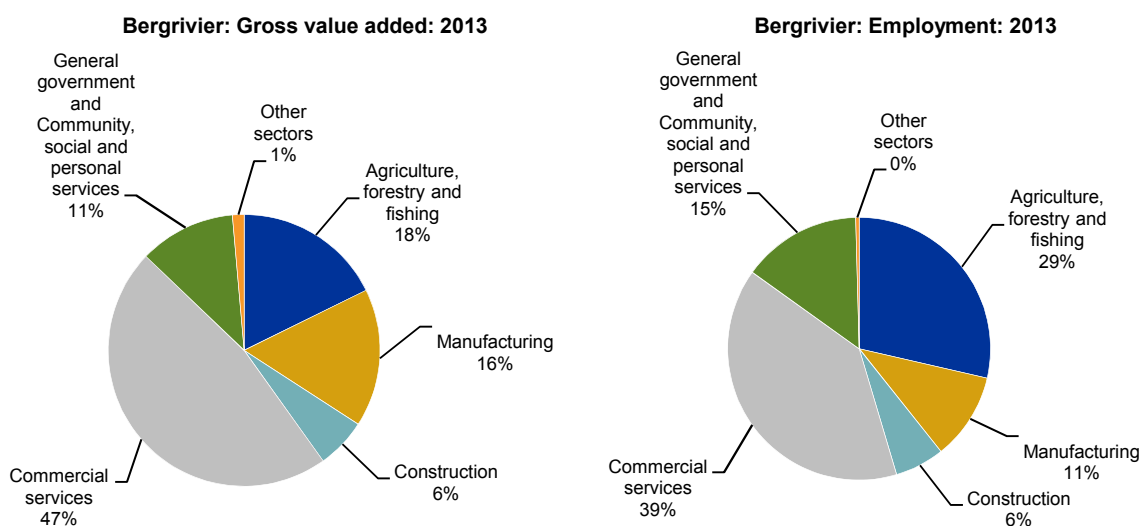
2.2.4 Bergrivier

Bergrivier's economy resembles that of Matzikama in terms of structure and size, accounting for 13.6 per cent of WCD GDP and 15.2 per cent of employment in the District. The municipality borders on the south Saldanha Bay and Swartland municipalities (and in the north, Cederberg). One would expect closer linkages between the economies of Bergrivier, Saldanha Bay and Swartland. Bergrivier contributed R2.6 billion to the R19 billion value added generated in the WCD in 2013.

Considering the industry structure of the Bergrivier economy, one is struck by the close resemblance with Matzikama. The region also has a large agricultural base (18 per cent in terms of GDP and 29 per cent in terms of employment), a sizeable manufacturing sector (16 per cent), with linkages to the agricultural sector, and a large commercial services sector (almost half of GDP, i.e. a slightly bigger share compared to that in Matzikama). On the other hand, Bergrivier's general government and community, social and personal services sector is relatively smaller, accounting for only 11 per cent of GDP (15 per cent of employment).

Figure 2.13 Bergrivier share of WCD gross value added and employment: 2013

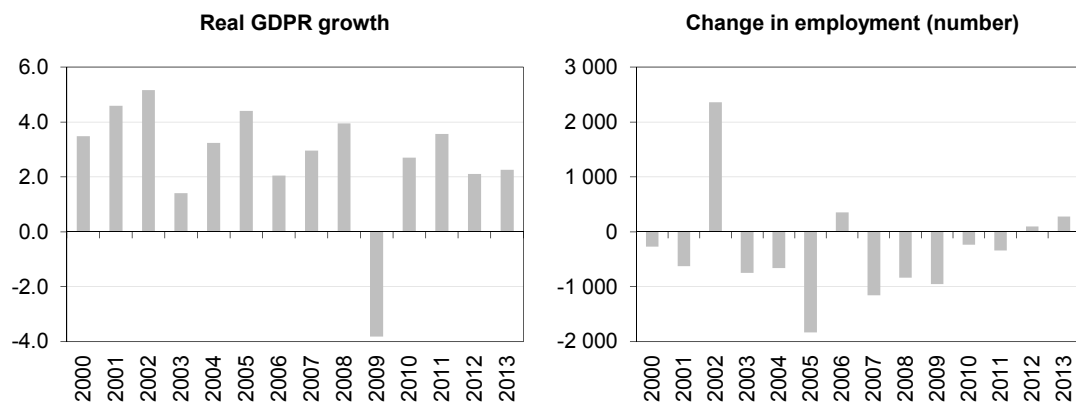
Source: Quantec Research, Own calculations

Figure 2.14 Bergrivier: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.15 and Table 2.8 show the growth and employment creation performances of Bergrivier Municipality. While the size and structure of the municipal economy resembles that of Matzikama, the growth of the regional economy was higher, particularly over the 2000 - 2008 period and after the recession in 2009. Bergrivier did also suffer a serious recession impact in 2009, with real GDPGR contracting 4.0 per cent in that year. In terms of employment creation, however, the resemblance with Matzikama holds – very little net employment creation occurred over the period after 2003.

The municipal economy expanded at a rate of 2.2 per cent per annum, 2005 - 2013, i.e. well below the District average real GDPGR growth rate of 3.0 per cent per annum). Employment contracted at a rate of 2.7 per cent per annum over the corresponding period and the net retrenchments persisted after the 2009 recession, albeit not as sharp. The municipal workforce actually remained stable after the recession implying those workers having lost their jobs in the recession were generally not re-employed in the formal economy.

Figure 2.15 Bergrivier real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

Table 2.8 Bergrivier gross value added, real economic growth and employment creation

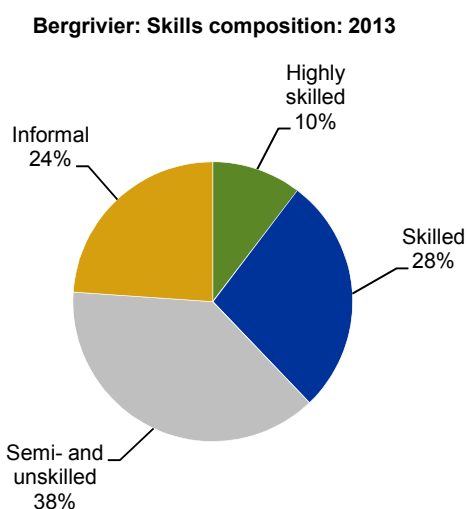
Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
		2013	2005 - 2013					
Agriculture, forestry and fishing	459		-2.7	4 566	-7.8	-5 385	-0.1	-24
Manufacturing	425		2.3	1 711	-1.8	-310	-0.9	-64
Construction	155		9.2	974	-0.1	-26	-5.4	-251
Commercial services	1 218		6.4	6 307	4.3	1 947	2.1	484
General government and Community, social and personal services	297		-1.7	2 349	-3.3	-828	-3.4	-346
Other sectors	35		-7.2	66	1.9	-2	7.0	9
Total Bergrivier	2 590		2.2	15 972	-2.7	-4 604	-0.3	-192
West Coast District	19 018		3.0	104 859	-1.4	-14 615	0.1	362

Source: Quantec Research, Own calculations

The fastest growing sector has been construction, albeit evident that growth is coming off a low base. The construction workforce remained stable over the 2005 - 2009 period; however, suffered relatively steep losses over the subsequent period, i.e. 2010 - 2013. The largest sector, i.e. commercial services, expanded strongly (6.4 per cent per annum) and created substantial net employment opportunities (1 947), both before and after the recession. Similar to the case in Matzikama, the government and community, social and personal services sector contracted and shed employment over the period under consideration. The most worrying trend in the municipal economy has been the contraction of agriculture and the steep job losses in this sector. It does appear that the adverse trend stabilised after the recession. On the positive side, Bergrivier's manufacturing sector posted positive growth; however, it was insufficient (2.3 per cent per annum, 2005 - 2013) to prevent steep job losses.

In terms of skills development in the municipal economy, the overall picture is discouraging. All three labour market segments suffered a net loss in employment, ranging from an annual decline of 0.5 per cent in skilled employment, to 1.4 per cent in highly skilled employment and no less than 6.8 per cent in semi- and unskilled employment. The only positive growth occurred in the informal sector, which ostensibly absorbed much of the new unemployed, apart from absorbing any new entrants to the regional labour market. Even after the close to 7 per cent annual decline in semi- and unskilled employment, this segment of the labour market accounted for 38 per cent of total employment in 2013. The region is also blessed with a relatively large skilled workforce (i.e. 28 per cent).

Figure 2.16 Bergrivier workforce skills: 2013



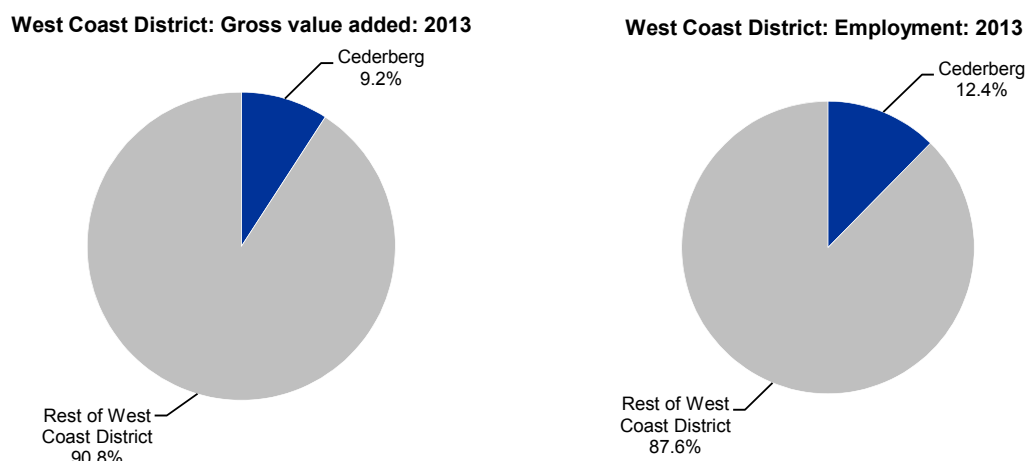
Labour category	Number		Growth per annum (%)	
	2013	2005 - 2013	2005 - 2013	Level change
Highly skilled	1 654	-1.4	-230	
Skilled	4 392	-0.5	-208	
Semi- and unskilled	6 105	-6.8	-5 436	
Informal	3 821	4.6	1 270	
Total employment	15 972	-2.7	-4 604	

Source: Quantec Research, Own calculations

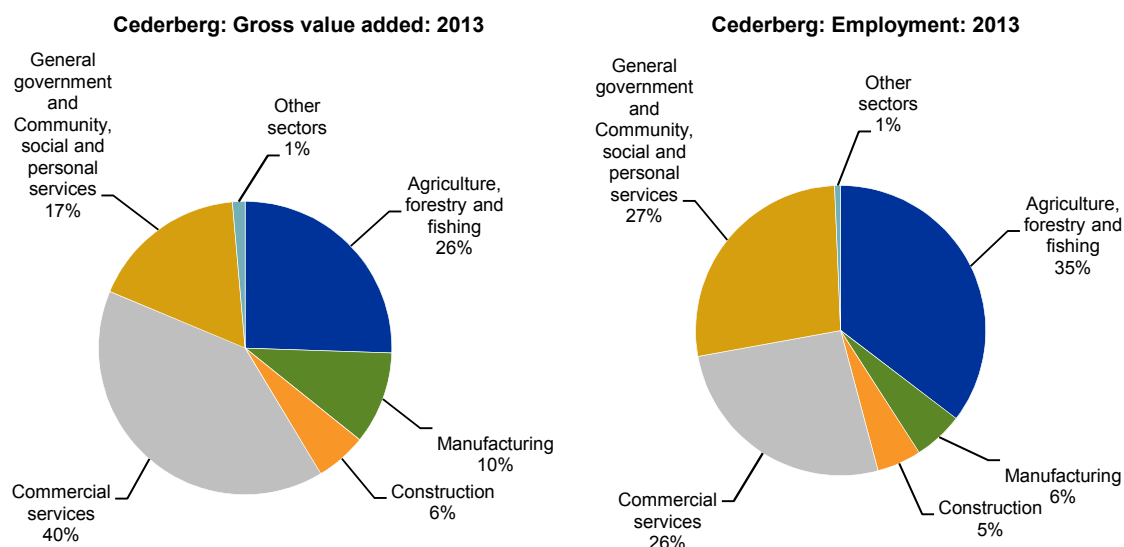
In all, Bergrivier's economy is relatively small, resembling that of Matzikama, both in size and structure. The manufacturing sector is slightly more vibrant, probably benefiting from linkages with the neighbouring Saldanha Bay and Swartland economies. The commercial services sector is the largest in the region and benefits from neighbouring demand, as well as manufacturing and construction growth. The worrying aspect is the decline of the region's agricultural base and the adverse overall employment trends in all labour skills categories. The contracting government, community, social and personal services sectors also contribute to the adverse employment tendencies.

2.2.5 Cederberg

Cederberg's economy is the smallest in the WCD and only contributed 9.2 per cent of regional GDP in 2013, while employing 12.4 per cent of the District workforce. The region is bordered in the north by Matzikama and Bergrivier in the south, immediately suggesting similarities with these economies. Cederberg accounted for R1.75 billion of the R19 billion WCD value added in 2013.

Figure 2.17 Cederberg share of WCD gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.18 Cederberg: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

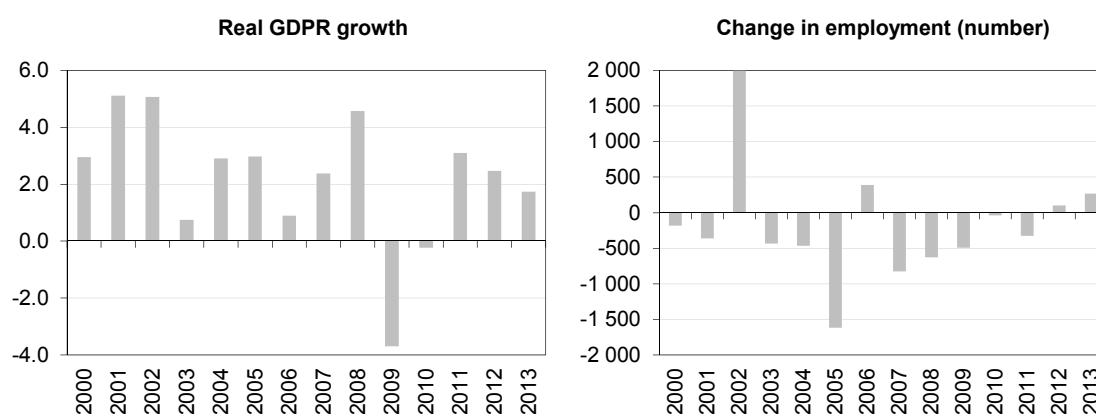
Considering the industry structure, Cederberg's economy does resemble that of Matzikama and Bergrivier, except that the agricultural and services sectors are more accentuated. Agriculture employs no less than 35 per cent of the regional workforce and commercial services, 26 per cent. The latter-mentioned sector accounts for 40 per cent of GDP, agriculture for 26 per cent. Clearly the services industries are linked to agriculture in the region as the manufacturing and construction sectors are relatively small. Tourism is another important services industry in the region. The government, community, social and personal services sector contributed 27 per cent of employment and 17 per cent of value added in 2013, making the overall services sector (when combined with commercial services) comparatively large in the region.

Real economic growth was slightly faster at 1.6 per cent per annum, 2005 - 2013, compared to Matzikama but slightly slower compared to Bergrivier. However, as Figure 2.19 shows, this is a relatively pedestrian growth rate and at the same time very

little job creation occurred after 2002, i.e. similar to the experiences of the two neighbouring municipal economies. The recession also impacted quite heavily in 2009. Whilst growth rebounded in 2011, it has tapered off since then, averaging around 2 per cent per annum.

Considering the sectoral growth patterns, the construction sector expanded the fastest, growing its real value added by 10 per cent per annum, albeit off a low base. The more meaningful contributions were delivered by the commercial services and government, community, social and personal services sectors, expanding around 4.0 per cent per annum and creating the bulk of the jobs in the region. The latter was insufficient to counter the heavy net lay-offs in the agricultural and manufacturing sectors. The latter was accelerated by the contraction in both these sectors over the 2005 - 2013 period; it would appear as if the adverse trend in manufacturing was arrested after the recession.

Figure 2.19 Cederberg real economic and employment growth: 2000 - 2013



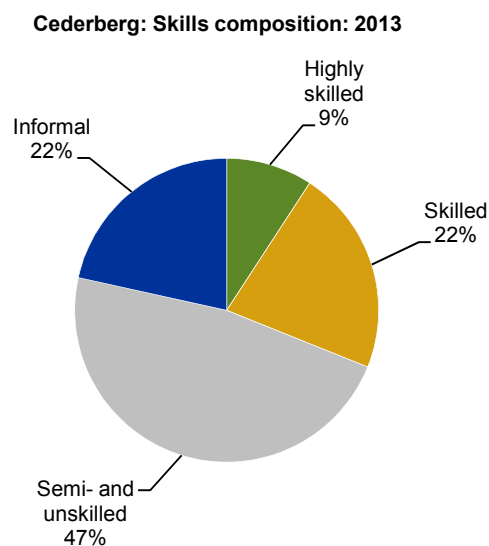
Source: Quantec Research, Own calculations

Almost half the municipal workforce comprised semi- and unskilled labour in 2013 (see Figure 2.20). This is after employment in this labour market category contracted by 5.4 per cent per annum during the preceding nine years, leading to cumulative net job losses totaling close to 4 000. Despite some hemorrhage of skilled employment, the demand for high skilled and skilled employees remained relatively stable over the 2005 - 2013 period. As has been the case in the other municipalities, the only meaningful net job growth occurred in the informal sector, which presumably absorbed the newly unemployed labourers.

Table 2.9 Cederberg gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	446	-1.5	-0.7	4 581	-6.4	-4 086	-0.3	-69
Manufacturing	178	-1.9	1.6	718	-5.7	-522	-0.8	-26
Construction	98	10.0	2.5	643	0.5	14	-5.8	-180
Commercial services	696	4.0	2.7	3 408	2.0	550	0.1	16
General government and Community, social and personal services	302	4.3	4.1	3 521	3.0	824	2.1	277
Other sectors	25	-1.1	0.6	87	16.9	58	1.0	-8
Total Cederberg	1 745	1.6	1.8	12 958	-2.3	-3 162	0.0	9
West Coast District	19 018	3.0	2.8	104 859	-1.4	-14 615	0.1	362

Source: Quantec Research, Own calculations

Figure 2.20 Cederberg workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	1 193	0.7	76
Skilled	2 838	-0.6	-164
Semi- and unskilled	6 136	-5.4	-3 966
Informal	2 791	4.4	891
Total employment	12 958	-2.3	-3 162

Source: Quantec Research, Own calculations

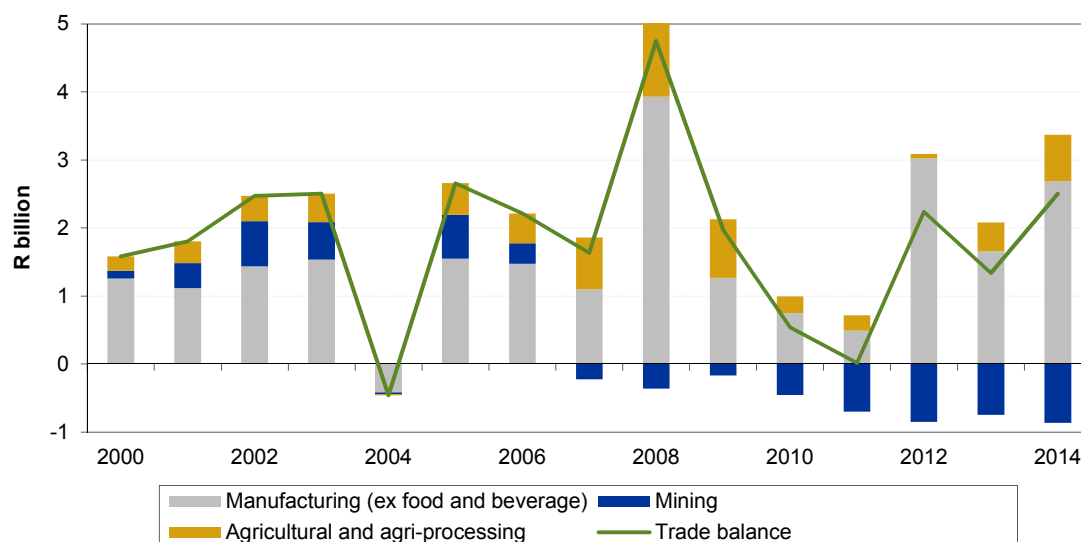
In all, Cederberg is the smallest WCD economy. Its agricultural base seems to be under pressure and this is affecting the growth of manufacturing in the region. The mainstay sectors in this region appears to be commercial services and the government, social and personal services, which also contributed substantially to job growth. The contraction of agriculture and manufacturing and the sharp decline in the demand for semi- and high skilled workers, of which the supply is the highest, is cause for concern.

In the following section, the WCD's international trade is briefly discussed.

2.3 International trade

The West Coast exports close to a third of regional output to the rest of the world. The bulk of the exports comprise steel and metal product exports from Saldanha Bay, accounting for 72 per cent of total goods exports in 2014. The remaining 25 per cent of goods exports is mainly agri-processing exports, i.e. 12 per cent raw product and 13 per cent processed food and beverages.

Figure 2.21 West Coast District trade balance, 2005 - 2014



Source: Quantec Research

As indicated in Figure 2.21, the tendency in the regional trade balance has been positive since 2011. This has been due to a steady increase in exports from R1.7 billion to R6.3 billion in 2014. Imports also increase from R1.7 billion over this period, but only reached R3.8 billion in 2014. This explains the goods trade surplus of R2.5 billion in 2014, i.e. up from almost zero in 2011 to R1.3 billion last year.

It does not seem as if the economic slowdown in China and the general weakness in commodity markets since 2011 have impacted on the steel and agri-processing exports from the region.

In the following section, the sectoral prospects for the West Coast regional economy are considered.

2.4 Sectoral prospects

2.4.1 Local issues

Arguably, the most significant local issue in the WCD economy is the economic impact of a number of large capital projects, with the construction phase of the Saldanha Bay IDZ being the most conspicuous. Another is the expansion of the Clanwilliam dam and the associated road works improving the N7 national road in the area.

The capital spending associated with these projects is likely to have a major impact on real economic growth in the region. Capital spending related to the infrastructure development of the Saldanha Bay IDZ is likely to commence later than originally planned. Capital spending by the licensing company is estimated at R450 million spread over three years, starting in the next twelve months. This translates to a direct economic injection measuring around 3.0 per cent of WCD GDP. This capital spending injection will be augmented by Transnet's capital spending on the development of the port, e.g. a deep-sea oil supply base and an oil rig quay, amongst other. The total capital spending is therefore projected to increase substantially a year down the line and it follows that the real GDP growth rate in Saldanha Bay Municipality and the WCD is likely to be boosted notably in these years⁶. A cumulative amount of between R30 - R40 billion capital spending is expected over the 2015 - 2020 period, 10 per cent of which will be accounted for by infrastructure development spending and the remainder by the anticipated participating private businesses (see Standish, April 2012; also see Chapter 3 for more detail regarding the Saldanha Bay IDZ).

The Saldanha Bay IDZ development comes at a time when municipal finances are under pressure due to less than robust economic growth. As Swartland Municipality reports: *"Residents cannot be burdened any more with annual tariff increases way above the inflation rate. National and Provincial Grants are not sufficient to fill the gaps. The result is the degradation of municipal services especially engineering services."* (Provincial Treasury Municipal Survey, August 2015) The capital spending injections in Saldanha Bay and Bergvliet/Cederberg are welcome; however, it is not clear how strong the linkage effects will be across the District. Once the IDZ is in operation it will be important to spread material supply corridors to neighbouring towns and municipalities in order to instil economic growth in the wider region.

Another important challenge, is the skills constraint. Whereas most employment opportunities in Saldanha Bay, for instance, are related to the fishing and agriculture industries, the transformation to an industrial zone require focussed training and work opportunities to respond to the market skills demand. It seems that the general take-up in respect of industrial skills training initiatives in the area is slow. The demand for skilled artisans is likely to grow rapidly over the coming years and training has become a critical priority.

Other initiatives in the agricultural based region to grow the economy, include attempts to promote agri-tourism as the leading Winelands municipalities have done. The shrinking agricultural sectors of Bergvliet, Cederberg and Matzikama have adverse implications for the associated services and manufacturing industries. Agri-tourism has the potential to arrest these adverse tendencies. In this regard, there appears to be business red-tape issues constraining these type of developments in

⁶ It is difficult to include the economic impact of this project in compiling the regional forecast due to a scarcity of actual spending amounts and detail, as well as likely project delays, which causes timing issues. The forecast presented in Table 2.10 does therefore not contain the direct impact of the CAPEX spending tied to this project, as well as the economic impact of investing private businesses; however, indirectly some of the project's impact feature, e.g. by factoring in higher growth for the manufacturing sector.

the West Coast. Plans regarding the branding of the region (for instance, in terms of wine products from the region) are afoot, which could play a key role in accelerating exports and boosting the current marginal tourism industry. The agri-processing value chain of the WCD is discussed in more detail in Chapter 3.

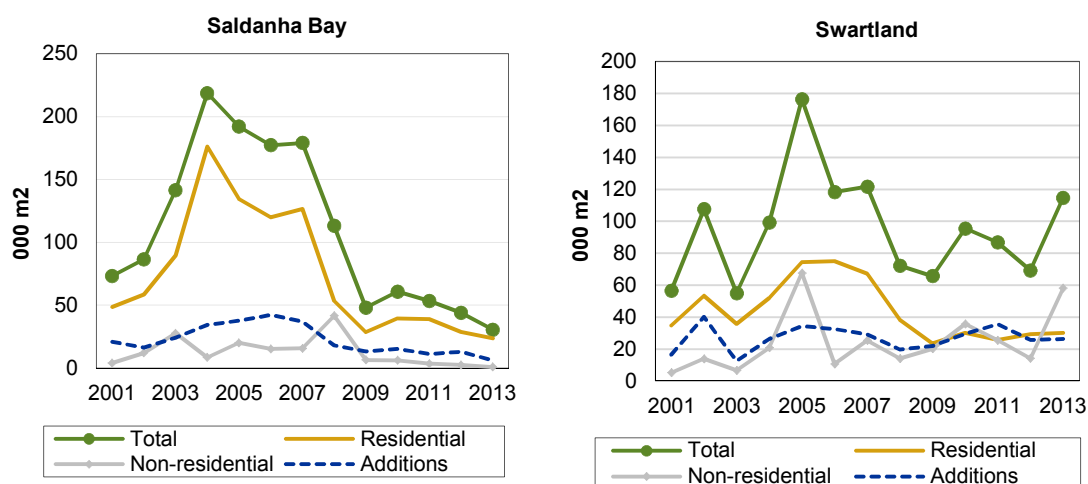
Some of the competitive advantages of the region include: proximity to the Cape Metro (with the doubling of the N7 having a positive impact), both in terms of market benefits and technology transfer; lower costs; a country lifestyle, with good schooling; a safer and more secure area and social cohesion and political stability, not to mention the attraction of the natural scenery.

2.4.2 Sector forecast: 2015 - 2020

Table 2.10 contains the WCD sector forecast over the period 2015 - 2020. The five-year average growth rate across the 10 broad sectors in the region is shown and compared with the projected growth of the Western Cape economy. The average five-year real GDP growth rate has been revised downwards from 2.9 per cent per annum to 2.6 per cent per annum, mainly due to the relatively more constrained macro-economic environment (as discussed in Section A and Chapter 1).

Statistics on building plans passed and completed in the Saldanha Bay and Swartland municipalities⁷ show that the recovery in the building sector has been lagging in the WCD (see Figure 2.22); this is corroborated by the weak growth in the construction sector in these areas over the 2010 - 2013 period.

Figure 2.22 Building plans completed - Saldanha Bay and Swartland



Source: Statistics SA

⁷ Although the information on building plans passed and completed included in this report is sourced from Statistics South Africa, the long term idea is to obtain this information directly from municipalities.

In Saldanha Bay, the total amount of square metres of building plans completed tumbled from 179 123 m² in 2007 to 30 439 m² in 2013, with non-residential building plans completed amounting to a meagre 804 m² in 2013. Furthermore, the total value of building plans passed at Saldanha Bay dropped equally sharply from R423.8 million in 2007 to R190.7 million in 2008, and lowered further to R130.8 million in 2013. Both residential and non-residential building plans recorded significant decreases over the period 2008 - 2013⁸.

In Swartland, Figure 2.22 shows that square metres of completed building plans have been rising since 2012 although the total amount is still way below the 2005 peak of 176 348 m². The square metres of completed building plans were recorded at 114 560 m² in 2013 from 69 127 m² in 2012. Whilst the tendency in completions is positive, the decrease in the total value of building plans passed from R471.1 million in 2013 to R378.5 million in 2014 is a cause for concern. Swartland Municipality has significantly reduced the number of days taken to approve submitted plans from 10 days in 2014 to 7 days in 2015.

Whilst the WCD building sector is slow off the mark considering the tendencies in its leading two municipalities' building plans, the construction sector is projected to grow by 4.2 per cent per annum, i.e. faster compared to the sector in the wider Province. This is mainly due to the major capital spending projects in the region. As noted, the projection may be somewhat academic as it does not directly account for these projects in the region (e.g. the Saldanha Bay IDZ infrastructure development). Suffice to say the construction sector is likely to be vibrant over the forecast period and is likely to be less affected by a recession (or recessionary conditions) in the national economy over the near term.

The commercial services sectors are still expected to account for the bulk of growth in the WCD. These industries account for 65 per cent of GDP in the region and is projected to grow around 3.5 per cent per annum, i.e. slightly faster compared to the Western Cape. The finance, insurance, real estate and business services sector is projected to lead growth.

The projected manufacturing growth (2.0 per cent per annum, 2015 - 2020) suggests the recovery in the sector following the adverse recession impact continues. This projection may also be too conservative in view of the likely impact of the IDZ development over the forecast period. Exporting industries are likely to benefit from a weaker currency, assuming they are able to contain the higher cost of intermediate and capital goods imports. The more potent growth opportunity may be that of import replacement in view of the weaker rand exchange rate.

⁸ The number of days it takes the municipality to approve building plans submitted is important in determining both the total value and square metres completed in a given period of time. The statutory timeframe is 30 - 60 days for the approval of building plans submitted.

Table 2.10 West Coast District: Real economic growth outlook, 2015 - 2020

Sector	Real GDP (yoy %)				
	Trend	Recession	Recovery	West Coast District	Western Cape
	2005 - 2014	2008 - 2009	2010 - 2014	2015 - 2020	2015 - 2020
Agriculture, forestry and fishing	-0.9	2.2	0.2	0.8	2.3
Mining and quarrying	-3.5	-10.3	2.7	1.2	2.0
Manufacturing	2.6	-8.8	1.8	2.0	2.2
Electricity, gas and water	-1.3	-8.0	0.0	1.2	1.8
Construction	8.2	5.3	1.6	4.2	3.7
Wholesale and retail trade, catering and accommodation	5.0	-1.3	3.1	2.9	2.7
Transport, storage and communication	5.5	1.1	1.7	3.5	3.2
Finance, insurance, real estate & business services	11.6	10.8	4.6	3.7	3.4
Community, social and personal services	3.8	-0.1	2.0	2.1	1.7
General government	1.8	3.1	3.1	1.5	1.3
Total	3.7	1.1	2.6	2.6	2.7

Source: Quantec Research, own calculations

The stability of the agricultural sector is another supportive factor for manufacturing and services industries linked backwardly to this sector. Real agricultural value add is projected to expand moderately by 0.8 per cent per annum. Sustained shrinkage of the Matzikama, Cederberg and Bergrivier agricultural sectors and the stability of the Swartland agricultural sector are likely to counter the expansion of the Saldanha Bay agricultural (and fishing) sectors.

The national government's tight finances, aimed at containing non-interest expenditure growth are likely to have a constraining impact on the public sector growth at the local level. This is reflected in the projected growth rate of the WCD government sector (i.e. 1.5 per cent per annum).

In all, the WCD is projected to expand by 2.6 per cent per annum over the 2015 - 2020 period, i.e. in line with the region's economic recovery experience and a notch below the Provincial projected growth rate of 2.7 per cent per annum.

2.5 Concluding remarks

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The WCD's coastal location (and its two harbours, Saldanha Bay and Lamberts Bay), its proximity to the vibrant Cape Metro and the natural beauty of both the coastline and the interior are clear regional draw cards.

The regional economy is characterised by a vibrant commercial sector, also expected to continue providing the main growth impetus over the forecast period. In this respect the growth and structure of Saldanha Bay Municipality stand out in the region. Its industry structure corresponds closer with that of the wider Province compared to that of the WCD. While the shrinkage of the manufacturing sector, mechanisation and the outflow of semi- and unskilled labour is cause for concern,

the incumbent IDZ development should change this sector's trajectory. Interesting skills development initiatives have been launched in order to plan for rising demand tied to the IDZ development.

In the wider WCD, the adverse trend in semi- and unskilled employment, often due to contracting agricultural sectors in a number of the municipalities, needs to be arrested. The region faces a growing informal sector. The scope for addressing these challenges has become more trying in the anticipated macro-economic growth environment, forcing a downward revision of the forecast five-year real GDP growth rate. The newly commissioned major infrastructure projects are likely to be an important countervailing force and all efforts have to be aimed at avoiding slippage in this regard. This has the potential to brighten the growth performance of the regional economy significantly.

3

Value chains

3.1 Introduction

The value chain includes the activities firms undertake to bring a product or service from production to end use by consumers. Value is added at each step along this chain. It is unlikely, in the modern age, that a full value chain exists at a local level, or even a provincial level. Modern value chains are driven by globalisation, interconnectedness, technology, logistics improvements, offshoring and deregulation. This has led to the various tasks associated with traditional value chains becoming increasingly fragmented globally. Value chains are increasingly becoming more efficient, taking advantage of the relative comparative advantage of countries, regions and competitive advantage of different firms.

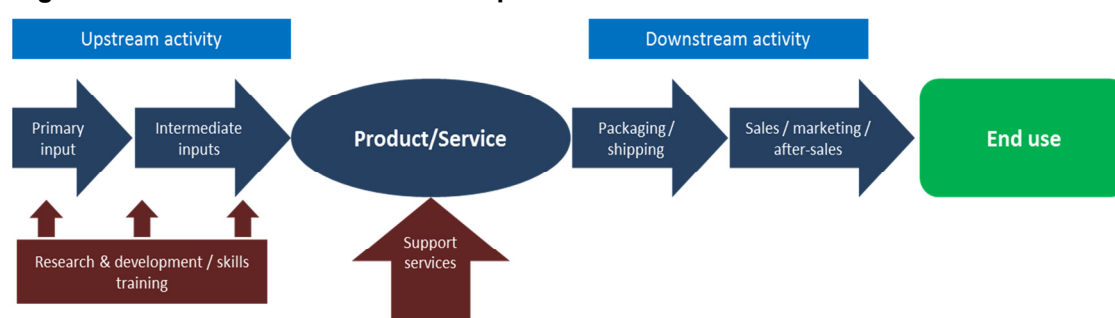
Transport and communication advancements have allowed a greater division of labour in firms, as well as the broader value chain. For each of the production stages, firms identify their in-house capability to undertake a task, relative to outsourcing this task or even moving this offshore. It is important to identify the target market of the product, as various changes to the value chain may provide significant efficiency gains for firms.

Risk exposure in a value chain is a key concept which will be considered in this chapter as it is very important to the sustainable functioning of a value chain. Highly regionally or globally integrated value chains are susceptible to global risks and economic slowdowns. It is unlikely that a value chain can be developed to be entirely isolated from this type of risk, as global and regional markets are lucrative as end-user destinations, due to the large market size.

3.2 Stages and significance of the value chain

Figure 3.1 shows the various stages in a generic value chain. The activities leading up to the manufacture of the product are accounted for as upstream activities and the activities involved in getting the product to the market are accounted for as downstream activity. Various support services are also required in upstream and downstream activity, such as, financial services or legal services. Upstream activity also requires research and development and skill building, which have positive spinoffs for the economy.

Figure 3.1 Generic value chain example



Risks and opportunities are evident at various stages of the value chain. Commodity prices are significantly more volatile relative to a product higher in the value chain, due to speculation in world markets and slowdowns in major demand markets. Integration with larger value chains can mitigate certain risks if these value chains have diversified their target markets, or if they have started to provide their products to high growth regions.

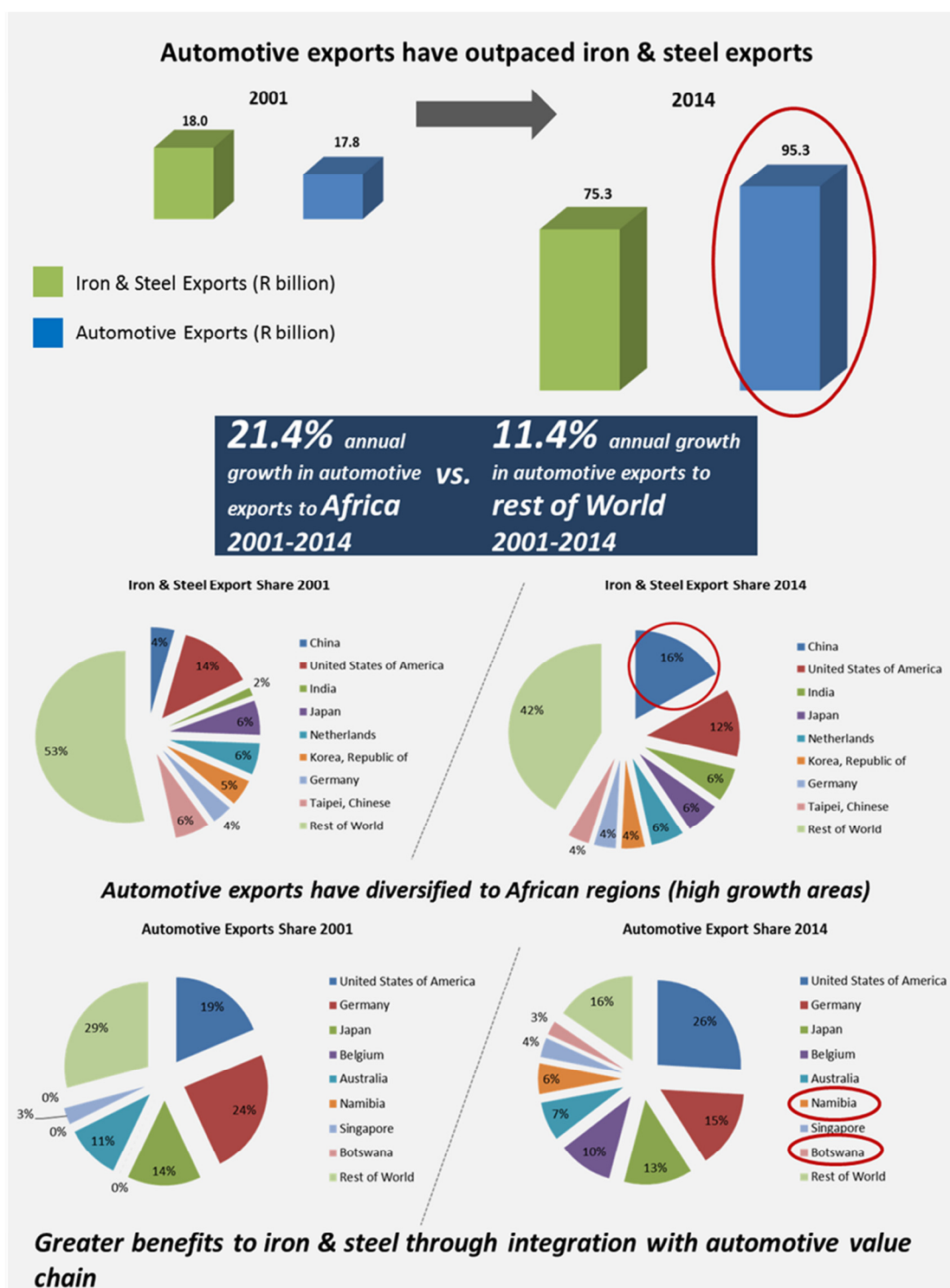
Figure 3.2 shows that providing iron and steel input into the automotive sector in South Africa is of lower risk than directly exporting to China. Commodity prices are notoriously volatile and with the volumes of product exported a small change in price per ton could have a major impact on such an industry.

Beneficiation and integration into regional value chains gives the advantage of keeping the value added and export losses of decreasing commodity prices within the value chain. Instead of the country losing the potential revenue during a period of commodity price downturn, the use of the product in a local value chain gives the next firm the advantage of a lower input price and the overall loss to the country is kept within the local value chain.

The recent economic slowdown in China will have significant implications for South Africa's commodity exports and may negatively impact these in the near future. African markets, on the other hand, are considered as high growth markets and will continue to show significant growth in the medium-to-long term. The automotive industry in South Africa has increased its exports to Africa dramatically since 2001, taking advantage of these high growth markets. *Ford Motor Company*, in conjunction with *Coscharis Group* in Nigeria, has followed *Nissan's* lead in establishing local assembly capacity in Nigeria. *Ford* will assemble the *Ford Ranger* using South African manufactured parts in the process. This will extend and expose the South

African automotive value chain to the fast-growing automotive market in West Africa.

Figure 3.2 Comparison between automotive and iron and steel exports, South Africa, 2001 - 2014



Source: Trademap/own research

3.3 Policy and spending-initiative considerations

For municipal districts, targeted spending can strengthen small local value chains and assist in achieving regional or global value chain integration of local manufacturing. Job creation cannot be sustainable unless the industry to sustain these jobs is created. It is also important that skills development and training accompanies new job creation activity to enable sustainable growth. In supporting the development of value chains and integration into regional or global value chains, R&D and skills training will be promoted by the private sector. Although it may be beneficial to provide input at the low-value-added stage of a value chain through primary inputs, this exposes the industry to risks and does not promote sustainable growth and development of the local community. In order for growth to be inclusive it is necessary that economic upgrading must be linked to social upgrading (see Chapter 5). Spending should, therefore not only be targeted at a certain industry or value chain linkage, but social needs impacting value chain development and sustainability should also be targeted at the same time (Barrientos et al, 2011).

As local value chains develop and become integrated into global value chains, the local value added component may decrease. Economies of scale and efficiency gains may result in a certain industry exporting a significant proportion of its production as local markets become too small. In order to accommodate for this, it is essential that upgrading of the local value chain takes place.

Activities such as R&D and skills development add greater value to the production process. Captive relationships between local value chain actors should also be addressed. For example, buyers can reduce the price primary producers receive for their products. Cutting out the 'middle man' could result in less overall revenue, but sustain a greater amount of jobs in the long run.

The key factors for upgrading and development of value chains are: Improving skills and education; improving access to electricity; encouraging R&D and skills development; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain.

Creation of strong entrepreneurial skills also contributes to new businesses taking advantage of existing linkages in value chains at a local level. Provision of enterprise maps and suppliers databases may also induce collaboration and create potential new linkages in the value chain at a regional and local level.

3.4 Integration of special economic zones (SEZs) into global or regional value chains

Various types of SEZs have been developed. Free trade zones and fenced-in, duty free areas are usually situated near ports or airports. Export processing zones are constructed as industrial complexes and concentrate on export-orientated manufacturing. Enterprise zones offer tax incentives or financial grants to operate businesses in certain areas. These zones usually target areas that need economic and

social upliftment. Specialised zones are those such as science and technology parks, logistics parks or chemical/pharmaceutical parks.

SEZs as defined under the South African SEZ Act No. 6 of 2014

"Industrial Development Zone" means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services.

"Free Port" means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures.

"Free Trade Zone" means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.

"Sector Development Zone" means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.

Establishment of an SEZ can often provide greater value added and employment benefits to a region. Evidence suggests that SEZs are more successful if they are developed privately, rather than initiated by government involvement. Private sector participation is a key success factor in the establishment and sustainable growth of a SEZ (World Bank, 2008).

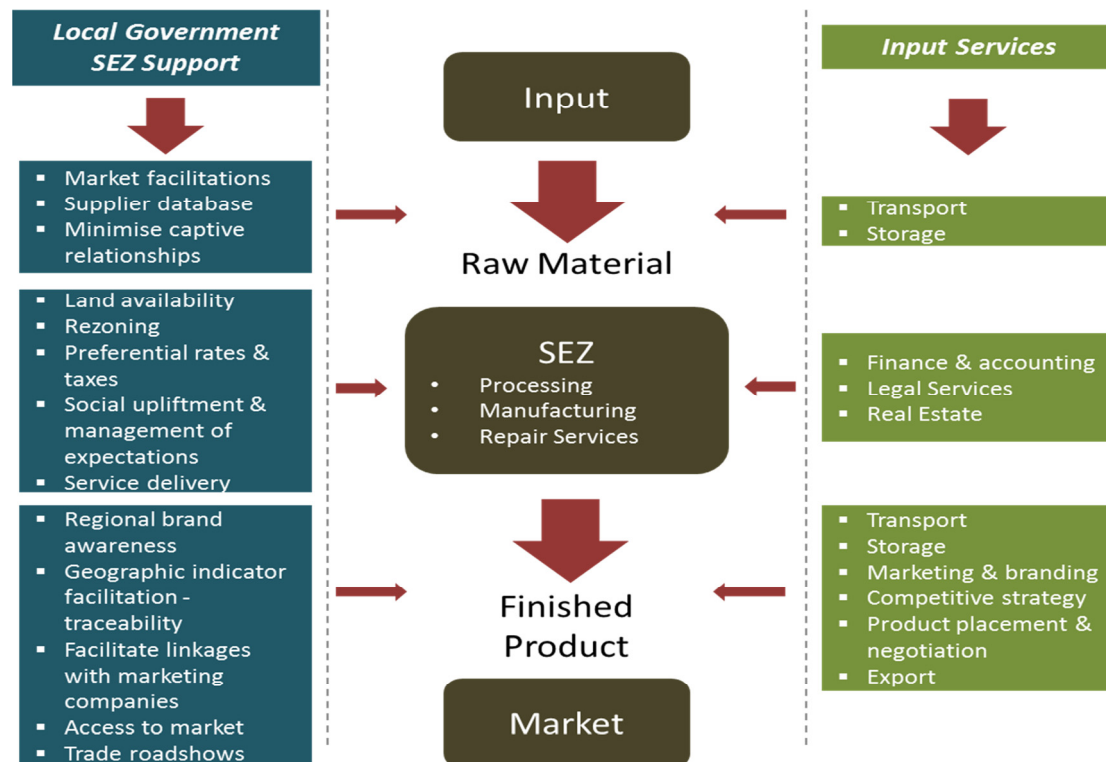
The challenge to local government is that they will only have the ability to deliver targeted spending initiatives to various stakeholders associated with the value chains of industries in these SEZs. Policy initiatives and incentive offerings are not the mandate of local government. Certain municipal tax reductions could be offered, but will not substantially influence companies in these areas. For this reason targeted expenditure initiatives focusing, not only on the companies in the processing parks or SEZs, but also on the surrounding support services to the entire value chain these industries support in the local community is necessary.

Integration into global or regional value chains is essential for the sustainable growth and development of SEZs. Many of the planned SEZs (especially in the agricultural sector) will be in rural areas. This creates challenges for companies in these areas as they are usually a considerable distance from their target market and smaller industries in these rural areas will not be able to take advantage of economies of scale.

Figure 3.3 below depicts a typical value chain for a smaller SEZ or processing park. Local government is limited in their ability to address inefficiencies in the market and also do not have the authority to facilitate substantial incentives or tax breaks. There are, however, means by which the local government can develop targeted spending initiatives to ensure the success of the SEZ in their local area. Inefficiencies could exist in the linkages between the providers of raw materials and manufacturers in the SEZ. For example, middle men, not from the local area, could complicate and erode the value added in a local agricultural supply chain. Facilitating local buyer groups or facilitating relationships directly between the producers, local logistics companies, and the firms in the SEZ, could limit losses outside the local value chain

and ensure greater profits for the farmer to create additional jobs. If a number of smaller farmers are brought together through market facilitation by local government, it may give them greater bargaining power and better prices for their products.

Figure 3.3 Simplified SEZ value chain and possible local government support initiatives



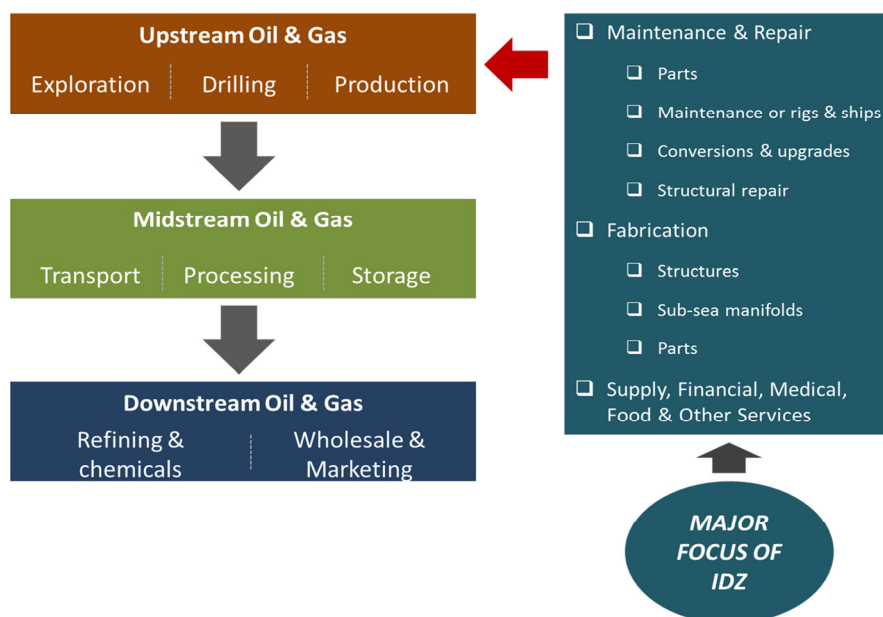
End-user markets in local areas are usually quite small and to ensure a competitive and sustainable strategy for a SEZ, it will be necessary to provide these goods to regional or foreign markets. The major challenge in this regard is the competitive advantage larger firms will have as they are able to take advantage of economies of scale and logistics efficiencies. To support local firms in a SEZ the local government should take advantage of niche markets and assist local manufacturers in the marketing of their products. Various possibilities exist for the promotion of local products to regional or international markets. For instance, "Karoo Lamb" has established itself as a significant brand name in regional, as well as, international markets. To enforce these geographic indicators it may be necessary to facilitate international trade roadshows, or to link the local firms with national or international marketing companies. In many cases international markets require certain standards for their products, and this is directly related to the standards maintained at the production facility. Assisting in achieving these requirements at the local manufacturing facility could open an entirely new international market to a local producer.

3.5 WCD value chains

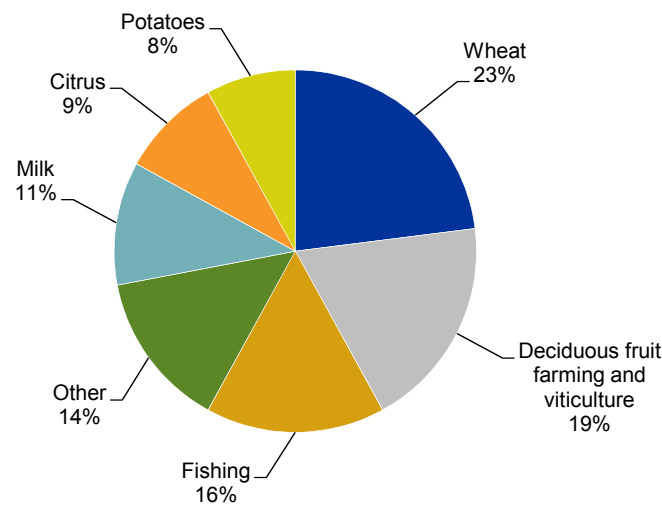
3.5.1 Oil and gas and agri-processing

The oil and gas value chain consists of the upstream, midstream and downstream components as indicated in Figure 3.4 below. The Saldanha Bay IDZ is targeting the servicing of upstream activities in the oil and gas sector along the West Coast of Africa, such as rig repair and maintenance.

Figure 3.4 Oil and gas value chain, WCD



Agriculture and fishing is a significant sector in the WCD, contributing approximately 27 per cent of farming income in the Western Cape and approximately 73 per cent of the Western Cape fishing industry (Quantec Research & West Coast District Regional Economic Development Strategy, 2007). The major outputs of the agricultural sector in the WCD are field crops (maize, wheat and barley), horticulture (vegetables and fruit), livestock, milk, wool, fish and rock lobster.

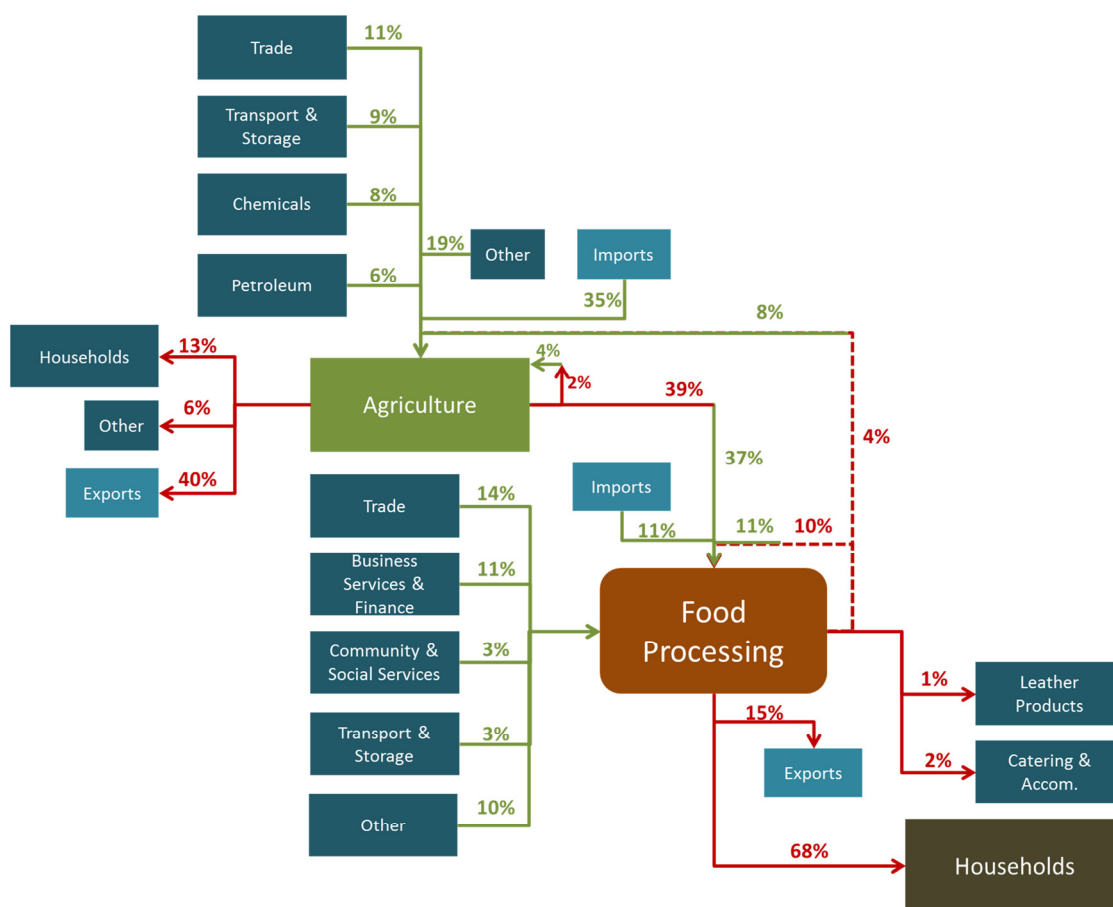
Figure 3.5 Agricultural production split, WCD

Source: West Coast District Regional Economic Development Strategy, 2007

The greatest contribution to the agricultural sector in the WCD is from wheat farming and then deciduous fruit farming and viticulture. Currently the major challenges faced by local farmers are weather patterns, restrictions on European imports and relatively little subsidies or support from local government.

There is significant potential for agri-processing and the development of agro-processing zones under the SEZ framework. Currently the Department of Trade and Industry and the Department of Agriculture is planning 44 agri-parks in South Africa. In the WCD, Doringbaai has been identified as a possible area for aquaculture and Laaiplek as a satellite agri-park.

Agri-processing has important linkages to other sectors in the economy and is a significant contributor to the GDPR of the WCD. In 2013, output for agriculture was R6.6 billion, with GDPR for agriculture at R2.8 billion. For food and beverage processing output was R6 billion and GDPR was R1.5 billion. Figure 3.6 below depicts the agro-processing value chain and the linkages to other sectors in the economy.

Figure 3.6 Agri-processing value chain linkages, West Coast District

Source: Stats SA and own research

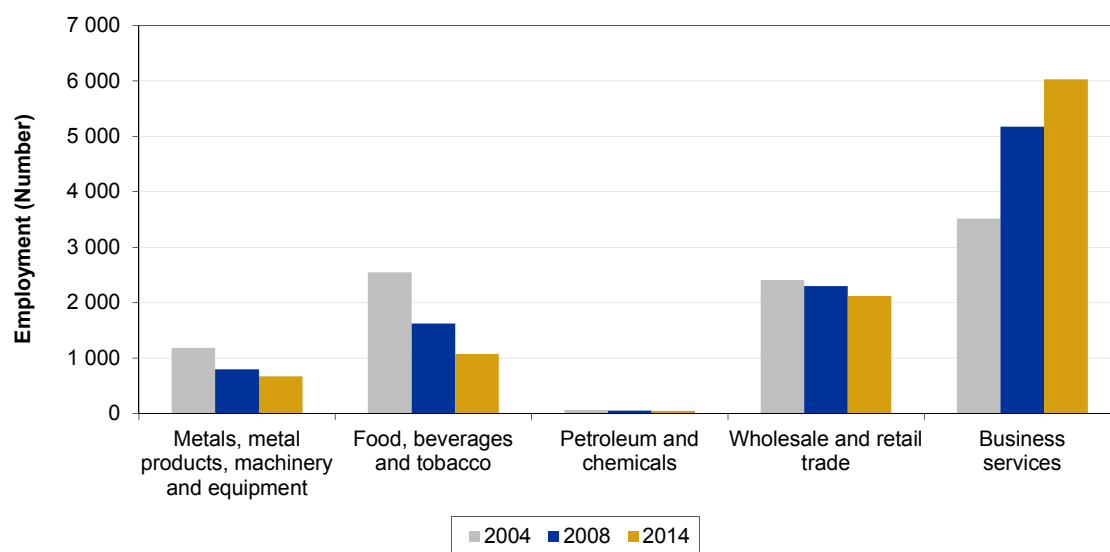
In Figure 3.6 the green percentages indicate the share of input into a sector (expenditure on input) and the red percentages indicate the output share from those sectors. For instance, the output from agriculture to food processing is 39 per cent of the output generated in agricultural production and then comprises 37 per cent of the input of food processing. Each of the two major linkages in the value chain, agriculture and food processing, has input sectors that support production. Retail trade plays an important role as an input into both the agricultural and food processing sectors. Agricultural producers rely on the retail sector for 11 per cent of their inputs and the food processing sector relies on the retail sector for 14 per cent of their inputs.

Transport, fuel and chemicals are significant expenditures for the agricultural sector, as with any raw product, and the tertiary sector plays an important role for food processing expenditure. The ability for local municipalities to facilitate the linkages between the farmers and the food processors is important (see Figure 3.6). It is noted that the tertiary sector benefits much greater if raw agricultural output is beneficiated within the local area as expenditure by food processors for business and financial services, as well as, logistics (transport and storage) is more significant than with the agricultural sector. Levels of imports into the food processing sector are also lower, which would indicate a higher reliance on the local value chain, which can add greater GDP to the value chain by minimising the import leakages.

3.5.2 Value added and employment analysis

Concentrating on the oil and gas potential in the Saldanha Bay area, the employment statistics for the Saldanha Bay Municipality is analysed below. Figure 3.7 shows the employment levels from 2004 to 2014. The industries presented have potential links to the oil and gas value chain in the local economy. It is noticeable that there has been a significant decline in both employment and GDP in the manufacturing and trade sectors over the past decade. Only the business services sector has shown strong growth during the same period. This decline will have an impact on the uptake of the targeted industries in the Saldanha Bay IDZ.

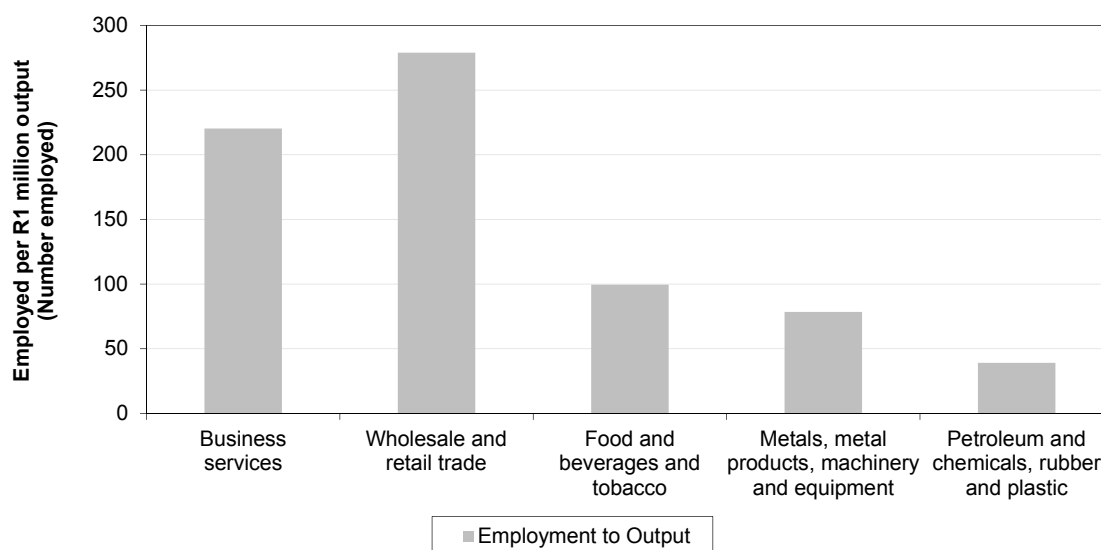
Figure 3.7 Formal employment in sectors linked to the oil and gas value chain, Saldanha Bay Municipality, 2004 to 2014



Source: Quantec Research

Direct employment ratios per R1 million output are relatively low in the metals, machinery and petrochemicals sector. Figure 3.8 depicts these ratios for the WCD and it is clear that the services sector has a greater proportion of employees per R1 million output than the manufacturing sector in this district. Support services to the upstream oil and gas industry, in the form of provision of food supplies and equipment, provides significant potential for job creation in the local community. It is important that local authorities make a concerted effort to afford local producers and traders the opportunity to offer their services to, or in, the IDZ. Often these services are provided by larger national companies, due to stronger bargaining power.

Figure 3.8 Employment to output ratio (number of employees per R1 million output), West Coast District, 2013



Source: Quantec Research

3.5.3 Conclusions, Risk and Opportunities

Risks

General decline in oil and gas-related industry: The decline in these industries will pose a challenge to local government as the services related to these industries in the area will be impacted. Local skills may also be lacking due to the 'brain drain' effect.

Relatively low levels of forward integration: The IDZ will mainly service the upstream activities in the oil and gas value chain. This exposes the local industry to all the risks of the oil & gas activity on the West coast of Africa, such as lowered production or exploration due to a slump in prices.

Opportunities

Localising employment: Greater demand for specialised skills will be necessary as the IDZ is developed, this creates a unique opportunity to localise these skills. This will prove positive to the local construction, services, trade, education and healthcare sectors having to face increased demand.

Supporting development of midstream activities: Future development of midstream activity in the Saldanha Bay area will expose the region to a greater portion of the entire oil and gas value chain, greatly improving GDP and employment in the region. Instead of only relying on the storage facility at Cape Town, local storage at Saldanha Bay will offer greater exposure, possibly even creating other spin-off industries.

Potential tourism: By promoting Saldanha Bay as a quality lifestyle destination, it will also be favourable to promote tourism activity in the region, with development of resorts and golf courses, for example. To improve tourism potential for the public in Cape Town, organised tours could possibly be arranged for oil rigs or facilities. (This would depend on legality and the large oil companies).

R&D and skill-training workshops or centres: Facilitating R&D seminars, where leaders in a specific field are invited to speak and share with local companies, could foster greater integration of local companies with global value chains. Skills training workshops or centres could also be promoted or developed so Saldanha Bay can be viewed as a 'centre of excellence' for certain industries.

Implications

Improving support services: Local government must develop the necessary education, healthcare and social services to support the greater number of potential jobs to be created in the area. Higher income areas will need greater service delivery to accommodate a possible increased amount of residents in the area. High quality schooling is essential and a local private hospital is necessary. With increased activity in an industrial zone potential residents may feel safer with a local private hospital facility in the area. This could also serve workers on oil rigs.

Initiatives to draw employees locally: High skilled employees will offer a significant benefit to the local economy in terms of their spending potential. It is necessary to draw these individuals to the local community by promoting Saldanha Bay as a 'high status' area with a high quality lifestyle and to promote tourism.

3.6 Saldanha Bay IDZ update

The permit for the IDZ was handed to Saldanha Bay IDZ Licencing Company (SOC) Limited (LiCo) in October 2013. This gave the company the legal status as operator of the IDZ. The LiCo Board is represented by the three spheres of Government, being Saldanha Bay Municipality, Western Cape Government, and National Government through **the dti**.

The IDZ is designated as an Oil and Gas, and Marine Fabrication and Repair/Engineering and Logistics zone. It is the first sector-specific IDZ in South Africa and it was licensed as such. Currently the SBIDZ Licencing Company is emphasising the development of the zone as an investment destination and to cut the red tape for oil and gas servicing companies. Establishing a customs control area (CCA) is a key priority for the success of the IDZ. This is a key incentive as it gives companies manufacturing in the zone the ability to pay no import duties on assets used in manufacturing, or pay duties on any goods stored or used as raw materials in the manufacturing process. It will also give investors the ability to take advantage of export duty exemption on services rendered within the IDZ. Various tax benefits will also be evident. Value-added tax exemption on goods imported and used in the construction or maintenance of the CCA's infrastructure will be given and there will be reduced corporate income tax rates. However, the overriding attraction for

prospective companies is the fact that it will be a free deep-sea port and having a prime location along the West African coast. This is really what will ensure private sector involvement over the medium term.

There already are non-disclosure agreements in place with 28 private companies, more or less evenly split between local and foreign entities. The interest of the prospective companies goes beyond oil and gas and marine repair business to marine manufacturing, such as small navy vessels exportable to other African markets.

According to the projections of LiCo (Saldanha Bay IDZ Fact Sheet, Wesgro, 2012) the earnings potential of the IDZ in 7 years could be approximately R7.9 billion. Rig repair services are assumed to have the potential to generate R3.37 billion and the fabrication of the metal products that are used in the servicing of these rigs in the off-shore oil and gas industry could generate R2.25 billion. This would mean an injection of an additional R2.25 billion in output to the metal products and equipment industry in the WCD, specifically around Saldanha Bay. Utilising the multiplier for GDP to output for the metal products and machinery industry in the Western Cape the additional GDP generated for R2 250 million of output is R703 million.

Currently work is being planned on infrastructure projects in the zone, such as water treatment, transport, waste and security infrastructure. Transnet National Ports Authority has also started construction of the offshore oil supply base; a rig-repair quay also needs to be constructed. The licensing company has already solicited infrastructure funds amounting to R450 million. Construction work has already commenced and is likely to be spread over three years.

One of the key strategic objectives with the Saldanha Bay IDZ is localised job creation and economic growth. In this regard an 18-month skills training programme has been launched and the intention is to implement enterprise development in association with the IDZ business forum. These skills and enterprise development initiatives – aimed at the local population – represent key challenges and require the support of the surrounding local municipalities. Beyond this, the standard municipal mandates in terms of supplying the required basic services infrastructure support and social services will be important. The scarcity of schools offering higher-grade mathematics and science subjects in the area is an example of a key constraint.

4

Infrastructure spending: Review and analysis

4.1 Introduction

Basic services are defined as those services necessary to ensure an adequate standard of living for the inhabitants of a municipality. These services include the provision of water, electricity and housing, as well as waste management and waste water management.

Access to public services is a basic right of all South African citizens. As embodied in the White Paper on Local Government, municipalities, in conjunction with the provincial and national spheres of government, have been mandated to provide these services. Given the high levels of inequality and poverty prevalent within the post-apartheid environment, and in conjunction with the introduction of a number of programs aimed at the addressing these issues including the RDP, GEAR, AsgiSA and currently the National Development Plan (NDP), the role of local government in remedying the apartheid legacies and in contributing to an environment conducive to growth and employment has grown substantially. The White Paper on Local Government prioritises the provision of a basic level of household services as one of the key mechanisms through which municipalities will operate in order to affect improvements in the level of inequality and poverty.

Municipalities would not be able to perform this mandate without the proper systems in place to facilitate the provision of basic services. Sufficient investment in the municipal infrastructure which encompass these systems are thus necessary. In addition to raising the standard of living of those to whom these services are rendered, a number of studies have found that increased basic infrastructure delivery has a positive effect on economic growth; and, conversely, higher economic growth affords more successful infrastructure investment. With health being a determinant of labour productivity, both qualitative and quantitative improvements in sanitation, the water supply and sewage services would have positive spillover effects on economic

growth. It has been shown how increasing basic infrastructure by 1 per cent could lead to a 0.36 per cent increase in GDP per capita in rural municipalities and a 0.33 per cent increase in GDP per capita in urban municipalities in South Africa.⁹

Basic service infrastructure thus facilitates the establishment of an environment in which development and growth can be more effectively pursued. It is nevertheless important to note that, for the attainment of robust or continued growth, increased investment in infrastructure of this kind cannot be relied upon in isolation. The economic environment in which the municipality operates is unique to that region, and as such, infrastructure needs vary accordingly. Proper planning, sound project selection and effective implementation of these infrastructure ventures will thus improve both the scale and resilience of the resultant spillovers. It is also essential that the infrastructure (both old and new) is properly maintained (through both effective demand and supply management) if the economic benefits of these investments are to be realised more fully.

Because of the role that basic service infrastructure expenditure plays in attaining local social and economic development, a number of sources (including Quantec and the municipal A-schedules among others) will be used to gauge trends in municipal infrastructure expenditure and expenditure predictions, and the resulting impact on basic service delivery will be assessed.

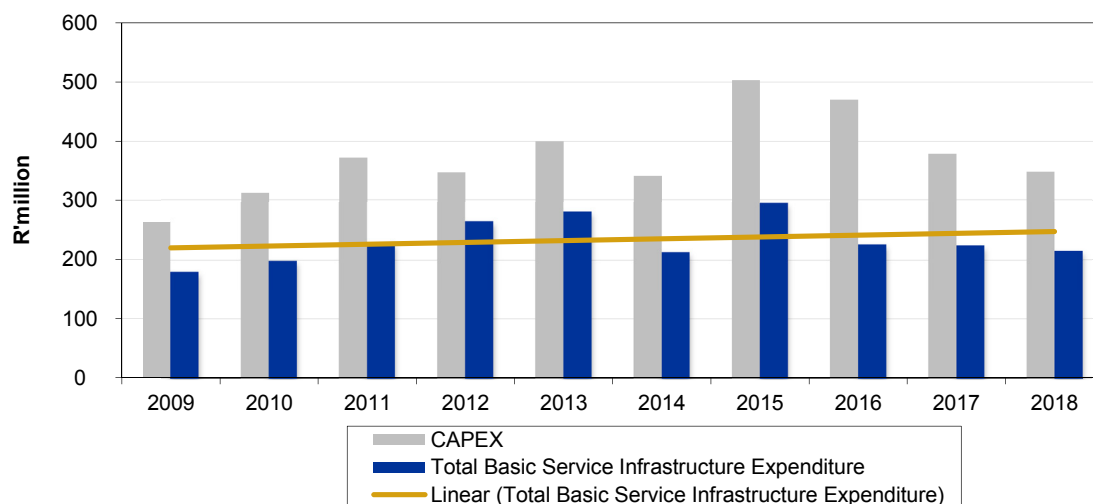
4.2 Infrastructure development

4.2.1 Overview of municipal expenditure trends in the West Coast District

With the growing emphasis being placed on infrastructure investments as a means of facilitating economic growth, as embodied in the National Infrastructure Development Plan, it is essential that municipalities prioritise their budgets accordingly.

Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly (see Figure 4.1). In 2008/09 basic services infrastructure investment took up 69 per cent of the capital expenditure budget. This decreases to 64 per cent in 2009/10 then 62 per cent in 2010/11 before rising to 77 per cent in 2011/12. Over the 2012/13 and 2013/14 financial years the portion of the budget allocated to basic services infrastructure has declined to 70 per cent and 63 per cent respectively. This negative trend is also observed over the 2015/16 MTREF. The portion of the budget allocated to infrastructure expenditure is expected to decrease to 59 per cent in 2014/15 and then 48 per cent in 2015/16 before increasing to 59 per cent in 2016/17 and 62 per cent in 2017/18.

⁹ Gnade, H. (2013). *Basic infrastructure delivery and its welfare effect on rural and urban municipalities*. Paper to be presented at the conference of the Economic Society of South Africa, Bloemfontein, September.

Figure 4.1 West Coast District Total capital expenditure vs basic service infrastructure expenditure: 2009 - 2018

Source: Western Cape Provincial Treasury

The importance of basic services infrastructure investment as a vehicle for improving local economic development cannot be overemphasised. Hence the decreases in both the capital expenditure budget and basic services infrastructure investment observed over the 2013/14 financial year are a cause for concern. This decrease in basic services infrastructure investment is visible across most of the WCD municipalities except for Bergrivier and Swartland municipalities. Bergrivier recorded the highest percentage change in basic services infrastructure expenditure from 2012/13 to 2013/14. However, this municipality contributed 12 per cent to the total basic services infrastructure expenditure in the region in 2013/14.

Basic services infrastructure expenditure was higher in Saldanha Bay and Swartland municipalities contributing 30 per cent and 34 per cent respectively to total basic services infrastructure expenditure and 32 per cent and 29 per cent respectively to GDPR in the region in 2014. Matzikama and Cederberg municipalities each accounted for 6 per cent and 12 per cent respectively of the total basic services infrastructure expenditure and contributed 15 per cent and 9 per cent respectively to the region's GDPR (see Table 4.1).

Table 4.1 West Coast District basic service infrastructure expenditure as % of total WCD expenditure¹⁰

Municipality	GDPR share 2014	2010	2011	2012	2013	2014	2015	2016	2017	2018
Matzikama	15%	16%	15%	13%	12%	6%	6%	8%	9%	12%
Cederberg	9%	14%	10%	11%	17%	12%	12%	25%	28%	21%
Bergrivier	13%	10%	2%	8%	5%	12%	8%	25%	13%	24%
Saldanha Bay	32%	31%	25%	26%	28%	30%	32%	32%	27%	22%
Swartland	29%	7%	26%	31%	23%	34%	30%	8%	19%	19%
Total	100%¹¹	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Western Cape Provincial Treasury

¹⁰ Basic services infrastructure expenditure is calculated per financial year. Columns not adding up to 100 is due to missing data of the former West Coast DMA.

¹¹ Cape Winelands District Municipality contributes the remaining 1 per cent to the regions' GDPR.

From Table 4.1 it is clear WCD municipalities vary enormously on how much they spend on basic services infrastructure and by how much it grows yearly. This reflects a wide array of financial and demographic factors faced by each municipality. Saldanha Bay and Swartland municipalities lead the pack in basic services infrastructure expenditure per person within the region, spending R609 and R604 respectively per person. In contrast Matzikama recorded the smallest basic services infrastructure expenditure per capita (R171). Cederberg and Bergrivier municipalities each spent R491 and R380 respectively on basic services infrastructure expenditure per capita in 2014. It would appear that municipalities that make the highest contributions to GDP also make the highest contributions to basic services expenditure for the region.

Due to the significant budgetary constraints facing municipalities, and considering the specific needs of the inhabitants of the respective municipalities, it is essential that funds are allocated toward those projects which would have the most significant effect on economic growth.

As shown in Table 4.2 waste water management and water provision were the largest basic services infrastructure expenditure items in the WCD each taking up 39 per cent and 27 per cent respectively of the total basic services expenditure within the region in 2014. Waste management accounted for 7 per cent of the total basic services expenditure within the region in 2014. A notable point is that in Bergrivier close to 70 per cent of its basic services infrastructure expenditure was directed towards waste water management in 2014. This is presumably a result of the upgrading of septic tanks and other bulk sanitation infrastructure within the region. In Cederberg approximately 64 per cent of its infrastructure expenditure was directed towards water provision in 2014. The municipality's Clanwilliam Water Treatment Works project contributed to this high expenditure. In Matzikama 78 per cent of its basic services infrastructure expenditure was directed towards waste water management in 2014. The municipality's waste water management expenditure has mainly been directed at increasing the sewerage capacity in Doring Bay and Ebenaeser to accommodate future demand. Basic services infrastructure in Saldanha Bay and Swartland municipalities was mostly directed towards water provision (34 per cent) and waste water management (48 per cent) respectively.

Housing and electricity expenditure took up 11 per cent and 16 per cent of the total basic services infrastructure within the region in 2014. Whilst Saldanha Bay and Cederberg municipalities recorded no housing expenditure, Bergrivier and Swartland municipalities contributed 28 per cent and 71 per cent to the total housing expenditure within the region in 2014.

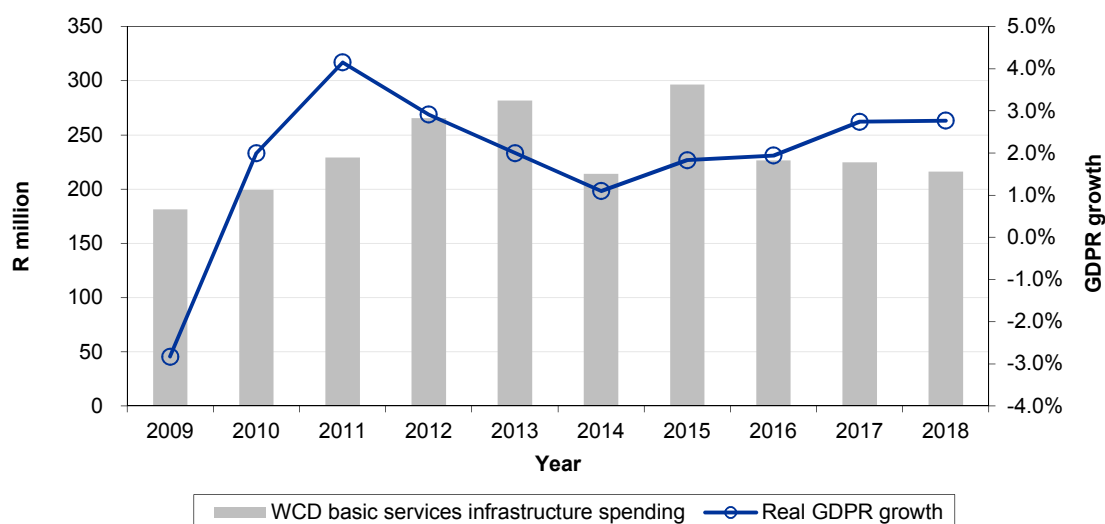
The relatively smaller contribution made by electricity to basic services infrastructure investment could be a result of intergovernmental arrangements. In the West Coast Local Government and Eskom are both responsible for the supply of electricity, hence Eskom also makes investments in electricity infrastructure.

4.2.2 Basic service infrastructure investment and economic growth

Economic theory illustrates that investment in economic infrastructure supports economic growth both directly, through capital accumulation, and indirectly through improved factor productivity.¹² A key mechanism through which the South African Government aims to accelerate economic growth is through infrastructure investment particularly for basic services. Infrastructure is not only an essential part to improving livelihoods but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. Access to basic necessities such as housing, water, sanitation and refuse removal is a prerequisite for economic growth.

Figure 4.2 provides an approximation of the relationship between infrastructure expenditure and economic growth. Over the period 2009 to 2013 the WCD experienced years of high growth in basic services infrastructure expenditure averaging 12 per cent per year. This period was followed by a 24 per cent decline in basic services expenditure in 2014.

Figure 4.2 GDP growth vs total basic service infrastructure expenditure: 2009 - 2015



Source: Western Cape Provincial Treasury

GDP growth showed signs of recovery after 2009; however, since 2011 it has tapered down markedly to slightly below 1.5 per cent in 2014. It appears that the year 2014 not only recorded a substantial decrease in basic services infrastructure expenditure but also the lowest GDP growth rate over the 2009/10 to 2013/14 period. The decline in actual infrastructure spending would have had a direct negative impact of GDP; however, there are also longer term repercussions, particularly should the slowdown become a new trend.

¹² Fedderke, J.W., & Bogetić, Ž. (2009). Infrastructure and growth in South Africa: Direct and indirect productivity impacts of 19 infrastructure measures. *World Development*, 37(9), 1522-1539.

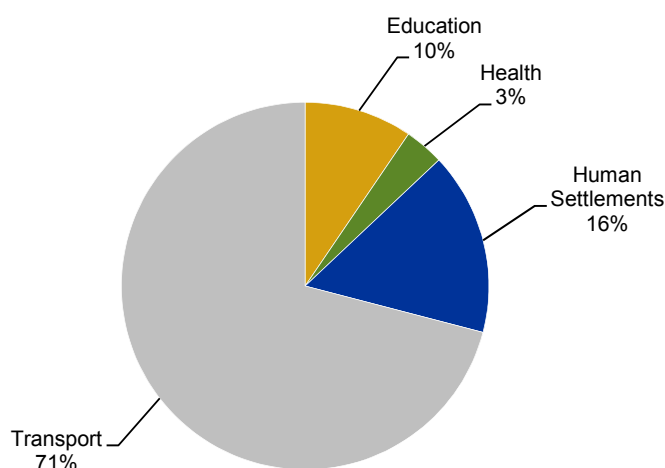
The ratio of basic infrastructure investment to GDPR is an important indicator of the Districts' performance in basic services infrastructure investment. During the period 2008/09 to 2012/13 the ratio of basic services infrastructure investment to GDPR showed a consistent upward trend. The ratio rose from 1.28 per cent in 2008/09 to 1.79 per cent in 2012/13. The year 2013/14 can be considered as a year of a basic services infrastructure investment slump. During this period the ratio of basic services infrastructure investment to GDPR fell to 1.34 per cent. The 2015 budget planned for a recovery in this level of basic services infrastructure spending.

It is important to note the role played by time lags in between basic services infrastructure investment and the resulting impact on economic growth. Infrastructure investment will have both a direct and an indirect effect on GDPR. Whilst the direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP the indirect effect is a result multiplier or knock-on effects within the economy.

The different basic services infrastructure expenditures have made different contributions to GDPR growth within the WCD. As noted in Chapter 2 the electricity, gas and water sector recorded no growth over the period 2010 to 2014 after experiencing contraction of 8 per cent over the 2008 - 2009 period. The lack of growth in the electricity and water sector does not bode well for the economic performance of the District. Accelerated basic services infrastructure is crucial for economic growth within the region. Some of the major infrastructure projects that will help in basic service delivery whilst promoting economic growth within the region include the implementation of a regional landfill site in Matzikama and expansion of the Olifantsriver canal and Clanwilliam Dam.

4.2.3 Western Cape Government infrastructure spending in the West Coast

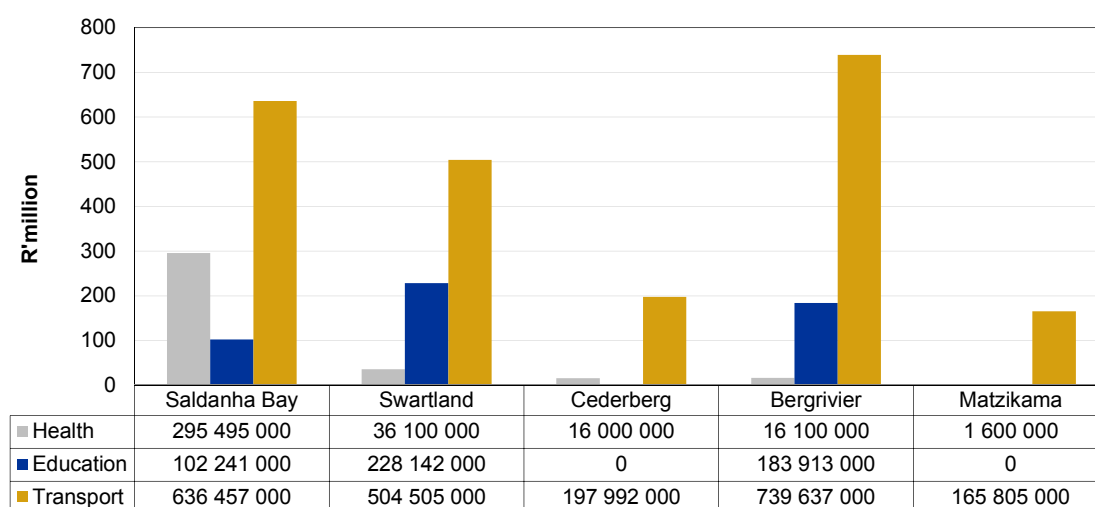
Apart from infrastructure expenditure the West Coast District municipalities are mandated to do, the Western Cape Government (WCG) has other mandates such as education, health, roads and public works infrastructure spending. The 2015 - 2018 budget shows that the WCG will be spending on various infrastructure projects across all districts – see Figure 4.3 for a breakdown of the WCG's planned infrastructure expenditure projects for education, health, roads and human settlements in the West Coast. Figure 4.4 shows a breakdown per municipality in the region.

Figure 4.3 Composition of WCG infrastructure expenditure - West Coast District

Source: Provincial Treasury Infrastructure Unit

Figure 4.3 shows that transport infrastructure projects received the bulk of the allocations from the WCG for the period 2015 - 2018 (i.e. R1.9 billion or 71 per cent), followed by human settlements (R452 million or 16 per cent) and education (R182 million or 10 per cent). Health infrastructure projects have been allocated R85 million or 3 per cent of the total infrastructure budget of the WCG for the WCD.

Figure 4.4 shows that transport infrastructure projects receive the largest budget allocations in all five municipalities in the District, with Bergervier leading over the MTREF period, followed by Saldanha Bay, Swartland, Cederberg, and Matzikama. In Saldanha Bay, health projects receive the second highest allocation while education infrastructure projects receive the second highest allocations in Swartland and Bergervier. This infrastructure expenditure by the WCG is expected to unlock economic potential in the West Coast District.

Figure 4.4 WCG Expenditure on infrastructure - West Coast District, 2015 - 2018

Source: Provincial Treasury Infrastructure Unit

4.3 Basic services infrastructure and access

In order to effectively realise the positive spillovers resulting from investment in basic service infrastructure, it is essential that these increased capital expenditures are translated into the delivery of services. As government strives to achieve universal access to basic services it is important to obtain an understanding of our current status in basic services delivery in order to develop appropriate interventions. Statistics South Africa, through the annual Non-financial Census of Municipalities, tracks the levels of service delivery within municipalities in the country. The diverse nature of our municipalities in terms of their financial capacity and administrative capabilities requires a differentiated set of policies and interventions to improve service delivery and cope with growing demand.

Table 4.2 West Coast access to basic services trend; change in number of consumer units: 2009 - 2014

Region	Water	Electricity	Sewer and Sanitation	Refuse
Bergvriër	813	320	1 209	842
Cederberg	1 763	3 079	1 860	2 000
Matzikama	1 496	3 910	1 282	1 792
Saldanha Bay	1 354	3 542	2 198	-4 922
Swartland	2 276	2 359	2 103	1 951
West Coast District	7 702	13 210	8 652	1 663
Western Cape Province	233 800	51 985	102 895	-42 615
South Africa	1 797 335	2 177 095	1 255 080	662 690

Source: Stats SA: Non-financial Census of Municipalities

Table 4.2 shows the changes in the number of consumer units¹³ with access to basic services from 2009 to 2014. According to the Census the highest increases in the country were recorded in the provision of electricity. The Western Cape Province recorded the highest increases in the provision of water. The highest increase in the WCD was recorded in the number of consumer units with access to electricity, with the leading contributions originating from Matzikama Municipality. Saldanha Bay Municipality also made meaningful contributions to the increase in access to electricity recorded within the District. According to the March 2014 Western Cape Provincial Spatial Development Framework (WCPsDF), the West Coast is the second highest energy user in the Western Cape Province due to its energy-intensive industries.

The number of consumer units with access to refuse services recorded the smallest change within the region. The table shows that apart from Saldanha Bay that recorded a decline in the number of consumer units with access, the other WCD municipalities expanded access to refuse removal services. Although Matzikama Municipality faces challenges in the provision of wheelie bins due to a lack of capital the municipality recorded the third highest increase in consumer units with access to basic services over the period 2009 - 2014. Matzikama Municipality is also faced with

¹³ A consumer unit is the term used to refer to a billing unit provided services by the Municipality.

the challenge of addressing the lack of potable water resources within its Northern area and the replacement of the dry bucket system toilets with flush toilets.

As a result of the varying demographic character and economic conditions across municipalities, basic service requirements differ per municipality. The main obstacle to accelerating basic services delivery in the region is the growing population and a lack of appropriate infrastructure.

4.4 Municipal revenue trends in the West Coast District

In order to sustain economic growth and preserve the standard of living of the inhabitants of the municipality, both quantitative and qualitative improvements to the stock of basic service infrastructure need to be maintained. It is essential that the infrastructure (both old and new) is properly preserved if the economic benefits of these investments are to be realised more fully. One source through which the maintenance and improvement of basic service infrastructure can be funded is from the charges levied for the basic services rendered by the municipality. The revenue generated from these sources often makes up a significant portion of the municipality's total revenue, and tends to fluctuate along with the economy.

Table 4.3 illustrates the percentage change in revenue generation from property rates and trading service charges per municipality in the WCD. As is the case with basic service infrastructure expenditure Saldanha Bay and Swartland municipalities make the largest contributions to revenue generation within the District. A notable fact is that although Bergrivier Municipality contributed 11 per cent to the revenue generation within the District in 2013/14, the municipality recorded the highest percentage change in revenue generation over the period 2012/13 to 2013/14. WCD revenue grew by an annual average rate of 15 per cent between 2009/10 and 2013/14. The District-wide forecast indicates that revenue collected from property rates and trading services will increase over the 2015/16 MTREF.

Table 4.3 Percentage change in revenue generated per municipality, 2010 - 2018

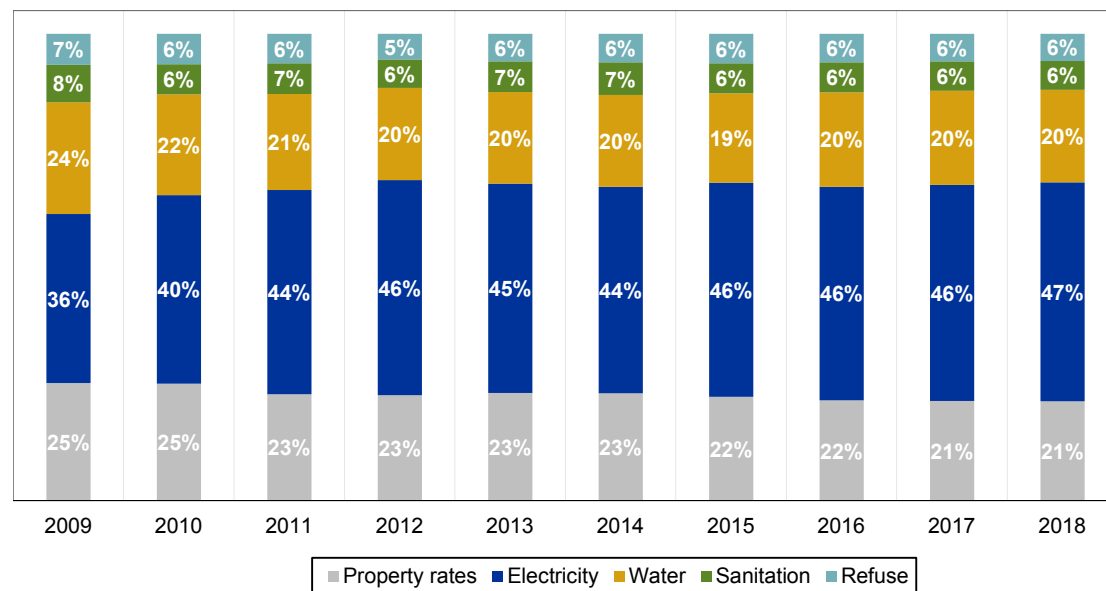
Municipality (% change)	2010	2011	2012	2013	2014	2015	2016	2017	2018
West Coast	14%	9%	7%	10%	5%	13%	6%	10%	1%
Matzikama	24%	16%	23%	5%	13%	16%	13%	9%	9%
Cederberg	-	19%	12%	8%	11%	21%	13%	6%	6%
Bergrivier	21%	15%	8%	9%	21%	11%	15%	8%	2%
Saldanha Bay	26%	11%	15%	5%	10%	7%	10%	11%	8%
Swartland	11%	19%	15%	12%	6%	4%	12%	11%	11%
Total	30%	14%	14%	8%	10%	9%	11%	10%	8%

Source: Western Cape Provincial Treasury

Figure 4.5 illustrates the contribution of property rates, electricity, water, sanitation and refuse revenue toward total revenue generated from the rendering of basic services in the WCD. The graph shows that over the 2008/09 to 2013/14 period electricity revenue contributed the most to total revenue generated within the region whilst refuse revenue contributed the least. The District-wide forecast indicates that

revenue generation from property rates and trading services will follow the same trend with electricity contributing the most to revenue followed by property rates, water and then sanitation and refuse removal revenue.

Figure 4.5 Service charges as a % of total revenue generated from basic services rendered



Source: Western Cape Provincial Treasury

Table 4.4 shows the municipal composition of the West Coast's GDPR in 2014 and the average real GDPR growth for the local municipalities over the period 2000 - 2014. This is compared to the share of revenue generated from basic services rendered per municipality.

Table 4.4 West Coast District GDPR growth vs revenue shares in 2014

Municipality	GDPR % share	Basic services revenue % share	GDPR growth 2005 - 2013
Matzikama	15.3%	10%	1.0%
Cederberg	8.9%	8%	1.6%
Bergervier	13.2%	11%	2.2%
Saldanha Bay	32.1%	40%	4.1%
Swartland	29.1%	23%	3.7%
Total West Coast District	100%	100%	3.0%

Source: Western Cape Provincial Treasury

The table shows that municipalities that experience higher growth rates over the period 2005 - 2014 collect more revenue from basic services. Saldanha Bay Municipality made the largest contribution to basic services revenue (40 per cent) and GDPR (32 per cent) in 2014 and grew at an average of 4.1 per cent over the period 2005 - 2014. Swartland Municipality made the second largest contribution to basic services revenue (23 per cent) and the second largest contribution to GDPR (29 per cent) and grew at an average of 3.7 per cent over the period 2005 - 2014. It is evident that Saldanha Bay and Swartland municipalities that contributed the most to GDPR and recorded higher GDPR growth rates collected more basic services

revenue vis-à-vis Bergrivier, Matzikama and Cederberg which trail both in terms of growth, size and revenue collection.

Basic services revenue contributes more than 60 per cent of the total operating revenue within each municipality within the WCD, ranging from 69 per cent in Matzikama to 84 per cent in the Swartland. It therefore follows that basic services revenue is an important source of revenue and municipalities must do more to exploit the potential of these revenue sources.

Since 2009 revenue generation has shown a consistent upward trend across all municipalities albeit at different rates. Although Cederberg contributes the least to total revenue collected within the District from basic services this municipality recorded the highest percentage increase in revenue collected over the 2008/09 to 2013/14 period. The difference in revenue collection across the municipalities is a reflection of the municipalities' revenue base, tariff price structures and the administrative capabilities of municipalities to collect revenue. The revenue base is influenced by economic and demographic factors such as income levels and number of indigent consumers. In Bergrivier Municipality 22 per cent of the households are classified as indigent. These high levels of poverty put a strain on municipal resources in the provision of free basic services.

4.5 Concluding remarks

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. The data presented in this chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the WCD. The analysis revealed the following:

- Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly. It is evident that the year 2014 not only recorded a substantial decrease in basic services infrastructure expenditure but also the lowest GDPR growth rate over the 2009/10 to 2013/14 period. Waste water management and water provision were the largest basic services infrastructure expenditure items in the WCD in 2014 whilst waste management was the smallest.
- Basic services delivery varies across municipalities within the WCD. The different performance of the WCD municipalities in basic services delivery is due to various economic inequalities that impact on the municipal tax base and revenue collection. Whilst results from the annual Non-financial Census of Municipalities show that there has been an increase in households with access to water, sewerage and sanitation services, the Census also revealed a decrease in the number of consumer units with access to electricity and refuse removal services in Saldanha Bay.

- Basic services delivery is an important source of revenue for municipalities within the region. Electricity sales make the largest contribution to revenue generated from basic services. This is followed by property rates tax revenue, water revenue, sanitation revenue and then refuse revenue. It is imperative that every effort must be made to ensure the municipalities practice accurate billing and revenue collection (revenue management) and also to ensure every parcel within its jurisdiction is accounted for (revenue enhancement). This analysis of revenue trends confirms the need to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services.

The WCD hosts two of the top-ten municipalities in the Province in terms of size and GDPR growth, i.e. Saldanha Bay and Swartland municipalities. Expenditure on basic services infrastructure and revenue generation from property rates and trading services is higher within these two municipalities vis-à-vis Bergrivier, Matzikama and Cederberg, which trail both in terms of growth, size and infrastructure investment and revenue collection. It is evident that those municipalities that spent a larger share of total expenditure on basic services infrastructure experienced higher growth rates and collected more revenue from basic services delivery. Municipalities must do more to exploit the potential of these revenue sources. Revenue increasing strategies include minimising water and electricity losses, accurate billing, expansion of service delivery and debt collection strategies.

5

Socio-economic analysis and economic performance

5.1 Introduction

The 2014 Municipal Economic Review and Outlook (MERO) provided a socio-economic analysis of each Western Cape district region. This is important as the analysis showed the relationship between economic growth and social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact the economy has on it. The 2015 MERO study aims to do the same, with a larger focus on the quality of life.

The chapter creates a link between the information provided in the Socio-Economic Profiles of 2014, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to human development, i.e. income, education and health, as well as crime and access to basic services within the District. Each topic is discussed in relation to the District's economic performance.

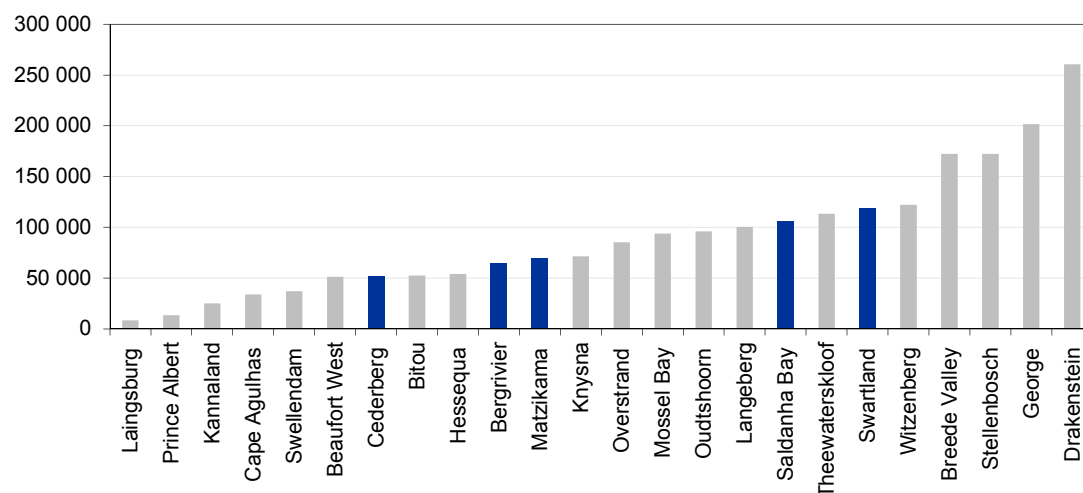
5.2 Population profile

According to the Western Cape Department of Social Development, the Western Cape Province had 6.1 million people in 2014, having increased from 5.8 million in 2011. The average population growth rate over the period 2001 to 2013 is 2.3 per cent per annum. The population growth rates experienced within the WCD mirror this upward trend, with population growth within the 5 local municipalities ranging from 2.1 to 3.9 per cent per annum.

At the end of 2014, the West Coast District (WCD) population represented 6.8 per cent of the total population of the Western Cape, making it the 3rd largest district, with Saldanha Bay and Swartland being among the 10 largest local municipalities in the Province (8th and 6th largest respectively).

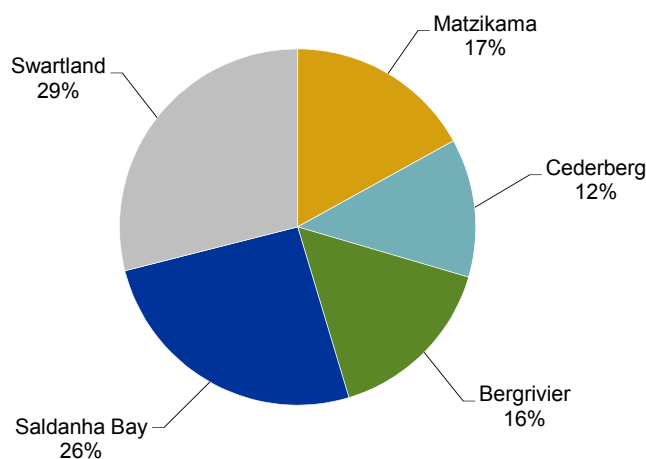
The Swartland and Saldanha Bay populations comprise 55 per cent (Figure 5.1) of the District's population of 410 045, with each containing 118 704 and 105 351 inhabitants. The remaining 45 per cent of the WCD population is split between Matzikama with 69 495, Bergrivier with 64 892 and Cederberg with 51 603 inhabitants.

Figure 5.1 Population by local municipality, 2014



Source: Western Cape Department of Social Development, 2014

Figure 5.2 West Coast District population distribution, 2014



Source: Western Cape Department of Social Development, 2014

It is essential to consider the distribution of the population in order to ensure that funds are apportioned and services are delivered as and where necessary. As population increases exert further strain on municipal resources, it is desirable that population growth be accompanied by at least as fast a rate of growth in income per capita if standards of living are to be maintained (see section 5.3.1).

5.3 Human development

Human development is described by the *United Nations Development Programme (UNDP)* as widening people's choices and their level of well-being. The UNDP (2010) further indicates that human development is achieved by means of two dimensions namely, enhancing human abilities as well as creating the conditions for human development. Enhancing human abilities is created by means of enabling people to live a long and healthy life, obtain knowledge and possess a decent standard of living. Creating conditions for human development include participation in political and human life, environmental stability, gender equality, and human security and rights.

The Human Development Index (HDI) has been developed to measure human development. The index is a composite statistical index of life expectancy, education indices and income indices. In 2013 it averaged at 0.71 in the Western Cape Province, outperforming the National HDI of 0.66. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2013, largely due to the improving literacy rates and per capita income in the majority of the municipalities.

Table 5.1 Human Development Index, 2001 - 2013

	2001	2011	2012	2013
Saldanha Bay	0.64	0.69	0.70	0.71
Swartland	0.60	0.65	0.66	0.67
Bergvriër	0.59	0.65	0.66	0.66
Matzikama	0.59	0.65	0.66	0.67
Cederberg	0.56	0.62	0.64	0.65
West Coast District	0.60	0.66	0.67	0.68
Western Cape	0.66	0.70	0.71	0.71

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

The same holds true for the WCD as seen in Table 5.1. All municipalities in the West Coast have seen significant improvement in human development. Saldanha Bay has the highest HDI in the WCD and at 0.71 one of the highest in the Province. The high HDI can be attributed to its high GDP per capita and literacy rate. Cederberg has the lowest HDI in the District with an index of 0.65. However, it has shown the largest improvement between 2001 and 2013.

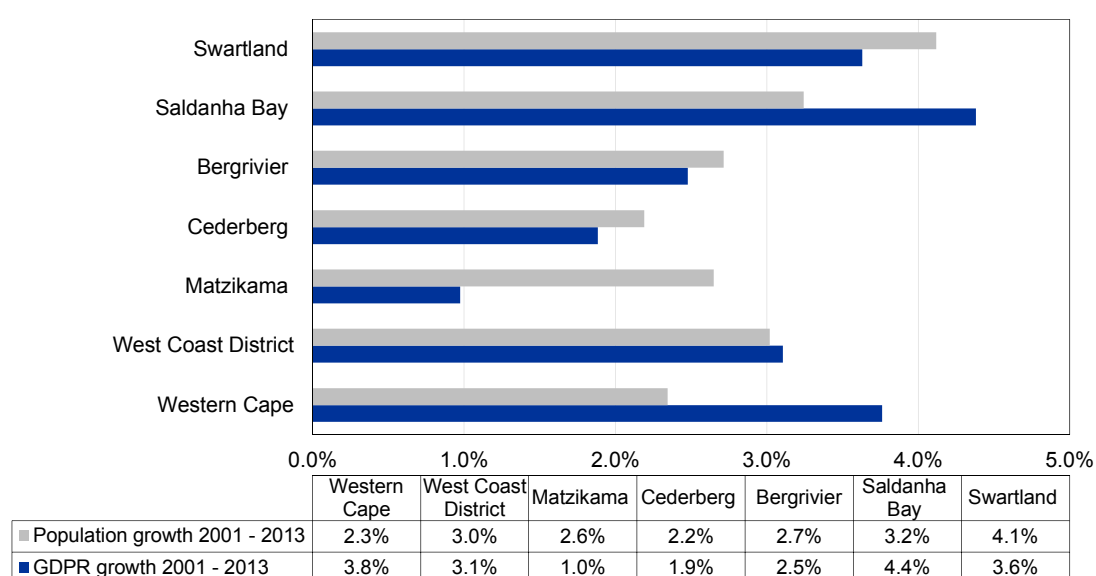
The relatively high HDI levels within the WCD indicate that economic growth is translated towards social development amongst inhabitants of the region. However, this may not be equally distributed within the District. This is illustrated by the difference in HDI levels by race group within the WCD. The HDI is 0.59 for Africans, 0.62 for Coloureds, 0.71 for Asians and 0.88 for Whites. These point to relatively high levels of inequality in the region.

Sections 5.3.1 to 5.3.3 consider the various elements of human development relating to the HDI, e.g. income levels, education and health, each in relation to the economy.

5.3.1 Income

As noted, the average population growth rate in the Western Cape over the period 2001 - 2013 has been 2.3 per cent per annum. The Western Cape economy grew at a rate of 3.8 per cent per annum from 2001 to 2013. The fact that the regional economy grew faster than the population within the Province indicates that per capita income has increased over time, ensuring improving standards of living for its inhabitants. The per capita income (based on 2005 prices) increased from R37 502¹⁴ in 2001 to R44 553 in 2013¹⁵.

Figure 5.3 West Coast District population and real GDP growth rate, 2001 - 2013



Source: Western Cape Department of Social Development, 2014 and Quantec, 2015

A closer look at the WCD indicates that per capita income is increasing in the region. As seen in Figure 5.3, its population grew at a rate of 3.0 per cent per annum from 2001 to 2013. This was slightly slower than its economic growth rate of 3.1 per cent, indicating a marginal increase in the per capita income of the WCD inhabitants over this period. Real per capita income increased marginally from R27 894 in 2001 to R28 173 in 2014.

According to the Western Cape Department of Social Development, Swartland Municipality, within the WCD, had the highest population growth rate of 4.1 per cent per annum between 2001 and 2013. This is almost double that of Cederberg Municipality's 2.2 per cent. Disparities in population growth rates are evident across the Province. This indicates that population growth not only stems from natural causes, but is also largely due to net in-migration in certain areas. Furthermore, Swartland's economic growth rate, although relatively high, is lower than its population growth rate of 3.6 per cent indicating a decline in per capita income over

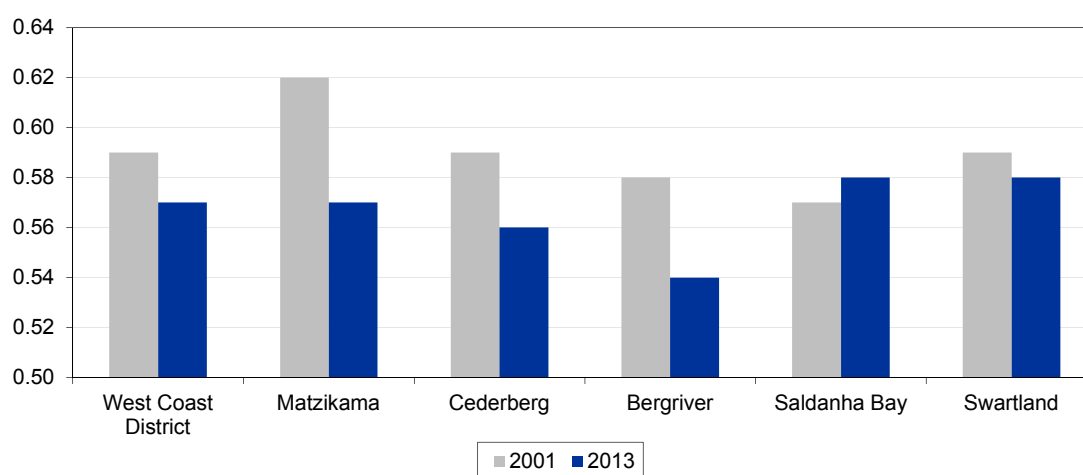
¹⁴ Own calculations based on Western Cape Department of Social Development population statistics (2014) and Quantec GDP data (2015).

¹⁵ Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

time. The smaller and rural municipalities such as Bergrivier, Cederberg and, to a larger extent, Matzikama suffered the same fate as Swartland, with their population growth exceeding their real economic growth rates by a wide margin. Saldanha Bay is the only municipality that experienced an economic growth rate faster than that of its population thus it is the only municipality in the District that experienced an increase in its per capita income.

The per capita income indicates the average income per person within each municipal area. However, this is a skewed representation of income levels as incomes are not equally distributed amongst the inhabitants of the area. The Gini coefficient measures the levels of income inequality. The coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents, varying between 0, which represents complete equality and 1, which represents complete inequality.

Figure 5.4 Gini coefficients in the West Coast District, 2001 - 2013



Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

Figure 5.4 indicates that income inequality decreased within the WCD from 0.59 in 2001 to 0.57 in 2013. Matzikama Municipality experienced the largest improvement in the Gini coefficient, but also the largest decline in per capita income. This suggests that the incomes of the rich may have declined over this period. Saldanha Bay is the only municipality that experienced an increase in income inequality, thus indicating that the benefits of the increasing per capita income are concentrated amongst the higher income groups.

The declining income per capita in four of the five municipal regions in the District may lead to an eventual decline in the region's human development index. This situation needs to be altered to ensure a sustained improvement in the standard of living of inhabitants of the WCD.

5.3.2 Education

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

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate of 80.9 per cent in the country as a whole. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the Provinces in the country between 2001 and 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth (Socio-economic Profile, 2014). Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education in the past.

Table 5.2 Literacy rates across the West Coast District municipalities, 2001 - 2011

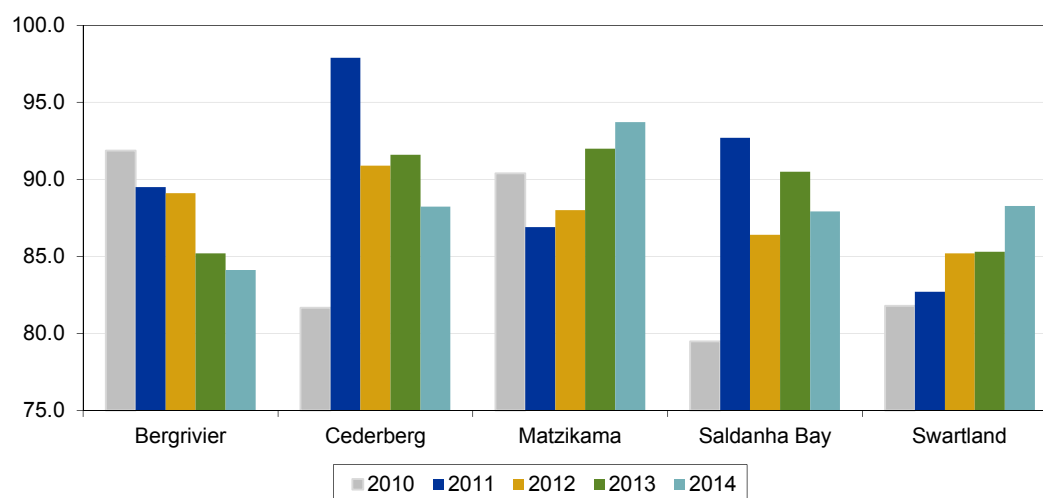
	2001	2011
Western Cape	85.0%	87.2%
West Coast District	71.0%	79.1%
Matzikama	69.0%	76.4%
Cederberg	66.0%	73.2%
Bergrivier	70.0%	76.4%
Saldanha Bay	79.0%	86.7%
Swartland	69.0%	78.0%

Source: Statistics South Africa, Census 2001 and 2011

Literacy rates in the WCD of 79.1 per cent are lower than for the Province as a whole. Nevertheless, all municipalities in the District showed an increase in their literacy rates between 2001 and 2011 (Table 5.2).

Matric pass rates are also indicators of the education performance in the District. The WCD with its pass rate of 88.4 per cent formed part of the top five districts in South Africa (Motshekga, 2015). Matzikama (93.7 per cent) and Swartland (88.3 per cent) had the highest matric pass rates in the District. Bergrivier and Saldanha Bay are lagging behind at approximately 85 per cent. This may be due to the higher learner-teacher ratios and greater incidence of teenage pregnancy and drug-related crime or substance abuse in the area (Socio-economic Profile, 2014).

Figure 5.5 Matric Pass Rates across the West Coast District municipalities, 2010 - 2014



Source: Western Cape Department of Education, 2015

Over the economic recovery period (2010 to 2014), Matzikama and Swartland witnessed an increase in their matric pass rates (see Figure 5.5) as well as a corresponding increase in employment (net employment gain of 310¹⁶). The same occurred in Cederberg and Saldanha Bay with a net employment gain of 190 and 1 960. Bergvriër experienced a decline in its matric pass rates, but an increase in employment (a net employment gain of 60). This municipality has relatively large numbers of unskilled labour, but the high share of activity in the primary and secondary sectors of the regional economy creates a demand for semi- and unskilled labour. Swartland experienced a substantial decline in employment (-680) despite the increase in their matric pass rates.

Approximately 34.1 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2015), yet it is clear that there is much room for improvement with regard to skills development in the WCD and Western Cape as a whole. The demand for semi- and unskilled labour has declined by 3.3 per cent per annum between 2000 and 2013 whereas demand for skilled and highly skilled workers increased by 0.9 and 2.0 per cent per annum respectively. Initiatives are therefore necessary to encourage the creation of new unskilled job opportunities in the WCD. There is also an urgent need to train and up-skill workers in this region given the increasing demand for skilled workers.

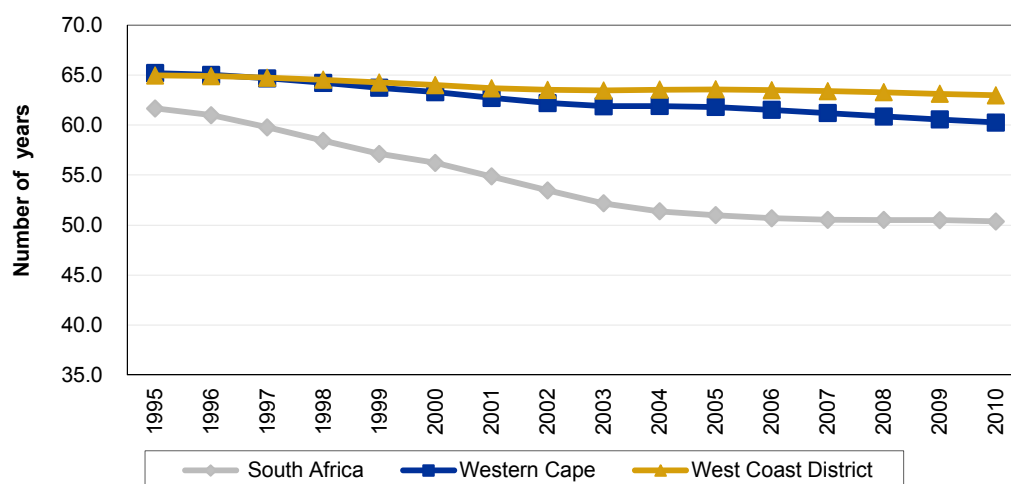
¹⁶ Noted is the recorded net employment for the period 2010 to 2013. Care should be taken in interpreting these municipal employment tendencies as the confidence intervals of the data may be wide.

5.3.3 Health

Good health has been found to have a positive and sizable effect on aggregate output in the economy largely because healthier workers are mentally and physically more energetic and robust, more productive and less likely to stay absent due to sickness and disability (Bloom et al., 2004). Health also affects the quality of life of people.

Figure 5.6 gives an indication of the life expectancy at birth. South Africa had a life expectancy of 50.4 years in 2010 after a steep decline from 61.7 years in 1995. In the Western Cape and the West Coast life expectancy also declined albeit moderate compared to that of the country as a whole. The West Coast (63 years) had a higher life expectancy than the Province (60.3 years) in 2010 and also the highest compared to its fellow districts.

Figure 5.6 Life expectancy, 1995 - 2010



Source: Quantec Research

The decline in life expectancy over the years has been largely attributed to the high prevalence of HIV/AIDS and Tuberculosis (TB) in the country. The HIV and TB patient load in each municipality within the WCD is shown in Table 5.3. The declining tendency in life expectancy has stabilised from around 2008 since the large-scale roll-out of anti-retroviral treatment and more recent information from Statistics South Africa shows improvements in life expectancy within the Western Cape from 2011 to 2015 (Statistical release P0302, 2015).

In 2014 only 1.4 per cent of the WCD population was receiving ART. The highest patient load of HIV is in Saldanha Bay and the highest patient load of TB is in Matzikama. The WCD hosts 39 ART and 85 TB treatment sites caring for the patients.

Table 5.3 ART and TB patient loads in the West Coast District, 2013 - 2014

Municipality	HIV - Antiretroviral treatment			Tuberculosis		
	ART patient load March 2013	ART patient load March 2014	Number of ART clinics/ treatment sites 2014	Number of TB patients March 2013	Number of TB patients March 2014	Number of TB clinics/ treatment sites 2014
Matzikama	569	812	7	1 004	1 015	23
Cederberg	880	1 063	5	557	599	12
Bergrivier	466	601	9	395	425	16
Saldanha Bay	1 435	1 779	5	852	867	15
Swartland	1 211	1 298	13	700	667	19
Total West Coast District	4 561	5 553	39	3 508	3 573	85

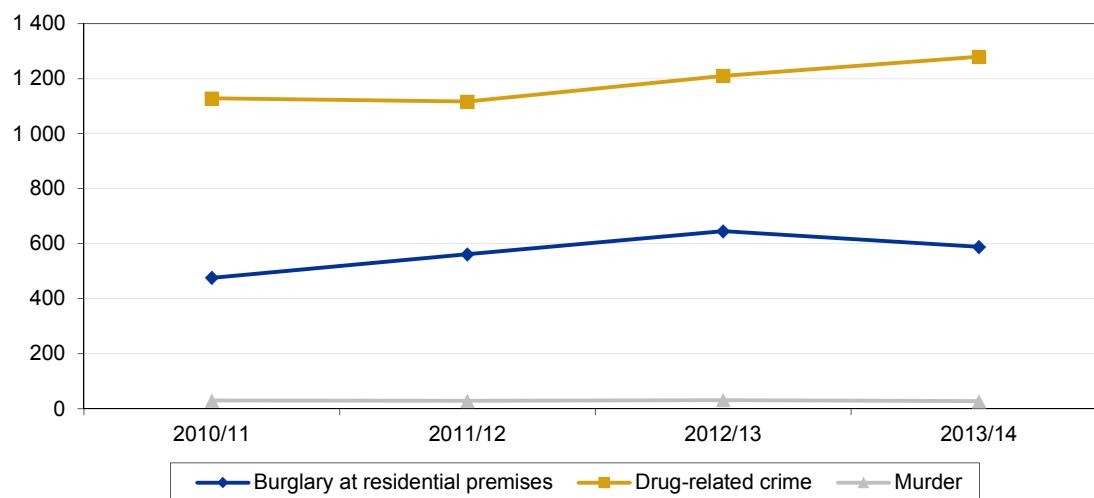
Source: Western Cape Department of Health, 2014

Due to the life expectancy declining only slightly over the years and the HIV and TB prevalence being low in the WCD, it may not have had much of an impact on the regional economy. Nevertheless, the impact of health on production should not be overlooked. The increasing HIV/AIDS and TB patient loads could adversely affect economic activity within the WCD and thus also the quality of life over all.

5.3.4 Crime

The safety of persons and property is vitally important to the physical and emotional well-being of people and therefore impacts on the human security aspect of human development. Crime has a significant impact on the economy. According to the World Bank (2006), it can hamper growth and discourage investment and capital accumulation. It has the potential to derail both social and economic prosperity. It also diverts public resources away from productive uses which can further social development towards the police, justice system and health (for treatment of violence related injuries and traumas). It has been found that crime negatively impacts on the investment climate. Grant Thornton's *International Business* report indicated that 62 per cent of businesses in the Western Cape have been affected by crime (Smith, 2014). The largest impact on business are increasing security costs, but also through diverting investment, business losses through theft, fraud and lower levels of productivity due to loss of life or injuries, etc. Crime therefore has to be tackled with seriousness.

Figure 5.7 indicates the crime rate in the WCD in terms of burglaries, drug-related crime and murders per 100 000 population.

Figure 5.7 Crime per 100 000 population in the West Coast District, 2010 - 2014

Source: South African Police Service, 2014 and Western Cape Department of Social Development, 2014

Crime has been on the rise overall within the WCD between 2010 and 2014. The data indicates that drug-related crime is the most prevalent within the WCD. It has also been increasing since 2011/12 with a reported 5 247 cases in 2013 - 2014. This is an indication of a substance abuse problem within the WCD as there have also been 594 cases of driving under the influence of drugs or alcohol. Burglaries increased between 2010 - 2011 and 2012 - 2013 after which it began to decline. Murders have remained stagnant over the last few years with 114 murders reported in 2013 - 2014 within the WCD, although this is still a relatively high number (i.e. the third highest among the Western Cape districts)¹⁷.

A look at net employment over the same period indicates that the economy is in recovery as there has been increasing levels of employment albeit small, but the District's economy grew relatively slow compared to the Provincial rate. It is possible that crime could be having some adverse effect on economic activity within the WCD. The increasing levels of crime are also impacting on human security within the District. According to Stats SA (2015), 64.6 per cent of the Western Cape households feel unsafe when it is dark and 27.1 per cent feel unsafe during the day¹⁸. This is the highest in the country. Addressing the high levels of crime is therefore crucial to improving the quality of life of households in the District.

¹⁷ Consult the Socio-economic Profiles of 2014 Annexure C for a breakdown of reported cases for each municipality.

¹⁸ Crime Statistics Series Volume II: Public perceptions about crime prevention and the criminal justice system, 2010 - 2013/14 Report 03-40-03.

5.4 Access to basic services

Access to basic services within South Africa is a basic human right. It is also an indication of the quality of life of the inhabitants in the country. Access to basic services has a wider impact on education and health and therefore also on the economy.

The WCD displayed high levels of access in 2013 with respect to water (98.3 per cent), housing (88.3 per cent) and energy (94.4 per cent) as access levels for these services exceed the provincial averages. However, with respect to sanitation (87.4 per cent) and refuse removal (76.6 per cent) the WCD ranks below the provincial averages and therefore remain areas for improvement, particularly refuse removal which ranks the lowest in a provincial context.

There is still room for improvement in terms of refuse removal and sanitation at most of the municipalities in the District. Access to formal housing also needs to be addressed within the Saldanha Bay municipal area. This may be due to the relatively high population growth rate and large population size increasing demand for housing at a faster rate compared to its fellow municipalities.

Table 5.4 Access to basic services in the West Coast District, 2013

	Water	Sanitation	Energy	Refuse Removal	Housing
Western Cape	96.6%	89.4%	93.3%	89.8%	80.5%
West Coast District	98.3%	87.4%	94.4%	76.6%	88.3%
Matzikama	96.4%	70.0%	88.7%	76.6%	88.9%
Cederberg	97.8%	82.5%	89.2%	58.2%	88.0%
Bergrivier	98.4%	89.8%	94.7%	58.2%	94.5%
Saldanha Bay	99.2%	96.2%	97.1%	96.5%	81.8%
Swartland	99.0%	90.7%	97.7%	76.1%	91.2%

Source: Quantec Research

Gnade (2013) indicated that empirical results support the broad view that basic infrastructure investment would have a positive influence on growth, poverty and inequality. For all the indicators used, he found a positive impact on South African municipalities.

This positive influence has also been noted for education. Since 2001 basic service delivery has increased substantially and so has the literacy rates, as noted above. Furthermore, in section 4.3 the impact of basic services infrastructure spending on the economy is also observed to be positive.

It can thus be concluded that access to basic services does not only have a positive impact on education but also on the economy as a whole and therefore on the overall quality of life within the District.

5.5 Concluding remarks

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

- The increasing HDI between 2001 and 2012 is an indication that economic growth is being translated towards social development within the WCD. The high levels of inequality indicate that this is not equally shared among households.
- The economic growth rate marginally exceeds the real population growth rate in the District (which has tended to underperform in a provincial context). Relatively stable real per capita income levels in the region imply that standards of living have also stagnated. This has somewhat perversely contributed to improvements in income inequality.
- Large discrepancies exist between population growth rates across the Province as well as within the WCD. This indicates that population growth does not only stem from natural causes, but is also related to net migration. This may be an area of future research, focusing on migration patterns and distinguishing between local, national and foreign in- or out migrators, and the implications for the non-migratory local labour force.
- There has been an overall increase in matric pass rates in the District, with the exception of Bergrivier Municipality. Literacy rates in the WCD are however still relatively low. There is a trend towards employing skilled to highly skilled individuals in the region. Skills development and low skilled labour intensive initiatives are therefore required in order to further stimulate employment in the District.
- Life expectancy has been declining moderately within the WCD and stabilised after 2008. Recent data actually suggests that life expectancy is improving within the Western Cape, and the same may apply to the WCD. Currently it appears that health issues have not had a very large effect on the WCD economy, although increasing HIV/AIDS and TB patient loads could pose a concern.
- There have been rising crime rates within the WCD, which could put further strain on the slow economic growth in the WCD.
- Access to basic services, although high has been fairly stable in the District. Nevertheless trends indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the inhabitants of the WCD, there is still much room for improvement. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life in the region.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 West Coast District: GDP at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	1.6	0.9	-1.2	-0.5	-1.0	1.9	0.0
2 Secondary sector [SIC: 3-5]	2.0	2.2	0.1	0.5	3.0	-6.2	1.7
3 Tertiary sector [SIC: 6-9, 0]	4.4	6.1	5.4	5.2	6.3	4.7	3.9
Total: West Coast District	3.0	3.9	2.8	3.0	3.8	1.4	2.8
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	4.5	1.1	-0.9	-0.3	-0.9	2.6	-0.1
2 Mining and quarrying [SIC: 2]	-15.7	-2.5	-6.2	-3.1	-3.4	-10.0	3.0
3 Manufacturing [SIC: 3]	2.2	1.8	-0.8	-0.3	2.6	-8.5	1.9
4 Electricity, gas and water [SIC: 4]	3.4	-0.6	-4.0	-2.9	-1.3	-7.7	-0.4
5 Construction [SIC: 5]	0.3	7.7	6.3	6.2	8.3	5.6	1.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	5.3	4.6	2.4	3.2	5.1	-1.0	3.4
7 Transport, storage and communication [SIC: 7]	2.8	6.0	2.7	3.1	5.6	1.5	1.7
8 Finance, insurance, real estate and business services [SIC: 8]	5.6	11.6	10.5	9.3	11.7	11.2	5.4
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	6.7	3.6	1.6	2.0	3.8	0.2	2.0
10 General government [SIC: 91, 94]	2.7	2.3	3.2	3.1	1.9	3.4	3.4
Total: West Coast District	3.0	3.9	2.8	3.0	3.8	1.4	2.8

% share					
Sector	1995	2000	2005	2010	2013
Broad sectors: West Coast District					
1 Primary sector [SIC: 1-2]	25.0	23.4	20.1	16.1	15.0
2 Secondary sector [SIC: 3-5]	30.3	28.8	26.6	23.1	21.7
3 Tertiary sector [SIC: 6-9, 0]	44.7	47.8	53.2	60.8	63.2
Total: West Coast District	100	100	100	100	100
Broad sectors: West Coast District					
1 Agriculture, forestry and fishing [SIC: 1]	20.2	21.7	18.9	15.4	14.3
2 Mining and quarrying [SIC: 2]	4.8	1.7	1.2	0.7	0.7
3 Manufacturing [SIC: 3]	24.9	23.9	21.7	17.7	16.6
4 Electricity, gas and water [SIC: 4]	1.8	1.8	1.4	1.0	0.9
5 Construction [SIC: 5]	3.6	3.1	3.5	4.4	4.3
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	11.5	12.9	13.3	13.0	13.1
7 Transport, storage and communication [SIC: 7]	7.7	7.6	8.4	8.5	8.2
8 Finance, insurance, real estate and business services [SIC: 8]	10.3	11.6	16.7	24.5	27.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.5	4.2	4.1	3.9	3.8
10 General government [SIC: 91, 94]	11.7	11.5	10.7	10.9	11.0
Total: West Coast District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

Annexure 1.2 West Coast District: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: West Coast District							
1 Primary sector [SIC: 1-2]	1.2	-2.9	-5.7	-5.8	-2.9	-11.8	-0.4
2 Secondary sector [SIC: 3-5]	-0.4	-3.1	-4.8	-3.4	-3.6	-5.5	-3.0
3 Tertiary sector [SIC: 6-9, 0]	8.3	2.6	2.0	2.2	2.5	2.9	1.1
Total: West Coast District	3.4	-0.8	-1.5	-1.4	-0.8	-3.0	0.1
Broad sectors: West Coast District							
1 Agriculture, forestry and fishing [SIC: 1]	1.6	-2.5	-6.4	-6.0	-2.8	-12.2	-0.3
2 Mining and quarrying [SIC: 2]	-8.5	-20.2	24.5	11.4	-1.8	1.1	2.7
3 Manufacturing [SIC: 3]	2.0	-3.8	-5.1	-3.8	-4.6	-7.0	-1.3
4 Electricity, gas and water [SIC: 4]	1.9	-1.1	-0.4	-1.1	0.6	-18.0	1.5
5 Construction [SIC: 5]	-4.5	-1.4	-4.0	-2.5	-1.6	-2.4	-6.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.6	0.5	0.3	1.8	0.5	0.4	0.1
7 Transport, storage and communication [SIC: 7]	-0.8	0.7	4.6	2.9	-0.1	6.9	2.6
8 Finance, insurance, real estate and business services [SIC: 8]	14.4	10.1	5.7	5.3	9.9	6.5	3.5
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	11.8	1.1	0.5	0.6	1.7	3.2	-0.3
10 General government [SIC: 91, 94]	8.6	3.5	1.5	1.1	2.2	1.6	1.1
Total: West Coast District	3.4	-0.8	-1.5	-1.4	-0.8	-3.0	0.1

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: West Coast District					
1 Primary sector [SIC: 1-2]	42.8	38.5	33.1	26.3	25.1
2 Secondary sector [SIC: 3-5]	24.8	20.5	18.2	15.6	14.4
3 Tertiary sector [SIC: 6-9, 0]	32.4	41.0	48.7	58.1	60.5
Total: West Coast District	100	100	100	100	100
Broad sectors: West Coast District					
1 Agriculture, forestry and fishing [SIC: 1]	40.9	37.5	32.7	25.3	24.3
2 Mining and quarrying [SIC: 2]	1.9	1.0	0.3	1.0	0.8
3 Manufacturing [SIC: 3]	14.8	13.8	11.9	9.8	9.3
4 Electricity, gas and water [SIC: 4]	0.2	0.2	0.2	0.2	0.2
5 Construction [SIC: 5]	9.7	6.5	6.1	5.6	4.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	13.0	15.2	15.9	17.6	17.9
7 Transport, storage and communication [SIC: 7]	3.2	2.6	2.9	3.8	3.8
8 Finance, insurance, real estate and business services [SIC: 8]	3.4	5.6	9.6	13.4	15.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	6.3	9.2	10.1	11.4	11.4
10 General government [SIC: 91, 94]	6.5	8.3	10.2	11.9	11.7
Total: West Coast District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

Annexure 1.3 West Coast District: Composition of Goods Exports and Imports (nominal values)

Sector	% share				
	1995	2000	2005	2010	2014
Goods Exports					
Broad sectors: West Coast District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	77.5	14.3	15.8	37.5	25.2
2 Mining and quarrying [SIC: 2]	1.6	7.1	21.1	0.1	0.4
3 Manufacturing (excl. food and beverage processing) [SIC: 3]	20.9	78.6	63.1	62.4	74.5
4 Undefined/other	0.0	0.0	0.0	0.0	0.0
Total: Goods exports	100	100	100	100	100
Manufacturing sector: West Coast District					
1 Food, beverages and tobacco [SIC: 301-306]	68.8	11.4	12.2	25.0	15.0
2 Textiles, clothing and leather goods [SIC: 311-317]	0.3	0.4	0.0	0.8	0.3
3 Wood, paper, publishing and printing [SIC: 321-326]	10.8	4.6	9.6	0.0	0.3
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	0.7	3.5	0.1	0.4	1.0
5 Other non-metal mineral products [SIC: 341-342]	0.3	1.3	0.0	0.0	0.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	18.9	72.8	69.8	73.6	83.1
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.0	0.0	0.0	0.1
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.0	0.0	0.0	0.1	0.0
9 Transport equipment [SIC: 381-387]	0.0	0.1	0.0	0.0	0.3
10 Furniture and other manufacturing [SIC: 391-392]	0.2	5.9	8.3	0.1	0.0
Total: Manufacturing exports	100	100	100	100	100
Sector	% share				
	1995	2000	2005	2010	2014
Goods Imports					
Broad sectors: West Coast District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	13.2	78.0	72.3	81.8	36.5
2 Mining and quarrying [SIC: 2]	8.8	0.0	0.2	0.5	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	78.0	100.0	100.0	100.0	100.0
4 Undefined/other	0.0	0.0	0.0	0.0	0.0
Total: Goods imports	100	178	173	182	137
Manufacturing sector: West Coast District					
1 Food, beverages and tobacco [SIC: 301-306]	5.4	2.1	9.4	45.8	28.7
2 Textiles, clothing and leather goods [SIC: 311-317]	0.6	0.4	1.1	1.0	0.4
3 Wood, paper, publishing and printing [SIC: 321-326]	12.1	4.2	2.4	0.2	0.1
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	4.4	5.7	14.0	18.5	13.1
5 Other non-metal mineral products [SIC: 341-342]	0.5	46.9	9.0	2.3	0.2
6 Metals, metal products, machinery and equipment [SIC: 351-359]	28.4	33.6	61.7	25.2	52.8
7 Electrical machinery and apparatus [SIC: 361-363]	1.2	4.2	0.8	4.4	2.4
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	28.1	1.6	1.1	2.0	1.3
9 Transport equipment [SIC: 381-387]	19.3	0.1	0.1	0.2	0.7
10 Furniture and other manufacturing [SIC: 391-392]	0.0	1.1	0.5	0.5	0.3
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

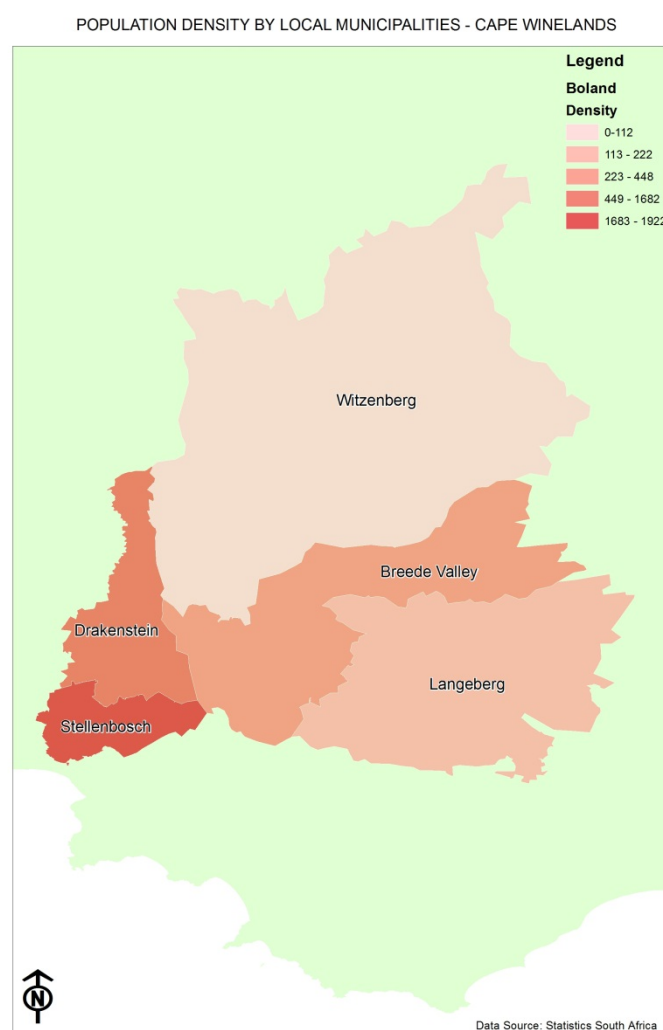
Cape Winelands District

Executive summary

Introduction

The 2015 Municipal Economic Review and Outlook (MERO) report is presented in a generally constrained macro-economic environment. Whilst more challenging, this ups the imperative of unlocking opportunities for growth and jobs. The MERO's objective is to provide economic intelligence at the local level in the Western Cape Province, which can assist with evidence-based decision making and in building an environment conducive to private sector growth and employment creation.

The reality is that six years from the onset of the recovery from the 2009 Great Recession, world economic growth is as yet not on a solid footing. Growth projections have been scaled down at the global, national and provincial levels. 'Secular stagnation' is the term



being used to describe a 'new normal' in respect of the world economy.

The macro-economic context was discussed in Section A of the report. In this section, five chapters are devoted to the economic review and outlook for the CWD economy. The first chapter provides a dedicated regional economic outlook. Thereafter, the focus is on sectoral growth, employment and skills demand trends in each of the five CWD municipalities; a sectoral forecast over the 2015 - 2020 period at the district level is also motivated. The third chapter focuses on the topic of integration into global value chains, Special Economic Zones (SEZs) and the agri-tourism value chain in the CWD, with a specific focus on the wine industry. In the fourth chapter, an analysis of the municipal revenue and infrastructure spending trends and access to basic services is made, including an indication of the infrastructure projects underway in the CWD. The fifth chapter concludes with a consideration of the CWD's socio-economic profile and the linkages with economic growth.

1. Regional economic outlook

The CWD economy has a vibrant tertiary sector, which has developed over the years in support of the region's agricultural origins and associated industrial sector. Even the region's lively tourism industry has close linkages with agriculture. A notable aspect regarding the regional economy is its rapidly increasing export orientation – goods exports accounted for more than 30 per cent of GDP in 2014, up from 11 per cent in 2000; this excludes the foreign exchange earnings from international tourism and other financial and business services exports. At the same time, goods imports measure less than 10 per cent of GDP, allowing the region to produce a sizeable trade surplus. The region's export orientation makes it more sensitive to swings in global demand conditions.

External factors, such as the imminent interest rate hikes in the USA and the Chinese economic slowdown, have had unfavourable consequences for emerging markets such as South Africa. The CWD has been impacted by the weakness in global and national growth, which are expected to come in at 3.5 per cent and 1.7 per cent respectively (2015 - 2016). These growth outlook figures are the result of consistent downgrades, which have come on the back of deteriorating economic conditions. Consequently, the CWD's outlook has also been revised from 3.1 per cent per annum (2014 - 2019) to 2.8 per cent per annum (2015 - 2020).

Notwithstanding the downward revisions in the macro-economic outlook, growth opportunities remain within some of the District's sub-sectors. The CWD economy has been strongly supported by its tertiary sector – particularly financial and business services and tourism. These industries have also been notable net job creators. Furthermore, there is great potential within the District's agriculture, forestry and fishing sector and the associated manufacturing activities. The depreciation of the rand exchange rate also creates space for import replacement and increase the competitiveness of manufacturing exports. International tourism and business services exports are also in line to benefit from the weaker rand, compensating for the

adverse impact that capital outflows may exert on the financial services industry of the CWD.

2. Sectoral growth, employment and skills

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The CWD economy stretches from the well-developed municipal economies of Stellenbosch and Drakenstein (accounting for 65 per cent of CWD economic activity) closely integrated with the vibrant Cape Metro economy in the south, to the agricultural and associated services municipal economy of Witzenberg in the northern interior. The Breede Valley and Langeberg municipalities are respectively found in the central and south-eastern parts of the CWD.

Stellenbosch is the largest and fastest growing municipality in the region. A well-balanced industry structure and broad-based growth are strong features. The Municipality also boasts a sizeable manufacturing sector able to generate employment on a net basis. Whilst growth in Drakenstein has been more subdued, its manufacturing sector also recovered well after the recession, adding to employment creation. The Langeberg Municipality, being the second fastest growing municipality in the CWD, witnessed a dramatic slowdown after 2009. The favourable conditions in its agri-processing industries appear to have deteriorated, which has also impacted negatively on employment creation in the region. Breede Valley also reported above average manufacturing growth, but this region has suffered a worrisome adverse employment trend, particularly in agriculture. Breede Valley shares the trend in Langeberg of subdued economic growth after the 2009 recession. In Witzenberg, the smallest municipal economy, general economic growth has also been subdued, particularly in the primary and secondary sectors and this underpinned heavy net job losses in the semi- and unskilled labour market segment. The adverse employment trend in agriculture is a district-wide phenomenon.

Apart from the locational advantages of industries in the south-western municipalities of Stellenbosch and Drakenstein, benefiting in terms of their proximity to the Cape Town port and airport and the general economic linkages with the Metro, it is evident that moving up the food value chain has substantial potential to drive economic growth, not only in these two municipalities, but also the Breede Valley, Langeberg and Witzenberg agricultural regions. Ambitious plans are afoot to boost value added in the agri-processing industries in terms of Project Khulisa. This will stimulate demand for agricultural products and have wider economic spinoffs for the entire region. The emphasis on export promotion and local production in the region is particularly opportune in view of the weaker trending levels of the rand exchange rate.

3. Value chains

In today's world, value chains reach beyond regional and national boundaries and the key is integration. Globalisation, interconnectedness, technology, logistics, offshoring and deregulation are all elements of the drivers of value chains. Special Economic Zones (SEZs) fit in with the contemporary trend to tap into global value chains and unlock opportunities for growth and jobs.

Municipalities generally do not have the mandate to provide incentives and policy initiatives to establish and ensure the success of a SEZ. However, there are various ways in which a municipality can provide support and ensure that the economic benefits are localised. Particularly regarding SEZs in rural areas, the surrounding support services can face considerable informational and logistics challenges and be at a disadvantage to the large companies investing in the SEZ. Municipalities can assist along the whole value chain by the provision of supplier databases, for instance; they can expedite zoning and the provision of land; ensure the standard basic services and associated infrastructure are delivered effectively; they can combat captive market relations, e.g. by the facilitation of relationships directly between the producers, local logistics companies, and the firms in the SEZ. This could limit losses outside the local value chain and ensure greater profits for the local producers and service suppliers to create additional jobs. Then there is the trendy issue of geographical identification, i.e. the branding of products from the region; assistance with trade fairs and the marketing of local products, etc.

The potential for the CWD to derive benefits from the tourism sector is evident by the strong linkages the tourism industry has to many sectors in the economy. This is most notable for the wholesale and retail trade, catering and accommodation sectors. Local wines and brandies have become renowned at an international level and are attracting significant attention and tourists to the CWD. Producers have taken advantage of the quality perception of local brands with geographic identification. Wines of South Africa (WOSA), has been extensively promoting South African wines on the international market through trade shows and expos. They are also involved in the Great Wine Capitals network which includes Bordeaux, Florence, Mainz, Mendoza, Porto and Cape Town.

The Department of Agriculture has also identified the potential for increasing linkages to Angola and China, in terms of exposing our local agricultural products to these markets. Exposure to the growing African market is particularly lucrative with the strong growth in the upper middle class in oil and gas producing countries, such as Angola, Mozambique, Nigeria and Kenya.

Potential exists in the CWD for establishing conditions similar to those in SEZs. The decline in agricultural output and employment is indicative of a sector that may need support. The food and beverage processing sector has not shown much improvement in the past decade. This indicates that possible initiatives or incentives could be utilised to assist the local value chain in the wine industry. Assisting local tour operators in a similar manner will contribute to the GDP generated in the tourism and wine industry.

4. Infrastructure spending: Review and analysis

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. This chapter analyses the state of basic services delivery, basic services infrastructure investment and revenue generation within the CWD.

Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly. It is evident that the year 2014 not only recorded a decrease in basic services infrastructure expenditure but also the lowest GDPR growth rate over the 2009/10 to 2013/14 period. Waste water management and water provision were the largest basic services infrastructure expenditure items in the CWD in 2014 whilst waste management was the smallest.

The Districts' two leading municipalities make the largest contributions to expenditure on basic services infrastructure and revenue collection from basic services. Whilst it is evident that municipalities that make the highest contributions to GDPR within the region also make the highest contributions to basic services expenditure for the region, this is not true for revenue collected from basic services within the region. The analysis revealed that although Langeberg is the second fastest growing municipality within the region it is ranked fourth in terms of contribution to revenue generated from basic services infrastructure within the district. This relatively smaller contribution to revenue collection despite an above average GDPR growth rate presumably reflects a relatively small tax base within the Municipality. It is important that every effort be made to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services.

5. Socio-economic profile

The increasing Human Development Index (HDI) between 2001 and 2013 is an indication that economic growth is being translated towards social development within the CWD. Increasing real per capita income levels in the region imply that standards of living have also improved. The economy grew faster than the population in all municipalities apart from Witzenberg. Unfortunately, the Gini coefficient reveals high levels of inequality, which indicates that the improved economic welfare is not equally shared among households.

Furthermore, large discrepancies exist between population growth rates across the Province as well as within the CWD. This indicates that population growth does not only stem from natural causes, but is also related to net migration. This may be an area of future research, focusing on migration patterns and distinguishing between local, national and foreign in or out migrators, and the implications for the non-migratory local labour force.

There has been an overall increase in matric pass rates in the District, with the exception of Langeberg Municipality. Literacy rates in the CWD are however still relatively low. There is a trend towards employing skilled to highly skilled individuals in the region. Skills development and low skilled labour intensive initiatives are therefore required in order to further stimulate employment in the District.

Life expectancy has been declining moderately within the CWD and has been stable in recent years. Currently it appears that health issues have not had a very large effect on the CWD economy, although increasing HIV/AIDS and TB patient loads could pose a concern. There have been rising crime rates within the CWD, which may be impacting negatively on the economy. While access to basic services is relatively high, it has been fairly stable at the District level. Nonetheless, trends indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the inhabitants of the CWD, there is still much room for improvement. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life in the region.

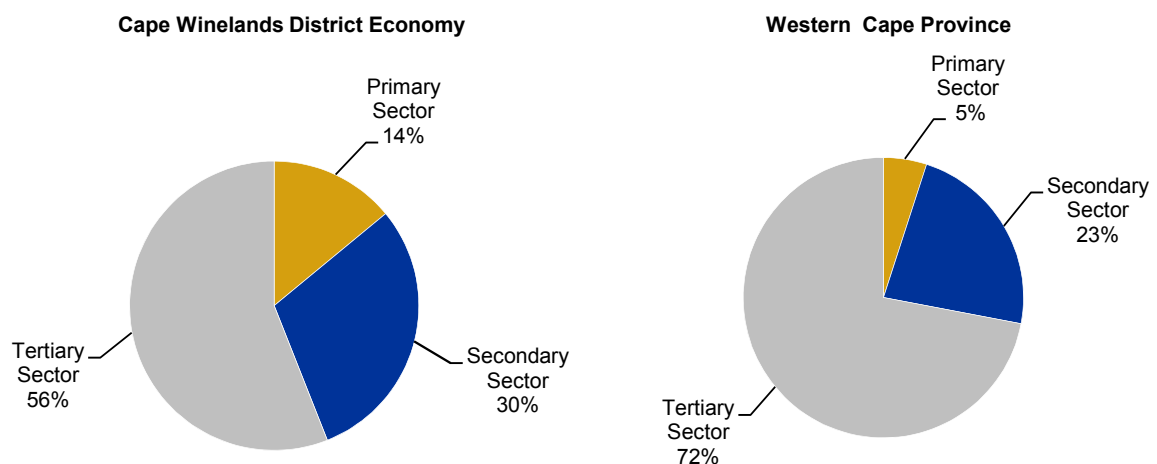
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Cape Winelands regional economic outlook

1.1 Introduction

The Cape Winelands District (CWD) is the largest non-metro district in the Western Cape Province. Over the 2005 - 2013 period, the district contributed an average of 8 per cent and 14 per cent to provincial GDP and employment, respectively. Similar to the broader provincial economy, the CWD is largely supported by its tertiary sector. Nonetheless, Figure 1.1 below shows that on average, the district's economy has proved to have more vibrant primary and secondary sectors, relative to the Province.

Figure 1.1 Cape Winelands District and Western Cape GDP sectoral contribution: Average 2000 - 2013



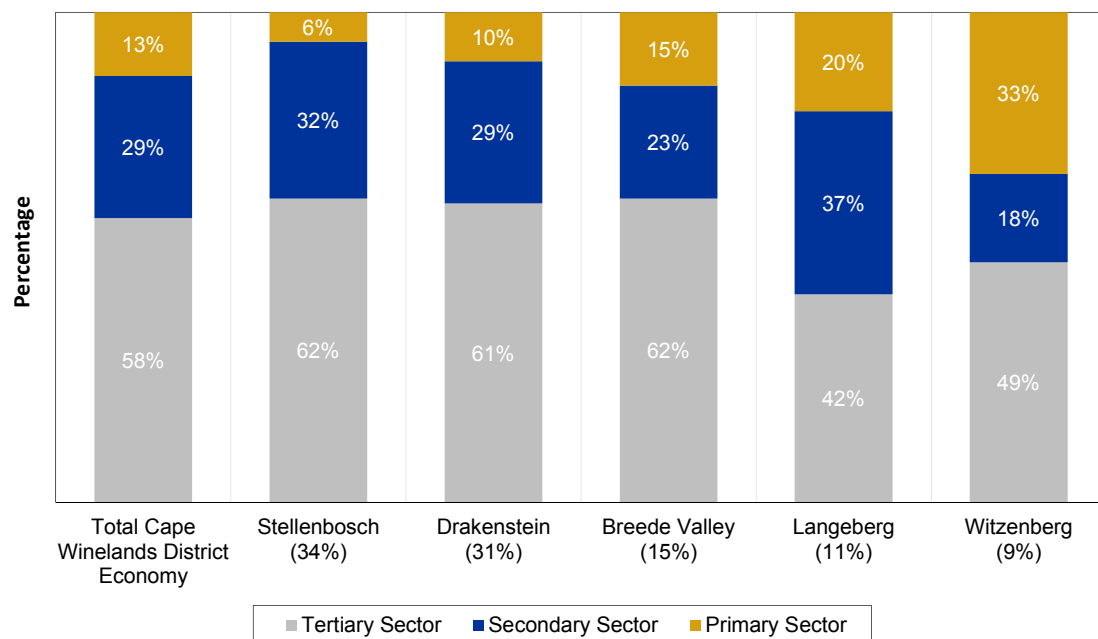
Source: Quantec data; own calculations

The CWD is home to five local municipalities, namely Stellenbosch, Drakenstein, Breede Valley, Langeberg, and Witzenberg – listed in order of GDPR size. The biggest four municipalities account for just over 90 per cent of GDPR and have broadly similar sectoral structures compared to the overall district as displayed in Figure 1.2.

The agriculture, forestry and fishing industry is the main driver for the CWD primary sector – it accounts for close to 100 per cent of GDPR in this sector, while manufacturing makes up just over 80 per cent of the secondary sector. Over 60 per cent of manufacturing is accounted for by food, beverages and tobacco. It follows that manufacturing activity is primarily geared towards agro-processing. Over and above this, both primary agricultural output and manufactured food, beverages and tobacco products are exported outside of the district and Province.

The tertiary sector is made up of a strong finance, insurance, real estate and business services industry which weighs 39 per cent (2013). Finance, insurance, real estate and business services is accompanied by a resilient wholesale and retail trade and accommodation industry, which adds a further 23 per cent to the tertiary sector. Compared to the other municipalities, Breede Valley and Langeberg exhibit some slight differences in their tertiary sectors as their wholesale and retail trade, catering and accommodation industries are slightly larger in size than their finance, insurance, real estate and business services industries.

Figure 1.2 GDPR sectoral distribution of the Cape Winelands District across municipalities: Average 2005 - 2013



Source: Quantec Research 2014, Own calculations

The following section explores historical and current growth and employment patterns within the local municipalities.

1.2 Historical and current growth and employment trends

1.2.1 GDPR performance and employment per municipality

Stellenbosch and Drakenstein municipalities are two of the District's largest economies. In 2013, these municipalities jointly accounted for 65 per cent of district GDPR and 57 per cent of employment. Although Drakenstein was originally the top contributor to district GDPR, Stellenbosch has been advancing at a relatively faster pace which has allowed it to surpass Drakenstein's contribution, particularly since 2008. While the contribution made by Langeberg and Witzenberg have remained largely unchanged since 2000, Drakenstein and Breede Valley contributions to District GDPR seem to be on a downward trend. Similar patterns are also found in the respective municipalities' labour markets. Worth noting, is Stellenbosch's contribution to total employment in CWD. The Municipality's contribution was recorded at 29 per cent in 2013, i.e. a percentage point above that of Drakenstein. This marks the first year that Stellenbosch Municipality surpassed Drakenstein in this regard after being on a consistent upward trajectory for more than ten years. Stellenbosch's contribution is poised to rise further.

Table 1.1 shows that the CWD economic growth has largely tracked provincial growth. Given its proximity, the CWD economy is closely linked to that of the Cape Metro; the combined contribution of these two areas to Western Cape GDPR is 85 per cent. This may assist in explaining the close relation between the economic growth rate of the CWD and that of the wider Province. While exceptional growth was experienced during the 2000 - 2007 boom period by both the District and the Province, the two regions have not yet managed to revert back to their long term (2005 - 2013) growth rates. The CWD has only managed to grow by an average rate of 2.7 per cent from 2010 to 2013, which is significantly lower than its 3.5 per cent trend growth rate.

Table 1.1 Cape Winelands District municipalities: GDPR contribution and growth

Municipality	Contribution to GDPR (%) 2013	Trend 2005 - 2013	Real GDPR growth (ave yoy %)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Stellenbosch	34	4.8	6.4	2.6	3.7
Drakenstein	31	3.0	3.5	0.7	2.8
Breede Valley	15	2.2	3.0	0.4	1.6
Langeberg	11	4.3	6.0	3.2	2.4
Witzenberg	9	1.6	3.8	3.2	1.5
Total Cape Winelands District	100	3.5	4.6	1.8	2.7
Western Cape Province	-	3.6	4.9	1.4	2.8

Source: Quantec Research

From a local municipality point of view, Stellenbosch has performed exceptionally well throughout the 2005 - 2013 period. As noted above, the Municipality accounts for 34 per cent of the District's GDPR. Having managed to outperform the rest of the municipalities and the district, it is clear that Stellenbosch has been key to positive economic growth in the CWD. Stellenbosch's economic growth patterns mirror those

of the district and the Province across the expansion, recession and recovery periods. Its long term (2005 - 2013) trend growth rate is 4.8 per cent, which is significantly higher than the district's 3.5 per cent. Although the Municipality's average growth rate during the 2010 - 2013 recovery period has not reverted back to its long term trend, it remains elevated at 3.7 per cent, slightly above the CWD (3.5 per cent) and provincial (3.6 per cent) trend growth rates.

Over and above its elevated GDPR growth performance, Stellenbosch Municipality has also been contributing positively to job creation on a net basis, since 2000. Table 1.2 shows that while other municipalities shed jobs, on average, Stellenbosch consistently added positively to the labour market. During the expansion period, the Municipality created an impressive 13 815 net jobs, which not only surpassed the net losses in the remaining local municipalities, but assisted the CWD to create 7 719 net employment opportunities. This was also supported by Langeberg's 2 246 net positive contribution. The GDPR and labour market developments within the Stellenbosch Municipality are encouraging, as they reflect an exemplary performance on both terrains.

Table 1.2 Cape Winelands District municipalities: Employment creation

Municipality	Contribution to Employment 2013 (%)	Trend 2005 - 2013	Employment (net change)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Stellenbosch	29	10 331	13 815	3 514	958
Drakenstein	28	-7 071	-2 493	-2 637	-2 142
Breede Valley	18	-8 670	-3 943	-2 331	-2 436
Langeberg	12	-1 336	2 246	-6	-960
Witzenberg	12	-7 126	-2 237	-2 047	-1 101
Total Cape Winelands District	100	-13 658	7 719	-3 777	-5 648
Western Cape Province	-	25 152	128 301	-11 841	-10 468

Source: Quantec Research

1.2.2 GDPR performance and employment per sector

As noted earlier, the CWD's private sector is dominated by the tertiary sector – specifically the financial and business services industry, as well as wholesale and retail trade, catering and accommodation. Table 1.3 shows that while the primary and secondary sectors have lagged overall district growth, the tertiary sector has excelled above it. On average, the finance, insurance, real estate and business services industry and wholesale and retail trade, catering and accommodation have grown at rates exceeding those of the district. During the 2010 - 2013 recovery period, for instance, both industries have maintained their growth rates above the district's 2.5 per cent per annum. Finance, insurance, real estate and business services has so far recovered by an average of 3.8 per cent, while trade and accommodation has done so by 4.8 per cent (back at above its trend growth rate). The table also shows that since 2000, the tertiary sector has been adding positively to net job creation. Indeed, finance and business services and the retail and accommodation industries have been key to these contributions.

Within the secondary sector, the construction industry, which accounts for just under 4 per cent of GDP, has exhibited phenomenal historical growth. This growth, however, slowed considerably after 2009 and is underlined by increasing job losses. Manufacturing sector growth, on the other hand, has been disappointing. The sector is of importance to the district as it accounts for about 23 per cent of GDP. Discouragingly, it has been shedding jobs on a net basis. On a more positive note, average recovery growth (2.1 per cent) has outpaced average long term trend growth (1.8 per cent).

Table 1.3 Cape Winelands District: Broad sectoral growth and employment creation

Sector	Real GDP growth (ave yoy %)				Employment (net change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Primary sector [SIC: 1-2]	0.6	0.4	4.6	-0.3	-37 911	-15 956	-10 511	-7 298
Secondary sector [SIC: 6-9, 0]	2.3	3.8	-3.3	2.1	-3 201	-4 994	-2 007	-2 953
Tertiary sector [SIC: 3-5]	4.9	6.3	3.9	3.7	27 453	28 670	8 741	4 603
Total	3.5	4.6	1.8	2.7	-13 658	7 719	-3 777	-5 648
Agriculture, forestry and fishing	0.6	0.3	4.8	-0.4	-38 284	-15 994	-10 524	-7 266
Mining and quarrying	1.5	5.1	-7.0	4.0	374	38	13	-32
Manufacturing	1.8	3.4	-4.7	2.1	-557	-3 234	-1 200	-84
Electricity, gas and water	1.9	2.3	2.7	2.1	56	253	-138	-6
Construction	6.6	9.0	6.3	1.7	-2 699	-2 014	-668	-2 863
Wholesale and retail trade, catering and accommodation	4.6	6.6	0.2	4.8	9 822	5 636	1 377	836
Transport, storage and communication	4.7	8.1	3.6	2.2	2 165	867	1 167	507
Finance, insurance, real estate and business services	6.0	8.2	6.2	3.8	3 610	9 579	314	2 078
Community, social and personal services	3.3	4.8	2.4	2.1	6 066	7 494	4 133	-990
General government	4.4	2.5	5.2	4.2	5 790	5 094	1 749	2 172
Total	3.5	4.6	1.8	2.7	-13 658	7 719	-3 777	-5 648

Source: Quantec Research

Taking a glance at the primary sector, the agriculture, forestry and fishing sector has been relatively stable, with its GDP only expanding moderately. However, the sector experienced steep net job losses. It is likely that the job losses have been fuelled by a combination of higher employment costs and increased mechanisation. Considering the link with the manufacturing sector, one can expect that increased agricultural harvests within the district will boost activity in the manufacturing sector. The manufacturing sector, however, remains threatened by the country's electricity supply constraints.

1.3 District economic outlook

The CWD economy grew by 1.9 per cent in 2013, but growth slowed down to an estimated 1.4 per cent in 2014. These rates are unfortunately still below the district's average long term (2005 - 2013) trend growth of 3.5 per cent. The forecasted average annual growth for the District is estimated at 2.8 per cent over the 2015 - 2020 period. This forecast was revised downwards in line with global, national and provincial growth forecasts from a more optimistic 3.1 per cent (MERO 2014). While this below-trend growth is expected to be sustained in the short to medium term, Table 1.4 below indicates that the steady upward trajectory in the district's economic growth will eventually revert back to trend growth.

Table 1.4 Cape Winelands District: Real GDP forecast by broad sector: 2015 - 2020

Sector	Forecast (%)						Forecast (%)
	2015	2016	2017	2018	2019	2020	2015 - 2020
Agriculture, forestry and fishing	2.0	2.2	2.7	2.5	2.6	2.8	2.5
Mining and quarrying	2.3	2.0	2.0	1.8	2.3	2.6	2.2
Manufacturing	0.9	2.0	2.3	2.3	2.9	2.7	2.2
Electricity, gas and water	-0.5	2.0	2.0	2.1	2.8	3.2	1.9
Construction	2.3	1.7	3.6	3.8	3.7	4.0	3.2
Wholesale and retail trade, catering and accommodation	1.9	2.4	3.3	3.4	4.0	4.0	3.1
Transport, storage and communication	2.6	2.5	3.9	4.1	4.0	4.2	3.5
Finance, insurance, real estate and business services	3.6	3.1	3.9	4.0	4.2	4.5	3.9
Community, social and personal services	1.1	1.4	2.2	2.3	2.2	2.3	1.9
General government	1.0	0.8	1.5	1.4	1.6	1.7	1.4
Total	2.0	2.2	2.9	3.0	3.3	3.4	2.8

Source: Quantec; own calculations

Considering the sectoral contributions, Table 1.4 shows that finance, insurance, real estate and business services are projected to grow the fastest in the District, growing by 3.9 per cent per annum on average. Retail and accommodation is expected to underperform in 2015, as both global and domestic demand come under pressure. Thereafter, it is expected to accelerate above the average forecasted District growth rate. The growth of the manufacturing sector is projected to come in at 2.2 per cent, i.e. below the District's average growth.

In all, the steady upward trajectory in the District's future growth is expected to track global, national and provincial growth. The expected recovery in both global and local demand will add positively to the District's economy. Besides being reflected in the wholesale and retail trade, catering and accommodation sector, future improved demand should also be evident in the district's agriculture, forestry and fishing sector and manufacturing, where food, beverages and tobacco have been performing relatively well.

1.4 Concluding remarks

In line with the broader Province, the CWD economy has been primarily supported by its tertiary sector – particularly financial and business services. This industry has also been a notable net job creator since 2000. Notwithstanding the downward revisions in the global, national and provincial forecast which trickled down to the district level, growth opportunities remain within some of the District's sub-sectors. There is great potential within the District's agriculture, forestry and fishing sector and the associated manufacturing activities. This potential is emphasised by the global and local demand for food, beverages and tobacco products which has remained steady even in the face of tepid economic growth. Growth in agriculture and manufacturing should expand even more when the broad based weakness in global and local demand is lifted. In the meantime, the weak rand should act as a support for the district's agricultural produce and manufacturing exports, as they are more competitively priced. Electricity supply constraints and load shedding, however, will most likely impede on growth in manufacturing.

2

Sectoral growth, employment and skills

2.1 Introduction

The development of industries does not always evolve along the same patterns when compared to the wider economy. An investigation of the sector growth performances at the regional level can therefore be revealing. A combination of industry dynamics (ranging from factor endowments, scale economies to demand patterns, technological developments, etc.) and geographical economics determine the growth path of an industry (Capasso, et al, 2015: 5). Table 1.1 and Table 1.2 highlight the broad sectoral growth rates of the Cape Winelands District (CWD) regional economy, showing the change in employment levels and the real GDPR growth rates over the past decade.

The CWD is the largest non-metro district in the Western Cape economy, contributing 11.7 per cent of the Province's GDPR and employing 13.2 per cent of the provincial workforce. It is a landlocked area located between the West Coast and Overberg coastal regions. The area is well-known for its viticulture, particularly in the municipalities of Stellenbosch and Drakenstein. The region is characterised by beautiful natural scenery, which makes it the destination of choice for tourists. The region is also characterised by wide disparities in the level of development across the municipal areas. During 2014, the CWD employed an estimated 250 547 workers and generated R54 billion of the R462 billion Western Cape GDPR. An overview of the municipal growth performances is provided below.

2.2 Sectoral growth, employment trends and skills development per municipality

The regional economy is integrated with the Cape Metro, particularly the two largest municipalities, i.e. Stellenbosch and Drakenstein. These two municipal economies accounted for close to 65 per cent of the CWD GDP in 2013 (Table 1.3). It follows that the economic growth of the CWD has been more or less in line with that of the Cape Metro (and the wider Province), i.e. 3.5 per cent per annum, 2005 - 2013. Table 2.1 shows the sectoral growth rates across the five CWD municipalities.

The fastest growing municipalities have been Stellenbosch (4.8 per cent per annum) and Langeberg (4.3 per cent) (see Table 2.1). Within these municipalities the construction and commercial services sectors expanded quite vigorously over the 2005 - 2013 period, as well as the so-called 'public sector', consisting of the general government and community, social and personal services sectors. Manufacturing also expanded above-average rates of growth compared to that in the wider CWD region. However, in Stellenbosch the manufacturing growth was below the provincial average (2.4 per cent per annum).

Table 2.1 Cape Winelands District: Sectoral growth across the five municipalities, 2005 – 2013

Industry	Witzenberg	Drakenstein	Stellenbosch	Breede Valley	Langeberg	Cape Winelands District
Agriculture, forestry and fishing	1.3	1.0	0.5	-0.1	0.3	0.6
Manufacturing	1.4	0.6	1.9	3.0	3.5	1.8
Construction	0.8	3.4	9.4	7.7	7.8	6.6
Commercial services	4.8	5.1	6.1	2.8	7.9	5.3
General government and Community, social and personal services	3.3	2.2	6.7	1.9	5.1	4.0
Other	0.5	4.1	4.3	-6.0	-0.4	1.8
Total	2.7	3.0	4.8	2.2	4.3	3.5

Source: Quantec Research, Own calculations

Table 2.2 Cape Winelands District: Sectoral employment creation across the five municipalities, 2005 – 2013

Industry	Witzenberg	Drakenstein	Stellenbosch	Breede Valley	Langeberg	Cape Winelands District
Agriculture, forestry and fishing	-7 773	-8 396	-5 550	-9 791	-6 313	-38 284
Manufacturing	-399	-1 338	676	-72	505	-557
Construction	-381	-1 805	-73	-241	-191	-2 699
Commercial services	497	3 675	7 427	991	2 922	15 597
General government and Community, social and personal services	910	581	7 755	420	1 659	11 856
Other	19	212	94	23	81	429
Total	-7 126	-7 071	10 331	-8 670	-1 336	-13 658

Source: Quantec Research, Own calculations

Table 2.3 Cape Winelands District: Regional GDPR composition of the CWD industries, 2013

Industry	Witzenberg	Drakenstein	Stellenbosch	Breede Valley	Langeberg	Cape Winelands District
Agriculture, forestry and fishing	23.3	23.5	14.3	17.7	18.2	100
Manufacturing	5.9	30.0	35.1	11.7	17.3	100
Construction	4.0	27.6	44.9	13.5	9.9	100
Commercial services	7.7	33.7	35.7	14.0	8.9	100
General government and Community, social and personal services	6.4	27.5	38.1	19.2	8.4	100
Other	8.9	47.7	25.1	11.0	7.4	100
Total	8.8	30.7	33.7	14.8	11.5	100

Source: Quantec Research, Own calculations

Table 2.4 Cape Winelands District: Sectoral GDPR composition across the CWD municipalities, 2013

Industry	Witzenberg	Drakenstein	Stellenbosch	Breede Valley	Langeberg	Cape Winelands District
Agriculture, forestry and fishing	30.9	8.6	4.9	13.9	18.3	11.5
Manufacturing	14.4	22.7	23.5	19.2	31.6	22.7
Construction	1.6	3.1	4.7	3.2	3.1	3.5
Commercial services	40.1	49.4	47.5	41.4	34.6	44.9
General government and Community, social and personal services	11.9	14.3	18.6	21.5	11.9	16.3
Other	1.1	1.8	0.9	0.8	0.7	1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research, Own calculations

In the relatively large Drakenstein municipal economy, manufacturing more or less stagnated and the growth in the construction sector was well below average, explaining the low real economic growth rate of this Municipality (3.0 per cent per annum). Breede Valley posted even slower growth, mainly due to below average growth in its tertiary sectors and a marginal contraction of its agriculture, forestry and fishing sector. Apart from agricultural output in Witzenberg Municipality, which expanded by 1.3 per cent per annum, the other sectors in this region put in below-average growth performances.

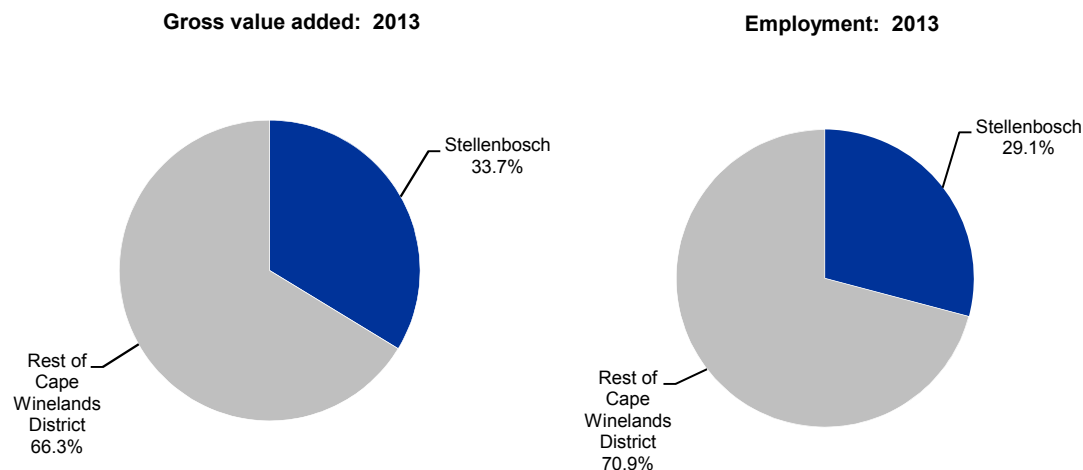
The agricultural and construction sectors shed labour on a net basis over the 2005 - 2013 period across all municipal economies (Table 2.2). In manufacturing, Stellenbosch and Langeberg countered the wider tendency of net retrenchments, assisting in stabilising the manufacturing workforce in the district. All the municipalities reported positive net job growth in the commercial services and 'public sector', which softened the overall adverse trend in employment, particularly that in agriculture.

The sector development at the level of the CWD's five municipalities is considered below.

2.2.1 Stellenbosch

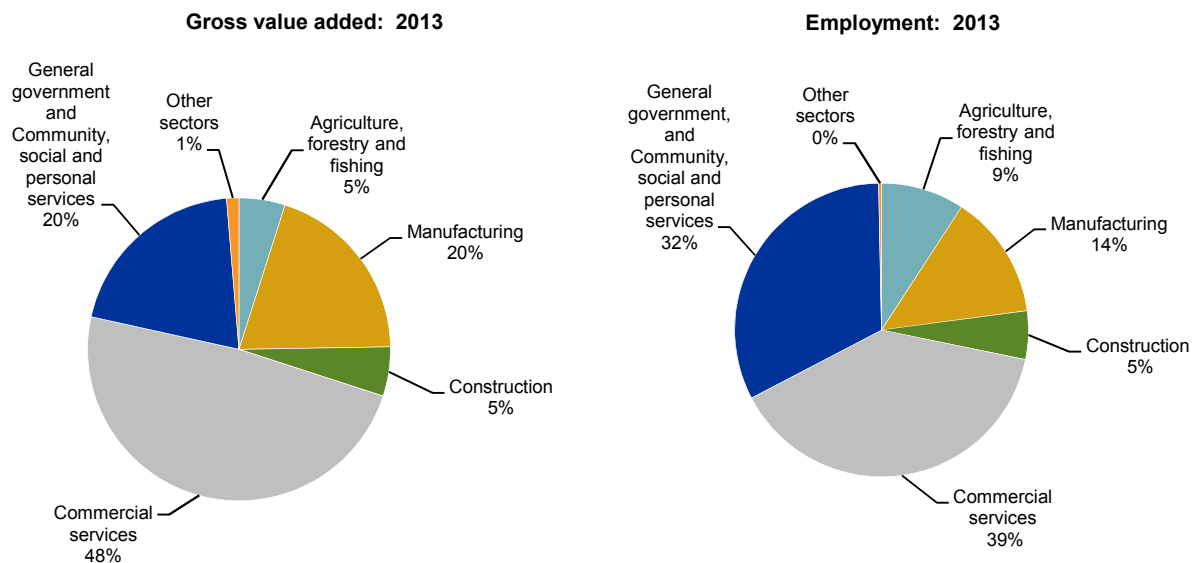
Figure 2.1 shows that the Stellenbosch municipal economy accounted for a third of the CWD's GDP in 2013 and employed close to 30 per cent of its workforce. In rand value terms, the Municipality generated R17 billion of the CWD's R50 billion value added in 2013. Stellenbosch is the largest and fastest growing municipality in the CWD.

Figure 2.1 Stellenbosch share of Cape Winelands District gross value added and employment

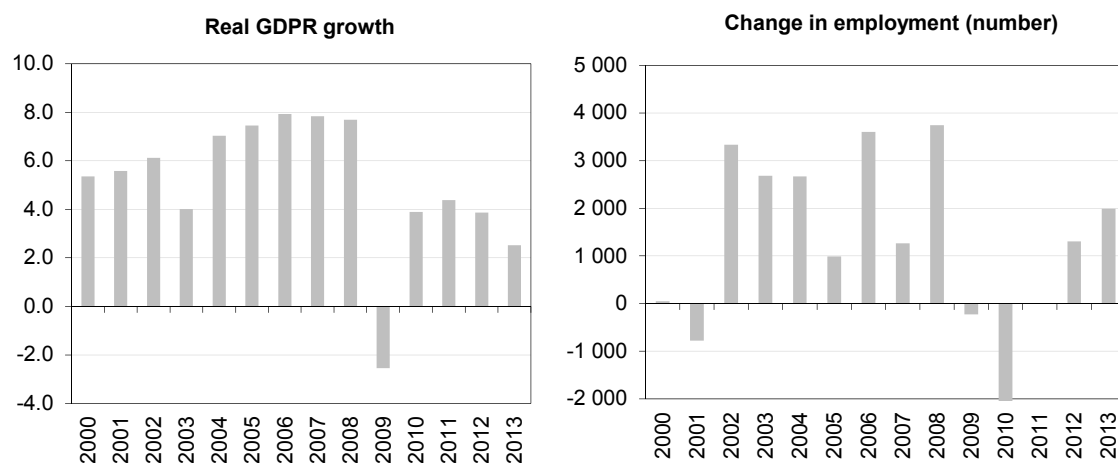


Source: Quantec Research, Own calculations

Agriculture is the historical backbone of the regional economy and has strong linkages with the manufacturing (mainly agro-processing) and the finance, insurance, real estate and business services sectors, with exports being the driver of economic growth. The key competitive advantages of the municipal economy are first and foremost a strong domestic tourism market linked to the wine industry, a well-organised and globally competitive wine and deciduous fruit sector, including a strong food and beverage processing sector; close linkages with the Cape Metro economy; a strong brand (i.e. CWD); and research and development capacities (inter alia, linked to the agriculture, forestry and fishing sector and the resident tertiary institutions). The location, climate and attractiveness of the region make it a favourable destination for tourists and businesses to locate. The Stellenbosch Technopark facility and its close relations with 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 critical.

Figure 2.2 Stellenbosch: Composition of gross value added and employment

Source: Quantec Research, Own calculations

Figure 2.3 Stellenbosch real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

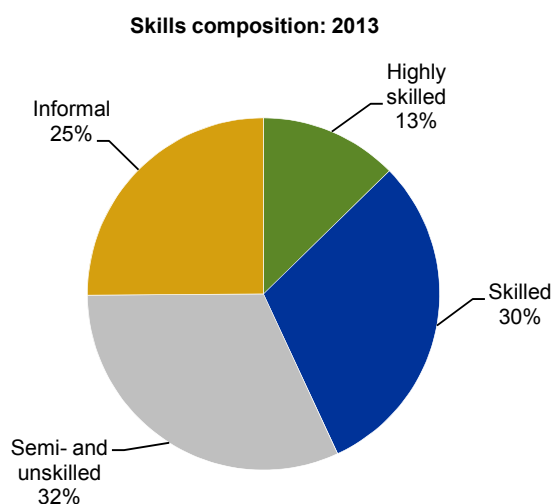
In terms of its industry structure, the relative size of its manufacturing sector stands out (20 per cent of value added), as well as the large share of employment of the community, social and personal services sector, i.e. 32 per cent, reflecting the presence of the university and other tertiary institutions. Obviously, its commercial services sector is relatively large and dominant, accounting for close to half of GDP. Agricultural employment is also relatively large, with this sector employing close to 10 per cent of the municipal workforce.

Table 2.5 Stellenbosch gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	828	0.5	0.2	6 539	-6.2	-5 550	-3.4	-1 053
Manufacturing	3 352	1.9	1.2	9 758	0.9	676	-1.0	-429
Construction	890	9.4	2.5	3 809	0.0	-73	-5.6	-1 010
Commercial services	8 194	6.1	4.9	27 843	3.6	7 427	1.9	2 020
General government and Community, social and personal services	3 418	6.7	5.3	23 042	4.7	7 755	1.6	1 442
Other sectors	222	4.3	3.0	226	7.3	94	-0.6	-14
Total Stellenbosch	16 904	4.8	3.7	71 217	1.8	10 331	0.4	958
Cape Winelands District	50 176	3.5	2.7	248 233	-0.6	-13 658	-0.5	-5 648

Source: Quantec Research, Own calculations

Figure 2.3 and Table 2.6 show the growth and employment performance of the Stellenbosch Municipality. Growth was visibly vigorous before the recession, particularly over the 2004 - 2008 period, averaging close to 8 per cent per annum. However, it has cooled down substantially to 3.7 per cent per annum during the economic recovery period, 2010 - 2013. Employment creation was also strong before the recession and it recovered fully after the negative impact of the recession, i.e. one of only a few municipalities that can report such a positive experience. Jobs were created in the tertiary sectors, like in most municipalities, however, in Stellenbosch, the manufacturing sector added to jobs over the 2005 - 2013 period and construction did not shed as heavily (except after 2009).

Figure 2.4 Stellenbosch workforce skills: 2013

Labour category	Number	Growth per annum (%)	
	2013	2005 - 2013	2005 - 2013
Highly skilled	9 028	3.3	2 303
Skilled	21 651	1.9	3 417
Semi- and unskilled	22 664	-1.9	-4 176
Informal	17 875	7.8	8 787
Total employment	71 217	1.8	10 331

Source: Quantec Research, Own calculations

The high growth of the municipal economy and given its services orientation generated high growth in demand for highly skilled and skilled labour, at rates of 3.3 per cent and 1.9 per cent per annum respectively (Figure 2.4)¹. The size and growth of manufacturing also softened the outflow of semi- and unskilled labour (1.9 per cent per annum), mainly from the agriculture, forestry and fishing sector. Nonetheless, the region witnessed an explosion of its informal sector, with employment in this sector growing by close to 8 per cent per annum over the period under consideration. It is evident that not all new labour market entrants find jobs in the formal sector of the regional economy. The semi- and unskilled component of the workforce is also relatively large (i.e. 32 per cent), indicating scope for skills training.

In all, the well-balanced growth of the Stellenbosch municipal economy is a strong feature. The Municipality shares the district-wide (and one can add the province-wide) robust growth performance of the commercial services sector. Its manufacturing sector is also relatively larger and faster growing. Closer inspection reveals that the real growth of manufacturing is constrained by the slower growth of its mature food and beverage processing industries. However, this may change given the new policy emphasis on agri-processing. The fact that the sector – and the wider region – generated jobs on a net basis over the 2005 - 2013 period is a notable feature of the Stellenbosch municipal economy.

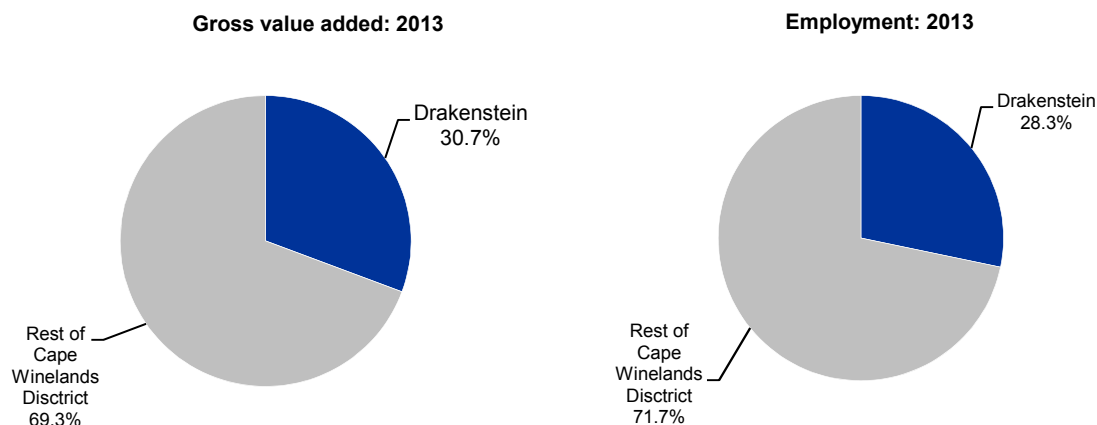
2.2.2 Drakenstein

The Drakenstein municipal economy is the second largest in the CWD, contributing more than 30 per cent of the region's GDP in 2013 and accounting for 28 per cent of regional employment (Figure 2.5). In rand value terms, the municipal economy generated R15.4 billion of the CWD's gross value added in 2013, i.e. R50.2 billion. The Drakenstein municipal region is well-known for its agricultural roots, albeit that the economy has made the full transition to being a predominantly services economy.

Commercial services accounted for 50 per cent of the municipal economy's GDP in 2013, with this sector employing 39 per cent of the regional workforce. Its industry structure corresponds to that of Stellenbosch as manufacturing accounts for a relatively large share of GDP, i.e. 19 per cent. In fact, 30 per cent of the CWD's manufacturing activities are located in the Drakenstein Municipality (Stellenbosch hosts 35 per cent – see Table 2.3). Furthermore, the importance of agricultural activities is reflected in the fact that 15 per cent of the municipal workforce is employed in this sector, equivalent to the size of the manufacturing workforce. Another large employing sector, is the general government and community, social and personal services sector, accounting for 26 per cent of the workforce.

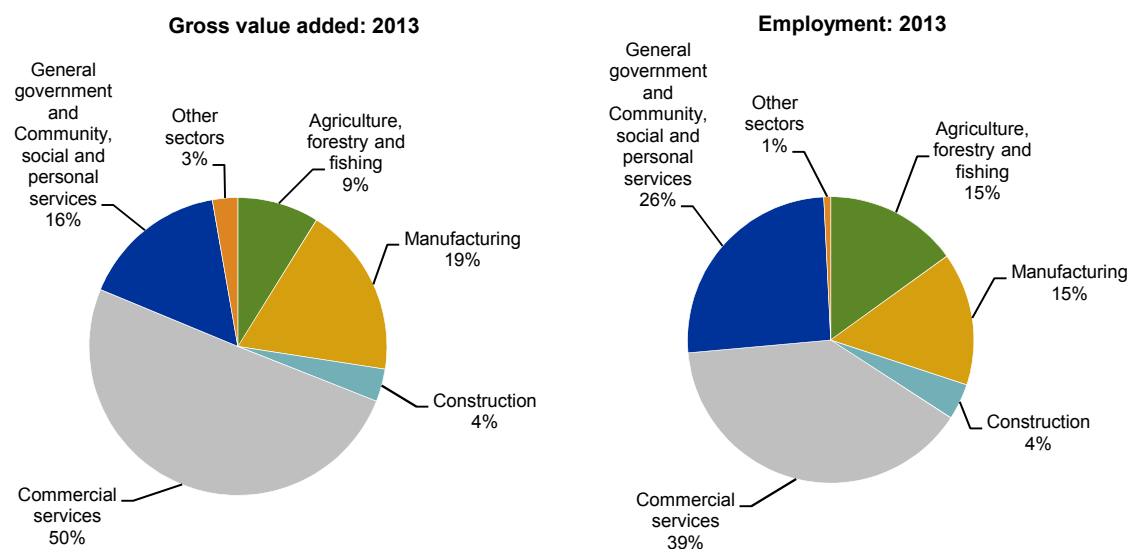
¹ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi-and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Figure 2.5 Drakenstein share of Cape Winelands District gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.6 Drakenstein: Composition of gross value added and employment: 2013

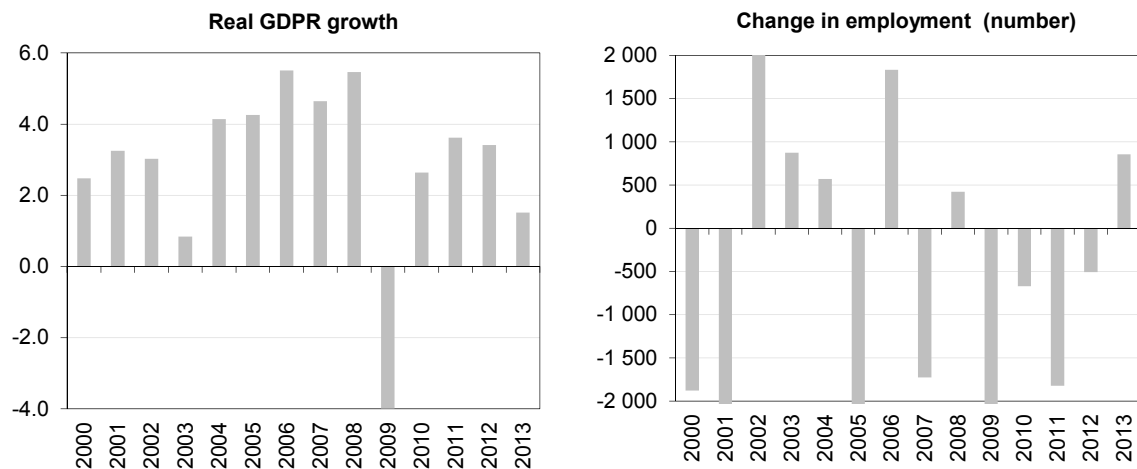


Source: Quantec Research, Own calculations

Figure 2.7 and Table 2.5 reveal the growth and employment creation track record of the Drakenstein municipal economy. Whilst real GDP growth was relatively robust over the 2004 - 2008 period (averaging around 4 per cent per annum), the recession had a major adverse impact on the municipal economy and the recovery has been relatively weak. However, an encouraging development is that real GDP growth averaged in line with that of the wider CWD during the economic recovery, whereas it lagged significantly in the years preceding the recession.

The relatively strong recovery of the region's manufacturing sector is particularly notable and explains the narrowing growth differential with the CWD economy. Manufacturing also created jobs on a net basis during the economic recovery period, 2010 - 2013, which reversed the adverse trend preceding the onset of the recession. The largest worker lay-offs occurred in the agriculture, forestry and fishing and construction sectors, both before and after the recession. Commercial services countered the net job losses, as did the general government and community, social and personal services sector before the recession. However, this was insufficient in preventing an overall rate of retrenchments exceeding the CWD average over the 2005 - 2013 period.

Figure 2.7 Drakenstein real economic and employment growth: 2000 - 2013



Source: Quantec Research, Own calculations

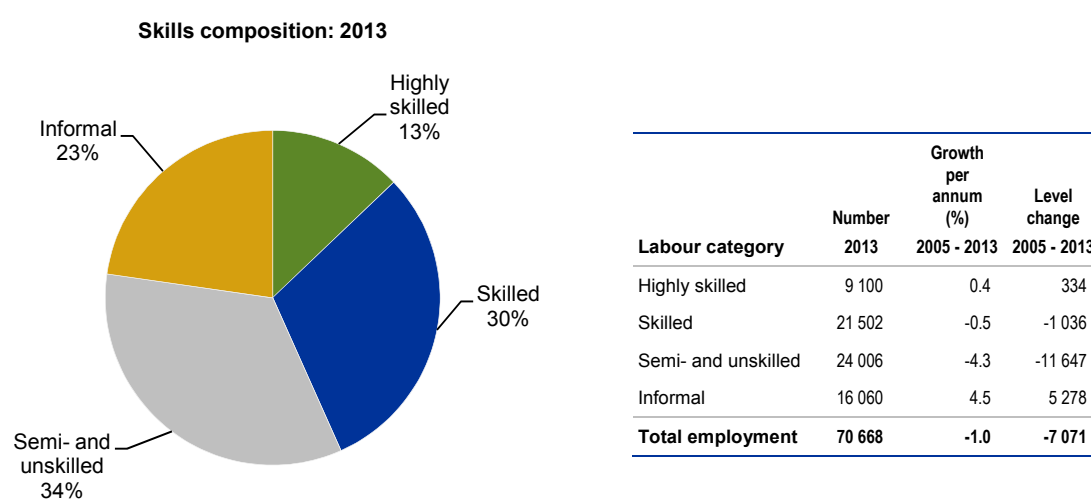
Table 2.6 Drakenstein gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	1 362	1.0	-0.2	10 645	-5.8	-8 396	-4.1	-2 095
Manufacturing	2 863	0.6	3.8	10 601	-1.2	-1 338	2.0	789
Construction	548	3.4	0.8	2 895	-5.1	-1 805	-6.5	-914
Commercial services	7 736	5.1	3.3	27 836	1.6	3 675	0.7	743
General government and Community, social and personal services	2 463	2.2	2.0	18 155	0.4	581	-0.9	-656
Other sectors	423	4.1	3.4	535	7.2	212	0.5	-8
Total Drakenstein	15 396	3.0	2.8	70 668	-1.0	-7 071	-0.7	-2 142
Cape Winelands District	50 176	3.5	2.7	248 233	-0.6	-13 658	-0.5	-5 648

Source: Quantec Research, Own calculations

The impact of the outflow of labour from the agriculture and construction sector is immediately evident in the patterns for labour skills demand. Semi- and unskilled labour remained the largest segment of the municipal labour market, accounting for close to 40 per cent of the workforce. This was after a net outflow of labour in this market segment measuring 4.3 per cent per annum over the period 2005 - 2013 (see Figure 2.8). The demand for skilled labour was more stable, with only a 0.5 per cent annual decline reported here, while the demand for highly skilled labour grew by 0.4 per cent per annum. The ranks of the informal sector were also swelled at a rate of 4.5 per cent per annum, i.e. a tendency shared with most other municipalities.

Figure 2.8 Drakenstein workforce skills: 2013



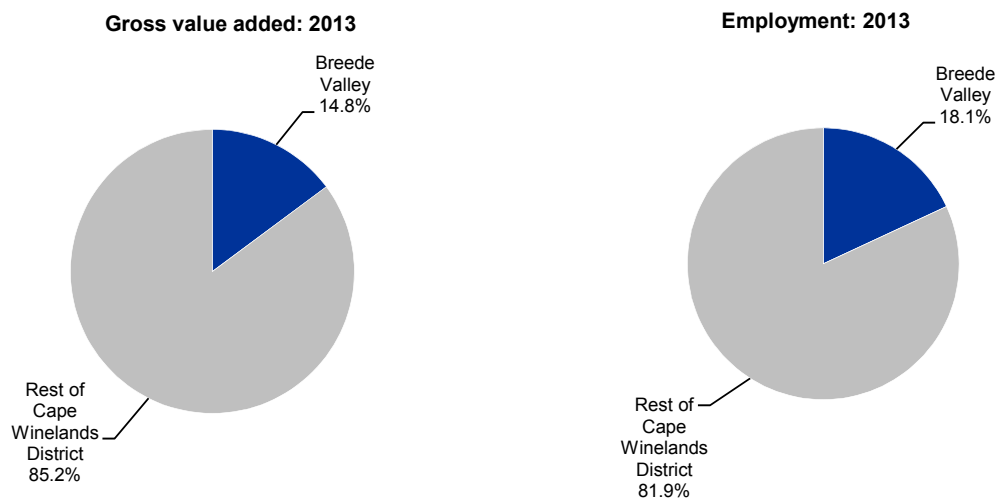
Source: Quantec Research, Own calculations

In all, the Drakenstein economy is the second largest in the CWD, but its growth has been subdued and below average over the past decade. The adverse employment trend in agriculture, forestry and fishing and construction, which did not abate during the economic recovery period, 2010 - 2013, is a worrying aspect of the regional economy. On the other hand the, relatively strong manufacturing recovery (2010 - 2013), which arrested the adverse employment trend in this sector, is heartening. A more vibrant manufacturing sector will ensure that the relatively robust growth in the region's commercial services sectors can be sustained.

2.2.3 Breede Valley

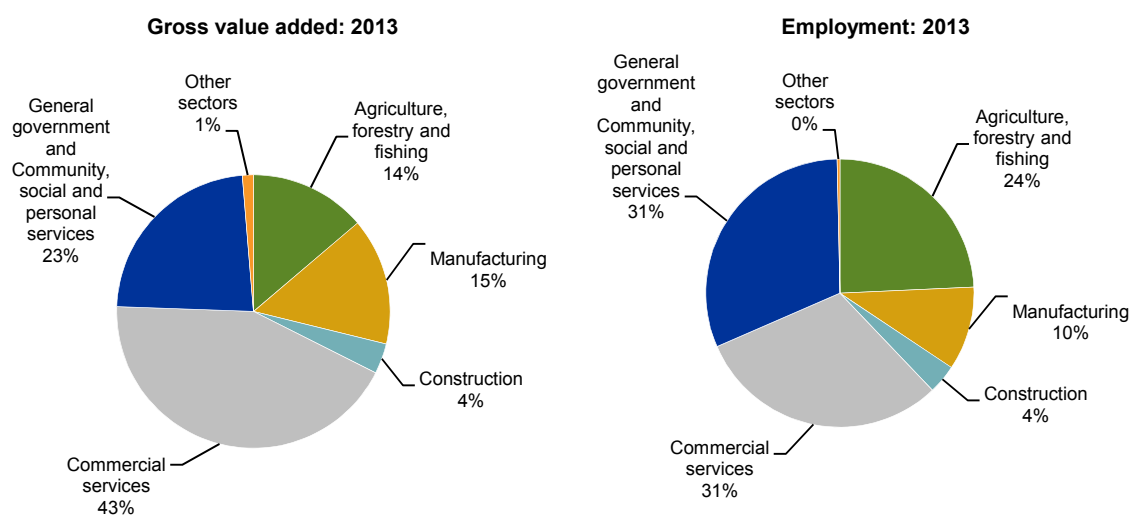
Breede Valley hosts the third largest municipal economy in the CWD, accounting for close to 15 per cent of GDP and 18 per cent of employment in the region. The Municipality generated R7.4 billion of the CWD's R50.2 billion gross value added in 2013.

Figure 2.9 Breede Valley share of Cape Winelands District gross value added and employment: 2013



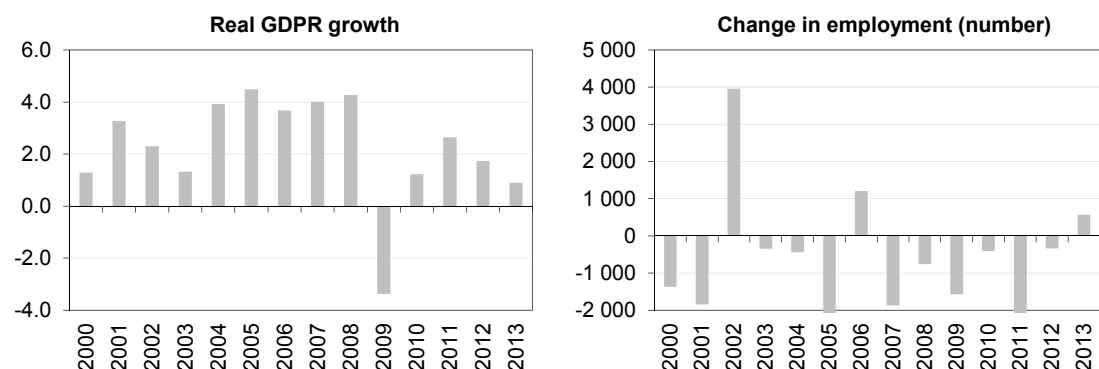
Source: Quantec Research, Own calculations

Figure 2.10 Breede Valley: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

The agricultural base of the municipal economy is evident from the fact that almost one quarter of the regional workforce was employed in the Municipality's agricultural sector. Commercial services is the largest sector by a wide margin (accounting for 43 per cent of GDP), reflecting the degree to which the region has evolved from its agricultural roots to secondary and tertiary economic activities. Manufacturing is of the same size as agriculture in terms of output. The government and CSP services sector is also well-represented in the region as it employs 31 per cent of the workforce, i.e. the same number of workers as in commercial services, the largest sector (see Figure 2.10).

Figure 2.11 Breede Valley real economic and employment growth: 2000 - 2013

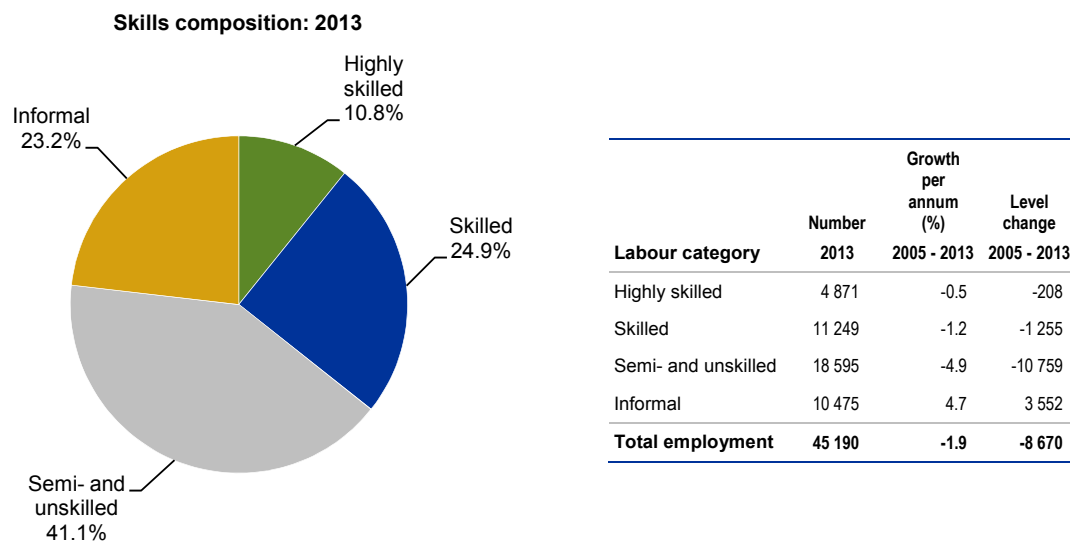
Source: Quantec Research, Own calculations

From a growth and employment creation perspective, the Breede Valley economy underperformed over the past decade, with the region reporting the largest net loss of employment, particularly in its agricultural sector where close to 10 000 employment opportunities were lost over the 2005 - 2013 period. Overall real GDP growth averaged a pedestrian 2.2 per cent over this period, tapering off to even lower levels in the period of economic recovery, i.e. 1.6 per cent per annum registered over the 2010 - 2013 period. The sector reporting the highest growth is construction (7.7 per cent per annum, 2005 - 2013) and it should be noted, on the positive side, that manufacturing growth came in above the average for this sector in the wider CWD. The manufacturing workforce was also more stable. Unfortunately the growth and employment creation of the region's commercial services sector was not strong enough to counter the net job losses in agriculture. In fact, during the period of economic recovery, all the sectors reported net job losses, except the manufacturing sector, which reported marginal growth. The adverse overall employment tendency in the municipal area is a cause for concern (see Figure 2.11).

Table 2.7 Breede Valley gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	1 026	-0.1	0.0	10 975	-6.4	-9 791	-2.6	-1 370
Manufacturing	1 118	3.0	2.6	4 554	-0.1	-72	0.1	20
Construction	267	7.7	1.4	1 592	-1.3	-241	-6.0	-461
Commercial services	3 213	2.8	1.8	13 826	0.9	991	-0.4	-220
General government and Community, social and personal services	1 719	1.9	1.7	14 096	0.4	420	-0.7	-399
Other sectors	98	-6.0	-1.2	147	3.3	23	0.6	-7
Total Breede Valley	7 440	2.2	1.6	45 190	-1.9	-8 670	-1.3	-2 436
Cape Winelands District	50 176	3.5	2.7	248 233	-0.6	-13 658	-0.5	-5 648

Source: Quantec Research, Own calculations

Figure 2.12 Breede Valley workforce skills: 2013

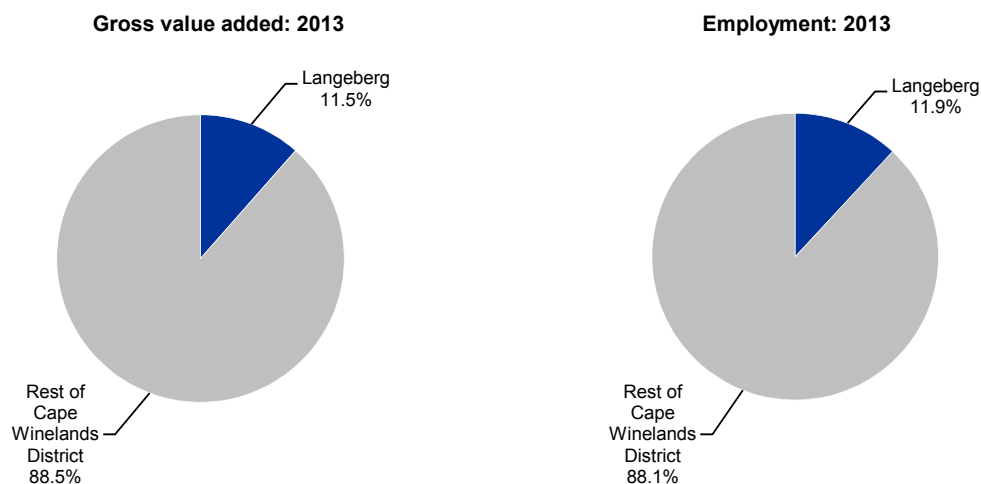
Source: Quantec Research, Own calculations

The poor employment performance of the municipal economy is also reflected in the fact that the demand for all categories of labour skills contracted over the 2005 - 2013 period. Demand for highly skilled labour contracted at a rate of 0.5 per cent; that for skilled labour, by 1.2 per cent and for semi- and unskilled labour close to 5 per cent per annum. Despite this high outflow of semi- and unskilled employment, this segment of the labour market still accounted for 41 per cent of the total in 2013. This reflects the size of semi- and unskilled labour supply in the region and at the same time the risk of a sustained outflow. As is to be expected in these labour market conditions, characterised by low economic growth and an oversupply of semi- and unskilled labour, the ranks of the informal sector were swelled. In 2013, informal sector employment has grown to 23 per cent of the total.

In all, the Breede Valley economy reported below average real economic growth over the past decade. Growth was particularly under pressure during the period of economic recovery from the recession. The adverse trend in overall employment is particularly worrying, especially in view of the large semi- and unskilled supply of labour. On the positive side, the above-average growth of manufacturing in the region can be noted.

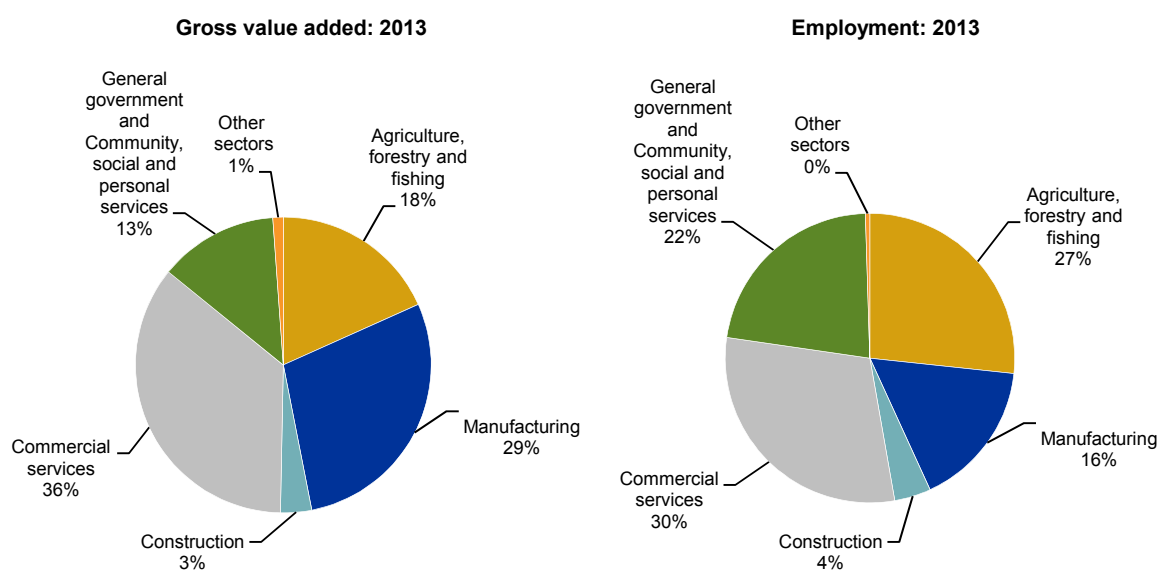
2.2.4 Langeberg

The Langeberg municipal economy contributed 11.5 per cent of CWD GDP in 2013 and employed close to 12 per cent of the regional workforce. In rand terms, the Langeberg municipal economy generated R5.8 billion of the CWD's R50.2 billion gross value added. The region is well-known for its agricultural sector and the associated food and beverage processing industries.

Figure 2.13 Langeberg share of Cape Winelands District gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.14 shows the balanced nature of the regional economy. Agriculture accounts for 18 per cent of GDP, manufacturing for 29 per cent and commercial services for 36 per cent. The large manufacturing share of economic activity is particularly notable; its share also remained relatively stable in a fast-growing region over the past decade. Food and beverage processing is the largest manufacturing subsector by a wide margin; however, it is relatively capital intensive as the manufacturing labour force only accounts for 16 per cent of the total. In contrast, agriculture account for 27 per cent of employment even though this sector only generated 18 per cent of GDP in 2013. The general government and community, social and personal services is also a large employer, accounting for 22 per cent of total employment.

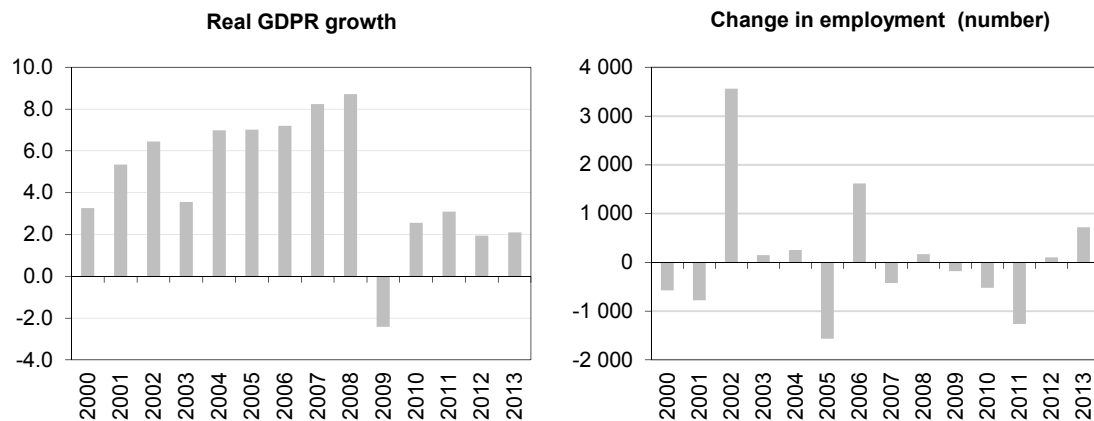
Figure 2.14 Langeberg: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.15 and Table 2.8 show the Langeberg Municipality's growth and employment creation performance. The stark contrast between the levels of growth before the recession (peaking above 8 per cent in 2008) and after the recession (with growth averaging 2.4 per cent per annum, i.e. well below average) is most striking. It appears as if the region hit the proverbial wall during the recession. Its fast-growing industries, particularly commercial services and construction and – to a lesser extent – manufacturing, slowed markedly after the recession (Table 2.8).

While job creation was not positive over the past decade, it deteriorated further after the recession. The agricultural sector shed the most employment opportunities, followed by construction and in manufacturing only during and after the recession. Net employment creation in the region's tertiary sectors was insufficient to counter the net lay-offs in the primary and secondary sectors.

Figure 2.15 Langeberg real economic and employment growth: 2000 - 2013



Source: Quantec Research, Own calculations

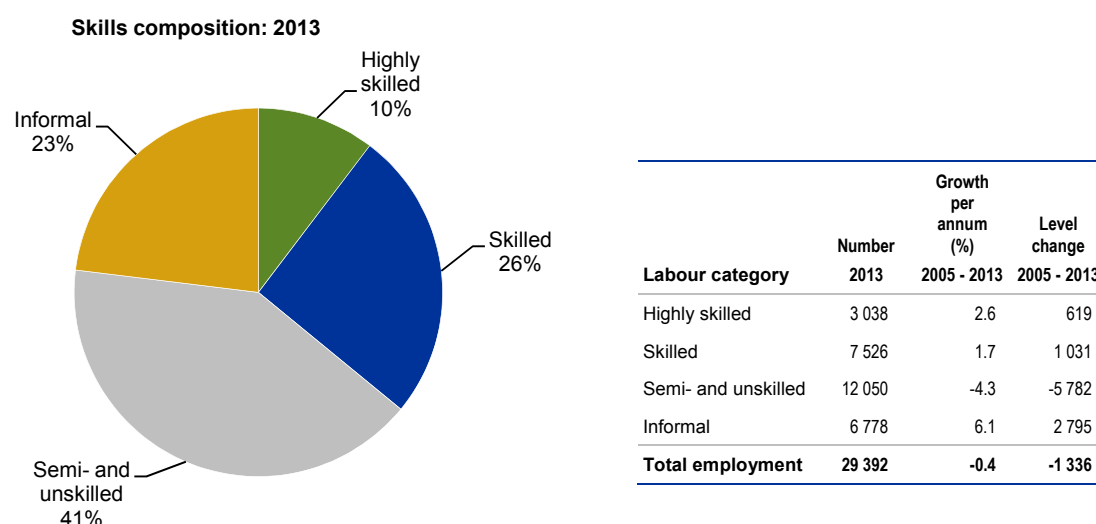
Table 2.8 Langeberg gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	1 055	0.3	0.1	7 855	-5.9	-6 313	-2.6	-990
Manufacturing	1 652	3.5	1.1	4 835	1.4	505	-2.0	-431
Construction	197	7.8	1.8	1 201	-1.4	-191	-6.2	-358
Commercial services	2 050	7.9	4.6	8 828	4.7	2 922	1.5	484
General government and Community, social and personal services	751	5.1	4.3	6 528	3.3	1 659	1.4	341
Other sectors	65	-0.4	1.4	146	11.6	81	1.3	-6
Total Langeberg	5 771	4.3	2.4	29 392	-0.4	-1 336	-0.8	-960
Cape Winelands District	50 176	3.5	2.7	248 233	-0.6	-13 658	-0.5	-5 648

Source: Quantec Research, Own calculations

Demand for highly skilled labour increased by 2.6 per cent per annum over the past decade and the demand for skilled labour by 1.7 per cent per annum. However, the semi- and unskilled labour market segments suffered a net outflow of labour at a rate of 4.3 per cent per annum. Many of these employment opportunities ended up in swelling the ranks of the informal sector, which presumably also absorbed new labour market entrants unable to find employment in the formal sector. Despite the large outflow of semi- and unskilled labour, this segment of the labour market still comprised 38 per cent of the total in 2013 (Figure 2.16).

Figure 2.16 Langeberg workforce skills: 2013



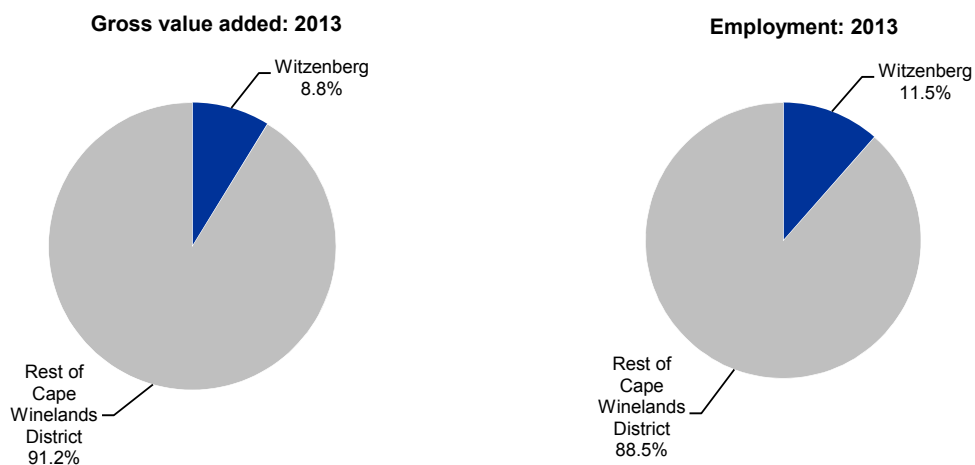
Source: Quantec Research, Own calculations

In all, the Langeberg economy, featuring a relatively large food and beverage processing industry, was the second fastest expanding municipal region in the CWD over the past decade. However, growth slowed down dramatically after the 2009 recession to below average over the 2010 - 2013 period. Slower growth was evident in all its main fast-growing sectors. This also impacted adversely on employment creation in the region. Notable is the fact that manufacturing retrenched workers on a net basis after the recession, whereas it contributed to net employment creation before the recession. The pattern seems to be higher demand for skilled labour and net retrenchment of semi- and unskilled labour.

2.2.5 Witzenberg

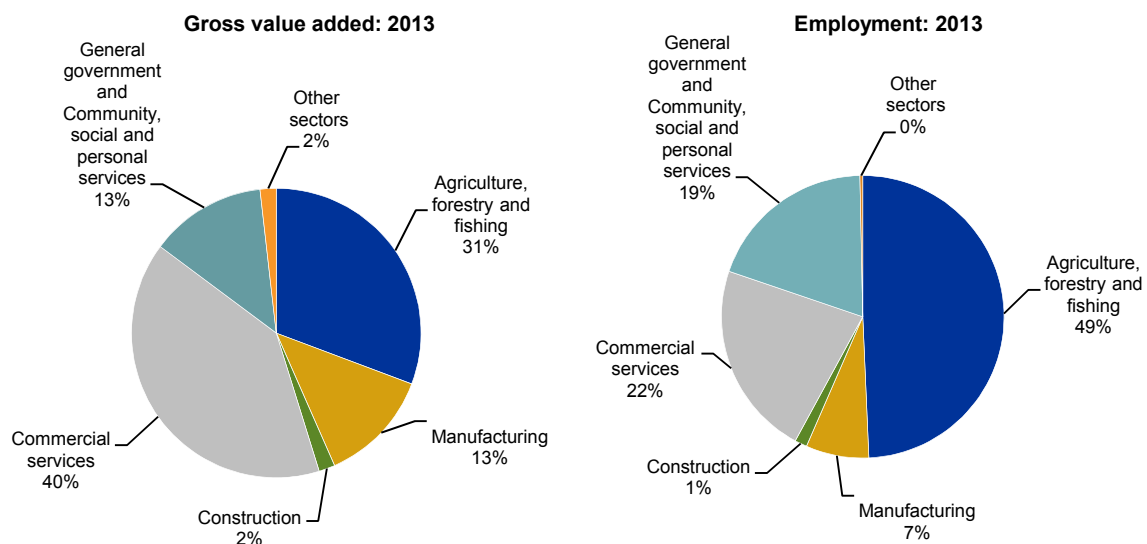
The Witzenberg municipal economy is the smallest in the CWD region, accounting for close to 9 per cent of GDP and employing 11.5 per cent of the region's workforce. In 2013, the Municipality generated R4.4 billion of the CWD's R50.2 billion gross value added. Located in the deep interior of the Province, the Witzenberg economy has a strong agricultural base.

Figure 2.17 Witzenberg share of Cape Winelands District gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.18 Witzenberg: Composition of gross value added and employment: 2013

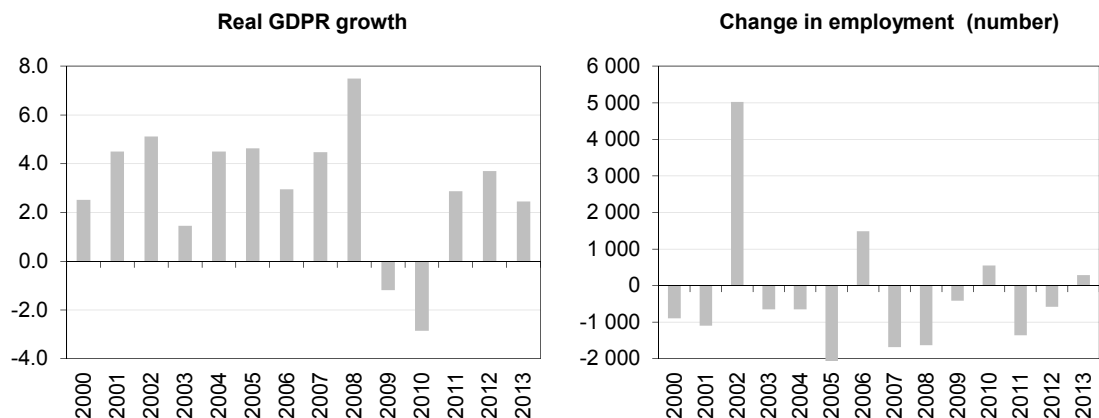


Source: Quantec Research, Own calculations

This is reflected by the fact that close to half its workforce is occupied in the agricultural sector, which also accounts for close to a third of the CWD's GDP. In fact, the Witzenberg agricultural value added is of similar size than that of Drakenstein, with these two municipalities hosting close to half of the CWD's agricultural sector (Table 2.3). Unfortunately this sector also accounts for large net employment losses, i.e. a trend experienced in all the other CWD municipalities. The regional economy is mainly an agricultural economy with a well-developed services sector. Commercial services accounted for 40 per cent of GDP in 2013 and the government and CSP services sector for a further 13 per cent. Manufacturing also contributed 13 per cent to GDP, which is relatively small.

From a growth perspective, the region's expansion was below average over the past decade, i.e. with real GDP growth by 2.7 per cent per annum, 2005 - 2013. The growth momentum also slowed significantly after two calendar years of contraction (in 2009 and 2010). The growth of the regional economy is mainly explained by the sustained expansion of the tertiary sectors – commercial services expanded by close to 5 per cent per annum, 2005 - 2013 and the general government and community, social and personal services by 3.3 per cent per annum. While agricultural output expanded, it did come under pressure in recent years.

Figure 2.19 Witzenberg real economic and employment growth: 2000 - 2013



Source: Quantec Research, Own calculations

Table 2.9 Witzenberg gross value added, real economic growth and employment creation

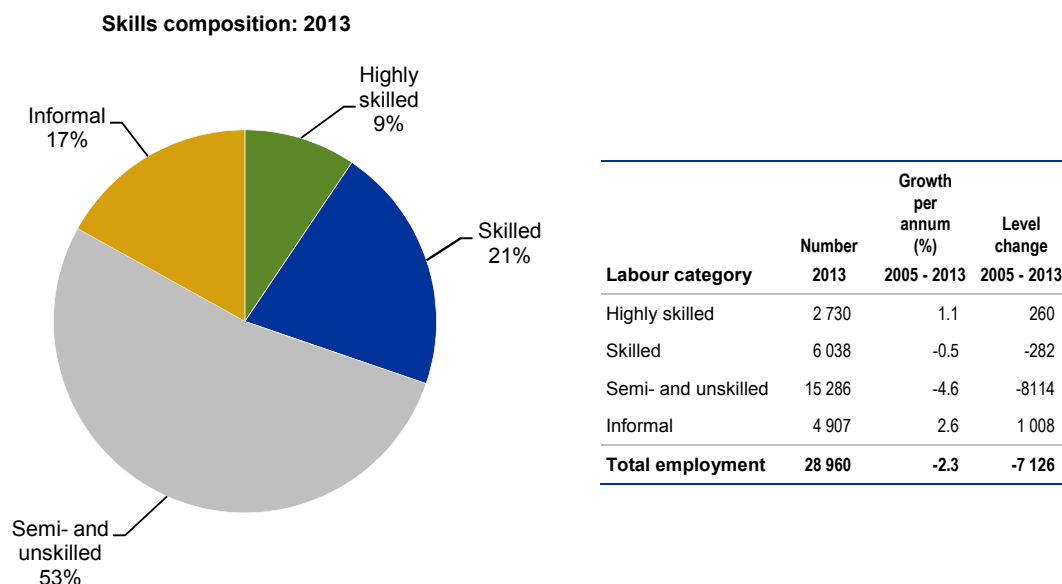
Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	1 353	1.3	-1.4	14 280	-4.4	-7 773	-2.5	-1 587
Manufacturing	559	1.4	1.4	2 095	-1.9	-399	-0.2	-19
Construction	79	0.8	-0.2	400	-7.0	-381	-6.1	-117
Commercial services	1 762	4.8	4.1	6 453	0.9	497	1.5	363
General government and Community, social and personal services	573	3.3	3.0	5 636	2.0	910	1.2	262
Other sectors	79	0.5	1.4	96	3.4	19	-0.1	-3
Total Witzenberg	4 406	2.7	1.5	28 960	-2.3	-7 126	-0.9	-1 101
Cape Winelands District	50 176	3.5	2.7	248 233	-0.6	-13 658	-0.5	-5 648

Source: Quantec Research, Own calculations

The growth in manufacturing and construction averaged below 1.5 per cent per annum over the entire period; however, it also contracted in both sectors after 2009. The rate of employment losses (2.3 per cent per annum) was well above the average for the CWD (0.6 per cent per annum). Similar to the tendency in most Western Cape municipalities, the net job creation in the tertiary sectors could not fully compensate for the losses in the primary and secondary sectors.

It follows that this municipal economy also suffered deep employment losses in the semi- and unskilled labour market segment – demand in this segment contracted by 4.6 per cent per annum, 2005 - 2013. The demand for skilled labour only contracted by 0.5 per cent per annum and that for highly skilled labour increased by 1.1 per cent per annum. The scope of the semi- and unskilled labour supply is reflected in the fact that in 2013 this segment of the Witzenberg labour market constituted more than half of the total, i.e. after a decade of heavy retrenchments in this segment. The informal sector grew; however, it did not absorb all the semi- and unskilled workers losing their jobs.

Figure 2.20 Witzenberg workforce skills: 2013



Source: Quantec Research, Own calculations

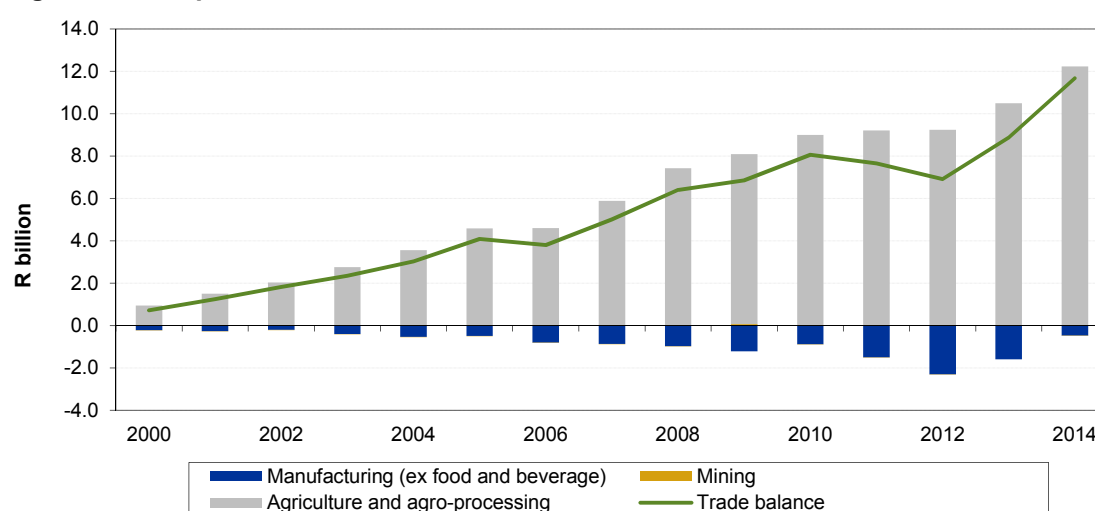
In all, the Witzenberg agricultural and service-based economy is small in the context of the wider CWD and provincial economies. However, it hosts a relatively large agricultural sector. General economic growth has been subdued, particularly in the primary and secondary sectors and this underpinned heavy net job losses in the semi- and unskilled labour market segment. Demand for skilled and highly skilled labour was more stable, mainly due to the sustained growth of the region's services industries.

In the following section, the CWD's international trade is briefly discussed.

2.3 International trade

Goods exports from the CWD are dominated by agricultural and the associated processed food and beverage products produced in the area, with the wine industry being the major player. Agriculture (one third) and beverages (one third) and processed foods (one quarter) account for 90 per cent of overall goods exports. Total agri-processing exports were valued at R14.8 billion in 2014, up from R12.4 billion last year and R10 billion in 2009². Total manufacturing exports (excluding processed food and beverages) amounted to R1.7 billion last year, i.e. 10 per cent of the total. Notable non agri-manufactured export products include automotive components, machinery and equipment, professional and scientific equipment and other chemical products.

Figure 2.21 Cape Winelands District trade balance, 2000 - 2014



Source: Quantec Research, Own calculations

On the import side, the agri-processing industries (46 per cent) and other manufacturing industries (53 per cent) account for the bulk of goods imports. Total goods imports were valued at R4.8 billion in 2014, i.e. up from R4.3 billion in 2013. Apart from the agri-processing imports, machinery and equipment, wood and paper products, chemicals and plastic products are notable imported goods.

As Figure 2.21 shows the success of the wine industry and other agricultural exports has ensured a steady and sustained upward trajectory in the District's trade surplus. The agri-processing trade surplus exceeded R12 billion in 2014; taking into account the manufacturing goods trade deficit (which has shrunk over the past two years), the overall trade surplus increased to R11.7 billion in 2014, up from R8.9 billion in 2013. This is an impressive trade performance. The outlook remains promising given current initiatives to replace imports in the agri-processing value chain and to more aggressively seek export markets in the East and our neighbouring African markets.

In the following section, the sectoral prospects for the Cape Winelands regional economy are considered.

² The 2014 trade numbers are estimates and subject to revision.

2.4 Sectoral prospects

2.4.1 Local issues

In the MERO 2013 study it was found that a number of key value chains in the CWD have a comparative advantage in a national context, namely:

- The food value chain (agriculture, forestry and fishing and the associated food and beverage processing industries);
- Tourism (as reflected in the catering and accommodation, business services and transport sectors);
- Building materials manufacturing and construction; and
- Financial services.

Other aspects include the competitive edge of the ICT sector located at Stellenbosch Technopark and a range of innovation industries, as well as the attractiveness of the region for major multi-national and national companies to locate their headquarters. Finally, the CWD has a vibrant education sector, including leading research facilities.

An updated comparative advantage analysis in a provincial context³ shows that the value chain and industries in which the CWD has a competitive edge may be restricted to the agricultural, forestry and fishing sector and its associated processing industries; tourism and building materials manufacturing. Apart from the locational advantages of industries in the south-western municipalities of Stellenbosch and Drakenstein, benefiting in terms of their proximity to the Cape Town port and airport and the general economic linkages with the Metro, it is evident that moving up the food value chain has substantial potential to drive economic growth, not only in these two municipalities, but also the Breede Valley, Langeberg and Witzenberg agricultural regions (Thomson & Basson, July 2015).

Ambitious plans are afoot to boost value added in the agri-processing industries in terms of Project Khulisa. This will stimulate demand for agricultural products and have wider economic spinoffs for the entire region. Three important projects underway in the wine and brandy industry, include initiatives to expand exports to Africa (particularly Angola) and China; expand the Brandvlei irrigation scheme and reverse the adverse trend in brandy sales. The idea regarding increased international market access and domestic consumption is not only to increase volumes, but to improve the packaged: bulk ratio of wine exports, to improve the share of product volumes that comply with ethical standards and to develop opportunities for wine tourism. At the same time important BEE objectives will be met. The expansion of the Brandvlei

³ Conducting the location ratio analysis at the provincial level shows which industries at the district level have a competitive edge in the comparative faster growing province in the country. As such the bar is raised somewhat for any specific industry to qualify. This may assist in explaining why the transport, construction, financial & business services sectors did not make the grade. These sectors all came in with location ratios exceeding unity only with a small margin in 2011. It may also imply that these industries have lost some of their competitiveness since 2011.

irrigation scheme has the potential to add 4 500 to 5 000 hectares of agricultural land in the Worcester/ Robertson area under irrigation (Thompson & Basson, July 2015).

The emphasis on export promotion and local production is particularly opportune in view of the weaker trending levels of the rand exchange rate. Whilst the weaker currency pose a challenge in terms of cost control, it provides opportunities for import replacement, e.g. in the olive oil industry. Domestic production only supplies a third of South African consumption. Immediate objectives in terms of the wider local production initiatives in the agri-processing industries include the establishment of a database of products that can be produced locally, building quality testing centres and the development of incentive packages for the establishment of agri-parks in the Western Cape (Troskie, July 2015).

As can be expected in an environment of weaker general economic growth, consumers are under financial pressure, which makes the affordability of municipal taxes and rates more difficult. The inability to pay municipal accounts, in turn, exacerbate the financial constraints of local government already under pressure from the constitutional funding model. It is also evident that skills shortages are a major problem affecting service delivery. According to municipal survey responses, there is an additional burden on the shoulders of municipalities resulting from a shift in functional mandates from national and provincial government to local government not necessarily being funded. These fault lines come to the fore in an environment of weak growth.

The broad sector forecast for the CWD is motivated below.

2.4.2 Sector forecast: 2015 - 2020

Table 2.10 contains the CWD sector forecast over the period 2015 - 2020. The five-year average growth rate across the 10 broad sectors in the region is shown and compared with the projected growth of the Western Cape economy. The anticipated average five-year real GDP growth rate for the CWD has been revised downwards from 3.1 per cent per annum (2014 - 2019) to 2.8 per cent per annum (2015 - 2020), mainly due to the relatively more constrained macro-economic environment (as discussed in Section A of the report and Chapter 1).

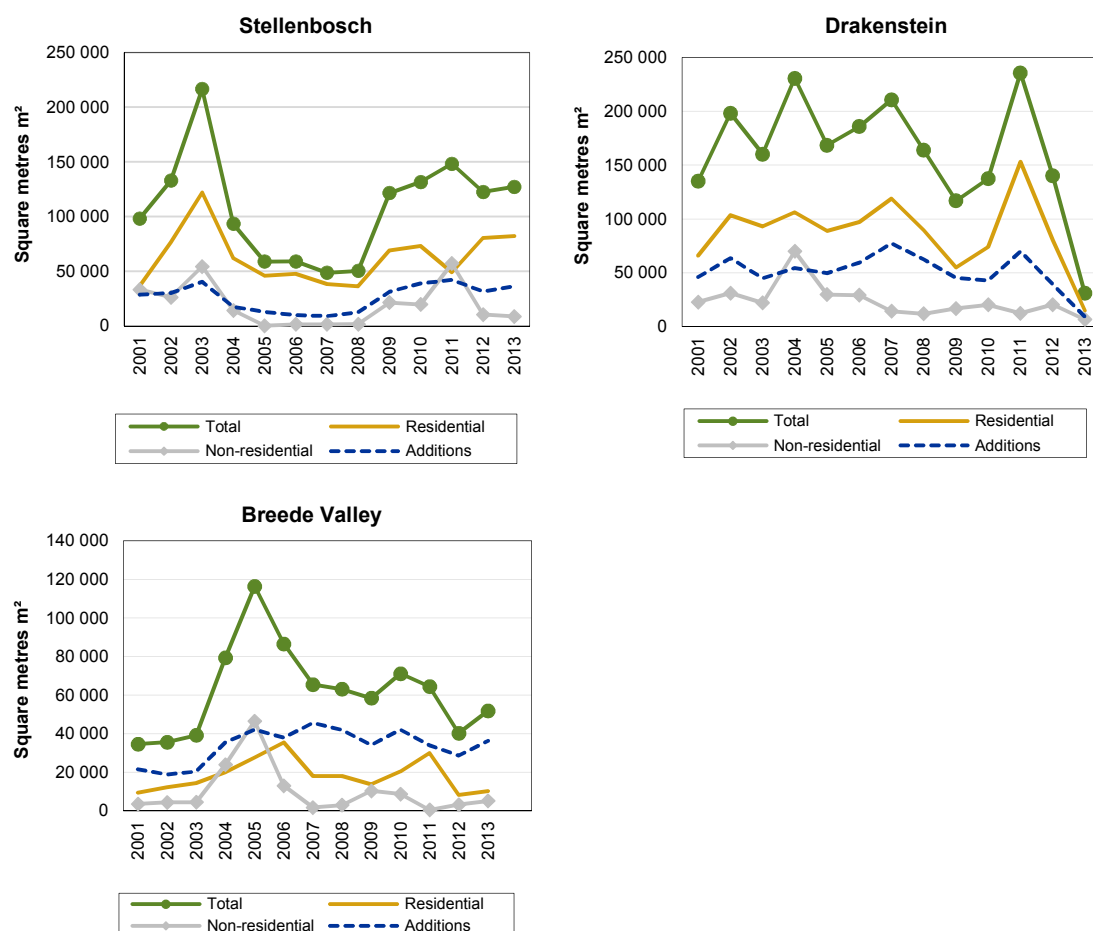
The CWD economy has been on the recovery road – in concert with the wider provincial economy – since the end of 2009. Recovery growth averaged an estimated 2.6 per cent per annum over the 2010 - 2014 period, following a sharp contraction of 3.0 per cent during calendar 2009. While employment declined by 2.1 per cent in 2009 (or a net 3 780 employment opportunities over the 2008 - 2009 period), the net job losses moderated over the subsequent years. Unfortunately, the labour outflow from the agricultural sector continued and prevented a full recovery of employment to pre-recession levels. Real economic growth has been under pressure, particularly over the period since 2012 – the average recovery growth rate (2010 - 2014) of 2.6 per cent per annum compares to the trend growth rate of 3.4 per cent (2005 - 2014).

The agricultural sector is projected to grow faster than trend, with output levels in this sector benefiting from downstream agri-processing initiatives in most of the municipalities (and, of course, assuming normal climatic conditions).

Manufacturing real value added is projected to grow at 2.2 per cent per annum, i.e. slightly faster compared to the trend over the 2005 - 2014 period (1.8 per cent per annum) and in line with the projected growth for this sector provincially. The Breede Valley and Langeberg municipalities and – to a lesser extent – Stellenbosch, may put in relatively stronger growth performances in view of their demonstrated manufacturing abilities and being concentrated in the food and beverage subsector. Exporting manufacturing firms are likely to benefit from a weaker currency, assuming they are able to contain the higher cost of intermediate and capital goods imports. The more potent growth opportunity may be that of import replacement in view of the weaker rand exchange rate and the plans underway in this regard to increase the local production share of domestic consumption.

The construction sector is projected to grow by 3.2 per cent per annum, which is below that of the wider province's projected construction sector growth. Figure 2.22 shows the building plans completed (m²) over the 2001 - 2013 period in the three leading CWD municipalities.

Figure 2.22 Building plans completed - Stellenbosch, Drakenstein and Breede Valley, 2001 – 2013



Source: Statistics SA

The tendencies between the three municipalities vary. In **Stellenbosch**, completions tapered down somewhat from a sharp recovery over the 2009 - 2011 period. However, that was mainly due to the decline in non-residential building completions. Residential building plans completed increased from 49 085 m² in 2011 to 82 269 m² in 2013. Completed building plans for alterations and additions to both residential and non-residential properties increased from 31 539 m² in 2012 to 36 304 m² in 2013. Considering the value of building plans passed, the tendency is more positive. The total value of building plans passed increased from R192.5 million in 2008 to R796.1 million in 2009 and R858.1 million in 2014. The Municipality has indicated that the time to approve building plan applications has decreased due to new operating procedures as well as fewer applications over the last few years. The average time for an application so far this financial year is 21 days. Figure 2.22 shows a sharp decline in the total square metres of building completions in the **Drakenstein Municipality**, from 140 053 m² in 2012 to 30 989 m² in 2013; this occurred across all building categories and the same tendency is evident in the value of building plans passed. The total value of building plans passed decreased sharply from R709.2 million in 2011, R112.01 million in 2013 and R23.2 million in 2014. In **Breedevale Municipality**, the total square metres of completed plans increased between 2012 and 2013; for additions and alterations to both residential and non-residential buildings, completions increased from 20 242 m² in 2012 to 51 841 m² in 2013. The total value of building plans passed also increased in 2013 and 2014 in line with a steadily rising GDP for the Municipality over the corresponding period.

Table 2.10 Cape Winelands District: Real economic growth outlook, 2015 - 2020

Sector	Real GDP (yoy %)				
	Trend	Recession	Recovery	Cape Winelands District	Western Cape
	2005 - 2014	2008 - 2009	2010 - 2014	2015 - 2020	2015 - 2020
Agriculture, forestry and fishing	0.7	4.8	0.0	2.5	2.3
Mining and quarrying	1.5	-7.0	3.6	2.2	2.0
Manufacturing	1.8	-4.7	2.1	2.2	2.2
Electricity, gas and water	1.9	2.7	2.1	1.9	1.8
Construction	6.1	6.3	1.7	3.2	3.7
Wholesale and retail trade, catering and accommodation	4.3	0.2	4.2	3.1	2.7
Transport, storage and communication	4.4	3.6	2.1	3.5	3.2
Finance, insurance, real estate & business services	5.6	6.2	3.4	3.9	3.4
Community, social and personal services	3.1	2.4	2.0	1.9	1.7
General government	4.2	5.2	3.7	1.4	1.3
Total	3.4	1.8	2.6	2.8	2.7

Source: Quantec Research

The all-important commercial services sector, ranging from internal trade (and tourism), transport and communication to financial and business services, is projected to grow between 3 - 4 per cent per annum (2015 - 2020), i.e. the strongest in the district and at higher rates compared to the remainder of the Province. The high growth recorded in the Stellenbosch, Drakenstein and Langeberg commercial services sectors explains this positive growth differential. Tourism will be a key source of growth, albeit that the new visa regulations regulating the inward movement of people are likely to exert a negative impact on the regional economy, both in terms of inward tourism and investment. It is hoped that the regulations will be revised. The latest tourism statistics already provide a flavour of the anticipated negative impact. The other tertiary sectors, i.e. the government and CSP services, are also projected to grow slightly faster than the Province's 'public sector'.

In all, the baseline forecast is for real GDP growth in the CWD to strengthen somewhat from the 2.6 per cent recovery growth (2010 - 2014) over the next five years, averaging 2.8 per cent per annum. This is a notch higher compared to the growth projection in respect of the provincial economy (2.7 per cent per annum).

2.5 Concluding remarks

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The CWD economy stretches from the well-balanced and well-developed municipal economies of Stellenbosch and Drakenstein (accounting for 65 per cent of CWD economic activity) closely integrated with the vibrant Cape Metro economy in the south, to the agricultural and associated services municipal economy of Witzenberg in the northern interior. The Breede Valley and Langeberg municipalities are found in the central parts of the CWD.

Stellenbosch is the largest and fastest growing municipality in the region. A well-balanced industry structure and broad-based growth are strong features. The Municipality also boasts a sizeable manufacturing sector able to generate employment on a net basis. Whilst growth in Drakenstein has been more subdued, its manufacturing sector also recovered well after the recession, adding to employment creation. The Langeberg Municipality, being the second fastest growing municipality in the CWD, witnessed a dramatic slowdown after 2009. The favourable conditions in its agri-processing industries appear to have deteriorated. Breede Valley also reported above average manufacturing growth, but this region has suffered a worrisome adverse employment trend, particularly in agriculture. The adverse employment trend in agriculture is a district-wide phenomenon.

The commercial services sector is well-developed throughout the CWD and a key employment generator. Its fast growth and what appears to be a mechanisation tendency in the primary and secondary sectors explain the growing demand for skilled and highly skilled labour and steep lay-offs in the semi- and unskilled labour market segment, swelling the ranks of the informal sector across most CWD municipalities. Plans to increase small-scale farming and developing the agri-processing value chain should make a positive impact by arresting these adverse tendencies. The sectoral outlook has been downgraded due to the more challenging macro-economic environment, which makes these plans more urgent.

Apart from the locational advantages of industries in the south-western municipalities of Stellenbosch and Drakenstein, benefiting in terms of their proximity to the Cape Town port and airport and the general economic linkages with the Metro, it is evident that moving up the food value chain has substantial potential to drive economic growth, not only in these two municipalities, but also the Breede Valley, Langeberg and Witzenberg agricultural regions. Ambitious plans are afoot to boost value added in the agri-processing industries in terms of Project Khulisa. This will stimulate demand for agricultural products and have wider economic spinoffs for the entire region. The emphasis on export promotion and local production in the region is particularly opportune in view of the weaker trending levels of the rand exchange rate.

3

Value chains

3.1 Introduction

The value chain includes the activities firms undertake to bring a product or service from production to end use by consumers. Value is added at each step along this chain. It is unlikely, in the modern age that a full value chain exists at a local level, or even a provincial level. Modern value chains are driven by globalisation, interconnectedness, technology, logistics improvements, offshoring and deregulation. This has led to the various tasks associated with traditional value chains becoming increasingly fragmented globally. Value chains are increasingly becoming more efficient, taking advantage of the relative comparative advantage of countries, regions and competitive advantage of different firms.

Transport and communication advancements have allowed a greater division of labour in firms, as well as the broader value chain. For each of the production stages, firms identify their in-house capability to undertake a task, relative to outsourcing this task or even moving this offshore. It is important to identify the target market of the product, as various changes to the value chain may provide significant efficiency gains for firms.

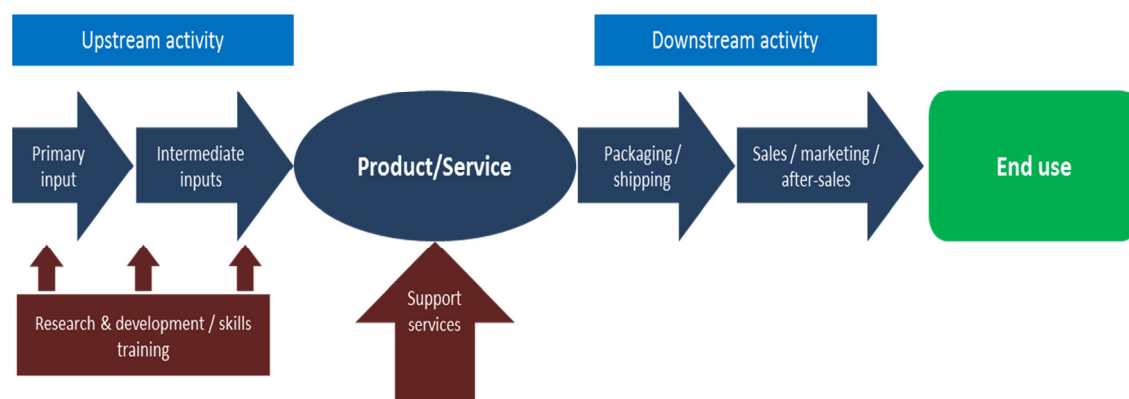
Risk exposure in a value chain is a key concept we will consider in this chapter as it is very important to the sustainable functioning of a value chain. Highly regionally or globally integrated value chains are susceptible to global risks and economic slowdowns. It is unlikely that a value chain can be developed to be entirely isolated from this type of risk, as global and regional markets are lucrative as end-user destinations, due to the large market size.

Figure 3.1 shows the various stages in a generic value chain. The activities leading up to the manufacture of the product are accounted for as upstream activities and the activities involved in getting the product to the market are accounted for as downstream activity. Various support services are also required in upstream and downstream activity, such as, financial services or legal services. Upstream activity

also requires research and development and skill building, which have positive spinoffs for the economy.

Risks and opportunities are evident at various stages of the value chain. Commodity prices are significantly more volatile relative to a product higher in the value chain, due to speculation in world markets and slowdowns in major demand markets. Integration with larger value chains can mitigate certain risks if these value chains have diversified their target markets, or if they have started to provide their products to high growth regions.

Figure 3.1 Generic value chain example



3.2 Policy and spending initiative considerations

For municipal districts, targeted spending can strengthen small local value chains and assist in achieving regional or global value chain integration of local manufacturing. Job creation cannot be sustainable unless the industry to sustain these jobs is created. It is also important that skills development and training accompanies new job creation activity to enable sustainable growth. In supporting the development of value chains and integration into regional or global value chains, R&D and skills training will be promoted by the private sector. Although it may be beneficial to provide input at the low-value-added stage of a value chain through primary inputs, this exposes the industry to risks and does not promote sustainable growth and development of the local community. In order for growth to be inclusive it is necessary that economic upgrading must be linked to social upgrading (see Chapter 5). Spending should, therefore not only be targeted at a certain industry or value chain linkage, but social needs impacting value chain development and sustainability should also be targeted at the same time (Barrientos et al, 2011).

As local value chains develop and become integrated into global value chains, the local value added component may decrease. Economies of scale and efficiency gains may result in a certain industry exporting a significant proportion of its production as local markets become too small. In order to accommodate for this, it is essential that upgrading of the local value chain takes place.

Activities such as R&D and skills development add greater value to the production process. Captive relationships between local value chain actors should also be addressed. For example, buyers can reduce the price primary producers receive for their products. Cutting out the 'middle man' could result in less overall revenue, but sustain a greater amount of jobs in the long run.

The key factors for upgrading and development of value chains are: Improving skills and education; improving access to electricity; encouraging R&D and skills development; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain.

Creation of strong entrepreneurial skills also contributes to new businesses taking advantage of existing linkages in value chains at a local level. Provision of enterprise maps and suppliers databases may also induce collaboration and create potential new linkages in the value chain at a regional and local level.

3.3 Integration of special economic zones (SEZs) into global or regional value chains

Various types of SEZs have been developed. Free trade zones and fenced-in, duty free areas are usually situated near ports or airports. Export processing zones are constructed as industrial complexes and usually concentrate on export-orientated manufacturing. Enterprise zones offer tax incentives or financial grants to operate businesses in certain areas. These zones usually target areas that need economic and social upliftment. Specialised zones are those such as science and technology parks, logistics parks or chemical/pharmaceutical parks.

SEZs as defined under the South African SEZ Act No. 6 of 2014

"Industrial Development Zone" means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services.

"Free Port" means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures.

"Free Trade Zone" means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.

"Sector Development Zone" means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.

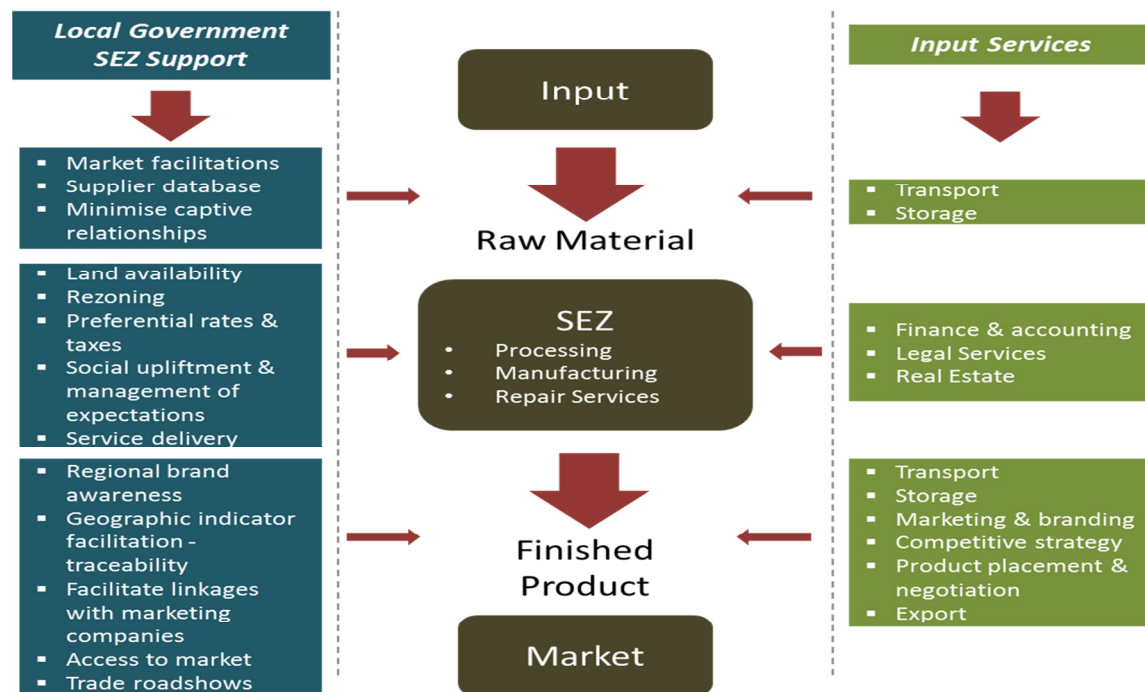
Establishment of an SEZ can often provide greater value added and employment benefits to a region. Evidence suggests that SEZs are more successful if they are developed privately, rather than initiated by government involvement. Private sector participation is a key success factor in the establishment and sustainable growth of a SEZ (World Bank, 2008).

The challenge to local government is that they will only have the ability to deliver targeted spending initiatives to various stakeholders associated with the value chains of industries in these SEZs. Policy initiatives and incentive offerings are not the mandate of local government. Certain municipal tax reductions could be offered, but will not substantially influence companies in these areas. For this reason targeted expenditure initiatives focusing, not only on the companies in the processing parks or SEZs, but also on the surrounding support services to the entire value chain these industries support in the local community is necessary.

Integration into global or regional value chains is essential for the sustainable growth and development of SEZs. Many of the planned SEZs (especially in the agricultural sector) will be in rural areas. This creates challenges for companies in these areas as they are usually a considerable distance from their target market and smaller industries in these rural areas will not be able to take advantage of economies of scale.

Figure 3.2 depicts a typical value chain for a smaller SEZ or processing park. Local government is limited in their ability to address inefficiencies in the market and also do not have the authority to facilitate substantial incentives or tax breaks. There are, however, means by which the local government can develop targeted spending initiatives to ensure the success of the SEZ in their local area. Inefficiencies could exist in the linkages between the providers of raw materials and manufacturers in the SEZ. For example, middle men, not from the local area, could complicate and erode the value added in a local agricultural supply chain. By facilitating local buyer groups or facilitating relationships directly between the producers, local logistics companies, and the firms in the SEZ, could limit losses outside the local value chain and ensure greater profits for the farmer to create additional jobs. If a number of smaller farmers are brought together through market facilitation by local government, it may give them greater bargaining power and better prices for their products.

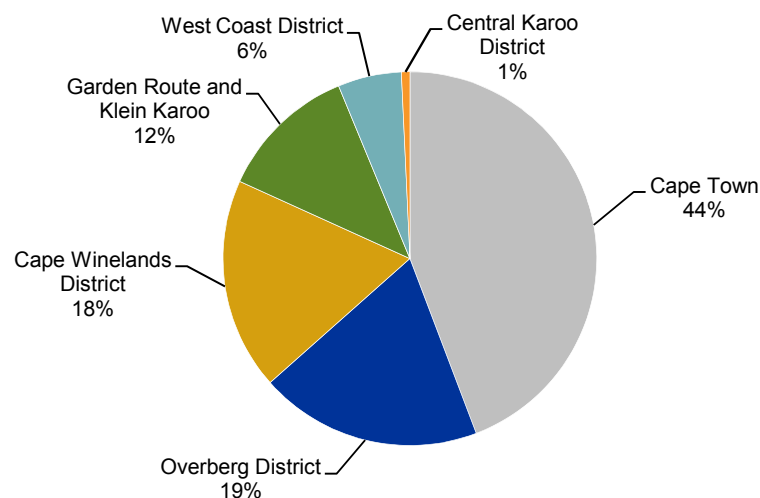
End-user markets in local areas are usually quite small and to ensure a competitive and sustainable strategy for a SEZ or value chain, it will be necessary to provide these goods to regional or foreign markets. The major challenge in this regard is the competitive advantage larger firms will have as they are able to take advantage of economies of scale and logistics efficiencies. To support local firms in a SEZ, or along a value chain, the local government should take advantage of niche markets and assist local manufacturers in the marketing of their products. Various possibilities exist for the promotion of local products to regional or international markets. For instance, "Karoo Lamb" has established itself as a significant brand name in regional, as well as, international markets. To enforce these geographic indicators it may be necessary to facilitate international trade roadshows, or to link the local firms with national or international marketing companies. In many cases international markets require certain standards for their products, and this is directly related to the standards maintained at the production facility. Assisting in achieving these requirements at the local manufacturing facility could open an entirely new international market to a local producer.

Figure 3.2 Simplified SEZ value chain and possible local government support initiatives

3.4 Cape Winelands District value chains: Tourism potential and linkages to agriculture

There is a strong linkage between agriculture and tourism in the CWD. High quality wines are a major attraction to international and domestic tourists and there has been an increasing trend of wine tourism to the area. It is estimated that tourism accounts for 18 per cent of the total GDP of the wine industry generated through the direct, indirect and induced effects. In the Stellenbosch area this percentage is even higher, at 20 per cent (SAWIS, 2015).

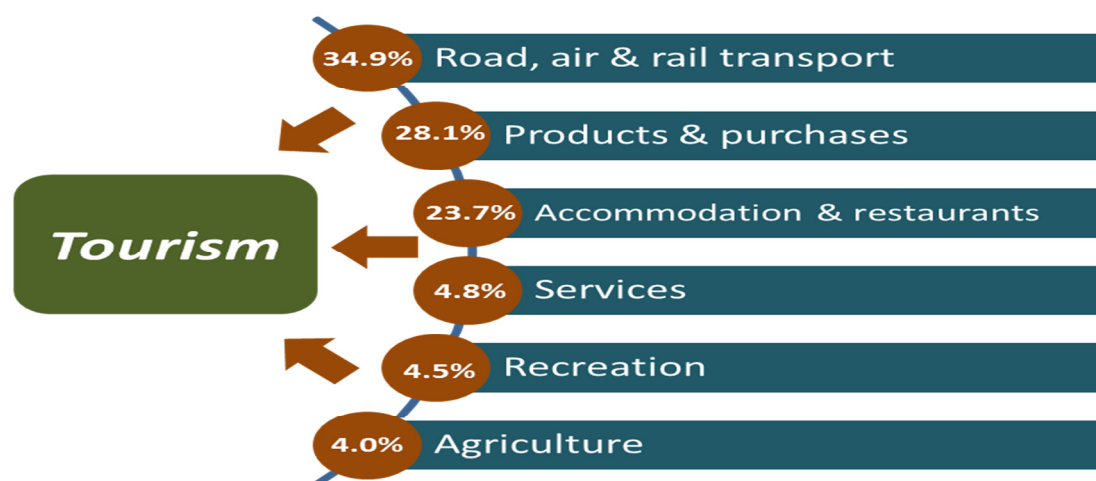
South Africa recorded a 4.7 per cent increase in tourist arrivals from 2012 to 2013 (Stats SA, 2015). The majority of these are from Africa. In the Western Cape most of the tourists recorded are domestic tourists from other parts of South Africa. International tourists are mostly from Germany (26.8 per cent), the United Kingdom (23.1 per cent), the Netherlands (8.9 per cent), the United States (5.3 per cent) and France (4.9 per cent). The number of tourists to the Western Cape is estimated to have declined by 13 per cent from 2011 to 2013 (WESGRO, 2015). Figure 3.3 shows that the CWD accounts for approximately 18 per cent of tourist visitors in the Western Cape.

Figure 3.3 Regional share of tourist visitors, Western Cape, 2013

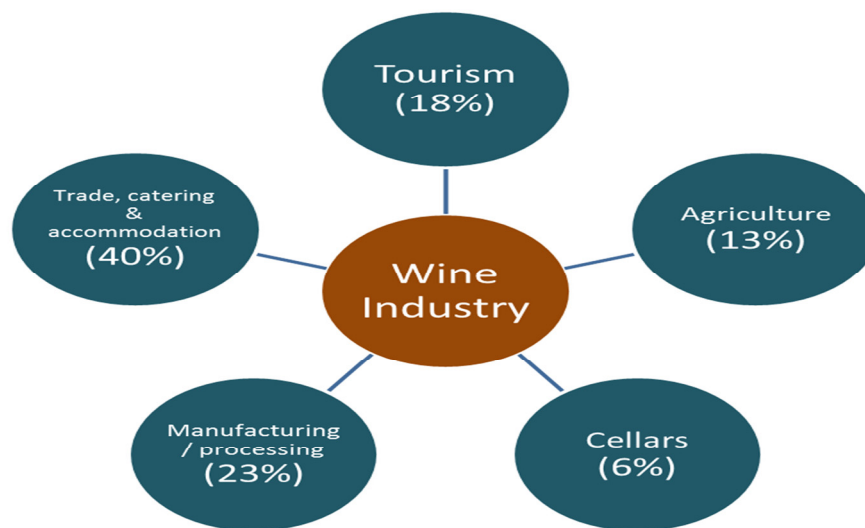
Source: Wesgro

The linkages tourism has to other sectors are significant, Figure 3.4 shows the expenditure splits for tourists. The greatest expenditure for tourists is on transport, which mostly includes air and road transport. The shares of rail and water transport in South Africa are minimal for tourists. The catering and accommodation sector has a high linkage to tourism and forms a significant proportion of tourism spending. The diagram in Figure 3.4 gives a good indication of the value added and employment creation potential an increase in tourism could have on various sectors in the economy. Increased spending on tourism will have a significant impact on transport, trade and the accommodation and restaurant sectors.

In the CWD there is a significant linkage between the wine and tourism sectors. The wine industry generates revenue from tourist activity in the region. Figure 3.5 indicates that tourism accounts for approximately 18 per cent of the total GDP generated in the wine industry.

Figure 3.4 Share of tourism expenditure, South Africa

Source: Statistics South Africa/own research

Figure 3.5 Share of contribution to GDP in the wine industry, South Africa, 2013

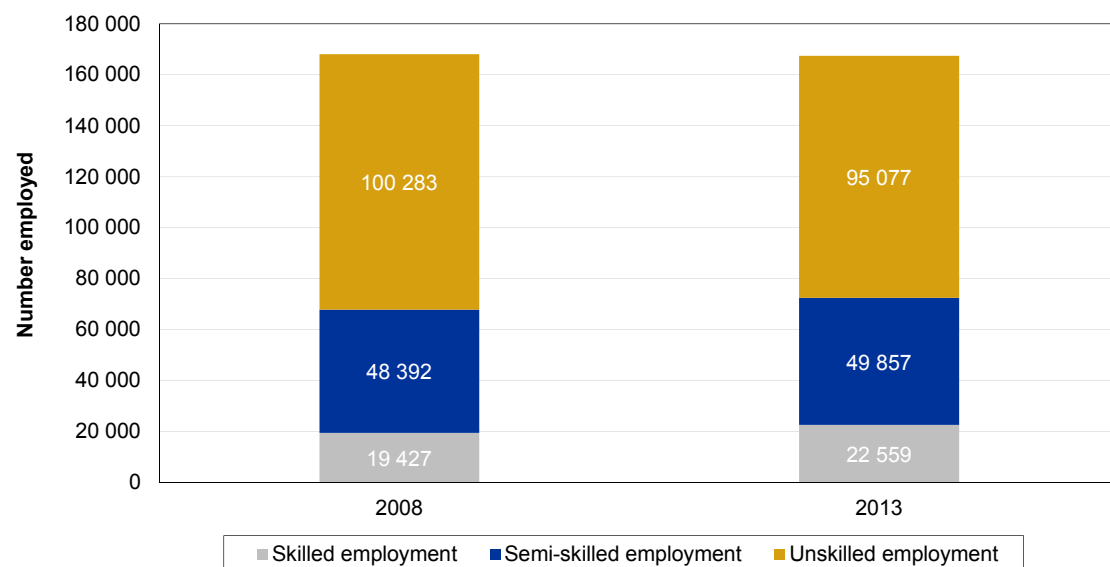
Source: Statistics South Africa & SAWIS

There is no fixed value chain definition of the linkages between tourism and the wine industry, but expenditure from tourists contributes to the revenue generated in the wine industry through the linkages between trade, accommodation, restaurants and recreational activities on wine farms. Activity on the wine farms contributes to GDP generated for the agricultural sector.

3.4.1 Value added and employment analysis of the tourism and wine industry

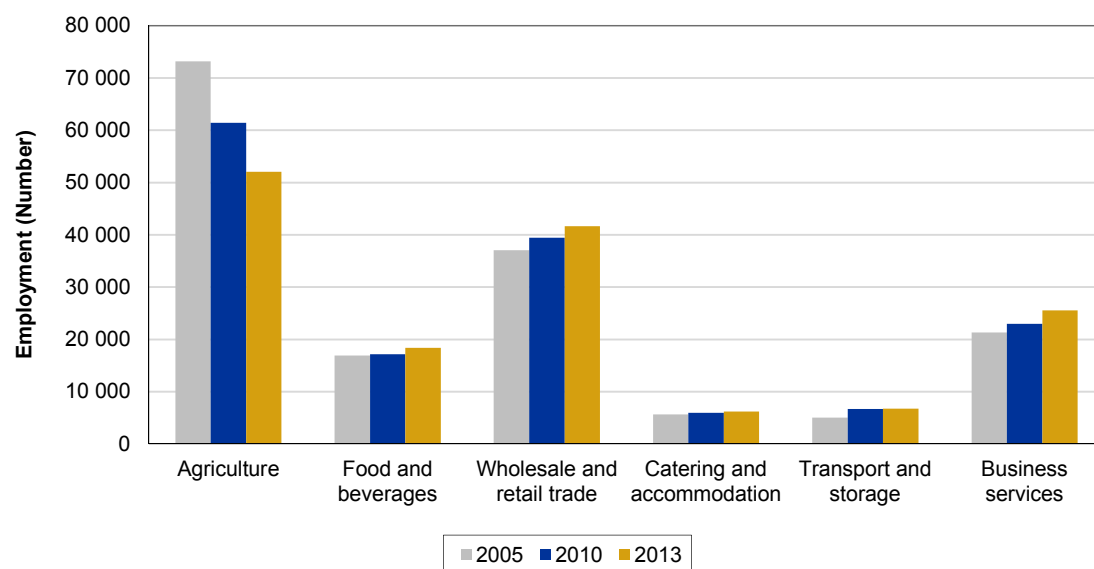
The wine industry accounted for approximately R26 359 million in turnover in 2013. Of this, 32 per cent was exported directly. In the agricultural and wine processing value chain, R21 539 million in value was added to the R4 820 million output in the agricultural sector. This indicates a significant beneficiation factor in the wine industry value chain of 4.5 times the initial raw input (SAWIS, 2015). Tourism related to the industry then is estimated to generate an additional 23 per cent value added. This means that tourism-related activity in the wine industry can indirectly increase wine industry GDP output by a multiplier of 1.23 above the initial wine industry output.

The wine industry in the Western Cape added R19 287 million to the economy of the Western Cape and through linkages with the rest of South Africa, R36 145 million to the country (SAWIS 2015). Estimates indicate that a total of 167 494 workers were employed in the wine industry in the Western Cape. The total number employed has decreased by -0.4 per cent from 2008 to 2013, with the greatest decrease in unskilled employment by -5.2 per cent and with an increase of 16.2 per cent in skilled employment. There is a strong indication of mechanisation by farmers for all products and this is especially evident in the wine industry. Using GDP contribution per region, it is estimated that the CWD employs 133 995 workers in the wine industry, which constitutes 80 per cent of employment in the wine industry of the Western Cape.

Figure 3.6 Employment in the wine industry, Western Cape, 2008 and 2013

Source: Quantec Research

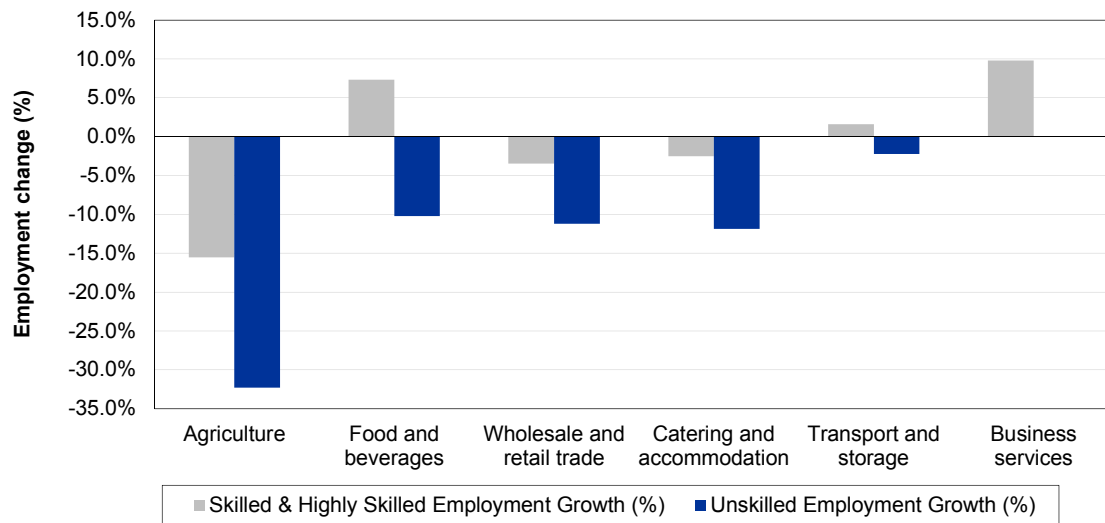
Figure 3.7 shows the relative change in employment in wine and tourism-related activities during the 2005 to 2013 period. The declines in agriculture are most noticeable and originate in the unskilled workforce as depicted in Figure 3.8.

Figure 3.7 Employment in wine and tourism-related activities, Cape Winelands District, 2005, 2010 and 2013

Source: Quantec Research

The CWD experienced a decline of 32.3 per cent in unskilled labour in agriculture from 2005 to 2013. Skilled employment has increased slightly in the transport and storage and business services sectors during the same period.

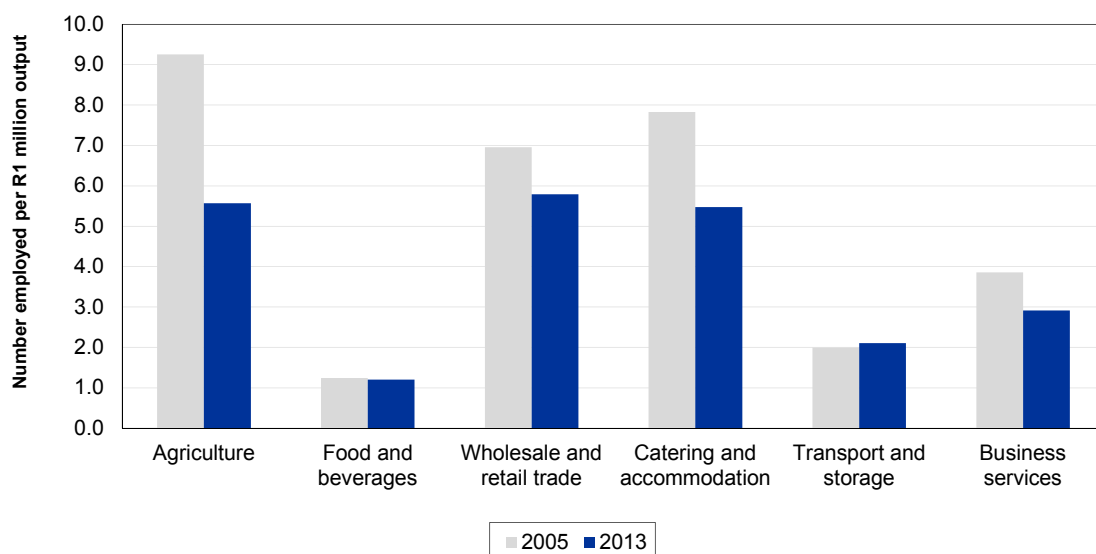
Figure 3.8 Employment change comparison between skilled and unskilled workers related to the wine and tourism industries, Cape Winelands District, 2005 - 2013



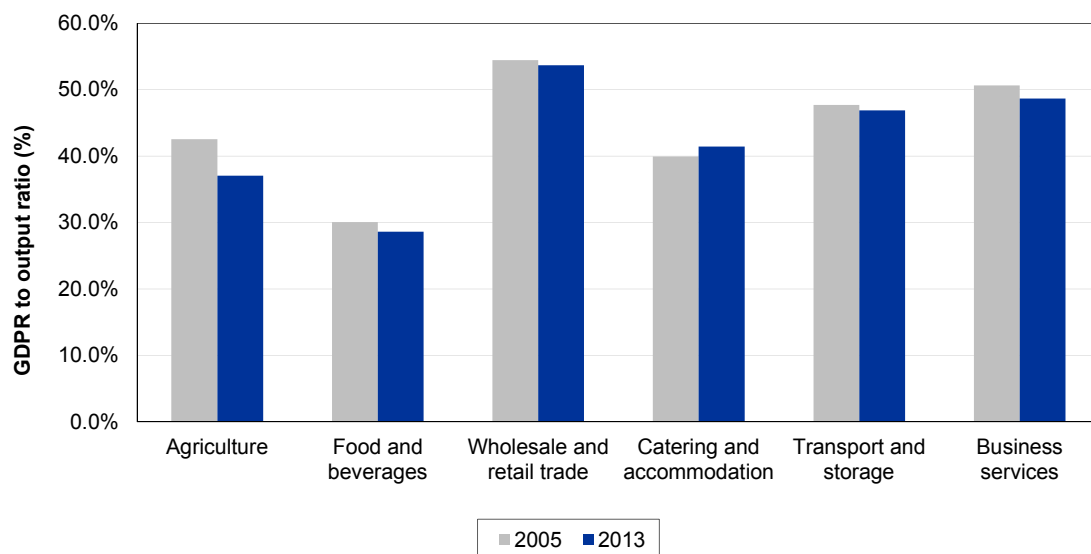
Source: Quantec Research

Considering the number employed per R1 million output, in Figure 3.9, it is possible to identify sectors with higher potential for employment generation. Unfortunately the sector in the CWD with the highest potential for employment generation per unit of output is the agricultural sector. This sector has seen significant losses in employment and the number employed per R1 million output has declined significantly from 2005 to 2013. The declines in employment to output can be explained by technology, mechanisation and more efficient business practices. When comparing the declines in the employment to output ratio and then comparing to the GDPR to output ratio in Figure 3.10, it is noticeable that the level of GDPR has not declined significantly in comparison to employment.

Figure 3.9 Number employed per R1 million output, Cape Winelands District, 2005 and 2013



Source: Quantec Research

Figure 3.10 GDPR to output ratio, Cape Winelands District, 2005 and 2013

Source: Quantec Research

Output levels in the tertiary sectors have risen substantially from 2005 to 2013, with less growth evident in the agricultural and especially the food and beverages sector. Growth in output and GDPR in catering and accommodation has significantly outpaced the growth in employment in the sector. GDPR growth has outpaced output growth and stands at 63.2 per cent from 2005 to 2013. This shows there is significant potential to target this industry with employment generating initiatives as the GDPR to output ratio has shown positive growth from 2005 to 2013. The relative decline in the ratios in the agricultural sector, however, indicates that there is significant pressure on the production process and targeting employment initiatives in this sector may not be successful, as the private sector does not have the capacity to absorb additional employment.

3.5 Concluding remarks

The potential for the CWD to derive benefits from the tourism sector is evident by the strong linkages the tourism industry has to many sectors in the economy. This is most notable for the trade, transport and accommodation sectors. The high quality production of wine in the district is a major draw-card for tourists and tour operators are seeing increasing number of tourists entering the CWD to sample the distinct local wines and brandies. These products have taken advantage of the quality perception of local brands with geographic indicators. Local wines and brandies have become renowned at an international level and are attracting significant attention and tourists to the CWD.

Wines of South Africa (WOSA), has been extensively promoting South African wines on the international market through trade shows and expos. They are also involved in the Great Wine Capitals network which includes Bordeaux, Florence, Mainz, Mendoza, Porto and Cape Town.

The Department of Agriculture has also identified the potential for increasing linkages to Angola and China, in terms of exposing our local agricultural products to these markets. Exposure to the growing African market is particularly lucrative with the strong growth in the upper middle class in oil and gas producing countries, such as Angola, Mozambique, Nigeria and Kenya.

Potential also exists in the CWD for establishing conditions similar to those in SEZs. The decline in agricultural output and employment is indicative of a sector that may need support. The food and beverage processing sector has also not shown much improvement in the past decade. This also indicates that possible initiatives or incentives suggested in Figure 3.2 could be utilised to assist the local value chain in the wine industry. Assisting local tour operators in a similar manner will also contribute to the GDP generated in the tourism and wine industry.

4

Infrastructure spending: Review and analysis

4.1 Introduction

Basic services are defined as those services necessary to ensure an adequate standard of living for the inhabitants of a municipality. These services include the provision of water, electricity and housing, as well as waste management and waste water management.

Access to public services is a basic right of all South African citizens. As embodied in the White Paper on Local Government, municipalities, in conjunction with the provincial and national spheres of government, have been mandated to provide these services. Given the high levels of inequality and poverty prevalent within the post-apartheid environment, and in conjunction with the introduction of a number of programs aimed at the addressing these issues including the RDP, GEAR, AsgiSA and currently the National Development Plan (NDP), the role of local government in remedying the apartheid legacies and in contributing to an environment conducive to growth and employment has grown substantially. The white paper on local government prioritises the provision of a basic level of household services as one of the key mechanisms through which municipalities will operate in order to affect improvements in the level of inequality and poverty.

Municipalities would not be able to perform this mandate without the proper systems in place to facilitate the provision of basic services. Sufficient investment in the municipal infrastructure which encompass these systems are thus necessary. In addition to raising the standard of living of those to whom these services are rendered, a number of studies have found that increased basic infrastructure delivery has a positive effect on economic growth; and, conversely, higher economic growth affords more successful infrastructure investment. With health being a determinant of labour productivity, both qualitative and quantitative improvements in sanitation, the

water supply and sewage services would have positive spillover effects on economic growth. It has been shown how increasing basic infrastructure by 1 per cent could lead to a 0.36 per cent increase in GDP per capita in rural municipalities and a 0.33 per cent increase in GDP per capita in urban municipalities in South Africa.⁴

Basic service infrastructure thus facilitates the establishment of an environment in which development and growth can be more effectively pursued. It is nevertheless important to note that, for the attainment of robust or continued growth, increased investment in infrastructure of this kind cannot be relied upon in isolation. The economic environment in which the Municipality operates is unique to that region, and as such, infrastructure needs vary accordingly. Proper planning, sound project selection and effective implementation of these infrastructure ventures will thus improve both the scale and resilience of the resultant spillovers. It is also essential that the infrastructure (both old and new) is properly maintained (through both effective demand and supply management) if the economic benefits of these investments are to be realised more fully.

Because of the role that basic service infrastructure expenditure plays in attaining local social and economic development, a number of sources (including Quantec and the municipal A-schedules among others) are used to gauge trends in municipal infrastructure expenditure and expenditure predictions, and the resulting impact on basic service delivery will be assessed.

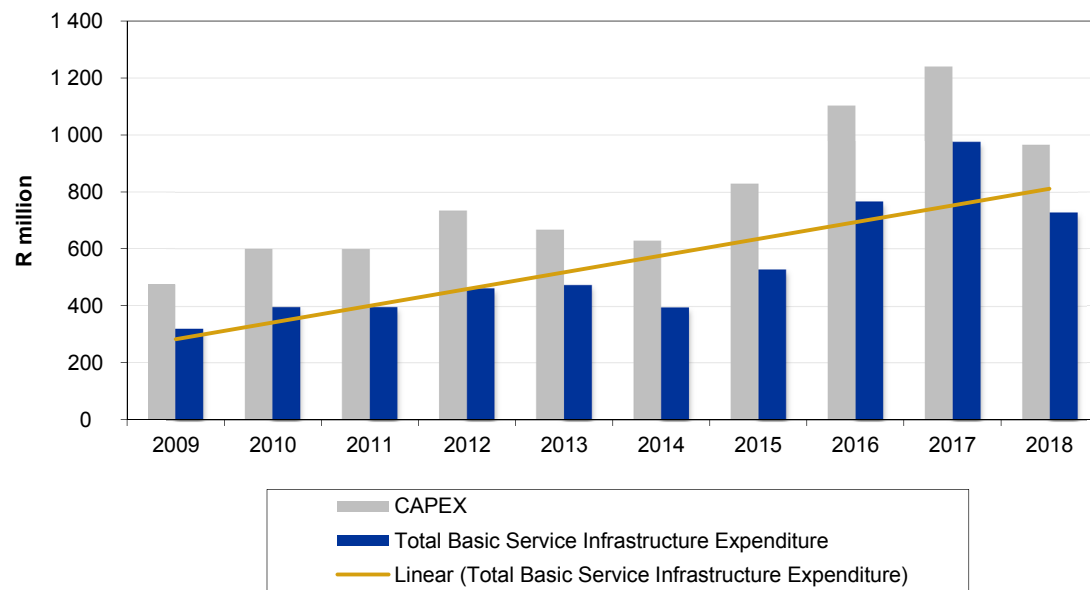
4.2 Infrastructure development

4.2.1 Overview of municipal expenditure trends in the Cape Winelands District

With the growing emphasis being placed on infrastructure investments as a means of facilitating economic growth, as embodied in the National Infrastructure Development Plan, it is essential that municipalities prioritise their budgets accordingly.

⁴ Gnade, H. (2013). *Basic infrastructure delivery and its welfare effect on rural and urban municipalities*. Paper to be presented at the conference of the Economic Society of South Africa, Bloemfontein, September.

Figure 4.1 Total capital expenditure vs basic service infrastructure expenditure: 2009 – 2018: Cape Winelands District



Source: Western Cape Provincial Treasury

The portion of the capital expenditure budget spent on basic services infrastructure has varied significantly (see Figure 4.1). Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure expenditure ranges from 71 per cent in 2012/13 to 63 per cent in 2013/14. The 2015 budget planned for a small increase in the portion of the capital expenditure budget spent on basic services infrastructure. The portion of the capital expenditure budget allocated to infrastructure expenditure is expected to increase to 70 per cent in 2015/16 and then 79 per cent in 2016/17 before decreasing to 76 per cent in 2017/18. As Figure 4.1 shows, the CWD budgets for a strong increase in basic services infrastructure investment over the MTREF period.

The importance of basic services infrastructure investment as a vehicle for improving local economic development cannot be overemphasised. Hence the decreases in both the capital expenditure budget and basic services infrastructure investment observed over the 2013/14 financial year are a cause for concern. This decrease in basic services infrastructure investment is visible across most of the CWD municipalities. The highest percentage decrease in basic services infrastructure expenditure from 2012/13 to 2013/14 was recorded in Witzenberg Municipality (43 per cent) followed by Drakenstein (23 per cent), Breede Valley (12 per cent), Stellenbosch (4 per cent) and Langeberg (2 per cent).

Basic services infrastructure expenditure was higher in Stellenbosch and Drakenstein Municipalities contributing 33 per cent and 30 per cent respectively to total basic services infrastructure expenditure in 2013/14 and 31 per cent and 34 per cent respectively to GDPR in the region in 2013. Witzenberg and Langeberg municipalities each accounted for 7 per cent and 9 per cent respectively of the total basic services infrastructure expenditure in 2013/14 and contributed 9 per cent and 11 per cent respectively to the region's GDPR in 2013 (see Table 4.1).

From Table 4.1 it is clear CWD municipalities vary enormously on how much they spend on basic services infrastructure and by how much it grows yearly. This reflects a wide array of financial and demographic factors faced by each municipality. Drakenstein and Stellenbosch municipalities not only lead the pack in terms of contribution to basic services infrastructure expenditure and GDPR but also in terms of basic services infrastructure expenditure per person within the region, spending R507 and R720 respectively per capita in 2014. In contrast, Witzenberg Municipality recorded the smallest basic services infrastructure expenditure per capita and also contributed the least to GDPR within the region. Breede Valley and Langeberg each spent R465 and R374 per capita respectively on basic services infrastructure expenditure in 2014. It would appear that municipalities that make the highest contributions to GDPR also make the highest contributions to basic services expenditure for the region.

Table 4.1 Cape Winelands District basic service infrastructure expenditure as % of total CWD expenditure⁵

Municipality	GDPR share 2013	2010	2011	2012	2013	2014	2015	2016	2017	2018
Witzenberg	9%	5%	8%	8%	11%	7%	8%	5%	7%	7%
Drakenstein	31%	35%	40%	45%	36%	33%	39%	33%	50%	62%
Stellenbosch	34%	20%	16%	30%	26%	30%	33%	46%	35%	19%
Breede Valley	15%	26%	30%	13%	19%	20%	11%	12%	6%	7%
Langeberg	11%	14%	6%	4%	8%	9%	8%	4%	3%	5%
Total	100%⁶	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Western Cape Provincial Treasury and Quantec Research

Table 4.2 Cape Winelands District basic service infrastructure expenditure per budget line item, 2014

Budget line item	Breede Valley	Drakenstein	Langeberg	Stellenbosch	Witzenberg	Total
Housing	1%	0%	21%	10%	0%	5%
Electricity	11%	15%	21%	25%	10%	17%
Water	71%	31%	44%	32%	34%	41%
Waste Water Management	17%	52%	9%	32%	51%	35%
Waste Management	1%	0%	5%	0%	5%	1%
Total	100%	100%	100%	100%	100%	100%

Source: Western Cape Provincial Treasury

Due to the significant budgetary constraints facing municipalities, and considering the specific needs of the inhabitants of the respective municipalities, it is essential that funds are allocated toward those projects which would have the most significant effect on economic growth.

As shown in Table 4.2 waste water management and water provision were the largest basic services infrastructure expenditure items in the CWD, each taking up 35 per cent and 41 per cent respectively of the total basic services expenditure within the region in 2013/14. Water provision and waste water management are the highest

⁵ Basic services infrastructure expenditure is calculated per financial year.

⁶ Cape Winelands District Municipality contributes the remaining 1 per cent to the regions' GDPR.

basic services infrastructure expenditure items in most of the CWD municipalities. Langeberg Municipality allocated close to 86 per cent of its basic services infrastructure expenditure on housing, electricity and water provision. Water provision was the highest expenditure item in Breede Valley (71 per cent). This high expenditure is presumably due to the current rate of burst water pipes experienced within the region (i.e. 53 burst water pipes per 100 km of network). Waste water management was the highest expenditure item in Drakenstein (52 per cent), Stellenbosch (32 per cent) and Witzenberg (51 per cent). Stellenbosch Municipality is the second oldest town in South Africa and has a pressing need to step up infrastructure repair and maintenance in bulk water provision and waste water management. In Stellenbosch Municipality 38.6 per cent of its water and 43 per cent of its sanitation infrastructure is in a poor condition. The Municipality recognises the limitations posed by its capital budget in addressing these challenges.

Waste management and housing accounted for 1 per cent and 5 per cent respectively of the total basic services expenditure within the region in 2013/14. A notable point is that Stellenbosch Municipality contributed the most to total housing expenditure within the district (57 per cent of the district's total housing expenditure). Langeberg Municipality contributed the most to total waste management within the district (38 per cent). Whilst Stellenbosch and Langeberg made the highest contributions to housing and waste management in the district, Drakenstein Municipality spent less than 0.5 per cent of its basic infrastructure expenditure on housing and waste management. The lack of suitable well located housing land in Breede Valley is presumably the reason why the Municipality also spent the smallest portion of its total basic services expenditure on housing infrastructure.

Electricity took up 11 per cent of the total basic services infrastructure expenditure within the region in 2013/14. The relatively smaller contribution made by electricity to basic services infrastructure investment could be a result intergovernmental arrangements. For example Local Government and Eskom are both responsible for the supply of electricity, hence Eskom also makes investments in electricity infrastructure.

4.2.2 Basic service infrastructure investment and economic growth

Economic theory illustrates that investment in economic infrastructure supports economic growth both directly, through capital accumulation, and indirectly through improved factor productivity⁷. A key mechanism through which the South African Government aims to accelerate economic growth is through infrastructure investment particularly for basic services. Infrastructure is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. Access to basic necessities such as housing, water, sanitation and refuse removal is a prerequisite for economic growth.

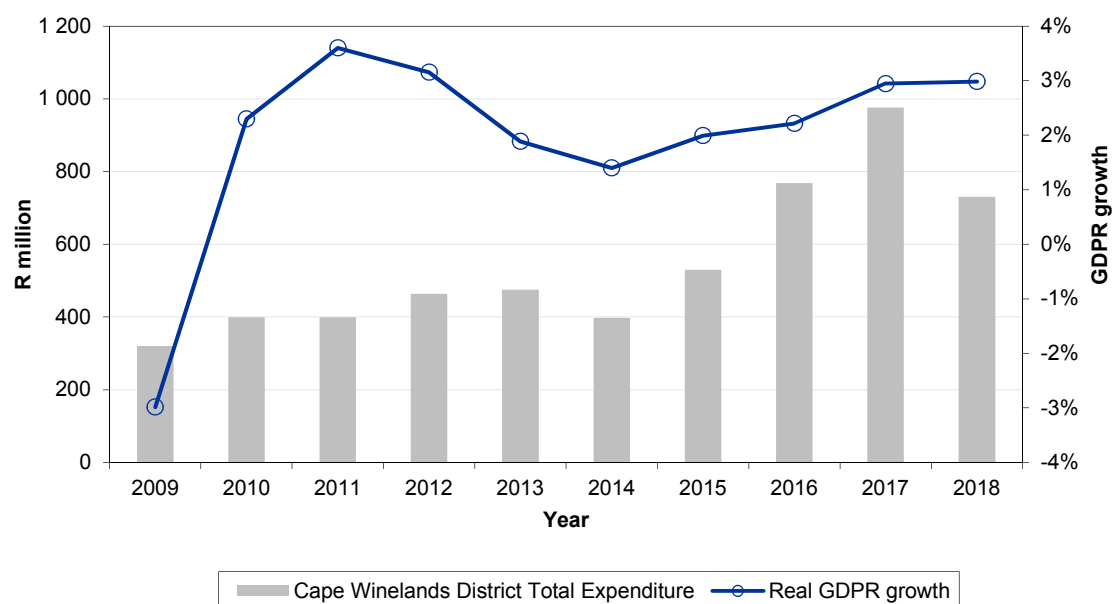
⁷ Fedderke, J.W., & Bogetić, Ž. (2009). Infrastructure and growth in South Africa: Direct and indirect productivity impacts of 19 infrastructure measures. *World Development*, 37(9), 1522-1539.

Figure 4.2 provides an approximation of the relationship between infrastructure expenditure and economic growth. Over the period 2009 to 2013 the CWD experienced years of high growth in basic services infrastructure expenditure averaging 10.8 per cent per year. This period was followed by a 16.3 per cent decline in basic services expenditure in 2014.

The CWD economy showed signs of recovery from a contraction of 3 per cent in 2009 to a growth of 2 per cent in 2010. However, since 2011 it has tapered down markedly from 4 per cent to a paltry 1.4 per cent in 2014. It appears that the year 2014 not only recorded a substantial decrease in basic services infrastructure expenditure but also the lowest GDP growth rate over the 2009/10 to 2013/14 period. The decline in actual infrastructure spending could have had a direct negative impact of GDP; however, there are also longer term repercussions, particularly should the slowdown become a new trend.

It is important to note the role played by time lags in between basic services infrastructure investment and the resulting impact on economic growth. Infrastructure investment will have both a direct and an indirect effect on GDP. Whilst the direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDP the indirect effect is a result of multiplier or knock-on effects within the economy.

Figure 4.2 GDP growth vs total basic service infrastructure expenditure: 2009 - 2015



Source: Western Cape Provincial Treasury

The ratio of basic infrastructure investment to GDP is an important indicator of the districts' performance in basic services infrastructure investment. During the period 2008/09 to 2012/13 the ratio of basic services infrastructure investment to GDP showed a consistent upward trend. The ratio rose from 1.2 per cent in 2008/09 to 1.6 per cent in 2012/13. The year 2013/14 can be considered as a year of a basic services infrastructure investment slump. During this period the ratio of basic services

infrastructure investment to GDPR fell to 1.3 per cent. The 2015 budget planned for a recovery in this level of basic services infrastructure spending.

The different basic services infrastructure expenditures have made differing contributions to GDPR growth within the CWD municipalities. Water and electricity also contributed to GDPR within the region. From Table 4.3 it is clear that the water sector grew at a faster rate within the CWD. The growth in the water and electricity sector is notable, with the sector growing above the average growth rate for the non-metro districts. Table 4.3 shows that 87 per cent of the CWD's water sector is located in the two leading municipalities, Stellenbosch and Drakenstein municipalities. These municipalities also lead in terms of growth vis-à-vis Langeberg, Witzenberg and Breede Valley which trail behind in terms of growth within the water sector. The leading contribution to the electricity sector is Drakenstein, followed by Breede Valley, Witzenberg, Stellenbosch and then Langeberg. Although Breede Valley makes meaningful contributions to the electricity sector the Municipality experienced sharp contractions within the sector.

Table 4.3 Cape Winelands District: Water and electricity GDPR composition by municipality, 2013

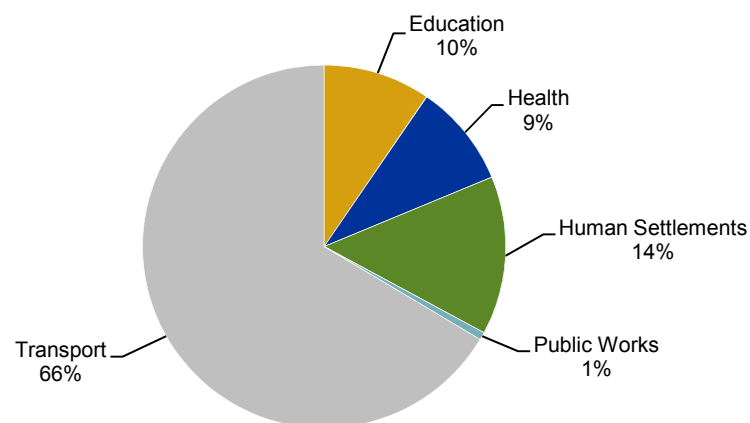
Municipality	Electricity		Water	
	% share	Ave growth 2000 - 2013	% share	Ave growth 2000 - 2013
Witzenberg	16%	3.0%	6%	3.6%
Drakenstein	43%	6.6%	51%	6.4%
Stellenbosch	15%	5.3%	36%	4.9%
Breede Valley	17%	-6.2%	4%	-6.7%
Langeberg	9%	-0.6%	3%	0.0%
Total	100%	0.8%	100%	3.8%

Source: Quantec Research

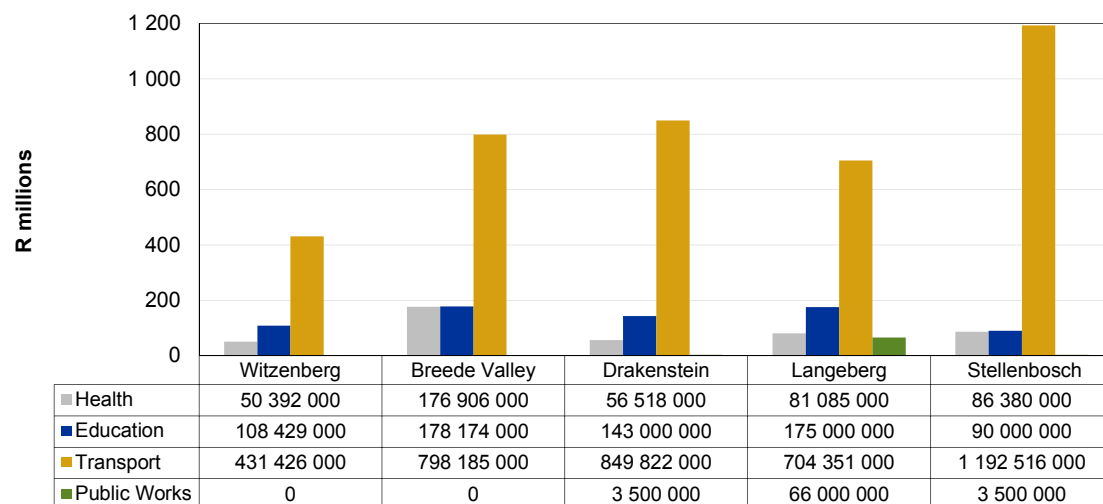
The growth rate of the electricity sector over the period 2010 - 2013 of 0.6 per cent is a reflection of the current infrastructure challenges in the sector and the impact these infrastructure challenges have on economic growth. These infrastructure issues in turn have had ripple effects on the productivity of a variety of industries. Therefore it is important for government to address these issues and accelerate basic services infrastructure investment.

4.2.3 Western Cape Government infrastructure spending in the Cape Winelands District

Apart from infrastructure expenditure the CWD municipalities are mandated to do, the Western Cape Government (WCG) has other mandates such as education, health, roads and public works infrastructure spending. The 2015 - 2018 budget shows that the WCG will be spending on various infrastructure projects across all districts – see Figure 4.3 for a breakdown of the WCG's planned infrastructure expenditure projects for education, health, roads and human settlements in the West Coast. Figure 4.4 shows a breakdown per municipality in the region.

Figure 4.3 Composition of WCG infrastructure expenditure - Cape Winelands District

Source: Provincial Treasury Infrastructure Unit

Figure 4.4 WCG Expenditure on infrastructure – Cape Winelands District, 2015 - 2018

Source: Provincial Treasury Infrastructure Unit

Figure 4.3 shows that transport infrastructure projects received the bulk (i.e. R2.3 billion or 66 per cent) of the allocations from the WCG for the period 2015 - 2018, followed by human settlements (R625.9 million or 14 per cent) and education (R384.2 million or 10 per cent). Health infrastructure projects have been allocated R218.2 million or 9 per cent of the CWD total infrastructure expenditure by the WCG.

Figure 4.4 shows transport infrastructure projects receive the largest budget allocations in all five municipalities in the District, with Stellenbosch leading at R1.2 billion over the MTREF period, followed by Drakenstein (R849.8 million), Breede Valley (R798.2 million), Langeberg (R704.4 million), and Witzenberg (R431.4 million). In Stellenbosch, Breede Valley, Langeberg and Drakenstein education projects receive the second highest allocation; health is also allocated noteworthy amounts in these municipalities. This infrastructure expenditure by the WCG is expected to unlock economic potential in the CWD.

4.3 Basic services infrastructure and access

In order to effectively realise the positive spillovers resulting from investment in basic service infrastructure, it is essential that these increased capital expenditures are translated into the delivery of services. As Government strives to achieve universal access to basic services it is important to obtain an understanding of our current status in basic services delivery in order to develop appropriate interventions. Statistics South Africa, through the annual Non-financial Census of municipalities, tracks the levels of service delivery within municipalities in the country. The diverse nature of our municipalities in terms of their financial capacity and administrative capabilities requires a differentiated set of policies and interventions to improve service delivery and cope with growing demand.

Table 4.4 Cape Winelands District access to basic services trend; change in number of consumer units: 2009 - 2014

Municipality	Water	Electricity	Sewer and Sanitation	Refuse
Breede Valley	3 143	-4 447	5 680	5 427
Drakenstein	-3 844	9 500	-3 003	-3 401
Langeberg	585	2 241	744	758
Stellenbosch	9 651	6 281	-4 004	971
Witzenberg	2 800	519	2 617	2 105
Total Cape Winelands District	12 335	14 094	2 034	5 860
Western Cape Province	233 800	51 985	102 895	-42 615
South Africa	1 797 335	2 177 095	1 255 080	662 690

Source: Stats SA: Non-financial Census of Municipalities

Table 4.4 shows the changes in the number of consumer units⁸ with access to basic services from 2009 to 2014. According to the 2011 Census the highest increases in the country were recorded in the provision of electricity. The Western Cape Province recorded the highest increases in the provision of water. The highest increase in CWD was recorded in the number of consumer units with access to electricity. Whilst Breede Valley recorded a decrease in the number of consumer units with access to electricity, this decrease was off-set by the increases recorded in the rest of the CWD municipalities. Increases in electricity tariffs and the growth of informal settlements, where the main energy source is paraffin and candles, are the main contributing factors to the decline in electricity usage.

Increases in the number of consumer units with access to sewer and sanitation recorded the smallest change within the district. Whilst Stellenbosch and Drakenstein municipalities both recorded decreases in the number of consumer units with access to sewer and sanitation between 2009 and 2014, Breede Valley Municipality made the leading contribution. A notable fact is that between the years 2009 to 2014, Drakenstein Municipality recorded a decline in consumer units with access to all utilities except electricity.

⁸ A consumer unit is the term used to refer to a billing unit provided services by the Municipality.

The varying number of consumer units with access to basic services is a reflection of differing demographic circumstances of each municipality and the number of consumer units that fall within each municipality's jurisdiction. The main obstacle to accelerating basic services delivery in the region is a growing population, ageing infrastructure and limited finance. Although municipalities potentially have a wide array of financial instruments to use in meeting their service delivery responsibilities, they do rely mostly on revenue from services rendered. As such the next section analyses municipal revenue trends in the CWD.

4.4 Municipal revenue trends in the Cape Winelands District

In order to sustain economic growth and preserve the standard of living of the inhabitants of the District, both quantitative and qualitative improvements to the stock of basic service infrastructure need to be maintained. It is essential that the infrastructure (both old and new) is properly preserved if the economic benefits of these investments are to be realised more fully. One source through which the maintenance and improvement of basic service infrastructure can be funded is from the charges levied for the basic services rendered by the Municipality via this infrastructure. The revenue generated from these sources often makes up a significant portion of the Municipality's total revenue, and tends to fluctuate along with the economy.

Table 4.5 illustrates the percentage change in revenue generation from property rates and trading service charges per municipality in the CWD. Since 2010 revenue generation has shown a consistent upward trend across all municipalities albeit at differing rates. As is the case with basic service infrastructure expenditure, Drakenstein and Stellenbosch municipalities make the largest contributions to revenue generation within the district. A notable fact is that although Witzenberg Municipality contributed the least to revenue generation within the district in 2013/14, the Municipality recorded one of the highest percentage changes in revenue generation over the period 2012/13 to 2013/14. CWD revenue grew by an annual average rate of 13 per cent between 2009/10 and 2013/14.

Table 4.5 Cape Winelands District: Percentage change in revenue generated per municipality, 2009 - 2018

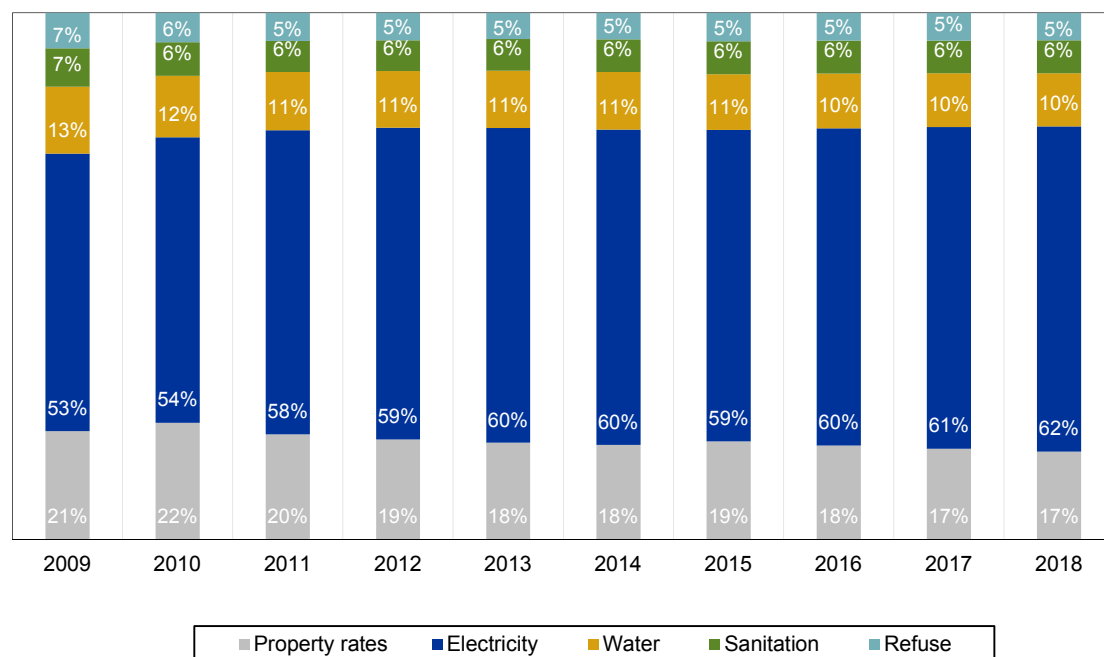
Municipality (% change)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Witzenberg	22%	14%	17%	15%	8%	10%	9%	10%	10%
Drakenstein	18%	16%	12%	16%	6%	15%	14%	11%	11%
Stellenbosch	32%	15%	4%	9%	8%	9%	9%	9%	10%
Breede Valley	14%	18%	15%	15%	5%	6%	10%	6%	6%
Langeberg	12%	16%	15%	10%	7%	12%	12%	11%	7%
Total Cape Winelands District	21%	16%	11%	13%	7%	11%	11%	10%	9%

Source: Western Cape Provincial Treasury

Revenue growth was highest during 2000 - 2011 fiscal years when real economic growth was higher too; thereafter (2012 - 2014) economic growth and revenue growth tapered off. The district forecast indicates that revenue collected from property rates and trading services will increase over the 2015/16 MTREF.

Figure 4.5 illustrates the contribution of property rates, electricity, water, sanitation and refuse revenue toward total revenue generated from the rendering of basic services in the CWD. The graph shows that over the 2008/09 to 2013/14 financial period electricity revenue contributed the most to total revenue generated within the region whilst refuse revenue contributed the least. Since 2008/09 the contribution made by revenue from electricity has increased slightly alongside a slight decrease in revenue from property rates. The differences in revenue collected from property rates and other trading services may be a result of differing tariff price structures for property rates and trading services.

Figure 4.5 Cape Winelands District: Service charges as a % of total revenue generated from basic services rendered



Source: Western Cape Provincial Treasury

Local municipal property rates charges are levied according to the municipal property rates act and rates policy and are based on the property market values. Property rates tariff, rebates and concessions are then applied depending on the property usage. The projected revenue from other basic services is based on current and past consumption trends, number of households receiving the services and current economic conditions. The increases are necessary to address infrastructure maintenance requirements and ensure sustainable service delivery. The District forecast indicates that revenue generation from property rates and trading services will follow the same trend with electricity contributing the most to revenue followed by property rates, water and then sanitation and refuse removal revenue.

Table 4.6 shows the municipal composition of GDPR in 2013 and the average real GDPR growth for the local municipalities over the period 2005 - 2013. This is compared to the share of revenue generated from basic services rendered per municipality in 2013/14.

Drakenstein Municipality made the largest contribution to revenue collection (37 per cent) for the district and GDPR (31 per cent) but grew at 3.0 per cent; below the average GDPR growth for the district (3.5 per cent). Stellenbosch Municipality contributed the highest to GDPR (34 per cent), recorded the highest GDPR growth rate (4.7 per cent) and contributed 26 per cent to revenue collected from basic services within the district. A notable point is that although Langeberg recorded the second highest GDPR growth rate within the district (4.2 per cent) the Municipality contributed 11 per cent to revenue collection and GDPR shares within the district. This relatively smaller contribution to revenue collection despite an above average GDPR growth rate presumably reflects a relatively small tax base.

The difference in revenue collection across the municipalities is a reflection of the municipalities' revenue base, tariff price structures and the administrative capabilities of municipalities to collect revenue. The revenue base is influenced by economic and demographic factors such as income levels and number of indigent consumers. In Breede Valley Municipality 38 per cent of the households are classified as indigent. According to the 2011 Census, 9.7 per cent of households in Langeberg Municipality had no income. These high levels of poverty put strain on municipal resources in the provision of free basic services.

Table 4.6 Cape Winelands District GDPR growth vs revenue shares in 2013/14

Municipality	Revenue % share	GDPR % share	GDPR growth 2005 - 2013
Witzenberg	9%	9%	2.7%
Drakenstein	37%	31%	3.0%
Stellenbosch	26%	34%	4.7%
Breede Valley	17%	15%	2.1%
Langeberg	11%	11%	4.2%
Total Cape Winelands District	100%	100%	3.5%

Source: Western Cape Provincial Treasury and Quantec Research

Basic services revenue contributes more than 60 per cent of the total operating revenue within each municipality within the CWD, ranging from 68 per cent in Witzenberg to 84 per cent in Stellenbosch. It therefore follows that basic services revenue is an important source of revenue and municipalities must do more to exploit the potential of these revenue sources.

It is imperative that every effort must be made to ensure the municipalities practice accurate billing and revenue collection (revenue management) and also to ensure every parcel within its jurisdiction is accounted for (revenue enhancement). This analysis of revenue trends confirms the need to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services.

4.5 Concluding remarks

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. The data presented in this chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the CWD.

Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly. It is evident that the year 2014 not only recorded a decrease in basic services infrastructure expenditure but also the lowest GDPR growth rate over the 2009/10 to 2013/14 period. Waste water management and water provision were the largest basic services infrastructure expenditure items in the CWD in 2014 whilst waste management was the smallest.

The districts' two leading municipalities make the largest contributions to expenditure on basic services infrastructure and revenue collection from basic services. Whilst it is evident that municipalities that make the highest contributions to GDPR within the region also make the highest contributions to basic services expenditure for the region this is not true for revenue collected from basic services within the region. The analysis revealed that although Langeberg is the second fastest growing municipality within the region it is ranked fourth in terms of contribution to revenue generated from basic services infrastructure within the district. This relatively smaller contribution to revenue collection despite an above average GDPR growth rate presumably reflects a relatively small tax base within the Municipality. It is important that every effort be made to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services.

5

Socio-economic analysis and economic performance

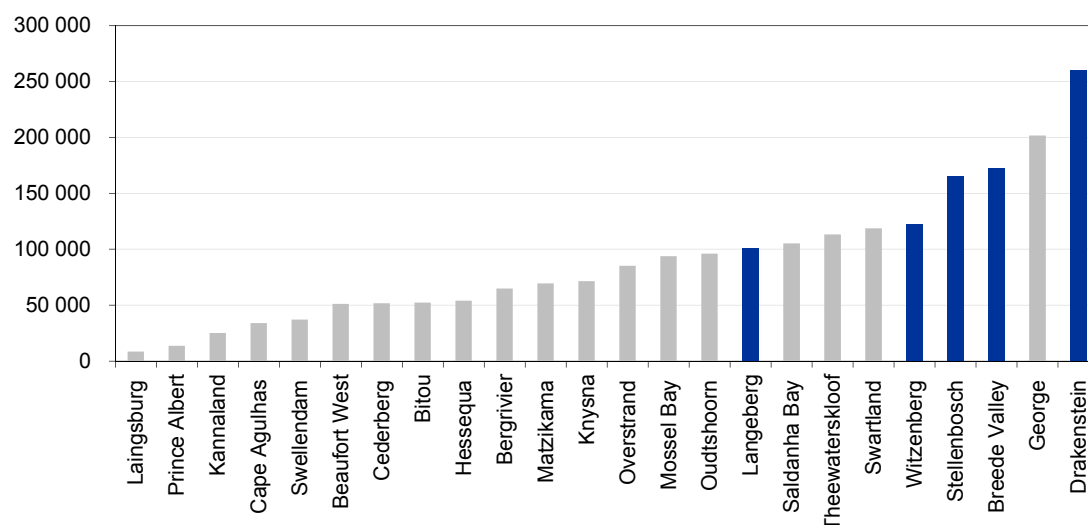
5.1 Introduction

The 2014 Municipal Economic Review and Outlook (MERO) provided a socio-economic analysis of each Western Cape district region. This is important as the analysis showed the relationship between economic growth and social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact the economy has on it. The 2015 MERO study aims to do the same, with a larger focus on the quality of life.

The chapter creates a link between economic performance and the information provided in the Socio-economic Profiles of 2014, as released by the Western Cape Provincial Treasury. The socio-economic analysis will cover topics relating to human development, i.e. income, education and health, as well as crime and access to basic services within the district. Each topic is discussed in relation to the District's economic performance.

5.2 Population profile

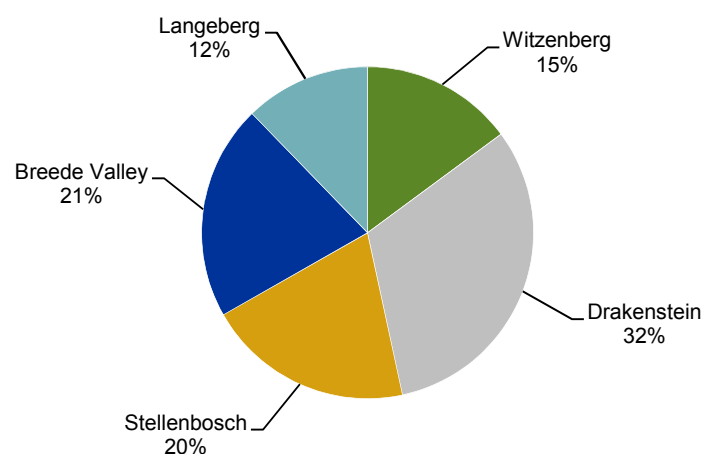
According to the Western Cape Department of Social Development the Western Cape Province had 6.1 million people in 2014, having increased from 4.5 million in 2001. This translates to an average population growth rate of 2.3 per cent per annum. The population growth rates experienced within the CWD mirror this upward trend, with population growth within the 5 local municipalities ranging from 1.3 to 3.1 per cent per annum from 2001 to 2013.

Figure 5.1 Population by local municipality, 2014

Source: Western Cape Department of Social Development, 2014

As at the end of 2014, the CWD population represented 13.7 per cent of the total population of the Western Cape, making it the largest district (excluding the City of Cape Town), with all its municipalities being among the 10 largest local municipalities in the Province.

The Drakenstein and Breede Valley populations comprise 53 per cent (Figure 5.2) of the District's population of 820 695, with each containing 260 472 and 172 268 inhabitants. The remaining 47 per cent of the CWD population is split between Stellenbosch with 165 266, Witzenberg with 122 146 and Langeberg with 100 543 inhabitants.

Figure 5.2 Cape Winelands District population distribution, 2014

Source: Western Cape Department of Social Development, 2014

It is essential to consider the distribution of the population in order to ensure that funds are apportioned and services are delivered as and where necessary. As population increases exert further strain on municipal resources, it is desirable that population growth be accompanied by at least as fast a rate of growth in income if standards of living are to be maintained (see section 5.3.1).

5.3 Human development

Human development is described by the *United Nations Development Programme (UNDP)* as widening people's choices and their level of well-being. The UNDP (2010) further indicates that human development is achieved by means of two dimensions namely, enhancing human abilities as well as creating the conditions for human development. Enhancing human abilities is created by means of enabling people to live a long and healthy life, obtain knowledge and possess a decent standard of living; whereas creating conditions for human development include participation in political and human life, environmental stability, gender equality, and human security and rights.

The Human Development Index (HDI) has been developed to measure human development. The index is a composite statistical index of life expectancy, education indices and income indices. In 2013 it averaged at 0.71 in the Western Cape Province, outperforming the National HDI of 0.66. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2013, largely due to the improving literacy rates and per capita income in the majority of the municipalities.

Table 5.1 Human Development Index, 2001 - 2013

	2001	2011	2012	2013
Witzenberg	0.54	0.62	0.63	0.63
Drakenstein	0.62	0.68	0.69	0.70
Stellenbosch	0.67	0.69	0.70	0.71
Breede Valley	0.58	0.65	0.66	0.67
Langeberg	0.55	0.63	0.64	0.65
Cape Winelands District	0.60	0.66	0.67	0.68
Western Cape	0.66	0.70	0.71	0.71

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

The same holds true for the CWD as seen in Table 5.1. All municipalities in the CWD have witnessed a significant improvement in human development. Stellenbosch has the highest HDI in the CWD and at 0.71 one of the highest in the Province. The high HDI can be attributed to its high GDP per capita and literacy rate. Witzenberg has the lowest HDI in the District with an index of 0.63. However, it has shown much improvement from 2001 and 2013.

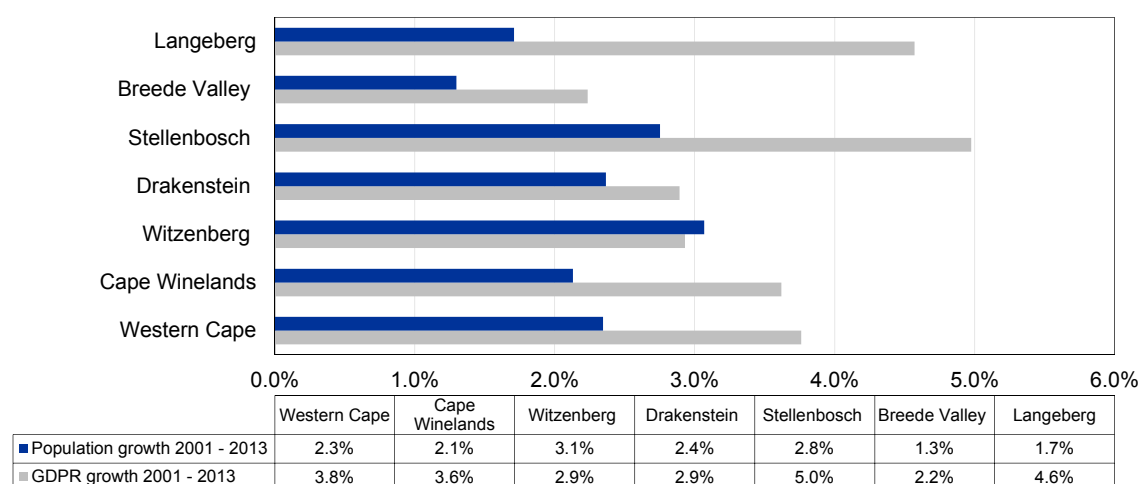
The relatively high HDI levels within the CWD indicate that economic growth is translated towards social development amongst the inhabitants of the region. However, this may not be equally distributed within the district. This is illustrated by the difference in HDI levels by race group within the CWD. The HDI is 0.59 for Africans, 0.63 for Coloureds, 0.76 for Asians and 0.89 for Whites. These point to relatively high levels of inequality in the region.

Sections 5.3.1 to 5.3.3 consider the various elements of human development relating to the HDI, e.g. income levels, education and health, each being discussed in relation to the economy.

5.3.1 Income

As noted, the average population growth rate in the Western Cape over the period 2001 - 2013 has been 2.3 per cent per annum. The Western Cape economy grew at a rate of 3.8 per cent per annum from 2001 to 2013. The fact that the regional economy grew faster than the population within the Province indicates that per capita income has increased over time, ensuring improving standards of living for its inhabitants. The per capita income (based on 2005 prices) increased from R37 502⁹ in 2001 to R44 553 in 2013¹⁰.

Figure 5.3 Cape Winelands District population and real GDP growth rate, 2001 - 2013



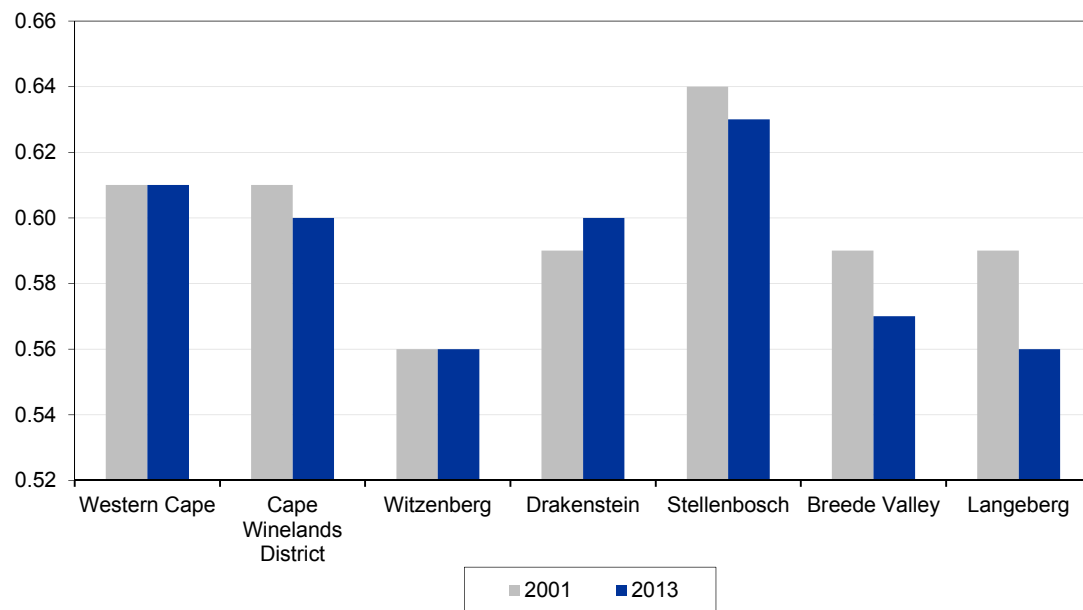
Source: Western Cape Department of Social Development, 2014 and Quantec, 2015

A closer look at the CWD indicates that per capita income is increasing in the region. As seen in Figure 5.3. This was much slower than its economic growth rate of 3.6 per cent, indicating an increase in the per capita income of the CWD inhabitants over this period. Real per capita income increased from R31 270 in 2001 to R37 206 in 2013.

According to the Western Cape Department of Social Development, the Witzenberg Municipality, amongst the municipalities within the CWD, had the highest population growth rate of 3.1 per cent per annum between 2001 and 2013. This population growth rate is more than double that of Breede Valley Municipality's (1.3 per cent). Discrepancies in population growth rates are evident across the Province. This indicates that population growth not only stems from natural causes, but is also largely due to net in-migration in certain areas. Furthermore, Witzenberg's economic growth rate, is lower than its population growth rate at 2.9 per cent indicating a decline in per capita income over time. Witzenberg is the only municipality in the CWD to experience declining levels of income per capita. This is largely due to its fast growing population. Stellenbosch had the largest increase in income per capita from 2001 to 2013, followed by Langeberg and Breede Valley. In each case the economy grew at much faster rate than the population.

⁹ Own calculations based on Western Cape Department of Social Development population statistics (2014) and Quantec GDP data (2015).

¹⁰ Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

Figure 5.4 Gini coefficients in the Cape Winelands District, 2001 - 2013

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

The per capita income indicates the average income per person within each municipal area. However, this is a skewed representation of income levels as incomes are not equally distributed amongst the inhabitants of the area. The Gini coefficient measures the levels of income inequality. The Coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents, varying between 0, which represents complete equality and 1, which represents complete inequality.

Figure 5.4 indicates that income inequality decreased marginally within the CWD from 0.61 in 2001 to 0.60 in 2013. Langeberg Municipality experienced the largest improvement in the Gini coefficient, and also the largest percentage increase in per capita income (40%). This suggests that the incomes of the poor may have increased over this period. Drakenstein is the only municipality that experienced an increase in income inequality, indicating that the benefits of the increasing per capita income are concentrated amongst the higher income groups.

The increasing income per capita in four of the five municipal regions in the District may lead to a further increase in the region's human development index. Inclusive growth needs to be achieved within the region to ensure a sustained improvement in the standard of living of all inhabitants of the CWD.

5.3.2 Education

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

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate of 80.9 per cent in the country as a whole. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the Provinces in the country between 2001 and 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth (Socio-economic Profiles, 2014). Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education in the past.

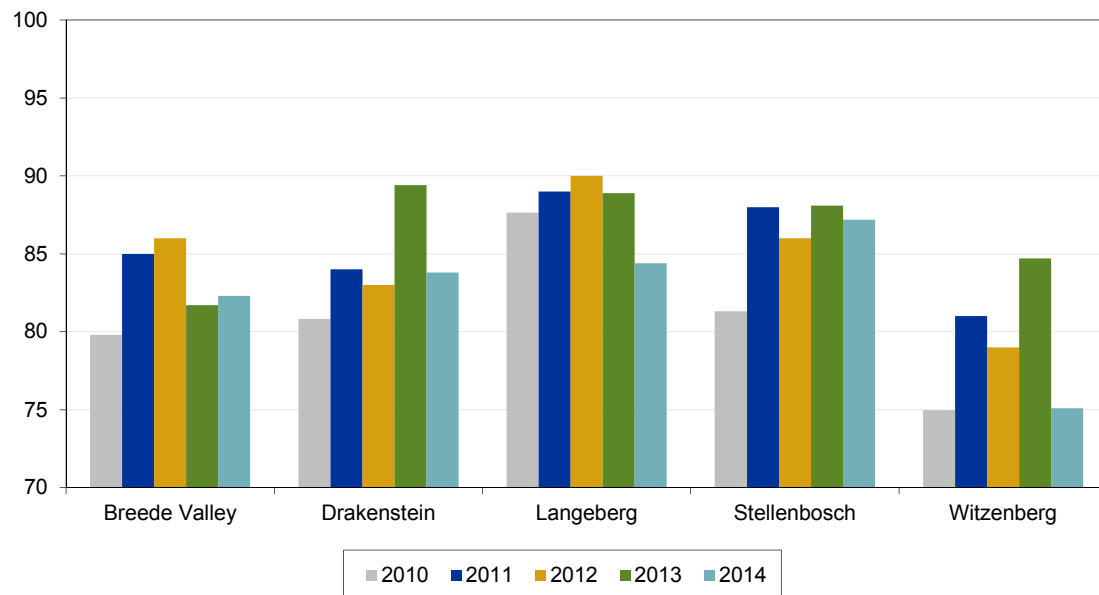
Literacy rates in the CWD of 81.7 per cent are lower than for the Province as a whole. Nevertheless all municipalities in the District showed an increase in their literacy rates between 2001 and 2011 (Table 5.2).

Table 5.2 Literacy rates across the Cape Winelands District municipalities, 2001 - 2011

	2001	2011
Western Cape	85.0%	87.2%
Witzenberg	65.0%	75.5%
Drakenstein	77.0%	84.8%
Stellenbosch	80.0%	84.9%
Breede Valley	71.0%	82.1%
Langeberg	62.0%	75.3%
Cape Winelands District	72.0%	81.7%

Source: Statistics South Africa, Census 2001 and 2011

Matric pass rates are also indicators of the education performance in the District. The CWD had a matric pass rate of 83.3 per cent in 2014 and was rated third amongst the districts in the Western Cape. Stellenbosch (87.2 per cent) and Langeberg (84.4 per cent) had the highest matric pass rates in the District in 2014. Witzenberg is lagging behind at 75.1 per cent and showed a substantial decrease from 84.7 per cent in 2013. Breede Valley is the only municipality that had an increase in their matric pass rate from 2013 to 2014. This is of concern. Note that this may be due to the 2014 cohort being subject to stricter standards in the setting and marking of the papers thus affecting the pass rates (Western Cape Education Department 2014/15 Annual Report, 2015).

Figure 5.5 Matric pass rates across the Cape Winelands District municipalities, 2010 - 2014

Source: Western Cape Department of Education, 2015

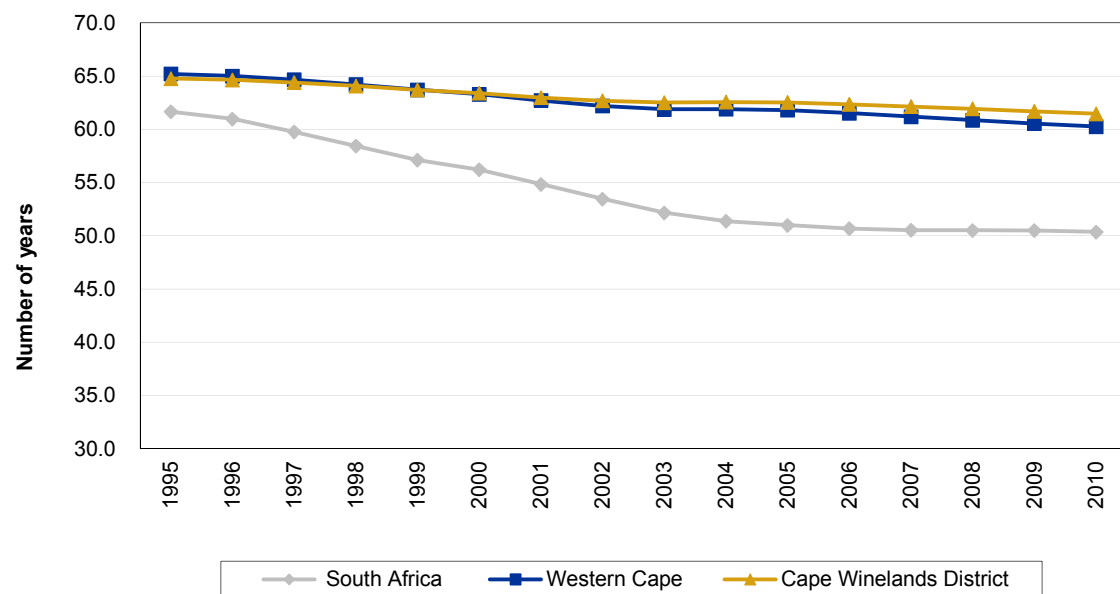
Over the economic recovery period (2010 to 2013), Stellenbosch witnessed an increase in their matric pass rates (see Figure 5.5) and a corresponding increase in their employment levels with an employment gain of 958. The opposite is true for Langeberg Municipality with a decrease in their matric pass rates and a corresponding net job loss of 960 employees. This conforms with the theory that higher levels of education may lead to higher levels of employment. This is however not the case within Witzenberg, Breede Valley and Drakenstein where the matric pass rates increased, but employment declined. This is largely because the greatest share of employment in these municipal areas is within the Agriculture, fishing and forestry sector, which employs largely unskilled and semi-skilled workers. This sector experienced large job losses over the economic recovery period i.e. 2010 to 2013.

Approximately 34.1 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2015), yet it is clear that there is much room for improvement with regard to skills development in the CWD and Western Cape as a whole. The demand for semi-skilled and unskilled labour has declined by 3.6 per cent per annum between 2010 and 2013 whereas demand for skilled and highly skilled workers increased by 1.1 and 0.7 per cent respectively. Initiatives are therefore necessary to encourage the creation of new unskilled job opportunities in the CWD. There is also an urgent need to train and up-skill workers in this region given the increasing demand for skilled workers.

5.3.3 Health

Good health has been found to have a positive and sizable effect on aggregate output in the economy largely because healthier workers are mentally and physically more energetic and robust, more productive and less likely to stay absent due to sickness and disability (Bloom et al., 2004). Health also affects the quality of life of people.

Figure 5.6 Life expectancy, 1995 - 2010



Source: Quantec Research

Figure 5.6 gives an indication of the life expectancy at birth. South Africa had a life expectancy of 50.4 years in 2010 after a steep decline from 61.7 years in 1995. In the Western Cape and the CWD life expectancy also declined albeit moderately compared to that of the country as a whole. The CWD (61.5 years) had a higher life expectancy than the Province (60.3 years) in 2010 and also the third lowest compared to its fellow districts. The declining tendency in life expectancy has stabilised from around 2008 since the large-scale roll-out of anti-retroviral treatment and more recent information from Statistics South Africa shows improvements in life expectancy within the Western Cape from 2011 to 2015 (Statistical release P0302, 2015).

The decline in life expectancy over the years has been largely attributed to the high prevalence of HIV/AIDS and Tuberculosis (TB) in the country. The HIV and TB patient loads in each municipality within the CWD are shown in Table 5.3.

In 2014 only 2.1 per cent of the CWD population was infected by HIV/AIDS. What is worrisome, however, is the 23.2 per cent increase from the 2013 patient load. The highest prevalence of HIV and TB is in Drakenstein, although this Municipality also has the largest population size. The CWD hosts 41 ART and 88 TB treatment sites caring for the patients.

Table 5.3 ART and TB patient Loads in the Cape Winelands District, 2013 - 2014

Municipality	HIV - Antiretroviral treatment			Tuberculosis		
	ART patient load March 2013	ART patient load March 2014	Number of ART clinics/ treatment sites 2014	Number of TB patients March 2013	Number of TB patients March 2014	Number of TB clinics/ treatment sites 2014
Witzenberg	2 008	2 786	6	1 066	1 112	17
Drakenstein	4 627	5 276	13	2 208	2 137	23
Stellenbosch	2 940	3 574	9	1 100	1 215	17
Breede Valley	3 358	4 248	6	1 833	1 865	17
Langeberg	1 237	1 579	7	1 006	998	14
Total Cape Winelands District	14 170	17 463	41	7 213	7 327	88

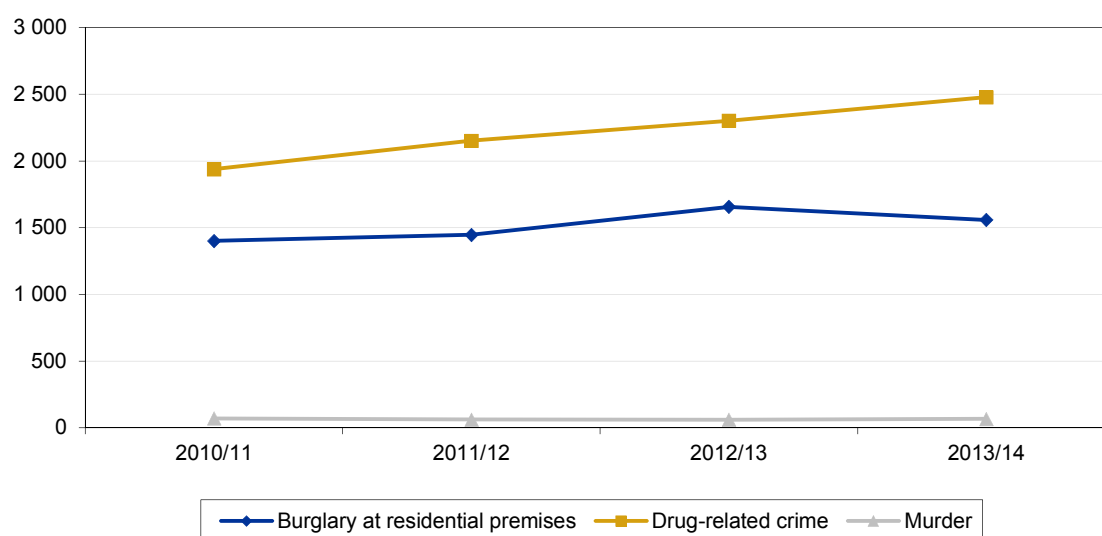
Source: Western Cape Department of Health, 2014

Due to the life expectancy declining only slightly over the years and the HIV and TB prevalence being low in the CWD, it may not have had much of an impact on the regional economy. Nevertheless, the impact of health on production should not be overlooked. The increasing HIV/AIDS and TB patient loads could adversely affect economic activity within the CWD and thus also the quality of life over all.

5.3.4 Crime

The safety of persons and property is vitally important to the physical and emotional well-being of people and therefore impacts on the human security aspect of human development. Crime has a significant impact on the economy. According to the World Bank (2006), it can hamper growth and discourage investment and capital accumulation. It has the potential to derail both social and economic prosperity. It also diverts public resources away from productive uses which can further social development towards the police, justice system and health (for treatment of violence related injuries and traumas). It has been found that crime negatively impacts on the investment climate. Grant Thornton's International Business report indicated that 62 per cent of businesses in the Western Cape have been affected by crime (Smith, 2014). The largest impact on business are increasing security costs, but also through diverting investment, business losses through theft, fraud and lower levels of productivity due to loss of life or injuries, etc. Crime therefore has to be tackled with seriousness.

Figure 5.7 indicates the crime rate in the CWD in terms of burglaries, drug-related crime and murders per 100 000 population. Crime has been on the rise overall within the CWD between 2010 and 2014. The data indicates that drug-related crime is the most prevalent within the CWD. It has also been increasing since 2010 - 2011 with a reported 10 166 cases in 2013 - 2014. This is an indication of a substance abuse problem within the CWD as there have also been 998 cases of driving under the influence of drugs or alcohol (although this has been on the decline since 2010 - 2011). Burglaries increased between 2010 - 2011 and 2012 - 2013 after which it began to decline. Murders have remained stagnant over the last few years with 276 murders reported in 2013 - 2014 within the CWD, although this is still a relatively high number (i.e. the second highest among the Western Cape regions).

Figure 5.7 Crime per 100 000 population in the Cape Winelands District, 2010 - 2014

Source: South African Police Service, 2014 and Western Cape Department of Social Development, 2014

A look at net employment over the same period indicates that there have been job losses from 2010 to 2013 within the CWD. Furthermore the economy is in recovery although it has been growing at a slow pace over this period i.e. 2.7 per cent per annum. This indicates that crime could possibly be having some adverse effect on economic activity within the CWD. Note however that there are other factors contributing more directly to the slow growth and job losses as outlined in Chapter 2. Nevertheless, the increasing levels of crime are also impacting on human security within the District. According to Stats SA (2015), 64.6 per cent of the Western Cape households feel unsafe when it is dark and 27.1 per cent feel unsafe during the day¹¹. This is the highest in the country. Addressing the high levels of crime is therefore crucial to improving the quality of life of households in the District.

5.4 Access to basic services

Access to basic services within South Africa is a basic human right. It is also an indication of the quality of life of the inhabitants in the country. Access to basic services has a wider impact on education and health and therefore also on the economy.

The CWD displayed high levels of access in 2013 with respect to water (97.1 per cent), sanitation (90.8) and housing (82.3 per cent) as access levels for these services exceed the provincial averages. However, with respect to energy (92.6 per cent) and refuse removal (79.9 per cent) the CWD ranks below the provincial averages and therefore these services remain areas for improvement.

¹¹ Crime Statistics Series Volume II: Public perceptions about crime prevention and the criminal justice system, 2010-2013/14 Report 03-40-03

Table 5.4 Access to basic services in the Cape Winelands District, 2013

	Water	Sanitation	Energy	Refuse Removal	Housing
Western Cape	96.6%	89.4%	93.3%	89.8%	80.5%
Cape Winelands District	97.1%	90.8%	92.6%	79.9%	82.6%
Witzenberg	98.4%	91.6%	92.6%	69.9%	86.7%
Drakenstein	98.6%	93.5%	94.9%	69.9%	85.5%
Stellenbosch	94.7%	90.6%	92.8%	87.0%	75.2%
Breede Valley	96.4%	88.1%	88.2%	75.2%	78.3%
Langeberg	97.8%	88.8%	94.0%	71.7%	91.0%

Source: Quantec Research

There is still room for improvement in terms of refuse removal and housing at most of the municipalities in the district. This may be due to the relatively large population size in CWD municipalities compared to those in other districts. Gnade (2013) indicated that empirical results support the broad view that basic infrastructure investment would have a positive influence on growth, poverty and inequality. For all the indicators used, he found a positive impact on South African municipalities. This positive influence has also been noted for education. Since 2001 basic service delivery has increased substantially and so has the literacy rates as noted above. Furthermore, as noted in section 4.3 the impact of basic services infrastructure spending on the economy is also observed to be positive.

It can thus be concluded that access to basic services does not only have a positive impact on education but also on the economy as a whole and therefore on the overall quality of life within the district.

5.5 Concluding remarks

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

- The increasing HDI between 2001 and 2013 is an indication that economic growth is being translated towards social development within the CWD. The high levels of inequality indicate that this is not equally shared among households.
- The per capita income increased substantially in the CWD as the economy grew faster than the population in all municipalities apart from Witzenberg. Increasing real per capita income levels in the region imply that standards of living have also improved.
- Large discrepancies exist between population growth rates across the Province as well as within the CWD. This indicates that population growth does not only stem from natural causes, but is also related to net migration. This may be an area of future research, focusing on migration patterns and distinguishing between local, national and foreign in- or out migrators, and the implications for the non-migratory local labour force.

- There has been an overall increase in matric pass rates in the District, with the exception of Langeberg Municipality. Literacy rates in the CWD are however still relatively low. There is a trend towards employing skilled to highly skilled individuals in the region. Skills development and low skilled labour intensive initiatives are therefore required in order to further stimulate employment in the district.
- Life expectancy has been declining moderately within the CWD and has been stable in recent years. Recent data suggests that life expectancy is improving within the Western Cape, and the same may apply to the CWD. Currently it appears that health issues have not had a very large effect on the CWD economy, although increasing HIV/AIDS and TB patient loads could pose a concern.
- There have been rising crime rates within the CWD. The comparatively slow growing economy and net job losses may be an indication of an adverse effect of crime on economic activity.
- Access to basic services, although high, has been fairly stable in the District level. Nevertheless trends indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the inhabitants of the CWD, there is still much room for improvement. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life in the region.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Cape Winelands District: GDPR at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	1.5	2.1	0.2	0.6	0.4	4.6	-0.3
2 Secondary sector [SIC: 3-5]	-0.4	2.5	2.2	2.3	3.8	-3.3	2.1
3 Tertiary sector [SIC: 6-9, 0]	3.6	6.2	5.1	4.9	6.3	3.9	3.7
Total: Cape Winelands District	1.8	4.4	3.5	3.5	4.6	1.8	2.7
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	1.9	2.1	0.2	0.6	0.3	4.8	-0.4
2 Mining and quarrying [SIC: 2]	-8.9	2.8	-2.5	1.5	5.1	-7.0	4.0
3 Manufacturing [SIC: 3]	-0.7	2.0	1.7	1.8	3.4	-4.7	2.1
4 Electricity, gas and water [SIC: 4]	5.5	3.0	1.7	1.9	2.3	2.7	2.1
5 Construction [SIC: 5]	1.3	8.4	6.8	6.6	9.0	6.3	1.7
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.7	6.1	3.9	4.6	6.6	0.2	4.8
7 Transport, storage and communication [SIC: 7]	4.2	8.5	4.5	4.7	8.1	3.6	2.2
8 Finance, insurance, real estate and business services [SIC: 8]	4.3	8.0	6.9	6.0	8.2	6.2	3.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.9	4.5	3.2	3.3	4.8	2.4	2.1
10 General government [SIC: 91, 94]	-0.7	3.1	4.7	4.4	2.5	5.2	4.2
Total: Cape Winelands District	1.8	4.4	3.5	3.5	4.6	1.8	2.7

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Cape Winelands District					
1 Primary sector [SIC: 1-2]	16.6	16.4	14.7	12.1	11.7
2 Secondary sector [SIC: 3-5]	37.3	33.3	30.4	28.7	27.1
3 Tertiary sector [SIC: 6-9, 0]	46.1	50.3	55.0	59.2	61.2
Total: Cape Winelands District	100	100	100	100	100
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing [SIC: 1]	16.1	16.1	14.4	11.9	11.5
2 Mining and quarrying [SIC: 2]	0.6	0.3	0.3	0.2	0.2
3 Manufacturing [SIC: 3]	33.7	29.6	26.4	24.1	22.7
4 , gas and water [SIC: 4]	0.9	1.1	1.0	1.0	0.9
5 Construction [SIC: 5]	2.7	2.6	2.9	3.6	3.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	9.9	12.6	13.7	13.7	14.4
7 Transport, storage and communication [SIC: 7]	4.9	5.4	6.6	7.0	6.9
8 Finance, insurance, real estate and business services [SIC: 8]	14.3	16.1	19.1	22.4	23.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.3	5.8	5.9	5.8	5.8
10 General government [SIC: 91, 94]	11.7	10.3	9.7	10.2	10.5
Total: Cape Winelands District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

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

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Cape Winelands District							
1 Primary sector [SIC: 1-2]	-2.6	-1.4	-4.7	-5.5	-1.8	-7.5	-3.0
2 Secondary sector [SIC: 3-5]	-6.6	-0.6	-1.9	-0.7	-1.1	-2.0	-1.6
3 Tertiary sector [SIC: 6-9, 0]	3.2	3.1	2.0	2.3	2.9	3.2	0.8
Total: Cape Winelands District	-1.2	0.7	-0.6	-0.6	0.5	-0.7	-0.5
Broad sectors: Cape Winelands District							
1 Agriculture, forestry and fishing [SIC: 1]	-2.6	-1.3	-4.9	-5.6	-1.8	-7.6	-3.0
2 Mining and quarrying [SIC: 2]	-6.7	-13.6	26.3	14.2	5.0	1.1	1.5
3 Manufacturing [SIC: 3]	-5.6	-0.4	-1.2	-0.1	-1.1	-1.7	0.0
4 Electricity, gas and water [SIC: 4]	0.2	6.4	1.9	1.8	6.5	-10.2	-0.2
5 Construction [SIC: 5]	-8.8	-1.2	-4.0	-2.5	-1.4	-2.4	-6.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.9	1.9	1.2	2.7	1.9	1.6	0.5
7 Transport, storage and communication [SIC: 7]	-4.5	2.9	5.7	3.8	2.0	9.4	1.8
8 Finance, insurance, real estate and business services [SIC: 8]	7.5	6.1	1.5	1.6	5.7	0.9	1.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	3.4	2.7	2.0	2.0	3.1	5.7	-0.6
10 General government [SIC: 91, 94]	0.6	4.3	3.1	2.5	2.9	3.4	2.0
Total: Cape Winelands District	-1.2	0.7	-0.6	-0.6	0.5	-0.7	-0.5

% share					
Sector	1995	2000	2005	2010	2013
Broad sectors: Cape Winelands District					
1 Primary sector [SIC: 1-2]	36.4	33.9	29.1	24.8	21.2
2 Secondary sector [SIC: 3-5]	26.3	19.8	18.5	17.0	17.1
3 Tertiary sector [SIC: 6-9, 0]	37.3	46.3	52.4	58.2	61.7
Total: Cape Winelands District	100	100	100	100	100
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing [SIC: 1]	36.1	33.7	29.0	24.5	21.0
2 Mining and quarrying [SIC: 2]	0.3	0.2	0.1	0.3	0.2
3 Manufacturing [SIC: 3]	17.3	13.8	13.1	12.3	12.9
4 Electricity, gas and water [SIC: 4]	0.1	0.2	0.2	0.2	0.2
5 Construction [SIC: 5]	8.8	5.9	5.3	4.4	4.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	12.6	16.2	16.9	18.1	19.3
7 Transport, storage and communication [SIC: 7]	2.5	2.1	2.3	3.1	3.1
8 Finance, insurance, real estate and business services [SIC: 8]	5.0	7.7	10.0	10.5	11.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	9.7	12.2	13.4	15.2	15.7
10 General government [SIC: 91, 94]	7.4	8.2	9.8	11.3	11.8
Total: Cape Winelands District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

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

Sector	1995	2000	% share 2005	2010	2014
Goods Exports					
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	83.5	85.9	92.5	94.0	89.6
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.0	0.0	0.0
3 Manufacturing (excl. food and beverage processing) [SIC: 3]	16.5	13.9	7.5	6.0	10.3
4 Undefined/other	0.0	0.2	0.0	0.1	0.0
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Cape Winelands District					
1 Food, beverages and tobacco [SIC: 301-306]	83.0	88.9	91.6	91.0	84.7
2 Textiles, clothing and leather goods [SIC: 311-317]	3.4	2.6	0.6	0.2	0.2
3 Wood, paper, publishing and printing [SIC: 321-326]	1.0	0.2	0.3	1.4	1.3
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	4.2	3.0	2.1	2.2	4.2
5 Other non-metal mineral products [SIC: 341-342]	0.5	0.3	0.4	0.2	0.1
6 Metals, metal products, machinery and equipment [SIC: 351-359]	7.3	4.6	3.1	1.6	2.8
7 Electrical machinery and apparatus [SIC: 361-363]	0.1	0.1	0.0	0.1	0.2
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.4	0.1	1.4	1.9	1.7
9 Transport equipment [SIC: 381-387]	0.0	0.1	0.2	1.1	4.6
10 Furniture and other manufacturing [SIC: 391-392]	0.3	0.1	0.2	0.2	0.2
Total: Manufacturing exports	100	100	100	100	100
Sector	1995	2000	% share 2005	2010	2014
Goods Imports					
Broad sectors: Cape Winelands District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	42.2	40.0	38.9	40.5	37.9
2 Mining and quarrying [SIC: 2]	0.5	0.3	0.1	0.2	0.3
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	57.1	59.6	60.1	58.8	61.6
4 Undefined/other	0.2	0.1	0.9	0.5	0.2
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Cape Winelands District					
1 Food, beverages and tobacco [SIC: 301-306]	17.5	15.2	23.2	21.8	15.5
2 Textiles, clothing and leather goods [SIC: 311-317]	2.4	2.1	1.0	1.5	2.1
3 Wood, paper, publishing and printing [SIC: 321-326]	26.0	26.5	23.1	23.1	27.3
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	18.9	18.3	15.0	17.0	18.0
5 Other non-metal mineral products [SIC: 341-342]	1.8	2.2	2.0	2.0	2.3
6 Metals, metal products, machinery and equipment [SIC: 351-359]	28.9	29.5	25.2	26.6	27.5
7 Electrical machinery and apparatus [SIC: 361-363]	1.0	1.0	0.9	1.0	1.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	1.9	2.2	3.2	2.9	2.4
9 Transport equipment [SIC: 381-387]	1.0	2.4	5.0	3.2	2.8
10 Furniture and other manufacturing [SIC: 391-392]	0.6	0.6	1.4	1.0	0.9
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

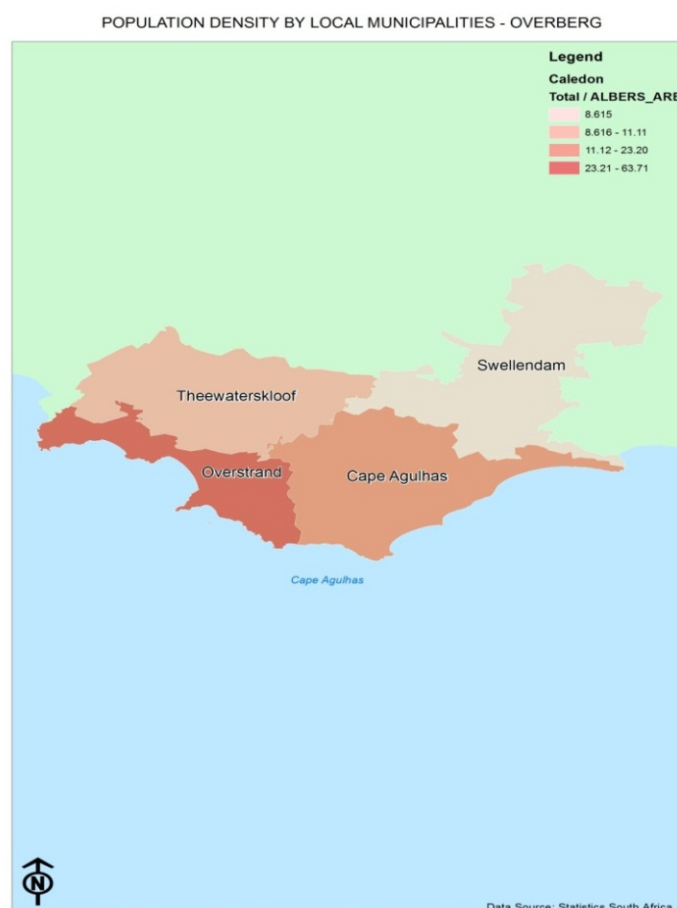
Overberg District

Executive summary

Introduction

The 2015 Municipal Economic Review and Outlook (MERO) report is presented in a generally constrained macro-economic environment. Whilst more challenging, this ups the imperative of unlocking opportunities for growth and jobs. The MERO's objective is to provide economic intelligence at the local level in the Western Cape Province, which can assist with evidence-based decision making and in building an environment conducive to private sector growth and employment creation.

The reality is that six years from the onset of the recovery from the 2009 Great Recession, world economic growth is as yet not on a solid footing. Growth projections have been scaled down at the global, national and provincial levels. 'Secular stagnation' is the term being used to describe a 'new normal' in respect of the world economy.



The macro-economic context was discussed in Section A of the report. In this section of the report, five chapters are devoted to the economic review and outlook for the Overberg District (OBD) economy. The first chapter provides a dedicated regional economic outlook. Thereafter, the focus is on sectoral growth, employment and skills demand trends in each of the four OBD municipalities; a sectoral forecast over the 2015 - 2020 period at the district level is also motivated. The third chapter focuses on the topic of integration into global value chains, Special Economic Zones (SEZs) and the agri-processing and tourism value chains in the OBD. In the fourth chapter, an analysis of the municipal revenue and infrastructure spending trends and access to basic services is made, including an indication of the infrastructure projects underway in the OBD. The fifth chapter concludes with a consideration of the OBD's socio-economic profile and the linkages with economic growth.

1. Regional economic outlook

Although the Overberg is sensitive to provincial, national and global economic developments, its economy has managed to grow at rates well above them. The financial and business services sub-sector has been a large and rapidly expanding sector in the District over the past decade from a GDP and employment perspective. This industry, and other commercial services, is expected to continue propelling Overberg's growth going forward. However, much of the growth in services is leveraged on developments in the region's agricultural sector, particularly in Theewaterskloof, Cape Agulhas and Swellendam areas. Even the tourism sector and the development of tourism, which is a vital industry in the Overberg, is strongly linked to agriculture. Overstrand has a strong retirement industry driving financial services, as well as a vibrant tourism sector, driving internal trading, catering and accommodation services.

Therefore, an important part of the growth dynamics in the region comprise vibrant tourism and other tertiary services linked to agricultural and manufacturing activities, driving high growth in the region, in turn, sustaining a relatively large and rapidly expanding construction sector.

External factors, such as the imminent interest rate hikes in the USA and the Chinese economic slowdown, have had unfavourable consequences for emerging markets such as South Africa. The weakening national and provincial economic outlook has also caught up with OBD. Consequently, OBD's five-year economic growth forecast was revised down from 3.6 per cent per annum previously (2014 - 2019) to 3.3 per cent per annum (2015 - 2020) currently.

Notwithstanding the downward revisions economic forecast, growth opportunities remain within some of the District's sub-sectors. Potential growth in the agricultural sector is expected to have positive spillover effects into manufacturing via the agri-processing channel, and into business (agricultural) services. This potential is emphasised by the global and local demand for food, beverages and tobacco products which has remained steady even in the face of weak economic growth. The WCG has also launched interesting initiatives in the agri-processing sector, which intend to expand local production and exports and which will create additional

demand in the agricultural sector. While a weak rand is likely to act in support of the District's agricultural and manufacturing exports, electricity supply constraints and load shedding can be expected to stem growth in manufacturing production.

2. Sectoral growth, employment and skills

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. It is clear that OBD has a comparative advantage in agricultural production and the associated processing industries. The fertile soils for apple and pear production in Theewaterskloof area, the wines produced in this region and in Overstrand area and the merino sheep farming in Cape Agulhas area are some examples of the region's agricultural comparative advantages. While the development of the agricultural sector has spurred support industries in manufacturing, construction and services, it also links with the rapidly growing tourism industry benefiting from the region's natural scenery and coastal location. Furthermore, the region's relatively close proximity to the Cape Metro and Cape Winelands regions acts as another growth factor.

While the Overberg economy is small (with an estimated GDP of R14.4 billion in 2014) it is notable for the well-balanced growth in all four municipalities' non-agricultural sectors. Commercial services (including tourism), construction and positive manufacturing growth ensure high non-agricultural growth. However, as noted, much of these activities are linked to agriculture, which plays a determining role in the overall municipal economic performances.

The two leading municipalities, i.e. Theewaterskloof and Overstrand, are similar in size, but have different industry structures. Theewaterskloof has a bigger agricultural sector and a relatively smaller commercial services sector and is growing slower than Overstrand Municipality, which has a smaller agricultural and larger commercial services sector. Employment trends have also been more negative in Theewaterskloof where the farming sector is integrated into competitive global value chains. In Overstrand's services oriented economy, tourism and the retirement industry are important drivers of growth and employment. This results in a better balanced labour skills demand pattern, albeit that it did not prevent a net outflow of semi- and unskilled labour. The latter aspect is prevalent in the other regions as well. The net loss of semi- and unskilled employment opportunities and the influx of migrants pose a challenge to the local authorities, particularly in Theewaterskloof. The Cape Agulhas economy is characterised by broad-based growth and positive net employment creation, whereas Swellendam shares the Theewaterskloof experience. In Swellendam, a lower growing (actually contracting) agriculture sector explains the adverse trend in employment creation and also pulls average GDP growth down.

While the general economic outlook has been downgraded, exiting initiatives are underway in the OBD's agri-processing and tourism sectors, which bode well for the future. More analysis follows in the following chapter.

3. Value chains and SEZs

In today's world, value chains reach beyond regional and national boundaries and the key is integration. Globalisation, interconnectedness, technology, logistics, offshoring and deregulation are all elements of the drivers of value chains. Special Economic Zones (SEZs) fit in with the contemporary trend to tap into global value chains and unlock opportunities for growth and jobs.

Municipalities generally do not have the mandate to provide incentives and policy initiatives to establish and ensure the success of a SEZ. However, there are various ways in which a municipality can provide support and ensure that the economic benefits are localised. Municipalities can assist along the whole value chain by the provision of supplier databases, for instance; expediting zoning and the provision of land; ensuring the standard basic services and associated infrastructure are delivered effectively; and in combating captive market relations, e.g. by the facilitation of direct relationships between producers, local logistics companies, and the firms in the SEZ. This could limit losses outside the local value chain and ensure greater profits for the local producers and service suppliers to create additional jobs. Municipalities can also provide marketing assistance through geographical identification, i.e. the branding of products from the region, in assisting with trade fairs and the marketing of local products, etc.

As noted, agriculture and agri-processing are important elements of the economy of the OBD. Given its 20 per cent share of total economic output in the region, any development in this sector will have significant GDP benefits. However, the employment potential of this sector is at risk in view of the significant declines over the past 10 years. Much of the farming activities in the OBD is commercial farming, however, the potential for smaller farmers taking advantage of the existing infrastructure is possible.

The OBD is earmarked for the development of a SEZ for aquaculture in the Overstrand area. Another possible initiative, as suggested by the Western Cape Department of Agriculture, is the development of produce for niche markets. As an example, it has been identified that locally produced olive oil is of a higher quality than that being imported into the country. The major reasons for this are that the local methods of pressing, combined with short storage time, contributes to a superior product. Olive oil begins to deteriorate once pressed and most of the product imported into SA has been stored for a significant amount of time. As with local wines and brandy, local and international niche markets can be developed through the support of international trade shows and by increasing local branding. Higher quality products for smaller markets can be produced competitively on a smaller scale. The establishment of SEZs can assist smaller farmers and producers through shared infrastructure needed to operate efficiently to get these products to market.

Furthermore, tourism contributes an estimated R918 million to the economy of the OBD. The employment potential in the backwardly linked sectors in tourism is also a key factor for employment creation. Currently tourism in the OBD is well supported with marketing activity as most visitors hear about the area through visitor information

centres and through the internet. Strengthening the linkages to the tourism industry may be possible by allowing local SMMEs to provide goods to tourists. Access to tourists and the areas they frequent is crucial in this regard. The increase in output, combined with a decline in employment in the catering and accommodation sector, could indicate a need for support of this sector in the OBD.

4. Infrastructure expenditure and revenue analysis

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihoods but also aids job creation during development and maintenance and by improving the competitiveness of private businesses. The data presented in this chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the OBD.

Over the period 2008/09 to 2013/14, the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly. It is evident that the year 2014 not only recorded a decrease in basic services infrastructure expenditure but also the lowest GDPR growth rate over the 2009/10 to 2013/14 period. Waste water management and electricity were the largest basic services infrastructure expenditure items in the OBD in 2014 whilst waste management was the smallest.

Overstrand is the District's leading municipality; making the highest contributions to both basic services infrastructure expenditure and revenue collection. Whilst Cape Agulhas and Swellendam municipalities recorded above average GDPR growth rates, the municipalities contribute the least to both basic services infrastructure expenditure and revenue collection. The basic services infrastructure expenditure and revenue collection within these municipalities is perhaps a reflection of the size of their populations; these municipal populations comprise one quarter of that in the OBD (269 649). Theewaterskloof Municipality has the largest population and makes the smallest contribution to basic services infrastructure expenditure in per capita terms. One would expect a larger population to represent a larger basic services revenue collection base, contrary to what is seen in Theewaterskloof. The Municipality is generally categorised as a rural area. Revenue collection in the Municipality is influenced by high unemployment, the seasonal nature of agricultural activities and the influx of indigent people into the area. This, in turn, influences the Municipality's basic services infrastructure expenditure and revenue collection.

In summary, basic services revenue contributes more than 50 per cent of the total operating revenue within each municipality within the OBD. It is important that every effort be made to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services.

5. Socio-economic profile

The increasing Human Development Index (HDI) between 2001 and 2013 is an indication that economic growth is being translated towards social development within the OBD. The high economic growth in the region, exceeding the population growth rate by a comfortable margin, also implies that real per capita income levels have increased substantially in the OBD, i.e. a trend in all municipalities. Increasing real per capita income levels imply that standards of living have also improved. However, high levels of inequality indicate that this is not equally shared among households.

Furthermore, large discrepancies exist between population growth rates across the Province as well as within the OBD. This indicates that population growth does not only stem from natural causes, but is also related to net migration. This may be an area of future research, focusing on migration patterns and distinguishing between local, national and foreign in- or out-migrators, and the implications for the non-migratory local labour force.

There has been an overall decrease in matric pass rates in the District, with the exception of Overstrand and Theewaterskloof areas. Literacy rates in OBD are also relatively low. Given the services orientation of economic growth in OBD, there is a tendency towards employing skilled to highly skilled people in the region. Skills development is therefore required in order to further stimulate employment in the District.

Life expectancy has been declining moderately within OBD and has been stable in recent years. Recent data suggests that life expectancy is improving within the Western Cape, and the same may apply to the OBD. Currently, it appears that health issues have not had a very large effect on the OBD economy, although increasing HIV/AIDS and TB patient loads could pose a concern. Likewise, there have been rising crime rates within OBD. This is having a negative impact on human security within the District and may also have an adverse effect on economic activity if this trend continues. While access to basic services is relatively high in the District, it has been fairly stable. Trends indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the people of the OBD, much room for improvement remains. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life.

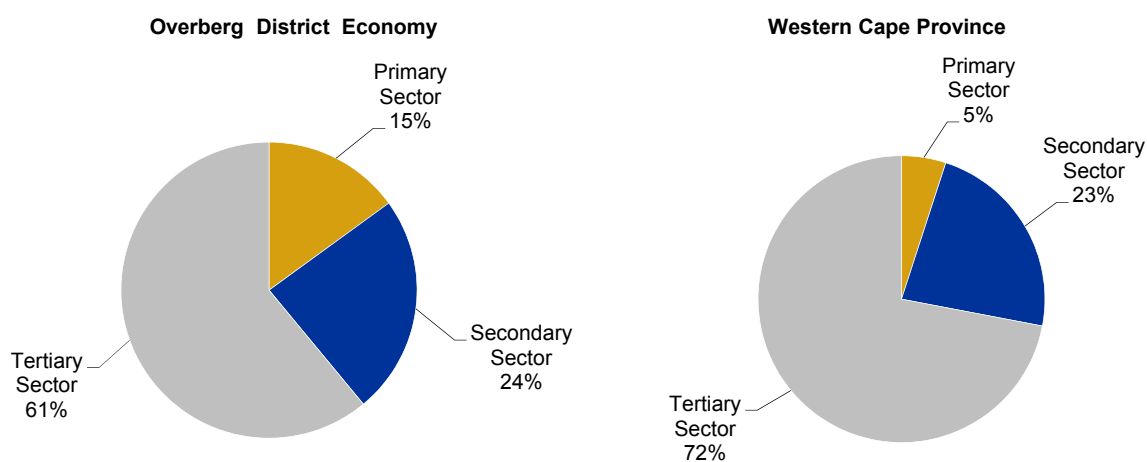
1

Overberg regional economic outlook

1.1 Introduction

The Overberg District (OBD) has the Western Cape Province's second smallest district economy. In 2013, the District contributed 3 per cent to provincial GDP and 4 per cent to employment, with a total number of 76 220 workers being employed within its bounds. When comparing the District's sectoral mix to the wider province, the OBD economy exhibits a more balanced structure. While the secondary sector contributions weigh roughly the same in both economies, the District boasts a relatively more active primary sector, i.e. mainly agriculture. Both economies are tertiary sector driven (see Figure 1.1).

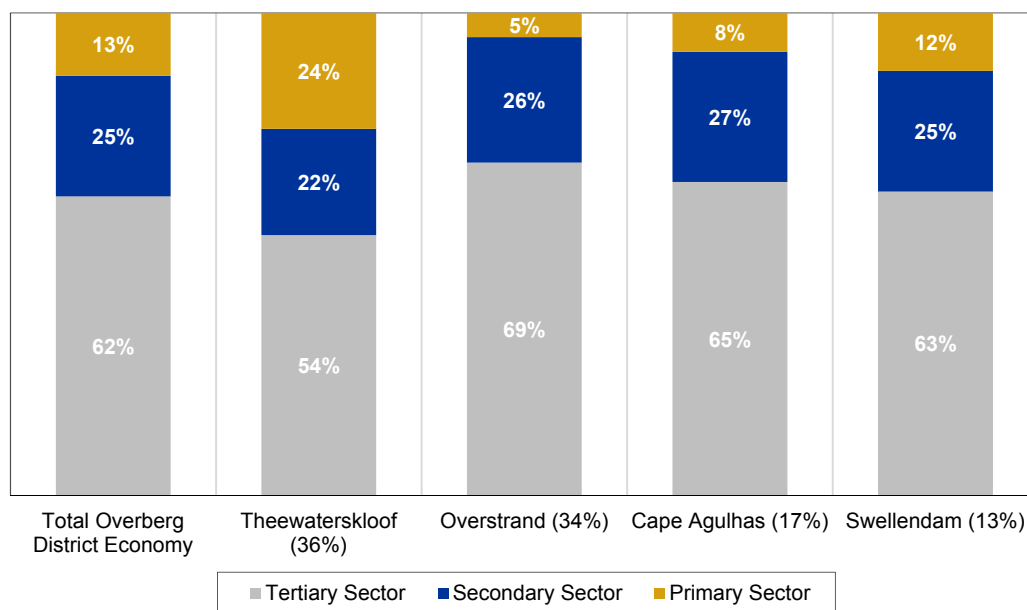
Figure 1.1 Overberg District and Western Cape Province GDP sectoral contribution: Average 2000 - 2013



Source: Quantec data, own calculations

Within OBD's tertiary sector, financial and business services and trade and accommodation account for just over 65 per cent of total GDP. The District's manufacturing sector also has a strong presence, with the focus being on the manufacture of food, beverages and tobacco products. Overberg is home to four local municipalities, namely Theewaterskloof, Overstrand, Cape Agulhas and Swellendam – listed in order of GDP size (see Table 1.1). The largest local municipality, Theewaterskloof, accounts for 35 per cent of the OBD economy and exhibits a distinctly different sectoral mix relative to the other local municipalities. While the Municipality is primarily driven by the tertiary sector, its primary sector commands a greater proportion of its total GDP relative to its secondary sector (see Figure 1.2). Theewaterskloof is OBD's agricultural hub and is home to Caledon and Grabouw. Caledon is an agricultural service centre to barley, wheat and wool producers, and Grabouw is well known for its orchards and produces about 60 per cent of South Africa's export apple crop. Theewaterskloof's agricultural sector feeds into manufacturing in the form of agri-processing.

Figure 1.2 GDP sectoral distribution of the Overberg District across municipalities: Average 2005 - 2013



Source: Quantec Research 2014, Own calculations

Overstrand is the second largest local municipality and accounts for 34 per cent of OBD's economy. The municipality exhibits a larger tertiary sector compared to the wider District and the other local municipalities. The tertiary sector is underpinned by a vibrant financial and business services sector, which accounts for just under 30 per cent of the District's total financial and business services sector. Cape Agulhas accounts for 17 per cent of Overberg's GDP, and has a sectoral mix that more closely resembles that of Overstrand. Its agricultural sector is, however, slightly larger and more diverse. The smallest local municipality, Swellendam (13 per cent), has an industry structure which is very similar to that of the wider Overberg District. Swellendam, however, boasts a relatively larger retail and accommodation sector, with the tourism industry likely being one of the key drivers of growth.

In the following section, historical and current growth and employment patterns within the OBD will be explored.

1.2 Historical and current growth and employment trends

1.2.1 GDPR performance and employment per municipality

Since 2000, Overberg's economic growth consistently outperformed the Province, with the Province being impacted more negatively by the 2008 - 2009 recession. Table 1.1 shows that while the District's growth managed to stay well above negative territory during the recession, easing to 4.2 per cent, it has slowed further during the 2010 - 2013 recovery period and being well below trend growth. The Overberg's economy grew by an average annual rate of 3.4 per cent between 2010 and 2013, which is still above that of the Province.

Table 1.1 Overberg District municipalities: GDPR growth

Municipality	Contribution to GDPR (%) 2013	Trend 2005 - 2013	Real GDPR growth (ave yoy %)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Theewaterskloof	36	3.6	4.1	3.8	2.6
Overstrand	34	5.4	7.9	4.4	3.9
Cape Agulhas	17	5.3	6.2	5.2	3.6
Swellendam	13	4.7	5.2	3.4	3.9
Overberg District¹	100	4.6	5.7	4.2	3.4
Western Cape Province	-	3.6	4.9	1.4	2.8

Source: Quantec Research

From a municipal perspective, Overstrand and Cape Agulhas, which account for a joint 52 per cent of GDPR, maintained growth rates above the District's since 2000. Table 1.1 shows that during the economic expansion, recession and recovery periods, growth in both municipalities exceeded Overberg's. The two municipalities were also net creators of employment throughout the economic periods (see Table 1.2). In contrast, Theewaterskloof's GDPR growth has underperformed the District on a consistent basis. The Municipality has also been responsible for the majority of jobs lost in the District, which is concerning given that it contributed the most to the District's GDPR (35 per cent) and employment (39 per cent) in 2013. Encouragingly, job gains in Overstrand and Cape Agulhas during the expansion phase supported the wider District to create jobs on a net basis. During the recession and recovery periods, however, pronounced net job losses in Theewaterskloof pulled the wider district into negative territory. Swellendam's GDPR and employment patterns have, unfortunately, mimicked Theewaterskloof's. Given its relatively smaller contribution, however, its adverse impact on the wider district has been less pronounced.

¹ The former DMA accounts for the remaining 1 per cent contribution to the District's GDPR.

Table 1.2 Overberg District municipalities: employment growth

Municipality	Contribution to Employment 2013 (%)	Trend 2005 - 2013	Employment (net change)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Theewaterskloof	39	-7 319	-2 410	-2 165	-1 151
Overstrand	33	1 437	3 394	110	194
Cape Agulhas	16	991	1 416	215	107
Swellendam	12	-790	-433	-163	-284
Overberg District	100	-5 731	1 916	-2 005	-1 129
Western Cape Province	-	25 152	128 301	-11 841	-10 468

Source: Quantec Research

1.2.2 GDP growth and employment creation across sectors

As noted, Overberg's tertiary sector is the main driver of its economy, specifically financial and business services and trade and accommodation, which account for just over 65 per cent of total GDP. Table 1.3 not only indicates the tertiary sector's above-average growth rates, but also that the sector is almost uniquely responsible for the District's job creation. The main contributor to the relatively higher growth rates stem mainly from financial and business services which, in spite of the fact that they have been cooling down, have delivered phenomenal growth during the expansion (12.3 per cent), recession (11.1 per cent), and recovery (5.6 per cent) periods. Encouragingly, the rates of job creation within the sub-sector have also been steep.

Although the District's secondary sector had a promising start during the expansion period, with an 8.4 per cent growth rate, it has cooled significantly to levels below the District's during the recession (3.6 per cent) and recovery (2.3 per cent) periods. Relative to the tertiary sector, the secondary sector exhibited a lower propensity to absorb labour, especially during the 2000 - 2007 expansion period where it notably exceeded the tertiary sector's growth but created significantly less jobs. Subsequent to the expansion period, the secondary sector has retrenched workers on a net basis. The secondary sector is largely driven by manufacturing and construction, which account for 63 per cent and 32 per cent of secondary sector GDP, respectively. Although both sub-sectors added to the District's job creation during the 2000 - 2007 expansion period where they outperformed significantly, they have in subsequent economic periods retrenched workers on a net basis, on average.

Table 1.3 Overberg District: Broad sectoral growth and employment creation

Sector	Real GDP growth (ave yoy %)				Employment (net change)			
	Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Primary sector [SIC: 1-2]	-0.3	-1.6	2.6	0.6	-13 057	-8 276	-3 879	-1 400
Secondary sector [SIC: 6-9, 0]	5.4	8.4	3.6	2.3	-974	1 311	-133	-2 576
Tertiary sector [SIC: 3-5]	5.5	7.1	4.8	4.4	8 300	8 880	2 006	2 847
Total	4.6	5.7	4.2	3.4	-5 731	1 916	-2 005	-1 129
Agriculture, forestry and fishing	-0.3	-1.6	2.6	0.6	-13 097	-8 264	-3 887	-1 398
Mining and quarrying	3.0	1.0	-2.9	2.6	40	-11	8	-2
Manufacturing	5.0	8.2	1.9	2.6	-4	961	39	-623
Electricity, gas and water	-0.3	2.2	-2.4	0.4	8	83	-76	11
Construction	7.9	11.2	8.2	2.0	-978	267	-96	-1 964
Wholesale and retail trade, catering and accommodation	2.4	4.9	-3.0	4.1	715	-441	-558	253
Transport, storage and communication	4.8	7.9	4.0	2.6	590	77	273	258
Finance, insurance, real estate and business services	9.3	12.3	11.1	5.6	4 734	5 825	1 156	1 775
Community, social and personal services	.6	4.9	1.0	2.4	1 111	1 839	808	1
General government	3.6	2.9	4.0	3.8	1 150	1 581	328	561
Total	4.6	5.7	4.2	3.4	-5 731	1 916	-2 005	-1 129

Source: Quantec Research

Developments in agriculture have been encouraging in some regions. However, net employment has been in negative territory on average since 2000. If we look closely at agriculture, its GDP growth seems to be on a mild upward trend and has even managed to revert to levels above the trend growth of -0.3 per cent per annum. Net job losses also seem to be occurring at a decreasing rate, which suggests that further increases in GDP growth could lead to further declines in retrenchments.

1.3 District economic outlook

Overberg District's economy grew by 2.1 per cent in 2013, with growth also being maintained around this pace in 2014. Unfortunately, these rates are well below the District's long term (2005 - 2013) trend growth rate of 4.6 per cent per annum. The forecasted average annual growth for the District has been estimated at 3.3 per cent over the 2015 - 2020 period. Compared to last year's forecast of 3.6 per cent per annum (2014 - 2019), Overberg's economic outlook was revised down in line with the revised global, national and provincial growth forecasts. Although the District's growth is not expected to reach trend growth levels, it is projected to follow a steady upward path (see Table 1.4).

Table 1.4 Overberg District: Real GDP forecast by broad sector: 2015 - 2020

Sector	Forecast (%)						Forecast (%)
	2015	2016	2017	2018	2019	2020	2015 - 2020
Agriculture, forestry and fishing	1.5	1.7	2.2	2.0	2.1	2.3	1.9
Mining and quarrying	2.5	2.2	2.2	2.0	2.5	2.8	2.3
Manufacturing	1.9	3.1	3.3	3.4	3.9	3.9	3.3
Electricity, gas and water	-1.2	1.4	1.4	1.5	2.1	2.5	1.3
Construction	2.5	1.9	3.8	4.0	3.9	4.2	3.4
Wholesale and retail trade, catering and accommodation	1.2	1.7	2.6	2.7	3.2	3.3	2.4
Transport, storage and communication	2.5	2.4	3.9	4.0	4.1	4.2	3.5
Finance, insurance, real estate and business services	4.9	4.3	5.2	5.2	5.3	5.8	5.1
Community, social and personal services	1.3	1.6	2.4	2.5	2.4	2.5	2.1
General government	0.9	0.7	1.4	1.3	1.5	1.6	1.3
Total	2.5	2.6	3.5	3.5	3.7	4.0	3.3

Source: Quantec; own calculations

Considering the sectoral contributions, Table 1.4 shows that financial and business services have been estimated to advance at the fastest rate in the District, i.e. an average of 5.1 per cent per annum. The District's economic growth is also expected to gain support from growth in transport and communication (3.5 per cent) and construction (3.4 per cent).

The OBD has several areas of potential which are likely to work in its favour going forward. The agriculture sector is poised for a steady upward trajectory, which is likely to provide support to agri-processing and the agricultural services industry. The latter two industries account for a significant proportion of the District's manufacturing and business services sub-sectors, respectively. Tourism within the District is also expected to sustain its current strength, gaining even more momentum once national and global demand rebounds. Momentum in the tourism sector is expected to add significantly to the retail and accommodation sub-sector. That being said, national electricity supply shortages are likely to put a ceiling on manufacturing growth, while delays in the maintenance and further investment in transport and other infrastructure can stem aggressive growth in the tourism industry.

In all, the steady upward trajectory in the District's future growth is expected to track global, national and provincial growth. The expected recovery in both global and local demand will add positively to the District's economy. Besides being reflected in the trade and accommodation sector, future improved demand should also be evident in the District's agricultural sector and manufacturing, where food, beverages and tobacco have been performing relatively well. The projected growth of the transport and communication sub-sector points to some of the District's plans to invest in the related infrastructure.

1.4 Concluding remarks

Although Overberg is sensitive to provincial, national and global economic developments, its economy has managed to grow at rates well above them. Similar to provincial and national growth, the District has historically received the bulk of its support from the financial and business services sub-sector from a GDP and net employment perspective. The industry is expected to continue to propel Overberg's growth going forward. However, much of the growth in services is leveraged on developments in the region's agricultural sector, particularly in Theewaterskloof, Cape Agulhas and Swellendam areas. Even the tourism sector and the development of tourism, which is a vital industry in the Overberg, is strongly linked to agriculture.

Notwithstanding the downward revisions in the global, national and provincial forecast which trickled down to the district level, growth opportunities remain within some of the District's sub-sectors. Potential growth in the agricultural sector is expected to have positive spillover effects into manufacturing via the agro-processing channel, and into business (agricultural) services. This potential is emphasised by the global and local demand for food, beverages and tobacco products which has remained steady even in the face of weak economic growth. The WCG has also launched interesting initiatives in the agri-processing sector, which intend to expand local production and exports and which will create additional demand in the agricultural sector. While a weak rand is likely to act in support of the District's agricultural and manufacturing exports, electricity supply constraints and load shedding can be expected to stem growth in manufacturing production.

2

Sectoral growth, employment and skills

2.1 Introduction

The development of industries does not always evolve along the same patterns when compared to the wider economy. An investigation of the sector growth performances at the regional level can therefore be revealing. A combination of industry dynamics (ranging from factor endowments, scale economies to demand patterns, technological developments, etc.) and geographical economics determine the growth path of an industry (Capasso, et al, 2015: 5).

Table 1.1 and Table 1.2 highlighted the broad sectoral growth rates of the Overberg District (OBD) economy, showing the change in employment levels and the real GDP growth rates over the past decade. This chapter investigates the sectoral and geographical growth and employment patterns at a deeper level. Apart from an overview of the District's economic structure, growth and employment performance, each municipality's economy comes under the spotlight. Thereafter, the international trade performance, some local issues and the sectoral forecast are discussed.

2.2 Sectoral growth, employment and skills development per municipality

The OBD economy is the second smallest regional economy in the Western Cape, contributing an estimated R14.4 billion (or 3.1 per cent) of the provincial GDP of R462 billion in 2014. The region employed an estimated 77 360 (or 4.1 per cent) workers of the provincial workforce. The regional economy is well-known for its agricultural origins, its natural beauty, also being a drawcard for tourists. While it has a relatively small economy, it is one of the fastest growing regions in the Province, with the growth being well-dispersed across its municipalities and main sectors.

The largest main sector is commercial services², accounting for more than half of economic activity in the region. This sector has also been expanding at above-average rates and, combined with the government and community, social and personal (CSP) services sector, accounted for the bulk of employment creation in the region over the past decade (Table 2.1, Table 2.2 and Table 2.4). Overstrand (40 per cent) and Theewaterskloof (32 per cent) host the largest commercial services sectors (Table 2.3). These two municipalities are equivalent and the leading ones in terms of size; however, there are salient differences, which are analysed below. Beyond commercial services, the manufacturing sector (15.2 per cent of GDP), the general government and community, social and personal services (14.4 per cent) and agriculture (11.2 per cent) are important sectors. While the construction sector is relatively smaller (7.6 per cent), it expanded the fastest over the 2005 - 2013 period in support of the rapidly growing OBD.

Table 2.1 Overberg District: Sectoral growth across the five municipalities, 2005 - 2013

Industry	Theewaterskloof	Overstrand	Cape Agulhas	Swellendam	Overberg District
Agriculture, forestry and fishing	-0.1	0.0	2.1	-2.9	-0.3
Manufacturing	3.8	4.6	5.7	8.6	5.0
Construction	8.5	7.1	8.6	8.7	7.9
Commercial services	6.7	6.3	4.7	6.0	6.2
General government and Community, social and personal services	-0.4	4.3	6.4	3.8	3.3
Other	-1.0	-5.7	0.4	3.5	-0.1
Total	3.6	5.4	5.3	4.7	4.6

Source: Quantec Research, Own calculations

Table 2.2 Overberg District: Sectoral employment creation across the five municipalities, 2005 - 2013

Industry	Theewaterskloof	Overstrand	Cape Agulhas	Swellendam	Overberg District
Agriculture, forestry and fishing	-8 382	-1 804	-724	-2 184	-13 097
Manufacturing	-85	-92	4	169	-4
Construction	-189	-625	-112	-47	-978
Commercial services	2 138	2 634	427	847	6 039
General government and Community, social and personal services	-806	1 332	1 363	409	2 261
Other	5	-8	34	17	48
Total	-7 319	1 437	991	-790	-5 731

Source: Quantec Research, Own calculations

² Commercial services are distinguished from the other two main tertiary sectors, i.e. the general government and community, social and personal services. It consists of a diverse range of tertiary economic activities, namely wholesale, retail, catering and accommodation services; transport and communication and the finance, insurance, real estate and business services sector. It needs to be pointed out that the personal services sector also contains some important commercial services; however, the data availability did not allow disaggregation.

Table 2.3 Overberg District: Regional GDPR composition of the OBD industries, 2013

Industry	Theewaterskloof	Overstrand	Cape Agulhas	Swellendam	Overberg District
Agriculture, forestry and fishing	67.0	11.4	10.6	11.0	100
Manufacturing	33.9	37.6	15.4	13.0	100
Construction	28.1	41.4	21.7	8.7	100
Commercial services	32.1	40.1	13.8	13.6	100
General government and Community, social and personal services	25.4	31.3	31.5	11.0	100
Other	39.4	7.7	24.7	28.2	100
Total	35.0	34.6	17.4	12.7	100

Source: Quantec Research, Own calculations

Table 2.4 Overberg District: Sectoral GDPR composition across the OBD municipalities, 2013

Industry	Theewaterskloof	Overstrand	Cape Agulhas	Swellendam	Overberg District
Agriculture, forestry and fishing	21.2	3.7	6.8	9.8	11.2
Manufacturing	14.3	15.3	15.4	17.5	15.2
Construction	6.1	9.3	9.6	5.3	7.6
Commercial services	46.7	58.1	40.4	52.0	50.2
General government and Community, social and personal services	10.4	13.3	26.0	12.7	14.4
Other	1.4	0.3	1.7	2.8	1.2
Total	100.0	100.0	100.0	100.0	100.0

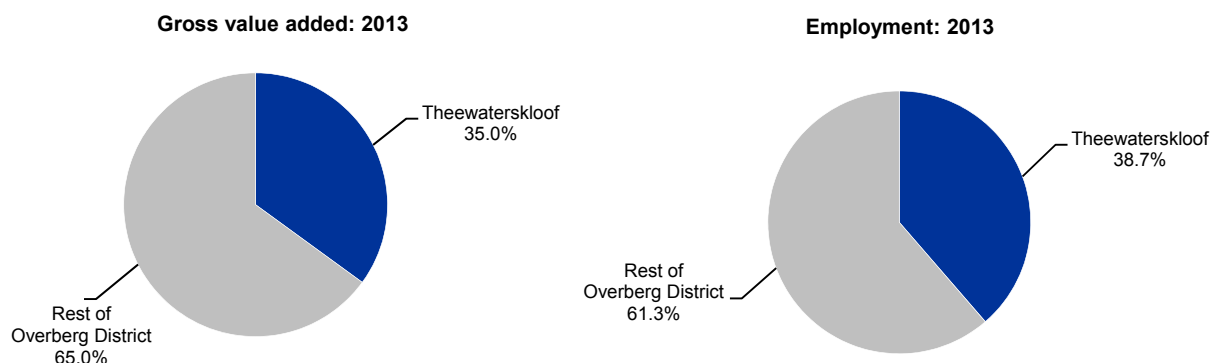
Source: Quantec Research, Own calculations

All four municipalities witnessed rapid growth over the past decade, with the large Theewaterskloof Municipality pulling the average growth rate (4.6 per cent per annum) somewhat down, expanding at a rate of 3.6 per cent per annum. The fastest-growing regions are Overstrand (5.4 per cent) and Cape Agulhas (5.3 per cent). These two municipalities were also the net employment creators in the region over the corresponding period.

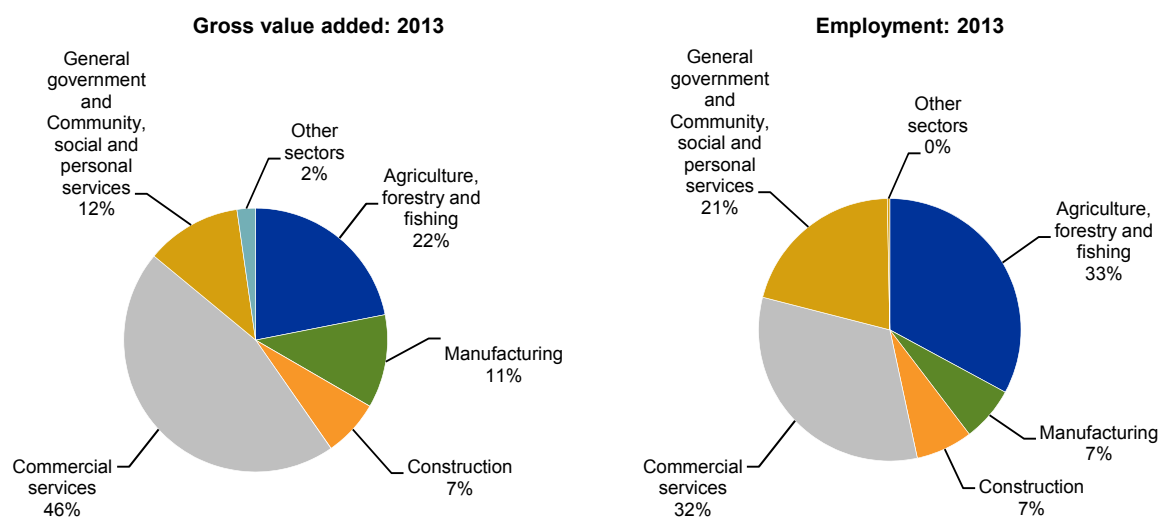
The sector development at the level of the OBD's four municipalities is considered below.

2.2.1 Theewaterskloof

Figure 2.1 shows that Theewaterskloof accounted for 35 per cent (or R4.7 billion) of the OBD's GDPR (R13.3 billion) in 2013, i.e. the largest in the region (alongside the Overstrand Municipality). It also accounted for 38.7 per cent (i.e. 29 465 workers) of the total OBD workforce (i.e. 76 220). The agricultural base and associated services of the economy is reflected in the sectoral distribution of its workforce, i.e. one third in agriculture and one third in commercial services (Figure 2.2). The relatively small manufacturing sector (11 per cent) suggests there may be room to develop the region's processing industries; this aspect is explored in Chapter 3.

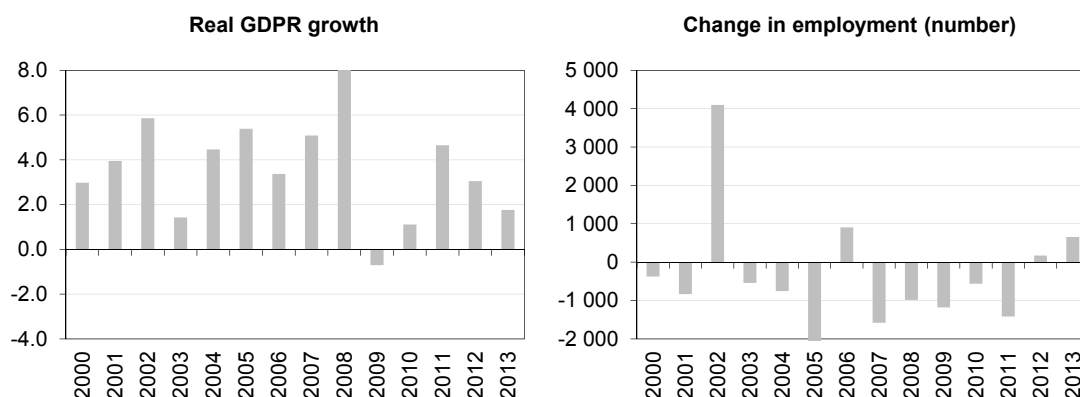
Figure 2.1 Theewaterskloof share of Overberg District gross value added and employment

Source: Quantec Research, Own calculations

Figure 2.2 Theewaterskloof: Composition of gross value added and employment

Source: Quantec Research, Own calculations

While commercial services is the largest sector in terms of GDP contribution (46 per cent), Theewaterskloof is characterised by its relatively large agricultural sector (22 per cent of GDP and with two-thirds of the District-wide sector being located here). Apart from climatic and seasonal swings, agricultural output has been relatively stable over the past ten years, shrinking only marginally. Whilst this continued to provide a base for the regional economy, it subtracted from growth given its large weight in GDP. The other sector, which dampened growth, is the so-called 'public sector', i.e. the government and CSP services, which contracted by 0.4 per cent per annum between 2005 and 2013. These two sectors explain why Theewaterskloof's economy grew below average in the OBD.

Figure 2.3 Theewaterskloof real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

The rapid expansion of its construction industry and commercial services and even manufacturing (mainly food and beverage processing, as well as chemicals, wood products and furniture) ensured that the region posted growth in line with that in the wider Province at 3.6 per cent per annum, 2005 - 2013. Figure 2.3 and Table 2.5 do, however, show that the regional economy shares the broader trend of significantly slower growth during the aftermath of the 2009 recession – real GDP growth averaged 2.6 per cent, 2010 - 2013. Growth slowed down in all the main sectors of the region.

Table 2.5 Theewaterskloof gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	1 019	-0.1	0.3	9 693	-6.3	-8 382	-2.3	-1 048
Manufacturing	532	3.8	2.2	1 990	-0.4	-85	-2.3	-204
Construction	324	8.5	2.2	2 063	-0.7	-189	-5.9	-579
Commercial services	2 124	6.7	4.7	9 538	2.9	2 138	2.6	911
General government and Community, social and personal services	546	-0.4	0.3	6 101	-1.4	-806	-0.9	-231
Other sectors	105	-1.0	-0.6	91	1.3	5	0.7	1
Total Theewaterskloof	4 650	3.6	2.6	29 475	-2.4	-7 319	-0.9	-1 151
Overberg District	13 279	4.6	3.4	76 220	-0.8	-5 731	-0.3	-1 129

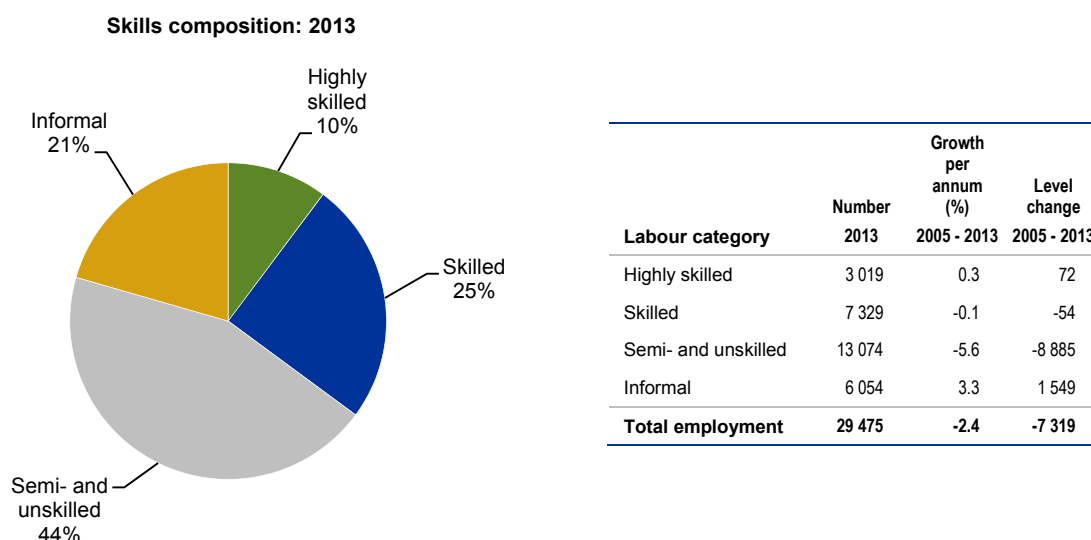
Source: Quantec Research, Own calculations

Figure 2.3 and Table 2.5 show that the employment trend has been very negative, mainly due to sharp net job losses in the agricultural sector. In all, non-agricultural employment expanded over the past 10 years, with both manufacturing and construction employment levels declining only moderately. In line with the other districts, commercial services was the employment creator, albeit that the employment growth in this sector was insufficient to compensate for the net losses in

the primary and secondary sectors. Regarding the adverse trend in agricultural employment, 2011 - 2013 presented signs of a stabilisation and even improvement in the wider Province; however, with the Overberg's agri-processing sector firmly integrated with competitive and mechanised global value chains, arresting this tendency may prove more difficult (see the analysis in Chapter 3).

Figure 2.4 shows the sharp negative trend in semi- and unskilled employment demand, which reflects the labour market developments in the region's agricultural sector. Even after labour demand in this market segment contracted at an average rate of 5.6 per cent per annum, 2005 - 2013, it still accounts for 44 per cent of the workforce. While the informal sector grew at a rate of 3.3 per cent per annum, this may have been insufficient to absorb both the semi- and unskilled job losses and the new labour force entrants, suggesting an increase in unemployment in the region. Chapter 5 also reveals a high population growth rate in the region due to net in-migration.

Figure 2.4 Theewaterskloof workforce skills: 2013



Source: Quantec Research, Own calculations

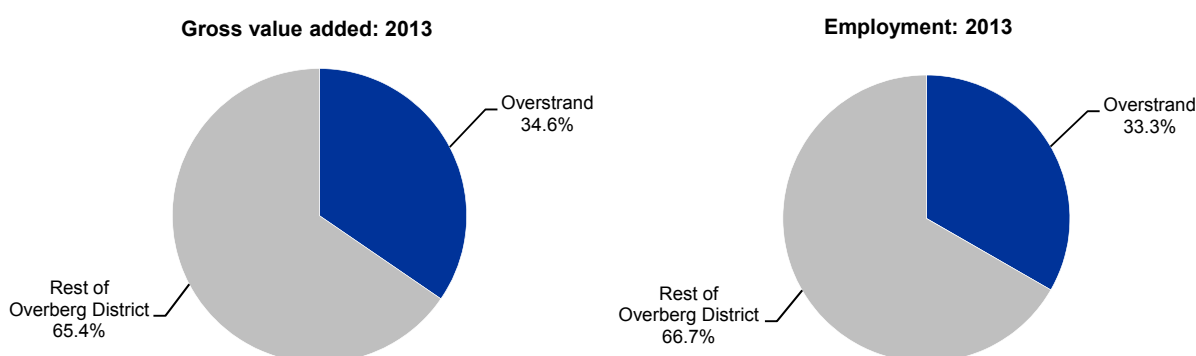
In all, Theewaterskloof's economy is, alongside Overstrand, the largest in the OBD; however, its industry structure is very different to that of Overstrand. It has a much larger agricultural sector and a relatively smaller commercial services sector compared to Overstrand. This also explains an important part of the comparatively slower overall economic growth in the region. Sharp labour retrenchments in the agricultural sector explain an overall negative employment trend over the past ten years. The net loss of semi- and unskilled employment opportunities and the influx of migrants pose a challenge to the local authorities. The above-average expansion of the region's commercial services (including tourism) and construction industries and positive manufacturing growth ensured that Theewaterskloof's economy expanded in line with the wider provincial real GDP growth rate over the past ten years.

2.2.2 Overstrand

Overstrand's relative contribution to the OBD's GDP and employment is equivalent to that of Theewaterskloof Municipality, i.e. 35 per cent of GDP (or R4.6 billion of R13.3 billion) and one third of employment (or 25 200 workers out of 76 220) in all in the Overberg. Boosted by a relatively larger and rapidly expanding commercial services sector, where tourism activities also feature strongly, Overstrand has been able to post strong real GDP growth, averaging 5.4 per cent per annum over the past decade.

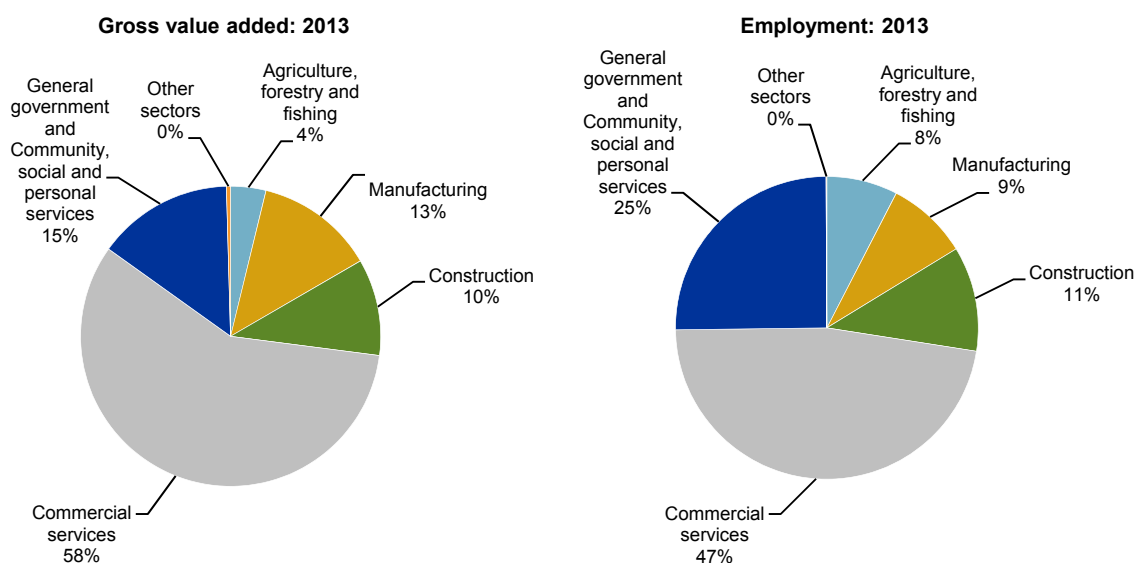
Close to 60 per cent of the region's economic activities are accounted for by commercial services; in fact, including the general government and community, social and personal services, the tertiary sector employs 72 per cent of the regional workforce – see Figure 2.6. The agricultural sector is relatively small (4 per cent of Overstrand's GDP), manufacturing activities better represented (13 per cent) and the construction industry comparatively large at 10 per cent of GDP.

Figure 2.5 Overstrand share of Overberg District gross value added and employment: 2013



Source: Quantec Research, Own calculations

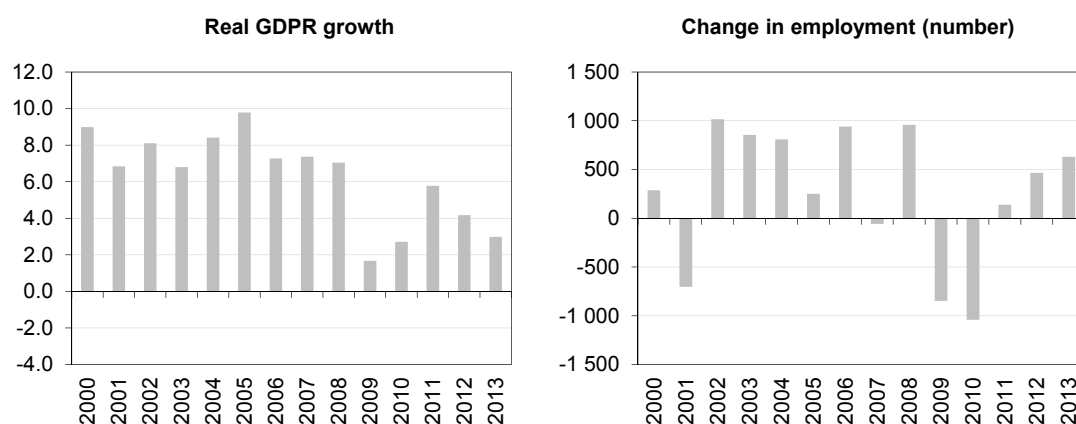
Figure 2.6 Overstrand: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

The rapid economic growth in the region sustains the construction industry and its growth. Figure 2.7 and Table 2.6 reveal that Overstrand's growth and employment performance stands out in OBD. Even during the post-2009 period, real economic growth averaged close to 4 per cent per annum, whilst the employment track record of the past 10 to 15 years is significantly more positive. Employment contracted sharply during 2009 - 2010; however, the recovery has been strong enough to restore pre-recession employment levels. The construction industry witnessed a sharp slowdown after 2009 and many construction workers lost their jobs. The relatively high growth in manufacturing activities also slowed down notably. On the positive side, 5 per cent annual growth in commercial services was sustained, 2010 - 2013, with employment in this sector also increasing by 2.2 per cent per annum over this period.

Figure 2.7 Overstrand real economic and employment growth: 2000 - 2013

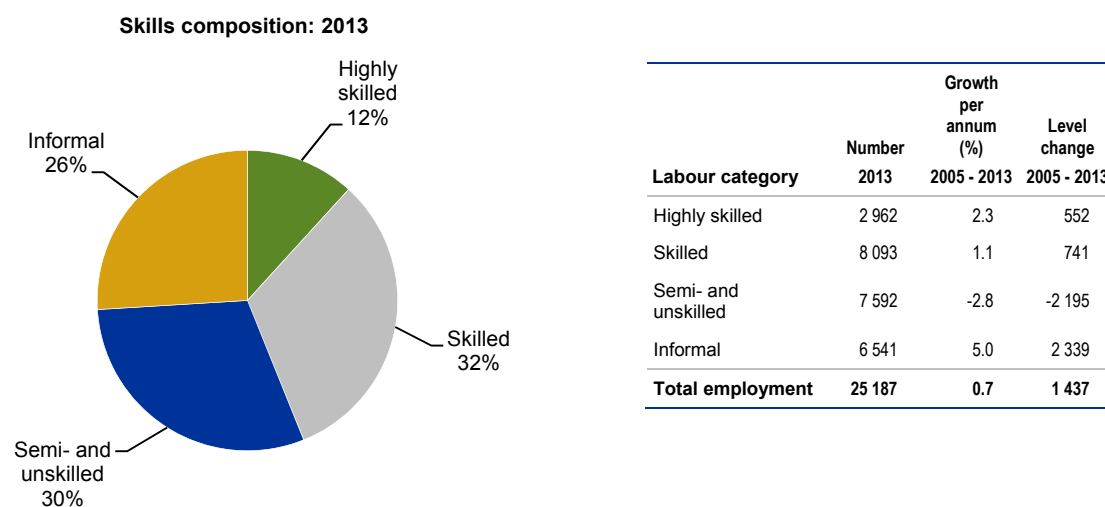


Source: Quantec Research, Own calculations

Table 2.6 Overstrand gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	174	0.0	-0.3	1 909	-6.6	-1 804	-1.2	-108
Manufacturing	589	4.6	2.5	2 190	-0.4	-92	-1.9	-182
Construction	478	7.1	1.7	2 823	-2.0	-625	-6.1	-828
Commercial services	2 654	6.3	5.0	11 916	2.9	2 634	2.2	974
General government and Community, social and personal services	673	4.3	4.0	6 324	2.7	1 332	1.4	336
Other sectors	20	-5.7	-1.0	24	-2.1	-8	1.6	1
Total Overstrand	4 589	5.4	3.9	25 187	0.7	1 437	0.2	194
Overberg District	13 279	4.6	3.4	76 220	-0.8	-5 731	-0.3	-1 129

Source: Quantec Research, Own calculations

Figure 2.8 Overstrand workforce skills: 2013

Source: Quantec Research, Own calculations

In terms of the labour skills demand, Overstrand witnessed stronger demand for highly skilled and skilled workers, whilst the net retrenchment of semi- and unskilled labour was not as sharp as in Theewaterskloof's agricultural sector, for instance. Combined with positive growth in informal sector employment, the overall tendency in Overstrand's employment creation was positive over the past 10 years (Figure 2.8). The region has a relatively large skilled labour market segment, accounting for close to a third of overall employment.

In all, Overstrand's economy is the leading regional economy in the OBD by virtue of its size and level of growth. It has a services oriented economy, which is otherwise well-balanced and with growth also being well-dispersed amongst its major economic sectors. Tourism is likely to be an important driver of the region's rapidly expanding commercial services and employment creation. It may also be noted that the better-balanced industry structure and associated growth account for a more balanced labour skills demand pattern, albeit that this does not prevent a net outflow of semi- and unskilled labour.

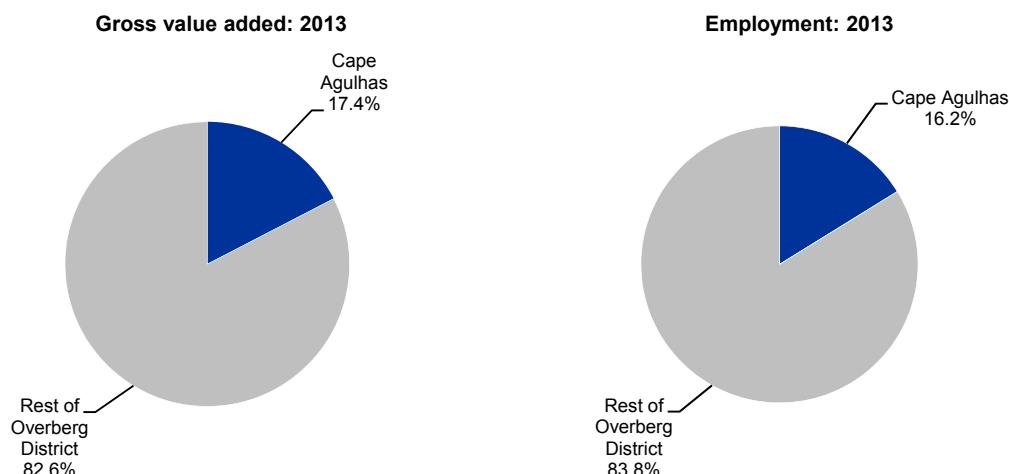
2.2.3 Cape Agulhas

Cape Agulhas has a significantly smaller economy compared to Theewaterskloof and Overstrand, but it has also been expanding at a rapid pace. The regional economy accounted for R2.3 billion of the OBD's R13.3 billion economy, or 17.4 per cent, and employed 12 300 (or 16.2 per cent) of OBD's workforce in 2013. The region is well-known for its scenic beauty, both along its coastline and in the interior, as well as successful farming in the area.

The industry structure of the regional economy reveals a notably bigger share of the so-called 'public sector', i.e. general government and community, social and personal services. This sector accounted for 29 per cent of GDP in 2013 and employed the largest share of the workforce, i.e. 35 per cent. This feature must be

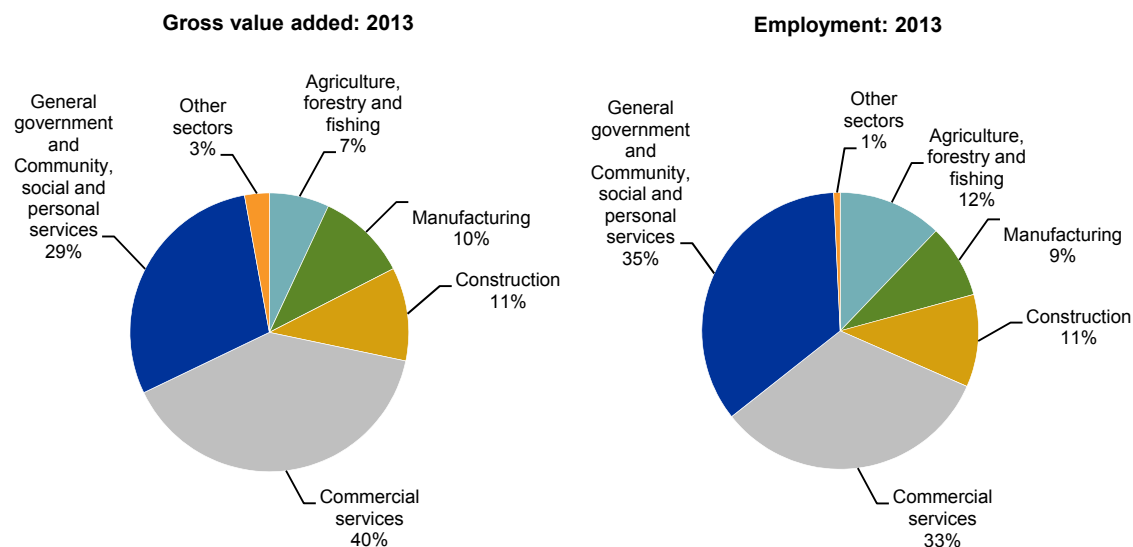
explained by the presence of the military in the area. For the remainder, the commercial service sector is also important (40 per cent of GDP and employing a third of the region's workforce) and is the relative size of the construction industry (11 per cent) notable. Again, it is a matter of a rapidly growing region, which sustains a high demand for construction activity. The manufacturing sector is relatively small, albeit rapidly expanding off a low base.

Figure 2.9 Cape Agulhas share of Overberg District gross value added and employment: 2013

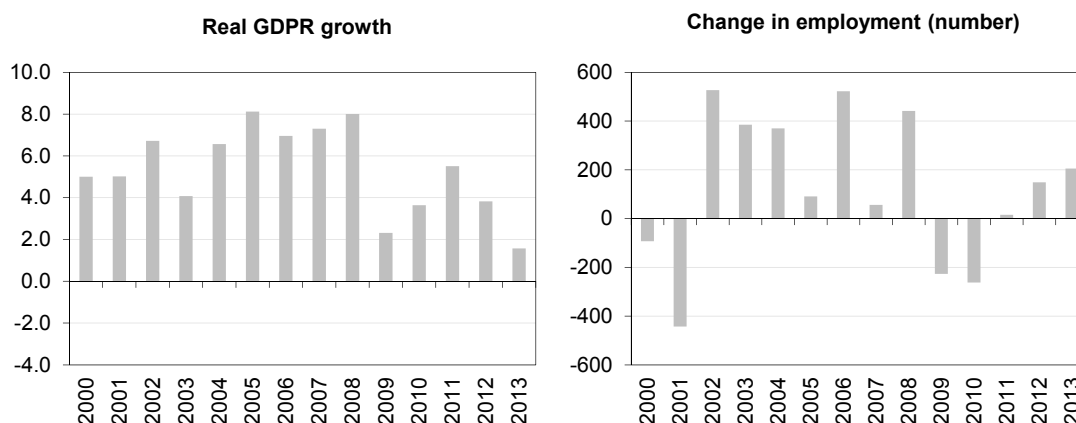


Source: Quantec Research, Own calculations

Figure 2.10 Cape Agulhas: Composition of gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.11 Cape Agulhas real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

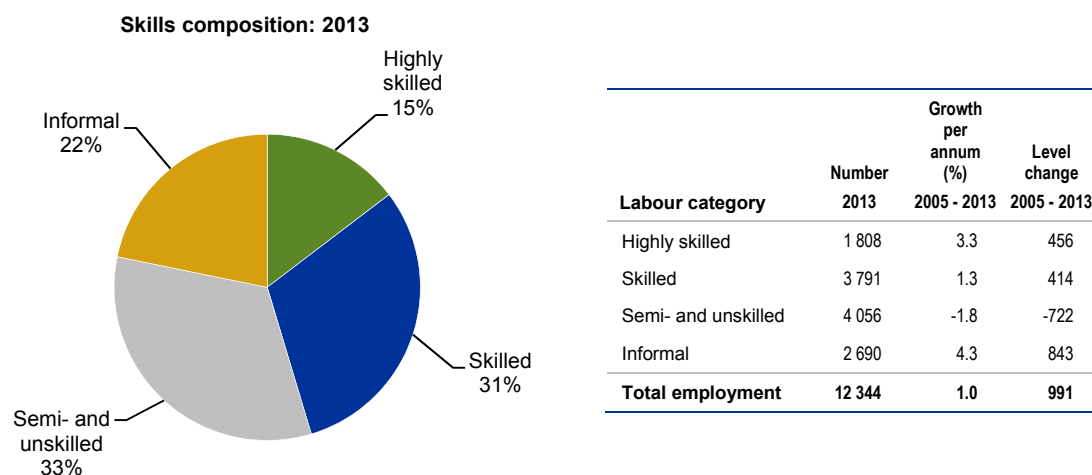
Regarding the economic growth performance of the Municipality, all major sectors expanded over the past 10 years, from agriculture and fishing (2.1 per cent per annum) to manufacturing (5.7 per cent per annum), construction (8.6 per cent) and commercial services (4.7 per cent). The relatively rapid growth of the region's primary and secondary economic activities also resulted in a softer adverse labour market trend, with the net outflow of workers being more moderate. Combined with net employment creation in the tertiary sector, the municipal economy registered positive net overall employment growth, both before and after the 2009 recession – see Table 2.7.

Table 2.7 Cape Agulhas gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	161	2.1	0.5	1 501	-3.9	-724	-0.9	-62
Manufacturing	242	5.7	2.3	1 062	0.1	4	-3.0	-139
Construction	251	8.6	2.2	1 336	-0.7	-112	-5.7	-364
Commercial services	914	4.7	3.9	4 047	1.3	427	1.4	222
General government and Community, social and personal services	676	6.4	5.9	4 306	4.3	1 363	2.8	445
Other sectors	66	0.4	1.3	93	6.4	34	2.5	5
Total Cape Agulhas	2 309	5.3	3.6	12 344	1.0	991	0.2	107
Overberg District	13 279	4.6	3.4	76 220	-0.8	-5 731	-0.3	-1 129

Source: Quantec Research, Own calculations

Figure 2.12 also shows that demand of skilled and highly skilled labour grew relatively briskly, whilst the net rate of retrenchment in the semi- and unskilled segment was softer at 1.8 per cent per annum. The growth in informal sector employment compensated in this respect and overall employment grew at a rate of 1.0 per cent per annum, 2005 - 2013.

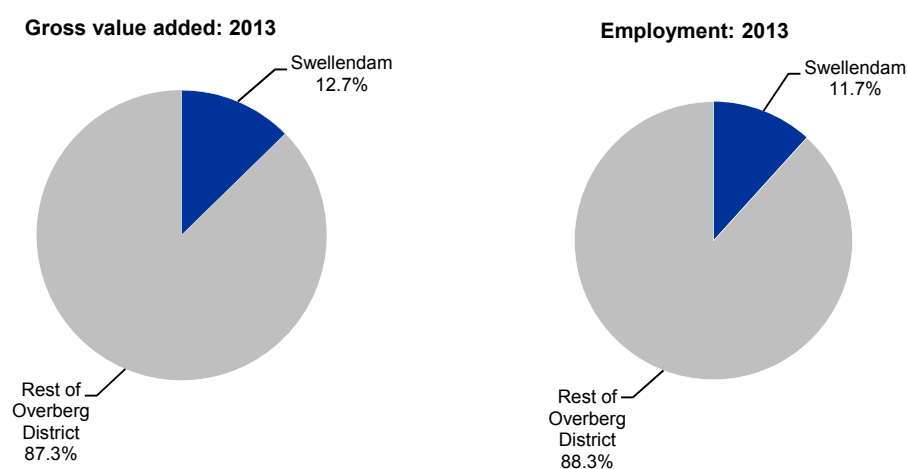
Figure 2.12 Cape Agulhas workforce skills: 2013

Source: Quantec Research, Own calculations

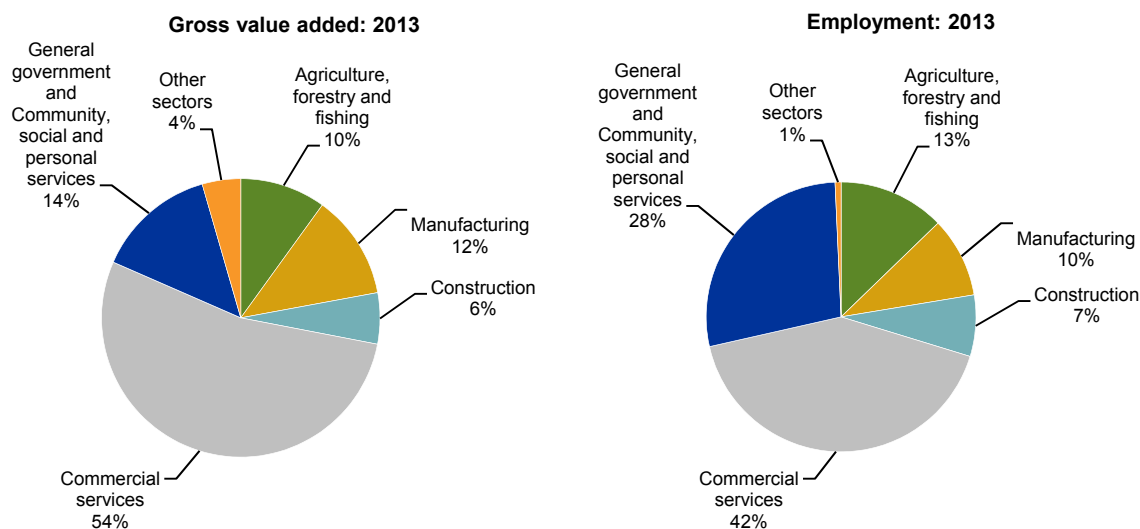
In all, Cape Agulhas' economy is small economy located along the southern coast of the Province. The region is characterised by broad-based growth across all its major industries, from agriculture and fishing to commercial services and other tertiary activities. Employment creation was also positive over the past decade. The region's industry structure is noted for the relative large size of the 'public sector', employing the largest share of Cape Agulhas' workforce.

2.2.4 Swellendam

Swellendam Municipality hosts the smallest regional economy in the Overberg, accounting for 12.7 per cent (or R1.7 billion) of the OBD's R13.3 billion economy in 2013 and employing 11.7 per cent (or 9 100) of the regional workforce of 76 220.

Figure 2.13 Swellendam share of Overberg District gross value added and employment: 2013

Source: Quantec Research, Own calculations

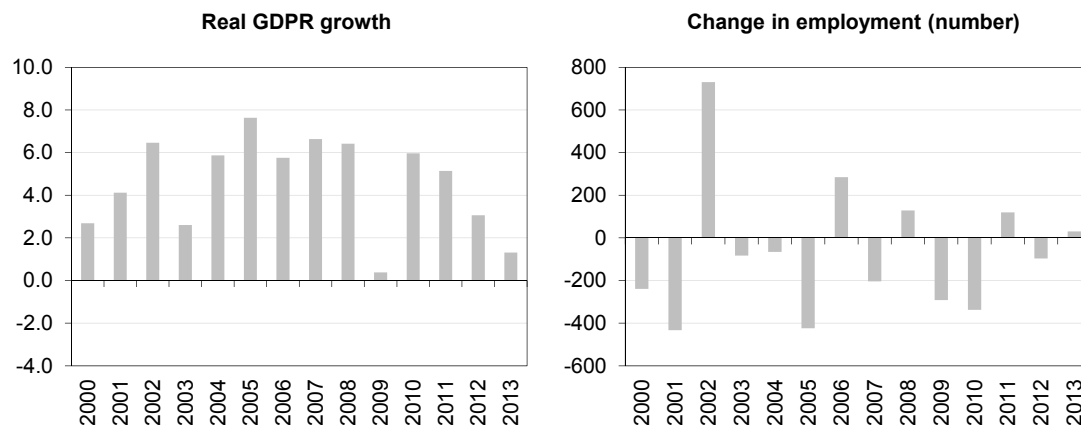
Figure 2.14 Swellendam: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

The region has developed into a services economy, with commercial services accounting for 54 per cent of GDP and 42 per cent of employment. Tourism is also an important industry in the region. The government and CSP services sector employs no less than 28 per cent of the region's workforce, which is equivalent in size compared to the combined employment in the Municipality's primary and secondary sectors. The latter-mentioned sectors are relatively small in the region.

Figure 2.15 and Table 2.8 show, whilst a small economy, that growth was relatively brisk. In fact, the regional economy did not contract in 2009 at the time of the recession and was sustained at a relatively high rate during the period of economic recovery averaging close to 4 per cent per annum, much in line with the growth performance of the rapidly expanding Overstrand economy.

The main drivers of the strong growth in the region, has been the leading commercial services sector (in terms of size), as well as keen growth in manufacturing and construction activities. The 'public sector' also expanded. The only sector contracting has been agriculture, albeit that positive growth was restored after the recession. Despite the high growth of the region, its employment creation track record is not encouraging (Figure 2.15). The region suffered net employment losses overall over the 2005 - 2013 period, with the employment tendency being slightly more negative compared to that in the wider Overberg region.

Figure 2.15 Swellendam real economic and employment growth: 2000 - 2013

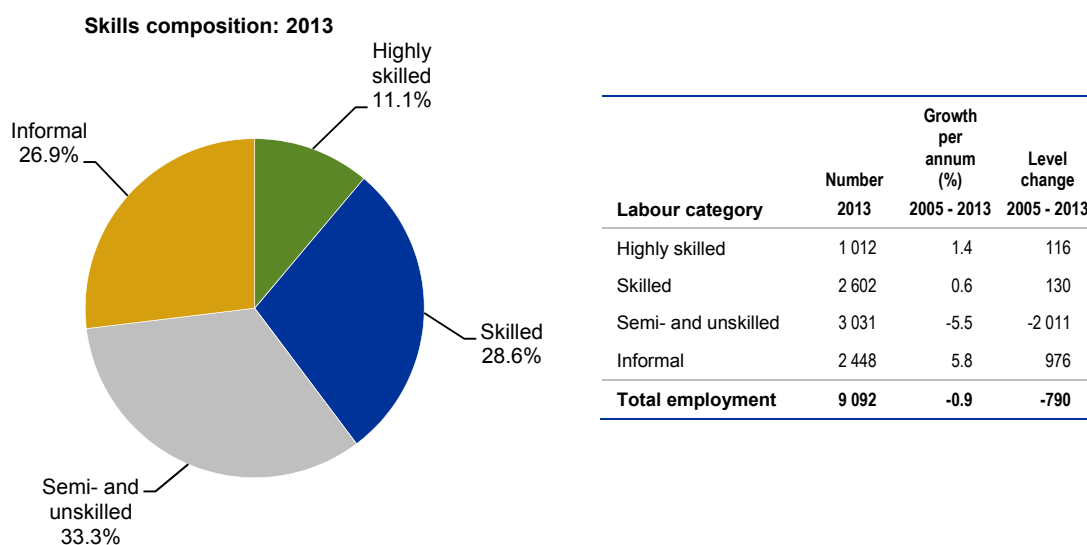
Source: Quantec Research, Own calculations

The agricultural sector contributed strongest to the adverse employment tendency, which presumably also explains the sharp negative trend in semi- and unskilled labour demand (-5.5 per cent per annum, 2005 - 2013). Whilst informal sector employment grew noticeably, combined with the increased demand for highly skilled and skilled labour, this was not sufficient to stem the overall negative tendency in employment. Swellendam has a relatively large informal sector and semi- and unskilled labour market component – see Figure 2.16.

Table 2.8 Swellendam gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	168	-2.9	3.6	1 160	-10.5	-2 184	-3.3	-179
Manufacturing	204	8.6	4.1	874	2.6	169	-2.5	-98
Construction	100	8.7	1.8	668	-0.5	-47	-6.0	-192
Commercial services	902	6.0	4.4	3 794	2.9	847	1.2	171
General government and Community, social and personal services	235	3.8	3.2	2 530	2.0	409	0.1	13
Other sectors	75	3.5	2.1	65	4.1	17	0.6	1
Total Swellendam	1 685	4.7	3.9	9092	-0.9	-790	-0.7	-284
Overberg District	13 279	4.6	3.4	76 220	-0.8	-5 731	-0.3	-1 129

Source: Quantec Research, Own calculations

Figure 2.16 Swellendam workforce skills: 2013

Source: Quantec Research, Own calculations

In all, Swellendam's economy is the smallest in the OBD, but it has been expanding at a relatively high rate. The expansion is evident in all the major sectors, except for agriculture. The adverse trend in the latter-mentioned sector is at the bottom of the overall adverse trend in employment creation in the region and also pulled down average GDP growth.

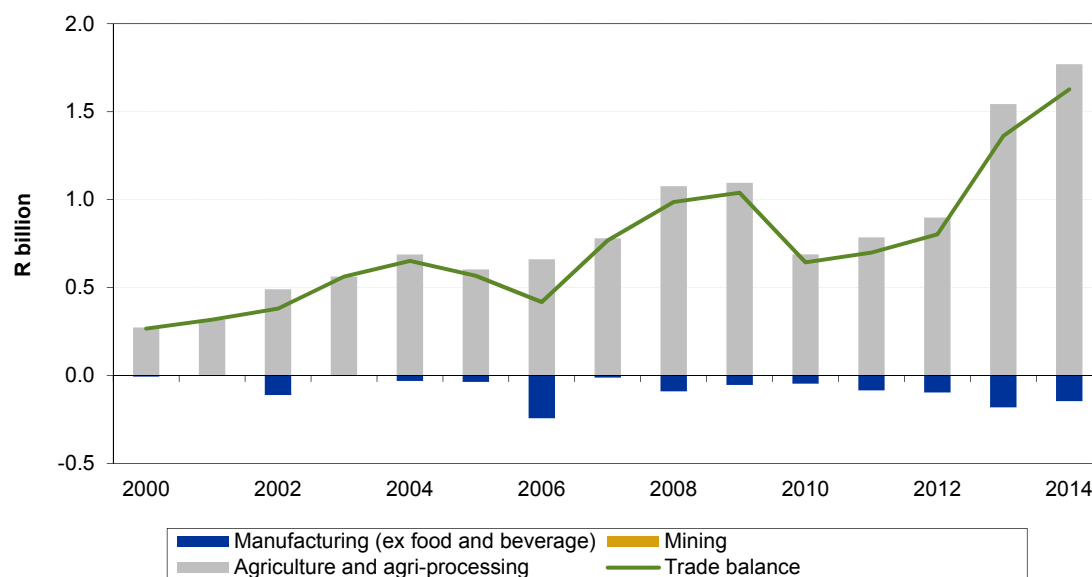
In the following section, OBD's international trade is briefly discussed.

2.3 International trade

Overberg goods exports were impacted by the global recession; however, it has recovered consistently from a level of R750 million in 2010 to an estimated R1.9 billion last year³. The region's goods exports consist mainly of agricultural products (63 per cent) and processed food and beverage products (33 per cent). Goods imports, on the other side, comprise 70 per cent of many manufactured products (mainly machinery and equipment, transport equipment and leather products) and close to 30 per cent agricultural and agri-processing imports. The value of goods imports remained relatively stable between 2013 and 2014, coming in at an estimated R306 million.

The outcome of this trade performance has been a rising trade surplus, having taken a dip in 2010, it reached an estimated R1.6 billion in 2014, up from R643 million in 2010. The agri-processing trade surplus is actually slightly bigger at R1.8 billion due to the small deficit in manufacturing goods trade.

³ These trade statistics are subject to revision.

Figure 2.17 Overberg District trade balance, 2005 - 2014

Source: Quantec Research, own calculations

The region's goods exports measured 13.4 per cent of GDP in 2014, which is equivalent to the pre-recession peak of 13.7 per cent achieved in 2008. This export exposure is relatively small and indicates more room for export expansion in order to create additional demand in an otherwise small local market.

In the following section, the sectoral prospects for the Overberg regional economy are considered.

2.4 Sectoral prospects

2.4.1 Local issues

In the 2013 MERO study it was found that four value chains in the Overberg District exhibited a competitive edge, namely the food value chain (i.e. agri-processing), the building value chain (i.e. building material manufacturing and the construction sector), the tourism value chain and furniture manufacturing. An updated comparative advantage analysis in a provincial context⁴ confirms that these industries continue to have an edge in the region. Both the tourism and agri-processing value chains are analysed further in Chapter 3.

The Overberg economy is a rapidly expanding area, which attracts net in-migration and places urgent demands on the development of basic services and bulk infrastructure. From the municipal surveys conducted in the Theewaterskloof and Overstrand municipalities, it is evident that funding constraints is a real issue, even only

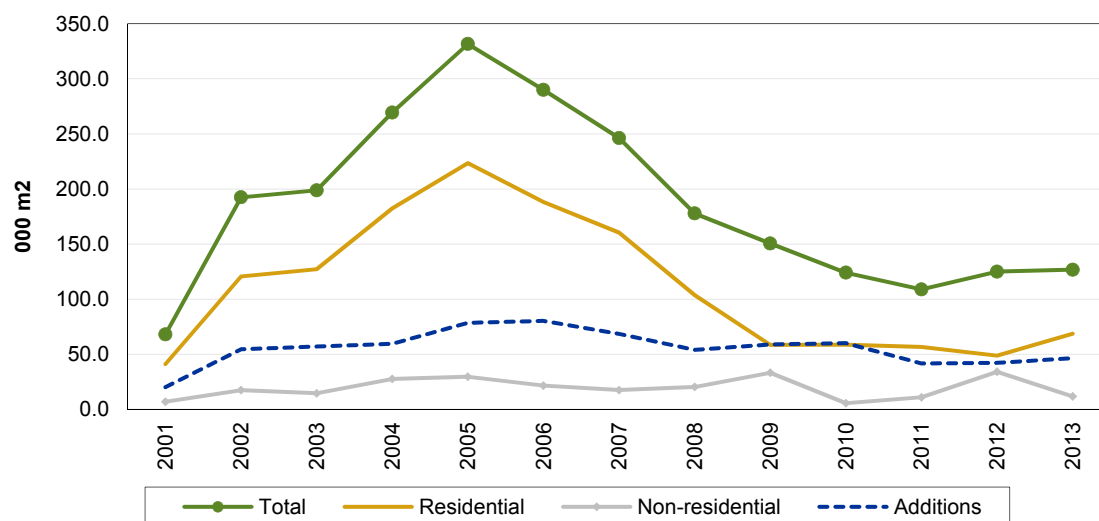
⁴ Conducting the location ratio analysis at the provincial level shows which industries at the district level have a competitive edge in the comparative faster growing province in the country. As such the bar is raised somewhat for any specific industry to qualify. The results of the latest location ratio analysis therefore serve as confirmation of these industries' competitiveness in the Province, also being maintained since 2011.

to keep up with the maintenance requirements of existing infrastructure. The upkeep of gravel roads in the region is a specific issue noted by these municipalities. In Overstrand, plans are afoot and funding is required for the so-called Hermanus Parallel Road (i.e. an alternative to the R43 provincial road), which will eventually stretch from Vermont to the Hermanus CBD, linking all the adjoining settlements. This will relieve traffic congestion. This is but one example of wider infrastructure requirements in the Overberg.

It is evident from the Municipal Survey responses that the impact of the global recession in 2009 continued to linger, albeit that some optimism is emerging. Theewaterskloof Municipality reports: “[the] ... market is turning around, the weak rand is improving export sales, there is less sensitivity to price and producer incomes are improving and the local market has rebounded from the recession and is growing.” (Provincial Treasury Municipal Survey, August 2015). Overstrand is also encouraged by the success of and outlook for the aquaculture industry in Hermanus, as well as tourism in view of initiatives to brand and market the region

The tourism optimism is mirrored in the neighbouring Theewaterskloof, where The “*The Cape Country Meander*” (TCCM) was launched in 2010. This united eight towns under one umbrella and provides a platform to market the region. The TCCM initiative involved the creation of a destination brand and the development of a destination website (Provincial Treasury, Municipal Survey, August 2015). Greater vibrancy in tourism has positive implications for many linked industries in the region. Overstrand is less optimistic regarding the state of the construction industry – see the trend in building plans completed, Figure 2.18. The Municipality is also somewhat cautious regarding the agricultural outlook due to the adverse climatic conditions of the past winter season; it also notes the constraining impact on agricultural exports due to Europe's trade rules.

Figure 2.18 shows that the total square meters of building plans completed in Overstrand Municipality trended downward from 2006, although the trend turned slightly upward in 2012 and 2013. Residential building completions (68 645 m²) have been the highest in 2013, followed by completed plans for alterations and additions to buildings (46 385 m²). On a more positive note, considering building plans passed, the total value increased from R689.8 million in 2011 to R785.7 million in 2012, R845.1 million in 2013 and R1.1 billion in 2014. The contrast between the increasing values and the flat tendency in square meters completed can be explained by the increasing property prices within the Overstrand municipal area over this period.

Figure 2.18 Building plans completed - Overstrand

Source: Statistics SA

The opinions are therefore generally in line with the economic statistics, which indicate that the recovery has been under pressure and could remain so for the foreseeable future. Beyond the business cycle, the climatic conditions are critical as most of the secondary and tertiary economic activities, including tourism, are linked to the agricultural sector. The agricultural regions of Overberg stand to benefit from initiatives by the WCG to develop agri-value chains, with an emphasis on niche industries and exports, as well as the replacement of imports. The emphasis on export promotion and local production is particularly opportune in view of the weaker trending levels of the rand exchange rate.

The broad sector forecast for the OBD is motivated below.

2.4.2 Sector forecast: 2015 - 2020

Table 2.9 contains the OBD sector forecast over the period 2015 - 2020. The five-year average growth rate across the 10 broad sectors in the region is shown and compared with the projected growth of the Western Cape economy. The anticipated average five-year real GDP growth rate for OBD has been revised downwards from 3.6 per cent per annum (2014 - 2019) to 3.3 per cent per annum (2015 - 2020), mainly due to the relatively more constrained macro-economic environment (as discussed in Section A of the report and Chapter 1).

The forecast for agricultural output is optimistic considering the 2005 - 2013 trend, but in line with the sector's growth performance over the period since 2009. Assuming normal climatic conditions, the increased demand for agricultural products linked to initiatives to grow the processing value chain, should be supportive to this outlook. Furthermore, the aquaculture industry is blossoming and adds to export growth.

Table 2.9 Overberg District: Real economic growth outlook, 2015 - 2020

Sector	Real GDP (yoy %)				
	Trend	Recession	Recovery	Overberg District	Western Cape
	2005 - 2014	2008 - 2009	2010 - 2014	2015 - 2020	2015 - 2020
Agriculture, forestry and fishing	-0.1	2.6	0.8	1.9	2.3
Mining and quarrying	2.9	-2.9	2.4	2.3	2.0
Manufacturing	4.7	1.9	2.4	3.3	2.2
Electricity, gas and water	-0.1	-2.4	0.7	1.3	1.8
Construction	7.3	8.2	1.9	3.4	3.7
Wholesale and retail trade, catering and accommodation	2.4	-3.0	3.7	2.4	2.7
Transport, storage and communication	4.5	4.0	2.4	3.5	3.2
Finance, insurance, real estate and business services	8.5	11.1	4.9	5.1	3.4
Community, social and personal services	2.5	1.0	2.3	2.1	1.7
General government	3.4	4.0	3.4	1.3	1.3
Total	4.3	4.2	3.1	3.3	2.7

Source: Quantec Research/Provincial Treasury, MERO

The vibrancy of the manufacturing sector in the region, ranging from the heavier agri-processing plants in Theewaterskloof to the lighter industries of Cape Agulhas and Swellendam, is projected to receive an added boost from the more competitive value of the rand exchange. As noted above, the exchange rate is also a stimulus for the tourism sector, which is known to attract international tourists. Unfortunately, the new visa requirements regulating the inward movement of people are likely to exert a negative impact on the regional economy, both in terms of inward tourism and investment. It is hoped that the regulations will be revised. The latest tourism statistics already provide a flavour of the anticipated negative impact. For the remainder, the whole range of commercial services, ranging from retail and wholesale, to transport and communication and financial and business services stand to benefit from the growth in agriculture, manufacturing and tourism. The financial and business services industry has expanded rapidly in recent years and this sharp growth is projected to persist.

In all, the baseline forecast is for real GDP growth in the OBD to strengthen somewhat from the 3.1 per cent recovery growth (2010-14) over the next five years, averaging 3.3 per cent per annum. This is significantly higher compared to the growth projection in respect of the provincial economy (2.7 per cent per annum) and only a notch below the projected growth of the Eden District (3.4 per cent per annum).

2.5 Concluding remarks

The forecast for agricultural output is optimistic considering the 2005 - 2013 trend, but in line with the sector's growth performance over the period since 2009. Assuming normal climatic conditions, the increased demand for agricultural products linked to initiatives to grow the processing value chain, should be supportive to this outlook. Furthermore, the aquaculture industry is blossoming and adds to export growth.

The vibrancy of the manufacturing sector in the region, ranging from the heavier agri-processing plants in Theewaterskloof to the lighter industries of Cape Agulhas and Swellendam, is projected to receive an added boost from the more competitive value of the rand exchange. As noted above, the exchange rate is also a stimulus for the tourism sector, which is known to attract international tourists. The whole range of commercial services, ranging from retail and wholesale, to transport and communication and financial and business services stand to benefit from the growth in agriculture, manufacturing and tourism. The financial and business services industry has expanded rapidly in recent years and this sharp growth is projected to persist.

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3

Value chains

3.1 Introduction

The value chain includes the activities firms undertake to bring a product or service from production to end use by consumers. Value is added at each step along this chain. It is unlikely, in the modern age that a full value chain exists at a local level, or even a provincial level. Modern value chains are driven by globalisation, interconnectedness, technology, logistics improvements, offshoring and deregulation. This has led to the various tasks associated with traditional value chains becoming increasingly fragmented globally. Value chains are increasingly becoming more efficient, taking advantage of the relative comparative advantage of countries, regions and competitive advantage of different firms.

Transport and communication advancements have allowed a greater division of labour in firms, as well as the broader value chain. For each of the production stages, firms identify their in-house capability to undertake a task, relative to outsourcing this task or even moving this offshore. It is important to identify the target market of the product, as various changes to the value chain may provide significant efficiency gains for firms.

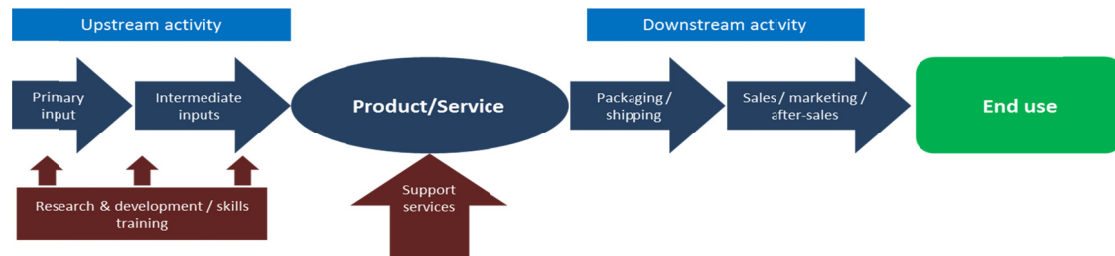
Risk exposure in a value chain is a key concept which will be considered in this chapter as it is very important to the sustainable functioning of a value chain. Highly regionally or globally integrated value chains are susceptible to global risks and economic slowdowns. It is unlikely that a value chain can be developed to be entirely isolated from this type of risk, as global and regional markets are lucrative as end-user destinations, due to the large market size.

3.2 Stages and significance of the value chain

Figure 3.1 shows the various stages in a generic value chain. The activities leading up to the manufacture of the product are accounted for as upstream activities and the activities involved in getting the product to the market are accounted for as downstream activity. Various support services are also required in upstream and

downstream activity, such as, financial services or legal services. Upstream activity also requires research and development and skill building, which have positive spinoffs for the economy.

Figure 3.1 Generic value chain example



Risks and opportunities are evident at various stages of the value chain. Commodity prices are significantly more volatile relative to a product higher in the value chain, due to speculation in world markets and slowdowns in major demand markets. Integration with larger value chains can mitigate certain risks if these value chains have diversified their target markets, or if they have started to provide their products to high growth regions.

3.3 Policy and spending-initiative considerations

For municipal districts, targeted spending can strengthen small local value chains and assist in achieving regional or global value chain integration of local manufacturing. Job creation cannot be sustainable unless the industry to sustain these jobs is created. It is also important that skills development and training accompanies new job creation activity to enable sustainable growth. In supporting the development of value chains and integration into regional or global value chains, Research and Development (R&D) and skills training will be promoted by the private sector. Although it may be beneficial to provide input at the low-value-added stage of a value chain through primary inputs, this exposes the industry to risks and does not promote sustainable growth and development of the local community. In order for growth to be inclusive it is necessary that economic upgrading must be linked to social upgrading (see Chapter 5). Spending should, therefore not only be targeted at a certain industry or value chain linkage, but social needs impacting value chain development and sustainability should also be targeted at the same time (Barrientos *et al*, 2011).

As local value chains develop and become integrated into global value chains, the local value added component may decrease. Economies of scale and efficiency gains may result in a certain industry exporting a significant proportion of its production as local markets become too small. In order to accommodate for this, it is essential that upgrading of the local value chain takes place.

Activities such as R&D and skills development add greater value to the production process. Captive relationships between local value chain actors should also be addressed. For example, buyers can reduce the price primary producers receive for their products. Cutting out the 'middle man' could result in less overall revenue, but sustain a greater amount of jobs in the long run.

The key factors for upgrading and development of value chains are: Improving skills and education; improving access to electricity; encouraging R&D and skills development; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain.

Creation of strong entrepreneurial skills also contributes to new businesses taking advantage of existing linkages in value chains at a local level. Provision of enterprise maps and suppliers databases may also induce collaboration and create potential new linkages in the value chain at a regional and local level.

3.4 Integration of special economic zones (SEZs) into global or regional value chains

Various types of SEZs have been developed. Free trade zones and fenced-in, duty free areas are usually situated near ports or airports. Export processing zones are constructed as industrial complexes which usually concentrate on export-orientated manufacturing. Enterprise zones offer tax incentives or financial grants to operate businesses in certain areas. These zones usually target areas that need economic and social upliftment. Specialised zones are those such as science and technology parks, logistics parks or chemical/pharmaceutical parks.

Establishment of a SEZ can often provide greater value added and employment benefits to a region. Evidence suggests that SEZs are more successful if they are developed privately, rather than initiated by government involvement. Private sector participation is a key success factor in the establishment and sustainable growth of a SEZ (World Bank, 2008).

SEZs as defined under the South African SEZ Act No. 6 of 2014

"Industrial Development Zone" means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services.

"Free Port" means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures.

"Free Trade Zone" means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.

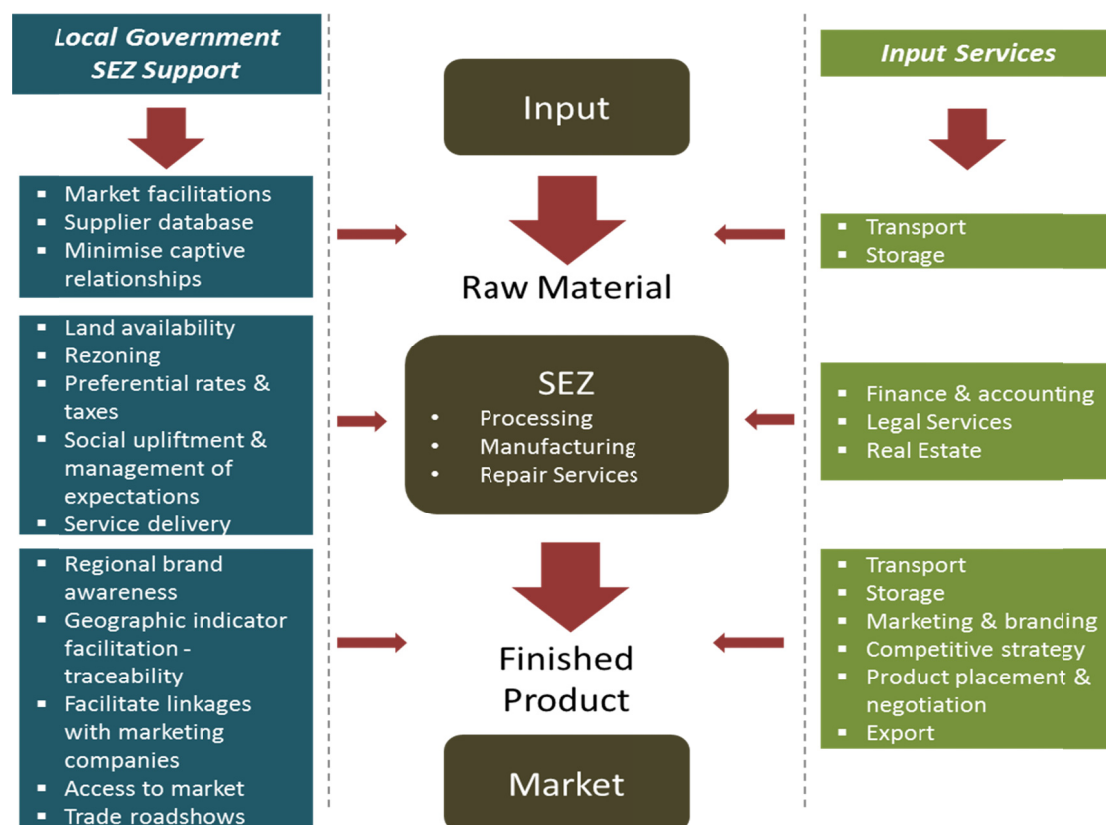
"Sector Development Zone" means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.

The challenge facing municipalities is their limited ability to deliver targeted spending initiatives to various stakeholders associated with the value chains of industries in these SEZs. Policy initiatives and incentive offerings are not the mandate of local government. Certain municipal tax reductions could be offered, but will not substantially influence companies in these areas. For this reason targeted expenditure initiatives focusing, not only on the companies in the processing parks or SEZs, but also on the surrounding support services to the entire value chain these industries support in the local community is necessary.

Integration into global or regional value chains is essential for the sustainable growth and development of SEZs. Many of the planned SEZs (especially in the agricultural sector) will be in rural areas. This creates challenges for companies in these areas as they are usually a considerable distance from their target market and smaller industries in these rural areas will not be able to take advantage of economies of scale.

Figure 3.2 depicts a typical value chain for a smaller SEZ or processing park. While municipalities do not have the authority to facilitate substantial incentives or tax breaks, there are means by which the local government can develop targeted spending initiatives to ensure the success of the SEZ in their local area. Inefficiencies could exist in the linkages between the providers of raw materials and manufacturers in the SEZ. For example, middle men, not from the local area, could complicate and erode the value added in a local agricultural supply chain. Facilitating local buyer groups or facilitating relationships directly between the producers, local logistics companies, and the firms in the SEZ, could limit losses outside the local value chain and ensure greater profits for the farmer to create additional jobs. If a number of smaller farmers are brought together through market facilitation by municipalities, it may give them greater bargaining power and better prices for their products.

Figure 3.2 Simplified SEZ value chain and possible local government support initiatives



End-user markets in local areas are usually quite small and to ensure a competitive and sustainable strategy for a SEZ or value chain, it will be necessary to provide these goods to regional or foreign markets. The major challenge in this regard is the competitive advantage larger firms will have as they are able to take advantage of economies of scale and logistics efficiencies. To support local firms in a SEZ, or along a value chain, the municipalities should take advantage of niche markets and assist local manufacturers in the marketing of their products. Various possibilities exist for the promotion of local products to regional or international markets. For instance, "Karoo Lamb" has established itself as a significant brand name in regional, as well as, international markets. To enforce these geographic indicators it may be necessary to facilitate international trade roadshows, or to link the local firms with national or international marketing companies. In many cases international markets require certain standards for their products, and this is directly related to the standards maintained at the production facility. Assisting in achieving these requirements at the local manufacturing facility could open an entirely new international market to a local producer.

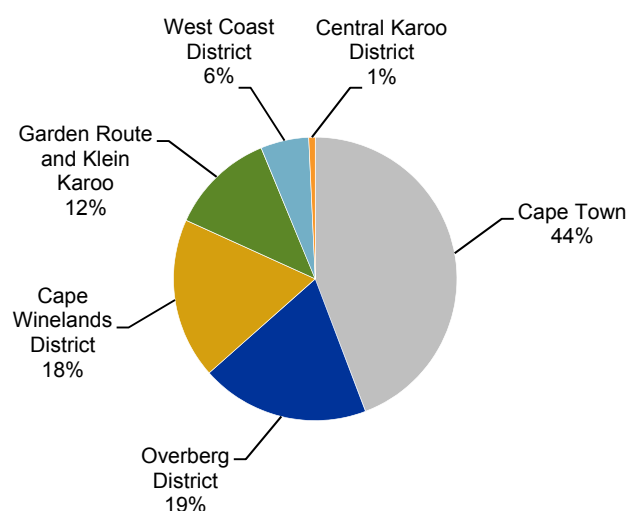
3.5 Overberg District value chains

3.5.1 Tourism

Tourist arrivals to South Africa increased by 6.6 per cent in 2014. The total direct expenditure of tourists visiting South Africa (excluding capital expenditure) was estimated at R63.9 billion. The total expenditure of those arriving via air travel was R28.4 billion and those arriving by land R35.5 billion. The average expenditure for those arriving via land was R5 500 per tourist and R12 500 per tourist for those arriving via air.

South Africa is estimated to have received 9.5 million foreign arrivals in 2013, with the Western Cape receiving 1.5 million, or 16 per cent of the total. The Western Cape is estimated to have received 8 per cent of the 26.3 million domestic trips undertaken in South Africa in 2013 (Stats SA, 2015).

Figure 3.3 Share of tourist walk-ins at visitor information centres, Western Cape, 2013

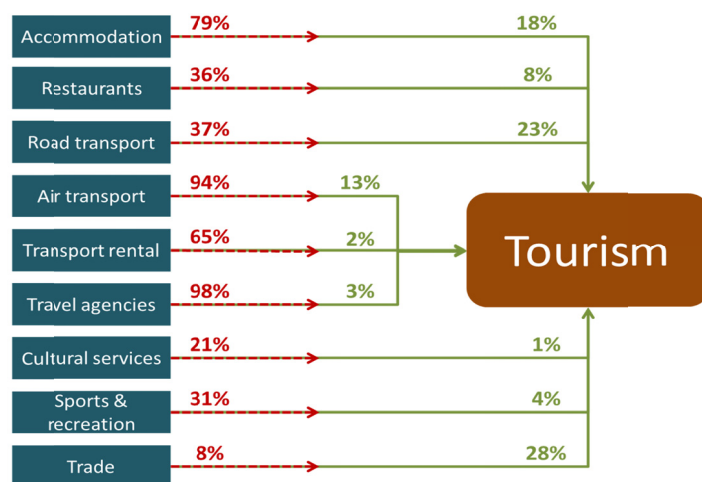


Source: Wesgro

Figure 3.3 shows that the OBD received a 19 per cent share of tourist walk-ins to visitor centres in the Western Cape⁵. OBD is estimated to have generated R918 million in tourism GDP in 2013, with 6 294 people employed in sectors which are directly involved in producing output or services for tourists. The major tourist activities undertaken in the Overberg region include scenic drives (25 per cent), gourmet restaurants (23 per cent) and visits to cultural/heritage sites (17 per cent). The top accommodation used is bed and breakfast (33 per cent), followed by self-catering (28 per cent). The top three international markets for tourism in the OBD were the UK (33 per cent), Germany (22 per cent) and the Netherlands (10 per cent) in 2014 (Wesgro, 2015). The area has done well to market itself, with a 27 per cent share in terms of internet/websites indicated by tourists as the top information source.

Figure 3.4 depicts the tourism value chain and the backward linkages to the tourism industry. Tourism is considered as a last linkage in the chain as all inputs into tourism are the expenditures from tourists. The percentages in green (solid lines) in the graphic indicate the share of inputs into the tourism industry. These percentages add to 100 per cent, as they represent the expenditure shares of tourism.

Figure 3.4 Tourism value chain and backward linkages, Overberg District



Source: Stats SA and own research

The greatest expenditure by tourists is on buying products, indicated by the trade linkage of 28 per cent. These products refer to food, clothing or products related to the retail trade industry. Tourists also spend a significant proportion on road transport. The reason road transport scores above air travel is because a major proportion of tourists are domestic or from surrounding African countries. Accommodation services and restaurants also comprise a significant expenditure share.

Figures indicated in red (see broken lines) are the proportion of output from that specific sector allocated to tourism. These percentage shares do not add to 100 per cent, as they are not shares for one sector. For example, 36 per cent of the output in

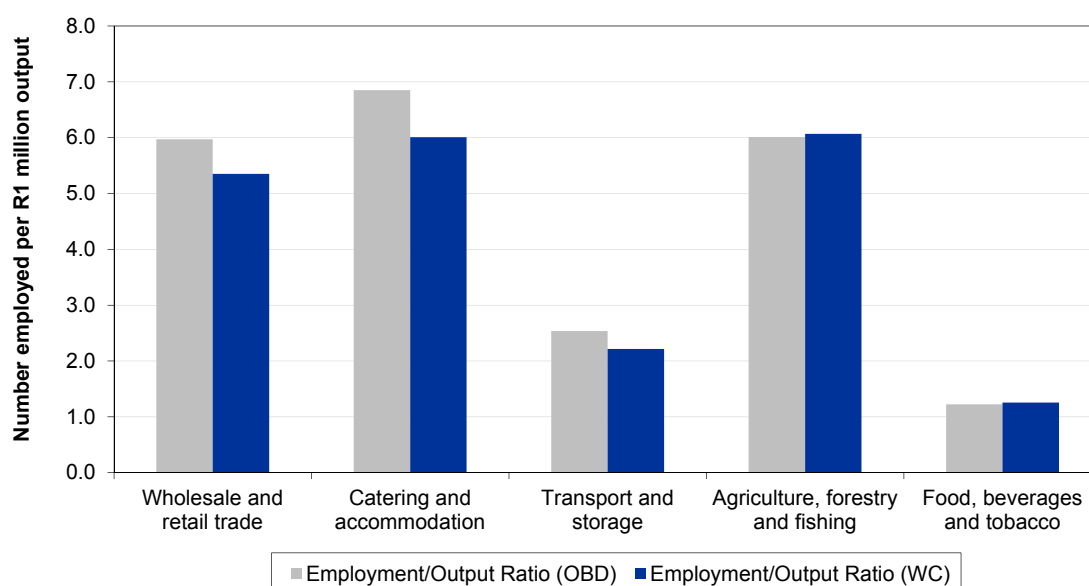
⁵ This is a striking statistic for the Overberg in view of the larger tourism district economies of Eden and the Cape Winelands. It is possible that the survey includes Cape Town tourists heading for Eden and stopping on their way in the Overberg and/or the weekenders visiting Hermanus and other coastal destinations, which explains Overberg's higher ranking in Figure 3.3.

restaurants is consumed by tourists, with the remainder consumed by local patrons. Similarly the services of travel agencies are offered primarily to tourists, with output to tourists from this sector totalling 98 per cent.

3.5.2 Agri-processing

Agriculture and agri-processing are important activities in the OBD. Agriculture and food and beverage production accounted for 20 per cent of total economic output generated in the region in 2013. This is high when compared to the Western Cape average of 11 per cent and only 7 per cent for South Africa for the same year. Agricultural produce, such as wheat, barley, wool and fruit are produced in the Caledon, Grabouw and Theewaterskloof areas. Livestock farming is prominent in the Cape Agulhas and Bredasdorp areas, with specific focus on Merino farming at Bredasdorp. Crops grown in the Agulhas and Bredasdorp area include wheat, barley, oats, canola and dry land lucerne. Exports for agriculture and for food and beverages are significant due to the presence of companies such as Appletiser and Elgin Fruit Juices exporting a significant proportion of their output.

Figure 3.5 Employment to output ratios in selected sectors, Western Cape and Overberg District, 2013



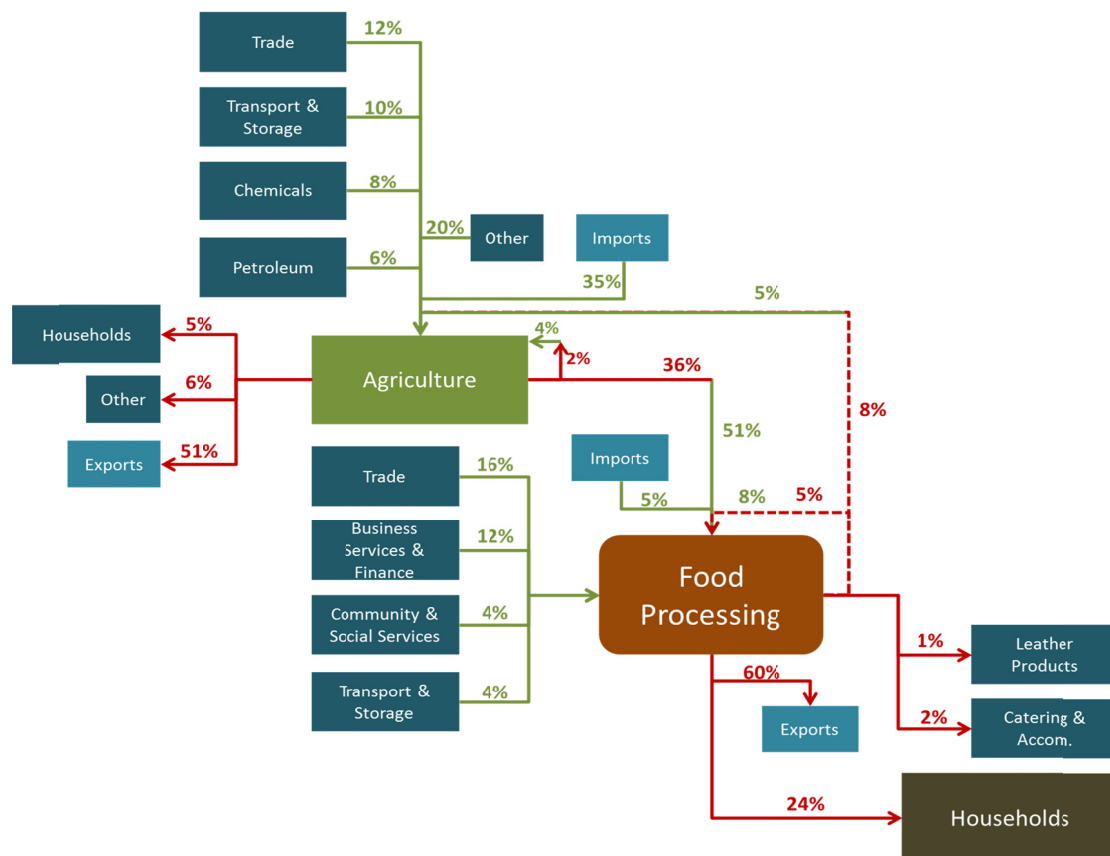
Source: Quantec Research

The agri-processing value chain has significant backward linkages to sectors in the economy with high employment creation potential as depicted in Figure 3.5. This is due to the larger number of jobs created in these sectors per R1 million output generated.

The agri-processing value chain and linkages are depicted in Figure 3.6. The percentages in green depict the input shares into a particular sector. The input shares total to 100 per cent for each sector. These inputs can also be thought of as the expenditure shares from agriculture or food processing on the inputs required to produce output. Percentages in red (broken lines) depict the output share of the

sectors and also total to 100 per cent for each sector. The agricultural sector in the OBD is highly developed and integrated into global value chains. The share of exports in output from the agricultural sector is 51 per cent and 60 per cent in respect of the food and beverages processing sector (Quantec Research, 2015).

Figure 3.6 Agri-Processing linkages, Overberg District



Source: Stats SA

The wholesale and retail trade sector, as well as the business services sector, benefit greatly from the backward linkages to the agricultural and food processing industries due to their large input shares. In comparison to other agri-processing value chains in the Western Cape the OBD value chain is characterised by a large proportion of output going to international markets.

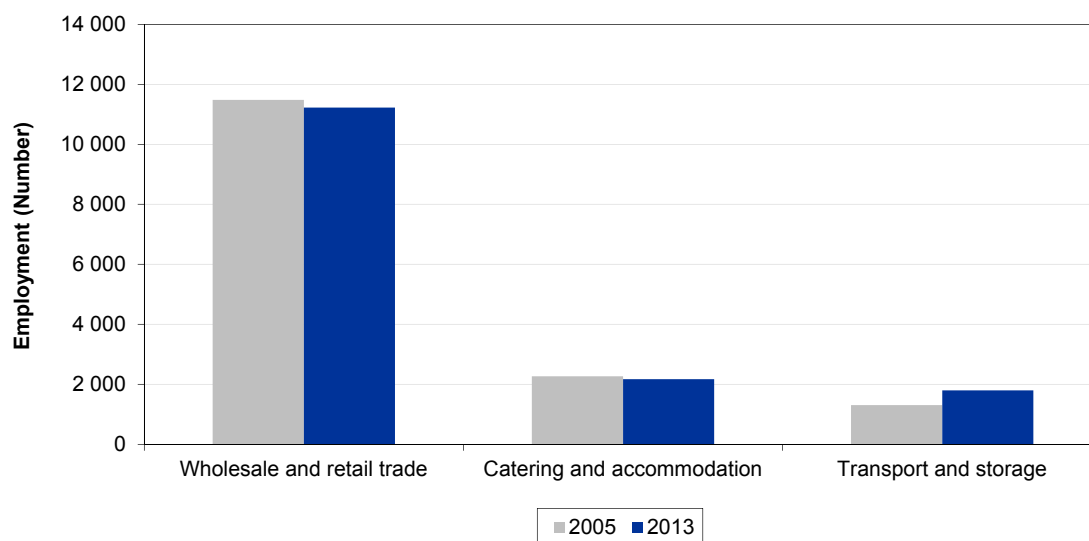
3.5.3 Employment and output analysis

Tourism

The tourism industry has strong linkages to trade, catering and accommodation and the transport and storage sectors. Strengthening demand for tourism will allow greater output and employment creation in these sectors in the OBD. Figure 3.7 depicts the employment figures for OBD for these sectors. Employment in the wholesale and retail trade decreased by 2.3 per cent between 2005 and 2013. Employment in catering and accommodation services also decreased slightly by

4.2 per cent over the corresponding period. In the transport and storage sector, employment increased substantially, by 37.7 per cent from 2005 to 2013.

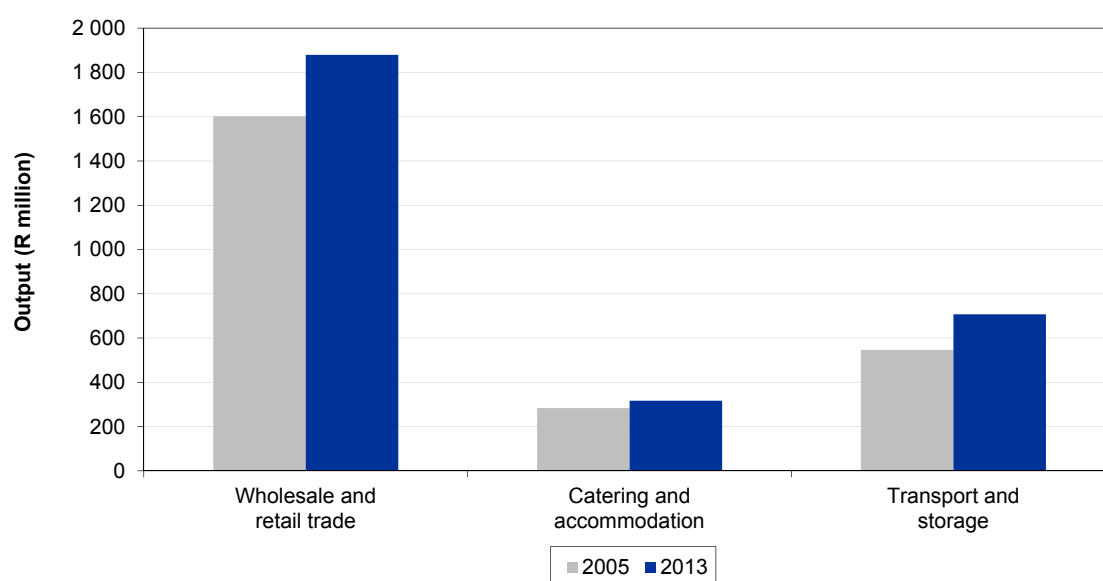
Figure 3.7 Employment in tourism-related industries, Overberg District, 2005 - 2013



Source: Quantec Research

Figure 3.8 indicates that output has increased in all three sectors, with the sharpest growth in transport and storage, at 29.4 per cent between 2005 and 2013. Output growth in wholesale and retail trade was 17.4 per cent and in catering and accommodation 11.7 per cent over the corresponding period. The relative larger increase in employment in transport and storage to output indicates that the propensity to employ increased in this sector, meaning that for every unit of revenue generated, there was more potential to employ someone in this sector in 2013 than there was in 2005.

Figure 3.8 Output generated in tourism-related industries, Overberg District, 2005 - 2013



Source: Quantec Research

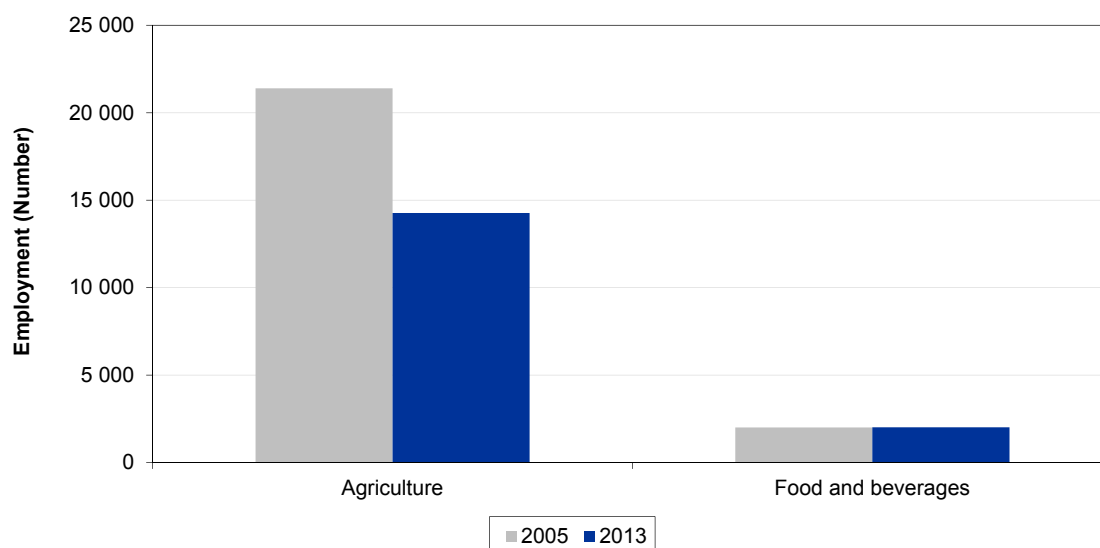
Even though catering and accommodation output increased from 2005 to 2013, employment decreased over the same period. This should be recognised as a risk to tourism and job creation in the area, as the sector with a significant output share to tourism, has shown a decrease in employment relative to output. Support for this sector is necessary to increase the employment potential and expand employment in line with output.

Agri-processing

Employment trends in Western Cape agriculture in the OBD share the national declining trend, with employment levels decreasing by an estimated 33.3 per cent between 2005 and 2013⁶. Employment in the food and beverages industry remained relatively stable with a 0.3 per cent increase registered over the same period, as indicated in Figure 3.9.

Declines in agricultural employment are common throughout the Western Cape as farmers have become more mechanised. There is a movement to mechanisation by farmers (Troskie 2015). In terms of the current value chain analysis, it is important to note that this trend will be difficult to change, as it is an international trend and a necessity to stay competitive. This is especially pertinent to farmers in the OBD as the agri-processing value chain in this region is globally integrated with high levels of output destined for international markets.

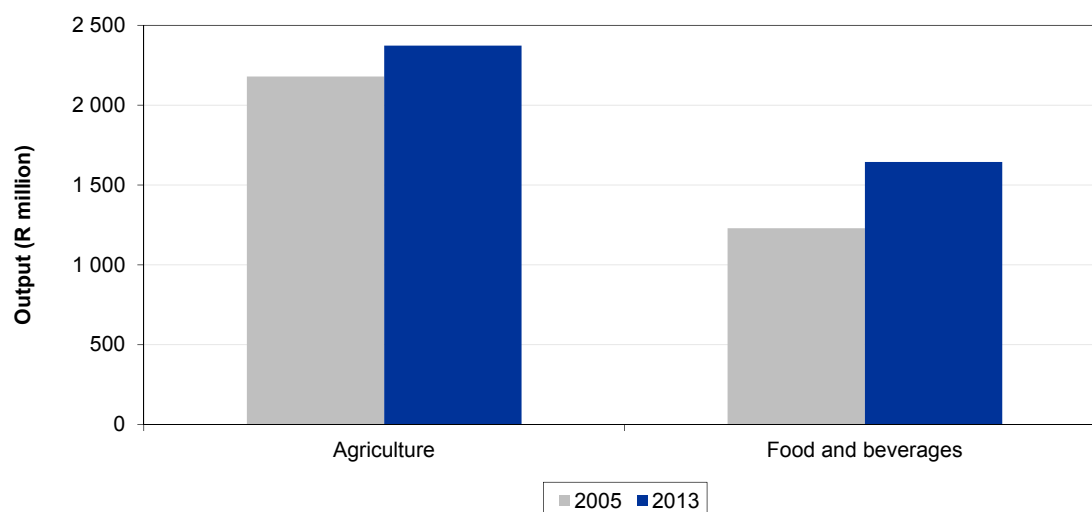
Figure 3.9 Employment in the agri-processing sectors, Overberg District, 2005 - 2013



Source: Quantec Research

⁶ The latest aggregate information indicates that the declining trend in Western Cape and national agricultural employment is showing signs of stabilizing; in fact, some increase in employment was registered over the 2011 - 2013 period. It may be more difficult to arrest the trend in the OBD.

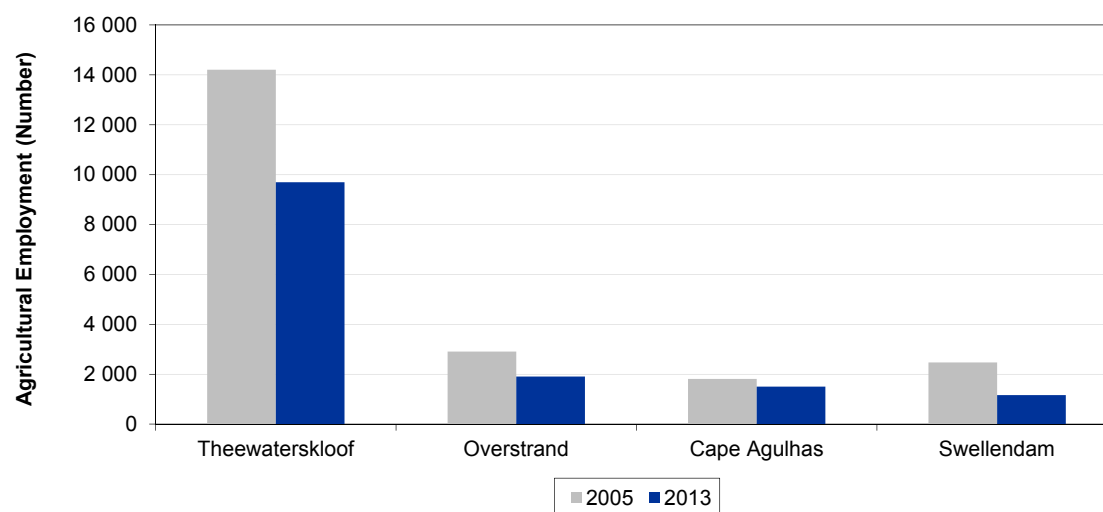
Figure 3.10 Output generated in the agri-processing sectors, Overberg District 2005 - 2013



Source: Quantec Research

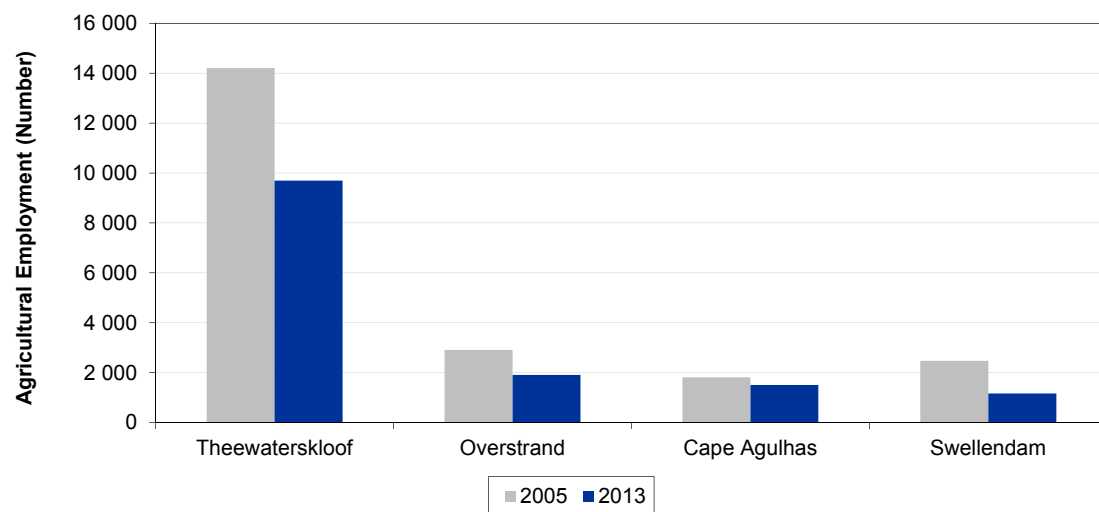
The mechanisation trend is highlighted when considering the increases in output in the agricultural and food and beverage sectors from 2005 to 2013 (Figure 3.10). Within the agri-processing value chain, the food and beverages sector had the greatest increase in output, i.e. 33.8 per cent.

Figure 3.11 Agricultural employment across Overberg District municipalities, 2005 - 2013



Source: Quantec Research

Theewaterskloof employs the largest share of agricultural workers and suffered the sharpest losses in agricultural employment in terms of numbers. Figure 3.11 shows that all local municipal regions experienced employment losses in the agricultural sector, with the largest proportional decline in Swellendam, i.e. 53.1 per cent; Overstrand, 34.3 per cent and Theewaterskloof, 31.8 per cent. The greatest employment losses were experienced during the 2007 - 2008 period.

Figure 3.12 Food and beverage employment across Overberg District municipalities, 2005 - 2013

Source: Quantec Research

Employment in food and beverages has remained relatively stable with only Overstrand and Cape Agulhas recording small declines of 2.5 per cent and 1.5 per cent respectively (Figure 3.12).

3.6 Concluding remarks

Agriculture and agri-processing is an important part of the economy of the OBD. Given its 20 per cent share of total economic output in the region, any development in this sector will have significant GDP benefits. However, the employment potential of this sector is at risk in view of the significant declines over the past 10 years. Much of the farming in the OBD is commercial farming, however, the potential for smaller farmers taking advantage of the existing infrastructure is possible.

The OBD is earmarked for the development of a SEZ for aquaculture in the Overstrand area. Another possible initiative, as suggested by the Western Cape Department of Agriculture, is the development of produce for niche markets. As an example, it has been identified that locally produced olive oil is of a higher quality than that being imported into the country. The major reasons for this are that the local methods of pressing, combined with short storage time, contributes to a superior product. Olive oil begins to deteriorate once pressed and most of the product imported into SA has been stored for a significant amount of time. As with local wines and brandy, niche markets locally and internationally can be developed through the support of international trade shows and by increasing local branding. Higher quality products for smaller markets can be produced competitively and cost-effectively on a smaller scale. The establishment of SEZs can assist smaller farmers and producers through shared infrastructure needed to operate efficiently and competitively to get these products to market.

Tourism contributes an estimated R918 million to the economy of the OBD. The employment potential in the backwardly linked sectors in tourism is also a key factor for employment creation. Currently, tourism in the OBD is well supported with marketing activity as most visitors hear about the area through visitor information centres and through the internet. Strengthening the linkages to the tourism industry may be possible by allowing local SMMEs to provide goods to tourists. Access to tourists and the areas they frequent is crucial in this regard. The increase in output, combined with a decline in employment in the catering and accommodation sector, could indicate a need for support of this sector in the OBD.

4

Infrastructure spending: Review and analysis

4.1 Introduction

Basic services are defined as those services necessary to ensure an adequate standard of living for the inhabitants of a municipality. These services include the provision of water, electricity and housing, as well as waste management and waste water management.

Access to public services is a basic right of all South African citizens. As embodied in the White Paper on Local Government, municipalities, in conjunction with the provincial and national spheres of government, have been mandated to provide these services. Given the high levels of inequality and poverty prevalent within the post-apartheid environment, and in conjunction with the introduction of a number of programs aimed at the addressing these issues including the RDP, GEAR, AsgiSA and currently the National Development Plan (NDP), the role of local government in remedying the apartheid legacies and in contributing to an environment conducive to growth and employment has grown substantially. The White Paper on Local Government prioritises the provision of a basic level of household services as one of the key mechanisms through which municipalities will operate in order to affect improvements in the level of inequality and poverty.

Municipalities would not be able to perform this mandate without the proper systems in place to facilitate the provision of basic services. Sufficient investment in the municipal infrastructure which encompass these systems are thus necessary. In addition to raising the standard of living of those to whom these services are rendered, a number of studies have found that increased basic infrastructure delivery has a positive effect on economic growth; and, conversely, higher economic growth affords more successful infrastructure investment. With health being a determinant of labour productivity, both qualitative and quantitative improvements in sanitation, the

water supply and sewage services would have positive spillover effects on economic growth. It has been shown how increasing basic infrastructure by 1 per cent could lead to a 0.36 per cent increase in GDP per capita in rural municipalities and a 0.33 per cent increase in GDP per capita in urban municipalities in South Africa.⁷

Basic service infrastructure thus facilitates the establishment of an environment in which development and growth can be more effectively pursued. It is nevertheless important to note that, for the attainment of robust or continued growth, increased investment in infrastructure of this kind cannot be relied upon in isolation. The economic environment in which the Municipality operates is unique to that region, and as such, infrastructure needs vary accordingly. Proper planning, sound project selection and effective implementation of these infrastructure ventures will thus improve both the scale and resilience of the resultant spillovers. It is also essential that the infrastructure (both old and new) is properly maintained (through both effective demand and supply management) if the economic benefits of these investments are to be realised more fully.

Because of the role that basic service infrastructure expenditure plays in attaining local social and economic development, a number of sources (including Quantec and the municipal A-schedules among others) will be used to gauge trends in municipal infrastructure expenditure and expenditure predictions, and the resulting impact on basic service delivery will be assessed.

4.2 Infrastructure development

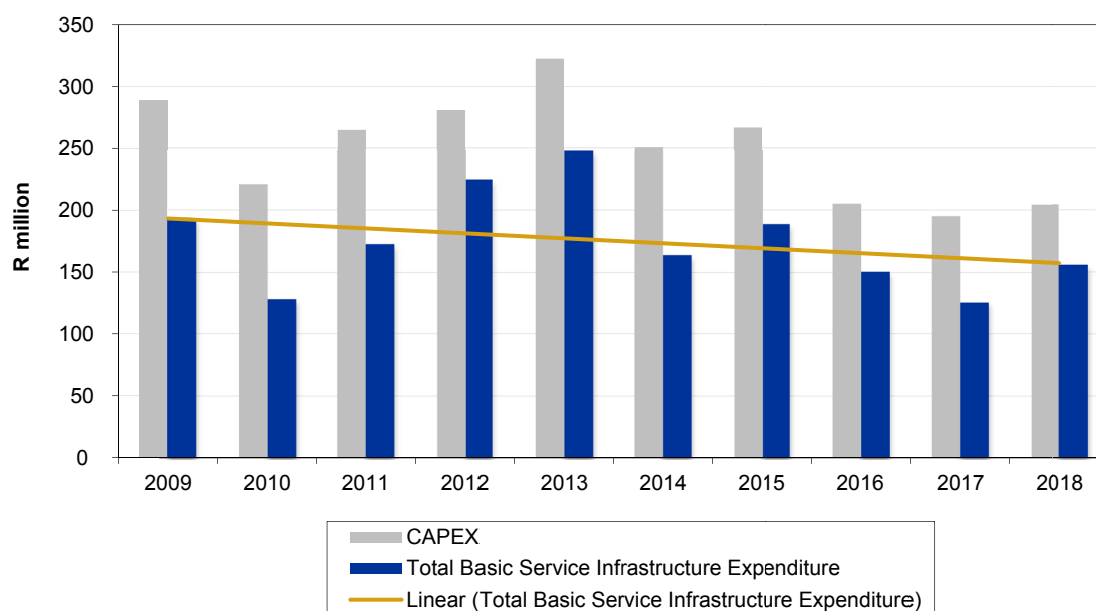
4.2.1 Overview of municipal expenditure trends in the Overberg District

With the growing emphasis being placed on infrastructure investments as a means of facilitating economic growth, as embodied in the National Infrastructure Development Plan, it is essential that municipalities prioritise their budgets accordingly.

The portion of the capital expenditure budget spent on basic services infrastructure has varied significantly (see Figure 4.1). A closer look at OBD infrastructure expenditure indicates that the portion of the capital expenditure budget spent on basic services infrastructure has been on the rise over the period 2010/10 to 2012/13. However, the portion of the capital expenditure budget spent on basic services infrastructure decreased from 77 per cent in 2012/13 to 65 per cent in 2013/14. The 2015 budget planned for a small increase in the portion of the capital expenditure budget spent on basic services infrastructure. The budget for the Medium Term Revenue and Expenditure Framework (MTREF) reflects greater alignment with the National Development Plan as the portion of the capital expenditure budget spent on basic services infrastructure increases.

⁷ Gnade, H. (2013). *Basic infrastructure delivery and its welfare effect on rural and urban municipalities*. Paper to be presented at the conference of the Economic Society of South Africa, Bloemfontein, September.

Figure 4.1 Total capital expenditure vs basic service infrastructure expenditure: 2009 - 2018



Source: Western Cape Provincial Treasury

The importance of basic services infrastructure investment as a vehicle for improving local economic development cannot be overemphasised. Hence the curtailment in both the capital expenditure budget and basic services infrastructure investment observed over the 2013/14 financial year is a cause for concern. This drop in basic services infrastructure investment is visible across most of the OBD municipalities. The highest percentage decrease in basic services infrastructure expenditure from 2012/13 to 2013/14 was recorded in Swellendam (58 per cent) followed by Cape Agulhas (51 per cent), Theewaterskloof (35 per cent) and Overstrand (19 per cent).

Although Overstrand Municipality has the second highest population within the District, the Municipality leads the pack in terms of infrastructure expenditure; contributing to more than half of the region's basic services infrastructure expenditure (see Table 4.1). The Municipality also has the highest per capita basic services infrastructure expenditure (R991) vis-a-vis Swellendam, Cape Agulhas and Theewaterskloof municipalities which trail both in terms of basic services infrastructure expenditure and basic services infrastructure expenditure per capita. The growth in basic services infrastructure expenditure in Theewaterskloof has been at a slower rate than the population growth. Basic services infrastructure expenditure per capita has therefore been the lowest in the region (R413).

Table 4.1 Basic services infrastructure expenditure as % of total Overberg District infrastructure expenditure⁸

Municipality	GDPR share 2013	2010	2011	2012	2013	2014	2015	2016	2017	2018
Theewaterskloof	36%	23%	19%	24%	29%	29%	33%	34%	24%	31%
Overstrand	34%	53%	55%	57%	42%	51%	48%	53%	60%	57%
Cape Agulhas	17%	6%	7%	10%	12%	9%	4%	5%	9%	5%
Swellendam	13%	16%	19%	8%	17%	11%	15%	9%	6%	7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Western Cape Provincial Treasury and Quantec Research

From Table 4.1 it is clear that OBD municipalities vary enormously on how much they spend on basic services infrastructure and by how much it grows yearly. This reflects a wide array of financial and demographic factors faced by each municipality. The Cape Agulhas and Swellendam municipalities not only contribute the least to basic services infrastructure expenditure but also the least to GDPR within the region. Although Theewaterskloof Municipality is the largest local municipality in the OBD both in terms of contribution to GDPR (36 per cent) and population (1 13 306), its lower basic services infrastructure expenditure share is explained amongst other possible factors by its below average economic growth rate.

The ratio of basic infrastructure investment to GDPR is an important indicator of the Districts' performance in basic services infrastructure investment. During the period 2009/10 to 2012/13 the ratio of basic services infrastructure investment to GDPR showed a consistent upward trend. The ratio rose from 1.7 per cent in 2009/10 to 3.0 per cent in 2012/13. The year 2013/14 can be considered as a year of a basic services infrastructure investment slump. During this period the ratio of basic services infrastructure investment to GDPR fell to 1.9 per cent. The 2015 budget planned for a recovery in this level of basic services infrastructure spending.

Due to the significant budgetary constraints facing municipalities, and considering the specific needs of the inhabitants of the respective municipalities, it is essential that funds are allocated toward those projects which would have the most significant effect on economic growth.

Table 4.2 Overberg District basic service infrastructure expenditure per budget line item, 2014

Budget Line Item	Theewaterskloof	Overstrand	Cape Agulhas	Swellendam	Total
Housing	36%	12%	0%	0%	17%
Electricity	7%	44%	28%	2%	27%
Water	17%	28%	0%	41%	24%
Waste Water Management	40%	12%	55%	57%	29%
Waste Management	0%	4%	17%	0%	3%
Total	100%	100%	100%		100%

Source: Western Cape Provincial Treasury

⁸ Basic services infrastructure expenditure is calculated per financial year.

⁹ Overberg district municipality contributes the remaining 1 per cent to the regions' basic services infrastructure investment.

As shown in Table 4.2, OBD municipalities spend more than three quarters of its basic services infrastructure expenditure on waste water management (29 per cent), electricity (27 per cent) and water provision (24 per cent). All municipalities except Overstrand Municipality prioritised waste water management; ranging from 40 per cent of the total municipal basic services infrastructure budget in Theewaterskloof Municipality to 57 per cent in Swellendam Municipality. The high expenditure in waste water by Swellendam Municipality is presumably a result of the completion of the Klipperivier and Buffeljagsrivier Waste Water Treatment Works. Water provision was the second largest infrastructure expenditure item in Overstrand and Swellendam municipalities. Theewaterskloof Municipality allocated 17 per cent of its basic services infrastructure expenditure budget to water provision. The Municipality recognises the need to increase water provision infrastructure expenditure as 18 per cent of its water supply network is in a poor condition and needs repair.

Waste management and housing accounted for 3 per cent and 17 per cent respectively of the total basic services expenditure within the region in 2013/14. A notable point is that whilst Theewaterskloof Municipality allocated 36 per cent of its total basic services infrastructure expenditure to housing, the Municipality contributed the most to total housing expenditure within the District (62 per cent of the District's total housing expenditure). Although expenditure in the Municipality is notable, the main challenge to housing provision within Theewaterskloof is the growing population and availability of suitable land. Housing expenditure took up 12 per cent of Overstrand Municipality's basic services infrastructure expenditure in 2013/14. Due to migration of residents from inland municipalities, the Municipality has densely populated informal settlements and a growing housing backlog. Although Overstrand Municipality allocated only 4 per cent of its total basic services infrastructure expenditure to waste management, the Municipality contributed the most to total waste management within the District (55 per cent). Whilst Theewaterskloof and Overstrand municipalities made the highest contributions to housing and waste management in the District, Swellendam Municipality spent less than 0.05 per cent of its basic infrastructure expenditure on housing and waste management.

Electricity expenditure comprised 27 per cent of the total basic services infrastructure expenditure within the region in 2013/14. Overstrand Municipality prioritised electricity basic services infrastructure contributing to more than three quarters of the region's electricity infrastructure expenditure. Like most other municipalities within the region the Municipality recognises the need to replace its ever ageing electricity infrastructure. The contribution made by electricity to basic services infrastructure investment is influenced by intergovernmental arrangements. For example Local Government and Eskom are both responsible for the supply of electricity, hence Eskom also makes investments in electricity infrastructure.

4.2.2 Basic services infrastructure investment and economic growth

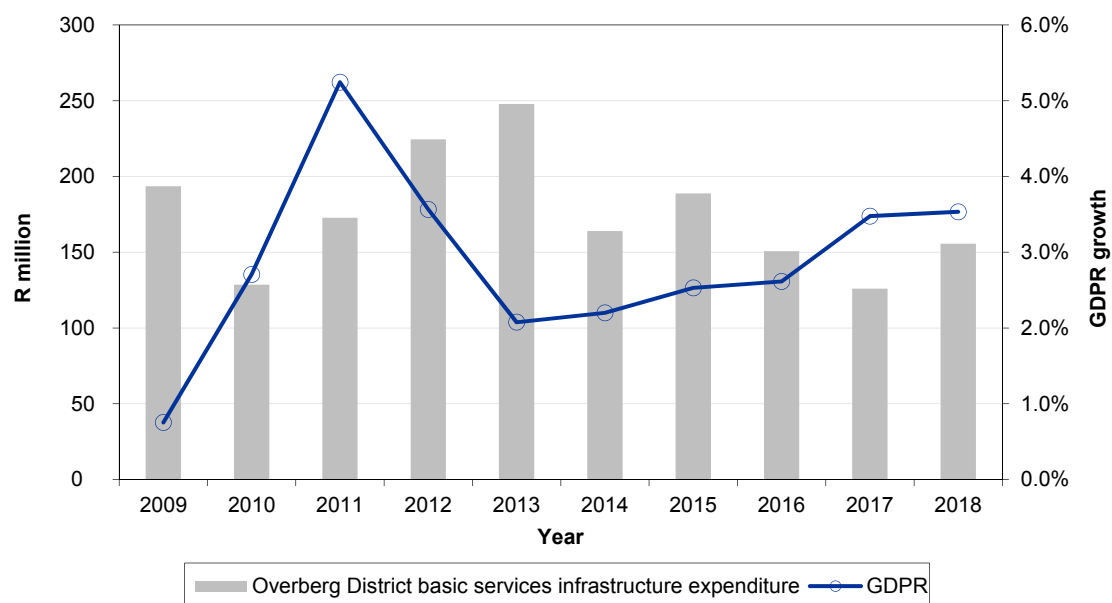
Economic theory illustrates that investment in economic infrastructure supports economic growth both directly, through capital accumulation, and indirectly through improved factor productivity¹⁰. A key mechanism through which the South African Government aims to accelerate economic growth is through infrastructure investment particularly for basic services. Infrastructure is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. Access to basic necessities such as housing, water, sanitation and refuse removal is a prerequisite for economic growth.

Figure 4.2 provides an approximation of the relationship between infrastructure expenditure and economic growth. Over the period 2009 to 2013, the OBD experienced an average growth rate in basic services infrastructure expenditure of 10.3 per cent per annum. This period was followed by a 34 per cent decline in basic services expenditure in 2014.

In terms of GDPR, the District showed signs of recovery from its growth of 0.8 per cent in 2009 to a growth of 5.2 per cent in 2011. However, since 2011 it has tapered down markedly to an estimated 2.2 per cent in 2014. It appears that the year 2014 not only recorded a substantial decrease in basic services infrastructure expenditure but also the lowest GDPR growth rate over the 2009/10 to 2013/14 period. Amongst other factors impacting on growth (as discussed in chapter 2), the decline in actual infrastructure spending could have had a direct negative impact of GDPR. Furthermore, there are longer term repercussions; particularly should the slowdown become a new trend.

It is important to note the role played by time lags in between basic services infrastructure investment and the resulting impact on economic growth. Infrastructure investment will have both a direct and an indirect effect on GDPR. Whilst the direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDPR the indirect effect is a result of multiplier or knock-on effects within the economy.

¹⁰ Fedderke, J.W., & Bogetić, Ž. (2009). Infrastructure and growth in South Africa: Direct and indirect productivity impacts of 19 infrastructure measures. *World Development*, 37(9), 1522-1539.

Figure 4.2 GDP growth vs total basic service infrastructure expenditure: 2009 - 2015

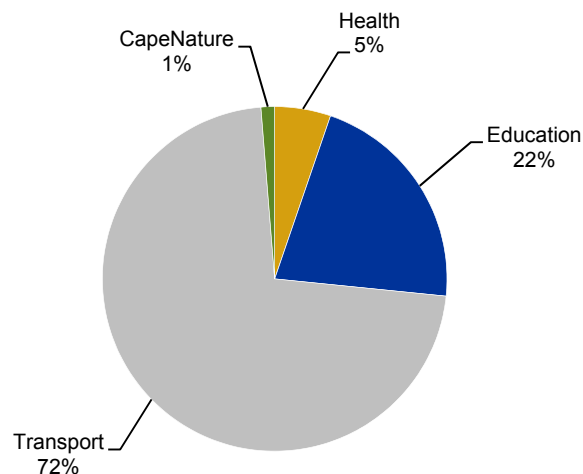
Source: Western Cape Provincial Treasury

The different basic services infrastructure expenditures have made different contributions to GDP growth within the OBD. Water and electricity also contributed to GDP within the region. As noted in Chapter 2 the electricity, gas and water sector recorded a growth of 0.7 per cent over the period 2010 to 2014 after experiencing contraction of 2.7 per cent over the 2008 - 2009 period. A closer look indicates that Theewaterskloof and Overstrand municipalities contributed the most to the decline in growth in both sectors over the period 2010 to 2013.

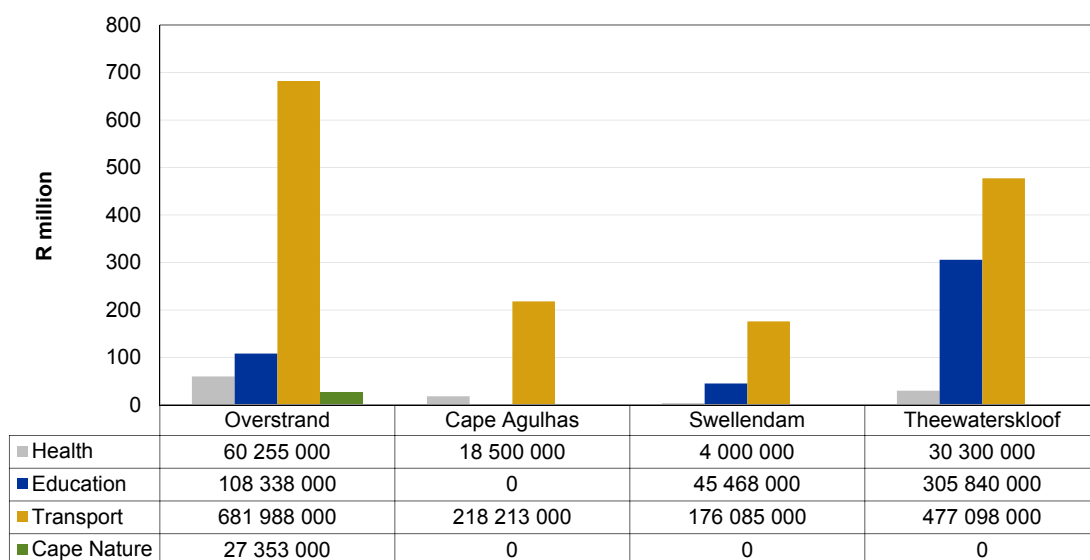
The growth rate of 0.4 per cent per annum in the electricity sector over the period 2010-2013 is a reflection of the current infrastructure challenges in the sector and the impact these infrastructure challenges have on economic growth. These infrastructure issues in turn have had ripple effects on the productivity of a variety of industries. Therefore it is important for government to address these issues and accelerate basic services infrastructure investment. Accelerated basic services infrastructure is crucial for economic growth within the region.

4.2.3 Western Cape Government infrastructure spending in Overberg

Apart from infrastructure expenditure the Overberg municipalities are mandated to do, the Western Cape Government (WCG) has other mandates such as education, health, roads and public works infrastructure spending. The 2015 - 2018 budget shows that the WCG will be spending on various infrastructure projects across all districts – see Figure 4.3 for a breakdown of the WCG's planned infrastructure expenditure projects for education, health, roads and human settlements in Overberg. Figure 4.4 shows a breakdown per municipality in the region.

Figure 4.3 Composition of WCG infrastructure expenditure - Overberg District

Source: Provincial Treasury Infrastructure Unit

Figure 4.4 WCG Expenditure on infrastructure - Overberg District, 2015 - 2018

Source: Provincial Treasury Infrastructure Unit

Transport infrastructure projects receive the largest budget allocations in all four municipalities in the District (Figure 4.4), with Overstrand (R681.9 million over the MTREF period) leading, followed by Theewaterskloof (R477.1 million), Cape Agulhas (R218.2 million) and Swellendam (R176 million). Education infrastructure projects received the second highest allocation in Theewaterskloof (R305.8 million), Overstrand (R108.3 million) and Swellendam (R45.4 million). The largest allocation for health projects was received by Overstrand (R60.2 million), followed by Theewaterskloof (R30.3 million), Cape Agulhas (R18.5 million) and Swellendam (R4 million). This infrastructure expenditure by the WCG is expected to unlock economic potential in the Overberg District.

4.3 Basic services infrastructure and access

In order to effectively realise the positive spillovers resulting from investment in basic service infrastructure, it is essential that these increased capital expenditures are translated into the delivery of services. As Government strives to achieve universal access to basic services it is important to obtain an understanding of our current status in basic services delivery in order to develop appropriate interventions. Statistics SA, through the annual Non-financial Census of Municipalities, tracks the levels of service delivery within municipalities. The diverse nature of municipalities in terms of financial capacity and administrative capabilities requires a differentiated set of policies and interventions to improve service delivery and cope with growing demand.

Table 4.3 Overberg District access to basic services trend; change in the number of consumer units: 2009 - 2014

Municipality	Water	Electricity	Sewer and Sanitation	Refuse
Cape Agulhas	1 553	541	2 112	1 345
Overstrand	1 683	1 618	4 016	1 108
Swellendam	749	253	209	-215
Theewaterskloof	-6 264	1 149	-6 216	-6 961
Total Overberg District	-2 279	3 561	121	-4 723
Western Cape Province	233 800	51 985	102 895	-42 615
South Africa	1 797 335	2 177 095	1 255 080	662 690

Source: Stats SA: Non-financial Census of Municipalities

Table 4.3 shows the changes in the number of consumer units¹¹ with access to basic services from 2009 to 2014. According to the Census, the highest increases in the country were recorded in the provision of electricity. Whilst the Western Cape Province recorded the highest increases in the provision of water, OBD recorded the highest increases in the provision of electricity. The decreases recorded in the provision of water, refuse and sanitation services in Theewaterskloof Municipality are notable and a cause for concern. Electricity provision was the only basic service that did not record a decline in consumer units with access in all OBD municipalities. Although Overstrand Municipality recorded the highest increase in consumer units with access to electricity when compared to the other 3 local municipalities, it appears the Municipality prioritised improving the number of consumer units with access to sewer and sanitation services. Cape Agulhas Municipality also recorded higher increases in the number of consumer units with access to sewer and sanitation. The migration of residents from the inland municipalities often places pressure on the coastal municipalities for basic services infrastructure provision and service delivery.

The varying number of consumer units with access to basic services is a reflection of different demographic circumstances of each municipality and the number of consumer units that fall within each municipality's jurisdiction. The main obstacle to accelerating basic services delivery in the region is a growing population, ageing infrastructure and limited finance. Although municipalities potentially have a wide

¹¹ A consumer unit is the term used to refer to a billing unit provided services by the Municipality.

array of financial instruments to use in meeting their service delivery responsibilities, they mostly rely on revenue from services rendered. As such the next section analyses municipal revenue trends in the OBD.

4.4 Municipal revenue trends in the Overberg District

In order to sustain economic growth and preserve the standard of living of the inhabitants of the Municipality, both quantitative and qualitative improvements to the stock of basic service infrastructure need to be maintained. It is essential that the infrastructure (both old and new) is properly preserved if the economic benefits of these investments are to be realised more fully. One source through which the maintenance and improvement of basic service infrastructure can be funded is from the charges levied for the basic services rendered by the Municipality. The revenue generated from these sources often makes up a significant portion of the Municipality's total revenue, and tends to fluctuate along with the economy.

Table 4.4 illustrates the percentage change in revenue generation from property rates and trading service charges per municipality in the OBD. Since 2010 revenue generation has shown a consistent upward trend across all municipalities albeit at different rates. As is the case with basic service infrastructure expenditure, Overstrand Municipality makes the largest contribution to basic services revenue generation, contributing to more than half of the region's basic services revenue. OBD revenue grew by an annual average rate of 11 per cent between 2009/10 and 2014/15. As is the case for GDP growth, the percentage change in revenue generated from basic services was higher in 2010 and 2011 and did taper off 2012 to 2014. The combined District forecast indicates that revenue collected from property rates and trading services will increase over the 2015/16 MTREF.

Table 4.4 Overberg District: Percentage change in revenue generated per municipality, 2010 - 2018

Municipality (% change)	2010	2011	2012	2013	2014	2015	Average growth 2010 - 2015	2016	2017	2018
Theewaterskloof	6%	11%	11%	8%	12%	12%	10%	13%	7%	8%
Overstrand	17%	17%	9%	8%	10%	11%	12%	7%	8%	8%
Cape Agulhas	14%	12%	15%	9%	9%	12%	12%	9%	12%	12%
Swellendam	8%	17%	13%	6%	12%	16%	12%	1%	8%	8%
Total Overberg District	14%	15%	10%	8%	11%	12%	11%	8%	8%	9%

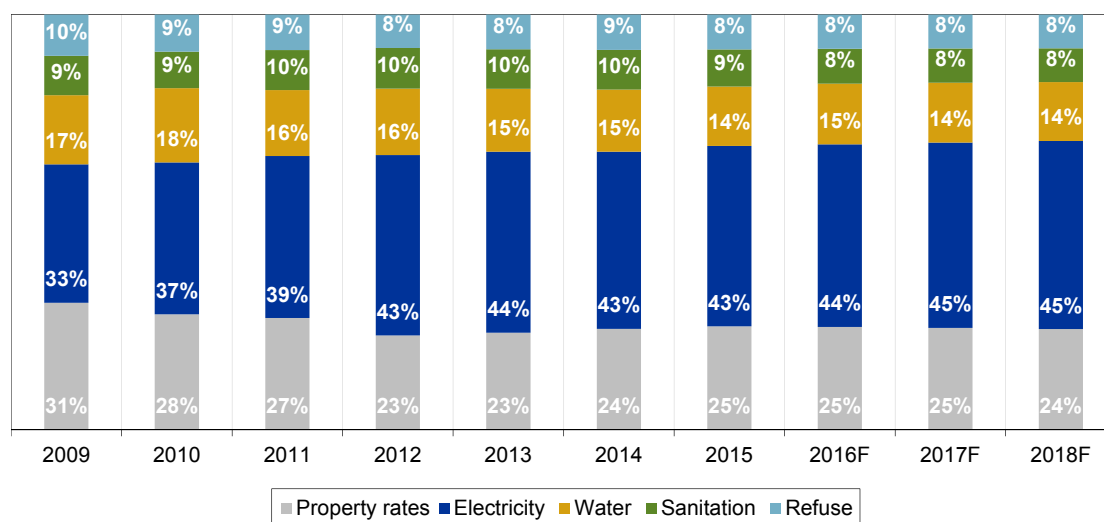
Source: Western Cape Provincial Treasury

Figure 4.5 illustrates the contribution of property rates, electricity, water, sanitation and refuse revenue toward total revenue generated from the rendering of basic services in OBD. The graph shows that over the 2008/09 to 2013/14 financial period electricity revenue contributed the most to total revenue generated within the region whilst refuse revenue contributed the least. The District-wide forecast indicates that revenue generation from property rates and trading services will follow the same trend with electricity contributing the most to revenue followed by property rates, water and then sanitation and refuse removal revenue. The projected revenue from

other basic services is based on current and past consumption trends, number of households receiving the services and current economic conditions. The increases are necessary to address infrastructure maintenance requirements and ensure sustainable service delivery. The differences in revenue collected from property rates and other trading services may be a result of different tariff price structures for property rates and trading services. National Treasury often encourages municipalities to carefully review their tariffs to ensure they are cost reflective, are structured to ensure provision to indigent groups and encourage sustainable consumption. Cost reflective tariffs will also ensure infrastructure is maintained.

Table 4.5 shows the municipal composition of the OBD's GDPR in 2013 and the average real GDPR growth for the local municipalities over the period 2005 - 2013. This is compared to the share of revenue generated from basic services rendered per municipality in 2013/14.

Figure 4.5 Overberg District: Service charges as a % of total revenue generated from basic services delivered



Source: Western Cape Provincial Treasury

Overstrand Municipality is the fastest growing municipality in OBD. The Municipality grew at 5.4 per cent over the period 2005 to 2013 and made the largest contribution to revenue collection (58 per cent) for the District. Cape Agulhas and Swellendam municipalities both grew above the District's average but contributed 14 per cent and 10 per cent respectively to revenue generation. The lower contribution to revenue collection could be a reflection of their relatively smaller populations or other possible constraints in revenue collection. Theewaterskloof Municipality contributes the most to GDPR within the District but grew below average and contributed 19 per cent to the region's revenue collection. Contrary to what is seen in Theewaterskloof one would expect a larger population to represent a larger basic services revenue collection base. Revenue collection in the Municipality is influenced by high unemployment, the seasonal nature of agricultural activities and the influx of indigent people into the area.

The difference in revenue collection across municipalities is a reflection of the municipalities' revenue base, tariff price structures and the administrative capabilities of municipalities to collect revenue. The revenue base is influenced by economic and demographic factors such as income levels and number of indigent consumers. According to the municipal survey questionnaire 53 per cent of the households in Theewaterskloof Municipality are indigents which leave only 47 per cent of the households in the area to contribute towards basic services revenue collection. These high levels of poverty put strain on municipal resources in the provision of free basic services.

Table 4.5 Overberg District GDPR growth vs revenue shares in 2013/14

Municipality	GDPR % share	Revenue % share	GDPR growth 2005 - 2013
Theewaterskloof	36%	19%	3.6%
Overstrand	34%	58%	5.4%
Cape Agulhas	17%	14%	5.3%
Swellendam	13%	10%	4.7%
Total Overberg District	100%	100%	4.6%

Source: Western Cape Provincial Treasury and Quantec Research

Basic services revenue contributes more than 50 per cent of the total operating revenue within each municipality within OBD, ranging from 52 per cent in Theewaterskloof to 83 per cent in Overstrand. It therefore follows that basic services revenue is an important source of revenue and municipalities must do more to exploit the potential of these revenue sources.

It is imperative that every effort must be made to ensure the municipalities practice accurate billing and revenue collection (revenue management) and also to ensure every parcel within its jurisdiction is accounted for (revenue enhancement). This analysis of revenue trends confirms the need to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services. Revenue increasing strategies include expansion of service delivery, debt collection strategies, minimizing electricity and water losses. For example, unaccounted water losses in Overstrand Municipality related to leaks in pipelines, inaccurate meters, unmetered users and burst pipes (21.3 per cent in December 2014) limit water revenue generation.

4.5 Concluding remarks

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. The data presented in this chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the OBD.

Over the period 2008/09 to 2013/14, the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly. It is evident that the year 2014 not only recorded a decrease in basic services infrastructure expenditure but also the lowest GDP growth rate over the 2009/10 to 2013/14 period. Waste water management and electricity were the largest basic services infrastructure expenditure items in the OBD in 2014 whilst waste management was the smallest.

Overstrand is the Districts' leading municipality; making the highest contributions to both basic services infrastructure expenditure and revenue collection. Whilst Cape Agulhas and Swellendam municipalities recorded above average GDP growth rates, the municipalities contribute the least to both basic services infrastructure expenditure and revenue collection. The basic services infrastructure expenditure and revenue collection within these municipalities is perhaps a reflection of the size of their populations; these municipal populations comprise one quarter of that in the OBD (269 649). Theewaterskloof Municipality has the largest population and makes the smallest contribution to basic services infrastructure expenditure in per capita terms. Contrary to what is seen in Theewaterskloof, one would expect a larger population to represent a larger basic services revenue collection base. The municipality is generally categorised as a rural area. Revenue collection in the Municipality is influenced by high unemployment, the seasonal nature of agricultural activities and the influx of indigent people into the area. This, in turn, influences the Municipality's basic services infrastructure expenditure and revenue collection.

In summary, basic services revenue contributes more than 50 per cent of the total operating revenue within each municipality within OBD. It is important that every effort be made to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services

5

Socio-economic analysis and economic performance

5.1 Introduction

The 2014 Municipal Economic Review and Outlook (MERO) provided a socio-economic analysis of each Western Cape district region. This is important as the analysis showed the relationship between economic growth and social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact the economy has on it. The 2015 MERO study aims to do the same, with a larger focus on the quality of life.

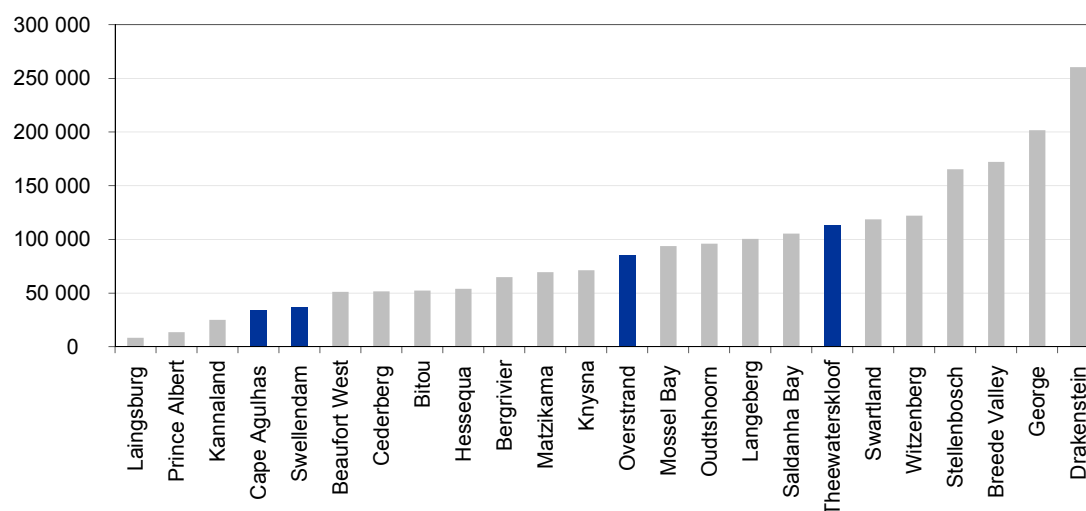
This chapter creates a link between the information provided in the Socio-economic Profiles of 2014, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to human development, i.e. income, education and health, as well as crime and access to basic services within the District. Each topic is discussed in relation to the District's economic performance.

5.2 Population profile

According to the Western Cape Department of Social Development, the Western Cape Province had 6.1 million people in 2014, having increased from 5.8 million in 2011. The population growth rate averaged 2.3 per cent per annum over the period 2001 to 2013. The population growth rates experienced within Overberg District (OBD) mirror this upward trend, with population growth within the four local municipalities ranging from 1.5 to 3.4 per cent per annum.

At the end of 2014, the OBD population represented only 4.5 per cent of the total population of the Western Cape, making it the second smallest district after Central Karoo, with only one of its municipalities being among the 10 largest local municipalities in the Province.

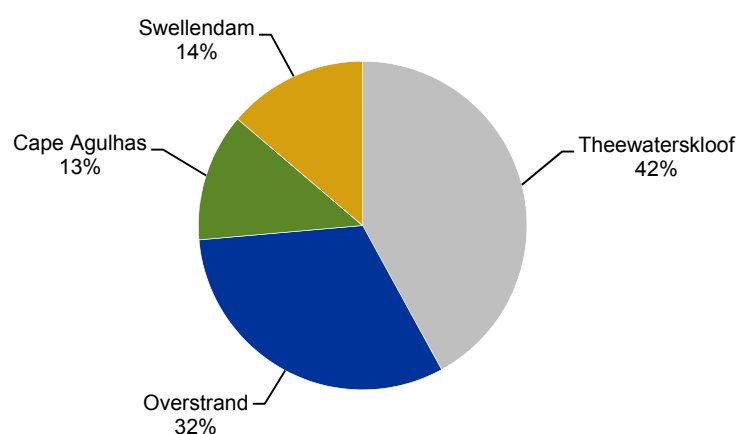
Figure 5.1 Population by local municipality, 2014



Source: Western Cape Department of Social Development, 2014

The Theewaterskloof and Overstrand populations comprise 74 per cent (Figure 5.2) of the District's population of 269 649, with each containing 113 306 and 85 167 inhabitants. The remaining 17 per cent of the OBD population is split between Swellendam with 37 133 and Cape Agulhas with 34 004 inhabitants.

Figure 5.2 Overberg District population distribution, 2014



Source: Western Cape Department of Social Development, 2014

It is essential to consider the distribution of the population in order to ensure that funds are apportioned and services are delivered as and where necessary. As population increases exert further strain on municipal resources, it is desirable that population growth be accompanied by at least as fast a rate of growth in income if standards of living are to be maintained (see section 5.3.1).

5.3 Human development

Human development is described by the *United Nations Development Programme (UNDP)* as widening people's choices and their level of well-being. The UNDP (2010) further indicates that human development is achieved by means of two dimensions namely, enhancing human abilities as well as creating the conditions for human development. Enhancing human abilities is created by means of enabling people to live a long and healthy life, obtain knowledge and possess a decent standard of living. Creating conditions for human development include participation in political and human life, environmental stability, gender equality, and human security and rights.

The Human Development Index (HDI) has been developed to measure human development. The index is a composite statistical index of life expectancy, education indices and income indices. In 2013 it averaged at 0.71 in the Western Cape Province, outperforming the National HDI of 0.66. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2013, largely due to the improving literacy rates and per capita income in the majority of the municipalities.

Table 5.1 Human Development Index, 2001 - 2013

	2001	2011	2012	2013
Western Cape	0.66	0.70	0.71	0.71
Overberg District	0.61	0.67	0.68	0.68
Theewaterskloof	0.57	0.63	0.64	0.65
Overstrand	0.68	0.71	0.72	0.73
Cape Agulhas	0.63	0.68	0.69	0.69
Swellendam	0.57	0.64	0.65	0.66

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

The same holds true for OBD as seen in Table 5.1. All municipalities in OBD have witnessed a significant improvement in human development. Overstrand has the highest HDI in the OBD and at 0.73 in the Province (on par with the City of Cape Town). The high HDI can be attributed to its high life expectancy and literacy rate. Theewaterskloof has the lowest HDI in the District with an index of 0.65 largely due to the low literacy rate and low per capita income levels in the municipal area. However, it has shown much improvement between 2001 and 2013.

The relatively high HDI levels within the OBD indicate that economic growth is translated towards social development amongst the inhabitants of the region. However, this may not be equally distributed within the District. This is illustrated by the difference in HDI levels by race group within the OBD, ranging from 0.57 for Africans, 0.62 for Coloureds and 0.88 for Whites. These point to relatively high levels of inequality in the region.

Sections 5.3.1 to 5.3.3 consider the various elements of human development relating to the HDI, e.g. income levels, education and health, each being discussed in relation to the economy.

5.3.1 Income

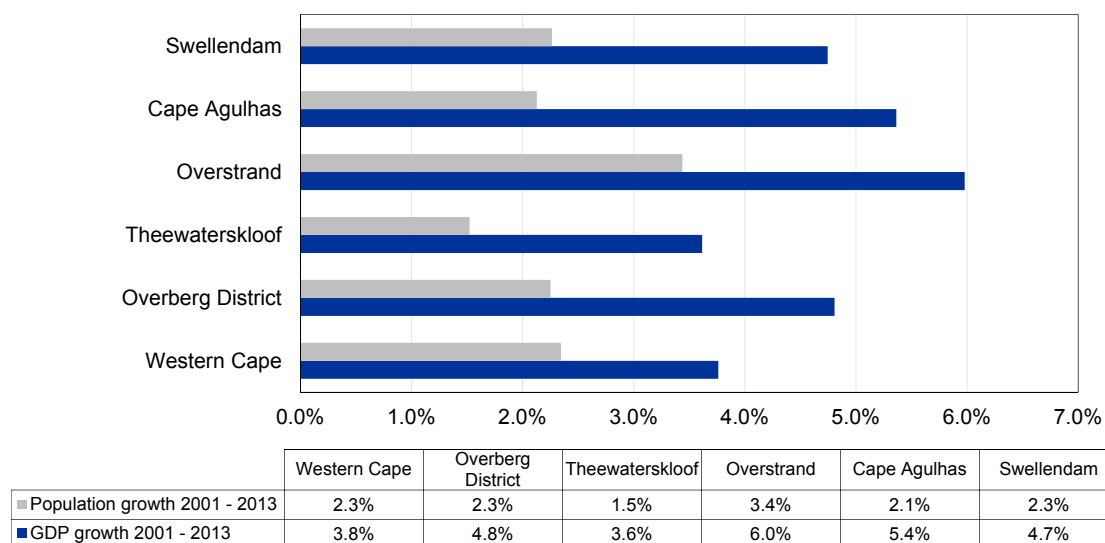
As noted, the average population growth rate in the Western Cape over the period 2001 -13 has been 2.3 per cent per annum. The Western Cape economy grew at a rate of 3.8 per cent per annum from 2001 to 2013. The fact that the regional economy grew faster than the population within the Province indicates that per capita income has increased over time, ensuring improving standards of living for its inhabitants. The per capita income (based on 2005 prices) increased from R37 502¹² in 2001 to R44 553 in 2013¹³.

A closer look at OBD indicates that per capita income is increasing at a fast pace, albeit from a low base in the region. As seen in Figure 5.3, its population grew at a rate of 2.3 per cent per annum from 2001 to 2013. This was much slower than its economic growth rate of 4.8 per cent, indicating an increase in the per capita income of the OBD inhabitants over this period. Real per capita income increased from R22 610 in 2001 to R30 403 in 2013. This may explain the large increase in the HDI over this period.

According to the Western Cape Department of Social Development, Overstrand Municipality, amongst the municipalities within OBD, had the highest population growth rate of 3.4 per cent per annum between 2001 and 2013. Its population growth rate is more than double that of Theewaterskloof Municipality's (1.5 per cent). Discrepancies in population growth rates are evident across the Province. This indicates that population growth not only stems from natural causes, but is also largely due to net in-migration in certain areas. Furthermore, Overstrand's economic growth of 6.0 per cent is higher than its population growth rate, indicating an increase in per capita income over time. All municipalities in the OBD had their economies growing faster than their populations. They thus experienced an increase in their real per capita incomes. Cape Agulhas had the largest increase over this period (45 per cent), followed by Overstrand and Swellendam with increases of 34 and 33 per cent respectively.

¹² Own calculations based on Western Cape Department of Social Development population statistics (2014) and Quantec GDP data (2015).

¹³ Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

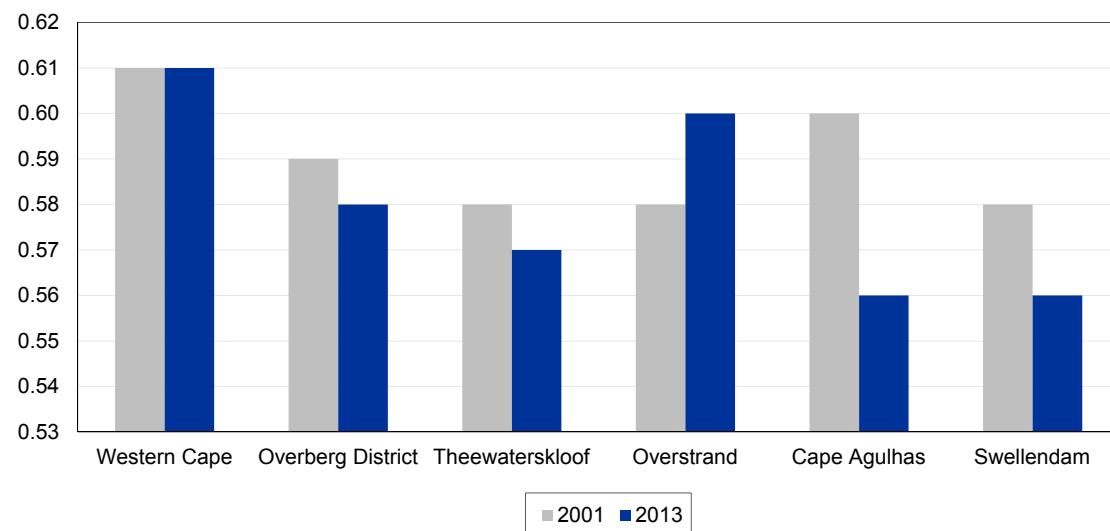
Figure 5.3 Overberg District population and real GDP growth rate, 2001 - 2013

Source: Western Cape Department of Social Development, 2014 and Quantec, 2015

The per capita income indicates the average income per person within each municipal area. However, this is a skewed representation of income levels as incomes are not equally distributed amongst the inhabitants of the area. The Gini coefficient measures the levels of income inequality. The Coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents, varying between 0, which represents complete equality and 1, which represents complete inequality.

Figure 5.4 indicates that income inequality decreased marginally within OBD from 0.59 in 2001 to 0.58 in 2013. Cape Agulhas Municipality experienced the largest improvement in the Gini coefficient, and also the largest percentage increase in per capita income (45 per cent). This suggests that the incomes of the poor may have increased over this period. Overstrand is the only municipality that experienced an increase in income inequality, indicating that the benefits of the increasing per capita income are concentrated amongst the higher income groups.

The increasing income per capita across the municipal regions in the District may lead to a further increase in the region's human development index. Inclusive growth needs to be achieved within the region to ensure a sustained improvement in the standard of living of all inhabitants of the OBD.

Figure 5.4 Gini coefficients in the Overberg District, 2001 - 2013

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

5.3.2 Education

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

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate of 80.9 per cent in the country as a whole. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the Provinces in the country between 2001 and 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth (Socio-economic profile, 2014). Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education in the past.

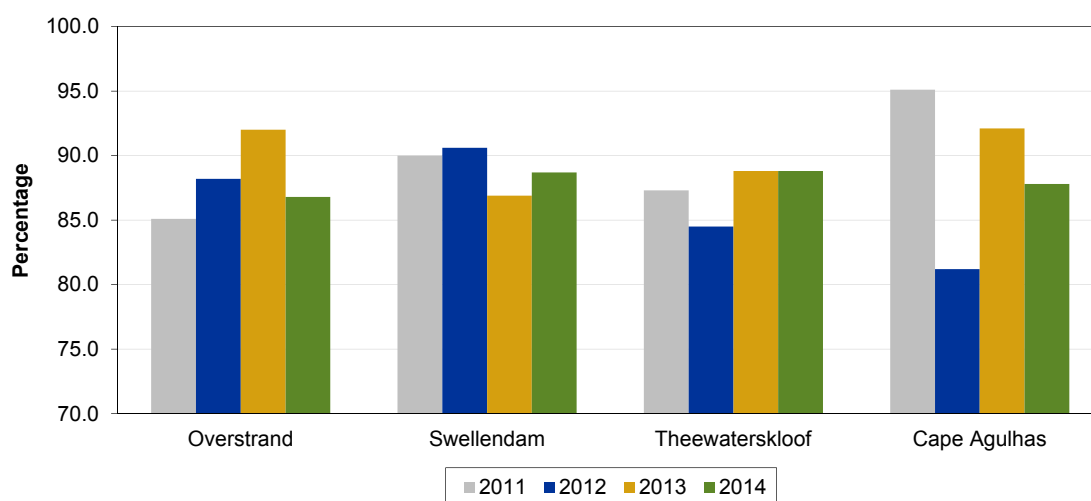
Literacy rates of 81.1 per cent in the OBD are lower than for the Province as a whole. Nevertheless, all municipalities in the District showed an increase in their literacy rates between 2001 and 2011 (Table 5.2).

Table 5.2 Literacy rates across the Overberg District municipalities, 2001 - 2011

	2001	2011
Western Cape	85.0%	87.2%
Overberg District	73.0%	81.1%
Theewaterskloof	68.0%	78.4%
Overstrand	81.0%	87.5%
Cape Agulhas	76.0%	81.1%
Swellendam	65.0%	74.2%

Source: Statistics South Africa, Census 2001 and 2011

Matric pass rates are also indicators of the education performance in the District. The OBD had a matric pass rate of 88.1 per cent in 2014 and was rated second highest amongst the districts in the Western Cape. Theewaterskloof (88.8 per cent) and Swellendam (88.7 per cent) have the highest matric pass rates in the District. Overstrand is lagging behind at 86.8 per cent and showed a substantial decrease from 92.0 per cent in 2013. Cape Agulhas also experienced a decline of 4.3 percentage points in their matric pass rate, which is of concern. Note that this may be due to the 2014 cohort being subject to stricter standards in the setting and marking of the papers thus affecting the pass rates (Western Cape Education Department 2014/15 Annual Report, 2015).

Figure 5.5 Matric pass rates across the Overberg District municipalities, 2010 - 2014

Source: Western Cape Department of Education, 2015

Over the economic recovery period (2010 - 2013), Overstrand witnessed an increase in their matric pass rates (see Figure 5.5) and a corresponding increase in their employment levels. Swellendam and Cape Agulhas however witnessed a decrease in their matric pass rates, however there was a net gain in employment. This is largely because these municipalities employ mostly unskilled and semi-skilled workers within their formal and informal sectors. However, Theewaterskloof's residents experienced an increase in matric pass rates and corresponding net job losses. Once again here the majority of the employed are unskilled and semi-skilled workers. This does not conform with the theory that higher levels of education may lead to higher levels of

employment (except for Overstrand's case). This is because the high demand for semi-skilled and unskilled labour is able to create jobs for the learners that failed matric and entered the job market.

However, this trend appears to be changing. The demand for semi- and unskilled labour has declined by 2.6 per cent per annum between 2000 and 2013, whereas demand for skilled and highly skilled workers increased by 1.8 per cent and 2.8 per cent per annum respectively. Therefore an urgent need exists to train and up-skill workers in this region given the increasing demand for skilled workers.

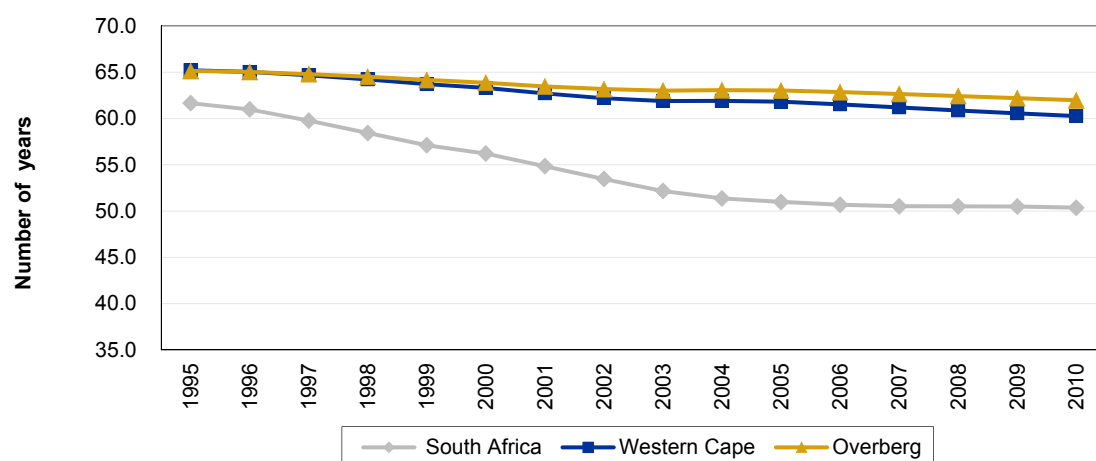
Approximately 34.1 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2015), yet it is clear that there is much room for improvement with regard to skills development in the OBD and Western Cape as a whole.

5.3.3 Health

Good health has been found to have a positive and sizable effect on aggregate output in the economy largely because healthier workers are mentally and physically more energetic and robust, more productive and less likely to stay absent due to sickness and disability (Bloom et al., 2004). Health also affects the quality of life of people.

Figure 5.6 gives an indication of the life expectancy at birth. South Africa had a life expectancy of 50.4 years in 2010 after a steep decline from 61.7 years in 1995. In the Western Cape and the OBD life expectancy also declined albeit moderately compared to that of the country as a whole. The declining tendency in life expectancy has stabilised from around 2008 since the large-scale roll-out of anti-retroviral treatment and more recent information from Statistics South Africa (Statistical release P0302, 2015) shows improvements in life expectancy within the Western Cape from 2011 to 2015. OBD (62 years) had a higher life expectancy than the Province (60.3 years) in 2010 and also the second highest compared to its fellow districts.

Figure 5.6 Life expectancy, 1995 - 2010



Source: Quantec Research

The decline in life expectancy over the years has been largely attributed to the high prevalence of HIV/AIDS and Tuberculosis (TB) in the country. The HIV and TB patient loads in each municipality within the OBD are shown in Table 5.3.

Table 5.3 ART and TB patient loads in the Overberg District, 2013 - 2014

Municipality	HIV - Antiretroviral treatment			Tuberculosis		
	ART patient load March 2013	ART patient load March 2014	Number of ART clinics/ treatment sites 2014	Number of TB patients March 2013	Number of TB patients March 2014	Number of TB clinics/ treatment sites 2014
Theewaterskloof	2 150	2 757	8	1 076	1 065	18
Overstrand	2 034	2 506	4	605	602	13
Cape Agulhas	299	372	3	207	182	8
Swellendam	424	547	5	287	254	9
Total Overberg District	4 907	6 182	20	2 175	2 103	48

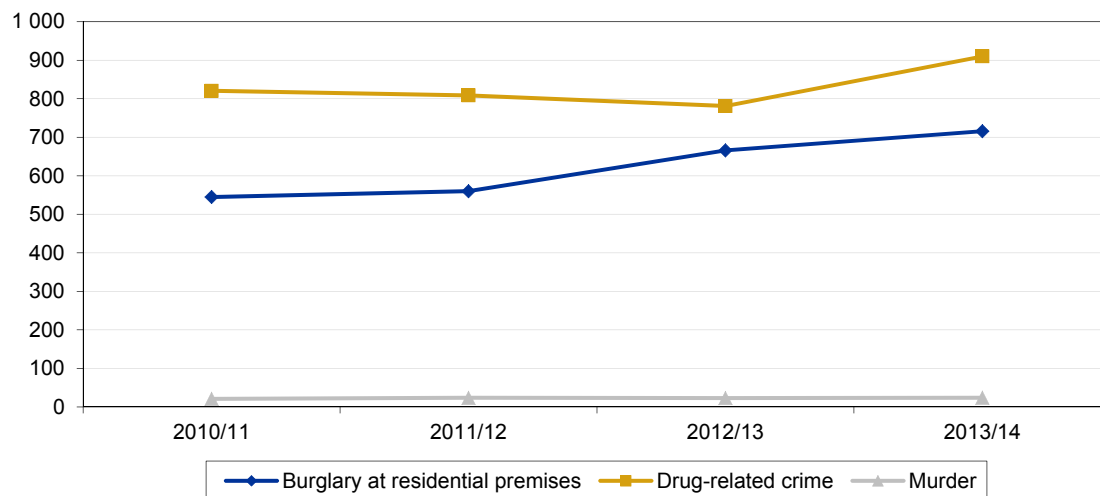
Source: Western Cape Department of Health, 2014

In 2014 only 2.3 per cent of the OBD population was infected with HIV/AIDS. What is noted, however, is the 26.0 per cent increase from the 2013 patient load. The highest patient loads of HIV and TB is in Theewaterskloof, although this municipality also has the largest population. The OBD hosts 20 ART and 48 TB treatment sites caring for the patients.

Due to the life expectancy declining only slightly over the years and the HIV and TB prevalence being low in the OBD, it may not have had much of an impact on the regional economy. Nevertheless, the impact of health on production should not be overlooked. The increasing HIV/AIDS and TB infections could adversely affect economic activity within the OBD and thus also the quality of life.

5.3.4 Crime

The safety of persons and property is vitally important to the physical and emotional well-being of people and therefore impacts on the human security aspect of human development. Crime has a significant impact on the economy. According to the World Bank (2006), it can hamper growth and discourage investment and capital accumulation. It has the potential to derail both social and economic prosperity. It also diverts public resources away from productive uses which can further social development towards the police, justice system and health (for treatment of violence related injuries and traumas). It has been found that crime negatively impacts the investment climate. Grant Thornton's *International Business* report indicated that 62 per cent of businesses in the Western Cape have been affected by crime (Smith, 2014). The largest impact on business are increasing security costs, but also through diverting investment, business losses through theft, fraud and lower levels of productivity due to loss of life or injuries, etc. Crime therefore has to be tackled with seriousness. Figure 5.7 indicates the crime rate in the OBD in terms of burglaries, drug-related crime and murders per 100 000 population.

Figure 5.7 Crime per 100 000 population in the Overberg District, 2010 - 2014

Source: South African Police Service, 2014 and Western Cape Department of Social Development, 2014

Crime has been on the rise overall within the OBD between 2010 and 2014. The data indicates that drug-related crime is the most prevalent within the OBD. It spiked from 3 155 reported cases in 2012 - 2013 to 3 731 cases in 2013 - 2014. This is an indication of a substance abuse problem within OBD as there have also been 565 cases of driving under the influence of drugs or alcohol (although this has been on the decline since 2010 - 2011). Burglaries increased between 2010 - 2011 and 2013 - 2014. Murders have remained stagnant over the last few years but increased from 81 cases in 2010 - 2011 to 97 cases in 2013 - 2014.

A look at net employment over the same period indicates that there has been net employment from 2010 to 2013 within the OBD. Furthermore, the economy is in recovery although it has been growing at a relatively slow pace over this period, i.e. 3.6 per cent per annum. This indicates that crime may be having some adverse effect on economic activity within the OBD. However, it is important to note that there are other factors contributing more directly to growth and job losses as outlined in Chapter 2. Nevertheless, the increasing levels of crime are impacting on human security within the District. According to Stats SA (2015), 64.6 per cent of the Western Cape households feel unsafe when it is dark and 27.1 per cent feel unsafe during the day¹⁴. This is the highest in the country. Addressing the high levels of crime is therefore crucial to improving the quality of life of households in the District.

¹⁴ Crime Statistics Series Volume II: Public perceptions about crime prevention and the criminal justice system, 2010-2013/14 Report 03-40-03

5.4 Access to basic services

Access to basic services within South Africa is a basic human right. It is also an indication of the quality of life of the inhabitants in the country. Access to basic services has a wider impact on education and health and therefore also on the economy.

OBD displayed high levels of access in 2013 with respect to water (97.4 per cent), sanitation (89.4) and housing (82.9 per cent) as access levels for these services exceed or are on par with the provincial averages. However, with respect to energy (91.1 per cent) and refuse removal (79.7 per cent) the OBD ranks below the provincial averages and therefore remain areas for improvement.

There is still room for improvement in terms of refuse removal and housing at most of the municipalities in the District. This may be due to the relatively high population growth in the OBD municipalities.

Table 5.4 Access to basic services in the Overberg District, 2013

	Water	Sanitation	Energy	Refuse Removal	Housing
Western Cape	96.6%	89.4%	93.3%	89.8%	80.5%
Overberg District	97.4%	89.4%	91.1%	79.7%	82.9%
Theewaterskloof	96.8%	86.4%	88.8%	79.7%	81.7%
Overstrand	98.5%	93.5%	90.3%	91.4%	81.0%
Cape Agulhas	97.4%	90.1%	97.0%	80.1%	85.9%
Swellendam	95.9%	85.5%	93.9%	74.0%	88.7%

Source: Quantec Research

Gnade (2013) indicated that empirical results support the broad view that basic infrastructure investment would have a positive influence on growth, poverty and inequality. For all the indicators used, he found a positive impact on South African municipalities.

This positive influence has also been noted for education. Since 2001 basic service delivery has increased substantially and so has the literacy rates, as noted above. Furthermore, in section 4.3 the impact of basic services infrastructure spending on the economy is also observed to be positive.

It can thus be concluded that access to basic services does not only have a positive impact on education but also on the economy as a whole and therefore on the overall quality of life within the District.

5.5 Concluding remarks

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

- The increasing HDI between 2001 and 2013 is an indication that economic growth is being translated towards social development within the OBD. The high levels of inequality indicate that this is not equally shared among households.
- The real per capita income increased substantially in the OBD as the economy grew faster than the population in all municipalities in the District. Increasing real per capita income levels imply that standards of living have also improved.
- Large discrepancies exist between population growth rates across the Province as well as within the OBD. This indicates that population growth does not only stem from natural causes, but is also related to net migration. This may be an area of future research, focusing on migration patterns and distinguishing between local, national and foreign in- or out migrators, and the implications for the non-migratory local labour force.
- There has been an overall decrease in matric pass rates in the District, with the exception of Overstrand and Theewaterskloof municipalities. Literacy rates in the OBD are also relatively low. There is a trend towards employing skilled to highly skilled individuals in the region. Skills development is therefore required in order to further stimulate employment in the District.
- Life expectancy has been declining moderately within the OBD and has been stable in recent years. Recent data suggests that life expectancy is improving within the Western Cape, and the same may apply to OBD. Currently it appears that health issues have not had a very large effect on the OBD economy, although increasing HIV/AIDS and TB infections could pose a concern.
- There have been rising crime rates within the OBD. This is having a negative impact on human security within the District and may also have an adverse effect on economic activity if this trend continues.
- Access to basic services, although high, has been fairly stable in the District level. Trends indicate that service delivery has had a positive impact on education and the economy overall.

Irrespective of the increasing levels of human development among the inhabitants of the OBD, there is still much room for improvement. This chapter illustrates how human development is influenced by the economy, education, crime, health and access to basic services. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life in the region.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Overberg District: GDPR at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	0.8	0.4	-0.5	-0.3	-1.6	2.6	0.6
2 Secondary sector [SIC: 3-5]	3.5	7.5	6.0	5.4	8.4	3.6	2.3
3 Tertiary sector [SIC: 6-9, 0]	7.2	7.0	5.5	5.5	7.1	4.8	4.4
Total: Overberg District	4.8	5.8	4.7	4.6	5.7	4.2	3.4
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	1.2	0.4	-0.5	-0.3	-1.6	2.6	0.6
2 Mining and quarrying [SIC: 2]	-26.5	2.2	0.7	3.0	1.0	-2.9	2.6
3 Manufacturing [SIC: 3]	4.1	7.2	5.8	5.0	8.2	1.9	2.6
4 Electricity, gas and water [SIC: 4]	4.5	3.3	-1.0	-0.3	2.2	-2.4	0.4
5 Construction [SIC: 5]	1.7	10.7	8.2	7.9	11.2	8.2	2.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	8.6	4.4	1.5	2.4	4.9	-3.0	4.1
7 Transport, storage and communication [SIC: 7]	7.1	8.2	4.6	4.8	7.9	4.0	2.6
8 Finance, insurance, real estate and business services [SIC: 8]	8.8	12.6	10.1	9.3	12.3	11.1	5.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.7	4.6	2.3	2.6	4.9	1.0	2.4
10 General government [SIC: 91, 94]	3.7	3.4	3.7	3.6	2.9	4.0	3.8
Total: Overberg District	4.8	5.8	4.7	4.6	5.7	4.2	3.4

% share					
Sector	1995	2000	2005	2010	2013
Broad sectors: Overberg District					
1 Primary sector [SIC: 1-2]	26.4	21.7	16.6	12.3	11.3
2 Secondary sector [SIC: 3-5]	22.8	21.4	23.1	25.5	24.0
3 Tertiary sector [SIC: 6-9, 0]	50.8	56.9	60.3	62.2	64.6
Total: Overberg District	100	100	100	100	100
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing [SIC: 1]	25.7	21.5	16.5	12.2	11.2
2 Mining and quarrying [SIC: 2]	0.7	0.1	0.1	0.1	0.1
3 Manufacturing [SIC: 3]	14.7	14.2	15.1	16.3	15.2
4 Electricity, gas and water [SIC: 4]	2.0	1.9	1.7	1.3	1.2
5 Construction [SIC: 5]	6.2	5.3	6.3	7.9	7.6
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	15.0	18.0	16.8	14.0	14.0
7 Transport, storage and communication [SIC: 7]	6.4	7.1	8.0	8.0	7.9
8 Finance, insurance, real estate and business services [SIC: 8]	12.1	14.6	19.9	25.8	28.4
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.3	4.9	4.6	4.1	4.0
10 General government [SIC: 91, 94]	12.9	12.3	10.9	10.4	10.4
Total: Overberg District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

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

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Overberg District							
1 Primary sector [SIC: 1-2]	-3.6	-3.1	-6.5	-6.5	-3.5	-10.2	-2.2
2 Secondary sector [SIC: 3-5]	-3.1	1.8	-1.8	-0.6	1.3	-0.3	-4.3
3 Tertiary sector [SIC: 6-9, 0]	8.3	2.9	1.8	2.1	2.9	2.4	1.5
Total: Overberg District	1.1	0.5	-1.0	-0.8	0.4	-1.3	-0.3
Broad sectors: Overberg District							
1 Agriculture, forestry and fishing [SIC: 1]	-3.5	-3.1	-6.6	-6.6	-3.5	-10.3	-2.2
2 Mining and quarrying [SIC: 2]	-18.9	-16.3	31.3	17.8	3.2	7.4	2.2
3 Manufacturing [SIC: 3]	0.7	2.8	-0.8	0.1	2.0	0.4	-2.3
4 Electricity, gas and water [SIC: 4]	0.6	4.0	1.8	1.1	4.8	-14.1	1.5
5 Construction [SIC: 5]	-5.3	1.1	-2.7	-1.2	0.7	-0.4	-5.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	8.0	-0.4	-1.0	0.7	-0.2	-2.0	0.5
7 Transport, storage and communication [SIC: 7]	-2.8	1.3	5.4	3.6	0.7	8.0	3.2
8 Finance, insurance, real estate and business services [SIC: 8]	15.2	10.6	5.1	5.0	10.2	5.6	3.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	9.4	2.1	1.2	1.2	2.7	4.0	0.0
10 General government [SIC: 91, 94]	6.4	4.4	2.2	1.7	3.0	2.2	1.8
Total: Overberg District	1.1	0.5	-1.0	-0.8	0.4	-1.3	-0.3

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Overberg District					
1 Primary sector [SIC: 1-2]	43.8	34.5	27.3	21.0	18.8
2 Secondary sector [SIC: 3-5]	22.6	18.2	19.2	18.8	17.3
3 Tertiary sector [SIC: 6-9, 0]	33.6	47.3	53.5	60.2	63.9
Total: Overberg District	100	100	100	100	100
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing [SIC: 1]	43.6	34.5	27.2	20.9	18.7
2 Mining and quarrying [SIC: 2]	0.2	0.1	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	7.4	7.3	8.1	8.3	8.0
4 Electricity, gas and water [SIC: 4]	0.2	0.2	0.3	0.3	0.3
5 Construction [SIC: 5]	15.0	10.7	10.8	10.2	9.0
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	13.3	18.4	17.5	17.1	17.6
7 Transport, storage and communication [SIC: 7]	2.5	2.1	2.1	2.8	2.9
8 Finance, insurance, real estate and business services [SIC: 8]	3.8	7.3	11.8	15.3	18.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.8	11.6	12.5	14.1	14.3
10 General government [SIC: 91, 94]	6.1	7.9	9.6	11.0	11.0
Total: Overberg District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

Annexure 1.3 Overberg District: Composition of Goods Exports and Imports (nominal values)

Sector	1995	2000	% share		
			2005	2010	2014
Goods Exports					
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	87.2	94.9	92.7	97.2	96.1
2 Mining and quarrying [SIC: 2]	1.0	0.0	0.1	0.1	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	7.0	5.0	7.2	2.6	3.7
4 Undefined/other	4.9	0.0	0.0	0.1	0.2
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Overberg District					
1 Food, beverages and tobacco [SIC: 301-306]	75.6	89.3	83.4	94.3	90.1
2 Textiles, clothing and leather goods [SIC: 311-317]	0.1	0.0	3.7	0.2	1.4
3 Wood, paper, publishing and printing [SIC: 321-326]	0.4	0.0	0.0	0.1	0.2
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	1.2	4.8	4.8	3.1	3.5
5 Other non-metal mineral products [SIC: 341-342]	0.4	0.0	0.4	0.5	0.4
6 Metals, metal products, machinery and equipment [SIC: 351-359]	0.2	0.2	1.6	0.3	0.4
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.3	0.1	0.2	0.2
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.0	0.0	1.6	0.0	1.2
9 Transport equipment [SIC: 381-387]	0.0	0.3	1.6	0.3	1.6
10 Furniture and other manufacturing [SIC: 391-392]	22.0	5.0	2.8	0.9	1.0
Total: Manufacturing exports	100	100	100	100	100

Sector	1995	2000	% share		
			2005	2010	2014
Goods Imports					
Broad sectors: Overberg District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	19.2	38.8	19.3	37.7	28.9
2 Mining and quarrying [SIC: 2]	1.2	0.0	0.4	0.0	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	79.4	61.2	80.2	62.3	70.8
4 Undefined/other	0.1	0.0	0.1	0.0	0.3
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Overberg District					
1 Food, beverages and tobacco [SIC: 301-306]	15.2	31.5	17.2	32.5	27.5
2 Textiles, clothing and leather goods [SIC: 311-317]	0.2	2.0	9.4	7.7	17.5
3 Wood, paper, publishing and printing [SIC: 321-326]	1.7	6.3	4.2	7.0	2.8
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	6.4	26.5	19.9	18.2	10.9
5 Other non-metal mineral products [SIC: 341-342]	2.1	0.6	1.7	1.7	1.4
6 Metals, metal products, machinery and equipment [SIC: 351-359]	68.9	25.7	29.5	22.0	25.1
7 Electrical machinery and apparatus [SIC: 361-363]	1.7	4.6	3.1	0.5	0.6
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	3.7	0.7	8.1	7.3	1.7
9 Transport equipment [SIC: 381-387]	0.0	1.8	3.7	1.5	11.2
10 Furniture and other manufacturing [SIC: 391-392]	0.1	0.3	3.3	1.7	1.3
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

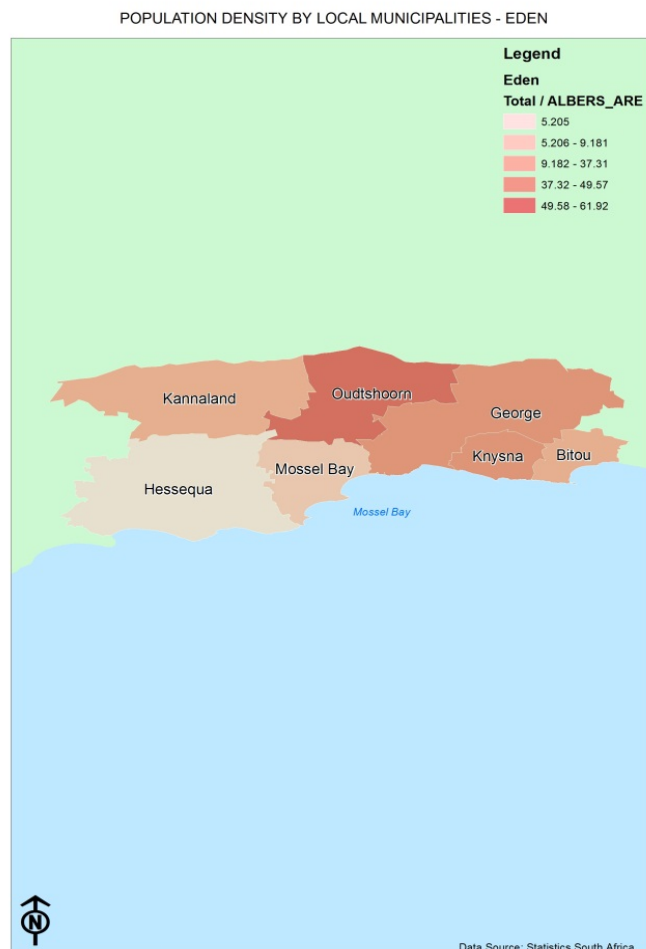
Eden District

Executive summary

Introduction

The 2015 Municipal Economic Review and Outlook (MERO) report is presented in a generally constrained macro-economic environment. Whilst more challenging, this ups the imperative of unlocking opportunities for growth and jobs. The MERO's objective is to provide economic intelligence at the local level in the Western Cape Province, which can assist with evidence-based decision making and in the building of an environment conducive to private sector growth and employment creation.

The reality is that six years from the onset of the recovery from the 2009 Great Recession, world economic growth is as yet not on a solid footing. Growth projections have been scaled down at the global, national and provincial levels. 'Secular stagnation' is the term being used to describe a 'new normal' in respect of the world economy.



The macro-economic context was discussed in Section A of the report. In this section of the report, five chapters are devoted to the economic review and outlook for the Eden District economy. The first chapter provides a dedicated regional economic outlook. Thereafter, the focus is on sectoral growth, employment and skills demand trends in each of the seven Eden District municipalities; a sectoral forecast over the 2015 - 2020 period at the District level is also motivated. The third chapter focuses on the topic of integration into global value chains, Special Economic Zones (SEZs) and the petrochemical and agri-processing value chains in Eden District. In the fourth chapter, an analysis of the municipal revenue and infrastructure spending trends and access to basic services is made, including an indication of the infrastructure projects underway in Eden District. The fifth chapter concludes with a consideration of Eden District's socio-economic profile and the linkages with economic growth.

1. Regional economic outlook

The Eden District economy is the fastest growing district in the Western Cape, growing by 4.6 per annum over the past decade. The regional economy is relatively closed in terms of international trade, which measures less than 10 per cent of its GDP. This excludes international tourism receipts, which can from time-to-time influence the ebb and flow of the economy. The economy is well-balanced in terms of its industry structure and sectoral growth patterns. However, economic activity is geographically concentrated as close to 80 per cent of output is generated in the District's four coastal municipalities, i.e. George, Mossel Bay, Knysna and Bitou.

Economic growth in the Eden District has been primarily driven by its tertiary sector - particularly the finance and business services sub-sector and retail, wholesale, catering and accommodation. The tourism sector also plays a vital role in the region's economy. The tertiary sector has been the key job creator, while the primary and secondary sectors have done the opposite.

External factors, such as the imminent interest rate hikes in the USA and the Chinese economic slowdown, have had unfavourable consequences for emerging markets such as South Africa. The weakening national and provincial economic outlook has also caught up with Eden District. Consequently, Eden District's five-year economic growth forecast was revised down from 3.6 per cent per annum previously (2014 - 2019) to 3.4 per cent per annum (2015 - 2020) currently.

Despite the downward revision to the District's economic outlook, pockets of strength remain within the sub-sectors. Finance and business services are expected to maintain healthy growth, while the transport and communication and construction sectors are also expected to grow at above-average rates over the forecast period. The manufacturing sector is forecast to expand in line with the District average and once some of the pressure has been lifted off global and domestic demand, retail and wholesale growth should also join the above-mentioned sub-sectors.

2. Sectoral growth, employment and skills

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The Eden District economy is blessed with beautiful natural scenery and vibrant coastal municipal economies. It has evolved into a fully services oriented economy showing exceptional growth in the Western Cape. Tourism and associated property developments and rapid internal growth underpin strong construction activity in the region. This appears to be a critical dynamic in the Eden District. On the manufacturing terrain, agri-processing is a competitive industry, with exciting new niche export-oriented industries involving the whole food value chain being developed. Forestry and the furniture value chain is another competitive industry, as is the petrochemical complex in Mossel Bay. Both these latter mentioned industries face longer term threats, which need to be addressed.

The economic vibrancy of the region, particularly the rapid growth of Mossel Bay, Bitou, Knysna and Kannaland, augmented by the stability and more moderately expanding George and Oudtshoorn municipal economies, could not prevent the impact from the national and provincial recession in 2009 and subsequent slowdown. Fortunately, the slump in the regional construction industry appears to be over, with key municipalities reporting rising building plans. Slow projected economic growth is likely to adversely impact on municipal revenue streams. As noted, the five-year economic outlook has been scaled down. While the weaker rand exchange rate does impact negatively on production costs, should these be contained, the region has an opportunity to grow demand via exports in view of its current low export exposure and its industry mix.

3. Value chains and SEZs

In today's world, value chains reach beyond regional and national boundaries and the key is integration. Globalisation, interconnectedness, technology, logistics, offshoring and deregulation are all elements of the drivers of value chains. Special Economic Zones (SEZs) fit in with the contemporary trend to tap into global value chains and unlock opportunities for growth and jobs.

Municipalities generally do not have the mandate to provide incentives and policy initiatives to establish and ensure the success of a SEZ. However, there are various ways in which a municipality can provide support and ensure that the economic benefits are localised. Municipalities can assist along the whole value chain by the provision of supplier data bases, for instance; expediting zoning and the provision of land; ensuring the standard basic services and associated infrastructure are delivered effectively; and in combating captive market relations, e.g. by the facilitation of direct relationships between producers, local logistics companies, and the firms in the SEZ. This could limit losses outside the local value chain and ensure greater profits for the local producers and service suppliers to create additional jobs. Municipalities can also provide marketing assistance through geographical identification, i.e. the branding of products from the region, in assisting with trade fairs and the marketing of local products, etc.

Investigating Eden District's petrochemical and agri-processing value chains, it was discovered that linkages to support services in the petrochemical value chain were not as strong as that of the food processing value chain. The potential for employment and GDP generation in the food value chain is significantly higher than that in the petrochemical value chain. This is due to the greater backward linkages in the agri-processing value chain to sectors with higher employment multipliers. Backward linkages to agriculture and wholesale and retail trade are much higher in the agri-processing industry, and each of these sectors have significant employment potential per unit of output generated.

The ability for local municipalities to become involved in the sustainable support of SEZs also gives greater opportunity to the development of the food processing value chain in the Eden District. Various stakeholders have noted concerns in terms of the promotion of the petroleum industry and the negative effects this may have on the local aquaculture and fishing industries.

Currently the petrochemicals industry in Mossel Bay is under pressure due to limited gas reserves and the high costs of extraction. This could pose a possible threat to the linkage between mining and the petrochemicals industry. Plans for a floating Liquefied Natural Gas (LNG) import terminal have not materialised due to a study showing that it may not be commercially viable. New drilling and offshore exploration activity is underway in order to augment the gas supply to PetroSA.

Regarding the agri-processing value chain, George Municipality already has a large proportion of processed food output and export in relation to agriculture. This is positive to the development of further food processing potential in the area as smaller processing plants in a SEZ can take advantage of the existing supply chain and support structures in the area. The creation of niche markets will ensure that these processing plants are not in competition with the large commercial value chains. They will also derive their own unique competitive advantage should they be allowed to 'piggy back' on existing infrastructure in the area.

4. Infrastructure expenditure and revenue analysis

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly in Eden District. Although the portion of the infrastructure budget spent on basic services infrastructure came down in 2013/14, expenditure plans over the MTREF have reprioritised funds to ensure investments in basic services infrastructure.

Economic theory and empirical work suggest that investment in basic services infrastructure has both a direct and an indirect effect on growth. Mossel Bay and George municipalities are part of the Province's top-10 leading non-metro municipalities in terms of size and make the largest contributions to expenditure on basic services infrastructure and revenue collection from basic services. It was found

that these two municipalities' per capita spending on basic services infrastructure are not higher than some of the smaller municipalities (e.g. Bitou and Kannaland). Although it is expected that municipalities that make the highest contributions to GDP and record above average growth rates within the region also make the highest contributions to basic services expenditure and revenue collection, this does not hold true for all municipalities within Eden District.

The mismatch between infrastructure expenditure, revenue collection and GDP growth can be a result of various economic challenges municipalities face. The analysis revealed that although Kannaland recorded above-average GDP growth, the Municipality contributed the least to revenue collection within the region. This presumably reflects a relatively small tax base.

Basic services revenue contributes more than 60 per cent of the total operating revenue within each municipality within the Eden District. It is therefore important for the region to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services and sustain economic growth.

5. Socio-economic profile

The increasing Human Development Index (HDI) between 2001 and 2013 is an indication that economic growth is being translated towards social development within the Eden District. The fact that the regional economy grew faster than the local population also meant that real per capita income levels, or standards of living, have improved. Apart from Mossel Bay, per capita income remains below the provincial average for all the municipalities in the District. Furthermore, high levels of inequality exist among the different population groups in the region.

Literacy rates in the Eden District average 82.6 per cent, which is lower than that of the Province as a whole. The District attained an 81 per cent matric pass rate in 2014, which was the second lowest among all the districts. There is a trend towards employing skilled to highly skilled individuals in the region, given the services orientation of the economy. Skills development and lower skilled labour intensive initiatives are therefore required in order to further stimulate employment in the District.

The Eden District has the lowest life expectancy among all the Western Cape districts. Given the increasing HIV/AIDS and TB patient loads, it is essential that issues surrounding the health of the population and the potential impacts this may have on production not be overlooked. Likewise, the rising and relatively high crime rates in the District may be one of the factors impacting on economic growth (and thus employment) in the region.

The Eden District displayed the lowest level of access to water and sanitation in 2013 relative to the Cape Metro and other districts, while access to energy and refuse removal remain below provincial averages. Service delivery improvements since 2001 have had a positive impact on education and the overall economy, but significant scope for improvement remains.

Notwithstanding the increasing levels of human development among the people in Eden District, there exists much room for improvement. This chapter illustrates the influence that economic conditions, education, crime, health and access to basic services have on human development. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life in the region.

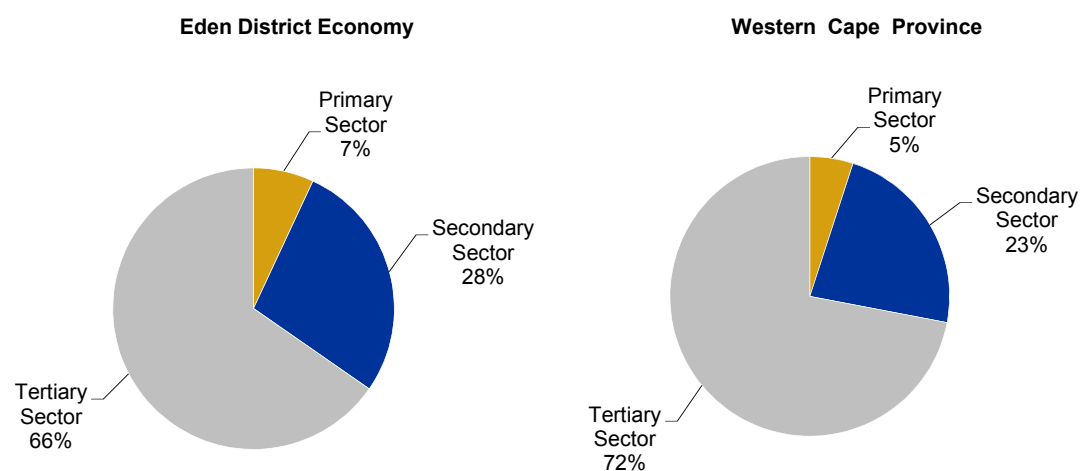
1

Eden regional economic outlook

1.1 Introduction

Eden District is the second largest non-metro district in the Western Cape Province. Between 2005 and 2013, the District contributed an average of 10 per cent to the provincial GDP and 15 per cent to total employment. As at the end of 2013, a total of 181 688 workers were employed within the District. Figure 1.1 shows the District's mix of economic activities, i.e. primary, secondary and tertiary activities. Eden District hosts a relatively bigger secondary sector, with manufacturing and construction activities being better represented.

Figure 1.1 Eden District and Western Cape Province GDP sectoral contribution: Average 2000 - 2013



Source: Quantec data, own calculations

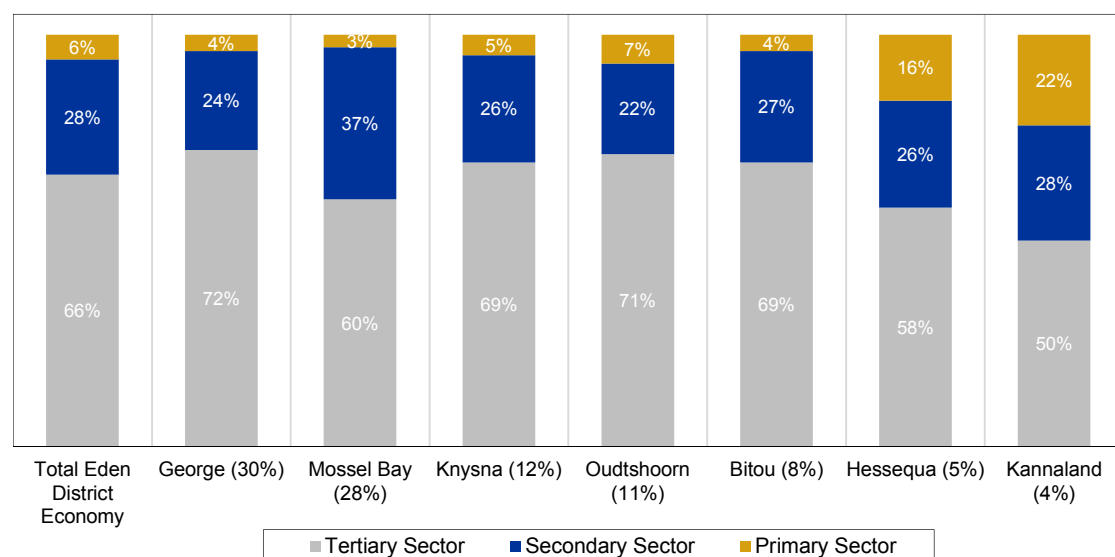
For both the District and the Province, agriculture, forestry and fishing accounts for more than 90 per cent of the primary sector. Within the secondary sector, manufacturing accounts for the bulk of economic activity in both cases. Compared to the Province, Eden District boasts more active manufacturing and construction sectors. Financial and business services, as well as trade and accommodation are the main drivers of the tertiary sectors in both the District and the Province.

Eden District is home to seven non-metro municipalities, namely George, Mossel Bay, Knysna, Oudtshoorn, Bitou, Hessequa and Kannaland - listed in order of GDP size (see Table 1.1). Mossel Bay, Knysna and Bitou are on the list of Western Cape Province's top-10 non-metropolitan municipalities. The biggest four municipalities account for about 82 per cent of the District's GDP. Although the municipalities' broader sectoral structures are not vastly different from the District, there are some differences worth pointing out.

The District's largest municipality, George, accounts for 30 per cent of its GDP and resembles the Province's sectoral mix more than it does the District's (see Figure 1.2). George hosts a bigger tertiary sector relative to the wider district and the other municipalities. A key distinction within George's tertiary sector is that it boasts a relatively strong transport and communication sector. This is mainly due to the George Airport, which provides a second gateway into the Western Cape Province after the Cape Town International Airport.

Mossel Bay accounts for 28 per cent of the District's GDP and has a relatively larger secondary sector compared to the District and the other local municipalities. This is mainly because Mossel Bay has the largest manufacturing sector which accounts for 34 per cent of the District's total manufacturing activity. This is largely due to the manufacture of petroleum products and chemicals through Mossgas, a synthetic fuels plant operated by state-owned PetroSA. Mossgas is South Africa's only Gas-to-Liquids (GTL) plant.

Figure 1.2 Eden District: Sectoral GDP distribution across municipalities: Average 2005 - 2013



Source: Quantec Research 2014, Own calculations

The third largest municipality in Eden District is Knysna, which accounts for 12 per cent of GDP. Within its secondary sector, Knysna has a relatively strong construction sector which accounts for just under 50 per cent of secondary sector GDP. Oudtshoorn Municipality is the fourth largest in the District and accounts for 11 per cent of GDP. Its primary, secondary and tertiary sectoral mix also resembles the Province's than it does Eden District. However, the contributions made by Oudtshoorn's sub-sectors within its primary and tertiary sector are in line with the District.

The next section explores historical and current GDP growth and employment patterns within the local municipalities, specifically focussing on the largest four municipalities.

1.2 Historical and current growth and employment trends

1.2.1 GDP performance and employment per municipality

As noted, George, Mossel Bay, Knysna and Oudtshoorn accounted for 82 per cent of Eden District's GDP in 2013. These municipalities also jointly contributed about 79 per cent to the District's total employment. The Eden District GDP trend growth rate has been 4.6 per cent per annum over the 2005 - 2013 period, i.e. the fastest in the Province. Table 1.1 shows that the District's economic growth not only managed to stay well above negative territory during the 2008 - 2009 recession, but also consistently outperformed the Province. Both the District and the Province experienced exceptional growth during the 2000 - 2007 expansion period. Both regions, however, have not yet managed to revert back to their 2005 - 2013 trend growth rates. Eden District has only managed to recover by an average annual growth rate of 3.8 per cent during the 2010 - 2013 economic recovery period. The District's recovery rate, however, is above the Western Cape Province's 2010 - 2013 recovery rate (2.8 per cent) and its 2005 - 2013 trend growth rate (3.6 per cent).

Considering economic growth within the four largest municipalities, performance in George and Oudtshoorn - which collectively accounted for 41 per cent of GDP in 2013 - was below that of the District and more in line with the Province (see Table 1.1).

Mossel Bay, on the other hand, exhibits economic growth rates well above the District's. The Municipality's 2010 - 2013 recovery rate (5.9 per cent) remains below its long term trend growth rate of 6.9 per cent. Knysna's economic performance has also largely outperformed Eden District's since 2000, with the exception of the 2010 - 2013 recovery period. The Municipality's average annual growth rate during the recovery period (3.8 per cent) has discouragingly registered below average growth reported during the 2000 - 2007 expansion and 2008 - 2009 recession periods.

Table 1.1 Eden District municipalities: GDPR growth

Municipality	Contribution to GDPR (%) 2013	Trend 2005 - 2013	Real GDPR growth (ave yoy %)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
George	30	3.5	5.1	1.7	2.7
Mossel Bay	28	6.9	9.0	4.7	5.9
Knysna	12	5.1	6.9	3.9	3.8
Oudtshoorn	11	3.5	4.3	2.4	2.4
Bitou	8	6.4	9.6	4.8	5.3
Hessequa	5	0.8	1.7	-1.6	1.8
Kannaland	4	4.9	6.2	5.3	2.9
Total Eden District¹	100	4.6	6.1	3.0	3.8
Western Cape Province	-	3.6	4.9	1.4	2.8

Source: Quantec Research

Since 2000, Eden District's labour market has proved resilient. Table 1.2 shows that municipalities' employment growth tracked that of GDPR. Municipalities which outperformed the District's growth were on average net creators of employment, while underperforming municipalities shed jobs.

Table 1.2 Eden District municipalities: Employment growth

Municipality	Contribution to GDPR (%) 2013	Trend 2005 - 2013	Real GDPR growth (ave yoy %)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
George	28%	-16	3 194	-210	-1 273
Mossel Bay	24%	9 888	11 751	2 868	1 553
Knysna	13%	2 357	4 278	977	-987
Oudtshoorn	13%	-168	524	103	-815
Bitou	9%	2 993	4 700	857	327
Hessequa	6%	-4 397	-3 598	-1 435	-890
Kannaland	4%	-671	486	-77	-409
Total Eden District²	100	8 670	20 416	2 629	-2 468
Western Cape Province	-	25 152	128 301	-11 841	-10 468

Source: Quantec Research

1.2.2 GDPR growth and employment creation across sectors

Eden District's tertiary sector has been the main driver of the District's economic growth by virtue of its dominance and superior performance. The sector fared consistently well (see Table 1.3), spurred on largely by the financial and business services sub-sector and retail and accommodation. GDPR growth in the financial and business services sub-sector has eased somewhat, from an annual average of 8.2 per cent during the 2000 - 2007 expansion period to 3.9 per cent during the 2010 - 2013 recovery phase. Growth within the sub-sector is yet to revert back to its 5.6 per cent long term average trend growth rate. Besides registering flat average growth during the recession period, retail and wholesale exhibits a strong recovery pattern. The

¹ The former DMA accounts for the remaining 2 per cent contribution to the District's GDPR.

² The former DMA accounts for the remaining 3 per cent contribution to the District's GDPR.

sub-sector has recovered by 5 per cent per annum on average, managing to surpass its 4.6 per cent average trend growth rate. These two key sub-sectors within the tertiary sector have also spearheaded net job creation within the District.

Table 1.3 Eden District: Broad sectoral growth and employment creation

Sector	Real GDP growth (ave yoy %)				Employment (net change)			
	Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013	Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Primary sector [SIC: 1-2]	1.6	-0.6	6.4	1.5	-12 664	-5 982	-3 125	-2 827
Secondary sector [SIC: 6-9, 0]	4.6	7.0	1.2	3.5	-4 567	1 351	-1 424	-5 992
Tertiary sector [SIC: 3-5]	4.9	6.5	3.5	4.2	25 901	25 046	7 178	6 351
Total	4.6	6.1	3.0	3.8	8 670	20 416	2 629	-2 468
Agriculture, forestry and fishing	1.6	-0.3	6.8	1.5	-12 881	-5 663	-3 153	-2 824
Mining and quarrying	1.5	-4.8	-4.2	1.5	216	-319	28	-3
Manufacturing	3.6	6.0	-1.9	4.3	-3 136	-1 926	-1 385	-1 086
Electricity, gas and water	-0.6	1.7	-3.6	0.9	44	234	-182	23
Construction	8.7	12.8	9.2	2.5	-1 475	3 044	144	-4 929
Wholesale and retail trade, catering and accommodation	4.6	6.6	0.0	5.0	8 517	3 828	941	1 132
Transport, storage and communication	3.4	7.0	1.9	2.4	1 103	310	590	555
Finance, insurance, real estate and business services	5.6	8.2	5.4	3.9	3 022	8 461	207	1 865
Community, social and personal services	4.2	6.1	3.4	2.7	5 767	6 825	3 444	-386
General government	5.6	3.7	6.3	5.4	7 491	5 623	1 996	3 186
Total	4.6	6.1	3.0	3.8	8 670	20 416	2 629	-2 468

Source: Quantec Research

Within the secondary sector, construction and manufacturing have been the key performance drivers. Eden District's construction sector has exhibited remarkable growth, advancing by an average rate of 12.8 per cent during the expansion period, and slowing only marginally to an average of 9.2 per cent during the recession. The construction sector witnessed a slump after 2009, with growth averaging 2.5 per cent per annum on average over the 2010 - 2013 period. The sector also shed many jobs. The District's manufacturing sector grew above average in the Province; however, this could not prevent a negative employment trend throughout the expansion, recession and recovery periods.

The primary sector has performed the worst within the District relative to the secondary and tertiary sectors. Overall the agriculture, forestry and fishing sub-sector has advanced satisfactorily relative to the District, considering its exposure to natural limits and climate factors. The sector has, however, been shedding jobs, which is likely the result of rising employment costs and increasing mechanisation. Going forward, manufacturing remains vulnerable to the country's electricity supply shortages.

1.3 District economic outlook

Eden District's economy grew by 2.5 per cent in 2013, followed by an estimated 1.6 per cent in 2014. These growth rates are well below the District's 2005 - 2013 average trend growth of 4.6 per cent per annum. Table 1.4 shows that average annual growth for the District is forecast at 3.4 per cent per annum over the 2015 - 2020 period. The five-year forecast was revised downwards in line with global, national and provincial growth forecasts from 3.6 per cent per annum previously (MERO, 2014). The District's growth is expected to stage a slow recovery and will remain below the average trend growth for the full forecast period. Encouragingly, the recovery is expected to sustain a steady upward trajectory.

Table 1.4 Eden District: Real GDP forecast by broad sector: 2015 - 2020

Sector	Forecast (%)						Forecast (%) 2015 - 2020
	2015	2016	2017	2018	2019	2020	
Agriculture, forestry and fishing	1.8	2.0	2.5	2.3	2.4	2.6	2.2
Mining and quarrying	1.1	0.8	0.8	0.6	1.1	1.4	1.0
Manufacturing	2.1	3.2	3.4	3.5	3.9	3.9	3.3
Electricity, gas and water	-1.3	1.3	1.3	1.4	2.0	2.4	1.2
Construction	3.6	3.0	4.9	5.1	5.0	5.3	4.5
Wholesale and retail trade, catering and accommodation	2.2	2.7	3.6	3.7	4.2	4.3	3.4
Transport, storage and communication	2.9	2.7	4.2	4.4	4.4	4.5	3.8
Finance, insurance, real estate and business services	4.1	3.5	4.4	4.4	4.5	5.0	4.3
Community, social and personal services	1.8	2.2	3.0	3.1	3.0	3.1	2.7
General government	1.2	1.0	1.7	1.6	1.8	1.9	1.5
Total	2.6	2.7	3.6	3.6	3.9	4.1	3.4

Source: Quantec, own calculations

The financial and business services sub-sector is expected to maintain its position as the leading sector over the forecast period. Transport and communication is also expected to grow at a relatively elevated 3.8 per cent per annum average, slightly above the District's. Retail and wholesale trade is expected to register a 3.4 per cent average growth rate. The construction sector is expected to continue growing at rates well above the District's average. A slight moderation is expected in 2016, but thereafter, the sector should grow at elevated rates, leading it to a 4.5 per cent average growth.

1.4 Concluding remarks

Economic growth in Eden District has been primarily driven by its tertiary sector – particularly the finance and business services sub-sector and retail and wholesale. Since 2000, this sector has been the key net job creator, while the primary sector has done the opposite. In spite of the downward revision to the District's economic outlook, in line with global, national and provincial forecast downgrades, pockets of strength remain within the District's sub-sectors. Finance and business services are expected to maintain a healthy pace, while transport and construction are also expected to come to the fore to support overall district growth. Once some of the pressure has been lifted off global and domestic demand, retail and wholesale growth should also join the above-mentioned sub-sectors.

2

Sectoral growth, employment and skills

2.1 Introduction

The development of industries does not always evolve along the same patterns when compared to the wider economy. An investigation of the sector growth performances at the regional level can therefore be revealing. A combination of industry dynamics (ranging from factor endowments, scale economies to demand patterns, technological developments, etc.) and geographical economics determine the growth path of an industry (Capasso, et al, 2015: 5). Table 1.1 and Table 1.2 highlight the broad sectoral growth rates of the Eden District regional economy, showing the change in employment levels and the real GDPR growth rates over the past decade.

As the second largest non-metro economy in the Province, Eden District accounted for an estimated 7.8 per cent of the Western Cape's GDPR in 2014, i.e. R36.2 billion of R462 billion; Eden District also employed 9.7 per cent of the Province's workforce, i.e. 184 232 of the 1.9 million workers. The Eden District economy located in the scenic southern parts of the Western Cape is well-known for its vibrant tourism sector, with the natural beauty of the region being a key draw card. The regional economy is well-balanced, with commercial services constituting the largest sector in 2013³. Other tertiary activities, such as the government and community, social and personal (CSP) services are also well represented (accounting for 19.9 per cent of GDP. Manufacturing accounts for 11.8 per cent of GDPR and the rapidly-growing region

³ Commercial services are distinguished from the other two main tertiary sectors, i.e. the general government and community, social and personal services. It consists of a diverse range of tertiary economic activities, namely wholesale, retail, catering and accommodation services; transport and communication and the finance, insurance, real estate and business services sector. It needs to be pointed out that the personal services sector also contains some important commercial services; however, the data availability did not allow disaggregation.

hosts a vibrant construction sector (9.8 per cent of GDP). The agriculture, forestry and fishing sector is expanding and sizeable in the region.

2.2 Sectoral growth, employment and skills development per municipality

Table 2.1 shows the sector growth rates across Eden District's seven municipalities. The fastest growing municipal economies are Mossel Bay (expanding by close to 7 per cent per annum, 2005 - 2013); Bitou (6.4 per cent); Knysna (5.1 per cent) and Kannaland (4.9 per cent). The growth of these municipal economies is characterised by above-average expansion of their manufacturing, construction and commercial services sectors; only in Knysna, the manufacturing sector did not perform that well. A key source of growth in Eden District is the petro-chemical complex in Mossel Bay and the inward flow and spending of tourists in most municipalities. The fast growth of the region necessitates rapid infrastructure investment, which in turn, stimulates the construction sector.

Economic activity is concentrated in the Coastal municipalities, with George, Mossel Bay, Knysna and Bitou accounting for more than 80 per cent of the regional economic production in 2013 (Table 2.3). Hessequa's economy is the second smallest (accounting for slightly more than 5 per cent of Eden District's GDP) and remained stagnant over the period of analysis. The smallest regional economy is Kannaland, but its growth was above-average. Oudtshoorn's growth was below-average, but in line with the large George's economy.

Table 2.1 Eden District: Sectoral growth across seven economic areas, 2005 - 2013

Industry	Mossel Bay	Hessequa	Kannaland	George	Oudtshoorn	Bitou	Knysna	Eden District
Agriculture, forestry and fishing	4.8	-1.5	1.3	1.0	1.0	5.5	7.7	1.6
Manufacturing	5.5	1.7	4.1	1.5	2.0	5.3	3.0	3.6
Construction	10.9	2.0	13.3	8.3	8.8	8.8	8.1	8.7
Commercial services	6.7	0.6	7.2	3.8	3.8	6.9	4.9	4.9
General government and Community, social and personal services	9.2	3.3	5.0	4.2	3.8	3.5	5.1	5.2
Other	4.2	-4.0	-0.6	-4.0	-0.6	1.5	5.4	-0.4
Total	6.9	0.8	4.9	3.5	3.5	6.4	5.1	4.6

Source: Quantec Research, Own calculations

Table 2.2 Eden District: Sectoral employment creation across seven economic areas, 2005 - 2013

Industry	Mossel Bay	Hessequa	Kannaland	George	Oudtshoorn	Bitou	Knysna	Eden District
Agriculture, forestry and fishing	-1 200	-2 813	-1 603	-2 342	-1 726	-589	-1 083	-12 881
Manufacturing	-587	-303	20	-1 526	-446	-4	-362	-3 136
Construction	520	-873	100	-585	-96	-138	-376	-1 475
Commercial services	5 330	-682	378	1 455	591	2 991	2 538	12 643
General government and Community, social and personal services	5 734	270	436	2 924	1 488	723	1 555	13 258
Other	90	3	-2	58	20	9	86	260
Total	9 888	-4 397	-671	-16	-168	2 993	2 357	8 670

Source: Quantec Research, Own calculations

In terms of employment creation, the region's commercial services sector and the 'public sector' have been very successful with creating jobs on a net basis over the past decade. This more than compensated for the outflow of jobs from the agricultural sector and - to a lesser extent - manufacturing and construction - see Table 2.2.

Table 2.3 Regional GDP composition of the Eden District industries, 2013⁴

Industry	Mossel Bay	Hessequa	Kannaland	George	Oudtshoorn	Bitou	Knysna	Eden District
Agriculture, forestry and fishing	15.6	14.9	13.3	17.1	13.2	6.5	10.7	100
Manufacturing	33.6	5.5	5.5	26.5	11.3	6.7	9.3	100
Construction	28.3	4.7	2.6	28.7	7.5	10.6	17.3	100
Commercial services	24.9	4.3	2.7	32.6	9.2	10.8	14.1	100
General government and Community, social and personal services	24.7	5.1	3.0	32.7	19.8	3.9	9.8	100
Other	30.8	5.1	3.2	34.7	7.4	5.0	12.8	100
Total	25.9	5.3	3.6	30.8	11.6	8.5	12.8	100

Source: Quantec Research, Own calculations

⁴ Included here are the seven economic areas being researched; the difference between the sum of the regional shares of each industry/sector (read horizontally) and 100 is the relative contribution of those economic areas not covered in the analysis.

Table 2.4 Sectoral GDPR composition of Eden District across the municipalities

Industry	Mossel Bay	Hessequa	Kannaland	George	Oudtshoorn	Bitou	Knysna	Eden District
Agriculture, forestry and fishing	3.2	15.3	19.6	3.0	6.1	4.1	4.5	5.4
Manufacturing	15.3	12.3	17.8	10.1	11.5	9.2	8.6	11.8
Construction	10.8	8.8	6.9	9.2	6.3	12.2	13.3	9.8
Commercial services	48.7	41.7	37.3	53.6	40.3	64.1	55.7	50.5
General government and Community, social and personal services	19.0	19.5	16.1	21.2	34.1	9.0	15.3	19.9
Other	3.1	2.5	2.3	2.9	1.7	1.5	2.6	2.6
Total	100	100	100	100	100	100	100	100

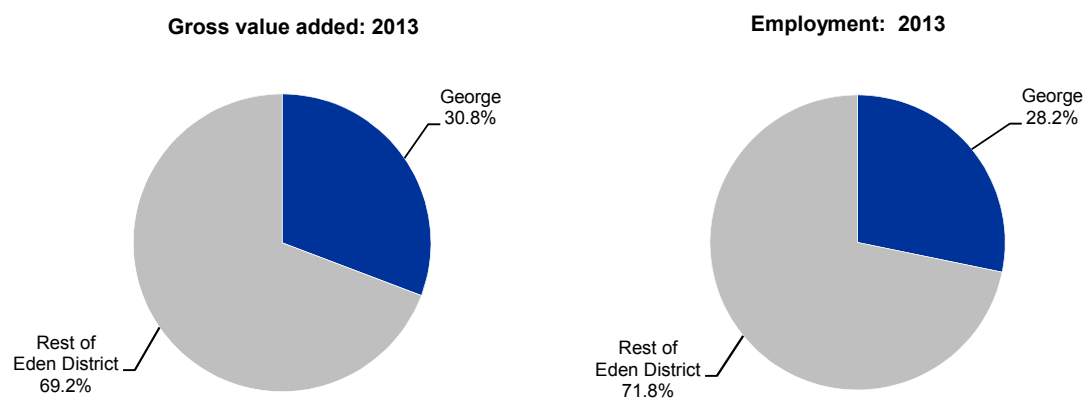
Source: Quantec Research, Own calculations

The sector development at the level of the Eden District's seven municipalities is considered below.

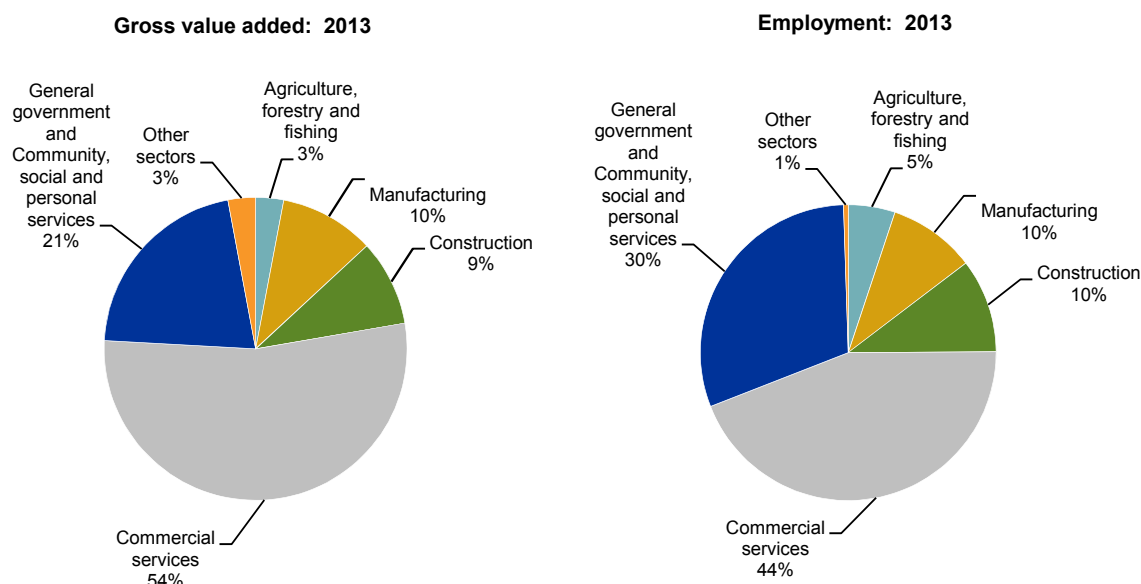
2.2.1 George

Figure 2.1 shows that George, i.e. the largest municipality in the region, contributed close to a third of GDPR in 2013, or R10.3 billion of Eden District's R33.6 billion regional economy; the Municipality also contributed 28.2 per cent (or 51 700) of the employment in the region. George Municipality is well-established with good and well-maintained infrastructure.

George's economy is a services oriented economy, with three quarters of economic activity accounted for by services, i.e. 54 per cent commercial services and 21 per cent 'public sector' services. A similar share of the workforce is also employed in these sectors, albeit that the 'public sector' share is relatively larger at 30 per cent. The Municipality's manufacturing sector is relatively small and of the same size as its construction sector, with both sectors employing similar shares of the workforce.

Figure 2.1 George share of Eden District gross value added and employment

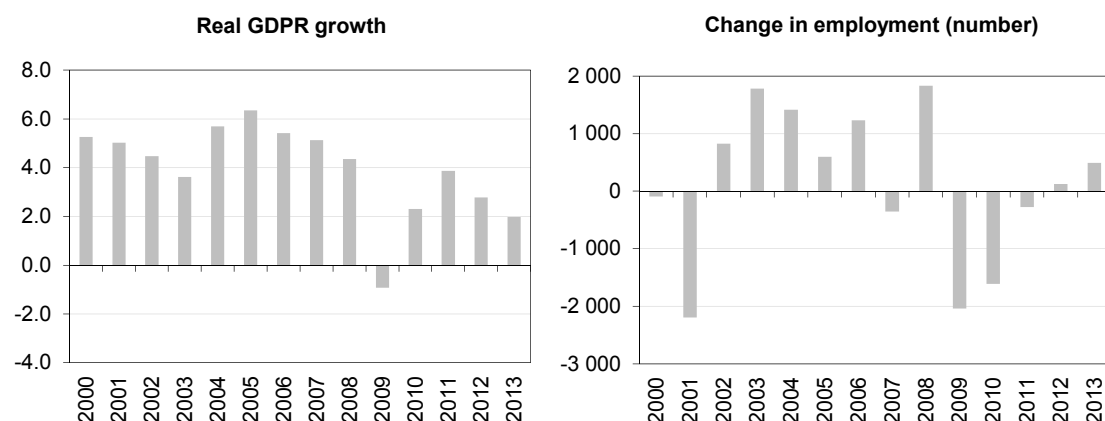
Source: Quantec Research, Own calculations

Figure 2.2 George: Composition of gross value added and employment

Source: Quantec Research, Own calculations

Manufacturing growth has been rather pedestrian at 1.5 per cent per annum, 2005 - 2013, which also explains the relatively heavy retrenchments in this sector. The agricultural and construction sectors also shed labour over the period under consideration. The recession's impact was relatively fierce during 2009 - 2010 and the employment recovery since has been marginal (Figure 2.3). Fortunately the growth of the services sectors was sustained, as was employment creation in these sectors. This ameliorated the recession's impact and countered the outflow of labour from the agricultural, manufacturing and construction sectors. As noted in the previous MERO reports, the construction sector experience a serious slump after 2009, with employment in the sector plunging sharply.

The overall level of employment in George remained stable between 2005 and 2013, however, the weak recovery from the adverse recessionary impact meant that the pre-recession levels were not restored by the end of 2013. Figure 2.3 and Table 2.5 show the Municipality's economic growth and employment creation performance. Growth was significantly livelier in the run-up to the recession; in the period after the recession, real GDP growth has averaged a pedestrian 2.7 per cent per annum, i.e. well below that of the wider region. All sectors' growth cooled down, except manufacturing.

Figure 2.3 George real economic and employment growth: 2000 - 2014

Source: Quantec Research, Own calculations

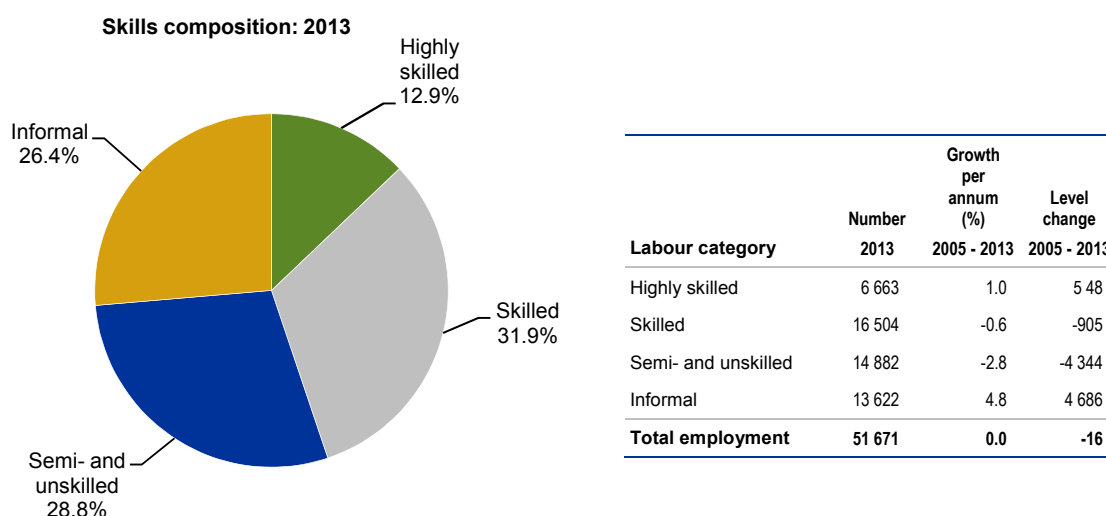
Table 2.5 George gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	308	1.0	0.4	2 650	-6.4	-2 342	-4.7	-591
Manufacturing	1 046	1.5	2.3	4 915	-2.9	-1 526	-1.2	-249
Construction	948	8.3	2.2	5 300	-0.9	-585	-5.8	-1 459
Commercial services	5 537	3.8	2.8	22 816	0.8	1 455	0.6	538
General government and Community, social and personal services	2 189	4.2	3.7	15 726	2.3	2 924	0.8	474
Other sectors	303	-4.0	-0.1	266	3.9	58	2.5	14
Total George	10 331	3.5	2.7	51 671	0.0	-16	-0.6	-1 273
Eden District	33 592	4.6	3.8	181 688	0.6	8 670	-0.3	-2 468

Source: Quantec Research, Own calculations

Regarding skills development, the Municipality's largest labour market segment is skilled labour accounting for close to a third of the workforce⁵. Semi- and unskilled labour witnessed steep net job losses over the 2005 - 2013 period and - to a lesser extent - skilled labour. It would appear as if the net job losses swelled the ranks of the informal sector, which accounted for more than a quarter of George's workforce in 2013. The demand for highly skilled labour grew at a rate of one per cent per annum over the corresponding period.

⁵ The official definition of the labour skills categories are as follows: highly skilled occupations include managers, professionals and technicians, semi- and unskilled labour include domestic workers and other elementary workers and skilled all other occupations, e.g. clerks, sales and services, skilled agricultural workers, crafts, machine operators, etc. (according to the Stats SA Labour Force Survey, LFS and QLFS).

Figure 2.4 George workforce skills: 2013

Source: Quantec Research, Own calculations

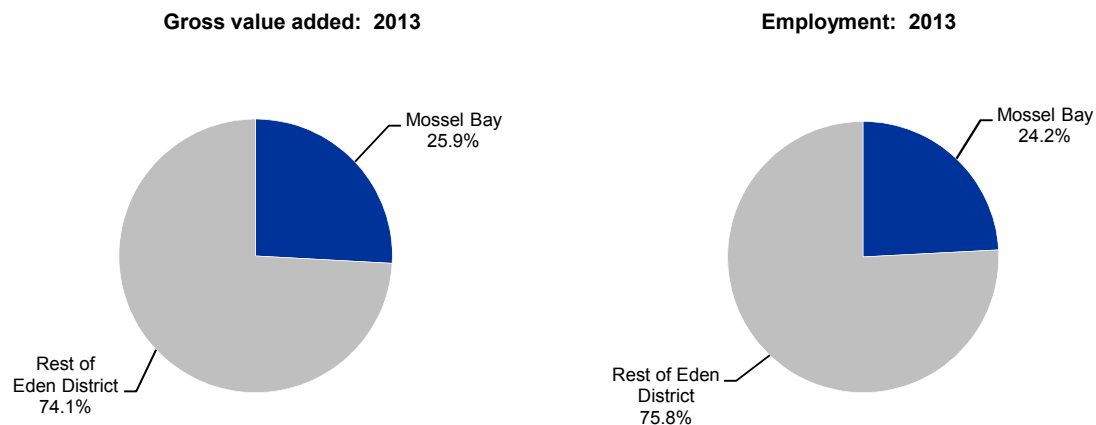
In all, George Municipality features a large commercial and public sector services economy. Growth has been slightly below average as some of the region's industries may have matured. Manufacturing is relatively less well represented compared to the structure of George's peer economies and its growth has been pedestrian. The Municipality's informal sector is growing as semi- and unskilled labourers lose their jobs.

2.2.2 Mossel Bay

Mossel Bay has the second largest economy in Eden District and has been the strongest growing area over the 2005 - 2013 period. During 2013 it contributed close to 26 per cent of Eden District's GDP and close to a quarter of the region-wide employment. This translates to GDP worth R8.7 billion of the District-wide value added of R33.6 billion in 2013 and a workforce numbering 41 305 in 2013.

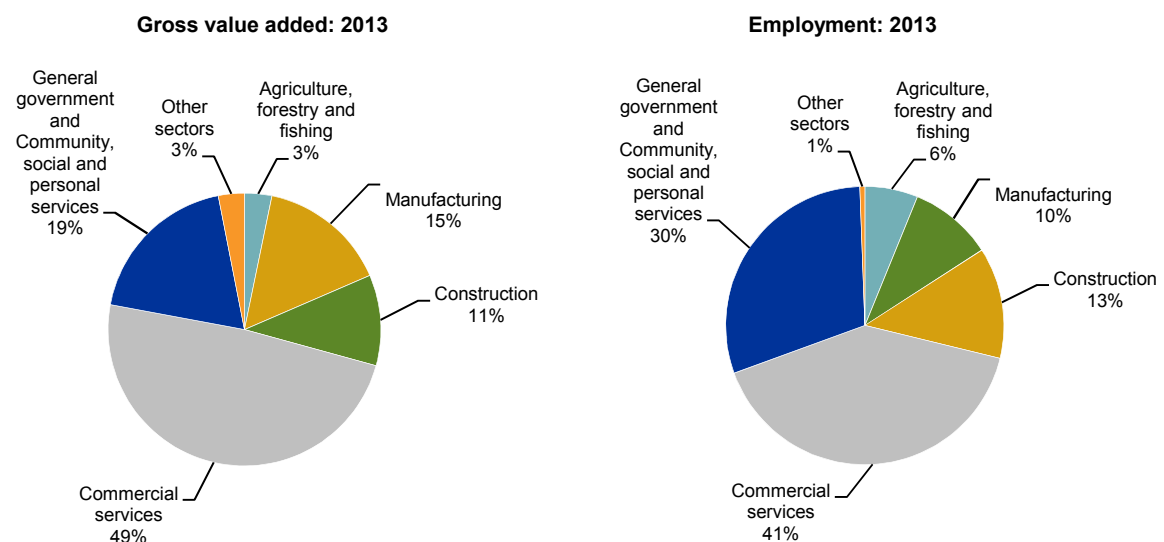
In terms of industry structure, Mossel Bay's economy has a relatively smaller commercial and other services sector and a relatively larger manufacturing sector compared to George. The dominant manufacturing industries are food and beverage processing and petro-chemicals. A noticeable aspect regarding the municipal economy is the relatively large size of the construction sector, accounting for 11 per cent of GDP. The vibrant growth of Mossel Bay underpins the size of the construction sector.

Figure 2.5 Mossel Bay share of Eden District gross value added and employment: 2013



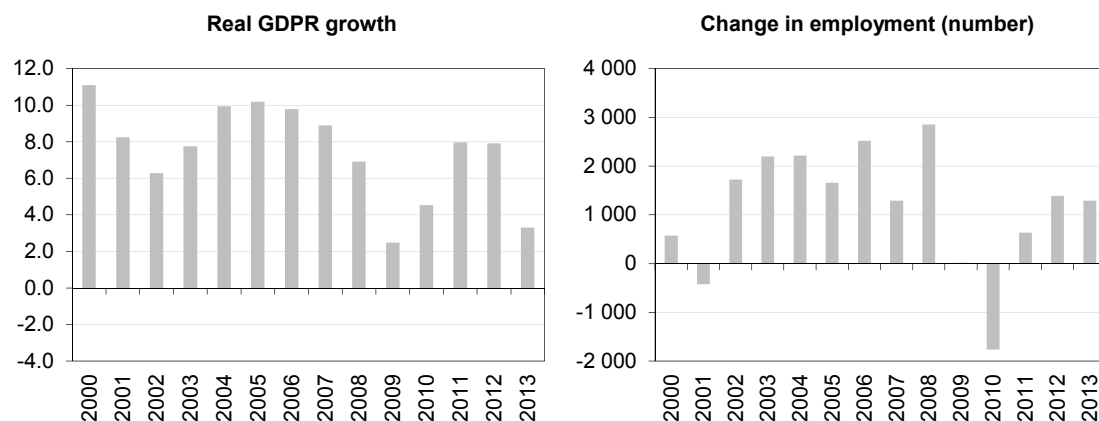
Source: Quantec Research, Own calculations

Figure 2.6 Mossel Bay: Composition of gross value added and employment: 2014



Source: Quantec Research, Own calculations

Figure 2.7 Mossel Bay real economic and employment growth: 2000 - 2014



Source: Quantec Research, Own calculations

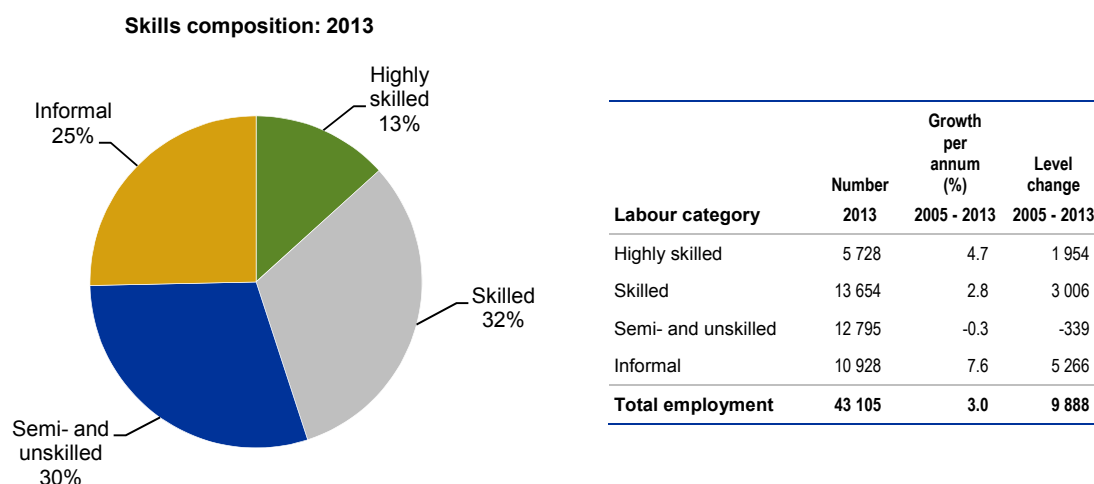
Figure 2.6 and Table 2.6 reflects the growth and employment performance of Mossel Bay. Real economic growth actually reached double digit levels during the mid-2000s and GDP did not contract in 2009. Employment did contract in 2009; however, the subsequent recovery has been strong enough to restore pre-recession employment levels, bucking the tendency in the wider Eden District economy. Employment losses occurred in the agricultural and manufacturing sectors and – after the recession – in the construction sector. The commercial and other services sectors expanded strongly, including their workforces, which countered the outflow of labour from the other sectors.

Table 2.6 Mossel Bay gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	281	4.8	1.4	2 658	-3.6	-1 200	-2.7	-338
Manufacturing	1 330	5.5	7.8	4 188	-1.4	-587	-0.8	-140
Construction	936	10.9	3.5	5 568	1.4	520	-4.6	-1 218
Commercial services	4 232	6.7	5.4	17 527	4.2	5 330	2.4	1 541
General government and Community, social and personal services	1 649	9.2	7.7	12 914	6.8	5 734	3.6	1 692
Other sectors	269	4.2	1.4	250	5.9	90	1.9	16
Total Mossel Bay	8 696	6.9	5.9	43 105	3.0	9 888	1.0	1 553
Eden District	33 592	4.6	3.8	181 688	0.6	8 670	-0.3	-2 468

Source: Quantec Research, Own calculations

The positive employment performance of Mossel Bay is a special feature – total employment expanded at a rate of 3.0 per cent per annum, 2005 - 2013. As Figure 2.7 shows, only marginal job losses were reported in the semi- and unskilled labour market segment, whilst the demand of highly skilled and skilled labour grew strongly. Alongside the rapid formal sector employment growth has been an even more rapid expansion of informal sector employment, which comprised 25 per cent of the municipal labour force in 2013. This suggests that not all new entrants to the labour market may find formal sector employment. Net in-migration may be a factor (see Chapter 5).

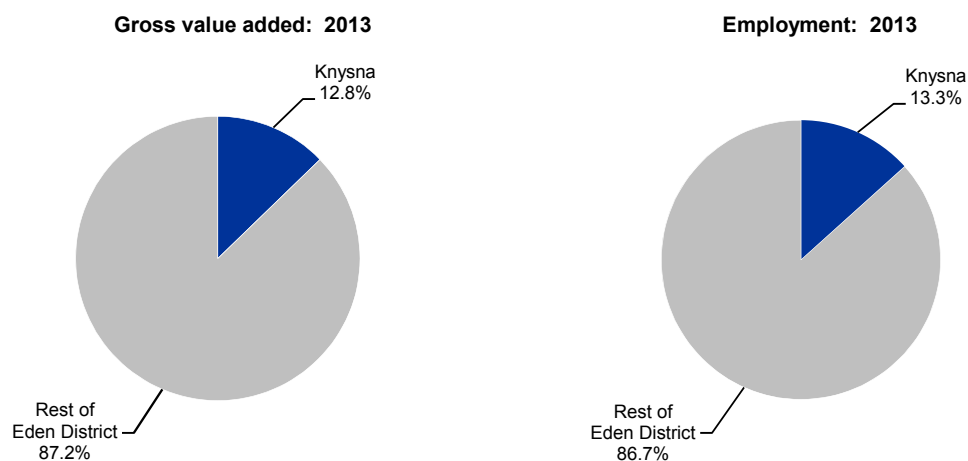
Figure 2.8 Mossel Bay workforce skills: 2013

Source: Quantec Research, Own calculations

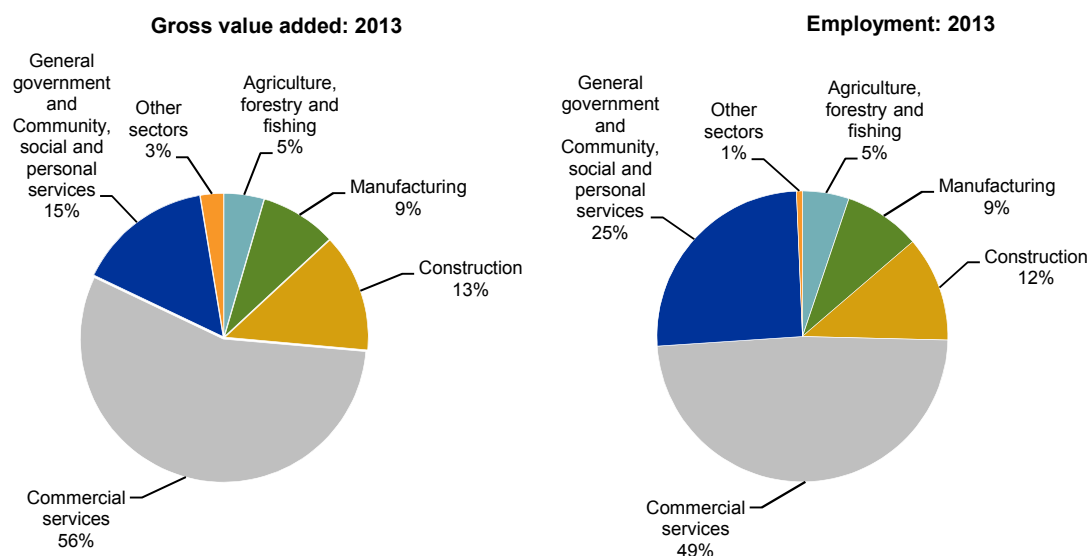
In all, Mossel Bay's economy is the fastest-growing municipal economy in Eden District, which is the fastest growing region in the Western Cape. A special feature of the economy is its positive employment creation performance. The rapid expansion of the region fosters a relatively large and fast-growing construction sector, albeit that this sector experienced a sharp recessionary slowdown. Combined with a relatively large manufacturing sector, the demand for commercial services - mainly internal trade and business services - is robust. This well-balanced growth performance must make Mossel Bay one of the leading Western Cape municipalities.

2.2.3 Knysna

Knysna's economy is the third largest municipal economy in Eden District, contributing close to 13 per cent of GDP and employment in the region. In 2013, the gross value added generated in Knysna measured R4.3 billion of the R33.6 billion gross value added generated in Eden District. Knysna is one of the Western Cape's tourist meccas and it boasts a rapidly growing economy.

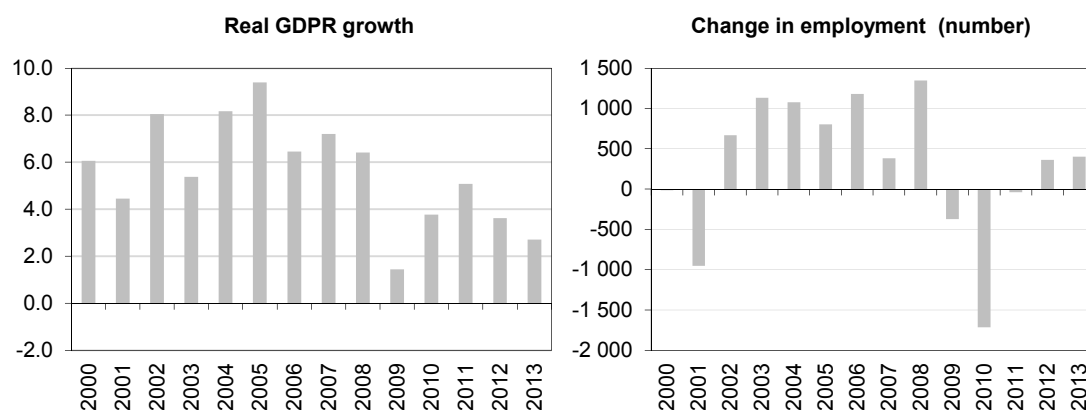
Figure 2.9 Knysna share of Eden District gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.10 Knysna: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

Compared to Mossel Bay, Knysna is slightly more services oriented - mainly retail, wholesale, catering and accommodation and business services; commercial services account for 56 per cent of GDP in 2013. This sector also employs half of the workforce, with other 'public sector' services accounting for another 25 per cent of employment. The Municipality has a large construction sector (accounting for 13 per cent of GDP) and a relatively small manufacturing sector (11.7 per cent).

Figure 2.11 Knysna real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

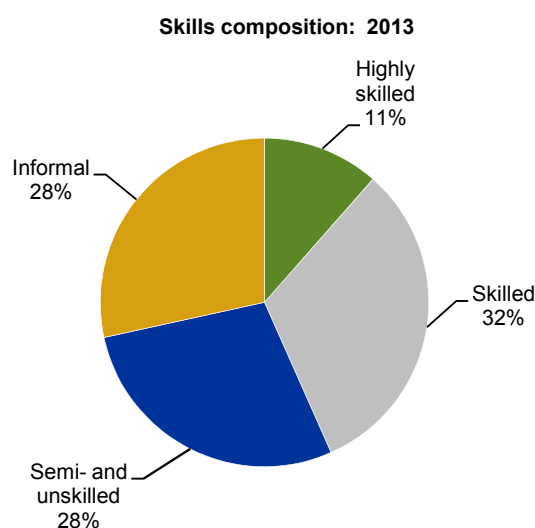
The municipal economy also expanded rapidly over the period 2004 - 2008 in the run-up to the recession. While real GDP did not contract in 2009, employment slumped badly in 2009 - 2010. Growth has also slowed down after the recession, but still managed to average close to 4 per cent per annum, 2010 - 2013, i.e. in line with the Eden District average growth over this period. However, net retrenchments in the agricultural, manufacturing and construction sectors prevented pre-recession employment levels to be restored by the end of 2013. Employment growth in the commercial and 'public sector' services also cooled down noticeably after the recession.

Table 2.7 Knysna gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	193	7.7	6.9	1 258	-5.6	-1 083	-10.0	-791
Manufacturing	368	3.0	1.8	2 057	-1.7	-362	-2.7	-244
Construction	571	8.1	2.3	2 829	-1.2	-376	-5.7	-770
Commercial services	2 386	4.9	4.3	11 736	2.8	2 538	1.1	482
General government and Community, social and personal services	656	5.1	4.2	6 145	3.3	1 555	1.5	344
Other sectors	112	5.4	2.5	155	10.9	86	-0.1	-8
Total Knysna	4 285	5.1	3.8	24 179	1.2	2 357	-0.9	-987
Eden District	33 592	4.6	3.8	181 688	0.6	8 670	-0.3	-2 468

Source: Quantec Research, Own calculations

While Knysna also posted positive employment growth (at a rate of 1.2 per cent per annum), this is less than what was achieved in Mossel Bay. The demand for highly skilled and skilled labour was relatively less vigorous, while that for semi- and unskilled labour contracted at a higher rate (i.e. 2.1 per cent per annum). Knysna also witnessed a sharp increase in its informal sector, with employment in this sector growing by close to 6 per cent per annum and accounting for no less than 28 per cent of its workforce in 2013 (Figure 2.11).

Figure 2.12 Knysna workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	2 779	2.3	509
Skilled	7 702	0.9	595
Semi- and unskilled	6 825	-2.1	-1 460
Informal	6 872	5.7	2 713
Total employment	24 179	1.2	2 357

Source: Quantec Research, Own calculations

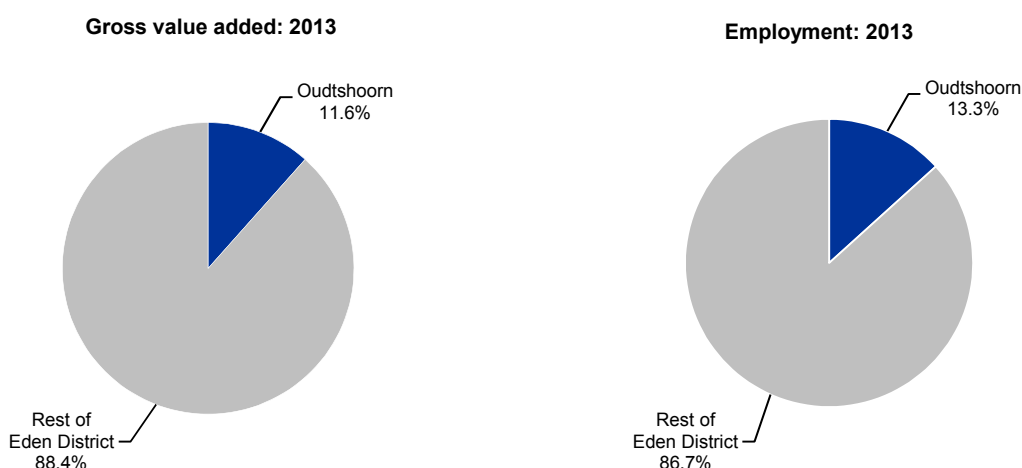
In all, Knysna's economy hosts a comparatively bigger commercial and other services economy compared to George, for instance. The rapid growth of the economy sustains a relatively large construction sector. The vibrant tourism sector also boosts trading activities and business services.

2.2.4 Oudtshoorn

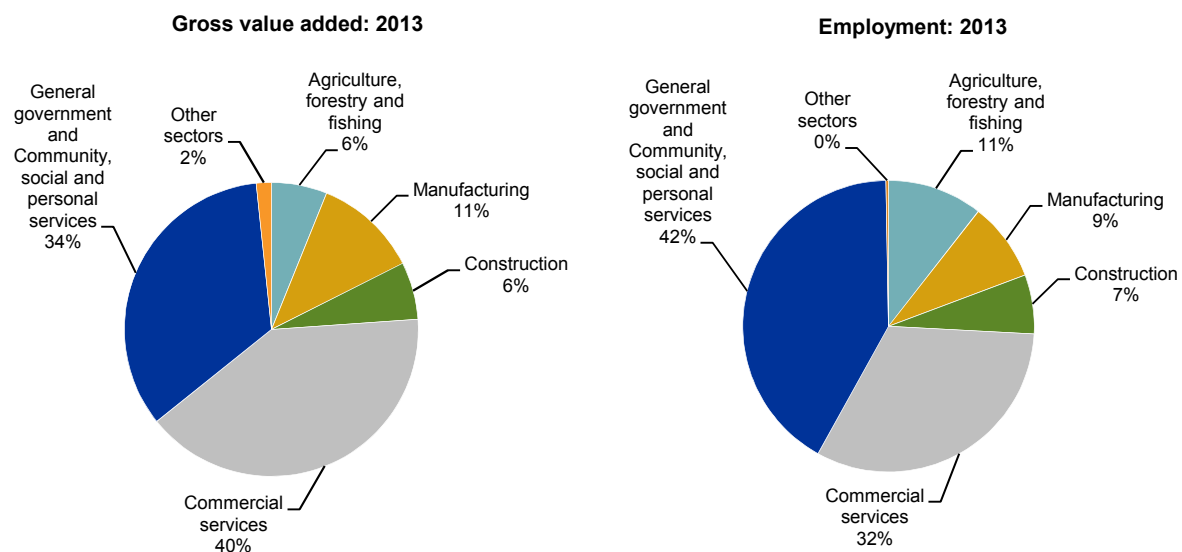
Oudtshoorn Municipality is the fourth largest in the Eden District and contributed 11.6 per cent of Eden District's GDP and 13.3 per cent of employment in 2013 (Figure 2.12). The municipal economy generated R3.9 billion of Eden District's R33.6 billion gross value added in 2013. The municipal region is well-known as a tourist attraction and while relatively closely integrated with the bordering George economy, it has strong agricultural roots.

In terms of industry structure, the relatively large 'public sector', i.e. the general government, community, social and personal (CSP) services sector stands out. It is the largest employer in the region, accounting for no less than 42 per cent of employment in the municipal economy. The presence of military training camps and tertiary institutions presumably explains this outlying characteristic. Next in line is commercial services, which account for 32 per cent of employment and 40 per cent of GDP. This sector composition clearly makes the Oudtshoorn Municipality a services economy; the primary and secondary sectors' combined GDP contribution is one quarter. This includes a relatively small manufacturing sector.

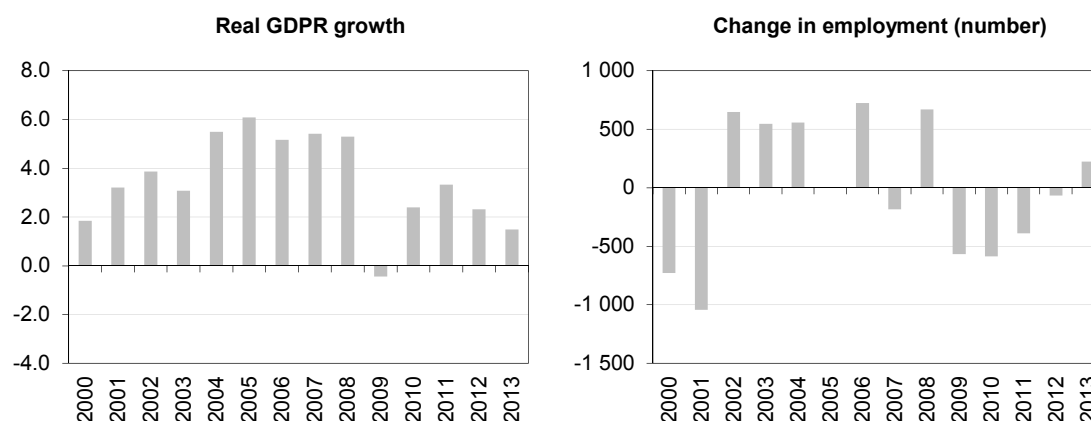
Figure 2.13 Oudtshoorn share of Eden District gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.14 Oudtshoorn: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.15 Oudtshoorn real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

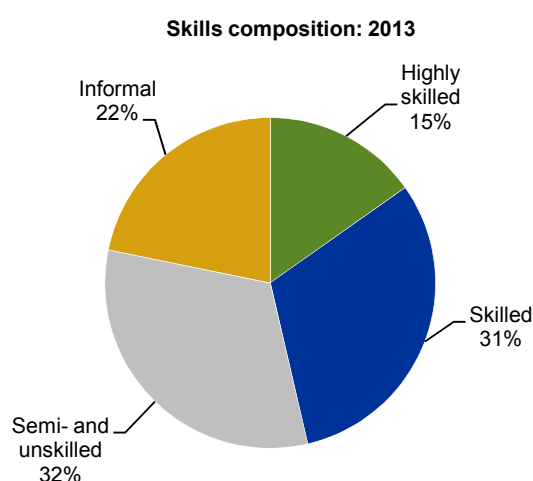
In terms of real GDP growth and employment creation, Figure 2.14 and Table 2.8 provide the necessary information. It can be seen that Oudtshoorn shared the provincial experience of relatively rapid economic growth in the run-up to the 2009 recession, suffered a serious recession impact (in Oudtshoorn growth stalled), and then witnessed relatively pedestrian growth afterwards. Real GDP growth averaged 2.4 per cent per annum, 2010 - 2013. The poor post-recession growth contributed to net job losses over the 2010 - 2013 period, albeit that some positive recovery is evident in 2013. The sharpest slowdown and steepest net job losses after the recession were experienced by the construction sector. Agriculture and manufacturing also laid off workers on a net basis, with employment declining by 1.5 per cent in these sectors, 2010 - 2013. Even the net job-creating commercial services sector shed some labour after the recession.

Table 2.8 Oudtshoorn gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	238	1.0	0.6	2 579	-5.1	-1 726	-1.5	-197
Manufacturing	446	2.0	1.5	2 134	-2.0	-446	-1.5	-139
Construction	247	8.8	1.8	1 600	-0.4	-96	-5.9	-454
Commercial services	1 570	3.8	2.4	7 866	0.9	591	-0.2	-77
General government and Community, social and personal services	1 327	3.8	3.3	10 171	1.8	1 488	0.1	51
Other sectors	65	-0.6	0.1	75	4.4	20	1.0	1
Total Oudtshoorn	3 892	3.5	2.4	24 426	-0.1	-168	-0.8	-815
Eden District	33 592	4.6	3.8	181 688	0.6	8 670	-0.3	-2 468

Source: Quantec Research, Own calculations

Oudtshoorn's economy is blessed with a relatively large skilled workforce, accounting for 31 per cent of the total workforce with demand for employment in this segment of the labour market remaining stable over the past decade. As in most Western Cape municipalities, the segment witnessing a sharp contraction is semi- and unskilled labour, which also accounted for a third of the workforce in 2013. The demand for highly skilled labour grew moderately, not adding much to overall employment. The growth in informal sector employment countered the net lay-offs in formal sector employment, leaving the overall employment level almost unchanged between 2005 and 2013.

Figure 2.16 Oudtshoorn workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	3 717	1.2	384
Skilled	7 603	0.0	-4
Semi- and unskilled	7 785	-3.0	-2 432
Informal	5 321	5.0	1 883
Total employment	24 426	-0.1	-168

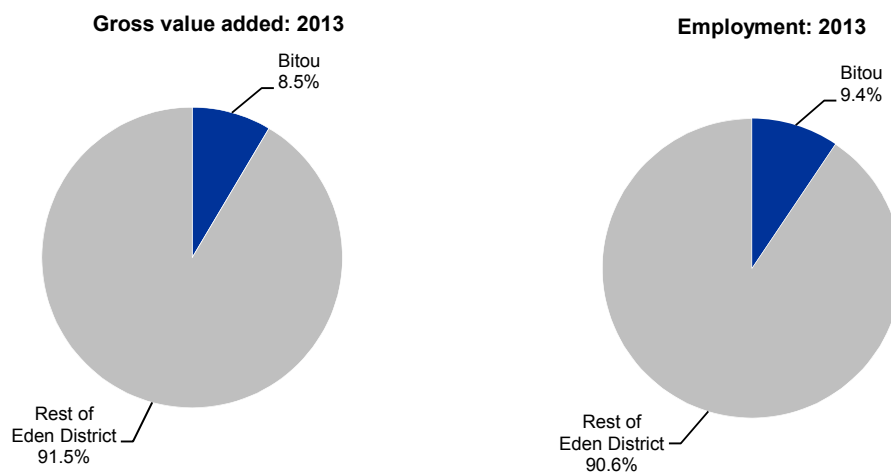
Source: Quantec Research, Own calculations

In all, Oudtshoorn Municipality has become a fully services oriented economy, with non-commercial services employment accounting for the largest share of the municipal workforce. The regional economy grew below average over the past decade and it shed some labour compared to net job creation occurring in the rest of the District. The pattern of overall skills demand is similar to the overall pattern in the District (and the Province for that matter).

2.2.5 Bitou

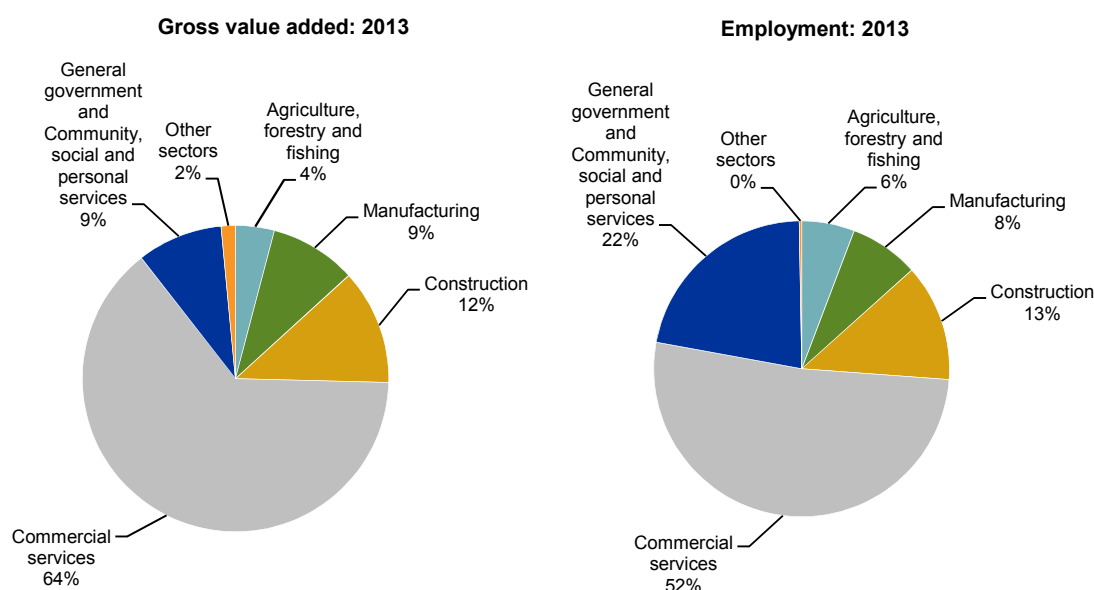
Figure 2.17 shows that Bitou contributed 8.5 per cent of Eden District's GDP and 9.4 per cent of employment in 2013. In rand terms, this contribution amounts to R2.9 billion of Eden District's R33.6 billion economy. Bitou is a relatively small sub-regional economy growing at a high rate.

Figure 2.17 Bitou share of Eden District gross value added and employment: 2013

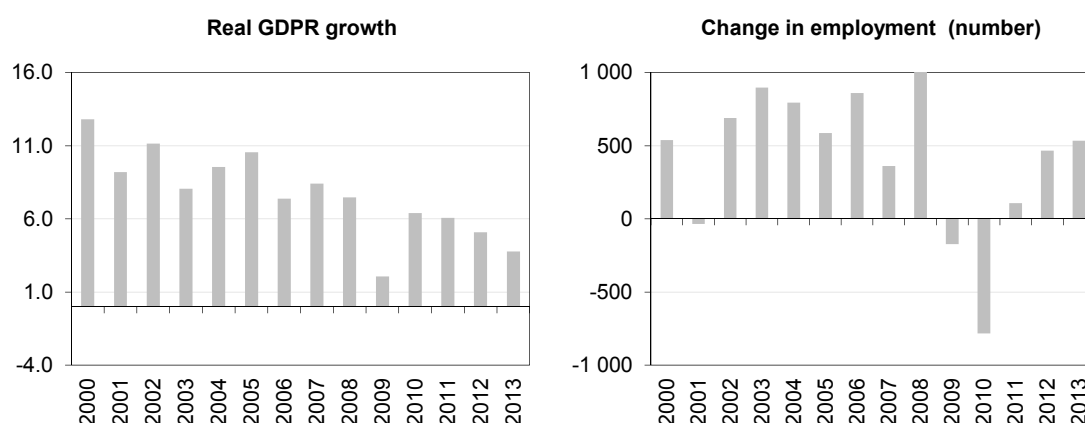


Source: Quantec Research, Own calculations

In terms of industry structure, the large commercial services sector is immediately apparent, accounting for 64 per cent of GDP and 52 per cent of employment. The second largest employment sector is the general government and community, social and personal services, employing 22 per cent of the workforce. What also stands out, is the relatively large construction sector (12 per cent of GDP), presumably underpinned by the sharp growth of the region.

Figure 2.18 Bitou: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.19 Bitou real economic and employment growth: 2000 - 2013

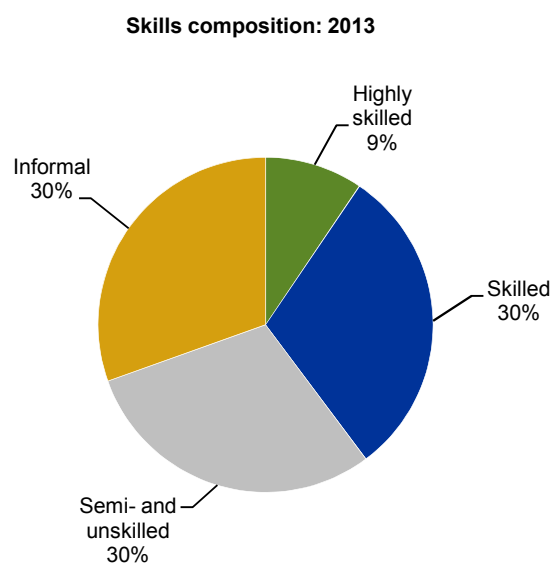
Source: Quantec Research, Own calculations

Figure 2.18 and Table 2.9 show the growth and employment performance of Bitou's economy. Real GDP growth averaged 6.4 per cent per annum over the 2005 - 2013 period. However, the actual growth tempo has receded from double-digit levels in 2000 to below 4.0 per cent in 2013. The region did not suffer a contraction of GDP in 2009 due to its services orientation; however, it did suffer serious net job losses. Fortunately the recovery post 2009, boasting average growth of 5.3 per cent per annum, 2010 - 2013, was strong enough to restore pre-recession employment levels by 2013. Growth has been driven by the large commercial services sector and – before the recession – also by construction activity. Whilst relatively small sectors, both agriculture and manufacturing expanded by relatively high rates over the 2005 - 2013 period. Nonetheless, employment losses were experienced in agriculture whilst the manufacturing workforce remained stable (before 2009). The construction sector witnessed a sharp recessionary slowdown and steep employment losses in the period after the recession.

Table 2.9 Bitou gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	117	5.5	5.7	977	-4.6	-589	-4.2	-201
Manufacturing	263	5.3	2.1	1 274	0.1	-4	-2.9	-161
Construction	349	8.8	2.5	2 152	-0.5	-138	-5.4	-556
Commercial services	1 839	6.9	7.0	8 709	4.9	2 991	3.0	969
General government and Community, social and personal services	259	3.5	3.8	3 680	2.5	723	2.0	278
Other sectors	43	1.5	3.1	44	3.8	9	0.2	-2
Total Bitou	2 871	6.4	5.3	16 836	2.3	2 993	0.5	327
Eden District	33 592	4.6	3.8	181 688	0.6	8 670	-0.3	-2 468

Source: Quantec Research, Own calculations

Figure 2.20 Bitou workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	1 594	2.4	312
Skilled	5 101	2.1	862
Semi- and unskilled	5 011	-1.4	-654
Informal	5 128	7.6	2 473
Total employment	16 836	2.3	2 993

Source: Quantec Research, Own calculations

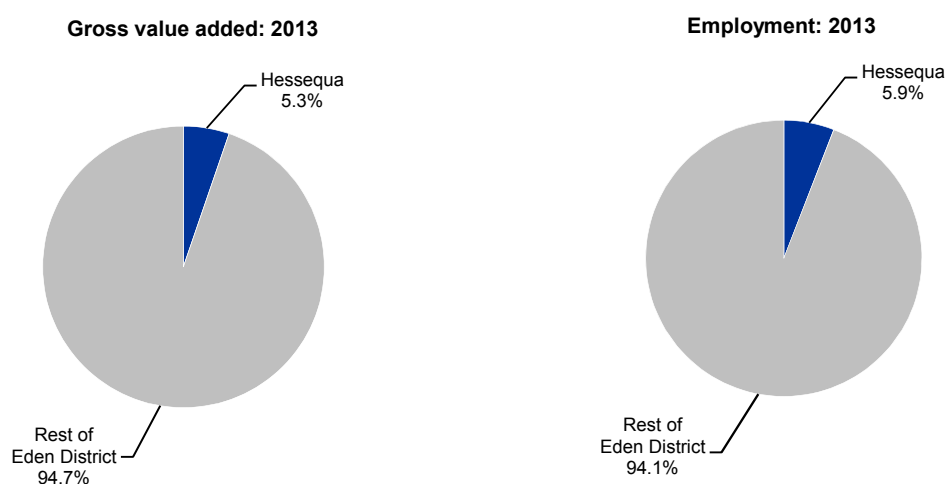
A striking feature of the local labour market, is the sharp growth of the informal sector. This exceeded the growth of formal sector employment (in the highly skilled and skilled segments) by a wide margin. It would appear as if the informal sector is not only absorbing the semi- and unskilled workers losing their jobs in the formal sector, but also the new labour market entrants that cannot find formal sector employment. The high population growth rate of the region suggests that net in-migration may be a factor in this respect (see Chapter 5). The region has a relatively large informal sector accounting for 30 per cent of employment, i.e. equivalent to the skilled and semi- and unskilled labour market segments.

In all, the Bitou economy is relatively small in the larger Eden District, but it has been growing rapidly. The rapid growth is underpinning a relatively large construction sector, which grew the strongest alongside the dominant commercial services sector, accounting for close to two thirds of economic activity in the region. Most sectors have posted robust growth, albeit with a slowing tempo after the recession impact. The region hosts a relatively large informal sector, where the bulk of employment creation has materialised over the past decade.

2.2.6 Hessequa

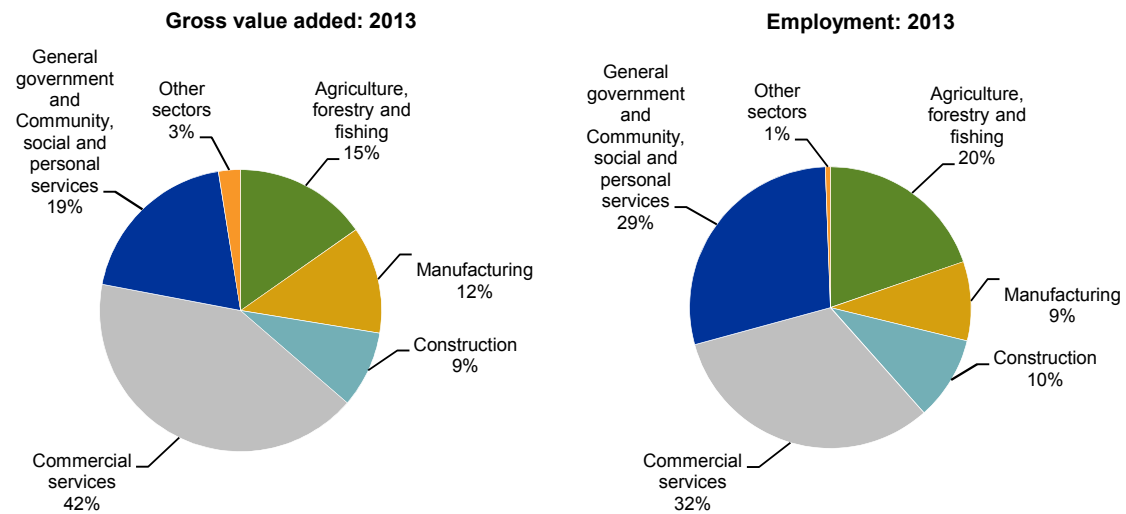
Hessequa's economy is even smaller compared to Bitou, contributing slightly more than 5 per cent of Eden District's GDPR and close to 6 per cent of employment (Figure 2.20). In rand terms, the GDPR contribution amounts to R1.8 billion of the R33.6 billion Eden District economy.

Figure 2.21 Hessequa share of Eden District gross value added and employment: 2013

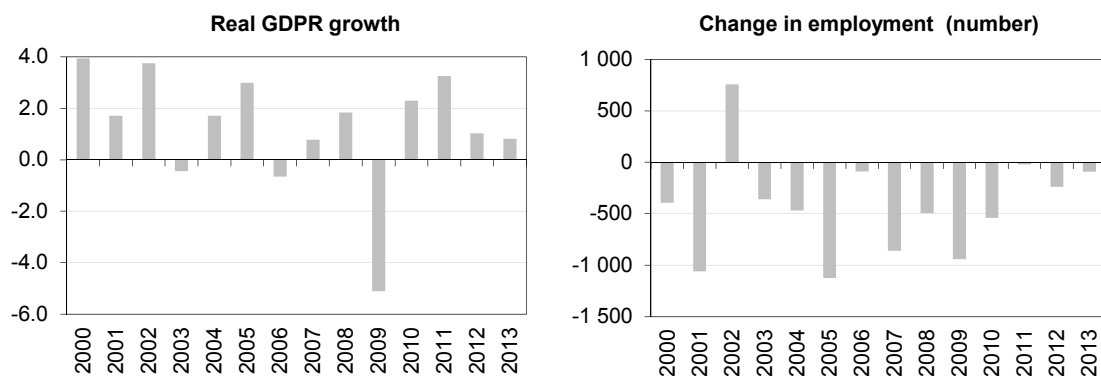


Source: Quantec Research, Own calculations

The regional economy has evolved over the years to an agricultural-based services economy. Agriculture contributes 15 per cent of GDPR and 20 per cent of employment, which is relatively large compared to the wider District. The problem is that this sector has shrunk at a rate of 1.5 per cent over the past decade. This has spilled over to the large (42 per cent of GDPR) commercial services sector, which has - contrary to the tendency in the other Western Cape municipalities - shed labour on balance. The result has been steep overall employment losses in the region - see Figure 2.22. Only the CSP services sector countered the adverse employment trend in the other main sectors.

Figure 2.22 Hessequa: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

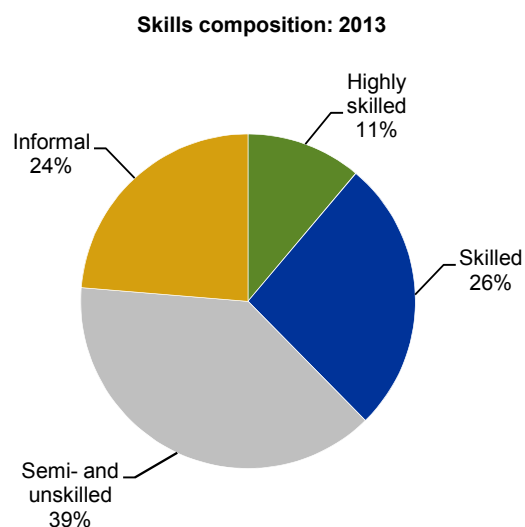
Figure 2.23 Hessequa real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

Table 2.10 Hessequa gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2013	2005 - 2013					
Agriculture, forestry and fishing	269		-1.5	2 174	-8.4	-2 813	-2.9	-284
Manufacturing	217		1.7	1 001	-2.8	-303	-1.8	-79
Construction	155		2.0	1 063	-6.3	-873	-6.5	-335
Commercial services	735		0.6	3 566	-1.9	-682	-0.1	-20
General government and Community, social and personal services	343		3.3	3 162	1.0	270	-1.3	-171
Other sectors	45		-4.0	65	1.6	3	0.7	-1
Total Hessequa	1 764		0.8	11 030	-3.6	-4 397	-1.9	-890
Eden District	33 592		4.6	181 688	0.6	8 670	-0.3	-2 468

Source: Quantec Research, Own calculations

Figure 2.24 Hessequa workforce skills: 2013

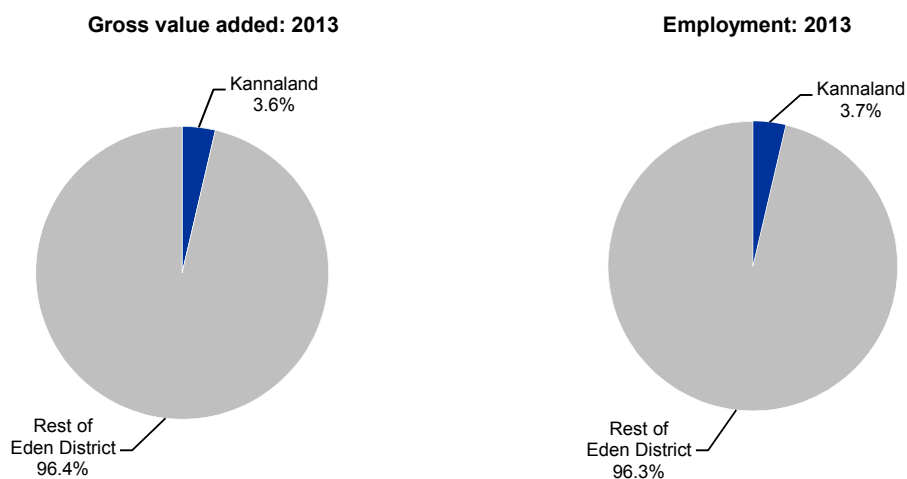
Labour category	Number 2013	Growth per annum (%)	Level change
		2005 - 2013	2005 - 2013
Highly skilled	1 229	-0.9	-108
Skilled	2 922	-2.7	-829
Semi- and unskilled	4 264	-6.5	-3 552
Informal	2 616	0.4	92
Total employment	11 030	-3.6	-4 397

Source: Quantec Research, Own calculations

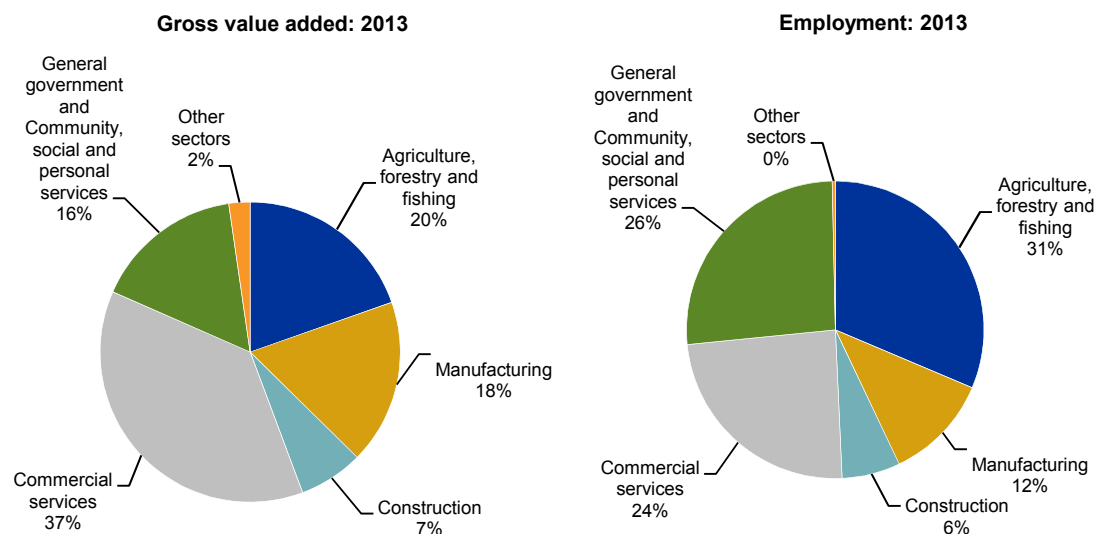
In all, real economic growth has been erratic and net employment losses steep in all labour market segments, notably semi- and unskilled labour. Apart from the so-called 'public sector', no other sector posted strong growth over the past decade, not even the informal sector, causing stagnation of the Hessequa economy. In previous MERO studies it was found that Hessequa Municipality is blessed with ample infrastructure, which suggests room for expansion.

2.2.7 Kannaland

Kannaland is the smallest municipality in the Eden District in terms of GDP and employment contribution, both around 3.5 per cent. This translates to a GDP valued at R1.2 billion of Eden District's R33.6 billion economy. Whilst smaller compared to Hessequa, growth was sharper off a low base in this region.

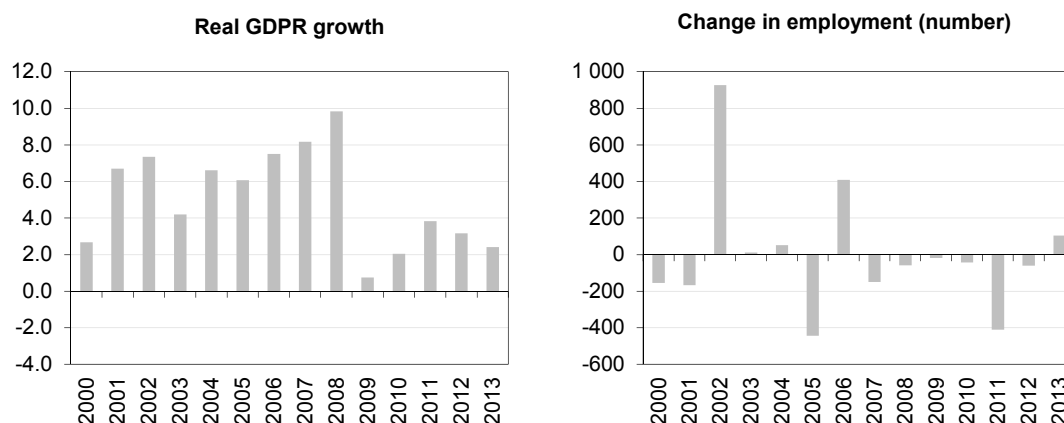
Figure 2.25 Kannaland share of Eden District gross value added and employment: 2013

Source: Quantec Research, Own calculations

Figure 2.26 Kannaland: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

The inland Kannaland economy has a large agricultural base, with this sector employing the largest share of workers, i.e. 31 per cent. Commercial services - mainly directed at the primary and secondary industrial activities in the region - account for the largest share of GDP, i.e. 37 per cent. Manufacturing is the third largest sector in terms of GDP contributing 18 per cent.

Figure 2.27 Kannaland real economic and employment growth: 2000 - 2013

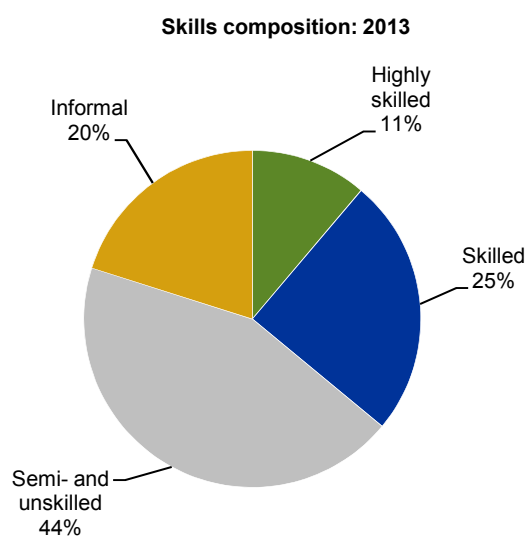
Source: Quantec Research

The high growth of the region mainly occurred before the impact of the 2009 recession, reaching double digit levels at the peak in 2008. Thereafter the regional economy hit the proverbial wall as growth averaged below 3 per cent per annum and the region witnessed relatively serious employment losses, particularly in agriculture and construction. The latter-mentioned sector witnessed a sharp slowdown from above 13 per cent average annual growth (2005 - 2013) to 3.2 per cent per annum (2010 - 2013). The tertiary sectors sustained relatively high growth after the onset of the 2009 recession.

Table 2.11 Kannaland gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	240	1.3	-0.2	2 113	-5.7	-1 603	-4.1	-416
Manufacturing	218	4.1	2.0	778	0.4	20	-1.9	-65
Construction	85	13.3	3.2	426	3.5	100	-5.3	-108
Commercial services	457	7.2	4.6	1 626	3.0	378	1.3	78
General government and Community, social and personal services	198	5.0	4.3	1 770	3.2	436	1.5	100
Other sectors	28	-0.6	1.9	21	-0.3	-2	0.9	1
Total Kannaland	1 225	4.9	2.9	6 735	-1.0	-671	-1.4	-409
Eden District	33 592	4.6	3.8	181 688	0.6	8 670	-0.3	-2 468

Source: Quantec Research, Own calculations

Figure 2.28 Kannaland workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	753	2.4	147
Skilled	1 671	1.2	174
Semi- and unskilled	2 956	-4.4	-1 483
Informal	1 355	5.1	491
Total employment	6 735	-1.0	-671

Source: Quantec Research

Kannaland has a large semi- and unskilled labour market segment, accounting for 44 per cent of the workforce. Labour flowed out of this market segment at a rate of 4.4 per cent per annum, while net jobs were created in the skilled and highly skilled labour market segments, as well as in the informal sector. The latter accounts for 20 per cent of employment, which is relatively small. Overall employment contracted at a rate of 1.0 per cent per annum over the past decade.

The small Kannaland regional economy is clearly agricultural based, with a strong services component. Manufacturing and construction activity are also relatively well-represented. Economic growth did slow sharply after the recession and the overall employment creation performance has been disappointing. The region is faced with

a relatively large semi- and unskilled labour force in need of upskilling for that is where the demand for labour is.

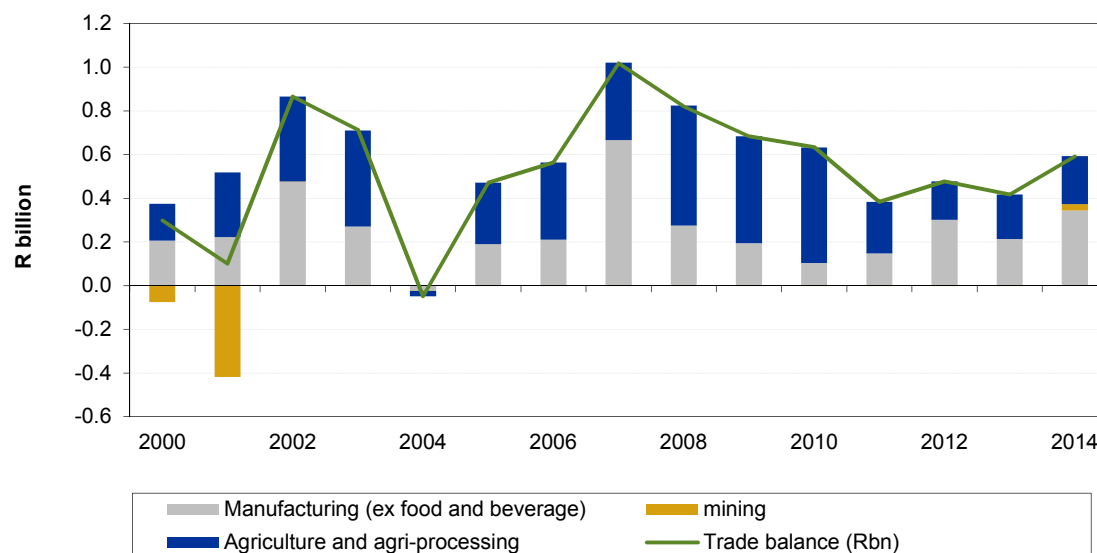
In the following section, the Eden District's international trade is briefly discussed.

2.3 International trade

The Eden District economy is a relatively closed regional economy, with goods exports expressed as a ratio of GDP coming in less than 5 per cent in 2014; the corresponding ratio for goods imports is 2.9 per cent⁶. In rand value terms, goods exports amounted to R1.6 billion in 2014, up from R1.1 billion in 2013 and imports for R1 billion, up from R713 million in 2013. This implies the region is not importing much and was able to register a trade surplus of R600 million in 2014 (see Figure 2.29). The goods trade surplus has been a consistent feature of the economy since 2000 (only in 2004 a small deficit was registered). From a current account perspective one should bear in mind that the region is likely to be a large net earner of foreign exchange from tourism.

On the export side, clothing, textiles and leather goods (mainly leather goods), as well as agriculture and processed food and beverage products are the largest export items, with these two categories accounting for 72.5 per cent of exports in 2014. The export basket is therefore actually not well-diversified. Both the agri-processing sector and the manufacturing sector tend to register trade surpluses as shown in Figure 2.29.

Figure 2.29 Eden District trade balance, 2000 - 2014



Source: Quantec Research

⁶ It should be noted that the trade figures are captured at the source of the agent (via postal codes), which can cause goods produced in areas outside Eden being classified as Eden exports given the location of the Mossel Bay harbour, for instance. It follows that the export number may even be overstated.

On the import side, the largest importers are agri-processing, machinery and equipment and basic and other chemicals; these sectors' imports account for more than 60 per cent of the total.

In all, the Eden District economy is relatively closed, but able to register a goods trade surplus. The low level of imports implies that the region is blessed with tight backward linkages to supplying industries, which tend to be positive for employment creation; however, a greater emphasis on exports may be particularly beneficial in order to grow demand and the regional economy.

The following section considers the economic outlook for Eden District.

2.4 Sectoral prospects

2.4.1 Local issues

Agriculture, forestry and fishing is an important sector in the region. The District is an ideal location for various agricultural and niche activities because of its topographical and climatic diversity. Agricultural activities include dairy, fruit, vegetable and sheep products, as well as unique products like ostriches, honey bush tea, forestry products, aloe, hops and essential oils. On the manufacturing side, it follows that agri-processing and furniture-making forms a large part of the manufacturing base and are supported by niche industries. In Mossel Bay Municipality, the petrochemical complex surrounding PetroSA's activities is an important part of manufacturing. Furthermore, the construction industry is well-supported by tourism investments and the rapid expansion of the regional economy. Tourism is of course a key source of economic growth in Eden District.

In fact, an updated comparative advantage analysis in a provincial context⁷ shows that the construction sector and the associated building materials manufacturing sector and the catering and accommodation sectors reveal the 'strongest' competitive edge in the region. High growth in certain municipal economies, tourism and associated property investments appear to be a central economic dynamic in Eden District. The tourism industry also acts as a stimulus for the wholesale and retail trade.

The petrochemical industry also features as a competitive industry. However, this sector's influence may be localised in the Mossel Bay area and it may have an edge simply because the sector is not well-represented in the other districts (except, of course in the Cape Metro). Mossel Bay Municipality expressed concern regarding the likely adverse impact on the local economy should production activities at PetroSA

⁷ Conducting the location ratio analysis at the provincial level shows which industries at the District level have a competitive edge in the comparative faster growing province in the country. As such the bar is raised somewhat for any specific industry to qualify. This may assist in explaining why the wood products and business services sectors did not make the grade in the updated analysis. These sectors came in with location ratios exceeding unity only with a small margin in 2011. It may also imply that these industries have lost some of their competitiveness since 2011.

be scaled down (Provincial Treasury Municipal Survey, August 2015). (The petrochemical value chain is analysed further in Chapter 3.)

The other important value chain in Eden District is the food value chain, as was noted above. Agri-processing also has strong export potential. Finally, furniture-making also shows a competitive edge, albeit that its location ratio exceeds unity by a small margin (see footnote). Municipalities have expressed concern regarding the reduction in timber activities due to the non-execution of new rental agreements for pine plantations. The area may witness a severe decline in available timber in 2020 and the very real possibility of large sawmills shutting down. This will impact negatively on the downstream wood products and furniture industries.

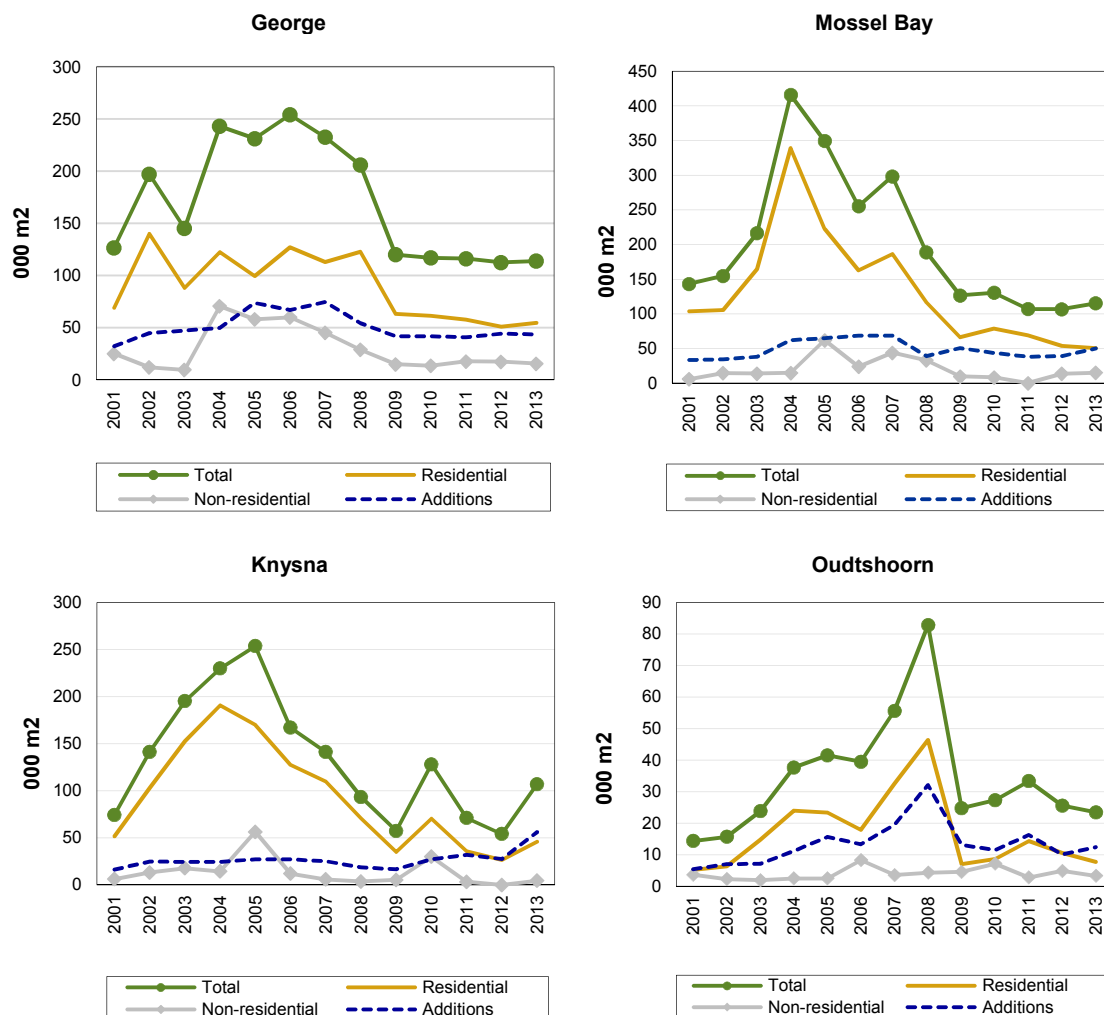
It is important that these potential threats be addressed. Beyond those highlighted above, it is clear from the municipal survey conducted this year that revenue streams are coming under pressure, with increasing unemployment rates and larger consumer debtor books fuelling concern. The macro-economic context and short-term outlook is not bright and these problems may accumulate. It is important that the region's good infrastructure standards be maintained. Vandalism and theft have been reported as specific social ills impacting negatively in this regard. Finally, the importance of skills training initiatives cannot be over-emphasised – various municipalities report a critical shortage of engineers, artisans and building professionals. The following section motivates a sector forecast for the Eden District.

2.4.2 Sector forecast: 2015 - 2020

Table 2.12 contains the Eden District sector forecast over the period 2015 - 2020. The five-year average growth rate across the 10 broad sectors in the region is shown and compared with the projected growth of the Western Cape economy. The average five-year real GDP growth rate has been revised downwards from 3.6 per cent per annum (2014 - 2019) to 3.4 per cent per annum (2015 - 2020), mainly due to the relatively more constrained macro-economic environment (as discussed in Section A of the report and Chapter 1).

The Eden District economy continued to register high growth after the 2009 recession. Growth only slowed down in 2009 and rebounded nicely to 5.2 per cent in 2011. However, in concert with the wider provincial economy, growth slowed down to 2.5 per cent in 2013 and is estimated to have slowed further below 2 per cent in 2014. Recovery growth averaged an estimated 3.4 per cent per annum over the 2010 - 2014 period, which compares to a trend growth rate of 4.3 per cent over the past decade. From healthy net employment creation in the run-up to the recession, the employment tendency turned negative after 2009, heavily impacted by the construction slump in the region.

Figure 2.30 Building plans completed - selected Eden District municipalities, 2001 - 2013



Source: Statistics SA – Selected building plans passed by municipalities, 2001 - 2013

Figure 2.30 shows that actual building completions have been slow to recover, as well as some mixed trends in respect of selected municipalities. In **Knysna**, the total square meters of building plans completed increased from 54 187 m² in 2012 to 107 135 m² in 2013. Increases were experienced for residential, non-residential as well as additions and alterations⁸. **George Municipality** experienced a downward tendency in building completions, from 254 208 m² in 2007 to 114 081 m² in 2013, with declines experienced across most categories of submitted plans. Only residential building completions recorded a slight turnaround, with an increase from 50 904 m² in 2012 to 54 829 m² in 2013. Although the overall trend between 2004 and 2013 has been downward for **Mossel Bay**, small increases in non-residential and additions and alterations building completions were recorded between 2012 and 2013. In **Oudtshoorn**, building completions slumped from 82 839 m² in 2008 to 23 462 m² in 2013 and have remained generally flat since.

⁸ The implementation in 2011 of new systems by Knysna Municipality has assisted in reducing the building plan approval process from +30 days to an average of 14 days.

Currently, municipalities report rising building plans, both in the residential and non-residential sectors and increased real estate sales (Provincial Treasury Municipal Survey, August 2015). Despite the slow recovery since 2009, construction is projected to remain a leading growth industry over the forecast period, with the expansion of GDP in this sector being above average in the region and compared to the wider Province. The tourism industry, benefiting from the weaker rand exchange rate, is likely to remain a key driver of property developments.

While the growth potential of agriculture is constrained by external factors such as national trade policy, international subsidies, low commodity prices and the climate, this sector may benefit from initiatives to develop niche processing industries, creating additional demand for agricultural products. The forecast growth rate in agriculture is similar to that projected for the wider province.

Table 2.12 Eden District: Real economic growth outlook, 2015 - 2020

Sector	Real GDP (yoy %)				
	Trend	Recession	Recovery	Eden	Western Cape
	2005 - 2014	2008 - 2009	2010 - 2014	2015 - 2020	2015 - 2020
Agriculture, forestry and fishing	1.7	6.8	1.6	2.2	2.3
Mining and quarrying	1.5	-4.2	1.6	1.0	2.0
Manufacturing	3.4	-1.9	3.8	3.3	2.2
Electricity, gas and water	-0.4	-3.6	1.1	1.2	1.8
Construction	8.0	9.2	2.4	4.5	3.7
Wholesale and retail trade, catering and accommodation	4.3	0.0	4.4	3.4	2.7
Transport, storage and communication	3.2	1.9	2.3	3.8	3.2
Finance, insurance, real estate & business services	5.2	5.4	3.5	4.3	3.4
Community, social and personal services	4.0	3.4	2.5	2.7	1.7
General government	5.2	6.3	4.7	1.5	1.3
Total	4.3	3.0	3.4	3.4	2.7

Source: Quantec Research/Provincial Treasury, MERO

Apart from tourism, the Eden District economy is unlikely to benefit hugely from the weak currency given its closed nature. However, there may be new opportunities for export in the agri-processing sector, furniture and wood products and other niche industries. Manufacturing recovered well after the negative recession impact and is projected to grow above-average in the region over the forecast period. Various initiatives are underway to foster industrial activity and exports, e.g. clustering, the establishment of exporter clubs in some municipalities, building networks, the identification of niche markets and the promotion of regional brands, i.e. through geographical identification.

Finally, the region's financial and business services and other commercial services sectors are expected to remain strong performing sectors – see Table 2.12. The development of the ICT sector and various broadband initiatives will be supportive to growth in commercial services. Eden District also boasts a burgeoning film and television industry. Tourism is also likely to remain an important source of growth, albeit that the new visa regulations regulating the inward movement of people are

likely to exert a negative impact on the regional economy, both in terms of inward tourism and investment. It is hoped that the regulations will be revised. The latest tourism statistics already provide an indication of the anticipated negative impact.

In all, Eden District is projected to expand by 3.4 per cent per annum over the 2015 - 2020 period, i.e. in line with the region's economic recovery experience and a relatively wide margin above the Provincial projected growth rate of 2.7 per cent per annum.

2.5 Concluding remarks

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The Eden District economy is blessed with beautiful natural scenery and vibrant coastal municipal economies. It has evolved into a fully services oriented economy showing the strongest growth in the Western Cape. Tourism and associated property developments and rapid internal growth underpin strong construction activity in the region. On the manufacturing terrain, agri-processing is a competitive industry, with exciting new niche export-oriented industries involving the whole food valued chain being developed. Forestry and the furniture value chain is another competitive industry, as is the petrochemical complex in Mossel Bay. Both these latter mentioned industries face longer term threats, which need to be addressed.

The economic vibrancy of the region, particularly the rapid growth of Mossel Bay, Bitou, Knysna and Kannaland, augmented by the more moderately expanding George and Oudtshoorn municipal economies, could not prevent the impact from the national and provincial recession in 2009 and subsequent slowdown. Fortunately, the slump in the regional construction industry appears to be over, with key municipalities reporting rising building plans. Slow projected economic growth is likely to adversely impact on municipal revenue streams. The five-year economic outlook has been scaled down. While the weaker rand exchange rate does impact negatively on production costs, should these be contained, the region has an opportunity to grow demand via exports in view of its current low export exposure and its industry mix.

3

Value chains

3.1 Introduction

The value chain includes the activities firms undertake to bring a product or service from production to end use by consumers. Value is added at each step along this chain. It is unlikely, in the modern age that a full value chain exists at a local level, or even a provincial level. Modern value chains are driven by globalisation, interconnectedness, technology, logistics improvements, offshoring and deregulation. This has led to the various tasks associated with traditional value chains becoming increasingly fragmented globally. Value chains are increasingly becoming more efficient, taking advantage of the relative comparative advantage of countries, regions and competitive advantage of different firms.

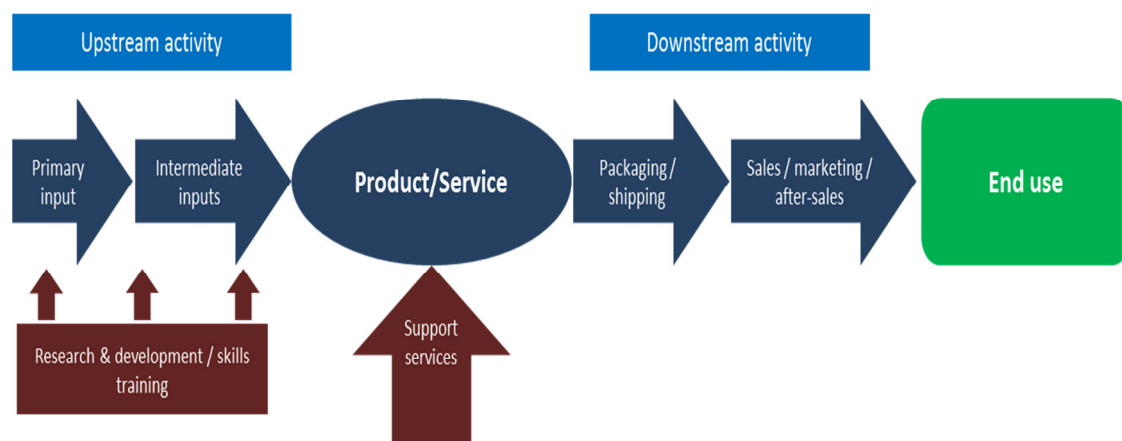
Transport and communication advancements have allowed a greater division of labour in firms, as well as the broader value chain. For each of the production stages, firms identify their in-house capability to undertake a task, relative to outsourcing this task or even moving this offshore. It is important to identify the target market of the product, as various changes to the value chain may provide significant efficiency gains for firms.

Risk exposure in a value chain is a key concept being considered in this chapter as it is very important to the sustainable functioning of a value chain. Highly regionally or globally integrated value chains are susceptible to global risks and economic slowdowns. It is unlikely that a value chain can be developed to be entirely isolated from this type of risk, as global and regional markets are lucrative as end-user destinations, due to the large market size.

3.2 Stages and significance of the value chain

Figure 3.1 shows the various stages in a generic value chain. The activities leading up to the manufacture of the product are accounted for as upstream activities and the activities involved in getting the product to the market are accounted for as downstream activity. Various support services are also required in upstream and downstream activity, such as, financial services or legal services. Upstream activity also requires research and development and skill building, which have positive spinoffs for the economy.

Figure 3.1 Generic value chain example



Risks and opportunities are evident at various stages of the value chain. Commodity prices are significantly more volatile relative to a product higher in the value chain, due to speculation in world markets and slowdowns in major demand markets. Integration with larger value chains can mitigate certain risks if these value chains have diversified their target markets, or if they have started to provide their products to high growth regions.

3.3 Policy and spending-initiative considerations

For municipal districts, targeted spending can strengthen small local value chains and assist in achieving regional or global value chain integration of local manufacturing. Job creation cannot be sustainable unless the industry to sustain these jobs is created. It is also important that skills development and training accompanies new job creation activity to enable sustainable growth. In supporting the development of value chains and integration into regional or global value chains, Research and Development (R&D) and skills training will be promoted by the private sector. Although it may be beneficial to provide input at the low-value-added stage of a value chain through primary inputs, this exposes the industry to risks and does not promote sustainable growth and development of the local community. In order for growth to be inclusive it is necessary that economic upgrading must be linked to social upgrading (see Chapter 5). Spending should, therefore not only be targeted at a certain industry or value chain linkage, but social needs impacting value chain development and sustainability should also be targeted at the same time (Barrientos *et al*, 2011).

As local value chains develop and become integrated into global value chains, the share of the local value added component may decrease. Economies of scale and efficiency gains may result in a certain industry exporting a significant proportion of its production as local markets become too small. In order to accommodate for this, it is essential that upgrading of the local value chain takes place.

Activities such as R&D and skills development add greater value to the production process. Captive relationships between local value chain actors should also be addressed. For example, buyers can reduce the price primary producers receive for their products. Cutting out the 'middle man' could result in less overall revenue, but sustain a greater amount of jobs in the long run.

The key factors for upgrading and development of value chains are: Improving skills and education; improving access to electricity; encouraging R&D and skills development; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain

Creation of strong entrepreneurial skills also contributes to new businesses taking advantage of existing linkages in value chains at a local level. Provision of enterprise maps and suppliers databases may also induce collaboration and create potential new linkages in the value chain at a regional and local level.

3.4 Integration of special economic zones (SEZs) into global or regional value chains

Various types of SEZs have been developed. Free trade zones and fenced-in, duty free areas are usually situated near ports or airports. Export processing zones are constructed as industrial complexes and concentrate on export-orientated manufacturing. Enterprise zones offer tax incentives or financial grants to operate businesses in certain areas. These zones usually target areas that need economic and social upliftment. Specialised zones are those such as science and technology parks, logistics parks or chemical/pharmaceutical parks.

The establishment of an SEZ can often provide greater value added and employment benefits to a region. Evidence suggests that SEZs are more successful if they are developed privately, rather than initiated by government involvement. Private sector participation is a key success factor in the establishment and sustainable growth of a SEZ (World Bank, 2008).

The challenge facing municipalities is that they will only have the ability to deliver targeted spending initiatives to various stakeholders associated with the value chains of industries in these SEZs. Policy initiatives and incentive offerings are not the mandate of local government. Certain municipal tax reductions could be offered, but will not substantially influence companies in these areas. For this reason targeted expenditure initiatives focusing, not only on the companies in the processing parks or SEZs, but also on the surrounding support services to the entire value chain these industries support in the local community is necessary.

SEZs as defined under the South African SEZ Act No. 6 of 2014

"Industrial Development Zone" means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services.

"Free Port" means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures.

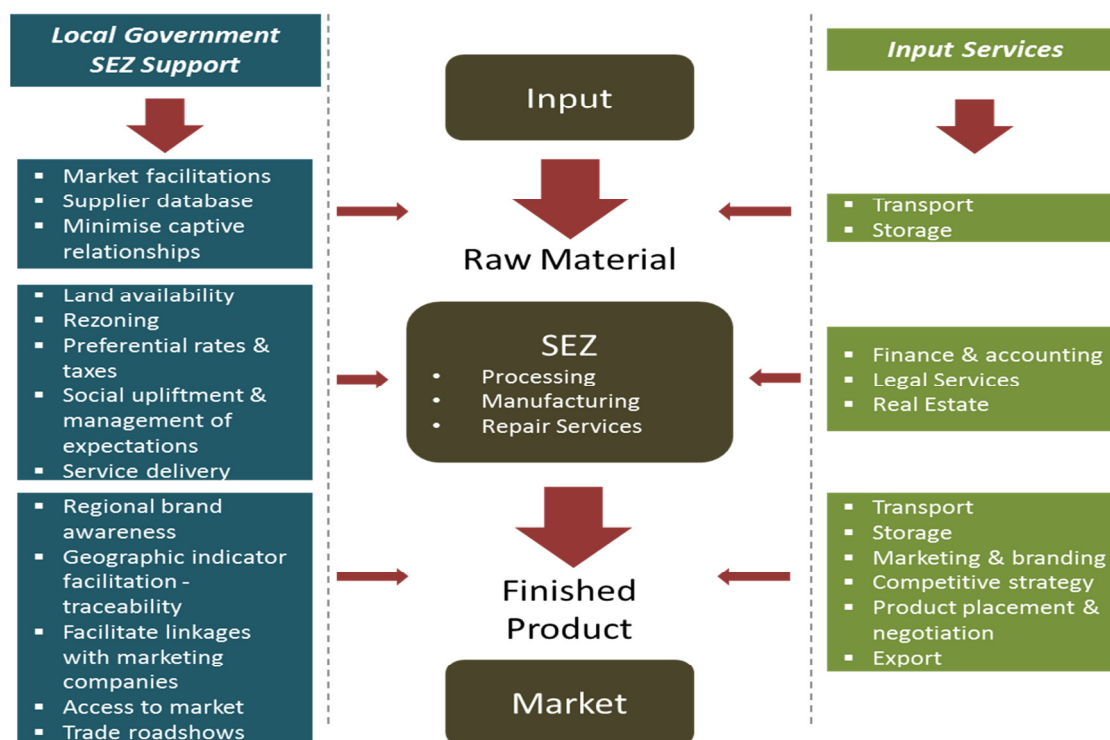
"Free Trade Zone" means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.

"Sector Development Zone" means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.

Integration into global or regional value chains is essential for the sustainable growth and development of SEZs. Many of the planned SEZs (especially in the agricultural sector) will be in rural areas. This creates challenges for companies in these areas as they are usually a considerable distance from their target market and smaller industries in these rural areas will not be able to take advantage of economies of scale.

Figure 3.2 below depicts a typical value chain for a smaller SEZ or processing park. Municipalities are limited in their ability to address inefficiencies in the market and also do not have the authority to facilitate substantial incentives or tax breaks. There are, however, means by which municipalities can develop targeted spending initiatives to ensure the success of the SEZ in their local area. Inefficiencies could exist in the linkages between the providers of raw materials and manufacturers in the SEZ. For example, middle men, not from the local area, could complicate and erode the value added in a local agricultural supply chain. Facilitating local buyer groups or facilitating relationships directly between the producers, local logistics companies, and the firms in the SEZ, could limit losses outside the local value chain and ensure greater profits for the farmer to create additional jobs. If a number of smaller farmers are brought together through market facilitation by municipalities, it may give them greater bargaining power and better prices for their products.

Figure 3.2 Simplified SEZ value chain and possible local government support initiatives



End-user markets in local areas are usually quite small and to ensure a competitive and sustainable strategy for a SEZ or value chain, it will be necessary to provide these goods to regional or foreign markets. The major challenge in this regard is the competitive advantage larger firms will have as they are able to take advantage of economies of scale and logistics efficiencies. To support local firms in a SEZ, or along a value chain, the municipalities should take advantage of niche markets and assist local manufacturers in the marketing of their products. Various possibilities exist for the promotion of local products to regional or international markets. For instance, “Karoo Lamb” has established itself as a significant brand name in regional, as well as, international markets. To enforce these geographic indicators it may be necessary to facilitate international trade roadshows, or to link the local firms with national or international marketing companies. In many cases international markets require certain standards for their products, and this is directly related to the standards maintained at the production facility. Assisting in achieving these requirements at the local manufacturing facility could open an entirely new international market to a local producer.

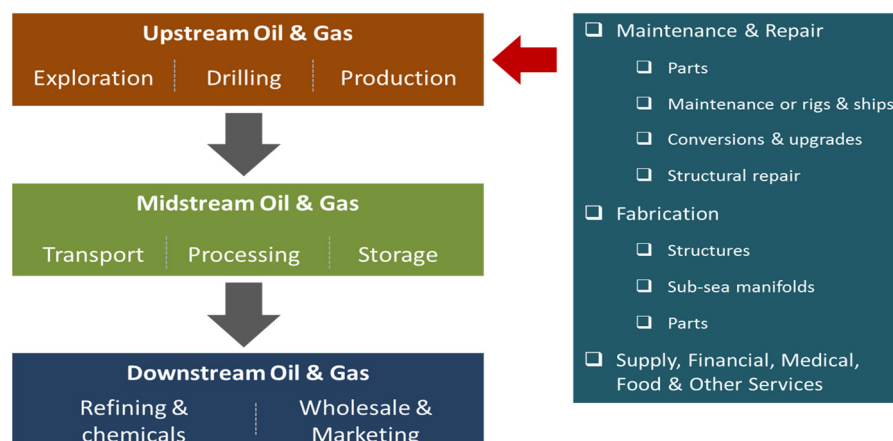
3.5 Eden District value chains

3.5.1 Petrochemicals

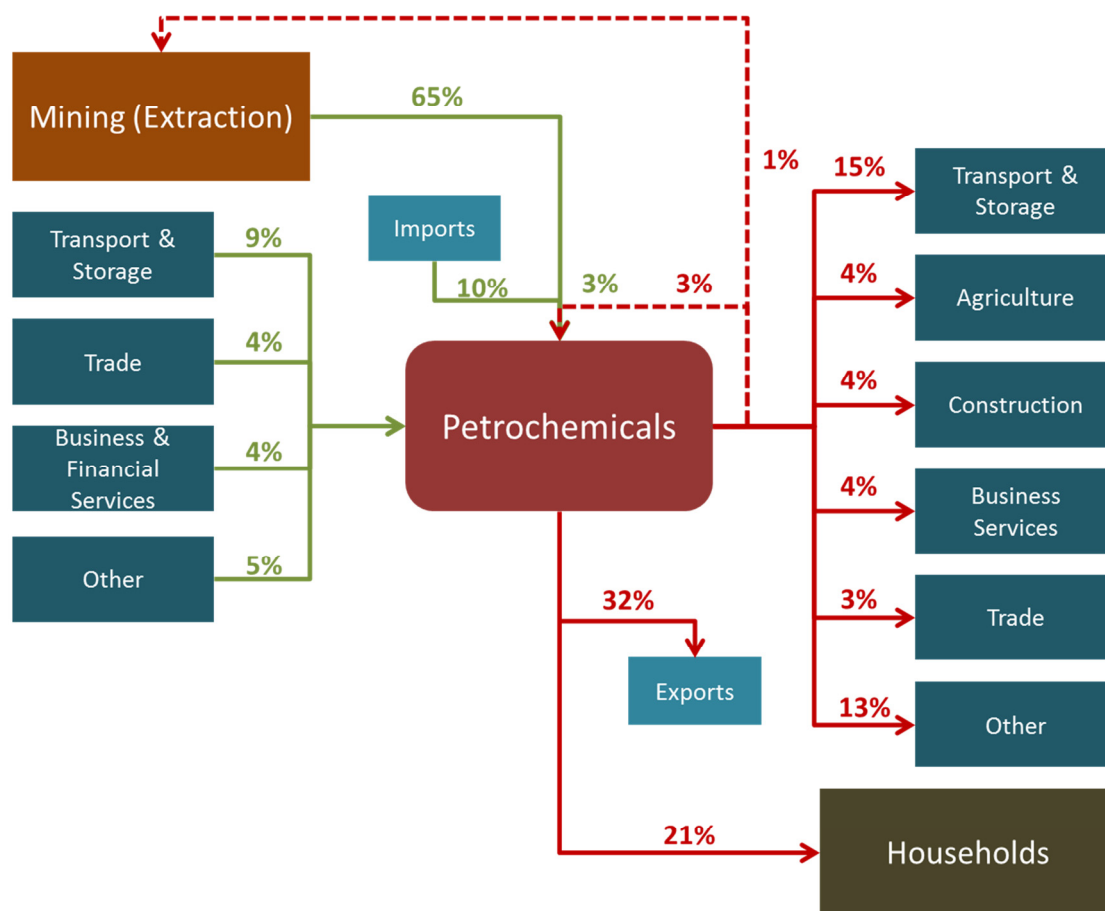
The petrochemical sector is a significant contributor to output in the Mossel Bay area. The PetroSA Gas-to-Liquids (GTL) refinery at Mossel Bay was commissioned in 1992 and was the world's first GTL refinery and is the third largest GTL of the five operating globally. Feedstock for the refinery is sourced from PetroSA's FA-EM and South Coast gas fields, as well as the Oribi and Oryx oil fields in Block 9 offshore. The output potential of the refinery is 45 000 barrels per day or crude oil equivalent. Outputs from the refinery include unleaded petrol, paraffin, diesel, propane, liquid oxygen, nitrogen, distillates, eco-fuels, process oils and alcohols (PetroSA, 2015). Direct employment at the refinery is estimated at 2 000 and most of these live in the surrounding area. The major linkages in the petrochemicals value chain involve the outputs from the mining sector (extraction) and the input services into mining and the petrochemicals industry.

Figure 3.3 below depicts an example of the oil and gas value chain. Upstream activities, such as exploration and drilling, requires maintenance, repair and support to supply food, medical and financial services. In the analysis of linkages in Figure 3.4 the inputs into the upstream (extraction) process will not be considered as they form a minimal part of the value chain in the Eden District.

Figure 3.3 Oil and gas value chain, Eden District



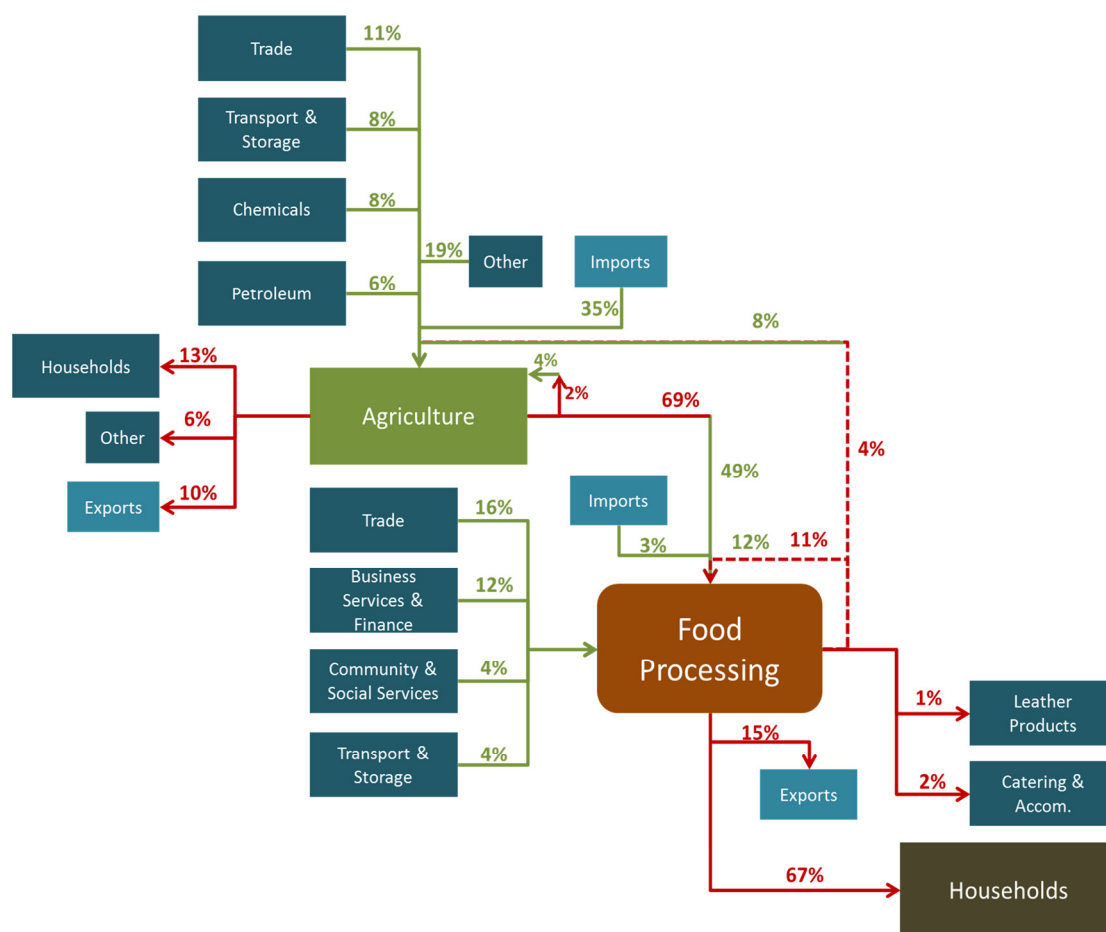
In Figure 3.4 and Figure 3.5 the inputs to an industry or sector are indicated in green. These inputs represent the expenditure the sector or industry has on a product or service. The products and services are grouped according to the industry classifications identified by Stats SA. For instance, the proportion of expenditure of the petrochemicals industry in Figure 3.4 on transport and storage is 9 per cent of their total inputs. The petrochemicals industry has a 65 per cent input share from the mining sector. This will form the raw product that will be transformed into fuel or chemicals. The sector receives 10 per cent of its input from imports. The output sectors from petrochemicals are users of the manufactured petroleum and chemical products. The largest of these sectors is the transport and storage sector, with households the largest end consumer, using 21 per cent of the output.

Figure 3.4 Petrochemical linkages, Eden District

Source: Statistics SA; own research

3.5.2 Agri-processing

The agri-processing value chain linkages are depicted in Figure 3.5. Agricultural expenditure is highest for retail trade (11 per cent) and then for transport and storage (8 per cent). As depicted in the petrochemicals value chain in Figure 3.4, the agricultural sector is a significant output sector for the petrochemicals industry and conversely it is an important input sector for the agricultural sector. Agricultural expenditure on fuel, fertilizers, pesticides and chemicals has an 8 per cent share of total expenditure in agricultural inputs. Most of the output from the agricultural sector (69 per cent) is to the food processing industry. The linkage between the agricultural sector and food processing industries in the Eden District is much stronger than in other areas of the Western Cape, as less agricultural output is exported in the Eden District.

Figure 3.5 Agri-Processing linkages, Eden District

Source: Statistics SA; own research

The importance of beneficiation and the processing of raw agricultural output is noted in the agri-processing value chain. The largest portion of output from the food processing industry is to the end user (households) at 67 per cent. The involvement of the tertiary sector (trade, business services and logistics) is also significantly greater in the food processing industry, in comparison to agriculture. The additional benefits for GDP creation and employment in support sectors, such as trade and business services, are significantly higher when the local agricultural output is used in the food processing value chain.

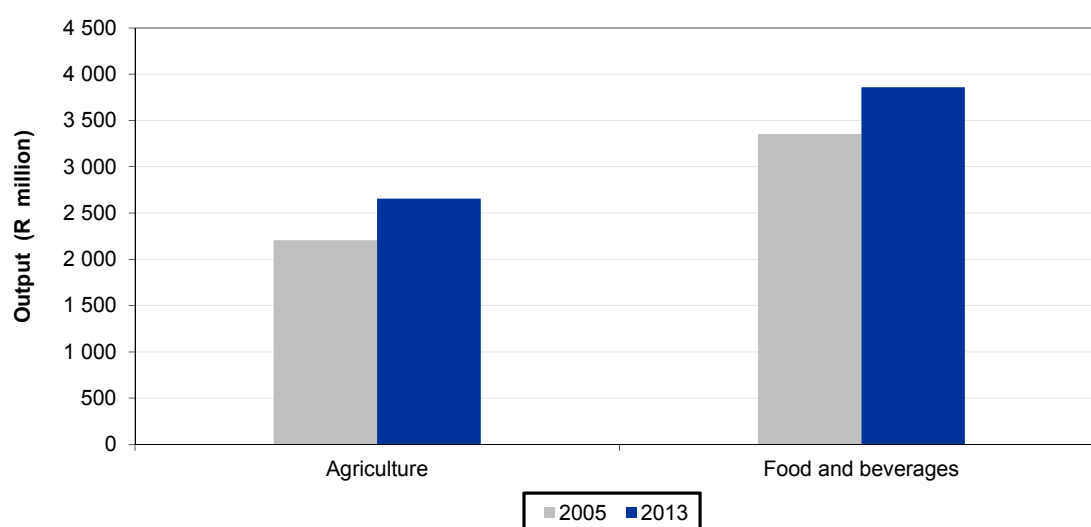
The development of agri-processing parks, such as the one in George will allow for significant value added benefits to the local community. Support initiatives discussed in Figure 3.2 will strengthen the linkages in the agricultural/food processing value chain, and may even increase the linkage between agriculture and food processing in the District. This will decrease the dependency on imports by the food processing industry and increase the value added effects of products produced in the agricultural sector as these now flow through the entire value chain.

3.5.3 Employment and output analysis: petrochemicals and agri-processing

Agri-processing

In Eden District, output of the food and beverages (food processing) sector is greater than that of agriculture and the petroleum and chemicals industries. Agricultural output grew by 20.3 per cent from 2005 to 2013, with food and beverages increasing by 15.1 per cent and petroleum and chemicals by 32.9 per cent. This is in contrast to the declines in employment (Figure 3.7) for agriculture and food and beverages.

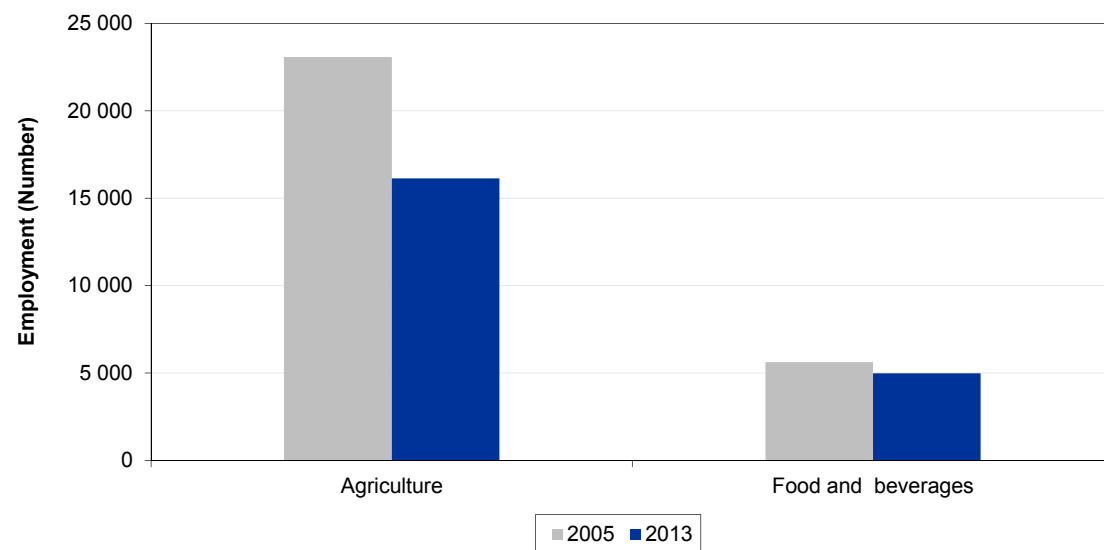
Figure 3.6 Output growth for agriculture, food and beverages and petrochemicals, Eden District, 2005 - 2013



Source: Quantec Research

Employment in agriculture showed the greatest declines, decreasing by 30.1 per cent from 2005 to 2013. Likewise, employment in food and beverages also showed a decline, with an 11.2 per cent drop. Employment figures in the petroleum and chemicals sector showed positive growth, with an 18.5 per cent increase over the same period. Declines in agricultural employment are common throughout the Western Cape as farmers have become more mechanised. There seems to be a movement to mechanisation by farmers (Troskie 2015). In terms of the current value chain analysis, it is important to note that this trend will most likely not change, as it is an international trend and a necessity to stay competitive. Employment opportunity, can however, be created through the value chain and by creating smaller value chains with niche markets for smaller farmers. These farmers will gain significant benefit from SEZs with target markets for unique products. Competing against commercial farmers will not be a sustainable strategy for smaller farmers or agri-processors.

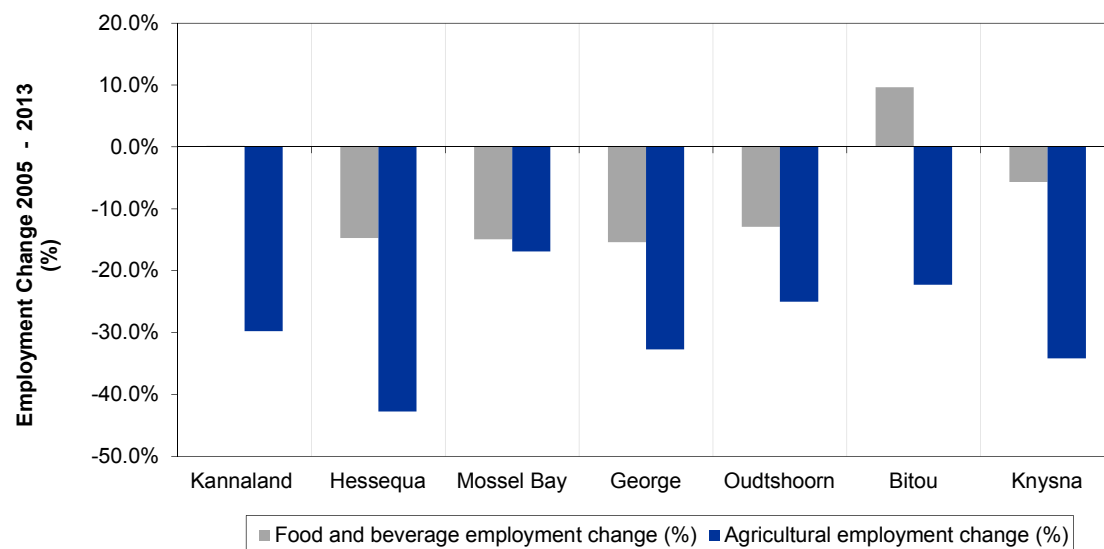
Figure 3.7 Employment for agriculture, food and beverages and petrochemicals, Eden District, 2005 - 2013



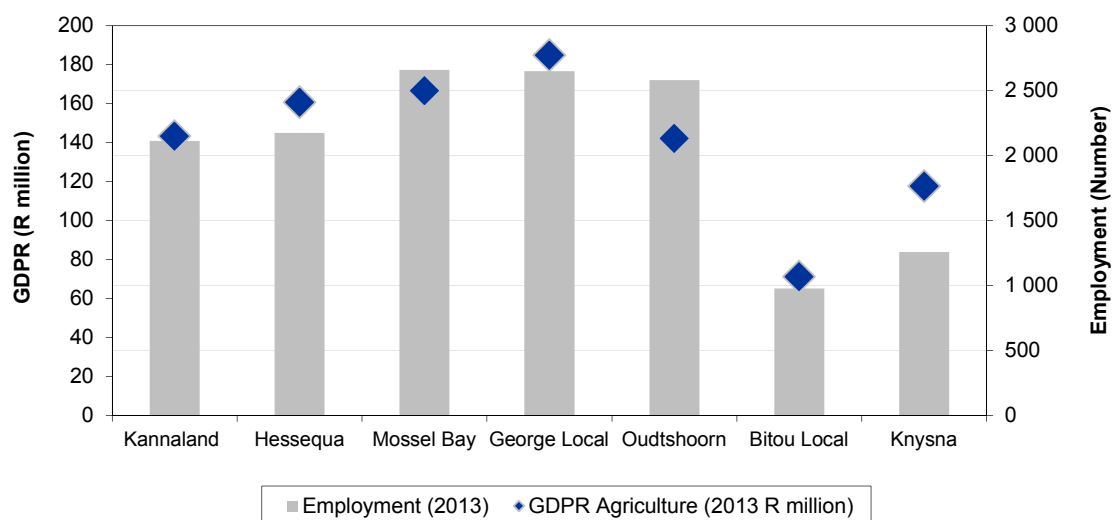
Source: Quantec Research

Figure 3.8 shows the change in employment for the sectors related to food processing for the various municipalities in the Eden District. Of particular concern is the decline in agricultural employment in Hessequa Municipality.

Figure 3.8 Employment change in agriculture and food and beverages, Eden District, 2005 - 2013

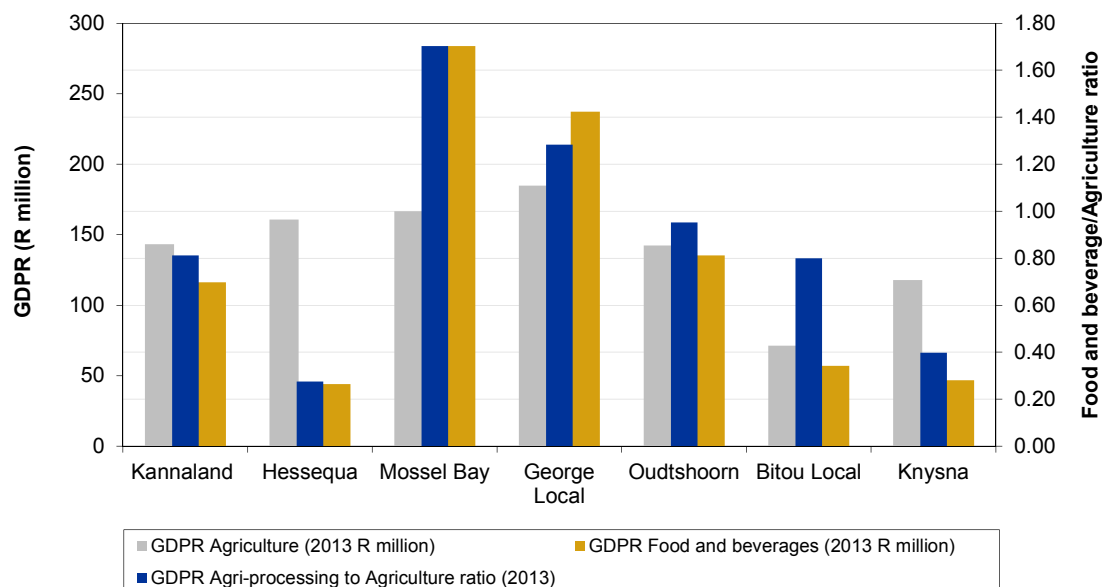


Source: Quantec Research

Figure 3.9 Agriculture GDPR and employment, Eden District, 2013

Source: Quantec Research

Mossel Bay is a significant contributor to the Agricultural sector of the District. By comparing the GDP and employment shares to the export shares in Figure 3.9 it is clear that Oudtshoorn is focused on exporting agricultural products, whereas George and Mossel Bay have greater proportions of local consumption. The food processing value chain is more export-orientated in the George and Oudtshoorn areas.

Figure 3.10 GDPR ratio shares for Eden District, 2013

Source: Quantec Research

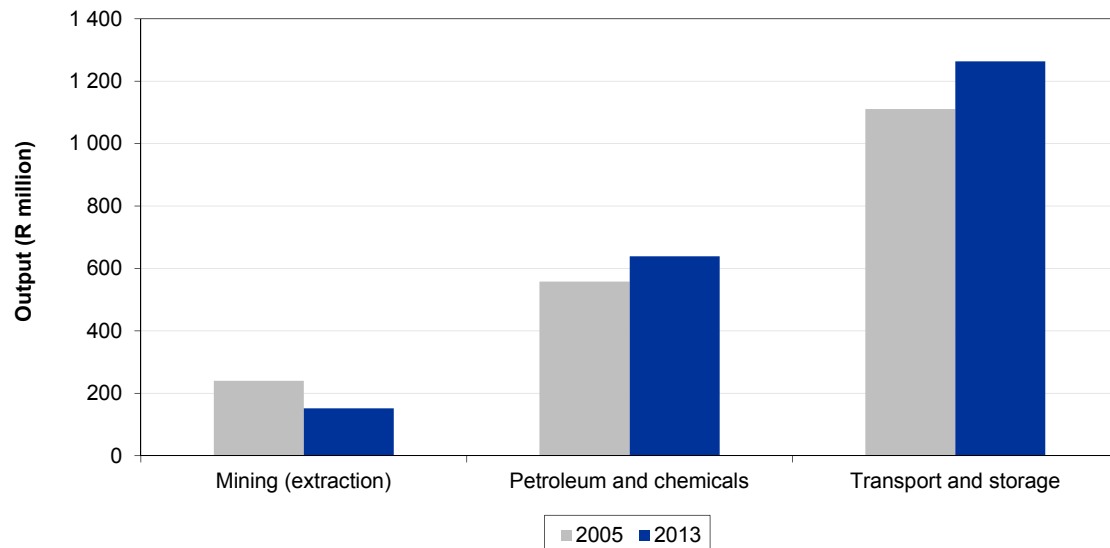
Figure 3.10 shows that Mossel Bay Municipality has the strongest food processing value chain in terms of GDPR generation. The GDPR generated in food and beverages in the Mossel Bay area is significantly higher than the GDPR generated in agriculture in the area. This indicates a strong presence of food processors in the region, despite the fact that there is limited imports of agricultural produce into Mossel Bay Municipality.

Employment in agriculture has declined significantly in Hessequa Municipality (Figure 3.8) and the level of beneficiation in the area of agricultural produce is low, as depicted by the food and beverages GDPR in the area, as compared to agriculture (Figure 3.10). Support of the food processing sector in this district could significantly support the agricultural sector.

Petrochemicals

Sectors linked to the petrochemicals value chain are depicted in Figure 3.11. The largest linkages to the production of petrochemicals are the transport and storage sector and the mining (extraction) industry. Output from the mining sector has declined by 36.7 per cent from 2005 to 2013. Output in the petroleum and chemicals industry has increased by 14.5 per cent and output in the transport and storage sector has increased by 13.7 per cent from 2005 to 2013.

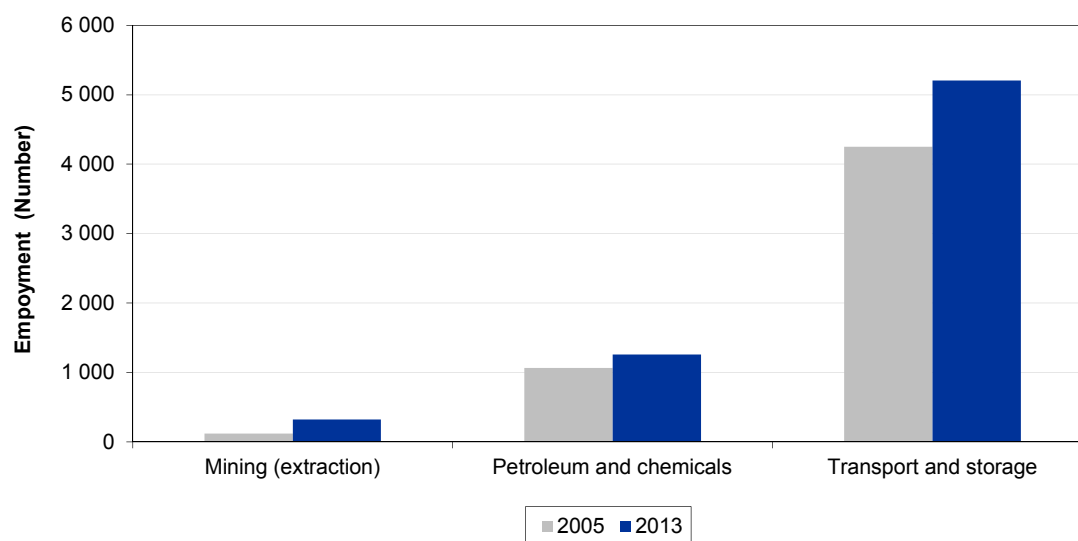
Figure 3.11 Output of sectors related to the petrochemical industry, Eden District, 2005 - 2013



Source: Quantec Research

In contrast to output, employment in the mining industry, in Eden District has increased by 173.4 per cent from 2005 to 2013. The employment figures peaked at 499 in 2011 and declined to 320 by 2013. It will be interesting to note the level of employment in this sector moving forward as reports from PetroSA indicate that there is strain on production capacity and available feedstock for the PetroSA facility from offshore operations.

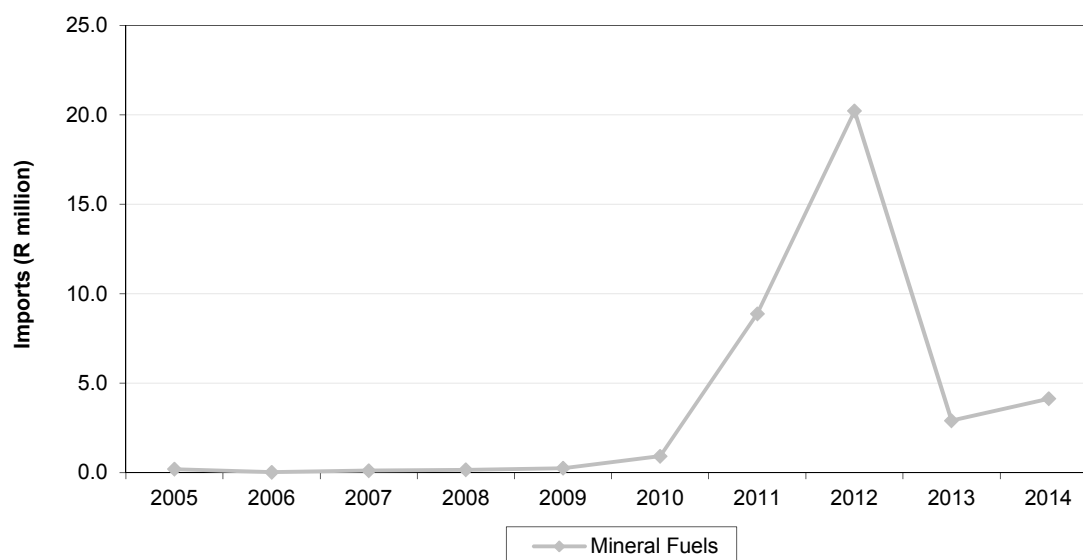
Figure 3.12 Employment in sectors related to the petrochemicals industry, Eden District, 2005 - 2013



Source: Quantec Research

Figure 3.13 shows the imports of mineral fuels and LNG into the Eden District. The levels of imports into the area are increasing as a result of dwindling feedstock from offshore supplies.

Figure 3.13 Imports of mineral fuels and LNG, Eden District, 2005 - 2014



Source: Quantec Research

3.6 Concluding remarks

Linkages to support services in the petroleum value chain are not as strong as that of the food processing value chain. The potential for employment and GDP creation in the food value chain is significantly higher than that in the petroleum value chain due to the greater backward linkages in the agri-processing value chain to sectors with higher employment multipliers. Backward linkages to agriculture and wholesale and retail trade are much higher in the agri-processing industry, and each of these sectors have significant employment potential per unit of output generated.

The ability for local municipalities to become involved in the sustainable support of SEZs also gives greater opportunity to the development of the food processing value chain in Eden District. Concerns from various stakeholders have been noted in terms of the promotion of the petroleum industry and the negative effects this may have on local aquaculture and fishing industries.

Currently the petrochemicals industry in Mossel Bay is under pressure due to limited gas reserves and the high costs of extraction. This could pose a possible threat to the linkage between mining and the petrochemicals industry in Mossel Bay. The plans for a Floating Liquefied Natural Gas (LNG) import terminal have not materialised due to a study showing that the plans are not commercially viable. The reason for the investment into the terminal is due to limited gas reserves offshore. Since 2008, PetroSA has been looking at importing LNG to supplement the decreasing gas reserves at Mossel Bay. The Gas-to-Liquids plant is currently running at 50 per cent of full capacity as gas supplies from FA-EM, the South Coast gas fields, and Oribi and Oryx fields in Block 9 are expected to run dry in the next two-to-three years. New drilling activity is underway in PetroSA's F-O field. Total has also started exploratory drilling deep offshore and gas from Block 11B/12B could potentially be used to supply the PetroSA facility, but exploration is still underway.

George Municipality already has a large proportion of processed food output and export in relation to agriculture. This is positive to the development of further food processing potential in the area as smaller processing plants in the SEZ can take advantage of the existing supply chain and support structures in the area. Creation of niche markets will ensure that these processing plants are not in competition to large commercial value chains and give them their own unique competitive advantage and allow them to 'piggy back' on existing infrastructure in the area.

4

Infrastructure spending: Review and analysis

4.1 Introduction

Basic services are defined as those services necessary to ensure an adequate standard of living for the inhabitants of a municipality. These services include the provision of water, electricity and housing, as well as waste and waste water management.

Access to public services is a basic right of all South African citizens. As embodied in the White Paper on Local Government, municipalities, in conjunction with the provincial and national spheres of government, have been mandated to provide these services. Given the high levels of inequality and poverty prevalent within the post-apartheid environment, and in conjunction with the introduction of a number of programs aimed at the addressing these issues including the RDP, GEAR, AsgiSA and currently the National Development Plan (NDP), the role of local government in remedying the apartheid legacies and in contributing to an environment conducive to growth and employment has grown substantially. The White Paper on Local Government prioritises the provision of a basic level of household services as one of the key mechanisms through which municipalities will operate in order to affect improvements in the level of inequality and poverty.

Municipalities would not be able to perform this mandate without the proper systems in place to facilitate the provision of basic services. Sufficient investment in the municipal infrastructure which encompass these systems are thus necessary. In addition to raising the standard of living of those to whom these services are rendered, a number of studies have found that increased basic infrastructure delivery has a positive effect on economic growth; and, conversely, higher economic growth affords more successful infrastructure investment. With health being a determinant of labour productivity, both qualitative and quantitative improvements in sanitation, the

water supply and sewage services would have positive spillover effects on economic growth. It has been shown how increasing basic infrastructure by 1 per cent could lead to a 0.36 per cent increase in GDP per capita in rural municipalities and a 0.33 per cent increase in GDP per capita in urban municipalities in South Africa.⁹

Basic service infrastructure thus facilitates the establishment of an environment in which development and growth can be more effectively pursued. It is nevertheless important to note that, for the attainment of robust or continued growth, increased investment in infrastructure of this kind cannot be relied upon in isolation. The economic environment in which the Municipality operates is unique to that region, and as such, infrastructure needs vary accordingly. Proper planning, sound project selection and effective implementation of these infrastructure ventures will thus improve both the scale and resilience of the resultant spillovers. It is also essential that the infrastructure (both old and new) is properly maintained (through both effective demand and supply management) if the economic benefits of these investments are to be realised more fully.

Because of the role that basic service infrastructure expenditure plays in attaining local social and economic development, a number of sources (including Quantec and the municipal A-schedules among others) will be used to gauge trends in municipal infrastructure expenditure and expenditure predictions, and the resulting impact on basic service delivery will be assessed.

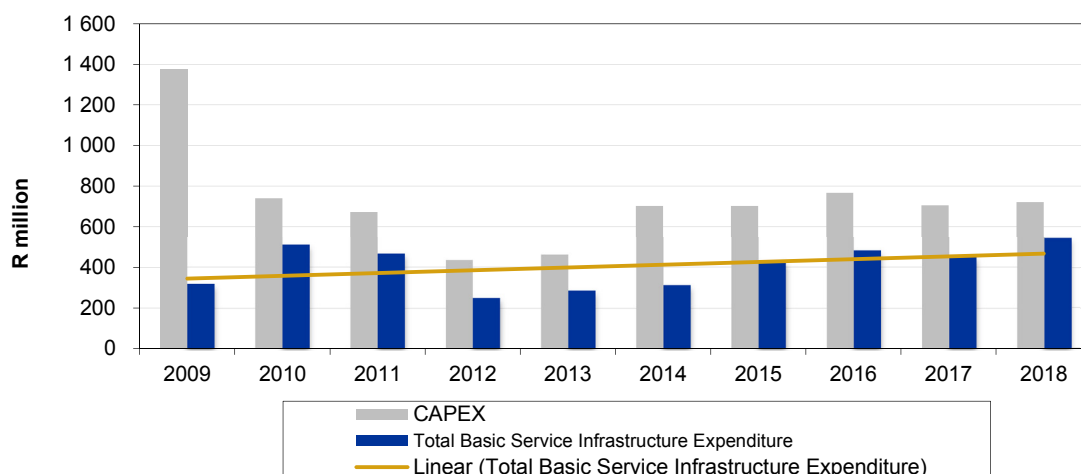
4.2 Infrastructure development

4.2.1 Overview of municipal expenditure trends in the Eden District

With the growing emphasis being placed on infrastructure investments as a means of facilitating economic growth, as embodied in the National Infrastructure Development Plan, it is essential that municipalities prioritize their budgets accordingly.

Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly (see Figure 4.1). The portion of the capital expenditure budget spent on basic services infrastructure averaged 54 per cent over the period 2008/09 to 2013/14, reaching its highest in 2010/11 (70 per cent). Since then the portion of the capital expenditure budget spent on basic services infrastructure has come down to only 44 per cent in 2013/14. The budget for the Medium Term Revenue and Expenditure Framework (MTREF) reflects greater alignment with the National Development Plan as the portion of the capital expenditure budget spent on basic services infrastructure increases. The portion of the budget allocated to infrastructure expenditure is expected to increase from 63 per cent in 2015/16 to 75 per cent in 2017/18.

⁹ Gnade, H. (2013). *Basic infrastructure delivery and its welfare effect on rural and urban municipalities*. Paper to be presented at the conference of the Economic Society of South Africa, Bloemfontein, September.

Figure 4.1 Eden District: Total capital expenditure vs basic service infrastructure expenditure: 2009 - 2018

Source: Western Cape Provincial Treasury

Although the portion of the infrastructure budget spent on basic services came down in 2013/14 the District recorded a 9 per cent increase in basic services infrastructure investment. The increase in basic services infrastructure investment is visible in Kannaland, Oudtshoorn and Bitou municipalities. Although the high growth rates recorded in Kannaland and Oudtshoorn municipalities in 2013/14 are remarkable the municipalities lag in terms of contribution to the total basic services infrastructure; contributing a total of 17 per cent to the Districts' total basic services infrastructure investment in 2013/14.

Mossel Bay and George municipalities are part of the Province's top-10 leading non-metro municipalities in terms of size and each contributed 20 per cent and 27 per cent respectively to total basic services infrastructure expenditure in 2013/14 and 28 per cent and 30 per cent respectively to GDPR in the region in 2013. Hessequa and Kannaland municipalities accounted for 4 per cent and 7 per cent respectively of the total basic services infrastructure expenditure in 2013/14 and contributed 5.2 per cent and 3.5 per cent to the region's GDPR in 2013 (see Table 4.1).

Table 4.1 Basic services infrastructure expenditure as % of total Eden District infrastructure expenditure¹⁰

Municipality	GDPR share 2013	2010	2011	2012	2013	2014	2015	2016	2017	2018
Kannaland	3.5%	1.5%	1.3%	2.9%	3.6%	7.2%	5.0%	4.4%	7.1%	16.7%
Hessequa	5.2%	6.5%	3.7%	10.5%	5.7%	3.9%	9.8%	14.9%	7.0%	5.7%
Mossel Bay	27.8%	21.9%	41.4%	25.7%	24.0%	19.6%	26.3%	21.0%	16.0%	13.4%
George	30.2%	37.9%	25.1%	35.1%	30.4%	27.4%	24.5%	24.3%	38.6%	37.8%
Oudtshoorn	11.3%	2.2%	2.5%	2.8%	5.6%	9.4%	6.4%	5.4%	5.6%	8.3%
Bitou	8.2%	13.4%	14.1%	6.7%	8.1%	17.7%	10.1%	12.5%	12.3%	9.1%
Knysna	12.3%	15.0%	9.4%	16.2%	22.6%	14.8%	16.5%	17.5%	13.4%	9.0%
Total¹¹	100%	100%	100%	100%	100%	100%	99%	100%	100%	100%

Source: Western Cape Provincial Treasury and Quantec Research

¹⁰ Basic services infrastructure expenditure is calculated per financial year.

¹¹ Eden District Municipality's contribution to infrastructure expenditure has been excluded from the table.

From Table 4.1 it is clear municipalities within Eden District vary enormously on how much they spend on basic services infrastructure and by how much it grows yearly. This reflects a wide array of financial and demographic factors faced by each municipality. Basic services infrastructure expenditure per capita also varied significantly across the municipalities with Bitou spending the most in 2014 (R1 055), followed by Kannaland (R900), Mossel Bay (R651), Knysna (R647), George (R424), Oudtshoorn (R307) and Hessequa (R223). Although Mossel Bay and George municipalities are the two leading municipalities in terms of contribution to GDP and basic services infrastructure expenditure the municipalities trail behind Bitou and Kannaland in terms of basic services infrastructure expenditure per person. George Municipality is the largest municipality within the region in terms of population and GDP but recorded a below average per capita expenditure on basic services infrastructure.

The ratio of basic infrastructure investment to GDP is an important indicator of the Districts' performance in basic services infrastructure investment. The ratio rose from 1.8 per cent in 2008/09 to 2.8 per cent in 2009/10. The financial year 2009/10 can be considered as a period of a basic services infrastructure investment boom. During this period infrastructure investment not only increased but the portion of the capital expenditure budget allocated to basic service infrastructure also increased. However, the ratio of basic services infrastructure investment to GDP declined to 1.5 per cent in 2013/14. The 2015 budget planned for a recovery in this level of basic services infrastructure spending.

Due to the significant budgetary constraints facing municipalities, and considering the specific needs of the inhabitants of the respective municipalities, it is essential that funds are allocated toward those projects which would have the most significant effect on economic growth.

Table 4.2 Eden District basic service infrastructure expenditure per budget line item, 2014

Budget Line Item	Kannaland	Hessequa	Mossel Bay	George	Oudtshoorn	Bitou	Knysna	Total
Housing	50%	0%	16%	3%	0%	36%	28%	18%
Electricity	0%	40%	35%	23%	9%	10%	41%	24%
Water	23%	29%	16%	13%	68%	14%	26%	22%
Waste Water Management	25%	32%	32%	57%	23%	34%	5%	34%
Waste Management	2%	0%	0%	5%	0%	7%	0%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Western Cape Provincial Treasury

As shown in Table 4.2 waste water management is the largest basic services infrastructure expenditure item in the Eden District each taking up 34 per cent of the total basic services expenditure within the region in 2013/14. George Municipality is the leading contributor to Waste water management infrastructure expenditure in the region. The high costs associated with waste water treatment works and the use of septic tanks in some municipalities' places strain on municipal finances. For example the servicing of septic tanks becomes more demanding during holiday

seasons in Knysna; this places strain on the Municipality's resources as it does not have adequate resources to deal with such increases in demand.

Waste management was the smallest basic services infrastructure expenditure item within the region in 2013/14. Whilst Bitou and George municipalities made significant contributions to waste management infrastructure expenditure, Hessequa, Knysna and Oudtshoorn allocated no finances towards waste management infrastructure expenditure. Oudtshoorn Municipality also allocated no funds towards housing expenditure. The Municipality however contributed the most to the District's water provision expenditure, allocating 68 per cent of its basic services infrastructure investment budget to water provision.

Housing expenditure accounted for 18 per cent of the region's basic services infrastructure expenditure. The main obstacle to housing provision is a rapidly growing population, funding and availability of suitable land. For example in Knysna Municipality the hilly terrain and lack of alternative land makes it costly to deliver quality housing. However, despite these challenges the Municipality made the second highest contribution to housing expenditure within the region in 2013/14 and spent 28 per cent of its basic services infrastructure expenditure on housing. The provision of housing remains a high priority within the Municipality as close to 20 per cent of the regions' households are informal.

Electricity expenditure is the second largest infrastructure expenditure item within the District (24 per cent). Knysna Municipality leads the pack in terms of prioritising electricity infrastructure expenditure. The Municipality is closely followed by Hessequa (40 per cent), Mossel Bay (35 per cent) and George (23 per cent). The rest of the municipalities within the District allocated less than 10 per cent of their basic services infrastructure budgets to electricity. The relatively smaller contribution made by electricity to basic services infrastructure investment could be a result of intergovernmental arrangements. For example Kannaland Municipality is responsible for the provision of electricity to Ladysmith and Calitzdorp whilst Eskom supplies Zoar and Vanwyksdorp.

4.2.2 Basic services infrastructure investment and economic growth

Economic theory illustrates that investment in economic infrastructure supports economic growth both directly, through capital accumulation, and indirectly through improved factor productivity¹². A key mechanism through which the South African Government aims to accelerate economic growth is through infrastructure investment particularly for basic services. Infrastructure is not only an essential part to improving livelihoods but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. Access to basic necessities such as housing, water, and sanitation and refuse removal is a prerequisite for economic growth.

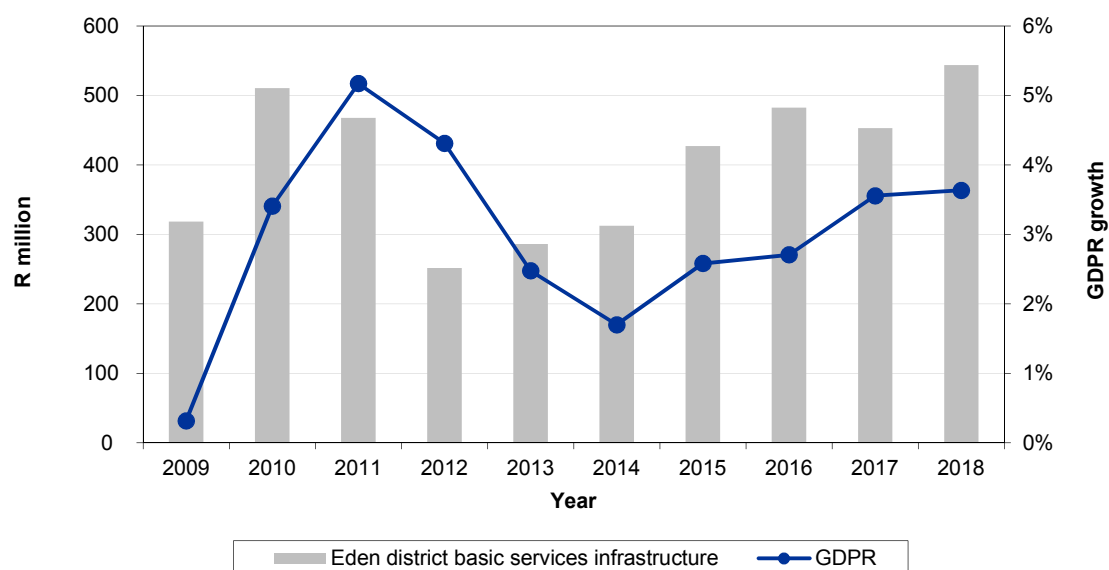
¹² Fedderke, J.W., & Bogetić, Ž. (2009). Infrastructure and growth in South Africa: Direct and indirect productivity impacts of 19 infrastructure measures. *World Development*, 37(9), 1522-1539.

Figure 4.2 provides an approximation of the relationship between infrastructure expenditure and economic growth. Over the period 2008/09 to 2011/12 Eden District experienced years of high growth in basic services infrastructure expenditure averaging 1.9 per cent per year. Following two consecutive years of contractions in basic services infrastructure investment (i.e. 2010/11 and 2011/12) the region stepped up basic services infrastructure investment in 2012/13, recording a growth rate of 13.6 per cent. However the financial year 2013/14 showed signs of a slowdown in basic services infrastructure expenditure.

GDPR growth averaged 2.9 per cent over the period 2009 to 2014. The region recorded its highest growth rate in 2011 (5.1 per cent) but has since plummeted to an estimated 1.7 per cent in 2014. It appears that the year 2014 not only recorded a slowdown in the basic services infrastructure expenditure growth rate but also the lowest GDPR growth rate over the 2009/10 to 2013/14 period. If this slow down becomes a new trend this could have negative longer term repercussions on the District's economy.

It is important to note the role played by time lags in between basic services infrastructure investment and the resulting impact on economic growth. Infrastructure investment will have both a direct and an indirect effect on GDPR. Whilst the direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDPR the indirect effect is a result multiplier or knock-on effects within the economy.

Figure 4.2 GDPR growth vs total basic service infrastructure expenditure: 2009 - 2015



Source: Western Cape Provincial Treasury

The different basic services infrastructure expenditures have made different contributions to GDPR growth within the Eden District municipalities. Water and electricity also contributed to GDPR within the region. From Table 4.3 it is shown that the electricity and water sector expanded by 0.1 per cent and 2.8 per cent per annum respectively in real terms over the 2000 to 2013 period. The growth in the water sector is notable, with the sector growing above the average growth rate for the non-metro districts. Across the municipalities the leading contribution to the

electricity sector in 2013 was George Municipality (43 per cent). Although George Municipality makes meaningful contributions to the electricity sector the Municipality experienced sharp contractions in the sector over the period 2000 - 2013. Although Knysna trails in terms of its contributions to the electricity sector, the Municipality makes the leading contribution to the water sector within the District. Mossel Bay Municipality makes the second largest contribution to the water sector and leads the pack in terms of growth rate in the water sector.

Table 4.3 Eden District: Water and electricity GDPR composition by municipality, 2013

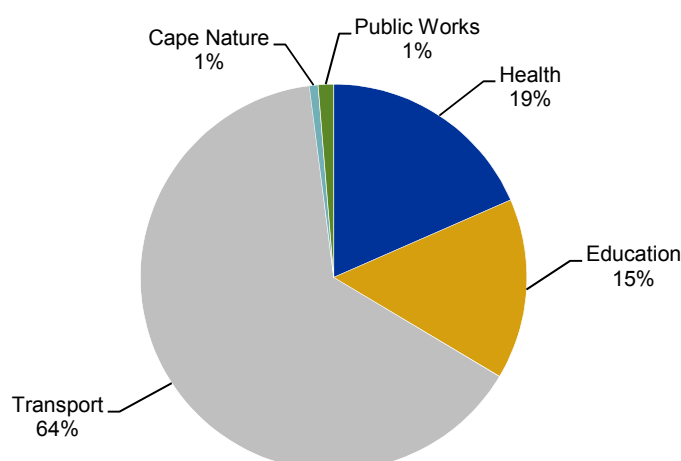
Municipality	Electricity		Water	
	% share	Ave growth 2000 - 2013	% share	Ave growth 2000 - 2013
Kannaland	3%	2.6%	6%	2.7%
Hessequa	5%	-1.7%	5%	-2.5%
Mossel Bay	38%	7.5%	18%	8.4%
George	43%	-3.0%	3%	-3.5%
Oudtshoorn	6%	0.0%	11%	-0.3%
Bitou	1%	2.9%	17%	2.4%
Knysna	5%	7.2%	35%	6.7%
Total	100%	0.17%	100%	2.84%

Source: Quantec Research

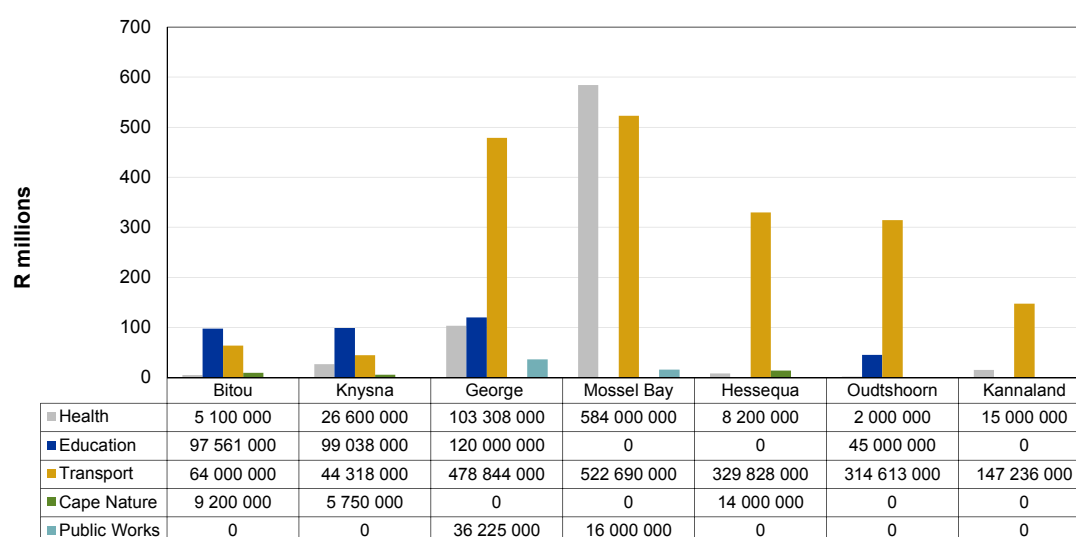
4.2.3 Western Cape Government infrastructure spending in Eden District

Apart from the infrastructure expenditure the Eden District municipalities are mandated to do, the Western Cape Government (WCG) has other mandates such as education, health, roads and public works infrastructure spending. The 2015 - 2018 budget shows that the WCG will be spending on various infrastructure projects across all districts – see Figure 4.3 for a breakdown of the WCG's planned infrastructure expenditure projects for education, health, roads and human settlements in the Eden District. Figure 4.4 shows a breakdown per municipality in the region.

Transport infrastructure projects in the Eden District received the bulk (R2.6 billion or 64 per cent) of the allocations from the WCG for the period 2015 - 2018, followed by health (R744.2 million or 19 per cent) and education (R611.1 million or 15 per cent). Public Works and CapeNature infrastructure projects receive one per cent each of the total budget. Considering the municipal allocations, transport infrastructure projects receive the largest budget allocations in George, Hessequa, Oudtshoorn and Kannaland. In Mossel Bay, the construction of a new hospital has resulted in the infrastructure expenditure on health being higher than that for transport, although the latter remains substantial (R522.6 million over the medium term). Education infrastructure projects receive the highest allocations in both Knysna and Bitou, followed by health infrastructure projects. This infrastructure expenditure by the WCG is expected to unlock economic potential in the Eden District.

Figure 4.3 Composition of WCG infrastructure expenditure - Eden District

Source: Provincial Treasury Infrastructure Unit

Figure 4.4 WCG Expenditure on infrastructure - Eden District, 2015 - 2018

Source: Provincial Treasury Infrastructure Unit

4.3 Basic services infrastructure and access

In order to effectively realise the positive spillovers resulting from investment in basic service infrastructure, it is essential that these increased capital expenditures are translated into the delivery of services. As Government strives to achieve universal access to basic services it is important to obtain an understanding of our current status in basic services delivery in order to develop appropriate interventions. Statistics South Africa, through the annual Non-financial Census of Municipalities, tracks the levels of service delivery within municipalities in the country. The diverse nature of our municipalities in terms of their financial capacity and administrative capabilities requires a differentiated set of policies and interventions to improve service delivery and cope with growing demand.

Table 4.4 shows the changes in the number of consumer units with access to basic services from 2009 to 2014. According to the Census the highest increases in the country were recorded in the provision of electricity. The Western Cape Province recorded the highest increases in the provision of water. The highest increase in Eden District was recorded in the number of consumer units with access to sewer and sanitation, with the leading contributions originating from Mossel Bay.

Table 4.4 Eden District access to basic services trend; change in the number of consumer units: 2009 - 2014

Municipality	Water	Electricity	Sewer and Sanitation	Refuse
Bitou	4 686	2 899	3 286	5 438
George	-2 568	2 299	-885	11 000
Hessequa	1 949	1 121	1 893	3 738
Kannaland	1 130	1 015	1 322	955
Knysna	3 346	3 391	6 375	-12 298
Mossel Bay	8 456	692	10 039	2 126
Oudtshoorn	1 433	2 129	2 653	1 847
Total Eden District	18 432	13 546	24 683	12 806
Western Cape Province	233 800	51 985	102 895	-42 615
South Africa	1 797 335	2 177 095	1 255 080	662 690

Source: Stats SA: Non-financial Census of Municipalities

Whilst Knysna and Bitou municipalities also made meaningful contributions to the increase in access to sewer and sanitation recorded within the District, George Municipality recorded a decline in consumer units with access to sewer and sanitation. Despite recording a decline in the number of consumer units with access to sewer and sanitation and water, George Municipality recorded a remarkable increase in the number of consumer units with access to refuse services. In contrast, Knysna recorded a decline in the number of consumer units with access to refuse services. A notable fact is that all municipalities within the region recorded increases in access to electricity between the years 2009 to 2014. The leading contribution originated from Knysna Municipality whilst Mossel Bay Municipality recorded the smallest change in consumer units¹³ with access to electricity.

The varying number of consumer units with access to basic services is a reflection of different demographic circumstances of each municipality and the number of consumer units that fall within each municipality's jurisdiction. The main obstacle to accelerating basic services delivery in the region is a growing population and a lack of appropriate infrastructure. Mossel Bay Municipality has also highlighted vandalism and funding as the biggest challenges it faces in providing basic services infrastructure. Although municipalities potentially have a wide array of financial instruments to use in meeting their service delivery responsibilities, they do rely mostly on revenue from services rendered. As such the next section analyses municipal revenue trends in the Eden District.

¹³ A 'consumer unit' is the term used to describe a 'billing unit' provided services by the Municipality.

4.4 Municipal revenue trends in the Eden District

In order to sustain economic growth and preserve the standard of living of the inhabitants of the Municipality, both quantitative and qualitative improvements to the stock of basic service infrastructure need to be maintained. It is essential that the infrastructure (both old and new) is properly preserved if the economic benefits of these investments are to be realised more fully. One source through which the maintenance and improvement of basic service infrastructure can be funded is from the charges levied for the basic services rendered by the Municipality via this infrastructure. The revenue generated from these sources often makes up a significant portion of the Municipality's total revenue, and tends to fluctuate along with the economy.

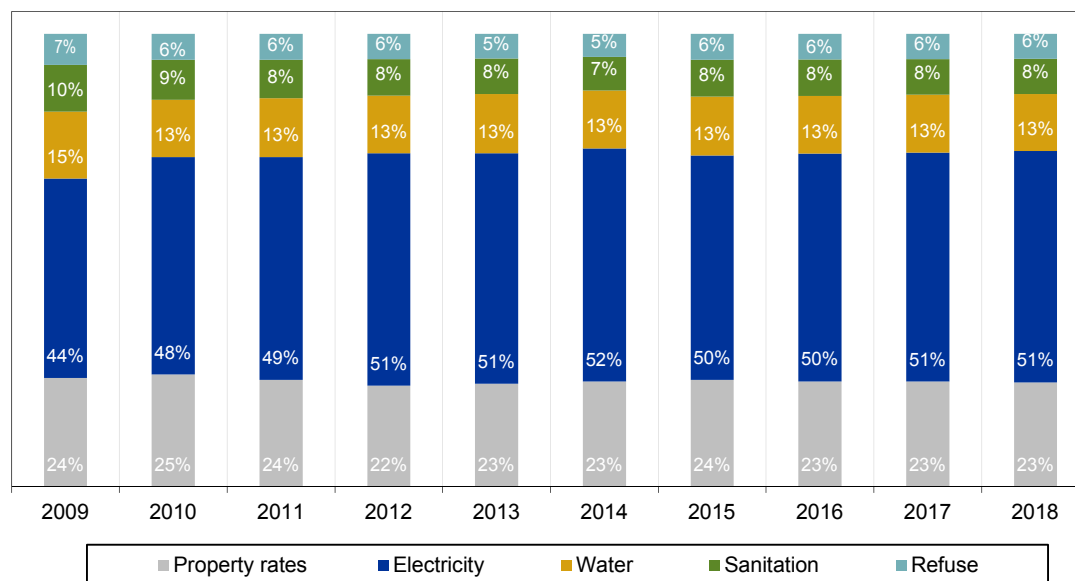
Table 4.5 Percentage change in revenue generated per municipality, 2009 – 2018

Municipality (% change)	2010	2011	2012	2013	2014	2015	Average growth 2010 - 2015	2016	2017	2018
Kannaland	1%	19%	18%	16%	25%	-4%	12%	13%	6%	6%
Hessequa	16%	15%	16%	16%	0%	15%	13%	10%	8%	8%
Mossel Bay	13%	19%	19%	7%	2%	-1%	10%	10%	6%	6%
George	9%	16%	14%	13%	7%	6%	11%	11%	5%	6%
Oudtshoorn	15%	21%	13%	10%	5%	24%	15%	6%	11%	10%
Bitou	15%	18%	13%	14%	7%	24%	15%	8%	8%	8%
Knysna	19%	12%	11%	9%	4%	7%	10%	10%	14%	10%
Total Eden District	13%	17%	14%	11%	5%	9%	12%	10%	8%	7%

Source: Western Cape Provincial Treasury

Table 4.5 illustrates the percentage change in revenue generation from property rates and trading service charges per municipality in Eden District. Since 2009, revenue generation has shown a consistent upward trend across all municipalities albeit at different rates. As is the case with basic service infrastructure expenditure, Mossel Bay and George municipalities make the largest contributions to revenue generation within the District. A notable fact is that although Kannaland Municipality contributes the least to revenue generation within the District (presumably due to its smaller revenue base), the Municipality's annual average revenue growth rate over the period 2009/10 to 2014/15 matched that of the District (12 per cent). The District-wide forecast indicates that revenue collected from property rates and trading services will increase over the 2015/16 MTREF.

Figure 4.5 Eden District: Service charges as a % of total revenue generated from basic services delivered



Source: Western Cape Provincial Treasury

Figure 4.5 illustrates the contribution of property rates, electricity, water, sanitation and refuse revenue toward total revenue generated from the rendering of basic services in Eden District. The chart shows that over the 2008/09 to 2013/14 period electricity revenue contributed the most to total revenue generated within the region whilst refuse revenue contributed the least. The district forecast indicates that revenue generation from property rates and trading services will follow the same trend with electricity contributing the most to revenue followed by property rates, water and then sanitation and refuse removal revenue. The differences in revenue collected from property rates and other trading services may be a result of different tariff price structures for property rates and trading services.

Table 4.6 shows the municipal composition of GDPR in 2013 and the average real GDPR growth for the local municipalities over the period 2005 to 2013. This is compared to the share of revenue generated from basic services rendered per municipality in 2013/14.

Mossel Bay and George are part of the Province's top ten leading non-metro municipalities. It is therefore no surprise that these municipalities contribute more than half of the regions GDPR and revenue collection from property rates and service charges. On the other hand Kannaland Municipality collected the least revenue from basic services within the District. This relatively smaller contribution to revenue collection despite an above average GDPR growth rate presumably reflects a relatively small tax base. According to the municipal survey questionnaire Kannaland Municipality recognises that its current billing information needs to be audited in order to deal with income constraints. The low revenue collection in Hessequa and Kannaland municipalities is matched by low investments in basic services infrastructure.

The difference in revenue collection across the municipalities is a reflection of the municipalities' revenue base, tariff price structures and the administrative capabilities of municipalities to collect revenue. The revenue base is influenced by economic and demographic factors such as income levels and number of indigent consumers.

Table 4.6 Eden District GDPR growth vs revenue shares in 2013/14

Municipality	Revenue % share	GDPR % share	GDPR growth 2005 - 2013
Kannaland	3.5%	2.7%	4.9%
Hessequa	5.2%	7.7%	0.8%
Mossel Bay	27.8%	21.1%	6.9%
George	30.2%	31.2%	3.5%
Oudtshoorn	11.3%	10.8%	3.5%
Bitou	8.2%	11.1%	6.4%
Knysna	12.3%	15.4%	5.1%
Total Eden District	100%	100%	4.6%

Source: Western Cape Provincial Treasury

Basic services revenue contributes more than 60 per cent of the total operating revenue within each municipality within Eden District, ranging from 63 per cent in Hessequa to 70 per cent in Knysna. It therefore follows that basic services revenue is an important source of revenue and municipalities must do more to exploit the potential of these revenue sources.

It is imperative that every effort must be made to ensure the municipalities practice accurate billing and revenue collection (revenue management) and also to ensure every parcel within its jurisdiction is accounted for (revenue enhancement). Revenue increasing strategies include expansion of service delivery, debt collection strategies, minimizing electricity and water losses. For example unaccounted electricity distribution losses (10.8 per cent in 2012/13) in Knysna Municipality and water losses (28.9 per cent in 2013/14) in Hessequa Municipality have placed pressure on the municipal budget process. These unaccounted losses limit revenue generation.

4.5 Concluding remarks

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate, sufficient investment in infrastructure is necessary. Over the period 2008/09 to 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure has varied significantly. Although the portion of the infrastructure budget spent on basic services infrastructure came down in 2013/14 expenditure plans over the 2015/16 MTREF period have reprioritised funds to ensure investments in basic services infrastructure.

Economic theory and empirical work suggest that investment in basic services infrastructure has both a direct and an indirect effect on growth. Mossel Bay and George Municipalities are part of the Province's top-10 leading non-metro municipalities in terms of size and make the largest contributions to expenditure on basic services infrastructure and revenue collection from basic services. It was found that these two municipalities' per capita spending on basic services infrastructure are not higher than some of the smaller municipalities (e.g. Bitou and Kannaland). Although it is expected that municipalities that make the highest contributions to GDP and record above average growth rates within the region also make the highest contributions to basic services expenditure and revenue collection this does not hold true for all municipalities within Eden District. The mismatch between infrastructure expenditure, revenue collection and GDP growth can be a result of various economic challenges municipalities face. The analysis revealed that although Kannaland recorded an above average GDP growth rate the Municipality contributed the least to revenue collection within the region. This relatively smaller contribution to revenue collection despite an above average GDP growth rate presumably reflects a relatively small tax base within the Municipality.

Basic services revenue contributes more than 60 per cent of the total operating revenue within each municipality within the Eden District. It is therefore important for the region to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services and sustain economic growth.

5

Socio-economic analysis and economic performance

5.1 Introduction

The 2014 Municipal Economic Review and Outlook (MERO) provided a socio-economic analysis of each Western Cape district region. This is important as the analysis showed the relationship between economic growth and social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact the economy has on it. The 2015 MERO study aims to do the same, with a larger focus on the quality of life.

This chapter aims to create a link between the information provided in the Socio-economic Profiles of 2014, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to human development, i.e. income, education and health, as well as crime and access to basic services within the District. Each topic is discussed in relation to the District's economic performance.

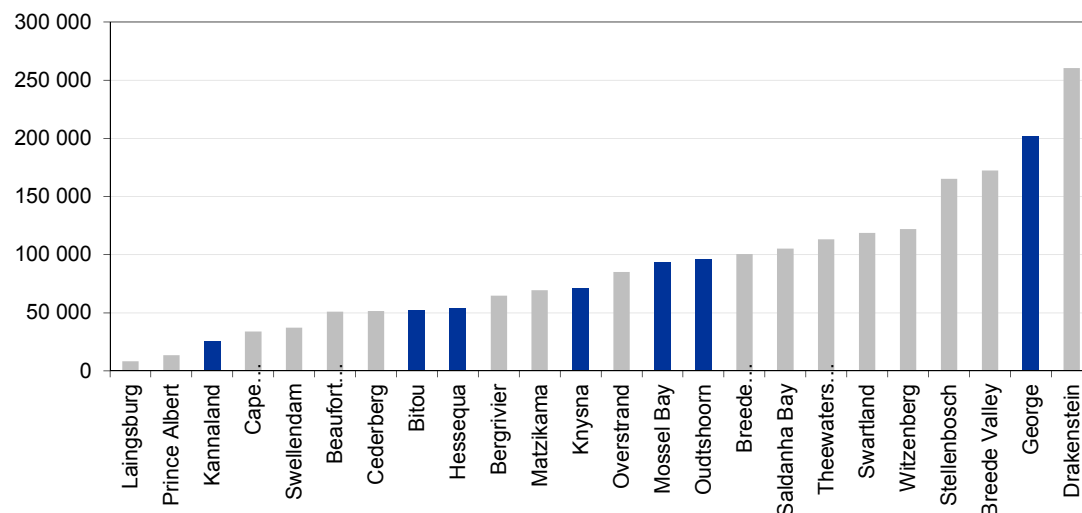
5.2 Population profile

According to the Western Cape Department of Social Development, the Western Cape Province had 6.1 million people in 2014, having increased from 5.8 million in 2011. The population growth rate averaged 2.35 per cent per annum over the period 2001 to 2013. The population growth rates experienced within the Eden District mirror this upward trend, averaging 2.1 per cent per annum over the period under review. Municipal specific growth rates across the District nevertheless vary, ranging from 0.3 per cent (Kannaland) to 4.6 per cent (Bitou). The discrepancies in these growth

rates imply that population growth does not stem entirely from natural causes, but is also related to net migration.

As at the end of 2014, the Eden District accounted for 9.8 per cent of the total population of the Western Cape, making it the 2nd largest non-metro district (the largest being the Cape Winelands District), with George and Oudtshoorn being among the 10 largest local municipalities in the Province (2nd and 10th largest respectively).

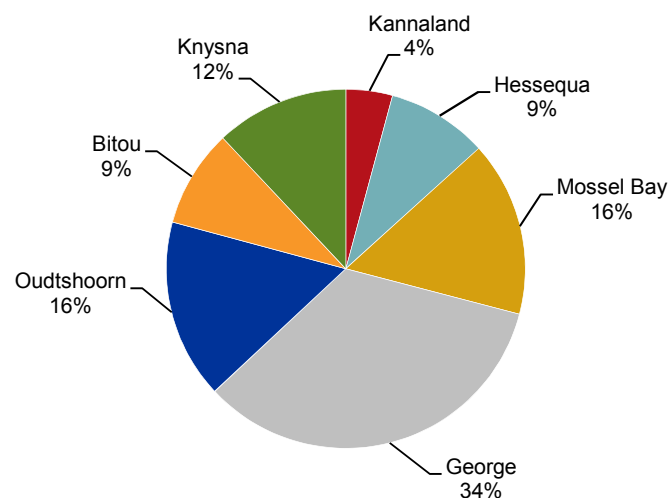
Figure 5.1 Population by local municipality, 2014



Source: Western Cape Department of Social Development, 2014

The George and Oudtshoorn populations comprise 50 per cent (Figure 5.2) of the District's population of 464 105, with each containing 201 736 and 95 954 inhabitants. The remaining 50 per cent of the District's population is split between Mossel Bay with 93 803, Knysna with 71 315, Hessequa with 53 935, Bitou with 52 346 and Kannaland with 25 013 inhabitants.

Figure 5.2 Eden District population distribution, 2014



Source: Western Cape Department of Social Development, 2014

It is essential to consider the distribution of the population in order to ensure that funds are apportioned and services are delivered as and where necessary. As population increases exert further strain on municipal resources, it is desirable that population growth be accompanied by at least as fast a rate of growth in income per capita if standards of living are to be maintained (see section 5.3.1).

5.3 Human development

Human development is described by the *United Nations Development Programme (UNDP)* as widening people's choices and their level of well-being. The UNDP (2010) further indicates that human development is achieved by means of two dimensions namely, enhancing human abilities as well as creating the conditions for human development. Enhancing human abilities is created by means of enabling people to live a long and healthy life, obtain knowledge and possess a decent standard of living; whereas creating conditions for human development include participation in political and human life, environmental stability, gender equality, and human security and rights.

The Human Development Index (HDI) has been developed to measure human development. The index is a composite statistical index of life expectancy, education indices and income indices. In 2013 it averaged at 0.71 in the Western Cape Province, outperforming the National HDI of 0.66. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2013, largely due to the improving literacy rates and per capita income in the majority of the municipalities.

Table 5.1 Human Development Index, 2001 – 2013

	2001	2011	2012	2013
Kannaland	0.52	0.60	0.62	0.63
Hessequa	0.60	0.66	0.67	0.68
Mossel Bay	0.65	0.70	0.70	0.70
George	0.63	0.68	0.69	0.71
Oudtshoorn	0.56	0.63	0.64	0.65
Bitou	0.64	0.68	0.69	0.70
Knysna	0.64	0.69	0.70	0.71
Eden District	0.62	0.67	0.68	0.69
Western Cape	0.66	0.70	0.71	0.71

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

The same holds true for the Eden District as seen in Table 5.1. All municipalities in the District have seen significant improvement in the level of human development. George and Knysna have the highest HDIs in the District, and subsequently at 0.71 one of the highest in the Province. Kannaland has the lowest HDI in the District with an index of 0.63 (which is below the national average), but has nevertheless shown the largest improvement between 2001 and 2013.

The relatively high HDI levels within the Eden District indicate that the inhabitants enjoy a higher standard of living (on average) than those residing elsewhere in the country. It is nevertheless important to note the divergence in the HDIs among the difference race categories in the District. In 2013, the HDI for those classified as “African” and “Coloured” stood at 0.60 and 0.62 respectively, while the HDI for those classified as “White” and “Asian” stood at 0.88 and 0.73 respectively. Policy makers should take cognisance of these inequalities if equitable development is to be achieved.

Sections 5.3.1 through 5.3.3 consider the various elements of human development relating to the HDI, e.g. income levels, education and health, each in relation to the economy.

5.3.1 Income

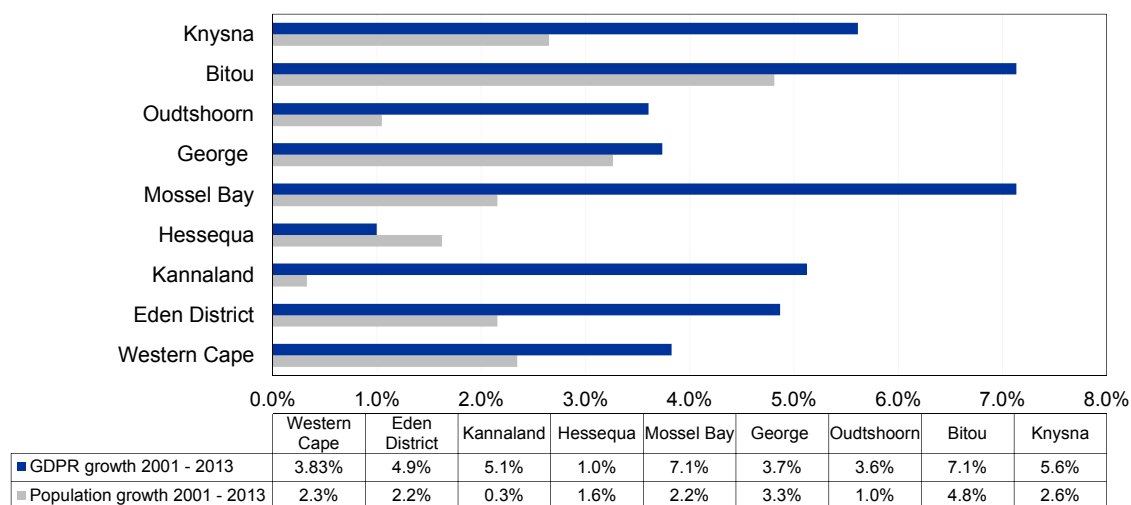
As noted, the average population growth rate in the Western Cape over the period 2001 - 2013 has been 2.3 per cent per annum. The Western Cape economy grew at a rate of 3.8 per cent per annum from 2001 to 2013. The fact that the regional economy grew faster than the population within the Province indicates that per capita income has increased over time, ensuring improvements in the standards of living for the Province's inhabitants. The per capita income (based on 2005 prices) increased from R37 502¹⁴ in 2001 to R44 553 in 2013 ¹⁵.

Per capita income in the Eden District has increased from R25 301 in 2001 to R34 655 in 2013, thus increasing by 37 per cent overall and growing by 2.7 per cent annually on average (which exceeds the Provincial growth rate of 1.4 per cent). As seen in Figure 5.3, the District's population grew at a rate of 2.2 per cent per annum from 454 919 in 2001 to 587 564 in 2013, which was slower than its economic growth rate of 3.8 per annum for the same period.

Hessequa's annual population growth outstripped its annual GDPR growth by 0.6 percentage points over the period under review, and as such, it was the only municipality in the District to experience a decline in per capita income (from R21 271 in 2001 to R19 749 in 2013). This decrease was driven by the Municipality's relatively low GDPR growth.

¹⁴ Own calculations based on Western Cape Department of Social Development population statistics (2014) and Quantec GDPR data (2015).

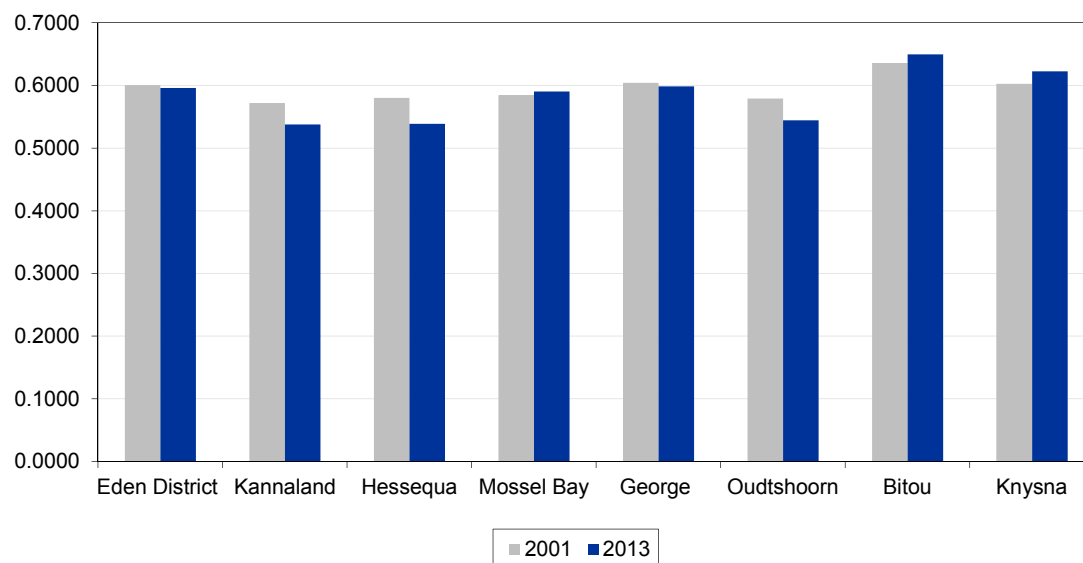
¹⁵ Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

Figure 5.3 Eden District population and real GDP growth rate, 2001 - 2013

Source: Western Cape Department of Social Development, 2014 and Quantec, 2015

George Municipality achieved only moderate per capita income growth (averaging 0.5 per cent per annum), with growth in per capita income being inhibited by the relatively large population growth experienced in the Municipality. Per capita income levels in George remain below both the Provincial and District averages of R44 553 and R34 655 respectively. Bitou Municipality experienced both the largest population growth (averaging 4.8 per cent per annum) and GDP growth (averaging 7.1 per cent per annum) in the region, and thus managed to increase per capita income by R7 494 (from R24 917 in 2001 to R32 411 in 2013). Mossel Bay, with per capita income of R61 186, has the highest per capita income levels and experienced the fastest growth in per capita income in the region. Mossel Bay is the only municipality in the District with per capita income levels exceeding the Provincial average.

It is essential to note that per capita income provides a skewed representation of average income per person, as incomes are not equally distributed amongst the inhabitants of the area. The Gini coefficient measures the levels of income inequality. The Coefficient is a measure of statistical dispersion intended to represent the income distribution of a region's residents, varying between 0 (which represents complete equality) and 1 (which represents complete inequality).

Figure 5.4 Gini coefficients across the Eden District, 2001 - 2013

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

Figure 5.4 indicates that income inequality remained fairly stagnant within the District overall, with 4 of the 7 municipalities (Kannaland, Hessequa, George and Oudtshoorn) revealing lower coefficients in 2013 than they had in 2001 and the remaining 3 municipalities (Mossel Bay, Bitou and Knysna) revealing higher coefficients in 2013 than they had in 2001. Hessequa experienced the largest decrease (0.042 points), indicating that the reduction in per capita income may have affected the wealthier inhabitants of the Municipality more than those who are poorer; incomes are nonetheless more equally dispersed in the region than it was in 2001. In contrast, Mossel Bay, who experienced the highest per capita income growth, also experienced the least improvement in its Gini coefficient, revealing that the incomes of the wealthier inhabitants in the Municipality may have increased relative to the incomes of the poorer inhabitants.

The overall increase in per capita income in the District has contributed to the improvements in the HDI discussed above and may lead to further improvements in the future. The levels of inequality nevertheless need to be addressed in order to ensure material and sustained improvement in the standard of living of all inhabitants of the Eden District.

5.3.2 Education

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

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent which is higher than the literacy rate of 80.9 per cent for the country as a whole. The Western Cape literacy rate showed the smallest improvement (2.2 percentage points) among all the Provinces in the country between 2001 and 2011. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth (Socio-Economic Profiles, 2014). Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education in the past.

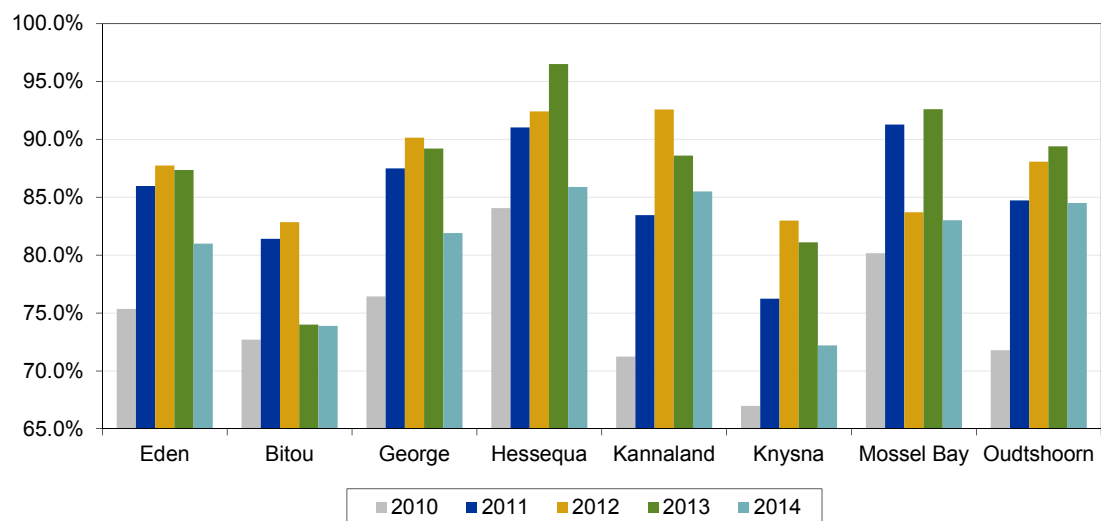
Literacy rates in the Eden District average 82.6 per cent, which is lower than that of the Province as a whole. As illustrated in Table 5.2, all of the municipalities in the District managed to improve their literacy rates between 2001 and 2011.

Table 5.2 Literacy rates across the Eden District, 2001 – 2011

	2001	2011
Western Cape	85.00	87.20
Eden District	74.00	82.60
Kannaland	60.00	72.45
Hessequa	70.00	78.46
Mossel Bay	79.00	85.67
George	76.00	83.39
Oudtshoorn	71.00	79.35
Bitou	76.00	85.82
Knysna	78.00	85.09

Source: Statistics South Africa, Census 2001 and 2011

Matric pass rates are another indicator of the level of educational attainment in a region. The District attained an 81 per cent matric pass rate in 2014, which was the second lowest among the Western Cape districts (ahead of the Central Karoo District who managed a pass rate of 76 per cent). Hessequa (85.9 per cent) and Kannaland (85.5 per cent) experienced the highest matric pass rates in the District in 2014. Bitou and Knysna are lagging behind with 73.9 per cent and 72.2 per cent respectively. Bitou, George, Knysna and Mossel Bay are among the 10 worst performing municipalities in the Province in terms of matric pass rates in 2014. The District's underperformance may be due to the higher learner-teacher ratios and greater incidence of teenage pregnancies and drug-related crime or substance abuse in the area (Socio-economic Profile, 2014).

Figure 5.5 Matric pass rates across the Eden District, 2010 - 2014

Source: Western Cape Department of Education, 2015

Despite the improvement in the District's matric pass rate, the region still experienced net job losses of 2 468 between 2010 and 2013. These job losses emanated from the primary and secondary sector, while the tertiary sector experienced net job growth. The tertiary sector tends to be more skills-intensive than the primary and secondary sectors, and these employment trends may be indicative of a skills-mismatch in the District's labor market. There has been a decrease in demand for semi-skilled and unskilled labour across all local municipalities in the District during the economic recovery period i.e. 2010 to 2013, with Kannaland and Hessequa experiencing the largest reduction (at a rate of 5 per cent and 2.8 per cent per annum respectively). This suggests the existence of a trend towards employing highly skilled and skilled workers within the District.

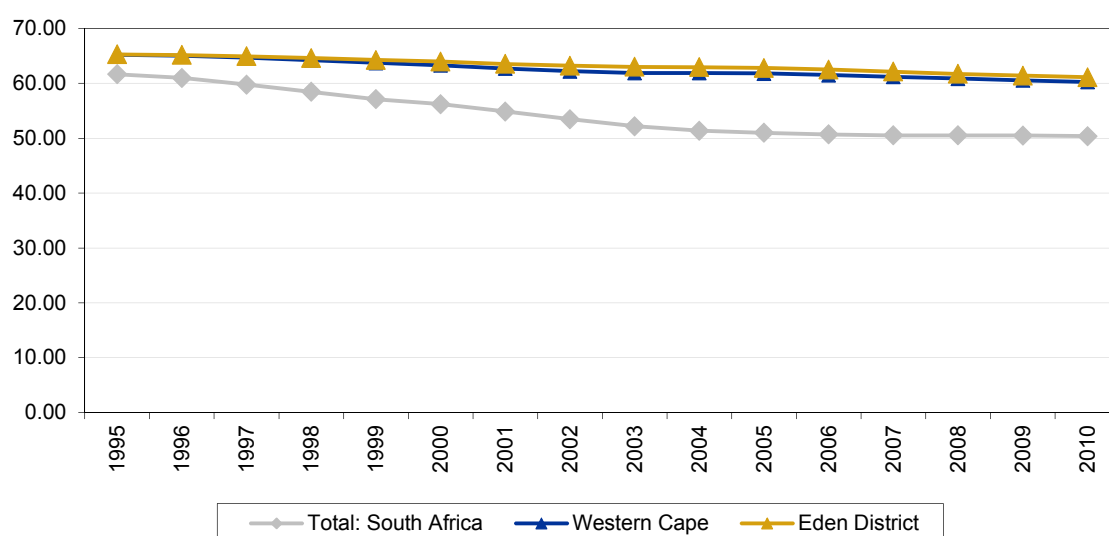
Approximately 34.1 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2015), yet it is clear that there is much room for improvement with regard to skills development in the Eden District. The demand for semi- and unskilled labour has declined by 1.4 per cent per annum between 2000 and 2013 whereas demand for skilled and highly skilled workers increased by 1.6 and 3.0 per cent per annum respectively. Initiatives are necessary to encourage the creation of new unskilled job opportunities in the region. Furthermore, given the increasing demand for skilled labour, it is imperative that initiatives are undertaken which will contribute toward the training and up-skilling of the workers in the District.

5.3.3 Health

Good health has been found to have a positive and sizable effect on aggregate output in the economy largely because healthier workers are mentally and physically more energetic and robust, more productive and less likely to stay absent due to sickness and disability (Bloom et al, 2004). Health also affects the quality of life of people.

Figure 5.6 gives an indication of the life expectancy at birth. South Africa had a life expectancy of 50.4 years in 2010 after a steep decline from 61.7 years in 1995. Both the Western Cape and Eden District also experienced a decline in life expectancy albeit relatively lower than that experienced by the country overall. The Eden District had a life expectancy of 61 years in 2010, which was slightly higher than the 60 years for the Province overall. A comparison with the other district municipalities reveals that the Eden District had the lowest life expectancy in the Province in 2010. Life expectancy stabilised after 2007 - 2008 with the large-scale roll-out of anti-retroviral treatment across the country and more recent information from Statistics South Africa shows improvements in life expectancy within the Western Cape from 2011 to 2015 (Statistical release P0302, 2015).

Figure 5.6 Life expectancy, 1995 - 2010



Source: Quantec Research

The decline in life expectancy over the years has largely been attributed to the prevalence of HIV/AIDS and Tuberculosis (TB) in the country. The HIV and TB patient load in each municipality within the Eden District is shown in Table 5.3. The anti-retroviral treatment (ART) patient load in the District increased by 23 per cent from 2013 to 2014, with the largest increases emanating from George and Knysna, whose ART patient load increased by 648 and 643 persons respectively. The incidence of TB, while less pervasive than that of HIV, nevertheless increased by 2 per cent (driven by the increase of 119 patients in Oudtshoorn). The Eden District hosts 63 ART and 89 TB treatment sites caring for the patients.

Given that the Eden District has the lowest life expectancy among the districts, and considering the prevalence of HIV and TB in the region, it is possible that these health related factors restricted economic growth in the region. It is essential that the impact of health on production should not be overlooked as the increasing HIV/AIDS and TB patient loads could adversely affect economic activity (and consequently the quality of life overall) within the District.

Table 5.3 ART and TB patient loads in the Eden District, 2013 – 2014

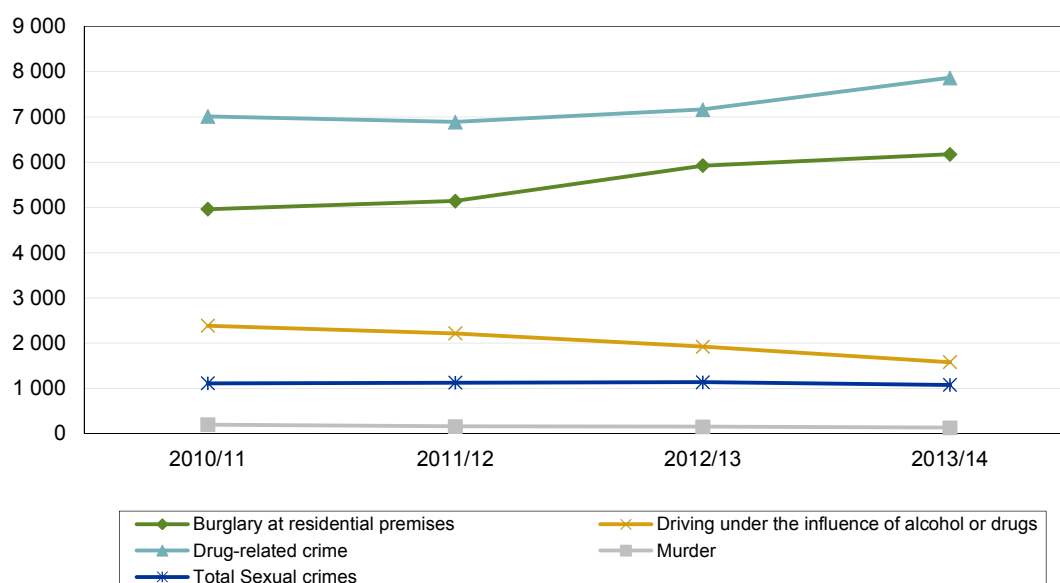
Municipality	HIV - Antiretroviral treatment			Tuberculosis		
	ART patient load March 2013	ART patient load March 2014	Number of ART clinics/ treatment sites 2014	Number of TB patients March 2013	Number of TB patients March 2014	Number of TB clinics/ treatment sites 2014
Kannaland	100	273	5	221	258	10
Hessequa	364	482	5	343	333	10
Mossel Bay	2 117	2 490	16	823	853	16
George	3 886	4 534	18	1 730	1 742	22
Oudtshoorn	740	1 109	6	774	893	12
Bitou	1 578	1 640	7	443	344	8
Knysna	1 617	2 260	6	491	486	11
Total Eden District	10 402	12 788	63	4 825	4 909	89

Source: Western Cape Department of Health, 2014

5.3.4 Crime

Crime has a significant impact on the economy. According to the World Bank (2006), it can hamper growth and discourage investment and capital accumulation. It has the potential to derail both social and economic prosperity. It also diverts public resources away from productive uses which can further social development towards the police, justice system and health (for treatment of violence related injuries and traumas). It has been found that crime negatively impacts on the investment climate. Grant Thornton's International Business report indicated that 62 per cent of businesses in the Western Cape have been affected by crime (Smith, 2014). The largest impact on business are increasing security costs, but also through diverting investment, business losses through theft, fraud and lower levels of productivity due to loss of life or injuries, etc. Crime therefore has to be tackled with seriousness. As the safety of the population and property is of vital importance to the physical and emotional well-being of a region's inhabitants, crime has an adverse impact on the human security aspect of human development.

Figure 5.7 indicates the crime rate in the Eden District with regard to burglaries, drug-related crime and murders per 100 000 population. Burglaries and drug-related crimes have been on the rise, while the murder rate remained fairly stable in the District between 2010 and 2014. Drug-related crime has been increasing since 2011/12, with 7 866 cases reported in 2013 - 2014. This suggests that there may exist a substance abuse problem within the District. Burglaries increased consistently from 4 963 cases in 2010/11 to 6 176 cases in 2013/14. While the murder rate decreased slightly from 199 cases in 2010/11 to 133 in 2013/14, it remains the second highest among all the districts (behind the Cape Winelands District with a murder rate of 276 per 100 000 population).

Figure 5.7 Crime per 100 000 population in the Eden District, 2010 - 2014

Source: South African Police Services, 2014 and Western Cape Department of Social Development, 2014

These statistics suggest that crime may be one of the factors restraining economic growth (and thus employment) in the region. The increasing levels of crime are also impacting on human security within the District. According to Stats SA (2015), 64.6 per cent of the Western Cape households feel unsafe when it is dark and 27.1 per cent feel unsafe during the day¹⁶. This is the highest in the country. Addressing the high levels of crime is therefore crucial to improving the quality of life of households in the Eden District.

5.4 Access to basic services

Access to basic services within South Africa is a basic human right. It is also an indication of the quality of life of the inhabitants in the country. Access to basic services has a wider impact on education and health and therefore also on the economy.

The Eden District displayed the lowest level of access to water (95.2 per cent) and sanitation (85.1 per cent) in 2013 relative to the Cape Metro and other Districts. Access to water, sanitation, energy and refuse removal are below the Provincial averages.

¹⁶ Crime Statistics Series Volume II: Public perceptions about crime prevention and the criminal justice system, 2010-2013/14 Report 03-40-03.

Table 5.4 Access to basic services in the Eden District, 2013

	Water	Sanitation	Energy	Refuse Removal	Housing
Eden District	95.2%	85.1%	89.4%	86.5%	84.1%
Kannaland	94.2%	74.7%	89.4%	66.0%	96.8%
Hessequa	97.5%	90.4%	94.8%	78.9%	94.4%
Mossel Bay	95.4%	90.5%	93.7%	92.7%	86.1%
George	96.1%	87.9%	91.0%	88.2%	84.3%
Oudtshoorn	94.3%	80.4%	85.0%	78.0%	89.2%
Bitou	92.4%	83.7%	94.0%	87.8%	72.9%
Knysna	94.6%	75.8%	88.5%	93.0%	73.9%

Source: Quantec Research

Access levels in Bitou and Kannaland are particularly concerning as Bitou displays the lowest levels of access to both water and housing, and Kannaland displays the lowest levels of access to sanitation and refuse removal. Significant scope for improvement in service delivery in the District thus remains.

Empirical studies (Gnade, 2013) show that basic infrastructure investment has a positive influence on economic growth, poverty and inequality. This relationship holds across all South African municipalities. As per Chapter 4, the impact of basic services infrastructure spending on the economy is also observed to be positive. This positive influence has also been noted for education, as basic service delivery and consequently literacy rates have increased substantially since 2001 (as seen in Table 5.2).

It can thus be concluded that access to basic services has a positive impact on the overall quality of life within the District.

5.5 Concluding Remarks

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

- The increasing HDI between 2001 and 2013 is an indication that economic growth is being translated towards social development within the Eden District. There nevertheless exist high levels of inequality among the different population groups in the region.
- Increasing real per capita income levels in the region imply that standards of living have improved. Apart from Mossel Bay, per capita income remains below the provincial average for all the municipalities in the District.
- Literacy rates in the Eden District average 82.6 per cent, which is lower than that of the Province as a whole. The District attained an 81 per cent matric pass rate in 2014, which was the second lowest among all the districts. There is a trend towards employing skilled to highly skilled individuals in the region. Skills development and low skilled labour intensive initiatives are therefore required in order to further stimulate employment in the District.

- The Eden District has the lowest life expectancy among all the districts. Given the increasing HIV/AIDS and TB patient loads, it is essential that issues surrounding the health of the population and the potential impacts this may have on production not be overlooked.
- The rising and relatively high crime rates in the District may be one of the factors restraining economic growth (and thus employment) in the region.
- The Eden District displayed the lowest level of access to water and sanitation in 2013 relative to the Cape Metro and other districts, while access to energy and refuse removal remain below provincial averages. Service delivery improvements since 2001 have had a positive impact on education and the overall economy, but significant scope for improvement remains.

Notwithstanding the increasing levels of human development among the inhabitants of the Eden District, there exists much room for improvement. This chapter illustrates the influence that economic conditions, education, crime, health and access to basic services have on human development. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life for the inhabitants in the region.

Annexure 1

5-Year annual averages – economic data

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

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	-1.8	1.5	1.3	1.6	-0.6	6.4	1.5
2 Secondary sector [SIC: 3-5]	4.6	5.9	4.5	4.6	7.0	1.2	3.5
3 Tertiary sector [SIC: 6-9, 0]	4.9	6.6	4.9	4.9	6.5	3.5	4.2
Total: Eden District	4.1	6.0	4.5	4.6	6.1	3.0	3.8
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	2.1	2.0	1.4	1.6	-0.3	6.8	1.5
2 Mining and quarrying [SIC: 2]	-25.4	-8.8	0.1	1.5	-4.8	-4.2	1.5
3 Manufacturing [SIC: 3]	4.5	4.8	3.3	3.6	6.0	-1.9	4.3
4 Electricity, gas and water [SIC: 4]	5.8	2.7	-1.5	-0.6	1.7	-3.6	0.9
5 Construction [SIC: 5]	4.7	12.3	8.9	8.7	12.8	9.2	2.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	6.2	6.1	3.9	4.6	6.6	0.0	5.0
7 Transport, storage and communication [SIC: 7]	9.4	7.3	3.0	3.4	7.0	1.9	2.4
8 Finance, insurance, real estate and business services [SIC: 8]	6.3	8.5	6.1	5.6	8.2	5.4	3.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.7	5.7	4.1	4.2	6.1	3.4	2.7
10 General government [SIC: 91, 94]	-0.5	4.2	6.0	5.6	3.7	6.3	5.4
Total: Eden District	4.1	6.0	4.5	4.6	6.1	3.0	3.8

% share					
Sector	1995	2000	2005	2010	2013
Broad sectors: Eden District					
1 Primary sector [SIC: 1-2]	11.8	8.8	7.1	5.9	5.5
2 Secondary sector [SIC: 3-5]	27.0	27.6	27.5	27.7	27.4
3 Tertiary sector [SIC: 6-9, 0]	61.1	63.5	65.4	66.4	67.2
Total: Eden District	100	100	100	100	100
Broad sectors: Eden District					
1 Agriculture, forestry and fishing [SIC: 1]	9.3	8.4	6.9	5.7	5.3
2 Mining and quarrying [SIC: 2]	2.6	0.4	0.2	0.2	0.1
3 Manufacturing [SIC: 3]	19.4	19.7	18.6	17.2	17.2
4 Electricity, gas and water [SIC: 4]	2.4	2.5	2.2	1.6	1.4
5 Construction [SIC: 5]	5.3	5.4	6.8	8.9	8.7
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	16.6	18.3	18.3	17.6	17.9
7 Transport, storage and communication [SIC: 7]	6.0	7.8	8.2	7.6	7.4
8 Finance, insurance, real estate and business services [SIC: 8]	17.6	19.5	22.0	23.6	24.1
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	5.3	5.5	5.4	5.3	5.3
10 General government [SIC: 91, 94]	15.6	12.5	11.4	12.2	12.6
Total: Eden District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

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

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Eden District							
1 Primary sector [SIC: 1-2]	-5.0	-2.0	-5.1	-5.8	-2.2	-7.0	-3.8
2 Secondary sector [SIC: 3-5]	-3.5	0.9	-2.5	-1.2	0.5	-1.5	-3.7
3 Tertiary sector [SIC: 6-9, 0]	3.8	3.3	2.2	2.6	3.1	3.1	1.3
Total: Eden District	0.0	1.7	0.3	0.6	1.5	0.8	-0.3
Broad sectors: Eden District							
1 Agriculture, forestry and fishing [SIC: 1]	-4.3	-1.7	-5.5	-6.0	-2.1	-7.1	-3.9
2 Mining and quarrying [SIC: 2]	-24.7	-21.4	29.3	16.8	-2.1	4.6	2.7
3 Manufacturing [SIC: 3]	-2.0	-0.5	-3.0	-1.8	-1.1	-3.6	-1.5
4 Electricity, gas and water [SIC: 4]	0.4	4.2	2.2	1.5	5.3	-13.0	1.2
5 Construction [SIC: 5]	-5.0	2.4	-2.1	-0.6	2.0	0.5	-5.4
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	3.5	1.3	1.0	2.5	1.5	1.2	0.7
7 Transport, storage and communication [SIC: 7]	-0.2	1.6	3.8	2.3	0.9	5.9	2.5
8 Finance, insurance, real estate and business services [SIC: 8]	9.8	6.4	1.4	1.6	6.0	0.8	2.0
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	4.3	3.7	2.7	2.6	4.1	6.6	-0.3
10 General government [SIC: 91, 94]	0.7	5.5	4.6	3.9	4.1	4.7	3.4
Total: Eden District	0.0	1.7	0.3	0.6	1.5	0.8	-0.3

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Eden District					
1 Primary sector [SIC: 1-2]	21.8	16.8	13.3	10.2	9.1
2 Secondary sector [SIC: 3-5]	30.6	25.5	24.4	21.6	20.0
3 Tertiary sector [SIC: 6-9, 0]	47.7	57.6	62.3	68.2	71.0
Total: Eden District	100	100	100	100	100
Broad sectors: Eden District					
1 Agriculture, forestry and fishing [SIC: 1]	20.6	16.6	13.2	10.0	8.9
2 Mining and quarrying [SIC: 2]	1.1	0.3	0.1	0.2	0.2
3 Manufacturing [SIC: 3]	14.0	12.7	11.3	9.5	9.2
4 Electricity, gas and water [SIC: 4]	0.3	0.3	0.3	0.3	0.3
5 Construction [SIC: 5]	16.3	12.6	12.8	11.7	10.5
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	19.5	23.2	22.3	23.2	23.9
7 Transport, storage and communication [SIC: 7]	3.0	3.0	2.9	3.4	3.4
8 Finance, insurance, real estate and business services [SIC: 8]	6.2	9.9	12.4	12.5	13.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	10.0	12.3	13.5	15.5	15.7
10 General government [SIC: 91, 94]	9.0	9.3	11.2	13.6	14.2
Total: Eden District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

Annexure 1.3 Eden District: Composition of Goods Exports and Imports (nominal values)

	% share				
Sector	1995	2000	2005	2010	2014
Goods Exports					
Broad sectors: Eden District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	9.4	29.1	47.2	63.5	37.3
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.0	0.0	1.8
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	90.5	70.8	52.6	36.4	60.5
4 Undefined/other	0.1	0.1	0.2	0.1	0.3
Total: Goods exports	100	100	100	100	100
Manufacturing sector: Eden District					
1 Food, beverages and tobacco [SIC: 301-306]	5.8	20.7	16.9	55.1	20.1
2 Textiles, clothing and leather goods [SIC: 311-317]	71.1	52.6	59.8	25.2	47.0
3 Wood, paper, publishing and printing [SIC: 321-326]	0.8	0.4	2.8	0.9	2.1
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	7.5	1.4	2.4	0.8	3.3
5 Other non-metal mineral products [SIC: 341-342]	0.3	0.2	0.4	0.6	1.5
6 Metals, metal products, machinery and equipment [SIC: 351-359]	1.5	11.3	1.1	1.6	4.2
7 Electrical machinery and apparatus [SIC: 361-363]	0.0	0.1	0.2	0.5	1.8
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.1	0.1	0.2	0.2	0.3
9 Transport equipment [SIC: 381-387]	0.4	0.6	0.6	1.3	4.1
10 Furniture and other manufacturing [SIC: 391-392]	12.6	12.6	15.7	13.7	15.7
Total: Manufacturing exports	100	100	100	100	100
	% share				
Sector	1995	2000	2005	2010	2014
Goods Imports					
Broad sectors: Eden District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	13.4	3.1	15.7	27.2	37.3
2 Mining and quarrying [SIC: 2]	3.7	24.2	0.1	0.1	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	82.9	72.5	83.2	72.6	62.0
4 Undefined/other	0.0	0.2	1.0	0.0	0.7
Total: Goods imports	100	100	100	100	100
Manufacturing sector: Eden District					
1 Food, beverages and tobacco [SIC: 301-306]	8.2	0.1	2.4	3.9	22.4
2 Textiles, clothing and leather goods [SIC: 311-317]	15.0	3.8	19.8	25.7	21.1
3 Wood, paper, publishing and printing [SIC: 321-326]	12.4	3.3	2.9	2.6	1.6
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	15.5	32.9	18.8	13.8	19.2
5 Other non-metal mineral products [SIC: 341-342]	1.1	0.6	8.1	2.3	1.6
6 Metals, metal products, machinery and equipment [SIC: 351-359]	38.1	39.8	25.5	22.5	19.2
7 Electrical machinery and apparatus [SIC: 361-363]	0.5	8.0	5.6	2.0	1.1
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	3.1	10.1	10.5	9.6	4.3
9 Transport equipment [SIC: 381-387]	0.2	0.6	2.8	12.0	5.6
10 Furniture and other manufacturing [SIC: 391-392]	5.9	0.8	3.7	5.5	3.7
Total: Manufacturing imports	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

Central Karoo District

Executive summary

Introduction

The 2015 Municipal Economic Review and Outlook (MERO) report is presented in a generally constrained macro-economic environment. Whilst more challenging, this ups the imperative of unlocking opportunities for growth and jobs. The MERO's objective is to provide economic intelligence at the local level in the Western Cape Province, which can assist with evidence-based decision making and in the building of an environment conducive to private sector growth and employment creation.

The reality is that six years from the onset of the recovery from the 2009 Great Recession, world economic growth is as yet not on a solid footing. Growth projections have been scaled down at the global, national and provincial levels. 'Secular stagnation' is the term being used to describe a 'new normal' in respect of the world economy.



The macro-economic context was discussed in Section A of the report. In this section of the report, five chapters are devoted to the economic review and outlook for the CKD economy. The first chapter provides a dedicated regional economic outlook. Thereafter, the focus is on sectoral growth, employment and skills demand trends in each of the three CKD municipalities; a sectoral forecast over the 2015 - 2020 period at the district level is also motivated. The third chapter focuses on the topic of integration into global value chains, Special Economic Zones (SEZs) and the agri-processing and tourism value chains in the CKD. In the fourth chapter, an analysis of the municipal revenue and infrastructure spending trends and access to basic services is made, including an indication of the infrastructure projects underway in the CKD. The fifth chapter concludes with a consideration of the CKD's socio-economic profile and the linkages with economic growth.

1. Regional economic outlook

The Central Karoo has a small economy, which has managed to grow of a low base over the past ten years. Real GDP growth averaged 3.9 per cent per annum over the 2005 - 2013 period. Geographically, economic activity is concentrated in the Beaufort West Municipality, which benefits in view of its favourable location next to a busy national transport route. Tertiary economic activities account for 80 per cent of the Beaufort West economy and 65 per cent of the CKD.

Being a land-locked region, the Central Karoo does not really participate in international trade, with the growth in the district economy being mainly driven by demand conditions in the remainder of the national economy, as well as climatic conditions determining the agricultural outcome. While real incomes are under pressure in the agricultural sector, efforts are being made to arrest this adverse tendency by switching to game farming and by exploiting tourism opportunities.

A notable feature of the Central Karoo economy is the rapid growth of manufacturing and construction activities in some localities. The construction sector did experience a sharp slowdown after the recession, but still accounted for an important part of economic activity in 2013, particularly in the Prince Albert Municipality. Ninety per cent of the construction sector is hosted by the Beaufort West and Prince Albert municipalities.

External factors, such as the imminent interest rate hikes in the USA and the Chinese economic slowdown, have had unfavourable consequences for emerging markets such as South Africa. Despite being a relatively closed economy, the weakening national and provincial economic outlook has also caught up with the Central Karoo. Consequently, the CKD's five-year economic growth forecast was revised down from 2.9 per cent per annum previously (2014 - 2019) to 2.5 per cent per annum (2015 - 2020) currently.

Notwithstanding the downward revisions in the economic outlook, growth opportunities remain within some of the District's sub-sectors. The relatively high growth of manufacturing from a low base is projected to continue. Services, particularly in the financial and business services domain, are also expected to

remain a key source of growth. Furthermore, the construction sector appears to be on the recovery road and is forecasted to expand at above-average rates over the forecast period. The WCG has launched interesting initiatives in the agri-processing sector, which intend to expand local production and exports and which will create additional demand in the agricultural sector.

2. Sectoral growth, employment and skills

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The Central Karoo is a landlocked region in the scenic interior of the Province, with its leading municipal economy, i.e. Beaufort West, situated along a busy national transport route. Whilst much of the economic activity in the region derives from agriculture, a notable feature in terms of the expansion of the region's economy has been the rapid growth of manufacturing and construction activity. The food and beverage processing industry, building materials manufacturing and electrical machinery manufacturing appear to have a competitive edge in the region. However, service activities, such as tourism (as reflected in catering and accommodation activities) and financial and business services are also important sources of economic growth.

Whilst overall agricultural output has managed to expand in the region, real incomes are under pressure in this sector, best reflected by the 0.7 per cent annual decline in agricultural real GDP over the 2005 - 2013 period. This, in turn, impacts negatively on the services industries, where growth has been under pressure in the retail, wholesale and transport sectors. The income pressures in the agricultural sector are also spurring alternative economic activities, such as game farming and agri-tourism. The provincial initiatives to expand local production in the agri-processing industries represent an opportunity for the CKD local authorities.

Beaufort West defines the Central Karoo's economy, accounting for 70 per cent of all economic activity in the region. The growth of the Municipality's dominant commercial services sector has been average (around 3.4 per cent), but there is greater buoyancy in manufacturing and construction activities. The manufacturing sector also added to employment over the 2005 - 2013 period, which, combined with employment creation in the services industries (accounting for more than 80 per cent of overall employment), explains the overall net positive employment tendency in the Municipality.

The outstanding feature of the Prince Albert economy is the relative size and growth of its construction industry (expanded at double-digit rates over the past decade). Laingsburg has a relatively larger agricultural sector, where real income growth has been under pressure. The overall employment tendency has been negative in Laingsburg, with the demand for labour contracting in all three segments of the labour market. All three municipalities reported sharp declines in agricultural employment, presumably explaining the net outflow of semi- and unskilled labour (representing the largest shares of the respective municipalities' workforces).

3. Value chains and SEZs

In today's world, value chains reach beyond regional and national boundaries and the key is integration. Globalisation, interconnectedness, technology, logistics, offshoring and deregulation are all elements of the drivers of value chains. Special Economic Zones (SEZs) fit in with the contemporary trend to tap into global value chains and unlock opportunities for growth and jobs.

Municipalities generally do not have the mandate to provide incentives and policy initiatives to establish and ensure the success of a SEZ. However, there are various ways in which a municipality can provide support and ensure that the economic benefits are localised. Municipalities can assist along the whole value chain by the provision of supplier databases, for instance; expediting zoning and the provision of land; ensuring the standard basic services and associated infrastructure are delivered effectively; and in combating captive market relations, e.g. by the facilitation of direct relationships between producers, local logistics companies, and the firms in the SEZ. This could limit losses outside the local value chain and ensure greater profits for the local producers and service suppliers to create additional jobs. Municipalities can also provide marketing assistance through geographical identification, i.e. the branding of products from the region, in assisting with trade fairs and the marketing of local products, etc.

The value chains of the CKD tourism and agri-processing value chains were investigated in this chapter. Regarding tourism, there is scope to promote the industry in the CKD. A striking statistic is that only 17 per cent of visitors to the area heard of it through the internet, whereas the majority of the visitors to the region heard of it via 'word of mouth'. The region also attracts relatively little international tourists, who typically have much higher spending power. Recent declines in employment and output in the catering and accommodation sector indicates a declining sector, which will require support. The employment generating potential in the catering and accommodation sector is not only evident in the CKD, it appears to be more so compared to the Western Cape average. Supporting the tourism industry will provide high returns in employment generation compared to other sectors in the CKD.

Furthermore, regarding the agri-processing value chain, there is scope for SEZs in various local areas, which will be conducive to the growth of beneficiation activities in the agricultural sector. In Beaufort West the old hydroponics facility is earmarked for development into an agri-processing zone. This will improve the ability of the area to increase the linkages between the agricultural industry and the agri-processing industry. Another agri-processing facility is planned in Laingsburg. Facilitating the demand for products that are able to be farmed by smaller-scale farmers will allow employment generation in the agricultural industry, without infringing on the business practices of commercial farmers. By focusing on niche markets, these value chains can create their own demand through products recognised by geographic indicators. "Karoo Lamb" is internationally recognised as a superior product; however, local abattoirs must comply with international standards. Facilitation of the processes required for this accreditation could greatly enhance the value added potential of local products. Local olive oil is for various reasons also considered of a

higher standard compared to imported product. The building to the local brand quality, combined with road-shows and the promotion of the local quality of olive oil, can provide the product with a recognised geographic indicator, similar to that of "Karoo Lamb".

4. Infrastructure spending and revenue analysis

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate, sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only essential to improving livelihoods, but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. The data presented in this chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within the CKD.

As noted, economic activity within the District is mostly concentrated in Beaufort West Municipality. The Municipality not only leads the pack in terms of contribution to GDP but also in terms of basic services infrastructure expenditure and basic services revenue collection. On the other hand, Prince Albert and Laingsburg municipalities contribute smaller shares to GDP, basic services infrastructure expenditure and revenue collection. This relatively smaller contribution to revenue collection observed in Prince Albert and Laingsburg municipalities reflects the relatively small tax base within these municipalities.

The biggest challenge the District faces is a result of drought and changing climate conditions which lead to declining ground water supplies, declining dam levels and could compromise household access to water. The local municipalities recognise the need to develop disaster management strategies and improve water storage infrastructure. It is important that funds are allocated towards the development and maintenance of basic services infrastructure. These investments support economic growth both directly, through capital accumulation, and indirectly through improved factor productivity.

5. Socio-economic profile

While, the overall Human Development Index (HDI) for the CKD is lower than both the Provincial and National averages, the fact that the HDI increased between 2001 and 2013 is an indication that economic growth is being translated towards social development within the District. With economic growth also exceeding population growth, real per capita income levels have risen, implying that standards of living have improved. However, per capita income levels in all the local municipalities remain below the Provincial per capita income level. There also exist high levels of inequality among the different population groups in the region.

Literacy rates in the CKD average 73.4 per cent, which is lower than that of the Province and country as a whole. Laingsburg and Prince Albert have the lowest literacy rates in the Province. The District attained a 76 per cent matric pass rate in 2014, which was the lowest among all the districts. Given the services orientation of economic growth in the CKD, there is a tendency towards employing skilled to highly skilled people in the region. Skills development and initiatives to employ lower skilled labour are therefore required in order to further stimulate employment in the District.

While the CKD has the second highest life expectancy among all the districts, its HIV/AIDS load appears to be on the increase. It remains essential that issues of health among the population and the potential impacts this may have on production not be overlooked. Furthermore, the rising burglary rates in the District may be impacting negatively on the region's economy. Regarding access to basic services, the CKD exhibited the lowest levels of access to energy (89.2 per cent) in the Province in 2013. Access to sanitation (88.9) and refuse removal (78.6 per cent) were also below the Provincial averages and among the Province's lowest.

Notwithstanding the increasing levels of human development among the inhabitants of the CKD, there exists much room for improvement. This chapter illustrates the influence that economic conditions, education, crime, health and access to basic services have on human development. Addressing the issues mentioned above may facilitate economic and social development and ultimately a greater quality of life.

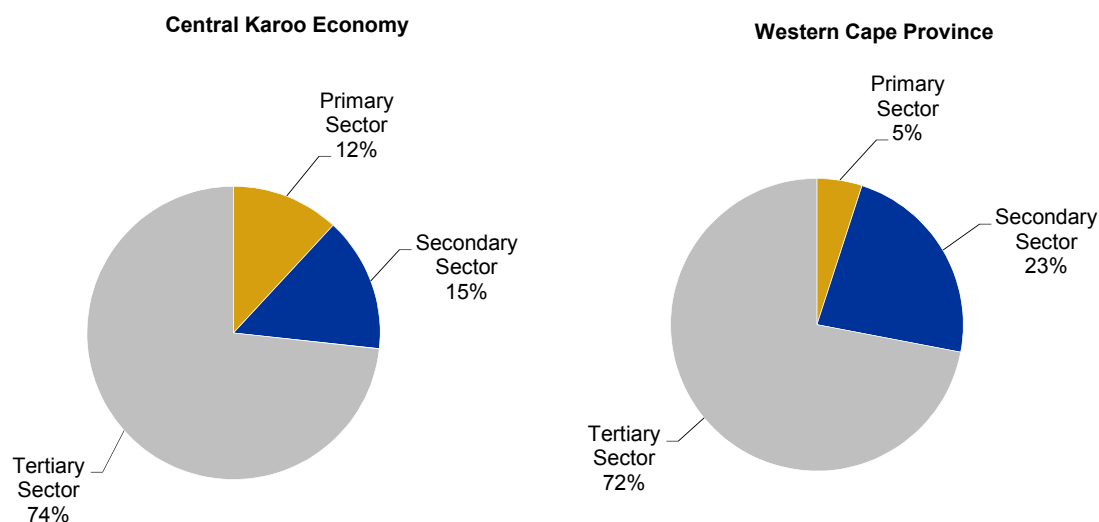
1

Central Karoo regional economic outlook

1.1 Introduction

The Central Karoo District (CKD) is the Western Cape Province's smallest district economy. The District contributed 0.6 per cent to provincial GDP and 0.8 per cent to employment in 2013, with a total number of 14 599 workers being employed within its bounds. When comparing Central Karoo's sectoral mix to the wider Province, the tertiary sector weighs roughly the same in both areas. The District has a relatively bigger primary sector, i.e. mainly agriculture, while the Province's secondary sector is relatively larger (see Figure 1.1).

Figure 1.1 Central Karoo District and Western Cape Province GDP sectoral contribution: Average 2000 - 2013

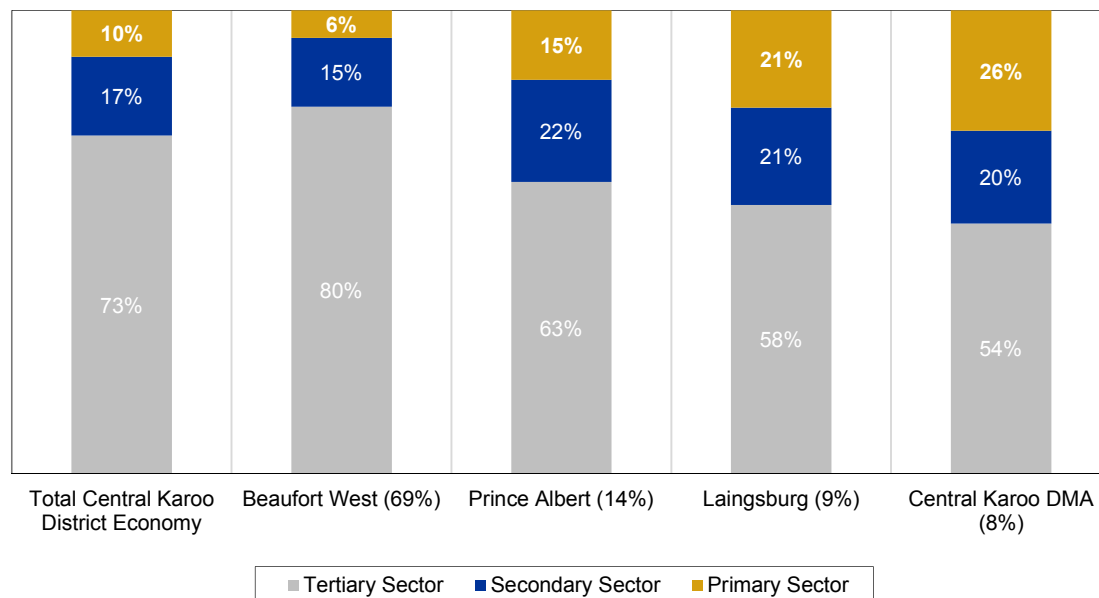


Source: Quantec Research, Own calculations

Within Central Karoo's tertiary sector, financial and business services, trade and accommodation, and transport and communication account for 54 per cent of total GDPR. The District's manufacturing sector accounts for 11 per cent of total GDPR, with the manufacture of food, beverages and tobacco products contributing about 33 per cent to total manufacturing, while the manufacture of petrochemical products, building materials, metals and machinery account for about 49 per cent.

CKD is home to three local municipalities, namely Beaufort West, Prince Albert and Laingsburg, listed in order of GDPR size (see Table 1.1). Beaufort West alone, accounts for 69 per cent of the District's economy. Relative to the other local municipalities, Beaufort West has smaller primary and secondary sectors, with a larger tertiary sector (see Figure 1.2).

Figure 1.2 GDPR Sectoral distribution of the Central Karoo District across municipalities: Average 2005 - 2013¹



Source: Quantec Research, own calculations

Beaufort West is Central Karoo's financial hub. The finance and insurance industry accounted for 69 per cent of the District's industry. Prince Albert, the District's second largest local municipality, accounts for 14 per cent of GDPR and Laingsburg for 9 per cent. The latter-mentioned municipalities have relatively larger secondary and primary sectors. Prince Albert's tertiary sector is dominated by business services, while its secondary and primary sectors are mostly accounted for by construction and agricultural activity, respectively. Laingsburg has the biggest agricultural sector share in its GDPR compared to the other two municipalities.

In the following section, the historical and current growth and employment patterns within the local municipalities will be explored.

¹ The Central Karoo Demarcated Municipal Area (DMA) is shown here as it is a significant part of the District and this is how the available geographical data has been compiled. However, as the DMA's formally ceased to exist in June 2001, the DMA is not included in the analysis in the text.

1.2 Historical and current growth and employment trends

1.2.1 GDPR performance and employment per municipality

The CKD economy's trend GDPR growth rate has averaged 3.9 per cent over the 2005 - 2013 period, exceeding provincial trend growth of 3.6 per cent over the corresponding period. Table 1.1 shows that while the District managed to sustain significant positive growth during the 2008 - 2009 recession - well above the Province - it still has not managed to revert back to its trend growth rate during the 2010 - 2013 economic recovery period. The region expanded by an average annual rate of 2.6 per cent during the recovery period.

Table 1.1 Central Karoo District municipalities: Real GDPR growth

Municipality	Contribution to GDPR (%) 2013	Trend 2005 - 2013	Real GDPR growth (ave yoy %)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Laingsburg	9	2.6	2.4	2.7	2.0
Prince Albert	14	4.5	4.2	4.9	3.1
Beaufort West	69	3.8	4.6	2.8	2.6
Central Karoo DMA	8	5.7	5.0	8.1	2.5
Central Karoo District	100	3.9	4.3	3.4	2.6
Western Cape Province	-	3.6	4.9	1.4	2.8

Source: Quantec Research

Considering the individual municipalities, Table 1.1 shows that Beaufort West's economic growth has drifted below that of CKD's for the most part, with the exception of the recovery period where it was in line with the District's. The Municipality's recovery growth rate, however, is yet to revert back to its 2005 - 2013 trend growth rate. In contrast, Prince Albert's GDPR growth has outperformed the District on a consistent basis, with the exception of the 2000 - 2007 expansion period. Interestingly, Beaufort West was a net creator of jobs (228) over the 2005 - 2013 period, while Prince Albert registered net retrenchments (429) over the corresponding period (see Table 1.2). Laingsburg Municipality has consistently underperformed CKD's economic growth, and has been shedding jobs since 2000 on a net basis. Given that Laingsburg contributed the least of the three municipalities to the District's GDPR, its adverse impact will be felt less in comparison to that of Beaufort West and Prince Albert. Table 1.2 shows that the net retrenchment figures recorded by Laingsburg, however, are notable, accounting for more than 40 per cent of those in the wider District.

Table 1.2 Central Karoo District municipalities: Employment creation

Municipality	Contribution to Employment 2013 (%)	Trend 2005 - 2013	Employment (net change)		
			Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
Laingsburg	11	-358	-290	-137	-29
Prince Albert	15	-429	-245	-93	-161
Beaufort West	65	228	363	184	-322
Central Karoo DMA	8	-266	-175	-43	-104
Central Karoo District	100	-824	-346	-89	-617
Western Cape Province	-	25 152	128 301	-11 841	-10 468

Source: Quantec Research

1.2.2 GDPR growth and employment creation across sectors

As noted earlier, CKD's tertiary sector commands the largest portion of its economy, specifically financial and business services, trade and accommodation and transport and communication. Table 1.3 shows that growth in the tertiary sector has hovered above that of the District, with the exception of the recession period where it eased below it. The sector is also responsible for creating the most jobs in the District. The financial and business services sub-sector is the key driver of tertiary sector growth, having registered growth rates well above the District's during the expansion (9 per cent), recession (8.2 per cent), and recovery (3.8 per cent) periods.

Central Karoo's secondary sector has performed impressively off a low base, relative to the tertiary sector and the wider District. It sustained growth during the expansion (9.7 per cent), recession (7 per cent) and recovery (3 per cent) periods. The secondary sector also contributed notably to job creation, albeit to a lesser extent when compared to the tertiary sector. Manufacturing and construction are the main drivers of the secondary sector's growth. In 2013, manufacturing accounted for 62 per cent of the secondary sector's GDPR, and construction 32 per cent. Both sub-sectors added to the District's job creation during the 2000 - 2007 expansion period and the 2008 - 2009 recession, where they outperformed significantly. During the 2010 - 2013 recovery period, however, they have retrenched workers on a net basis.

The agricultural sector experienced net job losses on average since 2000. It is likely that mechanisation has played a part in these job losses; agricultural real incomes are also under pressure as reflected in the average contraction of the sector's GDPR over the 2005 - 2013 period. The rate of net retrenchments seems to be tapering off, however, while at the same time GDPR growth is picking up mildly. These developments could point to fewer future net retrenchments for agriculture in the District while growth continues on this mild upward trajectory.

Table 1.3 Central Karoo District: Broad sectoral growth and employment creation

Sector	Real GDP growth (ave yoy %)				Employment (net change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Primary sector [SIC: 1-2]	-0.7	-2.3	0.4	1.2	-2 166	-1 523	-650	-226
Secondary sector [SIC: 6-9, 0]	8.0	9.7	7.0	3.0	184	314	114	-368
Tertiary sector [SIC: 3-5]	3.8	4.7	3.1	2.7	1 158	863	448	-23
Total	3.9	4.3	3.4	2.6	-824	-346	-89	-617
Agriculture, forestry and fishing	-0.7	-2.4	0.3	1.2	-2 175	-1 527	-651	-227
Mining and quarrying	13.3	20.5	13.9	0.3	8	4	1	1
Manufacturing	8.8	11.1	7.0	3.9	269	268	114	-79
Electricity, gas and water	0.1	0.4	-3.2	-0.4	3	5	-14	1
Construction	8.6	11.3	9.3	2.1	-88	42	13	-291
Wholesale and retail trade, catering and accommodation	2.3	4.5	-1.6	2.1	293	-154	-23	-76
Transport, storage and communication	0.7	2.8	-2.3	0.9	28	-163	30	67
Finance, insurance, real estate and business services	6.7	9.0	8.2	3.8	406	728	69	200
Community, social and personal services	2.5	3.3	1.7	1.1	165	221	251	-231
General government	4.0	1.5	4.8	3.5	266	230	121	16
Total	3.9	4.3	3.4	2.6	-824	-346	-89	-617

Source: Quantec Research

1.3 District economic outlook

Central Karoo District's economy grew by 1.7 per cent in 2013, followed by a 1.7 per cent growth rate in 2014. Discouragingly, these rates are well below the District's average long term (2005 - 2013) trend growth of 3.9 per cent per annum. The forecasted average annual growth for the District has been estimated at 2.5 per cent over the 2015 - 2020 period. This is a downward revision compared to last year's forecast of 2.9 per cent per annum (2014 - 2019) in line with the revised global, national and provincial growth forecasts. Although the District's growth is projected to remain below historical trend growth, it is expected to follow a steady upward path (see Table 1.4).

Considering the sectoral contributions, Table 1.4 shows that manufacturing and financial and business services have been estimated to advance the fastest during the forecast period, i.e. by 4 per cent and 3.9 per cent per annum, respectively. The District's economic growth is also expected to gain support from growth in construction (3.4 per cent per annum).

Table 1.4 Central Karoo District: Real GDP forecast by broad sector: 2015 – 2020

Sector	Forecast (%)						Forecast (%)
	2015	2016	2017	2018	2019	2020	2015 - 2020
Agriculture, forestry and fishing	0.4	0.6	1.1	0.9	1.0	1.2	0.9
Mining and quarrying	4.9	4.6	4.6	4.4	4.9	5.2	4.8
Manufacturing	2.5	3.9	4.0	4.1	4.6	4.6	4.0
Electricity, gas and water	-3.1	-0.5	-0.6	-0.5	0.2	0.6	-0.7
Construction	2.5	1.9	3.8	4.0	3.9	4.2	3.4
Wholesale and retail trade, catering and accommodation	0.8	1.3	2.2	2.3	2.8	2.9	2.0
Transport, storage and communication	0.3	0.2	1.5	1.8	1.7	1.9	1.2
Finance, insurance, real estate and business services	3.6	3.1	3.9	4.0	4.2	4.5	3.9
Community, social and personal services	0.5	0.8	1.6	1.7	1.6	1.7	1.3
General government	0.9	0.7	1.4	1.3	1.5	1.6	1.2
Total	1.7	1.8	2.7	2.7	3.0	3.2	2.5

Source: Quantec Research, own calculations

Central Karoo has several areas of potential which could work in its favour going forward. Although the agriculture sector's expected upward trajectory is mild, initiatives to support the sector could result in significant ripple effects. Growth in the District's agricultural sector stands to benefit the transport and storage and the retail sub-sectors. Expected growth in the manufacturing sector, however, might be challenged by national electricity supply shortages.

In all, the steady upward trajectory in the CKD's anticipated growth is expected to track global, national and provincial growth. The expected recovery in both global and local demand will add positively to the District's economy. Improvement in demand should be reflected in the District's agricultural sector and manufacturing, where food, beverages and tobacco production has been performing relatively well.

1.4 Concluding remarks

The Central Karoo has a small economy, which has managed to grow off a low base over the past ten years. Real GDP growth averaged 3.9 per cent per annum over the 2005 - 2013 period. Geographically, economic activity is concentrated in the Beaufort West Municipality. Tertiary economic activities account for 80 per cent of the Beaufort West economy and 65 per cent of the CKD. Being a land-locked region, the Central Karoo does not really participate in international trade, with the growth in the district economy being mainly driven by demand conditions in the remainder of the national economy, as well as climatic conditions determining the agricultural outcome. While real incomes are under pressure in the agricultural sector, efforts are being made to arrest this adverse tendency by switching to game farming and by exploiting tourism opportunities.

Notwithstanding the downward revisions in the global, national and provincial economic forecast, which trickled down to the district level, growth opportunities remain within some of the District's sub-sectors. The relatively high growth of manufacturing from a low base is projected to continue. Services, particularly in the financial and business services domain, are also expected to remain a key source of growth. Furthermore, the construction sector appears to be recovering and is forecast to expand at above-average rates over the forecast period. The WCG has launched interesting initiatives in the agri-processing sector, which intend to expand local production and exports and which will create additional demand in the agricultural sector. Potential growth in the agricultural sector is expected to have positive spillover effects into transport and storage, as well as in the retail industry. Shortages in the national supply of electricity, however, remain a threat to growth in manufacturing production.

2

Sectoral growth, employment and skills

2.1 Introduction

The development of industries does not always evolve along the same patterns when compared to the wider economy. An investigation of the sector growth performances at the regional level can therefore be revealing. A combination of industry dynamics (ranging from factor endowments, scale economies to demand patterns, technological developments, etc.) and geographical economics determine the growth path of an industry (Capasso, et al, 2015: 5).

Table 1.1 and Table 1.2 highlighted the broad sectoral growth rates of the Central Karoo District (CKD) economy, showing the change in employment levels and the real GDP growth rates over the past decade. This chapter investigates the sectoral and geographical growth and employment patterns at a deeper level. Apart from an overview of the District's economic structure, growth and employment performance, each municipality's economy comes under the spotlight. Thereafter, some local issues and the sectoral forecast are discussed.

2.2 Sectoral growth, employment and skills development per municipality

The CKD economy is the smallest district economy in the Western Cape. The value added generated in the region amounted to an estimated R2.9 billion in 2014 and employment 14 600 workers. It contributed less than one per cent of the provincial GDP (R462 billion) and employment (1.9 million) in 2014. Being well-known for its beautiful landscapes, the Central Karoo has an agrarian economy, with agricultural and construction activity, some light industry and the associated support services dominating production activities.

Table 2.1 Central Karoo District: Sectoral growth across the five municipalities, 2005 - 2013

Industry	Laingsburg	Prince Albert	Beaufort West	DMA	Central Karoo
Agriculture, forestry and fishing	-0.6	-1.6	-1.1	1.1	-0.7
Manufacturing	11.6	1.3	8.4	19.2	8.8
Construction	8.9	11.6	7.3	2.1	8.6
Commercial services	2.2	6.8	3.4	7.1	3.9
General government and Community, social and personal services	1.5	2.2	4.2	-2.7	3.5
Other	4.9	-	-2.1	-	0.7
Total	2.6	4.5	3.8	5.7	3.9

Source: Quantec Research, Own calculations

Table 2.1 shows that the region's economy expanded at a relatively brisk rate of 3.9 per cent per annum over the 2005 - 2013 period. It should be noted that this growth is from a low base. Growth was most rapid in Prince Albert (4.5 per cent per annum) and the dominant Beaufort West economy (3.8 per cent per annum) and lagged somewhat in Laingsburg (2.6 per cent per annum).

Table 2.2 Central Karoo District: Sectoral employment creation across the five municipalities, 2005 - 2013

Industry	Laingsburg	Prince Albert	Beaufort West	DMA	Central Karoo
Agriculture, forestry and fishing	-370	-661	-805	-339	-2 175
Manufacturing	46	-2	138	88	269
Construction	-5	48	-104	-28	-88
Commercial services	-17	166	493	84	727
General government and Community, social and personal services	-20	19	503	-71	432
Other	8	0	3	0	11
Total	-358	-429	228	-266	-824

Source: Quantec Research, Own calculations

Table 2.3 Central Karoo District: Regional GDPR composition of the CKD industries, 2013

Industry	Laingsburg	Prince Albert	Beaufort West	DMA	Central Karoo
Agriculture, forestry and fishing	19.8	20.6	38.8	20.8	100
Manufacturing	11.9	10.4	63.0	14.7	100
Construction	7.8	36.0	53.1	3.1	100
Commercial services	7.1	12.5	74.1	6.2	100
General government and Community, social and personal services	7.7	11.7	78.1	2.4	100
Other	48.8	0.0	51.2	0.0	100
Total	9.5	14.1	69.3	7.1	100

Source: Quantec Research, Own calculations

Table 2.4 Central Karoo District: Sectoral GDPR composition across the CKD municipalities, 2013

Industry	Laingsburg	Prince Albert	Beaufort West	DMA	Central Karoo
Agriculture, forestry and fishing	18.9	12.6	4.9	22.3	11.2
Manufacturing	12.5	7.3	10.3	21.3	15.2
Construction	4.9	14.5	4.4	2.2	7.6
Commercial services	41.4	49.3	57.1	48.1	50.2
General government and Community, social and personal services	16.5	16.2	22.4	6.1	14.4
Other	5.8	0.0	0.8	0.0	1.2
Total	100	100	100	100	100

Source: Quantec Research, Own calculations

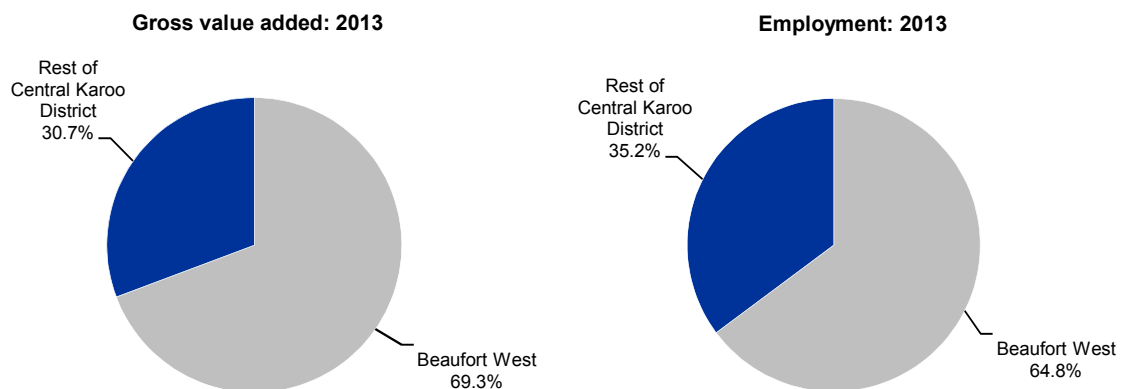
Beaufort West accounts for close to 70 per cent of the CKD's economy and Prince Albert for 14 per cent. The largest economic sector in Beaufort West is commercial services² accounting for 57 per cent of the Municipality's economy. Commercial services are also the largest component of the other municipal economies. Manufacturing (15.2 per cent), the government and community, social and personal (CSP) services (14.4 per cent) and agriculture (11.2 per cent) are the other main sectors. In terms of growth, it is manufacturing and construction activity which stand out – these industries have expanded at rates averaging above 8 per cent per year over the past decade. Growth is coming off a low base, but it is encouraging as real incomes are clearly under pressure in the agricultural sector (shrinking by 0.7 per cent per annum). There has also been a sharp decline in agricultural employment over the past ten years in all three municipal areas.

The sector development at the level of the CKD's three municipalities is considered below.

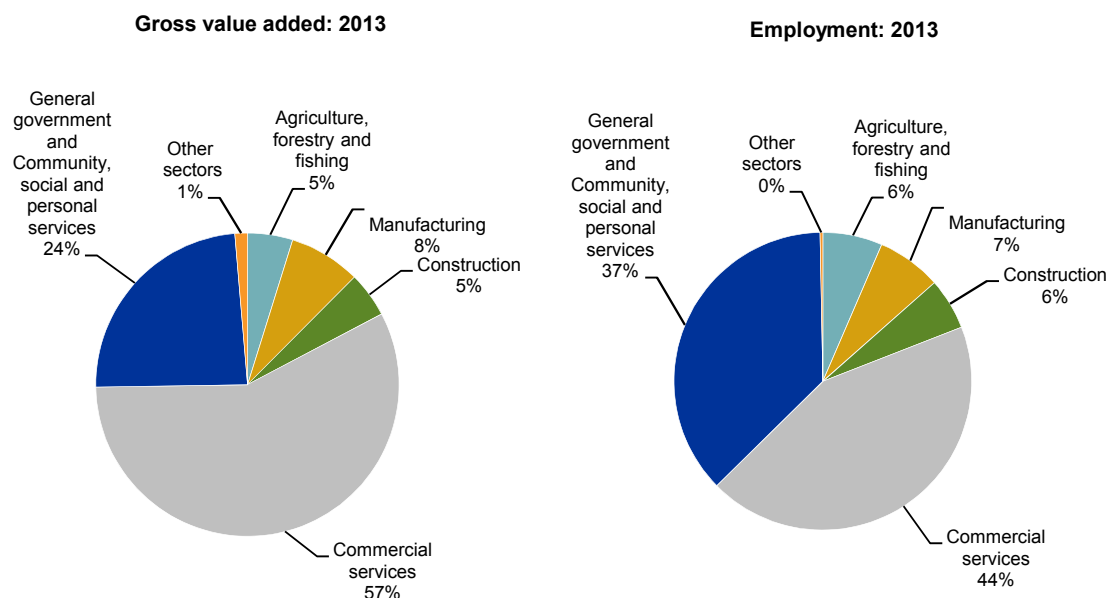
2.2.1 Beaufort West

Figure 2.1 shows that Beaufort West is by far the dominant regional economy in the CKD, accounting for close to 70 per cent of the CKD's GDPR and 65 per cent of employment. This translates to an estimated R1.9 billion value added (of the CKD's R2.7 billion) and a workforce of 9 500 (of the CKD's 14 600) in 2013. The Beaufort West economy defines that of the CKD.

² Commercial services are distinguished from the other two main tertiary sectors, i.e. the general government and community, social and personal services. It consists of a diverse range of tertiary economic activities, namely wholesale, retail, catering and accommodation services; transport and communication and the finance, insurance, real estate and business services sector. It needs to be pointed out that the personal services sector also contains some important commercial services; however, the data availability did not allow disaggregation.

Figure 2.1 Beaufort West share of Central Karoo District gross value added and employment, 2013

Source: Quantec Research, Own calculations

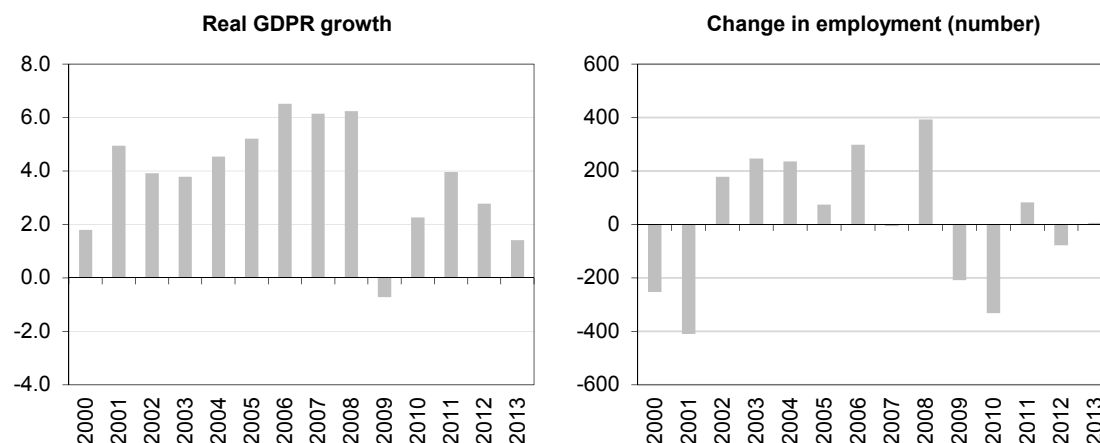
Figure 2.2 Beaufort West: Composition of gross value added and employment

Source: Quantec Research, Own calculations

As noted, the largest component of GDP (57 per cent) comprised of commercial services, such as retail, wholesale, catering and accommodation services, transport and communication and financial and business services. Whilst manufacturing (8 per cent) and construction (5 per cent) account for small shares of the municipal economy's GDP, these activities have been expanding rapidly off a low base. On the other hand, real incomes in agriculture have been contracting at a rate of 1.1 per cent per annum over the past decade, which assist in explaining the relatively subdued growth of the commercial services sector (3.4 per cent per annum, 2005 - 2013). Nonetheless, the region's commercial services sector has been an important job creator.

The other relatively large sector in the Beaufort West economy, is the so-called 'public sector', i.e. the government and community, social and personal (CSP) services, which employed 37 per cent of the regional workforce in 2013 (Figure 2.2). Combined with commercial services, the tertiary sector of Beaufort West employs more than 80 per cent of workers in the municipal economy and has been responsible for the bulk of employment creation over the 2005 - 2013 period (Table 2.5).

Figure 2.3 Beaufort West real economic and employment growth: 2000 - 2013



Source: Quantec Research, Own calculations

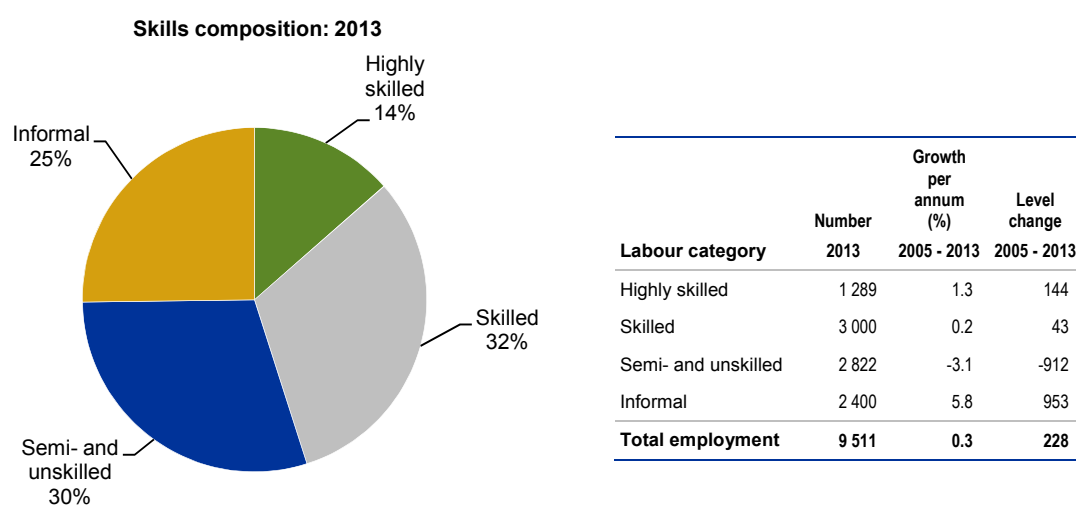
Table 2.5 Beaufort West gross value added, real economic growth and employment creation: 2005 - 2013

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	90	-1.1	2.4	615	-8.4	-805	-3.2	-94
Manufacturing	142	8.4	3.9	668	2.8	138	-2.6	-77
Construction	90	7.3	1.6	533	-1.8	-104	-6.2	-158
Commercial services	1 070	3.4	2.3	4 141	1.5	493	0.7	119
General government and Community, social and personal services	446	4.2	3.3	3 524	1.8	503	-0.8	-113
Other sectors	25	-2.1	-1.4	30	2.1	3	0.9	0
Total Beaufort West	1 862	3.8	2.6	9 511	0.3	228	-0.8	-322
Central Karoo District	2 688	3.9	2.6	14 599	-0.6	-824	-1.0	-617

Source: Quantec Research, Own calculations

Figure 2.3 and Table 2.5 show that economic growth averaged around 6.0 per cent per annum over the 2006 - 2008 period, i.e. at the peak of the previous business cycle expansion and that rapid manufacturing and construction growth, as well as solid 3 - 4 per cent growth in the region's tertiary activities underpinned this growth. Growth slowed sharply in 2009 and many workers lost their jobs in 2009 - 2010 and the subsequent economic recovery has been weak, with pre-recession employment levels not being restored at the end 2013. In fact, whereas the net employment trend was positive over the full 2005 - 2013 period, it turned negative during the post-recession phase.

Figure 2.4 Beaufort West workforce skills: 2013



Source: Quantec Research, Own calculations

Figure 2.4 shows that the net job losses occurred in the semi- and unskilled labour market segment of the Beaufort West economy. Demand for skilled and highly skilled workers was positive over the 2005 - 2013 period. The skilled component of the area's workforce, i.e. 32 per cent, is also relatively large. The growth in informal sector employment compensated for the semi- and unskilled employment losses in the formal sector and overall employment was relatively stable over the 2005 - 2013 period, actually expanding somewhat at a rate of 0.3 per cent per annum.

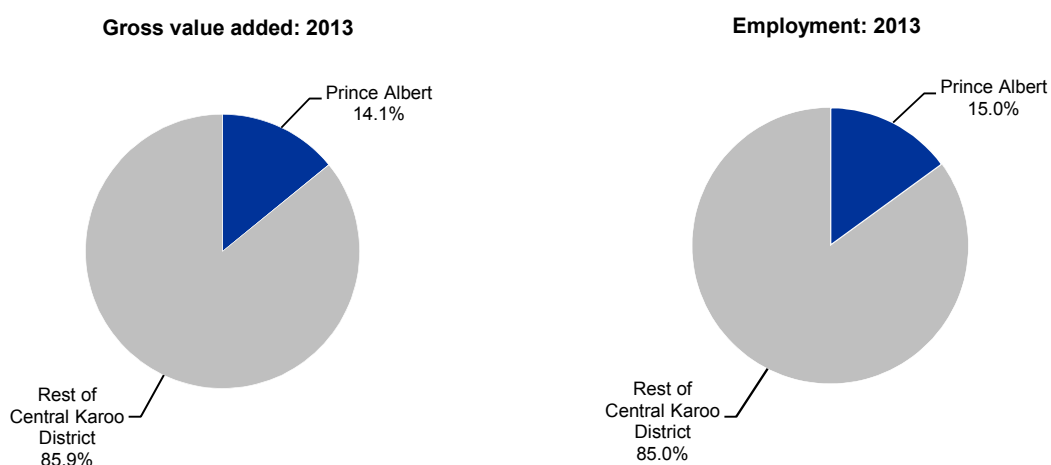
In all, Beaufort West defines the Central Karoo's economy, accounting for 70 per cent of all economic activity in the region. The growth of the Municipality's dominant commercial services sector has been average (3.4 per cent), but there is greater buoyancy in manufacturing and construction activities. The manufacturing sector also added to employment over the 2005 - 2013 period, which, combined with employment creation in the services industries (accounting for more than 80 per cent of overall employment), explains the overall net positive employment tendency in the Municipality.

2.2.2 Prince Albert

The second largest municipal economy in CKD is that of Prince Albert which contributed 14 per cent to GDP and 15 per cent to employment in the region. This translates to R380 million of CKD's R2.7 billion GDP and 2 240 workers of CKD's workforce of 14 600 in 2013.

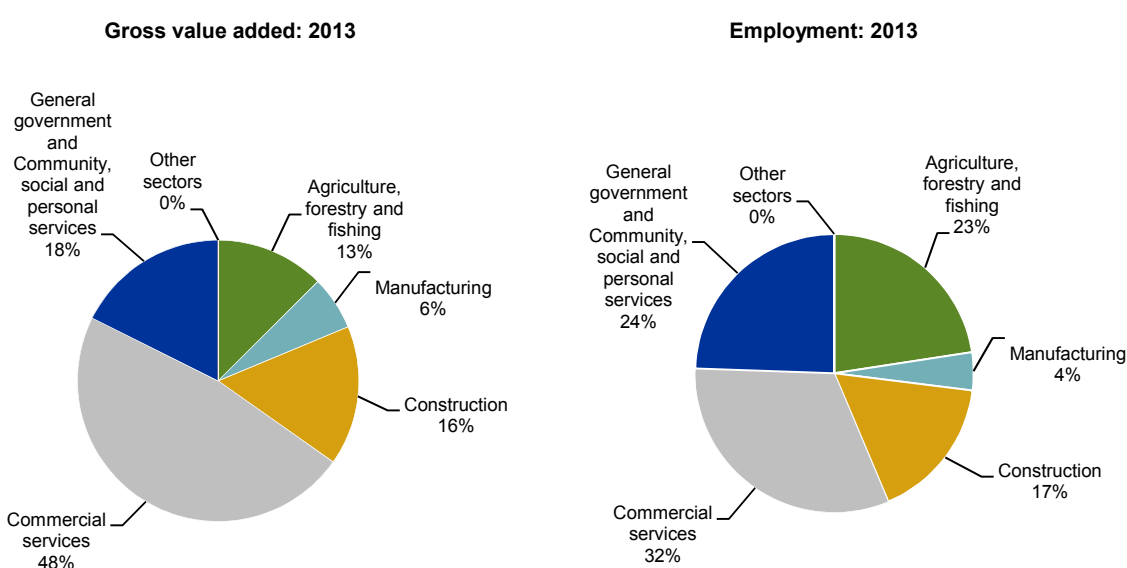
The most striking feature of Prince Albert's industry structure, is the relatively large size of its construction sector, accounting for no less than 16 per cent of GDP and 17 per cent of employment in the municipal economy. The sector is significantly larger than manufacturing and also expanded at double digit growth rates over the 2005 - 2013 period, also adding to employment over the corresponding period (Table 2.6).

Figure 2.5 Prince Albert share of Central Karoo District gross value added and employment: 2013



Source: Quantec Research, Own calculations

Figure 2.6 Prince Albert: Composition of gross value added and employment: 2013

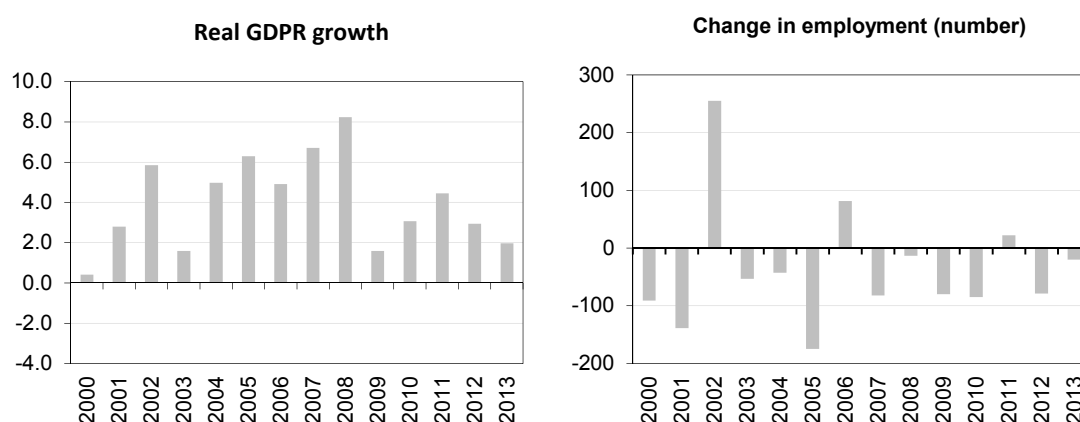


Source: Quantec Research, Own calculations

Prince Albert has a relatively large agricultural sector (13 per cent of GDP and 23 per cent of employment); however, it appears that value added food and beverage processing activities are relatively small. Manufacturing only accounts for 6 per cent of GDP (this issue is explored further in the context of the CKD economy in Chapter 3). Almost half of GDP is generated in supporting commercial services and this sector also employs one third of the municipal workforce. One quarter of the remainder of the workforce is employed in the 'public sector'.

The rapid growth of Prince Albert, being the fastest growing municipality in the CKD, is explained by the double-digit growth rates in construction, as well as the solid 7 per cent annual growth in its dominant commercial services sector, including the impact of tourism in the area.

Figure 2.7 Prince Albert real economic and employment growth: 2000 - 2013



Source: Quantec Research, Own calculations

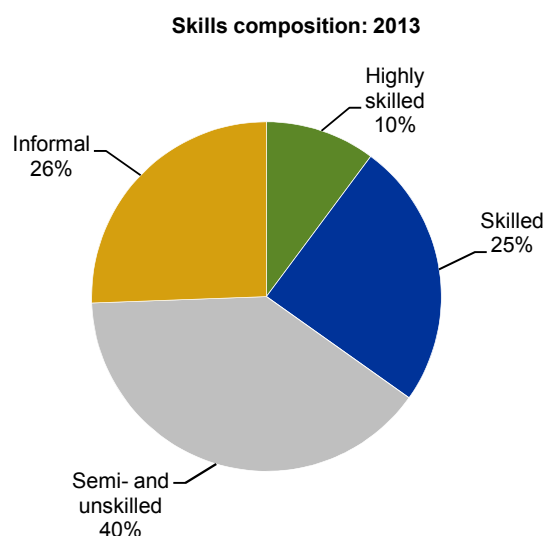
Economic growth peaked at 8 per cent in 2008, where after it cooled down sharply, averaging only 3.1 per cent per annum, 2010 - 2013. The rapid growth in construction decelerated to 3 per cent per annum and this was accompanied by net job losses, 2010 - 2013. The expansion of the commercial services sector remained lively at 4.5 per cent per annum; however, this was insufficient to sustain overall net job growth in the area. As Figure 2.7 shows, the overall employment creation pattern has been very poor. In this regard the shrinkage in agriculture (with real incomes declining at an average annual rate of 1.6 per cent, 2005 - 2013) and the associated job losses dominated the picture. However, there are signs that the decline in agriculture was arrested over the 2010 - 2013 period.

Table 2.6 Prince Albert gross value added, real economic growth and employment creation: 2005 - 2013

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	48	-1.6	1.8	506	-8.3	-661	-2.3	-59
Manufacturing	23	1.3	0.9	99	-0.2	-2	-1.0	-4
Construction	61	11.6	3.0	374	1.9	48	-5.4	-97
Commercial services	181	6.8	4.5	714	3.1	166	1.4	36
General government and Community, social and personal services	67	2.2	1.5	547	0.4	19	-1.6	-37
Other sectors	0	-	-	0	-	0	-	0
Total Prince Albert	380	4.5	3.1	2 240	-1.9	-429	-1.7	-161
Central Karoo District	2 688	3.9	2.6	14 599	-0.6	-824	-1.0	-617

Source: Quantec Research, Own calculations

In terms of the labour skills demand, the pattern is very similar compared to the rest of the District (and the Province for that matter). The net job losses occurred mainly in the semi- and unskilled labour market segment, which also accounts for the overall net job losses. Skilled and highly skilled labour demand in the formal sector was relatively stable, while informal sector employment grew rapidly, compensating for the semi- and unskilled job losses. Semi- and unskilled employment still comprised 40 per cent of the municipal labour force in 2013.

Figure 2.8 Prince Albert workforce skills: 2013

Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	228	0.8	15
Skilled	552	0.4	17
Semi- and unskilled	887	-5.9	-640
Informal	573	4.2	179
Total employment	2 240	-1.9	-429

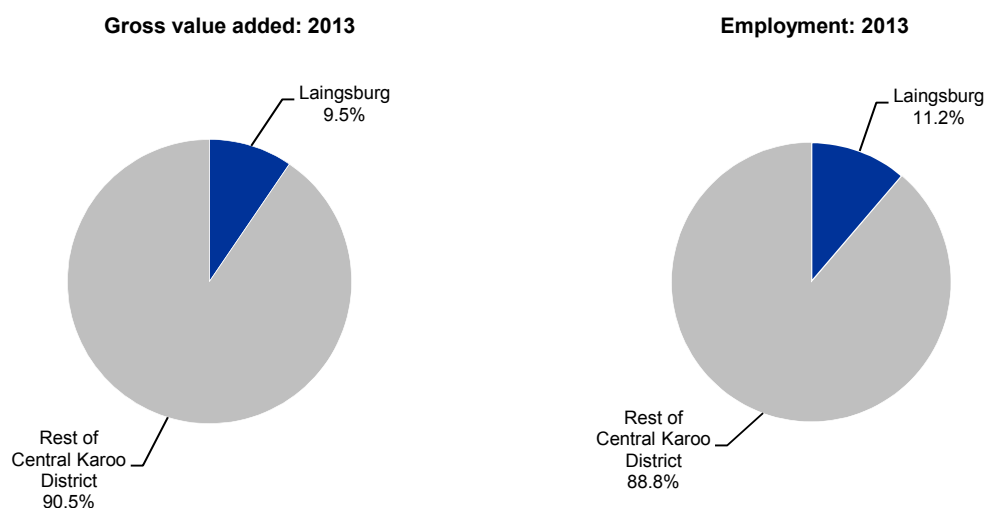
Source: Quantec Research, Own calculations

In all, the outstanding feature of Prince Albert's economy is the relative size of its construction industry, which also expanded at double-digit rates over the past decade. While the Municipality's manufacturing sector is small and not growing fast, it is notable that 44 per cent of employment is in the primary and secondary sectors of the regional economy. From a growth perspective, construction and commercial services have been the leading industries in the municipal economy. Similar to the other municipalities, Prince Albert also reported sharp declines in agricultural employment, presumably explaining the net outflow of semi- and unskilled labour (representing 40 per cent of the workforce).

2.2.3 Laingsburg

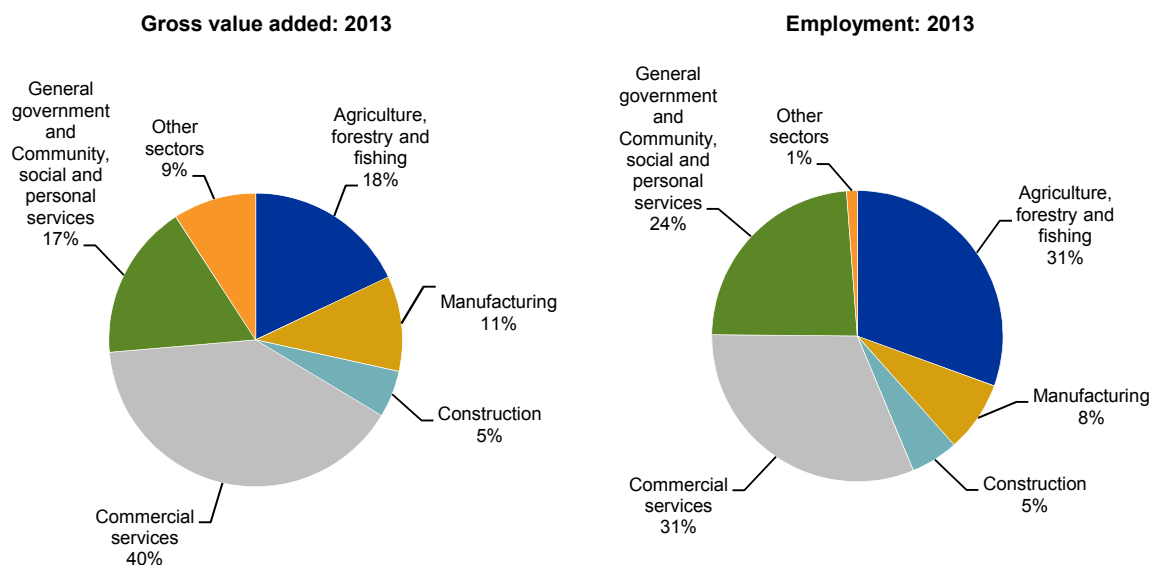
Laingsburg is the smallest municipal economy in CKD and in the Province, generating R256 million (or 9.5 per cent) of the CKD's R2.7 billion GDPR in 2013 and employing 1 650 (or 11.2 per cent) of the CKD's 14 600 strong workforce (Figure 2.9).

Figure 2.9 Laingsburg share of Central Karoo District gross value added and employment: 2013



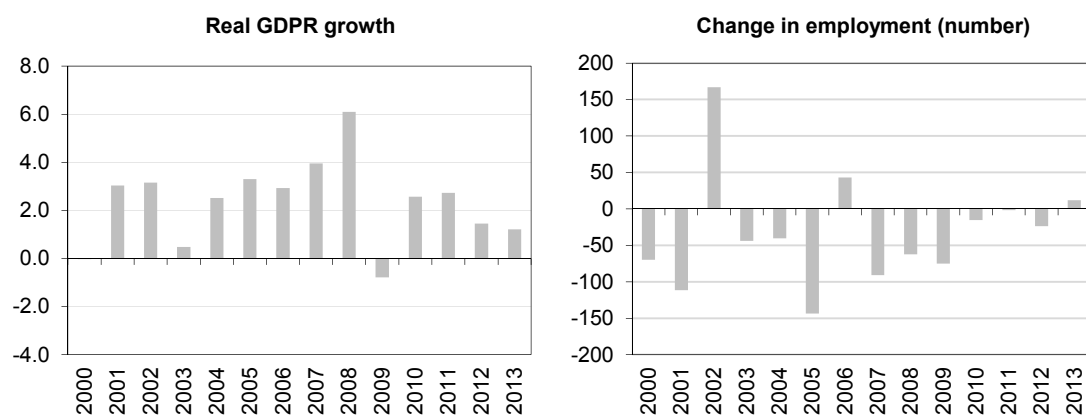
Source: Quantec Research, Own calculations

Compared to Beaufort West and Prince Albert, the Laingsburg economy has a relatively larger agricultural sector, accounting for close to a third of employment in the region, and a relatively smaller commercial services sector (employing another almost third of the workforce). The manufacturing sector (mainly food processing and building materials manufacturing) contributes 11 per cent to GDPR and construction 5 per cent. The electricity and water sector accounts for 9 per cent of GDPR and the 'public sector' for 17 per cent; one quarter of employment is in the latter-mentioned sector.

Figure 2.10 Laingsburg: Composition of gross value added and employment: 2013

Source: Quantec Research, Own calculations

Apart from 2008, when real economic growth peaked at 6 per cent, Figure 2.11 shows that the overall economic growth and employment performance of the regional economy has been weak. Growth averaged 2.6 per cent per annum, 2005 - 2013, and the region witnessed net job losses in each calendar year over this period, except during 2008 and 2013. It is noticeable that the manufacturing sector added to employment over this period, whilst the commercial services sector experienced net job losses, which is contrary to the trend wider in the District and the Province. Whereas the Laingsburg economy accounts for less than 10 per cent of the CKD economy, it accounted for more than 40 per cent of the net job losses in the District over the 2005 - 2013 period.

Figure 2.11 Laingsburg real economic and employment growth: 2000 - 2013

Source: Quantec Research, Own calculations

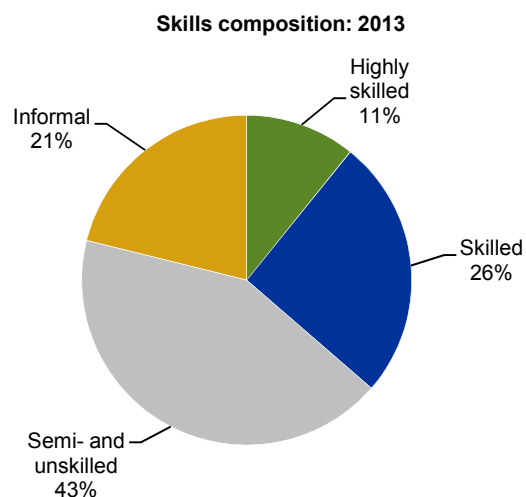
Figure 2.12 shows that net retrenchment occurred in all three labour market segments over the 2005 - 2013 period. The rate of retrenchment was significantly higher though in the semi- and unskilled segment and the net informal sector job growth was insufficient to compensate for the formal sector net job losses, i.e. 80 new informal sector jobs versus 438 formal sector net job losses. Semi- and unskilled labour accounted for 43 per cent of the region's workforce in 2013.

Table 2.7 Laingsburg gross value added, real economic growth and employment creation

Sector	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value 2013	Real growth per annum (%)		Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013	Growth per annum (%) 2010 - 2013	Level change 2010 - 2013
		2005 - 2013	2010 - 2013					
Agriculture, forestry and fishing	46	-0.6	0.6	504	-5.5	-370	0.6	11
Manufacturing	27	11.6	5.3	130	5.1	46	-1.0	-5
Construction	13	8.9	2.3	87	-0.4	-5	-5.7	-24
Commercial services	102	2.2	2.2	519	-0.3	-17	1.1	21
General government and Community, social and personal services	44	1.5	1.3	390	-0.5	-20	-2.0	-34
Other sectors	23	4.9	0.8	20	7.1	8	2.7	2
Total Laingsburg	256	2.6	2.0	1 650	-2.1	-358	-0.4	-29
Central Karoo District	2 688	3.9	2.6	14 599	-0.6	-824	-1.0	-617

Source: Quantec Research, Own calculations

Figure 2.12 Laingsburg workforce skills: 2013



Labour category	Number	Growth per annum (%)	Level change
	2013	2005 - 2013	2005 - 2013
Highly skilled	178	-0.3	-4
Skilled	421	-1.2	-47
Semi- and unskilled	702	-4.8	-387
Informal	348	2.9	80
Total employment	1 650	-2.1	-358

Source: Quantec Research, Own calculations

In all, Laingsburg has a relatively larger agricultural sector, where real income growth has been under pressure over the past ten years. Whilst its commercial services sector accounts for 40 per cent of GDP, this sector did not expand as fast as in Beaufort West, for instance, and contributed to unemployment. Manufacturing and construction activities, on the other hand, have been more buoyant. The overall employment tendency has been negative in Laingsburg, with the demand for labour contracting in all three segments of the labour market.

In the following section, the sectoral prospects for the Central Karoo regional economy are considered.

2.3 Sectoral prospects

2.3.1 Local issues

Whilst much of the economic activity in the region derives from agriculture, a notable feature in terms of the expansion of the region's economy has been the rapid growth of manufacturing and construction activity. In the MERO 2013 study it was found that agriculture and its associated processing activities, the building materials and construction sector, catering and accommodation (stimulated by tourism), as well as transport, finance and insurance and electrical machinery manufacturing are all economic activities with a competitive edge in the region. An updated location quotient analysis in a provincial context³ confirms that these industries continue to have an edge.

There seems to be scope to add more value to raw agricultural products. Laingsburg, for instance, reports that 90 per cent of raw products are 'exported' from the region and finished products need to be 'imported' (Provincial Treasury Municipal Survey, August 2015). The CKD's agri-processing value chain is analysed further in Chapter 3.

Apart from the food and beverage processing industry, building materials manufacturing and electrical machinery manufacturing, service activities, such as tourism (as reflected in catering and accommodation activities) and financial services are also important sources of economic growth and are expected to remain important in the future growth of the region. The tourism value chain is also investigated in Chapter 3.

The broad sector forecast for the CKD is motivated below.

³ Conducting the location ratio analysis at the provincial level shows which industries at the district level have a competitive edge in the comparative faster growing province in the country. As such the bar is raised somewhat for any specific industry to qualify. This may explain why business services and CSP services did not make the grade in the updated analysis. However, for the remainder, the results of the latest location ratio analysis serve as confirmation of these industries' competitiveness in the Province, also being maintained since 2011.

2.3.2 Sector forecast: 2015 - 2020

Table 2.8 contains the CKD sector forecast for the period 2015 - 2020. The five-year average growth rate across the 10 broad sectors in the region is shown and compared with the projected growth of the Western Cape economy. The anticipated average five-year real GDP growth rate for the CKD has been revised downwards from 2.9 per cent per annum (2014 - 2019) to 2.5 per cent per annum (2015 - 2020), mainly due to the relatively more constrained macro-economic environment (as discussed in Section A of the report and Chapter 1).

Table 2.8 Central Karoo District: Real economic growth outlook, 2015 - 2020

Sector	Real GDP (yoy %)				
	Trend	Recession	Recovery	Central Karoo District	Western Cape
	2005 - 2014	2008 - 2009	2010 - 2014	2015 - 2020	2015 - 2020
Agriculture, forestry and fishing	-0.5	0.3	1.3	0.9	2.3
Mining and quarrying	12.2	13.9	0.6	4.8	2.0
Manufacturing	8.1	7.0	3.5	4.0	2.2
Electricity, gas and water	0.3	-3.2	0.0	-0.7	1.8
Construction	7.9	9.3	2.0	3.4	3.7
Wholesale and retail trade, catering and accommodation	2.3	-1.6	2.0	2.0	2.7
Transport, storage and communication	0.8	-2.3	1.1	1.2	3.2
Finance, insurance, real estate & business services	6.2	8.2	3.4	3.9	3.4
Community, social and personal services	2.4	1.7	1.2	1.3	1.7
General government	3.7	4.8	3.2	1.2	1.3
Total	3.7	3.4	2.5	2.5	2.7

Source: Quantec Research/Provincial Treasury

Agricultural real incomes are projected to expand moderately over the forecast period. Apart from assuming normal rainfall patterns, it is expected that initiatives to increase the local production (and export) of processed foods will create additional demand for agricultural products. Restored agricultural income growth will benefit the trade and accommodation and transport and storage sectors, as well as financial and business services, which is projected to grow the fastest over the forecast period. Furthermore, the characteristic buoyancy in manufacturing and construction activities are also projected to continue, with growth being above-average (3 - 4 per cent per annum). However, in the 'public sector' growth is projected to be relatively subdued, along with the forecast 1 - 2 per cent annual growth projected for the internal trade and transport and communication sectors.

In all, the baseline forecast is for real GDP growth in the CKD to sustain the relatively pedestrian 2.5 per cent recovery growth momentum (2010 - 2014) over the next five years. This is lower compared to the growth projection in respect of the provincial economy (2.7 per cent per annum).

2.4 Concluding remarks

Industry growth paths are a function of the interaction between industry dynamics and geographical economics. The Central Karoo is a landlocked region in the scenic interior of the Province, with its leading municipal economy, i.e. Beaufort West, situated along a busy national transport route. Whilst much of the economic activity in the region derives from agriculture, manufacturing and construction activities and services activities, such as tourism and financial services, are also important sources of economic growth.

Whilst overall agricultural output has managed to expand in the region, real incomes are under pressure in this sector. This, in turn, impacts negatively on the services industries, where growth has, for instance, been under pressure in the retail, wholesale and transport sectors. The income pressures in the agricultural sector are also spurring alternative economic activities, such as game farming and agri-tourism. The provincial initiatives to expand local production in the agri-processing industries represent an opportunity for the CKD local authorities.

Beaufort West defines the Central Karoo's economy, accounting for 70 per cent of all economic activity in the region. The growth of the Municipality's dominant commercial services sector has been average (around 3.4 per cent), but there is greater buoyancy in manufacturing and construction activities. The manufacturing sector also added to employment over the 2005 - 2013 period, which, combined with employment creation in the services industries (accounting for more than 80 per cent of overall employment), explains the overall net positive employment tendency in the Municipality.

The outstanding feature of the Prince Albert economy is the relative size and growth of its construction industry. Laingsburg has a relatively larger agricultural sector, where real income growth has been under pressure. The overall employment tendency has been negative in Laingsburg, with the demand for labour contracting in all three segments of the labour market. All three municipalities reported sharp declines in agricultural employment, presumably explaining the net outflow of semi- and unskilled labour (representing the largest shares of the respective municipalities' workforces).

3

Value chains

3.1 Introduction

The value chain includes the activities firms undertake to bring a product or service from production to end use by consumers. Value is added at each step along this chain. It is unlikely, in the modern age that a full value chain exists at a local level, or even a provincial level. Modern value chains are driven by globalisation, interconnectedness, technology, logistics improvements, offshoring and deregulation. This has led to the various tasks associated with traditional value chains becoming increasingly fragmented globally. Value chains are increasingly becoming more efficient, taking advantage of the relative comparative advantage of countries, regions and competitive advantage of different firms.

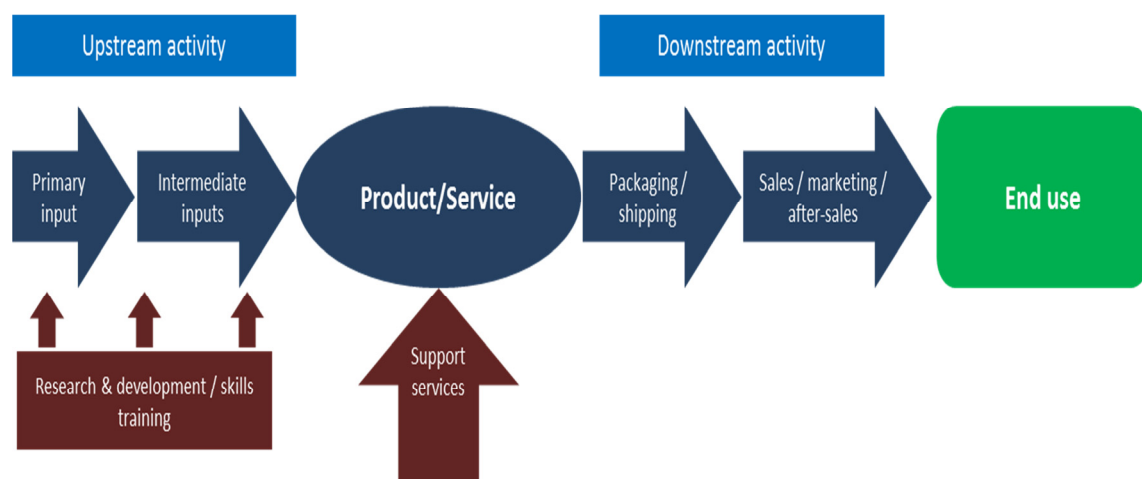
Transport and communication advancements have allowed a greater division of labour in firms, as well as the broader value chain. For each of the production stages, firms identify their in-house capability to undertake a task, relative to outsourcing this task or even moving this offshore. It is important to identify the target market of the product, as various changes to the value chain may provide significant efficiency gains for firms.

Risk exposure in a value chain is a key concept which will be considered in this chapter as it is very important to the sustainable functioning of a value chain. Highly regionally or globally integrated value chains are susceptible to global risks and economic slowdowns. It is unlikely that a value chain can be developed to be entirely isolated from this type of risk, as global and regional markets are lucrative as end-user destinations, due to the large market size.

3.2 Stages and significance of the value chain

Figure 3.1 shows the various stages in a generic value chain. The activities leading up to the manufacture of the product are accounted for as upstream activities and the activities involved in getting the product to the market are accounted for as downstream activity. Various support services are also required in upstream and downstream activity, such as, financial services or legal services. Upstream activity also requires research and development and skill building, which have positive spinoffs for the economy.

Figure 3.1 Generic value chain example



Risks and opportunities are evident at various stages of the value chain. Commodity prices are significantly more volatile relative to a product higher in the value chain, due to speculation in world markets and slowdowns in major demand markets. Integration with larger value chains can mitigate certain risks if these value chains have diversified their target markets, or if they have started to provide their products to high growth regions.

3.3 Policy and spending-initiative considerations

For municipal districts, targeted spending can strengthen small local value chains and assist in achieving regional or global value chain integration of local manufacturing. Job creation cannot be sustainable unless the industry to sustain these jobs is created. It is also important that skills development and training accompanies new job creation activity to enable sustainable growth. In supporting the development of value chains and integration into regional or global value chains, R&D and skills training will be promoted by the private sector. Although it may be beneficial to provide input at the low-value-added stage of a value chain through primary inputs, this exposes the industry to risks and does not promote sustainable growth and development of the local community. In order for growth to be inclusive it is necessary that economic upgrading must be linked to social upgrading (see Chapter 5). Spending should, therefore not only be targeted at a certain industry or value chain linkage, but social needs impacting value chain development and sustainability should also be targeted at the same time (Barrientos *et al*, 2011).

As local value chains develop and become integrated into global value chains, the local value added component may decrease. Economies of scale and efficiency gains may result in a certain industry exporting a significant proportion of its production as local markets become too small. In order to accommodate for this, it is essential that upgrading of the local value chain takes place.

Activities such as R&D and skills development add greater value to the production process. Captive relationships between local value chain actors should also be addressed. For example, buyers can reduce the price primary producers receive for their products. Cutting out the 'middle man' could result in less overall revenue, but sustain a greater amount of jobs in the long run.

The key factors for upgrading and development of value chains are: Improving skills and education; improving access to electricity; encouraging R&D and skills development; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain.

Creation of strong entrepreneurial skills also contributes to new businesses taking advantage of existing linkages in value chains at a local level. Provision of enterprise maps and suppliers databases may also induce collaboration and create potential new linkages in the value chain at a regional and local level.

3.4 Integration of special economic zones (SEZs) into global or regional value chains

Various types of SEZ's have been developed. Free trade zones and fenced-in, duty free areas are usually situated near ports or airports. Export processing zones are constructed as industrial complexes and concentrate on export-orientated manufacturing. Enterprise zones offer tax incentives or financial grants to operate businesses in certain areas. These zones usually target areas that need economic and social upliftment. Specialised zones include science and technology parks, logistics parks or chemical/pharmaceutical parks.

The establishment of a SEZ can often provide greater value added and employment benefits to a region. Evidence suggests that SEZs are more successful if they are developed privately, rather than initiated by government involvement. Private sector participation is a key success factor in the establishment and sustainable growth of a SEZ (World Bank, 2008).

SEZs as defined under the South African SEZ Act No. 6 of 2014

"Industrial Development Zone" means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services.

"Free Port" means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures.

"Free Trade Zone" means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.

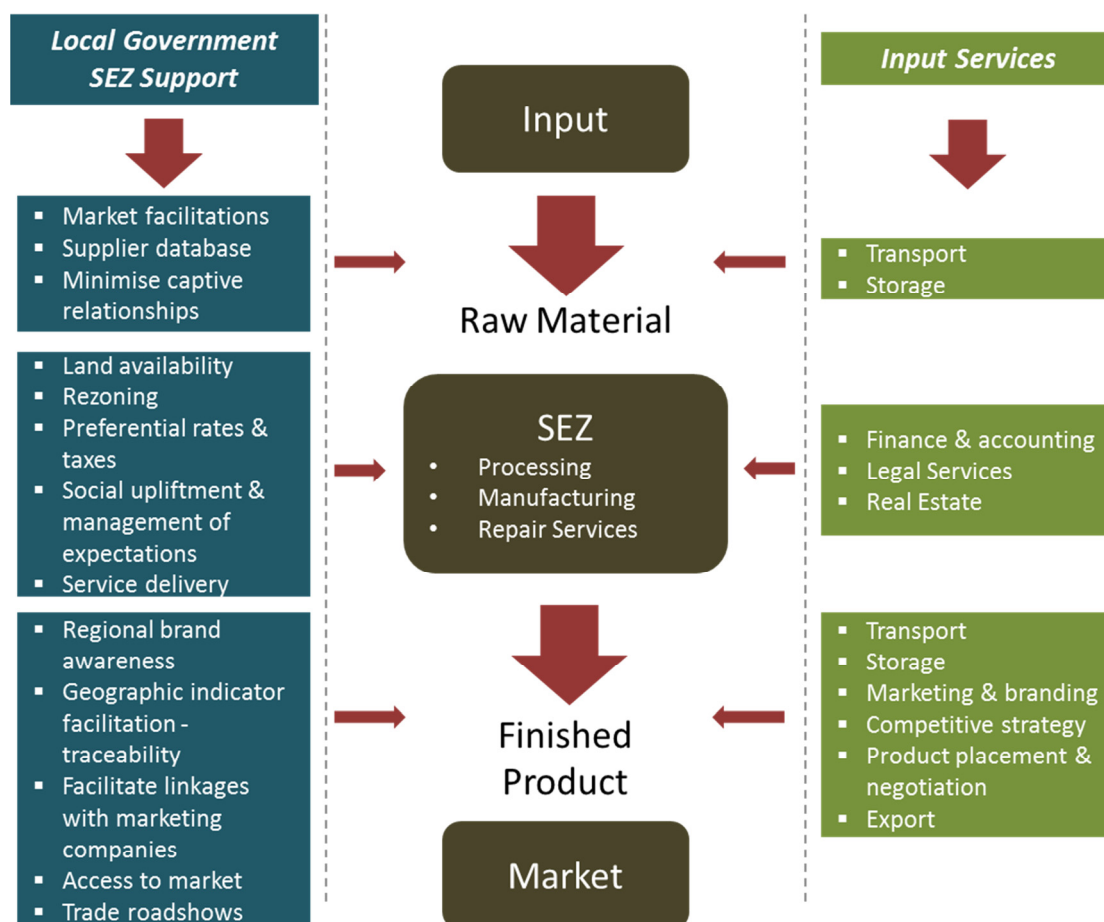
"Sector Development Zone" means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.

The challenge facing municipalities is that they will only have the ability to deliver targeted spending initiatives to various stakeholders associated with the value chains of industries in these SEZs. Policy initiatives and incentive offerings are not the mandate of municipalities. Certain municipal tax reductions could be offered, but will not substantially influence companies in these areas. For this reason targeted expenditure initiatives focusing, not only on the companies in the processing parks or SEZs, but also on the surrounding support services to the entire value chain these industries support in the local community is necessary.

Integration into global or regional value chains is essential for the sustainable growth and development of SEZs. Many of the planned SEZs (especially in the agricultural sector) will be in rural areas. This creates challenges for companies in these areas as they are usually a considerable distance from their target market and smaller industries in these rural areas will not be able to take advantage of economies of scale.

Figure 3.2 depicts a typical value chain for a smaller SEZ or processing park. Municipalities are limited in their ability to address inefficiencies in the market and also do not have the authority to facilitate substantial incentives or tax breaks. There are, however, means by which the municipalities can develop targeted spending initiatives to ensure the success of the SEZ in their local area. Inefficiencies could exist in the linkages between the providers of raw materials and manufacturers in the SEZ. For example, middle men, not from the local area, could complicate and erode the value added in a local agricultural supply chain. Facilitating local buyer groups or facilitating relationships directly between the producers, local logistics companies, and the firms in the SEZ, could limit losses outside the local value chain and ensure greater profits for the farmer to create additional jobs. If a number of smaller farmers are brought together through market facilitation by local government, it may give them greater bargaining power and better prices for their products.

Figure 3.2 Simplified SEZ value chain and possible local government support initiatives



End-user markets in local areas are usually quite small and to ensure a competitive and sustainable strategy for a SEZ or value chain, it will be necessary to provide these goods to regional or foreign markets. The major challenge in this regard is the competitive advantage larger firms will have as they are able to take advantage of economies of scale and logistics efficiencies. To support local firms in a SEZ, or along a value chain, local government should take advantage of niche markets and assist local manufacturers in the marketing of their products. Various possibilities exist for the promotion of local products to regional or international markets. For instance, "Karoo Lamb" has established itself as a significant brand name in regional, as well as, international markets. To enforce these geographic indicators it may be necessary to facilitate international trade roadshows, or to link the local firms with national or international marketing companies. In many cases international markets require certain standards for their products, and this is directly related to the standards maintained at the production facility. Assisting in achieving these requirements at the local manufacturing facility could open an entirely new international market to a local producer.

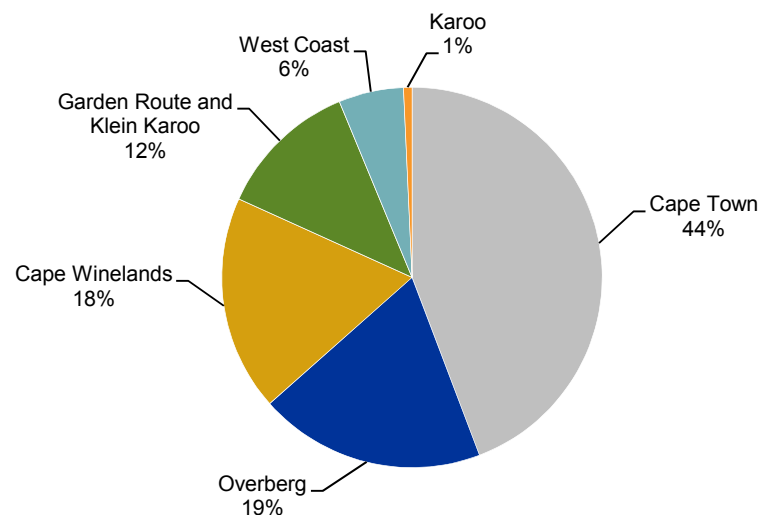
3.5 Central Karoo District value chains

3.5.1 Tourism

Tourist arrivals to South Africa increased by 6.6 per cent in 2014. The total direct expenditure of tourists visiting South Africa (excluding capital expenditure) was estimated at R63.9 billion. The total expenditure of those arriving via air travel was R28.4 billion and those arriving by land R35.5 billion. The average expenditure for those arriving via land was R5 500 per tourist and R12 500 per tourist for those arriving via air.

South Africa is estimated to have received 9.5 million foreign arrivals in 2013, with the Western Cape receiving 1.5 million, or 16 per cent of these. The Western Cape is estimated to have received 8 per cent of the 26.3 million domestic trips undertaken in South Africa in 2013 (Stats SA, 2015).

Figure 3.3 Share of tourist walk-ins at visitor information centres, Western Cape, 2013



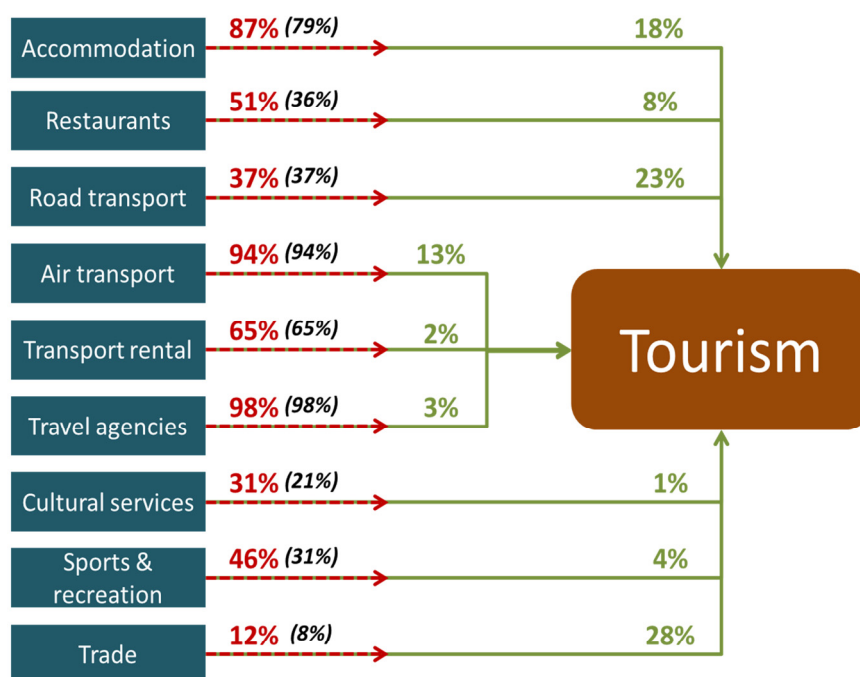
Source: Wesgro; own research

Figure 3.3 shows that the CKD receives a very small proportion of visitors. Cape Town is the major attraction in the Western Cape, accounting for 44 per cent of tourist walk-ins. However, other agricultural regions, such as the Cape Winelands and the Overberg have a significant link between agriculture, agri-processing and tourism, ensuring a sizeable flow of tourists. The CKD is estimated to have generated R184 million in tourist-related GDP in 2013. The CKD attracts very few overseas visitors, with only a 7.4 per cent share of international visitors. The top information sources available to visitors are word of mouth (46 per cent), followed by the internet and websites (17 per cent). This indicates a lack of advertising related to tourism in the area. In contrast, the top information source in the Overberg was the internet (27 per cent) and in the Cape Winelands, visitor information centres (35 per cent) and the internet/websites (34 per cent) (Wesgro 2015).

Increased tourism in the CKD could potentially increase GDP and employment along the tourism value chain. Figure 3.4 shows the tourism value chain and the backward linkages from tourism. Tourism is considered as a last linkage in the chain as all inputs into tourism are the expenditures from tourists. The percentages in green in the graphic indicate the share of inputs into the tourism industry. These percentages add to 100 per cent, as they represent the expenditure shares of tourism. The greatest expenditure by tourists is on buying products, indicated by the trade sector linkage of 28 per cent. These products refer to food, clothing or products related to the retail trade industry. Tourists also spend a significant proportion on road transport. The reason road transport scores above air-travel is because a major proportion of tourists are domestic or from surrounding African countries. Accommodation services and restaurants also comprise a significant expenditure share.

The figures indicated in red are the proportion of output from that specific sector allocated to tourism. These percentage shares do not add to 100 per cent, as they are not shares for one sector. For example, 36 per cent of the output from restaurants is consumed by tourists, with the remainder consumed by local patrons. Similarly the services of travel agencies are offered primarily to tourists, with output to tourists from this sector totalling 98 per cent.

Figure 3.4 Tourism value chain and backward linkages, Central Karoo District



Note: Percentages indicated in black are the Western Cape average output shares per sector

Source: Stats SA; own research

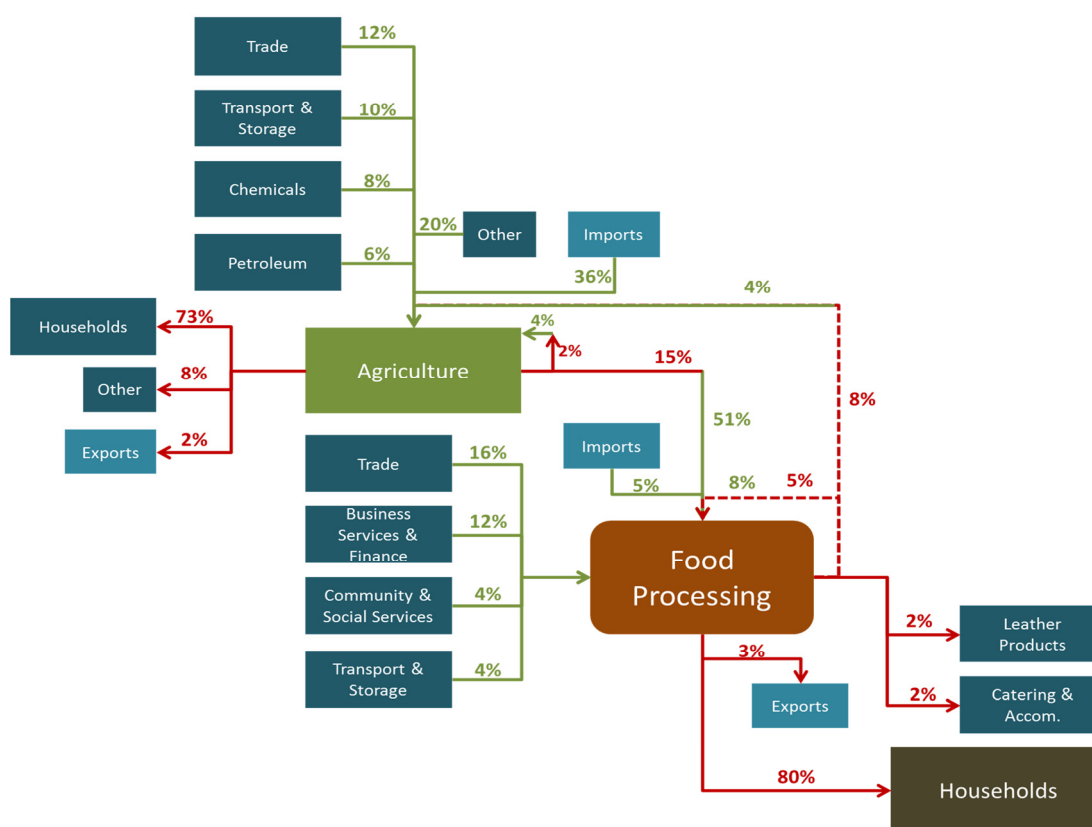
The CKD has the smallest tourism sector in the Western Cape, with it only attracting only 1 per cent of tourist walk-ins in the Province; however, it has more significant GDPR generation ability as it accounts for 6.8 per cent of GDPR generated locally (compared to the Western Cape's 3.6 per cent)⁴. This means that for all economic activity in the CKD, tourism directly contributes 6.8 per cent to GDPR. This is just over double that of the corresponding ratio for the Western Cape.

3.5.2 Agri-processing

Agricultural and food and beverage output in the CKD represents 12.4 per cent of the total economic output generated in the region in 2013. This is slightly higher than the Western Cape average of 11 per cent and South Africa at 7 per cent for the same year. The area is known for sheep and cattle farming. Major products from the area are mutton and mohair, with relatively little value added activity taking place. This is evident from the small food and beverages proportion of the value chain. The CKD is the largest wool producer in South Africa, but little beneficiation takes place in the region. Small scale agricultural activity is also evident in the region, but this contributes relatively small amounts to GDPR. Small-scale agricultural activity is mainly focused on poultry, olive production and ostrich farming. The area has seen the development of game farms, which has raised the prices for farms and has also contributed to tourist activity.

The agri-processing value chain and linkages are depicted in Figure 3.5. The percentages in green depict the input shares into a particular sector. The input shares total to 100 per cent for each sector. These inputs can also be thought of as the expenditure shares from agriculture or food processing on the inputs required to produce the output. Percentages in red depict the output share of the sectors and also total to 100 per cent for each sector. The agricultural sector in the CKD is characterised by relatively little integration into international markets with low export shares for agricultural products. Exports for the agricultural sector are only estimated at 2 per cent and exports for food and beverage processing, only 3 per cent.

⁴ GDPR referred to in Stats SA's Tourism Satellite Accounts for 2013 is for 'tourism direct gross value added' and this does not take into account the indirect or induced spending generated from tourism. In fact, the percentages of tourism GDPR (including indirect and indirect impacts) will be higher.

Figure 3.5 Agri-processing linkages, Central Karoo District

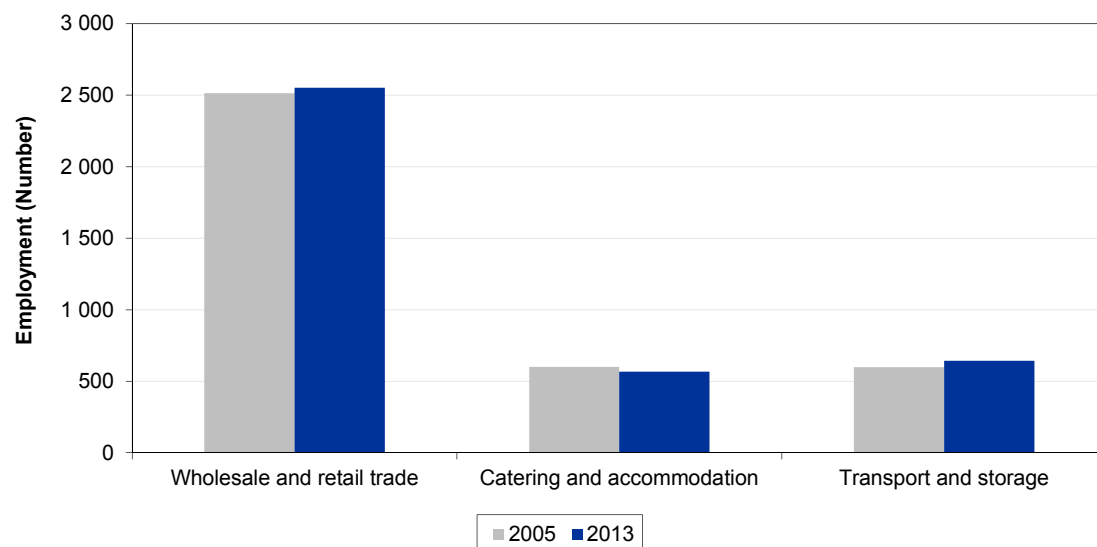
Source: Stats SA and own research

Households consume the greatest proportion of the outputs from the food processing value chain in the CKD. Both the agricultural and food processing backward linkages show strong ties to the wholesale and retail trade sectors, with significant linkages to business services from food processing. Through improving the local food processing industry it will be possible to strengthen the linkage between agriculture and food processing by increasing the demand for output from agriculture being processed in the food sector. The linkage between these sectors in the CKD is currently low, estimated at only 15 per cent of agricultural output flowing to the processing sector. Through increasing output to processing, beneficiation activity will increase the value of GDP created and also allow greater GDP and employment generation in the backward linked sectors such as the trade and business services sectors in the local area.

3.5.3 Employment and output analysis

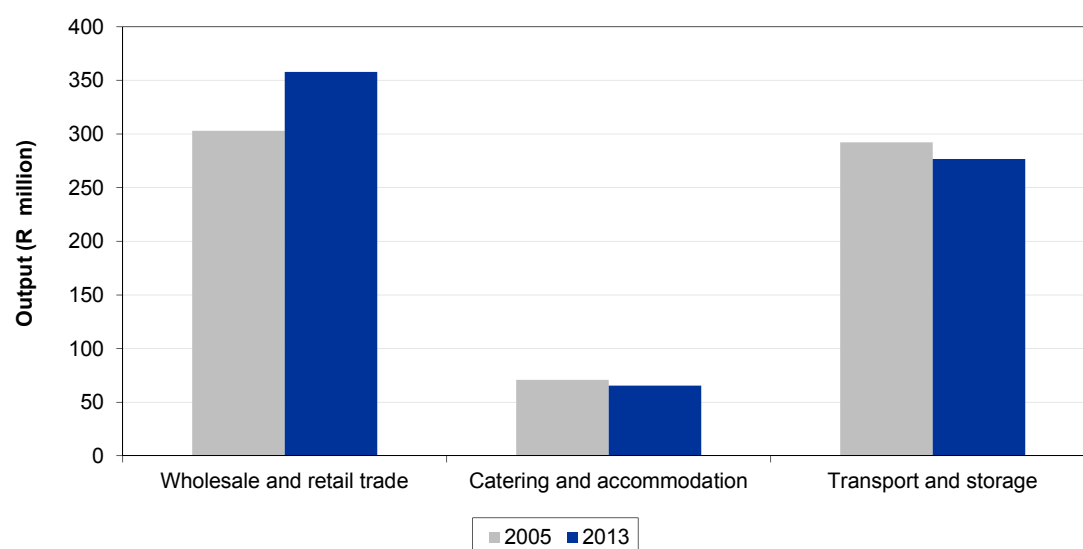
Tourism

The key sectors related to tourism through backward linkages are catering and accommodation, transport and storage and trade. Figure 3.6 below depicts employment numbers in 2005 and 2013. Employment in wholesale and retail trade increased by 1.5 per cent from 2005 to 2013, catering and accommodation employment decreased by 5.7 per cent and with transport and storage increasing by 7.7 per cent over the same period.

Figure 3.6 Employment in tourism-related sectors, Central Karoo District, 2005 - 2013

Source: Quantec Research

The sector most closely linked with tourism in terms of backward linkages is catering and accommodation; 87 per cent of the output from accommodation and 51 per cent of output from restaurants in the CKD is dedicated to the tourism industry. Figure 3.7 shows that output in catering and accommodation has decreased by 7.5 per cent between 2005 and 2013. The wholesale and retail trade sector showed an output increase of 18.1 per cent and transport and storage decreased by 5.3 per cent over the same period. The decrease in employment and output in the catering and accommodation sector should be considered as a challenge and a risk to the tourism industry in the CKD. Catering and accommodation has the strongest forward linkage to the tourism industry and has been declining in the region over the past decade.

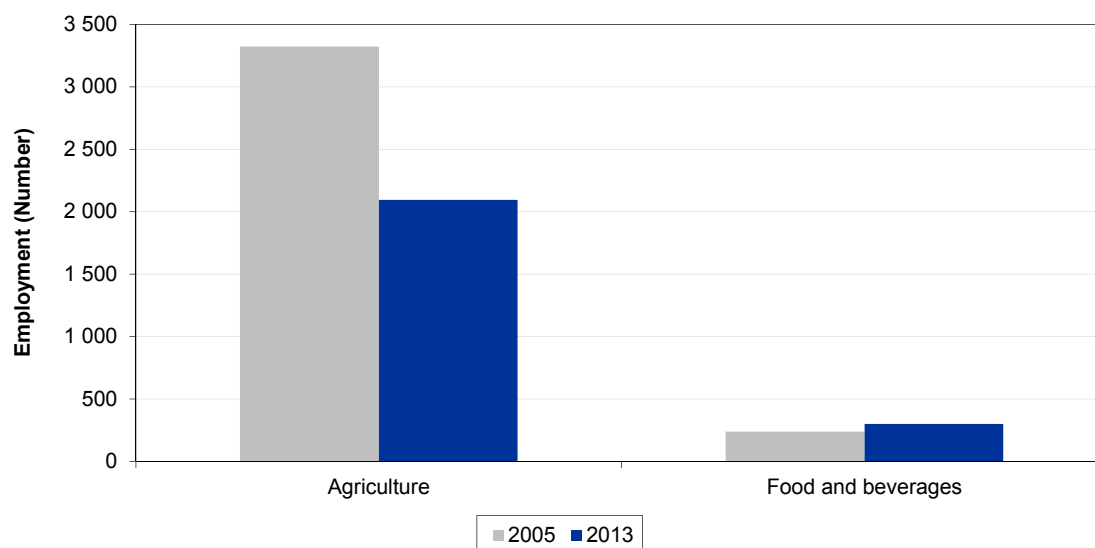
Figure 3.7 Output in tourism-related sectors, Central Karoo District, 2005 - 2013

Source: Quantec Research

Agri-processing

Significant employment declines are evident in the agricultural sector. Figure 3.8 shows that agricultural employment decreased by 37 per cent between 2005 and 2013⁵. In contrast, employment in food and beverages increased by 25.6 per cent.

Figure 3.8 Employment in agri-processing-related sectors, Central Karoo District, 2005 - 2013

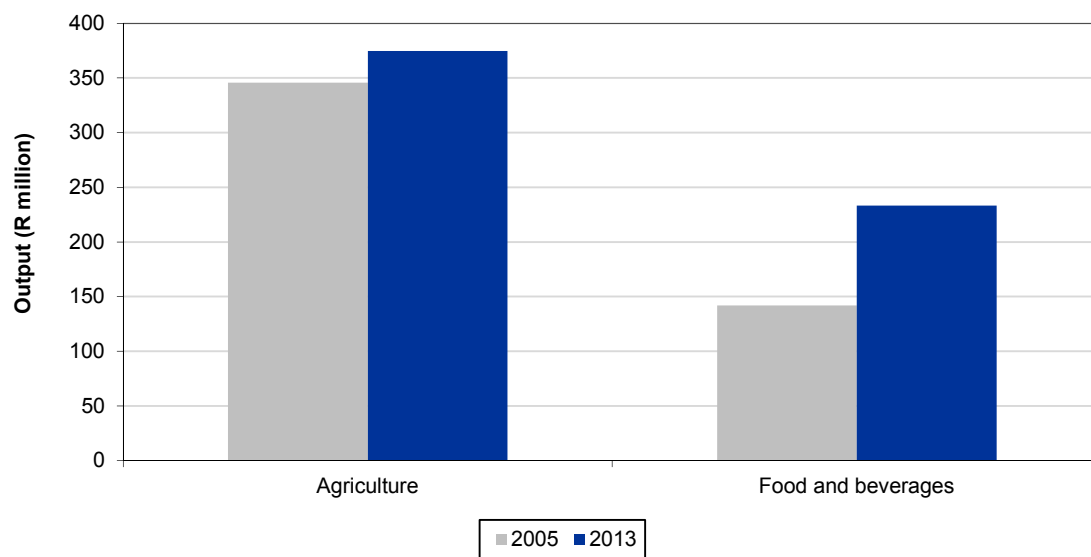


Source: Quantec Research

Declines in agricultural employment are common throughout the Western Cape as farmers have become more mechanised. There is a movement to mechanisation by farmers (Troskie 2015). In terms of the current value chain analysis, it is important to note that this trend will most likely not change, as it is an international trend and a necessity to stay competitive.

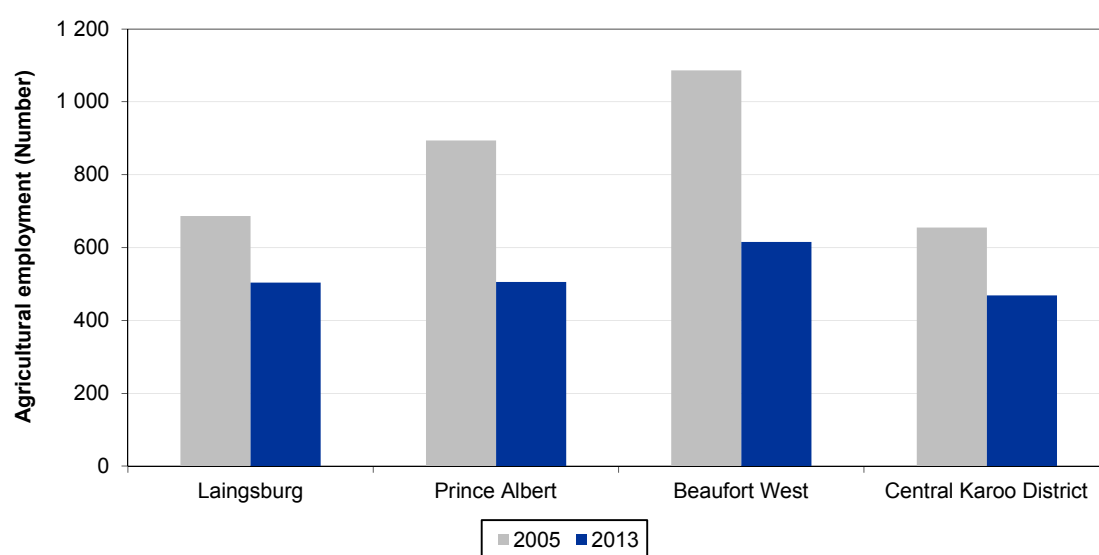
In most instances the decrease in employment in agriculture is due to the competitive environment and the input cost pressure commercial farmers' face. Figure 3.9 shows that output in the agricultural sector increased by 8.4 per cent between 2005 and 2013. This signifies that the employment losses in the industry do not directly correlate with output losses. Farmers are still producing greater quantities of output, despite lower employment. Support initiatives or intervention trying to boost employment in agriculture will not be successful if the reason for these employment declines is related to competitive strategies by commercial farmers.

⁵ The latest aggregate information indicates that the declining trend in Western Cape and national agricultural employment is showing signs of stabilizing; in fact, some increase in employment was registered over the 2011 - 2013 period. It may be more difficult to arrest the trend in the CKD.

Figure 3.9 Output in agri-processing-related sectors, Central Karoo District, 2005 - 2013

Source: Quantec Research

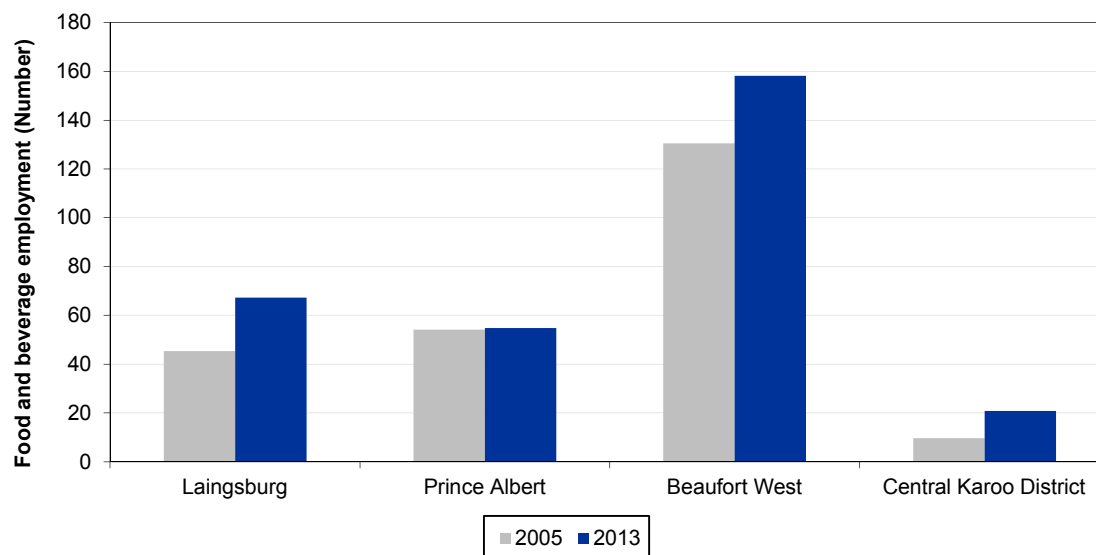
As output in agriculture and food and beverage production have both increased, strengthening the linkage between the agricultural and food and beverages sector will enable greater GDP and employment generation in the CKD. The level of food processing is relatively low in the CKD compared to the Western Cape average. The ratio of food and beverage production to agricultural output in the Western Cape was 1.8 and only 0.65 in the CKD in 2013. This means that in the Western Cape, the food and beverages industry produced 1.8 times the output being produced in agriculture. In the CKD, the food and beverages sector only produced 0.65 the amount of output in the agricultural sector.

Figure 3.10 Agricultural employment shares, Central Karoo District, 2005 - 2013

Source: Quantec Research

Figure 3.10 shows that Beaufort West, as well as Prince Albert, have seen significant declines in agricultural employment. On a positive note, however, various local municipalities have experienced employment growth in the food and beverages sector, as indicated in Figure 3.11. Laingsburg witnessed a 48.4 per cent increase in employment between 2005 and 2013 and Beaufort West, 21.3 per cent.

Figure 3.11 Food and beverage employment across Central Karoo District municipalities, 2005 - 2013

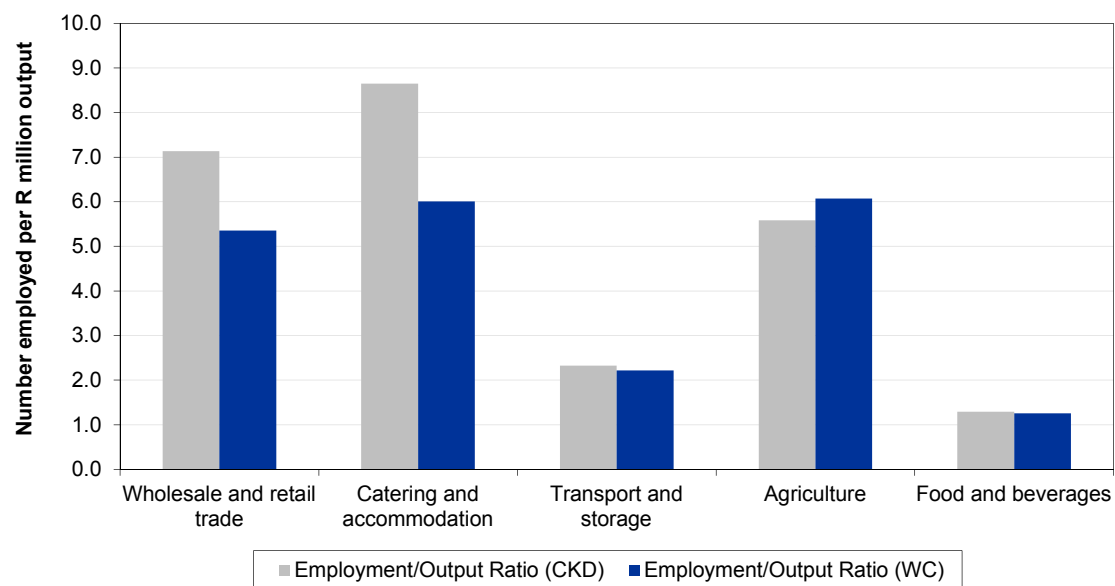


Source: Quantec Research

3.6 Concluding remarks

Tourism in the CKD will benefit from increased marketing activity, as only 17 per cent of visitors to the area heard of it through the internet. The majority of the visitors to the region heard of it via 'word of mouth'. The region also attracts relatively little international tourists, who typically have much higher spending power. Recent declines in employment and output in catering and accommodation indicates a declining sector, which will require support.

Figure 3.12 indicates the relative ratios of the number of people employed per R1 million in output generated in a specific sector. The employment generating potential in the catering and accommodation sector is evident, and especially high in the CKD compared to the Western Cape average. Supporting the tourism industry will provide high returns in employment generation compared to other sectors in the CKD.

Figure 3.12 Number employed per R1 million output generated, Central Karoo District and Western Cape, 2013

Source: Quantec Research

The ability to support beneficiation activity in the agricultural industry can be enhanced through SEZ support in various local areas. In Beaufort West the old hydroponics facility is earmarked for development into an agri-processing zone. This will improve the ability of the area to increase the linkages between the agricultural industry and the agri-processing industry. Another agri-processing facility is planned in Laingsburg. Facilitating the demand for products that are able to be farmed by smaller-scale farmers will allow employment generation in the agricultural industry, without infringing on the business practices of commercial farmers. By focusing on niche markets these value chains can create their own demand through products recognised by geographic indicators.

"Karoo Lamb" is internationally recognised as a superior product; however, local abattoirs must comply with international standards. Facilitation of the processes required for this accreditation could greatly enhance the value added potential of local products. Local olive oil is also considered of a higher standard compared to imported product, due to the fact that olive oil loses quality once it is pressed. The long storage period of imported oil greatly diminishes the quality. As the CKD can support olive production, the facilitation and support of local supply chains to provide product straight to shelves in a short space of time will increase the perception of local brand quality. This should be combined with road-shows and the promotion of the local quality of olive oil to provide a product with a recognised geographic indicator, similar to that of "Karoo Lamb".

4

Infrastructure spending: Review and analysis

4.1 Introduction

Basic services are defined as those services necessary to ensure an adequate standard of living for the inhabitants of a municipality. These services include the provision of water, electricity and housing, as well as waste and waste water management.

Access to public services is a basic right of all South African citizens. As embodied in the White Paper on Local Government, municipalities, in conjunction with the provincial and national spheres of government, have been mandated to provide these services. Given the high levels of inequality and poverty prevalent within the post-apartheid environment, and in conjunction with the introduction of a number of programs aimed at the addressing these issues including the RDP, GEAR, AsgiSA and currently the National Development Plan (NDP), the role of local government in remedying the apartheid legacies and in contributing to an environment conducive to growth and employment has grown substantially. The White Paper on Local Government prioritises the provision of a basic level of household services as one of the key mechanisms through which municipalities will operate in order to affect improvements in the level of inequality and poverty.

Municipalities would not be able to perform this mandate without the proper systems in place to facilitate the provision of basic services. Sufficient investment in the municipal infrastructure which encompass these systems are thus necessary. In addition to raising the standard of living of those to whom these services are rendered, a number of studies have found that increased basic infrastructure delivery has a positive effect on economic growth; and, conversely, higher economic growth affords more successful infrastructure investment. With health being a determinant of labour productivity, both qualitative and quantitative improvements in sanitation, the

water supply and sewage services would have positive spillover effects on economic growth. It has been shown how increasing basic infrastructure by 1 per cent could lead to a 0.36 per cent increase in GDP per capita in rural municipalities and a 0.33 per cent increase in GDP per capita in urban municipalities in South Africa.⁶

Basic service infrastructure thus facilitates the establishment of an environment in which development and growth can be more effectively pursued. It is nevertheless important to note that, for the attainment of robust or continued growth, increased investment in infrastructure of this kind cannot be relied upon in isolation. The economic environment in which the municipality operates is unique to that region, and as such, infrastructure needs vary accordingly. Proper planning, sound project selection and effective implementation of these infrastructure ventures will thus improve both the scale and resilience of the resultant spillovers. It is also essential that the infrastructure (both old and new) is properly maintained (through both effective demand and supply management) if the economic benefits of these investments are to be realised more fully.

Because of the role that basic service infrastructure expenditure plays in attaining local social and economic development, a number of sources (including Quantec and the municipal A-schedules among others) will be used to gauge trends in municipal infrastructure expenditure and expenditure predictions, and the resulting impact on basic service delivery will be assessed.

4.2 Infrastructure development

4.2.1 Overview of municipal expenditure trends in the Central Karoo District

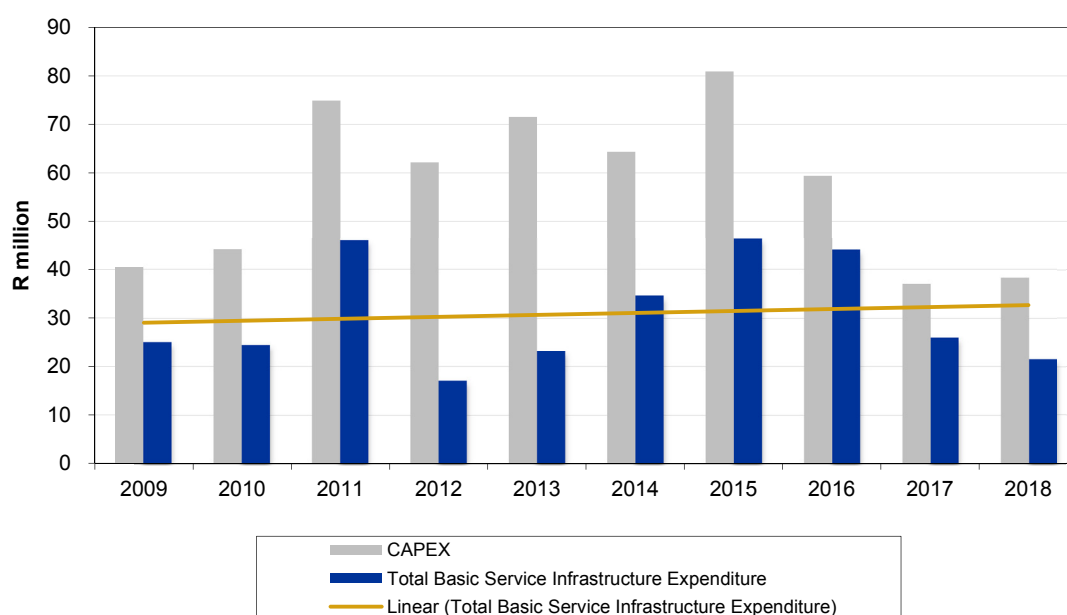
With the growing emphasis being placed on infrastructure investments as a means of facilitating economic growth, as embodied in the National Infrastructure Development Plan, it is essential that municipalities prioritize their budgets accordingly.

The portion of the CKD capital expenditure budget spent on basic services infrastructure has varied significantly (see Figure 4.1); dropping to less than 35 per cent in 2011/12 and 2012/13 from 61 per cent in 2010/11. This decrease in basic services infrastructure investment is visible across most of the CKD municipalities. However in 2013/14 the portion of the capital expenditure budget spent on basic services infrastructure increased to 54 per cent. The 2015 budget planned for a small increase in the portion of the capital expenditure budget spent on basic services infrastructure. The portion of the capital expenditure budget allocated to infrastructure expenditure is expected to increase to 74 per cent in 2015/16 and then 70 per cent in 2016/17 before decreasing to 56 per cent in 2017/18.

⁶ Gnade, H. (2013). *Basic infrastructure delivery and its welfare effect on rural and urban municipalities*. Paper to be presented at the conference of the Economic Society of South Africa, Bloemfontein, September.

Beaufort West Municipality had the highest basic services infrastructure expenditure in the region over the period 2008/09 to 2013/14, with its share ranging from 36 per cent in 2014/15 to 96 per cent in 2011/12 (Table 4.1). It is interesting to note that 2014/15 reflect a decrease in the Municipality's contribution to the District's basic services infrastructure (36 per cent) whilst Prince Albert Municipality planned for an increase from 31 per cent in 2013/14 to 40 per cent in 2014/15. Although Laingsburg Municipality contributed the least to basic services infrastructure expenditure in 2014/15 (24 per cent), the municipality plans to contribute the highest in 2015/16 (52 per cent).

Figure 4.1 Central Karoo District Total capital expenditure vs basic service infrastructure expenditure: 2009 – 2018



Source: Western Cape Provincial Treasury

It is clear CKD municipalities vary enormously on how much they spend on basic services infrastructure and by how much it grows yearly. This reflects a wide array of financial and demographic factors faced by each municipality. Beaufort West Municipality not only leads the pack in terms of contribution to basic services infrastructure expenditure in 2013/14 but also in terms of GDPR, contributing 69 per cent of the region's GDPR in 2013. On the other hand, Prince Albert and Laingsburg Municipalities contribute smaller shares to both GDPR and basic services infrastructure expenditure.

Basic services infrastructure expenditure per capita also varied significantly across the municipalities, with Prince Albert spending the most (R785), followed by Laingsburg (R452) and Beaufort West (R395). It is interesting to note that although Beaufort West Municipality contributes the most to both GDPR and basic services infrastructure expenditure, the Municipality recorded the lowest per capita basic services infrastructure expenditure in 2013/14.

Table 4.1 Central Karoo District basic service infrastructure expenditure as % of total Central Karoo District expenditure⁷

Municipality	GDPR share 2013	2010	2011	2012	2013	2014	2015	2016	2017	2018
Laingsburg	9%	12%	0%	1%	18%	11%	24%	52%	15%	31%
Prince Albert	14%	0%	11%	3%	6%	31%	40%	16%	38%	27%
Beaufort West	69%	88%	88%	96%	76%	58%	36%	32%	47%	41%
Total⁸	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Western Cape Provincial Treasury and Quantec Research

The ratio of basic infrastructure investment to GDPR is an important indicator of the District's performance in basic services infrastructure investment. During the period 2008/09 to 2010/11 the ratio of basic services infrastructure investment to GDPR showed a consistent upward trend. The year 2011/12 can be considered as a year of a basic services infrastructure investment slump. During this period, the ratio fell from 3.0 per cent (2010/11) to 1.0 per cent (2011/12). However, from 2011/12 the ratio increased to 2.1 per cent in 2013/14.

Due to the significant budgetary constraints facing municipalities, and considering the specific needs of the inhabitants of the respective municipalities, it is essential that funds are allocated toward those projects which would have the most significant effect on economic growth.

Table 4.2 Central Karoo District basic service infrastructure expenditure per budget line item, 2014

Budget Line Item	Laingsburg	Prince Albert	Beaufort West	Total
Housing	0%	0%	0%	0%
Electricity	1%	0%	47%	28%
Water	58%	58%	23%	38%
Waste Water Management	41%	42%	22%	31%
Waste Management	0%	0%	7%	4%
Total	100%	100%	100%	100%

Source: Western Cape Provincial Treasury

As shown in Table 4.2 water provision was the largest basic services infrastructure expenditure item in the CKD, comprising 38 per cent of the total basic services expenditure within the region in 2013/14. Water provision is the highest basic services infrastructure expenditure item in Laingsburg and Prince Albert municipalities; each allocated 58 per cent their basic services infrastructure expenditure to water provision. The CKD is well known for its scarce underground water sources and meteorological drought that could potentially impact water provision. The need to mitigate these unforeseen climate changes results in the prioritisation of investments in water infrastructure.

⁷ Basic services infrastructure expenditure is calculated per financial year.

⁸ Central Karoo District Municipality also contributed the regions' basic services infrastructure investment in 2010/11 and GDPR but has been excluded from the table.

Waste water management was the second highest expenditure item in CKD (31 per cent). Laingsburg Municipality allocated 41 per cent of its total basic services infrastructure budget to waste water management, Prince Albert 42 per cent and Beaufort West 22 per cent.

Waste management and housing accounted for 4 per cent and zero per cent respectively of the total basic services expenditure within the region in 2013/14. The main obstacle to housing provision is a rapidly growing population, inadequate funding and inadequate capacity of bulk infrastructure. In Prince Albert Municipality the in-migration and farm evictions have placed pressure on the Municipality to deliver more houses.

Electricity expenditure took up 28 per cent of the total basic services infrastructure expenditure within the region in 2013/14. Whilst Beaufort West prioritised electricity provision (47 per cent of its basic services infrastructure expenditure), Laingsburg and Prince Albert allocated 0.9 and 0.06 per cent respectively of their basic services infrastructure budget to electricity provision. The relatively smaller contribution made by electricity to basic services infrastructure investment could be a result of intergovernmental arrangements. For example, municipalities and Eskom are both responsible for the supply of electricity; hence Eskom also makes investments in electricity infrastructure.

4.2.2 Basic services infrastructure investment and economic growth

Economic theory illustrates that investment in economic infrastructure supports economic growth both directly, through capital accumulation, and indirectly through improved factor productivity⁹. A key mechanism through which the South African Government aims to accelerate economic growth is through infrastructure investment particularly for basic services. Infrastructure is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. Access to basic necessities such as housing, water, sanitation and refuse removal is a prerequisite for economic growth.

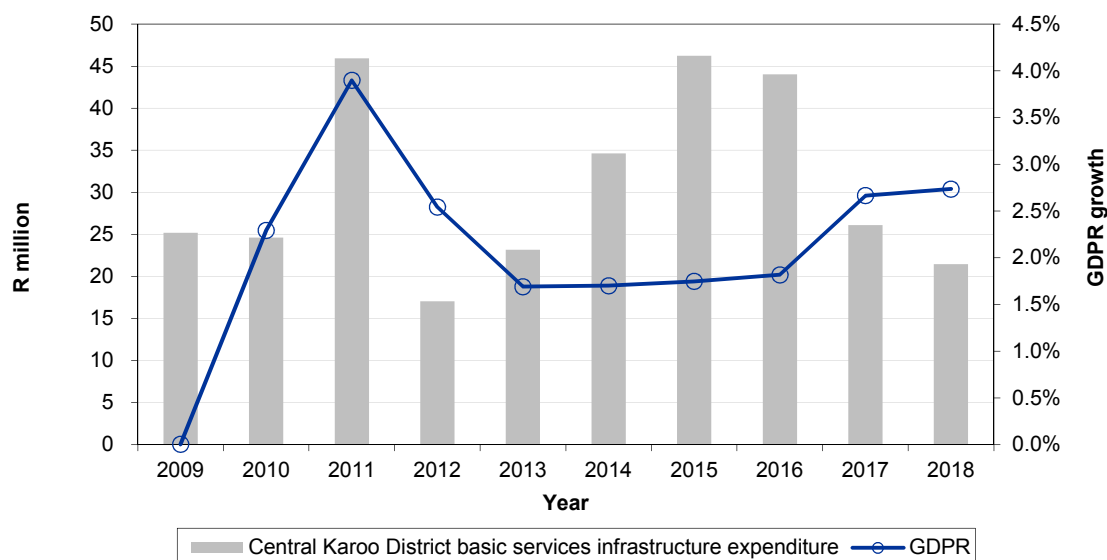
Figure 4.2 provides an approximation of the relationship between infrastructure expenditure and economic growth. Over the period 2008/09 to 2010/11 CKD experienced years of high growth in basic services infrastructure expenditure. This period was followed by a 62 per cent decline in basic services expenditure in 2011/12. The growth in basic services infrastructure expenditure accelerated once more over the period 2012/13 to 2013/14.

⁹ Fedderke, J.W., & Bogetić, Ž. (2009). Infrastructure and growth in South Africa: Direct and indirect productivity impacts of 19 infrastructure measures. *World Development*, 37(9), 1522-1539.

The CKD economy showed signs of recovery from registering no growth in 2009 to a growth of 3.9 per cent in 2011. However, since 2011 it has tapered down markedly to a paltry 1.7 per cent in 2014. It appears that the year 2012 not only recorded a substantial decrease in basic services infrastructure expenditure but also a decline in the GDPR growth rate. Amongst other factors, the substantial decline in actual infrastructure spending in 2012 could have had a direct negative impact on GDPR and also longer term repercussions on the District's economy.

It is important to note the role played by time lags in between basic services infrastructure investment and the resulting impact on economic growth. Infrastructure investment will have both a direct and an indirect effect on GDPR. Whilst the direct effect is a result of the share of Gross Domestic Fixed Investment by Government in GDPR the indirect effect is a result of multiplier or knock-on effects within the economy.

Figure 4.2 GDPR growth vs total basic service infrastructure expenditure: 2009 - 2015



Source: Western Cape Provincial Treasury

The different basic services infrastructure expenditures have made different contributions to GDPR growth within the CKD municipalities. Water and electricity contributed to GDPR within the region. From Table 4.3 it is clear that the electricity sector expanded by 0.2 per cent whilst the water sector contracted by -4.2 per cent per annum in real terms over the 2000 to 2013 period. This performance falls below the non-metro Districts' performance, which recorded a growth rate of 0.2 per cent for electricity and 2.3 per cent for water over the corresponding period. A closer look at the region's water and electricity sectors shows that 100 per cent of the region's water sector is located in Beaufort West Municipality whilst 56 per cent and 44 per cent of the District's electricity sector is located in Laingsburg and Beaufort West municipalities respectively. Although Beaufort West makes meaningful contributions to the electricity and water sectors, the Municipality experienced sharp contractions within these sectors.

Table 4.3 Central Karoo District: Water and electricity GDP composition by municipality, 2013

Municipality	Electricity		Water	
	% share	Ave growth 2000 - 2013	% share	Ave growth 2000 - 2013
Laingsburg	56%	6.0%	0%	0%
Prince Albert	0%	0%	0%	0%
Beaufort West	44%	-3.6%	100%	-4.2%
Total	100%	0.2%	100%	-4.2%

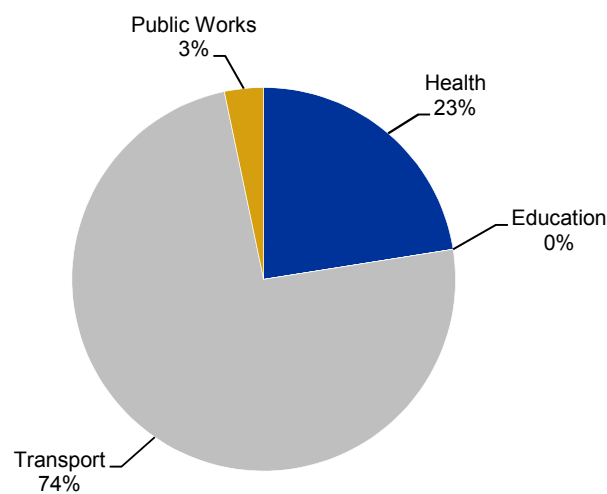
Source: Quantec Research

The contraction of the electricity sector over the period 2010 - 2013 (0.1 per cent) is a reflection of the current infrastructure challenges in the sector and the impact these infrastructure challenges have on economic growth. These infrastructure issues in turn have had ripple effects on the productivity of a variety of industries. Therefore it is important for government to address these issues and accelerate basic services infrastructure investment.

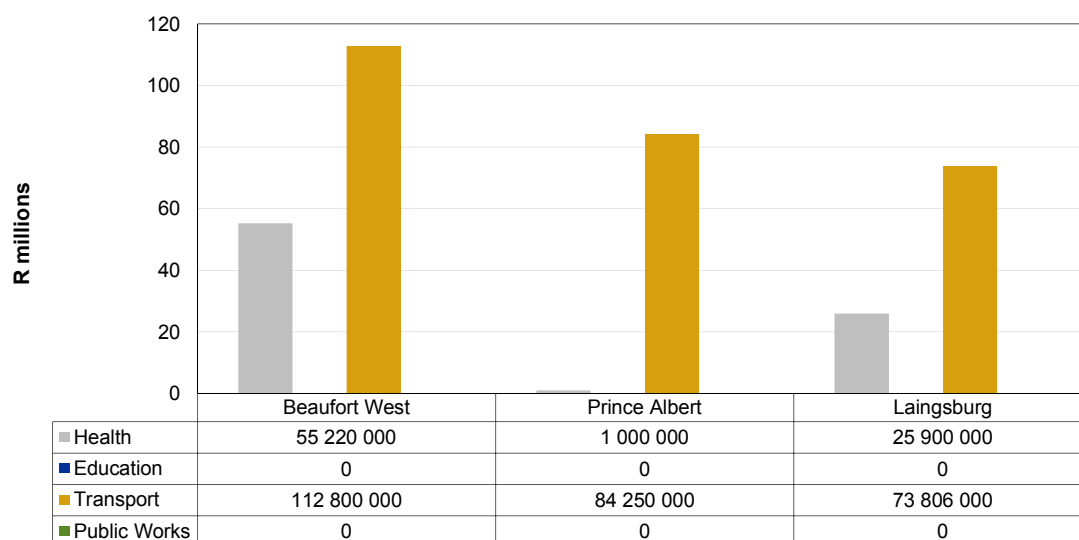
4.2.3 Western Cape Government infrastructure spending in Central Karoo

Apart from infrastructure expenditure the Central Karoo municipalities are mandated to do, the Western Cape Government (WCG) has other mandates such as education, health, roads and public works infrastructure spending. The 2015 - 2018 budget shows that the WCG will be spending on various infrastructure projects across all districts - see Figure 4.3 for a breakdown of the WCG's planned infrastructure expenditure projects for education, health, roads and human settlements in Central Karoo. Figure 4.4 shows a breakdown per municipality in the region.

Transport infrastructure projects in the CKD received the bulk (R270.8 million or 74 per cent) of the allocations from the WCG for the period 2015 - 2018, followed by health (R82.1 million or 23 per cent) and public works (R12 million or 3 per cent). The expenditure breakdown of the infrastructure projects per municipality also shows that transport infrastructure projects receive the largest budget allocations in all the three municipalities, with Beaufort West (R112.8 million over the MTREF period) leading, followed by Prince Albert (R84.2 million) and Laingsburg (R73.8 million). Health infrastructure projects receive the second highest allocations in all three municipalities. This infrastructure expenditure by the WCG is expected to unlock economic potential in the CKD.

Figure 4.3 Composition of WCG infrastructure expenditure - Central Karoo District

Source: Provincial Treasury Infrastructure Unit

Figure 4.4 WCG Expenditure on infrastructure - Central Karoo District, 2015 - 2018

Source: Provincial Treasury Infrastructure Unit

4.3 Basic services infrastructure and access

In order to effectively realise the positive spillovers resulting from investment in basic service infrastructure, it is essential that these increased capital expenditures are translated into the delivery of services. As Government strives to achieve universal access to basic services it is important to obtain an understanding of our current status in basic services delivery in order to develop appropriate interventions. Statistics South Africa, through the annual Non-financial Census of municipalities, tracks the levels of service delivery within municipalities in the country. The diverse nature of our municipalities in terms of their financial capacity and administrative capabilities requires a differentiated set of policies and interventions to improve service delivery and cope with growing demand.

Table 4.4 Central Karoo District access to basic services trend; change in the number of consumer units: 2009 - 2014

Municipality	Water	Electricity	Sewer and Sanitation	Refuse
Beaufort West	3 844	3 343	3 364	3 436
Laingsburg	38	35	123	-21
Prince Albert	97	-364	245	272
Total Central Karoo District	3 979	3 014	3 732	3 687
Western Cape Province	233 800	51 985	102 895	-42 615
South Africa	1 797 335	2 177 095	1 255 080	662 690

Source: Stats SA: Non-financial Census of Municipalities

Table 4.4 shows the changes in the number of consumer units¹⁰ with access to basic services from 2009 to 2014. According to the Census, the highest increases in the country were recorded in the provision of electricity. The Western Cape Province and CKD recorded the highest increases in the provision of water. These increases are encouraging as the District is well known for its drought and changing climate conditions which lead to declining ground water supplies, declining dam levels and could compromise household access to water. Prince Albert Municipality recognises the need to adopt water management strategies, reduce unaccounted water losses and systems in which the Municipality can identify and respond to adverse climate conditions in order to minimize their impact on socio-economic conditions.

From the table it would appear Beaufort West Municipality made the biggest progress in improving access to basic services across all utilities. However, it is important to note that Beaufort West Municipality is the largest in terms of population size. The changes in the number of consumer units with access to basic services is a reflection of different population sizes, economic activity and challenges that municipalities face in basic service delivery.

Laingsburg Municipality also recorded increases in consumers with access to all utilities except for refuse removal (see Table 4.4). Despite having the smallest population in the region, the Municipality still faces challenges in basic service delivery due to the low density of its population. The Municipality recognizes the challenge it faces in providing refuse removal services to its farming community.

Much improvement was shown in the provision of refuse removal services in Prince Albert except for electricity which declined slightly between 2009 and 2014. Despite this improvement, refuse removal is the biggest concern for the Municipality as there are some households that do not have access to refuse removal services. The decrease in the number of consumer units with electricity within the municipal area is a cause for concern. Increases in electricity tariffs and the growth of informal settlements, where the main energy source is paraffin and candles, are possibly the main contributing factors to the decline in electricity usage. The use of gas, coal, wood or paraffin as alternative sources of energy is common in the farming areas of Prince Albert.

¹⁰ A consumer unit is the term used to refer to a billing unit provided services by the Municipality.

The varying number of consumer units with access to basic services is a reflection of the different demographic circumstances of each municipality and the number of consumer units that fall within each municipality's jurisdiction. The main obstacle to accelerating basic services delivery in the region is a growing population, ageing infrastructure and limited finance. Although municipalities potentially have a wide array of financial instruments to use in meeting their service delivery responsibilities, they do rely mostly on revenue from services rendered. As such, the following section analyses municipal revenue trends in the CKD.

4.4 Municipal revenue trends in the Central Karoo District

In order to sustain economic growth and preserve the standard of living of the inhabitants of the municipality, both quantitative and qualitative improvements to the stock of basic service infrastructure need to be maintained. It is essential that the infrastructure (both old and new) is properly preserved if the economic benefits of these investments are to be realised more fully. One source through which the maintenance and improvement of basic service infrastructure can be funded is from the charges levied for the basic services rendered by the municipality. The revenue generated from these sources often makes up a significant portion of the municipality's total revenue, and tends to fluctuate along with the economy.

As is the case with basic service infrastructure expenditure, Beaufort West Municipality leads the pack in terms of contribution to revenue generation within the District. The Municipality accounted for 77 per cent of the District's basic services revenue in 2013/14. It is important to note that close to 70 per cent of the District's population is located in Beaufort West Municipality. The remaining 30 per cent of the population is split between Laingsburg and Prince Albert Municipalities; these municipalities accounted for 11 per cent each of the District's basic services revenue collection. Prince Albert Municipality has the highest poverty rate in the District, which impacts negatively on the Municipality's contribution to the District's basic services revenue.

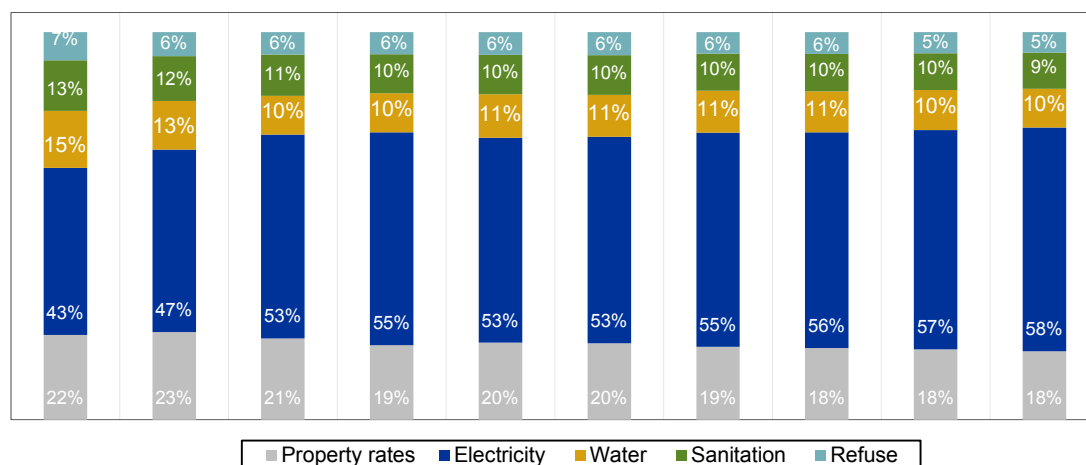
Table 4.5 illustrates the percentage change in revenue generation from property rates and trading service charges per municipality in the CKD. Since 2010/11 revenue generation has shown a consistent upward trend across all municipalities albeit at different rates. CKD revenue grew by an annual average rate of 13 per cent between 2009/10 and 2013/14. Revenue growth was highest during 2009/10 to 2011/12 fiscal years when real economic growth was higher too; thereafter (2012/13 - 2013/14) economic growth and revenue growth tapered off. The District forecast indicates that revenue collected from property rates and trading services will increase over the 2015/16 Medium Term Revenue and Expenditure Framework (MTREF).

Table 4.5 Central Karoo District: Percentage change in revenue generated per municipality, 2009 - 2018

Municipality (% change)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Laingsburg	249%	12%	21%	7%	13%	15%	14%	6%	6%
Prince Albert	-15%	46%	12%	4%	6%	16%	16%	8%	7%
Beaufort West	13%	9%	21%	10%	8%	12%	8%	10%	11%
Total Central Karoo District	18%	9%	20%	9%	8%	13%	9%	10%	10%

Source: Western Cape Provincial Treasury

Figure 4.5 illustrates the contribution of property rates, electricity, water, sanitation and refuse revenue toward total revenue generated from the rendering of basic services in the CKD. Although both local municipalities and Eskom are responsible for the supply and billing of electricity consumption in the area, electricity contributes to more than 50 per cent of the District's basic services revenue. The graph shows that over the 2008/09 to 2013/14 financial period electricity revenue contributed the most to total revenue generated within the region whilst refuse revenue contributed the least. The District forecast indicates that revenue generation from property rates and trading services will follow the same trend with electricity contributing the most to revenue followed by property rates, water and then sanitation and refuse removal revenue.

Figure 4.5: Central Karoo District: Service charges as a % of total revenue generated from basic services delivered

Source: Western Cape Provincial Treasury

The projected revenue from other basic services is based on current and past consumption trends, number of households receiving the services and current economic conditions. The increases are necessary to address infrastructure maintenance requirements and ensure sustainable service delivery. The differences in revenue collected from property rates and other trading services may be a result of different tariff price structures for property rates and trading services. National Treasury often encourages municipalities to carefully review their tariffs to ensure they are cost reflective, are structured to ensure provision to indigent groups and encourage sustainable consumption. Cost reflective tariffs will ensure infrastructure is maintained.

Table 4.6 shows the municipal composition of GDPR in 2013 and the average real GDPR growth for the local municipalities over the period 2005 - 2013. This is compared to the share of revenue generated from basic services rendered per municipality in 2013/14.

Table 4.6 Central Karoo District GDPR growth vs revenue shares in 2013/14

Municipality	Revenue % share	GDPR % share	GDPR growth 2005 - 2013
Laingsburg	11%	9%	2.6%
Prince Albert	11%	14%	4.5%
Beaufort West	77%	69%	3.8%
Total Central Karoo District	100%	92%	3.88%

Source: Western Cape Provincial Treasury and Quantec Research

Prince Albert is the fastest growing municipality in the region. The Municipality grew at 4.5 per cent over the period 2005 - 2013 (above the District's average) but only contributed 11 per cent to the region revenue collection in 2013/14, which was below its GDPR share in 2013. This relatively smaller contribution to revenue collection despite an above average GDPR growth rate presumably reflects a relatively small tax base or population. The contribution of Beaufort West Municipality to revenue collection is notable. The Municipality leads the pack in terms of contribution to both GDPR and revenue and recorded a GDPR growth rate of 3.8 per cent per annum. Laingsburg Municipality grew below the District's average GDPR growth and contributed 11 per cent to revenue contributed.

The difference in revenue collection across the municipalities is a reflection of their revenue base, tariff price structures and the administrative capabilities of municipalities to collect revenue. The revenue base is influenced by economic and demographic factors such as income levels and number of indigent consumers.

In comparison to other Western Cape Districts, basic services revenue contributes the least to total operating revenue in the CKD; ranging from 31 per cent in Laingsburg to 45 per cent in Beaufort West. Basic services revenue is an important source of revenue and municipalities must do more to exploit the potential of these revenue sources. It is imperative that every effort must be made to ensure the municipalities practice accurate billing and revenue collection (revenue management) and also to ensure every parcel within its jurisdiction is accounted for (revenue enhancement). This analysis of revenue trends confirms the need to continuously adapt revenue enhancement and revenue management strategies within municipalities in order to provide basic services. Revenue increasing strategies include expansion of service delivery, debt collection strategies, minimizing electricity and water losses. For example unaccounted electricity losses in Beaufort West Municipality (11.5 per cent in 2013/14) limit revenue generation.

4.5 Concluding remarks

Basic services delivery is the primary responsibility of municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. Basic service infrastructure investment is not only an essential part to improving livelihood but also aids in the creation of jobs during development and maintenance and improving the competitiveness of private businesses. The data presented in this chapter analysed the state of basic services delivery, basic services infrastructure investment and revenue generation within CKD.

Economic activity within the District is mostly concentrated in Beaufort West Municipality. The municipality not only leads the pack in terms of contribution to GDPR, but also in terms of basic services infrastructure expenditure and basic services revenue collection. On the other hand, Prince Albert and Laingsburg Municipalities contribute smaller shares to GDPR, basic services infrastructure expenditure and revenue collection. This relatively smaller contribution to revenue collection observed in Prince Albert and Laingsburg Municipalities reflects the relatively small tax bases within these municipalities. It is interesting to note that, despite Prince Albert Municipality's smaller contribution to GDPR, the Municipality recorded the highest GDPR growth rate within the District.

The biggest challenge the District faces is the result of drought and changing climate conditions, which lead to declining ground water supplies, declining dam levels and could compromise household access to water. The local municipalities recognize the need to develop disaster management strategies and improve water storage infrastructure. It is important that funds are allocated towards the development and maintenance of basic services infrastructure. These investments support economic growth both directly, through capital accumulation, and indirectly through improved factor productivity.

5

Socio-economic analysis and economic performance

5.1 Introduction

The 2014 Municipal Economic Review and Outlook (MERO) provided a socio-economic analysis of each Western Cape district region. This is important as the analysis showed the relationship between economic growth and social development. It provides the Western Cape Province, and more specifically its respective municipalities, with the intelligence needed to understand their socio-economic reality and also the impact the economy has on it. The 2015 MERO study aims to do the same, with a larger focus on the quality of life.

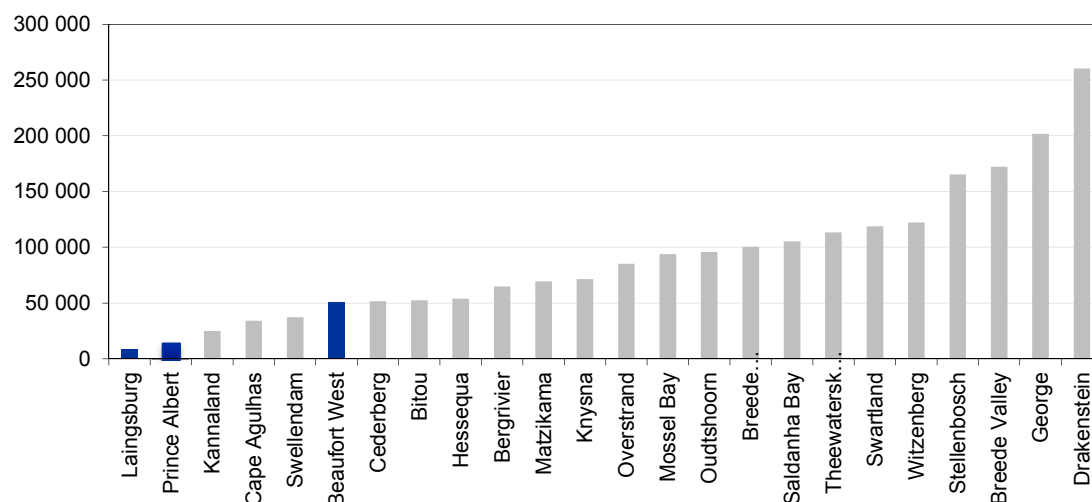
This chapter creates a link between the information provided in the Socio-economic Profiles of 2014, as released by the Western Cape Provincial Treasury, and economic performance. The socio-economic analysis will cover topics relating to human development, i.e. income, education and health, as well as crime and access to basic services within the district. Each topic is discussed in relation to the District's economic performance.

5.2 Population profile

According to the Western Cape Department of Social Development, the Western Cape Province had 6.1 million people in 2014, having increased from 5.8 million in 2011. The population growth rate averaged 2.3 per cent per annum over the period 2001 to 2013. The population growth rates experienced within the CKD is below this trend, averaging 1.5 per cent per annum over the period under review. Municipal specific growth rates across the district nevertheless vary, with population growth in Laingsburg (which is the smallest municipality in the Province) averaging 1.9 per cent, Prince Albert averaging 2.0 per cent and Beaufort West averaging 2.6 per cent. The discrepancies in these growth rates imply that population growth does not stem entirely from natural causes, but is also related to net migration.

At the end of 2014, the total population in the CKD stood at 73 019, and it comprised only 1.2 per cent of the total population of the Western Cape, making it the smallest non-metro district in the Province. The largest district, Cape Winelands, had a population of 820 695 (which is 11 times the population in the Central Karoo). Laingsburg and Prince Albert are the smallest local municipalities in the Province with a population of 8 363 and 13 564 respectively as at the end of 2014. Beaufort West, the largest in the District with a population of 51 110, is the 6th smallest local municipality in the Province.

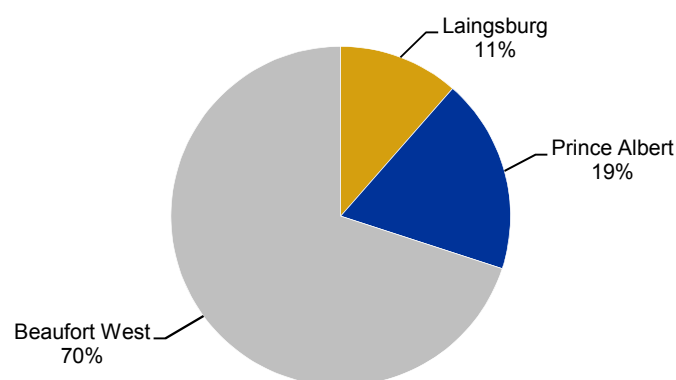
Figure 5.1 Population by local municipality, 2014



Source: Western Cape Department of Social Development, 2014

Beaufort West's population comprises 70 per cent (Figure 5.2) of the District's 73 019 inhabitants. The remaining 30 per cent of the District's population is split between Prince Albert (19 per cent) and Laingsburg (11 per cent).

Figure 5.2 Central Karoo District population distribution, 2014



Source: Western Cape Department of Social Development, 2014

It is essential to consider the geographical distribution of the population in order to ensure that funds are apportioned and services are delivered as and where necessary. As population increases exert further strain on municipal resources, it is desirable that population growth be accompanied by at least as fast a rate of growth in the economy if standards of living are to be maintained.

5.3 Human development

Human development is described by the *United Nations Development Programme (UNDP)* as widening people's choices and their level of well-being. The UNDP (2010) further indicates that human development is achieved by means of two dimensions namely, enhancing human abilities as well as creating the conditions for human development. Enhancing human abilities is created by means of enabling people to live a long and healthy life, obtain knowledge and possess a decent standard of living. Creating conditions for human development include facilitating participation in political and human life, environmental stability, gender equality, and human security and rights.

The Human Development Index (HDI) has been developed to measure human development. The Index is a composite statistical index of life expectancy, education indices and income indices. In 2013 it averaged at 0.71 in the Western Cape Province, outperforming the National HDI of 0.66. Overall, all municipalities in the Province's HDIs have shown improvement from 2001 to 2013, largely due to the improving literacy rates and per capita income in the majority of the municipalities.

Table 5.1 Human Development Index, 2001 - 2013

	2001	2011	2012	2013
Laingsburg	0.53	0.62	0.63	0.64
Prince Albert	0.51	0.61	0.63	0.64
Beaufort West	0.54	0.62	0.63	0.65
Central Karoo District	0.54	0.62	0.63	0.64
Western Cape	0.66	0.70	0.71	0.71

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

The same holds true for the CKD as seen in Table 5.1. All municipalities in the District have seen significant improvement in the level of human development. Beaufort West has an HDI of 0.65, which is the highest in the District. The HDIs in Laingsburg and Prince Albert are slightly below that of Beaufort West at 0.64. Prince Albert has shown the largest improvement in HDI (which stood at 0.51 in 2001). The District HDI (and consequently the HDIs of all the local municipalities in the District) is nevertheless below the national and provincial average.

The relatively low HDI levels within the CKD indicate that its inhabitants experience a lower standard of living (on average) than those residing elsewhere in the country. Furthermore, it is important to note the divergence in the HDIs among the different race categories in the District. In 2013, the HDI for those classified as "African" and "Coloured" stood at 0.60 each, while the HDI for those classified as "White" stood at 0.88. Policy makers should take cognisance of these inequalities if equitable development is to be achieved.

Sections 5.3.1 through 5.3.3 consider the various elements of human development relating to the HDI, e.g. income levels, education and health, each in relation to the economy.

5.3.1 Income

As noted, the average population growth rate in the Western Cape over the period 2001 - 2013 has been 2.3 per cent per annum. The Western Cape economy grew at a rate of 3.8 per cent on average per annum from 2001 to 2013. The fact that the regional economy grew faster than the population within the Province indicates that per capita income has increased over time, ensuring improvements in the standards of living for the Province's inhabitants. The per capita income (based on 2005 prices) increased from R37 502¹¹ in 2001 to R44 553 in 2013¹².

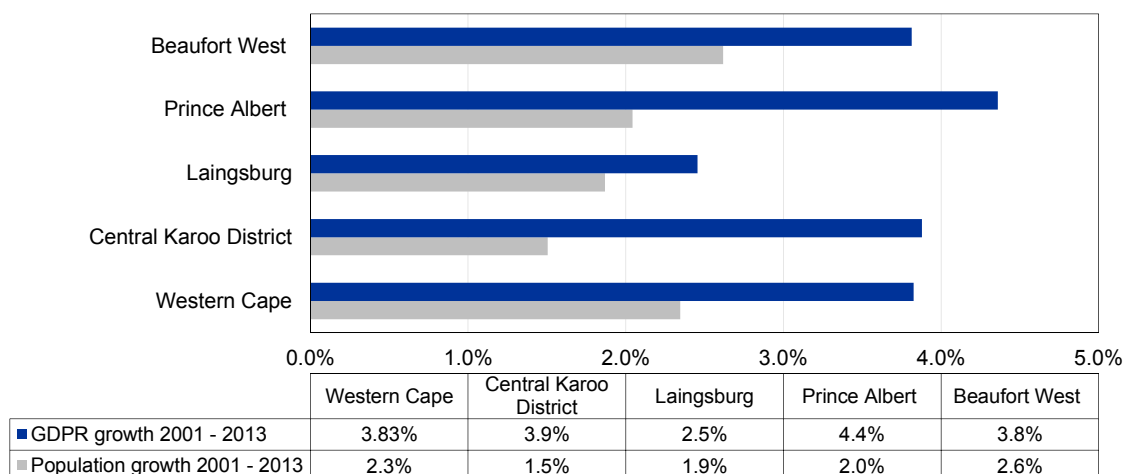
Per capita income in the CKD has increased by 32 per cent from R16 606 in 2001 to R21 917 in 2013, and grew by 2.3 per cent annually (thus exceeding the Provincial growth rate of 1.4 per cent). As seen in Figure 5.3, the District's population grew at a rate of 1.5 per cent per annum, which was significantly slower than its economic growth rate of 3.9 per annum for the same period.

Laingsburg Municipality achieved only moderate per capita income growth (averaging 0.6 per cent per annum). The Municipality's population growth rate exceeded the average population growth rate in the District, while its GDPR growth rate was 1.4 percentage points below average GDPR growth in the District. This imbalance between the population and GDPR growth in the municipality may have inhibited growth in per capita income.

GDPR growth in Prince Albert outstrips both the District and Provincial GDPR growth, while the municipality's population growth lies below the Provincial rate. This underpins the municipality's relatively high GDPR per capita growth rate of 2.3 per cent per annum (which exceeds Provincial GDPR per capita growth of 1.4 per cent per annum).

¹¹ Own calculations based on Western Cape Department of Social Development population statistics (2014) and Quantec GDPR data (2015).

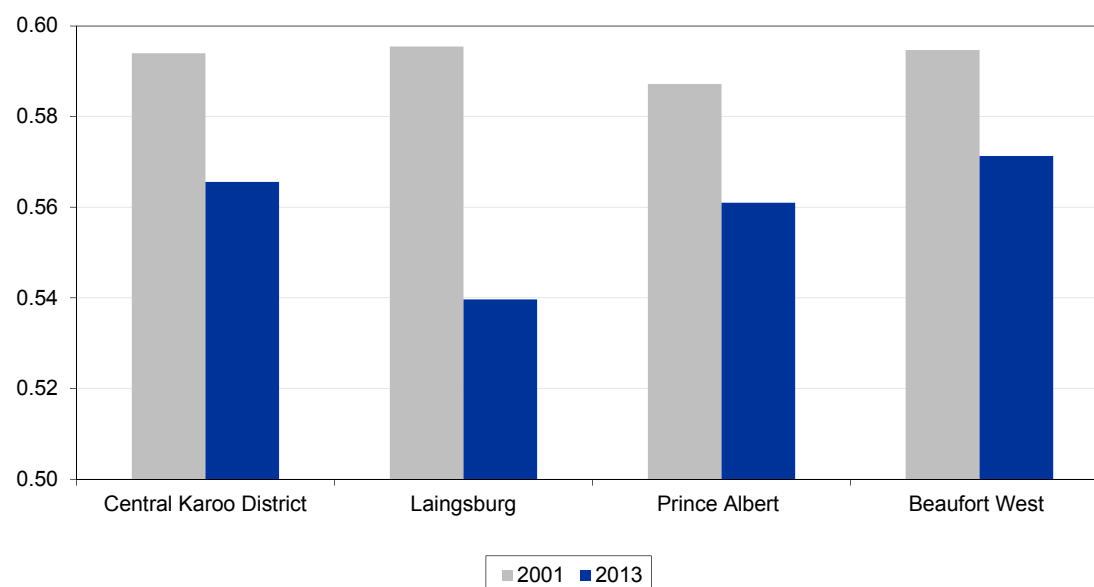
¹² Note that per capita income is not a complete measure of human well-being as it only considers changes in income and not the distribution thereof amongst the population.

Figure 5.3 Central Karoo District population and real GDP growth rate, 2001 - 2013

Source: Western Cape Department of Social Development, 2014 and Quantec, 2015

Per capita income levels in Laingsburg (R17 364), Prince Albert (R16 786) and Beaufort West (R21 485) nevertheless remain significantly below the Provincial average of R44 552.

Per capita income provides a skewed representation of average income per person as incomes are inequitably distributed amongst the inhabitants of a region. The Gini coefficient is a measure of income inequality. The coefficient is a measure of statistical dispersion intended to represent the income distribution of a region's residents, varying between 0 (which represents complete equality) and 1 (which represents complete inequality).

Figure 5.4 Gini coefficients across the Central Karoo District, 2001 - 2013

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2014

Figure 5.4 indicates that income inequality has declined within the District since 2001. Laingsburg, Prince Albert and Beaufort West all had Gini coefficients below the provincial average of 0.61. Overall, incomes in the District have become more equally dispersed among its inhabitants.

Laingsburg, which had the highest Gini coefficient (0.6) in 2001, experienced the largest improvement and subsequently had the lowest Gini coefficient (0.54) in the District in 2013. This indicates that the increase in per capita income in the Municipality may have been absorbed by the poorer inhabitants of the municipality (more so than by those who are wealthier).

The overall increase in per capita income (and lower Gini coefficient) in the District has contributed to the improvements in the HDI discussed above and may lead to further improvements in the future. Inequality nevertheless persists and needs to be addressed in order to ensure material and sustained improvement in the standard of living of all the people of the CKD.

5.3.2 Education

The jobs that individuals are able to obtain depend considerably on the level of education they have attained. Higher levels of education generally lead to higher paying jobs and *vice versa*. South Africa has a large supply of unskilled labour, but also a large demand for skilled labour, thus resulting in high levels of unemployment amongst unskilled individuals.

The literacy rate is an indication of the levels of education and skill in the economy. It measures the proportion of persons aged 15 years and older with an education qualification of higher than Grade 7. The literacy rate in the Western Cape is 87.2 per cent, which is higher than the literacy rate of 80.9 per cent for the country as a whole. The Western Cape's literacy rate improved by 2.2 percentage points over the period 2001 - 2011, which was the smallest improvement among all the Provinces in the country. This is largely due to the high dropout rates in the Western Cape as a result of learners having to leave school due to a lack of finances as well as teenage pregnancies, gangsterism and substance abuse among the youth (Socio-economic profile, 2014). Low literacy rates amongst older persons (45 to 65 years of age) are largely due to their lack of access to quality education in the past.

Table 5.2 Literacy rates across the Central Karoo District, 2001 - 2011

	2001	2011
Western Cape	85.00	87.20
Central Karoo District	63.00	73.40
Laingsburg	58.00	70.00
Prince Albert	59.00	69.90
Beaufort West	68.00	74.90

Source: Statistics South Africa, Census 2001 and 2011

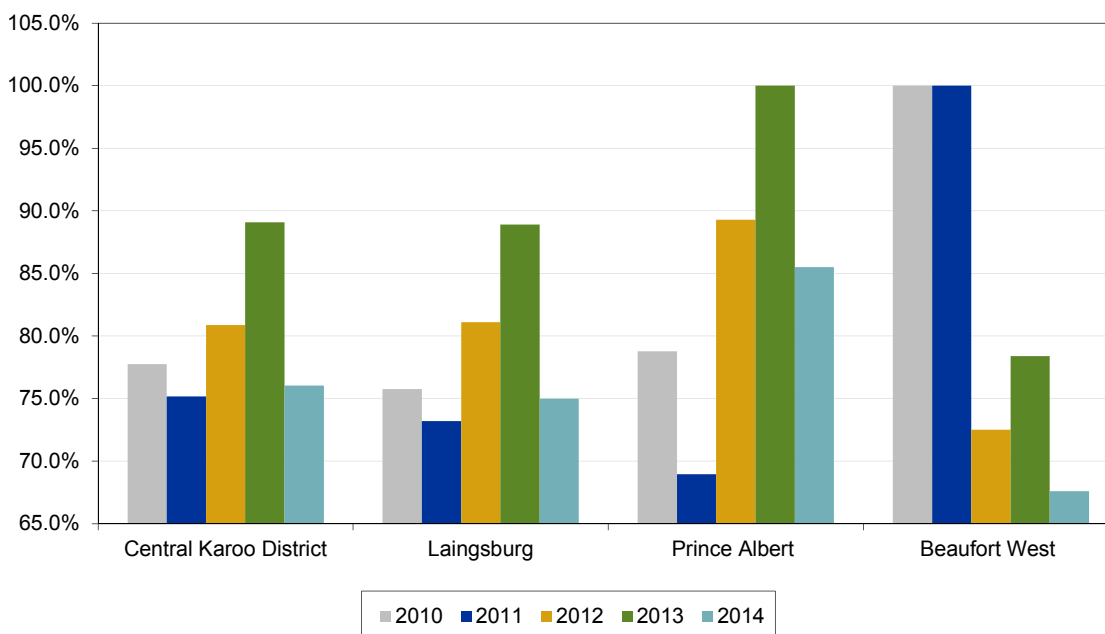
Literacy rates in the CKD averaged 73.4 per cent in 2011, which is lower than both the Provincial and National averages. Laingsburg and Prince Albert had the lowest literacy rates in the Province. As illustrated in Table 5.2, all of the municipalities in the District have nevertheless managed to improve their literacy rates between 2001 and 2011.

Matric pass rates are another indicator of the level of educational attainment in a region. The District attained a 76 per cent matric pass rate in 2014, which was the lowest among the Western Cape districts, behind the Eden district with an 81 per cent pass rate. Beaufort West had the lowest matric pass rate in the District (and also the Province) in 2014 at 67.6 per cent. Laingsburg had a matric pass rate of 75 per cent which was the 4th lowest in the Province.

Matric pass rates in the District contracted at a rate of 0.6 per cent per annum from 2010 to 2014. Prince Albert was the only municipality in the District to achieve a positive growth rate in this regard (with growth in matric pass rates averaging 2.1 per cent per annum from 2010-2014). Prince Albert also achieved the highest pass rate in the District (85.5 per cent).

The District's underperformance may be due to the relatively higher learner-teacher ratios in the region, and greater incidence of teenage pregnancies and drug-related crime or substance abuse in the area (Socio-economic Profile, 2014). The contraction in matric pass rates may be as a result of the 2014 cohort being subject to stricter standards in the setting and marking of the papers thus affecting the pass rates (Western Cape Education Department 2014/15 Annual Report, 2015).

Figure 5.5 Matric pass rates across the Central Karoo District, 2010 - 2014



Source: Western Cape Department of Education, 2015

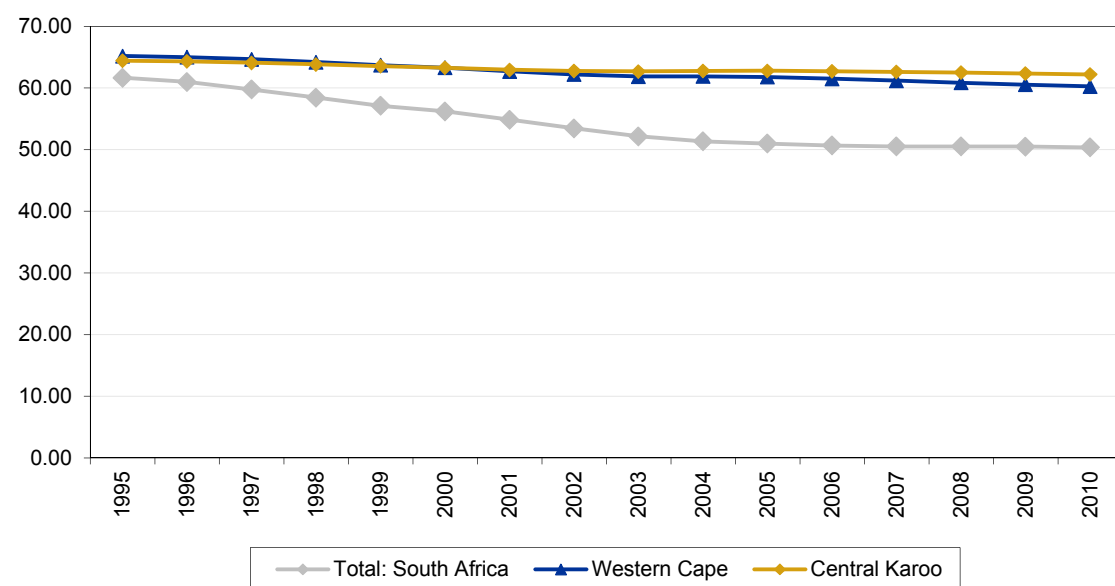
Consequent to the deterioration in the District's matric pass rates, the region experienced net job losses of 820 between 2000 and 2013. These job losses emanated from the primary sector, while the secondary and tertiary sector experienced net job growth of 300 and 1290 respectively. The tertiary sector tends to be more skills-intensive than the primary sector, and these employment trends may be indicative of a skills-mismatch in the District's labour market. There has been a decrease in demand for semi-skilled and unskilled labour across all local municipalities in the District during the economic recovery period i.e. 2010 to 2013, with Prince Albert and Beaufort West experiencing the largest reduction at a rate of 5.9 per cent and 3.1 per cent per annum respectively (see Chapter 2). This suggests a trend towards employing highly skilled and skilled individuals within the District.

Approximately 34.1 per cent of the Provincial Budget is spent on education (Budget Estimates of Provincial Revenue and Expenditure, 2015), yet it is clear that there is much room for improvement with regard to skills development in the CKD. Low-skilled labour intensive employment initiatives are necessary to stimulate the creation of new job opportunities in the region. Furthermore, given the increasing demand for skilled labour, it is imperative that initiatives are undertaken which will contribute toward the training and up-skill of the workers in the District.

5.3.3 Health

Good health has been found to have a positive and sizable effect on aggregate output in the economy largely because healthier workers are mentally and physically more energetic and robust, more productive and less likely to stay absent due to sickness and disability (Bloom et al., 2004). Health also impacts people's overall quality of life.

Figure 5.6 Life expectancy, 1995 - 2010



Source: Quantec Research

Figure 5.6 gives an indication of the life expectancy at birth. South Africa had a life expectancy of 50.4 years in 2010 after a steep decline from 61.7 years in 1995. Both the Western Cape and CKD also experienced a decline in life expectancy albeit relatively lower than that experienced by the country overall. The CKD had a life expectancy of 62 years in 2010, which was slightly higher than the 60 years for the Province overall. A comparison with the other district municipalities reveals that the CKD had the 2nd highest life expectancy in the Province in 2010 (after the West Coast District with a life expectancy of 63 years).

The decline in life expectancy over the years has largely been attributed to the prevalence of HIV/AIDS and Tuberculosis (TB) in the country. Life expectancy stabilized after 2007/08 with the roll-out of anti-retroviral treatment across the country, and more recent data reveals an improvement in life expectancy in the Western Cape over the period 2011 - 2016 (Statistical release P0302, 2015).

The HIV and TB patient load in each municipality within the CKD is shown in Table 5.3. The anti-retroviral treatment (ART) patient load in the District increased by 24 per cent from 2013 to 2014, with the largest increases emanating from Beaufort West, whose ART patient load increased by 164. The incidence of TB, which is less pervasive than that of HIV, remained fairly stable (decreasing by 31 persons or 5 per cent from 2013 - 2014). Given the District's relatively small population, the region has the smallest ART and TB patient loads in the Province, and hosts 63 ART and 89 TB treatment sites which care for these patients.

Table 5.3 ART and TB patient loads in the Central Karoo District, 2013 – 2014

Municipality	HIV - Antiretroviral treatment			Tuberculosis		
	ART patient load March 2013	ART patient load March 2014	Number of ART clinics/ treatment sites 2014	Number of TB patients March 2013	Number of TB patients March 2014	Number of TB clinics/ treatment sites 2014
Laingsburg	78	119	1	61	52	4
Prince Albert	131	151	2	130	119	6
Beaufort West	740	904	4	430	419	17
Total Central Karoo District	949	1 174	7	621	590	27

Source: Western Cape Department of Health, 2014

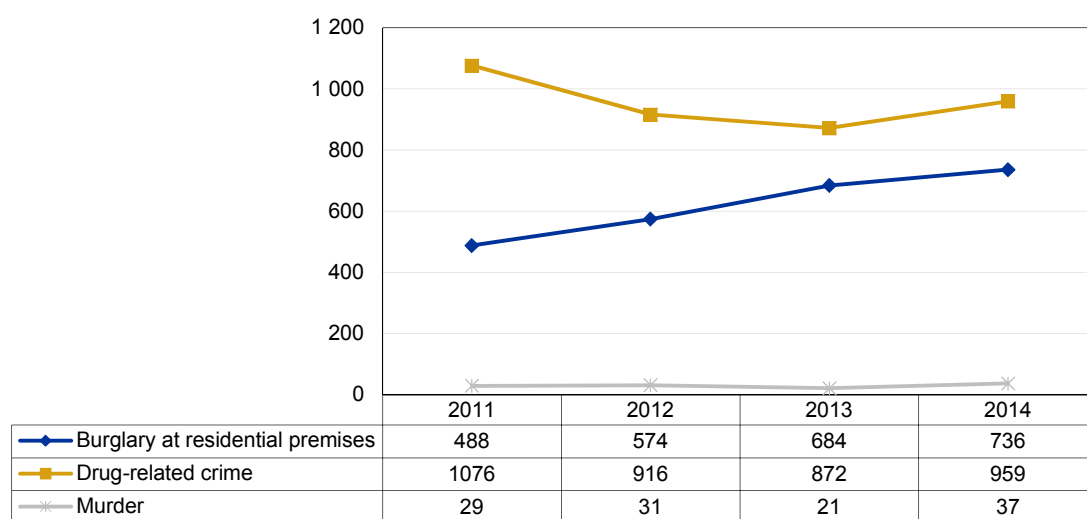
The CKD performed relatively well compared to the districts in the Province with reference to the health indicators evaluated above. It is nevertheless essential that the impact of health on production should not be overlooked as the increasing HIV/AIDS loads could adversely affect economic activity (and consequently the quality of life overall) within the district.

5.3.4 Crime

Crime has a significant impact on the economy. According to the World Bank (2006), it can hamper growth and discourage investment and capital accumulation. It has the potential to derail both social and economic prosperity. It also diverts public resources away from productive uses which can further social development towards the police, justice system and health (for treatment of violence related injuries and traumas). It has been found that crime negatively impacts on the investment climate. Grant Thornton's International Business report indicated that 62 per cent of businesses in the Western Cape have been affected by crime (Smith, 2014). The largest impact on business are increasing security costs, but also through diverting investment, business losses through theft, fraud and lower levels of productivity due to loss of life or injuries, etc. Crime therefore has to be tackled with seriousness. As the safety of the population and property is of vital importance to the physical and emotional well-being of a region's inhabitants, crime has an adverse impact on the human security aspect of human development.

Figure 5.7 indicates the crime rate in the CKD with regard to burglaries, drug-related crime and murders per 100 000 population.

Figure 5.7 Crime per 100 000 population in the Central Karoo District, 2010 - 2014



Source: South African Police Service, 2014; Western Cape Department of Social Development, 2014

Burglaries have been on the rise, while the incidence of drug-related crimes declined slightly and the murder rate remained fairly stable in the District between 2011 and 2014. Burglaries increased from 488 to 736 incidences over the same period (representing 14.7 per cent growth per annum).

These statistics suggest that crime may be one of the factors (in addition to those evaluated in Chapter 2) restraining economic growth and employment in the region. The increasing levels of crime are also impacting on human security within the district. According to Stats SA (2015), 64.6 per cent of the Western Cape households feel unsafe when it is dark and 27.1 per cent feel unsafe during the day¹³. This is the highest in the country. Addressing the high levels of crime is therefore crucial to improving the quality of life of households in the CKD.

5.4 Access to basic services

Access to basic services within South Africa is a basic human right. It is also an indication of the quality of life of the inhabitants in the country. Access to basic services has a wider impact on education and health and therefore also on the economy.

The CKD exhibited the lowest levels of access to energy (89.2 per cent) in the Province in 2013. Access to sanitation (88.9) and refuse removal (78.6 per cent) were below the Provincial averages and among the Province's lowest.

Table 5.4 Access to basic services in the Central Karoo District, 2013

	Water	Sanitation	Energy	Refuse Removal	Housing
Central Karoo District	98.1%	88.9%	89.2%	78.6%	97.3%
Laingsburg	98.6%	82.4%	78.9%	59.1%	97.4%
Prince Albert	98.0%	81.0%	86.2%	73.0%	94.4%
Beaufort West	98.0%	92.2%	91.9%	83.7%	98.0%

Source: Quantec Research

Access levels in Prince Albert and Laingsburg are particularly concerning as Prince Albert displays the lowest levels of access to both sanitation and housing, and Laingsburg displays the lowest levels of access to energy and refuse removal. Significant scope for improvement in service delivery in the District thus remains.

Empirical studies (Gnade, 2013) show that basic infrastructure investment has a positive influence on economic growth, poverty and inequality. This relationship holds across all South African municipalities. As seen in Chapter 4 (section 4.3), the impact of basic services infrastructure spending on the economy is also observed to be positive. This positive influence has also been noted for education, as basic service delivery and consequently literacy rates have increased substantially since 2001 (see Table 5.2).

It can thus be concluded that access to basic services has a positive impact on the overall quality of life within the district.

¹³ Crime Statistics Series Volume II: Public perceptions about crime prevention and the criminal justice system, 2010-2013/14 Report 03-40-03

5.5 Concluding remarks

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

- The overall HDI for the District is lower than both the Provincial and National averages. However, the increasing HDI between 2001 and 2013 is an indication that economic growth is being translated towards social development within the CKD. There nevertheless exist high levels of inequality among the different population groups in the region.
- Increasing real per capita income levels imply that standards of living have improved. Per capita income in the District (and all its local municipalities) nevertheless remains below the Provincial per capita income.
- Literacy rates in the CKD average 73.4 per cent, which is lower than that of the Province and the country as a whole. Laingsburg and Prince Albert have the lowest literacy rates in the Province. The District attained a 76 per cent matric pass rate in 2014, which was the lowest among all the districts. There is a trend towards employing skilled to highly skilled individuals in the region. Skills development and low skilled labour intensive initiatives are therefore required in order to further stimulate employment in the district.
- The CKD has the second highest life expectancy among all the districts. Given the District's increasing HIV/AIDS load, it is nevertheless essential that issues of health among the population and the potential impacts this may have on production not be overlooked.
- The rising burglary rates in the district may be one of the factors restraining economic growth (and thus employment) in the region.
- The CKD exhibited the lowest levels of access to energy (89.2 per cent) in the Province in 2013. Access to sanitation (88.9) and refuse removal (78.6 per cent) were below the Provincial averages and among the Province's lowest. Significant scope for improvement remains.

Notwithstanding the increasing levels of human development among the inhabitants of the CKD, there exists much room for improvement. This chapter illustrates the influence that economic conditions, education, crime, health and access to basic services have on human development. Addressing the issues mentioned above may facilitate economic and social development and thus a greater quality of life for the inhabitants in the region.

Annexure 1

5-Year annual averages – economic data

Annexure 1.1 Central Karoo District: GDPR at basic, constant 2005 prices – average annual growth/composition, 1996 – 2013

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	-0.4	-0.6	0.0	-0.7	-2.3	0.4	1.2
2 Secondary sector [SIC: 3-5]	-2.9	9.1	8.6	8.0	9.7	7.0	3.0
3 Tertiary sector [SIC: 6-9, 0]	0.9	4.5	4.0	3.8	4.7	3.1	2.7
Total: Central Karoo District	0.2	4.3	4.2	3.9	4.3	3.4	2.6
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-0.3	-0.7	-0.1	-0.7	-2.4	0.3	1.2
2 Mining and quarrying [SIC: 2]	-13.1	16.1	15.8	13.3	20.5	13.9	0.3
3 Manufacturing [SIC: 3]	-2.7	10.3	9.7	8.8	11.1	7.0	3.9
4 Electricity, gas and water [SIC: 4]	-7.5	1.5	-0.6	0.1	0.4	-3.2	-0.4
5 Construction [SIC: 5]	-0.2	10.8	8.9	8.6	11.3	9.3	2.1
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	2.3	4.1	1.5	2.3	4.5	-1.6	2.1
7 Transport, storage and communication [SIC: 7]	2.1	3.1	-0.1	0.7	2.8	-2.3	0.9
8 Finance, insurance, real estate and business services [SIC: 8]	5.3	8.3	8.1	6.7	9.0	8.2	3.8
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	-0.6	3.1	2.4	2.5	3.3	1.7	1.1
10 General government [SIC: 91, 94]	-4.5	2.1	4.3	4.0	1.5	4.8	3.5
Total: Central Karoo District	0.2	4.3	4.2	3.9	4.3	3.4	2.6

% share					
Sector	1995	2000	2005	2010	2013
Broad sectors: Central Karoo District					
1 Primary sector [SIC: 1-2]	16.4	15.8	12.4	9.5	8.8
2 Secondary sector [SIC: 3-5]	13.1	11.1	13.8	17.7	17.7
3 Tertiary sector [SIC: 6-9, 0]	70.6	73.1	73.8	72.8	73.5
Total: Central Karoo District	100	100	100	100	100
Broad sectors: Central Karoo District					
1 Agriculture, forestry and fishing [SIC: 1]	16.3	15.8	12.3	9.4	8.7
2 Mining and quarrying [SIC: 2]	0.1	0.0	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	7.1	6.1	8.1	10.9	11.0
4 Electricity, gas and water [SIC: 4]	2.5	1.6	1.4	1.1	1.0
5 Construction [SIC: 5]	3.5	3.4	4.3	5.8	5.7
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	14.9	16.4	16.3	14.1	13.8
7 Transport, storage and communication [SIC: 7]	14.6	16.0	15.1	12.2	11.4
8 Finance, insurance, real estate and business services [SIC: 8]	14.5	18.4	22.2	26.9	28.6
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	7.7	7.4	7.0	6.5	6.2
10 General government [SIC: 91, 94]	18.9	14.8	13.3	13.2	13.4
Total: Central Karoo District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

Annexure 1.2 Central Karoo District: Employment (Formal and Informal) – average annual growth/composition, 1996 – 2013

Sector	Average yoy % growth			Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 2010 - 2013
	1996 - 2000	2001 - 2005	2006 - 2011				
Broad sectors: Central Karoo District							
1 Primary sector [SIC: 1-2]	-4.4	-3.8	-4.8	-7.2	-4.2	-11.4	-2.4
2 Secondary sector [SIC: 3-5]	-9.8	2.7	0.2	1.2	2.2	2.5	-3.8
3 Tertiary sector [SIC: 6-9, 0]	-0.9	1.4	1.2	1.4	1.2	2.3	0.0
Total: Central Karoo District	-3.3	-0.1	-0.2	-0.6	-0.2	-0.3	-1.0
Broad sectors: Central Karoo District							
1 Agriculture, forestry and fishing [SIC: 1]	-4.4	-3.8	-4.9	-7.2	-4.3	-11.4	-2.4
2 Mining and quarrying [SIC: 2]	-14.3	3.4	35.2	27.3	16.9	6.3	6.9
3 Manufacturing [SIC: 3]	-9.2	5.4	3.0	3.6	4.3	5.7	-1.7
4 Electricity, gas and water [SIC: 4]	-12.6	-0.1	2.7	1.6	1.9	-14.0	0.8
5 Construction [SIC: 5]	-10.0	1.2	-2.1	-0.7	0.8	0.7	-5.9
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	-0.4	-0.4	-0.3	1.2	-0.3	-0.3	-0.6
7 Transport, storage and communication [SIC: 7]	-5.2	-2.0	2.2	0.6	-2.8	2.5	2.7
8 Finance, insurance, real estate and business services [SIC: 8]	11.1	8.2	2.9	2.8	7.9	2.4	2.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	-1.4	0.9	0.8	0.8	1.2	4.8	-2.1
10 General government [SIC: 91, 94]	-3.7	3.1	2.2	1.6	1.6	3.1	0.2
Total: Central Karoo District	-3.3	-0.1	-0.2	-0.6	-0.2	-0.3	-1.0

Sector	% share				
	1995	2000	2005	2010	2013
Broad sectors: Central Karoo District					
1 Primary sector [SIC: 1-2]	29.9	28.2	22.1	16.3	14.4
2 Secondary sector [SIC: 3-5]	17.6	12.4	14.0	14.9	14.4
3 Tertiary sector [SIC: 6-9, 0]	52.5	59.4	63.9	68.8	71.2
Total: Central Karoo District	100	100	100	100	100
Broad sectors: Central Karoo District					
1 Agriculture, forestry and fishing [SIC: 1]	29.8	28.2	22.1	16.2	14.3
2 Mining and quarrying [SIC: 2]	0.0	0.0	0.0	0.1	0.1
3 Manufacturing [SIC: 3]	6.0	4.4	5.7	6.9	7.1
4 Electricity, gas and water [SIC: 4]	0.4	0.3	0.3	0.3	0.3
5 Construction [SIC: 5]	11.2	7.8	8.1	7.7	7.1
6 Wholesale and retail trade, catering and accommodation [SIC: 6]	18.5	21.4	20.7	20.6	21.4
7 Transport, storage and communication [SIC: 7]	5.6	5.0	4.5	5.0	5.0
8 Finance, insurance, real estate and business services [SIC: 8]	3.3	6.6	9.8	11.2	12.9
9 Community, social and personal services [SIC: 92, 95-6, 99, 0]	14.4	15.8	16.5	18.0	17.9
10 General government [SIC: 91, 94]	10.8	10.6	12.4	14.1	14.0
Total: Central Karoo District	100	100	100	100	100

Source: Quantec Research/Western Cape Provincial Treasury

Annexure 1.3 Central Karoo District: Composition of Goods Exports and Imports (nominal values)

	% share				
Sector	1995	2000	2005	2010	2014
Goods Exports					
Broad sectors: Central Karoo District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	-	-	-	-	80.7
2 Mining and quarrying [SIC: 2]	-	-	-	-	0.0
3 Manufacturing (excl. food and beverage processing) [SIC: 3]	-	-	-	-	9.7
4 Undefined/other	-	-	-	-	9.6
Total: Goods exports	-	-	-	-	100
Manufacturing sector: Central Karoo District					
1 Food, beverages and tobacco [SIC: 301-306]	-	-	-	-	86.0
2 Textiles, clothing and leather goods [SIC: 311-317]	-	-	-	-	2.0
3 Wood, paper, publishing and printing [SIC: 321-326]	-	-	-	-	3.8
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	-	-	-	-	0.0
5 Other non-metal mineral products [SIC: 341-342]	-	-	-	-	0.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	-	-	-	-	0.0
7 Electrical machinery and apparatus [SIC: 361-363]	-	-	-	-	0.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	-	-	-	-	0.0
9 Transport equipment [SIC: 381-387]	-	-	-	-	0.0
10 Furniture and other manufacturing [SIC: 391-392]	-	-	-	-	8.2
Total: Manufacturing exports	-	-	-	-	100

	% share				
Sector	1995	2000	2005	2010	2014
Goods Imports					
Broad sectors: Central Karoo District					
1 Agriculture, forestry and fishing and food and beverage processing [SIC: 1]	-	-	-	-	0.0
2 Mining and quarrying [SIC: 2]	-	-	-	-	0.0
3 Manufacturing (excluding food and beverage processing) [SIC: 3]	-	-	-	-	100.0
4 Undefined/other	-	-	-	-	0.0
Total: Goods imports	-	-	-	-	100
Manufacturing sector: Central Karoo District					
1 Food, beverages and tobacco [SIC: 301-306]	-	-	-	-	0.0
2 Textiles, clothing and leather goods [SIC: 311-317]	-	-	-	-	0.0
3 Wood, paper, publishing and printing [SIC: 321-326]	-	-	-	-	0.0
4 Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	-	-	-	-	0.0
5 Other non-metal mineral products [SIC: 341-342]	-	-	-	-	0.0
6 Metals, metal products, machinery and equipment [SIC: 351-359]	-	-	-	-	100.0
7 Electrical machinery and apparatus [SIC: 361-363]	-	-	-	-	0.0
8 Radio, TV, instruments, watches and clocks [SIC: 371-376]	-	-	-	-	0.0
9 Transport equipment [SIC: 381-387]	-	-	-	-	0.0
10 Furniture and other manufacturing [SIC: 391-392]	-	-	-	-	0.0
Total: Manufacturing imports	-	-	-	-	100

Source: Quantec Research/Western Cape Provincial Treasury

SECTION C: SUMMARY AND CONCLUSION

1. Introduction and background

1.1 Introduction

The 2015 Municipal Economic Review and Outlook (MERO) report was restructured and shortened. The current section, i.e. Section C, containing a summary of the main findings and a conclusion, was added to the report. In Section A, the introduction and background, previously provided in respect of each region, was moved upfront as it is applicable to all the Western Cape regions. A summary of the macro-economic context is provided below (section 1.2). In Section B, the main part of the report, five chapters were devoted to the economic review and outlook for the Cape Metro and each of the Western Cape's five non-metro regions, i.e. Cape Winelands, West Coast, Overberg, Eden and the Central Karoo.

The main findings in Section B of the report are summarised in section 2 below. An attempt is made to link all the chapters, derive the most important implications and reach some conclusion (section 3).

1.2 Macro-economic context

The short to medium term macro-economic outlook is challenging. The reality is that six years from the onset of the recovery from the 2009 Great Recession, world economic growth is as yet not on a solid footing. Growth projections have been scaled down at the global, national and provincial levels. 'Secular stagnation' is the term being used to describe a 'new normal' in respect of the world economy. Domestically, the economy is characterised by sluggish growth, increasing unemployment, a weakening currency and higher inflation invoking the spectre of higher interest rates, not to mention the electricity and other structural supply constraints. The escalating frequency of social delivery protests is most disconcerting.

Global growth is under pressure due to a range of reasons from demographics and lower productivity growth to the rebalancing of the Chinese economy. In the developed countries high (national) debt levels will act as an additional constraint on growth. Developing economies are still expected to grow significantly faster compared to developed countries; however, the growth tempo is likely to be below that preceding the Great Recession of 2008 - 2009. Whereas the world is preparing for the normalisation of interest rate levels in the USA, it is expected that the increase in interest rates will be moderate and most probably later (from early next year). Globally, inflation appears to be under control and declining; in fact, deflation

concerns persist. The strengthening of the US dollar is expected to persist and the outlook for commodity prices is decidedly bearish.

The SA economy is very exposed to these international influences. The mining sector is under extreme pressure, with an adversarial labour relations environment adding insult to injury. The weakening rand exchange rate act as a buffer in the mining woes; however, the extent of volatility erodes the export benefits. International investors have begun withdrawing portfolio investments from perceived risky emerging market economies as we face a return to higher interest rates in the USA. Combined with the bearish commodity outlook, this explains the weak levels of the rand exchange rate. Unfortunately, this feeds into higher domestic inflation, which justifies pre-emptive action on the part of the SA Reserve Bank by hiking short-term interest rates. Whilst this is expected to be a moderate affair in the current cycle, it comes at a time that the government also has to re-balance its books and contain the growth of real non-interest expenditure.

These developments do not bode well for the consumer sector, troubled by weak confidence levels and a lack of income-generating employment growth. Without robust domestic demand conditions and in view of the international economic environment, business fixed investment spending is lacking. This makes for an overall bearish domestic economic outlook, with only 1.7 per cent real GDP growth projected over the 2015 - 2016 period. CPI inflation is likely to peak above 7 per cent early next year and further interest rate hikes are expected. The weakness and volatility of the rand exchange rate is also likely to persist.

There appears to be pockets of strength in the **Western Cape economy**, where business confidence levels have trended higher during the past 18 months. This is tied to economic outperformance in the Western Cape, expected to persist over the short to medium term. However, the margin of outperformance has shrunk and actually disappeared vis-à-vis the other leading provinces in the country, i.e. Gauteng and KwaZulu-Natal. The building and construction sector seems to be livelier and will be boosted by the infrastructure investment initiatives in the Province, with the Saldanha Bay IDZ construction phase being a catalyst in this regard. Growth is still expected to be higher in the finance, real estate and business services, transport, storage and communication and wholesale, retail, catering and accommodation sectors on a five-year view. In the shorter term, the consumer sector is likely to be under greater pressure and only 2 per cent per annum real GDP growth is forecasted for the Western Cape Province over the 2015 - 2016 period. Growth is expected to accelerate in the outer years of the forecast period when global demand conditions are expected to be better and, domestically, the electricity supply constraint eases and demand conditions recover.

Provided this macro-economic context, the Western Cape regional economic growth performances and outlook were unpacked in the MERO 2015 study. The following section summarises the main findings, where after some concluding remarks follow.

2. Western Cape regions

2.1 Introduction – spatial concentration and development dynamics

An analysis of the spatial dynamics in the Western Cape economy has to commence with the geographical concentration of its economic activities. Not only do we find the bulk (73 per cent) of economic activity in the Cape Town Metropolitan Municipality (i.e. the Cape Metro), but also amongst the non-metropolitan regions, economic activities are concentrated in one or two municipalities. The central dynamic of agglomeration forces is immediately evident. There are two nodes of economic development in the Western Cape, i.e. the Cape Metro and what may be defined as a 'sub-node' at this stage, being Eden.

The Cape Metro node has, in turn, a number of municipalities closely – or reasonably closely – integrated with itself, namely Stellenbosch and Drakenstein (accounting for 64 per cent of the Cape Winelands GDP in 2013); Saldanha Bay and Swartland (accounting for 61 per cent of the West Coast's GDP); and Theewaterskloof and Overstrand (accounting for 70 per cent of Overberg's GDP). The Cape Metro node can for all intents and purposes be expanded to include the two leading Cape Winelands municipalities of Stellenbosch and Drakenstein – the combined GDP accounted for 80 per cent of Western Cape GDP in 2013. The City of Cape Town is the second largest metro economy in the country and also the second largest contributor to national employment.

The Eden 'sub-node' (or future metropolitan region of the Western Cape) hosts the coastal municipal economies of George, Mossel Bay and Knysna, accounting for 70 per cent of economic activity in the region. It should be noted that both the Cape Winelands and Eden districts' economies are geographically better balanced in that they each contain sizeable outlying municipal economies, such as Breede Valley, Langeberg and Witzenberg in the Cape Winelands District; and Oudtshoorn and Bitou in Eden District. The Eden District 'sub-node' (consisting of the five leading municipalities in the region) only contributed an estimated 7 per cent to Western Cape GDP in 2013; however, this has been the fastest growing region in the Province.

The stark reality is that the Cape Metro and the top ten non-metropolitan municipalities (out of a total of 24 analysed in this report)¹ accounted for 92 per cent of WC GDP in 2013. This contrasts with the 4 per cent of GDP generated in the smallest ten municipal economies of the Western Cape. Another related statistic is,

¹ Ranked purely in terms of GDP levels in 2013, the top 10 non-metro municipalities are (in order of size): Stellenbosch, Drakenstein, George, Mossel Bay, Breede Valley, Saldanha Bay, Langeberg, Swartland, Theewaterskloof and Overstrand; the bottom ten (in order of size) are Matzikama, Bergvliet, Cape Agulhas, Beaufort West, Hessequa, Cederberg, Swellendam, Kannaland, Prince Albert and Laingsburg. Not considered in the analysis are the previous Demarcated Municipal Areas (DMAs), which formally ceased to exist in June 2001; these areas contributed 0.3 per cent of GDP in 2013 according to the available data (Quantec Research, 2015).

when viewed in terms of regions, the Cape Winelands (11.6 per cent of GDPR) and Eden (7.8 per cent), combined with the Cape Metro, generated 92 per cent of the Western Cape value added and employed close to 90 per cent of the provincial work force.

The notable fact regarding the concentration of economic activity is that it is actually worsening, albeit not dramatically. The ten largest municipalities' combined real GDPR expanded by 4.0 per cent per annum over the 2005 - 2013 period, with growth ranging from 2.1 per cent per annum in Breede Valley to 6.9 per cent per annum in Mossel Bay. In contrast, the 10 smallest municipalities' combined real GDPR expanded by 2.7 per cent per annum over the corresponding period, with growth ranging from a low 0.8 per cent per annum in Hessequa to a rapid 5.2 per cent per annum in Cape Agulhas. These growth rates compare to the average growth rate of 3.6 per cent per annum in the Province, which was also the rate of growth in the Cape Metro over the corresponding period².

Located in the south-western tip of the Province, economic development ripple outwards from the Cape Metro node into the interior. While agricultural activities (including forestry and fishing) have been dwarfed by the manufacturing and services activities in the Cape Metro, a consistent economic development theme in the outlying regions is the agricultural origins of these areas upon which much of the secondary and services activities in each area have been leveraged. On the other hand, the outlying municipal economies, integrated with the Cape Metro economy, benefit from their proximity to Cape Town and all its infrastructural and logistical attributes. It seems the further into the interior the weaker the economic linkages and the more different the economic drivers, with the Central Karoo region's municipalities defining the extreme on this spectrum.

The following section summarises the geographical and sectoral growth patterns of the Western Cape economy, including a five-year economic outlook.

2.2 Regional growth patterns and the sectoral economic outlook

Apart from the geographical economics, industry dynamics (ranging from relative factor endowments, technological factors, scale economies to demand patterns, etc.) also play an important role in the evolution of industries and regional economic activity.

² Whilst the growth differential is significant, the regional impact is put into perspective when it is considered that the relative shares of these two 'cohorts' only changed marginally, with the ten largest municipalities' contribution to GDPR shifting from 18.9 per cent in 2005 to 19.8 per cent in 2013; and that of the ten smallest municipalities from 4.0 per cent to 3.9 per cent over the corresponding period. This is explained by the fact that some of the largest municipalities are slow growing, e.g. Drakenstein and Breede Valley; whilst some of the smaller municipalities are fast-growing, e.g. Kannaland, Swellendam and Cape Agulhas.

As noted, whereas agriculture only accounts for 1.5 per cent of the Cape Metro's GDP, the metropolitan economy benefits greatly from its economic linkages with the leading and geographically closely situated non-metro municipal economies of the Winelands, the West Coast and Overberg, as much as these regions benefit from the locational advantages tied to their proximity to Cape Town. Whilst these linkages operate in a two-way direction, one should not forget the agricultural connection. Indeed, the Western Cape agricultural sector accounts for 24 per cent of the national agricultural sector, whereas the Western Cape Province contributes only 14 per cent of national GDP, revealing the comparative advantage of agriculture in the Western Cape.

The updated location ratio analysis conducted in this year's MERO shows that agriculture and the associated agri-processing industries have a competitive edge in each of the non-metro regions³. Furthermore, in terms of growth and development potential, the agri-processing value chain analysis (in respect of the West Coast, Cape Winelands, Eden, Overberg and Central Karoo regions – see section 2.3), shows significant scope to develop value-added activities in agriculture – in some areas to create (or grow) niche markets (e.g. Eden, Overberg and Central Karoo), in others to grow larger scale local production and exports (e.g. Cape Winelands, West Coast, Overberg and Eden) and in all to add to employment creation. Even important aspects of the modern-day development of domestic and foreign tourism in the Province are closely linked to the agricultural sector, i.e. the phenomenon of agri-tourism. In fact, this is becoming the lead industry in many agrarian regions in the interior of the Province where agricultural real incomes are under pressure (e.g. Bergervier, Cederberg and Matzikama; Swellendam, Hessequa, Beaufort West, Prince Albert and Laingsburg).

This does not suggest the agricultural sector is the alfa and omega of the Western Cape economy, it is only to acknowledge the agricultural origins of economic activity in the Province, which continues to impart a certain quality to economic growth and development in especially the non-metropolitan regions. However, it is also necessary to acknowledge the other modern-day reality of the Western Cape economy, and that is the rapid growth and expansion of commercial services activities, with financial and business services being predominantly in the lead. In fact, while commercial services tend to dominate economic activity in all the non-metropolitan regions, the location ratio analysis shows that only the Cape Metro has a comparative advantage in this sector. Two broad industries are of note in this regard, i.e. financial and business services (e.g. the asset management and insurance industries) and tourism.

Tourism has strong backward linkages to the catering and accommodation and retail trade sectors, transport and business services and is closely associated with construction activity. This is particularly evident in the rapidly growing Eden District. Whilst agriculture, forestry and fishing and the associated processing industries

³ Only in the Central Karoo, food & beverage production does not show a comparative advantage. However, even here there is scope for value-added activities in the agricultural sector, which is otherwise under pressure in the region.

account for 10 per cent of Eden's economic activity, the driver there has been tourism, the associated property development, retail, wholesale, catering and accommodation activities and – one may include – business services. This 'sub-nodal' economy of the Western Cape is a relatively closed economy, driven by tourism. Apart from international tourism, which is an important foreign exchange earner in the region, international goods trade account for less than 10 per cent of GDP.

However, it is also necessary to acknowledge the wood products and furniture value chain and the Mossel Bay petrochemical complex in terms of manufacturing activities, which are relatively vibrant in the Eden District. Likewise, the competitive manufacturing industries of the Cape Metro (clothing and textiles, metal products and machinery, professional equipment and electrical machinery, wood products and furniture, petrochemicals, transport equipment, etc.), Cape Winelands (mainly food and beverages and building materials) and the West Coast (metals and machinery and building materials) need to be acknowledged. Beyond these standard classified industries, the City is also known for its creative and design industries (including the blossoming film industry), the BPO sector (including call centres), boat building and oil and gas services.

Regarding labour market trends, the Western Cape experienced net employment growth over the 2005 - 2013 period, with a net 25 152 employment opportunities being created at a growth rate of 0.4 per cent per annum in the formal and informal sectors of the economy. The growth in employment is disappointing in view of the average real GDP growth rate over this period, namely 3.6 per cent per annum. The disappointing overall employment creation is explained by heavy net job losses in the agriculture (52 per cent of the overall net retrenchments, 2005 - 2013), manufacturing (30 per cent) and construction (18 per cent) sectors. The employment losses in these sectors (i.e. 160 200 in all) were fully countered by net employment creation in the commercial services sector (115 970) and the government, community, social and personal services sector (66 100); the mining sector (in the West Coast) and electricity and water sector also added somewhat to employment (3 300 jobs). The following remarks regarding the Western Cape's employment track record from a regional and sectoral perspective may suffice:

- The importance of the agricultural sector in the Western Cape economy was discussed above. It follows that employment creation in this sector, also being a labour intensive sector, is critical. The good news is that there is evidence that the deteriorating trend over the past ten years has bottomed. The bottoming is tentative as net employment growth between 2011 and 2013 (54 700 jobs) was followed by net retrenchments of 30 500 during calendar 2014⁴. It is also clear that the farming sector is exposed to international competitive forces, particularly where exporting agri production is integrated in competitive global value chains

⁴ Statistics SA implemented a new master sample, based on the new information contained in the 2011 Population Census, in its Quarterly Labour Force Survey (QLFS) from the first quarter of 2015, showing an inexplicable 55 per cent jump (or 121 000 workers) in the level of agricultural employment in the Western Cape between the final quarter of 2014 and the first quarter of 2015. Until the historical data is not updated with the new information, analysis of the latest data is impossible.

(e.g. in the Cape Winelands and Overberg). Mechanisation may be inevitable in this regard. There are, however, scope to grow small scale farming and create jobs in food and beverage processing activities (see the value chain analysis below).

- Mechanisation certainly appears to be a factor in the manufacturing sector, where the capital/labour ratio has risen strongly (MERO, 2013). However, in this sector poor growth is an additional factor – the share of manufacturing GDP in Western Cape GDP has declined from 21 per cent in 1995 to 13 per cent in 2014, being in line with the rapid rate of 'de-industrialisation' occurring nationally. From a geographic perspective in the Western Cape, this is a bigger problem in the Cape Metro, which accounted for 85 per cent of the net job losses in the sector; manufacturing employment has been more stable in the Cape Winelands, Overberg and Central Karoo regions. The latter-mentioned two regions report vibrant growth in manufacturing activities, albeit from a low base.
- The construction sector also reported high levels of retrenchments, even during the boom period of 2004 - 2008. However, it appears that an element of under-counting employment in this sector has been present due to the way that the statistics are captured. Unfortunately, mechanisation is also evident and, in many localities, this sector slumped after 2009 due to the dual impact of the recession and the end of the construction phase in preparation of the 2010 FIFA World Cup. Building plans passed and completed show that the sector is recovering again, albeit that the recovery has been slow and net job losses tended to continue in most regions.
- As noted, the commercial services industries and the general government and community, social and personal services sectors accounted for the net employment creation in the Western Cape – this has been the tendency in all regions. The Cape Metro accounted for 60 per cent of the total employment growth in these sectors (2005 - 2013) and the remaining 40 per cent is distributed amongst the non-metro regions in proportion to their economies.

Therefore, the adverse trend in formal agricultural, manufacturing and construction employment explains the sharp decline in the demand for semi- and unskilled labour. This even seems to be the case where manufacturing is expanding. The growth in demand for labour is in the skilled and highly-skilled segments, pointing to the likelihood of mechanisation in the primary and secondary (tradeable goods) sectors and reflecting the skills composition of employment in the largely (non-tradeable goods) tertiary sectors. These labour skills demand patterns represent a huge challenge in terms of education and training, re-training and re-skilling in order to equip the semi- and unskilled workers with the required skills to participate in the economy. It also needs to be emphasised that education and training efforts be channelled in such a way that entrepreneurial potential is realised.

Regarding the economic outlook for the Western Cape, growth is likely to remain under pressure in view of the 4 - 5 per cent average real GDP growth that was achieved during the previous expansion phase of the business cycle (i.e. 2000 - 2007). The trend growth rate over the past ten years has already tapered down to 3.4 per

cent per annum (2005 - 2014). The Province is clearly impacted by the weakness in global and national growth, which is expected to come in at 3.5 per cent and 1.7 per cent, respectively in 2015 - 2016. These growth outlook figures are the result of consistent downgrades, which have come on the back of deteriorating economic conditions. Consequently, the Western Cape's economic outlook has been revised from real GDP growth of 3.0 per cent per annum (2014 - 2019) to 2.7 per cent (2015 - 2020).

External factors, such as the imminent interest rate hikes in the USA and the Chinese economic slowdown, have had unfavourable consequences for emerging markets such as South Africa. Apart from the adverse indirect impact, the municipalities of the Western Cape are generally not exposed to the sharp decline in commodity prices (except those in the West Coast) and there is an opportunity in the depreciation of the rand exchange rate. This creates space for import replacement and increases the competitiveness of agricultural and manufacturing exports, being supportive of initiatives to reverse this sector's structural decline. International tourism and BPO services exports are also in line to benefit, compensating for the adverse impact that capital outflows may exert on the financial services industries of all the districts, but especially those of the Cape Metro and Cape Winelands.

The external outlook of low economic growth, low inflation and interest rates, a strong US dollar and weak commodity prices is likely to persist over the short term, with some respite expected in the constrained levels of economic growth from 2017 onwards. Unfortunately, the poor domestic economic conditions also have their origins in the domestic economy, with a gap opening up between domestic and global business sentiment levels in recent years. The problems on the supply-side of the SA economy, ranging from debilitating electricity supply shortages and other structural constraints to the intensifying labour market instability (threatening to spill over into the socio-political domain) have brought the national economy to the verge of a recession during the second quarter of 2015.

Whilst there are pockets of strength in the Western Cape (retailing and building conditions), it is evident that economic growth will be under pressure during 2015 - 2016, as noted; it is projected to average around 2 per cent per annum in most regions. *The short term forecast for real economic growth varies from 1.8 per cent per annum in the Central Karoo to 2.6 per cent per annum anticipated in the faster growing regions of Eden and Overberg.* Improved global economic conditions and some easing of the domestic electricity supply constraint from the end of next year have, amongst other factors, been factored into the forecast over the remainder of the forecast period. *The regional forecast over the 2017 - 2020 period varies from projected real GDP growth of 2.9 per cent in the West Coast and Central Karoo to 3.7 per cent and 3.8 per cent per annum respectively in Overberg and Eden.*

No major change in the sectoral growth patterns of the Province is anticipated. It is expected that the agricultural sector and employment will benefit from various initiatives to grow the food value chain (see below); increased domestic processing of food and beverages (from small to large scale activities) will create additional demand for agricultural output, which has been under pressure in some regions.

Agri-tourism is proving another major source of growth in most regions. It has to be mentioned that the current drought conditions in the sector will impact negatively in income growth over the near term.

Furthermore, the construction sector is projected to be one of the more vibrant sectors following a very slow recovery in the post-2009 period (as reflected in the building completions in a range of municipalities). Apart from residential and non-residential property development, big-ticket infrastructure projects (see below) are likely to be key drivers in this regard. One should not expect too much of a growth impetus from the early construction phase of the Saldanha Bay IDZ; however, this development has substantial potential down the line in stimulating the West Coast and wider regional economies.

In the manufacturing domain, the agri-processing industries are expected to benefit from official initiatives to boost the sector. The competitive levels of the exchange rate also make the attempts to increase local production very opportune. Assuming firms can manage the cost-push effects, the depreciation of the currency will benefit all tradeable activities, including tourism and BPO services and other financial and business services exports. However, one should discount a serious negative impact on domestic tourism due to the legislated changes regarding travel visas. Finally, the financial and business services sector is expected to continue dominating growth going forward in all the regions, albeit that this growth will be well below levels experienced over the previous business cycle upswing (2000 - 2007).

2.3 Value chains and integrating SEZs

An important fact in today's world is that finding a full value chain, defined as the complete range of activities involved in producing a product and bringing it to the end-user, at a local level, or even a provincial level, is unlikely. Modern value chains are driven by globalisation, interconnectedness, technology, logistics improvements, offshoring and deregulation. So-called Special Economic Zones (SEZs) fit in with the contemporary trend to tap into global value chains and unlock opportunities for growth and employment.

The question is what municipalities can do as they do not have the mandate to provide incentives and policy initiatives to establish and ensure the success of a SEZ. Closer inspection reveals that there are, in fact, various ways in which municipalities can provide support and ensure that the economic benefits are localised. Municipalities are generally in closer contact with the firms involved and can assist along the whole value chain. Key elements in the upgrading and development of value chains are; improving skills and education and encouraging R&D; improving access to electricity; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain. Municipalities can also provide marketing assistance through geographical identification, i.e. the branding of products from the region, in assisting with trade fairs and the marketing of local products, etc.

In the constrained macro-economic environment outlined above, initiatives to develop and integrate local production into global value chains are more urgent and have great potential in unlocking opportunities for growth and jobs. The following are examples of such opportunities and which have been analysed in the MERO; the emphasis is on the three main Project Khulisa sectors, i.e. oil and gas, agri-processing and tourism (where relevant, reference is also made to potential threats):

- The Province's attempt to tap into the global **oil and gas value chain** has recently received a substantial boost with the launch of the Saldanha Bay IDZ. While limited economic spinoffs are anticipated over the near term construction phase, the establishment of a free deep-sea port has great appeal to potential investors in the upstream oil & marine services and manufacturing industries. The oil and gas mining activities along the African West Coast is expected to generate substantial demand.

However, it is also necessary to sound a warning in this regard; the oil and gas value chain is susceptible to global risks, such as the decline in oil prices. As the planned local value chain is not highly forward-integrated, the exposure to these risks needs to be flagged. Furthermore, there has been a decline in activity in the industries surrounding the oil and gas value chain in recent years, such as in the metals and machinery industry. This has implications for skills development, as some of the required skills may have left the region. In this regard it is also critical that the provincial and local governments develop the necessary education, healthcare and social services to attract and support the greater number of potential jobs to be created in the area.

Another warning signal relates to Eden's petrochemical industry. Certain risks have been identified in the extraction potential of gas in the region, which has placed pressure on the gas-to-liquids (GTL) plant in Mossel Bay. Plans to import LNG in support of local production have not been successful and this presents a significant risk to the growth of the oil & gas sector in the area.

- Major initiatives are afoot with substantial potential to grow the **agri-processing value chain** in the Western Cape. The idea is to expand local processing activities and production, as well as exports in order to grow employment in the industry. In the Cape Winelands (and other areas), the agri-processing initiatives link with tourism. The value chain analysis shows that wine tourism creates significant opportunity and that the support of wine tourism will have a significant impact on the local economy through the strong backward linkages from tourism to the trade, food and beverage and catering and accommodation industries. Greater exposure of the local wine-tourism value chain to the high growth international markets of Asia and Africa can create greater demand. The wine and brandy industry is, for instance, developing closer ties with the fast growing Chinese and Angolan markets.

The Eden food processing value chain also has high development potential. Strong linkages to trade and business services sectors from the food processing value chain make it an ideal value chain to support and gain significant benefits in terms of value added and employment creation.

In Overberg, agriculture has a significant impact on the local economy, with a 20 per cent share of output. Support of local smaller farmers can be achieved by supporting the value chain for niche products. These farmers and food & beverage producers can tap into the existing infrastructure and not compete directly with large commercial farmers, creating a win-win situation.

In Central Karoo, significant declines in agricultural employment and real incomes have been evident in all three the municipal economies. In contrast, output and employment in food and beverages processing has increased in these areas, revealing the direct benefits linked to strengthening the local processing industry. This would strengthen the linkage with the local agricultural industry, allowing greater value added creation along the value chain. Through the support of local SEZs at Beaufort West and Laingsburg local agricultural production can take advantage of upgrading its value chain into niche markets, and increasing the level of exports from the District.

- Regarding the **tourism value chain**, the opportunities range from business and medical tourism in the Cape Metro (e.g. the Cape Health Technology Park) to the lucrative potential of the Cape Winelands' wine-tourism (which are and can be emulated in other regions as well, e.g. the West Coast and Overberg) and to what seems to be substantial latent potential in the Central Karoo's under-marketed tourism sector. Eden and Overberg have high exposure to international and domestic tourists. Strengthening the backward linkages through providing SMMEs greater access to tourists in the right areas could prove favourable in generating additional value added in the trade and services sectors with high employment and value added multipliers.
- Finally, in the **renewable energy field**, an opportunity exists to expand demand and generate scale economies should the Atlantis GTIP take advantage of upgrading its local value chain to access global markets, especially the high growth markets of Africa. Local demand for renewable energy production machinery may not be enough to sustain the SEZ on a long term basis.

2.4 Infrastructure expenditure, municipal revenues and economic growth

The link between infrastructure investment and economic growth is undeniable. In the 2014 MERO analysis the link between investment in economic infrastructure and the regional economies was the focus; this year, basic services infrastructure spending, revenue collection and economic growth is the focus. Basic services infrastructure investment is not only an essential part to improving livelihoods but also aids in the creation of jobs during development and maintenance and in improving the competitiveness of firms. Basic services delivery is the primary responsibility of

municipalities and plays an important role in poverty alleviation. In order to carry out this mandate sufficient investment in infrastructure is necessary. The literature suggests that increasing basic infrastructure by 1 per cent could lead to a 0.36 per cent increase in GDP per capita in rural municipalities and a 0.33 per cent increase in GDP per capita in urban municipalities in South Africa.

It is to be expected that larger municipalities (in terms of GDP contribution) possess larger revenue bases and also contribute larger shares in a region's total infrastructure expenditure. This relationship generally holds across the Western Cape's regions, but not in all. Deviations do occur and are typically a function of demographics, revenue collection methods and varying municipal socio-economic conditions. An example is Theewaterskloof Municipality, with the largest economy and population in Overberg, accounting for 35 per cent of the region's GDP, but only contributing 19 per cent of revenue collection in 2014. High unemployment, the seasonal nature of agricultural activities and the influx of indigent people into the area influence revenue collection. Another example is Bitou in Eden District, a fast growing municipality, however, with a small revenue share, in turn, related to a small revenue base, high in-migration and high unemployment. In these municipalities the delivery of the required basic services infrastructure is challenging, particularly in an environment of weak economic growth, affecting households' ability to pay for services.

The fact of the matter is that Western Cape municipalities have generally implemented high tariff increases (property rates and municipal trading services fees) in recent years in order to cope with demands. Average municipal revenue growth ranged from 11 per cent per annum in Overberg to 15 per cent per annum in the Cape Metro and West Coast District over the 2009 - 2014 period. The implied rate increases are well-above inflation. Some municipalities express concern (and have noted) that price sensitivity can lead to lower demand for services and the undermining of municipal revenue bases as consumers shift to greener energy sources. The latter is also adversely influenced by the lower economic growth, higher unemployment and more indebted consumers. High electricity tariff increases and load-shedding are also having an adverse impact on demand. Revenue from electricity services accounts for the largest share of municipal revenues in most municipalities. As basic infrastructure services revenue typically accounts for more than 60 per cent of total municipal revenues, the revenue squeeze represents a formidable challenge.

Finally infrastructure spending priorities vary from region to region. In the advanced Cape Metro, the maintenance and expansion of ageing infrastructure in a growing city represents a huge challenge. The rapidly growing regions of Eden and Overberg also demands high rates of basic services infrastructure delivery. In Central Karoo, the priority is for obvious reasons on water provision. Waste water management and water provision is also the largest basic services infrastructure expenditure item in the Cape Winelands.

2.5 Socio-economic climate and economic development

A telling fact regarding the growth and development of the Western Cape economy is that the Human Development Indices (HDIs) increased in all six regions between 2001 and 2013. This indicates that economic growth is having a positive impact on social development in all regions. It is also testimony to the higher economic growth in the Western Cape compared to the rest of the country, as it significantly exceeds population growth (measured at 2.3 per cent per annum, 2001 - 2013), therefore leading to positive growth in per capita income levels, i.e. standards of living.

In regions where real economic growth lags (e.g. the West Coast) the improvement in living standards is tenuous. Furthermore, whilst having improved in relative terms in most regions, overall levels of income inequality remain high, indicating that the improved living standards are not experienced by all households. One reason for the unequal distribution of income is the sectoral skills demand pattern in the Western Cape. Even in the lagging West Coast region (in terms of economic growth), this is illustrated. The services oriented Saldanha Bay economy has a higher (and increasing) Gini-coefficient compared with the other municipalities in the region hosting relatively bigger agricultural and secondary sectors. Increased semi- and unskilled unemployment in agricultural and secondary sectors, which is a province-wide trend, exacerbates income inequalities. However, the reasons for income inequality are complex, and overcoming it remains a formidable challenge.

In terms of education, most districts reported increases in matric pass rates, albeit that they vary. Likewise, literacy rates vary across the Province, from a low of 73.4 per cent in the CKD in 2011, to 79.1 in the WCD and a high of 90.5 in the Cape Metro. Most regions reported sharp increases in literacy rates between 2001 and 2011. As noted, there is a trend towards employing skilled to highly skilled workers in the Province. Initiatives to drive skills development and encourage the absorption of semi- and unskilled labour are required in order to stimulate employment. It also has to be emphasised that education and skills training efforts need to be channelled such that the focus is on the development of entrepreneurial skills, which will be conducive to employment creation.

Life expectancy has been declining moderately within most regions, albeit that this tendency has stabilised since the large scale roll-out of anti-retroviral treatment in 2007 - 2008. In fact, the most recent information shows improvements in life expectancy in the Western Cape. While it does not appear that health issues have had large adverse effects on the regional economies, evidence of increasing HIV/AIDS and TB patient loads in some localities could pose a concern. Rising crime rates have also been reported within all districts, which may be having an adverse effect on economic activity. Access to basic services is generally high, albeit that it remains a challenge to raise access levels further in regions where demand for services increase rapidly due to population influx and economic growth. Nonetheless, trends indicate that service delivery has had a positive impact on education and the economy overall.

The increasing levels of human development among the people of the Province are encouraging. It is equally important that the remaining challenges be confronted, e.g. the unacceptable levels of income inequality.

3. Concluding remarks

The macro-economic context is challenging over the short term, with some promise that it will ease from the end of next year. Whilst the Western Cape economy continues to outperform the rest of the country, best reflected in higher trending business confidence levels over the past 18 months, the growth outlook has been revised notably. This ups the imperative to unlock opportunities for growth and jobs in the Province. In this regard, the range of initiatives to improve economic growth and employment creation via infrastructure development and as indicated in the value chain analysis are most encouraging. This has the potential to render the current five-year forecast of 2.7 per cent growth per annum (2015 - 2020) as being too conservative.

Economic activity is concentrated in the Province; however, regional growth trends are such that there does not appear to be a need for an active regional policy being aimed at reversing this. Non-metropolitan regions are catching up and initiatives to develop key value chains in a number of localities bode well in the smaller regional economies. However, the skills demand mismatch in the labour market of all regions needs to be addressed. This is presumably at the core of many adverse socio-economic indicators. The skills demand mismatch accentuates the deficiencies in the education and training sector, it is at the bottom of a rapid degree of informalisation in the provincial economy, increasing levels of unemployment and income inequalities in some localities and are likely to contribute to various social ills associated with unemployment, such as increasing levels of crime.

Therefore, while the growth and development track record of the Western Cape economy has been impressive, many challenges remain. The otherwise constrained economic outlook is bolstered by current initiatives to improve infrastructure development, addressing the spatial distortions of the past and in unlocking opportunities for growth and employment creation in various key value chains across all regions.

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