Source: Western Cape Government (2015) Municipal Economic Review and Outlook 2015. Cape Town: WCG, Provincial Treasury.

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.

POPULATION DENSITY BY MAIN PLACES - CAPE METROPOLITAN

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 GDPR 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 GDPR and employment.

Going forward, growth is likely to remain under pressure in view of the 4 - 5 per cent average real GDPR 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 GDPR 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 GDPR 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.

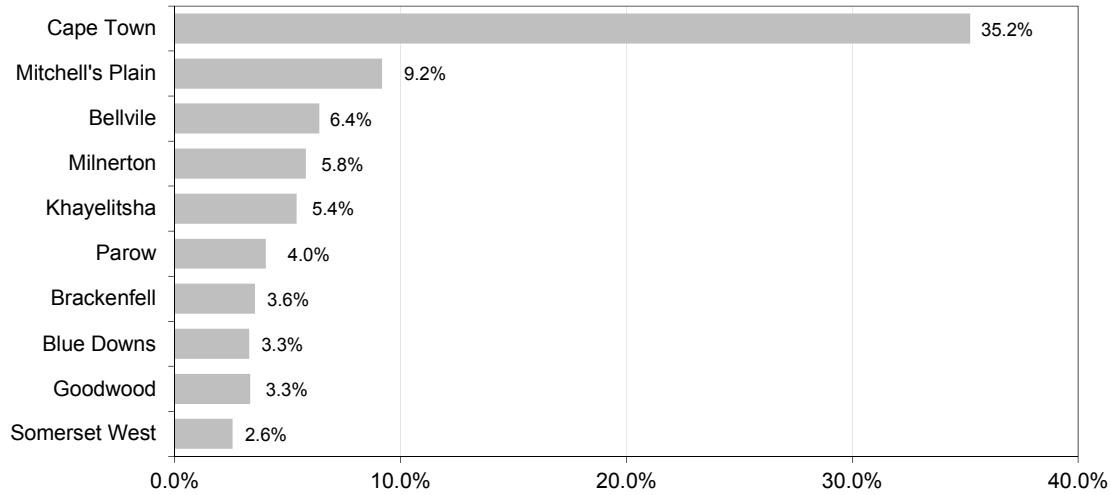
1

Cape Metro regional economic outlook

1.1 Introduction

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

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



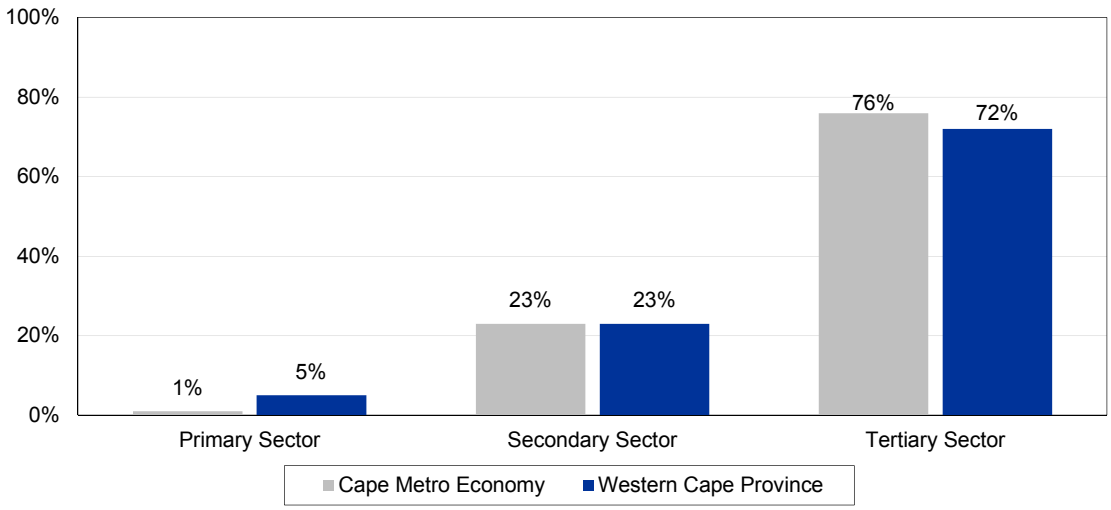
Source: Quantec Research, Own calculations

[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 GDPR 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 GDPR. Having come down from a high of a 20 per cent contribution in 2000, manufacturing GDPR 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 GDPR sectoral contribution: Average 2000 - 2014



Source: Quantec Research, Own calculations

The next section of this chapter assesses historical and current performance from a GDPR 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 GDPR 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

	Real GDPR growth (ave yoy %)				Employment (net change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
Region	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013	2005 - 2013	2000 - 2007	2008 - 2009	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

	Real GDPR growth (ave yoy %)				Net employment (number)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
Sector	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 GDPR 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 GDPR 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 GDPR forecast by broad sector: 2015 - 2020

	Forecast (%)						Forecast (%)
Sector	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2015 - 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 GDPR 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.

2

Sectoral growth, employment and skills

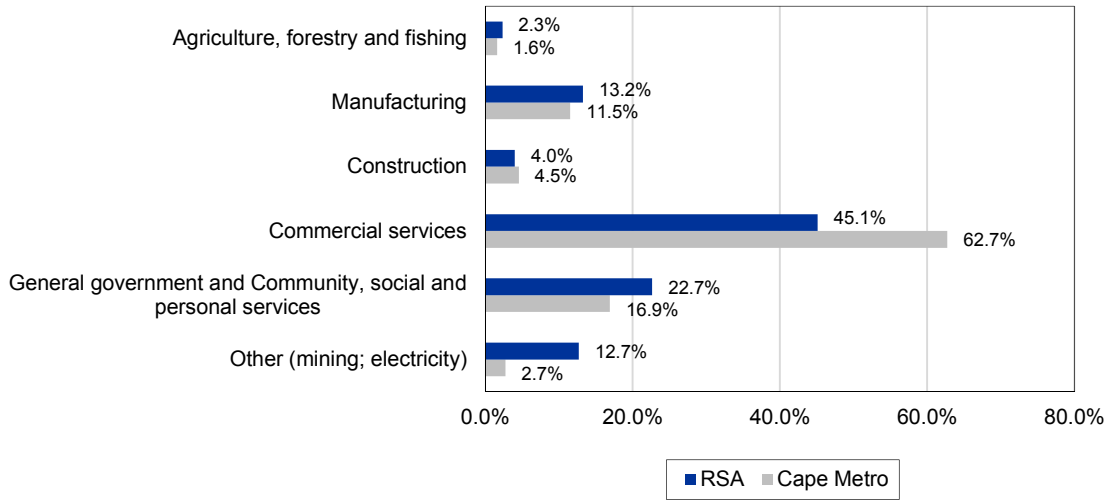
2.1 Introduction

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 Metro regional economy, showing the change in employment levels and the real GDPR 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 sector[3] 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.

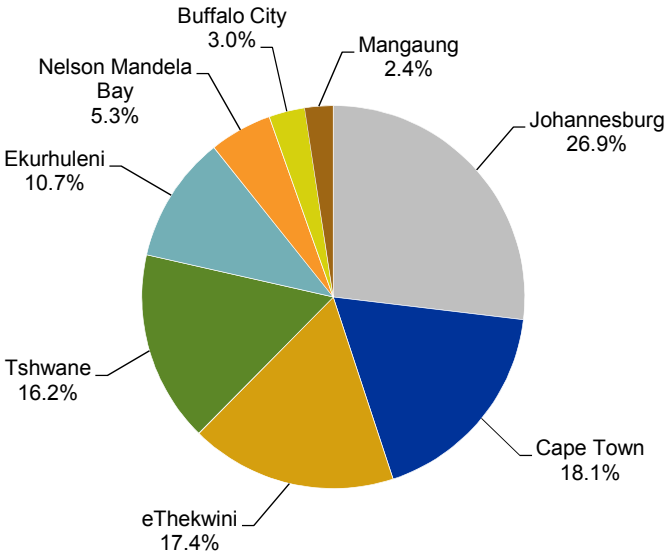
Figure 2.1 Composition of the Cape Metro's GDPR compared to that of South Africa, 2013



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 eThekwini. 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 GDPR 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 areas[4]. These economic areas accounted for 70 per cent of the Cape Metro's GDPR 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 GDPR (see Table 2.3), which implies that Cape Town's weighted contribution to growth is probably the largest by a wide margin[5].

[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 GDPR (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, 2013[6]

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.

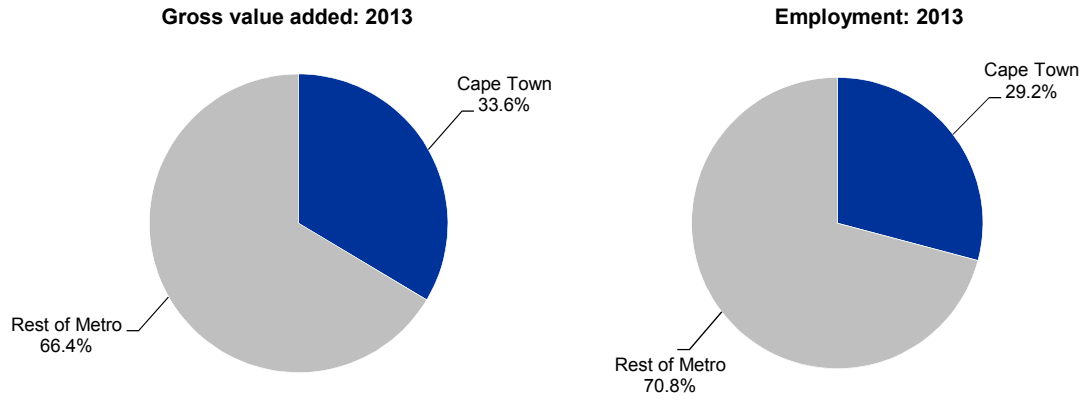
Considering the sectoral patterns of economic growth, Table 2.1 shows that the Mitchell's Plain and Blue Downs/Kuils River areas put in above-average growth in their commercial services, construction and manufacturing sectors, as well as the general government and community, social and personal services sectors[7]. 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 GDPR 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 GDPR 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

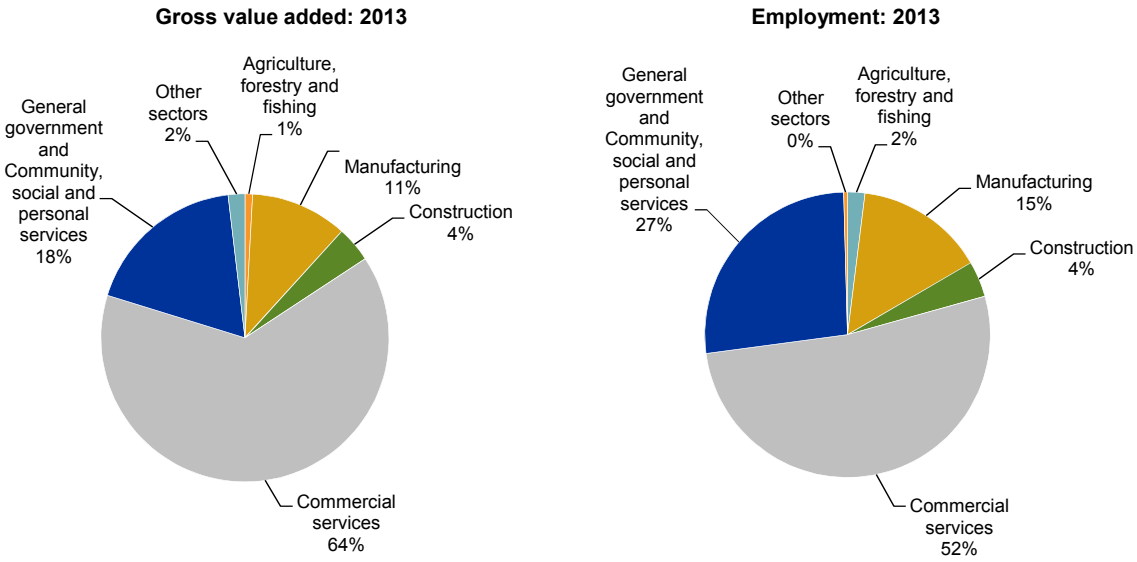


Source: Quantec Research, Own calculations

[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 GDPR). 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.

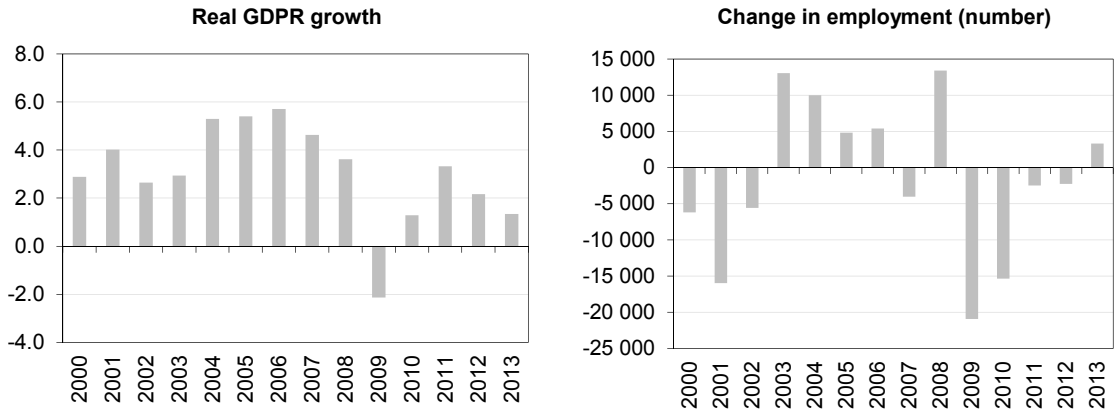
Figure 2.4 Cape Town CBD: Composition of gross value added and employment



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

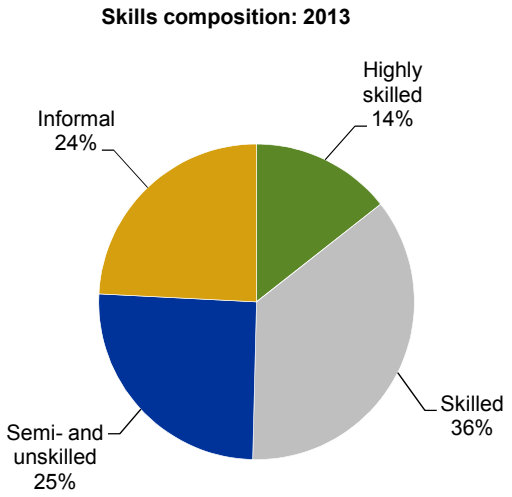
	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
Sector	**2013**	**2005 - 2013**	**2010 - 2013**	**2013**	**2005 - 2013**	**2005 - 2013**	**2010 - 2013**	**2010 - 2013**
Agriculture, 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



Labour category	Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013
Highly skilled	52 387	-0.5	-2 489
Skilled	131 044	-1.4	-17 737
Semi- and unskilled	92 463	-2.9	-27 784
Informal	88 093	4.7	29 955
Total employment	**363 986**	**-0.5**	**-18 054**

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 patters have major implications for the CBD's informal sector development strategy, as well as the planning of policy support to industry.

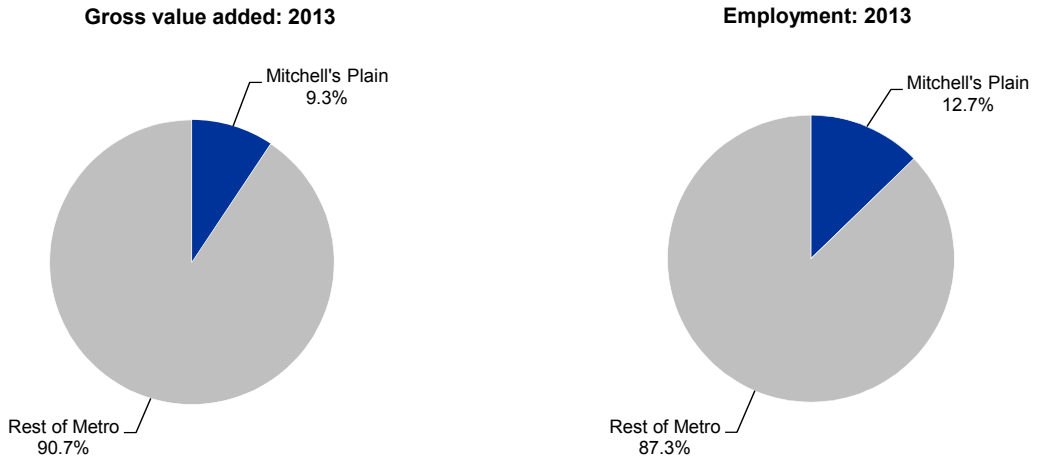
The focus now moves to the main economic areas beyond the CBD borders, but within the Metro.

2.2.2 Mitchell's Plain

Mitchell's Plain is the second largest contributor to the Cape Metro's GDPR according to the data, accounting for 9.3 per cent of GDPR 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.

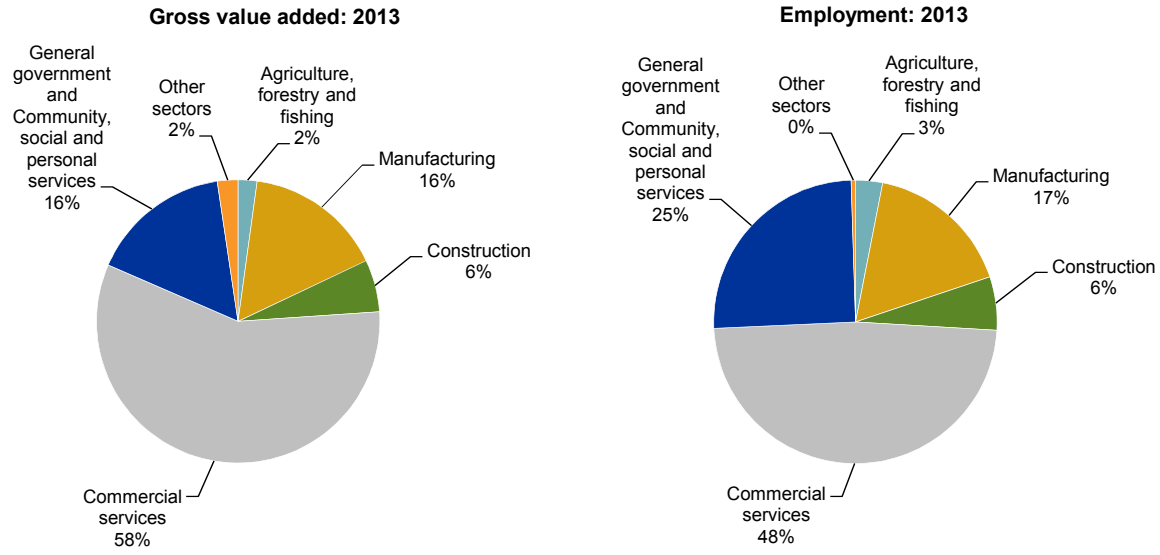
Regarding the industry structure of Mitchell's Plain, its services orientation is immediately evident, with three quarters of economic activity and employment in the tertiary sectors. Commercial services is the largest sector, generating 58 per cent of GDPR and employing close to half of the workforce. 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



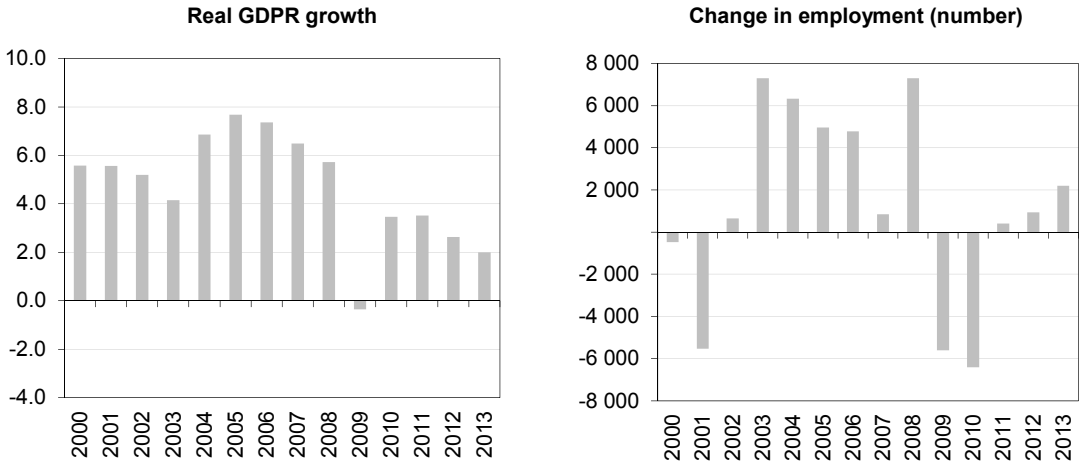
Source: Quantec Research, Own calculations

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

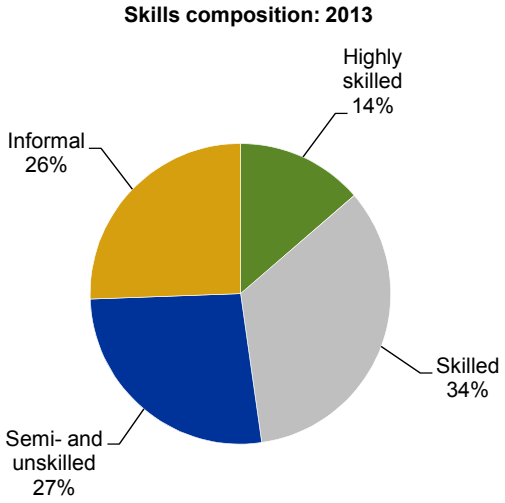
Considering the real economic growth and employment performance over the 2000s, Figure 2.9 shows how growth has tapered off over the 2010 - 2013 period compared to robust growth, particularly over the years, 2004 to 2008. Over this period employment creation was strong, being interrupted by the recession 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

	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
Sector	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 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



Labour category	Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013
Highly skilled	21 530	1.4	2 460
Skilled	53 769	0.1	498
Semi- and unskilled	42 092	-2.0	-8 306
Informal	40 277	5.2	14 773
Total employment	**157 668**	**0.7**	**9 425**

Source: Quantec Research, Own calculations

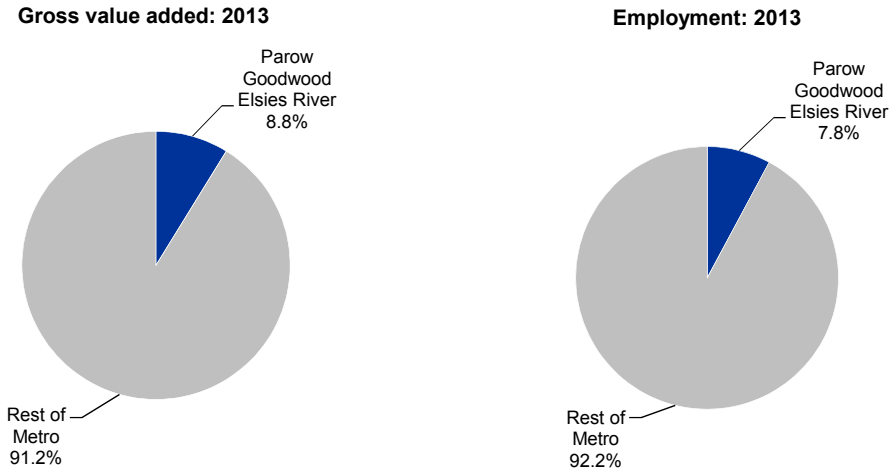
In terms of the demand for labour skills, the picture is more optimistic compared to the CBD experience. The skilled work force remained stable over the 2005 - 2013 period while the demand for highly skilled labour increased by 1.4 per cent per annum. Skilled labour accounted for more than a third of 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 its 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 GDPR 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 GDPR 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

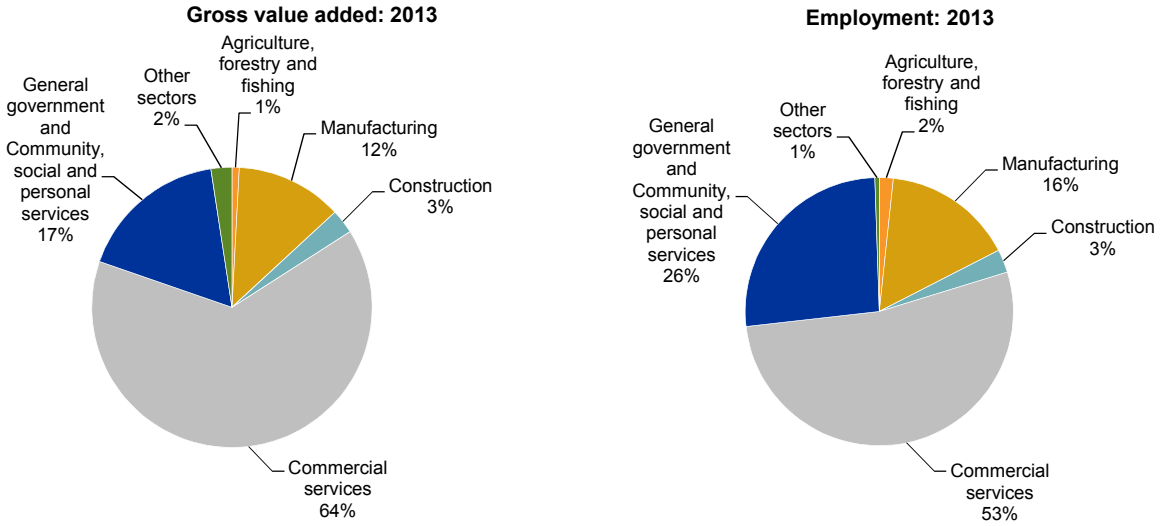


Source: Quantec Research, Own calculations

Regarding the Parow/Goodwood/Elsies River area's industry structure, GDPR 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.

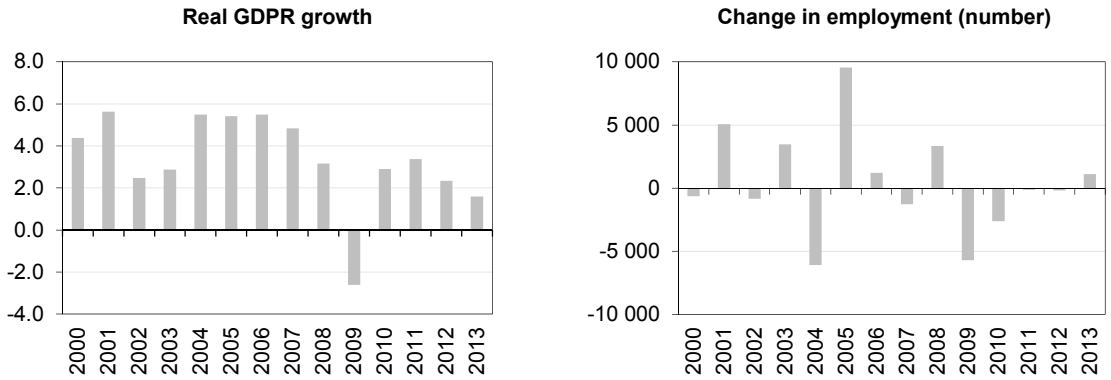
From a growth perspective, the area's expansion has been under pressure, with the average annual growth rate over the 2005 - 2013 period less than 3.0 per cent per annum (which compares with 3.6 per cent per annum in the wider Cape Metro). Whilst net employment creation has occurred over the period under 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

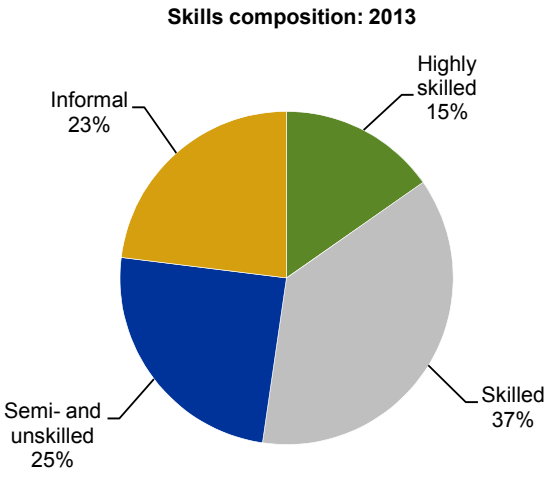
Table 2.6 Parow/Goodwood/Elsies River gross value added, real economic growth and employment creation

	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
Sector	**2013**	**2005 - 2013**	**2010 - 2013**	**2013**	**2005 - 2013**	**2005 - 2013**	**2010 - 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 GDPR. 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



Labour category	Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013
Highly skilled	14 872	0.9	1 165
Skilled	36 081	-0.1	-409
Semi- and unskilled	24 002	-2.0	-4 730
Informal	22 437	6.1	9 217
Total employment	**97 392**	**0.7**	**5 244**

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

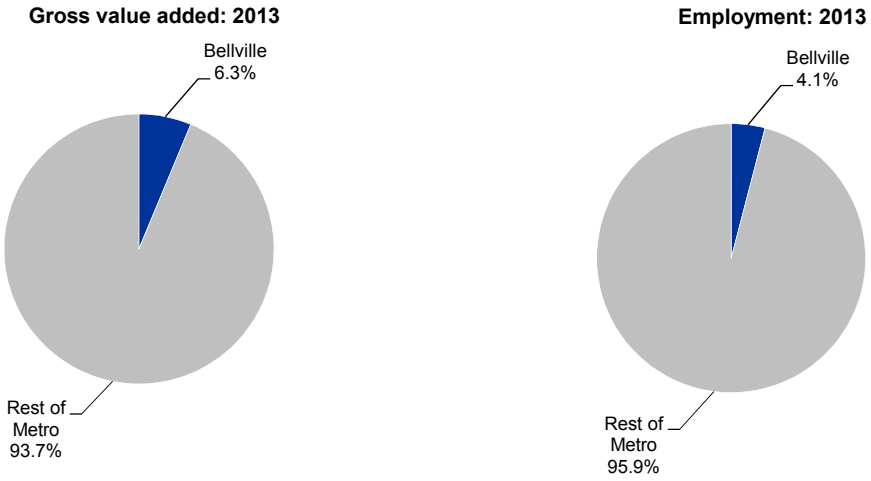
employment. The skilled work force remained stable, but demand for semi- and unskilled labour declined by 2.0 per cent per annum. These two categories are the largest, accounting for 37 per cent and 25 per cent respectively of the Parow/ Goodwood/Elsies River workforce.

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 GDPR 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 point[9].

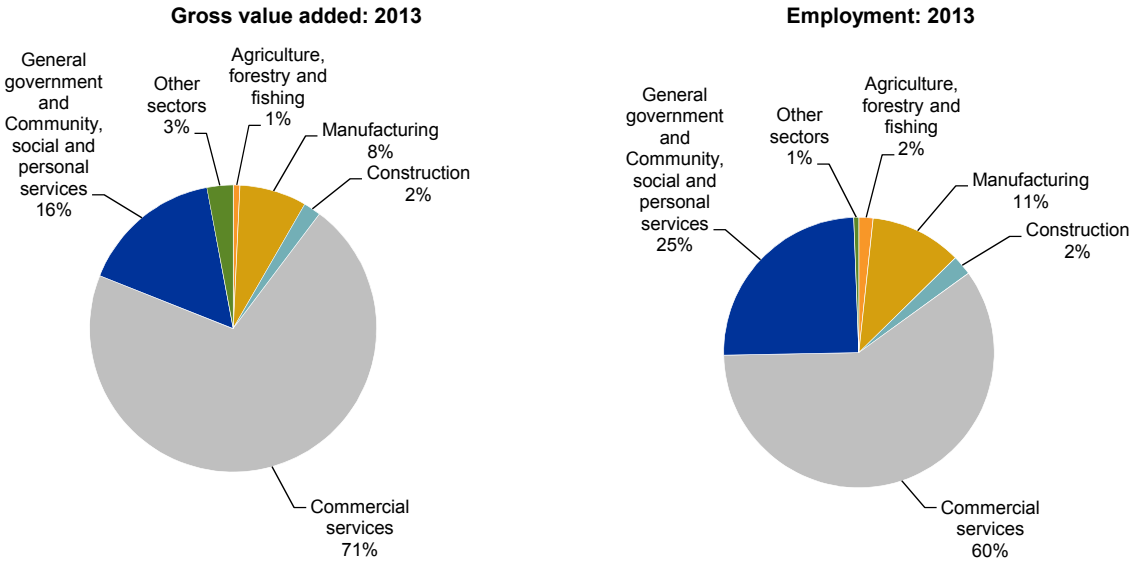
Figure 2.15 Bellville share of Cape Metro gross value added and employment: 2013



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

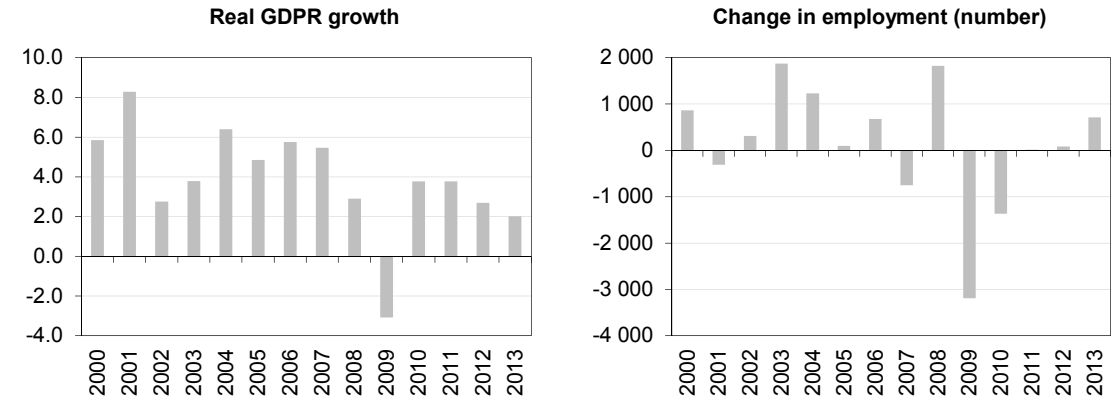


Source: Quantec Research, Own calculations

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 GDPR and 85 per cent of employment. The largest sector is commercial services accounting for 71 per cent and 60 per cent of GDPR 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

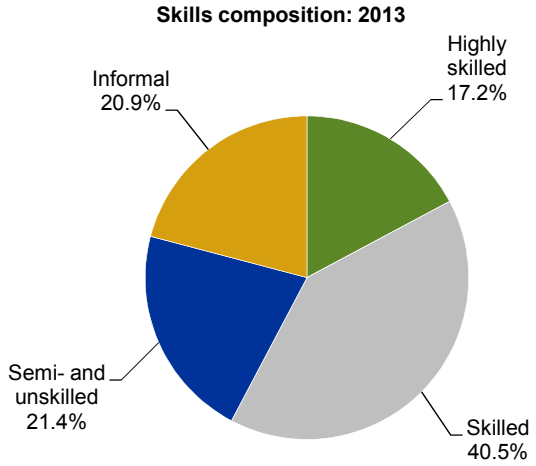
Table 2.7 Bellville gross value added, real economic growth and employment creation

	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
Sector	**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 2013	Growth per annum (%) 2005 - 2013	Level change 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.

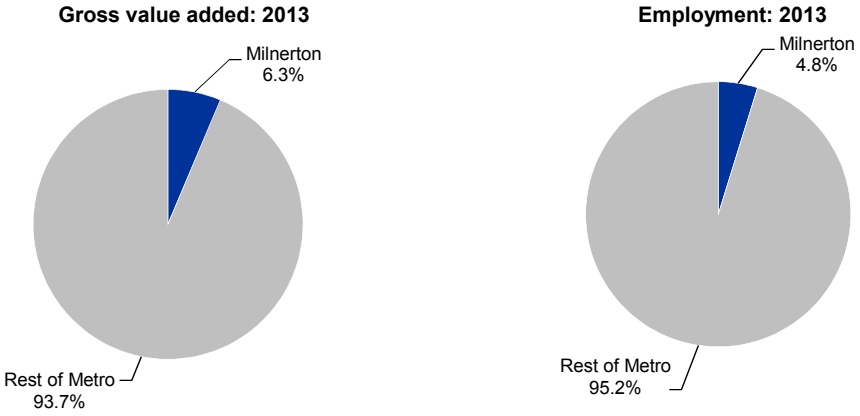
Furthermore, employment is being shed in the manufacturing and construction sectors, the bulk of which are semi- and unskilled employment. There has also been an outflow of skilled and highly skilled labour, which may reflect the pressures of low economic growth.

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 GDPR 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.

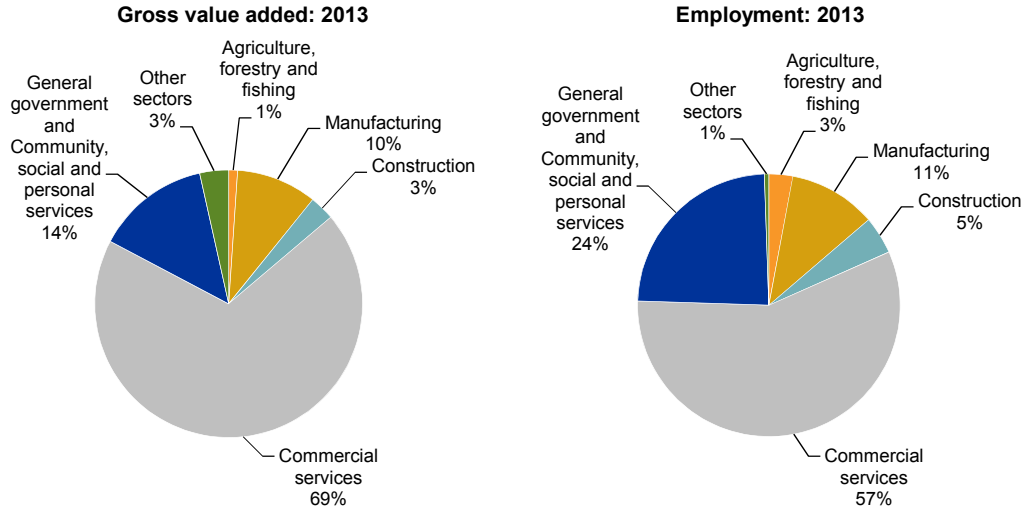
In terms of industry structure, suffice to say that it corresponds with that of the Bellville economy; the commercial services and general government and community, social and personal services sectors are only marginally smaller in relative terms, i.e. accounting for 83 and 81 per cent of GDPR and employment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

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



Source: Quantec Research, Own calculations

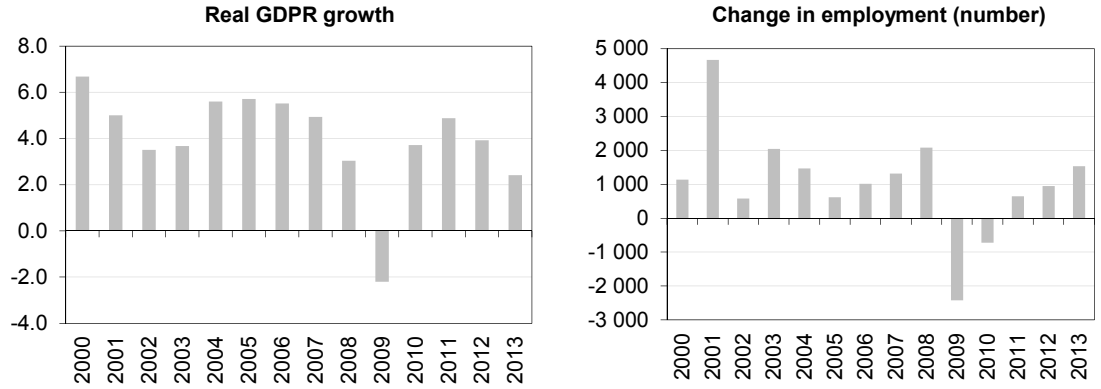
Figure 2.20 Milnerton: Composition of gross value added and employment: 2013



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 GDPR 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



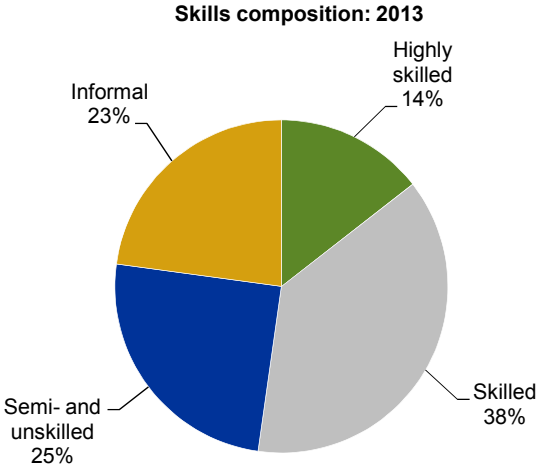
Source: Quantec Research, Own calculations

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

	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
Sector	**2013**	**2005 - 2013**	**2010 - 2013**	**2013**	**2005 - 2013**	**2005 - 2013**	**2010 - 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



Labour category	Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013
Highly skilled	7 293	0.8	559
Skilled	19 041	0.0	-11
Semi- and unskilled	12 559	-0.6	-731
Informal	11 508	6.4	5 216
Total employment	**50 401**	**1.2**	**5 034**

Source: Quantec Research, Own calculations

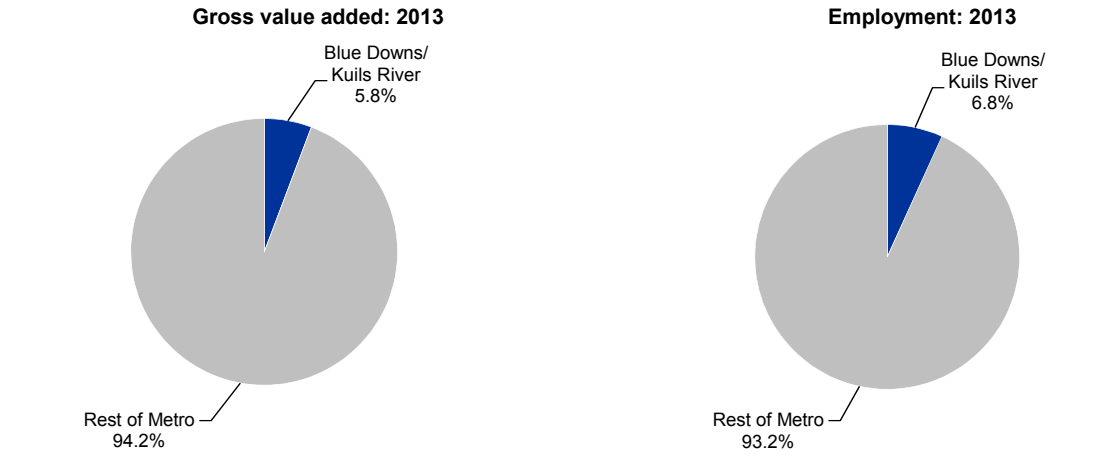
While the Milnerton area also experienced a sharp increase in its informal sector employment, a notable difference is the comparatively smaller net retrenchments of semi- and unskilled labour. This can be linked to the relatively stronger growth of the manufacturing sector. The highly skilled and skilled 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 GDPR 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.

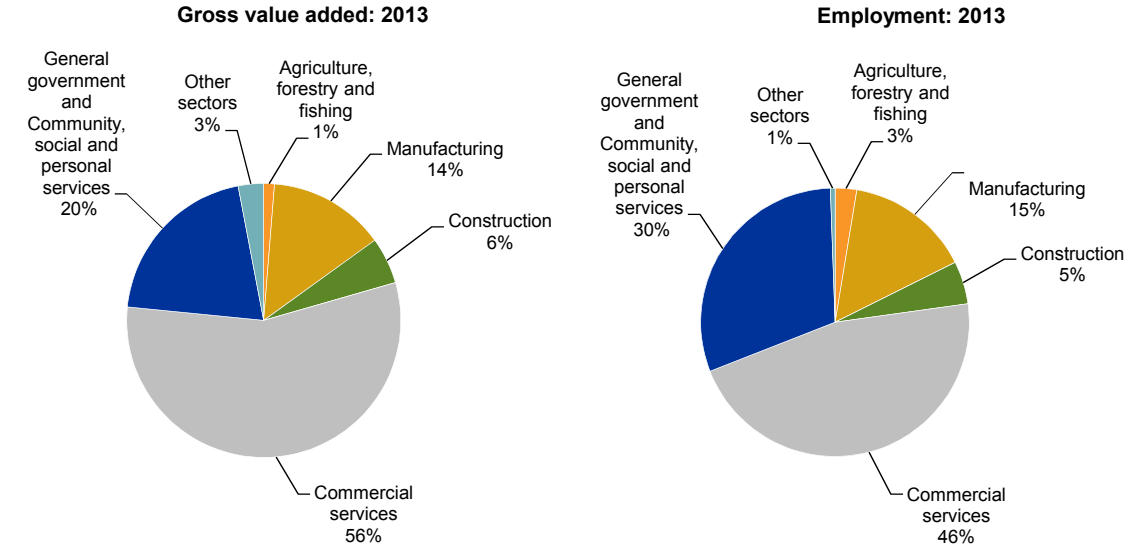
Figure 2.23 Blue Downs/Kuils River share of Cape Metro gross value added and employment: 2013



Source: Quantec Research, Own calculations

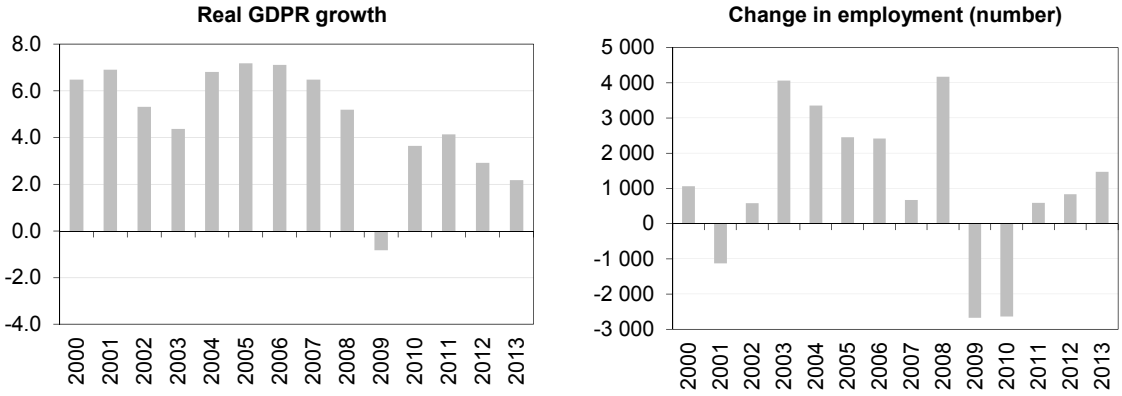
The structure of the economy differs from that of Bellville, Milnerton and Parow/ Goodwood/Elsies River in that it has a larger manufacturing sector, contributing around 15 per cent of GDPR and employment. Commercial services account for 56 per cent and 46 per cent of valued added and employment respectively, 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 GDPR 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.

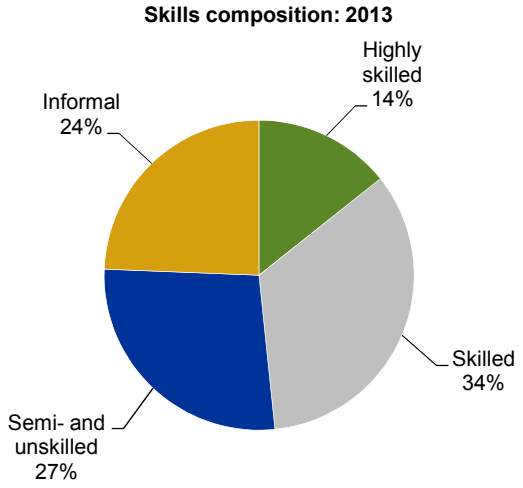
The area was impacted by the recession as the economy contracted moderately; however, growth rebounded in 2010. The recovery in the construction sector has been weak and this sector shed substantial employment opportunities after 2009. Manufacturers in the area also continued shedding jobs at a relatively 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

	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
Sector	**2013**	**2005 - 2013**	**2010 - 2013**	**2013**	**2005 - 2013**	**2005 - 2013**	**2010 - 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



Labour category	Number 2013	Growth per annum (%) 2005 - 2013	Level change 2005 - 2013
Highly skilled	11 949	1.5	1 457
Skilled	28 412	0.3	689
Semi- and unskilled	22 748	-1.4	-3 178
Informal	20 353	6.0	8 328
Total employment	**83 462**	**1.1**	**7 297**

Source: Quantec Research, Own calculations

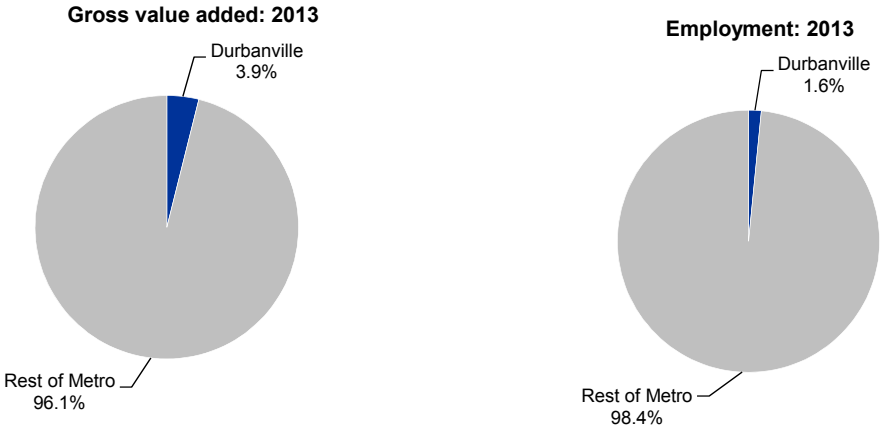
Regarding the demand for labour skills, the pattern is similar to the other economic areas, with this difference, namely that net employment creation was positive and the outflow of semi- and unskilled labour comparatively softer, i.e. at a rate of 1.4 per cent per annum. The demand for skilled (0.3 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

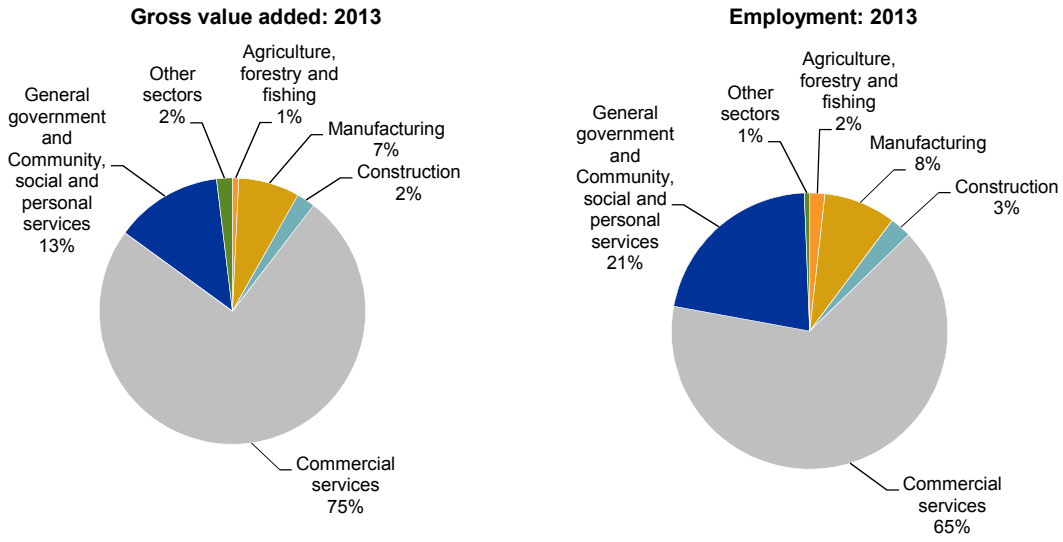
The Durbanville economy is relatively small, accounting for 3.9 per cent of GDPR and only 1.6 per cent of employment in the Cape Metro. R12 billion of the Metro's R313 billion GDPR was generated in the area in 2013. Located in the northern suburbs, it a services oriented economic area.

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



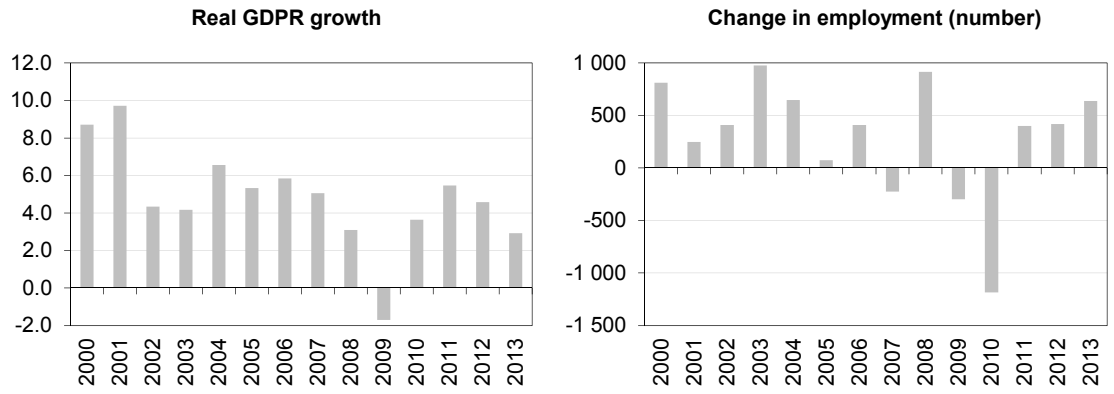
Source: Quantec Research, Own calculations

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

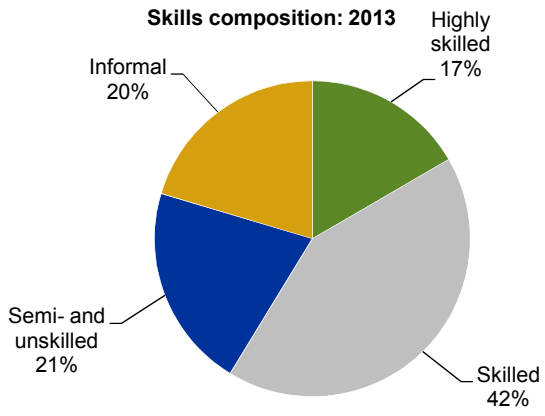
	Value-added: 2005 - 2013			Employment: 2005 - 2013				
	R million value	Real growth per annum (%)		Number	Growth per annum (%)	Level change	Growth per annum (%)	Level change
Sector	2013	2005 - 2013	2010 - 2013	2013	2005 - 2013	2005 - 2013	2010 - 2013	2010 - 2013
Agriculture, forestry and fishing	95	6.8	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 GDPR 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 to 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.

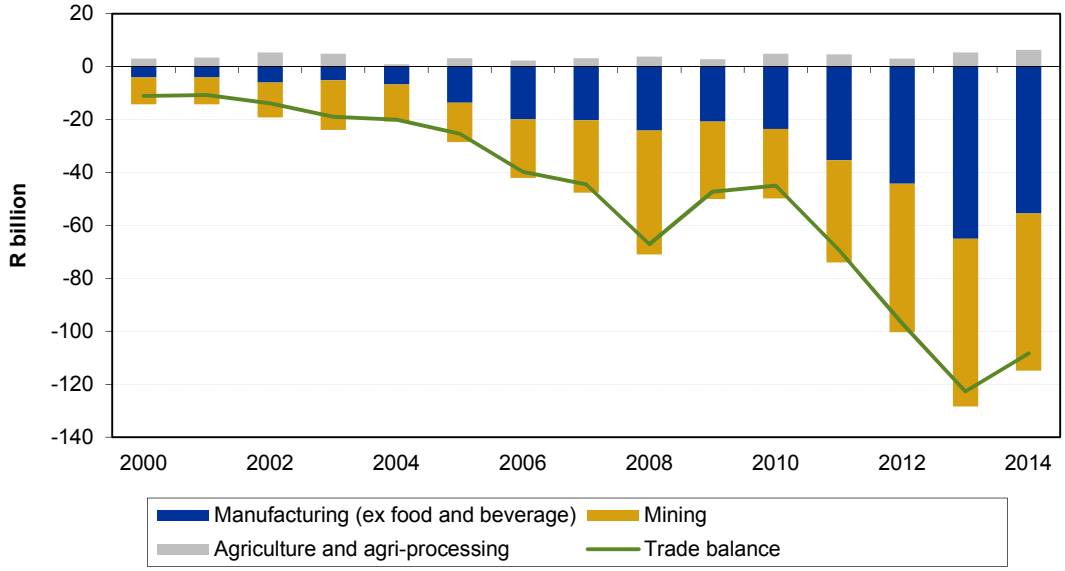
2.3 International trade

The Cape Metro economy is an open regional economy. Excluding the lucrative trade in services these days, goods trade measured 76 per cent of GDPR 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 2014[10]. Individual product categories, which showed strong growth, include clothing and textiles, wood and paper products and non-metallic metal 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.

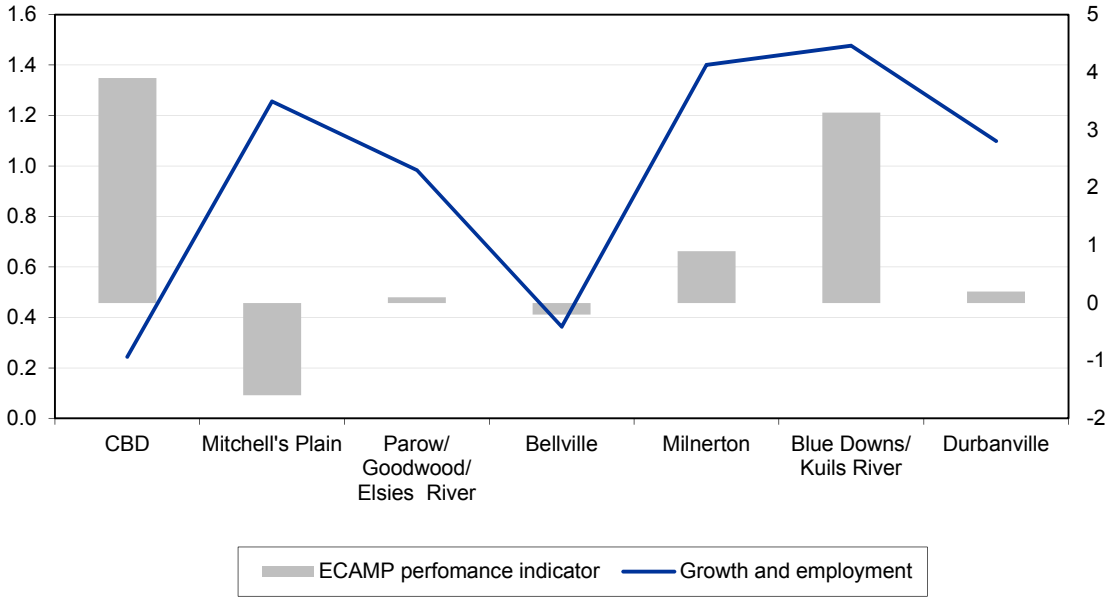
2.4 Sectoral prospects

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 Metro[11]



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 GDPR 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 GDPR 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 context[13] 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 GDPR 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.

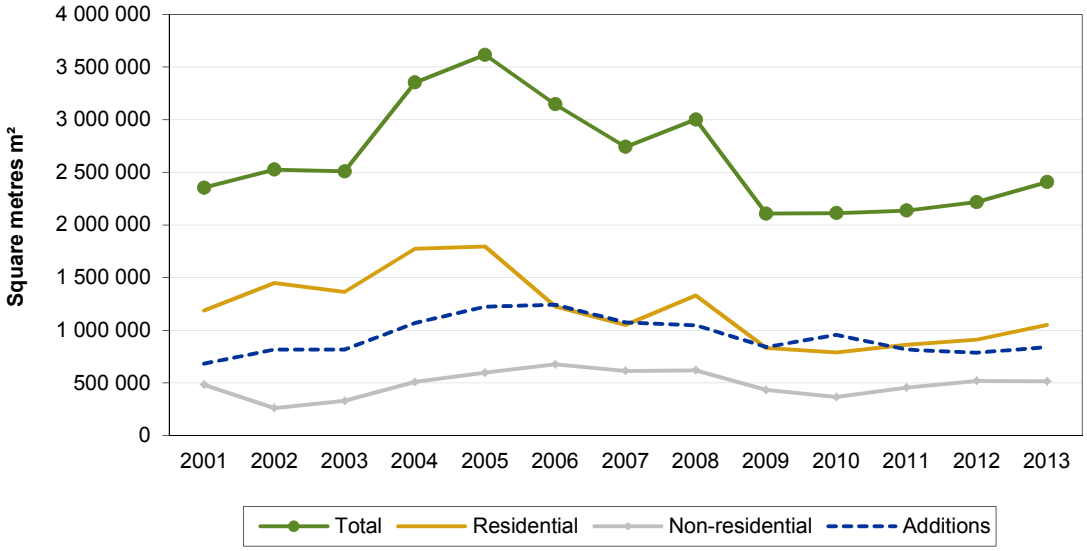
The commercial services sector has been the mainstay of the Cape Metro's economic growth and is also projected to remain the biggest contributor to growth; however, the weak domestic demand conditions are likely to catch up with this sector. The five-year forecast for the leading finance, insurance, 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 alterations[14]. 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

	Real GDPR (yoy %)				
	Trend	Recession	Recovery	Cape Metro	Western Cape
Sector	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 GDPR 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

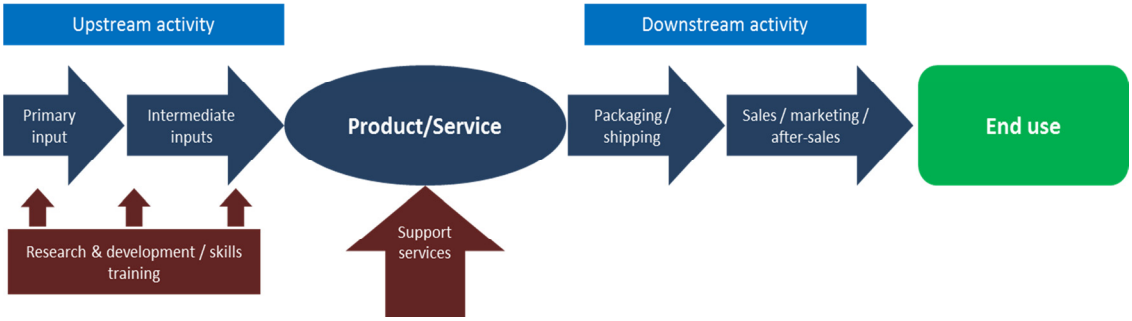


Figure 3.1 shows the various stages in a generic value chain. The activities leading up to the manufacture of the product are accounted for as upstream activities and the activities involved in getting the product to the market are accounted for as downstream activity. Various support services are also 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.

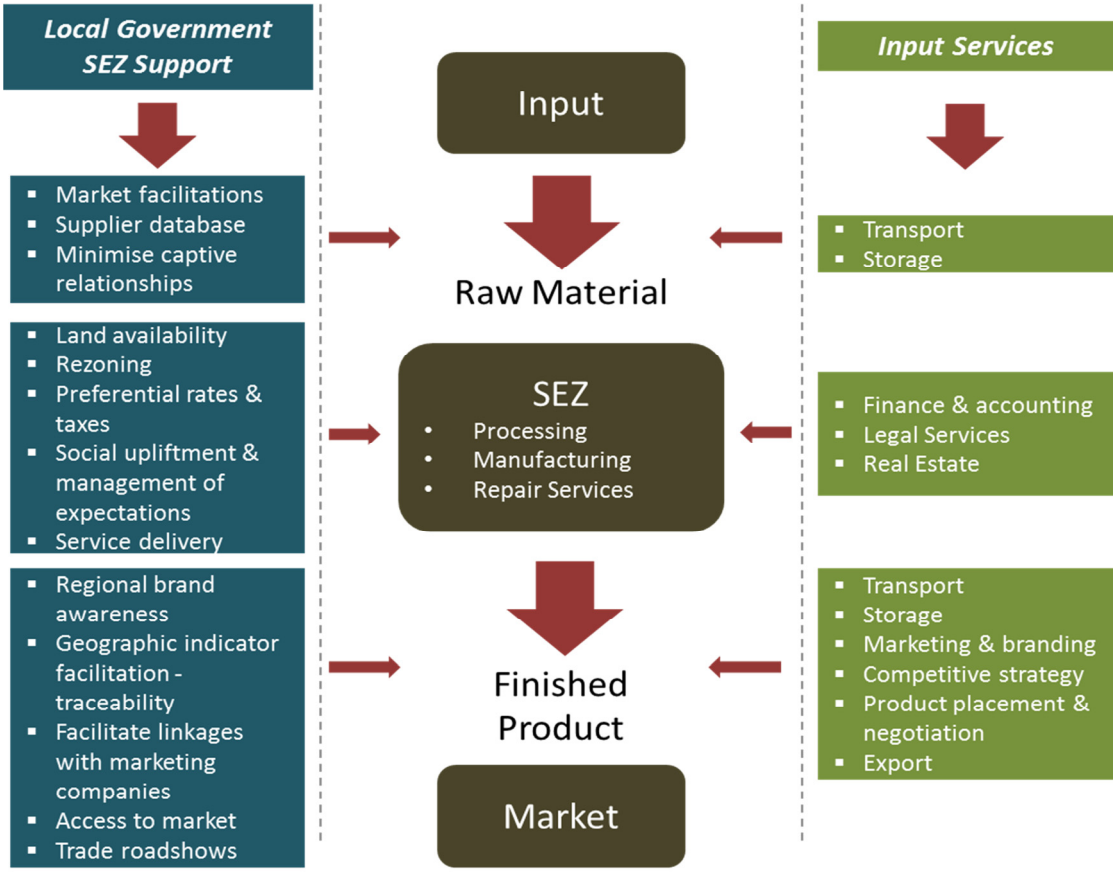
"Free Trade Zone" means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.

"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.

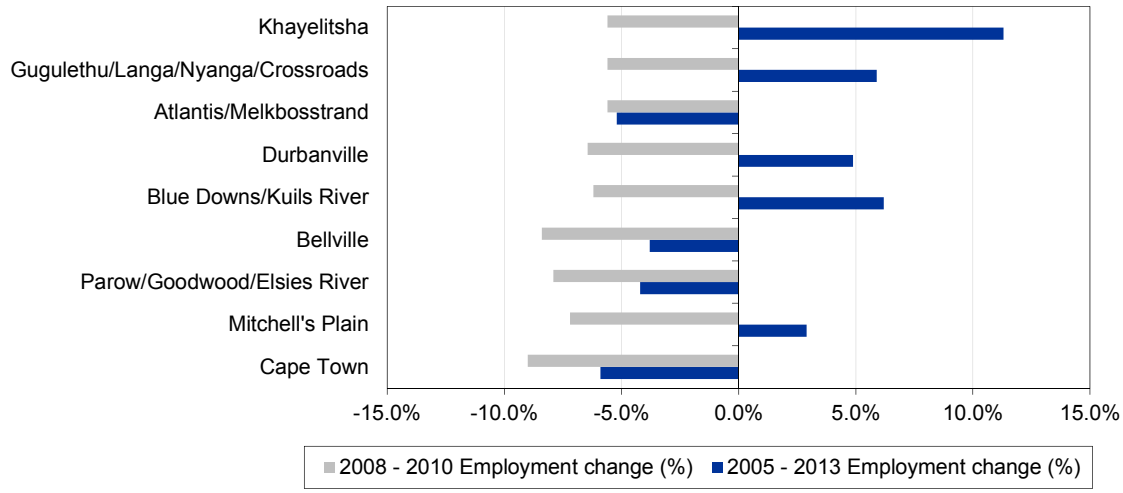
Identifying potential areas of breakdown in the integration or upgrading process of local value chains should be a key focus area for the establishment of a sustainable SEZ. Focus areas should include, but not be limited to the following: Input costs; capital deficits, technology gaps; labour and skills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

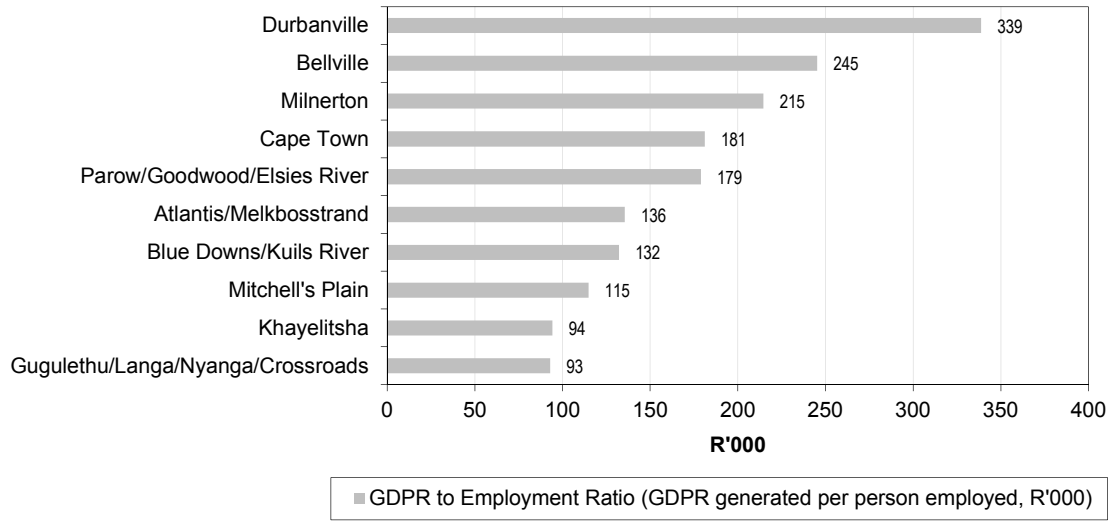
Most notably the suburbs, like Parow and Bellville, Atlantis and Cape Town have not seen a significant recovery from the 2009 recession. Areas such as Khayelitsha, Gugulethu, Nyanga, Langa and Mitchell's Plain have seen significant rebounds in employment since the recession. There is a marked contrast 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

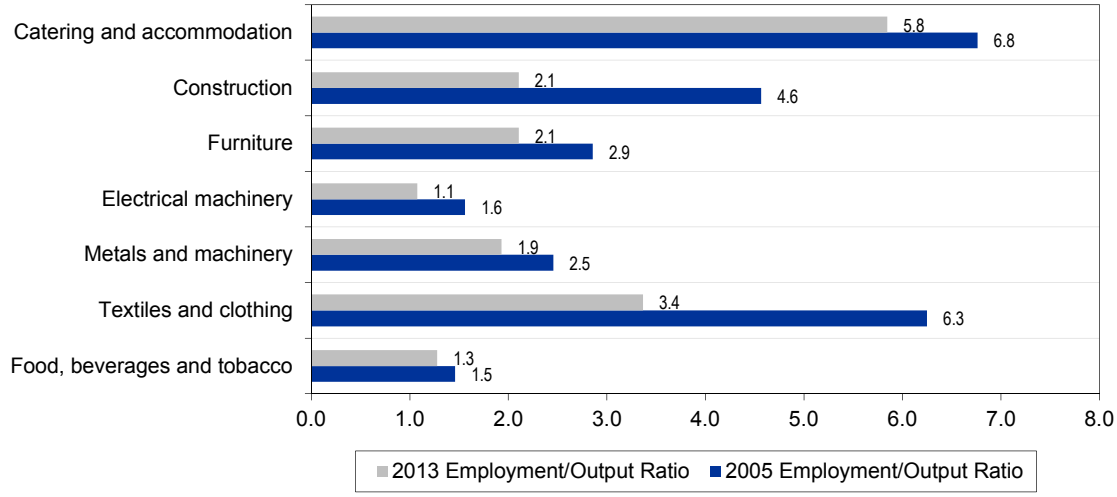
Figure 3.4 GDPR to employment ratio (GDPR generated per person employed), 2013



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 GDPR per capita in rural municipalities and a 0.33 per cent increase in GDPR 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

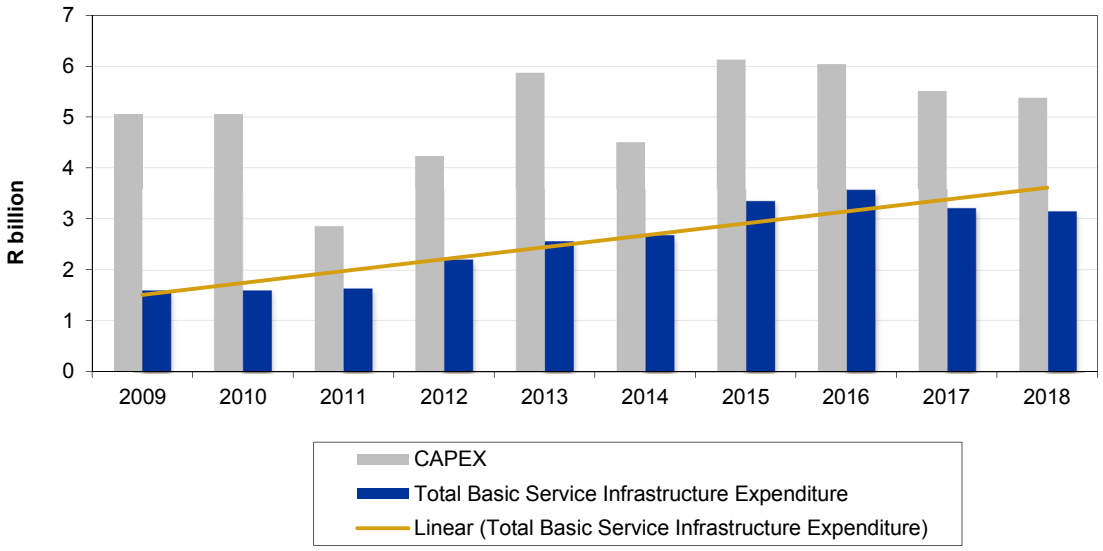
4.2.1 Overview of municipal expenditure trends in the Cape Metro

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



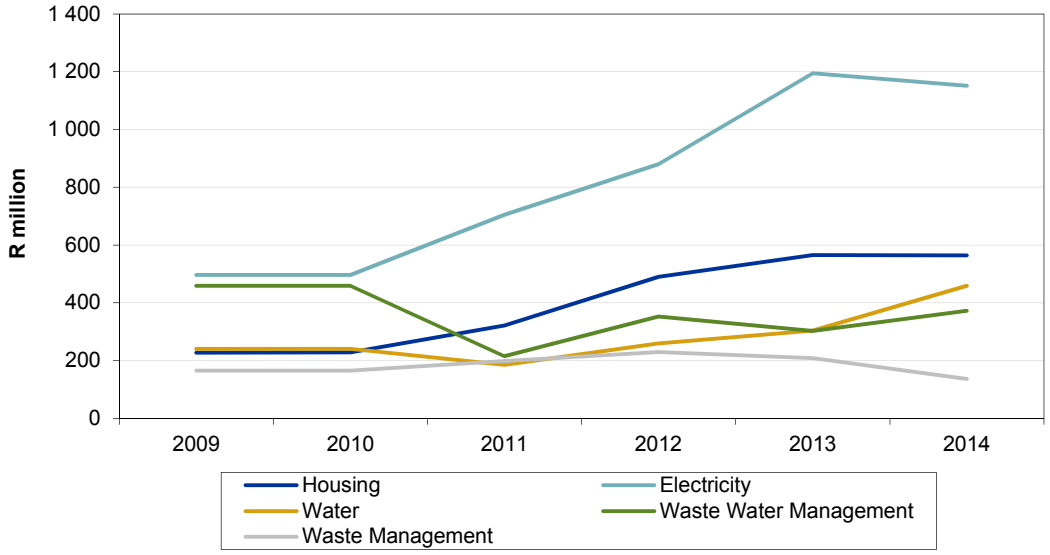
Source: Western Cape Provincial Treasury

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 GDPR 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 GDPR 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

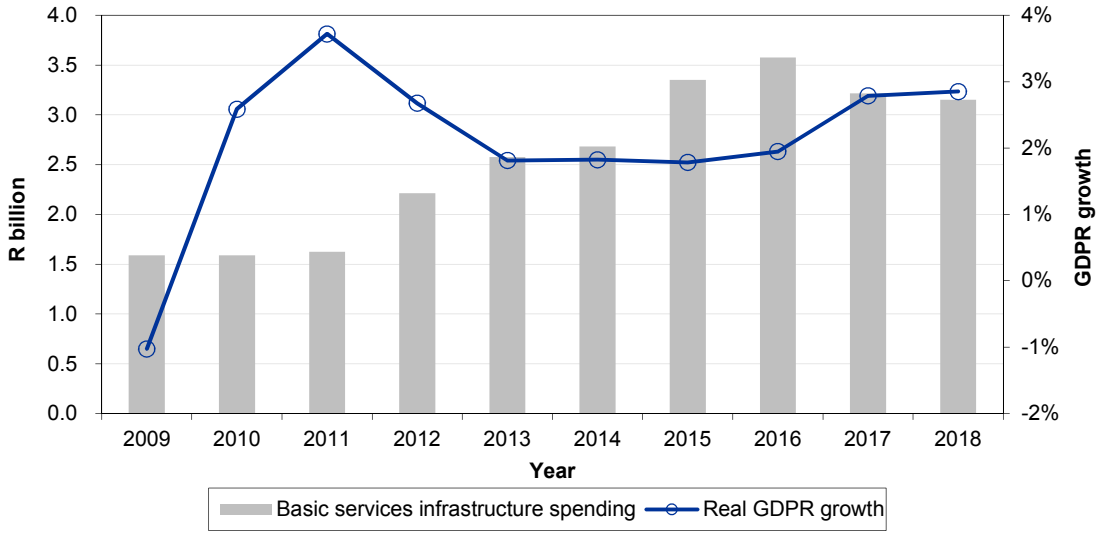
4.2.2 Basic service infrastructure investment and economic growth

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.

GDPR 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 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 4.3 Real 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 Cape Metro. Water and electricity also contributed to GDPR 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 GDPR 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

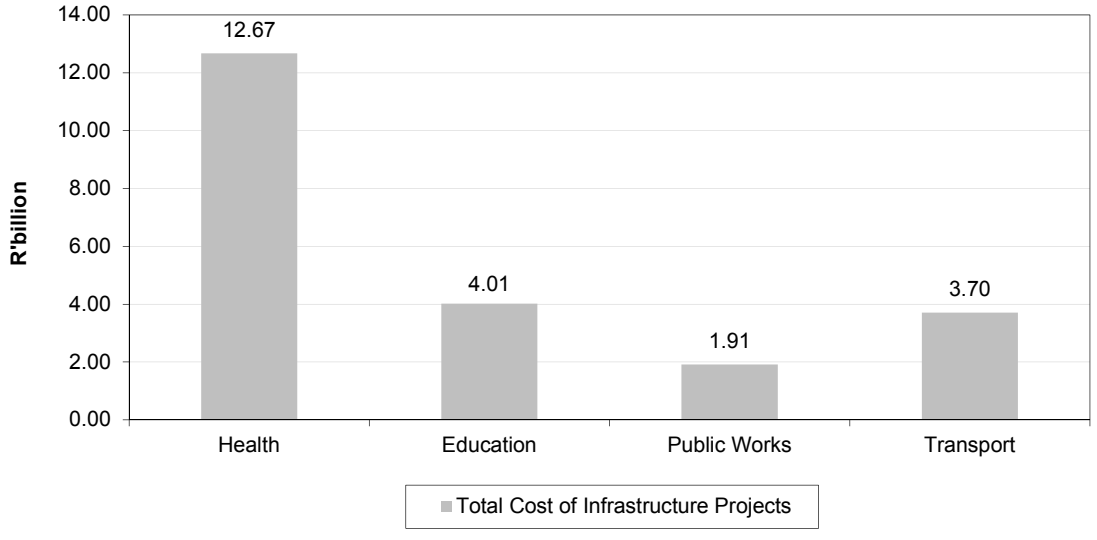
	Electricity		Water	
Region	% share	Ave growth 2000 - 2013	% share	Ave growth 2000 - 2013
Cape Town	20%	2%	35%	3%
Mitchell's Plain	6%	4%	23%	5%
Parow/Goodwood/Elsies River	8%	2%	4%	4%
Bellville	8%	2%	2%	3%
Milnerton	9%	3%	1%	4%
Blue Downs/Kuils River	7%	4%	6%	6%
Durbanville	3%	4%	2%	5%
Other areas[16]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

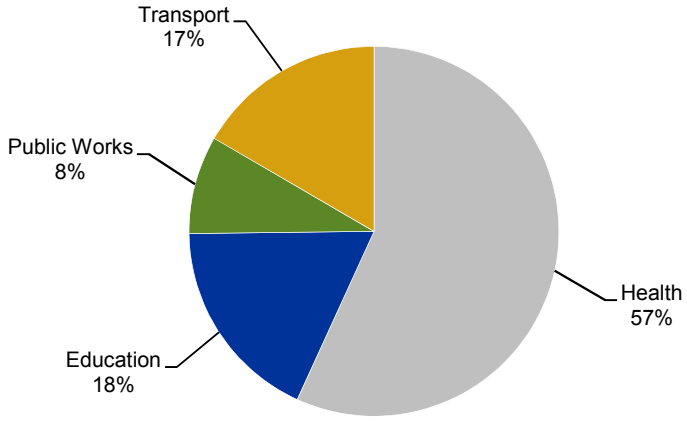
Figure 4.4 WCG Expenditure on infrastructure – City of Cape Town, 2015 - 2018



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.

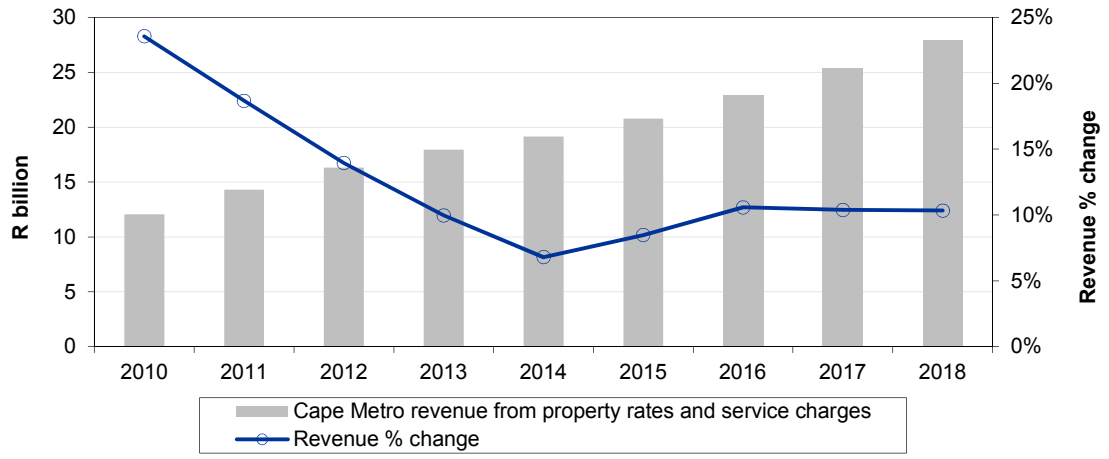
The decrease in the number of consumer units with access to refuse removal services is a cause for concern. The City recognises the need to replace ageing waste collection vehicles, the development of drop-off facilities and improved waste management within the region. The census showed that there has 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

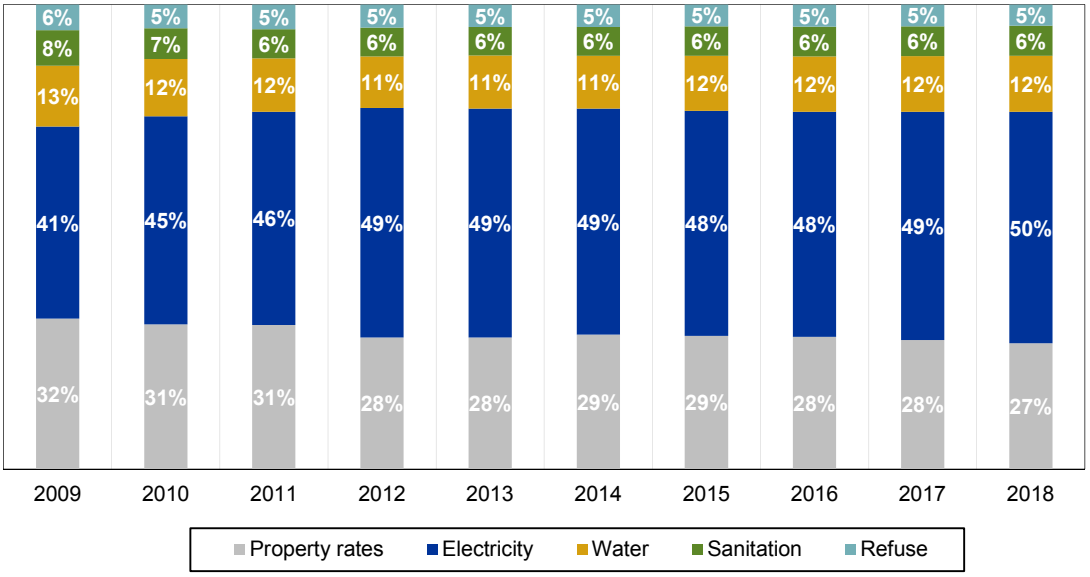


Source: Western Cape Provincial Treasury

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



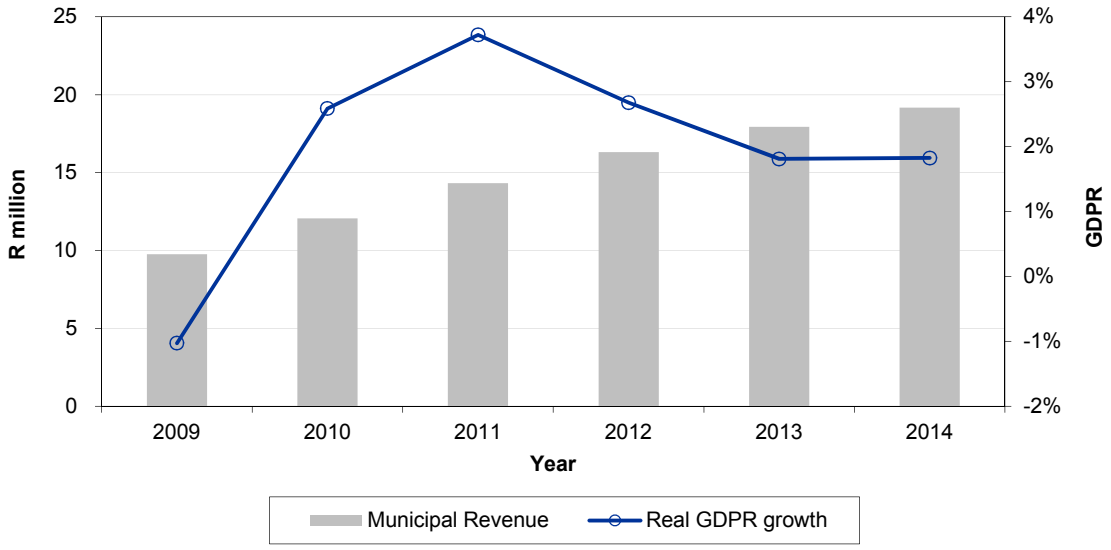
Source: Western Cape Provincial Treasury

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 GDPR growth in the City of Cape Town. The depressed economic activity in 2009 did not influence basic services revenue collection within the Metro. Whilst GDPR 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 GDPR growth rate for the Cape Metro.

Figure 4.8 Cape Metro revenue vs GDPR: 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.

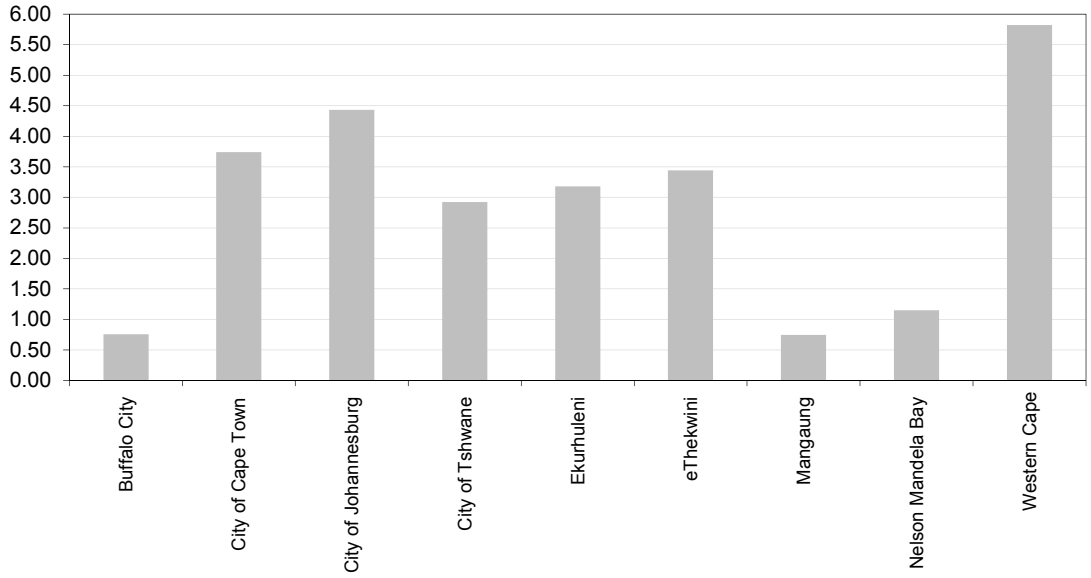
5.2 Population profile

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.

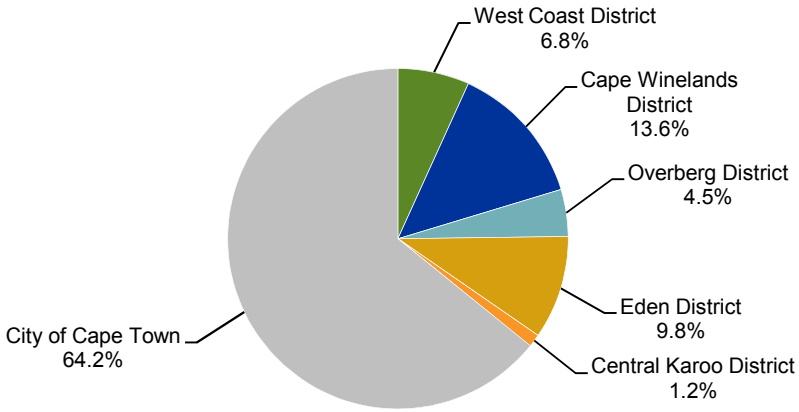
Figure 5.1 Population by metro municipality (millions), 2011



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

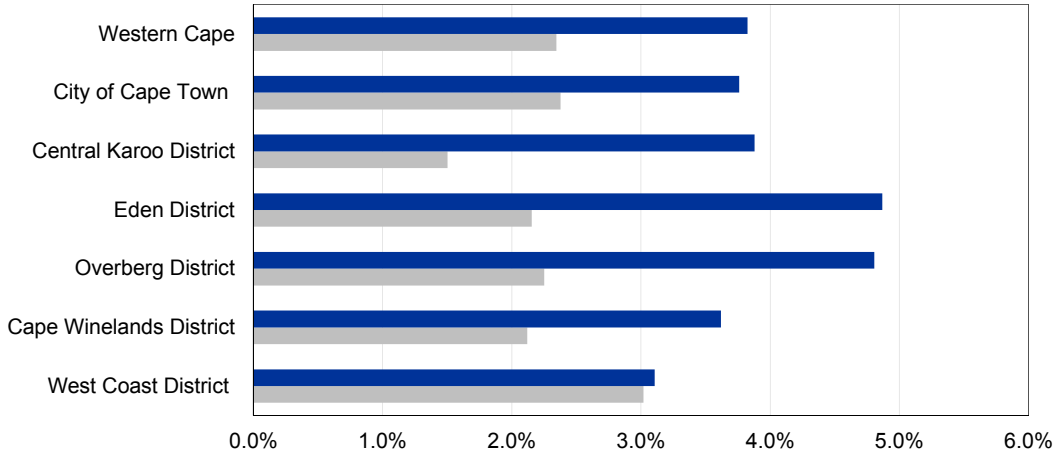
The HDI in the Cape Metro is the highest in the Province (relative to the 5 Districts), and consequently exceeds the Provincial average. The Cape Metro was able to translate economic advances made over the period 2001 - 2013 into social development for its inhabitants. On average, the inhabitants of 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 GDPR growth rate across the Western Cape, 2001 - 2013



	West Coast District	Cape Winelands District	Overberg District	Eden District	Central Karoo District	City of Cape Town	Western Cape
GDPR growth 2001 - 2013	3.1%	3.6%	4.8%	4.9%	3.9%	3.8%	3.8%
Population growth 2001 - 2013	3.0%	2.1%	2.3%	2.2%	1.5%	2.4%	2.3%

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

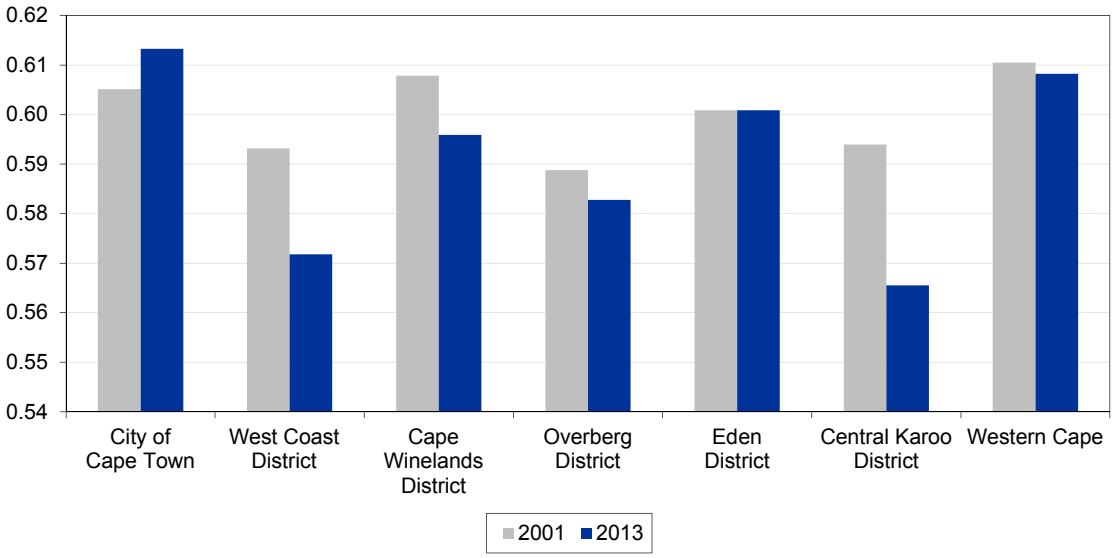
The Cape Metro's population totaled 3.84 million in 2013. As seen in Figure 5.3, its population grew at a rate of 2.4 per cent per annum from 2001 to 2013. The Cape Metro's economic growth rate averaged 3.8 per cent per annum over this period. The real per capita income of the Cape Metro's inhabitants 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 GDPR 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 GDPR 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%

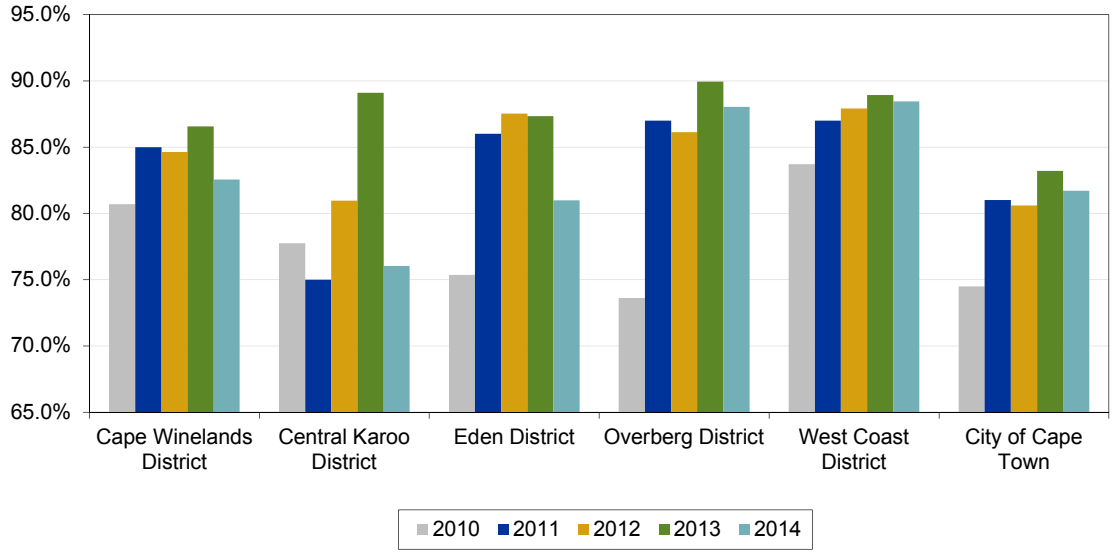
Source: Statistics South Africa, Census 2001 and 2011

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

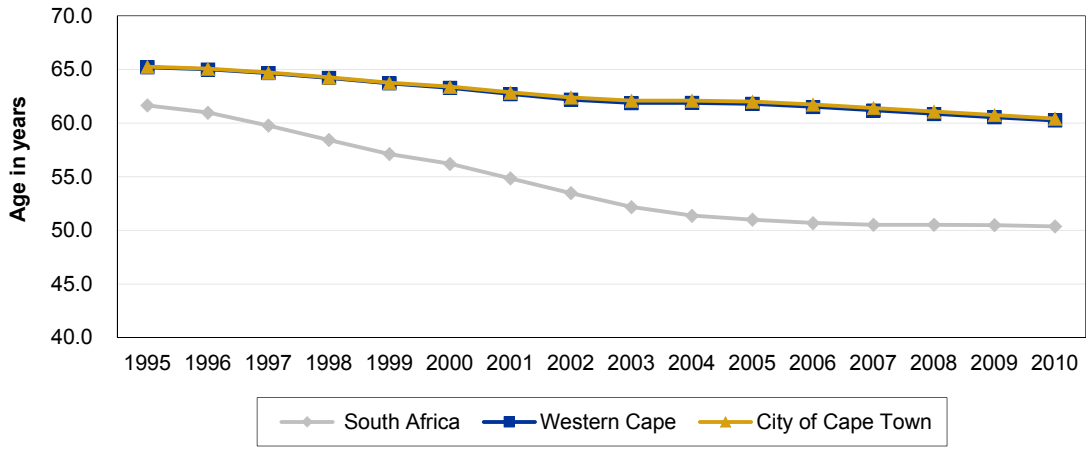
While the Cape Metro managed improvements in its matric pass rate, there have been some net job losses in the Cape Metro over the 2010 - 2013 period. During the economic recession of 2009, net job losses were slightly higher. The majority of the Cape Metro's workforce operates within the informal, semi- 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

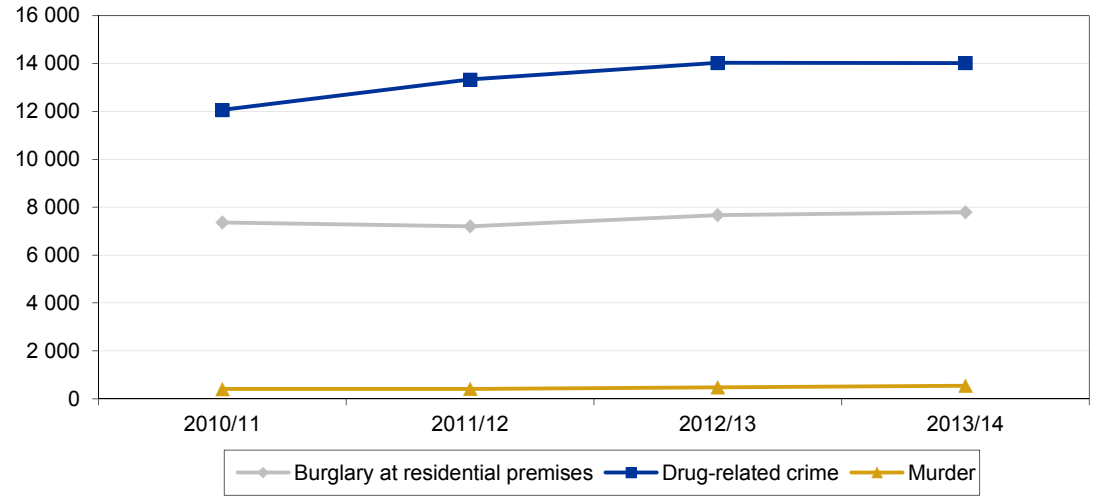
Due to the reduction in life expectancy since 1995 (and the prevalence of HIV and TB) in the Cape Metro, it is possible that these health related factors limited economic growth in the region. It is thus essential that the impact of health on production should not be overlooked as the increasing HIV/AIDS 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 day[18]. 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

Sector	Average yoy % growth 1996 - 2000	2001 - 2005	2006 - 2011	Trend 2005 - 2013	Expansion 2000 - 2007	Recession 2008 - 2009	Recovery 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**

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

Source: Quantec Research/Western Cape Provincial Treasury

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

Sector	Average yoy % growth			Trend	Expansion	Recession	Recovery
	1996 - 2000	2001 - 2005	2006 - 2011	2005 - 2013	2000 - 2007	2008 - 2009	2010 - 2013
Broad sectors: Cape Metro							
1 Primary sector [SIC: 1-2]	-2.3	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